DUNA HOUSE HOLDING NYRT.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

ACCORDING TO INTERNATIONAL FINANCIAL REPORTING STANDARDS 31 DECEMBER 2016

DUNA HOUSE®

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Consolidated statement of financial position

data in HUF thousand, unless otherwise indicated

	Notes	31.12.2016	31.12.2015.
ASSETS			
Long-term assets			
Intangible assets	5	84,692	52,665
Investment properties	4	939,362	1,323,536
Real properties	3	519,319	469,009
Plant and equipment	3	53,920	46,679
Goodwill	6	992,089	18,500
Investments in associates and joint ventures	7	506,273	-
Financial instruments	8	66,401	48,119
Deferred tax receivables	9	158,829	15,134
Total long-term assets		**3,320,885**	**1,973,642**
Current assets			
Inventories		11,616	8,494
Trade receivables	10	286,205	76,126
Receivables from affiliated companies	11	378,709	-
Other receivables	12	53,648	40,913
Actual income tax receivables		35,119	23,915
Prepayments and deferred income	13	321,744	412,402
Cash and equivalents	14	1,583,686	415,747
Total current assets		**2,670,727**	**977,597**
Total assets		**5,991,612**	**2,951,239**

Consolidated statement of financial position

data in HUF thousand, unless otherwise indicated

LIABILITIES	Notes	31.12.2016	31.12.2015.
Equity			
Subscribed capital	15	153,050	153,050
Capital reserve	15	9,479	9,479
Exchange reserve	16	(23,318)	-
Profit reserve	15	2,444,092	1,525,238
Total equity of the parent company		**2,583,303**	**1,687,767**
Non-controlling shares	17	(40,154)	-
Total shareholders' equity		**2,543,149**	**1,687,767**
Long-term liabilities			
Long-term loans	18	582,664	495,155
Deferred tax liabilities	19	86,557	39,026
Other long-term liabilities	20	10,629	9,597
Total long-term liabilities		**679,850**	**543,778**
Short-term liabilities			
Short-term loans and borrowings	21	198,830	114,000
Liabilities to suppliers	22	68,975	35,233
Liabilities to affiliated companies	23	1,740,880	11,031
Other liabilities	24	264,302	240,884
Actual income tax liabilities		11,284	25,747
Accruals and deferred income	25	484,342	292,799
Total short-term liabilities		**2,768,613**	**719,694**
Total liabilities and equity		**5,991,612**	**2,951,239**

Consolidated statement of profit or loss and other comprehensive income

	Notes	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Net sales revenues	26	4,784,484	2,833,371
Other operating income	27	279,090	232,193
Total revenues		**5,063,574**	**3,065,564**
Material expenses	28	58,063	35,240
Goods and services sold	29	1,847,035	732,309
Services used	30	1,695,546	752,768
Staff costs	31	412,871	298,159
Depreciation and amortisation		77,795	73,900
Other operating charges	32	169,629	62,330
Operating expenses		**4,260,939**	**1,954,706**
Operating profit/loss		**802,635**	**1,110,858**
Financial revenues	33	87,902	17,930
Financial expenses	34	(66. 924)	(7,450)
Profit of participations valued with the equity method	7	505,273	-
Profit before taxation		**1,328,886**	**1,121,338**
Income taxes	35	(161,027)	(155,598)
Profit after taxation		**1,167,859**	**965,740**
Other comprehensive income		**(23,255)**	**-**
Total comprehensive income		**1,144,604**	**965,740**
Of the total comprehensive income:			
Portion of the parent company		**1,143,745**	**967,197**
Portion of external shareholders		**859**	**(1,457)**
Income per share (HUF)	36		
Basic		371	300
Diluted		371	300

The notes on pp. 9-62 constitute an integral part of the consolidated financial statements

Statement of changes in 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 2014	**150,000**	**-**	**968,722**		**1,118,722**	**27**	**1,118,749**
Dividend			(405,000)		(405,000)	-	(405,000)
Share capital increase	3,050	9,479	(1)		12,528		12,528
Total comprehensive income			967,197		967,197	(1,457)	965,740
Transactions with non-controlling shares			(5,680)		(5,680)	1,430	(4,250)
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**

The notes on pp. 9-62 constitute an integral part of the consolidated financial statements

Consolidated Cash Flow Statement

data in HUF thousand, unless otherwise indicated

	01.01.2016 - 31.12.2016	01.01.2015 - 31.12.2015.
Cash flow from operation		
Profit after taxation	1,167,859	965,740
Adjustments for:		
Amortisation for the year	77,795	73,900
Deferred taxes	(96,164)	17,600
Revaluation of investment properties	(188,031)	(183,038)
Badwill	(56,272)	-
Valued with the equity method	(505,273)	-
Changes in working capital		
Changes in inventories	(3,122)	(3,506)
Changes in trade and other receivables	(612,728)	108,051
Changes in prepayments and deferred income	90,658	(113,367)
Change in trade payables	33,742	23,678
Changes in other current liabilities	238,807	(125,962)
Changes in accruals and deferred expenses	191,543	101,406
Net cash flow from operation	***338,815***	***864,502***
Cash flow from investing activities		
(Purchase of) tangible assets, investment property and intangible assets	(819,605)	(1,027,295)
Revenue from the sale of tangible assets	1,096,588	-
Acquisition of participations	(873,464)	-
Net cash flow from investment activities	***(596,481)***	***(1,027,295)***
Cash flow from financing activities		
Bank loans/(repayment)	172,339	352,675
Capital contribution	1,499,997	12,529
Sale / (purchase) of securities	-	351,585
Dividend payment	(246,730)	(405,000)
Net cash flow from financing activities	***1,425,605***	***311,789***
Net change in cash and cash equivalents	1,167,939	148,996
Balance at the beginning of the year for cash and cash equivalents	415,747	266,751
Balance at the end of the year for cash and cash equivalents	**1,583,686**	**415,747**

The notes on pp. 9-62 constitute an integral part of the consolidated financial statements

1. General part

1.1 Introduction of the Company

Duna House Holding Nyrt. - hereinafter referred to as "Company" or "Group" - was founded in 2003; its main activity is real estate brokerage. For many years, it has maintained a leading position in the services sector in Hungary, mainly in the area of brokerage of real estate and financial products. The flagship of the Group is the national real estate brokerage franchise network, which opened in 2003 and is now available at 139 points, serving its customers with a team of more than 1,400 sales officers. The transaction, in the course of which 100% of the largest Polish real estate brokerage network Metrohouse was acquired by the Hungarian Duna House Group was closed in April 2016. At the time of the acquisition the Polish network had 80 offices and 600 sales officers, which the Group intends to develop in the future. Metrohouse was consolidated into the Duna House Group on 1 April 2016. On 2 September 2016 the Company acquired 80% participation in the Czech Duna House Franchise s.r.o and, through it, in its two subsidiaries, Center Reality s.r.o and Duna House Hypotéky s.r.o.

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

The Company's core activities include:

- sale and operation of franchise system(s)
- real estate brokerage
- financial products brokerage
- insurance brokerage
- preparing real estate appraisal and the related agency services
- preparing energy certificates and the related agency services
- real estate management
- buying and selling of own real estate
- residential real estate fund management
- real estate development

42.75% of Duna House Holding Nyrt. is owned by Medasev Int. (Cyprus) Ltd. (former name: Duna House Int. (Cyprus) Ltd., address: 106-108 Ermou Street Stoa G.I Kizi Block Ermou, Flat 110 6022 Larnaca, Cyprus, registration number: HE203598)

Owner’s name	**Ownership ratio as of 31 December 2016**	**Ownership ratio as of 31 December 2015**
Medasev Int. (Cyprus) Ltd.	42.75%	45.74%
Medasev Holding Kft.	32.03%	52.27%
Private individuals	1.96%	1.96%
Employee shares	0.03%	0.03%
External investors	23.23%	-
Total:	**100%**	**100%**

The operation of the Company is controlled by the Board of Directors. The supervisory tasks 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. Within the framework of that strategy it acquired the Polish Metro House Group in April 2016, which has the largest real estate sales franchise network in Poland. The Duna House Group is gradually developing the full support scale of Metro House franchise system, relying on the Hungarian experiences and taking into account the particularities of the Polish market. In the next 1-2 years the Group intends to organically develop its activities in Poland and in the Czech Republic , and then looks towards new markets or extends its market presence on existing markets through further acquisitions, by purchasing adequate targets.

1.2 Basis of the financial statements

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

The Board of Directors approved the consolidated financial statements on 27 March 2017. The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards, as announced and inacted in a regulation in the official journal of the European Union (EU). The IFRS consists of the standards and interpretations developed by the International Accounting Standards Board (IASB) and the International Financing Reporting Interpretations Committee (IFRIC).

From 1 January 2005 the amended Hungarian Accounting Act permits Groups to prepare their consolidated financial statements according IFRS, announced in a Regulation in the Official Journal of the European Union. At the moment there is no difference between the Group IFRS and IFRS policies accepted by the EU according to the EU in acting processes and the activities of the Group. 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 2016 and according to the IFRIC interpretations.

The parent company prepares its non-consolidated annual financial statements pursuant to Act C of 2000 on Accounting. Certain provisions of that act are different from the provisions of the International Financing Reporting Standards (IFRS). Certain modifications had to be made in the Group's Hungarian consolidated financial statements in order to make the consolidated financial statements compliant with the International Financing Reporting Standards.

The financial statements were prepared on the basis of the historical cost principle, except when the IFRS require the use of a different valuation principle 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 following assets and liabilities which are presented at fair value and which are financial instruments valued at fair value against the profit.

While preparing the financial statements in compliance with IFRS the management must apply a professional approach, estimates and assumptions, which have an impact on the applied accounting policy and on the amounts of assets and liabilities, revenues and expenses stated in the financial statement. 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 the current and future years.

2. Accounting policy

Below we present the major accounting policies that were applied by preparing the consolidated financial statements. The 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 voting rightd of the particular company and enjoys the advantages of its activities through an influence on its financial and operational activities.

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, unless such losses indicate some impairment of the related assets. 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. 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 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 FX balances

In view of the content and circumstances of the underlying business events, the functional currency of the parent company and the 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 balance sheet 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 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 intermediated product and its tenor, the delay in the prepayment of the respective borrower and the continuation rate of the total active intermediated 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 intermediation transactions were executed. The calculation model estimates the schedule of the wear of the portfolio based on the empirical figures of the former years and gradually inserts the actual data into the model.

2.1.4 Real estate, machines, 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 impairment 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 resulting 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 useful 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 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 recoverable amount of the asset. The estimated recoverable amount of an asset or cash-generating unit is either the fair value less the costs to sell or the value in use, whichever is higher. The Group recognises impairment against the profit if the estimated recoverable amountof 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 recorded in the books at purchase price, while intangible assets acquired in a business combination are recorded in the books at fair value at the time of their acquisition. An asset is recognized in the books when the use of that asset probably results in the inflow of future economic benefits and its cost can be measured reliably.

Following the initial recognition the historical cost model applies to intangible assets. The useful life of these assets is either finite or cannot be determined. The assets of a finite useful life are depreciated on a straight-line basis according to the best estimate for their useful lives. The useful lives as well as the depreciation methods used are reviewed annually at the end of the financial year. The development costs of internally generated intangible assets are capitalised if the capitalisation criteria laid down in IAS 38 are fulfilled. The carrying amount of intangible assets is reviewed annually for impairment on an individual basis or at the level of their respective cash 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 fair value of consideration paid and the fair value of the identifiable net assets of the acquired subsidiary on the date of the 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

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.

2.1.9 Receivables

Receivables are stated in the financial statements and nominal value less any 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 Financial instruments

The financial assets falling within the scope of IAS 39 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 available-for-sale financial assets. When the financial assets are recognized, initially they are valued at fair value. Of the above categories the Group does not apply the available-for-sale financial assets category.

After their initial recognition the financial assets that are "for trading" 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 available-for-sale securities is shown as a separate component of equity until the investment is sold or otherwise derecognized or until impairment is recognised on that particular investment, at which point the accumulated profit or loss recognised in equity is transferred into the profit and loss statement.

The other long-term investments that are held to maturity, such as certain bonds, are measured at amortised historical cost after their 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 in the profit and loss statement.

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 balance sheet date, had the impairment not occurred.

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 publically listed price, effective on the balance sheet date. The unrealised profits and losses are included in the profit and loss account.

2.1.11 Financial liabilities

The statement about the Group's consolidated financial position 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 and 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 through profit and loss, 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 through profit and loss are liabilities obtained by the Group for trading purposes or liabilities deemed valued at fair value through profit and loss 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 profit or loss and comprehensive income.

2.1.12 Provisions

The Group recognises provisions on its existing (legal or assumed) commitments resulting from past 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 onerous contracts are recognised as provisions. The Group deems a contract onerous 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.

2.1.13 Investment properties

A property is recognised as an investment property when it is used by the business in order to earn an income from its rental or value appreciation or both and not from its sale, or its usage for the manufacturing of goods or the supply of 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 of any transaction costs. The Group opted for the fair value model for the measurement of investment properties. The effect of any adjustment arising on the fluctuation of their fair value is recognised in the profit and loss statement of the current year against other operating income. There is no scheduled depreciation on investment properties.
The profit or loss arising from the fluctuation 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.

2.1.14 Corporation tax

The corporate tax rate is based on the act on corporate and dividend tax and the tax liability imposed in a local bylaw on local business tax and is modified by the deferred taxes. The corporate 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 to be 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 temporary timing 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 temporary timing 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 timing 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 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.

2.1.15 Leasing

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 lessor 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 rime 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.

2.1.16 Earning per share (EPS)

The earning per share figure is established on the basis of the Group's profit and the shares less the temporary average portfolio of treasury shares.

The diluted earning/share is calculated similarly to the earning/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 2016 or on 31 December 2015 that would dilute the value of that EPS rate.

2.1.17 Off-balance sheet items

The 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. The 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 the influx of economic benefits is likely, they are presented in the notes to the financial statements.

2.1.18 Treasury shares

The face value of treasury shares is deducted from the registered capital. The difference between the face value and historical cost is recognised directly in the capital reserve.

2.1.19 Dividend

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

2.1.20 Profit/loss 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.

2.1.21 Government grants

A government grant is recognised when it is likely that the grant will be collected and the conditions of the disbursement of the grant have been fulfilled. When the grant 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 grant 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.

2.1.22 Events after the balance sheet date

Events after the balance sheet date providing 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 balance sheet date that do not modify the data of the report are presented in the notes to the financial statements provided they are material.

2.2 Changes in the Accounting Policy

The Group prepared its financial statements in compliance with the provisions of all standards and interpretations that were in force on 31 December 2016.

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. The Group will examine the impact of the amendment.

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 contracts 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 Revenue and IAS 11 Construction Contracts in the recognition of revenues. According to the new standard the companies will use a "five-step model" to determine when and in what amount they should recognise revenues. According to the model the revenues must be recognised to express the "performance obligations" to transfer of goods or services in the amount to which the company will be entitled to according to its expectations. The Group will examine the impact of the new standard.

IFRS 16 Leasing (effective from 1 January 2019)
The IASB issued a new standard on the recognition of leasing on 13 January 2016. The application of the new leasing 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 leasing standard and will fundamentally change the previous recognition of operative leasing. The Group will examine the impact of the amendment.

In 2016 the Group applied all IFRS standards, modifications and interpretations that were effective on 1 January 2016 and were 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 accounting principles the Group tests each year whether or not any impairment took place in goodwill. The recoverable amount of cash-generating units was defined on the basis of the calculation of their 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 only be calculated from them.

2.3.2 Impairment recognised on bad debt and doubtful debt

The Group recognises impairment on bad debt and doubtful debt to cover the losses arising from the fact that customers cannot pay. The impairment recognised in the consolidated balance sheet for bad debt and doubtful debt amounted to HUF 161,048 thousand on 31 December 2016 and HUF 78,850 thousand on 31 December 2015. The estimates used for the assessment of the appropriateness of impairment recognised on bad debt and doubtful debt are based on the aging of receivables, the credit rating of the customer and variation in the customer’s payment patterns.

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 receivable from trail commission recognised in the consolidated balance sheet was HUF 188,040 thousand on 31 December 2016 and HUF 184,870 thousand on 31 December 2015.
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, which 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 uses a valuation expertto establish the fair value of the investment properties and also relies on its own knowledge stemming from its extensive experience in the industry.

2.3.5 Depreciation

Properties, plant and equipment as well as intangible assets are recognised at historical cost and are depreciated with the straight-line method during their useful life. The Group recognised depreciation costs in the amount of the HUF 77,795 thousand in the year ending on 31 December 2016 and HUF 73,900 thousand in the year ending on 31 December 2015. 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 Business combination details, enterprises involved in the consolidation

As a Subsidiary

	Address:	2016	2015
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%	-
Metrofinance Sp. z.o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
MH Południe Sp. z.o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
Metrohouse Uslugi Wspólne S.A	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
MH Warszawa Sp. z.o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
Duna House Franchise s.r.o.	140 00 Praha 4, Michelská 300/60 (Czech Republic)	80%	-
Duna House Hypoteky s.r.o.	140 00 Praha 4, Michelská 300/60 (Czech Republic)	80%	-
Center Reality s.r.o.	140 00 Praha 4, Michelská 300/60 (Czech Republic)	80%	-

As an associate or joint venture

	Address:	2016	2015
MyCity Residential Development Kft.[1]	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.	25%	-

(*) Subsidiaries of MyCity Residential Development Kft.

[1]Investment House Kft. was renamed to be MyCity Residential Development Kft. in the second half of 2016.

The foreign subsidiaries were acquired as follows:

Company name	Identifiable net assets	Ownership and voting ratio	Net asset value of the parent company	Consideration	Goodwill/ (badwill)
Metrohouse Franchise S.A.	271,097	100%	271,097	863,464	592,367
Metrofinance Sp. z.o.o	41,545	100%	41,545	429	(41,116)
MH Południe Sp. z.o.o	(23,942)	100%	(23,942)	714	24,656
MH Usługi Wspólne S.A.	(169,188)	100%	(169,188)	22,146	191,334
MH Warszawa Sp. z.o.o	14,411	100%	14,411	714	(13,697)
Duna House Franchise s.r.o	(526)	80%	(421)	10,000	10,421
Center Reality s.r.o.	(209,501)	80%	(167,601))	0	167,601
Duna House Hypotéky s.r.o	1,842	79.2%	1,459	0	(1,459)
Total:	(74,262)		(32,640)	897,467	
Total goodwill					986,379
Total badwill					(56,272)

The goodwill occurring as a result of the acquisition of foreign companies is re-valued on the balance sheet date, in compliance with the requirements of IAS 21 standard, using the exchange rate prevailing on the balance sheet date.

MyCity Residential Development Kft was acquired as follows:

Net value of identifiable assets and liabilities:	HUF -3,876 thousand
% of net assets involved in acquisition:	50%
Value of net assets involved in acquisition:	HUF -1.938 thousand
Acquisition price:	HUF 1,000 thousand
Surplus:	HUF 2,938 thousand

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 as well as their introduction in the network.

2.4.1.3 **Hitelcentrum Kft.**

It is a subsidiary of the Group that is engaged in financial product 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, Hitelcentrum 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 a 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 has traditionally been focusing on the intermediation of newly-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 certificates at the end of 2011. The certification, which became mandatory by law, is a new service provided by Duna House to sellers and lessors. 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 complete 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 and lease of owned properties with residential functions.

2.4.1.13 **Impact Alapkezelő Zrt.**

The Company intends to pursue alternative investment fund management activities (investment management activities performed for a collective investment trust, including performance of the tasks relating to the organization and operation of the collective investment trust) without fully submitting itself to the provisions of Kbftv. and intends to manage and AIF[2] ("below the limit" AIFM[3]). In its resolution H-EN-III-130/2016 of 20 April 2016, Magyar Nemzeti Bank licensed the Company 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 Company's 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**

MyCity Residential Development Kft. (former name: Investment House Kft.) is a joint venture of Duna House Holding Nyrt. and Eldar engineering (R.H.D.) Ltd., a company established in Israel, in which both partners have 50%-50% participation. The Company's main activity is to develop and implement a strategy for the development of residential properties within the real estate development segment through its subsidiaries (project companies). MyCity has five project companies (four subsidiaries and one jointly controlled company) at the moment.

Pusztakúti 12 Kft. was registered by the Court of Companies operating under the 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 Budapest, district 3, Csillaghegy.

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, district 18, on the area bordered by Hengersor and Reviczky utca.

The purpose of Zsinór 39 Projekt Kft. is to construct and sell a 43-unit residential property (Iris House) in Budapest, district 13.

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 under the name of MyCity Residence in Budapest, district 3, on the area bordered by Hunor utca and Vörösvári út.

[2] Alternative Investment Fund
[3] Alternative Investment Fund Manager

For the time being IH Project X Kft. does not perform any project implementation activity and its specific tasks will be defined in the future.

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 Metrohouse Group is Metrohouse Franchise S.A, in which Duna House Holding Nyrt. acquired 100% participation in April 2016. The Metrohouse 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.

Metrohouse Franchise S.A. has 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 operate their own offices in central Warsaw and in the south of Poland, in Krakow.

MH Uslugi Wspólne S.A is currently not involved in any operational activity.

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 office owned by it, while the other two companies with registered offices in Prague do not pursue any operational activity for the time being.

3. Property, Plant and Equipment

data in thousand HUF	**Properties**	**Equipment**	**Total**
Gross value			
At 31 December 2014	**624,697**	**231,773**	**856,470**
Expansion of the scope of consolidation	-	-	-
Growth and reclassification	11,866	17,792	29,658
Loss and reclassification	(138,898)	(112,831)	(251,729)
At 31 December 2015	**497,665**	**136,734**	**634,399**
Expansion of the 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**
Accumulated depreciation			
At 31 December 2014	**35,355**	**130,210**	**165,565**
Expansion of the scope of consolidation	-	-	-
Annual description	22,270	22,933	45,203
Decrease	(28,969)	(63,088)	(92,057)
At 31 December 2015	**28,656**	**90,055**	**118,711**
Expansion of the 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**
Net book value:			
At 31 December 2014	**589,342**	**101,563**	**690,905**
At 31 December 2015	**469,009**	**46,679**	**515,688**
At 31 December 2016	**519,319**	**53,920**	**573,239**

4. Investment properties

data in thousand HUF	**Total**
Book value	
At 31 December 2014	**-**
Growth and reclassification	1,140,498
Changes in the fair value	183,038
Loss and reclassification	
At 31 December 2015	**1,323,536**
Growth and reclassification	492,922
Changes in the fair value	188,031
Loss and reclassification	(1,065,127)
At 31 December 2016	**939,362**

Book value	
At 31 December 2014	**-**
At 31 December 2015	**1,323,536**
At 31 December 2016	**939,362**

A large number of investment properties was sold in Q3 2016. The reduction of the investment property portfolio and the utilisation of the released financial resources elsewhere were related to the shift in the management's focus to real estate development taking place at MyCity.
In the 2017 financial year the investment properties portfolio is likely to shrink further.

5. Intangible assets

data in thousand HUF	**Total**
Gross value	
At 31 December 2014	**167,790**
Expansion of the scope of consolidation	-
Growth and reclassification	67,004
Loss and reclassification	(7,526)
At 31 December 2015	**227,268**
Expansion of the scope of consolidation	49,453
Growth and reclassification	19,770
Loss and reclassification	(1,321)
At 31 December 2016	**295,170**
ACCUMULATED DEPRECIATION	
At 31 December 2014	**153,432**
Expansion of the scope of consolidation	-
Annual description	28,697
Decrease	(7,526)
At 31 December 2015	**174,603**
Expansion of the scope of consolidation	15,816
Annual description	21,380
Decrease	(1,321)
At 31 December 2016	**210,478**
Net book value:	
At 31 December 2014	**14,358**
At 31 December 2015	**52,665**
At 31 December 2016	**84,692**

6. Goodwill

The company recognised goodwill on the following subsidiaries.

Company Name	31 December 2016	31 December 2015
Metrohouse Franchise S.A.	592,367	-
MH Usługi Wspólne S.A.	191,334	-
Center Reality s.r.o.	167,601	-
MH Południe Sp. z.o.o	24,656	-
Home Management Kft.	18,500	18,500
Duna House Franchise s.r.o.	10,421	-
Conversion difference on the balance sheet date	(12,790)	
Total goodwill	**992,089**	**18,500**

According to the profit generating capacity of Home Management Kft. there is no factor that would require the recognition any impairment on goodwill. The goodwill of Polish and Czech subsidiaries is satisfactory according to the business plans of the subsidiaries. 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 associates and joint ventures

The value of investments in associated and jointly controlled companies shows the value of the 50% participation in MyCity Residential Development Kft., consolidated with the equity method. In 2016 the value of participation increased by HUF 505,273 thousand, which was the result of an increase of the net asset value of MyCity Residential Development Kft. and its subsidiaries and associated companies.

8. Financial assets

The Company’s financial assets were as follows:

	31 December 2016	31 December 2015
Deposit, security deposit	30,508	10,083
Opusse 138.000 bonds	29,158	-
PEMAK* 15221	-	38,036
Total	**59,666**	**48,119**

*PEMAK: Premium Euro Hungarian Government bonds

9. Deferred tax receivables

In the course of calculation of deferred tax the Group compares the value that can be taken into account for taxation to the book value by asset and 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 prefix. 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, because 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 both the Polish and Czech operation.

The assets are supported by a tax strategy prepared by the management, which proves the recovery of the asset.

The following deductible and taxable temporary differences were identified. The table shows the amount of the deferred tax asset set-up on such temporary differences.

	31 December 2016	31 December 2015
Impairment on trade receivables	55,967	5,980
Real estate, machines, equipment	-	(1,966)
Losses carried forward	102,862	11,120
Total deferred tax receivables	**158,829**	**15,134**

The significant increase in the deferred tax assets is explained by the acquisition of the group members established abroad in the current year.
During the operation of the Polish Metrohouse Franchise S.A. and its subsidiaries, MH Uslugi Wspólne Sp. z.o.o and MH Południe Sp. z.o.o in the past and during the current year approximately PLN 3,929,057 carried forward negative tax base occurred.
This carried forward negative tax base can be credited against the positive tax base of the subsequent periods according to the following table under the Polish corporate tax law:

Year of utilisation	Maximum disposable amount	
	PLN	(%)
2017	3,929,057	100%
2018	3,345,774	85%
2019	2,319,723	59%
2020	938,477	24%
2021	0	0%

Among the Czech companies a significant deferred tax asset (HUF 31,885 thousand) was recognised in the case of Center Reality s.r.o and Duna House Franchise s.r.o., which are based on the approximately CZK 12,7 million carried forward negative tax base of Center Reality s.r.o and Duna House Franchise s.r.o. Pursuant to the Czech corporate tax law the negative tax basis of the various financial years may be used for five years.

10. Trade receivables

	31 December 2016	31 December 2015
Trade receivables	398,470	151,976
Impairment on trade receivables	(112,265)	(75,850)
Total	**286,205**	**76,126**

11. Receivables from affiliated companies

	31 December 2016	31 December 2015
Receivables from affiliated companies	378,709	-
Total	**378,709**	**-**

The receivables from associated companies contain the following:

	31 December 2016	31 December 2015
MyCity Residential Development Kft.	362,300	-
Pusztakúti 12. Kft.	9,070	-
Reviczky 6-10. Kft.	2,447	-
Zsinór 39 Projekt Kft.	1,496	-
Other	3,396	-
Total	**378,709**	**-**

The majority of receivables from associated companies includes additional contribution to MyCity Residential Development Kft., receivables from loan and interest and interest receivable from the project companies of MyCity Residential Development Kft.

12. Other receivables

	31 December 2016	31 December 2015
Other receivables	53,648	40,913
Total	**53,648**	**40,913**

The other receivables consist of the following items:

	31 December 2016	31 December 2015
Other receivables (taxes)	12,930	16,976
Deposit provided	10,803	8,235
Short-term loans	6,000	3,758
Advances paid	5,228	11,944
Duty receivable from lawsuits	4,009	-
Rent deposited with lawyers	9,832	-
Other	3,372	-
Assigned receivables	1,473	-
Total	**53,648**	**40,913**

13. Prepayments and deferred income

	31 December 2016	31 December 2015
Trail commission	188,040	184,870
Prepaid revenues	93,834	195,007
Prepaid expenses	39,870	32,525
Total	**321,744**	**412,402**

The trail commission is the maintenance commission of long-term intermediated 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 intermediated financial product.

The factors affecting the amount of commission include the type of the intermediated product and its tenor, the delay in the prepayment of the respective borrower and the continuation rate of the total active intermediated 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.

14. Cash and equivalents

	31 December 2016	31 December 2015
Bank account	1,582,079	414,297
Cash in hand	1,607	1,450
Total	**1,583,686**	**415,747**

15. Subscribed capital and profit reserve

The Company's share capital is HUF 153,050 thousand, which consists of 3,060,000 dematerialised ordinary shares of HUF 50 face value each and 1,000 preferential shares of HUF 50 face value each.

In 2015, the executive compensation system was transformed. Consequently, Gay and Doron Dymschiz increased the subscribed capital of Duna House Holding Nyrt by HUF 3,000 thousand (30,000-30,000 ordinary shares), with the payment of HUF 9,480 thousand premium, as a result of which HUF 12,480 thousand was paid in as a capital increase with premiu , in exchange for which 60,000 "A" series ordinary shares were issued.

In 2015 the Company issued preferential employee shares at HUF face value, of which HUF 49 was paid in by the shareholders and HUF 1 was debited against the profit reserve. The employee shares were issued to implement a new executive compensation system. This created the employee share category (1,000 employee shares with preferential dividend rights).

A right of preferential dividend is associated with the employee shares issued by the Company. If the general meeting approves a 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 for the impact of the valuation of investment properties and the revaluation of participations involved in the consolidation with the equity method).

The employee shares shall 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 the employee shares shall not be cumulative.

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

In 2016, dividends in the amount of HUF 247,600,000 were approved. In accordance with the above, an equivalent of 6% of the consolidated IFRS profit adjusted with the profit arising from revaluation of investment properties in 2015 (HUF 47,600 thousand) is due to the preferential shareholders, while HUF 200,000 thousand of dividends is to be paid to ordinary shareholders.

The Board of Directors decides on the date of payment of dividend on employee shares.

Duna House Holding Nyrt. paid part of the purchase price payable to the former owner MKC Investments Sp. z.o.o in relation to the acquisition of Metrohouse Group in April 2016 with treasury shares. By acquiring in total 91,500 ordinary shares of HUF 50 face value each, MKC Investments Sp. z.o.o. became a 2.99% shareholder in Duna House Holding Nyrt. By the end of financial year the participation of MKC Investments Sp. z.o.o in the share capital of Duna House Holding Nyrt. dropped to 2.37%. Compared to that 0.62 percentage point decrease, the participation of Medasev Holding Kft. increased by 0.62%. The in total 0.62% participation was sold between the two shareholders in relation to the performance of the contractual obligations arising from the acquisition of the Metrohouse Group.

16. Exchange reserve

The year-end balance of the exchange reserve (HUF 23,318 thousand) equals the amount of the translation difference recognised in compliance with the IAS 21 standard with the involvement of the foreign subsidiaries of the Duna House Group in the consolidation.

17. Non-controlling shares

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

18. Long-term loans

	31 December 2016	31 December 2015
GDDC: Raiffeisen credit (FHB credit)	89,963	113,963
HLC: Raiffeisen credit II.	71,127	381,192
DHH: Raiffeisen credit (Metrohouse)	421,574	-
Total	**582,664**	**495,155**

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 principle and interest payment obligations. 2.5% interest is charged on the loan.

Repayment schedule[4] of the Raiffeisen (former FHB) loan:	Repayment schedule
2017	24,000
2018	24,000
2019	24,000
2020	24,000
2021	17,963
Total	**113,963**

HLC: Raiffeisen credit II.

On 2 June 2015 the Group signed a facility agreement with Raiffeisen Bank Zrt. for HUF 1,000,000 thousand (Raiffeisen II. loan). 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

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

written consent providing that the equity/balance sheet total ratio is at least 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**
2017	54,380
2018	54,380
2019	16,747
Total	**125,507**

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. The loan is repaid in quarterly equal instalments.

The further conditions include 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 securing 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 of the Raiffeisen (Metrohouse) loan:

	Repayment schedule
2017	120,450
2018	120,450
2019	120,450
2020	120,450
2021	60,225
Total	**542,023**

19. Deferred tax liabilities

	31 December 2016	31 December 2015
Due to the difference in the valuation of fixed assets and investment properties	70,005	20,718
Losses carried forward	-	(2,272)
Impairment	-	(1,604)
Due to the recognition of trail commission	16,552	22,184
Total	**86,557**	**39,026**

The significant increase in deferred tax liabilities stems from the tax liability calculated for the temporary timing differences that result from the revaluation of investment properties in Home Line Center Kft. and in the project companies of MyCity Residential Development Kft, valued with the equity method. Within the HUF 86,557 thousand balance HUF 16,552 thousand is a deferred tax liability resulting from the difference in the recognition of the trail commission realised in the financial product intermediation segment between the Hungarian and international accounting.

20. Other long-term liabilities

	31 December 2016	31 December 2015
Leases	10,629	9,597
Total	**10,629**	**9,597**

The Company leases a number of company cars under open-end financial lease agreement. The other short-term liabilities include the amount of such leasing liabilities due over 1 year.

21. Short-term loans and borrowings

	31 December 2016	31 December 2015
DHH: Raiffeisen credit (Metrohouse)	120,450	-
HLC: Raiffeisen credit II.	54,380	90,000
GDDC: Raiffeisen credit (FHB credit)	24,000	24,000
Total	**198,830**	**114,000**

The most important reason for the increase in the short-term loans is the shift in the stress towards bank loan financing in the Group's financing structure compared to the comparable period. Primarily due to the Raiffeisen (Metrohouse) loan supporting the acquisition in Poland the loan portfolio is approximately HUF 85 million higher than one year ago.

22. Trade payables

	31 December 2016	31 December 2015
Suppliers	68,975	35,233
Total	**68,975**	**35,233**

The increase in the trade payables relates primarily to the addition to the Group of the Polish Metrohouse companies and the Czech Duna House Franchise s.r.o and its subsidiaries, the liabilities of which amounted to HUF 41,243 thousand at the end of the reporting period.

23. Liabilities to affiliated companies

	31 December 2016	31 December 2015
Liabilities to affiliated companies	1,740,880	11,031
Total	**1,740,880**	**11,031**

The value of affiliated liabilities contains the following:

	31 December 2016	31 December 2015
Medasev Holding Kft.	1,499,997	-
Medasev Int. (Cyprus) Ltd.	203,355	-
Prescribed employee dividend	22,015	11,031
Bitkover Kft.	15,513	-
Total	**1,740,880**	**11,031**

Approximately one and half billion forints from the balance of the liabilities to associate companies are owed to Medasev Holding Kft., which was transferred to Duna House Holding Nyrt. on 16 September 2016 under the title of deferred capital increase. Referring to a procedural error, by its order of 10 December 2016 the Companies Court rejected the registration of the capital increase. 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 in the register by order No. Cg.01-10-048384/50 dated 1 February 2017.

The liability to Medasev Int. (Cyprus) Ltd. reflects part of the treasury shares, repurchased by Duna House Holding Nyrt. from Medasev Int. (Cyprus) Ltd. in relation to the acquisition of Metrohouse Group, financially not settled on the balance sheet date.

24. Other liabilities

	31 December 2016	31 December 2015
Other liabilities	264,302	240,884
Total	**264,302**	**240,884**

The other liabilities contain the following:

	31 December 2016	31 December 2015
Settlement account of home owners	90,513	105,490
Settlement account of lessees	73,360	75,423
Tax liability	72,799	32,021
Liabilities from remuneration	12,973	9,708
Received caution money	1,693	1,418
Advances from customers	2,281	186
Received deposits	5,488	12,107
Short-term portion of lease repayments:	4,124	4,367
Other	1,071	164
Total	**264,302**	**240,884**

The funds due to the owners of the homes managed by the Company are recorded on the settlement account of the home owners at the real estate management company (e.g., collected rent, “buffer” amounts deposited by the owners).

The row of amounts received in auctions 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, when requested or in the case of termination, the respective amount is either available on bank accounts and/or invested to securities within the subsidiary. The estimated amount of the amounts that can be repaid immediately is constantly available the bank account of the subsidiary.

25. Accruals and deferred income

	31 December 2016	31 December 2015
Deferred income	270,551	170,378
Accrued costs and charges	203,278	108,488
Support received	10,513	13,933
Total	**484,342**	**292,799**

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.

26. Sales revenues

Revenue type	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Proceeds from the brokerage of financial products	1,391,163	1,195,881
Proceeds from the sale of real properties	1,096,588	-
Proceeds from property brokerage	1,037,045	663,874
Revenues from franchise and service fees	570,502	415,294
Marketing fee income	122,010	104,975
Property management revenues	113,817	103,730
Franchise joining and extension fee revenues	84,292	57,604
Appraisal revenue	72,572	74,907
Re-invoiced amounts (rent, utility expenses, etc.)	51,545	44,794
Revenues from training and education	48,393	28,067
Rent revenue	47,958	25,699
Other revenues (compensations, penalty, etc.)	47,159	24,057
Revenues from the mediation of energy certificates	45,395	49,839
Revenue from sales support	18,609	30,341
Revenue from insurance brokerage	18,437	14,309
Revenue from fund management related contingency fee	11,132	0
Revenue from Fund Management	7,867	0
Total Sum	**4,784,484**	**2,833,371**

The HUF 1,951,113 thousand revenue increase since the comparative period is explained primarily by two factors. In the course of the reduction of the investment portfolio of Home Line Center Kft. in relation to the shift in the management focus to real estate development at MyCity in total HUF 1,096,588 thousand revenues were realised. The Polish and Czech operations together contributed to the revenue increase with HUF 881,500 thousand.

Sales revenues from the brokerage of financial products
This row includes the brokerage fees of Hungarian 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 the sale of real properties: The majority of the real estate portfolio of the real estate investment segment held for investment purposes was sold in the second half of the year due to a shift in the focus of the management to real estate development projects implemented at MyCity. The sales revenues realised from the sale of these properties are recognised as the revenue from the sale of the real properties.

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.

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 are laid down in long-term contracts (typically concluded for 5 years). The franchise fee is a kind of royalty, paid in consideration for the use of brands and know-how, possessed and built up 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, regulations and controls, 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: The revenue is based on the services of operation of the real properties. The long-term contracts define it in the form of a monthly flat rate fee. The commission from lease as an ad hoc revenue is also part of this revenue group.

Revenues from the intermediation of energy certificates It is a statutory obligation that the properties to be sold must have an valid energy certificate. This includes the revenue from the sale of that 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.

27. Other operating revenues

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Revaluation of investment properties	188,032	183,037
Reversal of impairment on receivables	42,979	13,873
Revenues from penalties, revenues from lawsuits	25,210	13,873
Other revenues		11,647
Revenues from re-invoiced expenses	7,499	-
Different tax refunds, other	4,396	-
Reversal of provisions prior to acquisition	4,380	-
Support received	3,420	12,000
Proceeds from the sale of tangible assets	2,663	6,276
Insured events	511	5,360
Total	**279,090**	**232,193**

28. Material expenses

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Utility fees and charges	31,454	4,672
Office supplies	11,871	15,576
Maintenance expenses	10,999	9,402
Fuel	3,738	5,590
Total	**58,063**	**35,240**

29. Goods and services sold

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Direct cost of the sale of real properties	1,065,127	-
Cost of mediation of financial product	513,168	502,022
Direct cost of real estate agency	144,890	112,156
Other re-invoicing (e.g., sales support, utilities, marketing)	84,023	82,950
Appraiser fees	36,505	32,570
Energy certificate fees	3,321	2,611
Total	**1,847,035**	**732,309**

The direct cost of the sale of properties include the book value of owned and sold investment properties at the time of derecognition.

30. Services used

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Other professional services (IT development, sales support, marketing, etc.)	391,542	164,182
Direct cost of the mediation of financial products	338,854	110,961
Direct cost of real estate agency	205,475	13,346
Rent, common expenses	188,317	131,832
Advertising, promotion	147,519	75,630
Other services used (insurance, training, cleaning etc.)	127,638	58,708
Professional service fees	70,376	5,394
IPO expert fees	62,767	113,871
Cost of the acquisition of the Metrohouse Group	45,044	0
Telephone and communications expenses	34,014	14,963
Lawyer fees	25,119	7,175
Banking expenses	17,498	16,329
Cost of IT operation	16,442	17,368
Direct cost of valuation	8,768	12,434
Direct cost of energy certificates	9,472	10,575
MyCity start-up cost, setup fee	6,701	0
Total Sum	**1,695,546**	**752,768**

With the acquisition of Metrohouse and the Czech companies and their consolidation into the Duna House Group a major cost increment occurred (approximately HUF 743 million) in the services used row compared to the same period of the previous year. Of that increment the most important items include rent (HUF 60 million), the direct cost of the mediation of financial products (HUF 212 million), direct cost of real estate brokerage (HUF 181 million) other professional service fees (HUF 118 million), other services used (HUF 15 million) and professional service fees (HUF 43 million. These latter two cost types relate primarily to the commissions of the Polish intermediaries involved in real estate and loan brokerage.

Of the one-off costs incurred in the 2016 financial year the acquisition costs of Metrohouse (HUF 45,044 thousand) and expert, lawyer and advisory fees relating to IPO (HUF 62,767 thousand) are the highest. The launch of the real estate investment activities of MyCity Residential Development, the jointly controlled company of Duna House Holding Nyrt. and Eldar engineering (R.H.D.) Ltd. amounted to HUF 6,701 thousand as setup fee.

Among the professional service fees HUF 42,715 thousand related to the fees of advisory bookkeeping, wage accounting and HR services used by the Polish subsidiaries. The balance made from similar cost types in H1 2015 was shown in another row in view of its low amount.

31. Personnel expenses

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Wage costs	247,983	183,003
Social security contributions[5]	63,640	59,663
Other personnel-type benefits	101,247	55,493
Total	**412,871**	**298,159**
Average statistical headcount	91	56

The increase of the statistical average headcount compared to the comparative period is explained by the expansion of the Hungarian operation to 84 people, as well as by the acquisition carried out in Poland and the Czech Republic. Taking into account the number of hours to be spent at work, the average number of employees in subsidiaries in Poland was six, while in the case of the Czech subsidiaries the headcount in 2016 was one. From the HUF 412,871 thousand balance of the personnel related expenses, the Polish and Czech subsidiaries' share amounted to 36,872 thousand.

[5] It contains the social security contributions of employees employed in Poland on assignment contracts ("civil contract"), while the assignment fees themselves are shown in the services used row.

32. Other operating expenses

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Writing off bad debt	80,930	4,519
Penalties	50,189	1,089
Impairment on receivables	14,642	8,857
Tax other than profit taxes, recognised under various expenses.	13,495	14,603
Other	10,374	21,565
Cost of the sale of fixed assets	-	6,301
Insured events	-	5,396
Total	**169,629**	**62,330**

The HUF 107 million increase in the other operating expenses was due to two items. Of the increase in the “Write-off of bad debt” row approximately HUF 74 million relates to Polish subsidiaries and HUF 6 million relates to Hungarian subsidiaries. In the former case 100% impairment was recognised for the first time on each receivable, overdue for more than 180 days.

The total amount of the increase shown in the “Fines” row relates to the fine imposed by the Hungarian Competition Authority (HCA) on Duna House Franchise Kft. and Duna House Holding Nyrt. At the end of the competition supervision proceedings launched on 3 July 2014 and then on 27 November 2014 the HCA imposed a reduced fine on Duna House Holding Nyrt. and its subsidiary, Duna House Franchise Kft. on 10 January 2017 following a successful negotiation procedure. The reduced fine amount is HUF 49,650,000 at group level. In its decision the HCA acknowledged that the subjective intention of Duna House was not aimed at any legal infringement. The operating practice of the Company was restructured within a short time after the procedure launched by the HCA to make sure that compliance with the currently effective competition regulations is always guaranteed.

33. Revenues from financial transactions

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Badwill associated with acquisitions	56,272	-
Interest income	22,709	1,427
Exchange gain	6,404	16,062
Profit from securities	2,514	441
Total	**87,902**	**17,930**

Of the badwill balance of acquisitions approximately HUF 55 million originated during the acquisition of the Polish Metrofinance and MH Warszawa Sp. z.o.o, because the value of the

participation in these subsidiaries, stated in the books of Metrohouse Franchise S.A. was lower than the net asset value of the subsidiaries.
The remaining balance emerged during the acquisition of the Czech Duna House Hypotéky.

34. Expenses from financial transactions

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Interest paid	53,872	5,098
Exchange loss	13,052	2,352
Total	**66,924**	**7,450**

35. Income taxes

The expenses relating to income taxes consist of the following items:

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Corporation tax	86,731	91,364
Deferred taxes	26,689	19,334
Local business tax	47,607	44,900
Total	**161,027**	**155,598**

The corporate tax rate of the Hungarian group members is 10% below annual HUF 500 million positive corporate tax base and 19% of the positive corporate tax base over HUF 500 million.
The significant increase in the consolidated profit before taxation relative to the comparative period is the result of the change in the book value of the participations, consolidated with the equity method and added to the financial income. The tax was calculated as follows:

	01.01.2016 - 31.12.2016.	01.01.2015 - 31.12.2015.
Profit before taxation	1,328,886	1,121,338
Tax liability calculated on the basis of the group level average tax rate	119,600	112,134
Local business tax	47,607	44,900
Permanent differences	(6,180)	(1,436)
Total income taxes	**161,027**	**155,598**

36. Earning 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 own shares.

	01.01.2016 - 31.12.2016.	**01.01.2015 - 31.12.2015.**
After-tax profit that can be allocated to shareholders (thousand HUF)	1,167,859	965,740
Dividend that may be distributed to preferential shareholders	(32,217)	(47,600)
After-tax profit that can be allocated to shareholders (thousand HUF)	1,135,642	918,140
Weighted average number of issued ordinary shares (thousand)	3,060	3,060
Earning per share (basic) (HUF)	**371**	**300**

There were no factors at the Company, either in 2016 or 2015, which would dilute the earning/share.

37. Segment information

The members of the Board of Directors make the strategic decisions for the operation of the Group and therefore the management used the statements prepared for them in order to establish the segments while preparing these financial statements.

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

(1) The franchise segment carries out the operation of the franchise system that runs under the Duna 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 Metrohouse Uslugi Wspólne Sp. z.o.o from among the Polish Metrohouse companies since April 2016. From September 2016 onwards the performance of the Czech Duna House Franchise s.r.o is also shown in this segment.

(2) Own office segment: Through own offices operated under the Duna 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. From September 2016 onwards the Czech Center Reality s.r.o also belongs to this segment.

(3) financial product intermediation 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 onwards, Duna House Hypotéky s.r.o also belongs to this segment, but for now it does not pursue any operational activity.

(4) Related services: From the 2017 financial year the performance of Impact Asset Management Plc. will also be presented 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 shift 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 will become a 100% owner of MyCity.

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

(6) In the “Other and eliminations” segment, the transactions within the segment were consolidated. The “Other and eliminations" column includes the effect of the central services and filters out the transactions between segments. In line with the 2015 presentation, this segment also contains the summary statement of the performance of Impact Asset Management Plc. ("Fund Manager"). In H1 2016 the Fund Manager did not yet realise any revenue. Its exclusive responsibility was to prepare for the start of Impact Residential Property Investment Fund. Following a subscription procedure closed successfully on 3 August 2016 (HUF 1,022 million subscribed investment units), the Fund Manager submitted the registration application of Impact Residential Property Investment Fund to Magyar Nemzeti Bank. By decision No. H-KE-III-616/2016. dated 8 August 2016, the Hungarian National Bank registered Impact Lakóingatlan Befektetési Alap (Impact Residential Real Estate Investment Fund). From 2017 the performance of Impact Asset Management Zrt. will be recognised as part of the “related services” segment.

31 December 2016	**Franchise**	**Intermediation of financial products**	**Own office segment**	**Related services**	**Real Estate 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
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 loss	-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**

31 December 2015	Franchise	Intermediation of financial products	Own office segment	Related services	Real Estate Property investments	Other and eliminations	Consolidated
Intangible assets	50,270	189	0	1,098	0	1,107	52,665
Investment properties	0	0	0	0	1,323,536	0	1,323,536
Real properties	0	0	12,457	2,169	453,996	388	469,009
Plant and equipment	20,781	2,205	12,217	685	832	9,958	46,679
Trade receivables	42,767	984	29,938	7,065	7	-4,635	76,126
Assets that cannot be allocated to other segments	281,259	799,533	190,437	263,753	161,108	-712,865	983,226
Total assets	**395,077**	**802,912**	**245,049**	**275,868**	**1,939,478**	**-707,145**	**2,951,239**
Suppliers	33,841	9,593	17,573	1,238	3,851	-30,863	35,233
Liabilities that cannot be allocated to other segments	407,641	608,403	216,477	264,160	1,348,480	-1,616,921	1,228,239
Total liabilities	**441,482**	**617,996**	**234,050**	**265,397**	**1,352,331**	**-1,647,783**	**1,263,472**
Net revenue from sales to third parties	678,509	1,230,180	681,202	232,932	25,621	-15,074	2,833,371
Net revenue from sales between segments	163,778	54	52,578	3,394	60,805	-280,609	0
Total net sales revenues	842,287	1,230,234	733,781	236,326	86,427	-295,683	2,833,371
Direct expenses	-89,528	-623,629	-278,063	-78,931	-334	-29,461	-1,099,946
Gross margin	**752,759**	**606,604**	**455,718**	**157,395**	**86,093**	**-325,144**	**1,733,424**
Depreciation and impairment loss	-35,718	-640	-8,888	-1,947	-22,967	-3,739	-73,900
Indirect operating costs	-567,070	-117,813	-252,987	-81,409	133,624	336,989	-548,666
Operating Profit (EBIT)	**149,971**	**488,151**	**193,843**	**74,038**	**196,750**	**8,105**	**1,110,858**

38. 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 the 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.

The Company's capital risk in 2016 and 2015 is not significant either, as to a considerable extent it finances its activities from its own resources and from the capital increase from the proceeds from the sale of public shares carried out in October 2016 and implemented by the Medasev Holding Kft.

Risk arising from the lending activity

The risk arising from the lending activity constitutes the risk which arises from the failure of the borrower or partner to fulfil its contractual obligations, which in turn results in a financial loss for the Group. 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 2016 and 31 December 2015.

	31 December 2016	31 December 2015
Trade receivables	286,205	76,126
Other receivables	53,648	40,913
Financial instruments	66,401	48,119
Cash and cash equivalents	1,583,686	415,747
Total	**1,989,940**	**580,905**

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.

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.

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	**01.01.2016 - 31.12.2016.**	**2015.01.01-2015.12.31**
Profit before tax - excluding interest expense	1,330,726	1,125,009
Net interest income	-1,840	-3,671
Profit before taxation	**1,328,886**	**1,121,338**
1%		
Profit before tax - excluding interest expense	1,351,959	1,125,009
Net interest income	-1,859	-3,708
Profit before taxation	**1,350,101**	**1,121,301**
Changes in profit before tax	***-18***	***-37***
Changes in profit before tax (%)	***-0.001%***	***-0.003%***
5%		
Profit before tax - excluding interest expense	1,351,959	1,125,009
Net interest income	-1,932	-3,855
Profit before taxation	**1,350,027**	**1,121,155**
Changes in profit before tax	***-92***	***-184***
Changes in profit before tax (%)	***-0.007%***	***-0.016%***
10%		
Profit before tax - excluding interest expense	1,351,959	1,125,009
Net interest income	-2,024	-4,038
Profit before taxation	**1,349,935**	**1,120,971**
Changes in profit before tax	***-184***	***-367***
Changes in profit before tax (%)	***-0.014%***	***-0.033%***
-1%		
Profit before tax - excluding interest expense	1,351,959	1,125,009
Net interest income	-1,822	-3,634
Profit before taxation	**1,350,138**	**1,121,375**
Changes in profit before tax	***18***	***37***
Changes in profit before tax (%)	***0.001%***	***0.003%***
-5%		
Profit before tax - excluding interest expense	1,351,959	1,125,009
Net interest income	-1,748	-3,487
Profit before taxation	**1,350,211**	**1,121,522**
Changes in profit before tax	***92***	***184***
Changes in profit before tax (%)	***0.007%***	***0.016%***
-10%		
Profit before tax - excluding interest expense	1,351,959	1,125,009
Net interest income	-1,656	-3,304
Profit before taxation	**1,350,303**	**1,121,705**
Changes in profit before tax	***184***	***367***
Changes in profit before tax (%)	***0.014%***	***0.033%***

39. 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 2016	**Book value**	**Fair value**
Financial assets		
Assets registered at fair value against profit		
Financial instruments	59,666	59,666
Trade receivables	297,968	297,968
Cash and cash equivalents		
	1,583,686	1,583,686
Financial liabilities		
Recorded at amortized historical cost liabilities		
Long-term loans	582,664	582,664
Other long-term liabilities (leasing)	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

31 December 2015	**Book value**	**Fair value**
Financial assets		
Assets registered at fair value against profit		
Financial instruments	48,119	48,119
Securities	-	-
Trade receivables	76,126	76,126
Cash and cash equivalents	415,747	415,747
Financial liabilities		
Liabilities recorded at amortized historic cost		
Long-term loans	495,155	495,155
Other long-term liabilities (leasing)	9,597	9,597
Short-term loans and borrowings	114,000	114,000
Short-term part of the lease	4,367	4,367
Liabilities to suppliers	35,233	35,233

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40. Remuneration of the Board of Directors and Supervisory Board

In 2015 the members of the Board of Directors and Supervisory Board received in total HUF 32,467 thousand remuneration followed by 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.

41. Events after the balance sheet date

Increase of the Company's registered capital

In connection with the public issue of the Company's shares in October, the Company’s General Meeting held on 16 September 2016 authorised the Board of Directors to increase the capital by maximum one and a half billion HUF. Referring to a procedural error, by its order of 10 December 2016 the Companies Court rejected the registration of the capital increase of a total of HUF 18,939,350 requested after the public issue of the Company's shares.

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 in the register by order No. Cg.01-10-048384/50 dated 1 February 2017.

The acquisition of MyCity Group

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 will become a 100% owner of MyCity. The amount of total payment under the contract is EUR 2,200,000, of which EUR 1,000,000 is the purchase price of the business share, and EUR 1,200,000 is the purchase price of the shareholder's loan and interest claims against MyCity arising from the previous financing activities of Eldar Investment (HLA) Ltd.

MyCity has four subsidiaries and one jointly controlled company. As the result of the transaction, DUNA HOUSE gains controlling influence over Pusztakúti 12 Kft., Reviczky 6-10. Kft., Zsinór 39 Kft. and IH Project X Kft., while Hunor utca 24. Kft. becomes a jointly controlled company of DUNA HOUSE. The aim of these project companies is to implement real estate development projects that are being carried out in different points in Budapest (Forest Hill, Reviczky Park, Iris House, MyCity Residence).

The DUNA HOUSE's management believes that the property development activities carried out within the framework of MyCity show good progress, and intends to take an increasing part in them.

In the management's view the purchase price of the 50% business share of MyCity is favourable. With the acquisition of MyCity the exposure DUNA HOUSE to the risks prevailing on the real estate development market increases in line with the increased amount of the available developer's profit. From the risks typical for the real estate development activity the management focuses mainly on the increasing construction related costs. The management believes that the increasing construction related costs can be offset at least in part by the planned increase in the sales prices that will be made possible after the completion of the pre-sales phase, which can occur in the first place in the Reviczky Park and Forest Hill projects if the current market conditions do not deteriorate. There is strong customer interest concerning the ongoing projects, and the management does not anticipate any negative market developments in the near future either.

Following the acquisition of a controlling share in MyCity, both MyCity and its project companies (with the exception of Hunor utca 24. Kft.) get fully consolidated in the consolidated financial statements of DUNA HOUSE. As the result of the full consolidation, the consolidated balance sheet of the DUNA HOUSE Group will contain, among others, bank loans related to inventories of significant amount as well as investment properties and their financing. The guarantees securing these bank loans are non-recourse guarantees, i.e. their enforceability does not extend beyond MyCity and its project companies.

42. Approval of the disclosure of the financial statements

The Board of Directors of the parent company of the Group discussed the financial statements at the meeting held on 27 March 2017 and approved them in this form.

Budapest, 27 March 2017

Persons authorised to sign these financial statements:

Doron Dymschiz

Gay Dymschiz

Ferenc Máté

DUNA HOUSE HOLDING NYRT.'s

CONSOLIDATED BUSINESS REPORT

ON THE GROUP'S BUSINESS ACTIVITY IN 2016

1. Group description

Duna House Holding Nyrt. hereinafter: the Company or the Group was incorporated in 2003, its principal activity being estate agency services. It has been a leading service provider in the services sector, in particular, in the real estate and financial services sector, in Hungary for years now. The Group's flagship is a national network of real estate agencies, which started operating in 2003. Now it employs over 1,400 persons serving customers. By acquiring Metrohouse Group in April 2016, Duna House Group entered the Polish market. Through the acquisition of three Prague-headquartered companies in September 2016, it also entered the real estate market in the Czech Republic.

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
- credit brokerage
- 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
- residential real estate fund management
- real estate development

1.1 Consolidated companies

As a Subsidiary

	address	**2016**	**2015**
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%	-
Metrofinance Sp. z.o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
MH Południe Sp. z.o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
Metrohouse Uslugi Wspólne S.A	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
MH Warszawa Sp. z.o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	-
Duna House Franchise s.r.o.	140 00 Praha 4, Michelská 300/60 (Czech Republic)	80%	-
Duna House Hypoteky s.r.o.	140 00 Praha 4, Michelská 300/60 (Czech Republic)	80%	-
Center Reality s.r.o.	140 00 Praha 4, Michelská 300/60 (Czech Republic)	80%	-

As an associated company and joint venture

	address	**2016**	**2015**
MyCity Residential Development Kft.[1]	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.	25%	-

(*) Subsidiaries of MyCity Residential Development Kft.

[1] Investment House Kft. In the second half of 2016 it was renamed as MyCity Residential Development Kft.

2. Markets and economic environment

2.1 Real estate market

The full size of Hungary's residential property market is determined by (i) the number of transactions in a given period, (ii) trends in the price of residential property, (iii) the share of transactions conducted through real estate agencies in the total number of transactions and (iv) the commission paid by sellers to real estate agents. Letting of residential property constitutes a less important part of real estate services.

Total transactional value, Hungary

	2013	2014	2015	2016 Q1–Q3*
Number of transactions – second-hand property (number)	86,418	110,480	130,732	96,777
Number of transactions – new property (number)	2,295	3,309	3,369	2,528
Average residential property prices – second-hand property (million HUF)	9.7	10.3	11.6	12.2
Average residential property prices – new property (million HUF)	16.1	17	18.3	19.2
Total transactional value – second-hand property (million HUF)	838,255	1,137,944	1,516,491	1,180,679
Total transactional value – new property (million HUF)	36,950	56,253	61,653	48,538
Total transactional value – total (million HUF)	**875,204**	**1,194,197**	**1,578,144**	**1,229,217**
Change – Total transactional value – total	*1%*	*36%*	*32%*	

** CSO 2016 Preliminary Q1–Q3 data excluding Q4 data*
Source: CSO, the company's own calculations based on CSO data

The total transactional value of the Hungarian residential property market had fallen by 54% by 2009 relative to 2007; after a consistent slow decrease during the four years that followed it started to pick up vigorously in 2014.

A home purchase subsidy scheme for families with children referred to as CSOK was launched on 1 July 2015, with a somewhat lacklustre start, though. Only around 10% of loan applicants applied for CSOK in the first months, with Budapest residents representing a 60% share. The share of CSOK in the total loan portfolio had risen to 20% by end-2015, with the share of the population in the provinces accounting for 60%. The CSOK application process was simplified and made easier in early 2016. The amount of subsidy for second-hand residential property rose, the requirement of an energy certificate was cancelled and, regarding new homes, applicants undertaking to raise 3 children are eligible for as much as HUF 10 million in non-refundable subsidy plus HUF 10 million in preferential home loans.

Pursuant to a government decree adopted in late 2015, VAT on new homes was lowered temporarily from 27% to 5%. As a result, demand for CSOK-subsidised new homes started to catch up with CSOK-boosted supply.

In April 2016, Duna House Group acquired Warsaw-headquartered Metrohouse Group thereby entering the Polish market. Having acquired a majority stake in three Prague-headquartered companies, Duna House also started operating in the Czech property market.
The 2008 financial crisis affected the Polish market less severely than the Hungarian market. Unlike Hungary's economy, the Polish one never fell into recession in the crisis years. Trends in the respective residential property markets of the two countries corroborate the fact that the crisis hit the Polish

market less severely than the Hungarian market. By 2012, the number of transactions had fallen to half of the 2008 figure; by contrast, a similar indicator rose in Poland. A stable residential property market in Poland was the result of favourable demographic trends: the number of births, net migration and the number of marriages all changed for the better.

2.2 Credit market

Home loan portfolio and newly disbursed home loans, Hungary

HUF billion	**2013**	**2014**	**2015**	**2016**
Home loan disbursed	157	244	358	467.2
Changes – y/y	*-28%*	*55%*	*47%*	*30%*

Source: NBH

The amount of newly disbursed home loans was rather low between 2012 Q2 and 2014 Q2, with the average quarterly amount of the home loans disbursed by banks amounting to HUF 37 billion in that period. It was a mere fraction of pre-crisis newly disbursed loans, and loan amortisation also fell behind the pre-crisis level.

New home lending took off in 2014 Q2 after first a fall and then stagnation in the preceding years. New disbursements of home loans by banks rose by 55% in 2014 and 47% in 2015 on a year earlier. Such marked rise in disbursed loans was boosted by bank's more lax lending policy, households' growing willingness to consume and invest and significantly lower credit costs.

As regards loan contracts after 21 March 2016, a government decree put a cap of 2% on commission payable by banks to credit brokers on brokering home mortgage loans. As average commission was above 4% before the adoption of the ‘commission ceiling’, therefore, this change also hit Duna House’s profitability in the financial brokerage segment adversely. This adverse impact was partially counterbalanced by a major change in the network commission scheme and its adaptation to the new regulatory environment, a sharper focus on the brokerage of building society contracts and the very fact that a take-off in the lending market continues to affect the profitability of the segment beneficially.

The Polish acquisition was reflected in financial brokerage as early as 2016: it made a positive contribution in terms of profit from ordinary operation to the consolidated profit earned in the segment. One of the characteristics of the credit market in Poland is that no objective public data are available on the share of lending through credit brokers or trends in the commission paid to them.

3. The Group's financial and equity situation

3.1 Profit and Loss Statement

data in HUF thousands	**01.01.2016 – 31.12.2016**	**01.01.2015 – 31.12.2015**
Net turnover	4,784,484	2,833,371
Other operating income	279,090	232,193
Total income	**5,063,574**	**3,065,564**
Material costs	58,063	35,240
Goods and services sold	1,847,035	732,309
Services used	1,695,546	752,768
Staff costs	412,871	298,159
Depreciation and amortisation	77,795	73,900
Other operating charges	169,629	62,330
Operating costs	**4,260,939**	**1,954,705**
Operating profit/loss	**802,635**	**1,110,859**
Financial revenues	87,902	17,930
Expenses on financial transactions	-66,924	-7,450
Ownership interest measured with the equity method	505,273	-
Profit or loss before tax	**1,328,886**	**1,121,339**
Income taxes	-161,027	-155,599
After-tax profit	**1,167,859**	**965,740**

Source: The Company's audited IFRS Annual Reports

The Company's income rose by a total of 65% relative to 2015. Within that net sales grew by 69% representing HUF 1,951 million in surplus income.

Operating costs rose significantly by approximately 118%, thus, we closed the 2016 business year by having to post HUF 2,306 million in additional costs relative to the previous year. Regarding this increase, the share of the goods and services sold (HUF 1,115 million) and that of the services purchased (HUF 943 million) were the largest. The main underlying reason for the former is the downsizing of a major part of the investment portfolio in the property investment segment due to a change in the management's focus on property development projects. Regarding the goods and services sold row, of the HUF 1,847 million recorded there, the direct costs of property sale amounted to HUF 1,065 million accounting for 57.7% of the total operating cost difference. As regards the services purchased, the Polish and Czech acquisitions made a major impact. The integration of the foreign subsidiaries into Duna House Group added HUF 850 million to costs accounting for 90% of the total difference.

The Company's tax liability comprises corporate tax and business tax liability. The combined amount of actual and deferred taxes due on 2016 was HUF 161 million.

Overall, the Company's taxed profit rose by 17% from HUF 966 million to HUF 1,168 million.

Relative to the previous year, the following changes materialised in the Group's sales revenue structure:

Revenue type	01.01.2016 – 31.12.2016	01.01.2015 – 31.12.2015
Income from financial brokerage	1,391,163	1,195,881
Income from property sales	1,096,588	-
Income from estate agency activity	1,037,045	663,874
Franchise and services fee income	570,502	415,294
Marketing fee income	122,010	104,975
Property management revenues	113,817	103,730
Entry and extension fee income	84,292	57,604
Appraisal revenue	72,572	74,907
Re-invoicing (lease fee, overheads, etc.)	51,545	44,794
Training revenues	48,393	28,067
Lease fee income	47,958	25,699
Other income (compensation, delay penalties, etc.)	47,159	24,056
Income from energy certification	45,395	49,839
Revenue from sales support	18,609	30,342
Income from insurance brokerage	18,437	14,309
Revenue from fund management related contingency fee	11,132	-
Fund management fee	7,867	-
Total	**4,784,484**	**2,833,371**

Source: The Company's audited IFRS Annual Reports

Income earned in the 2016 business year comprises three sales revenue types. Income from financial brokerage, property sales and estate agency activities accounted for 74% of total sales revenues.

Income in nearly each category rose relative to the previous business year. Only income from property appraisal and energy certification fell behind compared with 2015. However, neither exerted any material impact on total sales revenues.

Segment income statement

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
01.01.2016 – 31.12.2016

million HUF	Franchise segment	Intermediation of financial products	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 impairment loss	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%**

Group
01.01.2015 – 31.12.2015

million HUF	Franchise segment	Intermediation of financial products	Own office segment	Related services segment	Property investment segment	Other and eliminations	Consolidated total
Net turnover	**842**	**1,230**	**734**	**236**	**86**	**-296**	**2,833**
Direct costs	90	624	278	79	0	29	1,100
Gross margin	**753**	**607**	**456**	**157**	**86**	**-325**	**1,733**
Indirect operating costs	567	118	253	81	-134	-337	549
EBITDA	**186**	**489**	**203**	**76**	**220**	**12**	**1,185**
Depreciation and impairment loss	36	1	9	2	23	4	74
EBIT	**150**	**488**	**194**	**74**	**197**	**8**	**1,111**
Contribution margin	**89%**	**49%**	**62%**	**67%**	**100%**	**110%**	**61%**
EBITDA margin	**22%**	**40%**	**28%**	**32%**	**256%**	**-4%**	**42%**
EBIT margin	**18%**	**40%**	**26%**	**31%**	**229%**	**-3%**	**39%**

Source: The Company's audited IFRS Annual Reports

Unlike consolidated sales revenues, which rose by HUF 1,951 million, the contribution margin fell from 61% in 2015 to 41%; however, gross contribution margin increased from HUF 1,733 million in 2015 to HUF 1,974 million (a 14% rise). Direct costs grew by 99% from HUF 549 million to HUF 1,093 million.

The Group's consolidated operating profit decreased from HUF 1,111 million in 2015 to HUF 803 million in 2016, i.e. by 28%.

This is attributable, to a large extent, to the fact that in 2016, one-off items representing a sizeable amount (approximately HUF 190 million) and exerting a negative impact were recognised (and charged to the individual segments). Such one-off items include the costs incurred in connection with the public offering of the Company's shares, the preparation and implementation of foreign acquisition (mainly in Poland), the closing of the competition surveillance procedure of the Competition Office and the milestone expenses related to the operation of the Smart network.

The Company's operations cover six segments: (1) the franchise segment, (2) Own office operating segment, (3) financial brokerage segment, (4) sale of related services segment, (5) property investment segment and (6) Other and elimination segment. What follows presents the individual segments and their performance:

(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 Sp. z.o.o, both Metrohouse companies and with effect from September 2016, the Czech Duna House Franchise s.r.o.

(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. With effect from April 2016, the Own office operating segment comprises MH Południe Sp. z.o.o and MH Warszava Sp. z.o.o, both Metrohouse companies in Poland and with effect from September 2016, the Czech Center Reality s.r.o.

(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.

Investment House Kft. (renamed as MyCity Residential Development Kft. in 2016 H2) incurring losses in the financial brokerage segment was removed from the financial brokerage segment in the comparable period .

The 2016 results of MyCity Residential Development Kft., a joint venture and special purpose company were not stated in a segment level income statement; rather, they were recorded in the "Ownership interest measured with the equity method" row.

(4) sale of related services segment: these related services is linked mainly to property sales. Engaging independent contractors, it issues energy certificates to home sellers and provides property appraisal services for financial institutions and other market players. As Home Management it also provides property management services for clients letting their property.

With effect from the 2017 business year, Impact Asset Management Zrt. will be included in this segment.

(5) real estate investments segment: relying on its real property market expertise, the Company purchases properties on an on-going basis.

Compared with HUF 86,427,000 earned in sales revenue in 2015, the Company posted HUF 1,213,419,000 in 2016 in this segment. Gross margin grew from HUF 86,093,000 to HUF 140,646,000. The main underlying reason for increase in sales revenue was the sale of a considerable portion of the investment property portfolio due to a change in the management's focus on property development projects in the MyCity project. Income from the intra-year appreciation of the investment property portfolio exceeded the amount of direct operating costs in this segment. As we state the impact of the appreciation by reducing the amount of the indirect operating costs, HUF 144,318,000 in profits is recorded in this row of the profit and loss account.

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 will become a 100% owner of MyCity.

The profit/loss on the property development projects will be fully consolidated wit effect from the date of acquisition and be presented as part of the property 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. In keeping with the 2015 presentation, Impact Asset Management Zrt. will be included in this segment. ("Fund Manager"). The sole task of the Fund Manager in 2016 H1 was to prepare the launch of the Residential Property Investment Fund. The Fund Manager submitted a request for the registration of Impact Lakóingatlan Befektetési Alap (Impact Residential Property Investment Fund) to the National Bank of Hungary after the successful closing of a subscription period between the record date of the reporting period and 3 August 2016 (investment fund shares in the amount of HUF 1,022 million had been subscribed). By decision No. H-KE-III-616/2016. dated 8 August 2016, the Hungarian National Bank registered Impact Lakóingatlan Befektetési Alap (Impact Residential Real Estate Investment Fund). Impact Asset Management Zrt. had earned HUF 11,132,000 in success fees and HUF 7,867,000 in fund management fees by the end of the 2016 business year.

With effect from 2017, the activity of Impact Asset Management Zrt. is presented in the sale of related services segment.

The table below shows the sales revenues and operating profit/loss posted by Duna House Group in the individual countries:

data in HUF thousands	**01.01.2016 – 31.12.2016**	**01.01.2015 – 31.12.2015**
Net sales revenue (consolidated)	**4,784,484**	**2,833,372**
Net sales revenue of the Hungarian operation	3,900,550	2,833,372
Net sales revenue of the Polish operation*	799,169	-
Net sales revenue of the Czech operation**	84,764	-
EBIT	**802,635**	**1,110,861**
Hungarian operation EBIT	855,780	1,110,861
Polish operation* EBIT	(62,684)	-
Czech operation** EBIT	9,540	-

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

**The performance of the Czech operation is consolidated in the Company's consolidated financial statements with effect from 1 April 2016.

The management's forecast for the 2017 business year

The Company published the following Management Forecast for the 2017 business year at the website of the Budapest Stock Exchange (BSE):

EXTRAORDINARY INFORMATION

The Management of Duna House Holding Nyrt. shall hereto publish its guidance for the 2017 fiscal year.

Guidance for the 2017 fiscal year

Consolidated annual profit after tax excluding MyCity*	HUF 750 - 1.000 Million

*not including the effect of earnings from the MyCity property development activity, see additional information.

Management presumptions in relation to relevant markets

	in comparison with 2016
Annual transaction number change on the Hungarian residential property market	nearly equal level
Annual price change on the Hungarian residential property market	4-8% growth
Changes in disbursed residential loan volume on the Hungarian loan market	15-20% 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), construction works are expected to be finished in 2017 Q4, as per the general contractor agreement. However, as another characteristic of property development activity, the chances of actual closing taking place in early 2018 cannot be ruled out.

Development of the investment property portfolio

According to the Management, the profit after tax figure indicated for 2017 in the above guidance shall be achieved in spite of the profit contribution of the property development segment (calculated without MyCity) being significantly lower this year than in the year before, mainly as a result of the significant proportion of investment property portfolio having been sold during 2016 (due to management focus turning towards MyCity property development activity). In 2017, further decrease in the investment property portfolio is expected.

Activity in Poland

Management regards the development of all three operating segments in Poland as positive in spite of the figures of the previous fiscal year not fully reflecting such development. Following the HUF 42 Million loss in 2016, Management expects the activity in Poland to be profitable in 2017.

3.2 Assets

	31.12.2016	31.12.2015
ASSETS		
Long-term assets		
Intangible assets	84,692	52,665
Investment property	939,362	1,323,536
Land and buildings	519,319	469,009
Plant and equipment	53,920	46,679
Goodwill	992,089	18,500
Investments in associated companies and joint ventures	506,273	-
Financial instruments	66,401	48,119
Deferred tax assets	158,829	15,134
Total long-term assets	**3,320,885**	**1,973,642**
Current assets		
Inventory	11,616	8,494
Trade receivables	286,205	76,126
Amounts owed by affiliated undertakings	378,709	-
Other accounts receivable	53,648	40,913
Actual income tax assets	35,119	23,915
Accrued and deferred assets	321,744	412,402
Cash and equivalents	1,583,686	415,747
Total current assets	**2,670,727**	**977,597**
Total Assets	**5,991,612**	**2,951,239**

Source: The Company's audited IFRS Annual Reports

The balance sheet total grew significantly by HUF 3,040 million (or 103%) relative to 31.12.2015. Within that, long-term assets and current assets grew by HUF 1,347 million (or 68%) and HUF 1,693 million (or 173%) respectively. The most significant growth was recorded in the following rows: the “Goodwill” and “Accounts receivables” rows in connection with the Polish acquisition, the “Investments in associated and joint companies” row in connection with MyCity Residential Development Kft. (formerly: Investment House Kft.) and the “Receivables from affiliated companies” row due to loans to the project companies of My City.

3.3 Liabilities

data in HUF thousands

LIABILITIES	31.12.2016	31.12.2015
Equity		
Subscribed capital	153,050	153,050
Capital reserve	9,479	9,479
Exchange reserve	-23,318	-
Retained earnings	2,444,092	1,525,238
Total equity of the parent company	**2,583,303**	**1,687,767**
Non-controlling ownership interest	-40,154	-
Total equity:	**2,543,149**	**1,687,767**
Long-term liabilities		
Long-term loans	582,664	495,155
Deferred tax liabilities	86,557	39,026
Other long-term liabilities	10,629	9,597
Total long-term liabilities	**679,850**	**543,778**
Short-term liabilities		
Short-term loans and borrowings	198,830	114,000
Accounts payable	68,975	35,233
Liabilities to affiliated companies	1,740,880	11,031
Other liabilities	264,302	240,884
Actual income tax liabilities	11,284	25,747
Accrued expenses	484,342	292,799
Total current liabilities	**2,768,613**	**719,694**
Total liabilities and equity	**5,991,612**	**2,951,239**

Source: The Company's audited IFRS Annual Reports

The Company’s registered capital is HUF 153 million. The Company’s equity comprises 3,060,000 dematerialised ordinary shares each with a face value of HUF 50 and 1,000 preferred shares each with a face value of HUF 50.

In December 2014, the Company decided to increase its registered capital by HUF 147,000,000 charged to the retained earnings.

In 2015, the executive compensation system was transformed. Gay and Doron Dymschiz performed an increase of HUF 3,000,000 in the registered capital of Duna House Holding Zrt. (30,000 ordinary shares for each) against the payment of HUF 9,480,000 in premium. As a result, they paid a total of HUF 12,480,000 including the premium, against which 60,000 “A” series ordinary shares were issued.

In 2015, the Company issued preferred shares for its employees each with a face value of HUF 50,000, of which shareholders paid HUF 49,000 and HUF 1,000 was credited to the retained earnings. The employee shares were issued to carry out the transformation of the executive compensation system. Thus, an employee share class (comprising 1,000 preferred employee shares) was created.

In 2016, dividends in the amount of HUF 247,600,000 were approved. In line with the above, holders of preferred shares are eligible for an amount equal to 6% of the IFRS profit less the 2015 revaluation of investment property (i.e. HUF 47,600,000); Holders of ordinary shares are eligible for HUF 200,000,000.

By the end of the 2016 business year, equity had risen to HUF 2,543 million.

3.4 Consolidated Cash Flow Statement

Consolidated Cash Flow Statement

all data in HUF thousand unless otherwise stated

	01.01.2016 – 31.12.2016	01.01.2015 – 31.12.2015
Operating cash flow		
After-tax profit	1,167,859	965,740
Adjustments for:		
Amortisation for the year	77,795	73,900
Deferred taxes	-96,164	17,600
Revaluation of investment property	-188,031	-183,038
Badwill	-56,272	-
Measurement with the equity method	-505,273	-
Changes in working capital		
Changes in inventories	-3,122	-3,506
Changes in trade and other receivables	-612,728	108,051
Changes in accrued and deferred assets	90,658	-113,367
Changes in trade payables	33,742	23,678
Changes in other current liabilities	238,807	-125,962
Changes in accrued and deferred liabilities	191,543	101,406
Net operating cash flow	***338,815***	***864,502***
Cash flow from investing activities		
Tangible assets, investment property and (purchase of) intangible assets	-819,605	-1,027,295
Income from the sale of tangible assets	1,096,588	-
Purchase of ownership shares	-873,464	-
Net cash flow from investment	***-596,481***	***-1,027,295***
Cash flow from financing		
Bank loans/(repayment)	172,339	352,675
Capital contribution	1.499,997	12,529
Sale / (purchase) of securities	-	351,585
Dividend payments	-246,730	-405,000
Net cash flow from financing	***1,425,605***	***311,789***
Net change in cash and cash equivalents	1,167,939	148,996
Balance as at the beginning of the year for cash and cash equivalents	415,747	266.751
Balance as at the end of the year for cash and cash equivalents	**1,583,686**	**415,747**

Source: The Company's audited IFRS Annual Reports

The Company's operating cash flow amounted to HUF 339 million in 2016.

Investment cash flow was reduced by items related to the acquisition of the Polish and Czech ownership stakes in the amount of HUF 873 million. Investment cash flow was improved by a HUF 277 million balance between the purchase and sale of tangible assets.
Dividend payment reduced financing cash flow by HUF 247 million and capital contribution was made in the amount of HUF 1,500 million.
The end-of-the period of cash and cash equivalents is HUF 1,168 million higher than what it was at the end of the comparable period, which is due, mainly to, capital contribution.

4. Environmental profession, social responsibility, employment policy

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

Our Company's employment policy and ensuring its consistency between the individual countries are currently under way. The increase of the average statistical headcount compared with the comparable period is attributable to an increase in the personnel of the Hungarian operation to 84 people, as well as the acquisition in Poland and the Czech Republic. The number of hours to be worked taken into account, the average number of employees in subsidiaries in Poland was six, while in the case of the Czech subsidiaries the headcount in 2016 was one. Of the HUF 412,871,000 balance of the personnel related expenses, the Polish and Czech subsidiaries' share amounted to HUF 36,872,000.

5. Information on equity and share capital

As at 31 December 2006, 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"	3,060,000	0	HUF 50	HUF 153,000,000
preferential	employee shares	"B"	1,000	0	HUF 50	HUF 50,000
Equity:						**HUF 153,050,000**

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"	3,060,000	3,060,000	50	153,000,000	0	-
"B"	1,000	1,000	50	50,000	0	-

Total	**3,061,000**	**3,061,000**	**-**	**153,050,000**	**0**	**-**

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

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

Name of shareholder	Number of shares held (number)	Share in equity (%)
Gay Dymschiz	1,154,957	37.7%
Doron Dymschiz	1,154,957	37.7%
Total equity	**3,061,000**	**100.0%**

7. Restrictions on the transfer of shares

Prohibition of alienation on ordinary shares

Name of shareholder			Ferenc Máté	Tamás Ambrus	Kinga Szalay	Bernadett Szirtes	Krisztián Fülöp	Dr András Szabadházy	Nir Bitkover	Guy Dymschiz**	Doron Dymschiz**	Total
Number of ordinary shares held (number)			30,000	5,454	2,182	1,364	2,182	1,364	2,182	1,154,957	1,154,957	2,354,642
Is alienation prohibited?			yes	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	5,454	2,182	1,364	2,182	1,364	2,182	1,154,957	1,154,957	2,354,642
	01.01.2018	31.12.2018	27,000	4,363	1,746	1,091	1,746	1,091	1,746	0	0	38,782
	01.01.2019	31.12.2019	24,000	3,272	1,309	818	1,309	818	1,309	0	0	32,837
	01.01.2020	31.12.2020	21,000	2,182	873	546	873	546	873	0	0	26,891
	01.01.2021	31.12.2021	18,000	1,091	436	273	436	273	436	0	0	20,946
	01.01.2022	31.12.2022	15,000	0	0	0	0	0	0	0	0	15,000
	01.01.2023	31.12.2023	12,000	0	0	0	0	0	0	0	0	12,000
	01.01.2024	31.12.2024	9,000	0	0	0	0	0	0	0	0	9,000
	01.01.2025	31.12.2025	6,000	0	0	0	0	0	0	0		6,000
	01.01.2026	31.12.2026	3,000	0	0	0	0	0	0	0	0	3,000

*prohibition of alienation from the signature date of the share purchase contract as inception date, for 1 year from the commencement of trading in the ordinary shares (11 November 2016), however, no 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 – within 1 year from the date of the commencement of the stock exchange trading of the shares – not to sell those shares which have not been sold to Medasev Holding Kft. pursuant to the foregoing. The contracting parties agreed that the provision set out in the share purchase agreement concluded by the Company and MKC Investments Sp. z.o.o. on 21 April 21 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 would be repealed.

As at 31 December 2016, the number of the shares held by MKC Investments Sp. z.o.o and under prohibition of alienation was 66,987.

Prohibition of the alienation on preferred employee shares:

Name of shareholder			Ferenc Máté	Tamás Ambrus	Kinga Szalay	Bernadett Szirtes	Krisztián Fülöp	Dr András Szabadházy	Nir Bitkover	Zoltán Tóth	Angelika Fóris	Total
Number of preferred employee shares held (number)			151	150	150	80	0	65	0	150	110	856
Is alienation prohibited?			yes	yes	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	0	65	0	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 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 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 the 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 in 2016 and 2015 is not significant either, as to a considerable extent it finances its activities from its own resources and from the capital increase from the proceeds from the sale of public shares carried out in October 2016 and implemented by the Medasev Holding Kft.

Risk arising from the lending

The risk arising from the lending activity constitutes the risk which arises from the failure of the borrower or partner to fulfil its contractual obligations, which in turn results in a financial loss for the Group. 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 2016 and 31 December 2015.

	31 December 2016	31 December 2015
Trade receivables	286,205	76,126

Other accounts receivable	53,648	40,913
Financial instruments	66,401	48,119
Cash and cash equivalents	1,583,686	415.747
Total	**1,989,940**	**580,905**

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.

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.

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.

10. Changes after the balance sheet date

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. After the public offering of the Company's shares, the Company Court quoting a procedural error refused to register the Company's equity capital increase in the total amount of HUF 18,939,350 in its ruling dated 10 December 2016.

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

Acquisition of MyCity Group

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 will become a 100% owner of MyCity. The amount of total payment under the contract is EUR 2.2 million, of which EUR 1 million is the purchase price of the business share, and EUR 1.2 million is the purchase price of the shareholder's loan and interest claims against MyCity arising from the previous financing activities of Eldar Investment (HLA) Ltd.

MyCity has four subsidiaries and one jointly controlled company. As the result of the transaction, DANUBE HOUSE gains controlling influence over Pusztakúti 12 Kft., Reviczky 6-10. Kft., Zsinór 39 Kft. and IH Project X Kft., while Hunor utca 24. Kft. becomes a jointly controlled company of DUNA HOUSE. The aim of these project companies is to implement real estate development projects that are being carried out in different points in Budapest (Forest Hill, Reviczky Park, Iris House, MyCity Residence).

In the opinion of DUNA HOUSE's management, property development under the MyCity project is on course for success and has been contributing to property development in general to an increasingly large extent.

In the management's view the purchase price of the 50% business share of MyCity is favourable. As a result of the acquisition of MyCity, DUNA HOUSE's risk exposure typical of the property development market has grown in proportion to potentially higher profits. From the risks typical for the real estate development activity the management focuses mainly on the increasing construction related costs. In the management's opinion, increasing construction costs can, at least in part, be counterbalanced by a planned increase in sales prices subsequent to the closing of the pre-sale phase. This is a likely scenario for Reviczky Liget and Forest Hill if the current market conditions do not start deteriorating. There is strong demand for the projects under way and the management does not foresee any adverse market trends.

Having acquired controlling influence over MyCity, DUNA HOUSE fully consolidated both MyCity and its special purpose vehicles (SPVs) (with the exception of Hunor utca 24. Kft.) in its financial statements. As the result of the full consolidation, the consolidated balance sheet of the DUNA HOUSE Group contains, among others, bank loans related to inventories of significant amount as well as investment properties and their financing. These guarantees securing these bank loans are non-recourse guarantees, i.e. their enforceability is limited to MyCity and its special purpose vehicles.

11. Declaration on corporate governance

In light of its length and structural layout, we attach our declaration on corporate governance to this consolidated business report ("Responsible Corporate Governance Report") as an annex. Our 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 IFRS consolidated report.

The report provides a true and reliable picture of the Company's assets, liabilities, financial position and profit/loss, and it does not conceal any fact that may bear relevance to the perception of the Company's position.

Budapest, 27 March 2017

Persons authorised to sign the (consolidated) business report:

Doron Dymschiz	Gay Dymschiz	Ferenc Máté

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 Brief 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.
Ferenc Máté, appointed for a period from 1 March 2015 until 31 March 2017.
Zoltán Varga, Board Member, appointed for a period from 31 March 2015 until 1 March 2017.

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 report prepared in accordance with the Accounting Act and 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 financial statements under the Accounting Law 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 28 October 2015 until 31 May 2017.
Balázs Sándorfi, appointed for a period from 28 October 2015 until 31 May 2017.
Dr. Hajdu György Martin, appointed for a period from 28 October 2015 until 31 May 2017.

IV. A Brief 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 Accounting Act;
b) follow-up the audit of the financial statements prepared in accordance with the Accounting Act;
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 Supervisory Board:

Károly Redling, appointed for a period from 28 October 2015 until 31 May 2017.
Balázs Sándorfi, appointed for a period from 28 October 2015 until 31 May 2017.
Dr. Hajdu György Martin, appointed for a period from 28 October 2015 until 31 May 2017.

V. **Statutory Auditor**

The statutory 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 shall 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 statutory 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 statutory auditor is appointed for a period from 28 October 2015 until 31 May 2017. 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**

In order to present the Company's disclosure policy, the fact that shall be primarily emphasized is that the public trading of the Company's shares has not yet started at the Budapest Stock Exchange. Nevertheless, 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, even though on the date of adoption of this Corporate Governance Report they were not binding on the Company.

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 current year's profit after tax, as well as from the current year's profit after tax complete with free cumulative reserves.

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 Accounting Act and 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 Accounting Act 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.

A 1.1.1 The Management Board/Board of Directors made it possible for the shareholders to receive access to the information necessary to exercise their rights at the appropriate time.
Supported

A 1.1.2 The Company applies the principle of "one share - one vote".
No

Explanation: The Company applies the principle of voting rights proportional to the nominal value of the share, each share representing 50 votes.

A 1.2.8 The Company ensures that shareholders may participate in the General Meeting by meeting the same criteria.
Supported

A 1.2.9 The agenda of the General Meeting includes only issues whose topic was precisely defined and described.
Supported

The proposals touched upon the suggestion made by the Supervisory Board, and included a detailed explanation of the effects of the decision.
Supported

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.
Supported

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.
Supported

The written comments made with respect to the items on the agenda were published two business days prior to the General Meeting.
Supported

A 1.3.10 Election and recall of the senior officers took place for each person individually in separate resolutions.
Supported

A 2.1.1 The responsibilities of the Management Board/Board of Directors include those laid out in Section 2.1.1.
Supported

A 2.3.1 The Management Board/Board of Directors held regular meetings scheduled in advance.
Supported

The Supervisory Board held regular meetings scheduled in advance. Supported

The Rules of Procedure of the Management Board/Board of Directors provides for the conducting of unscheduled meetings and decision-making through electronic communications channels.
Supported

The Rules of Procedure of the Supervisory Board provides for the conducting of unscheduled meetings and decision-making through electronic communications channels.
Supported

A 2.5.1 The Company's Management Board/Supervisory Board has a sufficient number of independent members to ensure impartiality.
Supported

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.

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.
Supported

A 2.5.6 The Company has published on its website the guidelines concerning the independence of the Board of Directors/Supervisory Board and the applied criteria of independence.
No

Explanation: The Company uses the statutory requirements for independence, hence it has not elaborated separate specific guidelines in this regard.

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.
Supported

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.
Supported

Transactions under Section 2.6.2 which are different from the company's overall business practice and their terms and conditions were approved by the Supervisory Board (Audit Committee).
Supported

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.
Supported

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.
Supported

The Management Board/Management Board established its guidelines on insider trading in securities and monitored compliance with those guidelines.
Supported

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.
No

Explanation: The Company has not adopted a remuneration policy.

The Supervisory Board commented on the remuneration guidelines.
No

Explanation: The Company has not adopted a remuneration policy.

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.
No

Explanation: The Company has not adopted a remuneration policy.

A 2.7.2. The Board of Directors/Management Board evaluated the work it carried out in the given business year.
Supported

A 2.7.2.1 The Supervisory Board evaluated the work it carried out in the given business year.
No

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.
Supported

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.
Supported

A 2.7.4 The principles of the share-based remuneration schemes were approved by the General Meeting.
No
Explanation: Determining the principles of the share-based remuneration schemes is within the powers of the Board of Directors.

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)
No

Explanation: The definition of share-based remuneration schemes principles of the Board of Directors of powers

A 2.7.7 The Company prepared the Remuneration Statement and presented it to the General Meeting.
No

Explanation: The Company did not prepare a remuneration statement.

The Remuneration Statement includes the remuneration of the Board of Directors/Management Board, the Supervisory Board and the individual members of the management.
No

Explanation: The Company did not prepare a remuneration statement.

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.
Supported

With a specified regularity the Board of Directors/Management Board requests information on the efficiency of the risk management procedures.
Supported

The Board of Directors/Management Board has taken the necessary steps to identify the major risk areas.
Supported

A 2.8.3 The Board of Directors/Management Board has formulated the principles regarding the system of internal controls.
Supported

The system of internal controls established by the management ensures management of the risks which affect the Company and achieving the Company's objectives.
Supported

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.
Supported

A 2.8.5 It is the management's responsibility and task to establish and maintain a system of internal controls.
Supported

A 2.8.6 The company has created an independent internal audit function which has a reporting requirement towards the Audit Committee/Supervisory Board.
No

Explanation: The Company's internal audit function is performed directly by the Audit Committee and the Supervisory Board.

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.
No

Explanation: The Company's internal audit function is performed directly by the Audit Committee and the Supervisory Board.

A 2.8.7 The internal audit activities are performed by the internal audit based on authorisation from the Audit Committee/Supervisory Board.
No

Explanation: The Company's internal audit function is performed directly by the Audit Committee and the Supervisory Board.

The internal audit is organisationally separate from the management which performs the operational management. Supported

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.
No

Explanation: The Company has not adopted an internal audit plan, the internal audit is performed by the Supervisory Board and the Audit Committee.

A 2.8.9 The Board of Directors/Management Board has prepared its report for the shareholders on the operation of the internal controls.
No

Explanation: The Company does not produce such a report.

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.
No

Explanation: The Company does not produce such a report.

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.
Supported

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.
Supported

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.
Supported

In its decision the Board of Directors/Management Board set down in advance the kind of circumstances which significantly affect the Company's operations.
No

Explanation: 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.

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).
No

Explanation: The Company is in compliance with all the legal requirements of disclosure and publication. The necessary information can be found on the Company's website and in other places of disclosure as defined in the legislation. The formulated above details delegated to the Audit Committee have not been published separately.

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).
No

Explanation: The Company does not operate a Nomination Committee.

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).
No

Explanation: The Company does not operate a Remuneration Committee.

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.
<u>Supported</u>

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.
<u>Supported</u>

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.
<u>Supported</u>

A 3.3.1 The Company has a Nomination Committee.
<u>No</u>

Explanation: The role of the Nomination Committee is performed by the Board of Directors.

A 3.3.2 The Nomination Committee provided for the preparation of the personnel related changes.
<u>No</u>

Explanation: The role of the Nomination Committee is performed by the Board of Directors.

The Nomination Committee reviewed the procedures for the selection and appointment of the management members.
<u>No</u>

Explanation: The Company has no Nomination Committee.

The Nomination Committee evaluated the activities performed by the board and management members. <u>No</u>

Explanation: The Company has no Nomination Committee.

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.
<u>No</u>

Explanation: The Company has no Nomination Committee.

A 3.4.1 The Company has a Remuneration Committee.
<u>No</u>

Explanation: The role of the Remuneration Committee is performed by the Board of Directors.

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.
No

Explanation: The Company has no Remuneration Committee.

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.
No

Explanation: No Remuneration Committee is operated at the Company.

The Board of Directors'/Management Board's remuneration was approved by the General Meeting based on the proposal of the Remuneration Committee.
No

Explanation: 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.

The Remuneration Committee checked the share option system, as well as the system of cost reimbursements and other benefits.
No

Explanation: The Company has no Remuneration Committee.

A 3.4.4 The Remuneration Committee made proposals regarding the remuneration principles.
No

Explanation: The Company has no Remuneration Committee.

A 3.4.4.1 The Remuneration Committee made proposals regarding the remuneration of individual persons.
No

Explanation: The Company has no Remuneration Committee.

A 3.4.4.2 The Remuneration Committee reviewed the terms of the contracts concluded with the members of the management.
No

Explanation: The Company has no Remuneration Committee.

A 3.4.4.3 The Remuneration Committee checked if the Company complied with the obligation to provide information regarding remuneration issues.
No

Explanation: The Company has no Remuneration Committee.

A 3.4.7 The majority of the members of the Remuneration Committee are independent.
No

Explanation: The Company has no Remuneration Committee.

A 3.5.1 The Board of Directors/Management Board disclosed its reasons for merging the Remuneration and the Nomination Committees.
No

Explanation: According to the Company's Statutes, election of the members of the Board of Directors, of the Supervisory Board and the Audit Committee and establishing their remuneration falls within the competence of the General Meeting; the Company does not operate a Remuneration and a Nomination Committee.

A 3.5.2 The Board of Directors/Management Board carried out the tasks of the Nomination Committee, and it provided information on the reasons for doing it.
No

Explanation: According to the Company's Statutes, election of the members of the Board of Directors, of the Supervisory Board and the Audit Committee and establishing their remuneration falls within the competence of the General Meeting.

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.
Supported

A 4.1.2 In the course of providing information, the Company ensured that all shareholders and operators were treated equally.
Supported

A 4.1.3 In its disclosure guidelines the Company specifies the procedures for electronic and online disclosure.
Supported

The Company develops its website by taking into consideration the disclosure criteria and by bearing in mind the provision of information to investors.
Supported

A 4.1.4 The Board of Directors/Management Board assessed the efficiency of the disclosure processes.
Supported

A 4.1.5 The Company published its corporate events calendar on its website.
No

Explanation: The Company did not made the event calendar available on its website.

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.

No

Explanation: The Company did not provide such information.

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.
No

Explanation: The annual report does not include this.

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.
Supported

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.
Supported

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.
Supported

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.
No

Explanation: The Company complied with its obligation to provide information in its Annual Report.

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.
No

Explanation: The Board of Directors did not publish its risk management guidelines.

A 4.1.13 In order to inform the operators, every year, when releasing its annual report, the Company publishes its corporate governance report.
Supported

A 4.1.14 On its website the Company publishes the insiders' guidelines on trading in the Company's securities.
No

Explanation: The Company does not publish these risk management guidelines separately on its website.

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.
<u>No</u>

Explanation: The Company does not publish the above information on its website

A 4.1.15 In the annual report and on its website the Company disclosed the relationship between the members of the Board of Directors/Management Board/Management and any third parties which can affect the company's operations.
<u>Supported</u>

Level of Compliance with the Suggestions

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

J 1.1.3	The company has an organisational unit which deals with investor relations.	Supported
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).	Supported
J 1.2.2	The Company's Statutes can be viewed on the Company's website.	Supported
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.	Supported
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.	Supported
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.	Supported
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.	Supported
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.	Supported
J 1.2.11	At the request of shareholders the Company sent the information on the general meeting electronically as well.	Supported
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.	Supported
J 1.3.2	The Board of Directors/Management Board and the Supervisory Board were represented at the General Meeting.	No
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.	Supported
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.	Supported
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.	Supported
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.	Supported

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.	No
J 1.3.11	On certain amendments of the Statutes the General Meeting of the Company decided in separate resolutions.	Supported
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.	Supported
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.	No
J 1.4.2	The Company disclosed its policy regarding anti-takeover prevention.	Supported
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.	Supported
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.	Supported
J 2.3.2	Board members had access to the proposals of the given meeting at least five days prior to the board meeting.	Supported
J 2.3.3	The procedures regulate the regular or occasional participation at the board meetings of persons who are not board members.	Supported
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.	Supported
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.	Supp orted
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.	Supported

J 2.5.2	The division of the Chairman's and the CEO's competences is stipulated in the Company's main documents	No
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.	No
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.	Supported

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.	Supported
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.	Supported
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.	No
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.	No
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.	No
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.	No
J 2.9.1.1	The rules of procedure of the Supervisory Board includes the procedure to be followed when employing an external advisor.	No
J 2.9.1.2	The rules of procedure of the Audit Committee includes the procedure to be followed when employing an external advisor.	No
J 2.9.1.3	The rules of procedure of the Nomination Committee includes the procedure to be followed when employing an external advisor.	No
J 2.9.1.4	The rules of procedure of the Remuneration Committee includes the procedure to be followed when employing an external advisor.	No
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.	Supported
J 2.9.5	The Company's internal audit cooperated with the auditor in order to successfully carry out the audit.	Supported
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	p r

	epared at least one report to the Executive Board and the Supervisory Board in the given business year.	Supported
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.	No
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.	No

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. Supported

J 3.1.5 The rules of procedure of committees operating at the Company include the aspects detailed in Section 3.1.5.

Support

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J 3.2.2 The members of the Audit Committee/Supervisory Committee were fully informed about the accounting, financial and operational peculiarities. Supported

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. No

J 3.3.4 The majority of the members of the Nomination Committee are independent. No

J 3.3.5 The rules of procedure of the Nomination Committee includes the aspects set out in Section 3.3.5.

J 3.4.5 The Remuneration Committee ensured that the remuneration statement is prepared. No

J 3.4.6 The Remuneration Committee consists exclusively of the non-operational members of the Board of Directors/Management Board. No

J 4.1.4 The Company's disclosure guidelines cover at least those aspects which are contained in Section 4.1.4. Supported

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. No

J 4.1.7 The Company prepares its financial statements in accordance with IFRS principles.

Supported

The Company's consolidated financial statements are prepared in accordance with IFRS principles.

The Company's annual report was prepared in accordance with the Accounting Act.

J 4.1.16 The Company prepares and discloses the information also in the English language.

Supported