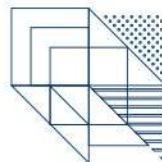
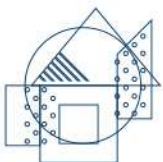


MASTERPLAST



MASTERPLAST PLC. MANAGEMENT AND BUSINESS REPORT 2020



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 2020 – 31 December 2020

Sárszentmihály, 29 April 2021



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CEO

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Introduction

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

Short summary of business data

The Company's registered seat is at: Árpád u. 1/a., 8143 Sárszentmihály, Hungary.

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, however it is also involved in real estate management. As an asset manager the Company hold investments in subsidiaries of the Masterplast Group thus changes in the construction industry have a significant impact on the Company's profitability through the profitability and capital structure of its subsidiaries.

The Company's real estate management activity is linked to its properties in Sárszentmihály and Kál. The Company owns several buildings and other properties in these two locations, which are rented primarily to the Company's subsidiaries but also – to a lesser extent – to third parties independent from the Group.

In addition of the above the Company grants intercompany loans to its subsidiaries, obtains bank loans for the Group and signs purchasing contracts in the name of the Group. Group management as well as employees carrying out various group-level activities are employed by Masterplast Nyrt. As a consequence group-level functions are supervised by the Company, thus it is the Company that manages the Group.

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 780,286 thousands (2019: HUF 952,648 thousands)
2. The Company has an annual operation loss of HUF 611,522 thousands (2019: HUF 42,603 thousands), while it has profit before tax of HUF 292,796 thousands (2019: HUF 14,828 thousands)
3. Total assets amount to HUF 28,611,199 thousands (2019: HUF 14,140,517 thousands).
4. Equity was HUF 4,599,701 thousands (2019: HUF 4,400,759), while share capital was HUF 1,460,128 thousands, which does not changed compared to the 2019 year.

Financial and other management indicators

Name of the indicators and their calculation		2020	2019
Ratio of non-current assets	<u>Non-current assets</u>	0,60	0,87
	Total assets		
Equity ratio	<u>Equity</u>	0,16	0,31
	Total equity and liabilities		
Liquidity indicator I.	<u>Current assets</u>	1,06	0,52
	Current liabilities		
Liquidity indicator II.	<u>Cash and cash equivalents</u>	0,96	0,17
	Current liabilities		
Efficiency of equity	<u>Profit for the year</u>	0,08	0,00
	Equity		
Operating Efficiency	<u>Operating profit/(loss)</u>	0,13	-0,01
	Equity		

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

		2020	2019
1	Tibor Dávid	454 805 700 HUF	454 805 700 HUF
2	Ács Balázs	387 725 900 HUF	387 725 900 HUF
3	OTP Alapkezelő	93 676 200 HUF	93 518 400 HUF
4	LPH Kft., SOH Kft.	79 886 900 HUF	77 967 600 HUF
5	Több kisebbségi tulajdonos	420 012 800 HUF	428 230 500 HUF
6	Visszavásárolt részvények	24 020 400 HUF	17 879 800 HUF
Összesen:		1 460 127 900 Ft	1 460 127 900 HUF

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.

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
- Dezse Margaret – Independent member
- Dirk Theuns – Independent member
- Sinkó Ottó– 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:

- Dezse Margaret
- Dirk Theuns
- Sinkó Ottó

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

The Company has an internal audit. In 2020, 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 2020, Masterplast Nyrt. had fully owned subsidiaries in 9 countries through which had an indirect share in the regions's construction industry. The Company had the following subsidiaries:

Company name	Place of registration	Date of foundation
Masterplast Romania S.R.L.	Romania	2001.
Masterplast YU D.o.o.	Serbia	2002.
Master Plast S.r.o.	Slovakia	1999.
Masterplast d.o.o.	Croatia	2002.
MasterPlast TOV	Ukraine	2005.
Masterplast Sp zoo	Poland	2005.
MasterFoam Kft.	Hungary	2004.
Masterplast Kft.	Hungary	2007.
Green MP Invest	Ukraine	2012.
Masterplast Hungária Kft.	Hungary	2016.
Mastermesh Production Kft.	Hungary	2016.
Masterplast International Kft.	Hungary	2016.
Fidelis Bau Kft.	Hungary	2020.
Masterplast Nonwoven GmbH	Germany	2020.

Indirect relationship:

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

Masterprofil Kft.	Hungary	2007.
T-Cell Plasztk Kft.	Hungary	2019.

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

Masterplast with the agreement on acquiring a plant in Germany - which was announced on 21 May 2020 – the Company established the Masterplast Nonwoven GmbH on 4 June 2020. The Company acquired a 50% stake and exclusive management rights in the subsidiary. According to the plans of the Company, the subsidiary started its operation on 1 July 2020, with the acquisition of the Aschersleben plant, which produces special fleeces and multilayer membranes for the healthcare and construction industries.

The Company – by a share purchase agreement signed on 1 July 2020 - acquired the 100% share in the Fidelis BAU Építőipari és Kereskedelmi Korlátolt Felelősségű Társaság. The purchase price of the share

consists of a fixed amount of HUF 100 000 000 - i.e. one hundred million forints, and the sum of the net book value of assets and liabilities based on the balance sheet of the company for H1 2020. The total purchase price was HUF 114,9 million. The planned return on the acquisition is 7 years. Fidelis BAU Kft founded in 2002, is a manufacturer of "Thermobeton", a thermal insulation lightweight concrete made from recycled raw materials, and a former supplier of the Masterplast Group. Fidelis BAU Kft has the necessary official permits for the collection, transport and processing of polystyrene waste, as well as production technology. With the acquisition of Fidelis BAU Kft the production technology required for the recycling of polystyrene waste and all official permits are available within the Masterplast Group, thus the Masterplast Group implements a circular production system called the "Hungarocell Green Program".

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 fiberglass plant in Subotica and the plant in Germany as a manufacturer of multilayer membranes for the construction market. In addition, the Group entered the healthcare products market in 2020, which offers new opportunities and contributes to the Group's results by generating higher profits in addition to sales. The strategic product supply of virus control for the healthcare industry has come to the fore and has become more important. Expanding demand and the demand for innovation also provide a solid foundation for the coming periods.

Masterplast has launched a project at the Company's subsidiary, located at Subotica, with the subsidy of the Hungarian State, in order to further development of the production of fiberglass mesh. With the Project, the glass fabric production capacity will be expanded, the existing weaving and coating machine park will be modernized, a modern warehouse base and a prefabrication department will be established. With the new machines based mainly on modern German technology and renewable manufacturing, logistics and assembly services, the Group will be able to serve the market of premium quality products with the highest quality. Construction work will begin in early 2021, and after the successful commissioning of the production units, production is expected to begin in early 2022. With the implementation of the Project, the production of the Group's glass fabric is planned to increase to 150 million m² / year, which makes the Masterplast Group the second largest producer of glass fabric in Europe and the third largest in the world.

The subsidiary of the Company, MASTERPLAST Kft. is launching a new investment in the healthcare industry to create a finished product manufacturing capacity for personal protective equipment for the health industry, supported by the Hungarian State. The Project is implemented at the Company's headquarters in Sárszentmihály. With the creation of the new production capacity, it will be possible to produce finished health care products such as protective coveralls, medical gowns, disposable medical suits, foot bags, head protection and isolation sheets. The Project is closely related to the large investment in the production of raw materials for the healthcare industry, which started in December 2020. With the implementation of the two projects, the total value of Masterplast's manufacturing developments in the healthcare industry will exceed HUF 12 billion.

With the development of finished product production capabilities, integrated production will be realized in the Company's healthcare sector as well, within the framework of which Masterplast will control the entire production chain from raw materials to finished products. As a result of the production development, Masterplast will be able to produce products for which, according to industry forecasts, the healthcare industry will have a growing demand even after the end of the pandemic situation. With its efforts in the healthcare industry, Masterplast simultaneously aims to create investor value and strengthen the security of product supply in Hungarian healthcare.

The impact of macroeconomic developments

The external economic and industrial environment has a significant effect on the production and sale of the insulation and other construction materials, which are the main activities of the Masterplast. While the sale of the constructional and accessories products is mainly in relation with the new buildings market, the insulation related materials (primarily the heat insulation) depend on both the new building and home renovation markets.

In 2020 the coronavirus and the measures related to the current situation determined the living environment but did not fundamentally affect the operation of the construction industry. The Masterplast has faced with slightly moderated but mostly favourable trends and industrial climate in its country portfolio.

On the most significant Hungarian market according to the feedback of the market participants, the construction industry was mixed in 2020. The government has provided incentive measures to the construction sector to protect against the coronavirus (such as 5% VAT on housing in so-called rust zones, advancing the public building renovations, launching a hotel and restaurant renovation loan program, non-repayable corporate real estate investment loans). According to CSO data, construction output was higher in each month from June to November than in the previous months. Overall, however, on an annual basis, the construction output declined by nearly 10% compared to the already strong 2019 year. The current construction expectation for 2021 is again strongly positive, thanks to the family support home creation program and the housing renovation support that is introduced in 2021. However, it should be noted that, these measures pushed back the already weakening demand in the last part of the year. The Company's construction expectations for 2021 are positive, confident of further revenue and earnings growth, even if it lags behind the results achieved in previous years.

In Romania, the construction industry was characterized by also a mixed picture. At the beginning of the year, the volume of construction work increased, but from the middle of March an emergency situation was declared due to the coronavirus, the stopped construction works and the larger thermal insulation projects could continue only in September. By the summer, however, the market had revived, with both traditional and residential demand starting to grow. On an annual basis, although the performance of the economy decreased, construction output increased, mainly due to renovations.

In Serbia, in view of the viral situation in order to reduce its negative effects, the government introduced economic protection measures in March, reducing interest rates to ensure the liquidity of the economy until the end of the year. In the construction sector, the value of work performed fell behind of last year on an annual basis, while the number of building permits issued increased.

In Germany, the coronavirus epidemic in the first half of the year largely paralyzed the economy. The government has introduced several stabilization and growth-enhancing programs to offset the effects of the epidemic. In Q3 the economic downturn stopped, and the economy grew at a record rate. The construction industry also performed well, although the public investment lagging behind, the number of housing constructions jumped significantly and the number of construction orders increased, approaching pre-crisis levels of January 2020. As a result of the second national closures due to the coronavirus, a major economic recovery is not expected by the beginning of 2021, it will be postponed.

In Ukraine, GDP fell on an annual basis, construction dropped back. After a good start at the beginning of the year, the restrictions imposed at the end of Q1 due to the viral situation significantly affected the sector, the demand for building materials and constructions decreased, while the value of construction work was higher than last year.

In Poland as a whole, there was a decline in the construction industry. The value of new construction as well as renovation works also decreased year-on-year compared to the base, while the number of new homes handed over at the end of the year reached a record due to new energy efficiency regulations in force from 2021 onwards.

In Slovakia, the situation was mixed in the building industry, after a growth in the first quarter the construction output declined. Industrial production also landed on a lower level, the coronavirus and a shortage of skilled labor led to a slowdown in major constructions. There was a decrease in the number of construction projects and a number of building permits, while there was an increase in the number of renovations.

In Croatia, after a stronger first two months, the epidemiological situation led to an almost complete decline in construction activity, most construction stopped, only the major construction projects continuing. The situation was further aggravated by the fact that in March Zagreb was hit by an earthquake, during which many buildings were damaged and even a few became unusable. In 2020, neither the economy nor the construction industry was able to expand compared to the same period last year. Due to the epidemiological situation, the significant decline in tourism weakened construction activity, the willingness to invest declined, and the number of building permits issued also decreased.

In North Macedonia, the industrial production decreased just as the foreign trade. With regard to the construction industry, the virus situation reduced the demand, the number of building permits issued and the estimated total value of construction projects were also lower than 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 2017 - 2020:

Country	2017.	2018.	2019.	2020.
Horvátország	34,9	-6,0	30,8	-16,1
Magyarország	21,5	-3,2	-3,7	-38,1
Lengyelország	19,3	3,3	4,6	3,2
Románia	7,7	2,6	-0,4	-2,9
Szlovákia	-8,6	11,4	-0,9	-6,5
Szerbia	34,0	9,4	29,1	7,4

Forrás: EUROSTAT: Building permits percentage change

Management and structural subsequent events

With the acquisition of Masterplast in Germany in the summer of 2020, it entered the healthcare industry as a specialist healthcare fleece manufacturer. This acquisition provided the basis for further developments within the healthcare industry for the Group. At the end of 2020, a construction of a new production plant began at the Company's headquarters in Sárszentmihály, where on the one hand hygienic textile production technology is installed and the production of sanitary textile finished goods

become possible. In addition, the Company intends to pursue research and development activities aimed at developing new, innovative raw materials tailored to the needs of the healthcare industry.

New sector, new type of product, actors, working method, therefore the Company decided to create a new business division, which includes:

- the manufacturing and sales in Aschersleben, Germany,
- the integrated production of the health industry in Sárszentmihály,
- the lamination and prefabrication of the Sárszentmihály fleece (construction segment) and
- the healthcare sales.

The Company entrusted with the management of the division Illés Jancsó, who is the company manager of Masterplast International Kft. and the managing director of Masterplast Nonwoven GmbH. He is a leader with significant experience in both fleece manufacturing and sales. During the first quarter of 2021, the development of a recruitment-selection strategy related to investments become emphasized, and then, until May 2021, the recruitment-selection and training of the necessary workforce will be important in order to ensure production starting in June. The development and adaptation of the division's operations to the Group's operational processes will receive special attention during the year.

The Company's long-term strategy

At the end of 2019, the Group developed its vision for 2030, the updating of which was necessitated by the entry into the healthcare industry in 2020. Based on the vision, the Company sets the cornerstones at the end of each year until the end of the next strategic period, and then updates the main directions for the next business year.

Corner points of the strategy

- the thermal insulation system registered at European level
- the dynamically growing new player in the health industry

As an approved insulation material manufacturer, Masterplast aims to become the second largest producer and distributor of fiberglass mesh in the entire European market and the third largest in the global market, and to achieve a leading role in the production and sale of roofing foils. In order to this, the Company plans to steady and expand its market position by further expanding and developing the existing production capacities.

In strategic product areas, the Group aims to become a key industry benchmark in the region. In addition to the development of lean processes, the focus of the development is the continuous development of expertise, the continuous improvement of quality and the further increase of competitiveness in all product ranges.

- In 2021, the expansion of production capacity in the Subotica plant of the Group continues with the installation of new, modern machines and the further development of the efficiency of the existing machine park. In this way, Masterplast can also serve the market of premium category products by 2022. In addition, the development of a modern warehouse base and a prefabrication department will begin, so that the Company can provide a wider range of high-quality manufacturing services to its customers with the highest quality requirements. The expansion of the fiberglass mesh knowledge base will continue, providing a basis for launching non-construction manufacturing and sales.

- With the acquisition of the plant in Germany, the Company's position as a manufacturer of multilayer membranes for the construction industry was further strengthened. Through the acquisition, the Company became a manufacturer of special medical fleeces, and the knowledge and experience gained in this way became the basis for the Company's entry into the healthcare industry and further developments within this industry.
- The presence in the healthcare sector is further strengthened by the construction of a new production plant started at the Company's headquarters in Sárszentmihály, where on the one hand the hygienic textile production technology is installed. The new factory unit is suitable for the supply of raw materials to manufacturers of medical protective clothing, mouth masks and other hygiene devices used in healthcare. The high degree of productivity is ensured by a production technology with a high level of automation, which with achieving special product properties, will be able to produce one or more layers of health care textiles from the summer of 2021. As a further development step, the Company installs additional new production capacity, which will enable the production of finished healthcare products by September 2021. Thus, by the end of the strategic period, the Company will develop integrated production, within the framework of which the Group will be able to serve the entire production chain from hygienic textile raw materials to finished products both in Hungary and in export markets. The Company also intends to conduct research and development activities aimed at developing new, innovative raw materials tailored to the needs of the healthcare industry.
- The Group is examining the possibility of further development of its own production capacity in its most important product ranges. Through its potential investments, the Company will be able to cover a significant portion of its strategic product sales from its own production, as well as create exciting opportunities for industrial applications.
- The Company is committed to the implementation of circular management and therefore explores innovative development opportunities for the production of recyclable insulation systems.

In each country and product range, the Company determines the optimal level of services that partners think are truly valuable. The resulting product-service package is a competitive alternative that can provide business opportunities and development for the partners.

- 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. Professional competency and thereby increasing expert status are priority objectives, which are also reinforced by direct communication with contractors. Significant strategic goal is to give special support to the partners operating with web sales activities, which are facing great growth, and to provide them with a customized service.
- Increasing export activities will allow the reinforcement of the Group's market position in fiberglass 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 Company intends to sell healthcare products through a new business line, which also includes the production of raw materials and finished products. This makes it possible to meet the needs of special customized medical textiles - raw materials, finished goods, special services - both in Hungary and in the case of the surrounding countries.

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. The cornerstone of Masterplast's success continues to be a corporate culture that focuses on market focus, individual responsibility and entrepreneurship. Masterplast is a company built on employee value creation, committed to maintaining long-term working relationships and individual development.

Bond Program

The Company issued a total of 6 billion HUF nominal value of bonds under Growth Bond Program in December 2020 announced by the National Bank of Hungary to refinance existing loans, which provides a stable source for its ongoing and future investments. The Company temporarily used the borrowed funds to refinance part of its short-term loans, as a result of which the amount of short-term loans decreased, and the Group's liabilities related to bonds in the balance sheet increased.

Treasury shares data

The company form is a public company limited by shares. At the balance sheet date, the Company had 240.204 pieces of dematerialised treasury shares.

Research and development activities

Due to the economic impact of Covid-19, as well as Masterplast's business position, the company's strategy was complemented by the healthcare business. In line with the updated strategy, developments within the Group focused on the roofing foils and fiberglass product categories, on existing productions and the new healthcare segment.

In the range of roofing foil products, Masterplast started to develop a new diffusion roofing foil product family based on the technological possibilities of Masterplast Nonwoven GmbH in Germany, which joined the group during the year. The goal is to use the advantages of the production technology to enter the market with an excellent value-for-money, high heat and aging resistance product family, which can give our customers a long user guarantee, and to be a factory supplier of roofing system sellers next to the traditional retail customers.

In the fiberglass product range, the main focus was on the improving production efficiency, in which Masterplast was able to make significant progress. In addition to increasing efficiency, quality indicators have also improved.

Due to the pandemic, there was a significant demand for the products of Masterplast Nonwoven GmbH. The standard, existing product portfolio has been expanded with the newly developed Linopore 20 + 20 protective overall raw material, for which the Company has obtained international certification. This new product is a key element in the production of a number of defence devices. The production of this product played a determining role in the Group's profitability in the second half of 2020 and is expected to continue in the coming years. By the end of the year, Masterplast had developed its own, qualified protective overalls, which know the TYPE - 6 grade without an over-glued seam, as it is fully suitable for protection against Covid-19. The great advantage of the product is that it is made of our own Linopore 20 + 20 material and the production capacity can be organized quickly because it does not require special mechanization.

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

In 2019 in order to expand the site in Sárszentmihály, 22 240 sqm of unbuilt land was purchased from the Sárszentmihály Municipality and was attached to the property of 104/12 lang register reference, so the area of Masterplast's Sárszentmihály site increased to 95 477 sqm.

Two construction projects have been launched at the central site in Sárszentmihály. A 5 000 sqm fleece factory is under construction, which is fully suitable for supplying raw materials for manufacturers of medical protective clothing, face masks and other hygiene devices used in healthcare. In addition, construction has begun on two warehouses with a floor area of 2 390 sqm and 2 500 sqm. The buildings are scheduled to be handed over at the end of May 2021 and will begin production with 50 employees from June onwards, with a steady rise.

The building stock of the Company in Kál did not change.

The Corporate group's own premises include 360 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 Company applies the ISO 9001: 2015 Quality Management System Standard, and the ISO 14001: 2015 Environmental Management System Standard, while the ISO 50001: 2011 Energy Management System Standard was successfully renewed in 2020.

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 2020 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 2020.

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 2020 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

The coronavirus pandemic, which began in March 2020, fundamentally sets out the Company's short-term plans.

Among the **construction markets**, the Hungarian market, which has the largest weight, has been characterized by a recovery in the housing construction and housing renovation sub-market since the beginning of the epidemic, and this recovery is expected to continue in 2021. More time spent at home due to working in home-office and the benefits available through the home creation program have a strong stimulating effect on the demand side, while businesses are helped by the Hungarian state with tax breaks. According to surveys, as a result of the announced government incentive measures, renovation and modernization works can be carried out on almost 14% of the Hungarian housing stock in Hungary in 2021, which means about 570 thousand dwellings. With the exception of Ukraine and Croatia, the Company expects a favourable industrial environment in all markets, where the deterioration of the coronavirus situation will have only temporary, and has only smaller negative effects on the economy of each country. Web sales, which are not typical in the construction industry, have gained ground in many countries as a result of the pandemic, and the Company expects a further livening here.

The year 2021 started with a significant price increase in the construction industry. The favourable suction effect in the main markets, the suction power of China's domestic market, the shortage of freight in the Far East and the difficulties of raw material producers have led to significant price increases, especially for refined petroleum products and metal products. Masterplast has responded in a timely manner and successfully managed to overcome difficulties in the operation of supply chains. It can manage supply difficulties by relying on its sourcing system with high inventories and multiple suppliers. The current period in the economy, which is generally interspersed with shortages and price increases, may last until the end of the second quarter, and the Company expects the situation to return to normal in the third quarter of 2021.

The construction industry, including the insulation industry, has started to grow in all of the Company's markets, thanks, among other things, to the European Union's regulations, according to which in the future only nearly zero-energy buildings can be permitted for use. Although this regulation will only apply in Hungary from 30 June 2022, the Company expects the insulation materials gradually coming to the fore as a result of other local incentives. The Group continues to seek to take advantage of this growth by increasing production output in the short term too, which will also improve the profitability of its core business by reducing unit costs. Based on all these trends, the Company launched in January 2021 the further development of fiberglass mesh production in Subotica, which will increase the fiberglass mesh production capacity by 25 percent. With new machines based mainly on modern German technology and renewable manufacturing, logistics and assembly services, the Group will be able to serve the market of premium quality products with the highest quality requirements.

With the acquisition of a plant in Aschersleben, Germany, which also produces raw materials for the **healthcare industry**, Masterplast has successfully entered the healthcare market, where it has

achieved success primarily in the production of raw materials for masks and protective clothing. Based on this, the Group launched the investment of the Hungarian fleece manufacturer, which is the largest volume investment in the history of Masterplast. The new plant will start production in the summer of 2021 in Sárszentmihály. The fleece factory to be established is fully suitable for the supply of raw materials for the manufacturers of medical protective clothing, mouth masks and other hygiene devices used in healthcare, which are also necessary for pandemic control. With the development, a unique regional investment will be created not only in Hungary, but also in the entire Carpathian Basin, as there is currently no similar production of health care raw materials in Hungary and in the neighbouring countries. Masterplast plans to sell raw materials produced above domestic demand in European target markets, for which demand has increased significantly. The Company also aims to build finished goods manufacturing capabilities, which will create integrated manufacturing in the Group's healthcare segment, enabling Masterplast to supply the entire production chain from raw materials to finished products. The planned launch of the healthcare finished goods manufacturing investment is expected by the end of September 2021. Despite the increase in vaccination levels, the demand for protective clothing from healthcare institutions is expected to remain high, which the Group's manufacturing capacity will be ready from the Q4 2021, but the production can also ensure other disposable hospital isolation devices. A key goal is to make Masterplast the main supplier of Hungarian healthcare in 2021 in terms of protective clothing.

The production of healthcare raw materials and finished products is a higher profit-performing industry. With the opening of new, modern, efficient capacities, an even higher level of efficiency than at the previous year will be achieved.

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.

By 2021, in line with the new strategy announced in January 2021, the Company expects sales of more than EUR 150 million and profit after tax of over EUR 10 million.

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 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 Company strives to create its charitable work strategy, so that it benefits both society as a whole and the Group by creating value.

In order to ensure that assistance always reaches the right place and at the right time, all in a transparent way, Masterplast implements its corporate social responsibility program on the basis of carefully formulated principles. Accordingly, the Group adheres to strict ethical standards in its donation activities and expects this from all of its employees. Grant decisions are made on the basis of professional, strategic and ethical guidelines. The company strives to shape its donation strategy in a way that serves the interests of value creation for both society as a whole and the Masterplast Group.

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 2020 the Company once again donated a generous HUF 3 000 thousand to the Hungarian Child Ambulance Foundation. This amount was a significant contribution for the purchasing of a special child breathing device. The Masterplast family is proud that over the past years, thanks to its close collaboration with partners, it has contributed over HUF 10 million to the Foundation.

Another valuable part of the contribution is the Masterplast – MGYA (Magyar Gyermekmentő Alapítványt [Hungarian Child Ambulance Foundation]) first aid course series which provides assistance to teachers of educational institutions in Fejér County. 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. The year 2020 was unusual due to the coronavirus and due to which these educations had to be suspended, but Masterplast aims to continue its joint health education program with the foundation if the conditions are met.

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/.

Equal opportunity and diversity

The Size of the Group does not justify the application of Diversity and Employment Policy, but the Group 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 2020 were the employees of Masterplast Nyrt. and of by 100% controlled Masterplast Kft., Masterplast Hungária Kft., Masterplast International 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 in massive market embeddedness and with stable liquidity position has been faced with the current situation due to the spread of COVID-19 virus. With regard to the industry, it is now clear that the construction and building materials industries are less affected by the situation. The operating environment deteriorated observably, but was nowhere impossible, and targeted government programs significantly moderated this. During the period so far in the crisis, the Group has worked calmly-balanced and consciously to ensure that the Company can operate effectively despite declining demand. The Group adapts to the conditions caused by declining demand by streamlining operating processes, optimizing inventories, saving measures and managing receivables more efficiently, taking into account business continuity and maintaining a high level of service. In the changed market situation, the Company is constantly exploring alternative business opportunities, so in 2020 it entered the healthcare product market, which offers new opportunities and contributes to the Group's results by generating higher profits in addition to sales. In 2021, Masterplast will further expand its products with the production of raw materials and finished goods for personal protective equipment in the healthcare industry, as the strategic product supply of virus protection has come to the fore and become more important in the healthcare industry. The growing market demand and demand for innovation also provide a solid foundation for the coming periods.

The Group hope 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 are expected to pick up, with bringing significant potential for Masterplast.

Considering the fact that, coronavirus appeared in Hungary and Europe in 2020, the epidemic related effects as well as the measures to mitigate the effect of expected recession do not affect the Group's 2020 financial statement. Based on currently available assumptions the Group came to the conclusion that viability and liquidity position is not endangered for the 12 months following balance sheet date.

Summary

Slightly moderated, but in a mostly positive market environment, the Group's sales, trade margin and production output also increased in 2020.

Net income from the sale of Masterplast Plc. include central services, rents, overheads and other services provided to domestic and foreign subsidiaries. Although the Company's annual net sales decreased, it closed at HUF 780,286 thousand compared to HUF 952,648 thousand in 2019.

Income from dividends increased significantly, so the result of the operating profit was HUF 611,522 thousand gain compared to HUF 42,603 thousand loss in 2019.

The Company's interest expenses include the interest paid on liabilities from issued bonds, which means interest expenditures related to the bonds issued under the growth bond program launched by the MNB. While interest incomes include interest earnings on intercompany loans.

Although the Company's net interest result improved slightly, the other financial expenses increased due to the impairment loss of the loan granted to the Romanian subsidiary. In spite of this, the profit before tax was a gain of HUF 292,796 thousand, which significantly exceeded the profit of HUF 14,828 thousand of the base year.

The Group 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. Thus, Masterplast Plc. also expects improving, positive results and profits for the following periods.

MASTERPLAST

