# DUNA HOUSE HOLDING NYRT.

# CONSOLIDATED FINANCIAL STATEMENTS

# ACCORDING TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS
# 31 DECEMBER 2017

## Table of Contents

**Consolidated Balance Sheet**

data in HUF thousand, unless otherwise indicated

| | Annex | 31.12.2017 | 31.12.2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Long-term assets** | | | |
| Intangible assets | 5 | 82,656 | 84,692 |
| Investment properties | 4 | 1,061,613 | 939,362 |
| Real properties | 3 | 538,484 | 519,319 |
| Plant and equipment | 3 | 108,082 | 53,920 |
| Goodwill | 6 | 1,048,936 | 992,089 |
| Investments in associated companies and joint ventures | 7 | 206,009 | 506,273 |
| Financial instruments | 8 | 69,609 | 66,401 |
| Deferred tax receivables | 9 | 160,322 | 158,829 |
| **Total long-term assets** | | **3,275,711** | **3,320,885** |
| | | | |
| **Current assets** | | | |
| Inventories | 10 | 3,399,013 | 11,616 |
| Trade receivables | 11 | 482,247 | 286,205 |
| Receivables from affiliated companies | 12 | 146,099 | 378,709 |
| Other receivables | 13 | 176,766 | 53,648 |
| Actual income tax receivables | | 35,405 | 35,119 |
| Prepayments and deferred income | 14 | 316,446 | 321,744 |
| Cash and equivalents | 15 | 1,428,500 | 1,583,686 |
| Assets qualified as held for sale | 16 | 196,143 | |
| **Total current assets** | | **6,180,619** | **2,670,727** |
| **Total assets** | | **9,456,330** | **5,991,612** |

**Consolidated Balance Sheet**

data in HUF thousand, unless otherwise indicated

| **LIABILITIES** | **Annex** | **31.12.2017** | **31.12.2016** |
|---|---|---|---|
| **Equity** | | | |
| Subscribed capital | 17 | 171,989 | 153,050 |
| Capital reserve | 17 | 1,490,536 | 9,479 |
| Exchange reserve | 18 | 27,518 | (23,318) |
| Profit reserve | 18 | 2,889,056 | 2,444,092 |
| **Total equity of the parent company** | | **4,579,100** | **2,583,303** |
| Non-controlling shares | 19 | (48,581) | (40,154) |
| **Total shareholders' equity:** | | **4,530,519** | **2,543,149** |
| | | | |
| **Long-term liabilities** | | | |
| Long-term loans | 20 | 1,271,662 | 582,664 |
| Deferred tax liabilities | 21 | 144,087 | 86,557 |
| Other long-term liabilities | 22 | 0 | 10,629 |
| **Total long-term liabilities** | | **1,415,749** | **679,850** |
| **Short-term liabilities** | | | |
| Short-term loans and borrowings | 23 | 996,748 | 198,830 |
| Liabilities to suppliers | 24 | 388,240 | 68,975 |
| Liabilities to affiliated companies | 54 | 581,775 | 1,740,880 |
| Other liabilities | 26 | 1,140,882 | 264,302 |
| Actual income tax liabilities | | 8,799 | 11,284 |
| Accruals and deferred income | 27 | 388,136 | 484,342 |
| Liabilities directly related to qualified assets held for sale | 16 | 5,481 | |
| **Total short-term liabilities** | | **3,510,062** | **2,768,613** |
| | | | |
| **Total liabilities and equity** | | **9,456,330** | **5,991,612** |

## Consolidated Complex Profit and Loss Account:

| | Annex | 01.01.2017 - 31.12.2017 | 01.01.2016 - 31.12.2016 |
|---|---|---|---|
| Net sales revenues | 28 | 4,684,844 | 4,784,484 |
| Other operating income | 29 | 134,780 | 279,090 |
| Total revenues | | **4,819,624** | **5,063,574** |
| Variations of stocks of finished goods | 10 | (1,434,113) | 0 |
| Material expenses | 30 | 63,285 | 58,063 |
| Goods and services sold | 31 | 908,946 | 1,847,035 |
| Services used | 32 | 3,652,162 | 1,695,546 |
| Staff costs | 33 | 572,413 | 412,871 |
| Depreciation and amortisation | | 86,973 | 77,795 |
| Other operating charges | 34 | 106,206 | 169,629 |
| **Operating expenses** | | **3,955,872** | **4,260,939** |
| **Operating profit/loss** | | **863,752** | **802 635** |
| Financial revenues | 35 | 195,388 | 87,902 |
| Financial expenses | 36 | (48,632) | (66,924) |
| Profit of participations valued with the equity method | 7 | 81,456 | 505,273 |
| **Profit before taxation** | | **1,091,965** | **1,328,886** |
| Income taxes | 37 | (173,068) | (161,027) |
| **Profit after taxation** | | **918,897** | **1,167,859** |
| **Other comprehensive income** | | **24,481** | **(23,255)** |
| **Total comprehensive income** | | **943,378** | **1,144,604** |
| **Of the total comprehensive income:** | | | |
| **Portion of the parent company** | | **951,742** | **1,143,745** |
| **Portion of external shareholders** | | **(8,363)** | **859** |
| **Earnings per share (HUF)** | 38 | | |
| Basic | | | |
| Diluted | | 260 | 371 |

The Annexes on pp. 9-69 constitute an integral part of the Consolidated Financial Statements

## Changes in Consolidated Equity

data in HUF thousand, unless otherwise indicated

| | Subscribed capital | Capital reserve | Profit reserve | Exchange reserve | Total equity of the parent company | Non-controlling shares | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| **Balance on 31 December 2015** | **153,050** | **9,479** | **1,525,238** | **-** | **1,687,767** | **-** | **1,687,767** |
| Dividend | | | (247,600) | | (247,600) | | (247,600) |
| Total comprehensive income | | | 1,166,454 | (23,318) | 1,143,136 | 60 | 1,143,196 |
| Acquisition of subsidiaries | | | | | | (40,214) | (40,214) |
| **Balance on 31 December 2016** | **153,050** | **9,479** | **2,444,092** | **(23,318)** | **2,583,303** | **(40,154)** | **2,543,149** |
| Dividend | | | (479,260) | | (479,260) | | (479,260) |
| Share capital increase | 18,939 | 1,481,057 | | | 1,499,997 | | 1,499,996 |
| Total comprehensive income | | | 924,224 | 50,836 | 975,060 | (8,427) | 966,633 |
| **Balance on 31 December 2017** | **171,989** | **1,490,536** | **2,889,056** | **27,518** | **4,579,100** | **(48,581)** | **4,530,519** |

The value of non-controlling shares include the appropriate portion of profit reserve and exchange reserve.
The Annexes on pp. 9-69 constitute an integral part of the Consolidated Financial Statements

## Consolidated Cash Flow Statement

data in HUF thousand, unless otherwise indicated

| | 01.01.2017 - 31.12.2017 | 01.01.2016 - 31.12.2016 |
|---|---|---|
| **Cash flow from operation** | | |
| Profit after taxation | 918,897 | 1,167,859 |
| | | |
| Adjustments for: | | |
| Received/(paid) interest is listed in financing cash flow | 17,814 | 0 |
| Amortisation for the year | 86,973 | 77,795 |
| Deferred taxes | (29,174) | (96,164) |
| Revaluation of investment properties | (53,320) | (188,031) |
| Badwill | (139,595) | (56,272) |
| Result of participations valued with the equity method | (81,456) | (505,273) |
| | | |
| Changes in working capital | | |
| Changes in inventories | (1,429,065) | (3,122) |
| Changes in trade and other receivables and related receivables | 71,394 | (612,728) |
| Changes in prepayments and deferred income | 5,298 | 90,658 |
| Changes in trade and related payables | (215,642) | 33,742 |
| Changes in other current liabilities and accruals | 497,904 | 238,807 |
| Changes in accruals and deferred expenses | (97,149) | 191,543 |
| ***Net cash flow from operation*** | ***(447,121)*** | ***338,815*** |
| | | |
| **Cash flow from investing activities** | | |
| (Purchase of) tangible assets and intangible assets | (233,343) | (819,605) |
| Revenue from the sale of tangible assets | 9,655 | 1,096,588 |
| Acquisition of subsidiaries (without acquired cash) | (171,668) | (873,464) |
| | | |
| ***Net cash flow from investment activities*** | ***(395,355)*** | ***(596,481)*** |
| | | |
| **Cash flow from financing activities** | | |
| Bank loans/(repayment) | 1,225,942 | 172,339 |
| Capital contribution | - | 1,499,997 |
| Dividend payment | (493,221) | (246,730) |
| Interest received/(paid) | (45,430) | |
| ***Net cash flow from financing activities*** | ***687,291*** | ***1,425,605*** |
| | | |
| Net change in cash and cash equivalents | (155,186) | 1,167,939 |
| Balance at beginning of year for cash and cash equivalents | 1,583,686 | 415,747 |
| **Balance at end of year for cash and cash equivalents** | **1,428,500** | **1,583,686** |

The Annexes on pp. 9-69constitute an integral part of the Consolidated Financial Statements

# 1. General Information

## 1.1 Presentation of the Company

Duna House Holding Nyrt. – hereinafter referred to as "Company" or "Group" – was founded in 2003. Its principal activity is real estate brokerage, intermediation of directly related financial products, brokerage of auxiliary services. In Hungary, besides the well-established Duna House franchise network real estate agencies, the Group also operates a second real estate brokerage network under the brand "SMART Ingatlan", present in 161 different locations with a team of over 1300. The Group became the market leader in Poland too, subsequent to the acquisition of the Metrohouse franchise network last year. The Management places great emphasis on developing the Company's Warsaw-based operations and indeed 2017 has seen outstanding results in financial product brokerage. The Company's Prague-based subsidiary in the Czech Republic is also following a strategy of expansion. In this regard, the first franchise rights were sold in the fourth quarter of 2017, and in the beginning of 2018, the first franchise partner office was opened.

The Company's registered office is at 1016 Budapest, Gellérthegy u. 17.

The Company's core activities include:
- Sale and operation of franchise(s)
- Real estate brokerage
- Financial product brokerage
- Insurance brokerage
- Real estate valuation and related agency services
- Energy performance certificates and related agency services
- Real estate management
- Sale and purchase of own real estate
- Fund management
- Development of residential real estate

As a result of an increase in share capital registered on 1 February 2017, the largest shareholder of Duna House Holding Nyrt. is Medasev Holding Kft. (1016 Budapest, Gellérthegy utca 17., registration number 01-09-209753), which holds 39.68% of the shares.

| Owner's name | Ownership ratio as of 31 December 2017 | Ownership ratio as of 31 December 2016 |
|---|---|---|
| Medasev Holding Kft. | 39.68% | 32.03% |
| Medasev Int. (Cyprus) Ltd. | 38.04% | 42.75% |
| Employee shares and other private individuals | 1.78% | 1.99% |
| External investors | 20.05% | 23.23% |
| **Total:** | **100%** | **100%** |

The Company's operational management is carried out by the Board of Directors. Control functions over the operation of the Company are performed by the Supervisory Board.

It is a strategic objective of Duna House Group to extend its expertise to the Central-European region and to become a major international actor. In line with that strategic approach, subsequent to the acquisitions executed in 2016, the Group intends to further strengthen its market presence by entry into new markets or further acquisitions of suitable targets in existing markets.

## 1.2 Basis of financial statements

*i) Approval and declaration on compliance with the International Financial Reporting Standards*

The Board of Directors approved the consolidated financial statements on 22 March 2018. The consolidated financial statements were prepared in compliance with the standards adopted by the European Union (EU) in the form a Regulation based on the International Financial Reporting Standards (IFRS) and published in the Official Journal of the EU. The IFRS consist of standards and interpretations developed by the International Accounting Standards Committee (IASB) and the International Financing Reporting Interpretations Committee (IFRIC).

From 1 January 2005 an amendment in the Hungarian Accounting Act allows the Group to prepare its consolidated financial statements according to IFRS published in the form of a Regulation in the Official Journal of the European Union. For the time being, on the basis of EU legal enactment procedures and the activities of the Group, there are no differences between the Group's IFRS policy and the IFRS policies accepted by the EU. The disclosures in the financial statements comply with the requirements of the individual standards.

The consolidated financial statements are presented in Hungarian forints, rounded to HUF thousands, unless otherwise indicated.

*ii) Basis of the financial statements*

The consolidated financial statements were prepared on the basis of the standards issued and effective until 31 December 2017 and according to the IFRIC interpretations.

In accordance with the provisions of Act CLXXVIII of 2015 on implementing the application of the International Financial Reporting Standards in Hungary for individual reporting purposes and the modification of certain financial laws made it possible, from 1 January 2016, to incorporate the detailed rules on IFRS into the Acts on Corporate Tax and Local Taxes, in addition to the Accounting Act, from 1 January 2017, the parent company shall prepare its non-consolidated annual financial statements in accordance with the International Financing Reporting Standards (IFRS). However, the subsidiaries and associated companies of the parent company shall keep their registries and prepare their statements for the purposes of individual reporting in accordance with laws and regulations related to the preparation of financial statements, which differ from the provisions of the International Financing Reporting Standards (IFRS). In order to render the international consolidated financial statements consistent with the International Financing Reporting Standards, certain modifications had to be made to the data taken from the accounting statements of subsidiaries and associated companies used for individual reporting purposes.

Consolidated financial statements were prepared on the basis of the historical cost principle, except when the IFRS requires the use of a different valuation principle other than the one stated in the accounting policy. The financial year is identical with the calendar year.

*iii) Basis of the valuation*

In the consolidated financial statements the valuation is based on the original historical cost, except for the assets and liabilities, related to which the relevant International Financial Reporting Standard requires or allows for accounting at fair value.

While preparing the financial statements in compliance with IFRS the management must apply professional judgement, estimates and assumptions, which have an impact on the applied accounting policy as well as on the amounts of assets and liabilities, revenues and expenses stated in the financial statements. The estimates and related assumptions are based on historical experience and numerous other factors, which may be deemed reasonable under the given circumstances and the result of which is the basis of the estimated book value of the assets and liabilities that cannot be defined clearly from other sources. The actual results may be different from these estimates.

The estimates and underlying assumptions are regularly reviewed. The modification of accounting estimates is presented in the period of the modification of the estimate when the modification relates only to the particular year or during the period of the modification and in the subsequent periods when the modification affects both current and future years.

## 2. Accounting policy

Major accounting policies that were applied in the preparation of the consolidated financial statements are presented below. Accounting policies were applied consistently for the periods covered by these consolidated financial statements. The most important accounting principles applied during the preparation of the financial statements were as follows:

### 2.1 Main elements of the accounting policy

#### 2.1.1 Basis of consolidation

***Subsidiaries***
The consolidated annual financial statements include Duna House Holding Nyrt. and the subsidiaries controlled by it. In general, control means that the Group holds, either directly or

indirectly, more than 50% of the votes of the particular company and enjoys the advantages of its activities through an influence on its financial and operational activates.

The acquisition accounting method is applied to the acquired business shares. This method uses the values at the time of the acquisition based on the market values of the assets and liabilities at the time of the acquisition, i.e., when control is obtained. The cost of acquisition equals the total of the consideration plus the total non-controlling shares in the acquired business. The companies acquired or sold during the year are included in the consolidated financial statements from or to the date of the respective transaction.

The transactions, balances and profits as well as non-realised profits between the companies involved in the consolidation are eliminated. During the preparation of the consolidated annual financial statements the similar transactions and events are recorded according to consistent accounting principles.

The equity and profit shares of non-controlling shareholders are presented in separate rows in the balance sheet and in the profit and loss account. In terms of business combinations the non-controlling shares are presented either at fair value or as the value of the amount from the fair value of the net assets of the acquired company relating to the controlling shareholders. The valuation method is selected individually for each business combination. With regard to the Group, non-controlling shares related to all past acquisitions are to be determined at the value, which non-controlling shareholders are entitled to. Following the acquisition the share of the non-controlling shareholders equals the originally taken value, modified by the amount of changes in the equity of the acquired company relating to non-controlling shareholders. The non-controlling shareholders have a share of the interim total comprehensive income even if it leads to a negative balance of their shares.

All changes in the participations of the Group in subsidiaries that do not lead to the loss of control are recognised as capital transactions. The participation of the Group and non-controlling shareholders is modified to make sure that they reflect the changes in the participations held in the subsidiaries. The amount modifying the participation of non-controlling shareholders and the difference between the received or paid consideration is recognised in the equity as the shareholder value.

### 2.1.2 Reporting currency and foreign exchange balances

In view of the content and circumstances of the underlying business events the functional currency of the parent company and reporting currency of the Group is the Hungarian forint.

Initially the foreign currency transactions not recorded in HUF were recorded at the exchange rate, valid on the date of execution of such transactions. The receivables and liabilities recorded in foreign currencies were converted into HUF at the exchange rate of the cut-off date, irrespective whether or not the recovery of the asset was doubtful. The resulting exchange rate differences are shown in the profit and loss account among the financial revenues or financial expenses.

The financial statements were prepared in Hungarian forints (HUF), rounded to the nearest one thousand, except where otherwise indicated. The consolidated financial statements were prepared in Hungarian forint, which is the presentation currency of the Group.

The transactions executed in foreign currencies are recognised in the functional currency, applying the exchange rate of the reporting currency to the foreign currency, effective on the date of the transaction, to the amount stated in the foreign currency. In the comprehensive income statement the exchange rate differences that result from the use of an exchange rate other than the exchange rate applied during the settlement of the monetary items, at the initial presentation during the period or in the previous financial statements are stated either as revenues or as expenses during the period when they occurred. The monetary assets and liabilities defined in foreign currencies are converted at the exchange rate of the functional currency effective at the end of the reporting period. The items defined in foreign currencies and valued at fair value are converted at the exchange rate effective at the time of establishment of the fair value. The exchange rate differences between trade receivables and trade payables are included in the income from business activities, while the exchange rate differences of loans are shown in the rows of the revenues or expenses of financial transactions.

### 2.1.3 Sales revenues

The revenues from sales transactions are shown when the respective conditions of the supply contracts are met, taking into account the remarks below. The net sales revenues are exclusive of the value added tax. All revenues and expenses are recognised in the respective period in compliance with the principle of matching. There are practically two sources of sales revenues. The revenues directly relating to ad hoc assignments and the monthly recognition of regular services. The market changes have a greater impact on the former, while the latter are more stable sources of revenues, because they are related to longer-term contracts and are affected considerably only by major market fluctuation (franchise fees, trail commission).

The financial institutions divide the brokerage commissions payable by them into two types of fees: acquisition and trail commission. The acquisition commission is payable to an intermediary in relation to a new contract, while trail commission is payable for the continuation of the contract for a certain period. In the case of a trail (maintenance) commission the financial partners apply somewhat different settlement principles but, according to the currently effective legislation, in the case of an exposure secured by a real property the trail commission must equal at least 20% of the total brokerage commission. The main objective of this type of commission is to make the broker interested in the repayment discipline of the borrowers for a long time. The factors affecting the amount of commission include the type of the mediated product and its tenor, the delay in the prepayment of the respective borrower and the continuation rate of the total active mediated loan portfolio. The Company uses a calculation model to estimate the trail commission for the loans contracted in the current year and loans disbursed in the current period and takes into account the commission during the period when the loan mediation transactions was executed.

### 2.1.4 Property, plant and equipment

The tangible assets are stated at historical cost less accumulated depreciation. The accumulated depreciation includes the costs recognised as scheduled depreciation relating to the continuous use and operation of the asset as well as the costs of extraordinary depreciation, recognised due to a major damage or fault in the asset occurring as a result of an unexpected extraordinary event.

The historical cost of tangible assets consists of the purchased cost of the asset or, in the case of a capital investment of the Company, the incurred material and wage-type expenses and other direct expenses. The interest recognised on the loan taken for the investment into the tangible asset increases the historical cost of the asset until it reaches a condition suitable for ordinary use.

The book value of tangible assets is reviewed periodically in order to conclude whether or not the book value is higher than the fair market value of the asset, in which case extraordinary depreciation must be recognised until the asset reaches its fair market value. The fair market value of the asset is either the sales price or the value in use of the asset, whichever is higher. The value in use is the discounted value of the future cash flows generated by the asset.

The discount rate contains the interest rate before corporate taxation, taking into account the time value of money and the impact of other risk factors associated with the asset. If no future cash flow can be assigned to the asset separately, than the cash flow of that unit must be used, of which the asset is a part. The thus established impairment, extraordinary depreciation is shown in the profit and loss account.

The costs of repair and maintenance as well as replacement of spare parts of tangible assets are charged to the maintenance expenses. The value added investments and refurbishment are capitalised. The historical cost and accumulated depreciation of assets sold, written down to zero or not in use are derecognised. Any possible profit or loss generated in that manner is part of the profit/loss of the current year.

The Company writes off the value of its assets with the straight-line method during the useful life of the assets. The life of assets by asset category is as follows:

| | |
|---|---|
| Buildings | 17-50 years |
| Machines, equipment | 3-7 years |

The useful lives and depreciation methods are reviewed at once a year based on the actual economic benefit provided by the particular asset. If required, the modification is accounted against the profit/loss of the current year.

### 2.1.5 Impairment

The Group assesses at the end of each reporting period whether or not a change triggering impairment has occurred in relation to any asset. If such a change occurred, the Group estimates the estimated recovery value of the asset. The estimated recovery value of an asset or cash-generating unit is either the fair value less the costs of sales or the value in use, whichever is higher. The Group recognises impairment against the profit if the estimated recovery value of the asset is lower than its book value. The Group prepares the required calculations based on adequately discounting the long-term future cash flow plans.

### 2.1.6 Intangible assets

The individually purchased intangible assets are entered into the books at purchase price, while intangible assets acquire during business combination are entered into the books at fair value at the time of their acquisition. The assets are entered into the books when the use of the asset provably results in the influx of future economic goods and its cost can therefore be clearly identify.

Following the initial recognition the historical cost model applies to intangible assets. The lifetime of these assets is finite or cannot be defined. The assets of a finite lifecycle are depreciated with the straight-line method according to the best estimate for the lifetime. The depreciation period and the depreciation method are reviewed annually at the end of the financial year. The development costs of the intangible assets produced by the Company are capitalised if the capitalisation criteria laid down in the IAS 38 standard are fulfilled. The intangible assets are reviewed annually in terms of impairment on individual basis or at the level of the income generating unit.

The purchase costs of goods and software falling within the scope of trademarks, licences and industrial right protection are capitalised and written down with the straight-line method during their estimated useful life.

| | |
|---|---|
| Rights and titles as well as software | 3 - 6 years |

### 2.1.7 Goodwill

Goodwill is the positive difference between the purchase value and fair value of the identifiable net assets of the acquired subsidiary on the date of acquisition. Goodwill is not depreciated but the Group reviews each year whether or not there are any signs indicating that the book value is unlikely to be recovered. The goodwill is stated at historical value less potential impairment.

**2.1. Main elements of the accounting policy (continued)**

### 2.1.8 Inventories

The inventories are stated at historical cost less impairment recognised on superfluous and obsolete stocks or at net realisable value, depending on which is lower. The inventory value is defined at the actual historical cost.

The historical cost of real estate development projects include all procurement, reconstruction and other direct costs, which arise in the scope of the completion of the real estate development. Real estate development projects are qualified as qualifying assets in accordance with Standard IAS 23 Borrowing Costs, as their completion for use or sale takes a significant amount of time. Accordingly, the borrowing costs related to the loans financing the projects are also taken into account in the historical costs of these items. However, the costs of such loans given in the Group, arising at the financed entity, are to be consolidated from the inventory value, as internal performance.

### 2.1.9 Receivables

The receivables are stated in the financial statements and nominal value less impairment recognised for estimated losses. Based on the review of all outstanding receivables prevailing at the end of the year an estimate was prepared for the doubtful receivables.

### 2.1.10 Assets held for sale and liabilities directly related thereto

In accordance with IFRS 5 Standard, qualifying fixed assets (or disposal groups) held for sale are to be valued at the lower of their book value or their fair value decreased by sale costs.

### 2.1.11 Financial instruments

Financial assets falling within the scope of the IAS 39 standard can be classified into the following four categories: financial assets (for trading purposes) valued at fair value against the profit or loss, loans and receivables, investments held until maturity and for-sale financial assets. When the financial assets are shown, initially they are valued at fair value. Of the above categories the Group does not apply the for-sale financial assets category.

After the initial recognition the financial assets that are “for trade” or “for sale” are valued at fair value, any unrealised exchange rate gain or loss on securities held for trading purposes is recognised as other revenue/expense, and any unrealised exchange rate gain or loss on marketable securities is shown at separate component of equity until the investment is sold or otherwise taken out from the goods or until impairment is recognised on the particular investment, at which point the accumulated profit or loss recognised in equity is stated as revenue.

The other long-term investments that are held until maturity, such as certain bonds, are recognised at amortised historical cost after the initial recognition. The amortised historical cost is calculated by taking into account the discount or premium at the time of acquisition during the period until maturity. In the case of investments recorded at amortised historical cost any profit or loss occurring at the time of de-recognition or impairment of the investment or during the amortisation period is recognised as revenue.

In the case of investments listed on the stock exchange the market value is established on the basis of the official price announced on the balance sheet date. In the case of securities not listed or traded on the stock exchange the market value is the market value of similar/substitute financial investments or, if that method cannot be applied, then the market value is established on the basis of the estimated future cash flow of the asset relating to the investment.

The Group checks, on each cut-off date, whether or not impairment must be recognised on the financial asset or group of assets. If in relation to assets recognised at amortised historical cost a condition or event occurs that requires the recognition of impairment, the impairment equals the difference between the book value of the asset and the total future cash flows of the asset, discounted with the original effective interest rate. The impairment is shown in the profit and loss account. If later the recognised impairment amount reduces, it is reversed, but only to such an extent that the book value of the asset should not exceed the amortised value on the cut-off date.

The securities investments are valued at the price prevailing on the execution date and initially at purchase price. Those short-term investments that contain securities held for trading purposes are shown at fair market value, effective at the time of the next report and their value is calculated at the publicly listed price, effective on the cut-off date of the balance sheet. The unrealised profits and losses are included in the profit and loss account.

### 2.1.12 Financial liabilities

The statement about the Group's consolidated financial positions contains the following financial liabilities: trade payables and other short-term liabilities, loans, borrowings, banking overdrafts and futures transactions. They are presented and valued in the consolidated financial statements in the respective parts of the notes to the financial statements as specified below.

The Group values each financial obligation at fair value at the time of the initial recognition. For loans the transactions costs are also taken into account that are directly associated with obtaining the financial obligation.

The Group classifies the financial liabilities falling with the scope of IAS 39 into the following categories: financial liabilities valued at fair value against profits, loans and borrowings and hedge instruments for hedge accounting purposes. The Group defines the category of the financial liabilities when they are acquired.

The financial liabilities valued at fair value against profit are liabilities obtained by the Group for trading purposes or liabilities deemed valued at fair value against the profit during the initial recognition. The financial liabilities for trading purposes include liabilities that were purchased by the Group mainly for profit expected from short-term exchange rate fluctuation. This category also contains futures transactions that are not considered effective hedge instruments.

The loans and borrowings appear in the statement reflecting the financial position at amortised historical cost, calculated with the effective interest method. The gains and losses on loans and borrowings are recognised in the statement of income in the course of amortisation calculated with the effective interest method and during the derecognition of the financial liability. The amortisation is recognised as a financial expense in the statement of income.

### 2.1.13 Provisions

The Group recognises provisions on its existing (legal or assumed) commitments resulting from historic events, which the Group is likely to have to settle and when the amount of the obligation can be reliably measured.

The amount recognised as provisions is the best estimate of the expense required on the balance sheet date to settle an existing obligation, taking into account the risks and uncertainties that characterise the obligation. If the provisions are calculated on the basis of the cash flow, likely to be required for the settlement of an existing obligation, the book value of the provisions equals the present value of those cash flows.

If another party is likely to reimburse the expenses required for the settlement of the provisions in part or in full, the receivable can be recognised as an asset when it is virtually certain that the reimbursement will be received and the amount of the receivable can be measured reliably.

The existing obligations arising from detrimental contracts are recognised as provisions. The Group deems a contract detrimental when the unavoidable costs of the fulfilment of the obligations arising from it exceed the economic benefits likely to occur as a result of the contract.

Restructuring provisions are recognised when the Group has prepared a detailed or formal restructuring plan and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it. The restructuring provisions include the direct expenses incurred in relation to restructuring and which are necessary for restructuring and do not relate to the continuous activity of the business unit.

### 2.1.14 Investment properties

A property is recognised as an investment property when it is maintained by the business in order to earn an income from rent or an added value or both and not for sale, or manufacturing goods or to supply services. The Groups holds the investment properties primarily for the purpose of increasing the equity in the long term.

Initially, an investment property must be valued at historical cost, taking also account the transaction costs. The Group opted for the fair value model to recognise investment properties. The differences arising from the variation of fair value are recognised in the profit/loss of the current year against other operating income. There is no scheduled depreciation on investment properties.
The profit or loss arising from the variation of the fair value of investment properties is always recognised in the profit or loss of the period (in other operating revenues or other operating expenses row), in which it incurs. An investment property must be derecognised when sold or when the investment property is finally withdrawn from use and no future economic benefits can be expected from its sale. Any gain or loss arising from the derecognition or sale of investment properties must be recognised in the statement of income either as a revenue or as an expense during the respective period.

### 2.1.15 Income tax

Income tax rate related to profit before consolidated tax is based on the act on corporate and dividend tax and the decrees regulating the rate of local business tax, as well as the liability to pay taxes and contributions specified in the act on innovation contributions. . Income tax liability contains tax components for the current year and deferred items. The Company also classifies the support provided for spectacular sports as corporate tax, because by content it considers it an income tax.

The tax liability for the current year is calculated on the basis of the taxable profit of the current year. The taxable profit is different from the profit before taxation recognised in the consolidated financial statements due to gains and losses not included in the tax base and due to items that are recognised in the taxable profit of other years. The current tax liability of the Group is calculated on the basis of the tax rate effective or announced by the balance sheet date (provided that the announcement is equivalent to entry into force). The deferred tax is calculated with the liability method.

Deferred tax occurs when there is a time difference in the recognition of an item in the annual report and in the financial statements prepared according to the tax law. A deferred tax asset and liability is established by applying the tax rates to the taxable income of the years when the difference caused by the time difference is likely to be recovered. The deferred tax liability and tax asset reflects the Group's estimate for the method of realisation of tax assets and liabilities prevailing on the balance sheet date.

A deferred tax asset is included in the balance sheet with respect to deductible time differences, carried forward tax benefits and negative tax base when it is likely that the Group will realise a profit constituting tax base in the course of its future activities against which the deferred tax asset can be settled.

On each balance sheet date the Group takes into account the deferred tax assets not recognised in the balance sheet and the book value of the recognised tax assets. It enters into the inventory those assets not yet recognised in the balance sheet which may be recovered as a reduction of its future profit tax. On the contrary, the Group reduced its deferred tax assets to such an extent that its recovery is unlikely to be funded from taxed profit.

The current and deferred tax is recognised directly against the equity when it relates to items which were also recognised against equity in the same or a different period, also including modifications in the opening value of reserves due to any change made in the accounting policy with retroactive effect.

The deferred tax assets and liabilities can be offset against each other when the company has a right granted by the law to offset its actual tax assets and liabilities relating to the same tax authority against each other and when the Group intends to account for those assets and liabilities on net basis.

### 2.1.16 Leases

Financial leasing means that all risks and expenses relating to the possession of the asset are borne by the lessee according to the terms and conditions of the lease. All other leases are classified as operating leases.
In the case of financial leasing the assets leased by the Group are considered the assets of the Group and are recognised at acquisition, market value. The liability to the lesser is recognised on the balance sheet as a financial lease liability. The expenses of the leasing which are differences between the fair value of the acquired assets and the total lease liabilities are recognised against to the profit during the entire term of the leasing to make sure that they represent a constant, periodically occurring expense in relation to the existing liability amount in the various period.

Such expenses result from the difference between the total liabilities and the market value of the leased asset at the time of acquisition and are recognised in the profit and loss account either over the relevant leasing tenor, in order to facilitate the monitoring of the changes in the balance of the outstanding liability from time to time or in the individual reporting periods.

### 2.1.17 Earnings per share (EPS)

Earnings per share are calculated on the basis of the Group’s profit and the shares less the temporary average portfolio of repurchased treasury shares.

The diluted EPS is calculated similarly to the earnings per share. However, during the calculation all shares in distribution, suitable for dilution, are taken into account, and the dividend that may be distributed on common shares is increased by the dividend and return on the convertible shares taken into account during the applicable period, modified by further income and expenses on conversion; the weighted average number of shares in distribution is increased by the weighted average number of further shares which would be in distribution if all convertible shares were converted. There were no transactions, either in the period ending on 31 December 2017 or on 31 December 2016, that would dilute the value of that EPS ratio.

#### 2.1.18 Off-balance sheet items

Off-balance sheet liabilities are not included in the balance sheet or profit and loss account that constitute parts of the consolidated financial statements unless they were acquired during business combinations. They are presented in the notes to the financial statements unless the possibility of outflow of sources representing economic benefits is remote and negligible. Off-balance sheet receivables are not included in the balance sheet or profit and loss account constituting parts of the consolidated annual financial statements but if there is a likelihood of inflow of economic benefits, they are presented in the notes to the financial statements.

#### 2.1.19 Treasury shares repurchased

The face value of the repurchased treasury shares is deducted from the registered capital in accordance with the requirements specified in Standard IAS 1. The difference between the face value and historical cost is recognised directly in the capital reserve.

#### 2.1.20 Dividend

The Company recognises dividend in the year when it is approved by the General Meeting.

#### 2.1.21 Result of financial transactions

The financial profit/loss includes interest and dividend revenues and other financial expenses, the gains and losses of fair valuation of financial instruments and realised and unrealised exchange rate differences.

#### 2.1.22 State aid

State aid is recognised when it is likely that the aid will be collected and the conditions of the disbursement of the aid have been fulfilled. When the aid is used to offset an expense, it must be recognised in the statement of income when the costs to be offset incurs (among the other revenues). When the aid relates to the purchase of assets, it is recognised as deferred revenue and is then recognised in profits in annual equal instalments during the useful life of the related asset.

#### 2.1.23 Events subsequent to the accounting reference date

The events occurring after the end of the reporting period that provide additional information about the conditions prevailing at the end of the Group's reporting period (amending items) are all presented in the report. Those events occurring after the reporting period that do not modify the data of the report are presented in the notes to the financial statements when they are important.

## 2.2 Changes in the Accounting Policy

The Group prepared its financial statements in compliance with the provisions of all standards and interpretations that entered into force on 31 December 2017.

*Modifications and interpretations of existing standards and new standards that are not yet effective and are not applied by the Group prior to their entry into force.*

***IFRS 9 Financial instruments: classification and valuation (effective from 1 January 2018)***
The standard introduced new requirements for the classification, valuation and impairment of financial assets and financial liabilities. The application of the IFRS 9 standard is likely to have an impact on the classification and valuation of the Group's financial assets but is unlikely to affect the classification or valuation of financial liabilities.

***IFRS 15 Revenues from contracts with customers (effective from 1 January 2018)***
The IASB issued a new standard on 28 May 2014 on the recognition of revenues from contract with customers. The application of the new revenue standard will be mandatory for companies using IFRS in the reporting periods starting on 1 January 2018 or later. The new standard will replace the currently effective regulations of IAS 18 Revenues and IAS 11 Investment contracts in the recognition of revenues. According to the new standard the companies will use a "five-step model" to define when and in what amount they should recognise the revenues. According to the model the revenues must be recognised to express the "promised" transfer of goods or services in the amount to which the company will be entitled to according to its expectations. The Board of Directors estimates that the application of the new standard will not have a significant impact on the financial statements in comparison with the standards currently applied for recognizing revenue.

***IFRS 16 Leases (effective from 1 January 2019)***
The IASB issued a new standard on the recognition of leases on 13 January 2016. The application of the new leases standard will be mandatory for companies using IFRS in the reporting periods starting on 1 January 2019 or later. The new standard will replace the currently effective provisions of the IAS 17 Leases standard and will fundamentally change the current practice of recognizing operative leases. In the Group, mostly motor vehicles are leased by operative leases, the accounting of which will be affected by the entry into force of IFRS 16.

At the end of 2017 the Group applied all IFRS standards, modifications and interpretations that were effective and relevant for its operation.

## 2.3 Uncertainty factors

During the application of the accounting policy described in Section 2.1 estimates and assumptions must be applied for the establishment of the values of individual assets and liabilities at a particular time that cannot be clearly valued from other sources. The estimation process contains the decisions based on the last available information and relevant factors. These main estimates and assumptions affect the values of assets and liabilities, revenues and expenses recognised in the financial statements and the presentation of contingent assets and liabilities in the notes to the financial statement. The actual results may be different from the estimated data.

The estimates are regularly updated. If a change affects only the particular period, it should be taken into account during the period of the change occurring in the accounting estimates and if the change affects both periods, it must be taken into account in the period of the change as well as subsequent periods.

The main aspects of critical decisions adopted in terms of the uncertainties of estimates and accounting policy that have the greatest impact on the amounts presented in the consolidated financial statements are as follows:

### 2.3.1 Impairment on goodwill

In accordance with Section 2.7.1 of the significant counting principles the Group tests each year whether or not any devaluation took place in goodwill. The recovery value of cash-generating units was defined on the basis of the calculation of the value in use. Estimates are indispensable for these calculations. In order to define the impartment loss of goodwill the value in use of those cash-generating units must be estimated to which the goodwill was assigned. In order to calculate the value in use it is absolutely necessary that the management estimate the future estimated cash flow of the cash-generating unit and the appropriate discount rate because the present value can be only be calculated from them.

### 2.3.2 Impairment recognised on uncollectible and doubtful receivables

The Group recognises impairment on uncollectible and doubtful receivables to cover the losses arising from the fact that customers cannot pay. The impairment recognised in the consolidated balance sheet for uncollectible and doubtful receivables amounted to HUF 140,663 thousand on 31 December 2017. The estimates used for the assessment of the appropriateness of impairment recognised on uncollectible and doubtful receivables are based on the aging of receivables, the credit rating of the customer and variation in the customer’s payment habits. On default interest receivables charged to customers with a poor credit rating impairment is recognised immediately.

### 2.3.3 Trail commission

The Group recognises trail commission in compliance with Section 2.1.3. For the trail commission estimates the Group uses a number of variables, the changes in which represent uncertainties of estimates.
The variables used for estimating the trail commission are reviewed whenever a report is prepared.

### 2.3.4 Investment properties

The Group values investment properties at fair value, as that is the best estimate for individual investment properties. The fair value of investment properties may change significantly depending on the volatility of property prices and market demand/supply. The Group employs an independent valuation expert to establish the fair value.

### 2.3.5 Depreciation

Properties, machines and equipment and intangible assets are recognised at historical cost and are depreciated with the straight-line method during their useful life. The Group recognised depreciation and amortisation costs in the amount of the HUF 86,973 thousand in 2017 and HUF 77,795 thousand in 2016. The useful life of assets is defined on the basis of former experience relating to similar assets and estimated technological development as well as changes in the larger economic or industry factors. The estimated useful lives are reviewed annually.

## 2.4 Details of Business Combinations. Enterprises Involved in the Consolidation

***Subsidiaries***

| | Address: | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| Duna House Biztosításközvetítő Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Hitel Centrum Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| DH Projekt Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Duna House Ingatlan Értékbecslő Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Duna House Franchise Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Energetikai Tanúsítvány Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Superior Real Estate Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Home Management Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| REIF 2000 Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| GDD Commercial Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| SMART Ingatlan Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Impact Alapkezelő Zrt. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Home Line Center Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | 100% |
| Metrohouse Franchise S.A. | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 100% | 100% |
| Metrofinance Sp. z.o.o | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 100% | 100% |
| MH Południe Sp. z.o.o | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 0% | 100% |
| MH Uslugi Wspólne S.A | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 0% | 100% |
| MH Warszawa Sp. z.o.o | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 0% | 100% |
| Metrohouse S.A. | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 100% | 0% |
| MyCity Residential Development Kft. | 1016 Budapest, Gellérthegy u. 17. | 100% | - |
| Pusztakúti 12. Kft. (*) | 1016 Budapest, Gellérthegy u. 17. | 100% | - |
| Reviczky 6-10. Kft. (*) | 1016 Budapest, Gellérthegy u. 17. | 100% | - |
| Zsinór 39 Kft. (*) | 1016 Budapest, Gellérthegy u. 17. | 100% | - |
| IH Project X Kft. (*) | 1016 Budapest, Gellérthegy u. 17. | 100% | - |
| Duna House Franchise s.r.o. | 140 00 Praha 4, Michelská 300/60 (Czech Republic) | 80% | 80% |
| Duna House Hypoteky s.r.o. | 140 00 Praha 4, Michelská 300/60 (Czech Republic) | 80% | 80% |
| Center Reality s.r.o. | 140 00 Praha 4, Michelská 300/60 (Czech Republic) | 80% | 80% |

***Jointly controlled entities***

| | | 31 December 2017 | 31 December 2016 |
|---|---|---|---|
| MyCity Residential Development Kft. | 1016 Budapest, Gellérthegy u. 17. | - | 50% |
| Pusztakúti 12. Kft. | 1016 Budapest, Gellérthegy u. 17. | - | 50% |
| Reviczky 6-10. Kft. | 1016 Budapest, Gellérthegy u. 17. | - | 50% |
| Zsinór 39 Kft. | 1016 Budapest, Gellérthegy u. 17. | - | 50% |
| IH Project X Kft. | 1016 Budapest, Gellérthegy u. 17. | - | 50% |
| Hunor utca 24 Kft. | 1016 Budapest, Gellérthegy u. 17. | 50% | 25% |

The Company acquired a further share of 50% in MyCity Residential Development Kft. in March 2017 and thus became its sole owner. As a result of the acquisition, the companies previously qualified as jointly controlled entity became subsidiaries, while Hunor utca 24. changed from associate to jointly controlled entity.

MyCity Residential Development Kft. and its project companies were acquired as follows: (data in thousand HUF)

| Company name | Identifiable net assets | Ownership and voting ratio | Net asset value of Duna House Holding Nyrt. | Consideration | Goodwill/(badwill) |
|---|---|---|---|---|---|
| Consolidated equity of MyCity Residential Development Kft. group | 884,913 | 100% | 884,913 | - | - |
| Value of 50% share in MyCity Residential Development Kft. group | - | - | - | 434,278 | - |
| Consideration of further 50% share in MyCity Residential Development Kft. group, all of which is made up of financial assets | | | | 311,040 | - |
| Total: | 884,913 | 100% | 884,913 | 745,318 | (139,595) |
| Total goodwill | | | | | 0 |
| Total badwill | | | | | (139,595) |

*Details of the acquisition in the project companies of MyCity Residential Development Ltd upon acquisition:*

| | |
|---|---|
| Investment properties | 189,865 |
| Plant and equipment | 330 |
| Investment in associated companies (Hunor utca 24, Ltd,) | 100,591 |
| Deferred tax receivables | 1,299 |
| **Total long-term assets:** | **292,085** |
| | |
| Inventory | 1,930,716 |
| Related receivables (Hunor utca 24, Ltd,) | 138,057 |

| | |
|---|---|
| Trade and other receivables and deferred incomes | 5,893 |
| Cash | 139,372 |
| **Current assets** | **2,214,039** |
| **Total assets** | **2,506,124** |
| | |
| Long-term loans and borrowings | 250,365 |
| Deferred tax liabilities | 86,509 |
| **Total long-term liabilities** | **336,874** |
| | |
| Supplier and other tax liabilities, accruals and deferred income | 56,102 |
| Other liabilities | 375,560 |
| Associated liabilities | 852,675 |
| **Short-term liabilities** | **1,284,337** |
| **Total liabilities** | **1,621,211** |

In order to enhance the efficiency of the operation in Poland, on 20 December 2017, the following businesses were merged: MH Poludnie Sp. z o.o, MH Warszawa Sp z. o.o and MH Uslugi Wspolne S.A, and the legal successor, Metrohouse S.A. became a private corporation.

### 2.4.1 Presentation of the subsidiaries involved in the consolidation

#### 2.4.1.1 **Duna House Franchise Kft.**

The subsidiary operates the Duna House Franchise Network. Its most important objective is to enter into contract with new franchise partners and to maintain and provide high-level support to existing partners. The Company provides access to a well-structured and formed system to franchise partners joining the Franchise Network. This system provides a recognised brand name, a single image, know-how and support in sales, marketing, information technology and other aspects of operation.

#### 2.4.1.2 **REIF 2000 Kft.**

It is the largest franchise partner of the Duna House Franchise Network and currently operates 16 offices. The operation of own offices is important in the strategy of the Duna House Group as it contributes a great deal to obtaining a true picture of the situation of the real estate market and also helps assessing real estate market innovations and needs and their introduction in the network.

#### 2.4.1.3 **Hitelcentrum Kft.**

It is a subsidiary of the Group that is engaged in financial intermediation. In line with the multiple agency contracts concluded with credit institutions, it offers a wide range of financial products to its customers, primarily in the purchase or sale of residential properties. At the moment, Hitel Centrum Kft. focuses mainly on the intermediation of housing loans and housing savings products. The service includes advice on the selection of the best available financial product and complex administration. Its services are free for customers, and are rewarded by credit institutions in the form of commission.

#### 2.4.1.4 **Duna House Biztosításközvetítő Kft.**

In the framework of the intermediation of financial services this company pursues insurance brokerage activities.

#### 2.4.1.5 **DH Projekt Kft.**

The Duna House Project emphasised the intermediation of traditionally new-built properties and specialised in providing complex analysis, preparation and project sales services to real estate developers. In accordance with market demand, since 2011 the new “banking real estate” activity has become increasingly important along with the core activity.

DH Project assists a number of financial institutions in selling their own real estate portfolio and, in cooperation with the financial institution and the bank, is also involved in the (joint) sale of properties in relation to which the debtor finds it difficult or is unable to repay the loan.

#### 2.4.1.6 Duna House Ingatlan Értékbecslő Kft.

Duna House Értékbecslő Kft. is a business founded in 2009 for the intermediation of real estate appraisal services to banks and other market actors. In most cases Duna House Értékbecslő Kft. performs organisation and quality assurance tasks, while valuation services are provided by experts, independent from the real estate brokerage network as sub-contractors.

#### 2.4.1.7 Energetikai Tanúsítvány Kft.

The Group launched a subsidiary engaged in energy performance certificates at the end of 2011. The certification, which became mandatory by law, is a new service provided by Duna House to sellers and lessers. The certification network provides a fast and marketable solution across the country and consists of independent experts.

#### 2.4.1.8 Superior Real Estate Kft.

The activities of the company between 2012 and 2014 included the sale and purchase and lease of owned properties that had residential functions. In 2015 the company changed its business activity to the operation of franchise offices owned by it but belonging to the SMART network. The company took its current name in 2015, previously it operated under the name of GDD Properties Kft.

#### 2.4.1.9 Home Management Kft.

Home Management Kft. performs comprehensive management services in residential properties, primarily for foreign property owners. The service consists of the following activities: lease, lease fee payment monitoring, collection, management of utility expenses, maintenance, book keeping and representation of the owner's interests. The DH Group outsources maintenance and other activities to sub-contractors.

#### 2.4.1.10 GDD Commercial Kft.

The activities of the company include the sale and purchase and lease of owned properties that have business functions.

#### 2.4.1.11 SMART Ingatlan Kft.

It is the subsidiary of the group engaged in the operation of the SMART real Estate Franchise Network. The company sells franchise rights and coordinates the tasks of the operation of the network.

#### 2.4.1.12 **Home Line Center Kft.**

The activities of the company include the sale and purchase as well as short- and long-term lease of owned properties with residential functions, and in the near future, condominium property management activity is likely to be added.

#### 2.4.1.13 **Impact Alapkezelő Zrt.**

In its resolution H-EN-III-130/2016 of 20 April 2016, the Hungarian National Bank issued a licence to Impact Alapkezelő Zrt. for collective portfolio management activities which, in line with the above, extend to investment management, risk management and administrative tasks.

The primary objective of the fund management activity is to create (a) real estate investment fund(s) from (residential) properties situated in the territory of Hungary. The Company intends to manage private and public real estate funds investing into properties.

#### 2.4.1.14 **MyCity Residential Development Kft. and its project companies**

Until the middle of March 2017, MyCity Residential Development Kft. (former name: Investment House Kft.) was a jointly controlled entity of Duna House Holding Nyrt. and Eldar Engineering (R.H.D.) Ltd., a company established in Israel, in which both partners had 50%-50% participation. In March 2017, the Company acquired the 50% ownership share of Eldar Engineering (R.H.D.) Ltd. for EUR 1,000,000, thus MyCity Residential Development Kft. became a subsidiary in exclusive ownership of the Company.

Under the terms of the contract, the total amount paid was EUR 2,200,200, of which EUR 1,000,00 was the acquisition price of the business share, and EUR 1,200,00 was the acquisition price of the equity loan and interest claims against MyCity, resulting from prior investment activities by ELDAR Investment (H.L.A.) Ltd..

MyCity has four subsidiaries and one jointly controlled company. As a result of the transaction, DUNA HOUSE acquired controlling influence over Pusztakúti 12. Kft., Reviczky 6-10. Kft., Zsinór 39 Kft. and IH Project X Kft., while Hunor utca 24. Kft. became a jointly controlled company of DUNA HOUSE. The purpose of these project companies is to implement property development projects under construction at various locations in Budapest, as follows:

Pusztakúti 12 Kft. was registered by the Companies Court attached to the Budapest Metropolitan Court on 21 January 2016. The purpose of the project company is to construct and sell the 196-unit Forest-Hill residential park to be implemented in Csillaghegy, in Budapest's 3rd district. The progress and sale of the 148 units to be developed by Duna House in the second stage of the development project is according to the plan, as 50% of the apartments have been contracted and pre-sold. Completion deadline for the construction of the multi-house project is 30 September 2018.

Reviczky 6-10 Kft. project company was established on 20 January 2016 to construct and sell the 86-unit Reviczky Liget residential park situated in Budapest's 18th District, on the area bordered by Hengersor and Reviczky utca. The certificate of occupancy was issued for the condominium that was built in the scope of the project in the end of December 2017, and in the beginning of 2018, the transfer of possession of the apartments and the accounting of the income related to their sale was begun.

The purpose of Zsinór 39 Projekt Kft. was to construct and sell a 43-unit residential property (Iris House) in Budapest's 13th District. Considering the optimal return on the project and economies of scale, on 23 January 2018, the Company decided to sell Zsinór 39 Projekt Kft.

Hunor utca 24 Kft. is a jointly controlled company of MyCity Residential Development Kft. with 50% participation. The purpose of this project company is to build a 105-unit residential park by the name of MyCity Residence in Budapest's 3rd District, on the area bordered by Hunor utca and Vörösvári út. The construction works related to the project begun in January 2018, when already 38% of the apartments were contracted and presold. Completion deadline for construction is 30 October 2019.

For the time being IH Project X Kft. does not perform any project implementation activity and its specific tasks will be defined in future. In December 2017, the Limited was taken out of MyCity Residential Development Kft. and became a direct subsidiary of Duna House Holding Nyrt.

Following the acquisition of controlling influence over MyCity, both MyCity and its project companies (with the exception of Hunor utca 24. Kft.) have been fully consolidated in the consolidated financial statements of DUNA HOUSE. As a result of full consolidation, significant amounts of stocks, as well as bank loans in connection with their financing are recognised. The guarantees securing these bank loans are non-recourse type, therefore their enforceability does not extend beyond MyCity and its project companies. An instalment of about HUF 829 million, which is a significant part of the bank loans in the consolidated balance sheet, was repaid on 27 February 2018, which was related to the in-progress delivery of Reviczky-liget.

2.4.1.15 **Metro House Franchise S.A.**

The Duna House Group entered the Polish market through the acquisition of Metro House Group in April 2016.

The holding company of Metro House Group is Metro House Franchise S.A, in which Duna House Holding Nyrt. acquired 100% participation in April 2016. The Metro House group operates its own and franchise office in large cities of Poland, including Warsaw, Krakow, Gdansk and Lodz. The offices are engaged in real estate brokerage services as well as intermediation of financial products, primarily mortgage loans.

In the subject year, Metro House Franchise S.A. had four 100% owned subsidiaries, which are the following:

Metrofinance Sp. z.o.o is engaged in financial product intermediation, MH Warszava Sp. z.o.o and MH Poludnie Sp. z.o.o companies operated their own offices in Central Warsaw and in

Krakow, in the South of Poland. MH Uslugi Wspólne S.A did not perform any operational activity in the course of the year.

In order to further enhance the efficiency of Polish operation, on 20 December 2017, MH Poludnie Sp. z o.o, MH Warszawa Sp z. o.o and MH Uslugi Wspolne S.A were merged, and the successor became Metrohouse S.A., which is a private corporation.

2.4.1.16 **Duna House Franchise s.r.o**

The Czech Duna House Franchise s.r.o established in Prague and two of its subsidiaries, Center Reality s.r.o and Duna House Hypotéky s.r.o were acquired by the Duna House Group on 2 September 2016. At the moment, Center Reality s.r.o operates an owned office, while the other two companies with registered offices in Prague did not pursue much operational activity in 2017.

In 2018, by way of the sale of franchise agreements and the involvement of new/further franchise partners, the scope activities of Duna House Franchise s.r.o. is expected to increase.

## 3. Property, plant and equipment

| data in thousand HUF | Property | Plant and equipment | Total |
|---|---|---|---|
| **Gross value** | | | |
| **At 31 December 2015** | **497,665** | **136,734** | **634,399** |
| Extended scope of consolidation | - | 11,714 | 11,714 |
| Growth and reclassification | 69,622 | 26,419 | 96,041 |
| Loss and reclassification | -131 | (29,847) | (29,978) |
| **At 31 December 2016** | **567,156** | **145,020** | **712,176** |
| Extended scope of consolidation | 0 | 0 | 0 |
| Growth and reclassification | 46,655 | 133,895 | 180,549 |
| Loss and reclassification | (141) | (56,711) | (56,852) |
| **At 31 December 2017** | **613,670** | **222,204** | **835,873** |
| **Accumulated depreciation** | | | |
| **At 31 December 2015** | **28,656** | **90,055** | **118,711** |
| Extended scope of consolidation | - | 2,987 | 2,987 |
| Annual description | 19,312 | 18,300 | 37,612 |
| Decrease | (131) | (20,242) | (20,373) |
| **At 31 December 2016** | **47,837** | **91,100** | **138,937** |
| Extended scope of consolidation | 0 | 0 | 0 |
| Annual description | 27,348 | 29,000 | 56,348 |
| Decrease | 0 | (5,978) | (5,978) |
| **At 31 December 2017** | **75,185** | **114,122** | **189,307** |
| **Net book value:** | | | |
| **At 31 December 2015** | **469,009** | **46,679** | **515,688** |
| **At 31 December 2016** | **519,319** | **53,920** | **573,239** |
| **At 31 December 2017** | **538,484** | **108,082** | **646,566** |

## 4. Investment properties

| data in thousand HUF | Total |
|---|---|
| **Book value** | |
| **At 31 December 2015** | **1,323,536** |
| Growth and reclassification | 492,922 |
| Changes in fair value | 188,031 |
| Loss and reclassification | (1,065,127) |
| **At 31 December 2016** | **939,362** |
| Extended scope of consolidation | 192,551 |
| Growth and reclassification | 72,431 |
| Changes in fair value | 53,320 |
| Loss and reclassification | (196,051) |
| **At 31 December 2017** | **1,061,613** |

| | |
|---|---|
| **Book value** | |
| **At 31 December 2015** | **1,323,536** |
| **At 31 December 2016** | **939,362** |
| **At 31 December 2017** | **1.168.613** |

A large number of investment properties were sold in Q3 2016. The reduction of the investment property portfolio and the utilisation of the released financial resources elsewhere were related to the management's shifting focus to real estate development implemented within MyCity.

In the 2017 business year the investment property portfolio grew partly on account of the acquisition of the MyCity group, as a result of which, the scope of consolidation grew, and to a smaller part, due to direct purchase. The reason for the decrease was the reclassification of the development land of Zsinór utca 39. Kft. held for sale into qualifying assets.

## 5. Intangible assets

| data in thousand HUF | **Total** |
|---|---|
| **Gross value** | |
| **At 31 December 2015** | **227,268** |
| Extended scope of consolidation | 49,453 |
| Growth and reclassification | 19,770 |
| Loss and reclassification | (1,321) |
| **At 31 December 2016** | **295,170** |
| Extended scope of consolidation | 0 |
| Growth and reclassification | 28,589 |
| Loss and reclassification | 0 |
| **At 31 December 2017** | **323,759** |
| **Accumulated depreciation** | |
| **At 31 December 2015** | **174,603** |
| Extended scope of consolidation | 15,816 |
| Annual depreciation description | 21,380 |
| Decrease | (1,321) |
| **At 31 December 2016** | **210,478** |
| Expansion of the scope of consolidation | 0 |
| Annual depreciation description | 30,624 |
| Decrease | 0 |
| **At 31 December 2017** | **241,103** |
| **Net book value:** | |
| **At 31 December 2015** | **52,665** |
| **At 31 December 2016** | **84,692** |
| **At 31 December 2017** | **82,656** |

## 6. Goodwill

| **Company Name** | **31 December 2017** | **31 December 2016** |
|---|---:|---:|
| Metrohouse Franchise S.A. | 592,367 | 592,367 |
| MH Usługi Wspólne S.A. | 191,334 | 191,334 |
| Center Reality s.r.o. | 167,601 | 167,601 |
| MH Południe Sp. z.o.o | 24,656 | 24,656 |
| Home Management Kft. | 18,500 | 18,500 |
| Duna House Franchise s.r.o. | 10,421 | 10,421 |
| Conversion difference on balance sheet date | 44,057 | (12,790) |
| **Total goodwill** | **1,048,936** | **992,089** |

The management of the Company performed the test of the stability of the value of the goodwill entered in the consolidated balance sheet under the acquired subsidiaries. On the basis of the profit generating capacity of the companies in question, there is no element that would require the recognition of any impairment on goodwill. The goodwill generated during the acquisition of foreign subsidiaries is converted at the exchange rate prevailing on the balance sheet date, pursuant to IAS 21.47.

## 7. Investments in associated companies and joint ventures

The investment in associated and jointly controlled companies represent the shares in MyCity Residential Development Kft and its project companies, the value of which decreased by the end of the first quarter by HUF 20,531 thousand. Subsequent to the acquisition of the MyCity Group, this row represents the value of the 50% share in Hunor utca 24. Kft., which between 1 April 2017 and 31 December 2017 increased by HUF 105,577 thousand. Appreciation was due to the price increase of the development land in the Company. In the entirety of the year – with regard to consolidation eliminations too, we realized a profit of HUF 81,456 thousand during the activity of these businesses. The below table shows the change of the value of investments in the associated businesses during the year, in thousand HUF.

<table>
<tr><th>Date</th><th>Text</th><th>MyCity Residential Dev. Kft.</th><th>Reviczky 6.-10. Kft.</th><th>Pusztakúti 12. Kft.</th><th>Zsinór 39. Kft.</th><th>IH Projekt X Kft.</th><th>Hunor u. 24. Kft.</th><th>Total</th></tr>
<tr><td>01.01.2017</td><td>opening balance</td><td colspan="6">506,273</td><td>506,273</td></tr>
<tr><td>31.03.2017</td><td>share from profit/loss</td><td colspan="6">-20,531</td><td>-20,531</td></tr>
<tr><td>31.03.2017</td><td>effect of acquisition</td><td colspan="5">-485,742</td><td>+100,591</td><td>-385,151</td></tr>
<tr><td>30.06.2017</td><td>share from profit/loss</td><td colspan="5" rowspan="2"></td><td>+111,581</td><td>+111,581</td></tr>
<tr><td>30.09.2017</td><td>share from</td><td>-4,763</td><td>-4,763</td></tr>
</table>

| | | | | |
|---|---|---|---|---|
| | profit/loss | - | | |
| 31.12.2017 | share from profit/loss | | -1,400 | -1,400 |
| **31.12.2017** | **Closing balance** | | **206,009** | **206,009** |

## 8. Financial assets

The Company's financial assets were as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Opusse 138.000 bonds | 36,660 | 29,158 |
| Deposit, security deposit | 32,949 | 30,508 |
| **Total** | **69,609** | **59,666** |

*PEMAK: Premium Euro Hungarian Government bonds

## 9. Deferred tax receivables

In the course of calculation of deferred tax the Group compares the values that can be taken into account for taxation to the book values, by asset and by liability. If the difference is a temporary difference, i.e. it will be offset within a foreseeable time, then it will take a deferred tax liability or asset, depending on the amount. When an asset is recorded, the Group examines recovery separately.

The Group calculates the deferred tax incurred in relation to Hungarian activities at 9% tax rate, since the actual tax impact of the temporary differences relating to the particular assets and liabilities will occur in a period when the corporate profit tax rate is likely to be 9%. 19% tax rate is applied to operations in both Hungary and the Czech Republic, except for Metrohouse Franchise S.A, which is entitled to a tax rate of 15%.

The assets are supported by a tax strategy prepared by the management, which proves that the asset can be recovered.

The following deductible and taxable discrepancies causing taxable tax differences were identified. The table shows the amount of the deferred tax asset, which remains after netting by the deferred tax liability on the level of consolidated subsidiaries.

| **Basis of deferred tax receivables** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Losses carried forward | 131,576 | 102,862 |
| Impairment on trade receivables | 19,258 | 55,967 |
| Due to cash-based taxing | 9,711 | 0 |
| Real estate, machines and equipment | (223) | 0 |
| **Total deferred tax receivables** | **160,322** | **158,829** |

In the end of this reporting period, on 20 December 2017, the three subsidiaries of the Polish Metrohouse Franchise S.A., MH Uslugi Wspólne Sp. z.o.o, MH Południe Sp. z.o.o and Warszawa Sp. z o.o. merged, and the successor company is called Metrohouse S.A. Subsequent to the merge, the maximum amounts of the negative tax bases accrued with regard to the Polish operation and usable against future positive tax bases is as follows.

| Year of utilisation | Maximum disposable negative tax base amount | | | | |
|---|---|---|---|---|---|
| | Metrohouse Franchise S.A. PLN | Metrohouse S.A. PLN | Total PLN | Total thousand HUF [informative data] | % related to years |
| 2018 | 60,000 | 782,728 | 842,728 | 62,657 | 17% |
| 2019 | 124,549 | 872,728 | 997,277 | 74,148 | 20% |
| 2020 | 214,618 | 946,828 | 1,161,446 | 86,354 | 24% |
| 2021 | 279,166 | 908,215 | 1,187,381 | 88,282 | 24% |
| 2022 | 90,069 | 636,732 | 726,801 | 54,038 | 15% |
| **Total** | **768.402** | **4.147.233** | **4.915.635** | **365.479** | **100%** |

Among the Czech companies a significant deferred tax asset (HUF 33,617 thousand) was recognised in the case of Center Reality s.r.o and Duna House Franchise s.r.o., which is the result of the approximately CZK 11,8 million carried forward negative tax base of Center Reality s.r.o and Duna House Franchise s.r.o. Pursuant to Czech corporate tax law the negative tax basis of the various financial years may be used for five years.

## 10. Inventories

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Property development projects under construction | 3,384,090 | 0 |
| Marketing tools | 14,923 | 11,616 |
| **Total** | **3,399,013** | **11,616** |

The significant increase recognised under Inventories can be explained by the full consolidation of the MyCity group as of 1 April 2017, and the inclusion of the cost of residential properties under construction by MyCity project companies. The difference between the balance sheet value of these inventories on 1 April and 31 December (HUF 1,434,112 thousand) is recognised in the Profit and Loss Account under 'Variations of stocks of finished goods'.

The value indicated as the inventory of in-progress property development projects (including land and building) was guaranteed by Takarékbank Zrt. with a sale and mortgage prohibition of HUF 4,996,493 thousand. The mortgage was entered in the land registry on 31 December 2017

## 11. Trade receivables

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Trade receivables | 622,910 | 398,470 |
| Impairment on trade receivables | (140,663) | (112,265) |
| **Total** | **482,247** | **286,205** |

Impairment on trade receivables is typically related to receivables from franchise partners, who are at least 180 days late with their payment.

## 12. Receivables from affiliated companies

Receivables from affiliated companies include the following:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Loan receivables from Hunor utca 24. Kft. | 137,808 | 0 |
| Advances paid to Hunor utca 24. Kft. | 5,112 | 0 |
| MyCity Residential Development Kft. | 0 | 362,300 |
| Pusztakúti 12. Kft. | 0 | 9,070 |
| Reviczky 6-10. Kft. | 0 | 2,447 |
| Zsinór 39 Projekt Kft. | 0 | 1,496 |
| Other | 3,179 | 3,396 |
| **Total** | **146,099** | **378,709** |

Receivables from affiliated companies consist mostly of loan and related interest receivables due from Hunor utca 24. Kft, a jointly controlled entity of the Company, as at 31 December 2017. Receivables from MyCity Residential Development Kft. and its subsidiaries recognised at 31 December 2016 have been consolidated due to the acquisition of MyCity Residential Development Kft. at the end of the first quarter of 2017 and are not recognised in the consolidated balance sheet closing this reporting period.

## 13. Other receivables

Other receivables comprise the following items:

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Advances paid | 64,047 | 5,228 |
| Caution money | 39,730 | 0 |
| Other receivables (tax) | 31,888 | 16,276 |
| Deposit provided | 15,720 | 10,803 |
| Other receivables | 14,150 | 0 |
| Duty receivable from lawsuits | 5,731 | 4,009 |
| Short term loans | 5,500 | 6,000 |
| Assigned receivables | 0 | 1,473 |
| Rent deposited with lawyers | 0 | 9,832 |
| **Total** | **176,766** | **53,648** |

Advances and caution money are mostly the advance amounts and deposit amounts paid to suppliers related to in-progress residential property development projects, and partly the caution money given to lessers of motor vehicles.

## 14. Prepayments and deferred income

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Trail commission | 280,817 | 188,040 |
| Prepaid revenues | 31,333 | 93,834 |
| Prepaid expenses | 4.296 | 39,870 |
| **Total** | **316,446** | **321,744** |

The trail commission is the maintenance commission of long-term mediated loans. Although the settlement principles are slightly different by financial partner, in general it may be stated that the purpose of this type of commission is to make sure that the amount of the accountable intermediary commission is proportionate to the actual tenor of the mediated financial product.

The factors affecting the amount of commission include the type of the mediated product and its tenor, the delay in the prepayment of the respective borrower and the continuation rate of the total active mediated loan portfolio.
The estimated commission revenues are recognised in the period of the transaction of the loan intermediation based on the empirical figures of the former years, gradually integrating the actual data into the calculation model.

During the business year, the model used for the estimation of trail commissions was reviewed. The amount of receivables estimated and calculated using the model that takes into consideration the reviewed and specified parameters, was compared with the data provided by the partner banks. As the result of the review, in this business year, we recorded surplus commissions of HUF 80 million. In accordance with IAS8, no retrospective amendment was made.

## 15. Cash and equivalents

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Bank account – no limitations applied | 482,552 | 1,452,079 |
| Bank account – limitations applied | 942,758 | 130,000 |
| Cash in hand | 3,190 | 1,607 |
| **Total** | **1,428,500** | **1,583,686** |

Within the consolidated bank account, the almost HUF 943 million can only be used with the below limitations.

| Limitations applied | | Type of limitation |
|---|---|---|
| Company in the consolidation | bank account balance | |
| | | |
| Reviczky 6.-10. kft. | 371,841 thousand HUF | With regard to the financing of Reviczky-Liget, and Forest Hill residential developments, the payment guarantees for the loans taken from Takarékbank Zrt, which mean the buyer's deposits, advances and purchase prices from the sale of the residential properties placed on the blocked bank account, and can only be used for the repayment of the above loans. Prepayment can only be made with regard to both loans, if Takarékbank Zrt. is notified at least three business days prior to such repayment. |
| Pusztakúti 12. kft. | 440,917 thousand HUF | |
| Impact Asset Management Zrt. | 95,000 thousand HUF | In accordance with Section 16, Paragraphs (3) and (7) of Act XVI of 2014 collective investment forms and its managers and on the amendment of financial regulations, in order to maintain the continuity of operability and the protection of investors, Impact Asset Management Zrt. shall at all times have enough equity that provides guarantee for the risk performed by the same, which need to be invested in liquid assets, or assets, which can immediately be cashed. |
| Duna House Holding Nyrt. | 35,000 thousand HUF | The amount financing the Metrohouse acquisition, used to secure the loan taken from Raiffeisen bank, on a separate and blocked account. |
| **Total:** | **942,758 thousand HUF** | |

Until the approval of these financial statements:

- The blocked bank account balance of Reviczky 6.-10. Kft was fully used for the repayment of the abovementioned loan.
- From the balance blocked for the repayment of the loan financing the acquisition of Metrohouse by Duna House Holding Nyrt. HUF 3.300 thousand was unlocked as a result of a bank review.

From 7 December 2017, the Group has been operating the bank accounts related to its Hungarian operational functions in a so-called cash pool system, which makes possible an automated internal group financing. The cash pool system is based on a general current account credit line of HUF 100 million, which is appropriate for daily operation, in order to ensure the excess financing of any temporary need. No amount was used from the credit line by the end of the reporting period.

## 16. Qualifying assets held for sale and liabilities directly related thereto

The balance indicated on this row means the book value of assets and liabilities in the sales group of Zsinór 39 Projekt Kft. The purpose of the project was the construction and sale of a residential property of 43 apartments, located in district XIII of Budapest (Irisz Ház). Taking into account the optimal return of the project and economies of scale, the Company decided to sell the project.

Accordingly, the direct owner of the project company, MyCity Residential Development Kft. made a sale and purchase agreement on 23 January 2018 with Zsinór 39 Projekt Kft., owned by the same on the sale of 100% of its business share and the equity loan with regard to the project company. The book value of the internal funds of Zsinór 39 Projekt Kft in accordance with IFRS was HUF 48,429.8 thousand on 31 December 2017, and the amount of equity loan to My City was HUF 151,633.8 thousand. In accordance with the sale and purchase agreement, the purchase price of the 100% of the business share was HUF 104,772.6 thousand, and the countervalue of the transfer of equity loan was HUF145,227.4 thousand, which are to be paid by the buyers in several instalments until 30 June 2018. The transaction will be completed upon the final payment of the purchase price and the equity loan.

Details of the assets of Zsinór 39 Projekt Kft held for sale and the liabilities directly related thereto are as follows:

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Development land | 196,051 | 0 |
| Prepayments and deferred income | 92 | 0 |
| **Total qualifying assets held for sale:** | **196,143** | **0** |

| | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Deferred tax liabilities | 5,426 | 0 |
| Accruals and deferred income | 55 | |
| **Total liabilities directly related to qualifying assets held for sale:** | **5,481** | **0** |

As the value of assets held for sale and the directly related liabilities decreased by sales costs is more than the book value on the balance sheet date, in line with the requirements of IFRS 5.15, they are indicated at book value in the consolidated balance sheet.

## 17. Subscribed capital and profit reserve

On 16 September 2016, the General Meeting of the Company authorized the Board of Directors to implement a capital increase of up to HUF 1,500,000,000, in the context of the public offering of Company shares in October the same year. Referring to a procedural error, by its decision of 10 December 2016 the Companies Court rejected the registration of a capital increase of HUF 18,939,350 that the Company had requested following the public offering.

At an extraordinary General Meeting held on 5 January 2017, the Company's shareholders made a substantively identical, repeated decision on the increase of the registered capital. The Companies Court registered the capital increase by order No. Cg.01-10-048384/50 dated 1 February 2017.

The Company's share capital is HUF 171,989 thousand, which consists of 3,438,787 dematerialised ordinary shares of HUF 50 face value each and 1,000 employee shares of HUF 50 face value each conferring preferential dividend rights.

A right of preferential dividend is associated with the employee shares issued by the Company. If the general meeting orders dividend payment for a particular year, the employee shares with preferential dividend give a right to dividend prior to the ordinary shares in the amount of 6% of the profit after tax stated in the consolidated annual report prepared according to IFRS (adjusted with the impact of the valuation of investment properties and the revaluation of participations involved in the consolidation with the equity method).

Employee shares carry no rights to dividends other than as specified above. In particular, the employee shares do not entitle their holders to dividends in excess of the above amount, or entitle their holders to dividends if, for the financial year concerned, the profit after tax according to the consolidated annual financial statement drawn up on the basis of IFRS is negative.
The right to preferential dividend associated with employee shares is not cumulative, and the Board of Directors decides on the date of payment of dividends.

The maximum payable dividend for preferential shares was taken into account during the EPS calculation.

At the annual general meeting of the Company on 20 April 2017, dividends in the amount of HUF 479,260 thousand were approved. In accordance with the above, an equivalent of 6% of the consolidated profit after tax, adjusted with the profit arising from the revaluation of investment properties in 2016 (HUF 32,217 thousand) and the revaluation of participations involved in the consolidation with the equity method, is due to the preferential shareholders, while dividends of HUF 447,043 thousand are to be paid to ordinary shareholders.

The dividends for ordinary shares were paid in a single payment on 19 June 2017. The payment of dividends for preferential employee shares is made quarterly, in four equal instalments, the first of which was paid on 30 June 2017.

## 18. Exchange reserve

With the inclusion of the foreign subsidiaries of the Duna House Group in the consolidation, the year-end balance of the conversion reserve (HUF 27,518 thousand) equals the amount of the conversion difference recognised in compliance with the IAS 21 standard.

## 19. Non-controlling shares

This balance sheet row includes 20% of the registered capital of the Czech Republic-based Duna House Franchise s.r.o and the equity of the minority shareholders holding 1% of Duna House Hypotéky s.r.o. The balance also contains the conversion difference allocated to minority shareholders in relation to the operation of those Czech companies.

## 20. Long-term loans

| | **31 December 2017** | **31 December 2016** |
|---|---:|---:|
| Pusztakúti út 12. Kft. (Takarékbank) | 865,099 | 0 |
| DHH: Raiffeisen loan (Metrohouse) | 301,124 | 421,574 |
| GDDC: Raiffeisen loan (FHB loan) | 65,963 | 89,963 |
| HLC: Raiffeisen loan 2 | 39,476 | 71,127 |
| **Total** | **1,271,662** | **582,664** |

***Pusztakúti 12. Kft.: Takarékbank***

On 19 July 2017, Pusztakúti 12. Kft. made a loan agreement – of HUF 4,000,000 thousand - with Takarékbank Zrt. with regard to the construction of the current phase of Forest Hill residential development. The repayment of the amounts taken from the credit line is due in one sum, at the end of the period, on 31 December 2019. Prepayment is also possible.

| The repayment schedule of the Takarékbank loan is as follows: | **Repayment schedule** |
|---|---:|
| 2019 | 865,099 |
| **Total** | **865,099** |

***DHH: Raiffeisen loan (Metrohouse)***

On 20 April 2016 the Company entered into a loan agreement with Raiffeisen Bank for HUF 720,000 thousand in order to finance the entry into the market in Poland and, more specifically, the PLN 3,700,000 capital increase at the acquired Metrohouse Franchise S.A.
The loan agreement was also signed by GDD Commercial Kft., Superior Real Estate Kft., Duna House Franchise Szolgáltató Kft., Hitelcentrum Szolgáltató Kft., Reif 2000 Ingatlanforgalmazó és Tanácsadó Kft, Home Management Ingatlanforgalmazó és Szolgáltató Kft. and Home Line Center Ingatlanforgalmazó és Szolgáltató Kft. as joint and several co-debtors.

The loan matures on 30 March 2021 and is repaid in quarterly equal instalments.

Additional loan conditions stipulate that as long as the loan agreement is in effect, Duna House Holding Nyrt. and the co-debtors undertake to have at least 1.3 debt service coverage ratio to secure the loan agreement.

The debt service coverage ratio compares the balance of EBITDA, less the investments in fixed assets, the corporate tax liabilities and the loans to shareholders in the current year and increased by the amount of loans received from shareholders (numerator) to the annual debt service (denominator).

Repayment schedule[1] of the Raiffeisen (Metrohouse) loan:

| | **Repayment schedule** |
|---|---|
| 2018 | 120,450 |
| 2019 | 120,450 |
| 2020 | 120,450 |
| 2021 | 60,225 |
| **Total** | **421,575** |

***GDDC: Raiffeisen loan (FHB loan)***

The former FHB loan is the liability of GDD Commercial Kft., which was involved in the consolidation of 2014 and which was refinanced in June 2015. The new financing bank is Raiffeisen Bank Zrt, which provided a HUF 150,000 thousand line for the loan. The loan matures on 17 August 2021 with quarterly capital and interest payment obligations. 2.5% interest is charged on the loan.

| Repayment schedule of the Raiffeisen (former FHB) loan: | **Repayment schedule** |
|---|---|
| 2018 | 24,000 |
| 2019 | 24,000 |
| 2020 | 24,000 |
| 2021 | 17,963 |
| **Total** | **89,963** |

[1] The repayment schedules also contain the short-term portion of the particular loan.

***HLC: Raiffeisen loan 2***

On 2 June 2015 the Group signed a facility agreement with Raiffeisen Bank Zrt. for HUF 1,000,000 thousand (Raiffeisen loan 2). As a condition of the contract the Group agreed to make Raiffeisen the exclusive account managing bank and to have a mortgage registered on its properties for the bank.

The loan matures on 25 February 2022. The loan is repaid in quarterly equal instalments.

Among the other conditions the Group undertook that, during the period of existence of the loan:

- the aggregated debt less financial assets/EBITDA will not be higher than 2.0
- the total amount of financing to associated companies (outside the Group) cannot exceed 35% of the equity of the Group, and that financing cannot exceed HUF 100,000 thousand a year, and
- the consolidated equity will not drop below HUF 600,000 thousand, and
- during any 12-month period after the entry into force of the loan agreement dividend can be approved over 50% of the IFRS consolidated profit after tax only with the bank's prior written consent providing that the equity/balance sheet total ratio is less than 25% even after the payment of the planned dividend.

The loans are secured by a mortgage registered on the financed properties.

| Home Line Center Kft. (HLC) repayment schedule: | **Repayment schedule** |
|---|---|
| 2018 | 31,652 |
| 2019 | 26,031 |
| 2020 | 13,444 |
| **Total** | **71,127** |

## 21. Deferred tax liabilities

| **Basis of deferred tax liabilities** | **31 December 2017** | **31 December 2016** |
|---|---|---|
| Due to the difference in the valuation of fixed assets and investment properties | 115,491 | 70,005 |
| Due to the recognition of trail commission | 24,428 | 16,552 |
| Losses carried forward | (11,069) | 0 |
| Due to consolidation eliminations and accounting | 14,710 | 0 |
| Due to cash based taxing | 960 | 0 |
| Impairment of trade receivables | (433) | 0 |
| **Total** | **144,087** | **86,557** |

Deferred tax receivables and tax liabilities are netted on subsidiary level. The significant increase of deferred tax liabilities is predominantly the result of acquisition effects, and stems from the difference in the value of inventories and investment properties recognised in the project companies of the MyCity group according to the IFRS on the one hand and the Act on Corporate Tax and Dividend Tax (Tao. tv.) on the other hand. Within the HUF 144,087 thousand balance a HUF 24,428 thousand deferred tax liability is the result of the difference between the Hungarian legal requirements and the international accounting standards in the recognition of the trail commission realised by the financial product brokerage segment.

## 22. Other long-term liabilities

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Leases | 0 | 10,629 |
| **Total** | **0** | **10,629** |

The Company leased a number of company cars under open-end financial lease agreement. These lease agreements were terminated and repaid prior to their lapse, before or short after the end of the reporting period, thus by the end of the reporting period, there was no other long-term liability.

## 23. Short-term loans and borrowings

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Reviczky 6-10. Kft. | 770,647 | 0 |
| DHH: Raiffeisen loan (Metrohouse) | 120,450 | 120,450 |
| MCR: Raiffeisen loan | 50,000 | 0 |
| HLC: Raiffeisen loan 2 | 31,652 | 54,380 |
| GDDC: Raiffeisen loan (FHB loan) | 24,000 | 24,000 |
| **Total** | **996,748** | **198,830** |

The most important reason for the increase in the short-term loans is the bank loan from Takarékbank Zrt recognised in the balance sheet of Reviczky 6-10 Kft., which became a member of the Company Group by the acquisition of the MyCity group. The bank loan was related to the implementation of Reviczky-liget, a project under construction in the 18th district of Budapest, which is being delivered. This bank loan was fully repaid on 27 February 2018.

***MyCity Residential Development Kft.: MCR: Raiffeisen loan***
In June 2016 MyCity Residential Development Kft. (formerly known as Investment House Kft.), a previously jointly controlled company, entered into a HUF 300,000 thousand current facilities loan agreement with Raiffeisen Bank. The repayment of the loan was due in one amount at the end of the period, on 31 December 2018. MyCity Residential Development Kft has been the subsidiary of the Company from 31 March 2017, and a balance of HUF 50,000 thousand is indicated in the consolidated balance sheet, which is the amount remaining from the HUF 300.000 thousand after repayment. Until these financial statements are approved, this loan was fully repaid – which is connected to the sale of Zsinór 39. Projekt Kft.

## 24. Trade payables

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Suppliers | 388,240 | 68,975 |
| **Total** | **388,240** | **68,975** |

The increase in the trade payables relates mostly to the addition to the Group of the MyCity companies, the liabilities of which amounted to HUF 175,222 thousand at the end of the reporting period.

## 25. Liabilities to affiliated companies

The amount of liabilities to affiliated companies is as follows:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Medasev Holding Kft. | 499,890 | 1,499,997 |
| GDD Ingatlan Kft. | 63,003 | 203,355 |
| Bitkover Kft. | 10,827 | 15,513 |
| Prescribed employee dividend | 8,054 | 22,015 |
| **Total** | **581,775** | **1,740,880** |

At the end of 2016 Medasev Holding Kft. provided almost HUF 1,500 million to the Company for the purposes of a capital increase, which took place in February 2017. The balance at 31 December 2017 equals the amount loaned by Medasev Holding Kft. in the second half of the first six months.

## 26. Other liabilities

Other liabilities contain the following:

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Advances and deposits from customers, offer guarantees | 837,789 | 3,974 |
| Settlement account of home owners | 93,497 | 90,513 |
| Tax liability | 90,855 | 72,799 |
| Settlement account of lessees | 77,245 | 73,360 |
| Liabilities from remuneration | 17,061 | 12,973 |
| Other | 11,833 | 1,071 |
| Received caution money | 9,206 | 5,488 |
| Short term portion of lease repayments | 3,396 | 4,124 |
| **Total** | **1,140,882** | **264,302** |

The significant increase in other liabilities is due to deposits and advances from customers in relation with ongoing property development projects by MyCity project companies.

Funds due to the owners of the homes managed by the Company at Home Management Kft. (e.g., collected rent, “buffer” amounts deposited by the owners) are recorded on the settlement account of home owners.

The received caution money row contains the amounts paid by lessees as deposit for renting the properties involved in real estate management.

The Company pays special attention to the management of the guarantees and deposits recognised among other liabilities and to be settled with owners and lessees. In order to make sure that the amounts can be repaid upon maturity, or when requested or in the case of termination, the respective amounts are either kept on bank accounts and/or invested in securities within the subsidiary. The estimated value of the amounts immediately repayable is available on the bank account of the subsidiary at all times.

## 27. Accruals and deferred income

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Deferred income | 311,902 | 270,551 |
| Accrued costs and charges | 69,208 | 203,278 |
| Support received | 7,026 | 10,513 |
| **Total** | **388,136** | **484,342** |

The Company recognises the proceeds from the sale of franchise rights (in general for 5 years) as revenue in a pro rata basis. In order to do that, it creates an accrual, which is shown in the accrued revenues row.

## 28. Sales revenues

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Revenue from brokerage of loan products and building society savings products | 1,853,700 | 1,391,163 |
| Revenue from real estate brokerage | 1,412,440 | 1,037,045 |
| Franchise fees | 911,374 | 776,805 |
| Property management revenues | 112,946 | 113,817 |
| Appraisal revenue | 77,868 | 72,572 |
| Re-invoiced amounts (rent, utility expenses, etc.) | 53,573 | 51,545 |
| Revenue from trainings, seminars | 49,520 | 48,393 |
| Rent revenue | 48,967 | 47,958 |
| Other revenues (compensation, penalties, etc.) | 42,832 | 47,159 |
| Revenue from energy certificate brokerage | 37,267 | 45,395 |
| Revenue from fund management and success fee | 56,600 | 18,998 |
| Revenue from insurance brokerage | 20,305 | 18,437 |
| Revenue from sale support | 3,902 | 18,609 |
| Revenue from real estate sale | 3,550 | 1,096,588 |
| **Total Sum** | **4,684,844** | **4,784,484** |

Consolidated revenue compared to the comparative period decreased by about HUF 100 million, however this decrease is made up of a “core” increase of performance (+1 billion HUF) and the missing of tax revenue (-1.1 billion HUF) coming from a single property portfolio restructuring in the previous year. When comparing the two business years, acquisition effect has to be considered. As in the reporting period only one property was sold, which was not significant, in the row of “Revenue from the sale of property” HUF 3,550 thousand is indicated.

**Revenue from brokerage of loan products and building society savings products:** This row includes the brokerage fees of Hungarian and Polish banking products (primarily retail mortgage loans). Apart from the members of the franchise network the cooperating partners are also increasing the number of sales points.

**Revenues from real estate brokerage:** The DH group operated a large number of real estate brokerage offices within the Duna House, Metrohouse and Smart networks. The commission revenues from the sale and purchase, lease and brokerage of real properties are realised in these offices. The commission rate reflects the type, value and position of the real property as well as the level of the service included in the contracts. Pursuant to the franchise operational concept it is the primary source of revenue of the real estate offices operated by the Group.

**Franchise fees include the below fee types:**
*Revenues from franchise and service fees:*
The monthly fee paid by the franchise partners of Duna House, Metrohouse and Smart network. The rate is regulated consistently for all partners. The terms and conditions ate laid down in long-term contracts (typically concluded or 5 years). The franchise fee is a kind of royalty, paid in consideration for the use of brands and now-how, possessed and built and by the DH Group. The service fee covers the equipment and functions required for the smooth operation of the network (IT and CRM system, complaint handling, regulation and inspection, etc.)

*Marketing fee revenue:*
This monthly, regular revenue type finances the marketing activity of the network. The rate is consistently regulated for all partners. The marketing revenues fund the implementation of the marketing strategy, market research and related regular analyses and group level appearance advertisements and campaigns.

*Joining and extension fee revenues:* It is a single fee payable in the case of the sale of a new or existing area or extension of a maturing area, which is a pre-requisite of joining of franchise partners to the network and is accrued in the books.

**Property management revenues:** This is revenue from the services related to the management of real property. Long-term contracts define it in the form of a monthly flat rate. The commission from lease as an ad hoc revenue is also part of this revenue group.

**Revenue from energy certificate brokerage:** It is a statutory obligation that properties for sale must have a valid energy certificate. This is revenue from the sale of such service.

**Appraisal revenue:** The revenue from the service operating at the level of a separate unit within the group is recognised there. The majority of the customers are credit institutions, to which the majority of the sales revenues relate.

**Re-invoiced amounts (rent, utility expenses, etc.):** This revenue category contains the cost of goods and services purchased by DH centrally and then re-invoiced to the franchise partners and subsidiaries (e.g., leased properties, marketing tools, PR events, other functions, etc.).

**Rent revenue:**
The group purchases, leases and sells properties for investment purposes.

**Revenues from the sale of real properties:** Revenue from the sale of property in the real estate portfolio of the real estate investment segment is recognised on this line.

**Revenue from fund management**: includes the sum of the fund management fee and fund management success fee due to Impact Alapkezelő Zrt.-t for the management of Duna House Magyar Lakás Ingatlanalap.

## 29. Other operating revenues

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Revaluation of investment properties | 54,280 | 188,032 |
| Reversal of impairment on receivables | 46,362 | 42,979 |
| Support received | 13,399 | 3,420 |
| Revenues from penalties, revenues from lawsuits | 9,513 | 25,210 |
| Postpaid revenue from sale | 5,064 | 0 |
| Proceeds from the sale of tangible assets | 3,336 | 2,663 |
| Insured events | 1,497 | 511 |
| Other revenues | 1,329 | 0 |
| Different tax refunds, others | 0 | 7,499 |
| Release of provisions prior to acquisition | 0 | 4,396 |
| Revenues from re-invoiced expenses | 0 | 4,380 |
| **Total** | **134,780** | **279,090** |

Due to the reduction of the investment property portfolio, this year the profits realised by the appreciation of such remaining properties was HUF 54,280 thousand, as opposed to HUF 188,032 thousand.

In the line of support received, we indicate amongst others, the value of the marketing campaign executed and financed this year from the tax offered in last year’s corporate tax return for the support of show team sports, as well as the actually credited on the tax current account of the companies in the Group, which total at HUF 9,574 thousand.

## 30. Material expenses

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Utility fees and charges | 30,209 | 31,454 |
| Office supplies | 12,089 | 11,871 |
| Maintenance expenses | 15,705 | 10,999 |
| Fuel | 5,282 | 3,738 |
| **Total** | **63,285** | **58,063** |

## 31. Goods and services sold

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Cost of brokerage of financial products | 607,805 | 513,168 |
| Direct cost of real estate agency | 169,826 | 144,890 |
| Other re-invoicing (e.g. sales support, utilities, marketing) | 96,088 | 84,023 |
| Valuation fees | 31,532 | 36,505 |
| Energy certificate fees | 3,695 | 3,321 |
| Direct cost of the sale of real properties | 0 | 1,065,127 |
| **Total** | **908,946** | **1,847,035** |

The reduction in direct costs of the sale of properties is explained by the fact that in the reporting period only one parking space was sold, which is registered as investment property, and the value of it was minor.

## 32. Services used

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| MyCity design and architecture costs | 1,382,103 | 0 |
| Direct cost of brokerage of real estate agency | 574,848 | 205,475 |
| Direct cost of financial products | 500,878 | 338,854 |
| Other professional services (IT development, sales support, marketing, etc.) | 431,234 | 391,542 |
| Rent, common expenses | 248,436 | 188,317 |
| Other services used (insurance, training, mail, photocopying, cleaning etc.) | 126,385 | 127,639 |
| Advertising, promotion | 103,128 | 147,519 |
| Professional service fees | 85,674 | 70,376 |
| Lawyer fees | 44,449 | 25,119 |
| Cost of IT operation | 28,777 | 16,442 |
| MyCity technical advice and control | 27,208 | 0 |
| Banking expenses | 26,807 | 17,498 |
| Telephone and communications expenses | 24,590 | 34,014 |

| | | |
|---|---|---|
| Duna House Magyar Lakásingatlan Alap distribution costs | 18,385 | 0 |
| Costs of stock exchange listings (BÉT, KELER) | 14,894 | 0 |
| Direct cost of energy certificates | 7,716 | 9,471 |
| Direct cost of valuation | 6,650 | 8,768 |
| IPO expert fees | 0 | 62,767 |
| Cost of the acquisition of the Metrohouse Group | 0 | 45,044 |
| MyCity start-up cost, setup fee | 0 | 6,701 |
| **Total Sum** | **3,652,162** | **1,695,546** |

The amount paid for services used more than doubled. In addition to the acquisition effects registered during a quarter in relation to the acquisition of Metrohouse, this is largely explained by the recognition of design and construction costs (HUF 1,382,103 thousand) as well as engineering consultancy and inspection costs (HUF 27,208 thousand) for the residential properties under construction within MyCity project companies. These costs, however, constitute the cost value of the projects and, taken together with the "variations of stocks of finished goods" line (HUF 1,434,112 thousand) in the profit and loss account, can be considered neutral in terms of operating result.

Within the services used, the commission fee of those employed in Poland through contracts for services ("civil contract") (HUF 133,767 thousand), and costs related to corporate management functions are recognized among "other professional services".

The costs related to the Company's stock market presence and the distribution costs of Duna House Magyar Lakóingatlan Alap investment units (a combined HUF 32,429 thousand for these two items) also resulted in a net increase of costs on the comparative period.

The absence of one-off costs registered in the 2016 business year, such as acquisition costs related to the Metrohouse purchase (HUF 45,044 thousand) and expert, legal and advisory fees in connection with the IPO (HUF 62,767 thousand), as well as the MyCity Residential Development setup fee, resulted in a total HUF 114 million 'saving' this year.

## 33. Staff costs

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Wage costs | 416,169 | 247,983 |
| Compulsory contributions[2] | 69,116 | 63,640 |
| Other personnel-type benefits | 87,128 | 101,247 |
| **Total** | **572,413** | **412,871** |
| Average statistical headcount | 99 | 91 |

[2] It contains the accounted wage contributions of employees employed in Poland on contracts of service ("civil contract"), while the contracts of service themselves are shown in the services used row.

The increase of the statistical average headcount of the Company's subsidiaries combined in comparison to the comparative period is explained by the expansion of the Hungarian operation to 84 people, as well as by the acquisitions carried out in the Czech Republic. Taking into account the number of hours staff are expected to spend at work, the average number of employees in subsidiaries in Poland increased to 14 from 6 in the comparative period. In the case of the Czech subsidiaries the employee headcount in 2017 was one. From the HUF 572,413 thousand balance of personnel related expenses, the share of the Polish and Czech subsidiaries amounted to HUF 97,065 thousand.

### 34. Other operating expenses

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Impairment on receivables | 63,224 | 14,642 |
| Writing off bad debt | 17,989 | 80,930 |
| Not profit taxes, recorded as different expenses | 16,960 | 13,495 |
| Cost of the sale of fixed assets | 2,278 | 0 |
| Transfer without compensation | 2,208 | 0 |
| Retention money | 1,087 | 0 |
| Revaluation of investment property | 960 | 0 |
| Penalties | 487 | 50,189 |
| Other | 1,013 | 10,374 |
| **Total** | **106,206** | **169,629** |

The HUF 63 million reduction in other operating expenses is essentially explained by the fact that the one-time GVH penalty, which was payable last year was not related to this reporting period. The increase in the amount of non-income based taxes had an opposite effect.

### 35. Revenues of financial transactions

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Badwill associated with acquisition of MyCity group | 136,235 | 56,272 |
| Exchange gain | 50,502 | 6,404 |
| Interest income | 5,395 | 22,709 |
| Revenue from purchasing of receivables | 3,256 | 0 |
| Profit from securities | 0 | 2,514 |
| **Total** | **195,388** | **87,902** |

For the reporting period, badwill related to acquisitions is connected to the acquisition of 50% participation in MyCity Residential Development Kft. The amount paid as purchase price for the 50% share is less than the corresponding net asset value.

The exchange gain row contains the realised/unrealised exchange rate difference related to the foreign currency credit receivables existing within the group that had been identified in the process of the debt consolidation of Duna House Holding Nyrt..

## 36. Expenses of financial transactions

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Interest paid | 45,142 | 53,872 |
| Exchange loss | 3,490 | 13,052 |
| **Total** | **48,632** | **66,924** |

## 37. Income tax expenses

Expenses relating to income taxes consist of the following items:

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Effective income tax - Corporation tax | 95,620 | 86,731 |
| Effective income tax - Local business tax | 48,856 | 47,607 |
| Deferred taxes | 28,592 | 26,689 |
| **Total** | **173,068** | **161,027** |

The corporate tax rate of group members based in Hungary is 9%, irrespective of the taxable amount in respect of corporate tax.

Reconciliation of income taxes indicated in the consolidated profit and loss account.

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Profit before taxation | 1,091,965 | 1,328,886 |
| Tax liability calculated on the basis of the current tax rate (9%) | 96,524 | 119,600 |
| Tax liability calculated on the basis of the current tax rate 19% | 3,700 | |
| Local business tax | 48,856 | 47,607 |
| Permanent differences | (23,988) | (6,180) |
| **Total income taxes** | **173,068** | **161,027** |

## 38. Earnings per share (EPS)

To calculate the basic earning from share the profit after tax, available for distribution to the shareholders must be taken into account and the annual average number of the issued ordinary shares, which does not contain the treasury shares.

| | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| After-tax profit that can be allocated to shareholders (thousand HUF) | 918,897 | 1,167,859 |
| Dividend that may be distributed to preferential shareholders | (47,791) | (32,217) |
| After-tax profit that can be allocated to ordinary shareholders (thousand HUF) | 871,106 | 1,135,642 |
| Weighted average number of issued ordinary shares (thousand) | 3,350 | 3,060 |
| **Earnings per share (basic) (HUF)** | **260** | **371** |

There were no factors at the Company, either in the 2017 or in 2016, which would have diluted the earnings per share ratio.

## 39. Segment-specific information

Strategic decisions for the operation of the Group are taken by the Board of Directors, therefore the management used the statements prepared for the Board in order to establish the segments in the course of the preparation of these financial statements.

Based on the activities of DH six segments can be distinguished:

(1) The franchise segment carries out the operation of the franchise system that runs under the Danube House and Smart Ingatlan brands. The Company is Hungary's largest residential real estate agency franchise network. The franchise segment also contains the figures of Metrohouse Franchise S.A. and MH Uslugi Wspólne S.A from among the Polish Metrohouse companies since April 2016. Due to the merge of MH Uslugi Wspólne S.A and MH Poludnie Sp. z o.o and MH Warszawa Sp. z o.o in the end of 2017, from 1st January 2018, the franchise segment will no longer include the numbers of MH Uslugi Wspólne S.A, which had not performed any operational activity before, because they will be presented as a part of own office segment From September 2016 the performance of the Czech Duna House Franchise s.r.o is also recognised in this segment.

(2) Own office operating segment: Through own offices operated under the Danube House and Smart Ingatlan brands, the Company owns one of the leading real estate agency network in Hungary. The own office segment also contains the figures of MH Poludnie Sp. z.o.o and MH Warszava Sp. z.o.o from the Polish Metrohouse companies since April 2016, which subsequent to the merger with MH Uslugi Wspólne S.A., operate under the name Metrohouse S.A. since 1 January 2018. From September 2016 the Czech Center Reality s.r.o has also belonged to this segment.

(3) Financial products brokerage segment: In line with the multiple agency contracts concluded with credit institutions and insurance companies, the Group offers a wide range of financial products to its customers. The performance of Metrofinance Sp. Z.o.o is reported in this segment as well. From September 2016 Duna House Hypotéky s.r.o has also belonged to this segment, but for now it does not pursue any operational activity.

(4) The segment of related services includes activities in connection with residential property management, energy efficiency certificates, and asset valuation. From the 2017 financial year the performance of Impact Asset Management Plc. is also recognised in this segment.

(5) Real estate investments segment: Taking advantage of its expertise in the real estate market, the Company made regular purchases of properties for investment purposes.

From H2 2016 as a result of the change in the management focus to real estate development at MyCity the majority of the investment real estate portfolio has been sold, which resulted in an increase in the sales revenues and direct costs shown in this segment.

To further strengthen its real estate developer activities, on 12 March 2017 DUNA HOUSE signed a contract with the Eldar Investments (H.L.A.) Ltd. in order to obtain an additional 50% business share of MyCity Residential Development Kft. (registered office: 1016 Budapest, Gellérthegy utca 17.; Cg.01-09-984485; hereinafter: “MyCity”). After the financial settlement of the contractual terms and conditions, DUNA HOUSE became a 100% owner of MyCity.

The profit/loss of real estate development projects implemented at MyCity are fully consolidated from the acquisition date and presented as part of the real estate investment segment.

(6) In the summary statement, the transactions within the segment were consolidated. The “Other and eliminations” column includes the effect of the central services and filters out the traffic between segments. As of the business year 2017 the performance of Impact Asset Management Zrt. is reported as part of the “Property related services” segment.

| **31 ecember 2017** (1 January 2017 – 31 December 2017) | **Franchise** | **Financial products brokerage** | **Operation of own office** | **Sale of related services** | **Property investments** | **Other and eliminations** | **Consolidated** |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| Intangible assets | 71 196 | 104 | 7 435 | 185 | 1 996 | 1 741 | 82 656 |
| Investment properties | 0 | 0 | 0 | 0 | 1 061 613 | 0 | 1 061 613 |
| Real properties | 4 685 | 0 | 26 207 | 2 100 | 505 159 | 333 | 538 484 |
| Plant and equipment | 74 440 | 1 885 | 13 674 | 1 700 | 10 645 | 5 738 | 108 082 |
| Trade receivables | 204 447 | 156 805 | 74 506 | 39 273 | 6 175 | 1 041 | 482 247 |
| Assets that cannot be allocated to other segments | 878 037 | 840 739 | 295 863 | 403 544 | 4 981 118 | -216 055 | 7 183 247 |
| | | | | | | | |
| **Total assets** | **1 232 806** | **999 533** | **417 684** | **446 803** | **6 566 706** | **-207 202** | **9 456 330** |
| | | | | | | | |
| Suppliers | -64 213 | 202 700 | 58 361 | 8 107 | 170 386 | 12 900 | 388 240 |
| Liabilities that cannot be allocated to other segments | 892 776 | 114 453 | 506 333 | 196 742 | 4 842 202 | -2 014 935 | 4 537 571 |
| | | | | | | | |
| **Total liabilities** | **828 563** | **317 152** | **564 694** | **204 849** | **5 012 588** | **-2 002 035** | **4 925 811** |
| | | | | | | | |
| Net revenue from sales to third parties | 1 090 085 | 1 883 402 | 1 367 624 | 308 889 | 53 928 | -20 084 | 4 684 844 |
| Net revenue from sales between segments | 177 830 | 27 | 53 781 | 392 | 64 481 | -296 510 | 0 |
| ***Net sales revenues*** | 1 268 915 | 1 883 429 | 1 421 405 | 309 282 | 118 409 | -316 594 | 4 684 844 |
| ***Direct expenses*** | -163 621 | -1 140 095 | -805 048 | -113 693 | -15 104 | 27 494 | -2 210 068 |
| | | | | | | | |
| ***Gross margin*** | **1 105 294** | **743 334** | **616 356** | **195 589** | **103 305** | **-289 101** | **2 474 776** |
| | | | | | | | |
| Depreciation and impairment | -39 102 | -1 022 | -18 746 | -1 579 | -22 076 | -4 447 | -86 973 |
| Indirect operating costs | -908 294 | -171 805 | -520 127 | -151 040 | -51 258 | 278 473 | -1 524 051 |
| | | | | | | | |
| **Operating Profit (EBIT)** | **157 897** | **570 507** | **77 484** | **42 970** | **29 970** | **-15 075** | **863 752** |

| **31 December 2016** (1 January 2016 – 31 December 2016) | **Franchise** | **Financial products brokerage** | **Operation of own office** | **Sale of related services** | **Property investments** | **Other and eliminations** | **Consolidated** |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| Intangible assets | 73 977 | 147 | 9 197 | 373 | 0 | 998 | 84 692 |
| Investment properties | 0 | 0 | 0 | 0 | 939 362 | 0 | 939 362 |
| Real properties | 1 131 | 0 | 30 548 | 2 135 | 485 145 | 361 | 519 319 |
| Plant and equipment | 26 169 | 1 640 | 16 994 | 318 | 0 | 8 799 | 53 920 |
| Trade receivables | 144 352 | 54 189 | 85 330 | 12 492 | 1 556 | -11 714 | 286 205 |
| Assets that cannot be allocated to other segments | 994 338 | 762 374 | 228 233 | 212 386 | 42 826 | 1 867 957 | 4 108 114 |
| | | | | | | | |
| **Total assets** | **1 239 966** | **818 350** | **370 302** | **227 703** | **1 468 889** | **1 866 401** | **5 991 612** |
| | | | | | | | |
| Suppliers | 43 930 | 12 644 | 34 775 | 2 163 | 2 544 | -27 081 | 68 975 |
| Liabilities that cannot be allocated to other segments | 1 157 565 | 154 975 | 472 939 | 176 156 | 711 896 | 705 957 | 3 379 488 |
| | | | | | | | |
| **Total liabilities** | **1 201 495** | **167 619** | **507 714** | **178 319** | **714 440** | **678 876** | **3 448 463** |
| | | | | | | | |
| Net revenue from sales to third parties | 936 746 | 1 410 216 | 1 030 447 | 236 353 | 1 150 434 | 20 287 | 4 784 484 |
| Net revenue from sales between segments | 157 425 | 2 | 55 945 | 775 | 62 985 | -277 132 | 0 |
| ***Total net sales revenues*** | 1 094 171 | 1 410 218 | 1 086 393 | 237 128 | 1 213 419 | -256 845 | 4 784 484 |
| ***Direct expenses*** | -166 506 | -856 313 | -578 842 | -95 165 | -1 072 773 | -41 033 | -2 810 632 |
| | | | | | | | |
| ***Gross margin*** | **927 665** | **553 905** | **507 551** | **141 963** | **140 646** | **-297 878** | **1 973 852** |
| | | | | | | | |
| Depreciation and impairment | -32 101 | -807 | -18 205 | -1 686 | -20 451 | -4 545 | -77 795 |
| Indirect operating costs | -815 681 | -146 449 | -399 869 | -94 534 | 144 318 | 218 794 | -1 093 422 |
| | | | | | | | |
| **Operating Profit (EBIT)** | **79 883** | **406 649** | **89 477** | **45 744** | **264 512** | **-83 629** | **802 635** |

## 40. Risk Management

The Group's assets include liquid assets, securities, trade and other receivables, as well as other assets – excluding taxes. The Group's resources include loans and borrowings, supplier and other payables, excluding the gains or losses arising from the revaluation at fair value of taxes and financial liabilities.

The Group is exposed to the following financial risks:

- credit risk
- liquidity risk
- market risk

This Chapter describes the Group's risks specified above, the Group's objectives and policies, measurement of the processes and risk management, as well as the capital management of the Group. The Board of Directors has overall responsibility for the establishment, supervision and risk management of the Group.

The objective of the Group's risk management policy is to filter out and examine the risks the Group faces, to set the appropriate controls and to monitor the risks. The risk management policy and the system are reviewed so that it does reflect the changed market conditions and the Group's activities.

**Capital management**

The Group's policy is to preserve the registered capital that is sufficient for investor and creditor confidence in the future to sustain the future development of the Group. The Board of Directors seeks to maintain a policy whereby the Company undertakes a higher exposure arising from lending activity only with a higher rate of return, based on the advantages provided by a strong capital position and security.

The Group's capital structure consists of the debt and the Group's equity (the latter includes the registered capital, the reserves and the share of the non-controlling shareholders).

In the course of managing the capital, the Group strives to provide an opportunity for its members to continue their activities, and thereby to maximize the return on investment for the owners by way of an optimal balancing of the debt and equity, as well as to keep an optimal capital structure in order to reduce the capital expenditure. The Group also carries out monitoring which aims to ensure that its member companies' capital structure complies with the local legal requirements.

Capital risk for the Company continues to be not significant in 2017.

**Credit risk**

Credit risk arises from the failure of borrowers or partners to fulfil their contractual obligations, which in turn results in a financial loss for the Group. Financial instruments that are exposed to credit risk may be long or short-term placements, cash and cash equivalents, trade and other receivables.

The book value of financial instruments shows the maximum risk exposure. The table below shows the maximum credit risk exposure of the Group on 30 June 2017 and 31 December 2016.

| | 31 December 2017 | 31 December 2016 |
|---|---|---|
| Trade receivables | 482,247 | 286,205 |
| Other receivables | 176,766 | 53,648 |
| Financial instruments | 69,609 | 66,401 |
| Cash and cash equivalents | 1,428,500 | 1,583,686 |
| **Total** | **2,157,122** | **1,989,940** |

About HUF 943 million in cash and cash equivalents is dedicated to the guarantee of Reviczky Liget and Forest Hill project loans, Metrohouse acquisition loan and the equity necessary for the fund management activity, and is available with limitations for the Group. These limitations are included in the notes on cash and cash equivalents.

**Liquidity risk**

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations by the due date. The Group's liquidity management approach is to ensure - as far as possible - that there is always sufficient liquidity available to meet its obligations when due, under both normal and stressed conditions, without incurring unacceptable losses or risking the Group's reputation. In the scope of further minimization of liquidity, decrease of transaction costs and increase of efficiency, from 7 December 2017, the Group has been operating the bank accounts related to Hungarian operative functions in a so-called cash-pool system, which makes possible automated group financing. The cash pool system is based on a general current account credit line of HUF 100 million, which is appropriate for daily operation, in order to ensure the excess financing of any temporary need.

**Market risk**

Market risk is the risk that a change in the market prices, such as exchange rates, interest rates and prices of investments in mutual funds will affect the Group’s profit or the value of its investments made in financial instruments. The objective of market risk management is to manage and control the exposure to market risks to remain within acceptable limits, in addition to optimizing the benefits.

**Property development risks**

In addition to the above financial and market risks associated with property development, the Company primarily focuses on rising construction costs. Considering a growing number of projects under implementation by the project companies, and as the developments reach more advanced stages, the MyCity group is exposed to increasing liquidity risk until such time as bank financing is involved.

**Sensitivity analysis**

The Group has concluded that, fundamentally, its profit much depends on key variables of a financial nature and on the interest rate risk, therefore, it has carried out sensitivity analyses in these key variables.

The Group strives to ensure the reduction of the interest rate risk primarily by committing the liquid assets. The Group's currency risk is insignificant, primarily because in all three countries it carries out the sales and purchases in the given country's currency. The Group does not enter into currency hedging transactions.

Outcome of the interest sensitivity test (as a percentage of interest changes):

| **With actual interest** | **01.01.2017 – 31.12.2017** | **01.01.2016 - 31.12.2016** |
|---|---|---|
| Profit before tax - excluding interest expense | 1 137 107 | 1 330 726 |
| Net interest income | -5 395 | -1 840 |
| **Profit before taxation (without taxes paid and received)** | **1 131 711** | **1 328 886** |
| **1%** | | |
| Profit before tax - excluding interest expense | 1 137 107 | 1 351 959 |
| Net interest income | -5 449 | -1 859 |
| **Profit before taxation** | **1 131 658** | **1 350 101** |
| ***Changes in profit before tax*** | ***-54*** | ***-18*** |
| ***Changes in profit before tax (%)*** | ***-0,005%*** | ***-0,001%*** |
| **5%** | | |
| Profit before tax - excluding interest expense | 1 137 107 | 1 351 959 |
| Net interest income | -5 665 | -1 932 |
| **Profit before taxation** | **1 131 442** | **1 350 027** |
| ***Changes in profit before tax*** | ***-270*** | ***-92*** |
| ***Changes in profit before tax (%)*** | ***-0,024%*** | ***-0,007%*** |
| **10%** | | |
| Profit before tax - excluding interest expense | 1 137 107 | 1 351 959 |
| Net interest income | -5 935 | -2 024 |
| **Profit before taxation** | **1 131 172** | **1 349 935** |
| ***Changes in profit before tax*** | ***-540*** | ***-184*** |
| ***Changes in profit before tax (%)*** | ***-0,048%*** | ***-0,014%*** |
| **-1%** | | |
| Profit before tax - excluding interest expense | 1 137 107 | 1 351 959 |
| Net interest income | -5 341 | -1 822 |
| **Profit before taxation** | **1 131 765** | **1 350 138** |
| ***Changes in profit before tax*** | ***54*** | ***18*** |
| ***Changes in profit before tax (%)*** | ***0,005%*** | ***0,001%*** |

| | | |
|---|---|---|
| **-5%** | | |
| Profit before tax - excluding interest expense | 1 137 107 | 1 351 959 |
| Net interest income | -5 126 | -1 748 |
| **Profit before taxation** | **1 131 981** | **1 350 211** |
| ***Changes in profit before tax*** | ***270*** | ***92*** |
| ***Changes in profit before tax (%)*** | ***0,024%*** | ***0,007%*** |
| **-10%** | | |
| Profit before tax - excluding interest expense | 1 137 107 | 1 351 959 |
| Net interest income | -4 856 | -1 656 |
| **Profit before taxation** | **1 132 251** | **1 350 303** |
| ***Changes in profit before tax*** | ***540*** | ***184*** |
| ***Changes in profit before tax (%)*** | ***0,048%*** | ***0,014%*** |

## 41. Financial instruments

Financial instruments include invested financial assets, the trade receivables from current assets, securities and liquid assets, loans, borrowings and trade payables.

| **31 December 2017** | **Book value** | **Fair value** |
|---|---|---|
| **Financial assets** | | |
| *Assets registered at fair value against profit* | | |
| Financial instruments | 69,609 | 69,609 |
| Trade receivables | 482,247 | 482,247 |
| Cash and cash equivalents | 1,428,500 | 1,428,500 |
| **Financial liabilities** | | |
| *Liabilities recorded at amortized historic cost* | | |
| Long-term loans | 1,271,662 | 1,271,662 |
| Other long-term liabilities (leases) | 0 | 0 |
| Short-term loans and borrowings | 996,748 | 996,748 |
| Short-term part of the lease | 3,396 | 3,396 |
| Liabilities to suppliers | 388,240 | 388,240 |

| **31 December 2016** | **Book value** | **Fair value** |
|---|---|---|
| **Financial assets** | | |
| *Assets registered at fair value against profit* | | |
| Financial instruments | 66,401 | 66,401 |
| Trade receivables | 286,205 | 286,205 |
| Cash and cash equivalents | 1,583,686 | 1,583,686 |
| **Financial liabilities** | | |
| *Liabilities recorded at amortized historic cost* | | |
| Long-term loans | 582,664 | 582,664 |
| Other long-term liabilities (leases) | 6,046 | 6,046 |
| Short-term loans and borrowings | 198,830 | 198,830 |
| Short-term part of the lease | 4,124 | 4,124 |
| Liabilities to suppliers | 68,975 | 68,975 |

## 42. Remuneration of the Board of Directors and Supervisory Board

In 2017 the members of the Board of Directors and Supervisory Board received a total of HUF 22,306 thousand remuneration (HUF 42,481 thousand in 2016). These amounts also include the dividend paid to the members of the Board of Directors for preferential employee shares held by them.

## 43. Events after the balance sheet date

The below not amending events occurred after the balance sheet date up to the approval of these financial statements for publication.

**The sale of Zsinór 39. Kft. project company**

Taking into consideration the options of the optimal return on the project and economies of scale, the Company decided to sell the project.

Accordingly, the direct owner of the project company, MyCity Residential Development Kft. made a sale and purchase agreement on 23 January 2018 with Zsinór 39 Projekt Kft., owned by the same on the sale of 100% of its business share and the equity loan with regard to the project company. The book value of the internal funds of Zsinór 39 Projekt Kft in accordance with IFRS was HUF 48,429.8 thousand on 31 December 2017, and the amount of equity loan to My City was HUF 151,633.8 thousand based on unaudited ledger data. In accordance with the sale and purchase agreement, the purchase price of the 100% of the business share was HUF 104,772.6 thousand, and the countervalue of the transfer of equity loan was HUF145,227.4 thousand, which are to be paid by the buyers in several instalments until 30 June 2018. The transaction will be completed upon the final payment of the purchase price and the equity loan.

In connection with the sale, the HUF 50,000 thousand debt of MyCity Residential Development Kft. owed to Raiffeisen Bank, guaranteed by the construction land owned by Zsinór 39 Kft., which was mortgaged by a sale and mortgage prohibition, a was fully repaid.

**Purchase of treasury shares**

On 15 February 2018, the Company approved the over-the-counter sale of 66,987 “A” series, lock-up shares of a nominal value of HUF 50, issued by the Company to MKC Investments Sp. z.o.o (hereinafter as: “MKC”) . MKC sold all of the shares in its possession in an over-the-counter sale transaction. In the scope of the transaction, the Company purchased 31,200 shares in an over-the-counter transaction on 20 February 2018 from MKC, based on the approval of the Board of Directors of the Company given on 30 January 2018 for the purpose of the employee share program. The Company owns 31,200 shares as at 22 March 2018.

**Prepayment of the loan financing the development of Reviczky-Liget**

On 27 February 2018, the indirect subsidiary of the Company, Reviczky 6-10. Korlátolt Felelősségű Társaság (Limited Liability Company) repaid the entire loan taken from Takarékbank Zrt. related to the construction of Reviczky Liget apartment complex, that is HUF 828,911,424. The repayment of the loan was financed by the purchase prices and advances related to the project.

## 44. Corporate governance report and approval of the disclosure of the financial statements

The Board of Directors of the Company hereby declares, in accordance with Decree No 24/2008 of 15 August 2008 of the Minister of Finance on disclosure obligations pertaining to publicly traded securities, that the present consolidated financial statements –audited and accompanied by an independent audit report – provide a fair and reliable presentation of the assets, liabilities, financial situation and profit and loss for the Company and its affiliated companies involved in the consolidation.

The Board of Directors of the parent company of the Group discussed the consolidated financial statements at the meeting held on 22 March 2018 and approved their disclosure in this form.

Budapest, 22 March 2018

**Persons authorised to sign these financial statements:**

Doron Dymschiz
Chairman of the Board of Directors

Gay Dymschiz
Member of the Board of Directors

Ferenc Máté
Member of the Board of Directors

# DUNA HOUSE HOLDING NYRT.

## CONSOLIDATED BUSINESS REPORT

## ON THE GROUP'S BUSINESS ACTIVITY IN 2017

# 1. Presentation of the Group

Duna House Holding Nyrt., hereinafter: the "Company" or the "Group", was incorporated in 2003, its principal activities being real estate brokerage, intermediation of directly related financial products and auxiliary services brokerage. In Hungary, beside operating the well-established Duna House franchise network of real estate agencies, the Company operates a second real estate brokerage network under the "SMART Ingatlan" brand. By the end of the business year the Group was present in 161 different locations with a team of over 1300. The Company became a market leader in Poland too, subsequent to the acquisition of the Metrohouse franchise network last year. The Management places great emphasis on developing the Company's Warsaw-based operations and indeed 2017 has seen outstanding results in financial product brokerage. The Company's Prague-based subsidiary in the Czech Republic is also following a strategy of expansion. In this regard the first franchise rights were sold in the fourth quarter of 2017 and in the beginning of 2018 the first franchise partner office was opened.

The Company's registered seat is at 1016 Budapest, Gellérthegy u. 17.

The core activities of the Company include:

- selling and operating franchise systems
- estate agency services
- financial products intermediation
- insurance brokerage
- real estate appraisal and related estate agency services
- energy performance certification and related estate agency services
- real estate management
- selling and letting of own real estate
- fund management
- residential property development

## 1.1 Consolidated Companies

***<u>As a Subsidiary</u>***

| | Address | **31 December 2017** | **31 December 2016** |
|---|---|---|---|
| Duna House Biztosításközvetítő Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Hitel Centrum Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| DH Projekt Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Duna House Ingatlan Értékbecslő Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Duna House Franchise Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Energetikai Tanúsítvány Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Superior Real Estate Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |

| | | | |
|---|---|---|---|
| Home Management Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| REIF 2000 Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| GDD Commercial Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| SMART Ingatlan Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Impact Alapkezelő Zrt. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Home Line Center Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 100% |
| Metrohouse Franchise S.A. | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 100% | 100% |
| Metrofinance Sp. z.o.o | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 100% | 100% |
| MH Południe Sp. z.o.o | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 0% | 100% |
| Metrohouse Uslugi Wspólne S.A | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 0% | 100% |
| MH Warszawa Sp. z.o.o | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 0% | 100% |
| Metrohouse S.A. | 00-832 Warszawa, Zelazna 28/30 Polska (Poland) | 100% | 0% |
| MyCity Residential Development Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | - |
| Pusztakúti 12. Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | - |
| Reviczky 6-10. Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | - |
| Zsinór 39 Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | - |
| IH Project X Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | - |
| Duna House Franchise s.r.o. | 140 00 Praha 4, Michelská 300/60 | 80% | 80% |
| Duna House Hypoteky s.r.o. | 140 00 Praha 4, Michelská 300/60 | 80% | 80% |
| Center Reality s.r.o. | 140 00 Praha 4, Michelská 300/60 | 80% | 80% |

| ***As a jointly controlled entity*** | | **31 December 2017** | **31 December 2016** |
|---|---|---|---|
| MyCity Residential Development Kft. | 1016 Budapest, Gellérthegy u. 17 | 100% | 50% |
| Pusztakúti 12. Kft. | 1016 Budapest, Gellérthegy u. 17 | - | 50% |
| Reviczky 6-10. Kft. | 1016 Budapest, Gellérthegy u. 17 | - | 50% |
| Zsinór 39 Kft. | 1016 Budapest, Gellérthegy u. 17 | - | 50% |
| IH Project X Kft. | 1016 Budapest, Gellérthegy u. 17 | - | 50% |
| Hunor utca 24 Kft. | 1016 Budapest, Gellérthegy u. 17 | 50% | 25% |

# 2. Markets and Economic Environment

## 2.1 Real estate market

The Hungarian residential real estate market once again closed a strong year in 2017. According to the estimate of Duna House Group, the total number of transactions in 2017 is close to 149,000, which means only a 2% increase compared to the figure of 146,000 transactions published by the Hungarian Office of Statistics (KSH) for the previous year. In contrast with previous years, however, the actual difference is more difficult to quantify reliably due to the uncertainties surrounding the statistical treatment of contracts for newly built apartments. Based on the data published in the Duna House Barometer, published by Duna House Franchise Ltd., real estate prices peaked again on a national level.[1]

According to the estimate of the Polish office of Ernst & Young[2], in 2017, due to low interest rates, the continuously growing economy and more favourable prices than those in Western Europe, the entire Polish real estate market reached a record breaking transactional sum of more than EUR 5 billion. That represents a year-on-year increase of more than 10%.

No public and objective data is available on the macroeconomic development of the Polish real estate market, and more specifically the residential real estate market in 2017.

## 2.2 Credit market[3]

According to the analysis of the Hungarian National Bank, both corporate and retail lending were characterised by expansion in 2017. Household sector credit started to grow, and the annual rate of expansion was close to 3%, while lending for house purchase and consumer credit also significantly increased. The last quarter saw the vigorous expansion of Minősített Fogyasztóbarát Lakáshitel (Qualified Consumer Friendly Housing Loan) products. By the end of 2017, year-on-year household sector lending expanded by 2.7%. The volume of new contracts increased by a yearly average of 41%, with new house purchase lending growing by 39% and personal loans by 47%.

According to preliminary data from the Polish Bank Association, on the basis of the first three quarters in 2017 the home loan market in Poland grew by some 10% in comparison to the same period in 2016, thereby increasing from PLN 9.9 bn to PLN 11 bn. No objective public data are available on the share of lending through credit brokers or trends in the commission paid to them.

[1] *Source: Issue 78 of Duna House Barometer published by Duna House Franchise Kft*

[2] *Source: EY – The Polish Real Estate Guide 2018 Edition - Poland*

[3] *Source: MNB: Credit Procedures - March 2018*

# 3. The Group's Financial and Equity Situation

## 3.1 Profit and Loss Statement

| *data in HUF thousands* | **01.01.2017 – 31.12.2017** | **01.01.2016 – 31.12.2016** |
|---|---|---|
| Net turnover | 4,684,844 | 4,784,484 |
| Other operating income | 134,780 | 279,090 |
| **Total income** | **4,819,624** | **5,063,574** |
| | | |
| Variation in stocks of finished goods and in work in progress | (1,434,113) | 0 |
| Material costs | 63,285 | 58,063 |
| Goods and services sold | 908,946 | 1,847,035 |
| Services used | 3,652,162 | 1,695,546 |
| Staff costs | 572,413 | 412,871 |
| Depreciation and amortisation | 86,973 | 77,795 |
| Other operating charges | 106,206 | 169,629 |
| **Operating costs** | **3,955,872** | **4,260,939** |
| | | |
| **Operating profit/loss** | **863,752** | **802,635** |
| | | |
| Financial revenues | 195,388 | 87,902 |
| Expenses on financial transactions | (48,632) | (66,924) |
| Ownership interest measured with equity method | 81,456 | 505,273 |
| | | |
| **Profit or loss before tax** | **1,091,965** | **1,328,886** |
| Income taxes | (173,068) | (161,027) |
| **Profit after tax** | **918,897** | **1,167,859** |

*Source: The Company's audited IFRS Annual Report*

Although the consolidated turnover decreased by around HUF 100 million in comparison with the comparative period, this decrease is the combined result of an extremely strong core performance increase (+ HUF 1 bn) and the absence of the one-off revenue from the real estate portfolio restructuring undertaken in the previous year (- HUF 1.1 bn). When comparing the two business years the acquisition effects also have to be taken into account.

Operating costs (not including variation in stocks of finished goods and in work in progress) rose markedly, but this increase included approximately HUF 1.4 bn which has been capitalised in the cost of the MyCity development projects and therefore can be considered neutral in terms of operating profit. One-off costs incurred in the 2016 business year and absent this year, such as total acquisition costs related to the purchase of Metrohouse (HUF 45,044,000), experts, lawyers and consultants' fees related to the IPO (HUF 62,767,000) and the set-up fee related to the MyCity Residential Development launch, resulted in HUF 114 million savings so to speak.

The same as with income, part period effects resulting from last year's acquisitions must also be taken into account in respect of costs. The Company's Taxes on Income comprise corporate tax and business tax payment expenditures. The combined amount of actual and deferred taxes due for 2017 was HUF 173 million.

The growth recognized in financial income mainly includes the badwill entered in connection with the acquisition of the MyCity Group in the current year. Further difference in comparison with the comparative period is due to the fact that the HUF 505 million realised as a result of the revaluation of the 50% share in the MyCity Group, which was consolidated by the equity method last year, was not realised this year due to the full consolidation of the group. By the end of 2017 the Company's only jointly controlled entity was Hunor u. 24. Kft.

Overall, the Company's profit after tax decreased by 22% from HUF 1,168 million to HUF 919 million.

Relative to the previous year, the following changes materialised in the Group's sales revenue structure. The below statement reflects the significant core performance increase and the absence of the income from the sale of the real estate investment portfolio last year:

| Revenue type | 01.01.2017 – 31.12.2017 | 01.01.2016 – 31.12.2016 |
|---|---|---|
| Income from financial brokerage | 1,883,429 | 1,410,218 |
| Income from own office segment | 1,421,405 | 1,086,393 |
| Income from franchise segment | 1,268,915 | 1,094,171 |
| Income from related services | 309,282 | 237,128 |
| Income from investment segment | 118,409 | 1,213,419 |
| Inter segment turnover | (316,594) | (256,845) |
| **Total** | **4,684,844** | **4,784,484** |

*Source: The Company's audited IFRS Annual Report*

**Income Statement by Segments**

The Group's strategic decisions are made by the Board of Directors. Therefore, when determining the segments during the compilation of these financial statements, the management relied on the statements prepared for the Board of Directors.

## Group
**01.01.2017 – 31.12.2017**

| million HUF | Franchise segment | Financial product brokerage segment | Own office segment | Related services segment | Property investment segment | Other and eliminations | Consolidated total |
|---|---|---|---|---|---|---|---|
| **Net turnover** | **1,269** | **1,884** | **1,421** | **309** | **118** | **(316)** | **4,685** |
| Direct costs | **164** | **1,140** | **805** | **113** | **15** | **(27)** | **2,210** |
| **Gross margin** | **1,105** | **744** | **616** | **196** | **103** | **(289)** | **2,475** |
| Indirect operating costs | **908** | **172** | **520** | **151** | **51** | **(278)** | **1,524** |
| **EBITDA** | **197** | **572** | **96** | **45** | **52** | **(11)** | **951** |
| Depreciation and amortisation | **39** | **1** | **19** | **2** | **22** | **4** | **87** |
| **EBIT** | **158** | **571** | **77** | **43** | **30** | **(15)** | **864** |
| | | | | | | | |
| **Contribution margin** | **87%** | **39%** | **43%** | **63%** | **87%** | **91%** | **53%** |
| **EBITDA margin** | **16%** | **30%** | **7%** | **15%** | **44%** | **3%** | **20%** |
| **EBIT margin** | **12%** | **30%** | **5%** | **14%** | **25%** | **5%** | **18%** |

## Group
**01.01.2016 – 31.12.2016**

| million HUF | Franchise segment | Financial product brokerage segment | Own office segment | Related services segment | Property investment segment | Other and eliminations | Consolidated total |
|---|---|---|---|---|---|---|---|
| **Net turnover** | **1,094** | **1,410** | **1,086** | **237** | **1,213** | **(257)** | **4,784** |
| Direct costs | 167 | 856 | 579 | 95 | 1,073 | 41 | 2,811 |
| **Gross margin** | **928** | **554** | **508** | **142** | **141** | **(298)** | **1,974** |
| Indirect operating costs | 816 | 146 | 400 | 95 | (144) | (219) | 1,093 |
| **EBITDA** | **112** | **407** | **108** | **47** | **285** | **(79)** | **880** |
| Depreciation and amortisation | 32 | 1 | 18 | 2 | 20 | 5 | 78 |
| **EBIT** | **80** | **407** | **89** | **46** | **265** | **(84)** | **803** |
| | | | | | | | |
| **Contribution margin** | **85%** | **39%** | **47%** | **60%** | **12%** | **116%** | **41%** |
| **EBITDA margin** | **10%** | **29%** | **10%** | **20%** | **23%** | **31%** | **18%** |
| **EBIT margin** | **7%** | **29%** | **8%** | **19%** | **22%** | **33%** | **17%** |

*Source: The Company's audited IFRS Annual Report*

At the same time as the consolidated sales revenue decreased by HUF 100 million, the contribution margin increased to 53% from 41% in 2016, which is primarily attributable to a low contribution margin in the real estate investment segment during the comparative period. Gross contribution margin increased from HUF 1,974 million to HUF 2,475 million (a 25% rise). Direct costs grew by 40% from HUF 1,093 million to HUF 1,524 million.

The Group’s consolidated operating profit increased from HUF 803 million in the comparative period to HUF 864 million in the year 2017, i.e. by 7%.

DH operations cover six segments:

(1) The franchise segment carries out the operation of the franchise system that runs under the Danube House and Smart Ingatlan brands. The Company is Hungary's largest residential real estate agency franchise network. With effect from April 2016, the franchise segment comprises Metrohouse Franchise S.A. and MH Uslugi Wspólne S.A., both Metrohouse companies in Poland. As a result of the merger of MH Uslugi Wspólne S.A, MH Poludnie Sp. z o.o and MH Warszawa Sp. z o.o at the end of 2017, as of 1 January 2018 the franchise segment will not include figures for MH Uslugi Wspólne S.A which had not been carrying out operational activities and will be presented as part of the Own office operating segment. From September 2016 the performance of Duna House Franchise s.r.o based in the Czech Republic is also presented in that same segment.

(2) Own office operating segment: Through own offices operated under the Danube House and Smart Ingatlan brands, the Company owns one of the leading real estate agency network in Hungary. Since April 2016 the own office segment includes figures for Metrohouse companies MH Poludnie Sp. z.o.o and MH Warszava Sp. z.o.o, which will be operating under the name Metrohouse S.A. from 1 January 2018, following the merger with MH Uslugi Wspólne S.A. The segment equally comprises Center Reality s.r.o (Czech Republic) since September 2016.

(3) Financial products brokerage segment: In line with the multiple agency contracts concluded with credit institutions and insurance companies, the Group offers a wide range of financial products to its customers. The performance of Metrofinance Sp. Z.o.o is reported in this segment as well. Duna House Hypotéky s.r.o, which has been part of the segment since September 2016, does not carry out operational activities for the time being.

(4) The related services segment comprises activities related to residential real estate management, energy certificates and valuations. With effect from the 2017 business year, the results of Impact Asset Management Zrt. are included in this segment.

(5) Real estate investments segment: Relying on its real property market expertise, the Company has been acquiring properties for investment purposes.

Due to a change in the management's focus on property development within the MyCity project in the second half of 2016 a considerable portion of the investment property portfolio was sold. As a result, total turnover and direct costs recognised in the segment increased significantly.

To further strengthen its real estate developer activities, on 12 March 2017 DUNA HOUSE signed a contract with Eldar Investments (H.L.A.) Ltd. (registered office: 1016 Budapest, Gellérthegy utca 17.; company registration number: 01-09-984485; hereinafter: "MyCity") in order to obtain an additional 50% business share of MyCity Residential Development Kft. After the financial settlement of the contractual terms and conditions, DUNA HOUSE became a 100% owner of MyCity.

The results of property development under the MyCity project from the date of acquisition have been fully consolidated and are presented as part of the real estate investment segment.

(6) Transactions in the segment were consolidated in the statement. The "Other and eliminations" column includes the effect of the central services and filters out the traffic between segments. As of 2017, the activity of Impact Asset Management Zrt. – previously presented in this segment – is presented in the "Sale of Related Services" segment.

The table below shows the turnover and operating result realized by the Duna House Group in individual countries:

| data in HUF thousands | **01.01.2017 – 31.12.2017** | **01.01.2016 – 31.12.2016** |
|---|---|---|
| **Net turnover (consolidated)** | **4,684,844** | **4,784,484** |
| Net turnover of Hungarian operation sale | 3,238,817 | 3,900,550 |
| Net turnover of Polish operation* sale | 1,187,435 | 799,169 |
| Net turnover of Czech operation** sale | 258,592 | 84,764 |
| **EBIT** | **863,752** | **802,635** |
| Hungarian operation EBIT | 870,071 | 855,780 |
| Polish operation* EBIT | 19,755 | (62,684) |
| Czech operation** EBIT | (26,074) | 9,540 |

*The result of the Polish operation was consolidated in the Company's consolidated financial statements with effect from 1 April 2016.

**The result of the Czech operation was consolidated in the Company's consolidated financial statements with effect from 1 September 2016.

## *Management guidance for the 2018 business year*

The Company issued the following guidance for the 2018 business year on the website of the Budapest Stock Exchange (BSE).

# EXTRAORDINARY NOTICE

The management of DUNA HOUSE HOLDING Public Limited Company (seat: 1016 Budapest, Gellérthegy str. 17, Hungary; company registration number: Cg. 01-10-04838; hereinafter referred to as "Company"), publishes its guidance for the 2018 fiscal year.

### Guidance for the 2018 fiscal year

| | |
|---|---|
| Consolidated annual profit after tax | HUF 2.7 – 2.9 billion |
| Out of which | |
| - Consolidated annual profit after tax excluding MyCity* | HUF 950 – 1,150 million |
| - Annual profit after tax of Reviczky project ** | HUF 680 million |
| - Annual profit after tax of Forest Hill project *** | HUF 1,060 million |

* Excluding the effect of earnings from the MyCity property development activity, see additional information.
** Profit after tax of Reviczky 6-10 Ltd. (100% owned by the Company) in case of 100% sale of the residential units.
*** Profit after tax of Pusztakuti 12. Ltd. (100% owned by the Company) in case of 78% sale of the residential units, as planned for year 2018.

### Management presumptions in relation to relevant markets

| | *In comparison with 2017* |
|---|---|
| Annual transaction volumes on the Hungarian residential property market | 160-180 thousand pieces |
| Annual price change on the Hungarian residential property market | 5 to 10% growth |
| Changes in disbursed residential loan volume on the Hungarian loan market | 15 to 20% growth |
| Polish/Czech markets | Management does not regard market trends as significant in the context of the current market share, thus there shall be no guidance made in relation of the Polish and Czech markets |

# ADDITIONAL INFORMATION

**Profit realization from MyCity property development activity**

Resulting from the specialties of property development activity, the realization of the developer's profit is due following the closure of the development projects. In case of our project in the most developed phase (District 18., Reviczky Liget), the handover of the residential units and the invoicing of the sale started in February, 2018.

In relation to our largest project (District 3., Forest Hill), construction works are expected to be completed in Q3 and Q4 of 2018, as per the general contractor agreement. This guidance has been prepared assuming 78% of the residential units sold and handed over in Q4 2018. However, as delays are frequent in property development in the current market situation, the chances of actual closing and profit realization taking place in early 2019 cannot be ruled out.

Budapest, February 28, 2018

Duna House Holding Plc.

## 3.2 Assets

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **ASSETS** | | |
| **Long-term assets** | | |
| Intangible assets | 82,656 | 84,692 |
| Investment property | 1,061,613 | 939,362 |
| Property | 538,484 | 519,319 |
| Plant and equipment | 108,082 | 53,920 |
| Goodwill | 1,048,936 | 992,089 |
| Investments in associated companies and joint ventures | 206,009 | 506,273 |
| Financial instruments | 69,609 | 66,401 |
| Deferred tax assets | 160,322 | 158,829 |
| **Total long-term assets** | **3,275,712** | **3,320,885** |
| **Current assets** | | |
| Inventory | 3,399,013 | 11,616 |
| Trade receivables | 482,247 | 286,205 |
| Amounts owed by affiliated undertakings | 146,099 | 378,709 |
| Other accounts receivable | 176,766 | 53,648 |
| Actual income tax assets | 35,405 | 35,119 |
| Accrued and deferred assets | 316,446 | 321,744 |
| Cash and equivalents | 1,428,500 | 1,583,686, |
| Assets classified as held for sale | 196,143 | 0 |
| **Total current assets** | **6,180,619** | **2,670,727** |
| **Total Assets** | **9,456,330** | **5,991,612** |

*Source: The Company's audited IFRS Annual Report*

The balance sheet total grew significantly by HUF 3,464 million (57%) relative to 31 December 2016, which almost totally can be attributed to the growth of current assets. Inventory value of 31 December 2017 predominantly includes the cost basis of residential property projects carried out in the project companies, indicated on the balance sheet date.

## 3.3 Liabilities

data in HUF thousands

| LIABILITIES | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **Equity** | | |
| Subscribed capital | 171,989 | 153,050 |
| Capital reserve | 1,490,536 | 9,479 |
| Exchange reserve | 27,518 | (23,318) |
| Retained earnings | 2,889,056 | 2,444,092 |
| **Total equity of the parent company** | **4,579,100** | **2,583,303** |
| Non-controlling ownership interest | (48,581) | (40,154) |
| **Total equity:** | **4,530,520** | **2,543,149** |
| **Long-term liabilities** | | |
| Long-term loans | 1,271,662 | 582,664 |
| Deferred tax liabilities | 144,087 | 86,557 |
| Other long-term liabilities | 0 | 10,629 |
| **Total long-term liabilities** | **1,415,749** | **679,850** |
| **Short-term liabilities** | | |
| Short-term loans and borrowings | 996,748 | 198,830 |
| Accounts payable | 388,240 | 68,975 |
| Liabilities to affiliated companies | 581,775 | 1,740,880 |
| Other liabilities | 1,140,882 | 264,302 |
| Actual income tax liabilities | 8,799 | 11,284 |
| Accrued expenses | 388,136 | 484,342 |
| Liabilities directly related to assets classified as held for sale | 5,481 | 0 |
| **Total current liabilities** | **3,510,062** | **2,768,613** |
| **Total liabilities and equity** | **9,456,330** | **5,991,612** |

*Source: The Company's audited IFRS Annual Report*

The Company's equity is HUF 171,989,000, which comprises 3,438,787 dematerialised ordinary shares each with a face value of HUF 50 and 1,000 preferred shares each with a face value of HUF 50.

Dividend priority right is related to employee shares issued by the Company, as specified below. If the general assembly orders the payment of dividends in a given year, the employee shares providing dividend priority provide the right to dividend prior to ordinary shares, up to 6% of after tax profit indicated in the annual report prepared based on the IFRS with regard to the same year (corrected by the effect of the evaluation of real estate for investment purposes and the revaluation of the shares included in the consolidation by the equity method.

Employee shares shall only have the above-mentioned dividend rights. Accordingly, employee shares shall not give rights to dividends on top of the above-mentioned amount, furthermore employee shares shall not give rights to dividends, if with regard to the given financial year, the corrected after tax profit in the consolidated annual report prepared based on the IFRS is negative.

The right to dividends in employee shares is not cumulative and the Board of Directors shall make a decision on the date of the payment of dividends.

The maximum amount of payable dividend related to priority shares was taken into account upon the EPS calculation.

At the annual regular general assembly of the Company held on 20 April 2017, dividends in the amount of HUF 479,260,000 were approved. In line with the above, holders of preferred shares are eligible for an amount equal to 6% of the profit after tax less the 2016 revaluation of investment property and the revaluation of shares included in the consolidation by the equity method (i.e. HUF 32,217,000); holders of ordinary shares are eligible for HUF 447,043,000.

The payment of dividends for ordinary shares was performed in one sum on 19 June 2017 and the payment of dividends for employee shares with priority right of dividend are paid quarterly in four equal sums, and the first date of payment was 30 June 2017.

The increase in long and short-term loans and other liabilities comprising mainly trade prepayments and deposits can be explained by the increase in bank and customer financing of properties developed under MyCity project companies.

## 3.4 Consolidated Cash Flow Statement

**Consolidated Cash Flow Statement**

all data in HUF thousand unless otherwise stated

| | 01.01.2017 - 31.12.2017 | 01.01.2016 - 31.12.2016 |
|---|---|---|
| **Operating cash flow** | | |
| Profit after tax | 918,897 | 1,167,859 |
| Adjustments for: | | |
| Interest received/(paid) is recognised in financing cash flow | 17,814 | 0 |
| Amortisation for the year | 86,973 | 77,795 |
| Deferred taxes | (29,174) | (96,164) |
| Revaluation of investment property | (53,320) | (188,031) |
| Badwill | (139,595) | (56,272) |
| Evaluation of shares with the equity method | (81,456) | (505,273) |
| *Changes in working capital* | | |
| Changes in inventories | (1,429,065) | (3,122) |
| Changes in trade and other and related receivables | 71,394 | (612,728) |
| Changes in accrued and deferred assets | 5,298 | 90,658 |
| Changes in trade and related payables | (215,642) | 33,742 |
| Other current liabilities and accruals | 497,904 | 238,807 |
| Changes in accrued and deferred liabilities | (97,149) | 191,543 |
| ***Net operating cash flow*** | ***(447,121)*** | ***338,815*** |
| **Cash flow from investing activities** | | |
| Tangible assets and (purchase of) intangible assets | (233,343) | (819,605) |
| Income from the sale of tangible assets | 9,655 | 1,096,588 |
| Purchase of subsidiary (without acquired financials) | (171,668) | (873,464) |
| ***Net cash flow from investment*** | ***(395,355)*** | ***(596,481)*** |
| **Cash flow from financing** | | |
| Bank loans/(repayment) | 1,225,945 | 172,339 |
| Capital contribution | - | 1,499,997 |
| Dividend payments | (493,221) | (246,730) |
| Received/(paid) interest | (45,430) | - |
| ***Net cash flow from financing*** | ***687,291*** | ***1,425,605*** |
| Net change in cash and cash equivalents | (155,186) | 1,167,939 |
| Balance as at the beginning of the year for cash and cash equivalents | 1,583,686 | 415,747 |
| **Balance as at the end of the year for cash and cash equivalents** | **1,428,500** | **1,583,686** |

*Source: The Company's audited IFRS Annual Report*

The Company recorded operating cash flow HUF -447 million in 2017, where significant amounts were accountable for working capital (inventories) adjustments due to ongoing MyCity projects. At the same time, this item was largely refinanced on the financing cash flow side in the form of bank loans.

Investment cash flow was improved mostly by the fact that acquisitions of the size of last year were not made this year. Investment cash flow was decreased by a HUF 224 million balance between the purchase and sale of tangible assets. The significant decrease of the volume of purchase and sale is due to the significant reduction of the real estate portfolio performed in the meantime.
Dividend payment reduced financing cash flow by HUF 493 million. Additionally, the change of the amount was mainly due to the absence of the amounts paid for the capital increase last year, regarded as a one-off item, as well as the total loan taken out in connection with MyCity project development.
The end-of-the period of cash and cash equivalents is HUF 1,428 million, which is HUF 155 million lower than what it was at the end of the comparable period. This includes HUF 943 million that can be used with the following restrictions:

| Restriction on | | Nature of restriction |
|---|---|---|
| Company involved in the consolidation | Bank account balance | |
| | | |
| Reviczky 6-10. kft | HUF 371,841,000 | Guarantees of payment for loans taken out with Takarékbank Zrt. in relation with the financing of Reviczky-Liget and Forest Hill apartment complexes, including prepayments and deposits paid into a separate and blocked bank account out of the sale of residential properties, which may be used only for the early repayment or full repayment of said loans. Early repayment for both loans is not possible until the third business day following a notification to that effect by Takarékbank Zrt. |
| Pusztakúti 12. kft. | HUF 440,917,000 | |
| Impact Asset Management Zrt. | HUF 95,000,000 | In accordance with Section 16 (3) and (7) of Act XVI of 2014 on Collective Investment Trusts and Their Managers, and on the Amendment of Financial Regulations, in order to maintain continuity in its operations and to protect its investors, Impact Asset Management Zrt is required to have sufficient own funds to cover any and all risks associated with their activities. Such own funds have to be invested in liquid assets or assets readily convertible to cash in the short term. |

| | | |
|---|---|---|
| Duna House Holding Nyrt. | HUF 35,000,000 | Amount held in a separate and blocked bank account to secure the loan taken out with Raiffeisen Bank for financing the Metrohouse acquisition. |
| **Total:** | **HUF 942,758,000** | |

## 4. Environment Protection, Social Responsibility, Employment and Diversity Policy

The Company recycles some of the waste it generates and collects packaging materials separately. Due to the nature of its business activity, the Company does not produce or store any hazardous material.

The Company's employment policy and ensuring it is consistently applied in individual countries are kept under continuous review. The increase of the average statistical headcount to 99 compared with 91 for the comparable period is attributable to an increase in the personnel of the Hungarian operation to 84 people as well as the acquisitions in Poland and the Czech Republic. Taking into account the number of hours staff are expected to spend at work, the average number of employees in subsidiaries in Poland increased to 14 from 6 in the comparative period, while in the case of the Czech subsidiaries the headcount in the first part of 2017 was one. Of the HUF 572,413,000 balance of the staff costs, the Polish and Czech subsidiaries' share amounted to HUF 97,065,000.

The Company places emphasis on diversity in filling positions according to the skills and qualifications of staff.

## 5. Information on Equity and Share Capital

***Increase of the Company's equity***

At its meeting on 16 September 2016, the Company's AGM authorised an equity capital increase of HUF 1.5 billion at most in connection with the public offering of the Company's shares in October. Referring to a procedural error, by its decision of 10 December 2016 the Companies Court rejected the registration of a capital increase of HUF 18,939,350 that the Company had requested following the public offering.

At their extraordinary meeting on 5 January 2017, the Company's shareholders passed a repeat resolution on the equity capital increase, which was in substance identical with the first one. The Companies Court registered the capital increase in the Company Register by Order No. Cg.01-10-048384/50 dated 1 February 2017.

The origination of new shares issued during the equity increase was on 28 March 2017.

As at 31 December 2017, the composition of the Company's equity was as follows:

| Type of shares | Class of shares | Share series | Number of shares issued | of which: Treasury shares | Nominal value per share | Total nominal value |
|---|---|---|---|---|---|---|
| ordinary shares | - | "A" | 3,438,787 | 0 | HUF 50 | HUF 171,939,350 |
| employee shares | preferential shares | "B" | 1,000 | 0 | HUF 50 | HUF 50,000 |
| **Equity:** | | | | | | **HUF 171,989,350** |

Number of voting rights attached to shares:

| Share series | Number of shares issued | Number of shares with voting rights | Number of voting rights per share | Total number of votes | of which, the number of votes per Treasury share | Number of non-voting shares |
|---|---|---|---|---|---|---|
| "A" | 3,438,787 | 3,438,787 | 50 | 171,939,350 | 0 | - |
| "B" | 1,000 | 1,000 | 50 | 50,000 | 0 | - |
| **Total** | **3,439,787** | **3,439,787** | **-** | **171,989,350** | **0** | **-** |

## 6. Investors each with a significant direct or indirect ownership share in the Company's equity (including shares based on a pyramid structure and cross-holdings)

The table below provides a summary of the shareholders each with a significant direct or indirect ownership share in the Company's equity[4], taking into account shares based on a pyramid structure and cross-holdings:

| Name of shareholder | Number of shares held | Share in equity (%) |
|---|---|---|
| Guy Dymschiz | 1,346,533 | 39.15% |
| Doron Dymschiz | 1,346,533 | 39.15% |
| **Total equity** | **3,439,787** | **100.0%** |

[4] Related to 30 June 2017

## 7. Restrictions on the transfer of shares

Prohibition of alienation on ordinary shares

| Name of shareholder | | | Ferenc Máté | Kinga Szalay | Bernadett Szirtes | Krisztián Fülöp | Dr András Szabadházy | Nir Bitkover | Guy Dymschiz** | Doron Dymschiz** | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Number of ordinary shares held | | | 30,000 | 2,182 | 1,364 | 2,182 | 1,364 | 2,182 | 1,346,533 | 1,346,533 | 2,732,340 |
| Is alienation prohibited? | | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | |
| | | | | | | | | | | | |
| Prohibition of alienation | Beginning of the period | End of the period | Number of shares under prohibition of alienation | | | | | | | | |
| | 16.09.2015 | 31.12.2017 | 30,000 | 2,182 | 1,364 | 2,182 | 1,364 | 2,182 | 1,346,533 | 1,346,533 | 2,732,340 |
| | 01.01.2018 | 31.12.2018 | 27,000 | 1,746 | 1,091 | 1,746 | 1,091 | 1,746 | 0 | 0 | 34,420 |
| | 01.01.2019 | 31.12.2019 | 24,000 | 1,309 | 818 | 1,309 | 818 | 1,309 | 0 | 0 | 29,563 |
| | 01.01.2020 | 31.12.2020 | 21,000 | 873 | 546 | 873 | 546 | 873 | 0 | 0 | 24,711 |
| | 01.01.2021 | 31.12.2021 | 18,000 | 436 | 273 | 436 | 273 | 436 | 0 | 0 | 19,854 |
| | 01.01.2022 | 31.12.2022 | 15,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 15,000 |
| | 01.01.2023 | 31.12.2023 | 12,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12,000 |
| | 01.01.2024 | 31.12.2024 | 9,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 9,000 |
| | 01.01.2025 | 31.12.2025 | 6,000 | 0 | 0 | 0 | 0 | 0 | 0 | | 6,000 |
| | 01.01.2026 | 31.12.2026 | 3,000 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 3,000 |

*Prohibition of alienation from the date the share purchase contract was signed as inception date, for a period of 1 year from the commencement of trading in ordinary shares (11 November 2016), but not later than 31.12.2017.

** The table shows the total number of ordinary shares owned directly and indirectly – through, inter alia, Medasev Holding Kft. and Medasev Int. (Cyprus) Ltd – by Guy Dymschiz and Doron Dymschiz.

In paragraph 4.1.8 (b) of the Summary Brochure prepared in connection with the public offering of the shares of Duna House Holding Nyrt. and permitted to be disclosed by the National Bank of Hungary in its resolution no. H-KE-III-716/2016 dated 12 October 2016, Medasev Holding Kft. and Medasev Int. (Cyprus) Ltd. voiced their firm intention that, apart from the shares of Duna House Holding Nyrt. sold within the framework of the public offering, in order to ensure the predictability of a market for them and their stock exchange trading, they would not resell such shares within 1 year from the allocation of the shares and would not vote in support of any proposal based on which, within 1 year from the allocation, apart from the shares of Duna House Holding Nyrt. sold within the framework of the public offering, the equity of Duna House Holding Nyrt. would be raised or securities entitling the holders to subscribe, purchase or take over the shares of Duna House Holding Nyrt., and that it would not enter into any agreement pertaining to the foregoing.

Furthermore, in paragraph 4.1.8 (e) of the said Summary Brochure, Guy Dymschiz and Doron Dymschiz made a commitment to the effect that, apart from the Duna House Holding Nyrt. shared sold within the framework of the public offering, in order to ensure the reliability of the market for and stock exchange trading of such shares, they will not resell such shares within 1 year from the allocation of the shares.

The following prohibitions of alienation stipulated in the relevant contracts apply to the shares held by MKC Investments Sp. z.o.o.

**DH mortgage contract between MKC Investments Sp. z o.o. as Mortgagor and the Company as Mortgagee (21 April 2016)**

Pursuant to the contract, MKC Investments Sp. z o.o. placed the 91,500 Duna House Holding Nyrt. shares held by it with an outside depositary and established a mortgage lien on those shares. The mortgage lien serves as collateral securing the obligations of MKC Investments Sp. z o.o. related to the sale of its ownership share in Metrohouse Franchise S.A. The mortgage contract stipulates that, after the first public offering, MKC Investments Sp. z o.o. may sell the mortgaged shares if, concurrently with the sale of the ownership share, part of the proceeds from the sale is paid as a down payment to a blocked account, which, along with the collateral, are deposited. The mortgagee may use the mortgage shares to satisfy its claims by selling them after the public offering or if such offering has already taken place, by purchasing them. Pursuant to the contract, the shares are deposited for 2 years, which period can be extended if the mortgagor raises a claim vis-á-vis the mortgagee that is secured by the mortgaged property.

**Share purchase and lock-up contract between Medasev Holding Kft. and MKC Investments Sp. z o.o. (21 September 2016)**

On 21 September 2016, Medasev Holding Kft. as buyer, MKC Investments Sp. z.o.o. as seller, and the Company and Medasev Int. (Cyprus) Ltd. entered into a share sales contract, pursuant to which, with effect from the date of the commencement of trading in the Company's shares, MKC Anvestments Sp. z.o.o. sells a certain portion of its shares in the Company to Medasev Holding Kft. The number of the shares was calculated in accordance with the following formula: 91,500 * 3 * (A-B) / C, where: A = the number of the shares sold by Medasev Holding Kft. in the sales transaction. B = the number of the shares issued in the course of the capital increase after the sale. C = the combined number of the shares held by Medasev Holding Kft. and Medasev Int. (Cyprus) Ltd. prior to the public sale. The purchase price to be paid for the shares by Medasev Holding Kft. as buyer to MKC Investments Sp. z.o.o. is equal to the purchase price of the shares sold by Medasev Holding Kft. within the framework of the public sale. Under the contract, MKC Investments Sp. z o.o. undertook not to sell - within 1 year from the date of the commencement of the stock exchange trading of the shares - those shares which have not been sold to Medasev Holding Kft. pursuant to the above. In addition, the contracting parties agreed to repeal the provision set out in the share purchase agreement concluded by the Company and MKC Investments Sp. z.o.o. on 21 April 2016 according to which in the case of a public sale MKC Investments Sp. z o.o. was allowed to sell three times more shares than other shareholders.

On 7 November 2017 the Company entered into an agreement with MKC Investments Sp. Z.o.o (hereinafter: MKC). Under the agreement, MKC agreed to extend until 21 April 2018 the prohibition of alienation concerning 66,987 series “A” ordinary shares of HUF 50 nominal value each that it holds. Under the agreement the Company may grant exemptions from the prohibition of alienation. The agreement was concluded as an amendment to the share purchase and lock-up contract signed by the parties on 21 September 2016.

As at 31 December 2017, the number of shares held by MKC Investments Sp. z.o.o and under prohibition of alienation was 66,987. Also see Annex No. 10 Changes After the Balance Sheet Date: “Purchase of treasury shares”

Prohibition of alienation on preferred employee shares:

| Name of shareholder | | | Ferenc Máté | Anikó Varga | Kinga Szalay | Bernadett Szirtes | Dr András Szabadházy | Zoltán Tóth | Angelika Fóris | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of preferred employee shares held | | | 151 | 150 | 150 | 80 | 65 | 150 | 110 | 856 |
| Is alienation prohibited? | | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | |
| *Prohibit | Beginning of the period | End of the period | Number of shares under prohibition of alienation | | | | | | | |
| | 16.09.2015 | indefinite** | 151 | 150 | 150 | 80 | 65 | 150 | 110 | 856 |

*** The shareholder grants Guy Dymschiz or Doron Dymschiz the right of first refusal in accordance with Section 6:221 and the right of repurchase in accordance with Section 6:224 of Act V of 2013 on the Civil Code, for an indefinite duration.*

## 8. Other Issues Regarding Controlling Powers and Executive Officers

We declare that in respect of the following issues, apart from what is otherwise included in the business report, our Company has nothing more to report:

| |
|---|
| • Holders of issued ownership shares embodying special controlling rights and the presentation of such rights |
| • Control mechanism under any employee shareholder scheme where controlling rights are not exercised directly by employees |
| • Any restriction on voting rights (in particular, restrictions on the voting rights attached to the identified ownership share or on the number of votes, deadlines for exercising voting rights and the systems that help separate, in cooperation with the Company, the financial benefits associated with the ownership shares from the possession of the issued ownership shares) |
| • Rules governing the appointment and dismissal of executive officers and the modification of the Statutes |
| • The powers of executive officers, in particular their powers to issue and repurchase shares |
| • Any material agreement to which the Company is a party which enters into force, is modified or terminates after a public purchase offer as a result of a change in the entrepreneur's control and their impact unless the disclosure of this information would harm the entrepreneur's lawful interests seriously if such information is not required to be made public by any other legal regulations |
| • Any agreement between the Company and its executive officer or its employee which stipulates compensation if the executive officer resigns or the employee quits, if the employment contract of the executive officer or the employee is unlawfully terminated or if the legal relationship is terminated because of a public purchase offer. |

## 9. Risk Management

The Company's assets contain liquid assets, securities, trade and other receivables and other assets excluding deferred tax assets. The Group’s liabilities include loans and borrowings, supplier and other payables, excluding the gains or losses arising from the revaluation at fair value of taxes and financial liabilities.

The Group is exposed to the following financial risks:

- credit risk
- liquidity risk
- market risk

This Chapter describes the Group’s risks specified above, the Group’s objectives and policies, measurement of the processes and risk management, as well as the capital management of the Group. The Board of Directors has overall responsibility for the establishment, supervision and risk management of the Group.

The objective of the Group's risk management policy is to identify and investigate the risks the Group faces, to establish appropriate control and to monitor the risks. The policy and system of risk management are reviewed so that they reflect the changing market conditions and the Group's activities.

**Capital management**

The Group's policy is to preserve the registered capital that is sufficient for investor and creditor confidence in the future to sustain the future development of the Group. The Board of Directors seeks to maintain a policy whereby the Company undertakes a higher exposure arising from lending activity only with a higher rate of return, based on the advantages provided by a strong capital position and security.

The Group’s capital comprises net external funds and the Group’s share capital (the latter comprises registered capital, reserves and the ownership share of non-controlling shareholders).

The Group’s capital management strives to ensure that the individual members of the Group are able to engage in their respective operations and maximise profit for the shareholders by striking a balance between loan capital and equity. Furthermore, it also strives to maintain an optimal capital structure in order to reduce capital costs. The Group also carries out monitoring which aims to ensure that its member companies’ capital structure complies with the local legal requirements.

The Company’s capital risk was not significant in the year 2017.

**Credit Risk**

Credit risk arises from the failure of borrowers or partners to fulfil their contractual obligations, which in turn results in a financial loss for the Company or its subsidiaries. Financial instruments that are exposed to credit risks may be long or short-term placements, cash and cash equivalents, trade and other receivables.

The book value of financial instruments shows the maximum risk exposure. The table below shows the maximum credit risk exposure of the Group on 31 December 2017 and 31 December 2016.

| | **31.12.2017** | **31.12.2016** |
|---|---|---|
| Trade receivables | 482,247 | 286,205 |
| Other accounts receivable | 176,766 | 53,648 |

| | | |
|---|---|---|
| Financial instruments | 69,609 | 66,401 |
| Cash and cash equivalents | 1,428,500 | 1,583,686 |
| **Total** | **2,157,122** | **1,989,940** |

### Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations by the due date. Under the Group's liquidity management approach, there should always be sufficient liquidity available to cover the Group's obligations when they fall due under both standard and stressed circumstances without the Group's incurring unacceptable losses or risking its reputation. To further minimise liquidity risk, reduce transaction costs and increase efficiencies, as of 7 December 2017 the Group operates its bank accounts related to operations in Hungary in a cash-pool system that enables automated group financing. The cash pool is backed up by a HUF 100 million current account credit facility, sufficiently large for the purposes of daily operations, to meet any temporary additional funding needs.

### Market risk

Market risk is the risk that a change in the market prices, such as exchange rates, interest rates and prices of investments in mutual funds will affect the Group's profit or the value of its investments made in financial instruments. Market risk management is aimed at managing market risk exposure and keeping it at an acceptable level while optimising profitability.

### Real estate development risk

On top of the previously mentioned financing and market risks typical of the real estate development activity, the Company mostly focuses on increasing construction costs. Before bank financing is in place, MyCity Group is exposed to increasing liquidity risk by the growing number and the advancement of the development phase of projects being implemented by the project companies.

The Group has concluded that, fundamentally, its profit much depends on key variables of a financial nature and on the interest rate risk, therefore, it has carried out sensitivity analyses in these key variables.

The Group strives to ensure the reduction of the interest rate risk primarily by committing the liquid assets. The Group's currency risk is insignificant, primarily because in all three countries it carries out the sales and purchases in the given country's currency. The Group does not enter into currency hedging transactions.

## 10. Changes After the Balance Sheet Date

The following non-adjusting events happened after the balance sheet date and up to the date when the financial statements were authorised for issue.

**The sale of the Zsinór 39. Kft project company**

After considering possibilities for ensuring optimum return on the project on the one hand and economies of scale on the other hand, the Company decided to sell the project.

Consequently, the direct owner of the project company, i.e. MyCity Residential Development Kft concluded a sale and purchase agreement on 23 January 2018 for the sale of its 100% ownership share in Zsinór 39 Projekt Kft. and its equity loan in favour of the project company. At 31 December 2017 the book value of Zsinór 39 Projekt Kft's equity under IFRS was HUF 48,429,800 and the amount of its equity loan in favour of MyCity was HUF 151,633,800 based on unaudited general ledger data. Under the sale and purchase agreement the purchase price of the 100% business share was HUF 104,772,600 and the consideration for the cession of the equity loan was HUF 145,227,400. These amounts are to be paid by the buyers in instalments by 30 June 2018. The transaction will be considered closed as and when the purchase price and the consideration for the equity loan are paid in full.
In connection with the sale MyCity Residential Development Kft repaid in full the HUF 50,000,000 Raiffeisen Bank loan that had been secured by the building lot owned by Zsinór 39. Kft, the collateral being mortgaged and secured by a prohibition of alienation and encumbrance.

**Purchase of treasury shares**

On 15 February 2018 the Company authorised MKC Investments Sp. Z.o.o (hereinafter: MKC) to sell in over-the-counter transactions the 66,987 series "A" ordinary shares issued by the Company, of HUF 50 nominal value each, that MKC had held under lock-up. MKC sold the total number of ordinary shares it had held in an OTC transaction. Under this transaction, of the total shares offered for sale by MKC the Company purchased 31,200 of its treasury shares over the counter on 20 February 2018. The purchase was based on the authorization of the Board of Directors of the Company, dated 30 January 2018, for the purposes of a workers' stock ownership scheme. As at 22 March 2018 the amount of treasury shares held by the Company is 31,200.

**Prepayment of loan financing the Reviczky-Liget development**

On 27 February 2018 Reviczky 6-10. Korlátolt Felelősségű Társaság, an indirect subsidiary of the Company, repaid the full amount, i.e. HUF 828,911,424 of the loan taken out with Takarékbank Zrt in relation to the construction of the Reviczky Liget apartment complex. The prepayment was financed from the purchase price and advances received under the project.

## 11. Declaration on Corporate Governance

In light of the length and structural layout of the Group's declaration on corporate governance ("Responsible Corporate Governance Report") it is attached to this consolidated business report as an annex. The declaration on corporate governance constitutes an inseparable part of the consolidated business report.

## 12. Declaration on Responsibility

The Board of Directors of the Company prepared this report to the best of their knowledge on the basis of the data of the audited consolidated report related to the first half of 2017 prepared in accordance with the International Financial Report Standards (IFRS), accompanied by an independent auditor's report.

This consolidated report provides a true and reliable picture of the Company's situation and performance and those of its businesses involved in the consolidation.

Budapest, 22 March 2018

**Persons authorised to sign the (consolidated) business report:**

Doron Dymschiz Gay Dymschiz Ferenc Máté

Board Member Board Member Board Member

CORPORATE GOVERNANCE REPORT

During the operation **DUNA HOUSE HOLDING Nyilvánosan Működő Részvénytársaság** (headquarters: 1016 Budapest, Gellérthegy utca 17.; commercial register code: Cg. 01-10-048384, hereinafter referred to as "***Company***") fully complies with the applicable legal requirements, in particular, with the provisions of Act V of 2013 on the Civil Code ("***Civil Code***") and of Act CXX of 2001 on capital markets ("***Act on capital markets***"), as well as the regulations of the Budapest Stock Exchange ("***BSE***") and those of the Hungarian National Bank ("***HNB***").

The organisational structure and operating conditions of the Company are contained in the prevailing statutes and rules of procedure of its individual bodies in addition to the fact that the functioning of the Company and of its individual bodies at all times complies with the principles contained in this Corporate Governance Report.

## I. A Bried Presentation of the Board of Directors' Operation

The Board of Directors functions as the Company's management.

Among the objectives and activities of the Board of Directors the shareholder value, the efficiency and increasing profitability are of key importance. All these are implemented in such a way that the operation fully complies with the external regulations and business ethics. The powers of the Board of Directors are determined by the legislation, Company's Statutes and Rules of Procedure of the Board of Directors.

The competence of the Board of Directors includes making decisions on all matters which do not fall within the exclusive competence of the General Meeting, including, in particular:

a) Convening the Company's ordinary and extraordinary general assemblies; adoption of the rules of procedure of the Board;
b) Submission of the Annual Report in accordance with the Accounting Act and of a proposal for the use of the profit after tax to the Supervisory Board and the General Meeting;
c) Preparation and submission to the Annual General Meeting of the report on the management, on the Company's financial situation and its business policy;
d) Making decisions related to the Company's general business and development policy concept, as well as on the annual and medium-term plans;
e) Making decisions related to the acquisition of another company, or acquisition of a part of its registered capital (share capital) and/or establishment of another company;
f) Increasing the registered capital on the basis of the General Meeting's authorising resolution;
g) Making decisions regarding taking or provision of loans;
h) Acquisition of own shares based on the authorisation of the General Meeting, their disposal;
i) Making decisions on the acceptance of a public purchase offer made for the own share;
j) Registering rights, facts and data that are required by law and are to be registered in the company register at the Companies Court;
k) Authorising the Company's employees to represent the Company in a group of issues;

The Company's organisational structure is developed by the Board of Directors.

The Rules of Procedure are adopted by the Board of Directors itself.

The Board of Directors makes its decisions by a simple majority of votes, unless provided otherwise in respect of certain issues in the rules of procedure of the Board of Directors.

Members of the Board of Directors are elected by the General Meeting, and the Board membership is established upon acceptance. The Board of Directors does not have independent members, the Company expects independence only from the Supervisory Board members performing the audit.

The Board membership shall be terminated:
a) in case of fixed-term mandate, upon expiry of the mandate,
b) in case of mandates with a terminating condition, upon occurrence of the condition,
c) upon removal,
d) upon resignation,
e) upon the board member's death,
f) upon limiting a board member's legal capacity in the scope required to carry out his or her activity, or
g) upon occurrence of an excluding or incompatibility reason affecting the board member.

The Company's Statutes make it possible for the Board members to fill executive and supervisory board positions in business entities whose main economic activity is identical to that of the Company's. The primary reason for this is the circumstance that the Company is a member of the DUNA HOUSE Group within which there are further business organisations whose principal business activities are the same as those pursued by the Company.

Members of the Board:

**Gay Dymschiz**, appointed for an indefinite period with effect from 31 March 2015.
**Doron Dymschiz**, appointed for an indefinite period with effect from 31 March. 2015.
**Ferenc Máté**, appointed for a period from 20 April 2017 until 31 May 2018.
**Zoltán Varga**, Board Member, appointed for a period from 20 April 2017 until 31 May 2018.

The Company's representation is performed by the members of the Board of Directors.

For a given category of issues, the Board of Directors may grant the right of representation to the Company's employees. An employee authorised to represent may not transfer his or her right of representation to others.

The Board members shall be entitled to sign on behalf of the Company as follows:
a) Gay Dymschiz together with any other board member,
b) Doron Dymschiz together with any other board member,
c) Ferenc Máté together with Gay Dymschiz or with Doron Dymschiz,
d) Zoltán Varga together with Gay Dymschiz or with Doron Dymschiz

in accordance with the specifications contained in the specimen signature or in the signature sample countersigned by an attorney.

The Board of Directors elects its Chairman from among its members.

The Board of Directors exercises its rights and responsibilities as a body. The division of responsibilities and powers among the members of the Board of Directors - including the exercise of employer's rights - is set in the Rules of Procedure adopted by the Board of Directors.

Members of the Board of Directors take part in the Company's General Meeting in an advisory capacity.

A board meeting can be convened by the Chairman of the board or by a member of the board by indicating the reason and purpose of the meeting. Minutes of the meeting must be kept. The Chairman of the Board conducts the board meeting, appoints the person to keep the minutes of the meeting, orders the voting and announces its results. Resolutions are passed by a simple majority.

Every year, the annual ordinary General Meeting includes in its agenda the evaluation of the work performed by the Board of Directors in the previous business year, and makes a decision on the indemnification to be granted to the Board.

## II. Presenting the Division of Responsibilities and Duties Between the Board of Directors and the Management

In the periods between the meetings of the Board of Directors, the Company's operational management is performed by the following members of the Company's Board: Doron Dymschiz, Gay Dymschiz and Ferenc Máté, while the strategic management of the Company is the responsibility of board members Gay Dymschiz and Doron Dymschiz.

With individual responsibility, the operational management deals with issues in the context of the legislation in force, the Statutes, the Rules of Procedure of the Board of Directors and in the framework of the decisions made by the General Meeting and the Board of Directors.

The operational management can delegate its powers - generally or by way of ad hoc provisions, in the scope of the company's internal administration - to its managers and employees with a job description with the understanding that the possible limitation of the powers of the members of the Management arising from the membership has no legal effect against third parties.

The Chairman of the Board - in case of hindrance Gay Dymschiz, board member - has the entitlement to make decisions in all matters that do not fall within the competence of the General Meeting or the Board of Directors.

The Chairman of the Board of Directors implements the resolutions and decisions made, and manages the performance of tasks within the scope of activities carried out by the Company.

## III. A Bried Presentation of the Supervisory Board's Operation

Following the dual management structure, there is a Supervisory Board at the Company which carries out the supervision of the Company's management and business. The principle of independence is fully enforced with respect to all members of the Supervisory Board.

The Supervisory Board consists of at least three members.

The Supervisory Board establishes its own rules of procedure.

Members of the Supervisory Board are obliged to personally participate in the work of the Supervisory Board.

Members of the Supervisory Board are independent of the legal person's management and cannot be instructed in their activities.

Members of the Supervisory Board are elected by the General Meeting. The Supervisory Board membership is established upon acceptance.

The Supervisory Board membership is terminated:
a) in case of fixed-term mandate, upon expiry of the mandate,
b) in case of mandates with a terminating condition, upon occurrence of the condition,
c) upon removal,
d) upon resignation,
e) upon the Supervisory Board member's death;
f) upon limiting the Supervisory Board member's legal capacity in the scope required to carry out his or her activity;
g) upon occurrence of an excluding or incompatibility reason affecting the Supervisory Board

member.

The powers and duties of the Supervisory Board include, among others, the following:

a) control the Board
b) provide opinion on all significant business policy reports as well as on the corporate governance

report submitted to the General Meeting

c) provide opinion on the Company's annual report and annual consolidated report prepared in accordance with the International Financial Reporting Standards, as well as on the Board's proposal for the use of the after-tax profit of the Company
d) setting up internal audit systems of the Company, management and implementation of the internal control

The Supervisory Board has the entitlement to inspect the Company's documents, accounting registers, the books, to request information from the Board members and the employees, to inspect the Company's payment account, cash-desk and its contracts with the involvement of an expert. The Supervisory Board may request information from the executive officers and from the Company's senior managers.

The General Meeting can make a decision on the Company's annual report and annual consolidated report prepared in accordance with the International Financial Reporting Standards only in possession of the Supervisory Board's written report.

At least 21 days prior to the annual ordinary General Meeting, but in any case in time in accordance with applicable laws, the Supervisory Board must prepare a written report to the General Meeting containing conclusions on issues that are within its remit.

If the Supervisory Board considers that the activities of the board violate the law, the Statutes and/or the resolutions of the General Meeting, or otherwise are detrimental to the interests of the company or of the shareholders, it shall convene an extraordinary session of the Assembly and shall propose its agenda.

The Supervisory Board acts as a body. It elects a Chairman from among its members.

The Supervisory Board shall have a quorum if two-thirds, but at least three of its members are present. Its members shall act in person, there shall be no representation in the activities of the Supervisory Board. The members in this capacity cannot be instructed by the Company's shareholders or by their employer. In case of failure or improper fulfilment of their obligation to implement control, the supervisory board members bear responsibility for damages caused to legal entities in conformity with the rules of liability for damage caused by breach of contract to the legal entity.

The Supervisory Board determines the Rules of Procedure itself, to be approved by the General Meeting. It holds sessions as necessary, but at least four times a year.

It can mandate any of its members with an inspection task, or can share the control related tasks among the members on a permanent basis.

The Supervisory Board shall meet at the times it deems necessary, but at least four times a year. The Supervisory Board makes its decisions by a simple majority of those present, unless the Rules of Procedure of the supervisory board provide otherwise.

Members of the Supervisory Board:

**Károly Redling**, appointed for a period from 20 April 2017 until 31 May 2018.
**Balázs Sándorfi**, appointed for a period from 20 April 2017 until 31 May 2018.
**Dr. Hajdu György Martin**, appointed for a period from 20 April 2017 until 31 May 2018.

## IV. A Bried Presentation of the Audit Committee's Operation

The Audit Committee is a body assisting the work of the Company's Supervisory Board in the provision of opinion, evaluation and in making recommendations. Its powers are defined by law, the Company's Statutes, the resolutions of the General Meeting and the Rules of Procedure.

The Audit Committee consists of three members elected by the General Meeting from among the members of the Supervisory Board. At least one member of the Audit Committee must have accounting or auditing qualifications.

The competence of the Audit Committee shall cover

a) provision of opinion on the financial statements prepared in accordance with the International Financial Reporting Standards;
b) follow-up the audit of the financial statements prepared in accordance with the International Financial Reporting Standards;
c) making a proposal for the person of the auditor and his/her remuneration;
d) Monitoring the enforcement of the professional requirements with respect to the auditor and the requirements related to the auditor's independence and conflict of interest, and - if necessary - making proposals for the supervisory board on measures to take; and
e) Assisting the work of the Supervisory Board for a proper control of the financial reporting system.

Members of the Audit Board:

**Károly Redling**, appointed for a period from 20 April 2017 until 31 May 2018.
**Balázs Sándorfi**, appointed for a period from 20 April 2017 until 31 May 2018.
**Dr. Hajdu György Martin**, appointed for a period from 20 April 2017 until 31 May 2018.

## V. Long-Term Auditor

The long-term auditor of the Company is elected by the General Meeting.

Keeping the principle of independence in mind, this position shall not be filled by the Company's shareholder, executive officer (member of the Board of Directors), a member of the Supervisory Board, their relative, or by the Company's employee during the existence of such legal status and for three years following its termination.

The appointment of an auditor is for a fixed period which shlakk not be longer than five years. The auditor may be re-elected. The auditor's mandate can be terminated by recalling by decision of the General Meeting, upon expiry of the period covered by the contract concluded with the auditor, upon the occurrence of the statutory grounds for disqualification, and upon termination by the auditor of the contract.

The Auditor is responsible for carrying out audits in accordance with the standards, and for presenting his/her findings in an independent auditor's opinion as to whether the company's financial statements comply with the relevant legislation, and for providing a true and fair view of the company's assets, liabilities, financial and earnings situation and the economic results of the operation.

The Company's permanent auditor on the date of adoption of this Corporate Governance Report:
**BDO Magyarország Könyvvizsgáló Korlátolt Felelősségű Társaság** (registered office: 1103 Budapest, Kőér utca 2/A. C. ép.; Commercial register code: Cg. 01-09-867785).

Person responsible for the audit: Péter Kékesi (1158 Budapest, Neptun u. 90.).

The permanent auditor is appointed for a period from 20 April 2017 until 31 May 2018.

The Company invites the Auditor to the General Meeting which adopts financial

statements.

The auditor did not perform any other activities in addition to the audit activities carried out for the Company.

## VI. Disclosure Policy

The Company pays special attention to the principle of transparency and to the provision of accurate and fast information establishing the right economic decisions to the shareholders and prospective investors. In this regard, the Company's disclosure policy complies with the relevant provisions of the Act on capital markets and of the BSE.

In providing information, the Company ensures that all shareholders and market participants are treated equally. The Company's disclosure related guidelines ensure that the information intended to be published is published as soon as possible.

Each year, the Board of Directors informs the annual ordinary General Meeting of the strategic business objectives of the given business year, and of the policies on the main activities and business ethics. In the in accordance with the disclosure rules, the Company publishes the proposals prepared for the General Meeting and the resolutions adopted by the General Meeting.

At least twenty-one days prior to the General Meeting, the Company publishes on its website the following

a) aggregated data on existing shares at the time of the assembly and on the proportion of the voting rights (including separate totals for each class of shares),
b) proposals relating to the issues included in the agenda, the Supervisory Board reports related to those, as well as draft resolutions, and
c) forms to be used in voting by proxy if they are not directly sent to the shareholders.

The Company has detailed risk management rules covering all types of risks arising from the nature of its activities. Information on the Company's risk management practices is provided in the annual report.

## VII. Exercising Shareholders' Rights

The Company's Board of Directors ensures that shareholders always receive the information necessary to exercise their rights in the right time by promoting accurate, appropriate and timely disclosure of information in compliance with its disclosure policy.

The Board of Directors is obliged to provide information relating to the Company to its shareholders in accordance with the applicable regulations and those laid down in the Statutes. The Board of Directors can make the provision of information subject to making a written declaration of confidentiality.

The Board of Directors may refuse to provide the requested information to a shareholder if that would violate trade secrets of the Company or of its affiliates, if the shareholder requesting information abuses his or her right, or if - despite a call to make a declaration of confidentiality - the shareholder fails to comply with it.

In its share structure the Company applies the principle of “number of votes equal to the nominal value”, the same rights are attached to the shares except that the shares owned by employees provide a dividend priority to the shareholders.

The Company’s share register is managed by Központi Elszámolóház és Értéktár Zrt. (KELER) in which the company keeps track of the shareholder’s (in the case of jointly owned shares - the common representative’s) name, place of residence or registered office, for each series of shares the number of the shareholder's shares or temporary shares and the shareholder's stake. If data recorded in an issued share which is also recorded in the share register changes, the management shall amend the share register as well.

For a proof of share ownership, the Company accepts securities account statements issued by KELER and by organizations authorised to manage securities accounts, as well as shareholder identifications conducted in accordance with KELER’s procedural rules.

Shareholders may exercise their right to participate and vote at the General Meeting in person or by proxy. A shareholder may not exercise his or her right to vote by mail before the General Meeting.

Participation and voting by shareholders in the General Meeting is subject to registration for the shareholder or the proxy by proof of ownership in the Company's share register.

The date of making the registration in the share register prior to the General Meeting, as well as other relevant deadlines (eg. closing the share register) are governed by the provisions of the Civil Code and other relevant regulations (eg. General Business Rules of KELER Zrt.) in force.

Having regard to the shareholder's legal relationship, during the term of the Company, the Company can fulfil payment for a shareholder from its own capital in cases defined in the Civil Code and from the profit or loss brought forward completed with the current year's profit after tax.

## VIII. Annual General Meeting

The General Meeting is the Company's highest decision-making body.

The General Meeting shall be convened at least once a year (*annual general meeting*) at the Company's head office or other place specified by the Board of Directors. The annual ordinary General Meeting shall be held at the date required by the applicable legislation.

The annual ordinary General Meeting adopts the financial statements prepared in accordance with the International Financial Reporting Standards, and decides on the use of the profit after tax.

The General Meeting is convened by the Company's Board of Directors by way of publication of the invitation, which also ensures that the invitation for the general meeting is published on the company's website at least thirty days before the opening day of the General Meeting.

The General Meeting shall have a quorum if more than half of the shares embodied by the shareholders and entitled to vote are present. If the General Meeting has no quorum, the reconvened General Meeting shall constitute a quorum in the issues on the original agenda regardless of the proportion of the vote represented by those present. A minimum of ten days has to elapse between the General Meeting with no quorum and the reconvened meeting, but this period may not be longer than twenty-one days.

The Company's statute lists the following under the exclusive competence of the General Meeting:

a) Deciding on establishing and amending the Statute (unless the law or the Company's statute provides otherwise),
b) Making decisions on changing the operational form of the company,
c) Making decisions on the Company's reorganization, merger, demerger or termination without legal successor,
d) Appointing and/or recalling members of the board of directors, members of the supervisory board and the auditor, determining their remuneration and making decisions related to the major conditions of the agreement to be concluded with the auditor,
e) Making decisions on the guidelines determining the long-term remuneration of, and incentive system for, the board members, supervisory board members and senior employees,
f) Approval of financial statements prepared in accordance with the International Financial Reporting Standards and making decisions on the use of the profit after tax,
g) Changing the rights attached to individual series of shares, and amending individual share types and classes,
h) Making decisions on issuing convertible bonds with subscription rights or quick-change bonds,
i) Making decisions on increasing the registered capital,
j) Making decisions authorizing the board to increase the registered capital,
k) Making decisions on decreasing the registered capital,
l) Making decisions on the exclusion of the preferential right of subscription and on authorising the Board to limit and to exclude the preferential right of subscription,
m) Making decisions on requesting to delist shares from the stock exchange,
n) Making decisions on authorising the Board to acquire own shares,
o) Making decisions on granting indemnification to the members of the Board of Directors,

p) Making decisions on adopting the corporate governance report.

In addition, the exclusive competence of the General Meeting includes decision-making on all issues in which the exclusive competence of the General Meeting is granted by law or the Statutes.

Unless relevant laws or the Company's Statutes provide otherwise, the General Meeting makes its decisions by simple majority.

The Chairman of the Board of Directors may invite any person to the General Meeting, and may ensure to that person the right to provide opinion and comment if in the Chairman's opinion that person's presence is required and it facilitates the provision of information to the shareholders and the adoption of the decisions by the General Meeting.

In accordance with the relevant provisions the Civil Code, an attendance list shall be prepared at the General Meeting. The attendance sheet is authenticated by the signature of the Chairperson of the General Meeting and of the person taking the minutes.

## IX. Remuneration Statement

According to the Company's Statutes, the General Meeting has the authorisation to determine the fees to be paid to the board members, the supervisory board members and to the members of the Audit Committee.

The Board of Directors continuously evaluates the work of the management. The management have an established system of remuneration which currently consists of a basic salary and a bonus potential. The Company operates a share-based compensation system in accordance with applicable internal rules.

Corporate Governance Report
on Compliance with the Corporate Governance Recommendations

As part of the Corporate Governance Report, by filling out the tables below, the Company declares to what extent the recommendations and suggestions made in the specified sections of the Corporate Governance Recommendations ("CGR") published by Budapesti Értéktőzsde Zrt. were applied by the Company in its corporate governance practices.

By making an overview of the tables, market participants can easily obtain information about the extent to which each company's corporate governance practices are in compliance with the specific requirements included in the CGR, and it also makes the practices of certain companies easily comparable.

## Level of Compliance with the Recommendations

The Company marks whether it applies the relevant recommendation or not, and if it does not, it provides brief information on the reasons why it does not apply to the specific recommendations.

| Section | Statement | Yes | No | Explanation |
|---|---|---|---|---|
| A 1.1.1 | The Management Board made it possible for the shareholders to receive access to the information necessary to exercise their rights at the appropriate time. | X | | |
| A 1.1.2 | The Company applies the principle of "one share - one vote". | | X | 1 |
| A 1.2.8 | The Company ensures that shareholders may participate in the General Meeting by meeting the same criteria. | X | | |
| A 1.2.9 | The agenda of the General Meeting includes only issues whose topic was precisely defined and described. | X | | |
| | The proposals touched upon the suggestion made by the Supervisory Board, and included a detailed explanation of the effects of the decision. | X | | |
| A 1.2.10 | The Shareholders' comments and complementary suggestions made with respect to the items on the agenda were published no later than two days prior to the General Meeting. | X | | |
| A 1.3.8 | The shareholders had the possibility to become acquainted with the comments made with respect to the items on the agenda of the General Meeting simultaneously with registration at the latest. | X | | |
| | The written comments made with respect to the items on the agenda were published two business days prior to the General Meeting. | X | | |
| A 1.3.10 | Election and recall of the senior officers took place for each person individually in separate resolutions. | X | | |
| A 2.1.1 | The responsibilities of the Management Board/ include those laid out in Section 2.1.1. | X | | |
| A 2.3.1 | The Management Board held regular meetings scheduled in advance. | X | | |
| | The Supervisory Board held regular meetings scheduled in advance. | X | | |
| | The Rules of Procedure of the Management Board provides for the conducting of unscheduled meetings and decision-making through electronic communications channels. | X | | |
| | The Rules of Procedure of the Supervisory Board provides for the conducting of unscheduled meetings and decision-making through electronic communications channels. | X | | |
| A 2.5.1 | The Company's Management Board/Supervisory Board has a sufficient number of independent members to ensure impartiality. | X | | 2 |
| A 2.5.4 | At regular intervals, the Management Board/Supervisory Board (in connection with the CG Report) requested a confirmation of their independent status from those members considered independent. | X | | |
| A 2.5.6 | The Company has published on its website the guidelines | | X | 3 |

| | | | | |
|---|---|---|---|---|
| | concerning the independence of the Board of Directors/Supervisory Board and the applied criteria of independence. | | | |
| A 2.6.1 | A member of the Board of Directors/Management Board informed the Board of Directors/Management Board (Supervisory Board/Audit Committee) if in connection with a transaction of the Company (or any of its subsidiaries) he or she (or another person associated with the member) had a personal interest. | X | | |
| A 2.6.2 | Transactions between the board and the management members (and persons associated with them) and the company (or its subsidiary) were carried out in compliance with the company's overall business practices, but - compared to the general business practice - based on stricter transparency rules. | X | | |
| | Transactions under Section 2.6.2 which are different from the company's overall business practice and their terms and conditions are approved by the Supervisory Board (Audit Committee). | X | | |
| A 2.6.3 | The board member informed the Supervisory Board/Audit Committee (Nomination Committee) if they received a request for board membership or management membership at a company which does not belong to the group. | X | | |
| A 2.6.4 | The Board of Directors/Management Board developed its guidelines for the flow of information within the company and on the handling of insider information, and monitored compliance with those guidelines. | X | | |
| | The Management Board/Management Board established its guidelines on insider trading in securities and monitored compliance with those guidelines. | X | | |
| A 2.7.1 | The Board of Directors/Management Board formulated remuneration guidelines regarding the evaluation and remuneration of the work performed by the Board of Directors/Management Board, the Supervisory Board and the management. | | X | 4 |
| | The Supervisory Board commented on the remuneration guidelines. | | X | 4 |
| | The principles related to the remuneration of the Board of Directors/Management Board and the Supervisory Board and their changes were approved by the General Meeting as a separate agenda item. | | X | 4 |
| A 2.7.2. | The Board of Directors/Management Board evaluated the work it carried out in the given business year. | X | | |
| A 2.7.2.1 | The Supervisory Board evaluated the work it carried out in the given business year. | | X | |
| A 2.7.3 | Supervision of the management's performance and determining its remuneration is within the competence of the Board of Directors/ Management Board. | X | | |
| | The budget related to the benefits for the members of the management other than the usual benefits as well as their changes were approved by the general meeting as a separate agenda item. | X | | |
| A 2.7.4. | The principles of the share-based remuneration schemes were approved by the General Meeting. | X | | 5 |
| | Before the decision made by the General Meeting on the share-based remuneration schemes the shareholders received detailed information (at least in line with the provisions of Section 2.7.4) | X | | 5 |
| A 2.7.7 | The Company prepared the Remuneration Statement and presented it to the General Meeting. | | X | 4 |
| | The Remuneration Statement includes the remuneration of the Board of Directors/Management Board, the Supervisory Board and the individual members of the management. | | X | 4 |
| A 2.8.1 | The Board of Directors/Management Board or the committee operated by it is responsible for the overall risk management monitoring and controlling of the Company. | X | | |
| | With a specified regularity the Board of Directors/Management Board requests information on the efficiency of the risk | X | | |

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| | management procedures. | | | |
| | The Board of Directors/Management Board has taken the necessary steps to identify the major risk areas. | X | | |
| A 2.8.3 | The Board of Directors/Management Board has formulated the principles regarding the system of internal controls. | X | | |
| | The system of internal controls established by the management ensures management of the risks which affect the Company and achieving the Company's objectives. | X | | |
| A 2.8.4 | When developing the system of internal controls, the Board of Directors/Management Board took into consideration the viewpoints listed in Section 2.8.4. | X | | |
| A 2.8.5 | It is the management's responsibility and task to establish and maintain a system of internal controls. | X | | |
| A 2.8.6 | The company has created an independent internal audit function which has a reporting requirement towards the Audit Committee/Supervisory Board. | | X | 6 |
| | The internal audit group at least once reported to the Audit Committee/Supervisory Board on the risk management, the internal audit mechanisms and the corporate governance functions. | | X | 6 |
| A 2.8.7 | The internal audit activities are performed by the internal audit based on authorisation from the Audit Committee/Supervisory Board. | | X | 6 |
| | The internal audit is organisationally separate from the management which performs the operational management. | X | | |
| A 2.8.8 | The internal audit plan is approved by the Board of Directors/Management Board (Supervisory Board) based on the recommendation of the Audit Committee. | | X | 6 |
| A 2.8.9 | The Board of Directors/Management Board has prepared its report for the shareholders on the operation of the internal controls. | | X | 7 |
| A 2.8.10 | The Board of Directors/Management Board has developed its procedures related to receiving and processing reports on the operation of internal controls, as well as those on preparing its own report. | | X | 7 |
| A 2.8.11 | The Board of Directors/Management Board has identified the substantial deficiency in the system of internal controls, and reviewed and re-evaluated the activities related to this. | X | | |
| A 2.9.2 | The Board of Directors/Management Board, the Supervisory Board and the Audit Committee were in all cases notified, if the auditor's mandate, by its nature, could involve significant expense, could cause a conflict of interest, or may have any other significant impact on the business. | X | | |
| A 2.9.3 | The Board of Directors/Management Board informed the Supervisory Board that it had entrusted the business organization performing the audit and an external advisor with a task related to an event significantly affecting the Company's operations. | X | | |
| | In its decision the Board of Directors/Management Board set down in advance the kind of circumstances which significantly affect the Company's operations. | | X | 8 |
| A 3.1.6 | The company has published on its website those tasks which it had delegated to the Audit Committee, the objectives, the rules of procedure and the composition of the committee (indicating the name, brief CV and the date of appointment). | X | | |
| A 3.1.6.1 | The company has published on its website those tasks which it had delegated to the Nomination Committee, the objectives, the rules of procedure and the composition of the committee (indicating the name, brief CV and the date of appointment). | | X | 9 |

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| A 3.1.6.2 | The company has published on its website those tasks which it had delegated to the Remuneration Committee, the objectives, the rules of procedure and the composition of the committee (indicating the name, brief CV and the date of appointment). | | X | 10 |
| A 3.2.1 | The Audit Committee/Supervisory Board monitored the efficiency of the risk management, the functioning of the internal control system and the activities of the internal audit as well. | X | | |
| A 3.2.3 | The Audit Committee/Supervisory Board received accurate and detailed information on the work programme of the internal inspector and of the independent auditor, and received the report on the problems discovered during the audit. | X | | |
| A 3.2.4 | The Audit Committee/Supervisory Board requested from the new candidate for the auditor the disclosure statement according to Section 3.2.4. | X | | |
| A 3.3.1 | The Company has a Nomination Committee. | | X | 9 |
| A 3.3.2 | The Nomination Committee provided for the preparation of the personnel related changes. | | X | 9 |
| | The Nomination Committee reviewed the procedures for the selection and appointment of the management members. | | X | 9 |
| | The Nomination Committee evaluated the activities performed by the board and management members. | | X | 9 |
| | The Nomination Committee examined all the proposals regarding the nomination of board members which had been submitted by shareholders or the Board of Directors/Management Board. | | X | 9 |
| A 3.4.1 | The Company has a Remuneration Committee. | | X | 10 |
| A 3.4.2 | The Remuneration Committee made a proposal for a system of remuneration for the boards and the management (individual level and structure of remuneration) and carries out its monitoring. | | X | 10 |
| A 3.4.3 | The remuneration of the management was approved by the Board of Directors/Management Board based on a proposal made by the Remuneration Committee. | | X | 10 |
| | The Board of Directors'/Management Board's remuneration was approved by the General Meeting based on the proposal of the Remuneration Committee. | | X | 11 |
| | The Remuneration Committee checked the share option system, as well as the system of cost reimbursements and other benefits. | | X | 10 |
| A 3.4.4 | The Remuneration Committee made proposals regarding the remuneration principles. | | X | 10 |
| A 3.4.4.1 | The Remuneration Committee made proposals regarding the remuneration of individual persons. | | X | 12 |
| A 3.4.4.2 | The Remuneration Committee reviewed the terms of the contracts concluded with the members of the management. | | X | 10 |
| A 3.4.4.3 | The Remuneration Committee checked if the Company complied with the obligation to provide information regarding remuneration issues. | | X | 10 |
| A 3.4.7 | The majority of the members of the Remuneration Committee are independent. | | X | 10 |
| A 3.5.1 | The Board of Directors/Management Board disclosed its reasons for merging the Remuneration and the Nomination Committees. | | X | 10 |
| A 3.5.2 | The Board of Directors/Management Board carried out the tasks of the Nomination Committee, and it provided information | | X | 10 |

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| | on the reasons for doing it. | | | |
| A 4.1.1 | In the Company's disclosure guidelines the Board of Directors/Management Board defined those principles and procedures which ensure that everything concerning the company and the important information that has an impact on the rate of the Company's securities is disclosed in an accurate, complete and timely manner. | X | | |
| A 4.1.2 | In the course of providing information, the Company ensured that all shareholders and operators were treated equally. | X | | |
| A 4.1.3 | In its disclosure guidelines the Company specifies the procedures for electronic and online disclosure. | X | | |
| | The Company develops its website by taking into consideration the disclosure criteria and by bearing in mind the provision of information to investors. | X | | |
| A 4.1.4 | The Board of Directors/Management Board assessed the efficiency of the disclosure processes. | X | | |
| A 4.1.5 | The Company published its corporate events calendar on its website. | X | | |
| A 4.1.6 | In its Annual Report and on its website the Company informed the public of its strategic objectives, its main activities, business ethics and about its policies regarding other stakeholders. | | X | 13 |
| A 4.1.8 | In the annual report the Board of Directors/Management Board made a declaration about the nature and size of any other assignments received by the auditing firm responsible for auditing the annual financial statements from the company or its subsidiaries. | | X | 15 |
| A 4.1.9 | In its annual report and on its website the Company discloses the information on the professional career of the members of the Board of Directors/Management Board, of the Supervisory Board and the Management. | X | | |
| A 4.1.10 | The Company provided information on the internal organisation and functioning of the Board of Directors/Management Board and the Supervisory Board. | X | | |
| A 4.1.10.1 | The Company provided information on the work carried out by the Board of Directors/Management Board and the Management, as well as on the criteria taken into consideration when making assessment of individual members. | X | | |
| A 4.1.11 | In the remuneration declaration contained in the Annual Report and on the website the Company provided information to the public on the remuneration guidelines applied by it and, within it, about the remuneration of the members of the Board of Directors/Management Board and the Management. | | X | 14 |
| A 4.1.12 | The Board of Directors/Management Board disclosed its risk management policy in which it described the system of internal controls, the applied risk management principles and the fundamental rules, as well as a review of the major risks. | | X | 16 |
| A 4.1.13 | In order to inform the operators, every year, when releasing its annual report, the Company publishes its corporate governance report. | X | | |
| A 4.1.14 | On its website the Company publishes the insiders' guidelines on trading in the Company's securities. | | X | 17 |
| | The Company disclosed the shares members of the Board of Directors/Management Board, of the Supervisory Board and of the Management have in the company's securities as well as the interest they have in the share-based incentive scheme in the annual report and on the Company's website. | | X | 17 |
| A 4.1.15 | In the annual report and on its website the Company disclosed the relationship between the members of the Board of | X | | |

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| | Directors/Management Board/Management and any third parties which can affect the company's operations. | | | |

## Level of Compliance with the Suggestions

The company must indicate whether it applies the relevant recommendation of the FTA, or not (Yes/No).

| Section | Statement | Yes | No | Note |
|---|---|---|---|---|
| J 1.1.3 | The company has an organisational unit which deals with investor relations. | X | | |
| J 1.2.1 | The Company published on its website the summary document on conducting the General Meeting and on exercising voting rights by the shareholders (including voting via proxy). | X | | |
| J 1.2.2 | The Company's Statutes can be viewed on the Company's website. | X | | |
| J 1.2.3 | The information according to Section 1.2.3 (on the record date of corporate events) has been disclosed on the Company's website. | X | | |
| J 1.2.4 | Information on general meetings according to Section 1.2.4 and documents (invitations, proposals, recommendations, resolutions, minutes) was published on the Company's website. | X | | |
| J 1.2.5 | The Company held its General Meeting in a way that made it possible for the largest number of shareholders to attend. | X | | |
| J 1.2.6 | Within five days of the receipt, in a manner equivalent to the original publication of the invitation to the general meeting, the Company published the additions to the agenda. | X | | |
| J 1.2.7 | The voting procedure applied by the Company ensured that the owners' decision is determined in a clear, concise and fast manner. | X | | |
| J 1.2.11 | At the request of shareholders the Company sent the information on the general meeting electronically as well. | X | | |
| J 1.3.1 | The General Meeting of the Company approved the chairman of the General Meeting before the beginning of the substantive discussion of the items on the agenda. | X | | |
| J 1.3.2 | The Board of Directors/Management Board and the Supervisory Board were represented at the General Meeting. | X | | |
| J 1.3.3 | The Company's Statutes provide an opportunity that, on the initiative of the Board of Directors/Management Board or the Company's shareholders, a third party can be invited to take part in the general meetings of the company and can be granted the right to provide comments and opinion at the General Meeting when discussing the related agenda. | X | | |
| J 1.3.4 | The Company did not limit the right of the shareholders attending the General Meeting to request information and to make comments or proposals and did not pose any prerequisites either. | X | | |
| J 1.3.5 | On its website the Company published within three days its answers to those questions which it was unable to answer in a satisfactory way at the General Meeting. The Company disclosed its explanation for refusing to provide answers. | X | | |
| J 1.3.6 | The Chairman of the General Assembly and the Company ensured that in answering the questions raised at the meeting the information and disclosure related principles enshrined in the laws and those formulated in stock exchange regulations are not violated but are complied with. | X | | |

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| J 1.3.7 | The Company issued a press release on the decisions made at the General Meeting and held a press conference as well. | X | | |
| J 1.3.11 | On certain amendments of the Statutes the General Meeting of the Company decided in separate resolutions. | X | | |
| J 1.3.12 | The Company published the decisions and the minutes of the General Meeting containing the presentation of draft resolutions and important questions and answers regarding the draft resolutions within 30 days after the General Meeting. | X | | |
| J 1.4.1 | The Company paid the dividends to its shareholders within 10 business days, for which the shareholders provided all the necessary information and documentation. | | X | |
| J 1.4.2 | The Company disclosed its policy regarding anti-takeover prevention. | X | | |
| J 2.1.2 | The Rules of Procedure of the Board of Directors/Management Board contain the structure of the Board of Directors/Management Board, the tasks related to the preparation and implementation of the meetings and drafting the resolutions, as well as other issues regarding the operation of the Board of Directors/Management Board. | X | | |
| J 2.2.1 | The Supervisory Board details the operation and duties of the board in its rules of procedure of its work schedule, as well as those administrative rules and processes which the Supervisory Board followed. | X | | |
| J 2.3.2 | Board members had access to the proposals of the given meeting at least five days prior to the board meeting. | X | | |
| J 2.3.3 | The procedures regulate the regular or occasional participation at the board meetings of persons who are not board members. | X | | |
| J 2.4.1 | The election of the members of the Board of Directors/Management Board takes place in a transparent way, the information on the candidates was made public at least five days prior to the general meeting. | X | | |
| J 2.4.2 | The composition of the bodies and the number of members comply with the principles set out in Section 2.4.2. | X | | |
| J 2.4.3 | In the Company's introductory programme the newly elected non-operational board members had an opportunity to familiarize themselves with the structure and operations of the Company, as well with as their duties as members of the board. | X | | |
| J 2.5.2 | The division of the Chairman's and the CEO's competences is stipulated in the Company's main documents. | | X | |
| J 2.5.3 | The Company disclosed information on what means it will use in case of combining the office of the Chairman and the CEO to ensure that the Board of Directors/Management Board will stay objective in assessing the Management's activities. | | X | |
| J 2.5.5 | None of the members of the Company's Supervisory Board held a position in the Company's Board of Directors or Management in the three years prior to their nomination. | X | | |
| J 2.7.5 | Developing the remuneration system for the Board of Directors/Management Board, the Supervisory Board and the Management of the Company serves the strategic interests of the Company and, through this, of the shareholders. | X | | |
| J 2.7.6 | For Supervisory Board members the Company applies a fixed remuneration and does not apply a remuneration component linked to the share price. | X | | |

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| J 2.8.2 | The Board of Directors/Management Board developed the risk management principles and the fundamental rules together with those members of the Management who are responsible for planning, implementation and control of the risk management processes, as well as for integrating those into the Company's daily operations. | | X | |
| J 2.8.10 | When evaluating the system of internal controls, the Board of Directors/Management Board took into account the aspects specified in Section 2.8.10. | | X | |
| J 2.8.12 | The Company's auditor assessed and evaluated the Company's risk management systems and the risk management activities pursued by the Management, and submitted a report on this to the Audit Committee/Supervisory Board. | X | | |
| J 2.9.1 | The rules of procedure of the Board of Directors/Management Board includes the procedure to be followed when employing an external advisor. | | X | |
| J 2.9.1.1 | The rules of procedure of the Supervisory Board includes the procedure to be followed when employing an external advisor. | | X | |
| J 2.9.1.2 | The rules of procedure of the Audit Committee includes the procedure to be followed when employing an external advisor. | | X | |
| J 2.9.1.3 | The rules of procedure of the Nomination Committee includes the procedure to be followed when employing an external advisor. | | X | 9 |
| J 2.9.1.4 | The rules of procedure of the Remuneration Committee includes the procedure to be followed when employing an external advisor. | | X | 9 |
| J 2.9.4 | The Board of Directors/Management Board can invite the company's auditor to attend in an advisory capacity the meetings on which agenda items of the general meeting are discussed. | X | | |
| J 2.9.5 | The Company's internal audit cooperated with the auditor in order to successfully carry out the audit. | X | | |
| J 3.1.2 | The chairman of the Audit Committee regularly reports to the Board of Directors/Management Board on each of the committee meetings, and the Committee prepared at least one report to the Executive Board and the Supervisory Board in the given business year. | X | | |
| J 3.1.2.1 | The chairman of the Nomination Committee regularly reports to the Board of Directors/Management Board on each of the committee meetings, and the Committee prepared at least one report to the Executive Board and the Supervisory Board in the given business year. | | X | 9 |
| J 3.1.2.2 | The chairman of the Remuneration Committee regularly reports to the Board of Directors/Management Board on each of the committee meetings, and the Committee prepared at least one report to the Executive Board and the Supervisory Board in the given business year. | | X | 10 |
| J 3.1.4 | The Company's committees are made up of members who have the capabilities, expertise and experience required to perform their duties. | X | | |
| J 3.1.5 | The rules of procedure of committees operating at the Company include the aspects detailed in Section 3.1.5. | X | | |
| J 3.2.2 | The members of the Audit Committee/Supervisory Committee were fully informed about the accounting, financial and operational peculiarities. | X | | |

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| J 3.3.3 | The Nomination Committee prepared at least one evaluation for the Chairman of the Board of Directors/Management Board on the operation of the Board of Directors/Management Board, and on the work and suitability of certain members of the Board of Directors/Management Board in the given business year. | | X | 9 |
| J 3.3.4 | The majority of the members of the Nomination Committee are independent. | | X | 9 |
| J 3.3.5 | The rules of procedure of the Nomination Committee includes the aspects set out in Section 3.3.5. | | X | 9 |
| J 3.4.5 | The Remuneration Committee ensured that the remuneration statement is prepared. | | X | 10 |
| J 3.4.6 | The Remuneration Committee consists exclusively of the non-operational members of the Board of Directors/Management Board. | | X | 10 |
| J 4.1.4 | The Company's disclosure guidelines cover at least those aspects which are contained in Section 4.1.4. | X | | |
| | The Board of Directors/Management Board informed the shareholders in the annual report of the results of the examination of the efficiency of the disclosure processes. | | X | |
| J 4.1.7 | The Company prepares its financial statements in accordance with IFRS principles. | X | | |
| J 4.1.16 | The Company prepares and discloses the information also in the English language. | X | | |

***Notes:***

1. The Company applies the principle of voting rights proportional to the nominal value of the share, each share representing 50 votes.
2. The Company does not operate a Management Board implementing a unified management system. Instead, there is a Board of Directors and a Supervisory Board. The control function at the Company is performed by the Supervisory Board, while the executive function by the Board of Directors. All members of the Supervisory Board are independent of the Company.
3. The Company uses the statutory requirements for independence, hence it has not elaborated separate specific guidelines in this regard.
4. The Company has not adopted a remuneration policy and did not prepare a remuneration statement.
5. Determining the principles of the share-based remuneration schemes is within the powers of the shareholders represented in the AGM. The Board of Directors submits any draft resolutions modifying the renumeration policy to the General Meeting.
6. The Company's internal audit function is performed directly by the Audit Committee and the Supervisory Board. The Company has not adopted an internal audit plan.
7. The Company does not produce such a report.
8. No preliminary Board decision had been made as to which events are to be regarded as having a significant influence on the company's operations with the view to make a decision based on a consideration of the combination of the event and the other circumstances whether the given event indeed has a significant affect on the operation of the Company.
9. The Company does not operate a Nomination Committee. The role of the Nomination Committee is performed by the Board of Directors.
10. The Company does not operate a Remuneration Committee. The role of the Remuneration Committee is performed by the Board of Directors.
11. The remuneration shall be approved by the General Meeting, but not based on a proposal of the Remuneration Committee. There is no Remuneration Committee at the Company.
12. In terms of the Statute of the Company, the appointment and election as well as the renumeration of all members of the Board of Directors, Supervisory Board, Audit Committee is an exclusive right of the shareholders represented in the General Meeting. The Company has no Remuneration Committee.
13. The Company did not provide such information.
14. The annual report does not contain any renumeration policy, since there is no renumeration policy in force at the Company. However, the annual report does contain the aggregate amount of renumeration received by all members of the Board of Directors, the Supervisory Board and the Audit Committee.
15. The annual report does not include this.
16. The Board of Directors did not publish its risk management guidelines.
17. The Company does not publish these risk management guidelines separately on its website.