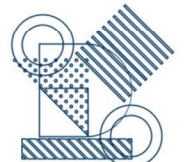
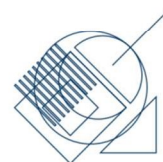
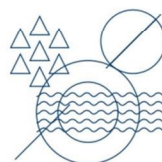
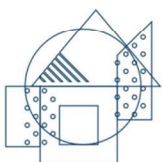


MASTERPLAST PLC. CONSOLIDATED MANAGEMENT AND BUSINESS REPORT 2018



Company registration number: 07-10-001342

Tax number: 13805300-4-07

Company: Masterplast Nyrt.

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

CONSOLIDATED MANAGEMENT AND BUSINESS REPORT

Business year: 01/JAN/2018 – 31/DEC/2018

Sárszentmihály, 25 April 2019



.....
CEO

MASTERPLAST PUBLIC LIMITED COMPANY

Contents

Introduction.....	5
Ownership.....	5
Voting rights and voting.....	6
Data of own shares.....	6
Board of Directors.....	6
Audit Committee.....	6
General Meeting.....	7
Subsidiaries.....	8
Plans for expansion.....	8
The impact of macroeconomic developments on the corporate group's activities.....	9
Developments in performance on business operations.....	11
Overview of sales by product group.....	11
Turnover by country.....	12
Masterplast's consolidated profit or loss.....	14
The Company's financial position.....	17
Financial and other management indicators.....	18
Research and development activities.....	19
Environmental protection.....	19
Short-term plans.....	20
The Company's long-term strategy.....	20
Risk management policy.....	22
Total credit risk.....	22
Interest rate risk.....	23
Liquidity risk.....	23
Geographic risk.....	23
Country risk.....	23
Exchange rate risk.....	23
Taxation risk.....	24
Management of capital risks.....	24
Ethical norms.....	24
Overview of premises.....	25
Management and structural subsequent events.....	25
Corporate Social Responsibility.....	26
Corporate governance.....	27
Equal opportunity and diversity.....	28
Masterplast Employee Shared Ownership Program.....	28
Observations regarding the future.....	28
Summary.....	29

Introduction

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

Ownership

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

Distribution of shareholder equity:

- 14 601 279 registered ordinary shares each with a face value of HUF 100

Shares are issued in the form of dematerialised shares.

ISIN identification number: HU0000093943

Owner's name	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	1 374 296 100 Ft
	(5 503 939 EUR)	(5 226 391 EUR)

Source: data from the Company's management information system

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

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

MASTERPLAST PUBLIC LIMITED COMPANY

Voting rights and voting

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

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

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

Data of own shares

At the balance sheet date, the Corporate Group had 11 817 repurchased dematerialised own shares.

Board of Directors

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

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

Members of the Board of Directors on 31 December 2018:

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

Audit Committee

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

Members of the Audit Committee:

- Dr György Martin Hajdu
- András Kazár
- Dirk Theuns

The Audit Committee is responsible for:

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

General Meeting

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

MASTERPLAST PUBLIC LIMITED COMPANY

Subsidiaries

On 31 December 2018, the Masterplast Group is present on the region's construction industry market through several active subsidiaries in 8 countries and indirect participation through its subsidiaries.

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

Source: data from the Company's management information system

Among the Company's former participations, OOO Masterplast RUS was sold in 2018.

Plans for expansion

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

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

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

The Company experienced a positive trend in 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.

MASTERPLAST PUBLIC LIMITED COMPANY

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

Developments in performance on business operations

Overview of sales by product group

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: 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.

MASTERPLAST PUBLIC LIMITED COMPANY

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 (A)	2017 (B)	Change % (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%
Romania	16%	17%
Export	12%	15%
Serbia	10%	10%
Ukraine	8%	8%
Poland	8%	6%
Slovakia	5%	5%
Croatia	4%	4%
Macedonia	2%	2%
Total sales revenue	36%	34%

Source: 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% drop 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.

MASTERPLAST PUBLIC LIMITED COMPANY

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** the 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.

Masterplast's consolidated profit or loss

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

Profit or loss statement (thousands of EUR)	31 December 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 or loss attributable to associates	0	-1	1	-117%
PROFIT BEFORE TAX	3 625	2 901	724	25%
Income tax	-299	-220	-79	36%
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) (EUR)	0,23	0,19		

Source: consolidated audited report of the Company on 31st of December 2018 and audited report on 31st of December 2017 based on IFRS accounting rules

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

MASTERPLAST PUBLIC LIMITED COMPANY

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.

In summary, amidst 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, 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 (24%).

The Company's financial position

Balance sheet (thousands of EUR)	31 December 2018	31 December 2017	Change	Change %
	(A)	(B)	(A-B)	(A/B-1)
NON-CURRENT ASSETS				
Property, plant and equipment	35 455	29 348	6 106	21%
Intangible assets	207	17	190	1085%
Investments in associates	34	34	0	0%
Deferred tax assets	304	330	-26	-8%
Non-current assets	35 999	29 730	6 269	21%
CURRENT ASSETS				
Inventories	23 060	21 171	1 889	9%
Trade receivables	12 453	11 311	1 142	10%
Taxes receivable	1 076	1 271	-195	-15%
Other current financial assets	23	24	-1	-4%
Other current assets	1 773	2 197	-424	-19%
Cash and cash equivalents	2 090	3 013	-923	-31%
Current assets	40 475	38 987	1 488	4%
TOTAL ASSETS	76 474	68 717	7 757	11%
EQUITY				
Share capital	5 504	5 226	278	5%
Reserves	20 929	18 293	2 636	14%
Redeemed treasury shares	-21	-22	1	-5%
Parent company's share of the profit or loss	3 283	2 610	673	26%
Equity attributable to parent company's shareholders	29 695	26 107	3 588	14%
Non-controlling interests	288	270	18	7%
Equity	29 983	26 377	3 606	14%
LONG-TERM LIABILITIES				
Long-term loans	6 051	3 199	2 852	89%
Deferred tax assets	182	169	12	7%
Deferred income	4 068	1 707	2 361	138%
Other long-term liabilities	721	692	30	4%
Long-term liabilities	11 021	5 766	5 255	91%
CURRENT LIABILITIES				
Short-term loans	18 376	18 510	-134	-1%
Trade payables	12 774	12 864	-90	-1%
Short-term financial leasing liabilities	289	239	50	21%
Other current financial liabilities	0	5	-5	-95%
Taxes payable	641	603	38	6%
Current part of deferred income	934	360	574	159%
Provisions	187	88	98	111%
Other current liabilities	2 269	3 904	-1 635	-42%
Current liabilities	35 470	36 574	-1 104	-3%
TOTAL LIABILITIES	46 491	42 340	4 151	10%
EQUITY AND LIABILITIES	76 474	68 717	7 757	11%

Source: consolidated audited report of the Company on 31st of December 2018 and audited report on 31st of December 2017 based on IFRS accounting rules

MASTERPLAST PUBLIC LIMITED COMPANY

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 its 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.

Financial and other management indicators

Financial and other management indicator		2018	2016
Current ratio		1.14	1.07
Interest coverage ratio		10.9	8.5
Accounts receivable turnover ratio	days	46	50
Accounts payable turnover ratio	days	58	65
Inventory turnover rate	days	85	86
EBITDA ratio	%	6.2	5.6
Debt ratio	%	61	62

Source: data from the Company's management information system

Research and development activities

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

The main focus within the roofing foil product group was the development of wind-insulating self-adhesive diffusion roofing foils and testing materials with higher heat and UV resistance. In 2018, building on the results of previous years, the Company performed pilot manufacturing runs. It tested numerous recipes and machine settings and developed its manufacturing technology. By the third quarter, the Company had managed to develop the targeted product type, achieving its essential properties.

Developments for the fibreglass product group are concentrated on the Subotica production facility and are primarily aimed at developing the mechanisation of coating technology and testing new coating materials. Coating technology underwent a complete transformation in 2018, as a result of which the product's features and qualitative deviation improved significantly as did production efficiency.

New manufacturing technology was installed in 2018 for the production of isofoam. This advanced new technology enables the use of new materials and new recipes. In the last quarter, numerous new recipes were developed and incorporated into manufacturing. Product recipes will continue to be developed in 2019.

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

Environmental protection

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

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

In both its logistic and production operations, it strives to optimise its energy consumption, which is both an economic aspect and reduces CO2 emissions. In terms of transportation capacity, in 2018 a large part of the fleet was replaced with more modern and environmentally friendly vehicles.

In terms of manufacturing, specifically the manufacturing of fibreglass, significant results were achieved in the domain of energy-saving things to the machine developments implemented in 2018.

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

Short-term plans

Macroeconomic forecasts predict a further economic upswing, and the positive trend may not only remain in neighbouring countries, but also export target countries (Western Europe) in 2019. Government incentives in certain countries (Hungary, Ukraine, Slovakia, Serbia) also foster a positive economic environment, and have a stimulating effect on both the renovation and the new home construction market. The Group still expects double-digit growth in 2018 in its best-performing markets (Hungary, Slovakia, and Poland) and growth on its remaining markets, and growth in other markets as well. The increased turnover on the Hungarian and Export markets will be better supported by increased production output, while the establishment of the new organisation in Romania will target more efficient operations and better earnings in 2019. The Company continues to expect an economic upturn in Serbia within the construction industry, with increased sales turnover and earnings. Market expectations in Croatia are positive, and the objective for the upcoming years is to optimise the organisation. Masterplast hopes to see the construction industry continue to perform well in Poland and Slovakia, and also expects increased sales revenue.

One of the main objectives for 2019 is to achieve higher utilisation of the increased capacity in the Serbian fibreglass mesh facility, to improve product quality and boost production efficiency. In the context of foam foil manufacturing in Kál, production output increased while fixed costs decreased, and production was optimised, maintaining the 2018 headcount. The Company does not plan any new investment projects for the upcoming year, but does expect to see wage inflation in Central and Eastern Europe. In addition, the key objective for 2019 is to optimise its inventories whereby keeping commercial goods and raw materials at the adequate level can be increased the Company's financial situation.

The Company continues to strive to optimise its operations and to continuously improve its profit-earning capacity. Due to the constant unpredictable and unforeseeable changes in the economic environment, continuous and rapid adaptation to market needs is paramount. As a result, the Company also aims to broadly develop its sales staff in an effort to boost its market presence.

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

The Company's long-term strategy

At the end of each year, the Corporate Group defines the essence of its strategy for the upcoming three years that will be decisive in shaping and implementing its decisions for the next three years. In the spirit of this, in late 2018 the Group defined and updated its strategic cornerstones and outlines its main directions for the period ending in late 2021.

Its key strategic principles are **focused and efficient operations**, and the spirit of which the Company wishes to excel in all areas of operation. Its key focus is still to **create customer value**, and a

background for this is provided by its **expanding manufacturing activity** and **continuous development of its services**.

The Group still aims to become a leading distributor of thermal insulation system elements in the Central and Eastern European region and to become the second largest seller of fibreglass and roofing foil on the entire European market.

Focused and efficient operation includes partial strategies for geographic areas, products, markets and buyers both at the Group, subsidiary and export level.

- The Masterplast group's distributor subsidiaries serve construction material traders, procurement companies and hardware store chains. The structure of the construction material trade sector differs from one country to the next, so a unique sales policy will be created for every market to ensure the best possible efficiency. The overarching central element of its service portfolio is fast and reliable service fostered by its efficient shipping system and permanent inventory. Reinforcing professional competency and thereby increasing expert status is a priority objective.
- Increasing export activities will allow the reinforcement of the Group's market position in fibreglass and roofing foil and the targeted increase in market share within the segment and Western European and southern European countries. In these product groups, the broad product range and developing manufacturing background will ensure increasing competitiveness. The price to value ratio and reliable quality is what first and foremost represents value for partners, in addition to the certificates provided with the products.
- The optimal level of services that partners truly find valuable was defined for every country and product group. The product and service packages created from this offer a competitive alternative that can give our partners the opportunity for business development.
- The lion's share of the product portfolio consists of facade thermal insulation, high roof insulation material and dry construction system elements. The strategic objective is to place increasing focus on products, allowing the Group to be a true market leader and expert in all of its markets in multiple segments of the construction industry.

The Group plans to reinforce and improve its market position in strategic product groups by further increasing and developing its current own production capacities. The Group's objective with these product groups is to become a major industry benchmark within the region. The focus of development is to create **lean processes** and also to **continuously develop expertise**, continuously improve the quality and further boost competitiveness across all products.

- The production capacity expansion of the Corporate Group's Subotica facility will be completed in 2019 by increasing the number of machines and improving the efficiency of the existing machinery. This will allow the plant to produce a broader range of products and supply high quality products with a competitive price to value ratio to the Group. A fibreglass knowledgebase will be created during the three-year strategic cycle, which may provide a

MASTERPLAST PUBLIC LIMITED COMPANY

good foundation for non-construction industry expansion with fibreglass products in the future.

- A new machine line capable of producing high-quality products will be launched in the Kál unit in 2018, which will allow the Corporate Group to produce new products and reach new markets within the construction industry. The doubled capacity will be able to meet high standard industrial requirements and also allow more cost-effective production.
- At the beginning of the strategic period, the Corporate Group started investigating the main topics of further developing its own manufacturing capacity. Thanks to its potential investments, Masterplast may be able to cover a significant portion of the supply of strategic products from its own production, offering exciting new opportunities in domains of industrial use.

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

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

Risk management policy

Total credit risk

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

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

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

Interest rate risk

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

Liquidity risk

The Group's liquidity policy requires it to hold sufficient liquid assets and the availability of credit lines to implement its Financial Strategy. On 31 December 2018, the Group had a EUR 40.5 million credit line which includes short and long-term credit lines, the letter of credit and the guarantee credit lines. The Group's credit opportunities offer adequate solvency and financial flexibility for achieving its strategic objectives.

Geographic risk

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

Country risk

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

Exchange rate risk

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

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

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

MASTERPLAST PUBLIC LIMITED COMPANY

Taxation risk

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

Management of capital risks

- Dividend policy

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

- Raising capital

On 15th of January 2018 the Board of Directors decided to increase the share capital to 1 460 127 900 HUF through private offering of 858 318 pieces of new dematerialized ordinary shares where all rights attached to the new shares shall be identical to the previously issued ordinary shares (series 'A') with nominal value of 100 HUF per shares, on issue price of 607 HUF per shares. Masterplast may secure funding by raising capital in the future to implement its future strategic plans. The Group, with the exception of individual cases, does not plan to raise capital for its subsidiaries with shareholder approval, and funds increases in equity from the profit of previous years.

- Optimal capital structure

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

- Maintaining operability

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

Ethical norms

The Company pays special attention to observe the human rights, fight against corruption and prevent bribery. The Company have a Code of Ethics, which covers the followings:

- Regarding to the clients, among other things, to protect information, regulate fair business, handle conflicts of interest, business gifts, representation, and hospitality control, and the prohibition of bribery and corruption.

- Regarding to the employees of the Company or its affiliates, communication between the employees, contact with the management, non-discrimination, work-related requirements, protection of values, labor health and safety issues and health protection.
- Regarding to the shareholders of the Company, among other things, the prohibition of insider trading, the handling of confidential information held by the Company, the protection of corporate property, and the intellectual properties of the Company.
- -In relation to the Company and the society, public participation, prohibition of child and forced labor, corporate social responsibility and environmentally awareness.

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

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

Overview of premises

In 2018 the Company did not carry out substantial developments to its buildings and premises in Sárszentmihály and in Kál. The corporate group's own premises include 313 thousand sqm of land, nearly 6 thousand sqm of office space, 22 thousand sqm of production facility space, 59 thousand sqm of warehouse space and 92 thousand sqm of parking lots and roads.

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

The ISO 9001: 2015 Quality Management System Standard, the ISO 14001: 2015 Environmental Management System Standard and the ISO 50001: 2011 Energy Management System Standard were introduced at the site.

Management and structural subsequent events

The Corporate Group's operations became even more efficient in 2018, and a Chief Financial Officer who has been a member of Masterplast's team for 8 years took over the role of CEO and its operative management, thereby ensuring long-term, efficient and successful operation. The Corporate Group's controlling manager of the past 7 years took over the position of CFO.

MASTERPLAST PUBLIC LIMITED COMPANY

This Founding owners are focussing on the Group's strategic matters and on future operating and development directions, allowing it to operate in a continuous and stable manner, and to serve its partners at the high standard it is known for.

The Group has shaped its recruitment strategy taking into account the difficult labour market situation, and has shaped and further developed its compensation system to retain current employees and reinforce their commitment, and also to improve Masterplast's labour market competitiveness and make it an attractive employer.

Corporate Social Responsibility

According to Masterplast's *ars poetica*, only a successful corporation can allow itself to help others. As such, the Group has supported its environment since its establishment. Besides financial donations, the Group encourages its staff members to do volunteer work in order to help others and to ensure sustainable development.

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

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

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

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

The Company joined the KÉPES programme as a supporter; the programme was created in 2013 by a group of Székesfehérvár-based companies and the municipal government of Székesfehérvár. The KÉPES programme, or the Community Value Creation Programme — Together for Székesfehérvár!

[Közösségi Értékteremtő Program – Együtt Székesfehérvárért!] aims to come up with solutions that create lasting value for the local community as a joint effort between the business world and the municipal government. Masterplast provides product and expert support for the program's projects and its employee team contributes with voluntary work.

As a firm believer in corporate social responsibility, Masterplast, in conjunction with its employees and partners, has been a supporter of the Hungarian Child Ambulance Foundation [Magyar Gyermekmentő Alapítvány] since 2015.

In the context of this now traditional collaboration project launched at the initiative of workers, the Company provides targeted help for the Foundation for the procurement of special medical diagnostic and educational tools. In the context of its end-of-the-year "Let's all save children together" ["Legyünk együtt gyermekmentők!"] initiative, the Company's partners also contribute to the donation's financial basis with their purchases. The amount required for purchasing the targeted equipment will be achieved with the help of Masterplast's additional own donations. In 2018 the Company once again donated a generous HUF 2,060,000 to the Hungarian Child Ambulance Foundation. This amount was a significant contribution for the procurement of a mobile medical many laboratory device. The Masterplast family is proud that over the past years, thanks to its close collaboration with partners, it has contributed over HUF 5 million to the Foundation.

As a new element of this cooperation, in 2018 the Masterplast – MGYA (Magyar Gyermekmentő Alapítványt [Hungarian Child Ambulance Foundation]) series of first aid courses was launched for educational institutions. As the first few minutes are essential in a medical emergency, it is important that teachers dealing with students possess the right knowledge. It is in recognition of this fact that the Company, hand-in-hand with the Hungarian Child Ambulance Foundation, launched the "Masterplast first aid course" at the end of last year to inform the teachers what they can do in the event of an emergency. Over 250 teachers so far have taken part in the courses. Masterplast's mission is to expand the first aid training project from an urban to a county scale and, in the longer run, to a national scale.

Corporate governance

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

The Group will do its best to operate in accordance with the statutory and regulatory requirements and in line with the principles of ethical business conduct. Therefore, the Company places particular emphasis on the corporate governance recommendations of the Budapest Stock Exchange in its day-to-day operations and regulation. The documents available on the following website: https://www.masterplastgroup.com/document_folder/tarsasagiranyitasi-dokumentumok/.

MASTERPLAST PUBLIC LIMITED COMPANY

Equal opportunity and diversity

The Group does not apply Diversity Policy, but it pays great attention to the diversity of cultural and social environments, as well as the diversity of employees, varying from country to country. Takes care of non-discrimination and equal opportunities and equal treatment.

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, Andrásy 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 2017 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.

Observations regarding the future

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

Summary

In summary, amidst 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 718 thousand (27%).

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

