MASTERPLAST GROUP INTERNATIONAL

www.masterplastgroup.com

MASTERPLAST PLC.
CONSOLIDATED
MANAGEMENT AND BUSINESS REPORT
2017

Company registration number: 07-10-001342

Tax number: 13805300-4-07

Company: Masterplast Nyrt.

Company address: 8143 Sárszentmihály, Árpád u. 1/a.

CONSOLIDATED

MANAGEMENT AND BUSINESS REPORT

Business year: 01/JAN/2017 – 31/DEC/2017

Sárszentmihály, 27 April 2018

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Chairman of the Board

Contents

Introduction

This annual report presents an analysis of the Corporate Group's results and all other information necessary to evaluate its operation, including the directions of expected development along with the associated risks, and the introduction of the management, research and development activities and corporate social responsibility.

Ownership

Masterplast Nyrt. is a business organisation that was established by its private individual owners for trading purposes in 1997.

Distribution of shareholder equity:

- 13 742 961 registered ordinary shares each with a face value of HUF 100

Shares are issued in the form of dematerialised shares.

ISIN identification number: HU0000093943

Owner's name	2017	2016
Dávid Tibor	HUF 476 707 600	HUF 529 675 200
Balázs Ács	HUF 409 627 800	HUF 409 627 800
OTP Alapkezelő	HUF 91 554 500	HUF 91 554 500
Tivadar Bunford	HUF 45 198 700	HUF 45 198 700
Gábor Csokló	HUF 3 528 700	HUF 4 158 700
Róbert Nádasi	HUF 3 386 400	HUF 3 386 400
Additional minority owners	HUF 343 089 400	HUF 289 729 300
Repurchased shares	HUF 1 203 000	HUF 965 500
Total:	**HUF 1 374 296 100**	**HUF 1 374 296 100**
	(EUR 5 226 391)	(EUR 5 226 391)

Source: data from the Company's management information system

In early 2011, the Company decided to go public in order to raise capital on the capital market to achieve its medium-term plans and to change into a publicly listed company.

Accordingly, its conversion into a publicly listed company was registered on 20 April 2011 and it was technically introduced to the Budapest Stock exchange on 29 November 2011. In 2012 the Company raised capital of EUR 6.1 million with two share issuance transactions, which broadened its ownership structure.

Voting rights and voting

Every ordinary shareholder is entitled to one vote. Only the shareholders registered in the share register before the General Meeting entitled to take part at the General Meeting with a voting right.

The General Meeting passes its decisions with simple majority of votes, except when a three quarters majority of the submitted votes is required for a decision under the Act on Business Organisations.

If the General Meeting decides to change a decision made by the Board of Directors, the decision modifying the original decision is only valid subject to approval by the shareholders in attendance.

Data of own shares

At the balance sheet date, the Corporate Group had 12 030 repurchased dematerialised own shares.

Board of Directors

The Company's final decision-making body except in matters that are within the general meeting's competence. Its activities are governed by the Company's Statutes, the general meeting's decisions and the effective laws.

Pursuant to the Statutes, the Board of Directors comprises five members elected by the Annual General Meeting.

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 Committee

The General Meeting and the independent members of the Board of Directors have created a three-member Audit Committee to carry out the powers defined in the Company Act and the Capital Market Act.

Members of the Audit Committee:

- Dr György Martin Hajdu
- András Kazár
- Dirk Theuns

The Audit Committee is responsible for:

a) commenting on the annual report drawn up according to the accounting act;
b) making recommendations on the identity and remuneration of the Auditor;
c) preparing the contract to be concluded with the Auditor and signing the contract on behalf of the publicly traded company based on the powers conferred by the Statutes;
d) monitoring the professional requirements that apply to the Auditor and adherence to conflict of interest requirements, performing functions related to cooperating with the Auditor and, if applicable, recommending measures for the Board of Directors;
e) evaluating the functioning of the financial reporting system and recommending necessary measures;
f) assisting the Board of Directors in its work for the sake of adequate control of the financial reporting system;
g) supervising and managing internal audit work.

General Meeting

The Company's topmost body is the General Meeting consisting of all shareholders. The annual general meeting is in charge, amongst other things, of accepting the annual financial reports and decisions on the utilisation of net profit, electing and withdrawing members of the Board of Directors, selecting the auditor, amending the Statutes and all other decisions that have a material impact on the Company's capital and which are conferred to the general meeting's exclusive competence under legislation or the Statutes.

Subsidiaries

On 31 December 2017, the Masterplast Group is present on the region's construction industry market through several active subsidiaries in 9 countries and indirect participation through its subsidiaries.

Company name	Place of registration	Date of foundation
Master Plast S.r.o.	Slovakia	1999
Masterplast Romania S.R.L.	Romania	2001
Masterplast YU D.o.o.	Serbia	2002
Masterplast d.o.o.	Croatia	2002
MasterFoam Kft.	Hungary	2004
MasterPlast TOV	Ukraine	2005
Masterplast Sp zoo	Poland	2005
Masterplast Österreich GmbH	Austria	2007
Masterplast Kft.	Hungary	2007
OOO Masterplast RUS	Russia	2011
Green MP Invest	Ukraine	2012
Masterplast Hungária Kft.	Hungary	2016
Mastermesh Production Kft.	Hungary	2016
Masterplast International Kft.	Hungary	2016
Indirect relationship:		
Masterplast D.O.O.	Macedonia	2002
The Group's affiliated undertaking:		
Masterprofil Kft.	Hungary	2006

Source: data from the Company's management information system

Among the Company's former participations, Masterplast Bulgaria Eood was sold in 2017.

Plans for expansion

The Company is not planning to establish subsidiaries in new countries in the near future, however, it does plan to increase its export sales activities overseen from the Hungarian headquarters primarily to European markets. This growth is fostered by the production growth seen in its existing fibreglass plants in Kál and Subotica and the announced production investments to increase capacity for the production of fibreglass and foam foil product lines.

The impact of macroeconomic developments on the corporate group's activities

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

Source: EUROSTAT: Building permits percentage change

Developments in performance on business operations

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.

Masterplast's consolidated profit or loss

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 or loss attributable to associates	-1	6	-7	-120%
PROFIT BEFORE TAX	**2 901**	**2 614**	**287**	**11%**
Income tax	-220	-292	72	-25%
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) (EUR)	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

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.

In summary, amidst an improving market environment, the Company's sales revenue exceeded last year's base by 12% in 2017. The Company’s trading margin increased somewhat and the Group’s production output, fiberglass mesh and EPS manufactured in Subotica and the foam foil factory in Kál, also increased in 2017. Although the profitability of the Subotica 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) was EUR 5 232 thousand versus EUR 4 582 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, that said the Group’s net earnings for 2017 exceeded the reference period’s profit by EUR 359 thousand (15%).

The Company's financial position

Balance sheet (thousands of EUR)	31 December 2017	31 December 2017	Change	Change %
	(A)	(B)	(A-B)	(A/B-1)
NON-CURRENT ASSETS				
Property, plant and equipment	29 348	24 379	4 970	17%
Intangible assets	17	154	-137	-783%
Investments in associates	34	35	-1	-3%
Deferred tax assets	330	353	-23	-7%
Non-current assets	**29 730**	**24 921**	**4 809**	**16%**
CURRENT ASSETS				
Inventories	21 171	18 689	2 482	12%
Trade receivables	11 311	10 602	709	6%
Tax assets	1 271	1 171	100	8%
Other current financial assets	24	4	20	83%
Other current assets	2 197	2 252	-55	-3%
Cash and cash equivalents	3 013	2 442	571	19%
Current assets	**38 987**	**35 161**	**3 827**	**10%**
TOTAL ASSETS	**68 717**	**60 081**	**8 635**	**13%**
EQUITY				
Share capital	5 226	5 226	0	0%
Reserves	18 293	17 028	1 265	7%
Redeemed treasury shares	-22	-18	-4	20%
Parent company's share of the profit or loss	2 610	2 315	295	11%
Equity attributable to parent company shareholders	26 107	24 551	1 556	6%
Non-controlling interests	270	319		
Equity	**26 377**	**24 871**	**1 506**	**6%**
LONG-TERM LIABILITIES				
Long-term loans	3 199	5 244	-2 045	-64%
Deferred tax assets	169	277	-107	-63%
Deferred income	1 707	1 983	-277	-16%
Other long-term liabilities	692	2 006	-1 314	-190%
Long-term liabilities	**5 766**	**9 510**	**-3 743**	**-65%**
CURRENT LIABILITIES				
Short-term loans	18 510	11 844	6 666	36%
Trade payables	12 864	10 857	2 007	16%
Short-term financial leasing liabilities	239	142	97	41%
Other current financial liabilities	5	24	-19	-378%
Taxes payable	603	515	88	15%
Current part of deferred income	360	302	58	16%
Provisions	88	68	20	23%
Other current liabilities	3 904	1 948	1 956	50%
Current liabilities	**36 574**	**25 701**	**10 872**	**30%**
TOTAL LIABILITIES	**42 340**	**35 211**	**7 129**	**17%**
EQUITY AND LIABILITIES	**68 717**	**60 081**	**8 635**	**13%**

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

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.

Financial and other management indicators

Financial and other management indicator		2017	2016
Current ratio		1,1	1,4
Interest coverage ratio		9,0	8,3
Accounts receivable turnover ratio	days	50	64
Accounts payable turnover ratio	days	65	49
Inventory turnover rate	days	86	127
EBITDA ratio	%	5,8	5,7
Debt ratio	%	62	58

Source: data from the Company's management information system

Research and development activities

According to the Company's strategy, developments mainly focused on the roofing foil and fibreglass mesh product group and existing production.

The main focus within the roofing foil product group remains the development of wind-insulating self-adhesive diffusion roofing foils and testing materials with higher heat and UV resistance. Besides theoretical and laboratory studies, several prototypes were produced and tested in 2017. The company has developed own facilities for prototype production and testing.

Developments for the fibreglass product group are concentrated on the Subotica production facility and are primarily aimed at developing the mechanization of coating technology and testing new coating materials.

There was no significant R&D activity affecting isofoam production, but the company ha prepared the development of a technology that will give more opportunities in the future for testing new materials and settings.

Developments were implemented with own resources and professional support from suppliers. The Company plans to continue developments linked to production and strategic products in the years to come.

Environmental protection

The corporate group's operating area, sales, logistics and production facilities do not qualify as environmentally hazardous technologies or key risk operations. That said, as a responsible corporation, the Company complies with the applicable environmental protection requirements, and strives to think and operate of the curve in numerous areas without substantially increasing its costs.

The Company applies conscious waste management at its premises, including selective waste collection and in-house recycling.

In both its logistic and production operations, it strives to optimise its energy consumption, which is both an economic aspect and reduces CO2 emissions.

Due to tightening environmental protection and energy management requirements, the Company has implemented various transformations and developments.

Masterplast Nyrt. applies the ISO 50001:2011 Energy management system standard at its Sárszentmihály location, and has started preparing for the introduction of the Energy management system in its Hungarian subsidiaries.

Short-term plans

Macroeconomic forecasts predict a further economic upswing, primarily in the Visegrad Four countries, but the trend may also remain in Romania and export target countries (Western Europe) in 2018. Government incentives in certain countries also foster a positive economic environment, and have a stimulating effect on both the renovation and the new home construction market. The Company still expects double-digit growth in 2017 in its best-performing markets (Hungary, Slovakia, Poland and its export markets) and growth on its remaining markets, with the sole exception of Romania. The Company performed a portfolio and organisational restructuring in Romania in late 2017, revising its target sales figures downwards, which was coupled with higher earnings expectations in the wake of cost savings. One of the main objectives for 2018 is to achieve higher utilisation of the increased capacity in the Serbian fibreglass mesh facility. According to the preliminary plans, the Company will increase the facility's output by nearly 50% in 2018, which will improve production performance by cutting fixed unit costs. The Company continues to strive to optimise its operations and to continuously maintain its profit-earning capacity. In an effort to maximally take advantage of market needs, the Company will continue to shape its organisational structure in Hungary in an effort to create an optimal structure geared towards supplying subsidiaries with goods and serving export markets. Successfully executing the development project for the Subotica fibreglass plant (Subotica 2.0) will be a priority for the year, and is not only aimed at expanding production capacity, but also improving product quality and boosting production efficiency. The Company also plans to conclude its announced Kál foam foil production development project in 2018, which may result in double production capacity for the foam foil plant from 2019. Due to the constant unpredictable and unforeseeable changes in the economic environment, continuous and rapid adaptation to market needs is paramount. As a result, the Company also aims to broadly develop its sales staff in an effort to boost its market presence.

Besides the Ukrainian geopolitical risk, planned earnings may be shaped by the EUR/HUF, EUR/UAH, EUR/RSD, EUR/USD, RUB/USD exchange rates, EURIBOR and BUBOR interest levels as well as potential changes in the legislative environment.

The Company's long-term strategy

At the end of 2017 the Corporate Group revised the main areas of its strategy for the period ending in 2020. Masterplast will keep track of its strategy based on **four pillars** in the future: portfolio management, buyer value offer, sustainability and operating excellence. Focus, efficiency and operating excellence are overarching principles that define the Company's entire strategy.

The Group aims to become a leading distributor of thermal insulation system elements in the Central and Eastern European region and to become the second largest seller of fibreglass mesh and roofing foil on the entire European market. The Company's leading position on the Central and Eastern European and its wealth of industry market knowledge gives it a solid foundation for future development and international expansion.

Portfolio management includes partial strategies for geographic areas, products, markets and buyers both at the corporate group, subsidiary and export level. It focuses on major cities, major buyers and a shift to high-quality products backed by a product background of the Group’s continuously growing in production.

The Company plans to reinforce and improve its market position in strategic product groups by further increasing its current **own production** capacities. The Group’s objective with these product groups is to become a major industry benchmark within the region.

- The Corporate Group’s Subotica facility is currently undergoing an expansion of production capacity by increasing the number of machines and improving the efficiency of the existing machinery. This will allow the plant to produce a broader range of products and supply high quality products with a competitive price to value ratio to the Group. In addition, the infrastructure and logistic capacity of this site will also be developed. A fibreglass knowledgebase will be created during the three-year strategic cycle, which may provide a good foundation for non-construction industry expansion with fibreglass products in the future.

- A new machine line capable of producing high-quality products will be launched in the Kál unit in 2018, which will allow the Corporate Group to produce new products and reach new markets within the construction industry. The doubled capacity will be able to meet high standard industrial requirements and also allow more cost-effective production.

The Corporate Group defines itself as a **business service provider**, its main objective being to boost the competitiveness of its partners by providing supplies and services to them in a manner attuned to its markets and efficiently operating the entire supply chain. The Company places particular emphasis on continuously developing its distribution activities and providing online sales support.

Sustainability fosters long-term, safe, and profitable operation through supply safety and continuous risk management.

These strategic objectives have created a clear concept for the future that the Company’s staff can identify with and which motivates them to work harder and to strive to achieve it. Every employee is maximally committed to continuous development and maintaining high performance levels. In addition, the Group believes that continuously developing its talented managers and workforce is a cornerstone of success.

Risk management policy

Total credit risk

The Group supplies the goods and services to numerous customers. Given its contract volumes and the creditworthiness of its buyers, the Company does not face any significant credit risk. The control mechanisms in place at the Group’s subsidiaries, operated according to its international receivables management policy, ensure that sales are only made to customers with a sound financial background in order to decrease the Group’s credit risk.

Loans provided by Raiffeisen bank are assessed at a group level, which includes the risk of performance related assessments for subsidiaries. In order to autonomously fund their operations, subsidiaries also borrow from their local banks in the form of investment and working capital funding loans.

The largest amount that can potentially be exposed to credit risk is the balance sheet value of financial assets, including the transactions decreased by impairment included on the balance sheet.

Interest rate risk

The Group's management deems that the interest rate risk stemming from variable interest rate loans is not significant as the adjusted interest amounts defined by banks in the wake of the financial crisis are not as substantial and can be covered from the Group's operating profit.

Liquidity risk

The Group's liquidity policy requires it to hold sufficient liquid assets and the availability of credit lines to implement its Financial Strategy. On 31 December 2017, the Group had a EUR 37 million credit line which includes short and long-term credit lines, the letter of credit and the guarantee credit lines. The Group's credit opportunities offer adequate solvency and financial flexibility for achieving its strategic objectives.

Geographic risk

The majority of subsidiaries constituting the Group is located in Central Europe, but the Group also has subsidiaries in Ukraine and Russia. This relative dispersion nevertheless does not pose much risk as the Corporate Group has created local groups (regions) to oversee and improve subsidiary operations. These local groups are managed and overseen by specialised regional management.

Country risk

The Group's activities and success was shaped by the political, macroeconomic and general government financial situation in Central-Eastern, South-Eastern and Eastern European countries. Potential changes in the political and macroeconomic environment may have a negative impact on the Group's activities and its profit generating capacity.

Exchange rate risk

Masterplast procures its products primarily on a USD and EUR basis and sells them in the local currency of its subsidiaries, which creates currency exposure for the Group. As the currency of the majority of the Group's country portfolio is euro-based (with the exception of the Ukraine and Russia), fluctuations in local currencies relative to the euro and fluctuations in the EUR/USD exchange rate for products procured based on the USD impact the exchange-rate effect of its trading activities.

Exchange rate risk is managed by Masterplast centrally at the Group level and at the subsidiary level under the coordination of the parent company's CFO. The optimal coverage strategy is defined as part of annual financial planning and is implemented by the Group's following approval.

The entities in Hungary have working capital loans disbursed in euro and the Serbian subsidiary has a euro-based investment loan.

Taxation risk

The group constantly monitors and keeps track of changes in statutory regulations, and if legislative changes that affected the Group are adopted, it immediately takes the necessary measures and creates or changes its rules of procedure. As a result, there are no significant taxation risks identified by management.

Management of capital risks

- Dividend policy

  If the Group is unable to find development and acquisition targets to fuel its growth, it may pay dividends to its shareholders based on an individual Board of Directors decision, given adequate profitability.

- Raising capital

  Masterplast did not raise capital in 2016 but may secure funding by raising capital in the future to implement its future strategic plans. The Group, with the exception of individual cases, does not plan to raise capital for its subsidiaries with shareholder approval, and funds increases in equity from the profit of previous years.

- Optimal capital structure

  With the capital raised in 2012, the Group's equity/liability ratio improved significantly, which it intends to maintain in the future in an effort to reduce liquidity risk (stemming from unpredictable money markets).

- Maintaining operability

  In order to maintain its smooth financial operability, the Group continuously strives to postpone and extend the payment deadlines of contracts and transactions with its suppliers in an effort to offset late payments from its buyers.

Ethical norms

The Company pays special attention to observe the human rights, fight against corruption and prevent bribery. In 2017 the Company made a Code of Ethics.

The scope of the Code of Ethics of the Company covers the followings:

- Regarding to the clients, among other things, to protect information, regulate fair business, handle conflicts of interest, business gifts, representation, and hospitality control, and the prohibition of bribery and corruption.
- Regarding to the employees of the Company or its affiliates, communication between the employees, contact with the management, non-discrimination, work-related requirements, protection of values, labor health and safety issues and health protection.

- Regarding to the shareholders of the Company, among other things, the prohibition of insider trading, the handling of confidential information held by the Company, the protection of corporate property, and the intellectual properties of the Company.
- -In relation to the Company and the society, public participation, prohibition of child and forced labor, corporate social responsibility and environmentally awareness.

The Code of Ethics regulates the personal responsibility for the above. It regulates the additional requirements from the leaders and the obligation of notification in case of breach of the Code and the sanctioning of ethical offenses and violations. The Codex also arranges for compliance with the rules.

In addition, the Company has an internal audit system. The internal auditor brings into focus the respect for human rights, the fight against corruption and the prevention of bribery. Any abuses or breaches of the rules can be reported to the internal auditor in an anonymous manner by employees or other stakeholders. The internal auditor reports her work to an independent Audit Committee.

Overview of premises

In 2017 the Company carried out substantial developments to its buildings and premises in Sárszentmihály. An 814 sqm warehouse was built at the Kál site. The corporate group's own premises include 313 thousand sqm of land, nearly 6 thousand sqm of office space, 22 thousand sqm of production facility space, 59 thousand sqm of warehouse space and 92 thousand sqm of parking lots and roads.

There is ongoing maintenance and technical maintenance of buildings, public utilities and outdoor tiled areas.

Management and structural subsequent events

The Company underwent a comprehensive renewal under the “MASTERPLAST 2.0” organisational development scheme, in the context of which a new Chief Executive Officer was appointed to oversee all group operations as of 1 January 2017. During the thoroughly prepared transfer process, this year was all about the actual transition, which was concluded by the end of the year. This step enables the Founding owners to focus on the Company’s strategic matters and on future operating and development directions to enable the Company to operate in a continuous and stable manner, and to serve its partners at the high standard it is known for.

The Corporate Group’s operating profit was a testament to the efficiency-boosting organisational measures taken in 2017. In 2018 the Company managed to solidify this result in order to meet its most important corporate value of customer-centricity and to provide a complex service provision system to its partners as a business service provider partner that creates value for them and contributes to their success. Developing the business service provider partner attitude has begun within the Company, with the back office attending international trade meetings. At these meetings, internal action plans aimed at developing the service level of background areas were defined.

Taking into account the challenging labour market situation, the Company fine-tuned its compensation scheme in an effort to boost its competitiveness and make itself a more attractive employer.

Corporate Social Responsibility

According to Masterplast's mission statement, only once a corporation is successful can it afford to help others. As such, the Company has supported its environment since its establishment. Besides financial donations, the Company encourages its staff members to do volunteer work in order to help others and to ensure sustainable development.

To make sure that help ends up in the right hands at the right time in a transparent manner, Masterplast implements its corporate social responsibility programme based on carefully defined principles. Therefore, the Company adheres to strict ethical norms when making donations and expects the same of all of its employees. Decisions regarding donations are made based on professional, strategic and ethical principles. The Future Generation Foundation [Jövő Generációja Alapítvány] helps Masterplast implement its corporate social responsibility programs. The Company strives to create its charitable work strategy so that it benefits both society as a whole and the Company by creating value.

The Company's charitable activities focus particularly on child welfare support programs and assisting children in living full lives. Moreover, shaping children's attitudes is also important for the Masterplast Group, which is why it supports programmes that host competitions for students, student groups and schools, and create special schemes that encourage sustainable development, sustainable architecture, urban development and environmental protection. The Group is happy to support initiatives aimed at encouraging the local community to engage in healthy physical activity and promote a healthy lifestyle.

For years, the Company has helped the VIDEOTON FCF Ring of Friends implement its sports development programmes. With its support, Masterplast allowed the Ring of Friends to organise the "Small Sided International Football Championship, Family Sports and Health Days" in the context of the 18th Masterplast Fehérvár Football Festival.

It is a priority for the corporate group to participate in the economic and social life of its local environment more than as just an employer, and to support foundations and associations working for the sake of social responsibility.

The Company joined the KÉPES programme as a supporter; the programme was created in 2013 by a group of Székesfehérvár-based companies and the municipal government of Székesfehérvár. The KÉPES programme, or the Community Value Creation Programme — Together for Székesfehérvár! [Közösségi Értékteremtő Program – Együtt Székesfehérvárért!] aims to come up with solutions that create lasting value for the local community as a joint effort between the business world and the municipal government. For the first time in Székesfehérvár, a crèche programme was launched with the specific purpose of renovating the crèches in Székesfehérvár operated by the municipal government. In 2017 Masterplast Nyrt. donated products for the renovation of the roof structure of the Felsővárosi Crèche Ybl Miklós Residential Project Member Crèche [Felsővárosi Óvoda Ybl Miklós Lakótelepi Tagóvodája] in Székesfehérvár.

In the context of the “Let’s all save children together” [„Legyünk együtt gyermekmentők!”] initiative, which has now become a tradition, created by Masterplast’s Hungarian subsidiary, Masterplast’s Sárszentmihály headquarters donated HUF 1,560,000 to the Child Ambulance Foundation [Gyermekmentő Alapítvány]. At its traditional end of the year partner promotional scheme, Masterplast Hungária Kft. set aside HUF 2 for every meter of dry construction profile and square meter of gypsum plasterboard purchased for the Hungarian Child Ambulance Foundation [Magyar Gyermekmentő Alapítvány]. The sum donated by the Company can contribute greatly to the purchase of an emergency mobile ultrasound machine.

Corporate governance

The Consolidated Annual Report drawn up according to the applied accounting requirements provides a true and accurate overview of the assets, liabilities, financial situation and earnings of Masterplast Nyrt. and its undertakings included in the consolidation. Moreover, the Annual Report gives a reliable picture of the situation, development and performance of Masterplast Nyrt. and its undertakings included in the consolidation, presenting the main risks and factors of uncertainty.

The Group will do its best to operate in accordance with the statutory and regulatory requirements and in line with the principles of ethical business conduct. Therefore, the Company places particular emphasis on the corporate governance recommendations of the Budapest Stock Exchange in its day-to-day operations and regulation.

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 Hungária 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.

Observations regarding the future

The Annual Report also includes observations regarding the future. These findings are based on the current plans, estimates and forecasts, so it would not be correct to rely on these findings any more than warranted. Observations regarding the future carry risk and uncertainty. The Corporate Group stresses that there are many important factors that may cause actual results to differ greatly from what is stated among the observations regarding the future.

Summary

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, followed closely by Poland and Slovakia. 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. The Subotica fibreglass mesh production facility investment project was completed and the increase in production output started. 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%).

The Company expects its industry environment continued to remain positive in the years to come, which may provide the basis for achieving the earnings targets defined in its strategic plans given the Group's improving production and operating efficiency.

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