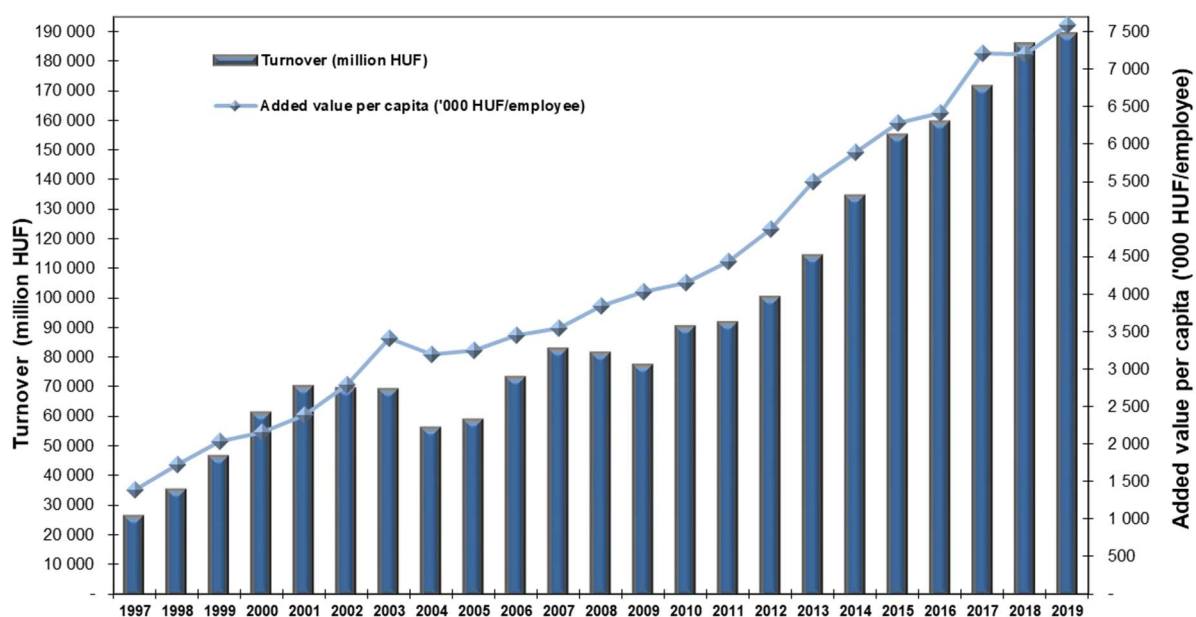


## EXTRACT of the annual business report for 2019

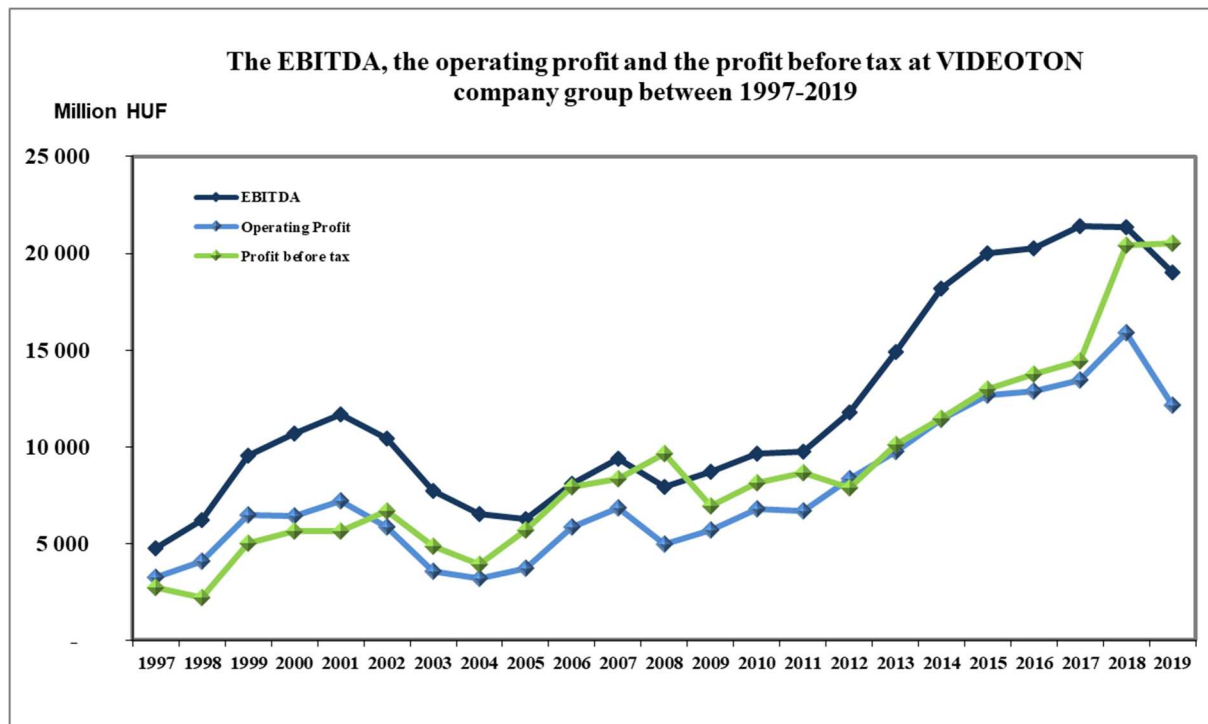
### VIDEOTON company group

In 2019, the consolidated sales revenue of the VIDEOTON group of companies was HUF 188 billion, which is 2% higher than last year's consolidated sales revenue. This is the highest turnover achieved by the Group so far. At the same time there is a 23% decrease in operating profit. The reason for the decrease could be the outstanding increase in wages and the financial result is due to the partial sale of VT-Arriva Ltd.

The average statistical headcount of the group decreased from 9.2 thousand (2018) to 9 thousand (2019).



The operating profit of VIDEOTON Group is HUF 12.2 billion, its EBITDA is HUF 19 billion. The main reason for the decrease in EBITDA is the rise in personnel costs that could not be fully compensated by the increase in efficiency.



## Main activities:

### • Automotive parts manufacturing

Before the boom of the automotive industry in Eastern Europe our company recognised the significance of car manufacturing which can be capable of equalizing the fluctuations of consumer goods sector through its stability. Not ignoring the fact that during run-ups the latter provides the 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.

The coronavirus pandemic that reached Europe in early 2020, has hit the automotive industry, with sales declining significantly on an annual basis, even we are still confident that the automotive industry will stabilize itself in the second half of the year, presumably at a slightly lower level than it was before.

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. Our activity and the implemented developments are well shown by the fact that we have already planted 2.5 billion parts per year in 23 automatic component implantation lines with different implantation capacities. Through the years we have acquired competences that ensure VIDEOTON is able to create new customer relationships with ease and strengthen the long-term stable presence in the market. For the future, it is worth mentioning that the company is launching new projects in which assembled cards for electric and hybrid cars will be delivered from 2020 onwards. 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).

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 the priority. The labour market situation pushes the company towards using Industry 4.0 compliant applications not only in production, but also in logistics. There is a need for both new customers and increased competence in this area.

- **Household appliances**

In Kaposvár, the assembly of kitchen robots started in 1998, initially on contract basis. Over the years, more and more activities have been transferred to us (material procurement, production of plastic parts, participation in production start-up processes, design and construction of production lines, design and construction of testers, participation in product development, logistics process management up to direct delivery). Unfortunately, the long-term prospects coming from these projects are not encouraging, but the knowledge gained here can be converted to other customers.

During the years VIDEOTON has acquired such skills and knowledge in manufacturing kitchen robots that only a few producers possess in Europe. At the same time, 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. However, in the absence of new models, the longer-term outlook is not favourable in this segment either.

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. We expect further expansion with new projects in the forthcoming years.

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. A steadily declining volume is expected in the future regarding this project.

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 external cover elements belonging to the same project.

At the beginning of 2018 we started series production together with our partner who develops headlamps as our first co-production.

The production of industrial cleaning machines started in 2019 in 3 different types, hopefully in the future the product range could be expanded up to 5 different types.

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 have been 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 the Far East. Since Hungary as well as our company has to focus on smaller customers, while offering them a higher service level so that we can keep afloat.

- **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 several significant changes we came into contact with several new customers, not doing contract work for cell manufacturers any more, but providing a much more complex service to the end customers. Our goal is to increase our battery competence by including battery management electronics or by winning new projects.

- **Industrial applications/IT**

Our product portfolio has recently undergone a significant transformation, apart from industrial electronics we manufacture more and more IT applications, which account for an increasing share of our total turnover.

Our sales revenue has been growing steadily since 2010, with the exception of a small decline, and we achieved growth of more than 20% in 2019 as well. We expect further significant growth in 2020, despite the fact that we forecast decline in some projects and possibly some of our projects will come to an end.

Our key products are: IT devices, telecommunications and smart home solutions, motor control cards for boilers, heating calorimeters, building automation and safety electronics, wide range of industrial electronics from petrol processing to control electronics for boilers, including lighting technology, special light sources, LED controls and the so called Light Engines.

Thanks to this continuous growth we have built a new production hall, with a total area of 20,000 m<sup>2</sup>, where we can produce our products and services with the most modern infrastructure.

- **Assembly**

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 electronics, anodized and painted sheet metal, machined parts (painted on request), but mainly we did the final assembly and the testing of the products. We had high hopes to win the production of a successor model, unfortunately the production was outsourced to the Far East. 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 carry out 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 re-established in the Székesfehérvár plant again.

## • **Metal technologies**

The manufacturing of metal components has already been mentioned partly in the chapter of 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 metal parts, fittings and complete cabinets using CNC plate technology using (punching, fiber laser, bending, manual and robotic welding machines). These methods can be complemented with powder coating and hand assembly. The products manufactured are mainly industrial appliances (e.g. industrial refrigerators, ATMs, automatic cash registers, industrial water cleaning systems, vending machines, 2D laser cutting machines, high-end sports tables), 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 centres for the energy industry;
- production of mechanical components for the energy industry with specialized machines;
- 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 locksmith-welding techniques, general purpose and specialized CNC controlled machines and technologies;
- production of containers and complete units for the energy industry.

## • **Services**

At the turn of 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, outsourced facility and industrial infrastructure management, the evolving quality assurance services and the growing role of manpower secondment emerged. We realised the need for these services, have found proper professional partners and added our internal market, our relationships, our capital and our business knowledge. Thus we have succeeded in developing a service portfolio that is capable of fulfilling 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 m<sup>2</sup> built infrastructure (manufacturing space, offices and warehouses), 17.000 m<sup>2</sup> warehouse space, with 2.400 mediated workers.

## • **Research & Development**

The development team of VIDEOTON company group consists of nearly 70 people with the qualification of electrical and mechanical engineers and IT professionals.

The core activity within the group of companies is the design and construction of production-related, production-supporting, technically and economically optimally automated assembly cells and assembly lines (installation, putting into operation, service support).

The main focus of our R&D activities are: designing and building automated measurement, testing and rating systems for in-process and final inspection. Software development, IT tasks for product identification and tracking systems (traceability databases) 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. With regard to IoT devices, there is a growing demand for the implementation of over-the-air (OTA) test systems isolated from externalities.

We continue to work on expanding the application of photoacoustic technology. Based on our previous results and experience gained in the meantime, we have developed the 3rd generation of photoacoustic control and signal processing electronics. Our harmful emission measuring devices delivered to our partners are already manufactured with these 3rd generation electronics solutions.

Székesfehérvár, 18th July 2020

Péter Lakatos  
Chief Executive Officer

Ottó Sinkó  
Chief Executive Officer