



ONE COMPANY – INFINITE POSSIBILITIES

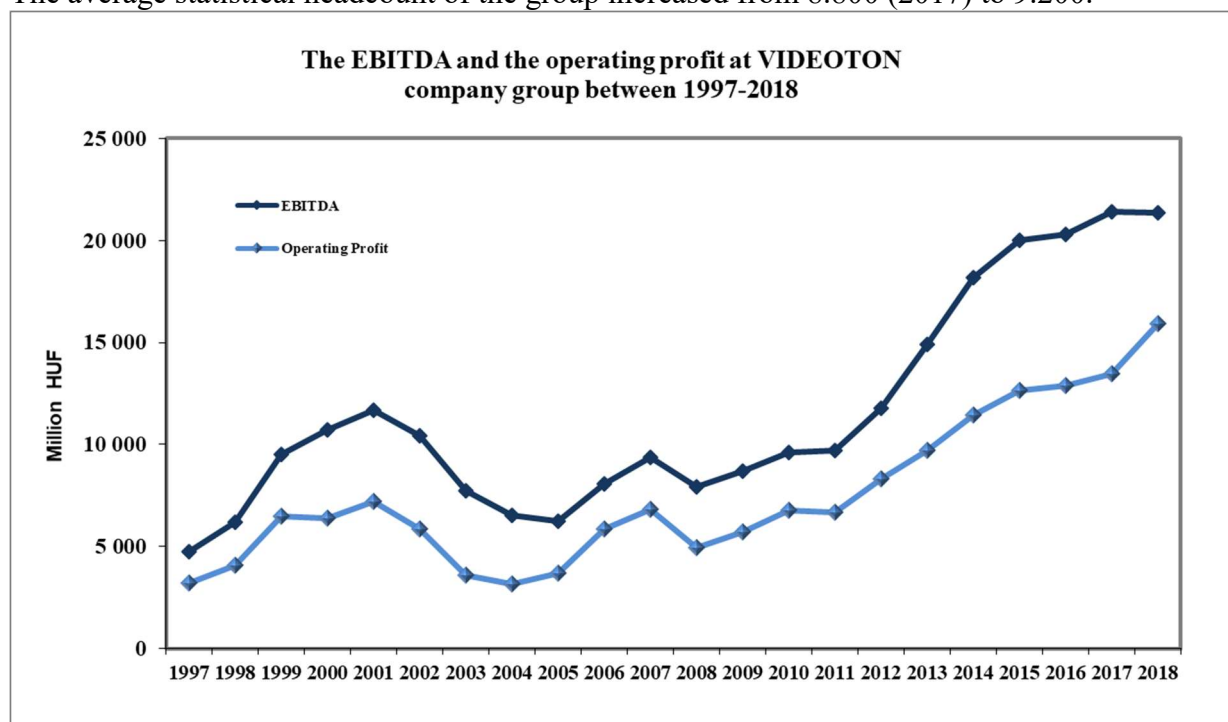
EXTRACT of the annual business report for 2018

VIDEOTON company group

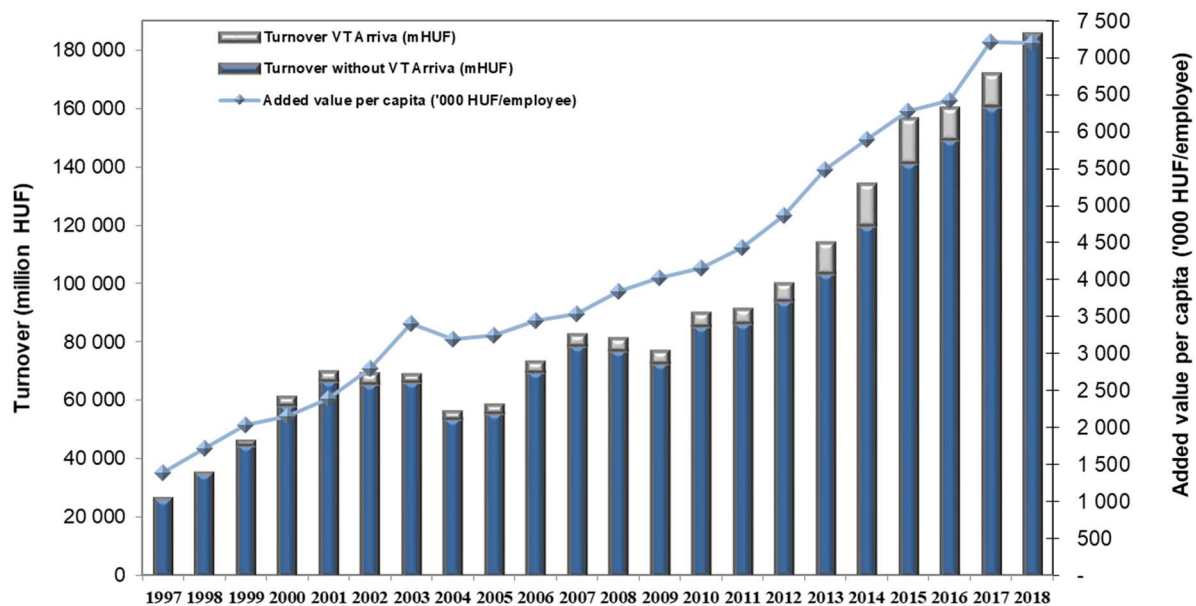
In 2018 the consolidated revenue of the VIDEOTON Group is HUF 185 billion, 8.4% higher than the figures of the last year. This is the highest revenue in the history of the company group. (Our consolidated group of companies changed in 2018, while VT Arriva Ltd. has been taken out due to divestment, others like VTBT Ltd., VEAS BG, VT Bulpast, VT-ARtrans Ltd. and Ventifilt Ltd. joined the consolidated circle mainly due to their recent growth.)

In 2018 18% growth was perceived in the operating profit of VIDEOTON Group. The partial sale of VT Arriva led to stronger focus on core business.

The average statistical headcount of the group increased from 8.800 (2017) to 9.200.



The operating profit of the VIDEOTON Group for 2018 is HUF 15.9 billion, EBITDA is HUF 21.3 billion. It is a remarkable result, since the company group could exceed its last year's peak in operating profit. The technological development program, the increase in efficiency and the favourable exchange rate have all played an important role in achieving these results. The Earnings before taxes of more than HUF 20 billion is also 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 and to be able to provide ODM (original design manufacturer) 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 been 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 economic 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, stable background and diversified portfolio which ensures that the partner can count on its supplier in hard times. VIDEOTON complies with these criteria so as the automotive industry started to bloom, the share of automotive industry within the portfolio of the company started to grow.

The references of VIDEOTON cover several fields of the industry, one of those is the *production of electronic parts*, that makes up an increasing part of today's cars. Through the years we acquired competences that ensure VIDEOTON is able to create new customer relationships with ease and strengthen the long-term stable presence 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 are engaged in machining of cast aluminium and iron parts (primarily oil and fuel pumps and their components). Besides, we produce different size sheet metal parts for one of our key partners for all of its models manufactured in Hungary. We start new project with new partners and we also make complete tooling.

The third field is the production of *automotive plastics*. The quality expectations are tightened, on the relevant PPM (planned preventive maintenance) level the number of complaints have also become a priority. The labour 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 product line of Life Style (Healthcare, Skincare, Mother&Childcare). 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 for a different partner as well. Later the production of different irons and juice extractors was launched. 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 perceive that the cost pressure coming from the Far East is becoming higher and higher.

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.

In 2015 we started to manufacture microphones for one of the world leading producers of headphones and microphones and that business has expanded ever since.

In 2016 we have expanded our product range also in the automotive industry, starting the production of lithium battery packs that are built into the eCall emergency system of passenger cars. In 2017 the manufacturing has begun also on the second production line, consequently VIDEOTON could reduplicate its previous capacity in this segment.

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

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-sized customers. Fortunately, our multinational partners who are our customers for long time have remained in our portfolio until nowadays. 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. Since Hungary has to focus on smaller customers while offering them a higher service level.

- **Battery assembly**

The world market demand for energy storage cells is constantly growing and supply of the vehicles, household appliances and other equipment powered by batteries increases as well.

In Marcali, we began electronics assembly operations in 2008 by producing batteries. In 2012, the production reached higher intensity. Since 2018, as a result of a number of major changes, we have been in contact with more new customers, therefore VIDEOTON companies are no more hired for producing for cell manufacturers, but its company provides more complex services to end customers.

Our goal is to increase our battery competence, by including BMS (battery management system) or by winning new projects.

- **Industrial applications/IT**

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

Our revenue coming from this segment was rising continuously, and the revenue in 2018 was 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 the so called Light Engines.

We manufacture for a partner several products (IT tools, telecommunications, smart home solutions), the cooperation started in 2016. In the end of 2018 we have started 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 of these cooperation 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. Our relationship has entered to a higher level and since we manufacture more and more products for them, our expectation can reach more million EURs in revenue.

Thanks to this continuous growth we have built a new production hall to provide the right production conditions for our business. At this site in Hungary, we have launched a brand new production hall with a total area of 20,000 m² where we can produce our products and services with the most modern infrastructure.

Our 3D printing production project started up in 2016 and finished in 2018. During this period, which was especially instructive for us in complexity, we manufactured the electronics, anodized and painted sheet metal, machined parts, which we also painted, but mainly we did the final assembly and testing of the products. In addition, thanks to the project a completely

new production service has been launched at VIDEOTON, the so-called RMA (return merchandise authorization). It means that we deal with the complete European repair activity of the printers and all the logistics this activity needs. 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 much more diverse. In several segments we use different technologies to produce parts for other industries. Just to mention some of them:

- manufacturing of small to medium series plate parts, fittings and complete cabinets using CNC plate technology using (punching, fiber laser, bending, manual and robotic welding machines). These methods are completed 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), beyond these medical and telecommunication appliances;
- high volume stamping using eccentric press for automotive appliances;
- production of processed and surface treated copper and aluminium 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, as a result of the implementation of considerable investments. For instance, we invested in cathodic dip coating (CDC) and zinc-nickel alloy coating technologies specialized for the automotive for the amount of HUF 800 million and we installed them in two small newly-built production halls.
- 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 millennium, firstly in the USA, shortly after that in Western Europe a trend in outsourcing appeared in production and its services. 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 emerged. We realised the need for these services, found proper professional partners and our internal market, capital and business knowledge have been expended towards them. Thanks to this way we have succeeded in developing a service portfolio that is capable of catering for the needs of our business partners.

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 2.300 temporary workers.

- **Research & Development**

The development team consists of nearly 70 people in 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 supporting the production, for either inside and outside of the Holding, that are in technical and economic aspects optimally automated.

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

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 photoacoustic technology. In that field we probably have one of the world leading competence. Moreover, we also cooperate with outside partners in measuring diesel engine emissions.

In 2018 we continued our developments and preparations that are related to Industry 4.0 (e.g. 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.

Székesfehérvár, 18th June 2019