MASTERPLAST GROUP INTERNATIONAL

www.masterplastgroup.com

ANNUAL REPORT 2017

MASTERPLAST

PUBLIC LIMITED COMPANY

ANNUAL REPORT 2017

CHAIRMAN'S GREETINGS

A warm welcome our shareholders!

We waited for a long time, but 2017 was finally a sparkling year indeed for the construction industry of the Central and Eastern European region. Our expectations were justified, and after 7 lean years, the external environment improved significantly, which greatly supported our activities. We count on this favourable environment in the industry to continue over the following years, too, which, together with the company's improving manufacturing and operational efficiency, will ensure reaching the targets defined in the strategic plans, as well as continuous growth in the medium term.

Moreover, we had success in numerous important areas during the year.

The introduction of the new management structure was a significant step, which included our new CEO László Piry joining the company in January 2017, taking over the company's operative management, resulting in the separation of the chairman and CEO positions. In the successfully implemented restructuring process, the emphasis for the roles of chairman and vice-chairman was placed on strategic areas.

The main strategic pillars for the period until 2020 have been clarified and strengthened. Our main focus is on the quartet composed of customer value proposition, portfolio management, sustainability and operational excellence. The objective of the operational focus formed this way is to create a business service model based on our partners' needs, characterised by a massive supply chain and an effectively functioning organisation.

In Subotica, significant steps were taken regarding the largest investment in manufacturing development in the company's history. Stage Three of the first big development has been completed and the Subotica 2.0 project has been started. As a result of this investment, the company will be able to cover a significant portion of product demand in the most important product range from its own manufacturing, and exciting opportunities will open in the areas of industrial applications. Manufacturing efficiency and output are continuously improving, the quality meets the European requirements in every respect, as a result of which we have been able to completely transition to the sale of self-manufactured fibreglass in the EU markets.

As a result of the company's more efficient internal operation, Masterplast's regional results achieved across the V4 countries (Czech Republic, Hungary, Poland, and Slovakia) surpassed even the outstanding growth in Hungary. We count on maintaining this positive trend in 2018, which may be accompanied by the dynamic expansion of exports.

We achieved our long-awaited goal when the company's shares entered the premium category in October 2017. With this, Masterplast became the only issuer in the domestic market operating in the construction area, whose investors are able through their shares to be part of the industry's regional boom.

Please allow me to thank our loyal partners and Masterplast's team of employees. Thank you for the opportunity to achieve these good results together.

Finally, I would especially like to thank our shareholders for their trust, which made it possible to close last year with success not only in the industry, but also on the capital market. I hope we will have the honour of your trust next years as well, and together we will reap the benefits of a flourishing construction industry

Tibor Dávid

Chairman of the Board

INTRODUCTION OF MASTERPLAST GROUP

Founded in 1997, the main areas of activity of Masterplast (later: Company, Group) are production and sales of building industry insulation materials. With its headquarters in Hungary, the Central and Eastern European international company group has many subsidiary companies all over the world, where itoperates two own-property production units. The Group has a presence with its main products, thermal insulation system, heat, sound and water insulation, roofing and dry construction on the market. Its internationalproduction bases (own and production under license) ensures that group products reaches the European markets and the markets outside Europe through its subsidiary companies and partners. Masterplast considers the aspects of sustainability, energy efficiency and environment protection of high importance in its internal processes as well as in production and innovation.

As of 31 December 2017 the Company had the followng ownership at the subsidiaries.

Company	Place of registration	Ownership	Voting right
Master Plast S.r.o.	Slovakia	100%	100%
MasterFoam Kft.	Hungary	100%	100%
Masterplast d.o.o.	Croatia	100%	100%
Masterplast Kft.	Hungary	100%	100%
Masterplast Hungária Kft.	Hungary	100%	100%
Masterplast International Kft.	Hungary	100%	100%
Mastermesh Production Kft.	Hungary	100%	100%
Masterplast Österreich GmbH	Austria	100%	100%
Masterplast Romania S.R.L.	Romania	100%	100%
Masterplast Sp zoo	Poland	80,04%	80,04%
MasterPlast TOV	Ukraine	80%	80%
Masterplast YU D.o.o.	Serbia	100%	100%
OOO Masterplast RUS	Russia	100%	100%
MP Green Invest	Ukraine	100%	100%
Indirect relationship:			
Masterplast D.O.O.	Macedonia	90%	90%
The Group's affiliated undertaking:			
Masterprofilt Kft.	Hungary	20%	20%

Source: data from the Company's management information system

In the context of an improving market environment, the Company's sales revenue exceeded last year's base by 12% in 2017. Building on the positive industry trends and its stable market position, the largest increase in sales turnover was registered in Hungary. In terms of product lines, the greatest increase was exhibited by the two products manufactured by the Company (EPS and fibreglass mesh). In 2017, the Company's trading margin increased slightly as did the Group's production output thanks to the Subotica fibreglass mesh and EPS production facility and the Kál foam foil production facility. Although the profitability of the fibreglass mesh production facility fell short of plans during the first half of the year, growing output was coupled with more efficient production by the end of the year. As the manufacturing staff increased, the Company's personnel costs also increased while its other operating revenue improved. The Company's operating result (EBITDA) were EUR 5 232 thousand versus EUR 4 582 thousand during the reference period, and with its improving performance during the second half of the year coupled with higher turnover, it managed to achieve the target defined in its plans. The Company's financial earnings decreased somewhat, however, the Group's net earnings for 2017 still exceeded the reference period's profit by EUR 359 thousand (15%).

SUMMARY

- In 2017, the Company experienced positive tendencies in the industry environment regarding its market portfolio. Statistics showed industry growth in the most important Hungarian market, where the government's housing market incentives were the main drivers of real estate development. There was a growth in condominium construction, but there was also increasing demand in the retail market, and the number of apartment building permits increased significantly as well. In the Romanian and Croatian markets, the volume of construction works slightly decreased in the first half of the year compared to the previous year, but the second half of the year was characterised by growing industrial production. Slovakia and Poland experienced fast-paced growth in the construction industry, just like Serbia, where progress was noticed after a downturn at the beginning of the year. In Ukraine, the construction branch experienced the biggest development, owing to the internal migration and the improving financial situation of enterprise
- The Company continues to follow a sales practice that takes into consideration the situation in certain markets and the price movement of goods, aiming to maximaize the margin including shipping costs, while increasing the manufacturing capacity.
- In 2017, the Company's sales revenue was EUR 89 642 thousand, which is a 12% increase compared to the reference period value.
- Most of this turnover growth can be attributed to the increase in sales revenue from its most important elements, thermal insulation systems and their components (15%), where the biggest expansion occurred in the Company's two self-manufactured products (EPS and fibreglass mesh). In 2017, there was a significant increase in the sales revenue from heat, sound and water insulation materials (16%), dry construction and accessory profile products (22%), whereas the increase in turnover was less robust for roofing foils, roofing accessories and building industry accessory products. As compared to the 2016 reference period, sales revenues from production and other packaging materials was stagnant, whereas the Company's turnover from bituminous roof covering and shingles decreased (-24%).
- Considering the markets the sales revenue increases in all regions except in Croatia (-5%) and Ukraine (-2%). In 2017, turnover increased by 26% in the most important Hungarian market, whereas the increase was 30% in the Polish markets, compared to the previous year. The Slovakian market performed similarly well, with a growth of 22%. In the rest of the Company's markets, the increase in turnover was more modest - Romania (7%), Serbia (3%), export regions (1%) and other countries (12%).
- In certain markets, owing to the improving industrial environment, the Company's trading margin also increased slightly in 2017 as compared to the reference period.
- The performance of the Kál and Subotica fibreglass and EPS factories, as well as the Kál foam sheet plant, increased in 2017 compared to the reference period, whereas the investment in the Subotica fibreglass mesh factory was completed and the Company began boosting production. Owing to the increase in the Company's manufacturing activities, as well as the growth in sales revenue, the costs of raw and other materials, and the costs of energy increased in 2017 compared to the reference period.

- The Company's personnel costs increased by 21% in 2017 compared to the reference period, primarily due to the boosting of production of fiberglass mesh in Serbia. At the end of December 2017, the Company had 934 employees, compared to the staff of 800 persons in the reference period. The number of employees at the Subotica fiberglass factory was 362 at the end of December 2017, out of it 112 persons were hired in 2017.
- In connection with the investments in the Serbian manufacturer, the Company's depreciation increased, whereas the Company's other income improved in 2017, primarily owing to one-off fixed assets sales.
- As a result of all of the above, the Company's 2017 EBITDA was EUR 5 232 thousand (5.8% EBITDA ratio) compared to the EUR 4 582 thousand (5.7% EBITDA ratio) in the reference period.
- Mostly due to higher debt, the Company's net interest income decreased slightly, as well as its other income from financial operations, which can be attributed to currency fluctuations in 2017.
- Taking into considerations the financial results, the Company's 2017 after-tax income was a profit of EUR 2 681 thousand compared to the profit of EUR 2 322 thousand in the reference period.
- As of 31 December 2017, the Company's inventories were higher by EUR 2 482, thousand, whereas its accounts receivable were higher by EUR 709 thousand compared to the closing values of the reference period.
- The Company counts on this favourable environment in the industry to continue over the next years as well, which, together with the Group's improving manufacturing and operational efficiency, can ensure that the targets defined in the strategic plans are reached.

PRESENTATION OF THE EXTERNAL ECONOMIC AND INDUSTRIAL ENVIRONMENT

Developments in the external economic and sectoral environment substantially shape the production and sales of the insulation and other construction materials that constitute Masterplast's core activity. While the sale of construction material and accessory products is mainly linked to the market for new buildings, sales of insulation material (primarily thermal insulation) is strongly linked to the building and home renovations.

The Company experienced a positive trend in 2017 in the development of the construction industry environment of its country portfolio on certain markets.

In **Hungary**, which represents the largest market within the Company's portfolio, the statistics reflected growth in the construction industry, driven by EU energy efficiency improvement tenders and the state-backed home construction scheme launched last year, which resulted in an increasing number of condominium construction projects. The main drivers of growth on the home construction market were still projects in the capital and property developments in the major cities. The rise in demand was also perceptible on the retail market, and the number of new home construction permits showed a rising tendency. Due to the aforementioned economic measures, the market may continue to expand in the years to come, so the Company expects additional growth in sales turnover and profits on its largest market in the future.

Based on feedback from market players, demand showed a mixed picture on the **Romanian market** in 2017. By the first half of the year, the volume of construction industry works decreased slightly compared to the previous year, due primarily to the decline in state investments. However, the number of construction permits issued increased for both residential and office buildings. The second half of the year was characterised by growing industrial output. The post-installed thermal insulation market for residential buildings underwent a change, with a rise in rock-wool insulation. The industry was also characterised by significant labour shortages and growing labour costs.

In **Serbia**, following a brief faltering at the beginning of 2017, economic development continued throughout the year, industrial output increased, and the reforms introduced in the construction industry exerted a positive impact on the investments. The number of construction permits issued also showed an overall increase in the year under review compared to the base year.

The economic upswing continued in the **Ukraine** in 2017, albeit at a slower rate than expected. The construction sector increased at the greatest rate, driven by improving financial position of businesses and the state funding of the construction industry projects.

Construction industry growth was positive in **Poland** in 2017. The market was characterised by very low unemployment, expensive labour, rising raw material costs and narrow margins, which put small and medium enterprises in a difficult situation. The number of construction industry investment projects increased, as did the number of construction permits issued in the country compared to the base year.

Slovakia's economy continued to expand at a good pace throughout the entire year. The construction industry also performed well, driven by increasingly growing domestic demand. Contract volume of construction industry companies increased, and low bank interest rates also fostered continuous growth.

Croatia's industrial environment painted a mixed picture; decreasing sectoral output during the first half of the year was followed by growth in the construction industry and an increase in the number of construction permits issued compared to the previous year.

These developments are reflected by the EUROSTAT statistics on the number of home construction permits issued, which provides a percentage overview of the development in the number of construction permits per country compared to the previous year.

Percentage change in the number of construction permits 2014 - 2017:

Country	2014	2015	2016	2017
Bulgaria	29,0	8,9	5,2	37,5
Croatia	1,6	-10,8	33,2	34,9
Hungary	30,7	29,2	157,1	21,5
Austria	6,2	2,8	14,0	8,1
Poland	14,0	21,2	12,2	19,3
Romania	-0,3	3,8	-1,2	7,7
Slovakia	8,6	23,3	14,6	-8,6
Serbia	1,6	29,2	26,0	25,5

Forrás: EUROSTAT: Building permits - quarterly data

OVERVIEW OF SALES BY PRODUCT GROUP

Sales by main product groups (thousands of EUR)	2017	2016	Change %
	(A)	**(B)**	**(A/B-1)**
Thermal insulation systems and its elements	40 564	35 374	15%
Heat, sound and water insulation materials	16 129	13 882	16%
Roofing foils and accessories	13 407	12 639	6%
Dry construction and accessories profile products	9 438	7 725	22%
Building industry accessories	2 908	2 742	6%
Bituminous roof covering and shingle coverings	2 084	2 731	-24%
Production and other packaging materials	5 112	5 070	1%
Total sales revenue	**89 642**	**80 163**	**12%**

Contribution of product groups in percentage to the total sales revenue		
Thermal insulation systems and its elements	45%	44%
Heat, sound and water insulation materials	18%	17%
Roofing foils and accessories	15%	16%
Dry construction and accessories profile products	11%	10%
Building industry accessories	3%	3%
Bituminous roof covering and shingle coverings	2%	3%
Production and other packaging materials	6%	6%
Total sales revenue	**100%**	**100%**

Source: data from the Company's management information system

On an annual level, the Group’s sales revenue grew by 12% to EUR 89 642 thousand.

Within the Company’s sales revenues, **thermal insulation systems and its elements** primarily accounted for the largest share (45%); this product category saw an overall 15% increase in year-on-year terms. The majority of sales revenue growth was driven by rising sales of fibreglass mesh. The Company exclusively sold its own manufactured products on its largest European Union markets (export, Romania, Poland and Slovakia). The Group’s EPS sales grew in Hungary, Romania, Slovakia and Serbia, but decreased in Croatia compared to the base year. The turnover in accessory products (glue, profiles) also grew in year-on-year terms.

Heat, sound and water insulation materials, which account for the second largest turnover, exhibited a 16% expansion compared to the previous year’s base. The Company's turnover grew in almost every market; sales turnover only decreased in Export areas and Croatia compared to the base year.

The turnover in **roofing foils and accessories**, a strategic area for the Company, expanded by 6% compared to the 2016 base year. The group saw the largest turnover growth in this product group on the Slovakian, Serbian, Polish, Ukrainian, Hungarian and Romanian markets, and saw stagnation in Export areas. Macedonia, classified among Other areas, experienced a shrinking turnover.

The Company's turnover in **dry construction and accessory profile products** grew by 22% compared to the 2016 base year. The extraordinary sales figures were driven by growing sales of gypsum profiles and slabs on the Hungarian and Slovakian market.

Building industry accessories exhibited a 6% turnover growth in 2017 compared to the base year. Although sales decreased on the Serbian and Romanian market, this was largely offset by the sales growth on the Hungarian, Polish and Slovakian market.

The Company's sales revenue decreased in the **bituminous roof covering and shingle covering** product category compared to the previous year's base (-24%). Sales revenue only increased on the Ukrainian market in this category, and decreased on the other markets, primarily the Hungarian market compared to 2016.

Sales revenues of **production and other packaging material**, a nonstrategic product group, grew by 1% compared to the reference period.

TURNOVER BY COUNTRY

The overview of sales revenue breakdown by country shows the sales revenue achieved by the countries where Masterplast has its own subsidiary, irrespective of which subsidiary was responsible for the sales within a specific country. Sales in countries where the Group does not have any subsidiaries were recognised as Export, while the Other row recognised consolidated sales turnover in countries where the Group has subsidiaries with lower turnover.

Sales by countries (thousands of EUR)	2017	2016	Change %
	(A)	(B)	(A/B-1)
Hungary	30 225	24 024	26%
Romania	12 900	12 033	7%
Export	12 283	12 174	1%
Serbia	9 246	9 020	3%
Ukraine	6 967	7 126	-2%
Poland	5 237	4 030	30%
Slovakia	4 040	3 325	22%
Croatia	3 947	4 142	-5%
Other	4 797	4 289	12%
Total sales revenue	**89 642**	**80 163**	**12%**

Contribution of countries in percentage to the total sales revenue		
Hungary	34%	30%
Romania	14%	15%
Export	14%	15%
Serbia	10%	11%
Ukraine	8%	9%
Poland	6%	5%
Slovakia	5%	4%
Croatia	4%	5%
Other	5%	5%
Total sales revenue	**100%**	**100%**

Source: data from the Company's management information system

The group's turnover increased by 26% in 2016 on **the Hungarian market**, its largest market, compared to the previous year. The Company saw a turnover increase in five out of it six major product groups; the thermal insulation systems and their components and heat, sound and water insulation materials product groups exhibited the best performance. In both cases the significant turnover growth was driven by higher EPS sales. Turnover in dry construction materials also exhibited remarkable growth, as did the turnover in roofing underlay and roofing accessories and accessory construction industry products. At the same time, the turnover and bituminous roofing materials continued to decline in the year under review compared to the reference period.

The Company exhibited a 7% overall growth on its **Romanian market**, also one of its major markets. Growth was largely driven by the turnover performance of thermal insulation systems and their components, specifically EPS and fibreglass-mesh. Sales of heat, sound and water insulation materials also increased, driven by increasing demand for mineral wool due to market changes. Sales revenue also increased in the roofing underlay and roofing accessories product group. Sales figures for dry construction materials remained unchanged and decreased for bituminous corrugated sheets and shingles and construction industry accessories compared to the previous year.

Sales turnover grew by an annual 1% on **Export markets**. The Company exhibited extraordinary performance particularly in its strategic product groups, thermal insulation systems and their components. There was stagnation in the sales of roofing underlay products in 2017 compared to the previous year. The Company achieved exceptional growth in Italy, its highest-performing export market, with annual sales reaching EUR 3 million. Sales revenue also increased at a similar rate in Bosnia and Herzegovina, Greece, Cyprus and Denmark.

The Group's sales in **Serbia** grew by 3% in 2017 compared to the base year. The Company performed outstandingly in the thermal insulation systems and their components product group; specifically, sales of EPS spiked. Meanwhile, non-own manufactured fibreglass-mesh sales declined. Sales of dry construction products, heat, sound and water insulation materials and roofing underlay and roofing accessories also increased. The largest decline in sales revenue affected accessory construction industry products, but also shrank for bituminous corrugated sheets and shingles.

In **Ukraine,** despite the continuous expansion of construction industry output, the Company's turnover decreased by 2% in 2017 compared to the previous year. Market saturation and growing competition continue to have a major impact on the Company's sales. Within thermal insulation systems, sales of fibreglass-mesh shrank substantially, which was somewhat offset by higher sales of roofing underlay and roofing accessories.

The Group's sales revenue grew by 30% of the **Polish market** compared to the 2016 base year. Sales of fibreglass-mesh, accounting for a large portion of sales in Poland, increased substantially, and there was also growth in the product groups present on other markets.

The Company achieved a 22% increase in turnover in **Slovakia** in the year under review. It managed to double its sales revenue in dry construction products and also performed well in all product groups with the exception of bituminous corrugated sheets and shingles.

The group's turnover decreased by 5% in **Croatia** compared to 2016. Sales of dry construction materials and roofing underlay and roofing accessories and decrease in the other product groups, with the greatest decline affecting the thermal insulation systems and their components product group.

The total sales revenue of **Other countries** was 12% higher in the year under review compared to the previous year. The Group's sales revenue grew on the Macedonian market but decreased on the Russian market in 2017 compared to the base year.

FINANCIAL ANALYSIS

The following table shows Masterplast's consolidated audited profit or loss statement according to the total cost type profit or loss statement in EUR thousand.

Profit or loss statement (thousands of EUR)	31 December 2017	31 December 2016	Change	Change %
	(A)	(B)	(A-B)	(A/B-1)
Sales revenues	89 642	80 163	9 480	12%
Materials and services used	-74 795	-67 821	-6 973	10%
Payments to personnel	-10 117	-8 387	-1 730	21%
Depreciation, amortisation and impairment	-1 626	-1 299	-328	25%
Movements in self-produced inventories	309	990	-681	-69%
Other operating income (expense)	192	-362	554	-153%
OPERATING PROFIT	**3 605**	**3 284**	**321**	**10%**
Interest received	118	136	-18	-13%
Interest paid	-580	-550	-29	5%
Other financial (expense) income	-241	-261	19	-7%
Financial loss	**-703**	**-675**	**-28**	**4%**
PROFIT FOR THE YEAR	**2 681**	**2 322**	**359**	**15%**
EBITDA	5 232	4 582		
EBITDA ratio	5,8%	5,7%		
Earnings per share (EPS)	0,19	0,17		

Source: consolidated audited report of the Company on 31st of December 2017 and audited report on 31st of December 2016 based on IFRS accounting rules

GROUP RESULTS

The consolidated annual turnover for the year 2017 amounted to EUR 89 642 thousand, which corresponds to an increase of 12% compared with the value of the reference period.

In line with the prevailing commodity and basic material prices and exchange rate trends, the Company continued to follow a sales strategy in 2017 for its strategic products that took into account the position of the markets and the price fluctuations of products, focusing on maximising the margins that also include transportation costs. Thanks to the improving sectoral environment on some of its markets, the Company managed to slightly increase its commercial margins in 2017 compared with the reference period. Margins on Export areas and on the Slovakian market have somewhat dropped, while the situation has improved on the Hungarian and Polish markets. The performance of the Kál and Subotica fibreglass and EPS factories, as well as the Kál foam sheet plant, increased in 2017 compared to the reference period, whereas the investment in the Subotica fibreglass mesh factory was completed and the Company began boosting production. Owing to the increase in the Company's manufacturing activities, as well as the growth in sales revenue, the costs of raw and other materials, and the costs of energy increased in 2017 compared to the reference period. Also considering the volume change of own produced inventories, the Company's costs incurred in connection with materials and services used grew 11%, as opposed to a 12% sales increase.

Due primarily to the boom of the Serbian fibreglass mesh manufacturing, the Company's personnel expenses grew by 21% in 2017 compared with the reference period. At the end of December 2017, the Company employed 934 persons compared with the 800 employees in the reference period. The headcount of the fiberglass factory located in Subotica was 362 employees at the end of December, of which 112 persons started their employment in 2017.

The Company's recognised depreciation related to the Serbian manufacturing investments increased, while out of the extraordinary depreciation generated previously for part of the production equipment investment in Ukraine, a smaller amount was released in 2017 than in the previous year. The Company's other net income improved in 2017, and was EUR 554 thousand higher than in the reference period, mainly attributable to some one-off sales of fixed assets.

As a result of all of the above factors, the Company's EBITDA was EUR 5 232 thousand (5.8% EBITDA ratio) in 2017 compared with the EUR 4 582 thousand (5.7% EBITDA ratio) in the reference period. The net income of its business activities came to EUR 3 605 thousand in 2017 compared with EUR 3 284 thousand in the reference period.

The Company's net interest loss increased by EUR 47 thousand compared with the reference period of 2016 primarily due to a larger loan portfolio.

The majority of other income/expenses of financial operations include currency exchange results. The Group procures most of its products in EUR and USD, which are then resold in the local currency, so the exchange rate fluctuations of local currencies significantly influence the Group's financial results. Since the currency of most countries is pegged to the Euro, even the movement of EUR/USD, in case of procurements in USD, has an impact on its currency exchange results. In 2017 the Company had hedging transactions in EUR/USD related to its procurements, so the other results of financial operations also included the closing and revaluation results of these hedging transactions. The Hungarian entity has working capital loans denominated in EUR, while the Serbian subsidiary also has an investment loan denominated in EUR.

As the result of the exchange rate fluctuations that took place in 2017, the Company claimed EUR 241 thousand in losses as other expenses of financial operations as opposed to the EUR 261 thousand loss incurred in the reference period. The Group's financial results for 2017 came to EUR 703 thousand loss as opposed to the loss of EUR 675 thousand in the reference period due to the higher interest rates of the overall larger loan portfolio and the somewhat more favourable currency exchange results.

Also considering its financial results, the Company's after tax profit came to EUR 2 681 thousand in 2017 as opposed to the EUR 2 322 thousand profit in the reference period.

THE COMPANY'S FINANCIAL POSITION

As of 31 December 2017, the Company's assets were worth EUR 68 717 thousand meaning an increase of EUR 8 635 thousand over the closing value of the reference period.

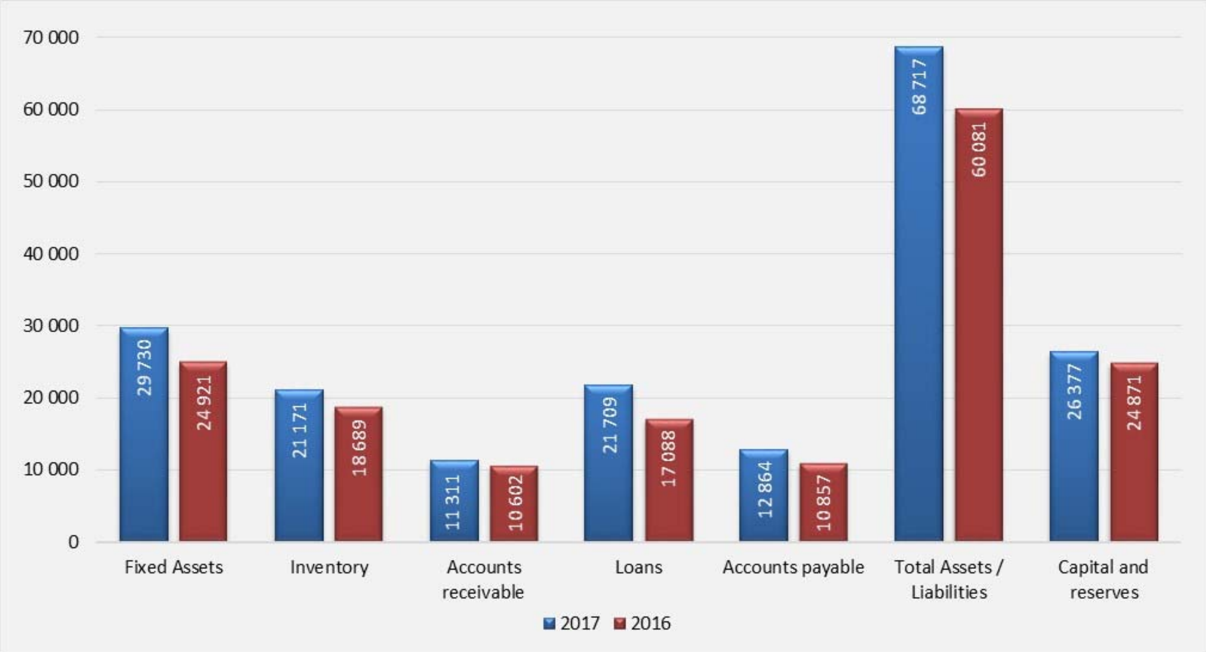
As of the end of December 2017, the value of fixed assets was EUR 29 730 thousand, which was EUR 4 809 thousand higher than the closing value of assets on the cut-off date of the reference period. In 2017 the Company completed its fibreglass mesh factory investment project in Serbia, and from September onward the entire machinery was being used for production. The Group spent a total of EUR 6 443 thousand on investments and on the replacement of other assets in the reporting year.

The inventories of the Company amounted to EUR 21 171 thousand at the end of December 2017, which is EUR 2 482 thousand higher than the closing inventory of the reference period. The higher inventory level is primarily attributable to the increasing output of the fiberglass mesh factory's own production.

Thanks to higher sales, the Company's trade receivables grew by EUR 709 thousand or 6% compared with the 2016 reference period.

Higher inventory levels caused the Company's stock of trade payables to increase by EUR 2 007 thousand while its aggregate portfolio of short and long term loans was higher by EUR 4 621 thousand on 31 December 2017 than in the reference period.

The Group's liquid assets amounted to EUR 3 013 thousand as of 31 December 2017, which was higher by EUR 571 thousand than the closing stock in the same period of 2016.



Source: consolidated audited report of the Company on 31st of December 2017 and audited report on 31st of December 2016 based on IFRS accounting rules

Members of the Board of Directors on 31 December 2017:

Dávid Tibor – Chairman
Balázs Ács – Deputy Chairman
András Kazár – Independent member
Dr. György Martin Hajdu – Independent member
Dirk Theuns – Independent member

Audit commitee:

Dr. György Martin Hajdu
András Kazár
Dirk Theuns

Members of the top management on 31 December 2017:

László Piry - CEO
Gábor Csokló – Production and Technical Director
Róbert Nádasi - CFO
Tivadar Bunford– Souther European Region Director
Illés Jancsó – Business Development Manager

STATEMENT

MASTERPLAST Open Joint Stock Company (8143 Sárszentmihály, Árpád u. 1/A; hereinafter: "Company") hereby states that the parent company's annual report and the joint (consolidated) annual report prepared based on the applicable accounting requirements, according to the Company's best knowledge, give a true and fair view of the assets, liabilities, financial situation and profit and loss of the issuer and its consolidated enterprises; furthermore, the parent company's management report and the joint (consolidated) management report give a fair view of the situation, development and performance of the issuer and its consolidated enterprises, while presenting the main risks and uncertainty factors.

Sárszentmihály, 2018. április 27.

Tibor Dávid

az Igazgatótanács elnöke

MASTERPLAST NYRT.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2017
in accordance with International Financial Reporting Standards (IFRS)
(as adopted by the EU)

Sársszentmihály, 27 April 2018

Chairman of the Board

TABLE OF CONTENTS

Ernst & Young Kft.
Ernst & Young Ltd.
H-1132 Budapest Váci út 20.
1399 Budapest 62. Pf.632, Hungary

Tel: +36 1 451 8100
Fax: +36 1 451 8199
www.ey.com/hu
Cg. 01-09-267553

This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholders of MASTERPLAST Nyilvánosan működő Részvénytársaság

Report on the audit of the consolidated annual financial statements

Opinion

We have audited the accompanying 2017 consolidated annual financial statements of MASTERPLAST Nyilvánosan működő Részvénytársaság ("the Company") and its subsidiaries (altogether "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017 - showing a balance sheet total of EUR 68,716,840 and a total comprehensive income for the year of EUR 2,582,707 -, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated annual financial statements, including a summary of significant accounting policies.

In our opinion the consolidated annual financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs") and has been prepared, in all material respects, in accordance with the supplementary requirements of Act C of 2000 on Accounting ("Hungarian Accounting Law") relevant for consolidated annual financial statements prepared in accordance with EU IFRSs.

Basis for opinion

We conducted our audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities ("Regulation (EU) No. 537/2014"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated annual financial statements" section of our report.

We are independent of the Group in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

A member firm of Ernst & Young Global Limited

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual financial statements of the current period. These matters were addressed in the context of our audit of the consolidated annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated annual financial statements section" of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated annual financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated annual financial statements.

Development of the Hungarian Tax Authority investigation

In 2015 the Hungarian tax authority (NAV) initiated an investigation against Masterplast Kft, a 100% subsidiary of the Company. Masterplast Kft may be held liable based on the concept of strict liability due to unlawful reclaim of VAT in amount of HUF 226 million by a member of the alleged VAT chain.

Significant judgment is needed from management when assessing whether there is a present obligation in relation to the matter and whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Due to this we have evaluated it as a key audit matter.

Our audit procedures included, among others, reading the legal report issued by an independent expert who assessed the underlying transactions and the internal control environment of the Group, obtaining legal letter from the Group's external legal representative on this specific legal case and performing follow-up inquiries of management and those charged with governance to understand management's assessment of the outcome of this case. Additionally we performed procedures to identify any similar cases, including reading other correspondence with the tax authority.

We assessed the adequacy of the Group's disclosures about the case as included in Note 37 of the consolidated annual financial statements.

A member firm of Ernst & Young Global Limited

Revenue recognition of significant transactions with not general terms - consolidated

The Group's consolidated third party revenue amounted to EUR 89 million as of 31 December 2017. The Group focuses on revenue as a key performance measure which might create an incentive for revenue to be recognized before the risks and rewards have been transferred and an incentive to enter into non-standard agreements with conditions different from the usual conditions applied by the Group. Based on this we consider revenue recognition of non-standard transactions significant to our audit and a key audit matter.	Our audit procedures included, among others, analyzing the entire population of journal entries including correlations between revenue, accounts receivables, value added tax and cash inflows. We circularized outstanding debtor balances and tested subsequent cash inflows on a sample basis. We tested a sample of significant sales transactions closed around the balance sheet date as well as credit notes issued after the balance sheet date to assess whether revenue was recognized in the correct period. We performed analytical review procedures on revenue comparing actual data to our expectations developed based on our prior experience of the Group's business, including performing detailed review of non-core transactions. We also considered the adequacy of the Group's disclosures in respect of revenue. The Group's disclosures about revenue are included in Note 8.21 and Note 30 to the consolidated annual financial statements.

Other information

Other information consists of the 2017 consolidated business report of the Group and the information included in the consolidated annual report excluding the consolidated annual financial statements and independent auditor's report. Management is responsible for the other information, including preparation of the consolidated business report in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any. Our opinion on the consolidated annual financial statements does not cover the other information.

In connection with our audit of the consolidated annual financial statements, our responsibility is to read the other information and, in doing so, consider whether 1) the other information is materially inconsistent with the consolidated annual financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated and 2) the consolidated business report has been prepared in accordance with the Hungarian Accounting Law and other relevant legal requirements, if any.

A member firm of Ernst & Young Global Limited

Building a better working world

Our opinion on the consolidated business report should include the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law and we are required to confirm also whether the information prescribed in Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law have been made available and whether the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

In our opinion, the consolidated business report of the Group, including the information required according to Subsection (2) e) and f) of Section 95/B of the Hungarian Accounting Law[7] for 2017 is consistent, in all material respects, with the 2017 consolidated annual financial statements of the Group and the relevant requirements of the Hungarian Accounting Law.

Since no other legal regulations prescribe for the Group further requirements with regard to its consolidated business report, we do not express opinion in this regard.

We also confirm that the Group have made available the information required according to Subsection (2) a)-d) and g)-h) of Section 95/B of the Hungarian Accounting Law and that the consolidated business report includes the non-financial statement as required by Subsection (5) of Section 134 of the Hungarian Accounting Law.

Further to the above, based on the knowledge we have obtained about the Group and its environment in the course of the audit we are required to report whether we have identified any material misstatement in the other information, and if so, the nature of the misstatement in question. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated annual financial statements

Management is responsible for the preparation and fair presentation of the consolidated annual financial statements in accordance with the EU IFRSs and the supplementary requirements of the Hungarian Accounting Law relevant for consolidated annual financial statements prepared in accordance with EU IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

A member firm of Ernst & Young Global Limited

Building a better working world

Auditor's responsibilities for the audit of the consolidated annual financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014 will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual financial statements.

As part of an audit in accordance with Hungarian National Auditing Standards and with applicable laws and regulations in Hungary, including also Regulation (EU) No. 537/2014, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual financial statements, including the disclosures, and whether the consolidated annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express

A member firm of Ernst & Young Global Limited

Building a better working world

an opinion on the consolidated annual financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance we determine those matters that were of most significance in the audit of the consolidated annual financial statements of the current period and are therefore the key audit matters.

Report on other legal and regulatory requirements

Reporting requirements on content of auditor's report in compliance with Regulation (EU) No. 537/2014:

Appointment and Approval of Auditor

We were appointed as statutory auditor by the General Assembly of Shareholders of the Company on 26 April 2016. Total uninterrupted engagement period, including previous renewals (extension of the period for which we were originally appointed) and reappointments for the statutory auditor, has lasted for 9 years.

Consistency with Additional Report to Audit Committee

Our audit opinion on the consolidated annual financial statements expressed herein is consistent with the additional report to the audit committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 were provided by us to the Company and its controlled undertakings and we remained independent from the Group in conducting the audit.

In addition to statutory audit services and services disclosed in the consolidated business report and in the consolidated annual financial statements, no other services were provided by us to the Company and its controlled undertakings.

A member firm of Ernst & Young Global Limited

The engagement partner on the audit resulting in this independent auditor's report is Szabó Gergely.

Budapest, 27 April, 2018

(The original Hungarian language version has been signed.)

Szabó Gergely
engagement partner
Ernst & Young Kft.
1132 Budapest, Váci út 20.
Registration No.: 001165

Szabó Gergely
Registered auditor
Chamber membership No.: 005676

A member firm of Ernst & Young Global Limited

2. Consolidated Statement of Financial Position

Item	Note	31 December 2017	31 December 2016
NON-CURRENT ASSETS			
Property, plant and equipment	10	29 348 497	24 378 662
Intangible assets	10	17 466	154 146
Investments in associates	12	33 649	34 780
Deferred tax assets	27	329 945	353 264
Non-current assets		**29 729 557**	**24 920 852**
CURRENT ASSETS			
Inventories	13	21 171 043	18 688 573
Trade receivables	14	11 310 958	10 602 452
Tax assets	27	1 270 846	1 170 667
Other current financial assets	28	24 360	4 106
Other current assets	15	2 197 075	2 252 369
Cash and cash equivalents	16	3 013 001	2 442 368
Current assets		**38 987 283**	**35 160 535**
TOTAL ASSETS		**68 716 840**	**60 081 387**
EQUITY			
Share capital	-	5 226 391	5 226 391
Reserves	-	18 292 569	17 027 829
Redeemed treasury shares	-	-22 031	-17 693
Parent company's share of the profit or loss	-	2 610 063	2 314 595
Equity attributable to parent company shareholders	**-**	26 106 992	**24 551 122**
Non-controlling interests		269 862	319 448
Equity	**5**	**26 376 854**	**24 870 570**
LONG-TERM LIABILITIES			
Long-term loans	17	3 198 672	5 243 982
Deferred tax assets	27	169 314	276 539
Deferred income	18	1 706 778	1 983 313
Other long-term liabilities	19	691 628	2 005 869
Long-term liabilities		**5 766 392**	**9 509 703**
CURRENT LIABILITIES			
Short-term loans	17	18 509 927	11 844 078
Trade payables	21	12 863 612	10 856 768
Short-term financial leasing liabilities	11	239 378	142 416
Other current financial liabilities	26	5 106	24 419
Taxes payable	27	603 315	515 270
Current part of deferred income	18	360 076	302 157
Provisions	20	88 445	68 132
Other current liabilities	17	3 903 736	1 947 874
Current liabilities		**36 573 595**	**25 701 114**
TOTAL LIABILITIES		**42 339 987**	**35 210 817**
EQUITY AND LIABILITIES		**68 716 840**	**60 081 387**

3. Consolidated Statement of Profit or Loss

Profit or loss category	Note	31 December 2017	31 December 2016
Sales revenues	30	89 642 288	80 162 711
Materials and services used	23	-74 794 613	-67 821 406
Payments to personnel	24	-10 117 321	-8 386 951
Depreciation, amortisation and impairment	10	-1 626 472	-1 298 615
Movements in self-produced inventories	-	309 361	990 005
Other operating income (expense)	25	192 040	-361 959
OPERATING PROFIT		**3 605 283**	**3 283 785**
Interest received	-	117 693	135 862
Interest paid	-	-579 512	-550 408
Other financial (expense) income	26	-241 038	-260 517
Financial loss		**-702 857**	**-675 063**
Profit or loss attributable to associates	12	-1 136	5 732
PROFIT BEFORE TAX		**2 901 290**	**2 614 454**
Income tax	27	-219 793	-292 002
PROFIT FOR THE YEAR		**2 681 497**	**2 322 452**
Profit attributable to parent company shareholders		2 610 062	2 314 595
Profit attributable to non-controlling interests		71 435	7 857
Earnings per share (EPS)	28	0,19	0,17
Diluted earnings per share (diluted EPS)	28	0,19	0,17

4. Consolidated Statement of Other Comprehensive Income

Other Comprehensive Income	2017. december 31.	2016. december 31.
Profit for the year	2 681 497	2 322 452
Foreign exchange loss on translation*	-98 795	-135 419
Parent company's share of the Other Compehensive income of associates*	5	13
Other comprehensive income	**-98 790**	**-135 406**
Comprehensive income	**2 582 707**	**2 187 046**
Profit attributable to parent company shareholders	2 632 293	2 067 493
Profit attributable to non-controlling interests	-49 586	119 553

* Will not be recognised in profit or loss in future periods

5. Consolidated Statement of Changes in Equity

Equity items	Note	Share capital	Treasury shares	Capital reserve	Retained earnings	FX translation reserve	Reserves, total	Parent company's share of the profit or loss	Equity attributable to parent company shareholders	Non-controlling interests	Equity, total
1 January 2016	**-**	**5 226 391**	**-30 043**	**6 655 559**	**16 815 687**	**-7 439 738**	**16 031 508**	**2 458 690**	**23 686 546**	**199 895**	**23 886 441**
Profit for the year	-	0	0	0	0	0	0	2 314 595	2 314 595	7 857	2 322 452
Other comprehensive income	-	0	0	0	0	-247 102	-247 102	0	-247 102	111 696	-135 406
Prior year's profit or loss reclassified	-	0	0	0	2 458 690	0	2 458 690	-2 458 690	0	0	0
Redeemed treasury shares	-	0	12 350	0	0	0	0	0	12 350	0	12 350
Dividends paid	-	0	0	0	-1 103 185	0	-1 103 185	0	-1 103 185	0	-1 103 185
Shareholders' contribution	33	0	0	0	-112 082	0	-112 082	0	-112 082	0	-112 082
31 December 2016	**-**	**5 226 391**	**-17 693**	**6 655 559**	**18 059 110**	**-7 686 840**	**17 027 829**	**2 314 595**	**24 551 122**	**319 448**	**24 870 570**
1 January 2017	**-**	**5 226 391**	**-17 693**	**6 655 559**	**18 059 110**	**-7 686 840**	**17 027 829**	**2 314 595**	**24 551 122**	**319 448**	**24 870 570**
Profit for the year	-	0	0	0	0	0	0	2 610 062	2 610 062	71 435	2 681 497
Other comprehensive income	-	0	0	0	0	22 231	22 231	0	22 231	-121 021	-98 790
Prior year's profit or loss reclassified	-	0	0	0	2 314 595	0	2 314 595	-2 314 595	0	0	0
Redeemed treasury shares	-	0	-4 338	0	0	0	0	0	-4 338	0	-4 338
Dividends paid	-	0	0	0	-1 023 094	0	-1 023 094	0	-1 023 094	0	-1 023 094
Shareholders' contribution	33	0	0	0	-48 992	0	-48 992	0	-48 992	0	-48 992
31 December 2017	**-**	**5 226 391**	**-22 031**	**6 655 559**	**19 301 619**	**-7 664 609**	**18 292 569**	**2 610 062**	**26 106 991**	**269 862**	**26 376 853**

6. Consolidated Statement of Cash Flows

Cash-flow items	2017. december 31.	2016. december 31.
OPERATING ACTIVITIES		
Profit before tax	2 901 290	2 614 454
Depreciation, amortisation and impairment of tangible assets	1 626 472	1 298 615
Impairment loss	98 461	79 190
Inventory shortage, scrapped inventories	73 446	119 706
Provisions (released) made	20 313	-135 651
(Gains) on the disposal of tangible and intangible assets	-280 088	-54 297
Interest paid	579 512	550 408
Interest received	-117 693	-135 862
(Profit) loss from associates	1 136	-5 732
Unrealised foreign exchange (gain) loss	407 263	-332 265
Working capital changes:		
Movements in trade receivables	-801 098	-1 242 234
Movements in inventories	-2 561 785	-1 258 213
Movements in other current assets	-65 139	711 099
Movements in trade payables	2 006 844	1 858 440
Movements in other liabilities	-50 107	-1 642 282
Income tax paid	-200 373	-136 574
Net cash flows from operations	**3 638 453**	**2 288 802**
INVESTING ACTIVITIES		
Purchase of tangible and intangible assets	-6 442 739	-5 326 487
Proceeds from the disposal of tangible and intangible assets	481 550	130 451
Subsidiaries sold	4 964	-59
Interest received	117 693	135 862
Net cash flows from investing activities	**-5 838 532**	**-5 060 233**
FINANCING ACTIVITIES		
Loans taken	6 686 734	6 932 476
Loans repaid	-2 066 195	-5 684 055
Subsidies received	0	689 546
Dividends paid	-1 129 658	-974 598
Interest paid	-579 512	-550 408
Net cash flows from financing activities	**2 911 369**	**412 961**
Increase (decrease) in cash and cash equivalents	711 290	-2 358 470
Cash and cash equivalents at the beginning of the year	2 442 368	4 723 638
Net foreign exchange translation gain or loss	-140 657	77 200
Cash and cash equivalents at the end of the year	**3 013 001**	**2 442 368**

7. General information

The ultimate parent company of Masterplast Group that prepares consolidated annual financial statements is, Masterplast Nyilvánosan Működő Részvénytársaság [public company limited by shares] (company registration No.: 07-10-001342, tax ID: 13805300-4-07).

The parent company's registered seat is at: Árpád u. 1/a., 8143 Sárszentmihály, Hungary. The parent company's website at www.masterplastgroup.com contains more details.

Core operations: Asset management (holding) activity which entails co-ordinating the construction material production and wholesale activities of the subsidiaries.

Masterplast Group („Group" or „Masterplast") comprises Masterplast Nyilvánosan Működő Részvénytársaság („Masterplast Nyrt." or „Company") and its subsidiaries and associates. The Company was incorporated on 29 September 2006 upon transformation of its legal predecessor, Masterplast Műanyagipari és Kereskedelmi Korlátolt Felelősségű Társaság [Masterplast Plastics and Trading Limited Liability Company] as beneficiary. The legal predecessor company started operating in 1997 as a Hungarian Kft. owned by Hungarian nationals.
On 20 April 2011, the company transformed into a public limited company by shares and was duly registered by the companies court.
On 29 November 2011, the Company's shares were technically introduced to trade at the Budapest Stock Exchange.

The Company's financial year is from 1 January to 31 December each year.

The Group's average number of staff was 848 in 2017 (2016: 800).

The cost of the Group's external audit for 2017: EUR 128 869 (2016: EUR 111 109)

Shares:

The parent company's share capital totals HUF 1,374,296,100 (2016: 1 374 296 100). The parent company's share capital is presented in the consolidated annual statements at initial cost in EUR totalling EUR 5 226 391 (2016: EUR 5 226 391).

The share capital comprises:
13 742 961 registered ordinary shares of HUF 100 face value each (2016: 13 742 961 registered ordinary shares of HUF 100 face value each).

Share types: registered, dematerialised
ISIN code of the shares: HU0000093943

The shareholders are as follows:

Shareholders	2017	2016
Tibor Dávid	476 707 600 Ft	529 675 200 Ft
Ács Balázs	409 627 800 Ft	409 627 800 Ft
OTP Alapkezelő	91 554 500 Ft	91 554 500 Ft
Bunford Tivadar	45 198 700 Ft	45 198 700 Ft
Csokló Gábor	3 528 700 Ft	4 158 700 Ft
Nádasi Róbert	3 386 400 Ft	3 386 400 Ft
Több kisebbségi tulajdonos	343 089 400 Ft	289 729 300 Ft
Visszavásárolt részvények	1 203 000 Ft	965 500 Ft
Total:	**1 374 296 100 Ft**	**1 374 296 100 Ft**
	(5 226 391 EUR)	**(5 226 391 EUR)**

The voting rights are as follows:

Shareholders	2017	2016	-
Tibor Dávid	4 767 076	5 296 752	votes
Ács Balázs	4 096 278	4 096 278	votes
OTP Alapkezelő	915 545	915 545	votes
Bunford Tivadar	451 987	451 987	votes
Csokló Gábor	35 287	41 587	votes
Nádasi Róbert	33 864	33 864	votes
Több kisebbségi tulajdonos	3 430 894	2 897 293	votes
Total	**13 730 931**	**13 733 306**	**votes**

The Company's executive body is its five-member Board of Directors. The Board of Directors, and the Audit Committee, whose members are the independent members of the Board of Directors, as an integrated corporate governance body, fulfil the statutory roles of the Directors and the Supervisory Board. The Board of Directors is responsible for decision making in issues that are not the exclusive authority of the Shareholders' Meeting and are made the responsibility of the Board of Directors by legislation or by the Articles of Association.

Board of Directors:

TIBOR Dávid – chairman
ÁCS Balázs – vice chairman
KAZÁR András – independent member
Dr. MARTIN HAJDU György – independent member
Dirk THEUNS – independent member

Audit Committee:

Dr. MARTIN HAJDU György
KAZÁR András
Dirk THEUNS

The Group's operations:

Masterplast is a leading multinational Group in the insulation and construction materials producing and trading industry in Central Eastern Europe. The Group offers a complete range of services that are based on robust control over production and quick and accurate (even small volume) deliveries to thousands of business partners served by the Group's own logistics facilities.
The Group's products ranges from high quality, premium category products to budget quality, so called "hobby" category products. Our services are primarily aimed at small and middle-size building material vendors.

The Group's two key activities are:

- sale of insulation materials and other building materials, and
- production of insulation materials and other building materials.

Sale of insulation materials and other building materials:

The Group has been a building material trader since its foundation.
The Group's subsidiaries, especially our production, supplier and trading entities, also trade with one another in accordance with the Group's applicable policies and intra-group settlement protocol.

Production of insulation materials and other building materials:

The traded products are produced to a lesser extent in the Group's own production facilities, but most of the products are produced by contractors.

The Group's retains production in its own facilities of products that

- are of strategic importance within our product mix, or
- continuous supply in the required quality or quantity is not ensured from other resources, or
- when production involving the Group's assets is more cost effective than procurement from the market.

Product range:

The Group sells insulation materials and other construction materials across Central Eastern Europe, and offers energy saving and cost effective heat, sound and water insulation solutions as well as roof cladding and dry construction solutions.
Within the Group's product mix sold, the percentage of other brands (typically developed market branded products) continuously declines.

The Group offers products and solutions in the following six key categories:

- thermal insulation systems and components
- roofing foils, fixtures and fittings
- corrugated bituminous boards and roof shingles
- dry construction
- heat, sound and water insulation materials
- building industry accessories

8. Accounting policies

8.1. Accounting convention

The consolidated annual financial statements of Masterplast Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The EU endorsed and adopted all the IFRS standards issued by the International Accounting Standards Board (IASB) that were effective at the date of preparing the consolidated annual financial statements and are relevant to Masterplast Group. As a result, the consolidated annual financial statements are also in accordance with the principles of IFRS as issued by the IASB and also meet the requirements of the Hungarian accounting act applicable for consolidated financial statements by reference to IFRS as adopted by the EU.

8.2. Changes in the accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group/Company as of 1 January 2017:

- **IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses (Amendments)**
  The objective of the Amendments is to clarify the requirements of deferred tax assets for unrealized losses in order to address diversity in practice in the application of IAS 12 Income Taxes. The specific issues where diversity in practice existed relate to the existence of a deductible temporary difference upon a decrease in fair value, to recovering an asset for more than its carrying amount, to probable future taxable profit and to combined versus separate assessment.

- **IAS 7: Disclosure Initiative (Amendments)**
  The objective of the Amendments is to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Amendments specify that one way to fulfil the disclosure requirement is by providing a tabular reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs.
  The following annual improvement has not yet been endorsed by the EU

  - ***IFRS 12 Disclosure of Interests in Other Entities:*** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity’s interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

8.3. Standards issued but not yet effective and not early adopted

- **IFRS 9 Financial Instruments: Classification and Measurement**
  The standard is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The final version of IFRS 9 Financial Instruments reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. The Group determinde that the impact of the standard on profit and loss is immaterial.

- **IFRS 15 Revenue from Contracts with Customers**
  The standard is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The Group determinde that the impact of the standard on profit and loss is immaterial.

- **IFRS 15: Revenue from Contracts with Customers (Clarifications)**
  The Clarifications apply for annual periods beginning on or after 1 January 2018 with earlier application permitted. The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. The Group determinde that the impact of the standard on profit and loss is immaterial.

- **IFRS 16: Leases**
  The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The Group determinde that the impact of the standard on profit and loss is immaterial.

- **IFRS 17: Insurance Contracts**
  The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU.

- **Amendment in 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**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting.
  The amendments have not yet been endorsed by the EU.

- **IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.
  These Amendments have not yet been endorsed by the EU.

- **IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018. The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach, which would permit entities that issue contracts within the scope of IFRS 4 to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets.

- **IAS 40: Transfers to Investment Property (Amendments)**
  The Amendments are effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.
  These Amendments have not yet been endorsed by the EU.

- **IFRS 9: Prepayment features with negative compensation (Amendment)**
  The Amendment is effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income.
  These Amendments have not yet been endorsed by the EU.

- **IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments)**
  The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long- term interests that arise from applying IAS 28.
  These Amendments have not yet been endorsed by the EU.

- **IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration**
  The Interpretation is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.
  This Interpretation has not yet been endorsed by the EU.

- The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 First-time Adoption of International Financial Reporting Standards and for IAS 28 Investments in Associates and Joint Ventures. Earlier application is permitted for IAS 28 Investments in Associates and Joint Ventures.
  These annual improvements have not yet been endorsed by the EU.

  - ***IFRS 1 First-time Adoption of International Financial Reporting Standards:*** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - ***IAS 28 Investments in Associates and Joint Ventures:*** The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

- **IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments**
  The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.
  This Interpretation has not yet been endorsed by the EU.

- The **IASB has issued the Annual Improvements to IFRSs 2015 – 2017 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted.
  These annual improvements have not yet been endorsed by the EU.

  - ***IFRS 3 Business Combinations and IFRS 11 Joint Arrangements*****:** The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.

  - ***IAS 12 Income Taxes*****:** The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.

  - ***IAS 23 Borrowing Costs*****:** The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

8.4. Consolidated financial statements

8.4.1 Consolidation of subsidiaries

The consolidated financial statements include Masterplast Nyrt. and its controlled subsidiaries. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has power over the investee, i.e. existing rights that give the investor ability to direct the key activities of the investee. Key activities are activities that ultimately affect the returns of an investee.

The member of Masterplast Group prepare their separate annual financial statements in accordance with applicable accounting legislation effective in their respective local jurisdictions. The requirements of such local accounting legislation may differ from those of International Financial Reporting Standards (IFRS) and are therefore subject to adjustments during the consolidation process.

The consolidated financial statements reflect the items presented in the annual financial statements of Masterplast Nyrt. and its subsidiaries after eliminating intra-Group balances (including any interim profit or loss).
All the Company's subsidiaries are included in the consolidation. The results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
The consolidated financial statements have been prepared based on the measurement and reporting principles of IFRS as adopted by the European Union.
The consolidated financial statements have been prepared on the historic cost basis.

The following subsidiaries are included in the consolidation:

Company	Incorporated in	Core operations	Tax ID	Ownership (%)		Voting right (%)	
				2017	2016	2017	2016
Master Plast S.r.o.	Slovakia	Wholesale of construction materials	SK2020213030	100%	100%	100%	100%
MasterFoam Kft.	Hungary	Foam sheet production	13297590-4-07	100%	100%	100%	100%
Masterplast Bulgaria Eood (1)	Bulgaria	Wholesale of construction materials	4220029582	0%	99,88%	0%	99,88%
Masterplast d.o.o.	Croatia	Wholesale of construction materials	4012002113867	100%	100%	100%	100%
Masterplast Kft.	Hungary	Wholesale of construction materials	14025477-4-07	100%	100%	100%	100%
Masterplast Hungária Kft.	Hungary	Wholesale of construction materials	25562675-2-07	100%	100%	100%	100%
Masterplast International Kft.	Hungary	Wholesale of construction materials	25563243-2-07	100%	100%	100%	100%
Mastermesh Production Kft.	Hungary	Wholesale of construction materials	25562709-2-07	100%	100%	100%	100%
Masterplast Österreich GmBH	Austria	Wholesale of construction materials	ATU63262935	100%	100%	100%	100%
Masterplast Romania S.R.L.	Romania	Wholesale of construction materials	R13718003	100%	100%	100%	100%
Masterplast Sp zoo	Poland	Wholesale of construction materials	PL7772708671	80,04%	80,04%	80,04%	80,04%
MasterPlast TOV	Ukraine	Wholesale of construction materials	33438138	80%	80%	80%	80%
Masterplast YU D.o.o.	Serbia	Wholesale of construction materials EPS and fiberglass production	100838195	100%	100%	100%	100%
OOO Masterplast RUS	Russia	Wholesale of construction materials	6102038903	100%	100%	100%	100%
MP Green Invest	Ukraine	Asset management	38243479	100%	100%	100%	100%
Masterplast D.O.O. (2)	Macedonia	Wholesale of construction materials	4012002113867	90%	90%	90%	90%
ICS Masterplast Construct S.R.L. (3)	Moldova	Wholesale of construction materials	1008600021309	100%	100%	100%	100%

(1) The company was sold on February 20, 2017
(2) 80% of the company held by Masterplast YU d.o.o., 10% is held by Masterplast Nyrt.
(3) 100% of the company is held by Masterplast Romania S.R.L

In the event of indirect ownership, the Group has considered the ownership percentages used for consolidation purposes as presented in the above table.

Equity and profit or loss attributable to non-controlling interests are presented separately in the statement of financial position and the statement of profit or loss. In the case of business combinations, non-controlling interests are recorded at fair value or at the share of non-controlling interests in the net assets of the acquiree. Following the acquisition, non-controlling interest equals the initial investment as adjusted for any increase or decrease in the acquiree's equity attributable to non-controlling interests. Comprehensive income for the period is attributed to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. This involves adjusting the investment of both the Group and non-controlling interests so that it reflects any change in their respective investments in the subsidiaries. The difference between the adjustment of non-controlling interests and the consideration received or paid is recognised in equity as value attributable to the Company's owners.

8.4.2 Consolidation of associates

An associate is an entity in which the Group has significant influence, but does not control, the financial and operating policies and is neither a subsidiary nor a joint arrangement. Associates and joint arrangements are accounted for using the equity method. Under the equity method, investments in associates are initially recorded at cost and subsequently adjusted to reflect the Group's share of the net assets of the associate. Any goodwill identified on acquisition is part of the net investment in the associate and is not amortised. The consolidated statement of profit and loss includes the Group's share of the results of the associate's operations. Any change in the equity of the associate is also recognised by the Group, where applicable, on a pro rata basis as changes in the Group's equity. Any gain or loss on the transactions between the Group and the associate is set off as apportioned to the percentage of the Group's investment in the associate.

The Group's associate is:

Company	Incorporated in	Core operations	Tax ID	Ownership (%)		Voting rate (%)	
				2017	2016	2017	2016
Quotaholders: Császár Zsolt, Masterplast Nyrt							
MasterProfil Kft.	Hungary	Profiles production	13874656-4-07	20%	20%	20%	20%

8.5. Foreign currency transactions

In view of the substance and circumstances of the underlying economic events, the parent company's functional currency is the Hungarian forint (HUF) and the Group's reporting currency is the euro (EUR).

The decision to choose the euro as the reporting currency for consolidated reporting purposes was based on considerations such as the Group's extensive international business relations and the users of the financial statements as the use of the EUR as reporting currency facilitates the interpretation of the consolidated financial statements in an international environment.

The functional currencies used by the Group members for financial reporting purposes in their respective local jurisdictions are as follows:

Company	Country	2017	2016
Masterplast Österreich GmbH	Austria	EUR	EUR
Masterplast Bulgaria Eood	Bulgaria	BGN	BGN
OOO Masterplast RUS	Russia	RUB	RUB
Masterplast d.o.o.	Croatia	HRK	HRK
ICS Masterplast Construct SRL	Moldova	MDL	MDL
Masterplast Kft.	Hungary	HUF	HUF
Masterplast Hungária Kft.	Hungary	HUF	HUF
Masterplast International Kft.	Hungary	EUR	EUR
Mastermesh Production Kft.	Hungary	HUF	HUF
Masterplast Nyrt	Hungary	HUF	HUF
Masterplast D.O.O.	Macedonia	MKD	MKD
MasterFoam Kft.	Hungary	HUF	HUF
Masterplast Sp. z.o.o	Poland	PLN	PLN
Masterplast Romania S.R.L.	Romania	RON	RON
Master Plast S.r.o.	Slovakia	EUR	EUR
Masterplast YU D.o.o.	Serbia	RSD	RSD
Masterplast TOV	Ukraine	UAH	UAH
Green MP Invest	Ukraine	UAH	UAH

Transactions in foreign currencies are translated to the Group’s functional currency at the exchange rates prevailing at the dates of the transactions. Any gain or loss on the initial recognition and year-end revaluation of foreign currency transactions is recognised in financial profit or loss.

The balance sheet and profit and loss accounts of Group members whose functional currency is other than the reporting currency are translated into the reporting currency based as follows:

- assets and liabilities are translated at the closing foreign exchange rate at the balance sheet date;
- profit and loss items are translated at monthly average foreign exchange rate;
- any gain or loss on foreign exchange fluctuations is recognised in the statement of other comprehensive income (accumulated currency translation gain or loss).

None of the Group members operates in a hyperinflatory economy.

8.6. Intangible assets

Intangible assets are measured at initial cost upon acquisition. Intangible assets are recognised when an inflow of economic benefits is expected in connection with the asset and the cost of the assets can be reliably measured. Intangible assets are carried at initial cost less any accumulated amortisation and impairment loss. Intangible assets are written off on a straight line basis over the best estimate of their useful lives. The period and method of amortisation are reviewed at the end of each financial year. The annual amortisation rates range between 10 and 33% and are recognised by the Group on a straight line basis.

8.7. Property, plant and equipment

Property, plant and equipment are carried at initial cost less any accumulated amortisation and impairment loss. Upon disposal of an asset or decrease otherwise, the cost of the asset is derecognised along with any accumulated depreciation and impairment loss and any gain or loss on the disposal is recognised in profit or loss. Any post-commissioning costs, such as maintenance and repairs, are expensed as and when incurred against profit or loss.

Land is not depreciated.

Depreciation is charged on a component and straight line basis over the useful life of the asset.
The depreciation rates used are as follows:

Properties	2% - 8%
Machinery, equipment	6% - 33%

Any capitalised improvement on rented equipment is depreciated over the shorter of the useful life and the rent period.

The useful lives and the depreciation methods are reviewed at least annually in order to reflect the actual inflows of economic benefits from the assets.

8.8. Impairment of assets

The carrying amounts of assets subject to depreciation or impairment are reviewed when changes in the events or circumstances indicate that the carrying value of an asset may not be recoverable. Impairment loss is the carrying value of the asset over the recoverable amount. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. For impairment testing purposes, assets are classified at the lowest level of identifiable cash flows (cash generating units). Upon the reversal of any previously recognised impairment loss, the carrying value of the asset (cash generating unit) is increased to the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, if no impairment loss had been recognised. The Group's smallest cash generating units are its subsidiaries with distinct and independent operations.

8.9. Inventories

Inventories are carried at initial cost less any impairment loss recognised and plus any reversed impairment loss.

The initial cost of purchased inventories (materials, goods) equals their average acquisition cost determined on a periodic (quarterly) basis.

The production cost of self-produced inventories equals the average production cost determined on a periodic (quarterly) basis. Production cost includes materials, direct labour and general overhead as apportioned to the asset.

Inventories are presented at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion (for self-produced inventories) and selling expenses.

8.10. Investments and other financial assets

Financial assets include financial assets held at fair value through profit and loss, , loans granted, trade receivables, held-to-maturity investments and available-for-sale financial assets recognised at fair value through profit or loss in accordance with IAS 39. Financial assets are initially recognised at fair value plus any transactions costs directly attributable to the acquisition in case of financial assets that are not recognised at fair value through profit.

8.10.1 Non-current financial assets

Investments are carried at initial cost, which is the amount paid for the investment including related acquisition costs. Following initial recognition, investments held-for-trading and available-for-sale are measured at fair value. Any gain or loss on investments held-for-trading -that does not include acquisition costs- is recognised in profit or loss.

Where no comparable or reliable market information is available for an investment, the fair value of the investment is determined based on a comparison of the fair values of similar investments and in view of the expected future cash flows. Where the fair value cannot be reliably measured, the investment is recognised at cost less any impairment loss. Any permanent impairment in the value of an investment is expensed in the reporting period.

The Group examines on an annual basis whether there are any indications of impairment, in its investments and investment categories.

8.10.2 Trade and other receivables

Trade and other receivables are other receivables are recognized initially at fair value and are subsequently measured at amortized cost using the effective interest method less any accumulated impairment loss. Trade and other receivables are considered to be impaired if objective evidence indicates that the Group will be unable to recover all the amounts due based on the underlying arrangement. Indications of possible impairment of a debtor include significant financial difficulties experienced by the debtor, the probability of insolvency or financial restructuring, delayed payments or non-performance or any prior forced collection event.

8.10.3 Interest bearing loans and borrowings

Interest bearing loans and borrowings are recognized initially at fair value less discounts and attributable transaction costs. Following initial recognition, interest bearing loans and borrowings are stated at amortised cost using the effective interest rate method. The amortised cost includes disbursement expenses, any interest discount and early repayment charges. Any foreign exchange gain or loss that may arise when the liability is derecognised or written off is recognised in profit or loss.

8.10.4 Derivative financial instruments

The Group holds derivative financial instruments, such as foreign exchange forward and interest rate swap contracts, to hedge its foreign currency and interest rate risk exposures. Derivatives are recognised initially at their fair value on the contract date and are subject to revaluation in the ensuing periods. Derivatives with a positive fair value are recognised as financial assets; derivatives with a negative fair value are recognised as liabilities. Any income or expense on the changes in the fair value of derivatives that do not qualify for hedge accounting are recognised as financial income or expense in the profit and loss account for the relevant year. The year-end fair values of derivatives are recognised by the Group based on the fair values calculated by the Group's contractual partner based on the daily foreign exchange rate fluctuations and on the applicable contractual terms.

The Group uses the following hierarchy for presenting and determining the fair values of financial instruments:

- level 1: quoted price on active markets for the identified assets and liabilities.
- level 2: other techniques where all underlying data significantly influencing the fair value are directly or indirectly accessible
- level 3: techniques including data not accessible at the market that has a significant influence on the fair value

Fair value hierarchy: in view of the above measurement method, the fair value hierarchy for derivative financial under IFRS 13 is: Level 2.

8.11. Redeemed treasury shares

Treasury shares are recognised as a reduction in equity (retained earnings). Any gain or loss on the disposal of treasury shares is recognised directly in retained earnings accordingly.

8.12. Cash and cash equivalents

Cash and cash equivalents comprise cash balances and bank deposits. Cash equivalents are short-term (maturing within three months), highly liquid and low risk investments that can be readily converted into cash.

8.13. Issued capital and reserves

Issued capital and retained earnings are presented at initial cost in the financial statements. Any related foreign exchange gain or loss is recognised in the foreign currency translation reserve within equity.

The values of reserves presented in the consolidated financial statements do not equal the reserves available for distribution to the shareholders. The amount of dividends should be determined based on Masterplast Nyrt's stand-alone annual financial statements.

8.14. Foreign currency translation reserve

The foreign currency translation reserve reflects foreign exchange gains and losses arising on the consolidation of Group entities whose functional currency is other than the Group's reporting currency (EUR). Foreign exchange gains and losses arising from a monetary asset which, in substance, is considered to form part of the Group's investment in a foreign operation and are recognised directly in equity until the investment is derecognised.

Upon derecognition of an underlying asset, any accumulated foreign exchange translation reserve is recognised as income or expense in the same period when the gain or loss on the disposal of the asset is recognised.

8.15. Trade payables and other liabilities

Trade payables and other liabilities (including prepayments and accrued expenses) are recognised by the Group at initial fair value, and are presented in later periods at amortised cost calculated based on the effective interest rate method. Owing to their short-term nature, the book values of trade payables and other liabilities approximate, and therefore presents fairly, their fair values.

8.16. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

The Group makes provisions for:

- fines and penalty interest that are legally enforceable or are payable towards an authority.
- expected severance costs when the underlying decision to lay off staff was made and the decision was communicated to those affected before the balance sheet date.
- litigations and other legal cases where third party claims are already at court and the Group has sufficient information to make a reliable estimate of any resulting payment liability.

8.17. Pension contributions

The amount of pension contribution is deducted from an employee's gross salary and is forwarded to private pension funds or social security. The Group does not have a corporate pension plan and therefore has no legal or constructive obligation to pay further contributions should the assets of the private pension funds or social security fail to provide sufficient coverage for the retirement benefits the employees have already served in prior periods or in the reporting period.

8.18. Operating profit or loss

Operating profit or loss reflects revenues and other income (expenses) less other costs.

8.19. Leases

Determining whether an arrangement is, or contains, a lease at the inception of the arrangement shall be based on whether fulfilment of the arrangement is dependent on the use of a specific asset or the arrangement conveys a right to use the asset. A reassessment of whether the arrangement contains a lease after the inception of the arrangement shall be made only if any one of the following conditions is met:

- there is a change in the contractual terms, unless the change only renews or extends the arrangement;
- a renewal or an extension is agreed to by the parties to the arrangement, unless the term of the renewal or extension had initially been included in the lease term;
- there is a change in the determination of whether fulfilment is dependent on a specified asset; or
- there is a substantial change to the asset.

If an arrangement is reassessed, lease accounting shall be applied (or cease to apply) from, in the case of (a), (c) or (d), when the change in circumstances giving rise to the reassessment occurs; or, in the case of (b), from the inception of the renewal or extension period.

The Group as a lessee:

Upon the initial recognition of the financial leases, under which the Group assumes substantially all the risks and rewards of ownership of the leased asset, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance expense is recognised through profit or loss.

Finance leased assets are depreciated over the shorter of the lease term and their useful lives. Lease payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

8.20. Dividends

Dividends distributable to the Company's shareholders are recognized as a liability against equity in the period when they are approved by the shareholders.

8.21. Government grants and assistance

Government grants and assistance are recognized initially at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses are recognised in the same periods in which the expenses are recognised.

Government assistance attributable to an asset is classified as deferred income and is recognised in profit or loss on a pro rata basis over the useful life of the asset.

8.22. Revenues

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding discounts, rebates, and sales taxes or duty.

Revenue from the sale of goods and services is recognised net of sales taxes and discounts when the significant risks and rewards of ownership of the goods have passed to the buyer, or when the service has been completed.

Interest income is recognised as the interest accrues in order to reflect the actual yield on the underlying asset. Any gains or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting are taken to through profit or loss in the period in which the change occurred.

8.23. Research and development

Research and development cost are expensed by the Group as and when they incur. For details, see Note 35.

8.24. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready are capitalised as part of the cost of that asset. Other borrowing costs are recognised by the Group in profit or loss. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Borrowing costs are capitalised until the asset is commissioned. Borrowing costs consist of interest and other finance costs, including any gain or loss on borrowed foreign exchange project funds that are considered a substitute for interest expense. The amount of capitalisable borrowing cost equals the weighted average of general borrowing costs in the period. An assets is considered a qualifying asset by the Group when the commissioning process of the asset is prolonged for a considerable period (typically more than 6 months).

8.25. Income taxes

Current year taxes:

Corporate income tax is payable to the tax authority in the relevant jurisdiction. The corporate income tax base is the entity's pre-tax profit or loss as adjusted for deductible and non-deductible items.

Other income taxes include local taxes (local business tax). In Hungary, such taxes are payable on the basis of the the net profit of a business calculated in line with applicable regulations.

Deferred taxes:

Deferred tax is recognised using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for consolidated financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not an acquisition and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they are expected to reverse. The amounts of deferred tax asset and deferred tax expense reflect the Group's best estimate as to how the current tax assets and tax liabilities at the balance sheet date will be realised.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Conversely, deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current income tax and deferred taxes are recognised directly in equity when these relate to an item recognised in the same period or in a prior period in equity. Such items include the opening balances of reserves that may be adjusted retrospectively as a result of changes in the accounting policies with a retrospective effect.

8.26. Earnings per share

Earnings per share is calculated by the Company by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is determined in view of the weighted average number of ordinary shares with a potential dilutive effect, if any.

8.27. Contingencies

Contingent liabilities, unless acquired through a business combination, are not recognised in the consolidated statement of financial position or consolidated statement of income. These are disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the consolidated statement of financial position or consolidated statement of income but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable.

8.28. Segment reporting

The Group's operations can be split into two segments: Selling and Production. These serves as basis for the segment information reported by the Group to management. Management is responsible for the allocation of economic resources to the segments and for holding the segments accountable for their performance.

9. Significant accounting assumptions and estimates

Management makes accounting estimates and assumptions regarding the future results of operations. However, the actual results could differ from these estimates. These estimates and assumptions that are based on past experience and other factors, including expectations for the reasonable outcomes of future events, are continuously reviewed by the Group. Below is a summary of assumptions and estimates where the high degree of uncertainty could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

9.1. Sufficient taxable profits for the recognition of deferred tax assets

The recognition of deferred tax assets is subject to the the Group's ability to generate taxable profits in the future so that deferred tax assets can be utilised. The recognition of any deferred tax asset requires significant management assumptions based on the Group's tax planning strategy as to the timing and amounts of any future taxable profits.

9.2. Impairment of debtors

The Group determines any impairment loss on doubtful receivables based on the estimated amount of loss due to non-performance or insolvency by debtors. To make these estimates, the Group considers factors such as debtor ageing information, litigated debtors and past experience of debtor payment behaviour. These factors are assessed by the Group for each debtor at the end of the reporting year. The carrying values of the impaired debtors are reduced to the expected recoverable amount and a corresponding impairment loss is recognised for each affected debtor.

9.3. Cash-generating units

The Group has determined that its smallest cash generating units are its subsidiaries with independent operations. This assessment is explained by the fact that most of the subsidiaries are wholesalers and operate in various countries. Therefore, a comparison of their overall performance gives a better understanding of their state of affairs and any shifts in market sensitivity or demand is more readily identifiable. This structure serves as basis for the Group's analyses and strategic decisions. As the determination of the cash generating units inherently involves a significant estimates, the actual amounts of impairment loss may significantly differ from these estimates.

9.4. Provisions

Making provisions involves significant subjective judgment, especially when the underlying cause is a legal dispute. The Group makes a provision for the total amount of a liability when an undesired event is considered a consequence of a past event and the probability of the undesired event is over 50 percent.

9.5. Impairment of property, plant and equipment

The calculation of impairment loss reflects the realisable value of the Group's cash generating units and is the higher of their fair value less costs to sell and their value in use.

Owing to the current political situation in the Ukraine, the fair value of the Group's investment in the Ukraine less costs to sell involves significant estimates in terms of the potential selling prices.

The value in use is determined based on the discounted expected cash flows. The key variables used to determine the expected cash flows are the discount rates, residual values, the length of the period considered in the cash flow projections as well as estimates and assumptions of cash inflows and outflows, including forecasts as to the prices of goods, operating costs, future product mixes and future market demand. The cash flows reflect the expectations of management for the future for each non-current asset. As a result, the estimates are subject to a higher degree of uncertainty in view of the economic slowdown in the Central-Eastern-European region where the Group operates.

10. Intangible assets, property, plant and equipment and assets in the course of construction

2017	Intangible assets	Properties	Machinery, equipment	Livestock	Assets in construction	Tangible assets	Total
Cost, opening	**768 657**	**19 181 072**	**15 289 521**	**0**	**1 108 616**	**35 579 209**	**36 347 866**
Increase	0	2 542 109	3 648 996		251 634	6 442 739	6 442 739
Decrease	-16 086	-465	-426 462	0	6 776	-420 151	-436 237
Reclassification	-79 236	0	0	0	79 236	79 236	0
Translation gain or loss	4 924	181 557	138 154	0	-199 886	119 825	124 749
Cost, closing	**678 259**	**21 904 273**	**18 650 209**	**0**	**1 246 376**	**41 800 858**	**42 479 117**
Accumulated depreciation and impairment, opening	**614 511**	**3 416 864**	**7 554 718**	**0**	**228 965**	**11 200 547**	**11 815 058**
Increase	42 888	550 600	1 131 056	0	0	1 681 656	1 724 544
Decrease	-2 405	-233	-312 648	0	-98 072	-410 953	-413 358
Reclassification	0	0	0	0	0	0	0
Translation gain or loss	5 798	10 308	5 479	0	-34 675	-18 888	-13 090
Closing accumulated depreciation and impairment	**660 792**	**3 977 539**	**8 378 605**	**0**	**96 218**	**12 452 362**	**13 113 154**
Opening net book value	**154 146**	**15 764 208**	**7 734 803**	**0**	**879 651**	**24 378 662**	**24 532 808**
Closing net book value	**17 467**	**17 926 734**	**10 271 604**	**0**	**1 150 158**	**29 348 496**	**29 365 963**

2016	Intangible assets	Properties	Machinery, equipment	Livestock	Assets in construction	Tangible assets	Total
Cost, opening	**712 175**	**16 915 860**	**12 716 605**	**930**	**1 375 563**	**31 008 958**	**31 721 133**
Increase	57 127	2 298 837	2 959 149	0	11 374	5 269 360	**5 326 487**
Decrease	-3 038	0	-348 182	-926	-206 956	-556 064	**-559 102**
Reclassification	0	0	0	0	0	0	**0**
Translation gain or loss	2 393	-33 625	-38 051	-4	-71 365	-143 045	**-140 652**
Cost, closing	**768 657**	**19 181 072**	**15 289 521**	**0**	**1 108 616**	**35 579 209**	**36 347 866**
Accumulated depreciation and impairment, opening	**575 980**	**2 898 970**	**6 902 375**	**0**	**476 341**	**10 277 686**	**10 853 666**
Increase	42 817	519 580	914 362	0	31 168	1 465 110	**1 507 927**
Decrease	-6 324	0	-243 906	0	-209 312	-453 218	**-459 542**
Reclassification	0	0	0	0	0	0	**0**
Translation gain or loss	2 038	-1 686	-18 113	0	-69 232	-89 031	**-86 993**
Closing accumulated depreciation and impairment	**614 511**	**3 416 864**	**7 554 718**	**0**	**228 965**	**11 200 547**	**11 815 058**
Opening net book value	**136 195**	**14 016 890**	**5 814 230**	**930**	**899 222**	**20 731 272**	**20 867 467**
Closing net book value	**154 146**	**15 764 208**	**7 734 803**	**0**	**879 651**	**24 378 662**	**24 532 808**

Masterplast Group does not have intangible assets with an indefinite useful life.

No finance expense was capitalised as part of an increase in costs in 2017 and 2016.

Part of our bank loans are covered by the closing balance of the tangible assets of Masterplast Nyrt., Masterplast Kft., Masterplast Hungária Kft. and Mastermesh Kft. in the value of:

Closing balance of the tangible assets	2017	2016
closing balance of the tangible assets	8 570 360	8 358 962

There was no major economic change in the Ukraine in 2016 and 2017. The Company decided to abandon its capital project in the Ukraine in Q1 2016 and to sell the assets and machines purchased earlier. The Company reviewed the fair values of the assets to determine the market prices. In the business year 2017, as a result of the improvement in the domestic and real estate market situation and the further depreciation of the hryvnia, the impairment loss previously recorded on the property was reduced by the Company's value of UAH 3 284 974 (EUR 98 thousand) on the basis of valuation by an independent expert.

The Company is currently seeking ways to utilise the property purchased for the project.

The value of the Group's investment in the Ukraine was UAH 20.98 million (EUR 626 thousand) at 31 December 2017 in the following categories:

Asstet category	Investment value UAH	Investment value EUR
Properties	12 326 964	368 019
Machinery, equipment	3 493 786	104 306
Other	5 154 943	153 900
Total	**20 975 693**	**626 226**

Value in use: Cash flow-based return calculation – FCFF model:
Due to abandoning the project, a cash flow based recovery calculation is not considered reasonable.

<u>Fair value less cost to sell:</u>
Based on the fair value hierarchy, measurement is classified as Level 2.
The Company involved external specialists in the measurement of the above asset portfolio and used benchmarks to determine the fair value less cost to sell and any resulting impairment loss. These figures are as follows:

Asset category	Asset value	Estimated market value	Impairment	Average write off
Properties	12 326 964	11 100 000	1 226 964	10,0%
Machinery, equipment	3 493 786	1 457 773	2 036 013	58,3%
Other	5 154 943	1 100 118	4 054 825	78,7%
Total	20 975 693	13 657 891	7 317 802	34,9%

The Company recognised an impairment loss of UAH 7 317 802 (EUR 218 470) in its balance sheet on its investment in the Ukraine at the end of the 2017 financial year as follows:

Asset category	Asset value	Estimated market value	Impairment	Average write off
Properties	368 019	331 389	36 630	10,0%
Machinery, equipment	104 306	43 522	60 784	58,3%
Other	153 900	32 844	121 056	78,7%
Összesen	**626 225**	**407 755**	**218 470**	**34,9%**

The total amount of impairment loss in the balance sheet reduces "*Tangible assets*" (EUR 257 thousand at the closing rate of 2016).

11. Assets purchased under financial lease

Tangible assets include the assets the Group purchased under finance lease.

The Group took over various tangible assets under finance leases in the following values:

Finance leased assets	2017	2016
Gross value	1 744 476	990 876
Accumulated depreciation	427 707	227 382
Net value	**1 316 769**	**763 494**

Payment obligations related to the assets taken over under finance lease were as follows:

Lease liabilities	2017	2016
Lease liabilities within 1 year	239 378	142 415
Due in 2-5 years	546 762	282 435
Total lease obligations	**786 140**	**424 851**

The present values of minimum lease payments were as follows:

Minimum lease payments	2017	2016
Lease payments falling due within 1 year	258 283	153 188
Lease payments falling due within 2-5 years	568 666	293 595
Minimum lease payments	**826 949**	**446 783**
Financing expenses	-40 809	-21 932
Present value of minimum lease payments	786 140	424 851

The Group cannot renew its lease agreements, and the leased assets become property of the lessee at the end of the lease term. The related commitments include bills of exchange, deposits and blank promissory notes.

12. Investments in related parties

Masterprofil Kft. associate

On November 30 2013, Masterplast Nyrt. reduced its share in Masterprofil Kft. from 95% to 20%, thereby this previously fully consolidated subsidiary became an associate.

Share of the profits of associates	2017
Opening	34 780
Share of the profits of associates	-1 136
Comprehensive income	5
Closing*	**33 649**

*Includes no profit or loss from discontinued operations.

Share of the profits of associates	2016
Opening	29 035
Share of the profits of associates	5 732
Comprehensive income	13
Closing*	**34 780**

*Includes no profit or loss from discontinued operations.

13. Inventories

Készlet típusa	2017			2016		
	Gross value	Impairment loss	Net book value	Gross value	Impairment loss	Net book value
Finished products	2 129 465	0	2 129 465	1 967 650	0	1 967 650
Semi-finished products, WIP	1 036 140	0	1 036 140	978 213	0	978 213
Raw materials, additives and fuels	1 591 627	0	1 591 627	1 368 574	0	1 368 574
Goods	16 467 001	-53 189	16 413 812	14 458 576	-84 440	14 374 136
Total	**21 224 232**	**-53 189**	**21 171 043**	**18 773 012**	**-84 440**	**18 688 573**

Impairment loss recognised and reversed on inventories in 2017:

Impairment of inventories 2017	EUR
Opening impairment	84 440
Recalculation difference	838
Increase	54 822
Reversed	-86 911
Closing	**53 189**

Impairment loss recognised and reversed on inventories in 2016:

Impairment of inventories 2017	EUR
Opening impairment	131 460
Recalculation difference	69
Increase	49 652
Reversed	-96 741
Closing	**84 440**

The impairment loss recognized in previous years decreased due to the sale of the impaired goods. Rather than reversing impairment loss, the Group chose to adjust the direct cost of the goods derecognised upon selling.

Recognised direct cost of goods sold (purchased goods and self-produced inventories):

Cost of goods sold	2017	2016
Cost of goods sold	71 301 031	63 175 875

The bank loans are partly covered by the closing balances of the inventories of Masterplast Nyrt., Masterplast Kft., Masterplast Hungária Kft, Masterplast International Kft. and Mastermesh Kft in the following value:

Closing balances of the inventories	2017	2016
Closing balances of the inventories	8 032 708	6 519 615

14. Trade accounts receivables

Debtors	2017	2016
Debtors	12 482 172	12 068 758
Impairment of doubtful receivables	-1 171 214	-1 466 306
Total	**11 310 958**	**10 602 452**

The average payment term of trade receivables was 50 days in 2017 (in 2016: 64 days).
In case of customer receivables, there is no significant concentration.

Impairment loss recognised and reversed on trade receivables in 2017:

Impairment of trade receivables	Opening impairment	Recalculation difference	Recognised	Reversed	Closing
Impairment of trade receivables	1 466 306	-33 033	132 324	-394 383	1 171 214
Total	**1 466 306**	**-33 033**	**132 324**	**-394 383**	**1 171 214**

Impairment loss recognised and reversed on trade receivables in 2016:

Impairment of trade receivables	Opening impairment	Recalculation difference	Recognised	Reversed	Closing
Impairment of trade receivables	1 702 220	-12 028	143 770	-367 656	1 466 306
Total	**1 702 220**	**-12 028**	**143 770**	**-367 656**	**1 466 306**

The aged analysis of debtors:

Aged analysis	2017			2016		
	Gross value	Impairment loss	Net book value	Gross value	Impairment loss	Net book value
Not yet due	6 666 674	0	6 666 674	6 675 816	0	6 675 816
Due over 0-60 days	3 900 385	0	3 900 385	3 156 345	0	3 156 345
Due over 61-90 days	387 111	0	387 111	543 423	0	543 423
Due over 91-180 days	236 294	55 706	180 588	347 841	163 109	184 732
Due over 181-360 days	145 082	43 986	101 096	45 654	14 810	30 844
Due over 360 days	1 146 626	1 071 522	75 104	1 299 679	1 288 387	11 292
Összesen	**12 482 172**	**1 171 214**	**11 310 958**	**12 068 758**	**1 466 306**	**10 602 452**

15. Other current assets

Other current assets	2017	2016
Advances paid	463 212	159 868
Bills of exchange and cheques receivable	405 512	436 973
Other receivables	751 784	644 341
Bonus from suppliers	462 144	405 056
Impairment loss on other receivables	-372 105	-291 266
Accrued incomes	23 302	14 812
Prepaid expenses	463 226	182 584
Receivables from state budget (linked to tenders)*	0	700 000
Összesen	**2 197 075**	**2 252 369**

*At the end of 2014 the Company launched its fiberglass-mesh plant for which it had received a government subsidy in the amount of EUR 2 million. EUR 1,300 thousand was received in 2015 and in 2016, and the remaining amount (EUR 700 thousand) is accounted for as an amount receivable from the Serbian Government.
The remaining subsidy was disbursed to the Company in November 2017.

16. Cash and cash equivalents

Pénzeszközök	2017	2016
Cash	64 256	48 068
Bank deposits	2 948 745	2 394 300
Total	**3 013 001**	**2 442 368**

The Group had no non-liquid cash equivalent as at 31 December 2017 or 31 December 2016.

17. Short-term and long-term loans

Short-term and long-term bank loans taken - 2017

Company name	Loan ID	Loan type	Currency of disbursement	Interest (%)	Period of interest settlement	Amount of outstanding loan debt EUR	Repayment Amount of repayment falling due within 1 year	Amount of repayment falling due within 2-5 years	Amount of repayment falling due beyond 5 years	Collaterals	Criteria of enforcement of mortgage
Masterplast YU d.o.o.	00-421-0604708.6	investment loan	RSD	3-month EURIBOR + 3.8%	monthly	1 640 000	205 000	1 093 333	341 667	promissory note + mortgage + MP NYRT guarantor	-
Masterplast YU d.o.o.	00-421-0603552.5	investment loan	RSD	3-month EURIBOR + 3.8%	monthly	2 105 923	459 474	1 646 449	0		-
Masterfoam Kft.*(1)	TCF-DK-48/2014	FX loan	EUR	EUR CIRR + 0.99 % p.a.	every 6 months	1 250 000	1 250 000	0	0	collateral of bank credit line	Set off right + sales revenues + MP Kft. as guarantor
Masterplast Kft.*(1)	TCF-DK-40/2014	FX loan	EUR	EUR CIRR + 0.99 % p.a.	every 6 months	468 000	468 000	0	0	collateral of bank credit line	Implementing rights of a third party are registered on mortgage property as collateral for credit line, or a third party enforces mortgage rights on the property.
Masterplast Kft.*(1)	TCF-DK-47/2014	FX loan	EUR	EUR CIRR + 0.99 % p.a.	every 6 months	1 200 000	1 200 000	0	0		
Masterplast Kft.	SST-17-14844-250	FX loan	EUR	1-month BUBOR +1%	monthly	7 012 124	7 012 124	0	0		
Masterplast International Kft.	SST-17-14844-250	FX loan	EUR	1-month BUBOR +1%	monthly	1 487 876	1 487 876	0	0		
Masterplast Romania	35/2016	investment loan	RON	ROBOR 1 M +2.0%	monthly	153 851	40 135	113 716	0	mortgage + bank guarantee	If a loan repayment plan is violated unjustified, the Bank has the right to enforce the guarantees following calculation of penalty interest. Repayment and interest payment due date on 15th of every month, deviation is possible with permission from the Bank only.
Masterplast International Kft.	R-27/2017	current asset financing	EUR	1-month EURIBOR + 1.40%	monthly	1 532 000	1 532 000	0	0	-	-
Masterplast YU D.o.o.**	00-422-0000972.4	bridging loan	RSD	3-month EURIBOR + 3.6%	monthly	1 000 000	1 000 000	0	0	promissory note + mortgage + MP NYRT guarantor	-
Masterplast s.r.o.	-	financing	EUR	4.7% p.a.	monthly	7 164	3 657	3 507	0	mortgage	-
Total investment and working captal loans						**17 856 938**	**14 658 266**	**2 857 005 €**	**341 667**		
Masterplast Romania	56 (OVD)	overdraft facility	RON	ROBOR 1M+1.5%	monthly	2 244 834	2 244 834	0	0	mortgage	-
Masterplast s.r.o.	-	overdraft facility	EUR	3.22 % p.a. + 1M EURIBOR by 14 September 1.6% p.a. + 6M EURIBOR from 15 September	monthly	208 640	208 640	0	0	mortgage	-
Masterplast International Kft.	MCOD-17-14844-150	overdraft facility	HUF	1-month BUBOR +1.25%	monthly	966 775	966 775	0	0	-	-
Masterplast Nyrt.	F-50/2017	overdraft facility	HUF	1-month BUBOR +1%	monthly	431 412	431 412	0	0	-	-
Total overdraft facilities						**3 851 661**	**3 851 661**	**0**	**0**		
Total loans and credits						**21 708 599**	**18 509 927**	**2 857 005**	**341 667**		

(1) Long-term loans (EUR 1 954 thousand) for unmet covenants on 2017.12.31 were reclassified to the short term loans by the Group.
* Revolving loan, amounts repaid may be used again immediately
** Bridging loan linked to development subsidies and will be repaid as a bullet payment upon receipt of the subsidy
The secured loans were drawn for specific development projects and are secured by the financed assets.
The Group's credit exposure is linked to three banks.

Short-term and long-term bank loans taken – 2016

Company name	Loan ID	Loan type	Currency of disbursement	Interest (%)	Period of interest settlement	Amount of outstanding loan debt EUR	Repayment Amount of repayment falling due within 1 year	Amount of repayment falling due within 2-5 years	Amount of repayment falling due beyond 5 years	Collaterals	Criteria of enforcement of mortgage
Masterplast YU D.o.o.	00-421-0603552.5	investment loan	RSD	3-month EURIBOR + 4%	monthly	2 565 397	459 474	1 837 896	268 026	-	-
Masterfoam Kft. *	TCF-DK-48/2014	FX loan	EUR	EUR CIRR + 0,99 % p.a. EUR CIRR + 0,99 % p.a.	every 6 months	1 250 000	250 000	1 000 000	0	collateral of bank credit line	Set off right + sales revenues + MP Kft. as guarantor
Masterplast Kft. *	TCF-DK-40/2014	FX loan	EUR	EUR CIRR + 0,99 % p.a. EUR CIRR + 0,99 % p.a.	every 6 months	702 000	234 000	468 000	0	collateral of bank credit line	Implementing rights of a third party are registered on mortgage property as collateral for credit line, or a third party enforces mortgage rights on the property.
Masterplast Kft. *	TCF-DK-47/2014	FX loan	EUR	EUR CIRR + 0,99 % p.a. EUR CIRR + 0,99 % p.a.	every 6 months	1 200 000	240 000	960 000	0	collateral of bank credit line	
Masterplast Romania	1/2014 inv	investment loan	RON	ROBOR 1 M +2,9%	monthly	108 674	108 674	0	0	mortgage + bank guarantee	If a loan repayment plan is violated unjustified, the Bank has the right to enforce the guarantees following calculation of penalty interest. Repayment and interest payment due date on 15th of every month, deviation is possible with permission from the Bank only.
Masterplast Romania	35/2016	investment loan	RON	ROBOR 1 M +2,0%	monthly	45 674	9 450	36 224	0	mortgage + bank guarantee	
Masterplast s.r.o.		financing	EUR	3.2% p.a. + 6 month EURIBOR	monthly	30 632	30 632	0	0	mortgage	
Masterplast Kft. *	2010/139	current asset financing	EUR	3-month EURIBOR + 1.5% 3-month EURIBOR + 1.5%	every 3 months	5 000 000	5 000 000	0	0	collateral of bank credit line	Implementing rights of a third party are registered on mortgage property as collateral for credit line, or a third party enforces mortgage rights on the property.
Masterplast Kft.	DK-2/2016	current asset financing	EUR	1-month EURIBOR + 1.93%	every 6 months	1 000 000	333 333	666 666	0	-	
Masterplast YU D.o.o. **	00-422-0000707.1	bridging loan	RSD	3-month EURIBOR + 3.8%	monthly	1 000 000	1 000 000	0	0	promissory note + mortgage + MPNYRT guarantor	
Masterplast s.r.o.		financing	EUR	4.7% p.a.	monthly	10 660	3 491	7 170	0	mortgage	
Total investment and working captal loans						**12 913 037**	**7 669 054**	**4 975 956**	**268 026**		
Masterplast Romania	56 (OVD)	overdraft facility	RON	1-month ROBOR + 1.5%	monthly	2 439 333	2 439 333	0	0	mortgage	-
Masterplast s.r.o.	-	overdraft facility	EUR	1-month EURIBOR + 3.22%	monthly	249 270	249 270	0	0	mortgage	-
Masterplast Kft.	FF-6/2009	overdraft facility	HUF	1-month BUBOR + 1,5%	monthly	1 486 421	1 486 421	0	0	-	-
Total overdraft facilities						**4 175 024**	**4 175 024**	**0 €**	**0**		
Total loans and credits						**17 088 060**	**11 844 078**	**4 975 956**	**268 026**		

* Revolving loan, amounts repaid may be used again immediately
** Bridging loan linked to development subsidies and will be repaid as a bullet payment upon receipt of the subsidy
The secured loans were drawn for specific development projects and are secured by the financed assets.
The Group's credit exposure is linked to three banks.

18. Deferred income

Deferred income includes the non-refundable parts (grants) of tendered government subsidies as long as the applicable requirements are met.

Subsidy ID	Description of support	Beneficiary	2017	2016
SZVP-2003-6-03-08-1	Networking at "Master" level	Masterplast Nyrt. Masterplast Kft.	45 164	47 491
GVOP-1.1.2-2004-11-0003/5.0	Central and Eastern European regional company headquarter: "Master" educator; MASTER3AS centre - Products, Services, Training at "Master" level	Masterplast Nyrt. Masterplast Kft.	283 968	289 703
GVOP-1.1.1-05/1.-2005-11-0010/5.0	"Development of the PE foame producing plant of MasterFoam Kft. at Kál in Heves county"	Masterfoam Kft.	23 644	31 834
GOP-1.3.3.09-2010-0013	"Development of new type building industry and packaging industry units with MASTERFOAM Kft to strengthen supplier status"	Masterfoam Kft.	18 515	24 026
Goverment Grant	Fiberglass-mesh plant	Masterplast YU D.o.o.	1 652 857	1 842 737
GOP-1.3.1-10/A-2010-0143	"Launch of premix production know how with MASTERPLAST Kft'	Masterplast Kft	3 073	4 213
GOP-1.3.1-11/A-2011-0084	"Energy modernisation of high buildings and the development of the related compliance with fire protection provisions with MASTERPLAST Kft"	Masterplast Kft	39 633	45 466
Total			**2 066 854**	**2 285 470**
Short-term part			**360 076**	**302 157**
Long-term part			**1 706 778**	**1 983 313**

Contingent liabilities and commitments related to deferred income are described in Note 36.

19. Other long-term liabilities

Other long-term liabilities	2017	2016
Long-term part of lease liabilities (Note 11)	546 762	282 435
Long-term liabilities to shareholders (Note 33.2)*	0	1 575 912
Other long-term liabilities (Note 36)	144 866	147 522
Total	**691 628**	**2 005 869**

* In 2017 the liability was reclassified to (due to maturity within one year) other short-term liabilities.

20. Provisions

2017	Opening balance	Recalculation difference	Increase	Current year use	Reversed	Closing
For unused holidays	27 407	226	38 670	21 602	1 562	43 139
For bonuses	102	0	19 348	19 348	0	102
For commissions	17 358	37	10 335	17 362	0	10 336
Other	23 265	806	16 284	4 623	896	34 868
Total	**68 132**	**1 069**	**84 637**	**62 935**	**2 458**	**88 445**

2016	Opening balance	Recalculation difference	Increase	Current year use	Reversed	Closing
Provisions for tax fines	87 387	-319	0	0	87 068	0
For unused holidays	36 479	-194	8 985	17 862	0	27 407
For bonuses	35 228	237	0	35 363	0	102
For commissions	26 654	159	17 326	26 781	0	17 358
Other	18 035	-197	12 106	4 865	1 814	23 265
Total	**203 783**	**-314**	**38 417**	**84 871**	**88 882**	**68 132**

21. Trade payables

Maturity of trade payables is as follows:

Creditors	2017	2016
Not yet due	9 699 680	7 773 654
Due over 0-60 days	2 571 835	2 723 055
Due over 61-90 days	91 270	94 438
Due over 91-180 days	322 825	164 139
Due over 180 days	178 002	101 482
Total	**12 863 612**	**10 856 768**

The average turnover of creditors was as follows:

Average turnover of creditors	2017	2016
Average turnover of creditors	52 days	49 days

22. Other current liabilities

Other current liabilities	2017	2016
Advances received	43 847	111 488
Liabilities to employees	448 864	384 747
Other current liabilities	205 640	553 875
Bonus to customers	735 871	421 665
Liabilities to shareholders*	1 629 376	0
Deferred income	32 525	0
Bills of exchange payable	199 463	0
Accrued expenses	608 150	476 099
Összesen	**3 903 736**	**1 947 874**

*see note 38. In year 2017 the liabiliy (due to maturity within one year) was transferred to other short-term liabilities.

23. Materials and services used

Material type expenses	2017	2016
Material costs	27 761 989	22 675 879
Services used	5 054 487	4 159 228
Cost of goods sold	41 978 137	40 986 299
Total	**74 794 613**	**67 821 406**

24. Personnel related costs

Payments to personnel	2017	2016
Payroll costs	7 362 139	6 070 719
Other payments to personnel	1 047 116	761 432
Payroll taxes and social security	1 708 066	1 554 800
Total	**10 117 321**	**8 386 951**

25. Other income and expenses

Other income and expenses	2017	2016
Gains on fixed asset sales	280 088	54 297
Inventory shortage, scrapped	-73 446	-119 706
Impairment loss (recognised) reversed on inventories, debtors and other receivables	30 836	-192 679
Taxes, duties	-221 417	-184 494
Credit loss	-129 297	113 489
Income from tenders (release of deferred income)	265 664	146 719
Indemnity	49 899	0
Other	-10 287	-179 585
Total	**192 040**	**-361 959**

26. Other financial profit or loss and fair valuation

Other financial profit or loss	2017	2016
Foreign exchange gain (loss)	79 864	-56 458
Recognised gain or loss on derivatives and fair value adjustments	-30 946	68 604
Other	-289 956	-272 663
Total	**-241 038**	**-260 517**

The Group had the following open derivative transactions (at trading rate) at the end of years 2016 and 2017:

Description	Maturity/closing date	Value	Fair value 2017	Fair value 2016
Forward sale of Euro for Polish zloty at rate 4,4052 (at trading rate: 4,3373 EUR/PLN)	19.01.2017	PLN 107 917	0	-376
Forward sale of Euro for Polish zloty at rate 4,4052 (at trading rate: 4,3409 EUR/PLN)	25.01.2017	PLN 127 401	0	-421
Forward sale of Euro for Polish zloty at rate 4,4052 (at trading rate: 4,4344 EUR/PLN)	07.02.2017	PLN 128 522	0	193
Forward sale of Euro for Polish zloty at rate 4,4052 (at trading rate: 4,5049 EUR/PLN)	21.02.2017	PLN 134 337	0	688
Forward sale of Euro for Polish zloty at rate 4,4052 (at trading rate: 4,4453 EUR/PLN)	15.03.2017	PLN 66 078	0	136
Forward sale of Euro for USD at rate 1,0590 USD/EUR (at trading rate: 1,0530 USD/EUR)	15.05.2017	USD 600 000	0	-6 766
Forward sale of Euro for USD at rate 1,0590 USD/EUR (at trading rate: 1,0495 USD/EUR)	16.03.2017	USD 700 000	0	-8 439
Forward sale of Euro for USD at rate 1,0590 USD/EUR (at trading rate: 1,0510 USD/EUR)	14.04.2017	USD 700 000	0	-8 417
Forward sale of Euro for USD at rate 1,055049 USD/EUR (at trading rate: 1,0620 USD/EUR)	15.05.2017	USD 500 000	0	3 089
Forward sale of Euro for USD at rate 1.2034 USD/EUR (at trading rate: 1.1940 USD/EUR)	16.03.2018	USD 597 000	-3 904	0
Forward sale of Euro for USD at rate 1.2034 USD/EUR (at trading rate: 1.2005 USD/EUR)	16.03.2018	USD 360 150	-721	0
Forward sale of Euro for USD at rate 1.2034 USD/EUR (at trading rate: 1.2005 USD/EUR)	16.03.2018	USD 240 100	-481	0
Forward sale of Euro for Hungarian forint 310.44 HUF/EUR (at trading rate: 314.00 HUF/EUR)	29.03.2018	HUF 314 000 000	11 463	0
Forward sale of Euro for Hungarian forint 310.05 HUF/EUR (at trading rate: 314.11 HUF/EUR)	16.04.2018	HUF 314 110 000	11 629	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2868EUR/PLN)	09.01.2018	PLN 120 556	77	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2433EUR/PLN)	23.01.2018	PLN 121 825	78	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2778EUR/PLN)	23.01.2018	PLN 133 856	86	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2304USD/PLN)	07.02.2018	PLN 62 732	40	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2302USD/PLN)	07.02.2018	PLN 62 732	40	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.27USD/PLN)	07.02.2018	PLN 45 546	29	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2583USD/PLN)	07.02.2018	PLN 62 732	40	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2209USD/PLN)	14.02.2018	PLN 133 254	86	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2129USD/PLN)	22.02.2018	PLN 125 540	81	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2096USD/PLN)	22.02.2018	PLN 120 758	78	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2079USD/PLN)	22.02.2018	PLN 137 194	88	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2558USD/PLN)	07.03.2018	PLN 62 732	40	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2497USD/PLN)	07.03.2018	PLN 70 723	45	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2145USD/PLN)	11.04.2018	PLN 120 758	78	0

Description	Maturity/closing date	Value	Fair value 2017	Fair value 2016
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2069USD/PLN)	11.04.2018	PLN 62 732	40	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2023USD/PLN)	11.04.2018	PLN 60 222	39	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2077USD/PLN)	12.04.2018	PLN 121 273	78	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2113USD/PLN)	25.04.2018	PLN 138 699	89	0
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2169USD/PLN)	26.04.2018	PLN 136 566	88	0
Forward buy of USD for Polish zloty at rate 3.4813 (at trading rate: 3.5628USD/PLN)	09.01.2018	PLN 52 320	24	0
Forward buy of USD for Polish zloty at rate 3.4813 (at trading rate: 3.5805USD/PLN)	09.01.2018	PLN 52 320	24	0
Total			**19 254**	**-20 313**
Of which other financial receivables			**24 360**	**4 106**
Of which other financial (liabilities)			**-5 106**	**-24 419**

In 2017 and 2016 derivative transactions were evaluated by a contractual partner of the Group based on the actual market conditions that prevailed at the balance sheet date.

Fair value hierarchy	2017		2016	
	Level 2*	Fair value total	Level 2*	Fair value total
Financial assets				
FX derivative transactions	24 360	**24 360**	4106	**4 106**
Financial assets total	**24 360**	**24 360**	**4 106**	**4 106**
Financial liabilities				
FX derivative transactions	5 106	**5 106**	24 419	**24 419**
Financial liabilities total	**5 106**	**5 106**	**24 419**	**24 419**

The Group's financial instruments at book value and fair value were as follows at the end of 2017 and 2016:

Valuation of financial instruments	Book value		Fair value	
	2017.12.31	2016.12.31	2017.12.31	2016.12.31
Debtors	11 310 958	10 602 452	11 310 958	10 602 452
Tax receivables	1 270 846	1 170 667	1 270 846	1 170 667
Other financial receivables	24 360	4 106	24 360	4 106
Liquid assets	3 013 001	2 442 368	3 013 001	2 442 368
Összesen	**15 619 165**	**14 219 593**	**15 619 165**	**14 219 593**
Long-term loans	3 198 672	5 243 982	3 198 672	5 243 982
Other long-term liabilities	691 628	2 005 869	691 628	2 005 869
Tax liability	603 315	515 270	603 315	515 270
Short-term loans	18 509 927	11 844 078	18 509 927	11 844 078
Creditors	12 863 612	10 856 768	12 863 612	10 856 768
Liabilities to shareholders*	1 629 376	0	1 629 376	0
Short-term finance lease liabilities	239 378	142 416	239 378	142 416
Other financial liabilities	5 106	24 419	5 106	24 419
Összesen	**37 741 014**	**30 632 802**	**37 741 014**	**30 632 802**

Short term debtors, receivables and liabilities are instruments with maturity less than one year and their realisation is expected in short term. As such their net book value agrees to their fair value.

The short term loans of the Group are based on reference rates, so beside their short term realisation any potential market interest rate change is reflected in the reference rates of the loans and as such their net book value agrees to their value.

The majority of the long term loans of the Group are also on floating interest rate and as such the market changes are continuously followed by the interest rate changes of the loans. Considering the Group's industry and risk position management believes that there is no change of risk rating during the term of these loans. Based on this the Group determined that net book value of the long term loans agrees to their fair value.

The long term lease liabilities have the same conditions as long term loans (floating reference rate). As such their net book value agrees to their fair value.

Undiscounted cash-flow 2017	Payment within 1 year	Payment within 2-5 year	Payment beyond 5 year
Total loans and credits	**18 509 927**	**2 857 005**	**341 667**
Interests of loans and credits	**415 782**	**590 397**	**11 859**
Total	**18 925 709**	**3 447 402**	**353 526**

Undiscounted cash-flow 2016	Payment within 1 year	Payment within 2-5 year	Payment beyond 5 year
Total loans and credits	**11 844 078**	**4 975 956**	**268 026**
Interest on loans and credits	**342 573**	**677 093**	**9 866**
Total	**12 186 651**	**5 653 049**	**277 892**

27. Taxes

Tax assets and tax liabilities were as follows:

Tax assets and tax liabilities	2017	2016
Tax asset	1 270 846	1 170 667
Tax liability	-603 315	-515 270
Net tax asset	**667 531**	**655 397**

Income tax for the years ended 31 December 2017 and 31 December 2016 includes the following components:

Income tax	2017	2016
Income tax for the current year	318 323	-250 723
Deferred income tax	-98 530	-41 279
Income tax expense	**219 793**	**-292 002**

The Group is regularly audited by the tax authority. As the application of the tax laws and requirements that refer to the individual transactions are subject to varying interpretation, the amounts recognized in the financial statements may change later in view of the ultimate decision of the tax authority.

The average tax rate of the Group in the past two years was as follows:

Average tax rate	2017	2016
Average tax rate	13,8%	13,4%

The year-end balance of deferred tax includes the following items:

Year-end balance of deferred tax	2017	2016
Tangible fixed assets	-103 143	-295 416
Inventories	-4 345	0
Provisions	8 501	8 578
Receivables	212 311	248 850
Development reserves	-59 685	-40 801
Losses carried forward	57 063	120 085
Deferred tax adjustments due to consolidation	49 929	35 430
Closing deferred tax assets, net	**160 631**	**76 725**
Of which deferred tax assets	**329 945**	**353 264**
Of which deferred tax (liability)	**-169 314**	**-276 539**

Difference between the Group's actual tax liability and tax liability calculated at the average tax rate:

Difference between average and calculated tax rate	2017	2016
Profit before tax as per consolidated statement of profit or loss	2 901 290	2 614 454
Actual average tax rate	13.8%	13.4%
Tax liability calculated at actual tax rate	**400 378**	**350 337**
Permanent differences	59 665	61 964
Impact of the different tax rates	0	14 436
Unrealised loss of subsidiaries	-344 218	-201 285
Deferred tax assets and liabilities recognised in previous year, written off	139 326	0
Revaluation of deferred tax assets and liabilities	-10 943	-2 221
Other	-24 415	68 771
Total differences	**-180 585**	**-58 335**
Total actual corporate tax expenses	**219 793**	**292 002**
Actual tax rate	**7.6%**	**11.2%**

The amounts and usability of losses carried forward not considered in the deffered-tax calculations are as follows:

Losses carried forward not considered in the deffered-tax	2017	2016	Usability
ICS Masterplast Construct SRL	33 419	33 419	No fixed date
Masterplast Österreich	886 496	886 496	Deferred loss can be carried forward unlimited, but can only be used up to 75% of potential positive tax base for the given year
Masterplast Romania	445 021	286 449	Can be used by 31.12.2021
Mastreplast SK	58 907	336 982	Can be used up to 5 years from generation
Masterplast Nyrt.	414 146	285 367	Can be used up to 5 years from generation
Masterplast International Kft.	3 355	0	Can be used up to 5 years from generation
Mastermesh Kft.	16 058	0	Can be used up to 5 years from generation
Total	**1 857 402**	**1 828 713**	

28. Earnings per share

Earnings per share	2017	2016
Profit distributable to shareholders	2 610 062	2 314 595
Weighted average number of shares traded during the year	13 732 645	13 727 204
Earnings per share	**0,19**	**0,17**

Diluted earnings per share	2017	2016
Profit distributable to shareholders	2 610 062	2 314 595
Weighted average number of shares traded during the year	13 732 645	13 727 204
Diluted earnings per share	**0,19**	**0,17**

The Company had no uncalled share options with a diluting impact in 2016 and 2017, so the earnings per share equal the diluted earnings per share.

29. Segments

In view of the Group's operations, our production and selling activities are presented as business segments.

Accordingly, the two segments are: Production and Selling.

The Production segment supplies fibreglass-mesh, plasterboard profiles, plaster profiles, isofoam and EPS to the Selling segment.

The inter-segment transfer prices are based on the actual (purchase) market prices. The results of these operations also include those of the fully consolidated subsidiaries that belong to each segment.

2017	Sales	Production	Unallocated expenses	Inter-segment eliminations	Consolidated
Sales revenues from third parties	89 372 794	0	269 494	0	**89 642 288**
Inter-segment sales revenues	0	27 049 789	2 300 685	-29 350 474	**0**
Materials and services used	-79 681 749	-22 597 104	-1 866 234	29 350 474	**-74 794 613**
Payments to personnel	-5 190 689	-3 547 519	-1 379 113	0	**-10 117 321**
Depreciation and amortisation	-712 789	-719 146	-194 537	0	**-1 626 472**
Changes in self- produced inventories	119 359	190 002	0	0	**309 361**
Other operating income (expenses)	364 736	134 311	-307 007	0	**192 040**
EBITDA	**4 984 451**	**1 229 479**	**-982 175**	**0**	**5 231 755**
EBITDA %	5,6%	4,5%	-38,2%	0%	**5,8%**
OPERATING PROFIT/LOSS	**4 271 662**	**510 333**	**-1 176 712**	**0**	**3 605 283**
EBIT %	4,8%	1,9%	-45,8%	0	**4,0%**
Interest income	90 062	26 771	860	0	**117 693**
Interest expenses	-236 112	-254 976	-88 424	0	**-579 512**
Other income (expenses) of financial transactions	-820 829	835 062	-255 271	0	**-241 038**
Financial profit/loss	**-966 879**	**606 857**	**-342 835**	**0**	**-702 857**
Share of the profit of associates	0	0	-1 136	0	**-1 136**
PROFIT/LOSS BEFORE TAX	**3 304 783**	**1 117 190**	**-1 520 683**	**0**	**2 901 290**
Income tax	-168 009	-35 282	-16 502	0	**-219 793**
PROFIT/LOSS FOR THE YEAR	**3 136 774**	**1 081 908**	**-1 537 185**	**0**	**2 681 497**
ASSETS					
Tangible fixed assets	9 777 053	13 494 884	6 076 560	0	**29 348 497**
Inventories	16 645 457	4 525 586	0	0	**21 171 043**
Debtors	10 568 754	670 881	71 323	0	**11 310 958**
LIABILITIES					
Long-term loans	1 071 225	2 127 447	0	0	**3 198 672**
Deferred income	371 838	1 695 016	0	0	**2 066 854**
Short-term loans/OVD	10 668 526	7 841 401	0	0	**18 509 927**
Creditors	12 474 758	373 525	15 328	0	**12 863 612**

2016	Sales	Production	Unallocated expenses	Inter-segment eliminations	Consolidated
Sales revenues from third parties	79 848 666	0	314 045	0	**80 162 711**
Inter-segment sales revenues		18 300 435	1 048 636	-19 349 071	**0**
Materials and services used	-69 561 053	-16 734 099	-875 325	19 349 071	**-67 821 406**
Payments to personnel	-4 809 575	-2 325 367	-1 252 009	0	**-8 386 951**
Depreciation and amortisation	-611 156	-575 711	-111 748	0	**-1 298 615**
Changes in self- produced inventories	-903 431	1 893 436	0	0	**990 005**
Other operating income (expenses)	-393 253	31 850	-556	0	**-361 959**
EBITDA	**4 181 354**	**1 166 255**	**-765 209**	**0**	**4 582 400**
EBITDA %	5,2%	6,4%	-56,2%	0%	**5,7%**
OPERATING PROFIT/LOSS	**3 570 198**	**590 544**	**-876 957**	**0**	**3 283 785**
EBIT %	4,5%	3,2%	-64,4%	0	**4,1%**
Interest income	68 707	37 046	30 109	0	**135 862**
Interest expenses	-258 631	-181 939	-109 838	0	**-550 408**
Other income (expenses) of financial transactions	-175 194	-146 662	61 339	0	**-260 517**
Financial profit/loss	**-365 118**	**-291 555**	**-18 390**	**0**	**-675 063**
Share of the profit of associates	3 883	0	1 849	0	**5 732**
PROFIT/LOSS BEFORE TAX	**3 208 963**	**298 989**	**-893 498**	**0**	**2 614 454**
Income tax	-266 785	-31 178	5 961	0	**-292 002**
PROFIT/LOSS FOR THE YEAR	**2 942 178**	**267 811**	**-887 537**	**0**	**2 322 452**
ASSETS					
Tangible fixed assets	8 914 423	9 310 878	6 153 362	0	**24 378 662**
Inventories	14 527 905	4 160 668	0	0	**18 688 573**
Debtors	9 795 237	778 644	28 571	0	**10 602 452**
LIABILITIES					
Long-term loans	2 138 061	3 105 921	0	0	**5 243 982**
Deferred income	386 874	1 898 596	0	0	**2 285 470**
Short-term loans/OVD	11 526 831	317 247	0	0	**11 844 078**
Creditors	10 147 263	651 902	57 604	0	**10 856 768**

30. Sales revenues broken down by country (EUR thousand):

Sales revenues by countries	2017	2016
Hungary	30 225	24 024
Romania	12 900	12 033
Export	12 283	12 174
Serbia	9 246	9 020
Ukraine	6 967	7 126
Poland	5 237	4 030
Slovakia	4 040	3 325
Croatia	3 947	4 142
Other	4 797	4 289
Total	**89 642**	**80 163**

The breakdown of the sales by countries shows the revenue realized in countries where Masterplast has its own subsidiary, regardless of which subsidiary has sold in its country. For countries where there is no subsidiaries of the Group, sales are reported on Exports line, while in the Other line low-volume countries with subsidiaries accumulated sales are reported.

31. Non-current assets broken down by country (EUR thousand):

2017	Total	Properties, machinery and equipment	Intangible assets	Participation in associates	Long-term financial assets
Hungary	**8 828**	8 792	2	34	0
Romania	**4 476**	4 469	7	0	0
Serbia	**14 032**	14 030	2	0	0
Croatia	**412**	412	0	0	0
Ukraine	**485**	479	6	0	0
Slovakia	**427**	427	0	0	0
Poland	**380**	380	0	0	0
Other	**359**	359	0	0	0
Total	**29 399**	**29 348**	**17**	**34**	**0**

2016	Total	Properties, machinery and equipment	Intangible assets	Participation in associates	Long-term financial assets
Hungary	**8 382**	8 212	135	35	0
Romania	**4 699**	4 690	9	0	0
Serbia	**9 388**	9 385	3	0	0
Croatia	**430**	430	0	0	0
Ukraine	**490**	483	7	0	0
Slovakia	**462**	462	0	0	0
Poland	**365**	365	0	0	0
Other	**352**	352	0	0	0
Total	**24 568**	**24 379**	**154**	**35**	**0**

32. Related party transactions

Related party transactions are conducted on an arm's length basis. Both the prices applied in related party transactions between related parties and our pricing practice comply with the arm's length principle and the concept of an arm's length price as defined in the applicable OECD Guidelines that form the legal basis of transfer pricing.

Services used from related parties

The majority owner of the Group holds 100% of the quotas of Arany Kócsag Kft. (formerly Kheiron Kft.) and Tibor Di Transilvania Srl, as well as Fóliatex Kft. The Group's creditor turnover with the above related parties was EUR 7 791 EUR in 2017 and EUR 3 941 in 2016, debtors turnover was EUR 5 988 in 2017 and EUR 0 in 2016. Services were used on an ad hoc basis as per contracts based on arm's length prices.

Creditor balances with the company were as follows:

Creditor balances	2017	2016
Masterplast Nyrt.	7 791	3 941
Total	**7 791**	**3 941**

Debtor balances with the company were as follows:

Debtor balances	2017	2016
Masterplast Kft.	5 988	0
Total	**5 988**	**0**

Key executives of the Group discharge their duties as employees. Short-term allowances paid to them in 2017 amounted to EUR 862 704 and EUR 1 022 516 in 2016. No loans were granted to senior officers in 2016 or 2017.

The sum total of fees paid to members of the Board of Directors was EUR 23 892 in 2017 and EUR 24 789 in 2016.

33. Change of investments in subsidiaries

33.1. Decrease in investments in subsidiaries in 2017:

In February 2017, Masterplast Nyrt. sold its quota in Masterplast Bulgaria Eood., so this previously consolidated subsidiary was hived off the Group.

Investment	Buyer	Percentage of investment sold (%)	Selling price
Masterplast Bulgaria Eood	CEO of entity	99,88%	4 964

The closing balance of Bulgaria was as follows:

Balance sheet item	20 February 2017
CURRENT ASSETS	
Inventories	3 042
Trade receivables	1 907
Cash and cash equivalents	324
Current assets	**5 273**
TOTAL ASSETS	**5 273**
EQUITY	
Share capital	901 774
Reserves	-896 810
Equity	**4 964**
CURRENT LIABILITIES	
Trade payables	309
Current liabilities	309
TOTAL LIABILITIES	**309**
EQUITY AND LIABILITIES	**5 273**

33.2. Decrease in investments in subsidiaries in 2016:

In December 2016, Masterplast Nyrt. sold its investments in Master Plast Plus S.r.o (Czech Republic) and in Fóliatex Kft., so these previously consolidated subsidiaries were hived off the Group..

Investment	Buyer	Percentage of investment sold (%)	Selling price
Fóliatex Kft.	Tibor Dávid, Ács Balázs	100%	803 360

On 22 December 2016, Masterplast Nyrt. granted Fóliatex Kft. a members' loan of EUR 744 753 (EUR 742 718 at 31 December 2016). The discounted value of the members' loan (EUR 698 725 at 31 December 2016) was set off by Masterplast Nyrt. against its liabilities to shareholders.

The parent company purchased the business quota of Masterplast Kft (established on 30 September 2007 following a de-merger from Masterplast Nyrt.) from its natural person majority quotaholders at purchase price equal to the pro rate amount of equity as presented in the Kft's final de-merger balance sheet as at 30 September 2007. Masterplast Nyrt. had an initial obligation to settle the related liability when the funds became available but no later than by 31 December 2015. Based on a decision of the shareholders in 2014, the Group's liability was prolonged until 31 December 2018.
On 22 December 2016, Masterplast Nyrt. sold its business quota in Fóliatex Kft. Following the transaction, the liabilities of Masterplast Nyrt. to its shareholders were reduced by a discounted value of EUR 698 725.

As a result, the payment obligation is presented in other long-term liabilities at a discounted value of EUR 1 575 912 (discounted value of EUR 2 191 447 in 2015) as at 31 December 2016.
This liability is reclassified to short term liabilities as at 31 December 2017.

The Company presents the discount value as equity components.

The closing balance of Fóliatex Kft. was as follows:

Balance sheet item	22 December 2016
NON-CURRENT ASSETS	
Property, plant and equipment	148 306
Depreciation of property, plant and equipment	-681
Non-current assets	**147 625**
CURRENT ASSETS	
Assets held for sale	517 771
Tax assets	69 192
Trade receivables	64 027
Cash and cash equivalents	79 472
Other current assets	286
Current assets	**730 748**
TOTAL ASSETS	**878 373**
EQUITY	
Share capital	9 672
Retained earnings	794 284
Equity	**803 956**
CURRENT LIABILITIES	
Liabilities with associates	40 878
Taxes payable	48
Trade payables	4 144
Advances from customers	29 016
Other current liabilities	331
Current liabilities	**74 417**
TOTAL LIABILITIES	**74 417**
EQUITY AND LIABILITIES	**878 373**

The closing balance of Master Plast Plus S.r.o. was as follows:

Balance sheet item	08 December 2016
TOTAL ASSETS	**0**
EQUITY	
Share capital	7 396
Retained earnings	-7 396
Equity	**0**
EQUITY AND LIABILITIES	**0**

Investment	Buyer	Percentage of investment sold (%)	Selling price
Master Plast Plus S.r.o.	3rd party	100%	37

33.3. Increase in investments in subsidiaries in 2017:

None

33.4. Increase in investments in subsidiaries in 2016:

None

34. Risk management

34.1. Financial risks

Total credit risk

The Group delivers products and provides services to a number of clients. Taking into account contract volumes and customer creditworthiness, there was no major credit risk. In compliance with the Group's international receivables management policy, the controls that exist at the subsidiaries guarantee that sales are made only to customers with a proper financial background thereby reducing any potential credit risk.

The potentially highest amount affected by credit risk is the balance sheet value of financial assets including transactions presented in the balance sheet with impairment loss.

Interest rate risk

Group management does not consider the interest rate risk from floating rate loans to be a major risk factor, because the interest rates changed as a result of banking measures taken in the wake of the financial crisis are not so high that they could not be managed from the operating profits.

Sensitivity test of interest adjustments and its impact on profit before tax:

Interest risk	2017	2016
+ 1% increase in interest rates		
Financial result	-702 857	-675 063
Interest increase	-217 086	-170 881
Adjusted financial loss	**-919 943**	**-845 944**
Profit before tax	2 901 290	2 614 454
Interest increase	-217 086	-170 881
Adjusted profit before tax	**2 684 204**	**2 443 573**
+ 1% decrease in interest rates		
Financial result	-702 857	-675 063
Interest decrease	217 086	170 881
Adjusted financial loss	**-485 771**	**-504 182**
Profit before tax	2 901 290	2 614 454
Interest increase	217 086	170 881
Adjusted profit before tax	**3 118 376**	**2 785 335**

Sensitivity test of foreign exchange exposure EUR/HUF and EUR/RSD related to loans and its impact on the profit before tax (the foreign exchange risk calculated was made based on the EUR loan portfolio):

Exchange risk	2017	2016
Appreciation of EUR / HUF, EUR/RSD rates by 3 %		
Financial result	-702 857	-675 063
Interest increase	615 781	503 925
Adjusted financial loss	**-87 076**	**-171 138**
Profit before tax	2 901 290	2 614 454
Interest increase	615 781	503 925
Adjusted profit before tax	**3 517 071**	**3 118 379**
Deprectation of EUR / HUF, EUR/RSD rates by 3 %		
Financial result	-702 857	-675 063
Interest increase	-615 781	-503 925
Adjusted financial loss	**-1 318 638**	**-1 178 988**
Profit before tax	2 901 290	2 614 454
Interest increase	-615 781	-503 925
Adjusted profit before tax	**2 285 509**	**2 110 529**

34.2. Liquidity risk

The Group's liquidity policy requires the availability of liquid assets and credit lines as necessary for the implementation of the Financial Strategy.

As at 31 December 2017, the Group had credit lines totalling nearly EUR 37 million, including short-term and long-term lines as well as letters of credit and guarantee limits.

The credit options available to the Group provide sufficient solvency and financial flexibility for the implementation of the Group's strategic objectives.

The table below includes the financial liabilities of the Group broken down by maturity as at 31 December 2016 and 2017 based on the non-discounted values of contractual payments.

The loans granted by Raiffeisen Bank are assessed at Group level including the rating risk linked to the performance of the subsidiaries. The subsidiaries also rely on their local banks to fund investment and working capital needs.

2017	Falling due within 1 year	Falling due within 1-5 years	Falling due beyond 5 years	Total
Finance lease liabilities	258 283	568 666	0	826 949
Liabilities to shareholders	1 629 376	0	0	1 629 376
Bank loans	18 509 927	3 198 672	0	21 708 599
Creditors and other liabilities	12 863 612	144 866	0	13 008 478
Total	**33 261 198**	**3 912 204**	**0**	**37 173 402**

2016	Falling due within 1 year	Falling due within 1-5 years	Falling due beyond 5 years	Total
Finance lease liabilities	153 188	293 595	0	446 783
Liabilities to shareholders	0	1 575 912	0	1 575 912
Bank loans	11 844 078	5 243 983	0	17 088 061
Creditors and other liabilities	10 856 768	147 522	0	11 004 290
Total	**22 854 034**	**7 261 012**	**0**	**30 115 046**

Non-compliance with the indicators identified by the Group's account keeping bank represents certain risks regarding the Group's loans or the prolongation of its credit facilities. The following table presents the required loan covenants and their fulfilments as at 31 December 2017.

Name and calculation of indicator	Required	Met	
	2017	2017	2016
Liquidity ratio (current assets / (current liabilities -liabilities to shareholders))	1.00	1.12	1.37
Leverage ratio (equity / (balance sheet total-accrued income))	40,00%	39.58%	41,39%
Operating profitability (Operating profit or loss / net sales revenues)	4,00%	4.02%	4,10%
net debt/EBITDA	3.80	3.62	3.23

As at 31 December 2017 the Group did not comply with the leverage ratio covenant. The covenant was met following the capital increase of HUF 521 000 000 (EUR 1 684 721 on January 15 2018 exchange rate) as at 15 January 2018. The Group reclassified the long term loans into short term loans (EUR 1 954 thousand) related to the covenant that was not met as at 31 December 2017. The Group agreed with the banks related to the covenant that they acknowledged the breach of the covenant as at 31 December 2017, and considering the capital increase as at 15 January 2018 they regard as the covenant was met. The individual (not on group level) covenants related to the loans of the subsidiaries of the Group were met as at 31 December 2017.

34.3. Geographical risk

Most of the Group's subsidiaries are located in Central Europe, but there are subsidiaries in the Ukraine and Russia as well. Yet, this relative dispersion does not represent high risk, because the Group has created regions in order to ensure and increase its control over the operations of the subsidiaries that are controlled and supervised by dedicated regional managements.

34.4. Country risk

The operations and profitability of the Group are exposed to changes in the political, macro-economic and budgetary environments of the Central-Eastern, South-Eastern and Eastern-European countries. Potential changes in the political and macro-economic environments may have an adverse effect on Group operations and profitability. The impairment of assets related to the political uncertainties in the Ukraine is described in Note 10.

34.5. Foreign currency risk

Masterplast purchases its products for USD and EUR and sells them in the local currencies of its subsidiaries. This practice results in FX exposure for the Group. As most of the Group companies trade in EUR (except for the Ukraine and Russia), the fluctuation of local currencies against the EUR and changes in EUR/USD rates, with respect to products purchased for USD, influence the impact of foreign exchange rates on trading.

Masterplast manages foreign currency risk centrally at Group level as well as at the level of its subsidiaries coordinated by the finance director of the parent company. The optimum hedging strategies are identified as part of the annual financial planning process and are implemented by the Group after approval. The open positions of hedging transactions at the end of the year, their fair values and the fair value of other financial instruments are presented in Note 26.

The Hungarian entities have working capital loans disbursed in EUR and the Serbian subsidiary has a EUR based investment loan.

34.6. Tax risk

The Group monitors the changes in legislation and acts immediately when a change in regulations affecting the Group as a whole takes effect, and implements measures or amends existing policies as necessary. As a result, management is no aware of any significant tax risk.

34.7. Equity risk

- Dividend payment policy: In the event the Group cannot find development and acquisition targets required for its growth, it can pay its shareholders dividends, if the profits so allow, subject to specific decisions of the Board of Directors.
- Capital increase: Masterplast did not increase capital in 2017, but may do so in the later in order to meet its future strategic objectives. With a few exceptions, the Group is not planning to increase the capital of its subsidiaries from shareholder contributions; any increase in equity will be funded from the profits of the previous years.
- Optimum capital structure: following the capital increase implemented in 2012, the Group's debt/equity ratio improved significantly and this rate is intended to be maintained in the future in order to mitigate any liquidity (unreliable money markets).
- Continuous operations: To ensure the efficiency of its financial operations, the Group makes continuous efforts to prolong the payment terms of transactions and contracts with its suppliers in order to compensate for payment delays by its debtors.

35. Research and development

Changes in R&D costs:

R&D cost	2017	2016
R&D cost	10 023	10 850

36. Contingent liabilities and future commitments

Unclosed tenders and related commitments – 2017

Tender ID	Tender title	Subsidised company	Amount	Method of settlement	Source of funds	Amount to be repaid	Implemented project	Commitments	Fund available until
GOP-1.3.3-09-2010-0013	"Development of new type building industry and packaging industry units with Masterfoam Kft to strengthen supplier status"	Masterfoam Kft.	120 431	14.07.2010 13.05.2011 16.11.2012	70% EC funds 30%local funds	120 431	None	HUF 20m from the developed product during 2 full business years following the end of the project. Retaining the assets to be purchased for 5 years following the end of the project. Compliance with the criteria of equality of chances and sustainability.	28.02.2017
GOP-1.3.1-10/A-2010-0143	"Launch of premix production know how with Masterplast Kft"	Masterplast Kft.	56 832	29.04.2011 19.01.2012 12.02.2014	85% from the European Regional Development Fund of the European Union, 15% from the government budget of the Republic of Hungary.	56 832	None	Sales revenues from the processes/products developed under the project to be delivered in 2 consecutive years following the end of the development by 31.12.2017 the latest; 51.06% of the funds.	31.12.2017
GOP-1.3.1-11/A-2011-0084	"Energy modernisation of high buildings and the development of the related compliance with fire protection provisions with Masterplast Kft"	Masterplast Kft.	136 846	09.12.2011 15.08.2012 30.07.2014	85% from the European Regional Development Fund of the European Union, 15% from the government budget of the Republic of Hungary.	136 846	Yes	Headcount of 2010 to be retained in 2 consecutive business years following the end of the project. Increase of 2010 sales revenues by at least 30% of the funds to be achieved by the applicant at any time during the 5 years of the retention period.	31.12.2018
TÁMOP-2.1.3.C-12/1-2012-0585	"Human resources improvement training programme with Masterplast Kft."	Masterplast Kft.	73 194	06.09.2013 11.12.2013 21.07.2014 23.07.2014	From the European Social Fund and government budget of the Republic of Hungary.	-	None	At least 90% of participants in the training complete the course and at least 60% of those passing the test are employed by the Company later.	07.05.2017
TÁMOP-2.1.3.C-12/1-2012-0512	"Measures to improve competitiveness with Masterplast Nyrt."	Masterplast Nyrt.	52 294	26.09.2013 19.11.2013 06.03.2014	From the European Social Fund and government budget of the Republic of Hungary.	-	None	At least 90% of participants in the training complete the course and at least 60% of those passing the test are employed by the Company later.	31.05.2017
GINOP-2.1.1-15-2016-00767	A new advantageous wind and airtight diffusion roofing foil product development at Masterplast Kft	Masterplast Kft.	177 172	30.09.2018	European Regional Development Fund of the European Union and the government budget of the Republic of Hungary.	177 172	Yes	The income of the product / process developed in the project must be reach 30.8% of the total sales for 2 consecutive business years after the completion of the development no later than 31.12.2020.	31.12.2023
05 No. 401-5329/2015-1	Production development	Masterplast YU D.o.o.	2 000 000	2015 2016 2017	Serbian State	2 000 000	Yes	Retention of headcount (205 people) for the years 2018-2022	31.12.2022
KK-H-02/2017-I-7-0005*	Production development	Masterplast YU D.o.o.	2 454 405	2018	Hungarian Satate (Prosperitati Found – Serbia)	2 454 405	Yes	Maintaining an economic activity for 7 years, 105 new employees with a undefiend-term contract with 75% of average salary for the average salary of the regional industrial sector. There are 10 new suppliers to contract.	31.12.2024

*In the business year 2017, only a contract was concluded and the subsidiary did not receive any subsidy.

GVOP funds are repayable at double the central bank's base rate if the contractual covenants are not met. All contractual covenants were met in the reporting year and will be met in the future too according to management.

Unclosed tenders and related commitments – 2016

Tender ID	Tender title	Subsidised company	Amount	Method of settlement	Source of funds	Amount to be repaid	Implemented project	Commitments	Fund available until
GOP-1.3.3-09-2010-0013	"Development of new type building industry and packaging industry units with Masterfoam Kft to strengthen supplier status"	Masterfoam Kft.	120 090	14.07.2010 13.05.2011 16.11.2012	70% EC funds 30%local funds	120 090	None	HUF 20m from the developed product during 2 full business years following the end of the project. Retaining the assets to be purchased for 5 years following the end of the project. Compliance with the criteria of equality of chances and sustainability.	28.02.2017
GOP-1.3.1-10/A-2010-0143	"Launch of premix production know how with Masterplast Kft"	Masterplast Kft.	56 671	29.04.2011 19.01.2012 12.02.2014	85% from the European Regional Development Fund of the European Union, 15% from the government budget of the Republic of Hungary.	56 671	None	Sales revenues from the processes/products developed under the project to be delivered in 2 consecutive years following the end of the development by 31.12.2017 the latest; 51.06% of the funds.	31.12.2017
GOP-1.3.1-11/A-2011-0084	"Energy modernisation of high buildings and the development of the related compliance with fire protection provisions with Masterplast Kft"	Masterplast Kft.	136 459	09.12.2011 15.08.2012 30.07.2014	85% from the European Regional Development Fund of the European Union, 15% from the government budget of the Republic of Hungary.	136 459	Yes	Headcount of 2010 to be retained in 2 consecutive business years following the end of the project. Increase of 2010 sales revenues by at least 30% of the funds to be achieved by the applicant at any time during the 5 years of the retention period.	31.12.2018
TÁMOP-6.1.2-11/1-2012-0370	"Programmes of health education and awareness improvement with Masterplast Kft."	Masterplast Kft.	32 152	16.10.2012 07.03.2013 15.05.2013 24.06.2013 21.08.2013 20.12.2013	From the European Social Fund and government budget of the Republic of Hungary.	0	None	Programmes of health education and improving awareness to be organised during the retention period	30.10.2016
TÁMOP-2.1.3.C-12/1-2012-0585	"Human resources improvement training programme with Masterplast Kft."	Masterplast Kft.	72 987	06.09.2013 11.12.2013 21.07.2014 23.07.2014	From the European Social Fund and government budget of the Republic of Hungary.	0	None	At least 90% of participants in the training complete the course and at least 60% of those passing the test are employed by the Company later.	07.05.2017
TÁMOP-2.1.3.C-12/1-2012-0512	"Measures to improve competitiveness with Masterplast Nyrt."	Masterplast Nyrt.	52 146	26.09.2013 19.11.2013 06.03.2014	From the European Social Fund and government budget of the Republic of Hungary.	0	None	At least 90% of participants in the training complete the course and at least 60% of those passing the test are employed by the Company later.	31.05.2017
05 No. 401-5329/2015-1	Production development	Masterplast YU D.o.o.	2 000 000	2015 2016 2017	Serbian State	2 000 000	Yes	Retention of headcount (205 people) for the years 2018-2022	31.12.2022

GVOP funds are repayable at double the central bank's base rate if the contractual covenants are not met. All contractual covenants were met in the reporting year and will be met in the future according to management.

Bank guarantees

The members of the Group have bank guarantee framework agreements. The bank guarantees relate to various tenders and counter guarantees granted to subsidiaries. Details of the existing bank guarantees are as follows:

Company	Type of guarantee	2017	2016
Masterplast Kft.	Customs	483 653	1 125 330
Masterfoam Kft.	Customs	32 244	32 152
Masterplast Nyrt.	Loan collateral	0	245 000
Masterplast Romania	Bank guarantee	267 393	0
Masterplast Romania	Bank guarantee	85 115	0
Masterplast YU D.o.o.	Bank guarantee	2 000 000	1 300 000
Total		**2 868 405**	**2 702 482**

37. Litigations and extrajudicial legal cases involving the Group

On 21st of October 2015 the National Tax and Customs Administration (NAV) started an investigation against Masterplast Kft which is a fully owned of Masterplast Nyrt. According to the conclusion of the authorities the supposed misuse was committed by deceiving the leaders of Masterplast without the knowledge, consent or permission of them. Nevertheless the Company may be liable – with strict liability – for the assumed wrongful Value Added Tax re-vindication 731 166 EUR (226 763 948-HUF) and the possible penalties. Concerning the investigation the sequestration of the fixed assets of Masterplast Kft in the amount of 2 605 717 EUR (808 137 000 HUF) was dissolved on 20th of January 2016. On 6th of October 2017 the accusation against an ex employee of the Group was modified from perpetrator to accomplice and the amount concerned with the supposed misuse was reduced from 868 572 EUR to 731 166 EUR (269 379 000 HUF to 226 763 948 HUF). In October 2017 another employee of the Company was questioned as accomplice, and on 20th of October the investigation stage of the case has been terminated. In consideration of the uncertain outcome of the case – there is no obligation for provisioning; in addition the banks confirmed the credit limits. Masterplast will publish any necessary information about the case in accordance with the stock exchange regulations and other rules of law in the appropriate places. The Company is confident that the case will be terminated as soon as possible.

An investigation has been extended to the MASTERPLAST Romania Srl. which was launched by the Romanian tax authority to an assumed tax claim in relation with anti-dumping laws on imported products concerning the operations of some of the suppliers of the Romanian subsidy of the Company. For the upcoming periods of the procedure – making with the options of the tax laws – for the assurance of any enforcement, a 2nd rank mortgage and disposal and debit restrictions had been registered in the amount of 2 171 473 EUR (10 118 411 RON) on the properties owned by the MASTERPLAST Romania Srl. This procedure has no influence on the operation and business activities of the MASTERPLAST Romania Srl. The Company has appealed against the 2nd rank mortgage. As the result of the completed tax investigation, as the first degree resolution, the Romanian tax authority determined a VAT liability in the amount of 267 411 EUR (1 264 053 RON) and additionally a 85 121 EUR (396 638 RON) as default interest for the inspected period from 01.01.2014 to 31.08.2016. The Company represented a bank guarantee for the tax liabilities and launched a legal remedy process against the determination.

Two litigations and extrajudicial cases were in progress in 2017 against the Company and its subsidiaries in the total approximate value of EUR 312 thousand.

The Group expects that the above proceedings will not have a major impact on the Group's financial position and profits.

Litigations and extrajudicial cases launched by the Group:

The Company and its subsidiaries have approximately 99 legal proceedings in progress launched by the Group in a total approximate value of EUR 1 407 thousand.

The Group has made sufficient provisions for the above proceedings and does not expected these to have a major adverse impact on the financial position or profits of the Group. The potentially successful closing of the proceedings may have a positive impact on the Group's profits.

38. MASTERPLAST Employee Shared Ownership Program

Maserplast Plc. established the MASTERPLAST Employee Shared Ownership Program on 14 December 2016.
The MRP organization is based in: 1062 Budapest, Andrássy út 100.
Masterpalst Plc. (Founder) has established the MRP organization to efficiently conduct incentive remunerations related to Masterplast's business goals (Participants).
The Participants of the MRP in 2017 were the employees of Masterplast Plc. and of by 100% controlled Masterplast Ltd., Masterplast Hungaria Kft. and Masterfoam Kft, where the Company's Remuneration Policies are applied and covered.
The Founder assigned those leaders of the aforementioned companies to the Participants, who had the greatest impact on the achievement of the company's business goals set out in the Remuneration Policies.
Participants have acquired a stake in the MRP organization against the Masterplast shares and financial assets that are transferred by the Founder as non-cash financial assets or cash benefits. When the goals set out in the Remuneration Policies were met, the MRP paid dividends to the Participants on the basis of the shareholder's shares and withdrawn their ownerships. Payments to Participants made through the MRP Organization are recognized by the Company as personnel costs in accordance with IFRS.

The closing balance of MRP company was as follows:

Balance sheet items	2017
CURRENT ASSETS	
Accounts receivable	199 462
Cash and cash equivalents	62 872
Current assets	**262 334**
TOTAL ASSETS	**262 334**
EQUITY	
Share capital	199 462
Current year result	6 845
Equity	**206 307**
CURRENT LIABILITIES	
Liabilities	56 027
Current liabilities	**56 027**
TOTAL LIABILITIES	**56 027**
EQUITY AND LIABILITIES	**262 334**

39. Subsequent events

In January 2017, bonuses were paid to the senior and middle management of the parent company and to the executives of the subsidiaries based on their individual performance in the previous financial year. The related payroll costs and social security (EUR 69 339) are presented in the financial statements.

The Board of Directors of MASTERPLAST Nyilvánosan Működő Részvénytársaság hereby informs the Investors that on 15th of January 2018 the Board of Directors decided to increase the share capital to 1 460 127 900 HUF through private offering of 858 318 pieces of new dematerialized ordinary shares where all rights attached to the new shares shall be identical to the previously issued ordinary shares (series 'A") with nominal value of 100,-HUF per shares, on issue price of 607,-HUF per shares, and registered to the shareholder's name.
The increase of the share capital took place against asset contributions (apport).
The asset contributions provided by Tibor Dávid and Balázs Ács were an acknowledged claims against the Company , which was reported as short-term liabilites in the Company's books.

The mutually agreed value of the claims and the number and nominal value of the shares issued against the apportion are as follows:

Name of contributor	Value of claim (Ft)	Number of shares (pc)	Nominal value of total shares (Ft)	Issue price per share (/pc)	Total value of issued shares (Ft)
Ács Balázs	217 772 727	358 768	35 876 800	607 Ft	217 772 176
Tibor Dávid	303 227 273	499 550	49 955 000	607 Ft	303 226 850
Összesen	**521 000 000**	**858 318**	**85 831 800**	**-**	**520 999 026**

40. Statements for the future

The Annual Report includes some statements relating to the future. These statements are based on current plans, estimations and forecasts, therefore it would be imprudent to place unreasonable reliance on them. Statements relating to the future carry inherent risks and uncertainties. We draw attention to the fact that several important factors exist, as a result of which the actual results of operations may be significantly different from those in the statements relating to the future.

41. Assumption of responsibility

In compliance with the applied accounting framework, the consolidated annual financial statements have been prepared to the best knowledge of the Company and provide a true and fair view of the assets, liabilities, financial position and the results of the operations of Masterplast Nyrt. and the entities included in the consolidation. The business report gives a fair view of the positions, development and performance of Masterplast Nyrt. and the entities included in the consolidation and describes all the major risks uncertainties involved.

42. Approval of the consolidated annual financial statements

The consolidated annual financial statements of Masterplast Nyrt. for the year ended 31 December 2017 were approved by the Board of Directors in a resolution dated 27 April 2018 and allowed their publication The consolidated annual financial statements may only be amended by the Annual Meeting of the Shareholders.

MASTERPLAST GROUP INTERNATIONAL

www.masterplastgroup.com