Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság

Consolidated

Business Report and Executive Report for the Year 2019

A business report in accordance with the International Financing Reporting Standards (IFRS) and required by Act C of 2000 on Accounting, and an executive report compiled on the basis of Annex No. 1 to Decree 24/2008. (VIII.15.) PM of the Minister of Finance, presented in a consolidated format.

Budapest, 25 March, 2020

Appeninn Holding Nyrt. compiles a consolidated financial report for the year 2019 in accordance with the International Financing Reporting Standards (IFRS). The business report required by Section 95 of Act C of 2000 on Accounting (hereinafter: “Accounting Act”) and the executive report compiled with content defined in Annex No. 1 to Decree 24/2008. (VIII.15.) PM of the Minister of Finance (hereinafter: “PM”) are published in this report in a consolidated format.

The purpose of the report is to demonstrate the financial and earnings position of the Company and the course of its business, including the key risks and uncertainties incurred by the Company in the course of its activity, through an assessment of the figures contained in the annual report in a manner that provides a fair view reflecting the actual circumstances on the basis of facts from the past and of estimated future data (Accounting Act, Section 95(1)). The business report must contain an exhaustive analysis of the Company’s performance and any improvement in business trends, consistent with the Company’s size and structure (Accounting Act, Section 95(2)).

With a view to expediency, below the Company presents, characteristically to its activity and in an extent required for understanding the company’s development, performance or current situation, all the financial indicators and, where necessary, all the non-financial key performance indicators that are essential for the particular business entity.

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1. The Company's development and history

Appeninn Nyrt. is a rapidly growing company engaged in property investment and asset management, with focus on high-standard office and retail commercial properties. Since its establishment in 2009, the Company has grown to become one of the leading real estate market participants in Hungary, and the main pillars of its activity include property development, property lease and property management.

Appeninn Nyrt.'s total portfolio comprises real estates on a territory of nearly 155,000 square metres, representing a value of almost EUR 150 million. The Company is a business registered in Hungary in the Premium category of the Budapest Stock Exchange, and is continuously looking for the investment and development opportunities of increasing its market share and strengthening its market position through the expansion of its property portfolio also in other countries in Central and Eastern Europe.

Appeninn Nyrt.'s value creation is twofold: using its expertise, it satisfies diverse customer requirements at the highest possible standard, and as a listed company, it wishes to create genuine value by its steadily increasing profit-making capacity

Amount of the share capital and changes affecting the share capital

The Company's share capital comprises 47,371,419 shares (ISIN code: HU0000102132, total nominal value: HUF 4,737,141,900). During the year the Company's share capital did not change.

1.1. Company management

Composition of the Company's Board of Directors and the Audit Committee in the course of the year 2019:

Members of the Board of Directors:

- Tamás Bernáth – Member of the Board of Directors (as from 23/04/2019);
  – Chairman of the Board of Directors (as from 16/10/2019);
- Dr Nóra Szabó – Member of the Board of Directors (as from 14/10/2019);
- Dr Judit Tóth – Member of the Board of Directors (as from 23/08/2018);
- Zoltán Malik – Member of the Board of Directors (as from 23/08/2018);
- György Vilmos Guttmann – Member of the Board of Directors (as from 14/10/2019)

Members of the Board of Directors in the course of the year:

- Gellért Jászai – Member of the Board of Directors, Chairman of the Board of Directors (bw. 20/04/2018 and 14/10/2019)
- Aladin Linczényi – Member of the Board of Directors (bw. 23/08/2018 and 14/10/2019);
- János Tima – Member of the Board of Directors (bw. 23/08/2018 and 23/04/2019);

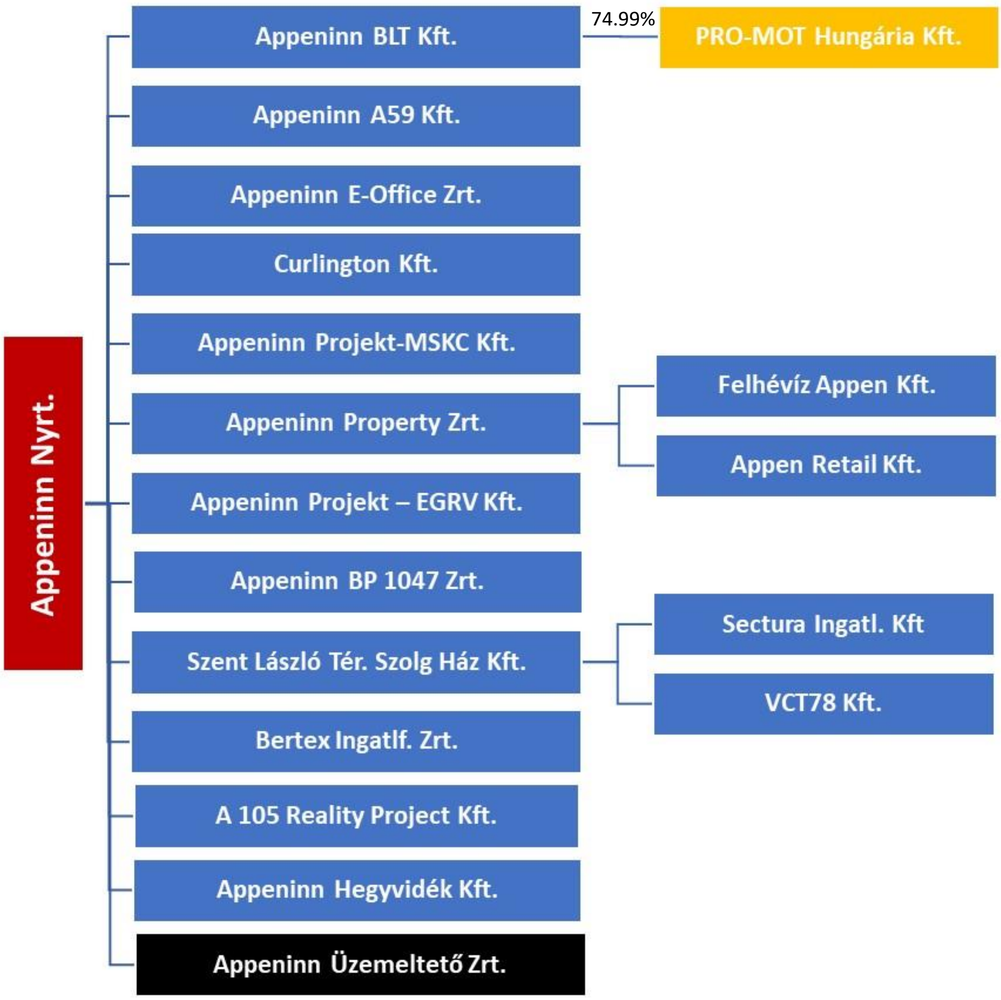
Members of the Audit Committee:

- Dr Judit Tóth – Member of the Audit Committee (as from 23/08/2018)
- Zoltán Malik – Member of the Audit Committee (as from 23/08/2018)
- György Vilmos Guttmann – Member of the Audit Committee (as from 14/10/2019)

Members of the Audit Committee in the course of the year:

- János Tima – Member of the Audit Committee (bw. 23/08/2018 and 23/04/2019)

1.2. Company structure



1.3. The most important business events in the year 2019

31 January, 2019 Special notice – about the acquisition of 74.99 per cent of the shares in PRO-MOT HUNGÁRIA Ingatlanfejlesztő Korlátolt Felelősségű Társaság

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59., company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that the transaction announced in the special notice published by the company on 26 July 2018 and aimed at the acquisition of 74.99 per cent of the shares in PRO-MOT HUNGÁRIA Ingatlanfejlesztő Korlátolt Felelősségű Társaság (registered office: H-1037 Budapest, Montevideo utca 3/B.; company registration number: 01-09-703978, hereinafter: "PROMOT HUNGÁRIA Kft.") and the shareholders' accounts receivable from PROMOT HUNGÁRIA Kft.") by the Company's single-member subsidiary Appeninn BLT Korlátolt Felelősségű Társaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-09-326114; hereinafter: "Appeninn BLT Kft.") in accordance with a sale and purchase contract, which resulted in the transfer of the direct ownership right to the real properties constituting a part of Club Aliga (address: H-8171 Balatonvilágos, Aligai út 1.) and occupying a territory of approximately 37 hectares, and the right to manage the assets on the remaining approximately 10 hectares of land belonging to Club Aliga has been transferred to the Company, and that the transaction was closed on 28 January, 2019. The value of the above transaction is EUR 14,238,246.

08 February, 2019 Special notice – Sale of ordinary shares

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59., company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that on 7 February, 2019, in the framework of stock exchange trading, the Company's subsidiary FELHÉVÍZ-APPEN Korlátolt Felelősségű Társaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-09-285651; hereinafter: "FELHÉVÍZAPPEN Kft.") sold 407,857 i.e. four hundred and seven thousand eight hundred and fifty seven ordinary shares issued by the Company (ISIN: HU0000102132), each representing a nominal value of HUF 100, for at an average price of HUF 551.3618 per share. By the above transaction the Company realised a profit of HUF 126,991,090 gross according to the Hungarian accounting rules.

23 April, 2019 Special notice – Tamás Bernáth has become a member of the Board of Directors and of the Audit Committee.

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59., company registration number: 01-10-046538; hereinafter: "Company") informs the Shareholders that on this day János Tima, member of the Board of Directors and Chairman of the Audit Committee, resigned from his membership in the Board of Directors and in the Audit Committee, and the Board of Directors has acknowledged his resignation. Furthermore, the Company informs the Shareholders that with resolutions No. 12/2019 (IV.23.) and No. 13/2019 (IV.23.) of the General Meeting, adopted by the Company's General Meeting held on this day, the Company has elected Tamás Bernáth to act as a member of the Board of Directors and as a member of the Audit Committee.

2 July, 2019 Owner's announcement – Merger

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59., company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that the merger (hereinafter: "Merger") decided on 8 April, 2019 by OPUS GLOBAL Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-10-042533; hereinafter: "OPUS GLOBAL Nyrt.") and KONZUM Befektetési és Vagyonkezelő Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-10-049323; hereinafter: "KONZUM Nyrt.") materialised on 30 June, 2019, and consequently, as from 30 June, 2019 KONZUM Nyrt.'s general legal successor is OPUS GLOBAL Nyrt. As a result of the Merger, the number of voting Appeninn shares directly held by KONZUM Nyrt. has dropped from 8,860,027, i.e. eight million eight hundred and sixty thousand twenty seven, to 0, i.e. zero, and thus KONZUM Nyrt.'s share in the Company has decreased from 18.7 per cent to 0 per cent, below the 15-, 10- and 5-per cent limit set in Section 61 (3) of Act CXX of 2001 on the Capital Market (hereinafter: Capital Market Act); while the number of voting Appeninn shares directly held by OPUS GLOBAL Nyrt. has increased from 0, i.e. zero to 8,860,027, i.e. eight million eight hundred and sixty thousand and twenty seven, and thus OPUS GLOBAL Nyrt.'s share in the Company has increased from 0 per cent to 18.7 per cent, exceeding the 5-, 10- and 15-per cent limit set in Section 61 (3) of the Capital Market Act.

13 September, 2019 Special notice – About a change in the personnel of the Company's management

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; registered by: the Companies Court of the Metropolitan Court; company registration number: 01-10-046538) informs the Investors that members of the Board of Directors Gellért Jászai and Aladin Ádám Linczényi resign of their offices held in the Board of Directors as from the time and date of closing the next due general meeting of the Company, but in any case no later than on 30 October, 2019.

17 September, 2019 Miscellaneous information – On the commencement of negotiations about the sale of real property

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; registered by: the Companies Court of the Metropolitan Court; company registration number: 01-10-046538, hereinafter: "Company") informs the Investors that in response to a request received by the Company, pursuant to a resolution adopted by the Board of Directors today, the Company will start negotiations with the OPUS Group about the sale of two real properties in the Company's direct and indirect ownership. The request concerns the properties located at H-1065 Budapest, Andrássy út 59 and H-1062 Budapest, Andrássy út 105, and the opportunity of their sale has previously been considered by the Company.

24 September, 2019 Miscellaneous information – On the Company's business intent to sell its existing ownership ratio (share) in Appeninn Nyrt. and held as financial investment

OPUS GLOBAL Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-10-042533, hereinafter: “Company”) informs the Investors that it plans to sell its 8,860,027 shares, each representing a nominal value of HUF 100, having the ISIN code HU0000102132 ISIN, manifest as Appeninn shares and currently held in Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: 1062 Budapest, Andrássy út 59.; company registration number: 01-10-046538), and representing 18.7 per cent ownership. The planned sale has two complementary purposes:

- to sell a financial investment that provides sufficient yield in the short term,
- use of the profit made on the sale of the share package for the purposes of developing strategic business lines of more significant growth potentials and for the implementation of the acquisitions planned to take place in the future, primarily in the field of the energy industry and the food industry.

Within this scope the Company points out that due to the planned sale and as a result of its implementation, acting as the legal successor of Konzum Befektetési és Vagyonkezelő Nyilvánosan Működő Részvénytársaság, it also intends to terminate its direct management of Appeninn Nyrt.

2 October, 2019 Special notice – Funding for Growth Scheme

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; registered by: the Companies Court of the Metropolitan Court; company registration number: 01-10-046538, hereinafter: “Company”) informs the Investors that that the Company has been granted the ratings required for participation in the Bonds Purchase Project of the National Bank of Hungary (hereinafter: “MNB”) under the Funding for Growth Scheme.
As a precondition to participation in this Scheme, the bonds to be issued must be rated no less than B+ by a rating agency registered with the European Securities and Markets Authority (ESMA). The Company has been rated by Scope Ratings GmbH, who rated the bonds to be issued BB-, while the company has been rated B+, thus it meets the expectations of MNB’s Funding for Growth Scheme. Thus the BB- rating of the Company’s bonds has even exceeded the Company’s rating. The rating agency’s report is accessible at the following URL:
https://www.scoperatings.com/#search/research/detail/161080EN

According to its plans the Company intends to issue bonds for HUF 20 billion, and use the paid-up amounts for the implementation of its acquisition plans and for refinancing. The planned bond issue may take place after obtaining authorisation from the General Meeting of the shareholders.

31 October, 2019 Special notice – portfolio cleaning

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; registered by: the Companies Court of the Metropolitan Court; company registration number: 01-10-046538, hereinafter: “Company”) informs the Investors that in order to perform the portfolio cleansing required for the implementation of the Company’s growth plans, the Company has decided to sell the following assets from its property portfolio:

(i) A 2.2 per cent share in the real property registered in the Land Register of District 11 of Budapest under title deed number 5396, located in a residential area at 43 Kelenhegyi út in District 11 of Budapest, and in the 75 per cent ownership of Appeninn E-Office Vagyonkezelő Zártkörűen Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-10-047783), a subsidiary of the Company, has been sold. The value of the transaction closed was EUR 288,000 (equivalent to HUF 95,000,000 at the average exchange rate quoted today).

(ii) A real property in the exclusive ownership of the Company's subsidiary BERTEX Ingatlanforgalmazó Zártkörűen Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59, company registration number: 01-10- 045752) and registered in the Land Register maintained by the Land Registry of the Budakeszi District Office as a "non-agricultural property functioning as an office building and warehouse" occupying a floor area of 5160 square metres in the residential area of Biatorbágy, under title deed number 7737 has been sold. The value of the transaction closed was EUR 1,200,000 (equivalent to HUF 395,784,000 at the average exchange rate quoted today).

(iii) The Company has decided to sell 100 per cent of its shares held Curlington Korlátolt Felelősségű Társaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-09-728951), a subsidiary in the Company's 100 per cent ownership, which owns a real property registered in the residential area of District 15 in Budapest under title deed number 40366/7 and located at the address Budapest, District 15, Egyenes út 4. In relation to the transaction expected to be closed at the end of the year, the parties have agreed to set the purchase price at EUR 888,000 (the equivalent of HUF 292,880,160 at the average exchange rate quoted today).

The total value of the mentioned transactions amounts to nearly EUR 2,375,000, the equivalent of almost HUF 783,322,500.

The Company manages property sales within the framework of portfolio cleansing that entails the sale of properties falling outside the core areas of the company's business activity, which contribute to the implementation of the Company's additional growth plans, primarily based on acquisitions.

7 November, 2019 Special notice – portfolio cleansing

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1., company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that on 4 November, 2019, OPUS GLOBAL Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59., company registration number: 01-10-042533; hereinafter: „Opus Global Nyrt."), as seller, entered into a share sale and purchase agreement for the sale and purchase of 2,307,166 i.e. two million three hundred and seven thousand one hundred and sixty six of Appeninn's shares issued by the Company ("Shares"). As a result of the sale and purchase of the Shares, the number of voting Appeninn shares directly held by Opus Global Nyrt. has dropped from 8,860,027, i.e. eight million eight hundred and sixty thousand and twenty seven, to 6,552,861, i.e. six million five hundred and fifty two thousand eight hundred and sixty one, and thus Opus Global Nyrt.'s share in the Company has decreased from 18.7 per cent to 13.83 per cent, below the 15-per cent limit set in Section 61 (3) of Act CXX of 2001 on the Capital Market. Opus Global Nyrt.'s influence in the Company has dropped from 18.7 per cent to 13.83 per cent.

13 November, 2019 Special notice – share transaction

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1., company registration number: 01-10-046538; hereinafter referred to as: "Company") informs the Investors that on 12 November, 2019, OPUS GLOBAL Nyilvánosan Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59., company registration number: 01-10-042533; hereinafter: "Opus Global Nyrt."), as seller, entered into a share sale and purchase agreement for the sale and purchase of 4,263,428 i.e. four million two hundred and sixty thousand four hundred and twenty eight of Appeninn's shares issued by the Company ("Shares") to BDPST Ingatlanforgalmazó és Beruházó Zártkörűen Működő Részvénytársaság (H-1118 Budapest, Kelenhegyi út 27. company registration number: 01-10-048550, "BDPST Zrt") as buyer.

As a result of the sale and purchase of the Shares, the number of voting Appeninn shares directly held by Opus Global Nyrt. has dropped from 6,552,861, i.e. six million five hundred and fifty two thousand eight hundred and sixty one to 2,289,433, i.e. two million two hundred and eighty two nine thousand four hundred and thirty three, and thus Opus Global Nyrt.'s share in the Company has decreased from 13.83 per cent to 4.83 per cent, below the 5-per cent limit set in Section 61 (3) of Act CXX of 2001 on the Capital Market. Opus Global Nyrt.'s influence in the Company has dropped from 13.83 per cent to 4.83 per cent.

Due to the Share sale and as a result of its implementation, Opus Global Nyrt. acting as the legal successor of Konzum Befektetési és Vagyonkezelő Nyilvánosan Működő Részvénytársaság, also terminated its direct management of the Company on 12 November, 2019.
As a result of the sale and purchase of the Shares, the number of voting Appeninn shares directly held by BDPST Zrt. has increased from 9,616,096, i.e. nine million six hundred and sixteen thousand ninety six to 13,879,524, i.e. thirteen million eight hundred and seventy nine thousand five hundred and twenty four, and thus BDPST Zrt.'s share in the Company has increased from 20.30 per cent to 29.30 per cent, exceeding the 25-per cent limit set in Section 61 (3) of Act CXX of 2001 on the Capital Market. BDPST Zrt. 's influence in the Company has increased from 20.30 per cent to 29.30 per cent.

20 November, 2019 Special notice – Bond auction

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that on 20 November, 2019 it held a bond auction.

21 November, 2019 Special notice – change in the address of the registered office

With reference to Decree No. 24/2008. (VIII. 15.) PM of the Minister of Finance, Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that on 19 November 2019 the Companies Court of the Metropolitan Court registered the Company's new office located at H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1.

25 November, 2019 Special notice – significant change in tenants

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1; company registration number: 01-10-046538; hereinafter: "Issuer") informs the Investors that recently the Issuer has rented out a total floor area of more than 15,000 square metres in office buildings and commercial properties. In the period past, several key partners of the estate company have extended their previous rental agreements, and one of Hungary's leading media companies has concluded a contract with the Issuer and has become a new tenant.

29 November, 2019 Special notice – notice of acquisition

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1; company registration number: 01-10-046538; hereinafter: "Issuer") informs the Investors that on 29 November, 2019, the Issuer made an undertaking to purchase an office building occupying more than 6000 square metres in District III of Budapest.
The real property the Company intends to purchase is located in one of the most popular parts of District III, and consequently, the property has a considerable income-generating capacity that ensures stable income for the company. The transaction is planned to be closed in the end of February 2020.

20 December, 2019 Special notice – Refinancing

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép. V. em. 1; company registration number: 01-10-046538; hereinafter: "Issuer") informs the Investors that approximately six years ahead of the original loan maturity date, which was due in 2025, one of the Issuer's subsidiaries, Appeninn E-Office Zrt. has prepaid its EUR 10 million debt pursuant to a loan agreement concluded by the said subsidiary and ERSTE Bank Hungary Zrt. The Issuer also informs the Investors that approximately 2 years ahead of the original loan maturity date due in 2021, its subsidiary Appeninn BLT Zrt. has prepaid its approximately EUR 12.5 million debt owed pursuant to a loan agreement concluded by the said subsidiary and OTP Bank Hungary Nyrt. As Appeninn Holding, has prepaid 40 per cent of the loans owed by the company group, additional opportunities opened up for Appeninn Holding to capitalise on its financing opportunities and use them for expanding its high-quality real property portfolio. These repayments allow the Issuer to replace the previously taken loans by a fixed-interest loan repayable at the end of a 10-year term.

2. Results achieved in the period of the annual report and prospects

2.1. Comprehensive income

Statement of comprehensive income	For the year ended 31 December 2019 EUR	For the year ended 31 December 2018 EUR
Property rental revenue	7 402 438	5 776 756
Property related expense	(864 643)	(1 573 334
Direct contribution from rental activities	**6 537 795**	**4 203 422**
Administration expenses	(1 053 062)	(1 252 527
Personnel expenses	(757 075)	(719 054
Other income/ (expense)	994 118	139 202
Loss recognised on sale of subsidiary	75 527	145 835
Loss on sale of investment properties	147 285	484 113
Net result from the revaluation of investment properties	7 938 381	16 040 000
Expenses for maintaining investment properties	(86 139)	(18 905
Loss on investments	-	-
Gross operating profit (EBITDA)**	**13 796 830**	**19 022 088**
Depreciation and amortisation	(72 820)	(40 541
Other financial income / (expense)	99 991	1 665 318
Net interest income / (expense)	(2 121 026)	(1 141 805
Profit before tax	**11 702 975**	**19 505 058**
Income taxes	412 255	(2 126 656
Profit/ (loss) for the period	**12 115 230**	**17 378 402**
Other comprehensive income		
Exchange differences on translation	(1 900 031)	(972 493
Other comprehensive income, net of taxes	**(1 900 031)**	**(972 493**
TOTAL COMPREHENSIVE INCOME	**10 215 199**	**16 405 909**
Net profit Attributable to:		
Non-controlling interest	120 310	-
Parent	11 994 919	17 378 402
Total comprehensive income Attributable to:		
Non-controlling interest	120 310	-
Parent	10 094 888	16 405 909
Basic Earnings per share (in EUR cents)	**25,60**	**38,6**
Diluted Earnings per share (in EUR cents)	**25,60**	**38,6**

*** Non IFRS classification of earnings*

2.2. Balance sheet

Consolidated balance sheet Assets	Notes	31.12.2019 EUR	31.12.2018 EUR
Investment properties	12.	147,670,000	117,820,822
Property, plant and equipment	13.	177,664	278,421
Deferred tax assets	16.2.	92,693	44,386
Non-current assets		**147,940,357**	**118,143,629**
Inventories	19.	160,040	161,738
Trade receivables	20.	409,083	493,276
Other receivables	21.	442,390	3,302,286
Loans given	22.	49,537	6,988
Prepayments and accrued income	23.	255,653	59,302
Current income tax receivables		296,583	198,875
Cash and cash equivalents	24.	40,991,952	2,968,906
Current assets		**42,605,238**	**7,191,371**
Assets held for sale	25.	0	0
Total assets		**190,545,595**	**125,335,000**

Balance sheet Equity and liabilities	Notes	31.12.2019 EUR	31.12.2018 EUR
Share capital	26.	15,217,006	15,217,006
Treasury shares	27.	-1,171	-305,660
Reserves	28.	25,645,230	25,645,230
Currency translation adjustment		-2,710,880	-810,849
Retained earnings	29.	34,925,192	22,539,954
Equity attributable to parent		**73,075,377**	**62,285,681**
Non-controlling interest	17.	730,936	-
Total equity		**73,806,313**	**62,285,681**
Long term financial liabilities	30.	31,751,611	39,740,555
Issued corporate bonds		60,940,494	0
Tenant deposits	33.	834,807	826,117
Long term liabilities to related parties	31.	10,503,256	8,501,046
Provisions		0	0
Deferred tax liabilities	16.4.	3,565,003	4,331,140
Non-current liabilities		**107,595,171**	**53,398,858**
Short term financial liabilities	30.	7,139,967	7,655,033
Other current liabilities	34.	80,996	158,814
Short term liabilities to related parties	31.	36,003	95,198

Trade payables	35.	993,818	405,002
Tax liabilities	16.5.	398,513	747,850
Current income tax liabilities		140,089	65,566
Deferred revenue and accrued income	36.	354,725	522,998
Current liabilities		**9,144,111**	**9,650,461**
Total liabilities		**116,739,282**	**63,049,319**
Total equity and liabilities		**190,545,595**	**125,335,000**

In 2019 the Company had direct collateral int he amount of EUR 6,394,000, representing 51.6 per cent increase on 2018. This significant increase is primarily attributable to a rise in the income-generating assets, and in the second place, to the renewal of expired contracts on a market level.

In 2019 the Company incurred administration costs in the amount of EUR 1,053,000, which is 15.9 per cent down on 2018.

The Company's gross operating profit exceeded EUR 13,796,000; representing a 36.6 per cent decrease on 2018. This decline results from the lower revaluation of income-generating investment properties: in 2019 it contributed to the P/L by merely EUR 7,938,000 in contrast to the revaluation P/L component recognised at EUR 18,770,000 in 2018 (representing a 57.7 per cent drop).

The comprehensive income for the entire year was EUR 10,215,000, 37.7 per cent down on 2018. The total cause of the reduction was the result of the lower property revaluation.

2.3 The aggregate market value and locations of the real properties

The Company has direct ownership of the following properties:

- H-1082 Budapest, Üllői út 48.
- H-6000 Kecskemét, Kiskőrösi út 30.
- H-1023 Budapest, Bég u. 3-5.
- H-1149 Budapest, Várna u. 12-14.
- H-1047 Budapest, Schweidel utca 3.
- H-1022 Budapest, Bég u. 4. (Törökvész u. 30.)
- H-1094 Budapest, Páva utca 8. 8
- H-1015 Budapest, Hattyú utca 14.
- H-1118 Budapest, Kelenhegyi út 43.
- H-1133 Budapest, Visegrádi u. 110-112.
- H-1062 Budapest, Andrássy út 105.
- H-1147 Budapest, Egyenes utca 4. 4.
- H-1105 Budapest, Bánya utca 20.
- H-1023 Budapest, Felhévízi út 24
- H-1139 Budapest, Frangepán u. 19
- H-1105 Budapest, Bánya utca
- H-1044 Budapest, Váci út 76-80.
- H-1062 Budapest, Andrássy út 59.
- H-3525 Miskolc, Szűcs Sámuel u. 5.
- H-8171 Balatonvilágos, Aligai út 1.

- 18 SPAR department stores

The rounded aggregate market value is: EUR 150 million.

2.4. Valuation

Definition of the market value – (RICS Valuation Standards, June 2017)

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

2.5. The property valuer

The valuation was performed by Jones Lang Lasalle Ingatlanforgalmazó, Szaktanácsadó és Szolgáltató Kft. (H-1054 Budapest, Szabadság tér 14., tax number: 10810491-2-41, company registration number: 01-09-261026, represented by: Ferenc Furulyás; persons performing valuation for and on behalf of the Managing Director: Jaroslav Kopac MRICS and János Tóth MRICS) for the purposes of the Company's financial statements made in accordance with the IFRS by the balance-sheet cut-off date 31 December, 2019.

The inputs used for the valuation methods were applied and adjusted to the specific situations at the valuer's discretion. Each valued property was assigned its own separate input values.

The model, model inputs, model variables, model correlations and the sensitivity test of the inputs were specified in an identifiable manner, corresponding to the disclosed tabular content of the IFRS 13 standard. Conformance with the content-related requirements of IFRS 13 was ensured.

2.6. Valuation methods

The following methods were used for the valuation of the property.

Sales comparison approach: The essence of this method based on direct comparison is that objects of similar attributes have similar values.

In the framework of a valuation based on the Sales Comparison Approach, the sales, offer and rental prices are analysed, and they are compared to the analysed property. The basis of comparison includes the characteristic features of the relevant property and the attributes of the comparable properties, and the differences between the two determine the factors that modify the values.

Valuation based on the income approach: In the course of performing DCF calculation, the estimated value is obtained from the revenues expected of ownership title to the property, by capitalisation.

The two most wide-spread income-basis methods of obtaining a value are the Discounted Cash-flow (DCF) method, including the discounting of expected future revenues to determine the estimated present value; and the Direct Capitalisation Principle (cap rate), where an average yield ratio is directly established from the relevant market transactions. Typically we considered the valued obtained by the DCF calculation, because these properties are income-generating real properties.

When the DCF method was applied, the following were taken into account:

- Calculations start from 1 January, 2019;
- Rents were indexed according to the HUF-CPI based on data by the Central Statistical Office of Hungary. Indexation was applied annually, in January.
- Rents were set in EUR, the EUR-HUF rate was fixed at 333.67;
- The individual discount rates and exit yields applicable to the particular property were set with a view to the location of the property, to the attainable rents and to the market position, and these determined the reversionary yield (yield on the ERV) and the average yield.
- In the case of rental agreements, a fixed 1-year period and a 6-month non-rent period was calculated for contracts concluded for an indefinite period of time. In the case of vacant areas, a 6-12 month initial voids were calculated. In the case of contracts concluded for a definite period of time, 6 months were taken as expiry voids. Structural vacancy was not considered in any case, we presumed that an appropriate marketing activity and under appropriate market conditions all the areas can be leased. For each period we set void periods after the expiry of the given or presumed rental contract.
- The CAPEX to Renovation costs were established with a view to the age and condition of the properties, which include the following: calculations were made on gross rentable areas depending on the age and quality of the building.
- Provision was also made for other costs (management, unpaid operating fees, vacancy, other costs, property tax etc.) based on the features of the particular property.
- The Exit Yield and the discount rates were set individually, based on the location, quality, rental status and the quality of the leasing contracts, as follows: In the case of office buildings, the Exit Yield was: between 7.00 and 9.25%, in the case of industrial properties: between 8.50 and 9.00%.
- Discount rates in the case of offices: between 7.50 and 9.75%, in the case of industrial properties: they fluctuate between 8.75 and 9.25%:

  In the case of prime EY industrial properties: 6.00% (decreasing)
  In the case of prime EY industrial properties: 7.50 per cent (stable/decreasing)

2.7. Sensitivity Analysis

The sensitivity tests of the models, model inputs, model variables, model correlations used for each property were performed in accordance with the IFRS 13 standard.

3. Business environment of the Company

3.1. Economic environment

In Q3 2019, Hungary remained one of the fastest growing economies in the European Union: on a quarter-to-quarter basis and in an annual comparison, gross domestic product has increased by 4.8 per cent. This rapid expansion was due, among others, to the optimistic expectations by the population and by businesses, and could rely on extensive financing using European Union funds and due to expanding lending. This boom was broad-based: on the production side, industry, the construction industry and the service sector, while on the user side, consumption, the gross fixed capital formation and net exports also contributed to GDP growth. Based on raw data, in Q3 2019, the Hungarian economy expanded by 5.0 per cent, while if adjusted for calendar and seasonal effects, by 4.8 per cent per annum. Overall, economic growth continued to rely on a broad base, and the majority of GDP-generating components and the constituents have increased on the consumption side. In comparison to the previous 3-month period, the economy grew by 1.1 per cent in Q3, 2019, and thus in each quarter since the end of 2017, the growth rate calculated on a quarter-to-quarter basis was at least 1 per cent.

Based on data adjusted for seasonal and calendar effects, growth in the countries of the region 3.6 per cent slower than the Hungarian economy, which expanded by 4.8 per cent year on year; GDP in the euro area increased by only 1.2 per cent in Q3 2019, and thus the Hungarian economy has continued to close the gap to the average of the euro area based on per capita GDP. Hungary's annual growth data places it second – next to Ireland – among the Member States of the European Union, and fourth on the list of EU MS's in the quarter-on-quarter statistics. Similar features continue to characterise the growth structure in Central and Eastern European Member States, and this also sheds light on the international impacts on the Hungarian economic procedures. On the one hand, consumption remains one of the driving forces of economic growth in the entire region, in Q3 2019 typically showing increase at an annual rate between 3 and 5 per cent (with the exception of Slovakia and Czechia), and in Hungary the pace of expansion was as high as 5.0 per cent (preceding the other countries of the region). Boom in consumption is also underpinned by the population's optimistic expectations, the vibrant labour market, the relatively moderate rise in consumer prices and low loan rates. Exports continued to increase in Q3 2019, however, with the exception of Hungary and Poland, at a declining pace. Slowdown in growth in Western European countries, considered as the primary market outlet of Central and Eastern European export goods, is expected to have its effects felt in the countries of the region in the next quarters. (Source: MFB Periszkóp, January 2020; www.mfb.hu))

3.2. Key economic indicators

Trade, investments and the headline balance

Based on CSO's data, in H1 2019, the volume of investment into the national economy has increased by 26 per cent year on year, and more specifically, the volume of construction industrial projects have increased by 32 per cent and investments into machinery and equipment by 21 per cent. The investment performance has increased in the case of businesses employing at least 50 persons, thus providing more than half of all annual CAPEX projects by 38 per cent and contributing 27 per cent to government organisations and institutions. Considering an annual span, investment activity was outstanding in every phase. Production/manufacturing has increased by 33 per cent, between the most important investment stages, which give more than half of the total amount of investments; transportation and warehousing by 33 per cent, and investment into property by 9.5 per cent. In 2018 the general government realised revenue in the amount of HUF 18,456 billion, and had expenditures in an amount of HUF 19,658 billion.

Revenues increased by HUF 1108 billion, representing 6 per cent. The taxes on production were HUF 134 billion (9%) less than a year earlier, however, they included HUF 403 billion (10%) increase in revenues from VAT. Revenues from income taxes have increased by HUF 258 billion. Social security contributions have increased by HUF 1.65 billion (11.8%). The other incomes have dropped by HUF 28 billion.

Expenditures decreased by HUF 29 billion, or 0.2 per cent. Paid employee incomes have increased by HUF34 billion (3.3%), and pecuniary social benefits by HUF 57.5 billion (5.1%). Capital expenditures have grown significantly, by HUF 272 billion (63.5%), while the other expenditures have dropped by HUF 13 billion (14%). Intermediate consumption has decreased by HUF 18 billion (2.5%). The government sector's interest expenses dropped by 1.6 per cent (Source: JLL).

Housing market benefits

In order to support families with small children and thus to remedy the adverse demographic trends, in 2016 the Hungarian government launched the innovative Family Housing Subsidy (FHS) programme. By significantly cutting taxes on newly constructed homes (from 27 to 5 per cent in the case of projects completed by 31 December 2023), this scheme provides considerable financial support to young couples to become home owners. Based on government statistics, in 2017 more than 26 per cent of the citizens who undertook home construction used the FHS, representing 5 per cent increase on 2016. The number of applicants to the FHS programme exceeds 100,000 based on the number of applications administered by the government. (Source: JLL)

Inflation and the consumer price index

In the previous quarter, the one- and three-month BUBOR rates decreased, partly as a result of a rise in the interbank liquidity. Medium- and longer-term interbank yields and yields on government securities have decreased. The largest decrease was observed in the mid-section of yield curves. In addition to higher volatility than elsewhere in the region, the HUF exchange rate has depreciated in comparison to the corresponding M June value.

BUBOR	subscription date	1 month	3 months	6 months	9 months	12 months
	30/09/2019	0.19	0.21	0.25	0.27	0.30
	31/12/2019	0.12	0.16	0.21	0.24	0.27

EUR/HUF	subscription date	
	28/06/2019	323.54
	31/12/2019	330.52

Hungary's 2019 4.8 per cent GDP is expected to drop to 3.3 per cent in 2020. As a result of the epidemiological measures, this reduction may change considerably. In the next few years the implementation of the government actions announced in order to improve competitiveness may contribute to the long-term maintenance of rapid GDP growth. If the growth rate is maintained, closing the economic gap to the euro area will continue.

In September 2019, the Hungarian consumer price index (CPI) was 2.8 per cent, for the first time below the National Bank of Hungary's 3-per cent target since January (as a result of a recent significant drop in fuel prices and due to fundamental impacts). The monthly hike of excise on tobacco products, which is beyond the competence of monetary policy, will likely increase the consumer price index in the entire forecast period. This action does not have a secondary impact, and consequently it does not influence change in the core inflation, other than indirect tax effects. (Source: JLL)

Central bank base rate and GDP

According to the decision adopted at its September 2019 meeting, the Monetary Council of the National Bank of Hungary (MNB), the central base rate has been maintained at the record low level of 0.9 per cent. All other monetary policy values have also been left unchanged, in line with the market expectations. Thus MNB goes against the current global trend of increasing base rates, and they support it with the argument that accommodation monetary policy is indispensable for achieving the desired inflation targets and for providing incentives to economic growth.

According to the data provided by CSO, GDP was 4.9 per cent higher in Q2 2019 than a year earlier. Such a growth was recorded in most economic sectors, but the most outstanding lines included construction industry and market-based services. Based on seasonally adjusted data, the country's performance has increased by 5.1 per cent year on year, and 1.1 per cent on the previous quarter. (Source: JLL)

Construction industry

Based on the raw data of construction industrial production, in August 2019 it was 5.9 per cent higher than a year earlier. Production volumes developed in the opposite direction in the two main areas of construction: the construction of buildings dropped by 14.1 and design by 3.5 per cent. Based on indices adjusted both seasonally and by working days, construction industrial production has dropped by 10.5 per cent on the July 2019 data.

The analyses show that building costs have increased by approximately 30 per cent in the past three years, primarily because there is demand for about 20,000 to 30,000 workers in the Hungarian construction industry. Although the costs of employing workers have risen, the collectively approved average wages are still not high enough and despite the increased costs, benefits do not reach the employees to a sufficient extent. (Source: JLL)

Property investments

Three main trends have had their impacts felt in the Hungarian market of investment trade in real property since 2015:

As a result of the favourable market environment, investment activity was especially massive, and has shown continuous increase year by year.

The Hungarian Commercial Property Fund is responsible for an increasing ratio of the total investment volume (45%) during the 2016-2019 period.

Due to the above and to the limited handover of new projects (primarily in the industrial and commercial sectors), the offer of properties ready for sale is rather limited.

By Q3 2019, investment activity had reached EUR 1.2 billion, 15 per cent less than the volume on a year earlier, due to the shortage of supply. Nevertheless, based on the sequential order of transactions, we expect that the 2019 annual volume will be nearly identical with that of 2018, somewhere between EUR 1.7 and 1.8 billion. Investor interest in Hungarian commercial properties and the capital made available by investor have not been as high as now since the global financial crisis, however, the available volumes are limited, and an appropriate supply could further boost them.

The largest demand is shown for premium and added-value properties in the market, although in the case of the latter, the opportunities are limited, as most buildings have a vacancy rate below 10 per cent. Demand is especially high for listed historical properties located in the Downtown, but in certain cases the sellers' and buyers' ideas of the price are a million miles away from one another. Location is especially important for foreign investors, who plan to implement their first projects in Hungary on exclusively centrally situated sites. Interest in logistics and industrial properties is extremely high, but the dramatic shortage of supply characteristic of this sector hampers investor activity. (Source: JLL)

Office buildings

Between Q1 and Q3 2019, the volume of transactions was about EUR 645 million in the case of office buildings, nearly identical with the figure recorded in the same period in 2018. As offices generated more than half of the total 2019 volume achieved so far, they are sort of driving forces of investment activity.

The most significant transaction of the period was the sale of the Roosevelt 7/8 office building, occupying a floor area of 28.200 sq. m, located in the middle of CBD and having a panoramic view to the River Danube. The seller was GLL Real Estate Partners and the buyer was the Hungarian OTP Ingatlan Alap (a real estate fund), which performed numerous significant transactions in the past few years and closed the last section of the Corvin Offices in Q3 2019. An additional significant transaction included the sale of the White House, GTC's new office complex on an area of 21,600 sq. m. This property was purchased by a new market entrant, the German investment fund Warburg-HH Invest in the framework of an over-the-counter transaction. This transaction is a good illustration of the fact that committed international investors are nevertheless capable of acquiring properties of outstanding significance, despite the predominance of local funds. Consequently, Hungarian buyers remained the market leaders. Only four of the 20 buildings sold could be related to foreign buyers.

Office market activity is massive, and the market indicators remain excellent, thus yield on premium offices was 5.25 per cent, 50 basis points higher than the 2007 peak. (Source: JLL)

Overview of the Market of Offices in Budapest

The office market is in a phase of rapid rise in Budapest, as well illustrated by the number of new construction projects and the demand volume. The ratio of new contracts is on the rise quarter by quarter, due to the appearance of new market participants and to the spread of the current tenants. Simultaneously with the new trends, demand is increasing for the so-called serviced offices, as clearly reflected in the rising number of new locations and increasing sizes.

The most active sectors in the rental market include information technology and telecommunication, professional services, SSC's and the government sector. (Source: JLL)

Portfolio and handovers

In Q3 2019, 2 new office buildings were handed over in the Budapest office market: Hungária Center and the second phase of the Advance Tower. The market is characterised by developer proactivity: construction is currently under way on an area exceeding 560,000 sq. m; however, recently it has become general practice that developers have been unable to complete the projects by the specified deadlines in the absence of labour. In Budapest the total office space is 3,668,740 sq. m; Category A and Category B offices for rent occupy 3,064,165 sq. m and the owners use 604,570 sq. m of this area.

In 2018, the Budapest office market could be characterised as a highly active developer market, as this year saw the highest number of handovers since 2009 (333,510 sq. m). By Q4, 87 per cent of the offices handed over have been rented out. The new generation of green buildings have also appeared in Budapest, in Promenade Garden, Mill Park and Advance Tower, and in addition, Telekom's new headquarters have also been completed on approximately 60,000 sq. m.

By the end of Q2 2019, the planned 2020-2021 handovers have grown to more than 500,000 sq. m. Of this, approx. 190,000 sq. m will be occupied by headquarters, for example MOL Campus (the very first high-rise building in Budapest), the Bosch Campus or the new Evosoft headquarters. In Q2 2019, three new projects were launched in this market: the Liberty office building (Wing) with a speculative office area of 42,000 sq. m; Tigris Office Park in the centre of Buda partial market on 4500 sq. m, and the Irányi Palace in the Downtown (3500 sq. m). (Source : JLL)

Demand

After the crisis, demand started to grow again, and reached a record volume in 2015 by 538,050 sq. m, also increased by four large-volume preliminary rental contracts representing more than 110,000 sq. m within the annual rented volume. In the past three years demand has remained massive, and this has a major role in the drop of vacant areas to a record low in the Budapest office market. In 2018 the total demand activity represented 535,650 sq. m, approximating the 2015 record volume. In Q3 2019, the total demand represented 191,235 sq. m, proportionate to the 10-year average gross demand in the Budapest office market. The net rented area was 70,570 sq. m, which means that "new" transactions (new contracts, preliminary contracts and upgrading) only contributed 37 per cent of the total property leasing, while the extension of existing contract contributed 63 per cent.

The ratio of extensions exceeded 63 per cent, followed by new contracts by 20 per cent. The ratio of extensions was 10 per cent, and upgrading represented 7 per cent. No transaction performed by the owner was registered in this quarter.

Of the nine partial markets, the Váci Avenue corridor generated 42 per cent of the demand in Q3 2019, but demand was also strong in the southern part of Buda (17%).

The most important transaction concluded in 2019 was the extension in Spiral on 28,900 sq. m, on the Váci Street corridor, followed by 2 other extensions in the Millennium Tower II and in GTC Metro (Budapest Bank). (Source : JLL)

Vacancy

By the end of Q2 2019, the vacancy rate had decreased by 40 basis points to 5.9 per cent.

There is a significant difference (amounting to 230 basis points) between the vacancy rates of Category A and Category B offices: the vacancy rate is 5.2 per cent for Category A shops and 7.5 per cent for Category B shops.

In Q2 2019, the North Buda partial market hit its lowest ever vacancy rate at 2,88 per cent. The Pest, centre, north area has the lowest vacancy rate among the nine partial markets of the city (2.18%), and it is important to highlight that the Váci Avenue Corridor occupies the largest area (approx. 1 million sq. m office space), in other words, the extremely low vacancy rate (4.1%) indicates an enormous demand in the market. (Source : JLL)

Rental fees

In 2018, the premium rent increased by 11 per cent to EUR 25/sq. m/month and it remained unchanged in Q3 2019. The highest rents are charged in Downtown. In Budapest the average rent charged in Category A buildings fluctuates between EUR 13.50 and EUR 17.00 per sq. m per month, and between EUR 11.50 and EUR 13.00 per sq. m per month.

Average rents have a wide range depending on location, technical specifications and the services provided. Due to a gradual decrease in the non-utilisation rate, rents have begun to rise in Category A office buildings, while rental allowances have decreased. The previous generous discount packages are shrinking, and the periods free of charge are being cut short. The period free of rent has reduced to 0.5 to 1 month. (Source : JLL)

Outlook

The market is currently optimistic, which is well illustrated by the size of a demand and future supply. However, it is important to note that in the past two years, building costs have increased by nearly 30 per cent, primarily as a result of the shortage of labour in the sector. This may have an effect on the constructions currently under way, and may result in delays in the handover of certain buildings. Currently, there is a lessor market in Budapest, and this situation is not expected to change in the next 12 months.

In addition, new trends can also be observed in the Budapest market, for example, the design of projects representing the "city in the city" concept. These mixed-function projects will serve as a kind of city centres within Budapest. At the moment, the projects BudaPart, Agora and Budapest ONE have begun, but similar plans are also heard of in the market, like the Central Park (Westend City Centre 2) or Waterfront City in Óbuda. The other major recent trend is the construction of high-rise buildings. The first such building is expected to be MOL's new headquarters (MOL Campus) in the southern part of Buda, with a height of 120 m. Works are already in progress. (Source : JLL)

Achievements in tourism in Hungary

In Hungary, tourism contributes to a major extent to boosting the economy and creating jobs. According to the data published by CSO, the direct contribution of tourism amounts to 6.8 per cent of GDP, while its contribution including indirect effects is 10.7 per cent. The number of people having jobs in the various branches of tourism exceeds 400,000, and 10 per cent of the jobs were directly generated by tourism. If the direct and indirect effects are aggregated, tourism provides 13.2 per cent of employment in the national economy.

Hotels

In December 2019, the number of hotel guest nights was 211,000, including 173,000 nights spent by domestic guests and 39,000 by foreign visitors. The monthly average room occupancy was 41.9 per cent, 1.3 per cent up on 2018, while the gross average room price was HUF 20,223.

Between January and December 2019, the number of hotel guest nights was 4,083,000, 0.8 per cent more than in 2018. The number of domestic guest nights (2,797,000) increased by 2.4 per cent, while the nights spent by foreigners (1,286,000) remained 2.5 per cent below the 2018 figure.

Departing from the national average, in the Balaton region the minor part, i.e. 31.5 per cent of the hotel guest nights were spent by foreigners and 68.5 per cent of them by domestic visitors. The average utilization of hotels was 56 per cent during the year, 0.9 per cent higher than in 2018. The gross average room price was HUF 17.761.

4. The Company's objective and strategy

The growth strategy relies on unchanged basic elements: Value creation by shareholders is ensured by regular acquisition and development targeting carefully selected objects falling within the strategic target segments, covered by innovative and favourable financing solutions and by the divestment of elements generating weaker yield.

Strategic target segments:

- **In the market of office buildings:** Expansion must be triggered by the selective acquisition of high-quality office buildings that promise high yield, primarily located in Budapest, and over time this may be completed by appearance in carefully selected other Central European markets.
- **In retail trade:** We intend to expand the portfolio in the floor-area category (1000-2000 sq. m) characteristic of the current portfolio, with the involvement of industry experts, based on careful repayment calculations, while maintaining countrywide diversification.
- **Tourism** will be included as a new segment: jointly with co-investors, on outstandingly good allocations (e.g. Club Aliga) the Company will launch ambitious development projects that will typically but not exclusively generate considerable income from 2023.

Financing:

In 2019 the Company successfully participated in the Funding for Growth programme, issuing bonds for HUF 20.1 billion, and continues to look for long-term, fixed-rate financing solutions that allow the redemption of capital predominantly or completely after the development projects start generating income.

This is complemented by raising funds from grants and tenders invited in certain target segments, especially in tourism.

In addition, the divestment of elements with weaker yield is also applied. The majority of divestments should be performed during 2020 and 2021.

5. The Company's main resources and risks, and the related changes and uncertainties

5.1. The Company's main resources and risks

Strengths:

- The Company flexibly adapts to the individual customer requirements.
- The Company's operation is cost efficient.
- Carefully considered property portfolio and the resultant volume-efficient business management
- Diversified real property portfolio
- Maintenance of a concerted financing and revenue structure.
- The Company has a liquid asset portfolio.
- The Company's ratio of debt to equity is balanced.

Opportunities:

- The under-priced Hungarian real property market is an attractive investment target for foreign investors.
- The acquisition of undervalued properties in niche market segments.
- Selection of the very best of small and medium-sized companies, and long-term co-operation with companies that generate stable liquid cash-flow
- Acquisition of high-quality and high-yield properties
- Expansion in the market of commercial properties

Uncertainties:

- The length of the period between tenant changes in the case of continuous leasing.
- The measures taken in the wake of the 2020 COVID-19 carry medium- and long-term financial risks.

5.2. Financial instruments

Appeninn Nyrt.'s treasury coordinates participation in the financial markets according to the Company's business interests. Appeninn Nyrt. assesses the financial risks incurred in the course of its activity separately for each business. The analysed risks include market risks (foreign exchange risks, fair value, interest rate and price risks), credit risks, payment risks and cash-flow interest rate risks.

Appeninn Nyrt. endeavours to minimise the effects of these risks. Appeninn Nyrt. does not enter into financial transactions for speculative purposes.

Presentation of the Company's financial assets in the Company's supplementary reports under the heading "Description of the Company's assets".

5.3. Financial risk factors and their management; and the risk management policy

Appeninn Nyrt.'s treasury coordinates participation in the financial markets according to the Company's long-term business interests.

Hungarian office market investments may have an indirect and long-term effect on pricing.

The Company fends off the risk of non-payment or late payment generally experienced among companies by preliminary monitoring followed by continuous client monitoring. The client monitoring activity is constantly improved by the operative, the energy management and the client management units through co-ordinated information flow.

A hundred per cent of Appeninn Nyrt.'s foreign exchange investment loan is denominated in EUR.

The Company is exposed to risks arising from changes in the market and financial conditions. Such changes may influence the results, the values of assets and liabilities. The purpose of financial risk management is to continuously reduce risks through its operative and financing activities. Below is a description of the most important market risks the Company is exposed to.

Risk related to rent:

The Group applies consistent, predictable and competitive rents to its tenants. The currently applied rents match the physical situation and quality of the properties.

Considering the current global economic environment and the supply and demand conditions characteristic of the Budapest property market, it can be presumed that the currently applied rents and conditions can be maintained in the near future.

Foreign exchange risk:

A hundred per cent of Appeninn Nyrt.'s foreign exchange investment loan is denominated in EUR.

Interest rate risk:

The interest rate risk reflects the risk that the future cash flows of certain financial assets and liabilities fluctuate as a result of changes in the market interest rate.

Liquidity risk:

The objective of the Company is to maintain equilibrium between the continuity of financing and flexibility during the refashioning of financial reserves and loan portfolios.

Liquidity problems are not expected as the revenues safely cover debt service and the operating costs. The Company and the subsidiaries under its control fulfil their payment obligations by the payment deadline.

With the funds raised under the Funding for Growth Scheme, the Company has considerably reduced its exposure to commercial banks and the risk of medium-term capital repayments.

Credit risk:

Credit risk is the risk that a partner fails to perform its payment liability related to a financial instrument of buyer contract and causes financial loss. The Group is exposed to credit risk in relation to its leasing and financial activities (including bank deposits and financial investments).

In the case of tenant partners: In order to reduce credit risk, the Company requests tenants to provide deposits or bank guarantees, depending on the credit rating performed prior to the conclusion of the rental agreement, and constantly monitors outstanding client accounts.

In the case of bank deposits and financial investments: The Company manages the credit risk related to bank deposits and financial investments in agreement with its conservative investment policy. In order to reduce credit risk, the Company holds its financial reserves in cash or in bank deposits at reliable financial institutions.

6. Quantitative and qualitative indices and indicators of performance measurement, and a description of its sites, branch offices and managed properties

6.1. Quantitative and qualitative indices and indicators of performance measurement

Financial indicators

EUR	2019	2018	Change
Direct collateral	6,537,795	4,203,422	+ 55.5%
Income-generating investment properties	147,670,000	117,820,822	+ 25.3%
Direct collateral on assets	4.4%	3.6%	+ 24.1%

Despite a significant increase in its asset portfolio, the Company has been able to improve its asset-to-collateral indicator by 24.1 per cent, explained by a high level of utilisation and the renewal of the expired contracts at a market level.

EUR	2019	2018	Change
Administration costs	1,053,062	1, 252,527	– 15.9%
Staff costs	757,075	719,054	+ 5.3%
Direct collateral	6.537.795	4,203,422	+ 55.5%
Cost to revenue	14.4%	25.4%	– 43.3%

The Company’s cost-to-to income ratio decreased by 43.3 per cent on 2018, due to higher direct collateral and a 15.9 per cent reduction in central costs.

6.2. Description of sites, branch offices and the managed properties

H-1082 Budapest, Üllői út 48.

The property is a prominent office building in District 8 of Budapest, and is located along the road leading the Liszt Ferenc Airport, one of the busiest streets in the city.

Due to its excellent location, it is highly visible and accessible by numerous public transport lines, for instance trams no. 4 and 6, and underground line 4, which has a stop just a few minutes on foot from the property along Ferenc Avenue. By car the proximity of Ferenc Avenue allows quick access to the Downtown and to the Buda side. Üllői Street provides an additional transport connection to the airport ant to Highway M5.

The edifice stands on a single plot of land, which is 1967 sq. m in area.

The office building is U-shaped, has a closed yard, 3 underground storeys + a ground floor + 6 storeys. A total number of 126 cars can be parked on 3 floors under the ground. There is a restaurant on the 6th floor.

The facade overlooking Üllői Street is characterised by a cascaded layout element called "glass sail". The office building is rated Category B. The rest rooms, kitchens, staircases are covered by tiled, while offices and corridors by wall-to-wall carpets. The property is air conditioned.

The building has telephone, IT and internet networks. In addition, a remote security monitored alarm system, a fire alarm system, a built-in pressure booster, and uninterrupted power supply are available in a separate network.

The building is equipped with a centrally operated ventilation system and the complete building is air conditioned. The building is equipped with an electronic, card-operated access system.

H-6000 Kecskemét, Kiskőrösi utca 30.

The property is situated in Kecskemét, on Kiskőrösi Street in a business, trade and service zone, and it is extremely easily accessible because it is close to the M5 motorway and main road 52.

There are 8 separate buildings on a plot of land, including halls, warehouses, and an office building. The total rentable area of these buildings is 6024 sq. m. Part of the area of the property is covered by concrete, another part by gravel, and a third part by grass. There are 3 side-tracks on the site. The large-size area is lit by reflectors installed on posts. The area is equipped with a camera system. Parking is in the street.

H-1023 Budapest, Bég u. 3-5. and Bég u. 4. (Törökvész u. 30.)

The property is situated in Budapest, District 2, at the intersection of Törökvész út and Pusztaszeri út, in an area known as Vérhalom/Rózsadomb, and is surrounded by popular and attractive residential buildings, most of which are condominiums. Rózsakert Shopping Centre is next to the property. The office building is easy to access by public transport by bus no. 91, which has its terminal on Széll Kálmán Square, and by buses no. 11 and 111, from Batthyány Square, or by car.

The office building was built in the 1980's and completely refurbished in 2004. The office building has a full cellar, a ground floor and 5 other storeys. The offices open from a central corridor, they are air conditioned, and the floors are covered by wall-to-wall carpets. There is an operating restaurant on the ground floor of the building, and in addition, an alarm system, a video surveillance system, and a card-operated access system have been installed. There are two lifts in the building. 36 cars can park in the basement car par and 27 in front of the building. The reception service works around the clock. Natural light is excellent in the entire building.

The building was refurbished in 20045, thus currently it is in a good condition that corresponds to its age.

H-1149 Budapest, Várna u. 12-14.

The property is situated in Budapest, District 14, in an quarter known as Törökőr. The building block is surrounded by Mogyoródi út-Mexikói út- Kerepesi út, near the Hungária - Kerepesi út junction. The surroundings of Várna Street contain houses of mixed style and function. Smaller-size sites are interposed between numerous older condominiums, while the Fogarasi Street and the Kerepesi Street are more predominated by the commercial function, built up mainly by office buildings. On the territory of the property there is an office building on 2584 sq. m and a factory floor on 700 sq. m. The office building was built at the end of the 1970's, and comprises a ground floor + 3 other storeys.

H-1047 Budapest, Schweidel utca 3.

This property is situated in Budapest, District 4, in Schweidel József Street. It is not far from the centre of Újpest, close to Fóti út. The area also contains commercial and industrial properties. These buildings typically belong to the city logistics category, have a single floor, no cellar and mixed structures and condition.

H-1094 Budapest, Páva u. 8

The PávaPoint office building is situated at 8 Páva Street in District 9, surrounded by Mester Street - Ferenc Boulevard – Üllői Avenue. The tenants operate in offices of various sizes and layouts and in a shop overlooking the street.

In addition to its excellent location, it is characterised by very good access by transport, an internal car park, a 24-hour reception service and office layouts tailored to the tenants.

H-1015 Budapest, Hattyú utca 14.

The office building that has special architectural solutions is located near Széll Kálmán Square, one of the busiest junctions of Buda, in District 1 of Budapest. It was built in 1998 in a unique style, as one of the most outstanding works of Hungarian organic architecture, using natural elements life wood, stone and slabs. The eleven-storey building is easy to approach from every direction by public transport and by car.

The complex was essentially built for office purposes in 1998, and currently it is used for this purpose, it is leased. The underground car park can accommodate 94 cars.

H-1118 Budapest, Kelenhegyi út 43.

This complex is located in District 11 of Budapest, on Gellért Hill, under the peak and the Jubileumi Park, high above the Kelenföld Quarter. The Jubileum Park is in its immediate surrounding. Gellért Hill is one of the most characteristic attractions of Budapest, which offers a panoramic view of the city. The property is in the neighbourhood of Citadella, and a catering facility connected to Citadella. The site also accommodates a viewing platform. From the upper floor of the building the entire Budapest is visible (including Sas Hill). Due to its good infrastructure and transport connections and the proximity of highways M1 and M7, numerous companies have settled in this region. The institutional infrastructure of the area is excellent.

There are 11 flats in each of Building A and Building B. Building B was completely refurbished in November 2014 for office purposes and Building A underwent partial refurbishment in 2014-2015.

H-1133 Budapest, Visegrádi u. 110-112.

The property is situated approximately 100 m from Váci Street, between underground stops Árpád Híd and Dózsa György út, in an area of excellent infrastructure and good supplies. By public transport it is accessible by underground 3, both stops at Párpád híd and Dózsa György Street are within 5 minutes' walk, and tram no. 1 as well as buses no. 32, 106, 120 and 133 are also close. Despite its easy access, the building is situated in a relatively quiet area.

There are two office buildings on a 2768 sq. m land. Currently, a car park accommodating 30 cars belongs to the property, between the two buildings. Access to the building is through two separate reception desk: one to the office building and one to the car park. The building was built in the 1960's but it was completely renovated in 1999, when it underwent a function change and obtained its current form.

H-1062 Budapest, Andrássy út 105.

The office building is situated in Budapest, District 6, Andrássy út, in a block surrounded by Bajza utca – Délibáb utca – Munkácsy utca on the Pest side of the city. The building has a quadrangle shape and 5 storeys. The total net floor area is 1516 sq. m, built in the middle of the 1094 sq. m plot of land. The area behind the building is used as a car park. The Property is under local protection.

H-1147 Budapest, Egyenes utca 4.

It is situated in District 14, in an area known as Rákosfalva, in an industrial environment. The property lies on the outskirts of Zugló, a few hundred metres from the railway tracks. There is a flat-roofed, single-storey, industrial hall made of prefabricated steel concrete on the site.

H-1105 Budapest, Bánya utca 20 and Bánya utca Building E

The property is located close to the city centre, in a residential surrounding, close to busy main roads. It is close to Szent László Square, very easily accessible by car, public transport and rail. Trams no. 37 and 62 are easy to access on foot. Cars can park on the yard of the property.

Several buildings are available on this plot of land and they can be used as warehouses, offices or commercial units, and in addition, there is a freestanding hall (Building E). Significant refurbishments were implemented in the property in 2013.

H-1023 Budapest, Felhévízi út 24.

The office building is situated in Budapest, District 2, at a high-priority point in inner Buda, close to the city centre, near the busy Bécsi Street and Szépvölgyi Street. The property is accessible by several buses, trams and also by the suburban train. Cars can park in the nearby streets, and the building also has its own parking garage. The property has excellent infrastructure: there are numerous shopping malls, restaurants, banks and schools in the neighbourhood.

H-1139 Budapest, Frangepán u. 19.

This office building is situated in Angyalföld, District 13 of the capital city. Its position is excellent, as the junction of Róbert Károly Boulevard and Váci út is nearby and the busy Váci út is only 400 metres away. The property is in the immediate proximity of the Árpád híd and Forgács út underground stops. The property is located in an environment of newly built and older residential and institutional, commercial buildings, within easy reach by public transport, and nevertheless in a quite area. By car it is easy to access from every direction of the city.

The plot of land occupies 1867 sq. m of area, it is regular rectangular in shape and plain. In the middle of the land, on the street front, there is a Category B office building. Two gates give access to the land on the two sides of the building, on the street front. Ten car parks also belong to the building.

The office building was built in the 1980’s and it has a ground floor + 4 upper storey, then a 5th floor was added subsequently.

H-1044 Budapest, Váci út 76-80.

The property is close to the Újpest city centre and it is situated in Váci út, in a commercial and industrial environment. On the nearly completely regular rectangular site of 6438 sq. m, there is a building occupying 2662 sq. m, which obtained its current form in 2007. The facility established for commercial purposes has a northern and a southern wing and a tower that connects the two and functions as an office.

H-1062 Budapest, Andrássy út 59.

The office building is situated in Budapest, District 6, on Andrássy út, in a block surrounded by Csengery Street, Eötvös Street and Szófia Street. The listed corner building is L-shaped and has six floors. The total gross floor area of all storey add up to 2394 sq. m, erected on a land of 796 sq. m.

H-3525 Miskolc, Szűcs Sámuel u. 5.

This property is located in the centre of the city, next to a Plaza and close to the coach station. In its immediate surrounding there are primarily commercial buildings, and a bit farther away it is surrounded by residential buildings. The property is extremely easily accessed by car, by local buses and trams.

Currently, the building accommodates offices. The building is in an excellent and newly developed condition.

H-8171 Balatonvilágos, Aligai út 1.

Club Aliga is the jewel of Balatonvilágos located on a 47 hectare plot of land. From the 1950’s it was used as the holiday centre of the élite of the socialist party. Aliga I comprised several hotels and a marina, while Aliga II included villas sealed off from the rest of the world (e. g. the Kádár Villa, the Castro Villa etc.). The property has a 2 km long shoreline, which is one of the most valuable sections of the shore of Lake Balaton, but currently the majority of the total area is a tamed wilderness similar to an arboretum. The majority of the buildings have been vacant for several decades and they are in a poor condition. This is why in early 2020 Appeninn Nyrt. started the complete reconstruction of the area with the purpose of turning Club Aliga into a tourism destination of a European standard.

18 SPAR department stores

These properties have commercial functions

- H-2660 Balassagyarmat, Rákóczi fejedelem útja 56.
- H-8630 Balatonboglár, Dózsa György út 53-59.
- H-5600 BÉKÉSCSABA, Szarvasi út 15-17
- H-1118 Budapest, Nagyszeben tér 1.
- H-1043 Budapest, Tél u. 26
- H-2234 Maglód, Jászberényi út
- H-7632 Pécs, Nyugati ipari út 5.
- H-2310 Szigetszentmiklós, Gyártelep
- H-2800 Tatabánya, Szent Borbála út 22.
- H-8200 Veszprém, residential area
- H-4220 Hajdúböszörmény, Bánság tér 1.

- H-7300 Komló, Alkotmány u. 50.
- H-4150 Püspökladány, Rákóczi u. 5.
- H-6320 Solt, Kecskeméti út 3.
- H-5200 Törökszentmiklós, Kossuth Lajos u. 138.
- H-6723 Szeged, Római krt. 21.
- H-2400 Dunaújváros, Magyar u. 1-7.
- H-7000 Sárbogárd, Ady Endre u. 212-214.

7. Major events after the balance-sheet cut-off date

Between the cut-off date and the publication of this report, in the Company no event took place that affected the reporting period and required accounting. The Company has published notices about the significant events and particularly important developments which took place following the balance sheet date; and about the expected development.

At its places of publication the Company presented the following additional events:

10 January, 2020 Special notice – share purchase
Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép., 5. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that On 9 January 2020, the Company concluded a sale and purchase agreement for the purchase of 76 per cent of the shares in Solum-Invest Ingatlanfejlesztő és Üzemeltető Korlátolt Felelősségű Társaság (company registration number: 19-09-520175). The Company purchased the firm that operates the Balatonfüred marina jointly with Attila Balázs, a shareholder of Bayer Construct Zrt., an enterprise active in the construction industrial and property management market. He acquired title to 24 per cent of the shares. The high-standard operation of the marina and the developments planned by the Company and its partner in the future represent new and high-standard products in the tourism market around Lake Balaton.

17 January, 2020 Special notice – contracting for a real property
Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép., 5. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that In order to acquire an office building occupying more than 6000 sq. m in Montevideo Street, District III of Budapest, on 29 November 2019, the Company's single-person subsidiary, BERTEX Ingatlanforgalmazó Zártkörűen Működő Részvénytársaság (registered office: H-1062 Budapest, Andrássy út 59.; company registration number: 01-10-045752) entered into a sale and purchase agreement on 17 January, 2020. The transaction is expected to be closed by the end of January 2020. Due to the purchase of the office building, the Company's portfolio increased by 20 per cent in this category.

14 February, 2020 Special notice – property purchase
Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép., 5. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors about the following. By purchasing the office building

located in District I of Budapest in Pauler Street, the Company continued its portfolio expansion. The office building has a rentable area on 668 sq. m and is located in one of the most frequented parts of District I in Budapest. Its profitability is secured by a long-term rental agreement. The Company acquires the office building by a sale and purchase contract concluded for 100 per cent of the shares in Alagút Investments Ingatlanhasznosítási Korlátolt Felelősségű Társaság (company registration number: 01-09-305161) The acquisition fits well into the Company's strategy of making efforts at expanding its portfolio by high-profile properties located in Budapest.

18 February, 2020 Special notice – development

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép., 5. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors about the following. The Company's subsidiary PRO-MOT HUNGÁRIA Ingatlanfejlesztő Kft. (H-1062 Budapest, Andrássy út 59., company registration number: 01-09-703978) has submitted an application within the framework of the Kisfaludy Tourism Development Programme for the improvement and modernisation of the marina located on the territory of the Club Aliga holiday resort, a facility in its ownership and management. The purpose of the application is to improve the standard of service, replace and/or renovate the existing objects and considerably improve the quality of the service facilities.

PRO-MOT HUNGÁRIA Ingatlanfejlesztő Kft. has submitted another application for the tender invited under the Kisfaludy Tourism Development Programme, for the establishment of a new hotel open all the year round. This project would completely renew the services provided by the Club Aliga accommodation, and as a result, the quality of the accommodations would be well suited to the higher standard services offered by the marina and the beach.

26 February, 2020 Special notice – transaction closing

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép., 5. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that today it has closed the following property transaction: The Company's single-person subsidiary, BERTEX Ingatlanforgalmazó Zártkörűen Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. V. em. B. ép. 1.; company registration number: 01-10-045752) purchased an office building located in Montevideo Street, District III of Budapest, and its sale and purchase agreement was signed on 17 January, 2020. Through the purchase of this office building, the Company expanded its portfolio in this segment by more than 6000 sq. m of rentable office space.

9 March, 2020 Special notice – strategy

Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság (registered office: H-1118 Budapest, Kelenhegyi út 43. B. ép., 5. em. 1; company registration number: 01-10-046538; hereinafter: "Company") informs the Investors that it has updated its strategy.

8. Capital and share information by the issuer of publicly traded securities

As stock exchange trade in the Company's voting securities (hereinafter: "issued shares") is approved on the recognised (regulated) markets (stock exchanges) of any Member State of the European Union, the following content must be presented in detail in the business report:

– the structure of its subscribed capital, including those issued securities which are not admitted to trading on a recognized (regulated) market (exchange) in any Member State of the European Union, where appropriate with an indication of the different classes of shares and, for each class of shares, the rights and obligations attaching to it and the percentage of total share capital that it represents / in Section 8.1;

– any restrictions concerning the transfer of issued securities comprising the subscribed capital (including any restrictions relating to the acquisition of these securities, or if acquisition is made subject to the consent of the company or other holders of issued securities) / in Section 16.3;

– the investors with any significant - direct or indirect - holdings in the company's capital (including shareholdings through pyramid structures and cross-shareholdings), including where the holdings of such investors is effected by means of certificates representing shares / in Section 8.6;

– the holders of any issued securities with special control rights and a description of those rights / in Section 16.3;

– the system of control of any employee share scheme where the control rights are not exercised directly by the employees / in Section 16.1;

– any restrictions on voting rights (especially the limitation of the voting rights vested in the holders of a given shareholding or of a specific number of votes, the deadlines of exercising voting rights, or systems that separate – with the company's cooperation – the financial benefits attached to the shares from the possession of the issued shares) / in Section 16.3 and Section 9, for full content and details see the Company's Statutes;

– any shareholder agreement the Company is aware of if it may cause limitations on the transfer of the issued shares and/or voting rights / in Section 16.3 and Section 9;

– the rules governing the appointment and replacement of executive officers and the amendment of the Statutes / in Section 9, for full content and details see the Company's Statutes;

– the powers of executive officers, and in particular, their authorisation to issue or buy back shares / in Section 9, for full content and details see the company's Statutes;

– any significant agreement to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof, except where their nature is such that their disclosure would be seriously prejudicial to the company; this exception shall not apply where the company is not obliged to disclose such information on the basis of other legal requirements;

– Any agreement concluded between the contractor and its executive officer or employee that requires compensation if such executive officer resigns or such employee quits work, or if the employment of the executive officer or employee is terminated unlawfully, or if such employment is terminated due to a takeover bid / in Section 16.5.

8.1. Composition of the subscribed capital:

The Company's share capital is regulated in the Statutes:

– Consists of 4,737,141,.900 registered, dematerialised, ordinary shares, each representing a nominal value of HUF 100. Each share carries one vote.

– Shareholder specification, the performance of financial contributions, increasing the share capital, and the rules of transfer are described in the Statutes.

8.2. Shares issued and shareholders' rights

The issued and marketed Appeninn Shares are freely negotiable, and there are no rights based on the Article of Association that would restrict marketing or negotiation. The shares have a single series, and the members of the share series are Appeninn's ordinary shares carrying identical rights.

Appeninn Nyrt. share data	
Nominal value	100
Currency	HUF
ISIN code	HU0000102132
Place of trading	Budapest Stock Exchange, share division
Start date of trading	2 July 2010
Share ledger maintained by:	Appeninn Nyrt.Board of Directors, 1062 Andrássy út 59.
Number of traded shares as of 31/12/2019.	47,371,419
Number of traded shares as of 31/12/2018.	47,371,419

8.3. Repurchased own shares

On 31 December 2019, the Company had 1848 equity shares representing an amount of HUF 1,114,000.

8.4. Composition of the Company's share capital

Subscribed capital	For the year ended 31/12/2019 EUR	For the year ended 31/12/2018 EUR
Shares issued and paid by the owners, nominal value:		
Opening value on 1 January	**15,217,006**	**13,245,347**
Offering on 11 April, 2018	-	1,971,659
Closing value of the subscribed capital as at 31 December:	**15,217,006**	**15,217,006**
Number of shares with the nominal value of HUF 100:		
Opening value (number)	47,371,419	40,892,545
Offering (number)	-	6,478,874
Closing value (number)	47,371,419	47,371,419

8.5. Other changes in equity

Shareholders' Equity (EUR)	Share capital	Reserves	Treasury shares	Currency translation adjustment	Retained earnings	Equity attributable to parent	Non-controlling interest	Total equity
Balance at 1 January, 2018	**13 245 347**	**13 618 106**	**-**	**161 644**	**5 161 552**	**32 186 649**	**-**	**32 186 649**
Total comprehensive income								
Profit / (loss) for the period	-	-	-	**(972 493)**	**17 378 402**	**16 405 909**	-	**16 405 909**
Transactions with the equity holders of the Company:	**1 971 659**	**12 027 124**	-	-	-	**13 998 783**	-	**13 998 783**
Purchase of treasury shares	-	-	-	-	-	-	-	-
Capital increase	1 971 659	12 027 124	-	-	-	13 998 783	-	13 998 783
Sale of treasury shares			-			-		-
Balance at 31 December 2018	**15 217 006**	**25 645 230**	**-**	**(810 849)**	**22 539 954**	**62 591 341**	**-**	**62 591 341**
Balance at 1 January, 2019	**15 217 006**	**25 645 230**	**-**		**22 539 954**	**62 591 341**	**-**	**62 591 341**
Total comprehensive income								
Profit / (loss) for the period	-	-	-		**11 994 918**	**10 094 887**	**120 310**	**10 215 197**
Transactions with the equity holders of the Company:	-	-	-		390 319	390 319	610 626	1 000 945
Acquisition of new subsidiary						-	610 626	610 626
Purchase of treasury shares	-	-	-		-	-	-	-
Sale of treasury shares	-	-	-		390 319	390 319	-	390 319
Balance at 31 December 2019	**15 217 006**	**25 645 230**	**-**		**34 925 192**	**73 076 548**	**730 936**	**73 807 483**

8.6. Details of the committed reserve, revaluation reserve and capital reserve

Capital reserve	For the year ended 31/12/2019 EUR	For the year ended 31/12/2018 EUR
Opening value of share offering, including a premium	25 645 230	13 618 106
Share offering with premium, 11 April, 2018	-	12 027 124
Closing	**25 645 230**	**25 645 230**

During the year there was no change in the Company's capital reserve.

Accumulated P/L	For the year ended 31/12/2019 EUR	For the year ended 31/12/2018 EUR
Opening value	21 729 105	5 323 196
Translation to the presentation currency	810 849	-
Modified opening value	22 539 954	5 323 196
annual change:		
P/L for the reporting year	11 994 918	16 405 909
Accounts receivable from the owners, discounted	-	-
Losses on the acquisition of shares, charged to the owner	-	-
Transfers within the equity to the debit of the majority owner	-	-
P/L realised on equity transactions	390 320	-
Dividend payment	-	-
Derecognition of discounted receivables from owners	-	-
Closing	**34 925 192**	**21 729 105**

8.7. Significant investors

After the cut-off date of the financial statements, the Company published its regular monthly notices (at the end of each month, about voting rights and about the capital) and its Proprietary Reports about changes in shares and participations.

Shareholders with an ownership ratio exceeding 5 per cent of the listed series		
Name	Ownership percentage (%)	Number of shares
BDPST Zrt.	29.3	13,879,524
KONZUM II. Property Investment Fund	18.33	8,684,268
OTP Property Investment Fund	5.09	2,410,372
Ratio of publicly held shares	47.28	22,397,255
Total:	**100**	**47,371,419**

9. Statutes

For the last time the Company approved Appeninn Holding Nyrt.'s Statutes on 20/11/2019.

- The Company displayed the Statutes at the places of publication.
- The Company performs the procedures and enforces the rights stipulated in the Company's Statutes by the publication of its Statutes.
- The election of the executive officers and the election procedure took place in accordance with the Statutes.
- According to the provisions of the Statutes, the Company complies with the rules of share issue and withdrawal.

10. The Company's management system and Report on Responsible Corporate Governance

- The Company has a Board of Directors. The powers and competences of the Board of Directors are regulated in the Statutes.
- Together with the annual report the Company publishes a package of documents presenting its responsible corporate governance system (Statement and Report on Responsible Corporate Governance), including the information specified in Section 95/B.
- The Company does not depart from the corporate governance system specified by law and does not apply any other corporate governance systems by derogation from the law.
- With a view to Section 95/B (2) a) of the Accounting Act: The Company represents that the corporate governance code applicable to the Company is the code regulating publicly listed joint stock companies as stipulated in the Civil Code of Hungary. In its deed of foundation, the Company specifies its corporate governance code with the approval of the General Meeting. The Company discloses its Statutes to the public when it fulfils its disclosure obligations.
- With a view to Section 95/B (2) b) of the Accounting Act: The Company discloses all relevant information about the corporate governance practices applied beyond the requirements under national law in its regular and special notices, and if they are high-profile and comprehensive, the Company presents them on its own website in separate documents. Currently, no such position has been taken.
- With a view to Section 95/B (2) c) of the Accounting Act: The Company represents that it presents, in accordance with the relevant regulations, its departures, if any, from the relevant statutory regulations in a separate document (Statement of and Report on Responsible Corporate Governance) with justification.
- With a view to Section 95/B (2) d) of the Accounting Act: In its separate document (Statement and Report on Responsible Corporate Governance), the Company explains if it has not complied with any of the provisions relating to governance in the relevant statutory regulation.
- With a view to Section 95/B (2) e) of the Accounting Act: In a separate document (Statement and Report on Responsible Corporate Governance), the Company presents the key characteristics of its internal control and risk management system in relation to the compilation of the financial statements.
- With a view to Section 95/B (2) f) of the Accounting Act: The Company presents the information required by Section 95/A c), d), f), h) and i) as part of a separately published document (Statement and Report on Responsible Corporate Governance), similarly to the supreme governing (controlling) body, the managing organisation and the supervisory body and the composition and operation of its committees, as stipulated in Section 95/B (2) g) of the Accounting Act.
- With a view to Section 95/B (2) h) of the Accounting Act: A description of the diversity policy applied in relation to the Company's administrative, management and supervisory bodies, with special regard to aspects such as, for instance, age, gender, or educational and professional backgrounds, the objectives of that diversity policy, the method of its implementation and the results in the reporting period do not apply in respect of the year 2019.
- With a view to Section 95/B (3) of the Accounting Act: The Company regularly published its Statement and Report on Responsible Corporate Governance with the above-specified contents.

11. Framework for the principle of going concern

Appeninn Nyrt. has prepared its business plans for the period that follows 2019, and on this basis it can be established that the Company's positive future cash-flow provides coverage for the Company's existing and foreseeable liabilities.

12. Responsible Corporate Governance

In the course of its activity, the Company pays special attention to sustainability, to supporting disadvantaged groups, ethical business conduct and value creation.

13. Environmental protection

In the course of its activity, the Company does not perform any activity harmful for or damaging the environment. It does not use hazardous materials for the purposes of its operation. An outstanding characteristic of the focus on tourism, launched with the 2019 acquisition of Pro-Mot Kft.'s majority share, is the planning and implementation of developments in a sustainable approach.

14. Employment policy, employee share and governance plan

14.1. Employee share scheme

The Company does not run any employee and management share plan.

14.2. Number of full-time employees

Headcount data	For the year ended on 31/12/2019	For the year ended on 31/12/2018
Average statistical headcount (person)	**25.00**	**23.51**
Closing headcount (persons)	**25.00**	**29.00**
including:		
Appeninn Üzemeltető Zrt. 100% subsidiary	17.00	18.00
Appeninn Vagyonkezelő Holding Nyrt.	7.00	9.00
Appeninn E-Office Vagyonkezelő Zrt.	1.00	1.00
Appeninn Property Vagyonkezelő Zrt.	-	1.00

15. Places of disclosure

The Company also publishes its disclosures and financial statements at the following places:

- https://appeninnholding.com/
- https://kozzetetelek.mnb.hu/
- https://www.bet.hu/

- https://e-beszamolo.im.gov.hu/oldal/kezdolap

16. Fundamentals underlying the preparation of the annual report

16.1. Statements of compliance according to Decree No. 24/2008. (VIII. 15.) of the Minister of Finance

As an issuer having its registered office in Hungary, Appeninn Nyrt prepares its annual reports in line with the provisions of Act C of 2000 on accounting.

Appeninn Nyrt. publishes audited annual reports The audit report is published together with the business report, included in the annual financial statements.

The annual financial statements include the parent company's balance sheet, the consolidated balance sheet, the income statement, the notes to the financial statements and the executive report.

Appeninn Nyrt. publishes its executive report jointly with the annual financial statements. The accompanying analysis is presented in the executive report. The analysis presents the key processes and factors that have had an impact in the period covered by the annual report, or will have an impact in the future, on the Issuer's performance, development and position. The data presented in the executive report are published with content identical to the data of the previous period. If there was a difference in the content of the data, the comparative data will be repeatedly disclosed. The data presented in the executive report must be comparable to those contained in the executive report covering the previous period.

16.2. Statement of expediency and compliance

The purpose of this document, being the Company's business report, is to demonstrate the financial and earnings position, and course of business of the undertaking through evaluating the figures contained in the annual report in a manner that provides a fair view reflecting the actual circumstances on the basis of facts from the past and of estimated future data. Where necessary, the business report makes reference to and gives additional explanations for the data included in the annual financial statement. The business report has been prepared in Hungarian, and has been signed by Tamás Bernáth and Dr Nóra Szabó, member of the Board of Directors and authorized representatives of the undertaking, with the place and date indicated herein.

16.3. Limitation of ownership rights

The Board of Directors is not aware of any limitation by the owners, of any limitation of the transfer of shares by the owners, or of any shares issued and representing special management rights.

The Company's Statutes presents and provisions applicable to the content and practice of Ownership rights under the titles Shares, Register of Shareholders, Rights and Obligations of Shareholders and General Meeting.

16.4. Essential information

At the Company's usual places of publication, the Board of Directors has displayed all essential information that may significantly influence the Company's activity beyond the uninterrupted and expected regular operation. The management is not aware of any indemnification contract affecting the members of the management or the employees.

16.5. Indemnification agreements

The Board of Directors are not aware of any agreement between the Company and its executive officers or employees that requires compensation if such executive officer resigns or employee quits work, or if the employment of the executive officer or employee is terminated unlawfully, or if such employment is terminated due to a public call option.

16.6. Research and experimental development

The Company is not engaged in and does not participate in research and development activities.

16.7. Declaration of undertaking

Declarations required in Annex No. 1 to Decree No. 24/2008. (VIII. 15.) PM of the Minister of Finance about Appeninn Nyrt.'s annual separate financial statements and reports compiled according to the Hungarian Accounting Act for the year 2019, and about its annual consolidated financial statements and reports compiled as a parent company for the year 2019 in accordance with the IFRS (the international accounting standards promulgated in the form of a regulation in the official journal of the European Union).

The undersigned represent that the separate (non-consolidated) annual report of the parent company Appeninn Nyrt. ("Issuer"), compiled for the year 2019 in accordance with the applicable accounting requirements and to the best of our abilities, provides a fair and reliable representation of the issuer's assets, obligations, financial position, profit and loss, and the 2019 executive summary gives a reliable representation of the issuer's situation, development and performance, giving details of the main risks and uncertainties.

Budapest, 25 March, 2020

Tamás Bernáth **Dr Nóra Szabó**

Members of the Board of Directors of Appeninn Vagyonkezelő Holdig Nyrt.