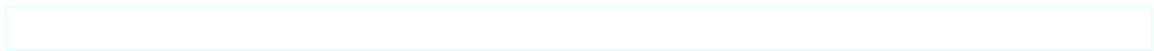




**Report of the Board of Directors
on the business activity of Budapesti Ingatlan Hasznosítási és
Fejlesztési Nyrt. in 2019**



Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. (registered office: 1033 Budapest Polgár utca 8-10.; Company Registration No.: 01-10-042813; website: www.bif.hu; hereinafter: the “Company”) hereby informs its shareholders, business partners and investors on the management, the business activity in 2019 and the financial position of Company.

I. Management of the Company:

The Company operates in a unified control system. The Board of Directors is the management body of Company, represents Company before courts and other authorities, and towards third parties.

The Board of Directors established the rules of its operation and operated according to its Order of Procedure in 2019. The majority of the members of the Board of Directors are independent.

The Board of Directors performs its activities as a body. It designates the issues necessary to be put on the agenda of its meeting from the issues in its scope of responsibilities, appoints the member of the Board of Directors or management responsible for the preparation of the issue, discusses the issue presented at the meeting of the Board of Directors, passes a resolution in that regard, and provides for the monitoring of its implementation.

The Board of Directors determines the dates of its regular meetings to be held in the period between its annual balance closing general meetings, as well as the expected agenda of such meetings to the necessary extent.

In 2019, the Board of Directors held nine meetings. In 2019, the Board of Directors passed decisions through electronic means on nine additional occasions.

Members of Company’s Board of Directors (31 December 2019)

Name	Position	Start of assignment	End of assignment
dr. Anna Ungár	President	15.08.2017	15.08.2022
Kristóf Berecz	Vice President	15.08.2017	15.08.2022
Julian Tzvetkov	member	15.08.2017	15.08.2022
dr. Frigyes Hárshegyi	member	15.08.2017	15.08.2022
Miklós Vaszily	member	22.12.2017	15.08.2022

II. The Company's business policy and business activities in 2019

At the extraordinary general meeting held on 23 December 2016 the shareholders of **Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt.** (registered office: 1033 Budapest Polgár utca 8-10.; the “Company” and/or “BIF”) requested the Board of Directors to develop the implementation plans for an entirely new development course that would improve the intensive development of the real estate property and thus the profitability of the Company. The business activity of the Company in 2019 was already along the lines of realizing these new development strategy and goals listed below:

- Seeking out office and other buildings that fit the existing revenue-generating property portfolio of the Company and performing acquisitions.
- Utilizing the maximum revenue-generating potential in the existing property portfolio and the optimization of the operation of office buildings.
- The realization of the full developed concept of the 39-hectare Harsánylejtő development area in Budapest, District 3, owned by the Company.

As a Company developing and utilizing property, it is involved in the utilization of properties (office and other buildings and parking garages) owned by the Company by giving them into lease, the further development of such properties and the sale of its own construction lots, as well as property development projects on such construction lots and the utilization and sale of the such properties.

The National Tax and Customs Authority registered the Company as a regulated real estate investment company with effect from 31 December 2018 in accordance with the Company's application for registration as a regulated real estate investment company regulated by Act 102/2011 on regulated real estate investment companies (hereinafter: "REIT Act") initiated on 20 December 2018 at NAV.

According to the property types it owns the Company is active in the field of the following property market segments:

- Office buildings
- Parking garages
- Construction lots
- Residential properties
- Hotels

Office buildings

The ratio of vacant properties hit a record low in Q4, 2019, i.e. 5.6% in the capital city as a whole. 46% of tenant activity could be measured in the Váci road corridor, which was followed by the partial markets of Non-Central Pest and Central Buda. Besides the decreasing vacancy rate, the office market also experienced an increase in rents in respect of existing office buildings and ongoing development projects alike. The total floor space of newly developed office blocks completed in Q4, 2019 was 24,300 m² and new entrants to the office market leased office areas on 28,170 m². 170 new lease contracts were registered in Q4 with an average size of 1,091 m² per transaction (source: CBRE).

On 31 December, 2019, our Company owned five category 'B' and two category 'A' office buildings with excellent location from in terms of infrastructure and traffic. These properties were utilized to an average extent of 93% at the end of the business year 2019, which slightly falls behind the data measured on the market. Our major goal in respect of our office buildings is to keep our tenants satisfied and thus encourage them to extend the term of their lease contracts, and try to achieve such goal by the introduction of new services and the continuous provision of operator's presence and maintenance. In the case of our category "A" office buildings, we pay special attention to the modernisation of common areas and the overall renovation and upgrading of the office areas becoming vacant. We intend to reposition and develop two of our category "B" office buildings (the office building located at Városmajor str. 12-14 in district XII of Budapest ("**Városmajor 12 Office Building**") and the office building located at Bajcsy-Zsilinszky str. 57 in district VI of Budapest ("**Bajcsy-Zsilinszky str. Office Building**")) and we are investigating the technical possibilities of modernisation in the case of the remaining 3 buildings. In the case of **Flórián Udvar Office Building** (Polgár str. 8-10 in district III of Budapest) and **BIFLOFT Office Building** (Üllői str. 114-116 of district X of Budapest), we lay special emphasis on marketing to solicit new tenants for the areas becoming vacant after the expiry of lease contracts.

Parking garages

Car traffic continues representing a material environmental and traffic problem in Budapest, due to as many as 260 thousand cars on the roads of the capital city each day. In addition to the P+R car parks and the existing parking garages operated on market terms, several new garage development projects have been launched to solve the problem arising from the mass use of cars and a growing number of buildings (hotels and office buildings) are offering their vacant capacities through a mobile application to satisfy the continuous demand. With electric cars becoming widespread, the demand for electric charging stations, as well as for related services (car wash and cosmetics and tyre change) is also growing in addition to the demand for parking spaces, which puts the market of parking garages on the path of continuous development.

Our Company owns 2 parking garages, which are primarily meant to serve the tenants of the office buildings closely connected to them.

The rate of utilization of **Aranykéz Parking Garage** (Aranykéz str. 4-6 in district V of Budapest) next to Vigató Palota Office Building (Apáczai Csere János str. 9 in district V of Budapest) continued growing in the business year of 2019, including significant increase in the number of contracts and the number of uses based on hourly rate alike.

The **parking garage in Flórián Udvar Office Building** is also owned by the Company and may be used not only by the tenants of the office building.

Both of our parking houses strive at providing services of an utmost standard, including the use of the latest parking system based on a mobile application and developed by Hungarian experts and modern payment methods.

Construction lots

The market of construction lots is closely related to the events on the residential property market and the construction industry. According to the survey made by GKI in October 2019, the period of rising prices has come to an end on the residential property market and a supply market has started to evolve in Budapest. The increase of the VAT rate from 5% to 27%, the lack of capacity in the construction industry and growing construction prices reduced the momentum of development and that of sales on the market of new apartments, nevertheless, prices have grown by 16% on the average compared to a year before. Accordingly, we expect a similar slowing trend on the market of construction lots.

The market of construction lots is relevant in respect of the Harsánylejtő Kertváros project to be realized by the Company, as part of which our Company has launched development projects on a total area of 39 hectares in recent years in several phases (“**Harsánylejtő Project**”). The project has included construction lot development, residential property development and the creation of lots suitable for the construction of commercial units in the following breakdown:

- **Construction lot development:** A total of 153 construction lots were regulated, created and soled in phases I and II. The project was successfully concluded in terms of development and sales alike (the total area subject to phases I and II referred to above exceeds 25 hectares).
- **Residential property development**
 - In phases I and II of the residential property development, 40 apartments of floor spaces of 55 – 99 m² were constructed in total on an area of 1 hectare. The sale of the 20 apartments constructed in phase I of the residential property development was successfully concluded in 2019, while the remaining 20 apartments constructed in phase II of the project are expected to be delivered in the 1st half of 2020. The ratio of the properties sold was 60% at the end of 2019. The project owner is Harsánylejtő Ingatlanforgalmazó és -kezelő Kft., the exclusive owner of which is the Company.
 - The Company holds a final and binding building permit to construction 40 apartments on an area of 1 hectare comprised on 8 plots of the Company in phases III and IV of the residential property development.

- According to the current regulations, the Company could construct condominium properties including 30, 50 and 55 apartments respectively on another area of more than 2 hectares, comprised of 3 plots suitable for residential property development.
- **Commercial unit development:** there is a plot of an area of 0.4 hectare, which is suitable for the construction of a retail unit of ca. 1,000 m².
- **Office development:** there is a plot of more than 1 hectare, which is suitable for the construction of an office complex of ca. 2,500 m².

The Company is continuously investigating the best opportunities in respect of the individual real properties. Decisions have been made to implement phases I and II of the Harsánylejtő Plots and phases I and II of the Harsánylejtő residential property development, and such developments have been or are soon to be concluded. As for the other development opportunities, the Company will consider based on current market trends whether to start the developments or sell them as a construction lot/project.

Residential properties

In addition to the residential property development realized as part of Harsánylejtő Project, the Company signed a sales contract in December 2018 with Budapesti Elektromos Művek Nyrt regarding the real property entered into the Land Register under Topographical No. 6775, Budapest, district I, physically located at 1012 Budapest, Attila str. 99 and 1012 Budapest, Logodi str. 42, exclusively owned by ELMŰ (the “Attila str. property”). After the conclusion of the acquisition, a development concept was elaborated for the said real property, based on which the Company signed a general contract with D.V.M. Construction Fővállalkozó Kft. in November 2019 in the subject of the reconstruction, construction and assembly works to be performed in the property. There will be 16 exclusive properties developed in the real property as part of the project. The building with a design inspired by New York will be made special not only by being located in the Castle District and the unique style of each apartment, but also the luxury services to be offered in it. We wish to utilize the apartments to be developed by leasing them after their completion.

Hotels

In line with the trend of the previous years, the number of guest nights spent in Budapest continued growing in 2019, too. In Q2 of 2019, the average utilization rate was 84.5% for hotels. In Q2, 2019, five new hotel development projects were completed and delivered with 530 rooms in total, four of which are located in Budapest and one in the country. There are 29 new hotel development projects under way, which will be marketed with 3,560 rooms. New hotel development projects tend to be dominated by 4-star developments. In recent years, hotels of 80 rooms or a bit more have been operated most efficiently, the demand for such hotels was the highest, however, according to new trends, hotels with 160 – 180 rooms tend to attract the most interest and investment. The hotel industry expected to enjoy significant growth in 2020 with regard to the launching of direct flights from Asia on the one hand and the reduction of tourism tax from 18% to 5% on the other hand. However, the coronavirus pandemic affects tourism to the highest extent from all industries, with special regard to catering units and hotels, which may have an adverse impact on development activity as well (source: CBRE).

The Company owns 3 real properties at the moment which are operated as hotels by the tenant companies. This means that the Company only leases its own real properties, but does not derive any revenue from providing accommodation or catering service directly.

In one of the real properties of the most prominent location from the point of view of tourism, the property at Madách square (Madách Imre sqr 3 in district V of Budapest), there is a **4-star hotel** with 115 rooms. Fenyőharaszt Castle (2174 Verseg, Fenyőharaszt Kastélyszálló) with a **4-star hotel** in it with 26 rooms + 4 apartments awaits people who are fond of rule tourism. The **3-star hotel** developed with 81 rooms and 1 apartment in building “C” within the real property complex located in the catchment area of Liszt Ferenc international airport, more specifically the airport corridor Üllői street functions as a transitional hotel.

One of the most outstanding real property in the portfolio of the Company is located at a World Heritage Site under Andrásy str. 82 in district VI of Budapest (the “Andrásy str. property”). A Boutique Hotel concept is being developed currently for this plot of a total area of 1,442 m².

The coronavirus situation and the changes to such situation can be expected to have some negative impacts on the plans and objectives formulated by the Company for 2020, including current development projects, which are difficult to estimate or express in numerical terms for the time being. The spread of the coronavirus may affect the operation of our company through some of our tenants initiating the renegotiation or termination of their lease contracts, delays in our current development projects and our relations with suppliers and providers, as well as through our employees. In order to minimize its exposure to such risks and to protect its employees, our Company is closely monitoring all changes to the current situation, with special regard to the measures of the government and official bodies, so that it may introduce new measures and provide information to its employees and partners accordingly.

III. Major financial data

The major financial data of the Company's Audited Consolidated Financial Statements for 2019 prepared in accordance with the International Financial Reporting Standards (IFRS)

Profit and Loss Statement (IFRS, audited)		
<i>data in th HUF</i>	2018	2019
Net revenues from sales	3 792 057	5 288 254
Other operating income	6 700 510	350 046
Changes in the inventory of internally generated products	809 163	132 299
Capitalized value of internally generated assets	0	58 441
Material expenses	-1 981 075	-2 157 835
Personnel expenses	-354 330	-458 306
Other operating expenses	-377 596	-505 240
<u>EBITDA</u>	<u>8 588 729</u>	<u>2 707 659</u>
Depreciation and impairment	-37 327	-227 173
<u>Operating profit</u>	<u>8 551 402</u>	<u>2 480 486</u>
Financial income	8 353	16 209
Financial expenses	-263 150	-206 683
<u>Profit before taxes</u>	<u>8 296 605</u>	<u>2 290 012</u>
Current tax expense	-16 551	-13 270
Deferred tax	522	-860
<u>Profit after taxes</u>	<u>8 280 576</u>	<u>2 275 882</u>

Major balance sheet items (IFRS, audited)

data in th HUF	31.21.2018	31.12.2019
Investment properties	39 799 004	41 696 004
<i>Total long-term assets</i>	<u>40 798 251</u>	<u>42 695 504</u>
Cash and cash equivalents	9 850 843	14 937 817
<i>Total current assets</i>	<u>12 610 378</u>	<u>17 284 975</u>
Total assets	<u>53 408 629</u>	<u>59 980 479</u>
Issued capital	2 870 244	2 870 244
<i>Equity attributable to the parent company:</i>	<u>41 451 550</u>	<u>41 158 588</u>
Financial liabilities	9 153 569	15 618 427
<i>Total long-term liabilities</i>	<u>9 166 183</u>	<u>15 635 060</u>
Financial liabilities	769 541	515 354
<i>Total short-term liabilities</i>	<u>2 790 896</u>	<u>3 186 831</u>
Total liabilities and equity	<u>53 408 629</u>	<u>59 980 479</u>

IV. Summary, motions and recommendations of the Board of Directors

The Board of Directors proposes the general meeting to approve the Audited Annual Financial Statements of the Parent Company prepared in accordance with International Financial Reporting Standards (IFRS) for 2019 with the following main figures (data in thousand HUF):

Total assets:	59 760 334
Equity:	41 754 856
Sales revenues:	4 366 881
Profit before taxes:	2 296 950
Retained earnings:	2 283 680

With regard to the applicable provisions of the Articles of Association and the SZIT Act, as well as the results of 2019, the Board of Directors proposes the payment of dividends against the retained earnings and profit reserve that can be paid as dividends based on the audited Annual Financial Statements of the Parent Company for 2019 in the amount of HUF 2,568,844,400 (two billion five hundred and sixty-eight million eight hundred and forty-four thousand four hundred forints), which is 10 forints per shares. In the course of the above dividend calculation, Company already divided the dividend for the treasury shares among the shareholders entitled to dividends in proportion to the nominal value of their shares.

The Board of Directors proposes to the General Meeting to approve the Audited Consolidated Annual Financial Statements of Company for the year 2019 prepared by Company in accordance with International Financial Reporting Standards (IFRS) with the following main figures (data in thousand HUF):

Total assets:	59 980 479
Equity:	41 158 588
Sales revenues:	5 288 254
Profit before taxes:	2 290 012
Retained earnings:	2 275 882

The Board of Directors of Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. hereby declares that the Annual Report of the Parent Company 2019 and the Consolidated Annual Report 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) contain true and correct data and statements and do not omit any fact that might have any significance concerning the assessment of the position of Company.

Budapest, 29 April 2020

dr. Anna Ungár
President of the Board of Directors

Annexes

- Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. – Annual Report of the Parent Company 2019
- Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. – Consolidated Annual Report 2019