

# PEGAS NONWOVENS SA

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## ANNUAL REPORT

# 2016





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# INTRODUCTION

**PEGAS NONWOVENS SA (hereafter “PEGAS” or “the Company” or “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. PEGAS 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 Company has grown over the past two decades and based on 2016 annual production capacity has become one of the leading producers of spunmelt nonwovens in the EMEA region. PEGAS currently operates eight production lines in the Czech Republic and one production line in Egypt which commenced its commercial operation in 2013. The total production capacity of the Company is currently up to 90 thousand tonnes of nonwoven fabric per annum in the Czech Republic and up to 20 thousand tonnes in Egypt. In June 2016, the Company decided to install a new production line in the Czech Republic. It is expected that it will be put into commercial operation at the end of the second quarter of 2017 and the new line will increase the annual production capacity by 10 thousand tonnes of nonwoven textiles.

PEGAS consists of a parent holding company in Luxembourg and four operating companies, PEGAS NONWOVENS s.r.o., PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s., all located

in the Czech Republic. For the purpose of international expansion, a new company PEGAS NONWOVENS International s.r.o. was established in 2010 and subsequently PEGAS NONWOVENS EGYPT LLC in June 2011, which invests in the Egyptian production facility. In July 2016, a subsidiary PEGAS NONWOVENS RSA (PTY) LTD was established for the purpose of realization of the investment project in the Republic of South Africa. At the end of 2016, PEGAS employed 578 people.

Shares in PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange, following an Initial Public Offering in December 2006. 100% of the shares are free float, held by institutional and retail investors.

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

# YEAR 2016 IN BRIEF

Financials (EUR thousands)	2016	2015
Total Revenues	206,353	229,200
EBITDA	46,668	44,311
Profit from Operations	30,561	28,252
Net Profit for the Period Attributable to Shareholders	14,079	24,978
No. of Shares – End of Period ("EOP")	9,229,400	9,229,400
Total Assets	385,115	391,788
Total Equity	158,735	156,712
Total Borrowings	185,034	191,917
Net Debt	160,814	163,835
CAPEX	21,078	9,320

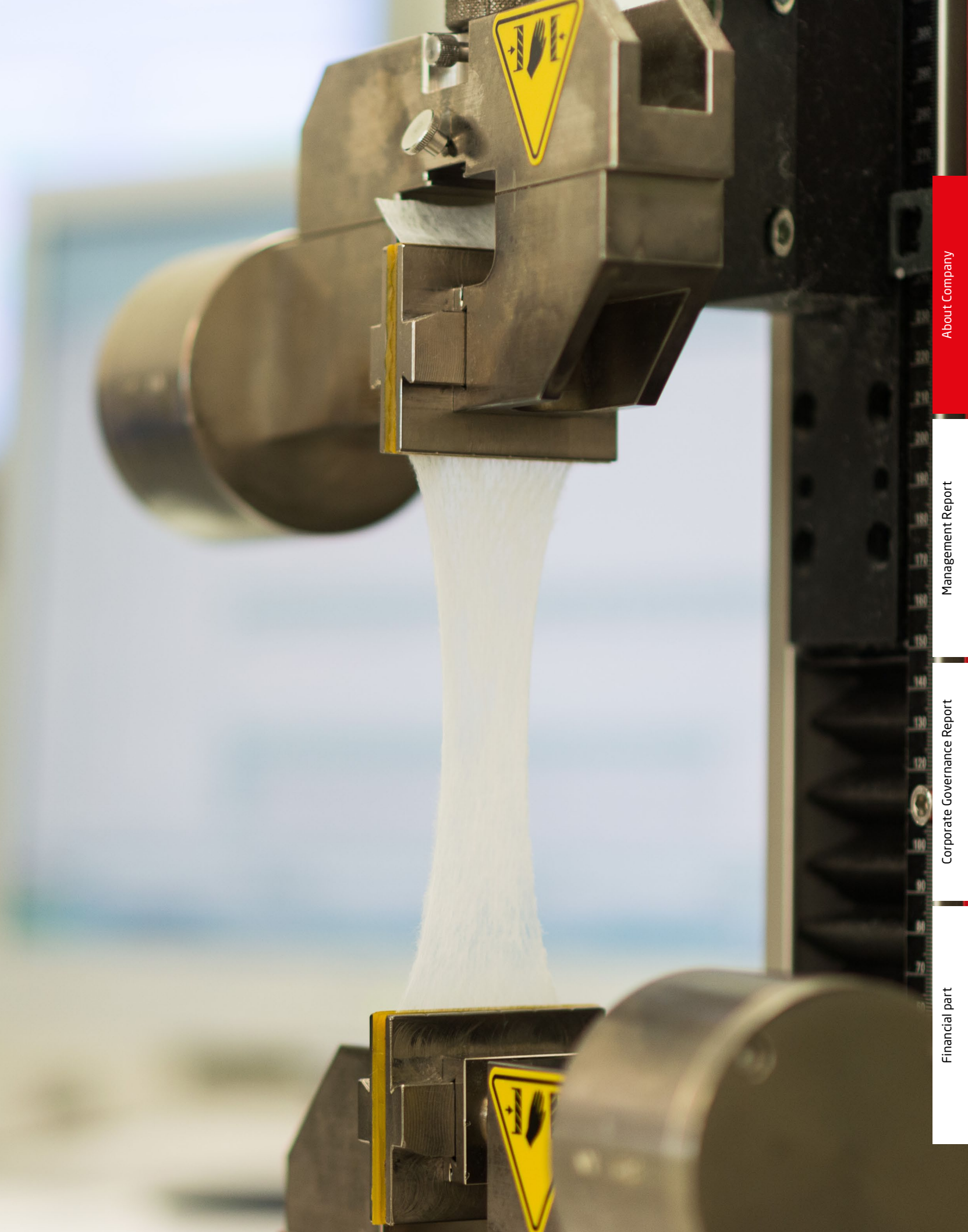
Ratios		
EBITDA Margin	22.6%	19.3%
Operating Profit Margin	14.8%	12.3%
Margin of Net Profit Attributable to Shareholders	6.8%	10.9%
CAPEX as % of Revenues	10.2%	4.1%

Operations		
Total Production Output (in tonnes net of scrap)	102,691	101,665
Number of Employees – EOP	578	580

Exchange Rates		
EUR/CZK average	27.034	27.279
EUR/CZK EOP	27.021	27.023
EUR/USD average	1.1069	1.1095
EUR/USD EOP	1.0541	1.0887

	Total Production Output (in tonnes net of scrap)		Total Revenues (EUR thousands)		Number of Employees – EOP
2014	100,570	2014	230,547	2014	569
2015	101,665	2015	229,200	2015	580
2016	102,691	2016	206,353	2016	578





# STATEMENT BY THE CHIEF EXECUTIVE OFFICER

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Dear shareholders, business partners, colleagues,

Please allow me to take advantage of this opportunity to review last year's most significant events and to outline our expectations and plans for the future.

Evaluating 2016 from the operating-financial point of view, I must start by mentioning the record production volumes, which were supported not only by strong and stable sales levels but were also comprised of a better product mix. We were once again successful in expanding the share of technologically advanced products and thereby fulfilled one of the main pillars of our strategy. All this was then projected into our financial results, where full-year EBITDA amounted to EUR 46.7 million, and when adjusted for one-off non-operational items (effect of the revaluation of the share option plan) EBITDA reached EUR 48 million, which represents the best result in the Company's history.

We worked on many new projects last year, some of which we finished, some we are still working on, and most of them will play a significant role in the future.

One of the largest investment projects last year was the construction of a new warehouse hall, which we built and put into operation right on schedule. Since September, this new hall has gradually been replacing external storage capacities and is meeting our expectations regarding the increase in efficiency and simplification of the Company's logistics flows. No less important, perhaps even more so, is the fact that this hall has provided us with space for the installation of the new Compact production line, the installation of which was initially planned for our production plant in Egypt.

The new Compact technology platform has proven its flexibility, as we were able to react to the current market situation and shift the installation of new production capacities to the Czech Republic. Right now we are reviving new state-of-the-art technology with a BiCo configuration in Znojmo. I cannot overstate the huge priority that we are placing on this project and I am confident that we will start commercial production on schedule and, most importantly, that we will utilise the special configuration of this line to make our product portfolio more attractive.

A further significant step that we took last year was the establishment of a subsidiary in the Republic of South Africa with the objective of realising investments into the construction of a production plant near Cape Town. Currently, we are finalising negotiations for the purchase of land in the Atlantis industrial zone and if no unexpected problems arise, this contract will be

signed in the second quarter. Negotiations with customers are also developing positively, the successful completion of which is a condition for ordering the new production line for this location.

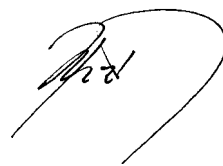
Our crowning achievement last year was the prestigious „Business Partner of the Year” award that we received from Procter & Gamble. We have received this award for the fourth time in an extremely competitive field of competitors. It is very pleasant to be perceived as a long-term, reliable partner – not only by our customers but also by other business partners as well. A great example of this is the new issue of seven-year bonds with a fixed annual interest rate of 1.875% that we issued in January of this year in the amount of EUR 50 million. The parameters of this issue serve as evidence of the exceptional trust that external investors place in our company even if we consider the current very low interest rate environment.

This year, there are again challenges ahead of us. I am very confident that we will be able to continue on from last year's successes. Our production capacity has been sold out, which amongst other things will enable us to focus on further optimising production and improving its efficiency. The Company's financial results will also be positively impacted by the launch of the new production line. Of course, unfavourable situations could arise but I think that we are very well prepared for 2017.

Therefore, based on existing expectations, the company is setting EBITDA guidance for this year in the range EUR 43.0 to 50.0 million.

We will work hard on achieving good results, which are one of the primary prerequisites for the payout of solid dividends. In this respect, I believe that our shareholders will appreciate the decision of the Board of Directors, which, in line with the progressive dividend policy, will propose a dividend of EUR 1.30 per share.

To conclude, I would like to thank our employees for the quality of their work. I am proud of the results of their work and, likewise, I believe that they are also proud of our Company. I would like to thank everyone for 2016, and I believe in 2017.



**František Řezáč**

CEO and member of the Board  
of PEGAS NONWOVENS SA





**PEGAS**

**N O N W O V E N S**

— every single detail —

# MANAGEMENT REPORT

## Description of the Company's Business and Market

### Basic Information on the Company

**Name**

PEGAS NONWOVENS SA, a public limited liability company (société anonyme) existing under the laws of the Grand-Duchy of Luxembourg

**Address:**

68-70, boulevard de la Pétrusse

L-2320 Luxembourg

Grand-Duchy of Luxembourg

Tel: (+352) 26 12 31 44

Fax: (+352) 26 49 65 64

**Registry and registration number:**

Registered with the Luxembourg Trade and Companies Register ("Registre de commerce et des sociétés de Luxembourg") under number B 112.044

**Incorporated:**

On 18 November 2005 under the name Pamplona PE Holdco 2 SA

**Jurisdiction:**

Grand-Duchy of Luxembourg

The holding company of PEGAS, PEGAS NONWOVENS SA, 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 is registered with the Luxembourg trade and companies register under number B 112.044. The articles of incorporation of the Company have been published in the Mémorial C., Recueil des Sociétés et Associations number C 440 of 1 March 2006. The Company's registered office is at 68 70, boulevard de la Pétrusse, L-2320 Luxembourg, Luxembourg. The registered office and principal place of business of the main operating and trading company, PEGAS NONWOVENS s.r.o., is at Přímětická 86, 669 02 Znojmo, Czech Republic.

### Scope of business (according to Article 3 of the Articles of Association)

The object of the Company is:

- a) to take participation and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign entities;
- b) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any Company purchasing the same;
- c) to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding Company, subsidiary, or fellow subsidiary, or any other Company associated in any way with the Company, or the said holding Company, subsidiary of follow subsidiary, in which the Company has a direct or indirect financial interest, any assistance as, e.g., pledges, loans, advances or guarantees;
- d) to borrow and raise money in any manner and to secure the repayment of any money borrowed;
- e) to borrow funds and issue bonds and other securities; and
- f) to perform any operation which is directly or indirectly related to this purpose.

## Principal Subsidiaries

Subsidiaries in which PEGAS NONWOVENS SA 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
PEGAS NONWOVENS s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	25478478	Production of textiles
PEGAS-NT a.s.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	26287153	Production of textiles
PEGAS – NW a.s.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	26961377	Production of textiles
PEGAS – NS a.s.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	27757951	Production of textiles
PEGAS NONWOVENS International s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66902, Czech Republic	29249708	Special purpose vehicle for investments
PEGAS NONWOVENS EGYPT LLC	Plot No. 06,08 in Zone No. 3 – Northern Expansions Area, 6 <sup>th</sup> of October City, Egypt	Commercial registry No. 52 190	Production of textiles
PEGAS NONWOVENS RSA (PTY) LTD	Unit 48, Roeland Square, Drury Lane, Cape Town, Western Cape, 8001, South Africa	Registration No. 2016/278699/07	Production of textiles

## Expenses of PEGAS Group related to external auditors' services in year 2016

EUR thousands	Audit	Other*	Total
PEGAS NONWOVENS SA	23.6	0.0	23.6
Other companies within PEGAS Group	118.0	0.0	118.0
<b>TOTAL</b>	<b>141.6</b>	<b>0.0</b>	<b>141.6</b>

\* Item „Other“ includes expenses for advisory services, which are not directly linked to the audit.

## Overview of the Nonwovens Market

PEGAS'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 a 31% share of the total annual European nonwoven production or 0.7 million tonnes<sup>1</sup>, denotes the core area of business activity for PEGAS. 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 Company's core market continues to be the broader European area, consisting of traditional Western European countries, Central and Eastern Europe (CEE), including Russia. PEGAS started to serve the Middle East and North Africa region to a greater extent following the opening of the new production plant in Egypt. Lower saturation (lower per capita usage) of hygiene products in Middle East and North Africa region and the developing CEE countries compared with Western Europe explains the accelerated growth in demand for nonwoven consumables in these markets. On the other hand, Western Europe's ageing population,

with increasing life expectancy and high income levels will support growth in the adult incontinence market. Modern light-weight and comfortable nonwoven textiles are leading to a greater acceptance of incontinence products by customers.

### Competition

PEGAS'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. PEGAS's main competitors are international and regional companies with production facilities located in Europe. 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.

<sup>1</sup> Source EDANA



## Overview of the Company's Products

### Hygiene

The core of the Company's product mix are the following nonwoven textiles – *Pegatex® S*, *Pegatex® SMS* and *Pegatex® S BICO*, 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, PEGAS 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

*Pegatex® S* and *Pegatex® SMS* 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, PEGAS offers a nonwoven textile under the brand name *PEGAS-AGRO®*, 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 *Pegatex® S* and *Pegatex® SMS* 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 *Pegatex® S* 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.

Product name	Application area	Key applications
<b>Pegatex® S</b>	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
	Medical and protective clothing	Gowns, head and shoe covers
	Agriculture	Crop cover, mulching textile
	Furniture and construction industry	Mattresses, neatening fabrics, interlinings, wind barriers, roofing membranes
<b>Pegatex® SMS</b>	Hygiene products	Baby diapers, adult incontinence products
	Medical and protective clothing	Surgical drapes, gowns, face masks, industrial protective apparel
	Construction industry	Wind barriers
<b>Pegatex® S BICO</b>	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
	Various industries	Composite fabrics, laminates
<b>Pegatex® SMS BICO</b>	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
		Composite materials, laminates
<b>PEGAS-AGRO® Crop cover</b>	Agriculture	Plant protection
<b>PEGAS-AGRO® Mulching fabric</b>	Agriculture	Soil cover

## 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 Company continues to rank among the leading EMEA region producers of nonwoven textiles.

All ten 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. Reifenhäuser Reicofill was also chosen as the supplier for the new production line which is currently being installed in the Czech Republic.

Three production lines are located at the Bučovice plant near Brno and six production lines are located in Přímětice near Znojmo. The output of the first and the second line, installed in 1992 and 1996, is primarily sold for technical and agricultural applications. The meltblown line, installed in 1996 and used for technical applications requiring a high absorption capacity, such as industrial wipes and absorbents, is currently not operated. The remaining production lines are dedicated to the production of hygiene materials.

In 1998, PEGAS was the first spunmelt manufacturer to install Reicofil technology with a microfilament option. In 2000, PEGAS installed 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.

PEGAS's „SSMMMS<sup>2</sup> 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 that 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 Company launched its 9<sup>th</sup> production line. This Reicofil 4 BiCo type production line produces mainly hygiene materials with the option of production for other applications. The production line has expanded the Company's annual production capacity by up to 20 thousand tonnes per annum (depending on the product portfolio) and has a width of 4.2 meters.

In 2013, the Company 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 2016, the Company announced the decision to locate a new production line at the Company's production plant in Znojmo-Přímětice in the Czech Republic. The Company decided to install a Reicofill 4S Compact Bico production line with an approximate annual production capacity of 10 thousand tonnes. It is expected that it will be put into commercial operation at the end of the second quarter of 2017.

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

<sup>2</sup> „S” indicates a spunbond layer, „M” indicates a meltblown layer

## Plants and Premises

PEGAS has plants in the Czech Republic and Egypt, and is planning to open a plant in South Africa.

PEGAS operates two production facilities located approximately 100 kilometres from each other in the south east of the Czech Republic. The original site in Bučovice has three production lines installed and further space for expansion is now limited. The newer site in Přímětice was developed on the outskirts of Znojmo and has six production lines. In addition to these production sites, the Company owns its main administrative building in Znojmo, close to

the Přímětice production plant. All premises have been constructed as greenfield projects.

In February 2016, the Company started the construction of 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. This building with a total area of 11,000 m<sup>2</sup> was approved for use in September 2016. Currently, the building serves as a warehouse for finished products and, concurrently, the installation of this new production line is being finalized in another part of the building.

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 meltblown	1996	M	Přímětice	1.6	700
Reicofil 3	1998	SMS	Bučovice	3.2	6,900
Reicofil 3 BiCo	2000	SSMMS	Přímětice	3.2	10,400
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	6 <sup>th</sup> of October City	4.2	20,000
<b>Total Production Capacity</b>					<b>110,000</b>

## Customers

PEGAS's position as one of the market leaders in the EMEA hygiene nonwovens market has enabled it to develop close and longstanding relationships with customers that are leading producers of disposable hygiene products. PEGAS 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. PEGAS works in close cooperation with its customers as well as suppliers in order to introduce new and improved products and product properties that primarily address specific customer requirements for softness and lower basis weights.

The fact that the Company is constantly trying to respond to the demands of its customers was confirmed by the „Business Partner of the Year Award” received from Procter & Gamble Co., the largest producer and seller of consumer goods in the world. In 2016, only 12 of the best suppliers in the world were given this prestigious award; selected from a total of 50,000 companies.

The Company's top five customers represented an 80.6% share of total revenues in 2016 (79.8% in 2015). The Company'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

The main raw materials used for the production of spunmelt nonwovens are polymers, primarily polypropylene followed by polyethylene. In 2016, the consumption of PP and PE accounted for 81% (80% in 2015) of the Company's total operating costs (excluding depreciation and amortisation). During 2016, the

Company 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.

## Quality Management and the Environment

PEGAS is ISO 9001 and ISO 14001 certified. It first received these quality certifications in 1997. In connection with the amendment of the ISO standards of the 9001 series in 2000, the existing system was partially revised and subsequently, the Quality Management System and Environmental Management System were integrated in 2002. PEGAS has a certified integrated system of quality according to ISO 9001 by CQS, IQNet and environmental management EN ISO 14001 by CQS, IQNet. Through its performance, PEGAS intends to keep improving and developing this integrated system with the ultimate goal of always achieving the highest possible standards. All certificates were renewed in December 2014 and are currently valid until 2017. These certificates will be revalidated and renewed according to new ISO standards ISO 9001:2015 and ISO 14001:2015.

production. Camera detection systems have been installed on the hygiene production lines to monitor all types of defects including any external contamination. Investments into these systems have been substantial and have led to a significantly decreased number of customer complaints.

When production started at the production plant in Egypt, the same quality management system was also implemented at this facility in comparable scope as at the plants in the Czech Republic. The Egyptian plant has also been certified according to EN ISO 9001 by TÜV Nord.

Customer satisfaction with the Company's products and services remains one of the key priorities for PEGAS and the Company is fully committed to on-going cooperation with its customers. This dedication is regularly rewarded by customers.

### Quality Management System

Primary goals include customer satisfaction and the achievement of the highest product quality.

The high QMS and EMS standards and the quality of the products are based on three fundamental principles:

- Advanced Technology
- Quality Management Tools
- Results

In addition to the general quality requirements imposed by ISO 9001, the Company is constantly looking to improve and adjust its production processes and relevant assets in order to provide superior output quality.

In order to enhance the current QMS – ISO 9001, the management of the Company decided to implement an extended in-house quality management system – PQS (PEGAS Quality System) based on knowledge and experience with quality management tools throughout the whole production chain. The goal of this project, which has already been successfully implemented, is not just the training of employees but also changing the Company's culture and the perception of the quality as a key factor in achieving prosperity and guaranteeing consistently high product quality.

All production premises are equipped with overpressure air control to eliminate the risk of insects contaminating textiles during

### Environmental Management System

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

PEGAS 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 Company are monitored and reviewed.

The management of the PEGAS 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 PEGAS's website [www.pegas.cz](http://www.pegas.cz) or [www.pegas.lu](http://www.pegas.lu).

## Research

### Research and Technical Support

The development of new applications, products and technology optimisation is one of the most important components of PEGAS's current and future strategic focus. This platform is supported by a team of engineers, who are dedicated to the development of a new product base and to the customer and technical support of our partners.

Work teams are active in several different areas, which are principally divided into industrial and hygiene applications, with the main focus on the hygiene field as the key driver for the most important projects at the Company.

From the technological point of view, the technical department has two main goals:

- a) to improve quality, performance and production efficiency of standard products and
- b) to develop products with added value using both current and/or new technologies including bi-co technology.

Both objectives are achieved in cooperation with raw material suppliers, using standard and special new polymers, and/or with machinery suppliers, allowing the Company to provide a competitive edge to its customers.

In the technology field, PEGAS has developed a new technology in close cooperation with its key technology supplier. This new technology is called „Compact“ and it should facilitate and speed up the Company's penetration into new, especially developing markets. These markets carry specific risks associated with, for example, the level of capital expenditure, immediate sellout of the total line capacity or complications related to the ramp-up phase. At the same time, this new technology should also make technologically advanced products available for the emerging markets. The production plant in Znojmo was ultimately selected as the location for the first installation of this new technology, and it is planned to be put into operation at the end of the second quarter of 2017. Once the production parameters are verified in real-world conditions, this new technology promises to provide the Company with additional potential for further penetration into new regions and to strengthen its position amongst global technology leaders.

Apart from the development of new technologies, PEGAS is actively contributing to the development of nonwoven textiles with excellent touch, bulkiness and softness. These materials are already successfully commercialised and bring many advantages to customers. Further development in this area is ongoing and in the future it will be focused on the so-called 3D structure of nonwoven textiles with potential visual effects. The direction of development

is based on requirements of the key customers and in many cases it is tailor-made for a single customer.

Another key project has been the commercialisation of Nano MB technology. At the end of year 2016, the Company successfully completed the guarantee tests. The new technology is now validated and ready for qualification by selected customers. The main benefit provided by nonwovens textiles based on nano meltblown technology is a significant improvement in barrier properties, especially for applications in the hygiene segment.

PEGAS cooperates with many institutions such as universities and R&D centres, mainly in the Czech Republic and Slovakia, but also in Western Europe. These institutions offer special support to the Company in various specialised fields of research, including the provision of pilot lines for product development and consultancy in areas such as patent research and registration, nonwoven textile structure modelling, resp. new technology and raw materials testing.

Research costs in 2016 were EUR 2.9 million (EUR 2.3 million in 2015).

### Intellectual Property

PEGAS 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 Company has filed nine patent applications since 2010. Six of these patent applications are a result of Company's proprietary research activities and the remaining three were developed in a co-operation with key business partners. One of the patent applications came from research supported by the Czech Ministry of Industry and Trade. Each patent application was first filed in the Czech Republic. Subsequently, the Company has gradually filed each application at an international level in order to protect its interests not only in Europe but also in Africa, Asia, the Americas and in the Middle East. The proceedings that lead to the granting of a patent take an average three to seven years and are filed separately for each country.

The Company has been awarded patents in several countries and is the owner of a patent protecting a spunmelt nonwoven textile with high barrier properties (awarded in the Czech republic, Russia, Saudi Arabia, United states of America, China and also as a European patent with selected protection in the major european countries). The Company also uses utility designs in order to quickly protect its research results. For example, a utility design protecting a improved

barrier nonwoven textile based on an advanced layer composition has been valid in the Czech Republic since 2015.

In cooperation with its business partners, the Company files so-called „sister applications“ where a joint invention is divided into two independent patent applications based on the area of interest of both partners. For example, a patent for soft nonwoven textiles production is owned by PEGAS while the patent for baby diaper production using this soft nonwoven textile is owned by a business partner. This form of co-operation enables the Company to stay in a close contact with the research activities of customers. All three

patent fillings, resulting from joint development, have already been awarded a patent in the Republic of South Africa and the oldest patent has now been awarded a European patent.

## Litigation

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

## Strategy

The Company'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, and
- 3) provide solid returns to shareholders.

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

### **Continue Investing into Technologically Advanced Production Capacity:**

PEGAS will strive to install state-of-the-art production capacities. The Company's latest production line in Znojmo was put into operation in the second half of 2011 and its new Egyptian production line started production in 2013. The Company concluded a contract for the delivery of a new Compact-type production line. The new line represents another significant milestone in the Company's history because it is an entirely new platform, the first of its kind in the nonwoven textile industry. This type of a production line, with its lower overall investment costs, lower demands on infrastructure and lower capacity is considered suitable for penetration into new, especially developing markets.

### **Maintain Close Relationships with Customers and Suppliers:**

PEGAS 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. PEGAS 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:**

PEGAS 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 Company has successfully commercialised several new materials with unique properties.

### **Maintain good financial performance within the industry:**

PEGAS'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. PEGAS is effective at generating significant levels of cash, which is subsequently used to support expansion, reduce outstanding debt and enable dividend payments.

### **Monitoring investment opportunities:**

The Company will continue to monitor investment opportunities outside the Czech Republic, whether these are acquisitions or the construction of new capacities abroad.



## Human Resources

PEGAS benefits from a skilled and motivated workforce, which results in a relatively high profitability per employee and

productivity growth. The table below indicates the number and functional breakdown of employees:

Number of employees	As at 31 December		
	2014	2015	2016
Non-executive Directors	2	2	2
Executive Directors	3	3	3
Management	16	17	17
Specialists	72	81	71
Laboratory Staff	61	59	59
Foremen	73	70	70
Qualified Workers	342	348	356
<b>Total</b>	<b>569</b>	<b>580</b>	<b>578</b>
<b>Average no. of employees</b>	<b>566</b>	<b>565</b>	<b>568</b>

PEGAS provides continuous training, some of which is compulsory, in areas such as workplace safety, computer skills and foreign languages.

The remuneration structure is highly motivational, with the fixed component of the basic salary ranging from approximately 90% for

manual workers and down to approximately 70% 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.

## Corporate Social Responsibility

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

In 2016, the Company continued in the support of a number of cultural, social and sports events in these regions.

### Children's Centre

In 2009, PEGAS 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 2016, the Company financed a number of holidays and trips for children from the Children's Centre. Employees of the Company 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. Since 2010, the festival's attendance has exceeded 95,000 children and adults. PEGAS has been a supporter of the Zlín Film Festival for Children and Youth since 2013.

## Volleyball Club Znojmo - Příměťice

VK Znojmo-Příměťice 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.

PEGAS has been the general partner of the volleyball club since 2010.

## City of Bučovice

The Company 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.

## Comments on Financial Results

### Revenues, Costs and EBITDA

In 2016, consolidated revenues (revenues from sales of products) reached EUR 206.4 million, down by 10.0% yoy. The decline in revenues was related to the development of polymer prices, which when compared to the preceding year, fell by more than 10%. On an annual comparison basis, sales volumes in tonnage terms remained more or less unchanged.

Total consolidated operating costs without depreciation and amortisation went down by 13.6% yoy to EUR 159.7 million in 2016. The primary reason for the year-on-year decline was the lower polymer purchase price compared to the previous year.

In 2016, EBITDA amounted to EUR 46.7 million, up by 5.3% yoy. This result means that the Company achieved its target, which it had set in the range of EUR 43.0–49.0 million. The year-on-year growth in EBITDA is related in large part to the revaluation of the share option plan, which, in 2016, had a less negative impact than in the previous year. EBITDA adjusted for this effect, grew by 1.4% to a record EUR 48.0 million. The increase in EBITDA was also supported by record production volumes, which grew by 1.0% yoy. On the other hand, in a year-on-year comparison, the polymer price pass-through mechanism had a negative effect on operating results.

In 2016, the EBITDA margin was at a level of 22.6%, which is 3.3 percentage points higher compared with 2015.

### Operating Costs

Total raw materials and consumables used last year amounted to EUR 143.9 million, a 14.3% yoy decrease. The primary reason for the year-on-year decline was the lower polymer purchase price compared to the previous year.

In 2016, total staff costs reached EUR 12.6 million, down by 7.1% yoy. Total staff costs adjusted for the revaluation of the share option plan amounted to EUR 11.3 million, an increase of 6.7%. In 2016, total staff costs denominated in local currencies, i.e. in Czech crowns and Egyptian pounds without the revaluation of the share option plan increased by 5.3%.

Other operating expenses (net) reached EUR 0.2 million in 2016, compared with an expense of EUR 1.1 million in 2015.

## Depreciation and Amortisation

Consolidated depreciation and amortisation reached EUR 16.1 million in 2016, up by 0.3% yoy.

## Profit from Operations

In 2016, profit from operations (EBIT) amounted to EUR 30.6 million, up by 8.2% compared with 2015.

## Financial Income and Costs

In 2016, foreign exchange changes and other financial income/expense (net) represented a loss of EUR 3.2 million, compared with a gain of EUR 8.7 million achieved in 2015. This item includes realised and unrealised FX gains/losses and other financial income and expenses. The year-on-year change was affected namely by a further appreciation of the dollar against the Euro at the end of 2016, which had a positive effect on unrealised exchange rate differences related namely to the revaluation with respect to the intra-company loan to the subsidiary in Egypt. This positive effect was, however, compensated for by the devaluation of the Egyptian pound, which resulted in unrealised foreign exchange losses with respect to the assets of the Egyptian subsidiary denominated in the local currency.

Interest expenses (net) related to debt servicing amounted to EUR 7.3 million in 2016, an 8.8% decrease compared with 2015. The reason for the decline in interest expenses was the expiration of interest rate swaps related to refinanced bank loans.

## Income Tax

In 2016, the income tax expense amounted to EUR 6.0 million, up by 49.9% over 2015. Current tax payable amounted to EUR 4.2 million, changes in deferred tax represented an expense of EUR 1.8 million.

## Net profit

Net profit reached EUR 14.1 million in 2016, down by 43.6% yoy. The lower net profit was related namely to unrealised foreign exchange changes booked in the compared periods.

## Investments

In 2016, total consolidated capital expenditure amounted to EUR 21.0 million, a 124.9% yoy increase. Capital expenditures related to expansion of production capacity represented EUR 16.5 million of this amount. Maintenance CAPEX constituted the remaining EUR 4.5 million, up by 22.0% compared with the previous year. The Company, therefore, did not exceed its estimate of capital expenditures for 2016, which expected a maximum level of EUR 25 million.

## Cash and Indebtedness

The amount of net debt as at 31 December 2016, was EUR 160.8 million, down by 1.8% compared with the level as at 31 December 2015. Net debt to EBITDA ratio equated to 3.45.

## Business Overview of 2016

Last year, the total production output (net of scrap) reached 102,691 tonnes, up by 1.0% compared with 2015.

In 2016, the share of revenues from sales of nonwoven textiles for the hygiene industry constituted an 86.0% share of total revenues, compared with an 85.8% share in the comparable period in the preceding year. The high share of products in this category confirms the important position that the Company has in this market.

In 2016, revenues from sales of non-hygiene products (for construction, agricultural and medical applications) amounted to EUR 28.9 million, which represented a 14.0% share of total revenues.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area and its entry on to the markets of the Middle East. In 2016, revenues from sales to Western Europe amounted to EUR 80.5 million and represented a 39.0% share of total revenues. In 2015, they amounted to EUR 81.4 million, corresponding to 35.5% of total revenues.

In this period, revenues from sales to Central and Eastern Europe and Russia amounted to EUR 88.2 million and represented a 42.7% share of total revenues. In 2015, these sales revenues reached EUR 94.3 million, representing a 41.1% share.



Revenues from sales to other territories amounted to EUR 37.6 million and represented an 18.2% share of total revenues, compared with revenues of EUR 53.5 million and a 23.3% share in the previous year.

## Guidance for 2017

The agreements with customers indicate the full utilisation of our production capacity in 2017.

In 2017, we expect an increase in production volumes as a result of a new production line that is expected to be in full commercial mode from the start of the second half 2017. The expected annual production of this new production line is approximately 10,000 tonnes.

Based on the above facts and information known to date, the Company sets its EBITDA guidance in the range of EUR 43.0–50.0 million.

The Company is planning for total CAPEX in 2017 not to exceed EUR 30.0 million level.

## Czech Investment Incentives

### Investment Incentives Granted to PEGAS

PEGAS has obtained investment incentives from the Czech authorities several times. Recipients of the existing investment incentives are subsidiaries PEGAS – NW a.s. and PEGAS – NS a.s. as special purpose companies to accommodate each investment. Tax incentives granted to PEGAS – DS a.s. in 1999 expired in 2010 and this subsidiary ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011. Tax incentives granted to PEGAS – NT a.s. in 2002 expired in 2014.

#### PEGAS – NW a.s.

PEGAS – NW a.s. obtained its investment incentives based on the decision of the Czech government on 10 June 2005. The incentive consists of corporate income tax relief for up to 10 years. The tax relief may not exceed 48% of the eligible investment costs (CZK 1.021 million as at 31 December 2016), and in any case cannot exceed CZK 573.6 million. PEGAS – NW a.s. started making use of the incentives in fiscal year 2008. The last year, in which PEGAS – NW a.s. will be able to use the investment incentives will be 2017.

According to the corporate tax estimate as of 31 December 2016, it has already used CZK 112.8 million and CZK 378.1 million still remains to be utilised.

PEGAS – 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.

#### PEGAS – NS a.s.

PEGAS – 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.

PEGAS – 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.

The Company has so far drawn a 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 36.6 million as at 31 December 2016.

## Investment in Egypt

The Egyptian production line successfully ran in standard commercial production mode for the entire year 2016 and met the Company's expectations. In terms of operating parameters, the production line is achieving parameters comparable to the production lines in the Czech Republic. In 2016, there were no major unexpected interruptions to production.

In September 2015, the Company concluded a contract with the production technology manufacturer

Reifenhäuser Reicofil GmbH & Co. KG the subject of which was the delivery of the second production line for the Egyptian plant. In June 2016, the Company decided to redirect the new production line to the Czech Republic. This decision was based on the current product mix and demand development, and took into consideration the lack of production capacity in the Czech Republic.

## Investment in the Republic of South Africa

In June 2016, the Board of Directors announced its decision to establish a subsidiary in the Republic of South Africa and to commence negotiations relating to the purchase of land for the potential future production site in the Republic of South Africa. Subsequently, in July 2016, the Company established a subsidiary under the business name PEGAS NONWOVENS RSA (PTY) LTD.

Currently, the Company is conducting negotiations relating to the purchase of land and is in discussions with potential customers that have expressed an interest in cooperation in this region. The Company is considering the installation of the most modern production line from Reifenhäuser Reicofil based on the flat floor concept.

## Shareholder Structure in 2016

The total stake directly held by the management of the Company as of 31 December 2016 and as of 31 December 2015 was 0.0%.

The company does not have precise information about the composition of its shareholder structure. Based on the list of shareholders present at the ordinary shareholders meeting held on 15 June 2016, the main shareholders at that date were Wood Textiles Holding Limited (22.28% of the share capital and of the total voting rights), Franklin Templeton Investment Funds and Templeton Global Investment Trust (together 7.50% of the share capital and of the total voting rights) and PKO Towarzystwo Funduszy Inwestycyjnych SA (4.86% of the share capital and of the total voting rights). The Company has received the following notifications from the shareholder(s) with respect to their respective participation in the Company since the date of the ordinary shareholders meeting.

On July 22, 2016, the Company received a notification that Franklin Templeton Investment Management Limited was as of July 21, 2016 holding 435,201 shares in the Company, constituting 4.72% of the share capital and of the total voting rights attached to the shares

issued by the Company. Prior to July 21, 2016, Franklin Templeton Investment Management Limited had held 494,963 shares in the Company, constituting 5.36% of the share capital and voting rights attached to the shares issued by the Company.

On January 24, 2017, the Company received a notification that PKO Towarzystwo Funduszy Inwestycyjnych SA, having its registered office at ul. Chłodna 52, 00-872 Warszawa, Poland was as of January 20, 2017 holding 466,526 shares in the Company, constituting 5.05% of the share capital and of the total voting rights attached to the shares issued by the Company. Prior to January 20, 2017, PKO Towarzystwo Funduszy Inwestycyjnych SA had held 460,937 shares in the Company, constituting 4.99% of the share capital and voting rights attached to the shares issued by the Company.

As a result of the completed share buy back program, the Company was holding 461,470 of its own shares as of 31 December 2016, representing 5.0% of share capital.

## Dividend Policy

The Annual General Meeting of PEGAS NONWOVENS SA held on 15 June 2016 in Luxembourg, approved the proposed pay out of a dividend in the amount of EUR 11,536,750, i.e. EUR 1.25 per share. The source of the dividend payout was 2015 profit and retained earnings of prior years. The record date (i.e. the day at the end of which shares entitled to a dividend are registered at accounts of the entitled persons held by the settlement systems of Centrální depozitář cenných papírů, a.s, Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna or by other respective settlement systems) was set to 14 October 2016 and the dividend payment date was set to 26 October 2016.

The dividend was not paid out on 461,470 of the Company's own shares, that it held at the record date for the dividend payout, i.e. on 14 October 2016. Therefore, the total dividend payout amounted to EUR 10,959,912.

Subject to maintaining satisfactory financial performance and the absence of other attractive opportunities, PEGAS will endeavour to continue with a progressive dividend policy. No specific payout ratio in terms of net profit or an anticipated dividend yield has been set by the Company.

## Other Information Required by Legislation

### PEGAS shareholding information

Information on shares and shareholders is described in chapter Investor Information.

### Declaration on Management and Corporate Governance

Declaration on Management and Corporate Governance is detailed in chapter Corporate Governance Report and chapter Management report – Basic Information on the Company.

### Principal risks and uncertainties faced by the Company

Description of principal risks and uncertainties faced by the Company can be found in chapter Corporate Governance Report – Risk Factors.

### Financial Instruments

Financial Instruments are described in detail in the notes to the consolidated financial statements in note 5aa).

### The objectives and policies of the Company's financial risk management and exposure of the risks

The objectives and policies of the Company's financial risk management and exposure of the given risks are detailed in the notes to the consolidated financial statements in note 4.

### The existence of branches of PEGAS and the PEGAS Group entities

Subsidiaries included in the consolidated entity are described in the notes to the consolidated financial statements in note 5cc).

### Information in respect of the acquisitions of own shares

Based on the authorisation by the General Meeting of the Company held on 15 June 2011, the Board resolved to implement the acquisition of own shares by the Company on 31 July 2015. The purpose was to reduce the capital of the Company and/or to meet obligations arising from director and employee share option programmes or other allocations of shares to directors and employees of the Company or of an associate company. Maximum number of shares to be acquired amounted to 5% of the basic capital of the Company, i.e. 461,470 shares. The shares could be acquired up until 14 June 2016 for a maximum consideration of CZK 1,000.

As of 8 February 2016, the Company had completed the acquisition of its own shares within the course of the share buyback program. To that date, the Company bought back 461,470 of its own shares at total acquisition costs of CZK 370.0 million representing 5% of the Company's basic capital.

### Conflict of interest

During 2016, no decision of the board of directors was taken where a director would have a conflict of interest.

## 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 confirms that all appropriate actions have been taken, or are being taken, to address any issue. Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements, both standalone and consolidated, are subject to the independent examination by the external auditor.

## Other corporate information (related to the Article 11 of the Law on Takeover Bids)

The issued capital of the Company amounts to EUR 11,444,456, being divided into 9,229,400 shares with a par value of EUR 1.24 each.

The rules of appointment and dismissal of the members of the Board of Directors are described in Article 8 of the Articles of Association of the Company. The rules on the amendments of the articles of association are governed by standard Luxembourg law provisions.

In accordance with the resolution Nr. 9 of Annual General Meeting held in June 2011, the Board of Directors has been authorised to decide on the acquisition of up to 922,940 of the Company's own shares by the Company, i.e. 10% of the basic capital. Based on this authorisation, the Board resolved to implement the acquisition of own shares by the Company on 31 July 2015 in the amount of 5% of the basic capital (see paragraph Information in respect of the acquisitions of own shares).

In accordance with resolution No.5 of the Extraordinary General Meeting held in July 2014, the Board of Directors has been authorised to increase the share capital of the Company one or more times by total amount of EUR 1,716,668.40 represented by 1,384,410 shares with a nominal value of EUR 1.24 each up to a maximum amount of share capital EUR 13,161,124.40 by issuing shares and/or granting rights to subscribe for or to convert any other securities into shares in the share capital of the Company. The authorisation is valid for a period of five years. During 2016, the Board of Directors has not used this authorisation.

In accordance with resolution No.11 of the Annual General Meeting held in June 2016, the Board of Directors has been authorised to decide on the acquisition of up to 922,940 own shares by the Company, i.e. 10% of the basic capital. Based on this authorisation and in connection with the intention to withdraw shares from

trading on the Warsaw Stock Exchange, the Board resolved to announce the offer to buyback 434,531 shares that were acquired on the basis of transactions concluded within the scope of trading on a regulated market in Poland, whilst being recorded on the securities accounts held at the Polish National Securities Depository (Krajowy Depozyt Papierów Wartościowych Spółka Akcyjna) on 8 January 2017. In this regard, the Company eventually accepted the requests and reacquired 4,071 shares in March 2017.

The Company is not a party to any significant agreement which takes effect, alters or terminates upon a change of control of the Company following a takeover bid. The subsidiary of the Company, PEGAS NONWOVENS s.r.o., is a party to a credit agreement, which may be terminated upon a change of control of PEGAS NONWOVENS s.r.o. or the Company.

All shares issued by the Company have one vote and carry equal voting dividend rights, there are no shares with special control rights or limitations on their transfer. There are no restrictions on voting rights.

The rights of a holder of shares to participate in a general meeting of shareholders and to exercise voting rights shall be determined by the registration of such holder of shares in the register of shares of the Company and by way of notification of intention to participate at and by a given record date in accordance with the provisions of Luxembourg law.

There are no agreements between shareholders known to the Company, which may result in restrictions on the transfer of securities and/or voting rights.

The Company and the operating companies have not created and do not currently intend to create a share option plan for the benefit of their employees other than those described in chapter Remuneration of Directors and Management.

The Company is party to service agreements with its executive directors, which provide for compensation if the executive director is made redundant for other reasons than for breach of his obligations. Each executive director 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 years following the date of such termination and (ii) the date of the executive director 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 Board members 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.



## Bond issue

During the year 2016, the Company did not issue any bonds.

## Material Subsequent Events

On January 5, 2017, the Board of Directors of the Company approved the intention to delist Company's shares from trading on the Warsaw Stock Exchange. This decision was taken on the grounds of very low trading volumes of the Company's shares on the Warsaw Stock Exchange that do not justify the costs of the listing. On January 23, 2017, the Polish supervisory authority, approved the Tender Offer that the Company submitted in connection with its intention. The period for the registration of requests for the acceptance of the Tender Offer ended on 24 February 2017. In this regard, the Company eventually accepted the requests and reacquired 4,071 shares in March 2017, representing 0.04 % of the share capital and voting rights of the Company. The delisting from trading on the Warsaw Stock Exchange is now pending the approval of the Polish supervisory authority. In accordance with the required procedure, once the approval is issued, the Company shall subsequently request the Warsaw Stock Exchange to also approve the delisting of shares from trading. It is expected that the Company's shares shall cease to be traded on the Warsaw Stock Exchange during the first half 2017.

On January 20, 2017, company PEGAS NONWOVENS s.r.o. issued private senior unsecured bonds pursuant to Czech law in the nominal amount of EUR 50 million. The bond issue bears a fixed interest rate of 1.875% p.a. and is repayable on January 20, 2024. The proceeds from the bond issue will be used primarily for the refinancing of the public bond issue in November 2018.

The management of the Group is not aware of any other events that have occurred since 31 December 2016 that would have any material impact on the Company.

# INVESTOR INFORMATION

## PEGAS's Shares and Share Capital

### Shareholders as of 31 December 2016

Institutional and Retail Investors (together free float)	100%
Of which Management of the Company	0,0%

Source: Company Data

In December 2006, PEGAS completed an IPO of its shares at a price of CZK 749.20 (EUR 27). The IPO consisted of the offer of 5,042,750 shares in total, including 1,810,000 shares newly issued in the Company's share capital and 3,232,750 shares offered by the selling shareholder Pamplona Capital Partners I, LP ("Pamplona").

Shares of PEGAS NONWOVENS SA were listed on the Prague Stock Exchange and on the Warsaw Stock Exchange in December 2006. PEGAS has one series of shares. All shares have one vote and carry equal dividend rights. The shares are in registered form and are entered into the depository system of Clearstream Bank. The nominal value of one share is EUR 1.24. The aggregate nominal value of the issued share capital is EUR 11,444,456 and number of issued share is 9,229,400.

On 4 July 2007, the principal shareholder of PEGAS NONWOVENS SA, Pamplona, announced its intention to sell part or its entire stake held in PEGAS. Pamplona placed its entire 43.4% stake on 10 July 2007 via an accelerated book-build on the Prague and Warsaw Stock Exchanges at the price of CZK 780 or PLN 102.49<sup>3</sup>. The shares were sold primarily to European institutional/portfolio investors and the placement was not targeted to retail investors.

The shares are traded on the Prague Stock Exchange under ISIN LU0275164910 BAAPEGAS and on the Warsaw Stock Exchange under PGS. The shares of PEGAS NONWOVENS SA are as of 19 March 2007 part of the PX index, which covers the shares of all major issuers on the Prague Stock Exchange.

On January 5, 2017, the Board of Directors of the Company approved the intention to delist Company's shares from trading on the Warsaw Stock Exchange. This decision was taken on the grounds of very low trading volumes of the Company's shares on the Warsaw Stock Exchange that do not justify the costs of the listing. On January 23, 2017, the Polish supervisory authority, approved the Tender Offer that the Company submitted in connection with its intention. The period for the registration of requests for the acceptance of the Tender Offer ended on 24 February 2017. In this regard, the Company eventually accepted the requests and reacquired 4,071 shares in March 2017, representing 0.04 % of the share capital and voting rights of the Company. The delisting from trading on the Warsaw Stock Exchange is now pending the approval of the Polish supervisory authority. In accordance with the required procedure, once the approval is issued, the Company shall subsequently request the Warsaw Stock Exchange to also approve the delisting of shares from trading. It is expected that the Company's shares shall cease to be traded on the Warsaw Stock Exchange during the first half 2017.

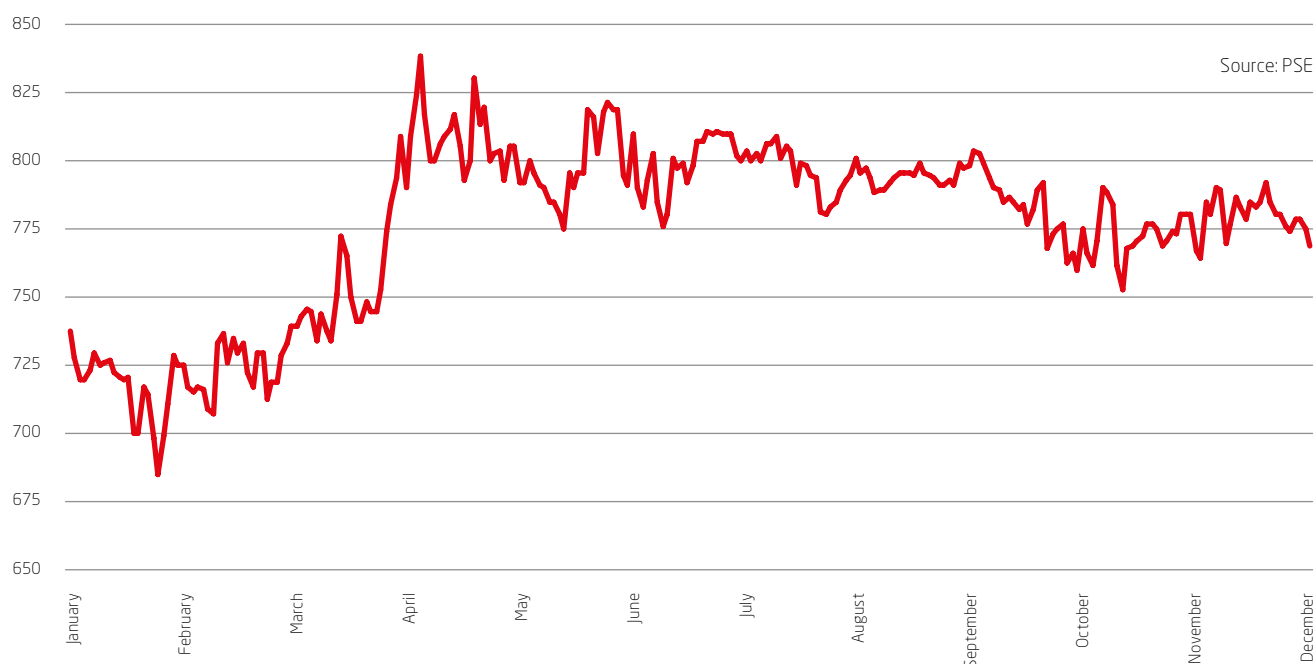
## Share Price Development and Trading Activity in 2016

During 2016, PEGAS shares were traded for a total value of CZK 1.3 billion on the Prague Stock Exchange and for a total value of PLN 5.24 million on the Warsaw Stock Exchange. The lowest trading price during the year was CZK 685 and PLN 111.60 and the highest trading price was CZK 839 and PLN 137.90 on the Prague and Warsaw Stock Exchanges respectively.

The closing price on 30 December 2016 was CZK 769 on the Prague Stock Exchange and PLN 122.85 on the Warsaw Stock Exchange and the market capitalisation of PEGAS reached CZK 6.7 billion (based on the Prague Stock Exchange quote).

<sup>3</sup> Due to the execution of the placement on the stock exchanges in Prague and Warsaw, there is no official price in EUR. The CZK/EUR FX rate from 10 July 2007 was 28.601.

### Share price development 1/1/2016-31/12/2016



### PEGAS's Investor Relations Commitment

In the period since the IPO, PEGAS has focused on developing research coverage for the Company, developing relationships with analysts and setting up investor relations communications according to the best market standards. At present, the Company has seven sell-side analysts who publish research on the Company and a number of other commenting analysts from both international investment banks and local Czech financial institutions.

PEGAS is dedicated to open and pro-active communications with its shareholders and has implemented a schedule of investor communications events, which is fully compliant with market standards for listed companies.

### Financial Results Calendar for 2017

<b>11 May 2017</b>	Q1 2017 Unaudited Consolidated Financial Results of PEGAS NONWOVENS SA in accordance with IFRS
<b>15 June 2017</b>	Annual General Meeting of Shareholders
<b>24 August 2017</b>	Half Year Report for the 1 <sup>st</sup> Half of 2017, 1 <sup>st</sup> Half 2017 Unaudited Consolidated Financial Results of PEGAS NONWOVENS SA in accordance with IFRS
<b>16 November 2017</b>	Q1-Q3 2017 Unaudited Consolidated Financial Results of PEGAS NONWOVENS SA in accordance with IFRS

### IR Contact Details

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**1.30** EUR  
**DIVIDEND PER SHARE PROPOSED**

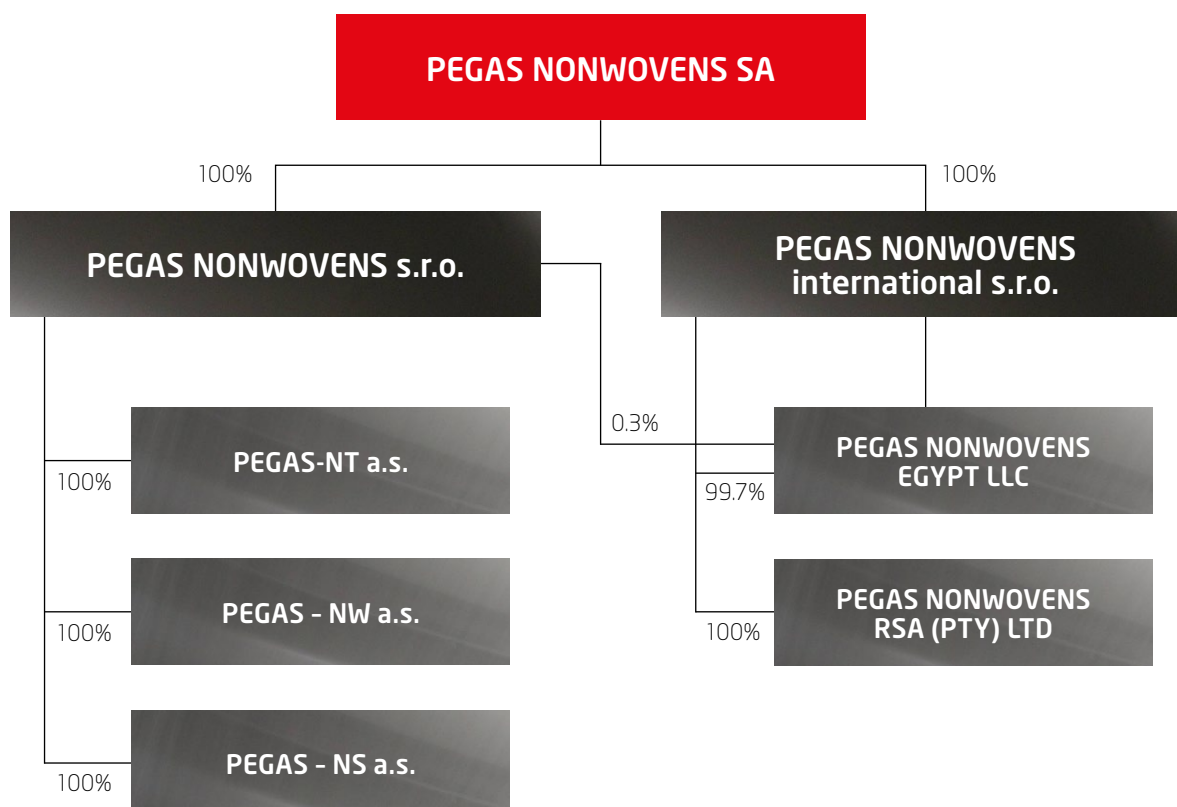
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# CORPORATE GOVERNANCE REPORT

## Organisational Structure

The diagram below represents the current structure of the Group as at 31 December 2016:



Source: Company Data

PEGAS NONWOVENS SA, Luxembourg, parent holding company, is a 100% owner of the operating subsidiary PEGAS NONWOVENS s.r.o. based in Znojmo, Czech Republic. PEGAS NONWOVENS s.r.o. owns 100% of the capital of its three operating subsidiaries which are incorporated in the Czech Republic.

All of the operating assets in the Czech Republic are owned by PEGAS NONWOVENS s.r.o. and its 3 subsidiaries: PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s.

The Company's relations with suppliers and customers are carried out by PEGAS NONWOVENS s.r.o.

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

## General Meeting of Shareholders

The operation of, and the main powers of, the general meeting of shareholders, and shareholders' rights and conditions for exercising these rights are regulated by the Company's

articles of association (see in particular articles 17, 18, 7 and 6) and applicable Luxembourg law.

## Board of Directors

The Company is administered and managed by a Board of Directors. The Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in the Company's interest. All powers not expressly reserved by Luxembourg law or the Company's Articles of Association to the general meeting of shareholders fall within the powers of the Board of Directors.

The director(s) of the Company are appointed by a General Meeting of Shareholders for a term which may not exceed six years. The director(s) may be dismissed at any time and at the sole discretion of a General Meeting of Shareholders, and may be reappointed without restrictions.

### 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:

#### Board of Directors

Name	Position/Function	Business Address	Function period in 2016
František Řezáč	Executive director	Přímětická 86, 669 02, Znojmo, Česká republika	1. 1. 2016–31. 12. 2016
František Klačka	Executive director	Přímětická 86, 669 02, Znojmo, Česká republika	1. 1. 2016–31. 12. 2016
Marian Rašík	Executive director	Přímětická 86, 669 02, Znojmo, Česká republika	1. 1. 2016–31. 12. 2016
Marek Modecki	Non-Executive Director, Chairman of the Board	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2016–31. 12. 2016
Jan Sýkora	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2016–31. 12. 2016

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

**František Řezáč**, aged 43, is a graduate of the Law Faculty of Masaryk University in Brno. He joined PEGAS in 1996 while still studying at university and then worked in various managerial positions at the Company. He held the position of the Legal and Human Resource Department Director and from 2004 he was the Sales Director. He became CEO in October 2008. He has been Executive Director of the holding company PEGAS NONWOVENS SA since November 2006. Mr Řezáč is a member of the Young Presidents' Organization.

**František Klačka**, aged 60, was appointed as an executive director of the Company in November 2006. Mr. Klačka 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. Klačka is a graduate of the Czech Technical University.

**Marian Rašík**, aged 45, was appointed as an executive director as of 1 March 2010. In December 2009, he was appointed as the CFO of PEGAS NONWOVENS s.r.o. 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.

**Marek Modecki**, aged 58, was appointed as a non-executive director in April 2008. He is currently a Managing partner at 21 Concordia, a private equity investment company based in Warsaw with offices in Paris and Milan. In 2006–2008 he worked as a Senior Banker for Concordia Espirito Santo Investment, a joint venture between Concordia and the Portuguese Espirito Santo Group. Mr. Modecki holds a Master in Law from the University of Warsaw. He also studied International Law at the Max Planck Institute and Law at the University of Hamburg.

**Jan Sýkora**, aged 45, was appointed as a non-executive director in May 2012. Mr. Sýkora is currently serving as a Chairman of Wood & Company, a leading independent Central and Eastern European investment bank which he joined in 1994. He also serves on various boards of both public and not for profit companies (Prague Stock Exchange, International School of Prague and Young Presidents' Organization). Mr. Sýkora obtained his MBA from the Rochester Institute of Technology.



**The Company's directors (left to right)**

Jan Sýkora, Marek Modecki, František Řezáč, Marian Rašík, František Klačka.

## Changes to the Board of Directors in 2016

The Annual General Meeting of Shareholders (hereinafter “the Meeting”) on 15 June 2016 resolved to ratify their co-optation for another three years of two executive members of the Board of directors, Mr. František Řezáč and Mr. František Kláška, dated 1 December 2015 and finally ratified their appointment for a term ending on 30 November 2018.

As at 29 February 2016, the term of the executive member of the Board of directors, Mr. Marian Rašík, ended. On March 1, 2016, the Board of Directors resolved to ratify his co-optation for a term

ending on 28 February 2019. This resolution was finally ratified by the Meeting on 15 June 2016.

The Meeting further resolved to re-appoint two non-executive directors, Mr. Marek Modecki and Mr. Jan Sýkora, for a term ending at the general meeting of shareholders of PEGAS to be held in 2018.

The following table sets out past and current directorships held by the directors in the past five years. Other directors than those stated below do not hold or did not hold any director positions outside the Company.

Name	Positions held
Marek Modecki	<b>Former directorships:</b>
	Supervisory Board member of Concordia Espirito Santo Investment Ltd.
	Supervisory Board member of Prokom Software SA
	Supervisory Board member of Metalexport SA
	Supervisory Board member Petrolinvest SA
	Supervisory Board member Polnord SA
	Non-executive director Ablon Group Plc
	Supervisory Board member Empik Media & Fashion SA
	Non-executive member of the Management Board of Imobel SA
	Member of the Supervisory Board of SMT S.A.
	<b>Current directorships:</b>
	Managing Partner of Z1 Concordia Ltd.
	Member of the Supervisory Board of Hollywood S.A.
	Member of the Supervisory Board of Monevia Ltd.
Jan Sýkora	<b>Former directorships:</b>
	AmRest – Member of the Supervisory Board
	Window Holding Limited – Director
	Gruman Holding Limited – Director
	SUNCORE ENERGY, a.s. – Chairman of the Supervisory Board
	<b>Current directorships:</b>
	WOOD & Company – Chairman of the Board
	International School of Prague – Member of the Board of Trustees
	The Duke of Edinburghs International Award Czech Republic Foundation, o.p.s. – Chairman of the Supervisory Board
	Prague Stock Exchange – Member of the Supervisory Board
	All-Star Holding Limited – Director
	Casiana, s.r.o. – Executive Head
	CD ESTATES, s.r.o. – Executive Head
	Renaissance finance S.A. – Director
	International Gold Event 2017, z. s. – Chairman of the Board

At the date of the Annual Report, no member of the Board of Directors has, in the previous five years, (i) been convicted of any offences relating to fraud; (ii) held an executive position at any company at the time of or immediately preceding any bankruptcy, receivership or liquidation; (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body), or (iv) been the subject of any official public incrimination or been disqualified by a court from acting as a member of the administrator, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company. Except as disclosed in this report, no member of the Board of Directors has a conflict of interest

(actual or potential) between his private interests and his duties to the Company.

No member of the Board of Directors holds a supervisory or a non-executive position in another listed company or carries on principal activities outside the Company which are significant with respect to the Company.

### Changes in the senior management in 2016

Effective as of June 6, 2016, Ms. Renata Kouřilová was appointed into the senior management of the Company as the Quality Director.

## 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 confirms that all appropriate

actions have been taken, or are being taken, to address any issue. Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements, both standalone and consolidated, are subject to the independent examination by the external auditor.

## Remuneration of Directors and Management

The objective of the Company's remuneration policy is to provide a compensation programme that allows the company to attract, retain and motivate the members of the Board of Directors and other Group managers who have the character traits, skills and background to successfully lead and manage the Company.

The remuneration committee was established by a resolution of the Board of Directors in July 2008. Currently, members of the Remuneration and Audit committees are Marek Modecki and Jan Sýkora.

(in EUR)		Remuneration			Total
		PEGAS NONWOVENS SA	Other Group Companies		
			Pecuniary Income	Pecuniary Income	
Members of the Board of Directors	Board Remuneration	329,967	555	--	330,522
	Salaries and other similar income	--	290,153	25,737	315,890
	Management Bonus	--	102,416	--	102,416
	Warrants	1,423,553	--	--	1,423,553
	Total	1,753,520	393,124	25,737	2,172,381
Management of the Group Companies*	Salaries and other similar income	--	780,142	67,016	847,158
	Management Bonus	--	161,609	--	161,609
	Board Remuneration (incl. Supervisory Board)	--	59,305	--	59,305
	Total	0	1,001,056	67,016	1,068,072
Total		1,753,520	1,394,180	92,753	3,240,453

\* In compliance with the definition of "persons discharging managerial responsibilities within an issuer" according to the Directive 596/2014 of the European Parliament and of the Council of 16 April 2014 on insider dealing and market manipulation (market abuse). Total number of persons included 18.

## Information on Shares Held by the Management

As of 31 December 2016, Board members of PEGAS directly held no shares of PEGAS.

In addition to direct personal holdings of the board members, Mr. Jan Šýkora is one of the controlling persons of WOOD & Company Financial Services, a.s., which is appointed as an investment manager of certain sub-funds of WOOD & Company Funds SICAV Pl.c. (Malta) that held together 2,155,718 shares of PEGAS, representing 23.36% of aggregate voting rights as at 31 December 2016.

Persons discharging managerial responsibilities within an issuer held as of 31 December 2016 no shares of PEGAS.

## Cash-settled Share-based Payment for Executive and Non-executive Directors

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme is realised through Phantom options.

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was 24 May 2007. Each phantom option, when exercised, granted the manager the right to receive cash calculated as the 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 PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vested yearly, with the first options vesting from 18 December 2007 and the last options vesting from 18 December 2010. The given part of phantom options may be exercised on or after the vesting date. The participant shall provide service to the Group at the vesting date to be eligible for the given phantom options series.

On 15 June 2010, the AGM approved new principles of the share price bonus plan for members of the senior management and the members of the Board of Directors. The goal of the new programme was to enhance its motivation function and to extend it to the new members of the senior management and the Board of Directors. Therefore, the AGM Meeting resolved to issue an aggregate amount of 230,735 phantom options (representing 2.5% of share capital of PEGAS NONWOVENS SA) to the directors and senior management of PEGAS and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive a phantom share, i.e. the right to receive in cash an amount equal to the difference between CZK 473.00 representing the PEGAS's share price on the Prague Stock Exchange (the "PSE") as of 15 December 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on 18 December 2010 and the last options vesting on 18 December 2013, whereas the first options vesting on 18 December 2010 fully replaced the last options of current share price bonus plan, approved at the AGM in 2007, vesting at the same date. Therefore, the right for the remaining 34 008 options (with vesting date on 18 December 2010) granted in 2007 and approved by the Annual General Meeting held on 15 June 2007 was abandoned.



The Extraordinary General Meeting held on 21 July 2014 resolved to convert 230,735 phantom options granted in 2010–2013 into 230,735 warrants. Each warrant, when exercised, will grant the holder the right to receive (i) one share in PEGAS for a strike price corresponding to CZK 473.00 representing the PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, less CZK 473.00. All the warrants will vest immediately from their granting date and will have the same exercise period that was initially planned for the phantom options.

The Extraordinary General Meeting held on 21 July 2014 resolved to issue 230,735 new warrants (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates collectively, for a market price set by an expert valuation in the amount of CZK 5.89 per new warrant to be paid in cash by the directors, it being understood that the Board of Directors of PEGAS will decide how the new warrants will be divided among the directors and senior management of PEGAS and/or its affiliates. Each new warrant, when exercised, will entitle the holder to either receive (i) one share in PEGAS for a strike price corresponding to CZK 588.16 (representing the average of PEGAS's share price on the PSE from 1 October 2013 to 31 December 2013) less all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, plus all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of PEGAS's share price on the PSE from October 1, 2013 to December 31, 2013).

On October 17, 2016, the Company received an announcement from persons discharging managerial responsibilities within the issuer about transactions with financial instruments, the value of which is derived from the share price of the Company. The subject of the transaction was the exercise of 153,824 warrants awarded based on a contract dated 22 September 2014 with a strike price of CZK 588.16. The closing price of the Company's shares as at the day preceding the exercise amounted to 792.00 CZK.

Total number of issued virtual options and warrants was 146,215 as of 31 December 2016 (300,039 as of 31 December 2015). The number of virtual options and warrants as of 31 December 2016 consists of 53,840 virtual options with a strike price of CZK 749.20, 15,464 virtual options with a strike price of CZK 473 and 76,911 warrants with a strike price of CZK 588.16.

## Management Bonus Scheme

The principles of the bonus scheme for 2008 and for the following financial years targeted to the senior management of PEGAS Group were approved by the AGM in 2008.

The key elements of the bonus scheme are as follows:

- The scheme was designed to ensure that senior management is focused on delivering the Company's budgeted economic results represented by the Budgeted EBITDA and is valid for the accounting years of 2008 and onwards.
- Basis for the bonus calculation is the Group's EBITDA calculated in accordance with IFRS as the consolidated profit for the Group adjusted for certain extraordinary items and gains or losses.
- If achieved EBITDA is equal to Budgeted EBITDA, the paid bonus will be the Target bonus. If the achieved EBITDA is below or above the Budgeted EBITDA, the amount of the target bonus will be decreased or increased up to the amount of a maximum bonus in accordance with criteria set for each year by the Board of Directors.

## Remunerations of Persons Discharging Managerial Responsibilities

Persons discharging managerial responsibilities are entitled to the management bonus which is partly based on the Budgeted EBITDA and is determined by the same principles as the above mentioned management bonus scheme. In addition, the second part of the persons discharging managerial responsibilities bonus is based on the appraisal of the superior.

## Corporate Governance

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of the Company's shares on the Warsaw Stock Exchange, the Company is required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules it intends to comply with, as well as to enumerate the principles which it does not intend to comply with and to state the reasons for the non-compliance. The original WSE Corporate

Governance Rules adopted by the Company during the IPO were amended based on Resolution No. 13/1171/2007 of the Warsaw Stock Exchange Supervisory Board dated 4 July 2007 concerning amendment of the WSE Rules.

The Company has decided to observe the majority of the WSE Corporate Governance Rules as stated in detail below.

### STATEMENT ON WARSAW STOCK EXCHANGE CORPORATE GOVERNANCE RULES

#### Recommendations for Best Practice for Listed Companies

1. A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular:
  - maintain a company website whose scope and method of presentation should be based on the model investor relations service available at <http://naszmodel.gpw.pl/>;
  - ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication.
2. [deleted]
3. A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting.
4. Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.
5. A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.
6. A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company.
7. Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular:
  - refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments;
  - raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest the company.
8. No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities.
9. The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.
10. If a company supports different forms or artistic and cultural expression, sport activities, educational or scientific activities, and considers its activity in this area to be a part of its business mission and development strategy, impacting the innovativeness and competitiveness of the enterprise, it is good practice to publish, in a mode adopted by the company, the rules of its activity in this area.
11. As part of a listed company's due care for the adequate quality of reporting practice, the company should take a position, expressed in a communication published on its website, unless the company considers other measures to be more adequate, wherever with regard to the company:
  - published information is untrue or partly untrue from the beginning or at a later time;
  - publicly expressed opinions are not based on material objective grounds from the beginning or as a result of later circumstances.
 This rule concerns opinions and information expressed publicly by company representatives in the broad sense or by other persons whose statements may have an opinion-making effect, whether such information or opinions contain suggestions that are advantageous or disadvantageous to the company.
12. A company should enable its shareholders to exercise the voting right during a General Meeting either in person or through a plenipotentiary, outside the venue of the General Meeting, using electronic communication means.

No.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS SA
<b>Best Practice for Management Boards of Listed Companies</b>			
1	A company should operate a corporate website and publish on it, in addition to information required by legal regulations:		
	1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;	YES	
	2) professional CVs of the members of its governing bodies;	YES	
	2a) on an annual basis, in the fourth quarter – information about the participation of women and men respectively in the Management Board and in the Supervisory Board of the company in the last two years;	NO	Partially complying with the rule. The Company publishes such information on annual basis, typically as a part of the annual report.
	3) current and periodic reports;	YES	
	4) [deleted]		
	5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;	YES	
	6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board;	NO	We are unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board.
	7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;	YES	No such issues on the agenda have been submitted during preceding General Meetings.
	8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;	YES	Such situations have not occurred with respect to preceding General Meetings.
	9) information about breaks in a General Meetings and the grounds of those breaks;	YES	No such breaks have been taken during preceding General Meetings.
	9a) a record of the General Meeting in audio or video format;	NO	The written minutes from the General Meeting are published on the website. The possibility of the sound record from the General Meeting is under review by the management of the Company.
	10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;	YES	
	11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;	NO	We are unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board
	12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from to its introduction;	YES	
	13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;	YES	
	14) information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.	YES	
2	A company should ensure that its website is also available in English, at least to the extent described in section II.1.	YES	
3	Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake. For the purpose of this document, related entity shall be understood within the meaning of the Regulation of the Minister of Finance issued pursuant to Article 60.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Dz.U. No. 184, item 1539, as amended).	NO	We are partially unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board.

No.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS SA
4	A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	
5	[deleted]		
6	A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.	YES	
7	A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.	YES	
8	If a company's Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2-4 of the Code of Commercial Partnerships and Companies, the company's Management Board shall immediately perform the actions it is required to take in connection with organising and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorisation given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies.	NO	Article 399 § 2-4 of the Code of Commercial Partnerships and Companies does not apply to our company as it is registered in Luxembourg. However, there are similar provisions under Luxembourg law and our Articles.
<b>Best Practices of Supervisory Boards</b>			
1	In addition to its responsibilities laid down in legal provisions the Supervisory Board should: 1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system; 2) /deleted/ 3) review and present opinions on issues subject to resolutions of the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
2	A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.	YES	Under Article 9.16 of the Articles of Association, a director having a personal interest contrary to that of the Company in a matter submitted to the approval of the Board of Directors shall be obliged to inform the Board of Directors thereof and to have his declaration recorded in the minutes of the meeting. He may not take part in the relevant proceeding of the Board of Directors. At the next General Meeting, before votes are taken on any other matter, the shareholder shall be informed of those cases in which a director had a personal interest contrary to that of the Company.
3	A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
4	A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	Under Article 9.16 of the Articles of Association, a director having a personal interest contrary to that of the Company in a matter submitted to the approval of the Board of Directors shall be obliged to inform the Board of Directors thereof and to have his declaration recorded in the minutes of the meeting. He may not take part in the relevant proceeding of the Board of Directors. At the next General Meeting, before votes are taken on any other matter, the shareholder shall be informed of those cases in which a director had a personal interest contrary to that of the Company.
5	A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.

No.	RULE	YES / NO	COMMENT OF PEGAS NONWOVENS SA
6	At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
7	[deleted]		
8	Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors... should apply to the tasks and the operation of the committees of the Supervisory Board.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
9	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
<b>Best Practices of Shareholders</b>			
1	Presence of representatives of the media should be allowed at General Meetings.	NO	The written minutes from the General Meeting are published on the website.
2	The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.	YES	
3	[deleted]		
4	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision..	YES	
5	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	YES	
6	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	YES	
7	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to dividend.	YES	
8	[deleted]		
9	A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.	YES	
10	A company should enable its shareholders to participate in a General Meeting using electronic communication means through: 1) real-life broadcast of General Meetings; 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting.	NO	Under review by the management of the Company.



## Risk Factors

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

### Marketing and Sales

PEGAS 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 PEGAS and affect the Company's revenues and profitability.

### Production

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

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 PEGAS.

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

PEGAS 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.

### 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.

### Potential Expansion

PEGAS 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 PEGAS's business.

### Legal and Intellectual Property

PEGAS'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.

PEGAS may be in breach of intellectual property rights of others.

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

### Finance

The indebtedness of PEGAS 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.

The current level of indebtedness and conditions imposed on external debt (covenants) may potentially lead to a modification of the current progressive dividend policy of the Company.

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. PEGAS'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.

The fluctuation of the polymer prices, which are passed on to the customers with some delay may on a short term basis affect the Company's revenues and profitability.

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

### 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.

### Key Personnel and Technical Expertise

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

PEGAS 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.

### Ownership Changes

PEGAS is 100% free float and its ownership structure is very fragmented and divided among many shareholders. A potential entry of a majority investor into the Company could result in

a sudden change of the long term strategy and impact value of the shares.

### 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.

Although PEGAS entered into an insurance contract with EGAP for the coverage of risks connected with its investment in Egypt, which include insurance of the investment against the risk of prevention of the transfer of returns, expropriation or politically motivated violent damage, there is a risk that the insurance coverage may not adequately protect PEGAS against all possible losses related to its investment in Egypt.

## Information Disclosed in the Management Report

PEGAS shareholding information, Declaration on Management and Corporate Governance and Internal control and risk management organisation are disclosed in chapter Management Report, section Other Information required by legislation.



**EBITDA AMOUNTED TO**  
**EUR 46.7** MILLION

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**PRODUCTION OUTPUT REACHED**  
**102,691** TONNES





# CONSOLIDATED FINANCIAL STATEMENTS

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## Consolidated Financial Statements of PEGAS NONWOVENS SA

for the year ended 31 December 2016 and Independent Auditor's Report



To the Shareholders of  
PEGAS NONWOVENS S.A.  
68-70, boulevard de la Pétrusse  
L-2320 Luxembourg

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## REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

### Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of PEGAS NONWOVENS S.A., which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Board of Directors for the consolidated financial statements*

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the réviseur d'entreprises agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the réviseur d'entreprises agréé's judgement including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of PEGAS NONWOVENS S.A as at December 31, 2016, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

#### **Other information**

The Board of directors is responsible for the other information. The other information comprises the information included in the management report and the Corporate Governance Statement but does not include the consolidated financial statements and our report of *Réviseur d'Entreprises Agréé* thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

#### **Other matter**

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

#### **Report on other legal and regulatory requirements**

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and included in the Corporate Governance Statement is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

For Deloitte Audit, *Cabinet de révision agréé*

**Tom Pfeiffer,**  
*Réviseur d'Entreprises Agréé*  
Partner



26 April 2017

## 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 2016

in thousands of EUR		2016	2015
Revenue	5 a), b)	206,353	229,200
Raw materials and consumables used	5 c)	(143,935)	(167,855)
Staff costs	5 f), g)	(12,646)	(13,613)
Depreciation and amortisation expense	5 h)	(16,107)	(16,059)
Research and development expense	5 e)	(2,918)	(2,283)
Other operating income/(expense) net	5 d)	(186)	(1,138)
<b>Profit from operations</b>		<b>30,561</b>	<b>28,252</b>
Foreign exchange gains and other financial income	5 i)	1,468	13,537
Foreign exchange losses and other financial expenses	5 j)	(4,656)	(4,817)
Interest income	5 k)	94	44
Interest expense	5 l)	(7,367)	(8,019)
<b>Profit before tax</b>		<b>20,100</b>	<b>28,997</b>
Income tax expense	5 m)	(6,021)	(4,019)
<b>Net profit after tax</b>		<b>14,079</b>	<b>24,978</b>
<b>Other comprehensive income</b>			
Net value gain on cash flow hedges		(810)	3,404
Changes in translation reserves		588	778
<b>Total comprehensive income for the year</b>		<b>13,857</b>	<b>29,160</b>
<b>Net profit attributable to:</b>			
Equity holders of the company		14,079	24,978
<b>Total comprehensive income attributable to:</b>			
Equity holders of the company		13,857	29,160
<b>Net earnings per share</b>		<b>5 n)</b>	
Basic net earnings per share (Euro)		1.61	2.74
Diluted net earnings per share (Euro)		1.60	2.71

The Notes are an integral part of these 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 2016

in thousands of EUR		31 December 2016	31 December 2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5 o)	187,288	181,250
Intangible assets	5 p)	4,066	2,369
Goodwill	5 p)	85,864	85,857
<b>Total non-current assets</b>		<b>277,218</b>	<b>269,476</b>
<b>Current assets</b>			
Inventories	5 q)	39,913	39,538
Trade and other receivables	5 r)	43,764	54,692
Income tax receivables	5 s)	0	0
Cash and cash equivalents	5 t)	24,220	28,082
<b>Total current assets</b>		<b>107,897</b>	<b>122,312</b>
<b>Total assets</b>		<b>385,115</b>	<b>391,788</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Share capital	5 u)	11,444	11,444
Legal and other reserves	5 w)	1,999	9,451
Treasury shares	5 u)	(13,672)	(12,797)
Translation reserves		6,279	5,691
Cash flow hedge reserves		608	1,418
Retained earnings	5 v)	152,077	141,505
<b>Total share capital and reserves</b>		<b>158,735</b>	<b>156,712</b>
<b>Non-current liabilities</b>			
Bank loans	5 x)	0	0
Deferred tax liabilities	5 y)	20,067	17,440
Other non-current liabilities	5 z)	185,034	184,806
<b>Total non-current liabilities</b>		<b>205,101</b>	<b>202,246</b>
<b>Current liabilities</b>			
Trade and other payables	5 aa)	20,553	23,895
Tax liabilities	5 bb)	726	1,824
Bank current liabilities	5 x)	0	7,111
Provisions		0	0
<b>Total current liabilities</b>		<b>21,279</b>	<b>32,830</b>
<b>Total liabilities</b>		<b>226,380</b>	<b>235,076</b>
<b>Total equity and liabilities</b>		<b>385,115</b>	<b>391,788</b>

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 2016

in thousands of EUR		2016	2015
<b>Profit before tax</b>		<b>20,100</b>	<b>28,997</b>
Adjustment for:			
Depreciation and Amortisation	5 h)	16,107	16,059
Foreign exchange gains/losses		4,122	(23,399)
Interest expense	5 l)	7,367	8,019
Other changes in equity		(810)	3,404
Other financial income/(expense)		(252)	1,045
<b>Cash flows from operating activities</b>			
Decrease/(increase) in inventories		183	4,701
Decrease/(increase) in receivables		7,477	(9,677)
Increase/(decrease) in payables		(9,370)	(10,538)
Income tax (paid)/received		(1,906)	(642)
<b>Net cash from operating activities</b>		<b>43,018</b>	<b>17,969</b>
<b>Cash flows from investment activities</b>			
Purchases of property, plant and equipment		(21,078)	(9,320)
<b>Net cash flows from investment activities</b>		<b>(21,078)</b>	<b>(9,320)</b>
<b>Cash flows from financing activities</b>			
Increase/(decrease) in bank loans		(7,108)	(56,450)
Increase in other non-current liabilities	5 z)	228	95,769
Acquisition of own shares and other changes in capital	5 u)	(875)	(12,797)
Distribution of dividends	5 v)	(10,960)	(10,350)
Interest paid		(7,339)	(5,374)
Other financial income/(expense)		252	(1,045)
<b>Net cash flows from financing activities</b>		<b>(25,802)</b>	<b>9,753</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3,945)</b>	<b>18,402</b>
<b>Cash and cash equivalents as at 1 January</b>		<b>28,082</b>	<b>8,962</b>
Effect of exchange rate fluctuations on cash held		83	718
<b>Cash and cash equivalents as at 31 December</b>	<b>5 t)</b>	<b>24,220</b>	<b>28,082</b>

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 2016

in thousands of EUR	Share capital	Transl. reserves	Cash flow hedge reserve	Legal and other reserves	Treasury shares	Retained earnings	Total equity attributable to equity holders of the Company
<b>Balance at 31 Dec 2014 Restated</b>	<b>11,444</b>	<b>4,913</b>	<b>(1,986)</b>	<b>9,187</b>	<b>--</b>	<b>127,141</b>	<b>150,699</b>
Distribution	--	--	--	264	--	(10,614)	(10,350)
Other comprehensive income for the year	--	778	3,404	--	--	--	4,182
Net profit for the year	--	--	--	--	--	24,978	24,978
Acquisition of own shares	--	--	--	--	(12,797)	--	(12,797)
Reserves created from retained earnings	--	--	--	--	--	--	--
<b>Balance at 31 Dec 2015</b>	<b>11,444</b>	<b>5,691</b>	<b>1,418</b>	<b>9,451</b>	<b>(12,797)</b>	<b>141,505</b>	<b>156,712</b>
Distribution	--	--	--	577	--	(11,537)	(10,960)
Other comprehensive income for the year	--	588	(810)	--	--	--	(221)
Net profit for the year	--	--	--	--	--	14,079	14,079
Acquisition of own shares	--	--	--	--	(875)	--	(875)
Reserves created from retained earnings	--	--	--	(8,030)	--	8,030	--
<b>Balance at 31 Dec 2016</b>	<b>11,444</b>	<b>6,279</b>	<b>608</b>	<b>1,999</b>	<b>(13,672)</b>	<b>152,077</b>	<b>158,735</b>



# 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 2016 (in thousands of EUR)

## 1. General information and definition of the consolidated entity

### Description and principal activities

PEGAS NONWOVENS S.A., originally incorporated under the name Pamplona PE Holdco 2 S.A., is a commercial company incorporated in Luxembourg on 18 November 2005, under the legal form of a "Société anonyme". The registered office is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Commercial Register of Luxembourg under number B 112.044. The Company acts only as a holding company.

On 14 December 2005, PEGAS NONWOVENS S.A. acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.)

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

Within the scope of international expansion, PEGAS NONWOVENS S.A. established PEGAS NONWOVENS International s.r.o. in 2010. Subsequently PEGAS NONWOVENS EGYPT LLC, which invested in the Egyptian production capacity, was incorporated in June 2011. In July 2016, a subsidiary PEGAS NONWOVENS RSA (PTY) LTD was established for the purpose of realisation of the investment project in the Republic of South Africa.

The consolidated financial statements of PEGAS NONWOVENS S.A. as at and for the year ended 31 December 2016 comprise the Company and its subsidiaries, see note 5cc), (together referred to as "PEGAS", the "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 26 April 2017.

### b) Presentation and functional currency

The financial statements and all amounts in the notes are presented in thousands of Euro ("TEUR"). The underlying functional currency of PEGAS NONWOVENS s.r.o. and its Czech subsidiaries is the Czech Koruna ("CZK"). Czech Koruna is the underlying functional currency of PEGAS NONWOVENS International s.r.o. as well. The functional currency of PEGAS NONWOVENS EGYPT LLC is the United States Dollar ("USD"). The functional currency of PEGAS NONWOVENS RSA (PTY) LTD is the South African Rand ("ZAR"). The functional currency of PEGAS NONWOVENS S.A. is EUR. The financial statements were translated from the functional currencies to the presentation currency.

### c) 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.

#### d) 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 for the purposes of short and long term bank loans classification and for the goodwill impairment testing. The estimates are applied for the determination of useful life of property, plant and equipment in respect of their depreciation. Finished products allocation of overheads based on cost calculation is subject to estimates as well.

### 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 PEGAS NONWOVENS S.A. 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 cc) are fully consolidated.

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

#### b) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange based on the national bank official rates for the last working day of the calendar month to be applied to transactions recorded during the following month.

During the year, exchange gains and losses are only recognised when realised at the time of settlement. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities are expressed in EUR (which is the functional currency of the parent company and presentation currency of the Group) 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 (source: official rates of the European Central Bank):

Period average (for Statement of Comprehensive Income and Cash Flow Statement)	Exchange rate
1 January 2015 – 31 December 2015	27.279 EUR/CZK
1 January 2015 – 31 December 2015	1.1095 EUR/USD
1 January 2016 – 31 December 2016	27.034 EUR/CZK
1 January 2016 – 31 December 2016	1.1069 EUR/USD
<b>Balance sheet date</b>	
Balance sheet as at 31 December 2015	27.023 EUR/CZK
Balance sheet as at 31 December 2015	1.0887 EUR/USD
Balance sheet as at 31 December 2016	27.021 EUR/CZK
Balance sheet as at 31 December 2016	1.0541 EUR/USD

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

### c) Revenue recognition

Revenues are recognised at fair value of the consideration received or the consideration to be received and represent receivables for goods and services delivered in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenues from the sale of products are recognised when products are delivered and either the title to the products has been passed to the customer or the risks to the products have been passed to the carrier. Revenues from the sale of services are recognised when the service is rendered.

### 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.

### 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 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.

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 Company 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 Company 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 Company 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

PEGAS 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 is 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 groups of assets	Number of years
Production lines	15-25
Factory and office buildings	30-60
Cars and other vehicles	5-6

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 profit or loss.

**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 primarily include software, which is amortised on a straight-line basis over its estimated useful life, which is eight years. The item covers capitalised intangible asset arising from development as well.

**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. An impairment loss is recognised immediately in profit or loss.

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.

The management has determined that for goodwill testing purposes all goods producing subsidiaries are considered as one cash generating unit. 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

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL) – derivative financial instruments and 'loans and receivables' (trade receivables). Financial liabilities are classified as either financial liabilities 'at FVTPL' (derivative financial instruments) or 'other financial liabilities' (payables).

The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

Carrying amount of all financial instruments approximates their fair value. The fair value is established in accordance with IFRS 13 – Fair value measurement.

### o) 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 derivative financial instruments are distinguished in accordance with 3-level hierarchy identifying the inputs used in calculation of their fair value.

A derivative is a financial instrument or other contract which fulfils the following conditions:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

The Group uses interest rate swaps to cover the risk of changes in interest rates, cross currency rate swaps and FX forwards and FX options to cover the foreign currency exposure.

Derivative financial instruments which are not designated as hedging instruments are in accordance with IAS 39 classified as held-for-trading and carried at fair value presented in current assets/liabilities, with changes in fair value included in net profit or loss of the period in which they arise.

**Hedge accounting - cash flow hedges**

The Company entered into one cross currency rate swap agreement in November 2014 (with maturity in November 2018) and two cross currency rate swap agreements in July 2015 (with maturities in July 2022 and July 2025). The Company designates these swaps as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item. Furthermore, at the inception of the hedge and on an on-going basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item. 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.

**p) Cash-settled share-based payment**

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme was extended in 2010 and 2014. The scheme is a combination of cash-settled or stock-settled transaction, in which the Company acquires services of key personnel by incurring liabilities to the supplier of those services for amounts that are based on the price of the Company's shares. The scheme is realised through phantom options and warrants, which vest annually. The service period equals the vesting period and the services are correspondingly accounted for as they are rendered by the counterparty during the vesting period.

The Company measures the liability arising from the phantom options and from the warrants at fair value at each reporting date. The changes in the fair value of these liabilities are recognised in the statement of comprehensive income for the period.

The fair value of the phantom options is determined by:

- Pricing model
- Expected life assumption/participant behaviour
- Current share price
- Expected volatility
- Expected dividends
- Risk-free interest rate

**q) Trade and other receivables**

Trade receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term trade receivables (which do not carry any interest) when the recognition of interest would be immaterial.

**r) 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.

## s) Borrowings

### Interest-bearing bank loans, other non-current liabilities

Interest-bearing bank loans, overdrafts and other non-current liabilities such as bonds are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

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 recognised over the term of the borrowings on a straight line basis.

## t) 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.

## u) Trade payables

Trade payables are initially measured at fair value, subsequently measured at amortised cost using the effective interest method, except for short-term trade payables.

## 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 accounting policies adopted are consistent with those of the previous financial year, except for as follows. The Group has adopted the following amendments to the existing standards issued by IASB and adopted by the EU as of 1 January 2016:

- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** – Investment Entities: Applying the Consolidation Exception – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations – adopted by the EU on 24 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Disclosure Initiative – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** – Clarification of Acceptable Methods of Depreciation and Amortisation – adopted by the EU on 2 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** – Bearer Plants – adopted by the EU on 23 November 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to IAS 19 "Employee Benefits"** – Defined Benefit Plans: Employee Contributions – adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- **Amendments to IAS 27 "Separate Financial Statements"** – Equity Method in Separate Financial Statements – adopted by the EU on 18 December 2015 (effective for annual periods beginning on or after 1 January 2016),
- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 15 December 2015 (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The adoption of these amendments to the existing standards has not led to any material changes in the Group's financial statements.

### **Standards and Interpretations issued by IASB and adopted by the EU but not yet effective**

At the date of authorisation of these financial statements the following new standards issued by IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 9 "Financial Instruments"** – adopted by the EU on 22 November 2016 (effective for annual periods beginning on or after 1 January 2018),
- **IFRS 15 "Revenue from Contracts with Customers"** and amendments to IFRS 15 "Effective date of IFRS 15" – adopted by the EU on 22 September 2016 (effective for annual periods beginning on or after 1 January 2018).

**IFRS 9 "Financial Instruments"** issued on 24 July 2014 is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes requirements for recognition and measurement, impairment, derecognition and general hedge accounting.

**Classification and Measurement** – IFRS 9 introduces new approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. This single, principle-based approach replaces existing rule-based requirements under IAS 39. The new model also results in a single impairment model being applied to all financial instruments.

**Impairment** – IFRS 9 has introduced a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis.

**Hedge accounting** – IFRS 9 introduces a substantially-reformed model for hedge accounting, with enhanced disclosures about risk management activity. The new model represents a significant overhaul of hedge accounting that aligns the accounting treatment with risk management activities.

**Own credit** – IFRS 9 removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss.

The Group anticipates that the adoption of IFRS 9 will have an impact on the classification and measurement of the Company's financial assets and liabilities. The Company is currently assessing the impact of IFRS 9.

**IFRS 15 "Revenue from Contracts with Customers"** issued by IASB on 28 May 2014 (on 11 September 2015 IASB deferred effective date of IFRS 15 to 1 January 2018 and on 12 April 2016 IASB made clarifications to this standard). IFRS 15 specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. The core principle of the new standard is for companies to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Group is currently assessing how the adoption of IFRS 15 would affect the revenues. The impact will ultimately depend on the specific terms and conditions of the contracts with customers. The Company is planning to adopt IFRS 15 on the required effective date.

### Standards and Interpretations issued by IASB but not yet adopted by the EU

European Commission has not adopted as at date of the approval of these Financial Statements the following new standards, amendments to the existing standards and new interpretation:

Standards:

- **IFRS 14 “Regulatory Deferral Accounts”** (effective for annual periods beginning on or after 1 January 2016) – the European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019).

Amendments:

- **Amendments to IFRS 2 “Share-based Payment”** – Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IFRS 4 “Insurance Contracts”** – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 “Financial Instruments” is applied first time),
- **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 to IFRS 15 “Revenue from Contracts with Customers”** – Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to IAS 7 “Statement of Cash Flows”** – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 12 “Income Taxes”** – Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- **Amendments to IAS 40 “Investment Property”** – Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018),
- **Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)”** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments to IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018).

Interpretation:

- **IFRIC 22 “Foreign Currency Transactions and Advance Consideration”** (effective for annual periods beginning on or after 1 January 2018).

The Group anticipates that the adoption of the above mentioned standards, amendments to the existing standards and interpretation 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 Company 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 Company 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 Company.

### Credit risk

The vast majority of sales are on credit to customers. Risks arising from the provision of credit are fully covered 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 trade and other receivables in the balance sheet, totalling TEUR 43,764 as at 31 December 2016 (TEUR 54,692 as at 31 December 2015), of which 73% represents trade receivables (69% as at 31 December 2015).

Overview of trade and other receivables according to due date

	2016		2015	
		% of total		% of total
Not yet overdue	40,806	93.2%	51,002	93.2%
Overdue less than 1 month	2,246	5.2%	3,050	5.6%
Overdue more than 1 month	712	1.6%	640	1.2%
<b>Total</b>	<b>43,764</b>	<b>100.0%</b>	<b>54,692</b>	<b>100.0%</b>

In 2016, the Company created a provision for overdue receivables in the amount of 8 thousand EUR (no provision was created in 2015).

The present customer mix concentration of the Company 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 a 81% share of total revenues in 2016 (80% in 2015). The trade receivables of top five customers as at 31 December 2016 amounted to 84% of all trade receivables (89% as at 31 December 2015).

In 2016, the largest customer accounted for 50% of the Company's total sales (48% share in 2015). The second largest customer accounted for 16% of the Company's total sales, compared with a 16% share in 2015. There were no other customers with more than 10% share on total sales.

The Company did not change any objectives, policies and processes for managing the credit risk in 2016.

### 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 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.

2016	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
<b>Financial assets:</b>							
Non-interest bearing	--	32,026	--	--	--	--	<b>32,026</b>
<b>Financial liabilities:</b>							
Non-interest bearing	--	10,278	--	--	--	--	<b>10,278</b>
Variable interest rate instrument	6 M PRIBOR + 2,0%	251	251	502	1,505	27,099	<b>29,608</b>
Bonds	2.92%	--	4,672	89,865	6,732	80,773	<b>182,042</b>
Other fixed interest rate instrument	2.8%	4,958	--	--	--	--	<b>4,958</b>

2015	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
<b>Financial assets:</b>							
Non-interest bearing	--	42,379	--	--	--	--	<b>42,379</b>
<b>Financial liabilities:</b>							
Non-interest bearing	--	14,444	--	--	--	--	<b>14,444</b>
Variable interest rate instrument	6 M PRIBOR + 2,0%	502	502	1,003	3,011	30,108	<b>35,126</b>
Bonds	2.92%	--	4,672	4,672	94,347	83,013	<b>186,704</b>
Other fixed interest rate instrument	4%	5,260	--	--	--	--	<b>5,260</b>

Weighted average payment days of issued invoices were 63 days in 2016 (58 days in 2015). Corresponding days of received invoices were 16 days in 2016 (22 days in 2015).

Management believes that the funds and available credit lines described in Note 5x) and 5z), in addition to the funds that are generated from operating activities, will enable the Company 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.

2016	Less than 6 months	6 months– 1 year	1 year– 2 years	2 years– 5 years	5+ years
Net settled:					
Interest rate swaps	--	--	--	--	--
Cross currency rate swap	251	(965)	1,219	(1,630)	(1,372)
FX Forwards	--	--	--	--	--

2015	Less than 6 months	6 months– 1 year	1 year– 2 years	2 years– 5 years	5+ years
Net settled:					
Interest rate swaps	(1,056)	--	--	--	--
Cross currency rate swap	251	(965)	(714)	125	(1,921)
FX Forwards	--	--	--	--	--

The Company did not change any objectives, policies and processes for managing the liquidity risk in 2016.

## 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 and interest rates.

## Currency risk

Even though the Group carries out its production activities only in the Czech Republic and in Egypt, it conducts business on an international level, which results in the exposure to currency risks in respect to both its operating and financial activities. The functional currency of PEGAS NONWOVENS s.r.o. and its Czech subsidiaries is the Czech Koruna (CZK). The Czech Koruna is the underlying functional currency of PEGAS NONWOVENS International s.r.o. as well. The functional currency of PEGAS NONWOVENS EGYPT LLC is the United States Dollar (USD). The functional currency of PEGAS NONWOVENS RSA (PTY) LTD is the South African Rand (ZAR). The underlying functional currency of PEGAS NONWOVENS S.A. is EUR. The presentation currency of PEGAS NONWOVENS S.A.'s financial statements is EUR. The majority of operating activities such as 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. Presentation currency of the consolidated financial statements is EUR as described in Note 3 b).

In general, the Company is exposed to exchange rate risks impacting income and cash flows.

## Income statement

### Trading

In respect to profit and loss currency exposure, the Company aims to naturally hedge the income and expenses in the given currencies. Despite the natural hedging, there is some disproportionality between income and expenses for certain currencies (mainly CZK and EGP) representing the profit and loss exposure to currency risk. This effect is presented in the Currency risk sensitivity analysis under line Trading.

### FX Forwards and Options

The company did not have any open positions in FX forwards as at 31 December 2016 in order to cover Trading FX exposure described above.

As at 31 December 2016, the Company held an open position in a foreign currency option structure that was concluded by the Company in March 2016 and is classified as held-for-trading. The revaluation of this structure is affected by the development in the FX rate of CZK against EUR and is fully reflected in the income statement.

#### *Depreciation and amortisation*

The depreciation and amortisation is carried in CZK and in USD, subsequently impacting the Income statement results presented in EUR.

#### *Financial result*

The Company is currently exposed to potential changes in the income statement mainly due to unrealised foreign exchange gains and losses resulting from the revaluation of balance sheet items (bond nominal, bank loans, intercompany loans, cash, tax and trade receivables or trade payables). There is no cash flow impact of the unrealised foreign exchange gains and losses.

The Company is exposed to foreign exchange rate risk resulting from the bond issue in the nominal amount of 2.5 billion denominated in the Czech koruna. The bonds bear a fixed interest rate of 2.85%. In 2015, the company issued two private bond issues in the nominal amount of 1.08 billion, resp. 678 million which are denominated in the Czech koruna. The bonds bear a fixed rate of 2.646%, resp. a floating rate of 6M PRIBOR + 2%. In order to manage the foreign exchange rate risk with respect to the bond issues denominated in the Czech koruna, the Company has concluded cross currency rate swaps (CCRS). For details refer to Note 5 aa).

#### *Corporate income tax*

Unrealised foreign exchange gains and losses are taxable in both the Czech Republic and Egypt.

### **Cash flow**

#### *Trading*

Majority of sales and purchases are paid in EUR or USD. Servicing of bank debt is realised in EUR. The bonds issued in 2014 and 2015 are denominated in CZK, however, virtually the issues were swapped into EUR denominated payments using cross currency rate swaps. This results in natural hedging of the Group's activities by cash flows in these currencies. Despite the natural hedging, there is some disproportionality between inflows and outflows for certain currencies (mainly CZK and EGP) representing the cash flow exposure to currency risk.

#### *FX Forwards and Options*

The impact of FX forwards and options on the income statement mentioned above influences the cash flows similarly.

#### *Corporate income tax*

The impact of corporate income tax on the income statement mentioned above influences the cash flows similarly.

Overview of income statement items by currency in 2016

	EUR	CZK	USD	Other
Revenue	91%	0%	7%	2%
Operating expenses (excl. depreciation and amortisation)	77%	10%	10%	3%
Depreciation and amortisation	0%	82%	18%	0%
Finance costs	98%	2%	0%	0%
Corporate income tax	0%	100%	0%	0%

Overview of income statement items by currency in 2015

	EUR	CZK	USD	Other
Revenue	95%	0%	4%	1%
Operating expenses (excl. depreciation and amortisation)	75%	12%	11%	2%
Depreciation and amortisation	0%	81%	19%	0%
Finance costs	98%	2%	0%	0%
Corporate income tax	0%	100%	0%	0%

The Company is exposed mainly to the risk of fluctuation in the EUR/CZK, EUR/USD and USD/EGP exchange rates. Changes in other exchange rates would have no material impact on the Company.

### Currency risk sensitivity analysis

Potential impact from instantaneous appreciation or depreciation of CZK against EUR by 10% is detailed in the following table.

<b>Appreciation of CZK against EUR by 10%</b>		<b>2016</b>	<b>2015</b>
<b>Cash flow statement</b>	Trading	(1,862)	(2,087)
	FX forwards	--	--
	Corporate income tax*	(923)	(603)
	<b>Total</b>	<b>(2,785)</b>	<b>(2,690)</b>
<b>Income statement</b>	Trading	(1,862)	(2,087)
	FX forwards	--	--
	Depreciation	(1,289)	(1,285)
	Unrealized FX gains from balance sheet revaluation	6,718	5,261
	Corporate income tax*	(923)	(603)
	<b>Total</b>	<b>2,644</b>	<b>1,286</b>

<b>Depreciation of CZK against EUR by 10%</b>		<b>2016</b>	<b>2015</b>
<b>Cash flow statement</b>	Trading	1,573	1,763
	FX forwards	--	--
	Corporate income tax*	746	483
	<b>Total</b>	<b>2,318</b>	<b>2,246</b>
<b>Income statement</b>	Trading	1,573	1,763
	FX forwards	--	--
	Depreciation	1,055	1,051
	Unrealized FX losses from balance sheet revaluation	(5,498)	(4,305)
	Corporate income tax*	746	483
	<b>Total</b>	<b>(2,124)</b>	<b>(1,007)</b>

\* Corporate income tax calculation excludes impact of changes in Trading due to investment incentives.

Potential impact from instantaneous appreciation or depreciation of USD against EUR by 10% is detailed in the following table.

Appreciation of USD against EUR by 10%		2016	2015
Cash flow statement	Trading	(514)	(577)
	Corporate income tax	--	--
	<b>Total</b>	<b>(514)</b>	<b>(577)</b>
Income statement	Trading	(514)	(577)
	Depreciation	(452)	(499)
	Unrealized FX gains from balance sheet revaluation	7,069	7,542
	Corporate income tax	--	--
	<b>Total</b>	<b>6,103</b>	<b>6,466</b>

Depreciation of USD against EUR by 10%		2016	2015
Cash flow statement	Trading	389	438
	Corporate income tax	--	--
	<b>Total</b>	<b>389</b>	<b>438</b>
Income statement	Trading	389	438
	Depreciation	370	409
	Unrealized FX losses from balance sheet revaluation	(6,395)	(6,824)
	Corporate income tax	--	--
	<b>Total</b>	<b>(5,636)</b>	<b>(5,978)</b>

Potential impact from instantaneous appreciation or depreciation of EGP against USD by 10% is detailed in the following table.

Appreciation of EGP against USD by 10%		2016	2015
Cash flow statement	Trading	(469)	(254)
	Corporate income tax	--	--
	<b>Total</b>	<b>(469)</b>	<b>(254)</b>
Income statement	Trading	(469)	(254)
	Depreciation	--	--
	Unrealized FX gains from balance sheet revaluation	629	--
	Corporate income tax	--	--
	<b>Total</b>	<b>160</b>	<b>(254)</b>

Depreciation of EGP against USD by 10%		2016	2015
Cash flow statement	Trading	349	224
	Corporate income tax	--	--
	<b>Total</b>	<b>349</b>	<b>224</b>
Income statement	Trading	349	224
	Depreciation	--	--
	Unrealized FX losses from balance sheet revaluation	(515)	--
	Corporate income tax	--	--
	<b>Total</b>	<b>(166)</b>	<b>224</b>

### Interest rate risk

The Company 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 Company has concluded a cross currency swap (CCRS), where the Company receives a variable interest rate of 6M PRIBOR + 2% and pays a fixed rate. The interest rate risk is thus fully eliminated. All the other bond issues bear fixed interest rates and thus do not expose the Company to interest rate risk. For details refer to Note 5 aa).

The Company did not change any objectives, policies and processes for managing the market risk in 2016.

### Investment risks

The Company operates a production line 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.

In order to eliminate the potential risk factors connected with the investment in Egypt, PEGAS entered into an insurance contract with the Export Guarantee and Insurance Corporation (hereafter „EGAP“). The insurance contract includes insurance of the investment against the risk of prevention of the transfer of returns, expropriation or politically motivated violent damage. EGAP is 100% owned by the Czech Republic and its primary purpose is the support of exports and the provision of insurance services to exporters of Czech products, services and investments.

Although PEGAS entered into an insurance contract with EGAP for the coverage of risks connected with its investment in Egypt, there is a risk that the insurance coverage may not adequately protect PEGAS against all possible losses related to its investment in Egypt.

### 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. 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 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.

The company is not subject to externally imposed capital requirements.



## 5. Notes to the consolidated financial statements

### a) Revenue

Product groups	2016		2015	
		% of total		% of total
Hygiene	177,410	86.0	196,696	85.8
Non-hygiene	28,943	14.0	32,504	14.2
<b>Total sales</b>	<b>206,353</b>	<b>100.0</b>	<b>229,200</b>	<b>100.0</b>

In 2016, the Company maintained its high share of products sales in Hygiene category and confirmed the important position that it has in this market.

### b) Segment reporting

Based on analysis of IFRS 8, the Group identified one operating segment, the production of nonwoven textiles.

Geographical distribution of revenue is defined as follows:

Region	2016		2015	
		% of total		% of total
Western Europe	80,540	39.0	81,440	35.5
Central, Eastern Europe and Russia	88,190	42.7	94,260	41.1
Others	37,623	18.3	53,500	23.4
<b>Total</b>	<b>206,353</b>	<b>100.0</b>	<b>229,200</b>	<b>100.0</b>

In presenting information on the basis of geographical distribution of revenue, revenue is based on the place of actual delivery of the goods.

### c) Raw materials, consumables and services used

	2016	2015
Raw materials consumed	127,302	148,006
Consumed spare parts and repairs	3,843	5,033
Energy consumed	8,447	10,305
Other consumables	804	855
Other services	3,539	3,656
<b>Total raw materials and consumables used</b>	<b>143,935</b>	<b>167,855</b>

"Raw materials consumed" represent 88.4% of the total amount of raw materials, consumables and services used in 2016 (88.2% in 2015).

**d) Other operating income/(expense) net**

	2016	2015
(Loss)/Gain on the sale of equipment	(315)	(543)
Insurance proceeds	364	676
Insurance cost	(986)	(912)
Provisions for overdue receivables	(8)	--
Other income/(expense)	759	(359)
<b>Other operating income/(expense) net total</b>	<b>(186)</b>	<b>(1,138)</b>

In 2016, the Company created a provision for overdue receivables in the amount of 8 thousand EUR (no provisions was created in 2015).

**e) Research and development**

In 2016, the Group invested TEUR 2,918 in research (TEUR 2,283 in 2015).

**f) Average number of employees, executive and non-executive directors of the Group and expenses**

2016	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Cash-settled share-based payments	Social security and health insurance expenses	Social expenses
Employees	563	10,493	7,761	0	0	2,534	199
Executives and Non-executives	5	2,153	433	330	1,318	72	0
<b>Total</b>	<b>568</b>	<b>12,646</b>	<b>8,194</b>	<b>330</b>	<b>1,318</b>	<b>2,605</b>	<b>199</b>

2015	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Cash-settled share-based payments	Social security and health insurance expenses	Social expenses
Employees	560	10,418	7,371	--	490	2,371	186
Executives and Non-executives	5	3,195	292	329	2,504	70	0
<b>Total</b>	<b>565</b>	<b>13,613</b>	<b>7,663</b>	<b>329</b>	<b>2,994</b>	<b>2,441</b>	<b>186</b>

Three executive directors, Mr. Řezáč, Mr. Klačka and Mr. Rašík, and two non-executive directors, Mr. Modecki and Mr. Everitt, were members of the Company's board as at 31 December 2016 and as at 31 December 2015.

Executive directors may use the Company's cars for private purposes.

Apart from phantom share options/warrants, the Board members did not receive any loans, advances or any other benefit in kind in both 2016 and 2015.

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

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was 24 May 2007. 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 PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1<sup>st</sup> anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4<sup>th</sup> anniversary of the IPO. The given part of phantom options may be exercised on or after the vesting date. The participant shall provide service to the Group at the vesting date to be eligible for the given phantom options series.

The Annual General Meeting held on June 15, 2010 approved the grant of an aggregate amount of 230,735 phantom options (representing 2.5% of the PEGAS's share capital) to the directors and senior management of the Company and/or its affiliates, against no consideration. 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 PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) vested yearly, with the first options vesting on December 18, 2010 and the last options vested on December 18, 2013. The first options vesting on December 18, 2010 fully replaced the last portion of options of the first share price bonus plan, approved at the Annual General Meeting held on June 15, 2007, vesting at the same date. Therefore the right for remaining 34,008 options (with vesting date on December 18, 2010) granted in 2007 and approved by the Annual General Meeting held on June 15, 2007 was abandoned.

The Extraordinary General Meeting held on 21 July 2014 resolved to convert 230,735 phantom options granted in 2010–2013 into 230,735 warrants. Each warrant, when exercised, will grant the holder the right to receive (i) one share in PEGAS for a strike price corresponding to CZK 473.00 representing the PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceeding the exercise date, less CZK 473.00. All the warrants will vest immediately from their granting date and will have the same exercise period that was initially planned for the phantom options.

The Extraordinary General Meeting held on 21 July 2014 resolved to issue 230,735 new warrants (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates collectively, for a subscription price of CZK 5.89 per new warrant to be paid in cash by the directors, it being understood that the Board of Directors of PEGAS will decide how the new warrants will be divided among the directors and senior management of PEGAS and/or its affiliates. Each new warrant, when exercised, will entitle the holder to either receive (i) one share in PEGAS for a strike price corresponding to CZK 588.16 (representing the average of PEGAS's share price on the PSE from 1 October 2013 to 31 December 2013) less all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceding the exercise date, plus all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of PEGAS's share price on the PSE from 1 October 2013 to 31 December 2013).

On 17 October 2016, the Company received an announcement from persons discharging managerial responsibilities within the issuer about transactions with financial instruments, the value of which is derived from the share price of the Company. The subject of the transaction was the exercise of 153,824 warrants granted on the basis of a contract dated 22 September 2014 with a strike price of CZK 588.16. The closing price of the Company's shares as at the day preceeding the exercise amounted to 792.00 CZK.

Summary of the contractual terms of the phantom option and warrant scheme as at 31 December 2016:

Grant date	Vesting date	Option/ warrant	Strike price (CZK)	Total number of options/ warrants granted	Number of options/ warrants granted to Executives	Number of options/ warrants granted to Non- executives	Fair value of options/ warrants granted (TEUR)	Fair value of options/ warrants granted to Executives (TEUR)	Fair value of options/ warrants granted to Non- executives (TEUR)
24 May 2007	18 Dec 2007	Option	749.2	23,344	0	23,344	42	0	42
24 May 2007	18 Dec 2008	Option	749.2	18,960	0	18,960	39	0	39
24 May 2007	18 Dec 2009	Option	749.2	11,536	0	11,536	24	0	24
15 June 2010	18 Dec 2010	Warrant	473	7,732	0	7,732	85	0	85
15 June 2010	18 Dec 2011	Warrant	473	7,732	0	7,732	85	0	85
15 June 2010	18 Dec 2012	Warrant	473	0	0	0	0	0	0
15 June 2010	18 Dec 2013	Warrant	473	0	0	0	0	0	0
21 July 2014	18 Dec 2014	Warrant	588.16	0	0	0	0	0	0
21 July 2014	18 Dec 2015	Warrant	588.16	0	0	0	0	0	0
21 July 2014	18 Dec 2016	Warrant	588.16	76,911	52,137	24,774	784	531	253
<b>Total</b>				<b>146,215</b>	<b>52,137</b>	<b>94,078</b>	<b>1,059</b>	<b>531</b>	<b>528</b>

Summary of the contractual terms of the phantom option and warrant scheme as at 31 December 2015:

Grant date	Vesting date	Option/ warrant	Strike price (CZK)	Total number of options/ warrants granted	Number of options/ warrants granted to Executives	Number of options/ warrants granted to Non- executives	Fair value of options/ warrants granted (TEUR)	Fair value of options/ warrants granted to Executives (TEUR)	Fair value of options/ warrants granted to Non- executives (TEUR)
24 May 2007	18 Dec 2007	Option	749.2	23,344	0	23,344	44	0	44
24 May 2007	18 Dec 2008	Option	749.2	18,960	0	18,960	39	0	39
24 May 2007	18 Dec 2009	Option	749.2	11,536	0	11,536	24	0	24
15 June 2010	18 Dec 2010	Warrant	473	7,732	0	7,732	74	0	74
15 June 2010	18 Dec 2011	Warrant	473	7,732	0	7,732	74	0	74
15 June 2010	18 Dec 2012	Warrant	473	0	0	0	0	0	0
15 June 2010	18 Dec 2013	Warrant	473	0	0	0	0	0	0
21 July 2014	18 Dec 2014	Warrant	588.16	76,913	52,137	24,776	348	236	112
21 July 2014	18 Dec 2015	Warrant	588.16	76,911	52,137	24,774	348	236	112
21 July 2014	18 Dec 2016	Warrant	588.16	76,911	52,137	24,774	213	144	69
<b>Total</b>				<b>300,039</b>	<b>156,411</b>	<b>143,628</b>	<b>1,164</b>	<b>616</b>	<b>548</b>

The fair value of the phantom options and warrants as at 31 December 2016 is TEUR 1,059 (TEUR 1,164 as at 31 December 2015).

The executive directors benefit as at 31 December 2016 is TEUR 531 (TEUR 616 as at 31 December 2015) of the total amount and the non-executive directors benefit is TEUR 528 (TEUR 548 as at 31 December 2015) of the total amount.

The Black-Scholes pricing model was used to calculate the fair value of the phantom options and the warrants which were converted from the phantom options. The Black-Scholes pricing model adjusted for dividends was used to calculate the fair value of the newly issued warrants. The assumptions used in the model are as follows:

- Price of PEGAS NONWOVENS S.A. shares quoted in Prague Stock Exchange used (CZK 769.00 as at 31 December 2016, CZK 731.00 as at 31 December 2015).
- The participants are expected to exercise the given part of granted phantom options and the warrants which were converted from the phantom options within ten years of vesting.
- The participants are expected to exercise the newly issued warrants before 15 December 2019.
- Risk free interest rate is linearly interpolated from CZK interbank PRIBOR rates (<12M) and CZK interest rate swap points (>12M).
- The exponentially weighted moving average method is used for the volatility of shares calculation (18.77% in 2016, 21.68% in 2015).
- Dividend yield of 4.05% was used in valuation of the newly issued warrants.

#### h) Depreciation and amortisation expense

	2016	2015
Depreciation of tangible assets	16,024	15,941
Amortisation of intangible assets	83	118
<b>Total</b>	<b>16,107</b>	<b>16,059</b>

#### i) Foreign exchange gains and other financial income

	2016	2015
Realised and unrealised foreign exchange gains	1,467	13,536
Other financial income	1	1
<b>Total</b>	<b>1,468</b>	<b>13,537</b>

#### j) Foreign exchange losses and other financial expenses

	2016	2015
Realised and unrealised foreign exchange losses	5,208	3,610
Other financial expense (income)	(552)	1,207
<b>Total</b>	<b>4,656</b>	<b>4,817</b>

Other financial expense includes mainly bank fees.

#### k) Interest income

	2016	2015
<b>Interest income</b>	<b>94</b>	<b>44</b>

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

**l) Interest expense**

	2016	2015
Interest and debt settlement expenses on loans and borrowings	7,213	7,730
Interest on employee deposits	147	190
Other	7	99
<b>Total</b>	<b>7,367</b>	<b>8,019</b>

No borrowing cost were capitalised in 2016 and 2015. No capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was calculated as the funds were borrowed specifically.

**m) Income tax (expense)/income**

	2016	2015
Current income tax	(4,233)	(3,312)
Deferred income tax	(1,788)	(707)
<b>Total</b>	<b>(6,021)</b>	<b>(4,019)</b>

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

**Effective tax rate**

	2016	% of total	2015	% of total
<b>Profit before income tax</b>	<b>20,100</b>		<b>28,997</b>	
Income tax calculated using the enacted tax rate	3,841	19%	5,509	19%
Effect of tax incentives	(2,133)	(10.6%)	(2,679)	(9.2%)
Effect of unrecognized deferred tax asset	22	0.1%	(119)	(0.4%)
Effect of deferred tax liability and loss in Pegas Egypt	3,062	15.2%	0	0%
Effect of the different tax rates in the countries of operations	230	1.1%	186	0.6%
Effect of consolidation and IFRS adjustments	719	3.6%	768	2.6%
Other effects	280	1.4%	353	1.2%
<b>Total income tax/effective tax rate</b>	<b>6,021</b>	<b>30.0%</b>	<b>4,018</b>	<b>13.9%</b>

Four companies of the Group have received investment incentives in the Czech Republic. PEGAS – DS a.s. (former subsidiary of PEGAS NONWOVENS s.r.o.) was granted investment incentives in the regime preceding the Act on Incentives, receiving a grant from the state to pay income tax. Investment incentives for PEGAS – DS a.s. expired in 2010 and this company ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011. The Company does not account for the total tax liability but reports the tax liability less the expected amount of the subsidy. PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s. were granted an investment incentive after the effective date of the Act on Incentives. PEGAS-NT a.s. started making use of the incentives in fiscal year 2005. The year 2014 was the last year, in which PEGAS-NT a.s. used the investment incentives. PEGAS – NW a.s. was granted investment incentives in 2005 and started making use of them in 2008. PEGAS – NW a.s. was granted additional investment incentives in 2016, for which the investment is still in progress. PEGAS – NS a.s. was granted an investment incentives in January 2009 and has not started to utilise them in 2016.

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



To translate the maximum and unused amounts of investment incentives and unused amounts into EUR, the CZK/EUR 27,021 rate of exchange effective on 31 December 2016 was used.

	Max. amount in million CZK	Max. amount in million EUR	Unused amount as at 31 December 2016 in million CZK	Unused amount as at 31 December 2016 in million EUR	Corporate tax relief for	First year of usage of corporate tax relief
PEGAS – NW a.s.*	573.6	21.2	378.1	14.0	10 years	2008
PEGAS – NW a.s.**	148.1	5.5	n/a	n/a	10 years	n/a
PEGAS – NS a.s.	403.5	14.9	319.6	11.8	10 years	2016

\* incentives based on the decision of the Czech government from 10 June 2005

\*\* 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. When considering the principle of prudence and the fact that the amount of a subsidy depends on actual economic performance, the companies do not account for any deferred tax asset that arise from investment incentives and correspond to income tax subsidies. The estimate of the unrecognised asset would not be reliable.

Since nearly all taxable income was generated from operating activities in the Czech Republic, the tax rate of 19% (19% in 2015) 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 2016 was based on the net profit attributable to equity holders of TEUR 14,079 and a weighted average number of ordinary shares in 2016. No changes to the number of shares occurred during either 2016 or 2015. The weighted average number of shares used in calculation of the basic earnings per share reflects the shares bought back by the Company during 2015 and 2016.

Diluted earnings per share are calculated based on a weighted average number of shares in circulation (determined the same way as in the case of basic earnings per share) adjusted by the effect of the expected issue of all potential dilutive securities, i.e. warrants in the case of the Group. The adjustment for the potential effect of all warrants being exercised is calculated on the assumption that the proceeds from them would be received at the average market price of ordinary shares during the period.

### Weighted average number of ordinary shares

2016	Number of outstanding shares in 2016	Weighted average
January–December	9,229,400	8,768,470

2015	Number of outstanding shares in 2015	Weighted average
January–December	9,229,400	9,126,812

### Basic earnings per share

		2016	2015
Net profit attributable to equity holders	TEUR	14,079	24,978
Weighted average number of ordinary shares	Number	8,768,470	9,126,812
<b>Basic earnings per share</b>	<b>EUR</b>	<b>1.61</b>	<b>2.74</b>

Earnings Per Share (EPS) is 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.

**Diluted earnings per share**

		<b>2016</b>	<b>2015</b>
Net profit attributable to equity holders	TEUR	14,079	24,978
Weighted average number of ordinary shares	Number	8,820,440	9,227,785
<b>Diluted earnings per share</b>	<b>EUR</b>	<b>1.60</b>	<b>2.71</b>

Diluted Earnings Per Share (Diluted EPS) is 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 adjusted by the effect of the expected issue of all potential dilutive securities.

**o) Property, plant and equipment**

	<b>Land and buildings</b>	<b>Production machinery</b>	<b>Other equipment</b>	<b>Under Construction</b>	<b>Pre-payments</b>	<b>Total</b>
<b>Acquisition cost</b>						
<b>Balance at 31/12/2014 Restated</b>	<b>71,582</b>	<b>204,648</b>	<b>20,377</b>	<b>326</b>	<b>157</b>	<b>297,090</b>
Additions	1,556	738	1,944	623	5,636	10,497
Disposals	--	(109)	(593)	--	--	(702)
Transfers	6	--	(816)	(324)	(139)	(1,273)
Exchange differences	2,866	5,912	1,284	(237)	(144)	9,681
<b>Balance at 31/12/2015</b>	<b>76,010</b>	<b>211,189</b>	<b>22,196</b>	<b>388</b>	<b>5,510</b>	<b>315,293</b>
Additions	8,617	260	1,592	1,149	13,072	24,689
Disposals	--	(199)	(466)	--	(5,510)	(6,175)
Transfers	--	604	198	(802)	--	--
Exchange differences	1,202	(1,132)	2,150	--	--	2,220
<b>Balance at 31/12/2016</b>	<b>85,829</b>	<b>210,722</b>	<b>25,670</b>	<b>735</b>	<b>13,072</b>	<b>336,027</b>
<b>Accumulated depreciation</b>						
<b>Balance at 31/12/2014 Restated</b>	<b>11,628</b>	<b>98,551</b>	<b>7,972</b>	<b>--</b>	<b>--</b>	<b>118,151</b>
Depreciation expense	2,836	11,012	1,824	--	--	15,672
Disposals	0	(109)	(460)	--	--	(569)
Exchange differences	(100)	995	(106)	--	--	789
<b>Balance at 31/12/2015</b>	<b>14,364</b>	<b>110,449</b>	<b>9,230</b>	<b>--</b>	<b>--</b>	<b>134,043</b>
Depreciation expense	2,130	11,775	1,841	--	--	15,746
Disposals	--	(199)	(439)	--	--	(638)
Exchange differences	527	(1,132)	193	--	--	(412)
<b>Balance at 31/12/2016</b>	<b>17,021</b>	<b>120,893</b>	<b>10,825</b>	<b>--</b>	<b>--</b>	<b>148,739</b>
<b>Net book value</b>						
<b>31/12/2014 Restated</b>	<b>59,954</b>	<b>106,097</b>	<b>12,405</b>	<b>326</b>	<b>157</b>	<b>178,939</b>
<b>31/12/2015</b>	<b>61,646</b>	<b>100,740</b>	<b>12,966</b>	<b>388</b>	<b>5,510</b>	<b>181,250</b>
<b>31/12/2016</b>	<b>68,808</b>	<b>89,829</b>	<b>14,845</b>	<b>735</b>	<b>13,072</b>	<b>187,288</b>

All non-current assets are located in the Czech Republic, except of property plant and equipment located in Egypt in the amount of TEUR 74,465 (TEUR 81,248 as of 31 December 2015). The year on year decrease of non-current assets is mainly due to the redirection of an investment into a new production line from Egypt to the Czech Republic.

**p) Intangible assets and goodwill**

	Software and other intangible assets	Goodwill	Assets under development	Total
<b>Acquisition cost</b>				
<b>Balance at 31/12/2014 Restated</b>	<b>1,022</b>	<b>83,684</b>	<b>--</b>	<b>84,706</b>
Additions	976	--	2	978
Disposals	--	--	--	--
Transfers	1,273	--	--	1,273
Exchange differences	9	2,173	--	2,182
<b>Balance at 31/12/2015</b>	<b>3,280</b>	<b>85,857</b>	<b>2</b>	<b>89,139</b>
Additions	2,014	--	--	2,014
Disposals	--	--	--	--
Transfers	2	--	(2)	--
Exchange differences	43	7	--	50
<b>Balance at 31/12/2016</b>	<b>5,339</b>	<b>85,864</b>	<b>0</b>	<b>91,203</b>
<b>Accumulated amortisation</b>				
<b>Balance at 31/12/2014 Restated</b>	<b>527</b>	<b>--</b>	<b>--</b>	<b>527</b>
Amortisation expense	386	--	--	386
Disposals	--	--	--	--
Exchange differences	--	--	--	--
<b>Balance at 31/12/2015</b>	<b>913</b>	<b>--</b>	<b>--</b>	<b>913</b>
Amortisation expense	360	--	--	360
Disposals	--	--	--	--
Exchange differences	--	--	--	--
<b>Balance at 31/12/2016</b>	<b>1,273</b>	<b>--</b>	<b>--</b>	<b>1,273</b>
<b>Net book value</b>				
<b>31/12/2014 Restated</b>	<b>495</b>	<b>83,684</b>	<b>--</b>	<b>84,179</b>
<b>31/12/2015</b>	<b>2,367</b>	<b>85,857</b>	<b>2</b>	<b>88,226</b>
<b>31/12/2016</b>	<b>4,066</b>	<b>85,864</b>	<b>--</b>	<b>89,930</b>

On 14 December 2005, the Group acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.) and its subsidiaries.

The goodwill arising on this acquisition is attributable primarily to customer relationships, management skills, the skills and technical talent of the acquired workforce, the reputation for quality and the anticipated future profitability of the combined group. The management was not able to measure reliably the fair value of customer related intangibles due to the fact that demand from individual customers cannot be reliably predicted.

The Company tested the possible goodwill impairment as at 31 December 2016 and 2015. The management has determined that for goodwill testing purposes all acquired subsidiaries are considered as one cash generating unit. The recoverable amount of this single cash-generating unit is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by the management covering a four-year period, and a discount rate of 9.3% per annum (2015: 9.2% per annum). Cash flow projections during the budget period are based on past experience. The cash flows beyond that four-year period have been extrapolated using a conservative 0% (2015: 0%) per annum growth rate and a discount rate of 9.3% per annum (2015: 9.2% per annum). The increase in the discount rate used reflects mainly the increase in the risk free rate. The recoverable amount is sensitive to changes in the discount rate. An increase of the discount rate by 1 percentage point would cause a decrease in the recoverable amount of approximately 31 million EUR and vice versa. The break-even point of the discount rate, i.e. a discount rate at which goodwill impairment would be recorded, is approximately 18%. The growth rate used in the calculation is lower than the long-term estimated growth of the nonwoven market in Europe. The management believes that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

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

Demand from the customers – In the past, PEGAS 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 2017 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 2016 or in 2015.

#### q) Inventories

	2016	2015
Materials	14,355	15,078
Products	12,318	11,708
Semi-finished products	1,208	569
Spare parts	7,468	6,915
Other	4,565	5,268
<b>Total</b>	<b>39,913</b>	<b>39,538</b>

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

#### r) Current trade and other receivables

	2016	2015
Receivables from sales of products	32,026	42,379
Advance payments	293	431
Other tax receivables	7,877	8,394
Prepaid expenses	323	199
Positive fair value of derivatives	3,088	2,838
Other	157	451
<b>Total</b>	<b>43,764</b>	<b>54,692</b>

**s) Income tax receivables**

	2016	2015
Income tax receivables	--	--

The corporate income tax due for 2016 is reported in Tax liabilities – see note 5bb).

**t) Cash and cash equivalents**

	2016	2015
Cash in hand	46	41
Current accounts	24,174	28,041
<b>Total</b>	<b>24,220</b>	<b>28,082</b>

**u) Share capital**

Until November 2006, the Company's share capital consisted of 12,500 shares at EUR 10 per share. In November 2006, this number was split into 100,806 shares at EUR 1.24 per share.

Subsequently, on 28 November 2006, the Company increased the share capital by EUR 9,075,056.56 by incorporation of debt into capital and by issuing 7,318,594 shares at EUR 1.24 per share. Pamplona Capital Partners I, LP acquired 7,133,109 shares and some of the Group's management 185,485 shares.

Within the issue of shares in the public market, in December 2006 the Group issued 1,810,000 new ordinary shares. These newly issued shares were subscribed by investors at EUR 27 per share.

The difference between the subscribed value of newly issued shares (EUR 27) and the nominal value (EUR 1.24) was recorded in equity as share premium in the total amount of TEUR 46,626.

The total number of shares as at 31 December 2006 was 9,229,400 shares at EUR 1.24 per share.

In July 2007 the Company's principal shareholder Pamplona Capital Partners I, LP placed its whole stake held in the Company to qualified investors on the Prague and Warsaw Stock Exchanges.

Further to the extraordinary general meeting held on 21 July 2014, the shareholders decided to grant warrants to the directors for a subscription price of CZK 5.89 per warrant, totalling CZK 1,359,029.15 (EUR 49,476.81) for the 230,735 warrants issued. This amount is booked within equity.

No changes to the number of shares occurred either in 2016 or 2015.

Based on the authorisation by the General Meeting of the Company held on 15 June 2011, the Board resolved to implement the acquisition of own shares by the Company on 31 July 2015. The purpose was to reduce the capital of the Company and/or to meet obligations arising from director and employee share option programmes or other allocations of shares to directors and employees of the Company or of an associate company. Maximum number of shares to be acquired amounted up to 5% of the basic capital of the Company, i.e. 461,470 shares. The shares could be acquired up until 14 June 2016 for a maximum consideration of CZK 1,000.



As of 31 December 2015, the Company has acquired 428 541 own shares at a total acquisition cost of 346.3 mil. CZK (equivalent of 12,797 thousand EUR) which constitute 4.64% of the basic capital. During 2016, within the scope of the share buyback programme, the Company bought back additional 32,929 of its own shares at a total acquisition cost of CZK 23.6 million (equivalent of EUR 875 thousand) which constitutes 0.36% of the basic capital. Thereby, as at 31 December 2016, the Company completed the share buyback programme and held 461,470 of its own shares at a total acquisition cost of EUR 13,671 thousand, representing 5% of its basic capital. In accordance with the Luxembourg law, the Company has created a non-distributable reserve for an amount of EUR 12,797 thousand in 2015 and its allocation was ratified by the general meeting of the Company held on 15 June 2016. In 2016, the Company created a non-distributable reserve of EUR 875 thousand. This reserve was taken off the current profit of the Company and the board will propose to ratify this allocation during the next general meeting of the shareholders, i.e. on 15 June 2017.

#### v) Retained earnings

On 26 October 2016, the Company distributed EUR 11,536,750 or EUR 1.25 per share to its shareholders as a dividend paid from 2015 net profit and from retained earnings. The dividend was not paid out on 461,470 of the Company's own shares, that it held at the record date for the dividend payout, i.e. on 14 October 2016. Therefore, the total dividend payout amounted to EUR 10,959,913.

In 2015, the Company distributed EUR 10,613,810 or EUR 1.15 per share. The dividend was not paid out on 229,558 of the Company's own shares and the total dividend payout thus amounted to EUR 10,349,818.

#### w) Legal and other reserves

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated annually to a legal reserve until such reserve equals 10% of the share capital. This reserve is not available for dividend distribution.

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

	2016	2015
Legal reserves	1,152	9,187
Other reserves	841	264
<b>Total</b>	<b>1,999</b>	<b>9,451</b>

#### x) Bank overdrafts and loans

On 6 October 2015, the Company 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.

2016	Drawdown limit	Bank loan liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2016
Overdraft	20,000	0	--	0	0	--	1D EURIBOR+ 0.75%	0.75%
Overdraft	15,000	0	--	0	0	--	1D EURIBOR+ 0.40%	0.40%
<b>Bank loans total</b>	<b>35,000</b>	<b>0</b>	<b>--</b>	<b>0</b>	<b>0</b>	<b>--</b>		

2015	Drawdown limit	Bank loan liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2015
Overdraft	20,000	7,111	--	7,111	7,111	--	1D EURIBOR+ 0.75%	0.75%
<b>Bank loans total</b>	<b>20,000</b>	<b>7,111</b>	<b>--</b>	<b>7,111</b>	<b>7,111</b>	<b>--</b>		

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

**y) Deferred tax**

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
Property, plant and equipment	--	--	(20,363)	(20,426)	(20,363)	(20,426)
Inventories	278	208	--	--	278	208
Other	18	2,778	--	--	18	2,778
<b>Deferred tax asset/(liability)</b>	<b>296</b>	<b>2,986</b>	<b>(20,363)</b>	<b>(20,426)</b>	<b>(20,067)</b>	<b>(17,440)</b>
Offset of deferred tax assets and liabilities	(296)	(2,986)	296	2,986	--	--
<b>Deferred tax asset/(liability)</b>	<b>--</b>	<b>--</b>	<b>(20,067)</b>	<b>(17,440)</b>	<b>(20,067)</b>	<b>(17,440)</b>

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 2016 onward in the Czech Republic and 22.5% in Egypt (2015 – 19% in the Czech Republic and 22.5% in Egypt).

**z) Other non-current liabilities**

The Company is an issuer of public unsecured bonds, issued on 14 November 2014, in the total nominal value of CZK 2,500,000,000 (two billion five hundred million Czech crowns) maturing on 14 November 2018 with a fixed interest rate of 2.85% p.a.

In the third quarter 2015, the Company bought back these bonds in the nominal value of CZK 198 million. The liability outstanding from these bonds, which is included in the balance of other non-current liabilities, is presented on a net basis, i.e. the original nominal issued is reduced by the value of the buy-back.

On 14 June 2015, the Company issued three private issues of unsecured senior bonds in the total nominal value of approximately EUR 100 million.

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 Company is thus effectively a fixed rate payer in EUR. The proceeds from the issues were used for the repayment of bank loans, the realisation of the share buy back program, a partial buyback of bonds maturing in November 2018 and they will also be used to finance further development of the Company.

Issuance costs include amounts paid in connection with the bond issue 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 a straight line basis.

The proceeds from the three private bond issues and the buy-back of the public bond issue are reflected on a net basis in the cash flow statement.

	2016	2015
Bond nominal	185,254	185,245
Issuance costs related to the bond issue	(220)	(439)
<b>Total</b>	<b>185,034</b>	<b>184,806</b>

#### aa) Current trade and other payables

	2016	2015
Trade payables	10,278	14,444
Advances received	19	9
Liabilities to employees	6,998	6,314
Deferred income	559	523
Negative fair value of derivatives	172	848
Tax claim	805	0
Other	1,722	1,757
<b>Total</b>	<b>20,553</b>	<b>23,895</b>

#### Interest rate swaps

The Group concluded two interest rate swaps in 2011 which matured on 14 June 2016. Under these contracts the Company paid a step-up fixed interest rate and received the floating interest rate represented by 3M EURIBOR. Notional amount was TEUR 22,000 until 14 December 2012 and TEUR 98,000 until 14 June 2016. The structure of these swaps is shown below:

Period	Notional amount	Fixed Interest Rate
14/09/2011-14/12/2011	22,000	1.32%
14/12/2011-14/3/2012	22,000	1.32%
14/3/2012-14/6/2012	22,000	1.32%
14/6/2012-14/9/2012	22,000	1.42%
14/9/2012-14/12/2012	22,000	1.42%
14/12/2012-14/3/2013	98,000	1.52%
14/3/2013-14/6/2013	98,000	1.52%
14/6/2013-14/9/2013	98,000	1.62%
14/9/2013-14/12/2013	98,000	1.62%
14/12/2013-14/3/2014	98,000	1.72%
14/3/2014-14/6/2014	98,000	1.72%
14/6/2014-14/9/2014	98,000	1.82%
14/9/2014-14/12/2014	98,000	1.82%
14/12/2014-14/3/2015	98,000	1.92%
14/3/2015-14/6/2015	98,000	1.92%
14/6/2015-14/9/2015	98,000	2.02%
14/9/2015-14/12/2015	98,000	2.02%
14/12/2015-14/3/2016	98,000	2.12%
14/3/2016-14/6/2016	98,000	2.12%

Fair value of the swaps as at 31 December 2016 and 2015 was as follows:

Counterparty	2016	2015
Česká spořitelna	--	(564)
ING	--	(564)
<b>Total in TEUR</b>	<b>--</b>	<b>(1,128)</b>

The objective of these swaps was to hedge the interest rate risk resulting from changes to interest rates on bank loans provided to the Company. As a result of the refinancing of the Company and the repayment of bank loans, the subject of the hedge ceased to exist. As of then and until the payment date of the swaps on 14 July 2016, the changes in the fair value of these swaps were booked in the profit and loss statement.

### Cross currency rate swaps

As at 31 December 2016, the Company held three open cross currency swaps.

The first swap was concluded in November 2014 with a total nominal value of CZK 2,489,575 thousand (receiving leg) against EUR 90,201 thousand (paying leg) for the purpose of hedging the risk of the CZK denominated public bonds Pegas 2.85/2018. The swap bears a fixed interest rate of 3.1% p.a.

The second swap 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 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.

The third swap 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 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.

The Company accounts for these cross currency swaps under hedge accounting principles. Changes in the fair value of these swaps are reported in equity.

Fair value of the swaps as at 31 December 2016 and 2015 was as follows. A positive value represents a receivable of the Company, a negative value represents a payable of the Company.

Counterparty	2016	2015
Česká spořitelna – EUR 90.201 mil.	3,226	2,984
ČSOB – EUR 25 mil.	(195)	280
Česká spořitelna – EUR 39.852 mil	(138)	(145)
<b>Total in TEUR</b>	<b>2,893</b>	<b>3,119</b>

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 2016, increase the fair value of the cross currency swaps by approximately EUR 1.6 million.

The depreciation of CZK against EUR by 1% would, as at 31 December 2016, decrease the fair value of the cross currency swaps by approximately EUR 1.5 million.

**FX forwards**

As at 31 December 2016 and 31 December 2015, the Company did not have any open FX forwards.

**Foreign currency options**

As at 31 December 2016, the Company held an open position in a foreign currency option structure that was concluded by the Company in March 2016. The objective of this foreign currency option structure is to hedge currency risk connected with revenues in EUR and their conversion to CZK in approximately the amount as the Company expends each month on the payment of wages and salaries. Based on this structure, the Company has, in the period from July 2016 to July 2019 the right to sell EUR 1.1 million and to purchase CZK 29.348 million under the condition that the EUR/CZK exchange rate as at the date of the monthly expiration is lower than 26.68. Concurrently, the Company has, in the same period the obligation to sell EUR 1.375 million and to purchase CZK 36.685 million under the condition that the EUR/CZK exchange rate as at the date of the monthly expiration is higher than 27.52.

The Company accounts for this foreign currency option structure as held-for-trading. Changes in the fair value of the structure are reported in profit and loss.

The fair value of the foreign currency option structure, as at 31 December 2016, is presented in the following table. A positive value represents a receivable of the Company, a negative value a payable of the Company.

Counterparty	2016	2015
Foreign currency option structure (in TEUR)	22	--

*Sensitivity of the fair value of the foreign currency option structure*

The appreciation of CZK against EUR by 5% would, as at 31 December 2016, increase the fair value of the foreign currency option structure by approximately EUR 1.8 million.

The depreciation of CZK against EUR by 5% would, as at 31 December 2016, decrease the fair value of the foreign currency option structure by approximately EUR 1.6 million.

**bb) Tax liabilities and other tax liabilities**

	2016	2015
Employment tax	205	110
Sales tax payable	0	0
Corporate income tax payable	521	1,664
Other taxes payable	0	50
<b>Total</b>	<b>726</b>	<b>1,824</b>

As at 31 December 2016 the corporate income tax liability amounted to 521 TEUR based on difference between advances paid and estimate for the corporate income tax expense for 2016. The corporate income tax liability as at 31 December 2015 amounted to 1,664 TEUR.

## cc) Entities

To translate the registered capital of subsidiaries, the EUR/CZK 27.021 and EUR/USD 1.0541 rate of exchange effective on 31 December 2016 was used.

### Subsidiaries included in the consolidated entity

Company	Acquisition date	Share in the subsidiary	Registered capital TCZK/TUSD/ZAR	Registered capital TEUR	Number and nominal value of shares
PEGAS NONWOVENS s.r.o. *	5/12/2005	100%	TCZK 3,633	134	100% participation of TCZK 3,633
PEGAS-NT a.s.	14/12/2005	100%	TCZK 550,000	20,355	54 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS – NW a.s.	14/12/2005	100%	TCZK 650,000	24,055	64 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS – NS a.s.	3/12/2007	100%	TCZK 650,000	24,055	64 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS NONWOVENS International s.r.o. **	18/10/2010	100%	TCZK 200	7	100% participation of TCZK 200
PEGAS NONWOVENS EGYPT LLC ***	6/6/2011	100%	TUSD 23,000	21,820	100% participation of TUSD 23,000
PEGAS NONWOVENS RSA (PTY) LTD ****	11/7/2016	100%	ZAR 100	0	100% participation of ZAR 100

\* PEGAS NONWOVENS 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. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS 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 PEGAS NONWOVENS 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 PEGAS NONWOVENS s.r.o., ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011.

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

\*\*\* PEGAS NONWOVENS EGYPT LLC was established for the purpose of executing the construction and operation of a new production plant in Egypt.

\*\*\*\* PEGAS NONWOVENS RSA (PTY) LTD was established for the purpose of realisation of the investment project in the Republic of South Africa

## 6. Related parties transactions

Except for the information provided under Notes 5 f) and 5 g) there were no other transactions between the Group and the executive or the non-executive directors.

## 7. Contingencies and commitments

The Group has no material contingencies or commitments which would not be reported in the balance sheet.



## 8. Subsequent events


On 5 January 2017, the Board of Directors of the Company approved an intention to delist the Company's shares from trading on the Warsaw Stock Exchange. This decision was taken on the grounds of very low trading volumes of the Company's shares on the Warsaw Stock Exchange that do not justify the costs of the listing. Subsequently, on 23 January 2017, the Polish supervisory authority approved the Tender Offer submitted by the Company in connection with this intention. The period for the registration of requests for the acceptance of the Tender Offer ended on 24 February 2017. In this regard, the Company eventually accepted the requests and reacquired 4,071 shares in March 2017, representing 0.04 % of the share capital and voting rights of the Company. The delisting from trading on the Warsaw Stock Exchange is now pending the approval of the Polish supervisory authority. In accordance with the required procedure, once the approval is issued, the Company shall subsequently request the Warsaw Stock Exchange to also approve the delisting of shares from trading. It is expected that the Company's shares shall cease to be traded on the Warsaw Stock Exchange during the first half 2017.

On 20 January 2017, the company PEGAS NONWOVENS s.r.o. issued private senior unsecured bonds pursuant to Czech law in the nominal amount of EUR 50 million. The bond issue bears a fixed interest rate of 1.875% p.a. and is repayable on 20 January 2024. The proceeds from the bond issue will be used primarily for the refinancing of the public bond issue in November 2018.

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 2016.

Date: 26 April 2017

Signature of the authorised representatives:



Member of the Board of PEGAS NONWOVENS SA  
**František Řezáč**



Member of the Board of PEGAS NONWOVENS SA  
**Marian Rašík**



# STAND-ALONE FINANCIAL STATEMENTS

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## Stand-alone Financial Statements of PEGAS NONWOVENS SA

as at and for the year ended 31 December 2016 and Independent Auditor's Report



To the Shareholders of  
PEGAS NONWOVENS S.A.  
68-70, boulevard de la Pétrusse  
L-2320 Luxembourg

### **Deloitte Audit**

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## REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ

### **Report on the annual accounts**

We have audited the accompanying annual accounts of PEGAS NONWOVENS S.A., which comprise the balance sheet as at December 31, 2016 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Responsibility of the Board of Directors for the annual accounts*

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

#### *Responsibility of the réviseur d'entreprises agréé*

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the réviseur d'entreprises agréé's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the annual accounts 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the annual accounts give a true and fair view of the financial position of PEGAS NONWOVENS S.A. as at December 31, 2016, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

#### **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report and the Corporate Governance Statement but does not include the annual accounts and our report of *Réviseur d'Entreprises Agréé* thereon.

Our opinion on the annual accounts does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual accounts or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

#### **Other matter**

The Corporate Governance Statement includes information required by Article 68bis paragraph (1) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

#### **Report on other legal and regulatory requirements**

The management report is consistent with the annual accounts and has been prepared in accordance with the applicable legal requirements.

The information required by Article 68bis paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and included in the Corporate Governance Statement is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

For Deloitte Audit, *Cabinet de révision agréé*

**Tom Pfeiffer,**  
*Réviseur d'Entreprises Agréé*  
Partner



26 April 2017

## Balance sheet

as at December 31, 2016 (expressed in EUR)

ASSETS	Reference(s)	2016	2015
<b>C. Fixed assets:</b>			
III. Financial assets:			
1. Shares in affiliated undertakings	3	18,942,199.38	18,942,199.38
2. Loans to affiliated undertakings	4	113,725,280.00	100,849,280.00
		<b>132,667,479.38</b>	<b>119,791,479.38</b>
<b>D. Current assets:</b>			
II. Debtors:			
2. Amounts owed by affiliated undertakings:			
a) becoming due and payable within one year	4	24,301,241.75	10,662,692.33
4. Other debtors:			
a) becoming due and payable within one year		-	929,528.27
b) becoming due and payable after more than one year		3,000.00	3,000.00
III. Investments:			
2. Own shares	5	13,672,184.55	12,797,243.86
IV. Cash at bank and in hand		1,075,831.14	24,097,183.29
		<b>32,052,257.44</b>	<b>48,489,647.75</b>
E. Prepayments	7	608,623.05	917,339.45
		<b>172,328,359.87</b>	<b>169,198,466.58</b>

The notes in the annex form an integral part of these annual accounts.

## Balance sheet (continued)

as at December 31, 2016 (expressed in EUR)

CAPITAL, RESERVES AND LIABILITIES	Reference(s)	2016	2015
<b>A. Capital and reserves:</b>	<b>5</b>		
I. Subscribed capital		11,444,456.00	11,444,456.00
II. Share premium account		5,512,071.01	5,512,071.01
IV. Reserves:			
1. Legal reserve		1,144,445.60	1,144,445.60
2. Reserves for own shares		13,672,184.55	12,797,243.86
4. Other reserves, including the fair value reserve			
a) other available reserves		840,829.20	263,991.70
V. Profit or loss brought forward		348,876.20	848,690.50
VI. Profit or loss for the financial year		14,253,869.31	23,834,179.56
VII. Interim dividends		(874,940.69)	(12,797,243.86)
		<b>46,341,791.18</b>	<b>43,047,834.37</b>
<b>B. Provisions:</b>	<b>6</b>		
3. Other provisions		1,059,137.25	1,163,837.87
<b>C. Creditors:</b>			
1. Debenture loans:			
b) Non convertible loans:	7		
i) becoming due and payable within one year		800,842.91	800,783.65
ii) becoming due and payable after more than one year		123,258,195.62	123,258,195.62
2. Amounts owed to credit institutions:	8		
a) becoming due and payable within one year		113,520.58	113,581.71
4. Trade creditors:			
a) becoming due and payable within one year		114,579.26	104,116.75
8. Other creditors:			
a) Tax authorities	11	102,990.93	53,295.84
b) Social security authorities		6,117.94	4,343.52
c) Other creditors becoming due and payable within one year		29,294.18	59,695.72
		<b>124,425,541.42</b>	<b>124,394,012.81</b>
D. Deferred income	7	501,890.02	592,781.53
		<b>172,328,359.87</b>	<b>169,198,466.58</b>

The notes in the annex form an integral part of these annual accounts.



## Profit and Loss account

For the year ended December 31, 2016 (expressed in EUR)

	Reference(s)	2016	2015
4. Other operating income	6	104,700.62	361,578.58
5. Raw materials and consumables and other external expenses			
b) Other external expenses	9	(471,945.33)	(536,576.71)
6. Staff costs			
a) Wages and salaries		(16,728.39)	-
b) Social security			
i. relating to pensions		(1,274.34)	-
ii. other social security costs		(837.55)	-
8. Other operating expenses	6, 10	(1,870,298.52)	(475,767.45)
9. Income from participating interests			
a) derived from affiliated undertakings	3	17,000,000.00	25,000,000.00
11. Other interest receivable and similar income			
a) derived from affiliated undertakings	4	3,638,549.42	3,298,306.30
b) other interest and similar income	7	91,368.92	42,465.92
14. Interest payable and similar expenses			
a) other interest and similar expenses	7, 8	(4,150,890.53)	(3,852,555.08)
15. Tax on profit or loss	11	-	(3,210.00)
16. Profit or loss after taxation		14,322,644.31	23,834,241.56
17. Other taxes not shown under items 1 to 16	11	(68,775.00)	(62.00)
18. Profit or loss for the financial year		14,253,869.31	23,834,179.56

The notes in the annex form an integral part of these annual accounts

# NOTES TO THE ANNUAL ACCOUNTS

as at December 31, 2016 (expressed in EUR)

## NOTE 1 - GENERAL

PEGAS NONWOVENS S.A. (the "Company") is a commercial company incorporated in Luxembourg on November 18, 2005, under the legal form of a "Société anonyme". The registered office of the Company is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Luxembourg Trade and Companies Register under the section B number 112.044.

The object of the Company is to take participations and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign enterprises; to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any company purchasing the same; to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding company, subsidiary, or fellow subsidiary, or any other company associated in any way with the Company, or the said holding company, subsidiary or fellow subsidiary, in which the Company has direct or indirect financial interest, any assistance such as e.g. pledges, loans, advances or guarantees; to borrow and raise money in any manner and to secure the repayment of any money borrowed; to borrow funds and issue bonds and other securities; and to perform any operation which is directly or indirectly related to its purpose. The Company can perform all commercial, technical and financial operations, connected directly or indirectly in all areas as described above in order to facilitate the accomplishment of its purpose.

The Company also prepares consolidated financial statements, which are published according to the provisions of the law, and are available at the registered office.

The accounting year begins on January 1 and ends on December 31.

The Company is listed on both Prague Stock Exchange (PSE) and Warsaw Stock Exchange (WSE) as from December 21, 2006.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its books in Euro ("EUR") and the annual accounts have been prepared in conformity with generally accepted accounting principles in Luxembourg and with the law of December 19, 2002 as amended. Following the law of December 18, 2015, amending the law of December 19, 2002, and the Grand-Ducal Regulation of December 18, 2015 dealing with the presentation of the balance sheet and profit and loss account, the comparative figures have been reclassified adequately. The significant accounting policies of the Company are the following:

### a) Financial assets

Financial assets are stated at historical acquisition cost. Write-downs are recorded if, in the opinion of the management, a permanent impairment in value has occurred. Value adjustments are not continued if the reasons for which they have been recognized have ceased to apply.

### b) Foreign currency translation

Monetary assets and liabilities stated in currencies other than EUR are translated at the exchange rates prevailing at the balance sheet date. Income and expenses denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Realized and unrealized exchange losses and realized exchange gains are recorded in the profit and loss account.

Long term asset and liabilities are translated at the exchange rates prevailing at the date of the transaction. Write-downs are recorded if a permanent impairment in value has occurred.

**c) Debtors, cash at banks and creditors**

Debtors, cash at banks and creditors are recorded at their nominal value less allowance for doubtful accounts.

**d) Cash-settled share-based payment**

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme was extended in 2010 and 2014. The scheme is a combination of cash-settled or stock-settled transaction, in which the Company acquires services of key personnel by incurring liabilities to the supplier of those services for amounts that are based on the price of the Company's shares. The scheme is realized through phantom options and warrants, which vest annually. The service period equals the vesting period and the services are correspondingly accounted for as they are rendered by the counterparty during the vesting period.

The Company measures the liability arising from the phantom options and warrants at fair value at each reporting date. The changes in the fair value of these liabilities are recognized in the profit and loss account for the period in line item Other operating expenses or Other operating income.

The fair value of the phantom options and warrants is determined by:

- Pricing model
- Expected life assumption / participant behaviour
- Current share price
- Expected volatility
- Expected dividends
- Risk-free interest rate

**e) Dividends received**

Dividends receivable from affiliated undertakings are recognised in the period in which they are declared by the entity.

**f) Derivative financial instruments**

Derivative financial instruments used as hedging instruments for long term liabilities are recorded off balance sheet and the change in their fair value is not booked in the profit and loss account.

**g) Prepayments**

Prepayments include expenditures incurred during the financial year but relating to a subsequent financial year.

**h) Deferred income**

Deferred income includes income received during the financial year but relating to a subsequent financial year.

**i) Own shares**

The annual general meeting of the shareholders held on June 15, 2011 resolved to authorize the Board of Directors to decide on the acquisition of own shares by the Company. The authorization to acquire own shares of the Company has been renewed during the annual general meeting of the shareholders held on June 15, 2016 with the following modalities:

- A maximum of 10% of the total number of shares may be acquired,
- The acquisition price shall range between CZK 100 and CZK 1,500 (or the equivalent amounts in other currencies) per share,
- The authorization has been given for a period of five years starting from June 15, 2016.

The purpose is to cancel the shares (reduce the Company's share capital) and/or to meet obligations arising from directors and employees share option programs or other allocations of shares to directors and employees of the Company or to associate companies. The acquisition of the own shares is recorded based on the trade date while the dividend on own shares is recorded based on the settlement date. The own shares are subject to impairment the extent of which should be decided by the board of directors only in case of a permanent decrease in value.

## j) Bonds

The bonds issued by the Company are recorded at their nominal value and translated at the exchange rate prevailing at the date of the transaction.

## NOTE 3 - SHARES IN AFFILIATED UNDERTAKINGS

On December 5, 2005, the Company acquired 100 shares of CEE Enterprise a.s., a joint stock company incorporated in the Czech Republic, for an amount of CZK 2,248,190 (EUR 78,737.44).

On January 18, 2006, the Company decided to increase the share capital of CEE Enterprise a.s. by an amount of CZK 1,600,000 by the issuance of 1,600,000 new shares with a nominal value of CZK 1.00 each and also decided to subscribe for 1,510,000 shares for an amount of CZK 1,510,000 (EUR 51,855.29), the remaining 90,000 new shares being subscribed by six new shareholders.

On November 28, 2006, the Company acquired 90,000 shares of CEE Enterprise a.s. for an amount of EUR 253,220.03.

During 2007, PEGAS NONWOVENS s.r.o. a company incorporated in the Czech Republic, wholly owned subsidiary of CEE Enterprise a.s. decided to merge with and absorb CEE Enterprise a.s. with effect on January 1, 2007.

During the year 2010, the Company acquired 100% of the shares of PEGAS NONWOVENS International s.r.o. a company incorporated in the Czech Republic for an amount of CZK 200,000.00 (EUR 8,386.62).

On September 22, 2014, the Company decided to convert the loans granted to PEGAS NONWOVENS International s.r.o. into capital for a total amount of EUR 18,550,000.00.

The registered offices of PEGAS NONWOVENS s.r.o. and of PEGAS NONWOVENS International s.r.o. are at Primetická 3623/86, 669 02 Znojmo, Czech Republic.

As of December 31, 2016, the Company held the following participations:

Name of the Company	Country	Percentage of ownership	Acquisition cost (EUR)	Shareholders' equity (ths. CZK)	Result for the year (ths. CZK)
PEGAS NONWOVENS s.r.o.	Czech Republic	100.00%	383,812.76	1,478,781.00	370,592.00
PEGAS NONWOVENS International s.r.o.	Czech Republic	100.00%	18,558,386.62	611,515.00	(6,024.00)
			<b>18,942,199.38</b>	<b>2,090,296.00</b>	<b>364,568.00</b>

The shareholders equity includes the result for the year. The shareholders equity and result for the year are based on the audited annual accounts for the year ended December 31, 2016.

The general meeting of PEGAS NONWOVENS s.r.o. (the Company's subsidiary) held on May 20, 2016 decided to distribute a dividend to the Company for an aggregate amount of EUR 17,000,000.00 (2015: EUR 25,000,000.00).

In the opinion of the management, no permanent diminution in value has occurred as at 31 December 2016.

## NOTE 4 - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

### Loans granted to PEGAS NONWOVENS s.r.o.

On December 13, 2005, the Company granted a loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 39,768,950. This loan bore interest at a rate of 10.00% per annum and was repayable on December 14, 2035 at the latest. On November 29, 2006, the loan including accrued interest was replaced by a new loan granted by the Company to PEGAS NONWOVENS s.r.o. for an amount of EUR 43,525,943.70. The new loan granted bears no interest and is repayable on December 1, 2056.

On January 30, 2007, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 1,250,000.00. This loan bears no interest and is repayable on January 30, 2057 or at the request of the subsidiary convertible into shares or funds of the subsidiary as a contribution outside the registered capital.

On October 27, 2014, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 1,500,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on October 27, 2018, or earlier upon request by the borrower.

On November 21, 2014, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 5,280,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on November 21, 2018, or earlier upon request by the borrower.

On February 26, 2015, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 700,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on February 26, 2019, or earlier upon request by the borrower.

On August 26, 2015, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 7,000,000.00. This loan bears an interest at a rate of 3.50% per annum and was originally repayable on August 26, 2016. On August 25, 2016, the maturity date of this loan has been extended to August 26, 2017, or earlier upon request by the borrower.

On November 9, 2016, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 10,000,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on November 9, 2017, or earlier upon request by the borrower.

As of December 31, 2016, the outstanding principal amount of the loans granted to PEGAS NONWOVENS s.r.o. amounted to EUR 34,830,000.00 (2015: EUR 24,830,000.00) of which EUR 17,000,000.00 is shown under the item "Amounts owed by affiliated undertakings becoming due and payable within one year". The accrued and unpaid interest amounting to EUR 946,114.08 (2015: EUR 379,339.67) are shown under the item "Amounts owed by affiliated undertakings becoming due and payable within one year" of the balance sheet. The total interest income for the year 2016 on these loans amounted to EUR 566,774.41 (2015: EUR 348,668.00) and is booked in the line item "Other interest receivable and similar income derived from affiliated undertakings" of the profit and loss account.

### Loans granted to PEGAS NONWOVENS International s.r.o.

On September 22, 2014, the Company decided to convert the loans previously granted to PEGAS NONWOVENS International s.r.o. into capital for a total amount of EUR 18,550,000.00 (see note 3).

On November 21, 2014, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 77,000,000.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on November 21, 2018, or earlier upon request by the borrower.

As of December 31, 2016, the outstanding principal amount of the loans granted to PEGAS NONWOVENS International s.r.o. amounted to EUR 76,300,000.00 (2015: EUR 76,300,000.00). The accrued and unpaid interest amounting to EUR 5,733,136.10 (2015: EUR 3,018,127.77) are shown under the item "Amounts owed by affiliated undertakings becoming due and payable within one year" of the balance sheet. The total interest income for the year 2016 on these loans amounted to EUR 2,715,008.33 (2015: EUR 2,711,197.21) and is booked in the line item "Other interest receivable and similar income derived from affiliated undertakings" of the profit and loss account.

### Loans granted to PEGAS-NS a.s.

On November 21, 2014, the Company granted a loan to PEGAS-NS a.s. for an amount of EUR 6,719,280.00. This loan bears an interest at a rate of 3.50% per annum and is repayable on November 21, 2018, or earlier upon request by the borrower.

As of December 31, 2016, the outstanding principal amount of the loan granted to PEGAS-NS a.s. amounted to EUR 6,719,280.00 (2015: EUR 6,719,280.00). The accrued and unpaid interest amounting to EUR 504,319.24 (2015: EUR 265,224.89) are shown under the item "Amounts owed by affiliated undertakings becoming due and payable within one year" of the balance sheet. The total interest income for the year 2016 on this loan amounted to EUR 239,094.35 (2015: EUR 238,441.09) and is booked in the line item "Other interest receivable and similar income derived from affiliated undertakings" of the profit and loss account.

### Loans granted to PEGAS-NW a.s.

On September 26, 2016, the Company granted a loan to PEGAS-NW a.s. for an amount of EUR 12,876,000.00. This loan bears an interest at a rate of 3.5% per annum and is repayable on September 26, 2021, or earlier upon request by the borrower.

As of December 31, 2016, the outstanding principal amount of the loan granted to PEGAS-NW a.s. amounted to EUR 12,876,000.00 (2015: EUR 0.00). The accrued and unpaid interest amounting to EUR 117,672.33 (2015: EUR 0.00) are shown under the item "Amounts owed by affiliated undertakings becoming due and payable within one year" of the balance sheet. The total interest income for the year 2016 on this loan amounted to EUR 117,672.33 (2015: EUR 0.00) and is booked in the line item "Other interest receivable and similar income derived from affiliated undertakings" of the profit and loss account.

## NOTE 5 - CAPITAL AND RESERVES

### a) Subscribed capital and share premium

The Company was incorporated with a share capital amounting to EUR 125,000 represented by 12,500 shares with a par value of EUR 10.00 each, fully paid-in.

On November 28, 2006, the shareholders of the Company decided to split the existing 12,500 shares with a par value of EUR 10.00 each into 100,806 shares with a par value of EUR 1.24 each. Consequently, the share capital of the Company was reduced by an amount of EUR 0.56 which was allocated to the Company's share premium account.

Also on November 28, 2006, the shareholders of the Company decided to increase the share capital by an amount of EUR 9,075,056.56 together with a share premium amounting to EUR 118.20, by the issuance of 7,318,594 shares with a par value of EUR 1.24 each, by way of a contribution in kind.

During the issue of shares in the public market, in December 2006 the Group issued 1,810,000 new ordinary shares. These newly issued shares were subscribed by investors at EUR 27 per share.

The difference between the subscribed value of newly issued shares (EUR 27) and the nominal value (EUR 1.24) was recorded in equity as share premium in the total amount of EUR 46,625,600.

Further to the extraordinary general meeting held on July 21, 2014, the shareholders decided to grant warrants to the directors for a subscription price of CZK 5.89 per warrant, totalling CZK 1,359,029.15 (EUR 49,476.81) for the 230,735 warrants issued to be paid on March 31, 2015. This amount is booked in the line item "Share premium and similar premiums".

As a result of the share premium distributions made on September 27, 2007, on September 25, 2008, on September 24, 2009, on October 25, 2010 and on October 24, 2011 for an aggregate amount of respectively EUR 7,014,344.00, EUR 7,844,990.00, EUR 8,306,460.00, EUR 8,767,930.00 and EUR 9,229,400.00, and of the issuance of the warrants, the share premium account amounted to EUR 5,512,071.01 as of December 31, 2016 (2015: EUR 5,512,071.01).

As of December 31, 2016, the share capital of the Company amounted to EUR 11,444,456.00 represented by 9,229,400 shares with a par value of EUR 1.24 each, fully paid-in.

	Subscribed capital EUR	Share premium account EUR	Legal reserve EUR	Reserve for own shares EUR	Other available reserves EUR	Profit or loss brought forward EUR	Profit or loss for the financial year EUR	Interim dividends EUR	Total EUR
Balance at January 1, 2016	1,444,456.00	5,512,071.01	1,144,445.60	12,797,243.86	263,991.70	848,690.50	23,834,179.56	(12,797,243.86)	43,047,834.37
- Appropriation of profit or loss	--	--	--	--	--	--	--	--	--
- Dividend distribution in 2016	--	--	--	--	--	(11,536,750.00)	--	--	(11,536,750.00)
- Allocation of prior year result	--	--	--	--	--	11,036,935.70	(23,834,179.56)	12,797,243.86	--
- Profit for the year ended December 31, 2016	--	--	--	--	--	--	14,253,869.31	--	14,253,869.31
- Purchase own shares	--	--	--	874,940.69	--	--	--	--	874,940.69
- Dividend received on own shares	--	--	--	--	576,837.50	--	--	--	576,837.50
- Interim dividends	--	--	--	--	--	--	--	(874,940.69)	(874,940.69)
<b>Balance at December 31, 2016</b>	<b>11,444,456.00</b>	<b>5,512,071.01</b>	<b>1,144,445.60</b>	<b>13,672,184.55</b>	<b>840,829.20</b>	<b>348,876.20</b>	<b>14,253,869.31</b>	<b>(874,940.69)</b>	<b>46,341,791.18</b>

## b) Legal reserve

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated annually to a legal reserve until such reserve equals 10% of the share capital. This reserve is not available for dividend distribution.

As of December 31, 2016, the legal reserve amounted to EUR 1,144,445.60 (2015: EUR 1,144,445.60).

## c) Reserve for own shares

During the year 2016, the Company purchased 32,929 of its own shares representing 0.36% of the share capital of the Company, for an amount of EUR 874,940.70 (2015: 12,797,246.86).

These acquisitions are shown under the line item "Own shares" of the balance sheet and are recorded based on the trade date.

As of December 31, 2016 the Company held 461,470 of its own shares representing 5% of its share capital.

In accordance with the law, the Company has created a non-distributable reserve included in the line item "Reserve for own shares" for an amount of EUR 13,672,184.55. This reserve was taken off the current profit of the Company and the Annual general meeting held on June 15, 2016 ratified the creation of a non-distributable reserve for an amount of 12,797,243.86. The board will propose to ratify the allocation of the amount of 874,940.69 during the next general meeting of the shareholders.

The average purchase price of the own shares amounted to EUR 29.63 while the nominal value of the share amounted to EUR 1.24.

## d) Other reserves

During the year 2016, the Company received a dividend on own shares for an amount of EUR 576,837.50 (2015: 263,991.70). The Company has decided to cancel the right to the dividend on own shares and this amount has been booked in the line item "Other available reserves". The dividend on own shares is recorded based on the settlement date. As of December 31, 2016 the amount accumulated in Other available reserves related to dividends on own shares amounted to EUR 840,829.20 and it is available for dividend distribution.



## NOTE 6 - PROVISIONS

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was 24 May 2007. 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 PEGAS NONWOVENS S.A. (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1<sup>st</sup> anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4<sup>th</sup> anniversary of the IPO, i.e. on 18 December 2010. The given part of phantom options may be exercised on or after the vesting date. The participant shall provide service to the Group at the vesting date to be eligible for the given phantom options series.

The Annual General Meeting held on June 15, 2010 approved the grant of an aggregate amount of 230,735 phantom options (representing 2.5% of the PEGAS's share capital) to the directors and senior management of the Company and/or its affiliates, against no consideration. 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 PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) vested yearly, with the first options vesting on December 18, 2010 and the last options vesting on December 18, 2013. The first options of this share option plan (with the possible vesting date from 18 December 2010) fully replaced the previous options within the scope of the share bonus scheme, which were approved at the Annual General Meeting held on June 15, 2007 (with the same possible vesting date).

Therefore the right for remaining 34,008 options (with the vesting date on December 18, 2010) granted in 2007 and approved by the Annual General Meeting held on June 15, 2007 was abandoned.

The Extraordinary General Meeting held on 21 July 2014 resolved to convert 230,735 phantom options granted in 2010–2013 into 230,735 warrants. Each warrant, when exercised, will grant the holder the right to receive (i) one share in PEGAS for a strike price corresponding to CZK 473.00 representing the PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceeding the exercise date, less CZK 473.00. All the warrants will vest immediately from their granting date and will have the same exercise period that was initially planned for the phantom options.

The Extraordinary General Meeting held on 21 July 2014 resolved to issue 230,735 new warrants (representing 2.5% of the PEGAS's share capital) to the directors and senior management of PEGAS and/or its affiliates collectively, for a subscription price of CZK 5.89 per new warrant to be paid in cash by the directors, it being understood that the Board of Directors of PEGAS will decide how the new warrants will be divided among the directors and senior management of PEGAS and/or its affiliates. Each new warrant, when exercised, will entitle the holder to either receive (i) one share in PEGAS for a strike price corresponding to CZK 588.16 (representing the average of PEGAS's share price on the PSE from 1 October 2013 to 31 December 2013) less all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), or (ii) a payment in cash amounting to the final price of one share of PEGAS on the PSE on the business day preceeding the exercise date, plus all the dividends which have been validly declared by PEGAS, per PEGAS's share, for the relevant financial year(s) (i.e. the financial year 2014 for the new warrants to be vested in 2014, the financial years 2014 and 2015 for the new warrants to be vested in 2015 and the financial years 2014, 2015 and 2016 for the new warrants to be vested in 2016), less the strike price of CZK 588.16 (representing the average of PEGAS's share price on the PSE from October 1, 2013 to December 31, 2013).

On October 17, 2016, the Company received an announcement from persons discharging managerial responsibilities within the issuer about transactions with financial instruments, the value of which is derived from the share price of the Company. The subject of the transaction was the exercise of 153,824 warrants granted on the basis of a contract dated September 22, 2014 with a strike price of CZK 588.16. The closing price of the Company's shares as at the day preceeding the exercise amounted to 792.00 CZK. The total payout amounted to 1,423,131.30 EUR and is reported in Other operating expense.

Summary of the contractual terms of the phantom option and warrant scheme as at 31 December 2016:

Grant date	Vesting date	Option/ warrant	Strike price (CZK)	Total number of options/ warrants granted	Number of options/ warrants granted to Executives	Number of options/ warrants granted to Non- executives	Fair value of options/ warrants granted (TEUR)	Fair value of options/ warrants granted to Executives (TEUR)	Fair value of options/ warrants granted to Non- executives (TEUR)
24 May 2007	18 Dec 2007	Option	749.2	23,344	0	23,344	43	0	43
24 May 2007	18 Dec 2008	Option	749.2	18,960	0	18,960	39	0	39
24 May 2007	18 Dec 2009	Option	749.2	11,536	0	11,536	24	0	24
15 June 2010	18 Dec 2010	Warrant	473	7,732	0	7,732	85	0	85
15 June 2010	18 Dec 2011	Warrant	473	7,732	0	7,732	85	0	85
15 June 2010	18 Dec 2012	Warrant	473	0	0	0	0	0	0
15 June 2010	18 Dec 2013	Warrant	473	0	0	0	0	0	0
21 July 2014	18 Dec 2014	Warrant	588.16	0	0	0	0	0	0
21 July 2014	18 Dec 2015	Warrant	588.16	0	0	0	0	0	0
21 July 2014	18 Dec 2016	Warrant	588.16	76,911	52,137	24,774	784	531	253
<b>Total</b>				<b>146,215</b>	<b>52,137</b>	<b>94,078</b>	<b>1,059</b>	<b>531</b>	<b>528</b>

Summary of the contractual terms of the phantom option and warrant scheme as at 31 December 2015:

Grant date	Vesting date	Option/ warrant	Strike price (CZK)	Total number of options/ warrants granted	Number of options/ warrants granted to Executives	Number of options/ warrants granted to Non- executives	Fair value of options/ warrants granted (TEUR)	Fair value of options/ warrants granted to Executives (TEUR)	Fair value of options/ warrants granted to Non- executives (TEUR)
24 May 2007	18 Dec 2007	Option	749.2	23,344	0	23,344	44	0	44
24 May 2007	18 Dec 2008	Option	749.2	18,960	0	18,960	39	0	39
24 May 2007	18 Dec 2009	Option	749.2	11,536	0	11,536	24	0	24
15 June 2010	18 Dec 2010	Warrant	473	7,732	0	7,732	74	0	74
15 June 2010	18 Dec 2011	Warrant	473	7,732	0	7,732	74	0	74
15 June 2010	18 Dec 2012	Warrant	473	0	0	0	0	0	0
15 June 2010	18 Dec 2013	Warrant	473	0	0	0	0	0	0
21 July 2014	18 Dec 2014	Warrant	588.16	76,913	52,137	24,776	348	236	112
21 July 2014	18 Dec 2015	Warrant	588.16	76,911	52,137	24,774	348	236	112
21 July 2014	18 Dec 2016	Warrant	588.16	76,911	52,137	24,774	213	144	69
<b>Total</b>				<b>300,039</b>	<b>156,411</b>	<b>143,628</b>	<b>1,164</b>	<b>616</b>	<b>548</b>

The fair value of the phantom options and warrants as at 31 December 2016 is TEUR 1,059 (TEUR 1,164 as at 31 December 2015).

The executive directors benefit as at 31 December 2016 is TEUR 531 (TEUR 616 as at 31 December 2015) of the total amount and the non-executive directors benefit is TEUR 528 (TEUR 548 as at 31 December 2014) of the total amount.

The Black-Scholes pricing model was used to calculate the fair value of the phantom options and the warrants which were converted from the phantom options. The Black-Scholes pricing model adjusted for dividends was used to calculate the fair value of the newly issued warrants. The assumptions used in the model are as follows:

- Price of PEGAS NONWOVENS S.A. shares quoted in Prague Stock Exchange used (CZK 769.00 as at 31 December 2016, CZK 731.00 as at 31 December 2015).
- The participants are expected to exercise the given part of granted phantom options and the warrants which were converted from the phantom options within ten years from vesting.

- The participants are expected to exercise the newly issued warrants before 15 December 2019.
- Risk free interest rate is linearly interpolated from CZK interbank PRIBOR rates (<12M) and CZK interest rate swap points (>12M).
- The exponentially weighted moving average method is used for the volatility of shares calculation (18.77% in 2016, 21.68% in 2015).
- Dividend yield of 4.05% was used in valuation of the newly issued warrants.

## NOTE 7 - NON CONVERTIBLE LOANS

On November 14, 2014, the Company issued 50,000 bonds for a total amount of CZK 2,500,000,000.00 (equivalent to EUR 90,579,710.14) in the "Prague Stock Exchange, Regulated Market (ISIN CZ0000000559) of which 3,960 have been reimbursed on August 13, 2015. The bonds have an annual coupon of 2.85% and will reach maturity on November 14, 2018 (the "Bonds 1").

On July 14, 2015, the Company issued private bonds (ISIN CZ0000000658) for a total amount of CZK 1,080,000,000.00 (equivalent to EUR 39,852,398.52). The bonds have an annual coupon of 2.646% and will reach maturity on July 14, 2022 (the "Bonds 2").

As the issuance price of the Bonds 2 was fixed above par at 101.594%, the Company received an excess cash for an amount of CZK 17,215,200.00 (equivalent to EUR 635,247.24) which was booked under the line item "Deferred income" of the balance sheet and is amortized over the lifetime of the bonds. The amortization of this excess cash received for the year 2016 amounting to EUR 90,891.51 is classified in the line item "Other interest receivable and similar income – other interest and similar income" of the profit and loss account.

The fees and expenses in connection with the Bonds 1 and Bonds 2 are recorded as prepayments under the line item "Prepayments" of the balance sheet and are amortized over the life of the bonds. The amortization of these fees and expenses for the year 2016 amounting respectively to EUR 293,432.44 (2015: 316,991.80) and EUR 3,652.98 (2015: 1,706.72) are classified in the line item "Interest payable and similar expenses – other interest and similar expenses" of the profit and loss account.

In accordance with the Company's accounting policies, the bonds are valued at their nominal value and translated at the exchange rate prevailing at the date of the transaction, i.e. at the exchange rate of 27.60 EUR/CZK for the Bonds 1 and 27.10 EUR/CZK for the Bonds 2. As of December 31, 2016, the principal of the Bonds 1 translated into EUR amounted to EUR 83,405,797.10 (2015: 83,405,797.10) and the accrued and unpaid interest amounted to EUR 310,244.50 (2015: 310,221.54). The principal of the Bonds 2 translated into EUR amounted to EUR 39,852,398.52 (2015: 39,852,398.52) and the accrued and unpaid interest amounted to EUR 490,598.41 (2015: 490,562.11).

The total interest on the Bonds 1 and the Bonds 2 for the year 2016 amounting respectively to EUR 2,427,574.21 (2015: 2,564,963.01) and EUR 1,056,518.98 (2015: 490,562.11) are classified in the line item "Interest payable and similar expenses – other interest and similar expenses" of the profit and loss account.

## NOTE 8 - FINANCIAL INSTRUMENTS

On November 14, 2014, the Company entered into a cross-currency rate swap agreement with a financial institution under which the Company swapped cash flows related to the Bonds 1 denominated in CZK into cash flows denominated in EUR (the "Swap 1").

As of December 31, 2016 the notional amount of this swap agreement amounted to EUR 90,201,992.75 (equivalent CZK 2,489,575,000.00). Based on this swap agreement, the Company pays fixed rate in EUR of 3.10% and receives fixed rate in CZK of 2.85%.

On July 14, 2015, the Company entered into a cross-currency rate swap agreement with a financial institution under which the Company swapped cash flows related to the Bonds 2 denominated in CZK into cash flows denominated in EUR (the "Swap 2").

As of December 31, 2016, the notional amount of this swap agreement amounted to EUR 39,852,398.52 (equivalent CZK 1,080,000,000.00). Based on this swap agreement, the Company pays fixed rate in EUR of 3.150% and receives fixed rate in CZK of 2.646%.

The total net swap interest payable on the Swap 1 and the Swap 2 for the year 2016 amounting to respectively EUR 170,880.35 (2015: 162,875.07) and EUR 198,831.57 (2015: 91,781.08) are classified in the line "Interest payable and similar expenses – other interest and similar expenses" of the profit and loss account.

As of December 31, 2016, the fair value of Swap 1 and the Swap 2 amounted to a gain of EUR 3,225,567.85 (2015: 2,983,690.78) and a loss of EUR 137,631.51 (2015: 145,336.60) respectively. The Company considers these swaps as hedging instruments for the bonds issue and the fair value of these swaps are therefore not reflected in the profit and loss account in accordance with the Company's accounting policies.

## NOTE 9 - OTHER EXTERNAL EXPENSES

The audit fees amounted to EUR 19,850.96 (2015: EUR 19,465.94).

## NOTE 10 - OTHER OPERATING EXPENSES

The other operating expenses are mainly made up of Directors' fees for EUR 329,967.19 (2015: EUR 360,579.46) and of the amount of the payout related to the exercise of warrants of EUR 1,423,131.30 (2015: 0) (Note 6).

## NOTE 11 - TAXES

The Company is subject to all the taxes applicable to commercial companies in Luxembourg.

## NOTE 12 - SUBSEQUENT EVENTS

On 5 January 2017, the Board of Directors of the Company approved an intention to delist the Company's shares from trading on the Warsaw Stock Exchange. This decision was taken on the grounds of very low trading volumes of the Company's shares on the Warsaw Stock Exchange that do not justify the costs of the listing. Subsequently, on 23 January 2017, the Polish supervisory authority approved the Tender Offer submitted by the Company in connection with this intention. The period for the registration of requests for the acceptance of the Tender Offer ended on 24 February 2017. In this regard, the Company eventually accepted the requests and reacquired 4,071 shares in March 2017, representing 0.04 % of the share capital and voting rights of the Company. The delisting from trading on the Warsaw Stock Exchange is now pending the approval of the Polish supervisory authority. In accordance with the required procedure, once the approval is issued, the Company shall subsequently request the Warsaw Stock Exchange to also approve the delisting of shares from trading. It is expected that the Company's shares shall cease to be traded on the Warsaw Stock Exchange during the first half 2017.

In 2017, the loans granted to affiliated undertakings were repaid as follows. The principal in the amount of EUR 32,449,000.00 and associated interest accrued in the amount of EUR 960,751.95 was repaid by PEGAS NONWOVENS s.r.o. The principal in the amount of 4,500,000.00 EUR was repaid by PEGAS NONWOVENS international s.r.o. The principal in the amount of EUR 8,500,000.00 was repaid by PEGAS – NW a.s. The principal in the amount of EUR 6,719,280.00 and associated interest accrued in the amount of EUR 535,022.67 was repaid by PEGAS – NS a.s.

The Board 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 annual accounts as at December 31, 2016.

## NOTE 13 - OFF BALANCE SHEET EVENTS

On October 6, 2015, the Company issued a corporate guarantee up to a maximum amount of EUR 30,000,000.00 for the repayment of all obligations under the Overdraft Credit Facility provided by Ceska Sporitelna, a.s. to PEGAS NONWOVENS s.r.o.

On December 22, 2016, HSBC Bank plc, acting through its branch HSBC Bank plc – pobočka Praha, issued a guarantee not exceeding the total of EUR 13,500,000.00 for the benefit of the Company. The guarantee serves as a collateral for the payment for the shares which are subject to the Tender Offer in connection with the Company's intention to delist its shares from trading on the Warsaw Stock Exchange.

# GLOSSARY

**6<sup>th</sup> 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 PEGAS), islands in the sea, etc.

**Bučovice** – A city in Moravia in the Vyškov District with approximately 6,500 inhabitants. PEGAS 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 needed.

**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. PEGAS 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.

**Reggranulation** – 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.

**WSE** – Warsaw Stock Exchange, a regulated market for securities trading in Poland.

## 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
<b>Budgeted EBITDA</b>	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.
<b>CAPEX</b>	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.
<b>EBIT (Profit from operations) - Earnings Before Interest and Taxes</b>	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.
<b>EBITDA - Earnings Before Interest, Taxes, Depreciation and Amortisation</b>	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.	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.
<b>EBIT Margin</b>	Percentage margin calculated as EBIT/Revenues.	Used to assess the Company's operating performance.
<b>EBITDA Margin</b>	Percentage margin calculated as EBITDA/Revenues.	Intends to display the profitability of the business.
<b>Net Debt</b>	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.
<b>Net Debt/EBITDA</b>	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.
<b>Net Profit Margin</b>	Net profit after tax divided by total revenues.	Used to show the Company's capability to convert revenue into profits available for shareholders.

# STATEMENTS OF RESPONSIBLE PERSONS

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**Marek Modecki, Chairman of the Board of PEGAS NONWOVENS SA**

**František Řezáč, Member of the Board of PEGAS NONWOVENS SA**

hereby declare that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true view of assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and that the management report includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.



**Marek Modecki**

Chairman of the Board of PEGAS NONWOVENS SA



**František Řezáč**

Member of the Board of PEGAS NONWOVENS SA



# NOTES

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