

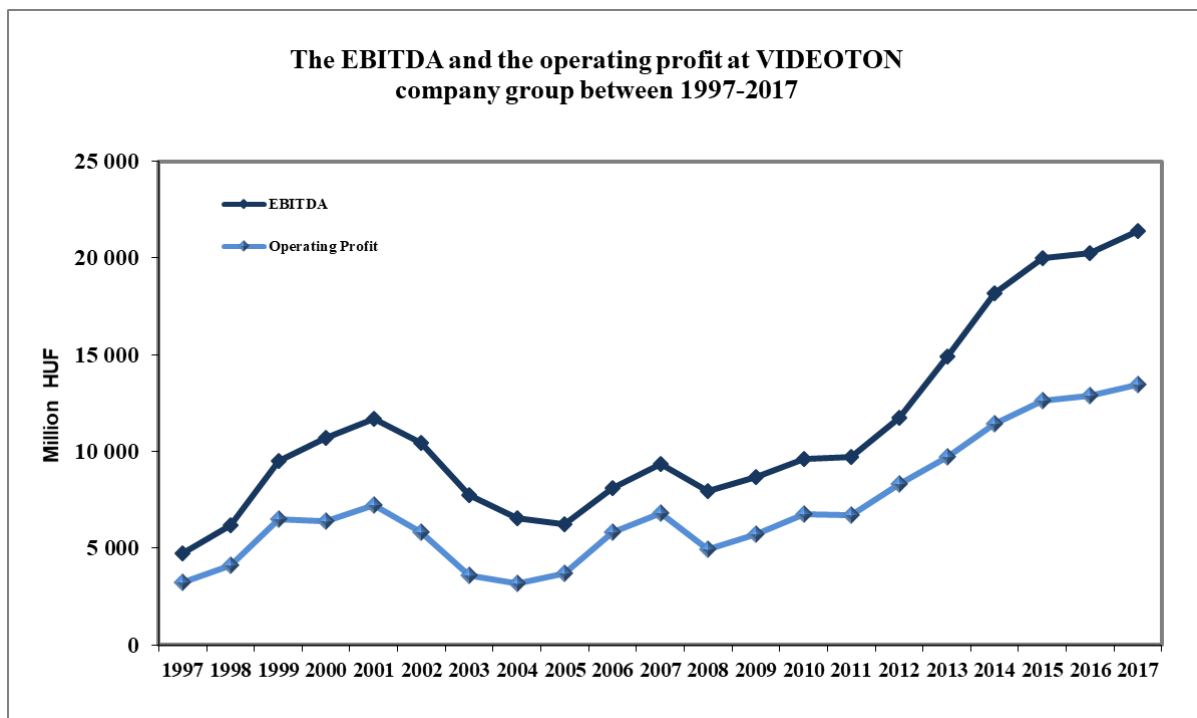
EXTRACT of the annual business report for 2017

VIDEOTON company group

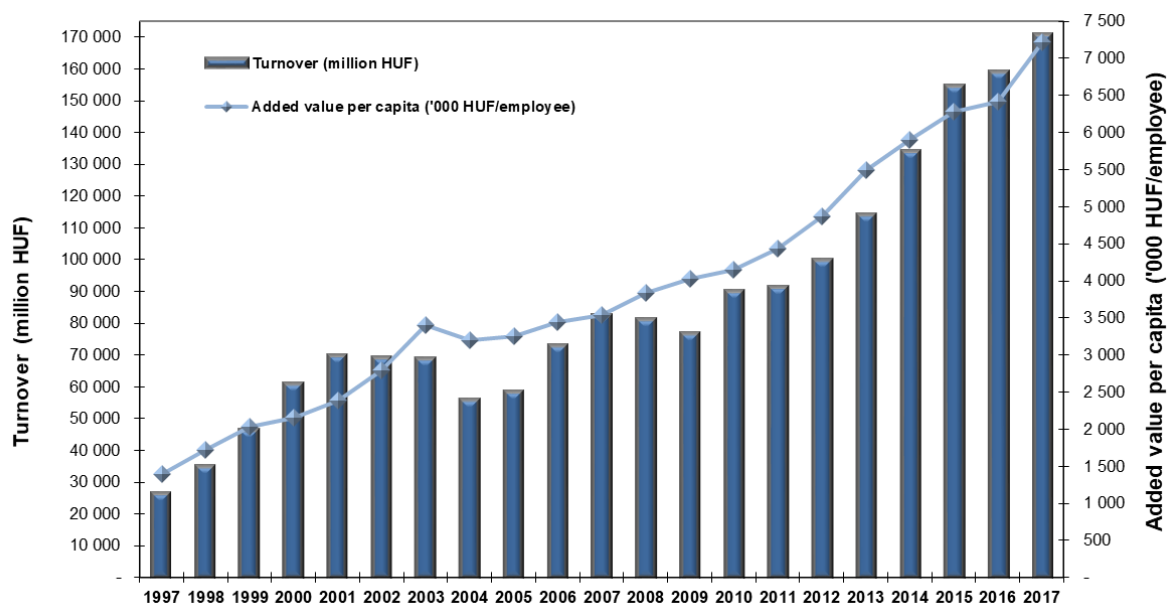
In 2017 the consolidated revenue of the VIDEOTON Group is HUF 171 billion, 7,5% higher than last year's figure. The revenue without VT Arriva is HUF 160 billion, which is a 6,6% growth.

As a significant result, our efficiency's growth was as much as our revenue's growth while the wages increased outstandingly.

The average statistical headcount of the group has decreased from 8.900 (2016) to 8.800. Without VT Arriva the headcount decreased by about 160. On the whole, the added value per capita has continued to increase.



The operating profit of the VIDEOTON Group for 2017 is HUF 13,5 billion (without VT Arriva HUF 12,9 billion), EBITDA is HUF 21,4 billion (without VT Arriva HUF 17,5 billion). This is the highest ever achieved operating profit and EBITDA over the history of the company. The technological development program, the increase in efficiency and the favorable exchange rate played an important role in achieving these results. The Earnings before taxes of more than HUF 14 billion is a historical peak.



Our company portfolio includes classic manufacturing services typically offered by our multinational competitors such as complete supply chain management solutions and back-end technology services. However, in recent years engineering and industrialisation were both gaining more-and-more weight within our mix of services. Our mid-term objective is to secure involvement in the product development processes of partners at the earliest possible stage (OEM) and to be able to provide ODM services on a wider time horizon.

Main activities:

- **Automotive parts manufacturing:**

Before the boom of the automotive industry in Eastern Europe, our company recognised the significance of car manufacturing in equalizing the fluctuations of consumer goods sector through its stability, even though during a run-up the latter provides a wider margin. Another strategic advantage is the continuous spill-over of methods and requirements from the automotive industry into other industries, which give us a better position against specialized suppliers. We have invested and are investing significant amounts in building and developing special skills typical for the automotive industry (in the aspect of quality, technological and logistical requirements).

After the economical crisis in 2008, the working method of automotive industry went through a significant change (no more production-to-stock), there is a greater demand for suppliers with flexibility, a stable background and diversified portfolio which can ensure the partner can count on it's supplier in hard times. VIDEOTON complies with these criteria so as the automotive industry started to bloom, the share of automotive industry within the company's portfolio grew.

The references of VIDEOTON cover several fields of the industry, one of those is the *production of electronic parts*, that make up an increasing part of today's cars. In 2017 the company implanted more than 2,4 billion electronic parts, and in 2018 this number is

expected to increase by 12%. Through the years we acquired competences that ensure the long term stable presence of VIDEOTON in the market. Our partners are typically Tier 1 automotive suppliers.

The other main segment of automotive parts manufacturing is the *production of metal components*. In this area we produce different sized sheet metal parts for one of our key partners for all of its models manufactured in Hungary. We also make complete tooling. Besides, we process and assemble cast aluminum and iron parts as well (primarily oil and fuel pumps and their components).

The third segment is the production of *automotive plastics*. The quality expectations are tightened, besides the PPM level the number of defective deliveries has also become a priority. The labor market situation pushes the company towards using Industry 4.0 compliant applications not only in production but also in logistics.

- **Household appliances**

The assembly of household appliances in Kaposvár were commenced in as early as 1998, at first as toll manufacturing. Over the years more and more activities were transferred to us.

Since 2012 besides Food and Floor Care we are present also on the Life Style product's line (Healthcare, Skincare, Mother&Childcare). In 2018 our portfolio will be the same according to our forecast. During the years VIDEOTON has acquired such skills and knowledge in manufacturing kitchen robots that only a few producers possess in Europe. In recognition of these skills and expertise, in 2006 the production of kitchen robots has started also for a different partner. Later the production of different irons and juice extractors was launched, and VIDEOTON also took part in the development of a new kitchen robot. Since 2005 we have been producing shaver cleaners for the European and Asian markets.

We consider a remarkable success that in 2013 a premium category hair drier went into production for a new customer and in 2014 we started manufacturing another new type of hair drier. We can count on this customer long – term.

In 2015 we started to manufacture microphones for one of the world leading producers of headphones and microphones, and the business has expanded ever since. According to our forecast 2018 will be such a great year as 2017 was, and the business will increase with new projects.

We have expanded our product range also in automotive industry, starting the production of lithium battery packs that are built into passenger cars' eCall emergency system. In 2017 the manufacturing has begun also on the second production line, this way our capacity increased by 100%.

In 2017 we started the injection molding of plastic parts for electric bicycles' battery pack, and shortly afterwards was started the production of the outer covers for the same project. The market is constantly expanding, so the demand for injection molded parts grows year by year.

At the beginning of 2018 we started the series production together with our partner who develops headlamps, as our first common project, and other project are coming as well.

The product and customer range have been steadily expanding in recent years. Earlier we had 4-5 bigger companies as customers, now we have more than 10 smaller size customer. However, also our multinational partners who are our customers for long time have remained in our portfolio until today. Considering the trends in the world market, it can be stated that in most cases European customers outsource the assembly of the simple products in large numbers to Far East so Hungary has to manufacture for smaller customers while offering them a higher service level.

- **Industrial applications/IT**

Recently our product portfolio has been rearranged, our mayor activity is the manufacturing of industrial electrical applications. However, lately on our product range also smart home solutions and IT tools have appeared.

After 2010, our revenue was rising continuously, and the revenue in 2018 is outstanding compared to previous years. Apart from some of the closing projects, we have kept our 'old' partners, and we have succeeded in gaining further significant new businesses from several partners.

Our key products are: motor control cards for boilers, building automation and safety electronics, wide range of industrial electronics from petrol processing to control electronics for boilers, including illumination electronics, special light sources, LED controls and Light Engines.

We manufacture for a partner several products (IT tools, telecommunications, smart home solutions), the cooperation was started in 2016. In 2018 we are starting the production of a new, mid-end router family in big volume, and two newly developed WIFI repeaters in a smaller volume. As a result we expect our revenue to increase significantly.

In 2017 we started the cooperation with another partner, who also operates in the smart home and home automation market. In the next 12 months we expect a revenue of more million EUR, because our relation has entered a level where we manufacture more and more product for them.

It seems that our market position may continue to strengthen in 2019. Thanks to this continuous growth we have decided to build a new production hall to provide the right production conditions for our business. The building of the production hall is expected to be completed in October 2018 when our activities' transfer may also begin, which is expected to be completed by the end of the first quarter of 2019.

Another major challenge for 2019 will be the installation of a new, modern ERP system and the development of an automated warehouse management system. The latter is expected to be in the new building this year, and the installation of the former will be completed in the second quarter of 2019 after the preparatory works are completed.

Particular attention should be paid to the 3D printing production project that has run up in 2016. For this we manufacture the electronics, anodized and painted sheet metal, machined parts, which we also paint, but mainly we do the final assembly and testing of the products. In addition, a completely new production service has been launched at VIDEOTON because of the project, the so-called RMA. It means the complete european repair activity of the printers and all the logistics this activity needs.

In total, our revenue from the 3D printer manufacturing project in 2017 is approx. HUF 6,5 billion, with a remarkably high added value ratio.

Another significance of the 3D printer project is the fact that the electronics / precision mechanical assembly competence has been re-established at Székesfehérvár with 150 workers.

- **Metal technologies**

The manufacturing of metal components has already been mentioned partly at automotive industry. However, the use of metal technologies at VIDEOTON is multi-faceted. In several segments we use different technologies to produce parts for other industries. Just to mention some:

- low to medium volume stamping, appliances, enclosure and box manufacturing using CNC sheet technology (punching, fiber laser, bending, manual and robotic welding machines). These methods can be coupled by powder coating and hand assembly. The products manufactured are mainly industrial appliances (e.g. industrial fridges, ATMs, automatic cash registers, industrial water cleaning systems, renting machines), besides medical and telecommunication appliances.
- high volume stamping using eccentric press for automotive appliances
- production of processed and surface treated copper and aluminum parts using four and five axis machining centers for the energy industry
- anti-corrosion and functional galvanic coating, deposition of chemical nickel coating according to the needs of the customer for mostly all segments of the industry. VIDEOTON became key player in the Hungarian market of surface treatment of parts for automotive climate control systems, having implemented considerable investments (with important investment in KTL technology specialized for the automotive industry worth HUF 400 million, installed in a new production hall)
- design, production, distribution and installation of ventilation equipment, systems and system components for environmental and industrial use by fitting and welding techniques, general purpose and specialized CNC controlled machines and technologies
- production of containers and units for the energy industry

- **Services**

At the Millenium at first in the USA then in Western Europe after outsourcing production appeared the trend of outsourcing services: emerged the need for complete supply chain solutions, for outsourced facility and industrial infrastructure management, the appeared quality assurance services, and the growing role of manpower secondment. We recognized the need for these services, and have found proper professional partners, coupled by our internal market, capital and business knowledge. Thanks to this way we have succeeded in developing a service portfolio that is capable of catering for the needs of our business partners.

As the economic crisis started to evolve in 2008, the second half of the year resulted in setback that took an effect on almost all the activities mentioned above. In 2009 the downward trend continued, even though the second half brought a turning point in certain

areas. In 2010 the recovery continued and we managed to grow significantly in all areas. Since then we experience positive trends in most of the activities and for 2018 we also have positive expectations.

Applicable representative data: overall management / maintenance of 3 industrial estates (in Székesfehérvár, Kaposvár and Veszprém) and approximately 500.000 m² built infrastructure (manufacturing space, offices and warehouses), 17.000 m² warehouse space, with 2200 temporary workers.

- **Research & Development**

The development team of nearly 70 people of VIDEOTON Holding is formed by electric and mechanical engineers and IT professionals.

The core activity of the team is to develop and build assembly cells and lines for the production for either inside and outside of the Holding, optimal automated technically and economically.

Our other main development area is designing and building automated measurement, test and rating systems for in-process and final inspection. Software development and other IT tasks for product identification and tracking systems are also a main development area.

We offer complex solutions because in most cases the testing function is an integrated part of cell mountings and assembly lines.

Building on our 20 years of success, we are working on expanding the field of use of photoacoustical technology. We have probably one of the world's leading competence in measuring diesel engine emissions. We expect on this field a breakthrough this year.

In 2017 we have continued developments and preparation related to IoT and Industry 4.0 (eg optical test systems, communicating control systems, etc.). We are confident that in the next years these solutions, their related services and support will be highly demanded both within the company group and outside the group as well.

15th June, 2018, Székesfehérvár, Hungary

Lakatos Péter
Chief Executive Officer

Sinkó Ottó
Chief Executive Officer