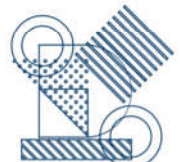
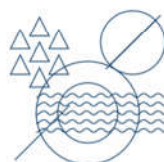
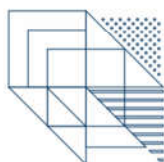
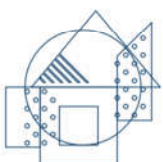




MASTERPLAST PLC.
MANAGEMENT AND BUSINESS REPORT 2019



Company registration number: 07-10-001342
Tax number: 13805300-4-07

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

MANAGEMENT AND BUSINESS REPORT

Business year: 1 January 2019 – 31 December 2019

Sárszentmihály, 23 April 2020



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CEO

Contents

- Introduction..... 3
- Short summary of business data 3
- Financial and other management indicators 3
- Distribution of Share Capital..... 3
- Several minority shareholders..... 4
- Treasury shares 4
- Board of Directors 4
- Audit Committee 4
- Internal audit 4
- General Meeting..... 5
- Subsidiaries..... 5
- Plans for expansion 5
- Management and structural subsequent events 7
- The Company's long-term strategy 7
- Bond Program..... 8
- Treasury shares data 9
- Research and development activities 9
- Overview of premises..... 9
- Environmental protection..... 9
- Risk management policy 10
 - Total credit risk*..... 10
 - Interest rate risk* 10
 - Liquidity risk*..... 10
 - Geographic risk*..... 10
 - Country risk*..... 10
 - Exchange rate risk* 10
 - Taxation risk* 11
 - Management of capital risks* 11
- Ethical norms 11
- Short-term plans..... 12
- Corporate governance 14
- Equal opportunity and diversity 14
- Masterplast Employee Shared Ownership Program 14
- Subsequent events..... 14
- Summary 15

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, the introduction of management as well as research and development activities and corporate social responsibility.

Short summary of business data

Masterplast Ltd. was founded by individuals in 1997 with the purpose of selling building materials and was transformed into a private company limited by shares on 29 September 2006 through reorganisation. In order to enter the stock market, it was transformed into a public company limited by shares on 20 April 2011. Its shares were technically introduced at the Budapest Stock Exchange on 29 November 2011.

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

The most important data of the balance sheet included in the supplement – prepared in accordance with the International Financial Reporting Standards (IFRS) as approved and implemented by the European Union (EU) - are as follows:

1. Annual domestic net sales: HUF 952,648 thousands.
2. The Company has an annual operation loss of HUF 42,603 thousands, while it has profit before tax of HUF 14,828 thousands.
3. Total assets amount to HUF 14,144,546 thousands.
4. Equity was HUF 4,404,787 thousands, while share capital was HUF 1,460,128 thousands.

Financial and other management indicators

Name of the indicators and their calculation		2019	2018
Ratio of non-current assets	$\frac{\text{Non-current assets}}{\text{Total assets}}$	0,87	0,81
Equity ratio	$\frac{\text{Equity}}{\text{Total equity and liabilities}}$	0,31	0,70
Liquidity indicator I.	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0,52	0,65
Liquidity indicator II.	$\frac{\text{Cash and cash equivalents}}{\text{Current liabilities}}$	0,17	0,03
Efficiency of equity	$\frac{\text{Profit for the year}}{\text{Equity}}$	0,00	-0,11
Operating Efficiency	$\frac{\text{Operating profit/(loss)}}{\text{Equity}}$	-0,01	-0,13

Distribution of Share Capital

Share capital consists of 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	2019	2018
Tibor Dávid	454 805 700 HUF	476 707 600 HUF
Ács Balázs	387 725 900 HUF	409 627 800 HUF
OTP Alapkezelő	93 518 400 HUF	97 872 700 HUF
LPH Kft., SOH Kft.	77 967 600 HUF	77 967 600 HUF
Nádasi Róbert	3 386 400 HUF	3 386 400 HUF
Several minority shareholders	424 844 100 HUF	393 384 100 HUF
Treasury shares	17 879 800 HUF	1 181 700 HUF
Total:	1 460 127 900 HUF	1 460 127 900 HUF

Board of Directors

It is 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 2019:

- 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 financial statements 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 to exercise of adequate control over the financial reporting system;
- g) supervising and managing internal audit work.

Internal audit

In 2019, the Company's internal audit was performed by Katalin Csemák.

General Meeting

The Company's topmost body is the General Meeting consisting of all shareholders. The annual general meeting is in charge, amongst other things, of accepting the annual financial statements and of deciding on the utilisation of profit/(loss) for the year, 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 share capital and which are conferred to the general meeting's exclusive competence under legislation or the Statutes.

Subsidiaries

On 31 December 2019, Masterplast Nyrt. had fully owned subsidiaries in 8 countries through which had an indirect share in the regions' construction industry. The Company had the following 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 Kft.	Hungary	2007
Green MP Invest	Ukraine	2012
Masterplast Hungária Kft.	Hungary	2016
Mastermesh Production Kft.	Hungary	2016
Masterplast International Kft.	Hungary	2016

Indirect relationship:

Masterplast D.O.O.	Macedonia	2002
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Affiliated undertaking:

Masterprofil Kft.	Hungary	2006
T-Cell Plasztik Kft.	Hungary	2013

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

The Company sold Masterplast Österreich GmbH in 2019.

The Company on 3 June 2019 acquired 24% ownership in T-CELL Plasztik Company with Limited Liability. The main activity of T-CELL Plasztik Kft. is a polystyrene manufacture, in its two plants in Hungary – in Hajduszoboszlo and Zalaegerszeg.

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 increase of production in the existing fibreglass plants in Subotica and the increased production capacity of fibreglass and foam foil product lines in Kál.

The impact of macroeconomic developments

Developments in the external economic and sectoral environment substantially shape the production and sales of the insulation and other construction materials that constitute Masterplast's core activity. While the sale of construction material and accessory products is mainly linked to the market for new buildings, sales of insulation material (primarily thermal insulation) is strongly linked to the building and home renovations. In 2019 the Company experienced a positive trend in the development of the construction industry environment in its country-portfolio on certain markets.

In Hungary representing the key market of the Group, the Company experienced – based on feedback of its business partners - once again a strong, though slightly less dynamically growing market in 2019. The construction boom that started in 2016 is still very much alive, however the annual growth rate has slowed down a bit. The main drivers of growth were still the development of homes and other buildings and the number of ongoing projects has still been numerous. In the retail construction market the number of new home constructions started to slow down. At the same time, the labour shortage continued to significantly impact construction industry performance in 2019 with the note that the labour shortage proves to be a nation-wide issue, not a sectoral one. Several of the retail and office constructions have been delayed as a result of the labour shortage, which is reflected in the decreasing number of already completed projects. Construction market expectations for the future year continue to be positive, although the withdrawal of the VAT discount is expected to have an impact on the launch of new home construction projects, which is somewhat counter-balanced by the new home-subsidy program (CSOK) announced during the summer for home renovation projects.

In Romania demand showed a mixed picture of the construction industry market in 2019 based on feedback from market players. There has been an increase in demand in the second half of the year as a result of the newly announced state-subsidies. The number of planned government reconstructions started to grow and though with a delay but building renovations and insulations have also been started.

In Serbia the economic development continued in 2019. The National Bank continued its price stability policy, creating favourable conditions for the economy. The construction industry's output increased reflected not only in the increase in numbers of big construction projects but also in the market of new home constructions evidenced by the increasing number of issued construction permits. The employment ratio continued to grow and as a result unemployment reached its lowest level of the last five years by the end of the year.

In Ukraine the upswing of the economy continued in 2019. The value of completed construction projects increased in each category on an annual basis. The number of built homes increased by 3%, while the number of all other completed buildings increased by 27%.

In Poland the economic development continued in the first half of 2019, while the construction industry started to slow down in the second one. Overall growth in the construction industry was lower than expected and the value of building and assembling projects have declined. The market experienced increasing wages and raw material prices and a significant labour shortage. The number of started constructions projects increased, however the number of those completed decreased.

In Slovakia - after the growth in the first quarter - the construction market started to decline in the remaining part of 2019 as demand decreased and there was significant shortage in labour. Property prices remained high and based on the feedback of market players a smaller economic decline is expected in the future.

In Croatia growth indicators continued to be positive in 2019. Both inflation and unemployment decreased, while salaries and wages increased and the construction industry continued to grow, although the number of issued construction permits decreased compared to the previous year.

In North-Macedonia both the industrial production and the number of completed construction projects increased. The number of issued construction permits also increased compared to the same period of the previous year. However, demand for properties started to decrease in the second half of the year, while wages started to grow in the construction industry as a result of the labour shortage.

Management and structural subsequent events

The “Masterplast 2.0” organizational development project launched in the previous years continued to thrive in 2019. The innovative and long-term sustainable de-centralized business model launched by the new CFO who was appointed in the summer of 2018 as well as the investing attitude of the management resulted in a new stability for the Company. The business units of the Group operate with a significant sovereignty which provides them a constant ability to grow. The key of the de-centralized model is the co-working environment and the constant increase in the decision-making freedom for the various divisions backed by a corporate culture that is able to adopt to changes in the market environment.

The key to success of the Masterplast Group is its corporate culture that is market-oriented and focuses on individual responsibility and entrepreneurial spirit. The corporate is built on the value-creating of its employees empowered by long-term employment relations and opportunities to personally grow within the corporation.

The future goal of the Company is to refresh and strengthen these values by the further involvement of its employees. As a result of a common exercise the Company renewed its vision, its mission as well as the pillars of its corporate culture.

In order to further strengthen the co-operation between management and the employees a new mobile app called “MasterApp” was introduced in the Company’s headquarters that facilitates internal communication and commitment. This is a modern platform that is simple, quick and provides an efficient route to communicate with colleagues without computers or e-mail addresses working in different parts of the Company and, in addition, is an excellent tool to provide feedback. This application is continuously being developed in order to further facilitate communication between management and employees.

The Company's long-term strategy

At the end of each year, the Corporate Group defines the essence of its strategy for the upcoming periods that will be decisive in shaping and implementing its future decisions and feasibility plans. At the end of 2019 the Company prepared its vision until 2030 and determined its strategic milestones until the end of 2021 then refreshed its key directions.

Beginning its fourth decade of operation in 2020, Masterplast begins its new decade on a strong foundation backed by a secure financing background, a competitive product portfolio and with a committed staff. Masterplast has stepped on a new growth-path in the past three years and became a real producer during the past decade.

Its key strategic principles continue to be a focused and efficient operation and the wish 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 in 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 that is strengthened by direct communication with construction representatives. A key strategic goal is to preferentially back business partners with web-sales activities - which are expected to explode - and to provide state-of-the-art services for them.

- 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 of this segment in Western 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 each 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 continues in 2020 through 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. The Group continues to develop its fibreglass knowledgebase, which may provide a good foundation for non-construction industry expansion with fibreglass products in the future.
- A new machine line capable of producing high-quality foam foil products was launched in the Kál unit in 2018, which allowed the Corporate Group to produce new products and reach new markets.. The doubled capacity is able to meet high standard industrial requirements and also allows more cost-effective production.
 - At the beginning of the strategic period the Corporate Group started investigating how to develop its own production capabilities of its strategic products. Thanks to these potential investments, Masterplast may be able to cover a significant portion of the supply of its strategic products from 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 Group'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.

Bond Program

The Group participated in the Growth Bond Program announced by the National Bank of Hungary, in the framework of which Masterplast Plc. issued bond with a nominal value of 6 billion HUF. The bonds were launched on the BSE Xbond market on 18 February 2020. Information about the bonds can be found at the following links:

Information document:

https://bet.hu/site/newkib/hu/2020.02./Informacios_dokumentum_kotvenyek_regisztraciojahoz_128355993

Bond Auction Result:

https://bet.hu/site/newkib/hu/2019.12./Bejelentes_kotveny_aukcio_eredmenyet_erintoen_128331410

Bond formation:

https://bet.hu/site/newkib/hu/2019.12./Bejelentes_kotveny_aukcio_eredmenyet_erintoen_128331410

Xbond registration:

https://bet.hu/site/newkib/hu/2020.02./Bejelentes_kotvenyek_regisztraciojat_illetoen_128355951

Treasury shares data

The company form is a public company limited by shares. At the balance sheet date, the Company had 178.798 pieces of dematerialised treasury shares.

Research and development activities

According to the Company's strategy, developments are 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 technical qualities of diffusion roofing foils. The already existing machinery has not been significantly developed, however several new materials and components were tried and tested for their usefulness and impact on the quality of the product. As a result of this research and development activity the wind-insulating foils have been modified in several aspects in order to improve their properties.

Based on strategic co-operation with Far-Eastern suppliers Masterplast has developed two humidity film foils that, which were entirely new to its product group and which are going to be introduced to the market in early 2020.

Developments for the fibreglass product group in 2019 did primarily not aim at developing the machinery or production mechanism, but at production control by strengthening the efficiency of production processes and experimenting with new components, recipes in order to develop new products. The properties of several of our products have been - in terms of their performance and quality levels - improved and we succeeded to decrease production costs in case of several products and new products have been developed to meet market demands.

In case of Isofoam production the Group spent 2019 with the development of new products and with trying new recipes and technological settings for already existing ones. As a result of these research and development activity the product portfolio was enhanced with high density foams and new types foam laps in various sizes.

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.

Overview of premises

The Company purchased from the Local Government of Sárszenmihály a new industrial land of 22,240 sqm in 2019 to be able to develop its facilities. The Company also purchased a 813 sqm warehouse building in Kál. As a result the Company owns 335 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 in 2018, which were duly renewed in 2019.

Environmental protection

The Company'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.

The quantity of waste in the fibreglass production has been significantly reduced during 2019 as a result of several smaller but important changes in production technology disciplines and a few smaller changes in machinery.

In both its logistic and production operations, the Company strives to optimise its energy consumption, which is both an economic aspect and reduces CO2 emissions. In terms of transportation capacity the Company's fleet was continued to be replaced with more modern and environmentally friendly vehicles during 2019.

Masterplast Nyrt. applies the ISO 50001:2011 Energy management system standard at its Sárszentmihály location and continues to maintain the Energy management system in its Hungarian subsidiaries.

Risk management policy

Total credit risk

The Group supplies goods and services to numerous customers. Given its contract volumes and the creditworthiness of its customers, the Group 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 the Company's 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 transactions decreased by impairment included in 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 to hold sufficient liquid assets and available credit lines to implement its Financial Strategy. On 31 December 2019, the Group had a EUR 37 million of credit line which includes short and long-term credit lines, letters of credit and guarantees for 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 were shaped by the political, macroeconomic and general sovereign 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.

Taxation risk

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

Management of capital risks

- **Dividend policy**

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

- **Raising capital**

Masterplast Plc did not issue new shares in 2019. however Masterplast may secure funding by raising capital in the future to implement its future strategic plans. The Company, with the exception of individual cases, does not plan to raise capital for its subsidiaries with shareholder approval, and funds increases in equity from annual profits.

- **Optimal capital structure**

With the capital raised in 2018, 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 customers.

Ethical norms

The Group pays special attention to observe the human rights, fight against corruption and prevent bribery. The Group 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 Group 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 Group, among other things, the prohibition of insider trading, the handling of confidential information held by the Group, the protection of corporate property, and the intellectual properties of the Group.
- In relation to the Group 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 Group has an internal audit system. The internal auditor brings into focus the respect for human rights, the fight against corruption and the prevention of bribery. Any abuses or breaches of the rules can be reported to the internal auditor in an anonymous manner by employees or other stakeholders. The internal auditor reports her work to an independent Audit Committee.

Short-term plans

Macroeconomic forecasts predict a slowing-down, but still alive economic upswing in the construction business and this positive trend may not only remain in Hungary, which represent the key country for the Group, but also export target countries (Western Europe) in 2020. Government incentives in certain countries (Hungary, Ukraine, Slovakia, Serbia) also foster a positive economic environment, and have a stimulating effect on both the new home construction market and the home renovation one, which continues to be in the focus of Masterplast's business. In the second half of the year the market of home renovations may exceed the market of new home constructions. The Group still expects double-digit growth in 2020 in its most lucrative markets (Hungary, Slovakia, Poland and Export), while plans continue to indicate growth in other markets as well. The increased turnover on the Hungarian and Export markets will be supported by the continuous improvement of efficiency in own production as well as the expected launch of the roof foil production in Sárszenmihály in 2020. Reorganizations in Romania resulted in more efficient operations, which combined with a new commercial strategy is expected to result in better earnings in 2020. 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 2020 is to achieve higher utilisation of the increased capacity in the Serbian fibreglass mesh facility, to improve product quality and boost production efficiency. The increased output of foam foil manufacturing in Kál is expected to lower fix costs per unit.

The already launched investment in the new roof foil production factory in Sárszentmihály is going to be completed in the spring of 2020, which will improve the competitiveness of the Group and enable it to increase its market shares in this product line. The acquisition of T-cell Plasztik Kft. in 2019 enables the Company to increase its share in the market of polystyrene products during 2020 by further strengthening the Company's positions on the Hungarian market. The Company continues to expect a steady increase in salaries and wages in Central and Eastern Europe. In addition, the key objective for 2020 is to optimise its inventories whereby keeping commercial goods and raw materials at the adequate level in order to further improve the Company's financial positions.

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 Groups focuses on the continuous wide-range training and development of its staff with particular emphasis on 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 above short term plans may be fundamentally challenged by the economic upheaval generated by the global epidemic caused by the COVID-19 virus. The potential impacts of this is discussed in a separate paragraph.

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.

To ensure 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.

Since 2012 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 2019 the Company once again donated a generous HUF 1,920,000 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 7 million to the Foundation.

As a new element of this cooperation, in 2019 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 2017 to inform the teachers what they can do in the event of an emergency. Over 500 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/](https://www.masterplastgroup.com/document_folder/tarsasagiranyitasi-dokumentumok/).

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 2019 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.

Subsequent events

The Masterplast has been faced with the current situation called forth by the spread of COVID-19 virus in massive market embeddedness and with stable liquidity position. In terms of the industry it is now clearly outlined that the construction and building material industry has been less severely affected by the current situation in the first round. The operating environment has deteriorated observably, but it nowhere became impossible to operate. However, there may be middle and long term effects unless targeted government programs do not neutralize this. The Group has been working with calm-balanced thinking and consciously since the beginning of the crisis, to ensure that the Group can operate effectively even with declining demand. The goal of Masterplast is also to be able to start from the best possible positions in parallel with the restart of the economy. By rationalisation of the operating processes, optimizing inventories, saving measures and managing receivables efficiently Masterplast is adapting to the conditions caused by declining demand with keeping the business continuity stable and maintaining the high standard of service.

The Group constantly researching alternative business opportunities for the sale of mask and protective clothing raw materials, but we also support the community in the defence. As part of our social responsibility campaign,

we provided the quantity required for the production of 20 000 face masks from own-produced diffusion roofing foil raw materials free of charge to various organisations and to individuals.

The Group hopes that the targeted economic protection subsidies will also have a positive impact on the construction industry and can help to offset the declining demand. Already during the emergency, the rise of the building energy upgrades with renovation purposes can be expected to pick up, with bringing significant potential for Masterplast.

Considering the fact that COVID-19 virus appeared in Hungary and Europe in 2020, the epidemic as well as the measures to mitigate the effect of expected recession were taken after the end of the reporting period, the Group considers it as a non-adjusting subsequent event in the 2019 financial statements. Based on currently available assumptions the Group came to the conclusion that its going concern assumption is not endangered for the 12 months following balance sheet date.

Summary

In summary, amidst an improving market environment, the Group's sales revenue exceeded last year's base by 10% in 2019. Taking advantage of the positive industrial trend and market embedment, 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. The trading margin as well as the production output of the Group have also increased in 2019. Also considering the change in own production, costs incurred in connection with materials and services used grew by 9% versus a 10% increase in its sales revenue. The Group's personnel expenses increased in 2019 so did the Group's depreciation charge, while other operating charges improved compared to the previous year.

As a result, the Group's EBITDA was EUR 7,327 thousand versus EUR 6,035 thousand in the previous year (21% increase). The Group's financial result also increased. As a consequence the Group's profit for the year exceeded that of the previous year by EUR 1,437 thousand (43%).

The Group expects that the construction market continues to thrive in the future 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.

