

**MASTERPLAST**  
**GROUP INTERNATIONAL**  
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**MASTERPLAST PLC.**  
**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.

# MANAGEMENT AND BUSINESS REPORT

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

Sárszentmihály, 27 April 2018



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Chairman of the Board

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## 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.

## Short summary of business data

Masterplast Ltd. was founded by individuals in 1997 with the purpose of selling building materials. It was transformed into a closed limited company on 29 September 2006 through reorganisation. In order to enter the stock market, it was transformed into a public limited company on 20 April 2011. The technical listing of its shares on the Budapest Stock Exchange occurred on 29 November 2011.

Owing to the dynamic growth in the period since its foundation, the Company's principal activity today is the management of its subsidiaries and properties.

The most important data of the balance sheet included in the supplement, prepared based on the requirements of the IFRS International Accounting Standards, approved and implemented by the European Union (EU), are as follows:

1. Annual domestic net sales: 1 730 043 thousand HUF which includes the received dividend of 941 373 thousand HUF.
2. Annual operations for 2017 were profitable. Income from business activities: 906 264 thousand HUF pre-tax income: 854 314 thousand HUF.
3. Balance sheet total: 7 458 012 thousand HUF.
4. Equity total: 5 219 526 thousand HUF. Subscribed capital: 1 374 296 thousand HUF.

## Financial and other management indicators

Name of the indicators and calculation		2017	2016
Ratio of non-current assets	$\frac{\text{Non-current assets}}{\text{Total assets}}$	0,78	0,64
Equity ratio	$\frac{\text{Equity}}{\text{Total liabilities}}$	0,70	0,62
Liquidity indicator I.	$\frac{\text{Current assets}}{\text{Short-term liabilities}}$	0,78	1,24
Liquidity indicator II.	$\frac{\text{Cash and cash equivalents}}{\text{Short-term liabilities}}$	0,05	0,03
Efficiency of equity	$\frac{\text{Profit for the year}}{\text{Equity}}$	0,16	-0,07
EPS	$\frac{\text{Operating profit}}{\text{Equity}}$	0,17	-0,01

### 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
<b>Total:</b>	HUF 1 374 296 100	HUF 1 374 296 100
	(EUR 5 226 391)	(EUR 5 226 391)

### 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.

### **Internal audit**

In 2017, the Company's internal audit was performed by Katalin Csemák.

### **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 Nyrt. 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
<i>Indirect relationship:</i>		
Masterplast D.O.O.	Macedonia	2002
<i>Affiliated undertaking:</i>		
Masterprofil Kft.	Hungary	2006

Performs the management and coordination of the Group, ensures adequate operational background (provision of central contracts, guarantees, marketing and PR material, etc.).

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**

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.

## **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.

### 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.

### **Data of own shares**

The company form is a public limited company.

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

### **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 has 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.

### **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.

### **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.

## **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

In 2017, Masterplast did not increase its capital, but on 15 January 2018, the Company's Board of Directors decided to increase the Company's share capital to 1 460 127 900 HUF through a private offering of 858 318 new dematerialised ordinary shares with the nominal value of 100 HUF (issue value of 607 HUF).

- 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.

## **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 Parent Company's 2018 estimates are as follows:

Net sales revenue:	598 245 thousand HUF
Income from business activity:	55 948 thousand HUF
Pre-tax income:	72 454 thousand HUF
Balance sheet total:	6 945 403 thousand HUF
Equity:	5 507 909 thousand HUF

### **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.

The Company’s management continuously “keeps in mind” the diversity guidelines and implements them appropriately in personnel decisions.

### **Masterplast Employee Shared Ownership Program**

Masterplast Plc. established the MASTERPLAST Employee Shared Ownership Program on 14 December 2016. The MRP organization is based in: 1062 Budapest, Andrássy út 100.

Masterplast 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.

## 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 Group'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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