MASTERPLAST GROUP INTERNATIONAL

www.masterplastgroup.com

ANNUAL REPORT 2018

MASTERPLAST

PUBLIC LIMITED COMPANY

ANNUAL REPORT 2018

CHAIRMAN'S GREETINGS

I would like to welcome our shareholders!

The writing of these few thoughts is an exciting task each year, as this way I can address my fellow owners, the investors of the Company. However, this time, this feeling is accompanied by increased joy, given that we can publish our Annual Report following the most successful year of the past 10 years. It makes me proud that over this period, Masterplast has developed to be the largest building material manufacturing company with Hungarian majority ownership in the Central European region.

Good winds, full sails

According to our expectations, we were able to work in pulsing market conditions last year. The momentum of the Hungarian market was exceptional, but the conditions were favorable at the regional level as well. With the work of the past 20 years, we have managed to build such stable roots in the market and brand value, that we are able to ride the coming waves from a very good position. 2018 was a year with exceptional success, which also ensured the continuation of Masterplast's dynamic growth pattern started in 2017. We count on the maintenance of this favorable industrial branch environment in the coming years too, which, along with the Company's improving manufacturing and operational efficiency, will make the continuous growth defined in the strategic plans achievable in the medium term as well. We believe that as a result of Masterplast's team work, dynamic development can not only be maintained, but its extent can be further increased in the next years.

Last year, we achieved significant results in numerous important areas.

In August 2018, Róbert Nádasi, our experienced colleague who had previously held the position of Chief Financial Officer at the Company, was appointed Chief Executive Officer. By his appointment, we have an experienced leader in charge of the operational functions, who focuses on efficient business operation and well-organized team work. The key principles of the strategy until 2022 are focused and efficient operations, in the spirit of which the Company wishes to excel in all areas of operation. The focus of our attention is still to create customer value, and a background for this is provided by expanding manufacturing activity and continuous development of our services.

Qualitative and quantitative improvement in manufacturing

In Subotica, the largest fiberglass manufacturing development project in the Company's history made significant steps forward, and by the last third of the year, the Subotica 2.0 project was also completed. Our plan for the end of 2019 is to extend annual manufacturing to 100 million square feet, which can make Masterplast the third largest fiberglass manufacturer in the world. In addition, the special polyethylene foam sheet production machine, which will double the production capacity of the Kál factory after take-off, has also started its trial run at the Kál manufacturing site. As a result of this development, we will be able to manufacture products with even better technical features, which will enable us to further expand our client base in the areas of packaging materials and building industry. In the second half of 2018, we started the assessment and project preparations for additional development of our own production capacity in terms of roofing foils and EPS polystyrene. As a result of our investments, the Company will be able to cover a significant part of product demand from its own manufacturing in the most important product ranges, and it will have exciting opportunities in terms of industrial applications. The focus of development is to continuously improve quality and further boost competitiveness across all products.

2018 also had a significantly positive impact on the stock market course of Masterplast shares. On the domestic front, Masterplast is the only issuer representing the construction industry, through the shares of which investors can also participate in the local and regional activities of the industrial branch. In addition to the dividend yield, the Company's investors could also account for a significant rate appreciation last year.

Please allow me to express my gratitude to our partners and Masterplast's employee team for the shared success. I would like to thank our shareholders for their trust, as a result of which we closed last year with success not only in our industrial branch, but also on the stock market. I believe that we can share the regional soaring of the construction industry and the Company's dynamic development over the next years as well.

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 international production 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 2018 the Company had the following 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%
MP Green Invest	Ukraine	100%	100%
Indirect relationship:			
Masterplast D.O.O.	Macedonia	90%	90%
The Group's affiliated undertaking:			
Masterprofil Kft.	Hungary	20%	20%

Source: data from the Company's management information system

In the context of an improving market environment, the Group's sales revenue exceeded last year's base by 10% in 2018. Taking advantage of the positive industrial trend and market embed, in respect of value, the Hungarian turnover increased the most, while in respect of product range, the greatest turnover expansion occurred in the own produced products (fibreglass mesh) of the Group. In 2018, the Company's trading margin increased as did the Group's production output thanks to the output of the Subotica and the Kál facilities. Also considering the volume change of own produced inventories, costs incurred in connection with materials and services used grew by 7% versus a 10% increase in its sales revenue. The Group's personnel expenses increased in 2018 compared with the reference period, as did the Group's depreciation charge. Other operating expenditures also increased in 2018 compared to the base period's profits. As a result of all of these, the Group's EBITDA was EUR 6 035 thousand versus EUR 4 942 thousand during the reference period (22% increase), and it managed to achieve the target operating surplus defined in its plans. The Group's financial earnings decreased somewhat, however, the Group's net earnings for 2018 still exceeded the reference period's profit by EUR 644 thousand (27%).

SUMMARY

- In 2018, the Company experienced positive tendencies in the industry environment regarding its market portfolio. In terms of markets, the statistics for Hungary, representing the greatest weight, have continued to reflect industry growth and more lively economic trends compared to the previous year. This was driven by EU energy efficiency improvement tenders and the state-backed home construction scheme, which resulted in an increasing number of condominium construction projects. Based on feedback from market players, demand showed a mixed picture on the Romanian construction industry market in 2018. The volume of construction industry works diminished slightly compared to the previous year, as did the number of home constructions and new completed units. The economic development in Serbia continued in 2018, with growing GDP. Reforms introduced in the construction industry exerted a positive impact on investments. The number of construction permits issued also increased overall in the year under review compared to the base year. The economic upswing continued in the Ukraine and in Slovakia in 2018. Economic growth in Poland continued in 2018, while the construction industry showed a mixed picture. In Croatia and in Macedonia the construction industry activity increased, while the number of construction permits issued decreased compared to the same period of last year.
- 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 maximalize the margin including shipping costs, while increasing the manufacturing capacity.
- In 2018, the Company's sales revenue was EUR 97 340 thousand, which is a 10% increase compared to the reference period value.
- Most of this turnover growth can be attributed to the increase in sales revenue from one of the most important product groups, thermal insulation systems (8%), where the biggest expansion occurred in the Company's self-manufactured product (fibreglass mesh). There was a significant increase in the sales revenue from heat, sound and water insulation materials (22%), building industry accessories (19%) and dry construction system (14%). There was also an increase in sales of industrial applications (10%) in 2018, whereas the Company's turnover from roofing foils and accessories was stagnant.
- Considering the markets the sales revenue increased by 18% in the most important Hungarian market, whereas the increase was 40% in the Polish market, 17% in the Slovakian market compared to the previous year. The Ukrainian market performed similarly well, with a growth of 13%. Sales turnover grew by an annual 6% on Export markets, by 1% in Serbia. In the rest of the Company's markets, there was decrease in turnover - Romania (11%), Macedonia (8%) and Croatia (4%).
- In certain markets, owing to the improving industrial environment, the Company's trading margin also increased slightly in 2018 as compared to the reference period.
- Output from the Subotica plant increased in the area of fibreglass, EPS and netted edge protectors, as did output from the Kál foam foil plant in 2018 compared to the base period.
- Due to its growing manufacturing efficiency and growing sales revenue, the Group's manufacturing raw material and other material costs increased. Also considering the volume change of own produced

inventories, costs incurred in connection with materials and services used grew by 7% versus a 10% increase in its sales revenue.

- Primarily due to the boosting of production of the Serbian fibreglass mesh manufacturing and wage increases in Hungary, the Company's personnel expenses grew by 14% in 2018 compared with the reference period.
- The Serbian and Kál manufacturing investment projects increased the Group's depreciation charge.
- The Group's EBITDA was EUR 6 035 thousand (6.2% EBITDA ratio) in 2018 compared with the EUR 4 942 thousand (5.6% EBITDA ratio) in the reference period. The net income of its business activities came to EUR 4 120thousand in 2018 compared with EUR 3 315 thousand in the reference period.
- Also considering its financial results, the Group's after tax profit came to EUR 3 326thousand in 2018 as opposed to the EUR 2 681 thousand profit in the reference period.
- The inventories of the Group amounted to EUR 23 060 thousand at the end of December 2018, which is EUR 1 889 thousand higher than the closing inventory 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 2018 in the development of the construction industry environment of its country portfolio on certain markets.

In terms of markets, the statistics for **Hungary**, representing the greatest weight, have continued to reflect industry growth and more lively economic trends compared to the previous year. This was driven by EU energy efficiency improvement tenders and the state-backed home construction scheme, 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 major cities. The rise in demand was also perceptible on the retail market and the number of new home construction permits continued to show a rising tendency; at the same time, the labour shortage significantly impacted construction industry performance in 2018. Construction industry expectations are still positive, although the withdrawal of the VAT discount is expected to have an impact on the launch of new investment projects starting from next quarter.

Based on feedback from market players, demand showed a mixed picture on the **Romanian** construction industry market in 2018. The volume of construction industry works diminished slightly compared to the previous year, as did the number of home constructions and new completed units. The planned government reconstructions were delayed and the completion of started construction industry projects was postponed. The construction industry was characterized by significant labour shortage and growing costs of labour, as well as rising interest rates on loans. Based on the government's plan announced at the end of last year, minimal wages are set to rise and further tax incentives are expected in the construction industry.

The economic development in **Serbia** continued in 2018, with growing GDP. The National Bank continued its price stability policy, creating favourable conditions for the economy. Industrial output increased, as did external trade and exports and imports. Reforms introduced in the construction industry exerted a positive impact on investments. Employment grew, as did the value of construction industry works completed by contractors. The number of construction permits issued also increased overall in the year under review compared to the base year.

The economic upswing continued in the **Ukraine** in 2018, despite the stagnation at the beginning of the year. The construction industry expanded and the value of completed construction projects exceeded the value registered last year.

Economic growth in **Poland** continued in 2018. GDP increased, inflation decreased, market demand expanded, while the construction industry showed a mixed picture. High raw material and commodity prices and excessive taxes characterised the market according to market players.

Slovakia's economy continued to expand throughout the entire year. Unemployment decreased and the construction industry exhibited good performance. Housing loan conditions were tightened, but the interest rates on loans decreased and investment appetite did not decrease in terms of new construction projects.

Economic indicators improved from Q2 in **Croatia**. Construction industry output increased, but the number of construction permits issued decreased slightly compared to the previous year's base. The shortage of skilled labour and the unfavourable financial position of construction industry firms had a negative effect on industry growth, nevertheless the period was characterised by positive investment sentiment. With the significant rise in the value of planned investments, market players expect dynamic construction industry growth in the upcoming period.

GDP in **Macedonia** increased, as the construction industry activity, while unemployment decreased and the number of construction permits issued decreased compared to the same period of last 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 2015 - 2018:

Country	2015	2016	2017	2018
Bulgaria	8,9	5,2	37,5	42,3
Croatia	-10,8	33,1	34,9	-6,0
Hungary	29,2	157,1	21,5	-3,2
Austria	2,8	14,0	8,1	-16,9
Poland	21,2	12,2	19,3	3,3
Romania	3,8	-1,2	7,7	2,6
Slovakia	23,3	14,6	-8,6	11,4
Serbia	29,2	26,0	25,5	9,4

Source: EUROSTAT: Building permits – percentage change

OVERVIEW OF SALES BY PRODUCT GROUP

From 2018 the company has revised the reporting of the sales divided by the main product groups. In the last few years the revenues from the Bituminous roof covering and shingle coverings are considerably reduced, the stand alone presentation of this product group is no longer grounded, so since 2018 it will be merged with Roofing foils and accessories product group. From the Heat, sound and water insulation materials product group the Bituminous waterproofing products were left and will be contributed to revenues of the Roofing foils and accessories product group. The revenues of the packaging industrial materials – due to its increased volume – has been removed from the Heat, sound and water insulation materials- and the Building industry accessories product group and being presented among the lately established Industrial applications product group.

As the IFRS 15 came into force from 1st January 2018 the Company recognised the given cash discount as a revenue deduction item, and the mediated services were presented at net way. For the sake of comparability the Company made a restatement for the base period, so the given cash discounts have been retroactively reclassified from the other financial expenditures line, while the mediates services have been reclassified from the materials and services used line.

Sales by main product groups (thousands of EUR)		2017			
Previous product groups	**New product groups**	**Previous classification of the sales revenue**	**Sales revenue reclassification**	**IFRS 15 reclassification**	**New classification of the sales revenue**
Thermal insulation systems and its elements	Thermal insulation system	40 564	2 829	-381	43 013
Roofing foils and accessories	Roofing foils and accessories	13 407	2 547	-146	15 808
Bituminous roof covering and shingle coverings	-	2 084	-2 084	0	0
Dry construction and accessories profile products	Dry construction system	9 438	0	-96	9 341
Heat, sound and water insulation materials	Heat, sound and water insulation materials	16 129	-5 267	-89	10 774
Building industry accessories	Building industry accessories	2 908	-62	-25	2 821
Production and other packaging materials	Industrial applications	5 112	2 036	-95	7 054
Total sales revenue		89 642	0	-832	88 810

Source: audited data from the Company's management information system

Sales by main product groups (thousands of EUR)	2018	2017	Change %
	(A)	(B)	(A/B-1)
Thermal insulation system	46 604	43 013	8%
Roofing foils and accessories	15 823	15 808	0%
Dry construction system	10 670	9 341	14%
Heat, sound and water insulation materials	13 110	10 774	22%
Building industry accessories	3 356	2 821	19%
Industrial applications	7 777	7 054	10%
Total sales revenue	**97 340**	**88 810**	**10%**

Contribution of product groups in percentage to the total sales revenue		
Thermal insulation system	48%	48%
Roofing foils and accessories	16%	18%
Dry construction system	11%	11%
Heat, sound and water insulation materials	13%	12%
Building industry accessories	3%	3%
Industrial applications	8%	8%
Total sales revenue	**100%**	**100%**

Source: audited data from the Company's management information system

On an annual level, the Group's sales revenue grew by 10% to EUR 97 340 thousand.

Within the Group's sales revenues, **thermal insulation systems** primarily accounted for the largest share (48%); this product category saw an overall 8% increase in year-on-year terms. The majority of sales revenue growth was driven by rising sales of fibreglass mesh. The Group exclusively sold its own manufactured products on its largest European Union markets (Export, Romania, Poland and Hungary). The Group's EPS sales decreased in Romania, Serbia, Croatia and Slovakia, but increased in Hungary compared to the base year. Turnover of accessory products (glue, profiles) increased in 2018.

Heat, sound and water insulation materials, which account for the second largest turnover, exhibited a 22% expansion compared to the previous year's base. The Group's turnover grew in almost every market; sales turnover only decreased in Croatia compared to the base year.

The turnover in **roofing foils and accessories**, a strategic area for the Group, stagnated compared to the 2017 base year. The Group saw turnover growth in this product group on the Ukrainian, Hungarian, Slovakian, Romanian and Croatian markets and saw a decrease in Serbia, Macedonia, Poland and Export areas.

The company's turnover in **dry construction systems** grew by 14% in the year under review compared to the 2017 base year. The extraordinary sales figures were driven by growing sales of gypsum profiles and slabs on the Hungarian, Slovakian, Serbian and Croatian market.

Building industry accessories exhibited a 19% turnover growth compared to the 2018 base year. Although turnover decreased the Polish, Croatian and Export territories, this was largely offset by the sales turnover growth achieved in Hungary, and growth was also seen in other markets.

The Group's **industrial applications** product group achieved a 10% recent turnover increase in 2018 compared to the base period. Non-strategic sale of raw materials and packaging industry goods also exhibited rising sales revenues.

TURNOVER BY COUNTRY

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 subsidiary of the Group, sales are reported on the Exports line.

From 2018 on, the accumulated revenues of the Other line low-volume countries with subsidiaries are being retransferred. The customer relationship management of the classified non active Russian and Austrian subsidiaries are carried out by the Export department, accordingly the realized revenues were presented among Export sales and Macedonia will be shown as a single item hereinafter. For the sake of comparability the sales of 2017 are presented in accordance with the reclassification in the table below.

Sales by countries (thousands of EUR)	2018	2017	Change %
	(A)	(B)	(A/B-1)
Hungary	35 447	29 915	18%
Export	15 708	14 824	6%
Romania	11 485	12 900	-11%
Serbia	9 329	9 210	1%
Ukraine	7 893	6 967	13%
Poland	7 327	5 235	40%
Slovakia	4 712	4 016	17%
Croatia	3 782	3 947	-4%
Macedonia	1 656	1 795	-8%
Total sales revenue	**97 340**	**88 810**	**10%**

Contribution of countries in percentage to the total sales revenue		
Hungary	36%	34%
Export	16%	17%
Romania	12%	15%
Serbia	10%	10%
Ukraine	8%	8%
Poland	8%	6%
Slovakia	5%	5%
Croatia	4%	4%
Macedonia	2%	2%
Total sales revenue	**100%**	**100%**

Source: audited data from the Company's management information system

The group's turnover increased by 18% in 2018 on the **Hungarian market**, its largest market, compared to the base of the previous year. The Group's turnover increased across all product groups, with notable performance in the year under review in thermal insulation system products, heat, sound and water insulation materials products and dry construction system products compared to the base period.

Sales turnover grew by an annual 6% on **Export markets**. The Group exhibited extraordinary performance particularly in its strategic product group of thermal insulation systems. The distribution of roofing foils and accessories, dry construction systems and building industry accessories products saw a slight increase in 2018 compared to the previous year. The Group achieved exceptional growth in Italy, its highest-performing export market, and sales revenue also increased at a similar rate in Greece and Germany.

The Group exhibited an 11% overall growth on its **Romanian market**, also one of its major markets. The company performed a portfolio and organisational restructuring in Romania in late 2017, revising its target sales figures downwards. As a result of these measures, turnover of EPS products, part of the thermal insulation systems product group, decreased in 2018 compared to the base period. At the same time, sales of fibreglass increased at a remarkable rate, as did sales of building industry accessories, heat, sound and water insulation materials and roofing foils and accessories. Sales in the dry construction system product group and the industrial applications product group decreased compared to 2017.

The Group's sales in **Serbia** grew by 1% in 2018 compared to the base year. Sales revenue from heat, sound and water insulation materials, dry construction materials, building industry accessories products and industrial applications increased. The greatest decline was registered in thermal insulation system products, specifically sales of EPS. Roofing foils and accessories also saw a decline.

In the **Ukraine**, the Company's turnover closed the 2018 year with a 13% increase compared to the previous year. Sales turnover increased across all product groups. Sales revenue increased significantly in the largest group, thermal insulation system products, where sales of fibreglass netting (not manufactured by the Group) accounted for the greatest share. The Company's turnover also increased notably in the roofing foils and accessories product group and also in the area of heat, sound and water insulation materials.

The Group's sales revenue grew by 40% on the **Polish market** compared to the 2017 base year. Sales of fibreglass, accounting for a large portion of sales revenue in Poland, increased significantly, but the introduction of glass and rock-wool products, belonging to the group of heat, sound and water insulation materials, also contributed to the annual increase in sales revenue. There was a slight decrease in the other product groups present on the market.

The Company achieved a 17% increase in turnover in **Slovakia** in the year under review. Sales of thermal insulation system products decreased slightly, but sales increased and the other product groups.

The Group's turnover decreased by 4% in **Croatia** compared to 2017. Sales of dry construction systems and roofing foils and accessories increased, while sales in the other product groups decreased. The greatest decline was in the thermal insulation system product group.

In **Macedonia**, representing the smallest share of shares, turnover decreased by 8% in 2018 compared to the previous year. Sales revenue from profiles, part of the dry construction systems product group, increased while sales of heat, sound and water insulation materials and building industry accessories stagnated. Sales revenue from fibreglass, within the group of thermal insulation system products, decreased, as did sales of roofing foils and accessories.

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 2018	31 December 2017	Change	Change %
	(A)	(B)	(A-B)	(A/B-1)
Sales revenues	97 340	88 810	8 530	10%
Materials and services used	-79 203	-74 252	-4 951	7%
Payments to personnel	-11 548	-10 117	-1 430	14%
Depreciation, amortisation and impairment	-1 915	-1 626	-288	18%
Movements in self-produced inventories	24	309	-285	-92%
Other operating income (expense)	-579	192	-771	-401%
OPERATING PROFIT	**4 120**	**3 315**	**804**	**24%**
Interest received	74	118	-44	-37%
Interest paid	-555	-580	25	-4%
Other financial (expense) income	-14	49	-63	-129%
Financial loss	**-495**	**-413**	**-82**	**20%**
PROFIT FOR THE YEAR	**3 326**	**2 681**	**644**	**24%**
EBITDA	6 035	4 942		
EBITDA ratio	6.2%	5.6%		
Earnings per share (EPS)	0,23	0,19		

Source: consolidated audited report of the Company based on IFRS accounting rules

GROUP RESULTS

The consolidated annual turnover for the year 2018 amounted to EUR 97 340 thousand, which corresponds to an increase of 10% compared with the value of the reference period.

In line with the prevailing commodity and basic material prices and exchange rate trends, the Group continued to follow a sales strategy in 2018 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 Group managed to increase its trade margin with rising turnover in 2018 compared to the base period.

The Group's trade margins increased on the Hungarian, Romanian, Slovakian, Serbian and Ukrainian markets for the entire year, and the attained price margin volume also increased in Export areas and the Polish market. Output from the Subotica plant increased in the area of fibreglass, EPS and netted edge protectors, as did output from the Kál foam foil plant in 2018 compared to the base period. Mainly driven by the expanding output from Subotica, the Group's manufacturing efficiency improved and its production profit increased compared to the previous year.

Due to its growing manufacturing efficiency and growing sales revenue, the Group's manufacturing raw material and other material costs increased, while its fuel and maintenance costs decreased. Energy costs increased, as did foreign transport costs and rents in 2018 compared to the base period. Also considering the volume change of own produced inventories, costs incurred in connection with materials and services used grew by 7% versus a 10% increase in its sales revenue.

Primarily due to the boom of the Serbian fibreglass mesh manufacturing and wage increases in Hungary, the Company's personnel expenses grew by 14% in 2018 compared with the reference period. At the end of December 2018, the Company employed 925 persons compared with the 928 employees in the reference period. The Subotica fibreglass plant had a headcount of 370 at the end of 2018 compared to 362 as at 31 December 2017.

The Serbian and Kál manufacturing investment projects increased the Group's depreciation charge.

Other operating expenditures increased in 2018 compared to the base period's profits, driven by the sale of the Romanian manufacturing machine below its accounting value. At the end of 2017, the company still did not find the possibility of relaunching its temporarily suspended Romanian polystyrene production as cost-effective and decided to definitively end production. Recovery of the equipment has started; accordingly, the manufacturing machine was sold which resulted in a one-off loss of EUR 274 thousand. Profit on sales of tangible assets in 2017 also significantly decreased expenditures for that year.

As a result of all of the above factors, the Group's EBITDA was EUR 6 035 thousand (6.2% EBITDA ratio) in 2018 compared with the EUR 4 942 thousand (5.6% EBITDA ratio) in the reference period. The net income of its business activities came to EUR 4 120 thousand in 2018 compared with EUR 3 315 thousand in the reference period.

The Group's net interest income decreased by EUR 7 thousand compared with the reference period of 2017 primarily due to a larger loan portfolio, but the Company's favourable bank terms and conditions offset this increase in costs.

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 2018, the Group recognised EUR 14 thousand in losses as other expenses of financial operations in 2018 as opposed to the EUR 49 thousand profit seen in the reference period. The slightly more unfavourable exchange rate results and settlement at a slightly lower RUB exchange rate at the time of the sale of the Russian subsidiary resulted in an exchange rate loss, which was also impacted by the closings and revaluations of the exchange rate insurance transactions.

Also considering its financial results, the Group's after tax profit came to EUR 3 326 thousand in 2018 as opposed to the EUR 2 681 thousand profit in the reference period.

THE COMPANY'S FINANCIAL POSITION

As of 31 December 2018, the Group's assets were worth EUR 76 474 thousand meaning an increase of EUR 7 757 thousand over the closing value of the reference period.

As of the end of December, the value of fixed assets was EUR 35 999 thousand which was EUR 6 269 thousand higher than the closing value of assets on the cut-off date of the reference period. The increase stemmed from the Subotica fibreglass facility investment and the expansion of the Kál foam foil manufacturing line. The Corporate Group spent a total of EUR 8 649 thousand for investments and for the replacement of other assets in the reporting year.

The inventories of the Group amounted to EUR 23 060 thousand at the end of December 2018, which is EUR 1 889 thousand higher than the closing inventory of the reference period. The higher inventory level was primarily the result of higher Ukrainian and Hungarian inventory levels and the higher raw material inventories due to expanding output from the Subotica plant.

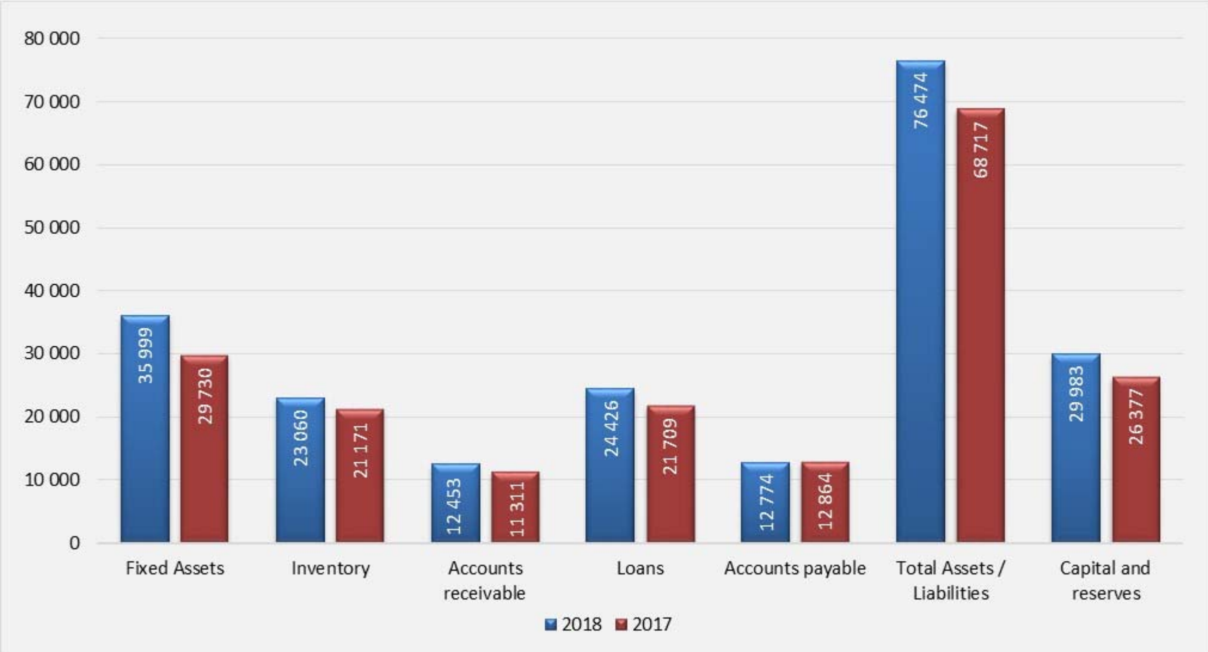
Thanks to higher sales, the Group's trade receivables grew at the same rate, i.e. or 10% or EUR 1 142 thousand compared with the 2017 reference period.

The Group's stock of trade payables did not increase and was EUR 90 thousand lower than in 2017.

Its aggregate portfolio of short and long term loans was higher by EUR 2 718 thousand on 31 December 2018 than in the reference period. The Company's portfolio of long-term outstanding loans increased in relation to its investments, while it's short-term outstanding loans decreased slightly (1%) in 2018 compared to 2017 reference period.

The rise in deferred revenues (EUR 2 935 thousand) was attributable to non-recognised subsidies linked to the investments.

The Group's liquid assets amounted to EUR 2 090 thousand as of 31 December 2018, which was EUR 923 thousand lower than the closing stock in the same period of 2017.



Source: consolidated audited report of the Company 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

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, 25 April 2019

Róbert Nádasi

CEO

MASTERPLAST NYRT.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2018
in accordance with International Financial Reporting Standards (IFRS)
(as adopted by the EU)

Sársentmihály, 25 April 2019

CEO

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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 2018 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 2018 - showing a balance sheet total of EUR 76 473 935 and a total comprehensive income for the year of EUR 2 485 489 -, the related 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 2018 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.

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

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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.

Revenue recognition of significant transactions

The Group's consolidated third party revenue amounted to EUR 97 million as of 31 December 2018. 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 in the consolidated annual financial statements, including disclosure requirements of the new IFRS 15 standard.

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The Group's disclosures about revenue are included in Note 8.2 Changes in Accounting policy, Note 8.22 Revenue recognition and Note 30 Revenue per countries to the consolidated annual financial statements.

Other information

Other information consists of the 2018 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.

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 for 2018 is consistent, in all material respects, with the 2018 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 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.

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 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:

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Appointment and Approval of Auditor

We were appointed as statutory auditor of MASTERPLAST Nyilvánosan működő Részvénytársaság by the General Assembly of Shareholders of the Company on 27 April 2018. 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 10 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.

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

Budapest, 25 April 2019

(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

2. Consolidated Statement of Financial Position

Item	Note	31 December 2018	31 December 2017
NON-CURRENT ASSETS			
Property, plant and equipment	10	35 454 633	29 348 497
Intangible assets	10	207 028	17 466
Investments in associates	12	33 775	33 649
Deferred tax assets	27	303 568	329 945
Non-current assets		**35 999 004**	**29 729 557**
CURRENT ASSETS			
Inventories	13	23 059 923	21 171 043
Trade receivables	14	12 453 324	11 310 958
Taxes receivable	27	1 075 573	1 270 846
Other current financial assets	28	23 275	24 360
Other current assets	15	1 773 013	2 197 075
Cash and cash equivalents	16	2 089 823	3 013 001
Current assets		**40 474 931**	**38 987 283**
TOTAL ASSETS		**76 473 935**	**68 716 840**
EQUITY			
Share capital	-	5 503 939	5 226 391
Reserves	-	20 928 544	18 292 569
Redeemed treasury shares	-	-20 843	-22 031
Parent company's share of the profit or loss	-	3 283 382	2 610 062
Equity attributable to parent company's shareholders	-	29 695 022	26 106 991
Non-controlling interests		287 866	269 862
Equity	**5**	**29 982 888**	**26 376 853**
LONG-TERM LIABILITIES			
Long-term loans	17	6 050 695	3 198 672
Deferred tax assets	27	181 514	169 314
Deferred income	18	4 067 918	1 706 778
Other long-term liabilities	19	721 352	691 628
Long-term liabilities		**11 021 479**	**5 766 392**
CURRENT LIABILITIES			
Short-term loans	17	18 375 553	18 509 927
Trade payables	21	12 773 839	12 863 612
Short-term financial leasing liabilities	11	289 284	239 378
Other current financial liabilities	26	255	5 106
Taxes payable	27	641 013	603 315
Current part of deferred income	18	933 723	360 076
Provisions	20	186 944	88 445
Other current liabilities	17	2 268 957	3 903 736
Current liabilities		**35 469 568**	**36 573 595**
TOTAL LIABILITIES		**46 491 047**	**42 339 987**
EQUITY AND LIABILITIES		**76 473 935**	**68 716 840**

3. Consolidated Statement of Profit or Loss

Profit or loss category	Note	2018	Restated 2017
Sales revenues	30	97 339 845	88 810 045
Materials and services used	23	-79 202 911	-74 252 325
Payments to personnel	24	-11 547 782	-10 117 321
Depreciation, amortisation and impairment	10	-1 914 860	-1 626 472
Movements in self-produced inventories	-	24 287	309 361
Other operating income (expense)	25	-578 758	192 040
OPERATING PROFIT		**4 119 821**	**3 315 328**
Interest received	-	73 736	117 693
Interest paid	-	-554 556	-579 512
Other financial (expense) income	26	-14 278	48 917
Financial loss		**-495 098**	**-412 902**
Profit or loss attributable to associates	12	194	-1 136
PROFIT BEFORE TAX		**3 624 917**	**2 901 290**
Income tax	27	-299 054	-219 793
PROFIT FOR THE YEAR		**3 325 863**	**2 681 497**
Profit attributable to parent company shareholders		3 283 382	2 610 062
Profit attributable to non-controlling interests		42 481	71 435
Earnings per share (EPS)	28	0,23	0,19
Diluted earnings per share (diluted EPS)	28	0,23	0,19

4. Consolidated Statement of Other Comprehensive Income

Other Comprehensive Income	2018	Restated 2017
Profit for the year	3 325 863	2 681 497
Foreign exchange loss on translation*	-840 306	-98 795
Parent company's share of the Other Comprehensive income of associates*	-68	5
Other comprehensive income	**-840 374**	**-98 790**
Comprehensive income	**2 485 489**	**2 582 707**
Profit attributable to parent company shareholders	2 467 485	2 632 293
Profit attributable to non-controlling interests	18 004	-49 586

* 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	Share Premium	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 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**
1 January 2018	**-**	**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**
Profit for the year	-	0	0	0	0	0	0	3 283 382	3 283 382	42 481	3 325 863
Other comprehensive income	-	0	0	0	0	-815 897	-815 897		-815 897	-24 477	-840 374
Prior year's profit or loss reclassified	-	0	0	0	2 610 062	0	2 610 062	-2 610 062	0	0	0
Redeemed treasury shares	-	0	1 188	0	0	0	0	0	1 188	0	1 188
Capital increase		277 548	0	0	0	0	0	0	277 548	0	277 548
Capital increase - agio		0	0	1 407 173	0	0	1 407 173	0	1 407 173	0	1 407 173
Dividends paid	-	0	0	0	-565 363	0	-565 363	0	-565 363	0	-565 363
Shareholders' contribution	33	0	0	0	0	0	0	0	0	0	0
31 December 2018	**-**	**5 503 939**	**-20 843**	**8 062 732**	**21 346 318**	**-8 480 506**	**20 928 544**	**3 283 382**	**29 695 022**	**287 866**	**29 982 888**

The attached notes form part of these consolidated annual financial statements.

6. Consolidated Statement of Cash Flows

Cash-flow items	31 December 2018	31 December 2017
OPERATING ACTIVITIES		
Profit before tax	3 624 917	2 901 290
Depreciation, amortisation and impairment of tangible assets	1 914 860	1 626 472
Impairment loss	202 621	98 461
Inventory shortage, scrapped inventories	342 245	73 446
Provisions (released) made	98 499	20 313
(Gains) on the disposal of tangible and intangible assets	121 212	-280 088
Interest paid	554 556	579 512
Interest received	-73 736	-117 693
(Profit) loss from associates	-194	1 136
Unrealised foreign exchange (gain) loss	873 744	407 263
Working capital changes:		
Movements in trade receivables	-1 236 619	-801 098
Movements in inventories	-2 339 493	-2 561 785
Movements in other current assets	620 420	-65 139
Movements in trade payables	-89 773	2 006 844
Movements in other liabilities	618 256	-50 107
Income tax paid	-198 060	-200 373
Net cash flows from operations	**5 033 455**	**3 638 453**
INVESTING ACTIVITIES		
Purchase of tangible and intangible assets	-8 648 993	-6 442 739
Proceeds from the disposal of tangible and intangible assets	439 030	481 550
Subsidiaries sold	100	4 964
Interest received	73 736	117 693
Net cash flows from investing activities	**-8 136 127**	**-5 838 532**
FINANCING ACTIVITIES		
Loans taken	15 167 540	6 686 734
Loans repaid	-12 449 891	-2 066 195
Subsidies received	934 547	0
Dividends paid	-564 354	-1 129 658
Interest paid	-554 556	-579 512
Net cash flows from financing activities	**2 533 286**	**2 911 369**
Increase (decrease) in cash and cash equivalents	-569 386	711 290
Cash and cash equivalents at the beginning of the year	3 013 001	2 442 368
Net foreign exchange translation gain or loss	-353 793	-140 657
Cash and cash equivalents at the end of the year	**2 089 823**	**3 013 001**

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 919 in 2018 (2017: 848).

The cost of the Group's external audit for 2018: EUR 130 529 (2017: EUR 128 869).

Shares:

The parent company's share capital totals HUF 1 460 127 900 (2017: 1 374 296 100). The parent company's share capital is presented in the consolidated annual statements at initial cost in EUR totalling EUR 5 503 939 (2017: EUR 5 226 391).

The share capital comprises:
14 601 279 registered ordinary shares of HUF 100 face value each (2017: 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	2018	2017
Tibor Dávid	476 707 600 Ft	476 707 600 Ft
Ács Balázs	409 627 800 Ft	409 627 800 Ft
OTP Alapkezelő	97 872 700 Ft	91 554 500 Ft
LPH Kft., SOH Kft.	77 967 600 Ft	n/a
Nádasi Róbert	3 386 400 Ft	3 386 400 Ft
Additional minority owners	393 384 100 Ft	391 816 800 Ft
Repurchased shares	1 181 700 Ft	1 203 000 Ft
Total:	**1 460 127 900 Ft** (5 503 939 EUR)	**1 374 296 100 Ft** **(5 226 391 EUR)**

The voting rights are as follows:

Shareholders	2018	2017	-
Tibor Dávid	4 767 076	4 767 076	votes
Ács Balázs	4 096 278	4 096 278	votes
OTP Alapkezelő	978 727	915 545	votes
LPH Kft., SOH Kft.	779 676	n/a	votes
Nádasi Róbert	33 864	33 864	votes
Additional minority owners	3 933 841	3 918 168	votes
Total	**14 589 462**	**13 730 931**	**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 system
- roofing foils and accessories
- dry construction system
- heat, sound and water insulation materials
- building industry accessories
- Industrial applications

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 2018:

- **IFRS 9 Financial Instruments: Classification and Measurement and the Impact of the standard's adoption on the consolidated financial statements**

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 analysed the measurement of receivables and concluded that no additional impairment needed to be charged and that the adoption of the standard does not have a material impact on the Group's consolidated financial statements. Based on the above, the adoption of the standard does not have a material impact on the Group's profit and loss or on its balance sheet lines.

- **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 decided to adopt this standard retrospectively.

Impact of the IFRS 15 for the year 2017

Profit or loss category	2017	IFRS 15 reclassifications		Restated 2017
		Financial result	Mediated services	
Sales revenues	89 642 288	-299 772	-532 471	88 810 045
Materials and services used	-74 794 613	9 817	532 471	-74 245 288
Payments to personnel	-10 117 321	0	0	-10 117 321
Depreciation, amortisation and impairment	-1 626 472	0	0	-1 626 472
Movements in self-produced inventories	309 361	0	0	309 361
Other operating income (expense)	192 040	0	0	185 003
OPERATING PROFIT	**3 605 283**	**-289 955**	**0**	**3 315 328**
Interest received	117 693	0	0	117 693
Interest paid	-579 512	0	0	-579 512
Other financial (expense) income	-241 038	289 955	0	48 917
Financial loss	**-702 857**	**0**	**0**	**-412 902**
Profit or loss attributable to associates	-1 136	0	0	-1 136
PROFIT BEFORE TAX	**2 901 290**	**0**	**0**	**2 901 290**
Income tax	-219 793	0	0	-219 793
PROFIT FOR THE YEAR	**2 681 497**	0	0	**2 681 497**

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

- **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 determined that the impact of the standard on profit and loss is immaterial.

- **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.
The Group determined that the impact of the standard on profit and loss is immaterial.

- **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.
The Group determined that the impact of the standard on profit and loss is immaterial.

- **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.
The Group determined that the impact of the standard on profit and loss is immaterial.

- **IAS 19: Plan Amendment, Curtailment or Settlement (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The Amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. These Amendments have not yet been endorsed by the EU.
The Group determined that the impact of the standard on profit and loss is immaterial.

- **Conceptual Framework in IFRS standards**

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020.
The Group determined that the impact of the conceptual framework on profit and loss is immaterial.

- **IFRS 3: Business Combinations (Amendments)**

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU.
The Group determined that the impact of the standard on profit and loss is immaterial.

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)**

The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. These Amendments have not yet been endorsed by the EU.
The Group determined that the impact of the standard on profit and loss is immaterial.

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 (%)	
				2018	2017	2018	2017
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%
Masterplast Kft.	Hungary	Wholesale of construction materials	14025477-4-07	100%	100%	100%	100%
Mastermesh Production Kft.	Hungary	Wholesale of construction materials	25562709-2-07	100%	100%	100%	100%
MasterFoam Kft.	Hungary	Foam sheet production	13297590-4-07	100%	100%	100%	100%
Masterplast YU D.o.o.	Serbia	Wholesale of construction materials EPS and fiberglass production	100838195	100%	100%	100%	100%
Masterplast Sp zoo	Poland	Wholesale of construction materials	PL7772708671	80,04%	80,04%	80,04%	80,04%
Master Plast S.r.o.	Slovakia	Wholesale of construction materials	SK2020213030	100%	100%	100%	100%
Masterplast Romania S.R.L.	Romania	Wholesale of construction materials	R13718003	100%	100%	100%	100%
MasterPlast TOV	Ukraine	Wholesale of construction materials	33438138	80%	80%	80%	80%
Masterplast d.o.o.	Croatia	Wholesale of construction materials	4012002113867	100%	100%	100%	100%
Masterplast D.O.O. (1)	Macedonia	Wholesale of construction materials	4012002113867	90%	90%	90%	90%
OOO Masterplast RUS (2)	Russia	Wholesale of construction materials	6102038903	0%	100%	0%	100%
MP Green Invest	Ukraine	Asset management	38243479	100%	100%	100%	100%
Masterplast Österreich GmBH	Austria	Wholesale of construction materials	ATU63262935	100%	100%	100%	100%
ICS Masterplast Construct S.R.L. (2)	Moldova	Wholesale of construction materials	1008600021309	100%	100%	100%	100%

(1) 80% of the company held by Masterplast YU d.o.o., 10% is held by Masterplast Nyrt.
(2) 100% of the company is held by Masterplast Romania S.R.L
(3) The company was sold in December, 2018

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 (%)	
				2018	2017	2018	2017
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	2018	2017
Masterplast Nyrt	Hungary	HUF	HUF
Masterplast Hungária Kft.	Hungary	HUF	HUF
Masterplast International Kft.	Hungary	EUR	EUR
Masterplast Kft.	Hungary	HUF	HUF
Mastermesh Production Kft.	Hungary	HUF	HUF
MasterFoam Kft.	Hungary	HUF	HUF
Masterplast YU D.o.o.	Serbia	RSD	RSD
Masterplast Sp. z.o.o	Poland	PLN	PLN
Master Plast S.r.o.	Slovakia	EUR	EUR
Masterplast Romania S.R.L.	Romania	RON	RON
Masterplast TOV	Ukraine	UAH	UAH
Masterplast d.o.o.	Croatia	HRK	HRK
Masterplast D.O.O.	Macedonia	MKD	MKD
OOO Masterplast RUS	Russia	RUB	RUB
Green MP Invest	Ukraine	UAH	UAH
Masterplast Österreich GmbH	Austria	EUR	EUR
ICS Masterplast Construct SRL	Moldova	MDL	MDL

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 – accounting policy applied until 31 December 2017

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. Investments and Financial assets – accounting policy applied from 1 January 2018

8.11.1 Classifiaction of financial asstes

The Group recognises a financial asset in its statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument. The Group classifies its financial assets at their initial recognition to the following three categories based on the Group's business model for managing the financial assets and the characteristics of their contractual cash flows:

- financial assets measured at amortised cost,
- financial assets measured at fair value through other comprehensive income
- financial assets measured at fair value through profit or loss

The classification of financial assets to the above three categories is carried out based on the characteristics of their contractual cash flows and the Group's business model for managing them. The business model for managing financial assets relates to the method how the Group plans to recover cash from that particular financial assets. Namely, whether the Group plans to recover cash solely through payments of principal and interest or though the subsequent sale of the financial assets or a combination of both.

A financial asset is measured at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at fair value through profit or loss unless it is measured – in accordance with the above listed requirements - at amortised cost or at fair value through other comprehensive income. However an entity may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss to present subsequent changes in fair value in other comprehensive income

8.11.2 Measurement of financial assets

Except for trade receivables that do not contain a significant financing component, the Company measures a financial asset at its fair value plus or minus - in case of a financial asset is not valued at fair value through profit or loss - transaction costs that are directly attributable to the acquisition or issuance of the financial asset.

Trade receivables that do not contain a significant financing component are measured at their transaction price as defined in IFRS 15.

8.11.3 Impairment on financial assets

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.

The Group recognises a loss allowance for expected credit losses on a financial asset measured at amortized cost or at fair value through other comprehensive income. On each reporting date the Group assesses whether the credit risk of the related financial asset has increased significantly since its initial recognition and depending on this assessment recognizes impairment equal to either lifetime expected credit losses or 12-month-expected credit losses of the related financial assets.

8.11.4 Loans granted

Loans granted – in line with their maturity – are presented either as other non current financial assets or other current financial assets by the Group. At initial recognition loans granted are recognized at fair value less transaction costs then at subsequent measurements they are presented at amortized cost using the effective interest rate method. Amortized cost include transaction costs, concessions and back-end compensations, if any. Impairment charges, write-offs and foreign exchange differences of loans granted are recognized through profit and loss. Loans granted were also presented at amortized costs previously in line with IAS 39, as a consequence the adoption of IFRS 9 as at 1 January 2018 did not have a material impact ont he net book value of loans granted.

Loans granted were tested in line with the business model applied as well as their contractual cash-flows by the Group and as a result were classified as financial assets measured at amortized costs

8.11.5 Trade receivable

Trade receivable represents the Company’s right to an amount of consideration in exchange of provision of services and sale of goods in accordance with IFRS 15 that is unconditional, that is only the passage of time is required before payment of the consideration is due. The Company’s trade receivables do not contain a significant financing component. At initial recognition, trade receivables that do not contain a significant financing component are measured at their transaction price as defined in IFRS 15. At subsequent measurements trade receivables are valued at amortised cost calculated based on the effective interest rate method less impairment, if any.

Impairment on trade receivables is recognized in case – as a result of the valuation tests at reporting date - the Company assesses the related credit risk significantly increased because there is objective proof that the Company shall not be able to recover all contractual cash flows from trade receivables. Significant financial difficulties of trade debtors, the probability of their bankruptcy or significant financial restructuring of their debts, late payments or failures to pay are indications that a trade receivable may be impaired. Depending on the nature of increase in credit risk the Company recognizes impairment equal to either lifetime expected credit losses or 12-month-expected credit losses of the related financial assets.

8.11.6 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

8.11.7 Investments

Results from the valuation of investments are recognized through profit and loss statement and not through other comprehensive income.

8.11.8 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. These derivative financial instruments 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 accounts 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.

8.12. 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.

8.13. 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, refer to 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 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 income tax receivables and income tax payables 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 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

2018	Intangible assets	Properties	Machinery, equipment	Assets in construction	Tangible assets	Total
Cost, opening	**678 259**	**21 904 273**	**18 650 209**	**1 246 376**	**41 800 858**	**42 479 117**
Increase	271 095	615 592	5 771 128	1 991 178	8 377 898	**8 648 993**
Decrease	-78 410	0	-1 522 725	6 776	-1 515 949	**-1 594 359**
Reclassification	0	0	0	0	0	**0**
Translation gain or loss	-18 000	-250 580	-213 467	22 804	-441 243	-459 243
Cost, closing	**852 944**	**22 269 285**	**22 685 145**	**3 267 134**	**48 221 564**	**49 074 508**
Accumulated depreciation and impairment, opening	**660 792**	**3 977 539**	**8 378 605**	**96 218**	**12 452 362**	**13 113 154**
Increase	31 252	437 120	1 435 682	0	1 872 802	1 904 054
Decrease	-64 285	0	-1 749 143	10 807	-1 738 336	-1 802 621
Reclassification	0	0	0	0	0	0
Translation gain or loss	18 157	65 111	120 396	-5 404	180 103	198 260
Closing accumulated depreciation and impairment	**645 916**	**4 479 770**	**8 185 540**	**101 621**	**12 766 931**	**13 412 847**
Opening net book value	**17 467**	**17 926 734**	**10 271 604**	**1 150 158**	**29 348 496**	**29 365 963**
Closing net book value	**207 028**	**17 789 515**	**14 499 605**	**3 165 513**	**35 454 633**	**35 661 661**

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

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 2018 and 2017.

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	2018	2017
closing balance of the tangible assets	7 872 857	8 570 360

There was no major economic change in the Ukraine in 2018. 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 2018, 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 1.200.000 (EUR 38 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 21.1 million (EUR 665 thousand) at 31 December 2018 in the following categories:

Asset category	Investment value UAH	Investment value EUR
Properties	12 300 000	388 741
Machinery, equipment	3 493 786	110 179
Other	5 281 988	166 572
Total	**21 102 738**	**665 492**

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:

Asset 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.

Fair value less cost to sell:
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 impairment%
Properties	12 326 964	12 300 000	26 964	0.2%
Machinery, equipment	3 493 786	1 457 773	2 036 013	58.3%
Other	5 281 988	1 248 221	4 033 767	76.4%
Total	**21 102 738**	**15 005 994**	**6 096 744**	**28.9%**

The Company recognised an impairment loss of UAH 6 096 744 (EUR 192 266) in its balance sheet on its investment in the Ukraine at the end of the 2018 financial year as follows:

Asset category	Asset value	Estimated market value	Impairment	Average impairment%
Properties	388 741	387 890	850	0.2%
Machinery, equipment	110 179	45 972	64 207	58.3%
Other	166 572	39 364	127 208	76.4%
Total	**665 492**	**473 226**	**192 266**	**28.9%**

The total amount of impairment loss in the balance sheet reduces "*Tangible assets*" (EUR 182 thousand at the closing rate of 2017).

The impairment loss on the investment in the Ukraine from the Consolidated Annual Finance statement of 2017:

Asset category	Asset value	Estimated market value	Impairment	Average impairment%
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 impairment%
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%
Total	**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	2018	2017
Gross value	2 012 225	1 744 476
Accumulated depreciation	552 583	427 707
Net value	**1 459 642**	**1 316 769**

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

Lease liabilities	2018	2017
Lease liabilities within 1 year	289 284	239 378
Due in 2-5 years	574 638	546 762
Total lease obligations	**863 922**	**786 140**

The present values of minimum lease payments were as follows:

Minimum lease payments	2018	2017
Lease payments falling due within 1 year	301 347	258 283
Lease payments falling due within 2-5 years	587 783	568 666
Minimum lease payments	**889 131**	**826 949**
Financial expenses	-25 208	-40 809
Present value of minimum lease payments	863 922	786 140

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 associates

Masterprofil Kft. associate

On 30 November 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	2018
Opening	33 649
Share of the profits of associates	194
Comprehensive income	-68
Closing*	**33 775**

*Includes no profit or loss from discontinued operations.

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.

13. Inventories

Type of inventory	2018			2017		
	Gross book value	Impairment charge	Net book value	Gross book value	Impairment charge	Net book value
Finished products	1 894 176	0	1 894 176	2 129 465	0	2 129 465
Semi-finished products, WIP	858 805	0	858 805	1 036 140	0	1 036 140
Raw materials, additives and fuels	2 933 651	0	2 933 651	1 591 627	0	1 591 627
Goods	17 496 686	-123 395	17 373 291	16 467 001	-53 189	16 413 812
Total	**23 183 318**	**-123 395**	**23 059 923**	**21 224 232**	**-53 189**	**21 171 043**

Impairment charge recognised and reversed on inventories in 2018:

Impairment of inventories 2018	EUR
Opening impairment	53 189
Translation difference	-834
Charges	120 328
Reversals	-49 320
Closing	**123 395**

Impairment charge recognised and reversed on inventories in 2017:

Impairment of inventories 2017	EUR
Opening impairment	84 440
Translation difference	838
Charges	54 822
Reversals	-86 911
Closing	**53 189**

Impairment charged in previous years decreased as a result of the sale of impaired goods. Impairment charges on sold goods were not reversed, the Group chose to adjust the direct cost of sold goods with them at the time of the sale.

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

Cost of goods sold	2018	2017
Cost of goods sold	77 444 944	71 301 031

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	2018	2017
Closing balances of the inventories	7 556 651	8 032 708

14. Trade receivables

Debtors	2018	2017
Debtors	13 447 036	12 482 172
Impairment of doubtful receivables	-993 712	-1 171 214
Total	**12 453 324**	**11 310 958**

Average payment term of trade receivables was 47 days in 2018 (50 days in 2017).
There is no significant concentration in our trade receivables.

Impairment charged recognised and reversed on trade receivables in 2018:

Impairment of trade receivables	Opening impairment	Translation difference	Charges	Reversals	Closing
Impairment of trade receivables	1 171 214	-253	147 479	-324 728	993 712
Total	**1 171 214**	**-253**	**147 479**	**-324 728**	**993 712**

Impairment charged recognised and reversed on trade receivables in 2017:

Impairment of trade receivables	Opening impairment	Translation difference	Charges	Reversals	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**

Ageing of trade receivables is as follows:

Aged analysis	2018			2017		
	Gross book value	Impairment charge	Net book value	Gross book value	Impairment charge	Net book value
Not yet due	7 994 511	0	7 994 511	6 666 674	0	6 666 674
Due over 0-60 days	3 702 364	0	3 702 364	3 900 385	0	3 900 385
Due over 61-90 days	347 668	0	347 668	387 111	0	387 111
Due over 91-180 days	415 531	100 044	315 487	236 294	55 706	180 588
Due over 181-360 days	98 341	46 522	51 819	145 082	43 986	101 096
Due over 360 days	888 621	847 146	41 475	1 146 626	1 071 522	75 104
Total	**13 447 036**	**993 712**	**12 453 324**	**12 482 172**	**1 171 214**	**11 310 958**

15. Other current assets

Other current assets	2018	2017
Advances paid	78 527	463 212
Bills of exchange and cheques receivable	284 638	405 512
Other receivables	1 104 554	751 784
Bonus from suppliers	446 633	462 144
Impairment on other receivables	-362 790	-372 105
Accrued income	20 739	23 302
Prepaid expense	200 712	463 226
Total	**1 773 013**	**2 197 075**

16. Cash and cash equivalents

Cash and cash equivalents	2018	2017
Cash	39 830	64 256
Bank deposits	2 049 993	2 948 745
Total	**2 089 823**	**3 013 001**

The Group does not have restricted cash or cash-equivalents as at 31 December 2018 or 31 December 2017.

17. Short-term and long-term loans

Short-term and long-term bank loans taken - 2018

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	1 434 997	273 333	1 093 333	68 331	promissory note + mortgage + MP NYRT guarantor	-
Masterplast YU d.o.o.	00-421-0603552.5	investment loan	RSD	3-month EURIBOR + 3.8%	monthly	1 646 448	459 474	1 186 974	0	promissory note + mortgage + MP NYRT guarantor	-
Masterplast YU d.o.o.	00-421-1700025.1	investment loan	RSD	2W REPO + 3,33%	monthly	1 913 542	0	1 690 295	223 247	promissory note + mortgage + MP NYRT guarantor	-
Masterfoam Kft.*(1)	TCF-DK-77/2017	FX loan	EUR	2,04% until 03-04-2018, then EUR CIRR + 1.75 % p.a.	every 6 months	1 125 000	250 000	875 000	0	Net sales pledged to Bank, first demand absolute direct surety	Set off right + sales revenues + MP Kft. as guarantor
Masterplast International Kft.	SST-17-14844-250	FX loan	EUR	1-month BUBOR +1%	monthly	8 500 000	8 500 000	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 International Kft.*	TCF-DK-76/2017	FX loan	EUR	EUR CIRR + 0.1.75 % p.a.	every 6 months	1 080 000	240 000	840 000	0		
Masterplast Romania	35/2016	investment loan	RON	ROBOR 1 M +1.75%	monthly	113 614	40 099	73 515	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	2 500 000	2 500 000	0	0	collateral of bank credit line	
Masterplast YU D.o.o.**	00-475-0300006.3	bridging loan	RSD	3-month EURIBOR + 2.5%	monthly	1 950 000	1 950 000	0	0	promissory note + mortgage + MP NYRT guarantor	
Masterplast s.r.o.	-	financing	EUR	4.7% p.a.	monthly	3 508	3 508	0	0	mortgage	
Total investment and working capital loans						**20 267 109**	**14 216 414**	**5 759 117**	**291 578**		
Masterplast Romania	56 (OVD)	overdraft facility	RON	ROBOR 1M+1%	monthly	2 152 564	2 152 564	0	0	mortgage	-
Masterplast s.r.o.	-	overdraft facility	EUR	6-month EURIBOR +1.6%	monthly	387 499	387 499	0	0	mortgage	-
Masterplast International Kft.	MCOD-17-14844-150	overdraft facility	HUF	1-month BUBOR +1.25%	monthly	1 106 967	1 106 967	0	0	-	-
Masterplast Nyrt.	F-50/2017	overdraft facility	HUF	1-month BUBOR +1%	monthly	512 109	512 109	0	0	-	-
Total overdraft facilities						**4 159 139**	**4 159 139**	**0**	**0**		
Total loans and credits						**24 426 248**	**18 375 553**	**5 759 117**	**291 578**		

(1) On December 31, 2018 the required loan covenants were fulfilled in all cases.
* 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 – 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 capital 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.

18. Deferred income

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

Subsidy ID	Description of support	Beneficiary	2018	2017
SZVP-2003-6-03-08-1	Networking at "Master" level	Masterplast Nyrt. Masterplast Kft.	43 566	45 164
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.	265 231	283 968
GVOP-1.1.1-05/1.-2005-11-0010/5.0	"Development of the PE foam producing plant of MasterFoam Kft. at Kál in Heves county"	Masterfoam Kft.	14 866	23 644
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.	13 136	18 515
NGM/34052-6/2017	Corporate Investment support	Masterfoam Kft.	761 580	0
Government Grant	Fiberglass-mesh plant	Masterplast YU D.o.o.	3 728 512	1 652 857
GOP-1.3.1-10/A-2010-0143	"Launch of premix production know how with MASTERPLAST Kft'	Masterplast Kft	2 964	3 073
GINOP-2.1.1-15-2016-00767	Development of the new wind and air-tight diffusion roof foil with favourable properties at Masterplast Kft.	Masterplast Kft	136 551	0
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	35 235	39 633
Total			**5 001 641**	**2 066 854**
Short-term part			**933 723**	**360 076**
Long-term part			**4 067 918**	**1 706 778**

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

19. Other long-term liabilities

Other long-term liabilities	2018	2017
Long-term part of lease liabilities (Note 11)	574 637	546 762
Other long-term liabilities	146 715	144 866
Total	**721 352**	**691 628**

20. Provisions

2018	Opening balance	Translation difference	Increase	Current year use	Reversed	Closing
For unused holidays	43 139	-250	52 395	22 911	2 407	69 967
For bonuses	102	0	0	102	0	0
For commissions	10 336	0	13 525	7 707	0	16 154
Other	34 868	72	75 445	6 934	2 628	43 450
Total	**88 445**	**-178**	**141 365**	**37 654**	**5 035**	**186 944**

2017	Opening balance	Translation 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**

21. Trade payables

Ageing of trade payables is as follows:

Creditors	2018	2017
Not yet due	10 069 532	9 699 680
Due over 0-60 days	1 169 143	2 571 835
Due over 61-90 days	644 635	91 270
Due over 91-180 days	582 709	322 825
Due over 180 days	307 820	178 002
Total	**12 773 839**	**12 863 612**

22. Other current liabilities

Other current liabilities	2018	2017
Advances received	49 154	43 847
Liabilities to employees	841 465	448 864
Other current liabilities	208 179	205 640
Bonus to customers	886 115	735 871
Liabilities to shareholders*	0	1 629 376
Deferred income	13 196	32 525
Bills of exchange payable	0	199 463
Accrued expenses	270 848	608 150
Total	**2 268 957**	**3 903 736**

*refer to note 26.

23. Cost of materials and services used

Material type expenses	2018	2017
Cost of materials	29 101 027	27 761 989
Cost of services used	5 569 786	5 054 487
Cost of goods sold	44 541 222	41 445 666
Obtained sconto	-7 062	-9 817
Received bonus	-2 061	0
Total	**79 202 911**	**74 252 325**

24. Personnel related costs

Payments to personnel	2018	2017
Payroll costs	8 918 488	7 362 139
Other payments to personnel	956 354	1 047 116
Payroll taxes and social security contribution	1 672 940	1 708 066
Total	**11 547 782**	**10 117 321**

25. Other income and expense

Other income and expenses	2018	2017
Gain/(Loss) on fixed asset sales	-121 212	280 088
Inventory shortage, scrapped	-342 245	-73 446
Impairment reversed/(charged) on inventories, debtors and other receivables	-129 816	30 836
Taxes, duties	-248 648	-221 417
Credit loss	-126 202	-129 297
Income from tenders (release of deferred income)	448 292	265 664
Indemnity	0	49 899
Provisions reversed/(charged)	-98 676	0
Other	39 749	-10 287
Total	**-578 758**	**192 040**

26. Other financial profit or loss and fair value adjustments

Other financial profit or loss	2018	2017
Foreign exchange gain/(loss)	-213 714	79 864
Recognised gain/(loss) on derivatives and fair value adjustments	199 436	-30 947
Total	**-14 278**	**48 917**

The Group had the following open derivative transactions (at trading rate) at the end of years 2017 and 2018:

Description	Maturity/closing date	Currency	Value	Fair value 2018	Fair value 2017
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	0	-3 904
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	0	-721
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	0	-481
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	0	11 463
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	0	11 629
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2868EUR/PLN)	09.01.2018	PLN	120 556	0	77
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2433EUR/PLN)	23.01.2018	PLN	121 825	0	78
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2778EUR/PLN)	23.01.2018	PLN	133 856	0	86
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2304USD/PLN)	07.02.2018	PLN	62 732	0	40
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2302USD/PLN)	07.02.2018	PLN	62 732	0	40
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.27USD/PLN)	07.02.2018	PLN	45 546	0	29
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2583USD/PLN)	07.02.2018	PLN	62 732	0	40
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2209USD/PLN)	14.02.2018	PLN	133 254	0	86
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2129USD/PLN)	22.02.2018	PLN	125 540	0	81
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2096USD/PLN)	22.02.2018	PLN	120 758	0	78
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2079USD/PLN)	22.02.2018	PLN	137 194	0	88
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2558USD/PLN)	07.03.2018	PLN	62 732	0	40
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2497USD/PLN)	07.03.2018	PLN	70 723	0	45
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2145USD/PLN)	11.04.2018	PLN	120 758	0	78
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2069USD/PLN)	11.04.2018	PLN	62 732	0	40
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2023USD/PLN)	11.04.2018	PLN	60 222	0	39
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2077USD/PLN)	12.04.2018	PLN	121 273	0	78
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2113USD/PLN)	25.04.2018	PLN	138 699	0	89
Forward buy of Euro for Polish zloty at rate 4.1709 (at trading rate: 4.2169USD/PLN)	26.04.2018	PLN	136 566	0	88
Forward buy of USD for Polish zloty at rate 3.4813 (at trading rate: 3.5628USD/PLN)	09.01.2018	PLN	52 320	0	24
Forward buy of USD for Polish zloty at rate 3.4813 (at trading rate: 3.5805USD/PLN)	09.01.2018	PLN	52 320	0	24

Description	Maturity/closing date	Currency	Value	Fair value 2018	Fair value 2017
Forward sale of Euro for USD at rate 1.1824 USD/EUR (at trading rate: 1.1693 USD/EUR)	15.05.2019	USD	500 000	5 607	0
Forward sale of Euro for USD at rate 1.18 USD/EUR (at trading rate: 1.1667 USD/EUR)	04.17.2019	USD	500 000	5 703	0
Forward sale of Euro for USD at rate 1.1766 USD/EUR (at trading rate: 1.1632 USD/EUR)	03.13.2019	USD	500 000	5 751	0
Forward sale of Euro for USD at rate 1.1745 USD/EUR (at trading rate: 1.1608 HUF/EUR)	02.13.2019	USD	500 000	5 920	0
Forward buy of Euro for Polish zloty at rate 4.2995 (at trading rate: 4.3114EUR/PLN)	09.01.2019	PLN	133 654	86	0
Forward buy of Euro for Polish zloty at rate 4.2995 (at trading rate: 4.3082EUR/PLN)	16.01.2019	PLN	133 554	63	0
Forward buy of Euro for Polish zloty at rate 4.2995 (at trading rate: 4.3183EUR/PLN)	23.01.2019	PLN	86 366	87	0
Forward buy of Euro for Polish zloty at rate 4.2995 (at trading rate: 4.2933USD/PLN)	14.02.2019	PLN	167 905	-57	0
Forward buy of Euro for Polish zloty at rate 4.2995 (at trading rate: 4.2923USD/PLN)	21.02.2019	PLN	141 645	-55	0
Forward buy of Euro for Polish zloty at rate 4.2995 (at trading rate: 4.2964USD/PLN)	26.02.2019	PLN	150 373	-26	0
Forward buy of Euro for Polish zloty at rate 4.2995 (at trading rate: 4.2883USD/PLN)	06.03.2019	PLN	192 974	-117	0
Total				**23 021**	**19 254**
Of which other financial receivables				**23 275**	**24 360**
Of which other financial (liabilities)				**-255**	**-5 106**

In 2018 and 2017 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	2018		2017	
	Level 2*	Fair value total	Level 2*	Fair value total
Financial assets				
FX derivative transactions	23 275	**23 275**	24 360	**24 360**
Financial assets total	**23 275**	**23 275**	**24 360**	**24 360**
Financial liabilities				
FX derivative transactions	255	**255**	5 106	**5 106**
Financial liabilities total	**255**	**255**	**5 106**	**5 106**

The Group's financial instruments at book value and fair value were as follows at the end of 2018 and 2017:

Valuation of financial instruments	Book value		Fair value	
	31-12-2018	31-12-2017	31-12-2018	31-12-2017
Trade receivalbe	12 453 324	11 310 958	12 453 324	11 310 958
Taxes receivables	1 075 573	1 270 846	1 075 573	1 270 846
Other financial assets	23 275	24 360	23 275	24 360
Cash and cash equivalents	2 089 823	3 013 001	2 089 823	3 013 001
Total	**15 641 995**	**15 619 165**	**15 641 995**	**15 619 165**
Long-term loans	6 050 695	3 198 672	6 050 695	3 198 672
Other long-term liabilities	721 352	691 628	721 352	691 628
Taxes payable	641 013	603 315	641 013	603 315
Short-term loans	18 375 553	18 509 927	18 375 553	18 509 927
Trade payables	0	1 629 376	0	1 629 376
Liabilities to shareholders*	12 773 839	12 863 612	12 773 839	12 863 612
Short-term finance lease liabilities	289 284	239 378	289 284	239 378
Other financial liabilities	255	5 106	255	5 106
Total	**38 851 991**	**37 741 014**	**38 851 991**	**37 741 014**

Short term debtors, receivables and payables are instruments with maturity less than one year and their realisation is expected in short term. As such their net book value approach 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 2018	Payment within 1 year	Payment within 2-5 year	Payment beyond 5 year
Total loans and credits	18 375 553	5 759 117	291 578
Interests of loans and credits	480 569	875 360	10 176
Total	**18 856 122**	**6 634 477**	**301 754**

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**

27. Taxes

Taxes receivable and taxes payable were as follows:

Taxes receivable and taxes payable	2018	2017
Taxes receivable	1 075 573	1 270 846
Taxes payable	-641 013	-603 315
Net tax receivable	**434 560**	**667 531**

Income tax expense for the years ended 31 December 2018 and 31 December 2017 includes the following components:

Income tax expense	2018	2017
Income tax expense for the current year	405 753	318 323
Deferred income tax expense	-106 699	-98 530
Income tax expense	**299 054**	**219 793**

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	2018	2017
Average tax rate	11,2%	13,8%

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

Year-end balance of deferred tax	2018	2017
Tangible fixed assets	-205 848	-103 143
Inventories	86 895	-4 345
Provisions	14 239	8 501
Receivables	182 391	212 311
Development reserves	-13 996	-59 685
Losses carried forward	36 677	57 063
Deferred tax adjustments due to consolidation	0	49 929
Other	21 696	0
Closing deferred tax assets, net	**122 054**	**160 631**
Of which deferred tax assets	**303 568**	**329 945**
Of which deferred tax (liability)	**-181 514**	**-169 314**

Difference between the Group's income tax payable calculated at the actual average and effective income tax rate:

Difference between average and calculated tax rate	2018	2017
Profit before tax as per consolidated statement of profit or loss	3 624 917	2 901 290
Actual average tax rate	11,2%	13.8%
Income tax payable calculated at actual average tax rate	**405 991**	**400 378**
Permanent differences	3 025	59 665
Impact of the different tax rates	-1 613	0
Unrealised loss of subsidiaries	0	-344 218
Deferred tax assets and liabilities recognised in previous year, written off	0	139 326
Revaluation of deferred tax assets and liabilities	-108 349	-10 943
Other	0	-24 415
Total differences	**-106 937**	**-180 585**
Total income tax expenses	**299 054**	**219 793**
Effective income tax rate	**8,2%**	**7.6%**

Carried forward tax losses not yet used and the maturity of their usability:

Losses carried forward not considered in the deferred-tax	2018	2017	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	469 435	445 021	Can be used by 31.12.2021
Masterplast SK	34 795	58 907	Can be used up to 5 years from generation
Masterplast Nyrt.	0	414 146	Can be used up to 5 years from generation
Masterplast International Kft.	0	3 355	Can be used up to 5 years from generation
Mastermesh Kft.	0	16 058	Can be used up to 5 years from generation
Total	**1 424 145**	**1 857 402**	

28. Earnings per share

Earnings per share	2018	2017
Profit distributable to shareholders	3 283 382	2 610 062
Weighted average number of shares traded during the year	14 554 127	13 732 645
Earnings per share	**0,23**	**0,19**

Diluted earnings per share	2018	2017
Profit distributable to shareholders	3 283 382	2 610 062
Weighted average number of shares traded during the year	14 554 127	13 732 645
Diluted earnings per share	**0,23**	**0,19**

The Company had no uncalled share options with a diluting impact in 2017 and 2018, 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 Group divides its activities into two segments: 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.

2018	Sales	Production	Unallocated expenses	Inter-segment eliminations	Consolidated
Sales revenues from third parties	97 104 467	0	235 378	0	**97 339 845**
Inter-segment sales revenues	0	31 158 183	2 806 302	-33 964 485	**0**
Materials and services used	-85 912 917	-24 597 759	-2 656 720	33 964 485	**-79 202 911**
Payments to personnel	-5 841 343	-4 360 371	-1 346 068	0	**-11 547 782**
Depreciation and amortisation	-848 432	-831 422	-235 006	0	**-1 914 860**
Changes in self- produced inventories	297 321	-273 034	0	0	**24 287**
Other operating income (expenses)	-490 325	344 183	-432 616	0	**-578 758**
EBITDA	**5 157 203**	**2 271 202**	**-1 393 724**	**0**	**6 034 681**
EBITDA %	5,3%	7,3%	-45,8%	0,0%	6,2%
OPERATING PROFIT/LOSS	**4 308 771**	**1 439 780**	**-1 628 730**	**0**	**4 119 821**
EBIT %	4,4%	4,6%	-53,5%	0,0%	4,2%
Interest income	67 203	5 930	603	0	**73 736**
Interest expenses	-265 570	-234 288	-54 698	0	**-554 556**
Other income (expenses) of financial transactions	-131 264	-157 524	274 510	0	**-14 278**
Financial profit/loss	**-329 631**	**-385 882**	**220 415**	**0**	**-495 098**
Share of the profit of associates	0	0	194	0	**194**
PROFIT/LOSS BEFORE TAX	**3 977 486**	**1 053 898**	**-1 406 466**	**0**	**3 624 917**
Income tax	-211 256	-70 845	-16 953	0	**-299 054**
PROFIT/LOSS FOR THE YEAR	**3 766 230**	**983 053**	**-1 423 419**	**0**	**3 325 863**
ASSETS					
Tangible fixed assets	12 422 695	17 165 677	5 866 261	0	**35 454 633**
Inventories	17 628 510	5 431 412	0	0	**23 059 923**
Debtors	11 646 596	693 732	112 996	0	**12 453 324**
LIABILITIES					
Long-term loans	913 515	5 137 180	0	0	**6 050 695**
Deferred income	483 549	4 518 092	0	0	**5 001 641**
Short-term loans/OVD	9 621 023	8 754 530	0	0	**18 375 553**
Creditors	12 201 385	529 418	43 036	0	**12 773 839**

2017	Sales	Production	Unallocated expenses	Inter-segment eliminations	Consolidated
Sales revenues from third parties	88 540 551		269 494		**88 810 045**
Inter-segment sales revenues		27 049 789	2 300 685	-29 350 474	**0**
Materials and services used	-79 139 461	-22597104	-1 866 234	29 350 474	**-74 252 325**
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	**4 694 496**	**1 229 479**	**-982 175**	**0**	**4 941 800**
EBITDA %	5,3%	4,5%	-38,2%		**5,6%**
OPERATING PROFIT/LOSS	**3 981 707**	**510 333**	**-1 176 712**	**0**	**3 315 328**
EBIT %	4,5%	1,9%	-45,8%		**3,7%**
Interest income	90 062	26 771	860		**117 693**
Interest expenses	-236 112	-254 976	-88 424		**-579 512**
Other income (expenses) of financial transactions	-530 874	835 062	-255 271		**48 917**
Financial profit/loss	**-676 924**	**606 857**	**-342 835**	**0**	**-412 902**
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**

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

Sales revenues by countries	2018	2017
Hungary	35 447	29 915
Export	15 708	14 824
Romania	11 485	12 900
Serbia	9 329	9 210
Ukraine	7 893	6 967
Poland	7 327	5 235
Slovakia	4 712	4 016
Croatia	3 782	3 947
Macedonia	1 656	1 795
Total	**97 340**	**88 810**

The breakdown of net sales by country shows the revenue realized in countries where Masterplast has subsidiaries regardless of which subsidiary had sales in which country. Net sales in countries where the Group does not have a subsidiary are reported as "Export".

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

2018	Total	Properties, machinery and equipment	Intangible assets	Participation in associates	Long-term financial assets
Hungary	**10 054**	9 838	182	34	0
Romania	**3 838**	3 832	6	0	0
Serbia	**19 297**	19 284	13	0	0
Croatia	**392**	392	0	0	0
Ukraine	**967**	961	6	0	0
Slovakia	**405**	405	0	0	0
Poland	**399**	399	0	0	0
Macedonia	**344**	344	0	0	0
Total	**35 696**	**35 455**	**207**	**34**	**0**

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
Macedonia	**359**	359	0	0	0
Total	**29 399**	**29 348**	**17**	**34**	**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 Primoinvest Kft. (formerly Fóliatex Kft.). The Group's creditor turnover with the above related parties was EUR 4 842 in 2018 and EUR 7 791 in 2017, debtors turnover was EUR 46 110 in 2018 and EUR 5 988 in 2017. 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	2018	2017
Masterplast Nyrt.	4 842	7 791
Total	**8 842**	**7 791**

Debtor balances with the company were as follows:

Debtor balances	2018	2017
Masterplast Kft.	46 110	5 988
Total	**46 110**	**5 988**

Key executives of the Group discharge their duties as employees. Short-term allowances paid to them in 2018 amounted to EUR 971 572 and EUR 862 704 in 2017. No loans were granted to senior officers in 2017 or 2018.

The sum total of fees paid to members of the Board of Directors was EUR 25 592 in 2018 and EUR 23 892 in 2017.

33. Issuance of shares

On 15 January 2018 the Board of Directors decided to privately issue 858 319 pieces of new dematerialized ordinary shares where all rights attached to the new shares were identical to the previously issued ordinary shares (series 'A") with a nominal value of HUF 100 per shares, at an issue price of HUF 607 per shares and thus increasing the share capital to HUF 1 460 127 900. The newly issued shares are fully paid through contributed-in-kind the acknowledge claims of Tibor David and Balázs Ács against the Company, which were previously reported as short-term liabilities in the Company's records. The mutually agreed value of these acknowledge claims contributed-in-kind and the number and nominal value of shares issued in exchange of them 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
Total	**521 000 000**	**858 318**	**85 831 800**	**-**	**520 999 026**

34. Change of investments in subsidiaries

34.1. Decrease of investments in subsidiaries in 2018:

In December 2018, Masterplast Nyrt. sold its quota in OOO Masterplast RUS., so this previously consolidated subsidiary was hived off the Group.

Investment	Buyer	Percentage of investment sold (%)	Selling price
OOO Masterplast RUS	CEO of entity	100%	100

The closing balance of OOO Masterplast RUS. was as follows:

Balance sheet item	30 November 2018
CURRENT ASSETS	
Inventories	72 093
Trade receivables	54 814
Other current assets	5 885
Cash and cash equivalents	36 214
Current assets	**169 007**
TOTAL ASSETS	**169 007**
EQUITY	
Share capital	1 122 022
Reserves	-1 124 208
Equity	**-2 186**
CURRENT LIABILITIES	
Trade payables	155 511
Other current liabilities	15 682
Current liabilities	169 007
TOTAL LIABILITIES	**169 007**
EQUITY AND LIABILITIES	**169 007**

EUR 219 309 of gain was recognized in profit and loss in the consolidated annual financial statements that has previously recognized through other comprehensive income (the translation difference on the equity of OOO Masterplast RUS) as an item for the translation reserve.

34.2. 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 taken out of 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**

34.3. Increase of investments in subsidiaries in 2018:

None

34.4. Increase of investments in subsidiaries in 2017:

None

35. Risk management

35.1. 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	2018	2017
+ 1% increase in interest rates		
Financial profit/(loss)	-495 098	-702 857
Effect of interest rate increase	-244 262	-217 086
Adjusted financial loss	**-739 360**	**-919 943**
Profit before tax	3 624 917	2 901 290
Effect of interest rate increase	-244 262	-217 086
Adjusted profit before tax	**3 380 655**	**2 684 204**
+ 1% decrease in interest rates		
Financial profit/(loss)	-495 098	-702 857
Effect of interest rate decrease	244 262	217 086
Adjusted financial loss	**-250 836**	**-485 771**
Profit before tax	3 624 917	2 901 290
Effect of interest rate decrease	244 262	217 086
Adjusted profit before tax	**3 869 179**	**3 118 376**

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	2018	2017
Appreciation of EUR / HUF, EUR/RSD rates by 3 %		
Financial profit/(loss)	-495 098	-702 857
Effect of exchange rate appreciation	687 848	615 781
Adjusted financial loss	**192 750**	**-87 076**
Profit before tax	3 624 917	2 901 290
Effect of exchange rate appreciation increase	687 848	615 781
Adjusted profit before tax	**4 312 765**	**3 517 071**
Deprecation of EUR / HUF, EUR/RSD rates by 3 %		
Financial profit/(loss)	-495 098	-702 857
Effect of exchange rate depreciation	-687 848	-615 781
Adjusted financial loss	**-1 182 946**	**-1 318 638**
Profit before tax	3 624 917	2 901 290
Effect of exchange rate depreciation decrease	-687 848	-615 781
Adjusted profit before tax	**2 937 069**	**2 285 509**

35.2. 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 2017 and 2018 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.

2018	Falling due within 1 year	Falling due within 1-5 years	Falling due beyond 5 years	Total
Finance lease liabilities	301 347	587 783	0	889 130
Liabilities to shareholders	0	0	0	0
Bank loans	18 375 553	5 759 117	291 578	24 426 248
Trade payables and other liabilities	12 773 839	146 715	0	12 920 554
Total	**31 450 739**	**6 493 615**	**291 578**	**38 235 932**

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
Trade payables and other liabilities	12 863 612	144 866	0	13 008 478
Total	**33 261 198**	**3 912 204**	**0**	**37 173 402**

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 2018.

Name and calculation of indicator	Required	Met	
	2018	2018	2017
Liquidity ratio (current assets / (current liabilities -liabilities to shareholders))	≥1,00	1,14	1,07
Leverage ratio (equity / (balance sheet total-accrued income))	≥40%	41,95%	39,58%
Operating profitability (Operating profit or loss / net sales revenues)	≥4,00%	4,60%	4,05%
net debt/EBITDA	≤3,8	3,62	3,77

As at 31 December 2018 the Group complied with the leverage ratio covenant.

35.3. 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.

35.4. 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.

35.5. 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.

35.6. 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.

35.7. 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 increased its capital in 2018, andmay decide to do so in the future as well 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 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 in order to mitigate its liquidity risk in the face of the unpredictability of financial 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.

36. Research and development

Changes in R&D costs:

R&D cost	2018	2017
R&D cost	286 986	10 023

37. Contingent liabilities and future commitments

Unclosed tenders and related commitments – 2018

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.	116 152	14.07.2010 13.05.2011 16.11.2012	70% EC funds 30%local funds	116 152	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-1.3.1-11/A-2011-0084	"Energy modernisation of high buildings and the development of the related compliance with fire protection provisions with Masterplast Kft"	Masterplast Kft.	132 006	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.	132 006	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
GINOP-2.1.1-15-2016-00767	A new advantageous wind and airtight diffusion roofing foil product development at Masterplast Kft	Masterplast Kft.	170 906	30.09.2018	European Regional Development Fund of the European Union and the government budget of the Republic of Hungary.	170 906	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
NGM/34052-6/2017	Significant company improvement at Masterfoam Kft.	Masterfoam Kft.	780 703	30-04-2018 31-10-2018	100% local funds	780 703	Yes	Creating 21 new positions in the business years 2019 and 2020, ensuring an increase in wages compared to the base period (2016)	30-04-2024
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.	2 460 180	2018	Hungarian State (Prosperitati Found – Serbia)	2 460 180	Yes	Maintaining an economic activity for 7 years, 105 new employees with an undefined-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

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 – 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.	120 410	14.07.2010 13.05.2011 16.11.2012	70% EC funds 30%local funds	120 410	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 State (Prosperitati Found – Serbia)	2 454 405	Yes	Maintaining an economic activity for 7 years, 105 new employees with an undefined-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.

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	2018	2017
Masterplast Kft.	Customs	0	483 653
Masterfoam Kft.	Customs	31 103	32 244
Masterfoam Kft.	Tender guarantee	780 727	0
Masterplast Romania	Bank guarantee	267 170	267 393
Masterplast Romania	Bank guarantee	85 044	85 115
Masterplast YU D.o.o.	Bank guarantee	2 000 000	2 000 000
Total		**3 164 044**	**2 868 405**

38. Litigations and extrajudicial legal cases involving the Group

The District Prosecution Office of Fejér County (hereinafter referred to as "Prosecution Office") terminated the investigation with its decision dated 25th May 2018 which had been started by the Central Transdanubian Crime Directorate of the National Tax and Customs Administration, Investigation Department II. on 21 October 2015 on the grounds of the suspicion of committing unlawful VAT reclaim in the amount of EUR 731 166 – among others – against Masterplast Ltd. The reason of the prosecutor's decision was that on the data of the investigation the perpetration of a criminal offence could not be established and continued procedure would not expected to yield any result. At the same time the Prosecution Office informed the Court of Registration on the termination of the investigation against the legal person regarding to the Masterplast Ltd. On the base of that the Court of Registration deleted the reference to the criminal procedure from the company register. On the base of the above the procedure under prosecution number B/460/2015 has been definitively terminated against all natural and legal persons.

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 an 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.

There were one litigation and one extrajudicial casein progress in 2018 against the Company and its subsidiaries with a total approximate value of EUR 245 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 97 legal proceedings in progress launched by the Group with a total approximate value of EUR 974 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.

39. MASTERPLAST Employee Shared Ownership Program

Masterplast Nyrt. established the MASTERPLAST Employee Shared Ownership Program on 14 December 2016. The MRP organization is based in: 1062 Budapest, Andrássy út 100.
Masterplast Nyrt. (Founder) has established the MRP organization to efficiently conduct incentive remunerations related to Masterplast's business goals (Participants).
The Participants of the MRP in 2018 were the employees of Masterplast Nyrt. and of by 100% controlled Masterplast Kft.., 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.
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.

40. Subsequent events

In January 2018, 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 104 911) are presented in the financial statements.

41. 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.

42. 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.

43. Approval of the consolidated annual financial statements

The consolidated annual financial statements of Masterplast Nyrt. for the year ended 31 December 2018 were approved by the Board of Directors in a resolution dated 25 April 2019 and allowed their publication The consolidated annual financial statements may only be amended by the Annual Meeting of the Shareholders.

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