



ONE COMPANY – INFINITE POSSIBILITIES

EXTRACT of the annual business report for 2023

VIDEOTON Company Group

1. Hungary's situation

The ongoing Ukraine-Russia war, which continued into 2023, shows no sign of ending, and a new war has erupted in Israel. In Hungary, a 6.7% budget deficit, 17.6% annual inflation, declining investments, and a 0.9% decrease in GDP (compared to a 0.4% growth in the EU) all indicate and contribute to the country's economic lag behind the EU. This is particularly evident in regional comparisons (V-4, Romania). Empirical data and available indicators point to inefficiencies in the economy and public sector. Taxes on consumption (including special taxes typically passed on to consumers) and the resulting high budgetary withdrawals drain resources. Without growth in Western Europe, the government has so far unsuccessfully sought solutions (e.g., Chinese battery factories, eastern connections). The 2024 EU elections significantly reshaped positions within the EU, but the impact on Hungary remains unclear. The upcoming U.S. elections will also significantly influence Hungary's situation.

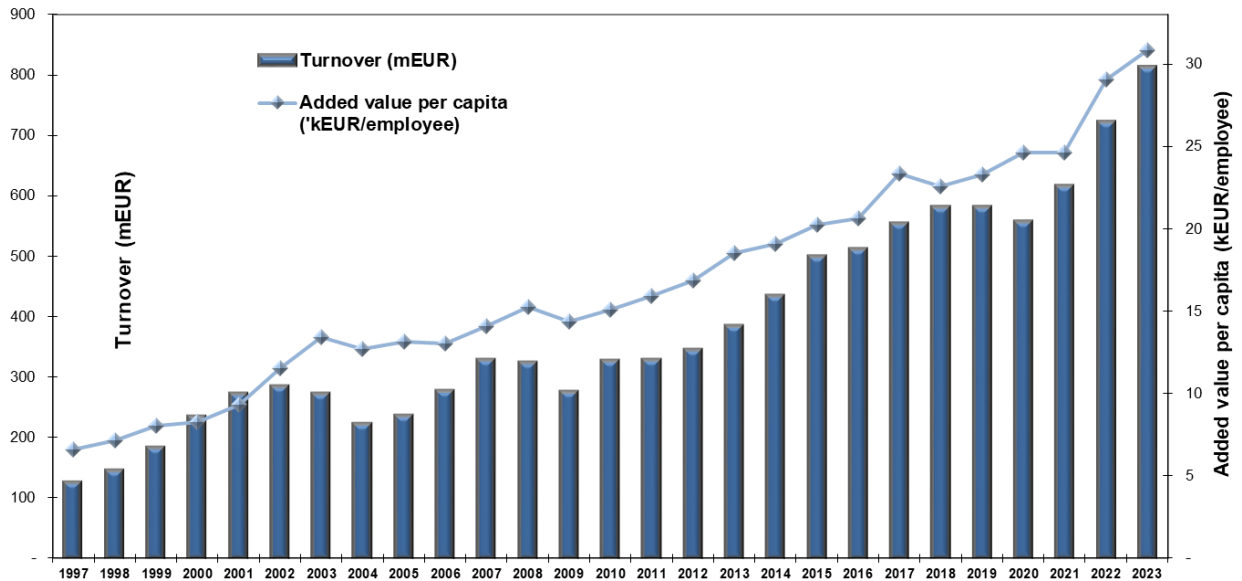
2. VIDEOTON's position

In 2023, the Group achieved approximately 10% growth in both HUF and EUR terms. However, in real terms, this represents a decrease in HUF due to the annual average inflation rate of 17.6%. We managed to maintain our profitability, thanks in part to our diversified customer base, our flexibility, and the stabilizing energy prices. We optimized our operations in several areas, including inventory levels, energy consumption, and internal processes.

2024 does not promise to be an easy year either. The war shows no signs of ending, geopolitical tensions have increased, and a deglobalization process has begun, leading to a global realignment. If Europe (and indirectly the USA) pursues a consistent and effective trade policy, supported by EU and U.S. multinational companies, VIDEOTON, as an EU-based manufacturer, could emerge as a winner in this transformation. VIDEOTON must remain dynamic, open, and flexible in its international presence, continuously assessing the changing conditions.

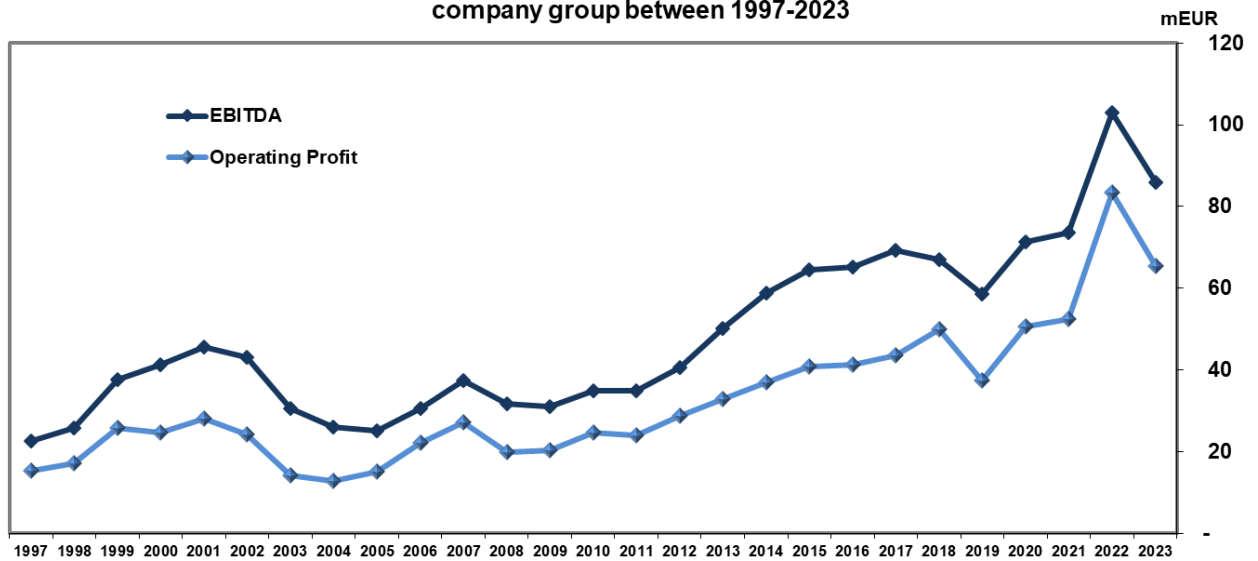
3. Evaluation of the year 2023

In 2023, the consolidated revenue of VIDEOTON Group will exceed HUF 310 billion, which is 10% higher than last year's consolidated revenue. This is the highest turnover ever achieved by the group, but in real terms it represents a decrease due to high inflation. At operating profit level, the decrease of more than 20% is driven by an increase in personnel costs of more than 20%. The non-material production value per employee also increased in 2023. The average statistical headcount of the group's employees increased from 9.2 thousand in 2022 to 9.3 thousand in 2023. The increase is largely due to an increase in temporary agency work, with an overall decrease in the number of employees in manufacturing companies.



The operating result of the VIDEOTON Group is HUF 24.9 billion and its EBITDA is close to HUF 33 billion. The significant decline in 2023, combined with the extraordinary increase in 2022, gives a realistic picture, the 2023 level actually fits in with the historical trend.

The EBITDA, the operating profit and the profit before tax at VIDEOTON company group between 1997-2023



For ease of understanding, the HUF values in the graphs have been converted to EUR at historical exchange

4. Industry breakdown at VIDEOTON

4.1. Production of automotive parts:

Until Covid, the automotive industry was characterised by predictability, which, with its stability, compensates for the rapidly fluctuating consumer goods sector, which offers greater coverage in booms. A further strategic advantage is that the methods and expectations originating in the automotive industry are constantly spreading to other industries, thus improving our position vis-à-vis suppliers specialising in this field. We have invested heavily in the creation and development of specific automotive capabilities (quality, technology, logistics). The coronavirus pandemic that hit Europe in early 2020 hit the automotive industry hard, and in 2022, new challenges (semiconductor chip shortages, less predictable demand side, rising energy prices) will be added.

In 2023, global material shortages decreased, transport capacities increased and unit energy costs decreased. This allowed a relatively rapid catch-up in the first half of the year, and in the second half of 2023, demand for automobiles in Europe was already falling, first for conventional internal combustion engines and then for electric cars.

VIDEOTON has significant references in several areas of the industry, one of which is the production of electronic components, which make up an increasing proportion of today's cars. Looking to the future, the company has new projects in the pipeline for the supply of cards for electric and hybrid cars from 2020 onwards, and has references in both environmental protection (EGR valve electronics) and driving assistance systems (driver monitoring). The partners are first-line (Tier 1) automotive suppliers.

The other main area is the production of metal parts for the automotive industry. In this area we also machine/assemble cast aluminium, copper, aluminium profiles and iron parts (oil and fuel pump parts, electric car parts).

The third area is the production of automotive plastics. In the context of automotive restructuring, our products are less affected, typically powertrain independent products, but industry volumes are below historical levels. Quality requirements are tightening, automation needs are increasing. The labour market is pushing the company towards Industry 4.0 compatible applications, not only in production but also in logistics. We continue to aim to acquire new customers and, in addition to the production of components, to increase the assembly level and added value of our products.

4.2. Household appliances

At the end of 2023, we also started to assemble hand tools in our company. With this transfer, we have a reference in a new product group for the production of complete devices, where we also benefit from our vertical integration. Also in 2023, we have been awarded the injection moulding and assembly project for a large telematics platform, for which we will also build the automatic assembly line.

The range of products and customers of Videoton Elektro-PLAST Kft. has been continuously expanding in recent years, with the 4-5 large companies being replaced by more than 15 customers, many of them smaller. Some of our old, large multinational customers have remained in our portfolio for the time being. Taking into account the trends on the world market, it can be concluded that the assembly of simple, high-volume products is mostly done by European customers to Far East, while Hungary should aim at smaller customers (high-mix low-volume) and a higher quality level.

4.3. Battery assembly

The global market demand for energy storage cells is continuously growing, and the range of vehicles, household appliances and other equipment powered and operated by batteries is constantly expanding.

In 2008, we started our electronics assembly activities in the field of battery assembly in Marcali. Then, in 2018, as a result of several major changes, the business model changed and we came into contact

with several new customers. We no longer do contract work for the cell manufacturer (Panasonic), but provide a much more complex service to end customers.

In 2022 we have introduced several new customers in production and in 2024 we will start with a new customer, producing battery packs for hand tools.

4.4. Industrial electronics / IT

The electronics industry has undergone very significant changes in recent years. Component supply problems, plummeting energy prices and a Europe-wide recession caused by the Russian-Ukrainian crisis, among other things, have redrawn the map of the electronics market.

At the end of 2023, market demand turned from very high levels to a steep decline, followed by perhaps longer delays than necessary in cancellations and rescheduling requests from customers. Thanks to a diversified customer and product portfolio, the optimisation measures taken have allowed us to manage the situation well.

Despite the difficulties, our operations remained stable and we achieved further significant revenue growth in 2023, which helped us to maintain our profitability.

Our inventories have declined from previous high levels to healthy levels and are now virtually back to normal.

Our electronics manufacturing business, which was launched in 2008 at VIDEOTON's Bulgarian site and became a separate legal entity in November 2017 as VEAS Bulgaria EOOD, has also grown steadily, with three new customers added in 2023.

In the meantime, we have completed a major infrastructure and technology investment in the Bulgarian site, and since the beginning of 2024 we have been expecting growing orders from our customers in the new area.

In Bulgaria, our key objectives are to strengthen and develop the organisation and increase business volumes, thereby improving profitability.

4.5. Assembly

In addition to serving previous customers, in 2023 we started manufacturing various modules for a start-up producing hydrogen energy storage systems. In early 2023, we started manufacturing high-pressure hydrogen modules, which required the introduction of specific manufacturing and pressure testing processes. We expect further significant growth as our partner launches its second generation product in 2024. There is significant theoretical potential in the manufacture of complex assembled products, where there is still significant Western European capacity and where we can offer significant cost savings.

4.6. Metal technologies

We have already mentioned the production of metal parts in the car industry. But the use of metal technologies in the company is much more diverse. There are several areas where we use different technologies to produce parts for other industries. To highlight a few of them:

- Production of small to medium series sheet metal parts, assemblies and complete cabinets using CNC sheet metal technology (punching, fibre laser, bending, robot and manual welding machines, etc.). This is complemented by powder coating and manual assembly on demand. The products are mainly used in industrial applications (e.g. industrial refrigerators, coffee machines, cash handling and industrial water purification systems, vending machines, 2D laser cutting machines, metal structures for industrial robots, modules for implantation machines), as well as in telecommunications applications.
- production of machined and surface-treated parts in 4- and 5-axis machining centres in copper and aluminium for the electrical, electronics, energy and robotics industries

- high volume production of machined parts in automated, robotised production cells for automotive applications
- machining of high-precision, surface-treated, high-purity and aesthetically demanding support structure components, sensor housings for the field of cooperative robotics. In this business area, we are meeting a lot of new, smaller and larger business partners, providing high growth potential.
- manufacture of mechanical parts for the energy industry using special purpose machines
- corrosion protection and functional galvanic coatings and electroless nickel plating deposition according to customers' requirements for almost all sectors of industry. We have become a key player in the Hungarian market for the surface treatment of automotive components, with significant technology development (implementation of a particularly significant, automotive-specific KTL and zinc-nickel alloy coating technology in the form of two small new production halls with an investment of around HUF 800 million).
- design and manufacture of complex environmental and industrial ventilation equipment, systems and components (such as fans, filters, separators, water washers, cyclones, piping, feeders, conveyor pulleys, tanks, silos) using metalworking and welding, general purpose and special purpose CNC machines and technologies
- production of customised steel structures to customer requirements, based on own design or customer design documentation, for a wide variety of markets, the largest of which is the energy sector,
- the production of containers and electrically assembled units for the energy industry

4.7. Services

Around the turn of the millennium, the outsourcing of many services after production was first noticeable in the US, but also in Western Europe: the need for complete logistics chains, the growing role of temporary employment, the need for outsourced building and infrastructure management, the emergence of quality service packages. We found the right professional partners, added our internal market, contacts, capital and business knowledge. This has enabled us to put together a portfolio of services that can provide solutions to our partners' needs. Our performance in this area is characterised by the following figures:

3 industrial parks (Székesfehérvár, Kaposvár, Veszprém), 500.000 m² of buildings (production area, office, warehouse), 19.000 m² of warehouse space, 3.600 employees on loan.

5. Research – development

The development team of VIDEOTON company group consists of nearly 85 people with the qualification of electrical and mechanical engineers and IT professionals, who continue their work within VIDEOTON Holding Zrt, VT Asyst Kft, TIPA Kft and VT-Elektroplast Kft.

The automotive market is a major challenge for manufacturers of electronic and lighting components. These companies carry out functional and climatic tests on their products to ensure the quality of their products.

The development of equipment for these tests, and in particular their SW development, is a priority for the development department of VIDEOTON Holding Zrt.

VIDEOTON Holding Zrt. designs and manufactures specific equipment for testing the components manufactured by the group. This equipment meets a wide range of stringent testing requirements, including functional and climatic tests, as well as logging and statistical analysis of the test results of each part. The test equipment they have developed has a high level of automation, which allows for a minimisation of the testing workforce and thus ensures more cost-effective testing.

6. Sustainability, ESG strategy

At the time of writing, the commonly-named "ESG law" has already entered into force in Hungary. For VIDEOTON, this new legislation means that corporate sustainability, which has always been a core value of our company, is given new impetus and additional resources within a new framework. To do this, we have created the position of ESG Coordinator to support the ESG strategy and work on mainstreaming sustainability at Group level.

VIDEOTON strives to operate in an environmentally friendly way in its daily business. We continuously improve production efficiency and aim to make optimal use of energy and resources and minimise waste and scrap. Together with our customers, we work to improve the sustainability performance of, for example, new product launches and designs. All our member companies have implemented selective waste collection, we strive for circular economy and embrace new projects that contribute to the green transition and electrification. The integration of these activities into corporate governance is ensured by the ISO 50001 and ISO 14001 systems that have been implemented.

VIDEOTON is committed to using energy more efficiently and using greener energy. As part of a multi-stage renewable energy investment programme, we installed the first 500 kW photovoltaic plant in 2019, followed by the installation of a 1000 kW plant in 2023, the second stage. As part of the programme, additional solar PV systems will be installed on four sites with a total capacity of 4282 kW by 2026.

For VIDEOTON, social responsibility means caring. We provide an environment in which our employees enjoy basic human rights, the right to freedom of association, freedom of assembly, equal treatment and fair wage. VIDEOTON provides the conditions for safe working. We recognise that the diversity of our employees and their diversity of thought contribute to our business success. We encourage development and career advancement through a variety of support programmes, such as dual education programme, our employee loyalty programme, courses and trainings.

VIDEOTON is committed to gender equality; we ensure equal opportunities in both recruitment and employment. As a manufacturing services company, we strive to make technical/engineering careers attractive to women, with the aim of achieving gender parity in each field, where applicable. In 2023, 1.2% of our employees worked with a disability.

VIDEOTON's corporate conduct is based on honesty and integrity. Trust between our employees and a long-term relationship with our customers and partners, which goes beyond the legal operation of the business at any given time, are fundamental values for us. We strive for transparency, reject corruption in all its forms and strongly support fair competition. Since 2015, we have been regularly awarded Dun & Bradstreet's AAA Gold rating, one of the most recognised certifications of financial stability in Europe. In addition to this, we pay particular attention to information security; in 2023 VT Autóelektronika Kft. obtained ISO 27001 certification.

Székesfehérvár, 18th June 2024

Péter Lakatos
Chief Executive Officer

Ottó Sinkó
Chief Executive Officer