

Appeninn Holding Asset Management Plc

CONSOLIDATED

Business Report and Executive Report for the Year 2023



Appeninn
 Holding

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

Dated as of 4 April 2024 in Budapest

Appeninn Holding Asset Management Plc (registered office: 1022 Budapest, Bég u. 3-5., company registration number: 01-10-046538 – hereinafter referred to as: “Appeninn Plc.” or the “Company”) has prepared consolidated financial statements for the year 2023, compiled in accordance with International Financial Reporting Standards (IFRS). The business report required by the Act C of 2000, on Accounting (hereinafter referred to as: the “Accounting Act”) (Section 95 of the Accounting Act) and the executive report prepared in accordance with the contents described and indicated in Annex No. 1 to Decree 24/2008. (VIII.15.) of the Minister of Finance (hereinafter referred to as: “MoF”) are prepared and published by Appeninn Plc. in a consolidated version.

The purpose of the report is to demonstrate the Company group’s proprietary, financial and earnings position, and the course of its business, including the key risks and uncertainties incurred by the undertaking in the course of its activity, through an assessment of the figures contained in the annual report in a manner that provides a reliable and 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 a comprehensive analysis of the development, performance and position of the Group’s business, consistent with the size and complexity of the Group [Accounting Act, Section 95(2)].

The Group presents below, for convenience, all financial and, where appropriate, all key non-financial performance indicators that are relevant to the business, to the extent necessary to understand the development, performance or position of the Group's activities.

Simultaneously with the publication of the present business report, Appeninn Plc. publishes its annual account prepared in compliance with the IFRS standard, its responsible corporate governance, remuneration and ESG reports, which contains the information specified in Sections 95/A and 95/B of the Accounting Act.

The Company's development and history

1. The Company's major events of the year 2023

Appeninn Plc., founded in 2009, is a key player in the Hungarian real estate market and a real estate investment and asset management company listed on the Budapest Stock Exchange for more than 10 years and listed in the Premium category since 2013.

Main components of its business activities: buying and selling services of own real estate, management services of real estate on a fee or contract basis, real estate property rental and management of real estate.

The share capital of Appeninn Plc. consists of HUF 4 737 141 900 registered dematerialized ordinary shares, each with a nominal value of HUF 100. Each share confers one voting right. The issued and held Appeninn shares are freely tradable, there are no rights based on the Articles of Association restricting distribution. The shares belong to a series, the members of the share series are Appeninn ordinary shares with the same rights.

Shareholding of the Company exceeding 5% on 31 December 2023:

- Avellino Private Limited Company	24.00%
- Sequor Holding Private Limited Company	23.84%
- OTP Property Investment Fund:	5.09%
- Shareholders not-exceeding 5% of shareholding	47.07%

The real estate portfolio owned by the Company and its subsidiary companies included in the consolidation (hereinafter referred to as “Appeninn Group”, Group or “Corporate Group”) is made up of office buildings, retail and logistics properties in Hungary, as well as 4-building office building complex in Warsaw.

In 2019, the Company issued HUF 20 billion of NKP bonds to refinance its bank loans on more favourable terms, reduce the collateralisation of its real estate assets and expand its real estate portfolio with high quality and higher income generating assets. The maintenance of the bond financing is conditional on the rating of the bond being at least 'B+' by a rating agency accepted by the MNB. In 2021, Scope Rating downgraded the Company's rating to 'B-', making the long-term sustainability of the NKP bond financing uncertain. (NKP: Növekedési Kötvényprogram (in English: Bond Funding for Growth Scheme), the purpose of which is - through increasing the liquidity of the corporate bond market - to facilitate the diversification of the debts of Hungarian enterprises and thereby the better effectiveness of the monetary transmission. (<https://www.mnb.hu/monetaris-politika/novekedesi-kotvenyprogram-nkp>))

In February 2022, the Company revised its strategy, setting as its primary objectives the restoration of the NKP bond rating in 2021, increasing operational efficiency, the sale of tourism project companies and the acquisition of income-producing properties in the SEE and CEE regions. (https://appeninnholding.com/app/uploads/2022/02/20220210_Az-Appeninn-Holding-Nyrt-strategiaja.pdf)

Over 2022, **the operational model of the corporate group changed**, the corporate group sold Appeninn Üzemeltető Zrt., in which the Company had 100% ownership until then, and the majority of its development projects.

In 2023, the Company continued the implementation of its business strategy that was published in February of the previous year:

With the sale of Solum-Invest Real Estate Development and Operation Ltd. on 30 January 2023, **its tourism real estate development exposure has ceased.**

During the spring of 2023, the corporate group **expanded its real estate portfolio by high-profitability retail and office properties in Hungary and Poland**, the financial effects of which are reflected in the 2023 annual accounts as well, in terms of both the consolidated revenues and the profitability.

- According to the business share purchase agreement concluded on 28 February 2023, the Company acquired the exclusive ownership of Tidaholm Properties Ltd. – which owns the “Zone Shopping Parks” in Székesfehérvár and in Zalaegerszeg – and Kantrum Property Ltd. – which owns “Kanizsa Centrum Shopping Centre” in Nagykanizsa.
- On 10 March 2023, the Company signed a purchase agreement regarding the sale of the block of shares representing 100% of the shares issued by Dounby SP. Z o.o., the owner of office buildings “C”, “D”, “E” and “F” of the Wiśniowy Business Park (hereinafter referred to as WBP) in Warsaw. On the day of the purchase agreement conclusion, the Company acquired the exclusive ownership of the Dounby Shares from Netherlands-based seller Cherry MidCo B.V., and thereby the Company became the sole shareholder of the target company. Simultaneously with the sales contract, the Company acquired the equity of Wisniowy Management Sp. Z.o.o., a company in 50% shareholding of Dounby Sp. Z.o.o.

Scope Ratings, as at 05 March 2023, disclosed its report on the outcome of the bonds qualification review named “APPENINN 2029/I”, which is issued within the scope of the Company and MNB Growth Debenture Programme. In the communication **Scope Ratings upgraded the Issuer’s credit rating from B category to B+ category, whereas its bonds from B- category to B+ category.** In the background of the upgrading are the hereinunder acquisitions, which alongside with conservative financing structure, significantly optimized the risk evaluation of the Issuer. The herein Scope rating review is available in English on the website of Scope Ratings(<https://www.scooperatings.com/ratings-and-research/rating/EN/173852>).

On 10 October 2023, the Board of Directors of the Company decided on the merger by absorption of APPEN-RETAIL Ltd. and FELHÉVÍZ-APPEN Ltd., in which APPENINN Property Vagyonkezelő Zrt. and APPENINN Property Vagyonkezelő Zrt., by APPEN-RETAIL Ltd. and FELHÉVÍZ-APPEN Ltd. merging by absorption into APPENINN Property Vagyonkezelő Zrt. as acquiring company as of 31 December 2023. The mergers were registered by the company registry court as of 31 December 2023.

On 6 December 2023, the Board of Directors of the Company decided to increase the capital of Appeninn Project-EGRV Ltd. to provide the shares of Dounby Sp. z.o.o. owned by Appeninn Plc. as in-kind contribution to the Appeninn Projekt-EGRV Ltd., as well as to sell the business share

of Alagút Ltd. owned by Appeninn E-Office to Appeninn Plc., which decisions were implemented in December 2023.

As at 13 December 2023, the General Meeting of the Company decided **to initiate the registration of the company as a regulated real estate investment pre-company (“SZIE”) and then as a regulated real estate investment company (“SZIT”)** under Act CII of 2011 on Regulated Real Estate Investment Companies (“SZIT Act”).

2. Major events following the balance-sheet cut-off date

Fővárosi Törvényszék Cégbírósága (in English: Company Registry Court of Budapest-Capital Regional Court) registered the Company into the company register as a regulated real estate investment pre-company (hereinafter referred to as: SZIE) by its order No. Cg. 01-10-046538/174. **The date of SZIE registration is 01 January 2024**, i.e. the Company is subject to the rights and obligations defined in the legal regulation related to SZIE as thereof date.

In place of Törő Csaba and Kertai Zsolt László, the resigned members of the Board of Directors of Company, the General Meeting designated dr. Hüse István and dr. Jákó János Dezső to the members of Audit Committee and Board of Directors.

In accordance with the information disclosed by Appeninn Vagyonkezelő Holding Nyilvánosan Működő Részvénytársaság as at 4 March 2024, the sale of the **real estate properties owned by its subsidiary companies was advertised and an assignment to find potential buyers** was given:

- Office premises and associated garage parking spaces located at 24 Felhévizi utca, Budapest District II;
- Utility building and the associated land located at Schweidel József utca 3/Attila utca 146, Budapest District IV;
- Office and service building located at Páva utca 8./Lilom utca 11, Budapest District XI;
- Business, industrial and commercial building complex located at 20 Bánya utca, Budapest District X;
- Office building located at 19 Frangepán utca, Budapest District XIII;
- Factory building and associated land located at 4 Egyenes utca, Budapest District XIV;
- Office, commercial and warehouse buildings located at 12-14 Várna utca, Budapest District XIV.

In the light of the submitted bids the Company decides on the actual sale or cancellation of the sale of the concerned property.

The Board of Directors of Appeninn Asset Management Holding Public Limited Company has decided **to merge the following subsidiaries**, in such a way that

- Szent László Téri Service House Limited Liability Company
- SECTURA Ingatlankezelő Korlátolt Felelősségű Társaság
- Appeninn BLT Limited Liability Company

- BERTEX Real Estate Distribution Private Limited Company
- Appeninn-Bp1047 Private Limited Company
- CURLINGTON Real Estate Development Limited Liability Company

will be merged into APPENINN Property Private Limited Company. The merger will be carried out in accordance with the rules of the beneficiary transformation. The date of the merger is 30 June 2024, however, if the deletion of the Merging Companies from the commercial register would take place later, the date of the deletion from the commercial register will be the date of the deletion.

Prospects

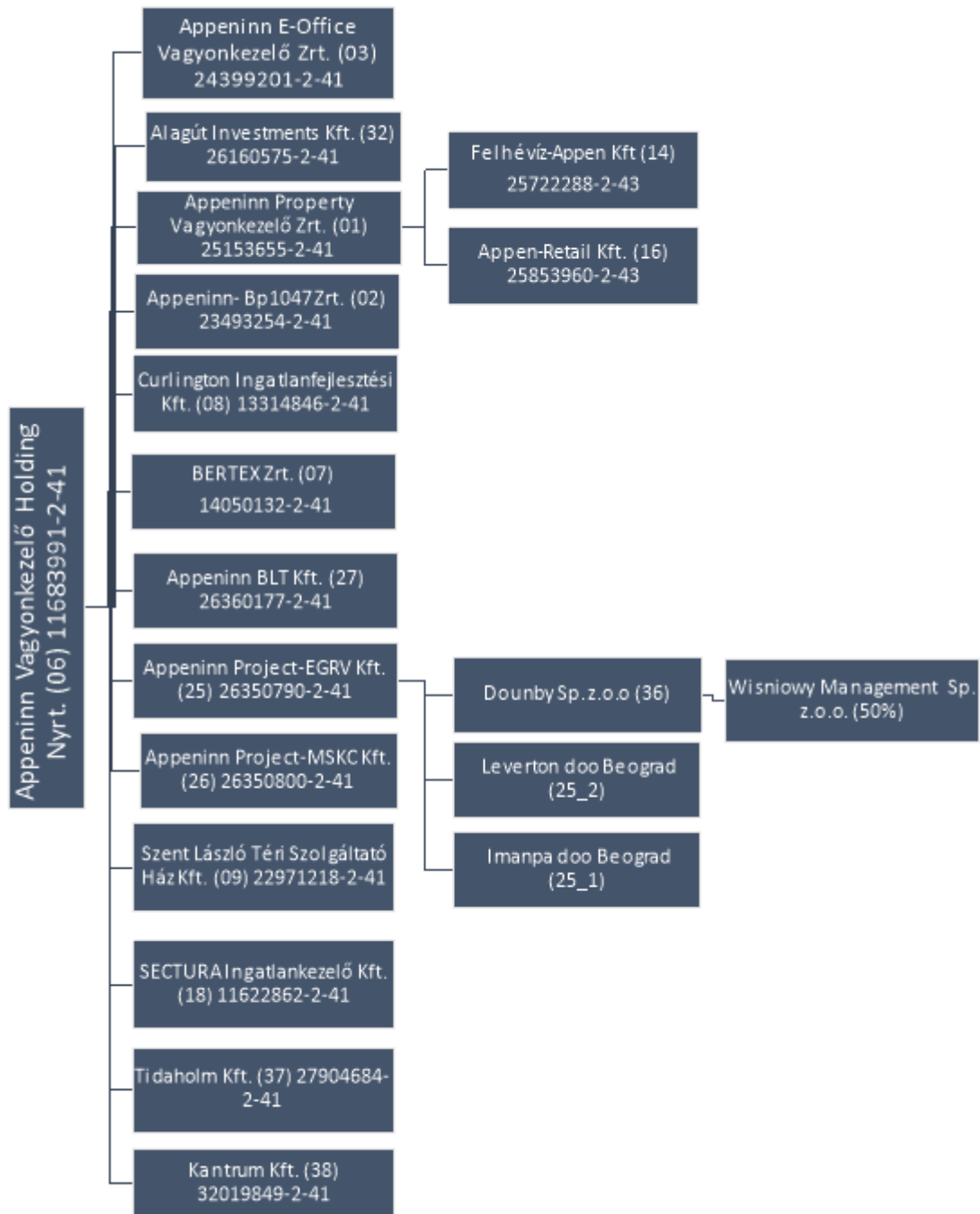
Depending on the expected change of the economic environment and the expected impact of internal decisions, the outlook and plans for the future continue to be **based on the strategy revised in February 2022**, in which the target segments of dynamic expansion are high-quality office buildings with significant yield in the international comparison in Hungary, CEE and SEE region and national retail real estate.

The main objectives of the implementation of the strategy for the following years is:

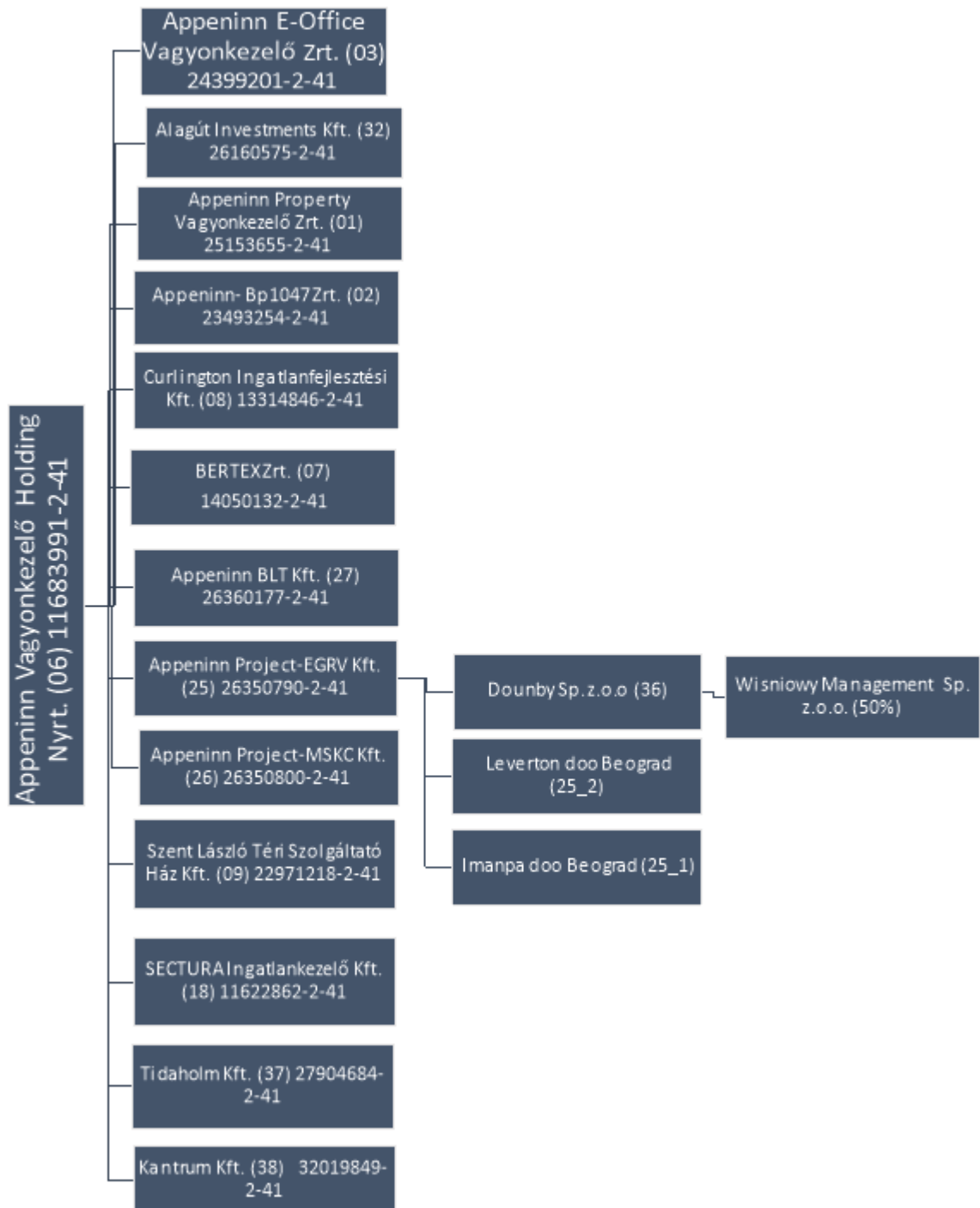
- maintaining the risk rating for the group and the bond,
- cautiously broaden the financing on favourable terms with priority to ensuring the conservative funding structure and the compliance with rating criteria,
- obtaining the regulated real investment company status,
- increasing occupancy rates for the office portfolio and maintaining high occupancy rates for retail properties,
- continue to ensure the high level operational activity,
- improving the cost efficiency of the Polish operation,
- active portfolio management:
 - screening of existing, less profitable core portfolio elements, assessing and evaluating optimal exploitation opportunities,
 - identifying further acquisition opportunities in Hungary and CEE-SEE.

The Corporate Group structure

- a) Prior to the merger of Felhívíz-Appen Ltd. and APPEN-Retail Ltd. into Appeninn Property Private Limited Liability Company:



- b) Following the merger of Felhévíz-Appen Ltd. and APPEN-Retail Ltd. into Appeninn Property Private Limited Liability Company:



Financial and profitability status

The Appenninn Group has modified its structure and operation and sold its former real estate operator affiliate, as well as all business shares of its portfolio with touristic profile in 2022 and 2023, as a result of the consequent and intensive completion of the business strategy revised in February 2022.

The changes happened in the financial and profitability status are the results of the hereinabove detailed business share transactions performed in the course of 2023.

Consolidated statement of comprehensive income	for the financial year ending 31.12.2023	for the financial year ending 31.12.2022 (*amended)
	EUR	EUR
Continuing activity		
Income from the rental of investment property	19.487.935	8.039.395
Direct costs of letting a property	(7.486.555)	(2.422.283)
Gross margin	12.001.380	5.617.112
Administrative costs	(828.466)	(707.615)
Expenditure on staff	(275.326)	(315.720)
Other income/(expenses)	156.468	(3.185)
Gain (loss) on sale of investments	-	75.394
Gains on sale of investment property	357.593	-
Fair value result on investment property	1.973.024	9.288.938
Profit before tax, interest and depreciation	13.384.673	13.954.924
Depreciation and amortisation	(6.267)	(63.866)
Other (expense)/income from financial operations	1.615.571	(2.023.078)
Balance of interest income and (expense)	(227.964)	1.580.736
Lease interest	(12.905)	(40.443)
Profit before tax	14.753.108	13.408.273
Income taxes	5.182.288	(1.622.674)
Profit after tax from continuing operations	19.935.396	11.785.599
Profit after tax from discontinued operations	2.831.389	2.139.965
Total profit after tax	22.766.785	13.925.564
Other comprehensive income		
<i>Other comprehensive income to be recognised in the consolidated income statement in the following period:</i>		
Exchange rate differences arising on currency translation	1.261.665	(3.189.697)
Exchange difference on disposal of subsidiary	169.340	931.249
<i>Other comprehensive income not reversed in the consolidated income statement in the following period:</i>		
Exchange rate differences arising on currency translation	2.277.627	(3.848.428)
Other comprehensive income for the year, net of tax	3.708.632	(6.106.876)

TOTAL COMPREHENSIVE INCOME FOR THE YEAR	26.475.417	7.818.688
Profit after tax from continuing operations:		
Non-controlling interests	-	-
Attributable to owners of the Company	19.935.396	11.785.599
From the after-tax results of discontinuing operations:		
Non-controlling interests	-	(1.681.500)
Attributable to owners of the Company	2.831.389	3.821.465
Other comprehensive income:		
Non-controlling interests	-	34.112
Attributable to owners of the Company	3.708.632	(6.140.988)
Total comprehensive income:		
Non-controlling interests	-	(1.647.388)
Attributable to owners of the Company	26.475.417	9.466.076
Basic earnings per share in EUR cents	48,06	32,95*
Diluted earnings per share in EUR cents	48,06	32,95*
Basic EPS for continuing operations in EUR cents	42,08	24,88*
Diluted EPS for continuing operations in EUR cents	42,08	24,88*

With the integration of the companies acquired by the Group, rental income increased by 142% and gross margin by 114%. 96% of the rental income is derived from the Polish office building complex owned by Dounby Sp. Z.o.o., the business centres of Tidaholm and Kantrum Ltd. the real estate portfolio of Appeninn E-Office Plc. and Appeninn Plc., and another 2% from the real estate of Appeninn Projekt-MSKC Ltd. and Alagút Ltd., and the amount of direct margin is also derived from the profitable operation of the above companies.

The profit from the operations in 2023 – calculated without the effect of the revaluation of the properties – was 145% higher compared to the previous year. The exceptionally high level of the profit after tax at EUR 22 776 785 results from the EBITDA, the deferred tax liability released due to the regulated real estate investment pre-company (“SZIT”) status, and result of the ceasing development activity.

Consolidated Statement of Financial Position	31.12.2023	31.12.2022
Assets	EUR	EUR
Investment properties	184.588.000	108.080.799
Fixed assets	27.411	27.613
Deferred tax assets	-	45.454
Participation in associates	7.590	-
Receivables beyond one year	454.774	196.078
Total non-current assets	185.077.775	108.349.944
Trade receivables	2.845.019	556.820
Other current receivables	969.502	418.693
Short-term loans	-	151.318
Prepayments	1.419.345	281.592
Income tax receivables	16.712	8.675
Assets held for sale	-	24.621.386
Cash and cash equivalents	20.362.775	55.312.730
Total current assets	25.613.353	81.351.214
Total assets	210.691.128	189.701.158
Equity		
Share capital	15.217.006	15.217.006
Treasury shares repurchased	(1.171)	(1.171)
Capital reserve	25.645.230	25.645.230
Translation reserve	(12.529.413)	(16.238.045)
Retained earnings	82.729.235	59.962.450
Equity attributable to parent	111.060.887	84.585.470
Non-controlling interests	-	(1.334.558)
Total equity	111.060.887	83.250.912
Long-term bank loans and lease liabilities	34.263.546	24.780.123
Deferred income	1.777.689	-
Bond debts	52.563.100	50.283.324
Deposits paid by tenants	2.785.574	1.300.579
Deferred tax liabilities	-	6.087.261
Total long-term liabilities	91.389.909	82.451.287
Short-term bank loans and lease liabilities	2.308.058	1.331.856
Other current liabilities	725.052	151.045
Short-term related liabilities	-	28.456
Liabilities to suppliers	1.218.472	968.687
Tax and duty obligations	449.320	187.235
Liabilities directly linked to sales	-	20.816.898
Income tax liabilities	542.399	128.387
Accruals	2.997.031	386.395
Total current liabilities	8.240.332	23.998.959
Total liabilities	99.630.241	106.450.246
Total equity and liabilities	210.691.128	189.701.158

In line with RICS Valuation Standards and Guidance 2023, CBRE Ltd. valued the real estate properties of the Company. The market value of the real estate portfolio is EUR 184,588 million (HUF 70 657 million), including the office portfolio valued at EUR 114 million, the retail portfolio valued at EUR 66 million and the logistics portfolio valued at EUR 5 million.

The leased, revenue-generating portfolio consists of

- 55% office buildings (16 units, 75 866 sqm, occupancy rate 83%)
- 36% retail real estate (20 units, 57 559 sqm, occupancy rate > 99%),
- 9% other properties (3 units, 13 645 sqm, occupancy rate 46%).

The majority of the long-term external liabilities of the Corporate Group consisted of NKP bond issued by the Plc., the Euro loan provided by MFB Bank Plc. to Appenninn E-Office, as well as the NHP Hungarian loan of Tidaholm Ltd. on the reporting date.

The detailed presentation of the data and its changes regarding the Statement of Financial Position and Statement of Comprehensive Income is included in the individual IFRS report of Appenninn Plc.

Real Estate Properties owned by Appenninn Corporate Group

- 1082 Budapest, Üllői út 48. (office building).
- 6000 Kecskemét, Kiskőrös út 30. (logistics real estate property)
- 1023 Budapest Bég u. 3-5. (office building)
- 1022 Budapest, Bég u. 4. (Törökvész u. 30.) (office building)
- 1149 Budapest, Várna u. 12-14. (office building)
- 1047 Budapest, Schweidel utca 3. (logistics, warehouse real estate property)
- 1094 Budapest, Páva u. 8.) (office building)
- 1015 Budapest, Hattyú utca 14. (office building)
- 1118 Budapest, Kelenhegyi út 43. (office building and residential)
- 1133 Budapest, Visegrád u. 110-112. (office building)
- 1147 Budapest, Egyenes u. 4. (logistics, warehouse real estate property)
- 1105 Budapest, Bánya utca 20. (office building, warehouse real estate property)
- 1023 Budapest, Felhévizi u. 24. (office)
- 1139 Budapest, Frangepán u. 19. (office building)
- 1013 Budapest, Pauler u. 2. (office)
- 3525 Miskolc, Szűcs Sámuel u. 5. (casino, commercial real estate)
- 2660 Balassagyarmat Rákóczi fejedelem út 56. (retail real estate)
- 8630 Balatonboglár Dózsa György utca 53-59. (retail real estate)
- 5600 Békéscsaba Szarvasi út 15-17. (retail real estate)
- 1043 Budapest Tél utca 26. (retail real estate)
- 2234 Maglód Jászberényi út. (retail real estate)
- 7632 Pécs Malomi út 3. (retail real estate)
- 2310 Szigetszentmiklós Gyártelep (retail real estate)
- 2800 Tatabánya Szent Borbála út 22. (retail real estate)

- 8200 Veszprém land register number 4278/3. (retail real estate)
- 2400 Dunaújváros Magyar út 11. (retail real estate)
- 7000 Sárbogárd Ady Endre utca 212. (retail real estate)
- 4220 Hajdúböszörmény Bánság tér 1/A. (retail real estate)
- 7300 Komló Berek utca 10/A. (retail real estate)
- 4150 Püspökladány Rákóczi utca 5. (retail real estate)
- 6320 Solt, urbanized area, land register number: 2805/9. (retail real estate)
- 5200 Törökszentmiklós Kossuth Lajos utca 140. (retail real estate)
- 6723 Szeged II. kerület Római körút 21. (retail real estate)
- 8800 Nagykanizsa Táborhely utca 4. 8800 (shopping center)
- 8000 Székesfehérvár, Szent Flórián krt. 13. (retail park)
- 8900 Zalaegerszeg, Balatoni út 5-7. (retail park)
- Ul. Ilzecka 26, Warsaw, Mazowieckie (office building complex)

Financial instruments, risk management

The Appeninn Corporate Group strives to limit the financial risks arising in course of its activity through all means available to it, and it coordinates the participation in the financial markets in accordance with its permanent business interest, and it operates its treasury activity in line with conservative risk management principles.

The credit risk related to bank deposits and financial investments is managed in accordance with the conservative investment policy of Appeninn Plc., and its financial reserves are held in cash or bank deposits with reliable financial institutions in order to reduce risk.

With respect to the portfolio items owned by the Corporate Group, long-term leases are available with highly rated tenants monitored by their payment conduct prior to the conclusion of the lease contract (the WAULT value per real estate property is significantly different, thereof is 3-4 value at portfolio level), so the Corporate Group considers the level of credit risk to be low, and the contracted tenant surety of the Corporate Group and effective debt management ensure low-level claim delay and the recoverability of the potential tenant obligations.

Current rents are in line with the facilities, location and quality of the real estate properties. In course of the determination of its operating costs, the Company seeks to cover its relevant costs.

On the reporting day the long-term liabilities of the Corporate Group consisted of fixed-interest (3.5%) Hungarian Forint NKP bonds, the Euro loan of Appeninn E-Office with fixed-rate interest until 2029, the fixed-interest NHP loan of Tidaholm Ltd., therefore the interest risk of the Corporate Group is marginal.

The majority of the lease agreements of the corporate group are linked to the Euro, therefore the currency risk can be considered moderate as well.

The operation of the Corporate Group shows high revenue-related coverage, its revenues cover its operational and financing costs with substantial reserves, and the Corporate Group complies with its debt service obligations and its coverage and debt service indicators prescribed in its loan agreements with substantial reserves, therefore its liquidity risk is low.

The intention of Appeninn Plc. is to minimize the money market risks, the corporate group does not engage in financial construction for speculative purposes. The Company continuously monitors other risks and manages them in accordance with money market operations.

The Company's seat of business, places of business and branches of business:

1022 Budapest, Bég u. 3-5. (a real estate property owned by Appeninn E-Office Private Limited Company).

The other real estates owned by the Corporate Group include the business establishments and branch offices of all subsidiaries.

Places of disclosure

The Company 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>

Employment policy

The Group does not run any employee and management share programme.

The number of employees employed by the corporate group

	2023	2022
Average statistical number:	8.3	16
Closing headcount:	8	16

Disclaimer

The declarations required by Annex 1 of Ministry of Finance Regulation No. 24/2008 (VIII. 15.) on the consolidated accounts and reports of Appeninn Plc. for the year 2023 and in accordance with the rules of the parent company's IFRS (International Financial Reporting Standards as published in the Official Journal of the European Union in the form of a regulation).

We, the undersigned, declare that during the preparation of the consolidated report of Appeninn Plc. (the issuer) for the year 2023, the consolidated annual report prepared pursuant to the applicable accounting requirements, to the best of our knowledge, provides a true and reliable picture on the issuer's assets, liabilities, financial position and its profit and loss, and the 2023 executive report provides a reliable picture of the issuer's position, development and performance, describing key risks and uncertainties.

Simultaneously with the publication of the present business report, Appeninn Plc. publishes its annual account prepared in compliance with the IFRS standard, its responsible corporate governance, remuneration and ESG reports, which contains the information specified in Sections 95/A and 95/B of the Accounting Act. (<https://appeninnholding.com/befektetoknek/dokumentumok/jelentesek/>)

Dated as of 4 April 2024 in Budapest

Szathmáriné Szűcs Györgyi Magdolna
Appeninn Holding Asset Management Plc.