

DUNA HOUSE HOLDING NYRT.

CONSOLIDATED FINANCIAL STATEMENTS

IN ACCORDANCE WITH THE INTERNATIONAL FINANCIAL
REPORTING STANDARDS
31 DECEMBER 2018



DUNA HOUSE[®]

Contents

1.	General	9
1.1	Introduction to the company	9
1.2	Basis of the financial statements.....	10
2.	Accounting Policy	11
2.1	Main components of the accounting policy	12
2.1.1	Basis of consolidation	12
2.1.2	Reporting currency and FX balances	12
2.1.3	Sales revenue.....	13
2.1.4	Real estate, machines, equipment	14
2.1.5	Impairment loss	15
2.1.6	Intangible assets	15
2.1.7	Goodwill.....	15
2.1.8	Inventories.....	16
2.1.9	Receivables	16
2.1.10	Instruments classified as held for sale and liabilities directly linked to them.....	16
2.1.11	Financial liabilities.....	16
2.1.12	Provisions.....	17
2.1.13	Investment property.....	17
2.1.14	Income taxes.....	18
2.1.15	Leasing	19
2.1.16	Earning per share (EPS).....	19
2.1.17	Off-balance sheet items	19
2.1.18	Treasury shares.....	20
2.1.19	Dividends	20
2.1.20	Profit/Loss on financial transactions	20
2.1.21	State aid.....	20
2.1.22	Share-based programs, option schemes	20
2.1.23	Restricted cash	20
2.1.24	Events subsequent to the accounting reference date	21
2.2	Changes in the Accounting Policy.....	21
2.2.1	The impact of changes in the accounting policy on earlier periods.....	21
2.2.2	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.	21
2.3	Uncertainties	22
2.3.1	Impairment on goodwill	22
2.3.2	Impairment recognised on uncollectible and doubtful receivables.....	22
2.3.3	Trail commission.....	22
2.3.4	Investment property.....	22
2.3.5	Depreciation	23
2.4	Business combination details, enterprises involved in the consolidation	23
2.4.1	Presentation of the subsidiaries involved in the consolidation	24
3.	Property, machinery and equipment	29
4.	Investment property.....	30
5.	Intangible assets.....	31
6.	Goodwill.....	32
7.	Investments in associated companies and joint ventures	32
8.	Financial instruments	33
9.	Deferred tax receivables	33
10.	Inventories.....	34

DUNA HOUSE HOLDING NYRT.
31 DECEMBER 2018
CONSOLIDATED FINANCIAL STATEMENTS

11.	Trade receivables.....	35
12.	Amounts owed by related undertakings	35
13.	Other receivables	36
14.	Accrued incomes	36
15.	Cash and cash equivalents.....	37
16.	Instruments classified as held for sale and liabilities directly linked to them.....	38
17.	Subscribed capital and profit reserve.....	39
18.	Treasury shares.....	40
19.	Exchange reserves	41
20.	Non-controlling ownership interest	41
21.	Long-term loans.....	42
22.	Deferred tax liabilities	44
23.	Short-term loans and borrowings	44
24.	Accounts Payable.....	45
25.	Liabilities to related companies.....	45
26.	Other liabilities	45
27.	Accruals and deferred income.....	46
28.	Sales revenue.....	47
29.	Other operating income	49
30.	Consumables and raw materials	49
31.	Goods and services sold	49
32.	Services purchased	50
33.	Personnel costs.....	51
34.	Other operating charges.....	52
35.	Revenues of financial transactions.....	52
36.	Expenses of financial transactions	53
37.	Income tax expenses	53
38.	Earning per share (EPS)	54
39.	Segment information.....	55
40.	Risk management	59
41.	Financial instruments	63
42.	Remuneration of the Board of Directors and Supervisory Board	64
43.	Events after the balance sheet date.....	64
44.	Liability declaration and approval of the financial statements for disclosure	65

Consolidated balance sheet

data provided in thousands HUF, unless indicated otherwise

The 2017 revision is explained in Chapter 2.2.

ASSETS	Notes	31.12.2018	31.12.2017 revised
Long-term assets			
Intangible assets	5	66,807	82,656
Investment property	4	1,443,600	1,061,613
Land and buildings	3	520,387	538,484
Machinery and equipment	3	171,100	108,082
Goodwill	6	1,320,667	1,048,936
Investments in associated companies and joint ventures	7	168,731	206,009
Financial instruments	8	79,950	69,609
Deferred tax assets	9	212,418	160,322
Total long-term assets		3,983,659	3,275,712
Current assets			
Inventories	10	3,882,715	3,399,013
Trade receivables	11	710,861	455,840
Amounts owed by related undertakings	12	154,622	146,098
Other receivables	13	386,607	176,766
Actual income tax assets		25,380	35,405
Accrued incomes	14	424,648	316,446
Cash and cash equivalents	15	756,919	485,742
Restricted cash	16	752,694	942,758
Assets classified as held for sale		0	196,143
Total current assets		7,094,448	6,154,211
Total Assets		11,078,107	9,429,923

Consolidated balance sheet

data provided in thousands HUF, unless indicated otherwise

The 2017 revision is explained in Chapter 2.2.

LIABILITIES	Notes	<u>31.12.2018</u>	<u>31.12.2017 revised</u>
Equity			
Subscribed capital	17	171,989	171,989
Treasury shares		(117,000)	0
Capital reserves	17	1,493,267	1,490,536
Exchange reserves	18	35,283	27,518
Retained earnings	18	<u>3,917,124</u>	<u>2,862,649</u>
Total equity of the parent company		<u>5,500,663</u>	<u>4,552,693</u>
Non-controlling ownership interest	19	<u>(56,027)</u>	<u>(48,581)</u>
Total share capital:		<u>5,444,637</u>	<u>4,504,112</u>
Long-term liabilities			
Long-term loans	20	236,082	1,271,662
Provisions for expected liabilities		8,327	0
Deferred tax liabilities	21	163,992	144,087
Other long-term liabilities	22	<u>0</u>	<u>0</u>
Total long-term liabilities		<u>408,401</u>	<u>1,415,749</u>
Current liabilities			
Short-term loans and borrowings	23	2,746,177	996,748
Accounts Payable	24	599,094	388,240
Liabilities to related companies	54	292,360	581,775
Other liabilities	26	995,783	1,140,882
Actual income tax liabilities		128,386	8,799
Accruals and deferred income	27	463,269	388,136
Liabilities directly linked to assets classified as held for sale	16	0	5,481
Total current liabilities		<u>5,225,070</u>	<u>3,510,062</u>
Total liabilities and equity		<u><u>11,078,107</u></u>	<u><u>9,429,923</u></u>

Consolidated profit and loss account data provided in thousands HUF, unless indicated otherwise

The 2017 revision is explained in Chapter 2.2.

<i>data in HUF thousands</i>	Notes	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017 revised
Net sales revenues	28	7,985,170	4,684,844
Other operating income	29	302,790	134,780
Profit from the sale of instruments held for sale		51,946	0
Total income		8,339,907	4,819,624
Variation in self-manufactured stock	10	(621,540)	(1,434,113)
Consumables and raw materials	30	61,618	63,285
Goods and services sold	31	1,405,221	908,946
Services purchased	32	4,415,172	3,652,162
Personnel costs	33	677,017	572,413
Depreciation and amortisation		99,697	86,973
Other operating charges	34	188,211	132,613
Operating costs		6,225,396	3,982,278
Operating profit/loss		2,114,510	837,346
Financial revenues	35	38,292	195,388
Financial expenses	36	(100,989)	(48,632)
Profit of participations valued with the equity method	7	(37,278)	81,456
Profit/Loss before taxation		2,014,535	1,065,558
Income taxes	37	310,085	173,068
After-tax profit		1,704,450	892,491
Other comprehensive income		3,361	24,481
Total comprehensive income		1,707,811	916,222
Of the total comprehensive income			
Attributable to the parent company		1,715,258	924,586
Attributable to external shareholders		(7,446)	(8,363)
Income per share (HUF)	38		
Basis			
Diluted		472	253

The notes provided on pp. 9-65 constitute an integral part of the Consolidated Financial Statements.

DUNA HOUSE HOLDING NYRT.
31 DECEMBER 2018
CONSOLIDATED FINANCIAL STATEMENTS

Statement of changes in the consolidated equity

	Subscribed capital	Treasury shares	Capital reserves	Retained earnings	Exchange reserves	Total equity of the parent company	Non-controlling ownership interest	Total equity
Balance as at 31 December 2016	153,050	0	9,479	2,444,092	(23,318)	2,583,303	(40,154)	2,543,149
Dividends				(479,260)		(479,260)		(479,260)
Capital increase	18,939		1,481,057			1,499,997		1,499,997
IFRS 9 impairment 2017 closing balance adjustments				(26,407)		(26,407)		(26,407)
Total comprehensive income				924,224	50,836	975,060	(8,427)	966,633
Balance as at 31 December 2017	171,989	0	1,490,536	2,862,649	27,518	4,552,692	(48,581)	4,504,111
Dividends				(653,018)		(653,018)		(653,018)
Treasury shares		(117,000)				(117,000)		(117,000)
Employee and management share schemes			2,731			2,731		2,731
Total comprehensive income				1,707,493	7,765	1,715,258	(7,446)	1,707,812
Balance as at 31 December 2018	171,989	(117,000)	1,493,267	3,917,124	35,283	5,500,663	(56,027)	5,444,636

The value of the non-controlling ownership interest includes the appropriate portion of the retained earnings and the conversion reserve.
The notes provided on pp. 9-65 constitute an integral part of the Consolidated Financial Statements.

Consolidated Cash Flow Statement

all data in HUF thousand unless otherwise stated

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017 revised
OPERATING CASH FLOW		
After-tax profit	1,704,450	892,490
<i>Adjustments for:</i>		
Interest received or paid is stated in the financing cash flow.	49,965	17,814
Reporting year depreciation	99,697	86,973
Deferred taxes	(32,191)	(29,173)
Revaluation of investment property	(188,060)	(53,320)
Share scheme	2,731	0
Badwill	0	(139,595)
Shares measured with the equity method	37,278	(81,456)
Profit from the sale of instruments held for sale	(51,946)	0
<u>Changes in working capital</u>		
Changes in inventories	(437,313)	(1,429,065)
Changes in accounts receivable, other receivables and related receivables	(274,351)	(844,958)
Changes in accrued and deferred assets	(108,203)	5,298
Changes in accounts payable and related liabilities	(150,633)	(215,642)
Other current liabilities and accruals and deferrals	(25,513)	497,904
Changes in accrued and deferred liabilities	75,133	(97,149)
Net operating cash flow	701,043	(1,389,879)
Investment cash flow		
Tangible and intangible assets purchased	(374,541)	(233,343)
Sale of tangible assets	51,846	9,655
Sale of instruments held for sale	250,000	0
Acquisition/Disposal of subsidiaries (excluding acquired liquid assets)	(271,731)	(171,668)
Net investment cash flow	(344,425)	(395,355)
Financing cash flow		
Bank loans/(repayment)	713,849	1,225,942
Capital contribution	(117,000)	0
Dividend payments	(632,325)	(493,221)
Interest received (paid)	(49,965)	(45,430)
Net financing cash flow	(85,441)	687,291
Net change in cash and cash equivalents	271,177	(1,097,944)
Balance of cash and cash equivalents as at the beginning of the year	485,742	1,583,686
Balance of cash and cash equivalents as at the end of the year	756,919	485,742

The notes provided on pp. 9-65 constitute an integral part of the Consolidated Financial Statements.

1. General

1.1 Introduction to the company

The Duna House Holding Nyrt. - hereinafter referred to as “Company” or “Group” - was founded in 2003; its main activity is real estate and loan brokerage. 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 at 165 locations. A transaction as a result of which Duna House Group, Hungary is now the sole owner of Metrohouse, the largest Polish real estate agency 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 two of its subsidiaries, Center Reality s.r.o and Duna House Hypotéky s.r.o., then, on 6 November 2018, acquired the Polish loan brokerage company Gold Finance Sp. z.o.o.

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

Principal activities:

- selling and operating franchise systems
- real estate agency services
- loan brokerage
- insurance brokerage
- real estate appraisal and related estate agency services
- energy certification and related estate agency services
- real estate management
- buying and selling of own real estate
- residential real estate fund management
- real estate development

Subsequent to the registration on 1 February 2017 of an equity increase, Medasev Holding Kft. (1016 Budapest, Gellérthegy utca 17., company registration number: 01-09-209753) holding a 39.68% stake is now the largest shareholder of Duna House Holding Nyrt. is now the largest shareholder of Duna House Holding Nyrt.

Owner's name	Ownership share as at 31 December 2018	Ownership share as at 31 December 2017
Medasev Holding Kft.	39.68%	39.68%
Medasev Int. (Cyprus) Ltd.	38.04%	38.04%
External investors	14.14%	20.50%
AEGON Magyarország Befektetési Alapkezelő Zrt.	5.58%	-
Employees and private individuals	1.65%	1.78%
Treasury shares	0.91%	-
Total:	100%	100%

The Company is operated by the Board of Directors. The controlling 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 developing the full support scale of Metro House franchise system gradually, relying on the Hungarian experiences and taking into account the specificities of the Polish market. Over the coming years, the Group intends to organically develop its operations in Poland and in the Czech Republic (acquired in September 2016), and then identify new markets or strengthen its market presence on existing markets through the acquisition of suitable targets.

1.2 Basis of the financial statements

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

The annual consolidated financial statements were approved by the Board of Directors on 22 March 2019. The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS), as announced and enacted 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 before 31 December 2018 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 international consolidated financial statements consistent with the International Financing Reporting Standards.

The financial statements were prepared on the basis of the historical cost principle, except when the IFRS requires 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 case of consolidated financial statements, the valuation is based on the original historical cost, except for the assets and liabilities for which the relevant International Reporting Standard requires or permits valuation at fair value.

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

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

2.1.1 Basis of consolidation

Subsidiaries

The consolidated annual financial statements include Duna House Holding Nyrt. and the subsidiaries controlled by it. In general, control means that the Group holds, either directly or indirectly, more than 50% of the votes of the particular company and enjoys the advantages of its activities through an influence on its financial and operational 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. 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. As regards the Group, non-controlling shares in the case of all past acquisitions are determined as the amount per non-controlling shareholders. Following the acquisition the share of the non-controlling shareholders equals the originally taken value, modified by the amount of changes in the equity of the acquired company relating to non-controlling shareholders. The non-controlling shareholders have a share of the interim total comprehensive income even if it leads to a negative balance of their shares.

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

2.1.2 Reporting currency and FX balances

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

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

The financial statements were prepared in Hungarian forints (HUF), rounded to the nearest one thousand, except 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 revenue

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).

In Hungary, financial institutions divide the agent fee payable by them into acquisition and maintenance commission. The acquisition commission is payable to an intermediary in relation to a new contract, while trail commission is payable for the continuation of the contract for a certain period. In the case of a trail (maintenance) commission the financial partners apply somewhat different settlement principles but, according to the currently effective legislation, in the case of an exposure secured by a real property the trail commission must equal at least 20% of the total brokerage commission. The main objective of this type of commission is to make the broker interested in the repayment discipline of the borrowers for a long time. The factors affecting the amount of commission include the type of the mediated product and its tenor, the delay in the prepayment of the respective borrower and the continuation rate of the total active

mediated loan portfolio. The Company uses a calculation model to estimate the trail commission for the loans contracted in the current year and loans disbursed in the current period and takes into account the commission during the period when the loan mediation transactions was executed. 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 extraordinary depreciation must be recognised until the asset reaches its fair market value. The fair market value of the asset is either the sales price or the value in use of the asset, whichever is higher. The value in use is the discounted value of the future cash flows generated by the asset.

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

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

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

Buildings	17-50 years
Machinery and equipment	3-7 years

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

2.1.5 Impairment loss

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

2.1.6 Intangible assets

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

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

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

Rights and titles as well as software

3-6 years

2.1.7 Goodwill

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

2.1.8 Inventories

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

The historical cost of real estate development projects includes all the costs of purchasing, transforming, and any other direct costs incurred in order for the developed property to be completed. Real estate development projects are classified as qualifying assets in accordance with the IAS 23 Borrowing Costs standard as it necessarily takes a significant period of time to prepare them to be used or sold. Therefore, the borrowing costs of the loans for financing the projects are also considered in the cost of these inventories. However, the costs of loans – incurred at the financed party – granted for such purposes within the Group, as internal performance, are consolidated from the inventory value.

2.1.9 Receivables

The receivables are stated in the financial statements and nominal value less impairment recognised for estimated losses. In accordance with the requirements of the IFRS 9 standard, the Group uses the expected credit loss (ECL) model to estimate the expected amount of impairment.

2.1.10 Instruments classified as held for sale and liabilities directly linked to them

In accordance with the requirements of the IFRS 5 standard, non-current assets (or disposal groups) classified as held for sale are valued either at their carrying value or their fair value less costs of sales, whichever is lower.

2.1.11 Financial liabilities

The Company's statements presenting its consolidated financial position contain the following liabilities: trade payables and other current liabilities, loans, credit, current account overdrafts and futures/forwards. They are presented and valued in the consolidated financial statements in the respective parts of the notes to the financial statements as specified below.

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

The Company applies the following categories to the financial instruments covered by IAS 39: financial liabilities measured against profit/loss, loans, credit and hedging instruments to which the hedging accounting principle applies. The Group defines the category of the financial liabilities when they are acquired.

The financial liabilities valued at fair value against profit are liabilities obtained by the Group for trading purposes or liabilities deemed valued at fair value against the profit during the initial recognition. The financial liabilities for trading purposes include liabilities that were purchased

by the Group mainly for profit expected from short-term exchange rate fluctuation. This category also contains futures transactions that are not considered effective hedge instruments.

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

2.1.12 Provisions

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

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

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

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

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

2.1.13 Investment property

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

Initially, an investment property must be valued at historical cost, taking also account the transaction costs. The Group opted for the fair value model to recognise investment properties. The differences arising from the variation of fair value are recognised in the profit/loss of the

current year against other operating income. There is no scheduled depreciation on investment properties.

The profit or loss arising from the variation of the fair value of investment properties is always recognised in the profit or loss of the period (in other operating revenues or other operating expenses row), in which it incurs. An investment property must be derecognised when sold or when the investment property is finally withdrawn from use and no future economic benefits can be expected from its sale. Any gain or loss arising from the derecognition or sale of investment properties must be recognised in the statement of income either as a revenue or as an expense during the respective period.

2.1.14 Income taxes

The income tax on consolidated profit before tax is based on the act on corporate and dividend tax law, regulations on the rate of local business tax and the tax and contribution liabilities set out in the act on innovation contributions. The full income tax liability contains tax components for the current year and deferred items. The Company also classifies the support provided for spectacular sports as corporate tax, because by content it considers it an income tax.

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

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

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

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

The current and deferred tax is recognised directly against the equity when it relates to items which were also recognised against equity in the same or a different period, also including

modifications in the opening value of reserves due to any change made in the accounting policy with retroactive effect.

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

2.1.15 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 time of acquisition and are recognised in the profit and loss account either over the relevant leasing tenor, in order to facilitate the monitoring of the changes in the balance of the outstanding liability from time to time or in the individual reporting periods.

2.1.16 Earning per share (EPS)

The earning/share is established on the basis of the Group's profit and the shares less the temporary average portfolio of repurchased own 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 which would dilute the value of that EPS rate either in the period ending on 31 December 2017 or the one ending on 31 December 2018.

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 nominal value of repurchased treasury shares is recognised separately within equity at historical cost in accordance with the requirements of the IAS 1 standard.

2.1.19 Dividends

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

2.1.20 Profit/Loss on 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 State aid

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

2.1.22 Share-based programs, option schemes

The Group distributes its own shares to certain employees within the framework of its employee share schemes. The detailed description of the benefit schemes can be found in Annex 18. These benefit schemes are recognised as equity-settled share-based payment.

Equity-settled share-based payments granted to employees and others providing similar services are valued at the fair value of the equity instruments on the grant date. The fair value of equity-settled share-based payments determined on the grant date is recognised using the straight-line method over the vesting period (adjusted for changes in estimates) based on the Group's estimate of the effectively vested equity instruments. At the end of each reporting period, the Group reviews the estimate of how many shares are expected to be vested under non-market vesting conditions. The Group recognises a change in the estimate in the income statement against equity.

2.1.23 Restricted cash

The Group records the amount of deposits that are secured as collateral for loans or required to perform certain activities among restricted cash.

2.1.24 Events subsequent to the accounting reference date

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

2.2 Changes in the Accounting Policy

The Group prepared its financial statements in compliance with the provisions of all the standards and interpretations in force as at 31 December 2018.

2.2.1 The impact of changes in the accounting policy on earlier periods

In accordance with the requirements of the IFRS 9 standard, the Company has applied the change in the accounting policy related to the valuation of trade receivables retrospectively. Opening balances have been modified to the earliest presented period, as if the Company had always applied the new accounting policy. The impacts of the a change in accounting policy on opening balances are:

Trade receivables	31 December 2017 revised	Impact of IFRS 9	31 December 2017 original
Trade receivables	622,910		622,910
Impairment loss of receivables	(167,070)	-26,407	-140,663
Total	455,840	-26,407	482,247

The change in accounting policy had no significant impact on the balance of business, investment and financing cash flows.

2.2.2 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 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. Typically, the Group leases vehicles under operating leases and leases offices whose recognition will be affected by the entry into force of the IFRS 16 standard.

2.3 Uncertainties

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

2.3.2 Impairment recognised on uncollectible and doubtful receivables

In accordance with the IFRS 9 standard, the Group recognises impairment on uncollectible and doubtful receivables to cover the losses arising from the fact that customers cannot pay. The company uses the expected credit loss (ECL) model as the basis of measuring the appropriateness of impairment on uncollectible and doubtful receivables.

2.3.3 Trail commission

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

2.3.4 Investment property

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

2.3.5 Depreciation

Properties, machines and equipment and intangible assets are recognised at historical cost and are depreciated with the straight-line method during their useful life. The 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

		2018	2017
	address:	31 December	31 December
Duna House Biztosításközvetítő Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Hitelcentrum 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%
Akadémia Plusz 2.0 Kft.	1016 Budapest, Gellérthegy u. 17.	100%	-
Hitelalkusz Közvetítő Kft. (formerly known as: IH Project X Kft.)	1016 Budapest, Gellérthegy u. 17.	100%	100%
Metrohouse Franchise S.A.	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	100%
Metrofinance Sp. z. o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	100%
Metrohouse S.A.	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	100%
Gold Finance Sp. z. o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	0%
MyCity Residential Development Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Pusztakúti 12. Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Reviczky 6-10. Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Duna House Franchise s.r.o.	140 00 Praha 4, Michelská 300/60	80%	80%
Duna House Hypoteky s.r.o.	140 00 Praha 4, Michelská 300/60	80%	80%

DUNA HOUSE HOLDING NYRT.
31 DECEMBER 2018
CONSOLIDATED FINANCIAL STATEMENTS

Center Reality s.r.o.	140 00 Praha 4, Michelská 300/60	80%	80%
-----------------------	----------------------------------	-----	-----

Jointly managed undertaking

		31 December 2018	31 December 2017
Hunor utca 24 Kft.	1016 Budapest, Gellérthegey u. 17.	50%	50%

On 6 November 2018, the Company acquired a 100% ownership of Gold Finance Sp. z.o.o, and thus became its sole owner. Gold Finance Sp. z. o.o was acquired in the following way (data in HUF thousands):

Gold Finance Sp. Z. o.o asset and liability balance at the date of acquisition (in HUF):

Value of investments	270,676,516
<i>Acquired ownership share</i>	<i>100%</i>
Value of net assets on the day of acquisition	27,067,740
Subscribed capital	404,028,000
Capital reserves	538,747,994
Retained earnings	915,708,254
Value of goodwill	243,608,776

Following the acquisition, to increase operational efficiency, Metrofinance Sp. z. o.o merged with Gold Finance Sp. z. o.o, effective from 28 February 2019.

2.4.1 Presentation of the subsidiaries involved in the consolidation

2.4.1.1 Duna House Franchise Kft.

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

2.4.1.2 REIF 2000 Kft.

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

and also helps assessing real estate market innovations and needs and their introduction in the network.

2.4.1.3 Hitelcentrum Kft.

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

2.4.1.4 Duna House Biztosításközvetítő Kft.

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

2.4.1.5 DH Projekt Kft.

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

DH Projekt 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.

The Duna House Ingatlan 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 Ingatlan 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.

2.4.1.9 Home Management Kft.

Home Management Kft. performs comprehensive management services in residential properties, primarily for foreign property owners. The following services are provided: letting, lease payment monitoring, collection, management of overheads, maintenance, accounting and owner representation. 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 activity of the company is the sale and purchase as well as short-term and long-term lease of owned residential properties, which can be expanded with condominium management activity in the near future.

2.4.1.13 Impact Alapkezelő Zrt.

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

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

2.4.1.14 MyCity Residential Development Kft. and its project companies

MyCity has two subsidiaries and one jointly managed undertaking. The objective of these project companies is to implement real estate projects at various locations in Budapest as follows:

Pusztakúti 12 Kft. was registered by the Company Court of the Budapest-Capital Regional Court on 21 January 2016. The purpose of the project company is to construct and sell the 211-unit Forest-Hill and Forest Hill Panoráma 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.

Hunor utca 24. Kft. is a jointly managed company of MyCity Residential Development Kft. with a 50% ownership share. 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.

After the acquisition of control over MyCity, MyCity and MyCity's project companies (excluding Hunor utca 24. Kft.) were fully consolidated by DUNA HOUSE. As a result of the full consolidation, the consolidated balance sheet contains, 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.

In 2018, the Company sold Zsinór 39 Projekt Kft., which used to belong to MyCity and construct and sell a 43-unit residential property (the Iris House) in Budapest, district 13. Section 16 contains a detailed introduction of the transaction.

2.4.1.15 Akadémia Plusz 2.0 Kft.

Founded in 2018 H1, Akadémia Plusz 2.0 Kft. will be responsible for training linked to the Hungarian franchise network.

2.4.1.16 Hitelalkusz Közvetítő Kft.

Licensed as a money market broker by the National Bank of Hungary on 25 May 2018, Hitelalkusz Közvetítő Kft. (formerly: IH Project X Kft.), is engaged mainly in brokering loan products.

2.4.1.17 Polish subsidiaries

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

The holding company of Metro House Group is Metro House Franchise S.A, the 100% ownership of which was acquired by Duna House Holding Nyrt. in April 2016. 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.

As at the date of the acquisition, Metrohouse Franchise S.A. had four fully-owned subsidiaries. In order to improve the efficiency of the operation in Poland, MH Poludnie Sp. z o.o, MH Warszawa Sp z. o.o and MH Usługi Wspolne S.A., all operating own offices, merged on 20 December 2017, with Metrohouse S.A. as their legal successor. Financial products are brokered by Metrofinance Sp. z.o.o.

Metrohouse Franchise S.A. acquired 100% ownership of the Gold Finance Sp. z.o.o on 6 November 2018. Gold Finance Sp. z o.o is Poland's 5th largest loan brokerage company. Following the acquisition, to increase operational efficiency, Metrofinance Sp. z. o.o merged with Gold Finance Sp. z. o.o, effective from 28 February 2019.

2.4.1.18 Czech subsidiaries

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. Currently, Center Reality s.r.o . only operates one own office. Duna House Franchise s.r.o began to establish a franchise network in early 2018. Currently, Duna House Hypotéky s.r.o is not engaged in any operation.

3. Property, machinery and equipment

data in HUF thousands	Land and buildings	Machinery, equipment	Total
Gross value			
As at 31 December 2016	567,156	145,020	712,176
Expansion of the scope of consolidation	0	0	0
Growth and reclassification	46,655	133,895	180,549
Decrease and reclassification	(141)	(56,711)	(56,852)
As at 31 December 2017	613,670	222,204	835,873
Expansion of the scope of consolidation	0	0	0
Growth and reclassification	43,289	138,272	181,562
Decrease and reclassification	(20,228)	(71,942)	(92,169)
As at 31 December 2018	636,732	288,535	925,266
Accumulated depreciation			
As at 31 December 2016	47,837	91,100	138,937
Expansion of the scope of consolidation	0	0	0
Annual description	27,348	29,000	56,348
Decrease	0	(5,978)	(5,978)
As at 31 December 2017	75,185	114,122	189,307
Expansion of the scope of consolidation	0	0	0
Annual description	41,159	21,734	62,893
Decrease	0	(18,421)	(18,421)
As at 31 December 2018	116,344	117,435	233,779
Net book value			
As at 31 December 2016	519,319	53,920	573,239
As at 31 December 2017	538,484	108,082	646,566
As at 31 December 2018	520,388	171,100	691,487

4. Investment property

data in HUF thousands	Total
Carrying value	
As at 31 December 2016	939,362
Expansion of the scope of consolidation	192,551
Growth and reclassification	72,431
Changes in the fair value	53,320
Decrease and reclassification	(196,051)
As at 31 December 2017	1,061,613
Growth and reclassification	236,640
Changes in the fair value	196,060
Decrease and reclassification	(50,714)
As at 31 December 2018	1,443,600
Carrying value	
As at 31 December 2016	<u>939,362</u>
As at 31 December 2017	<u>1,061,613</u>
As at 31 December 2018	<u>1,443,600</u>

Growth in the investment property portfolio in the 2017 financial year was due, in part, to the acquisition of MyCity Group and, hence, the expansion of the scope of consolidation, and, to a lesser extent, direct purchases. The reason for the decrease was the reclassification of the development site of Zsinór utca 39. Kft. as held for sale.

In 2018, the Group continued to optimise its investment property portfolio, which led to the sale of two properties and the purchase of one small office. 2018 saw a total of HUF 196 million increase in value in the portfolio.

5. Intangible assets

data in HUF thousands	Total
Gross value	
As at 31 December 2016	295,170
Expansion of the scope of consolidation	0
Growth and reclassification	28,589
Decrease and reclassification	0
As at 31 December 2017	323,759
Expansion of the scope of consolidation	0
Growth and reclassification	21,509
Decrease and reclassification	(4,669)
As at 31 December 2018	340,598
Accumulated depreciation	
As at 31 December 2016	210,478
Expansion of the scope of consolidation	0
Annual depreciation	30,624
Decrease	0
As at 31 December 2017	241,103
Expansion of the scope of consolidation	0
Annual depreciation	32,702
Decrease	(13)
As at 31 December 2018	273,791
Net book value	
As at 31 December 2016	84,692
As at 31 December 2017	82,656
As at 31 December 2018	66,807

6. Goodwill

	<u>31.12.2018</u>	<u>31.12.2017</u>
Metrohouse Franchise S.A.	598,313	592,367
Gold Finance Sp. z o.o.	243,609	0
MH Usługi Wspólne S.A.	191,334	191,334
Center Reality s.r.o.	167,601	167,601
MH Południe Sp. z.o.o	24,656	24,656
Home Management Kft.	18,500	18,500
Duna House Franchise s.r.o.	10,421	10,421
Conversion difference on the balance sheet date	66,233	44,057
Total	<u>1,320,667</u>	<u>1,048,936</u>

Goodwill's book value has changed as a result of Gold Finance's interim acquisition and foreign exchange revaluations. Recognition of the transaction will be presented in Chapter 2.4.

The Management of the Company has carried out a test of the value of the goodwill shown in the consolidated balance sheet of the acquired subsidiaries. According to the profit generating capacity of the companies concerned, there is no factor that would require the recognition any impairment on goodwill. The goodwill generated during the acquisition of foreign subsidiaries is converted at the exchange rate prevailing on the balance sheet date pursuant to IAS 21.47.

7. Investments in associated companies and joint ventures

Investments in associated and joint undertakings include the value of the 50% share in Hunor utca 24. Kft, which, between 31 December 2017 and 31 December 2018, decreased by HUF 37,278 thousand as a result of an interim negative profit of residential real estate developments carried out by the company. The table below shows the interim value of investments in associated and joint undertakings in HUF thousand:

Date	Text	Hunor u. 24. Kft.	Total
01.01.2018	Opening balance	206,009	206,009
31.03.2018	Participation from profit or loss	-3,454	-3,454
30.06.2018	Participation from profit or loss	-7,445	-7,445
30.09.2018	Participation from profit or loss	-13,455	-13,455

31.12.2018	Participation from profit or loss	-12,923	-12,923
31.12.2018	Closing balance	168,731	168,731

8. Financial instruments

The Company's financial assets were as follows:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Deposit, security deposit	38,745	32,948
Opusse 138.000 bonds	36,704	36,660
Other long-term loans granted	4,501	0
Total	<u>79,950</u>	<u>69,609</u>

9. Deferred tax receivables

In the course of calculation of referred 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 Hungarian 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 discrepancies causing taxable tax differences were identified. The table shows the amount of the deferred tax asset remaining after the netting of the deferred tax liability at the level of the consolidated subsidiaries.

Recognised in the deferred tax receivables	<u>31.12.2018</u>	<u>31.12.2017</u>
Losses carried forward	122,801	131,576
Impairment loss of receivables	34,547	19,259
Due to taxation in accordance with the cash accounting principle	54,187	9,711
Property, machinery and equipment, investment property and other	132	(223)
Provisions	749	0
Total	<u>212,418</u>	<u>160,322</u>

The maximum deferred tax losses affecting Polish operations that can be used in a business year against future positive tax bases are the following.

Maximum available tax loss amount (PLN)						
Year of use	Metrohouse Franchise S.A.	Metrohouse S.A.	Gold Finance Sp. z. o.o	Total (PLN)	Total (HUF thousand)	Distribution between years
2019	124,549	550,205		674,754	50,477	13%
2020	214,618	693,721	304,208	1,212,546	90,709	23%
2021	339,166	860,087	376,211	1,575,464	117,858	30%
2022	442,050	877,764	72,003	1,391,817	104,120	26%
2023	351,981	79,761	0	431,742	32,298	8%
Total	1,472,363	3,061,537	752,422	5,286,323	395,461	100%

Of the Czech companies, Center Reality s.r.o and Duna House Franchise s.r.o. accounted for a significant amount of deferred tax assets (HUF 16,464 thousand), which was attributable to deferred tax losses of approximately CZK 6,9 million incurred by both companies. Pursuant to the Czech corporate tax law, tax losses may be carried forward for five years.

10. Inventories

	<u>31.12.2018</u>	<u>31.12.2017</u>
Real estate development projects under construction	3,868,051	3,384,090
Marketing tools	14,665	14,923
Total	<u>3,882,715</u>	<u>3,399,013</u>

The book value of inventories is mainly determined on the basis of the historical cost of residential properties under construction in MyCity project companies.

There was a total of HUF 4,996,493 thousand mortgage registered in the land registry secured with alienation and debit ban on the value of the real estate development projects under construction recognised as inventory (including plots and building structures)

11. Trade receivables

	<u>31 December 2018</u>	<u>31 December 2017 revised</u>
Trade receivables	957,009	622,910
Impairment loss of receivables	(246,147)	(167,070)
Total	<u>710,861</u>	<u>455,840</u>

Impairment losses recognised on trade receivables are recognised on the basis of expected credit losses. The acquisition of Gold Finance played a significant role in the change in the net value of trade receivables, which had HUF 204,945 thousand trade receivables and (21,844) impairment losses on trade receivables as at 31 December 2018.

12. Amounts owed by related undertakings

The value of related receivables contains the following:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Loan receivables from Hunor utca 24. Kft.	137,808	137,808
Deposit to Hunor utca 24. Kft.	4,869	5,112
Trade receivables Hunor utca 24. Kft.	8,212	0
Other	3,733	3,178
Total	<u>154,622</u>	<u>146,098</u>

The majority of the related receivables are loans and related interest receivables as at 31 December 2018 against the Company's jointly managed company Hunor utca 24. Kft.

13. Other receivables

Other receivables contain the following:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Advances paid	261,669	73,342
Other receivables (taxes)	43,052	31,789
Collateral	30,000	30,000
Other receivables	23,129	2,057
Security deposit	20,385	25,450
Short-term loans	4,000	5,500
Duty receivable from lawsuits	2,669	6,963
Assigned receivables	1,473	1,473
Rental fee paid as attorney deposit	230	192
Total	<u>386,607</u>	<u>176,766</u>

The given advance and deposit lines are predominantly advances paid to trade payables for ongoing residential property development projects, and consists of the amount of deposits and, to a lesser extent, of the deposits given to the lessor in connection with vehicle leasing.

14. Accrued incomes

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trail commission	409,700	286,977
Accrued incomes	11,640	25,700
Prepaid expenses	3,308	3,769
Total	<u>424,648</u>	<u>316,446</u>

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

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

During the business year, the model used to estimate trail commissions has been extended, and due to intensive lending activity, the loan portfolio for trail commissions has increased. Due to

the extension of the model, retrospective adjustments were not made in accordance with the requirements of the IAS 8 standard.

15. Cash and cash equivalents

	<u>31 December 2018</u>	<u>31 December 2017</u>
Bank account balance – available	752,131	482,512
Bank account balance – restricted	752,694	942,758
Cash	4,789	3,231
Total	1,509,613	1,428,501

Regarding the aggregate bank account balance, HUF 753 million is only available subject to the following restrictions:

Since 7 December 2017, the Company has been managing its bank accounts linked to its operations in Hungary under a cash pooling regime, which makes automatic internal group financing possible.

Restricted (2018)		Reason for restriction
Companies involved in the consolidation	Bank account balance (thousand HUF)	
Pusztakúti 12. Kft.	625,994	Security interest in collateral securing the repayment of the loans granted by Takarékbank Zrt. in connection with the Forest Hill residential development, with collateral including down payments, earnest money and purchase price by clients paid into a separate blocked bank account and available only for the re- and pre-payment of the loans. The prepayment of both loans is only allowed from the third working day from the notification to this effect by Takarékbank Zrt.

Impact Asset Management Alapkezelő Zrt.	95,000	Pursuant to Section 16 (3) and (7) of Act XVI of 2014 on collective investment forms and its managers and on the amendment of certain financial laws, in order to be able to ensure continuous operation and protect investors, Impact Asset Management Zrt. must, at all times, have solvency capital invested in liquid assets or assets that can be converted into immediately available liquid assets in an amount that covers the risk posed by its activity at all times.
Duna House Holding Plc.	31,700	Collateral for the loan granted by Raiffeisen Bank for the acquisition of Metrohouse and kept in a separate blocked account.
Total:	752,694	

16. Instruments classified as held for sale and liabilities directly linked to them

The balance stated in these balance sheet lines is the book value of Zsinór 39 Projekt Kft.'s assets and liabilities classified as held for sale. The purpose of the project was to construct and sell a 43-unit residential property (Iris House) in Budapest, district 13. Having contemplated the optimum IRR on the project and economies of scale, the Company decided to sell the project.

Accordingly, on 23 January 2018, MyCity Residential Development Kft., the direct owner of the project company entered into contract for the sale of its sole ownership share in and the member's loan owed to it by Zsinór 39 Projekt Kft. The carrying value of the IFRS equity of Zsinór 39 Projekt Kft. amounted to HUF 48,429.8 thousand as at 31 December 2017, with a member's loan owed to MyCity in the amount of HUF 151,633.8 thousand. Pursuant to the sales contract the purchase price of the sole ownership share was HUF 104,772.6 thousand and the consideration of the assignment of the member's loan was HUF 145,227.4 thousand. The buyers had paid the said amounts in instalments by 30 June 2018. The transaction closes at the complete payment of the purchase price.

The assets of Zsinór 39 Projekt Kft. classified as held for sale and liabilities directly linked to them:

	<i>HUF thousand</i> 31 December 2018
Contract Price	250,000
Book value (assets)	-196,220
Book value (liabilities)	5,666
Profit from the sale of instruments held for sale	59,446
Commission on sale	-7,500
Total net amount:	51,946
<u>Book value (assets)</u>	
Investment property	196,051
Other receivables	89
Accrued incomes	67
Liquid assets	13
Assets classified as held for sale	196,220
<u>Book value (liabilities)</u>	
Deferred tax liabilities	-5.426
Related liabilities	-240
Assets classified as available for sale (liabilities)	-5.666
<u>Income Statement</u>	
Other operating income	51,946
(+) <i>Contract purchase price</i>	250,000
(-) <i>Historical costs assets</i>	-196,220
(-) <i>Historical costs liabilities</i>	5,666
Services purchased	-7,500

17. Subscribed capital and profit reserve

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

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

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 preferential right attached to employee shares is not cumulative, and the date of dividend payments is set by the Board of Directors.

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

Dividends in the amount of HUF 653,017 thousand was approved at the ordinary general meeting of the Company on 20 April 2018. In line with the above, holders of preferred shares are entitled to an amount equal to 6% of the taxed profit less the 2017 revaluation of investment property and the revaluation of the ownership shares involved in the consolidation with the equity method (i.e. HUF 47,791,000); holders of ordinary shares are eligible for HUF 605,227,000.

Dividends on ordinary shares was paid in a lump sum on 19 June 2018; dividends on preferential employee shares is paid in four equal instalments quarterly. The first one was paid on 29 June 2018.

18. Treasury shares

The Company intends to transfer its own shares to its directors and employees within the framework of its remuneration policy. The Company operates two share-based benefit schemes, which are detailed below.

Management option scheme

In 2018, Duna House Holding Plc. launched a two-year option scheme to provide long-term incentives for Group managers and key employees, which was reopened in 2019. The Company granted option rights for 31,200 shares per scheme.

Employee scheme

At the general meeting held on 18 December 2018, the Company's "Employees 2019" share scheme was approved, under which all Hungarian employees of the Group employed since 1 April 2018 will receive shares in the amount of their average wage of 2018 if the performance conditions are met.

The performance condition of the "Employees 2019" scheme is subject to the following: the Company's 2018

MyCity Residential Development Kft. Cg: 01 09 984485

Pusztakúti 12. Kft. Cg: 01 09 276819

Reviczky 6-10. Kft. Cg: 01 09 276817

Hunor utca 24 Ingatlanfejlesztő Kft. Cg: 01 09 276368

consolidated after-tax profit of the companies without profit after tax exceeds the Company's consolidated after-tax profit for the 2017 financial year, determined the same way.

	2017	2018	Determining the fulfillment of the condition
Profit based on the performance condition of "Employees 2019" scheme	981,331	1,168,689	Fulfilled

The General Meeting held on 20 April 2018 authorised the Board of Directors to acquire a total of 150,000 ordinary shares with a nominal value of HUF 50 each belonging to "A" series, with a purchase price of minimum HUF 500, but not exceeding HUF 6,000 each.

Number of treasury shares	<u>2018</u>	<u>2017</u>
As at 1 January	-	-
Purchase of shares	31,200	-
Management option provided in the framework of the Employee scheme program	-	-
Provided in the framework of the Employee scheme program	-	-
As at 31 December	<u>31,200</u>	<u>-</u>

19. Exchange reserves

The balance of the conversion reserve at the end of the year (HUF 35,283 thousand) equals the amount of the conversion difference recognised in compliance with the IAS 21 standard with the involvement of the foreign subsidiaries of the Duna House Group in the consolidation.

20. Non-controlling ownership interest

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.

21. Long-term loans

	<u>31 December 2018</u>	<u>31 December 2017</u>
Pusztakúti 12. Kft. (Takarékbank)	0	865,099
DHH: Raiffeisen loan (Metrohouse)	180,674	301,124
GDDC: Raiffeisen loan (FHB loan)	41,963	65,963
HLC: Raiffeisen loan II.	13,444	39,476
Total	<u>236,082</u>	<u>1,271,662</u>

Pusztakúti 12. Kft.: Takarékbank

Pusztakúti 12. Kft. and Takarékbank Zrt. entered into a long-term loan contract for HUF 4,000,000 thousand on 19 July 2017 in order to implement Forest Hill residential development. The amounts drawn down from the credit line will be due in a lump sum upon maturity, i.e. 31 December 2019. Prepayment is allowed.

Repayment schedule of the Takarékbank loan:	<u>Repayment plan</u>
2019	<u>2,575,697</u>
Total	<u>2,575,697</u>

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 amortised quarterly on 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) loan¹:

	Repayment plan
2019	120,450
2020	120,450
2021	60,225
Total	301,124

GDDC: Raiffeisen loan (FHB loan)

The former FHB loan is the liability of GDD Commercial Kft., which is involved in the consolidation since 2014. The loan 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 plan
2019	24,000
2020	24,000
2021	17,963
Total	65,963

HLC: Raiffeisen loan 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 amortised quarterly on equal instalments.

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

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

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

¹ The repayment schedules also contain the short-term portion of the loans.

² The repayment schedules also contain the short-term portion of the loans.

Home Line Center Kft. (HLC) repayment schedule:	<u>Repayment plan</u>
2019	26,031
2020	13,444
Total	<u>39,475</u>

22. Deferred tax liabilities

	<u>31.12.2018</u>	<u>31.12.2017</u>
Due to the difference in the valuation of fixed assets and investment properties	129,864	115,491
Due to the recognition of trail commission	36,873	24,428
Losses carried forward	(12,186)	(11,069)
Due to consolidation-related exclusions and accounting	9,432	14,710
Due to taxation in accordance with the cash accounting principle	0	960
Impairment on Trade receivables	8	(434)
Total	<u>163,992</u>	<u>144,087</u>

Deferred tax assets and liabilities were netted at the level of the subsidiaries. Within the HUF 163,992 thousand balance HUF 36,873 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.

23. Short-term loans and borrowings

	<u>31 December 2018</u>	<u>31 December 2017</u>
Pusztakúti 12. Kft. (Takarékbank)	2,575,697	0
DHH: Raiffeisen loan (Metrohouse)	120,450	120,450
HLC: Raiffeisen loan II.	26,031	31,651
GDDC: Raiffeisen loan (FHB loan)	24,000	24,000
Reviczky 6-10. Kft.	0	770,647
MCR: Raiffeisen loan	0	50,000
Total	<u>2,746,177</u>	<u>996,748</u>

For explanation of the loan portfolio, see Chapter 21.

24. Accounts Payable

	<u>31 December 2018</u>	<u>31 December 2017</u>
Trade payables	599,094	388,240
Total	<u>599,094</u>	<u>388,240</u>

The rise in accounts payable is due, mainly, to the acquisition of Gold Finance, having HUF 225,954 thousand as trade payables at the end of reporting period.

25. Liabilities to related companies

The value of related liabilities contains the following:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Medasev Holding Kft.	269,775	499,890
Dividends due to employees	11,948	8,054
Bitkover Kft.	6,814	10,827
GDD Ingatlan Kft.	0	63,003
Other	3,823	0
Total	<u>292,360</u>	<u>581,775</u>

Balance against Medasev Holding Ltd as at 31 December 2018 is equal to the amount of loan received from the company in the second half of 2017.

26. Other liabilities

Other liabilities contain the following:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Advance payments, earnest money and bid bonds	675,240	821,014
Settlement account of home owners	109,468	93,497
Tax liability	75,736	107,762
Settlement account of lessees	82,524	77,245
Liabilities from remuneration	36,036	27,387
Other	1,006	4,770
Received deposits	15,773	9,206
Short-term portion of lease payments:	0	0

Total	995,783	1,140,882
--------------	----------------	------------------

Deposits and advance payments by clients in connection with real estate development projects by the MyCity project companies account for the significant increase in other liabilities.

The funds due to the owners of the flats managed by Home Management Kft. are recorded on the settlement account of the home owners (e.g., collected rent, "buffer" amounts deposited by the owners).

Received deposits contain 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 immediately payable items is constantly available the bank account of the subsidiary.

27. Accruals and deferred income

	<u>31 December 2018</u>	<u>31 December 2017</u>
Accrued revenues	358,449	341,964
Accrued costs and charges	101,289	39,146
Grants received	3,531	7,026
Total	<u>463,269</u>	<u>388,136</u>

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

28. Sales revenue

Net sales revenues	<u>31 December 2018</u>	<u>31 December 2017</u>
Revenue from brokerage of loan and housing savings products	2,750,003	1,853,700
Revenue from the sale of real properties	1,965,047	3,550
Revenue from real estate agency services	1,519,276	1,412,439
Franchise fees	1,074,939	911,374
Revenue from real estate management	147,569	112,946
Revenue from fund management and success fee	126,058	56,600
Revenue from rental fee	75,903	48,967
Revenue from appraisal	69,320	77,868
Other revenue (damages, contractual penalties)	56,047	42,832
Recharging (rental fee, utilities, etc.)	55,057	53,573
Revenue from education, training	43,597	49,520
Revenue from issuing energy certificates	36,461	37,267
Revenue from insurance mediation	23,140	20,305
Revenue from central services	20,000	0
Marketing revenues from banks	19,667	0
Revenue from sale of units	1,540	0
Revenue from prime contribution	1,445	0
Revenue from sales support	100	3,902
Total	<u>7,985,170</u>	<u>4,684,844</u>

Compared to the comparative period, consolidated sales increased by HUF 3.3 billion. The growth was mainly due to the sale of apartments in the Reviczky Liget development project (revenue from the sale of real properties), the acquisition of Gold Finance on 6 November 2018 and the strong core activity growth.

Revenue from brokerage of loan and housing savings products

It includes the brokerage fees of Hungarian and Polish banking products (primarily retail mortgage loans). Besides the members of the franchise network the cooperating partners are also increasing the number of sales points.

Revenue from real estate agency services The DH Group operates a significant number of real estate agencies within the Duna House, Metrohouse and Smart networks. The commission income from the brokerage of the sale and lease of properties is realised in these offices. The level of commissions takes into account the type, value, location of the property and the level of service included in the contracts. According to the franchise operating concept, they are the primary source of income for real estate agencies belonging to the group.

The franchise fees include the following types of fees:

Revenue from franchise and service fees: The monthly fee paid by the franchise partners of Duna House, Metrohouse and Smart network. Its rate is uniformly regulated for partners. Conditions are ensured by long-term (typically 5-year) contracts. The franchise fee is considered a royalty for the use of brands and know-how owned and built by the DH Group. The service fee provides the network with the tools, functions (IT and CRM system, complaint handling, regulations and controls, etc.) necessary for the smooth operation of the network.

Revenue from marketing fee:

This type of monthly, continuous revenue ensures the financing of the marketing activities of the network. Its rate is uniformly regulated for all franchise partners. Marketing revenue ensures marketing strategy implementation, market research, and systematic analysis related to them, as well as group-level appearances, ads, and campaigns.

Revenue from entry and extending fee: A one-time fee is payable for the sale of a new or existing site, or for extending an expiring area, which is a condition of franchise partners joining the network and is accrued in books.

Revenue from real estate management: Revenue is based on services related to real property management. Long-term contracts determine it as a monthly flat rate. As occasional revenues, commission from leases is also part of this revenue group.

Revenue from energy certificates: It is a legal obligation that the properties for sale must have a valid energy certificate. The revenue from the sale of this service is recognised under this category.

Revenue from appraisal:

The revenue of a service that operates within a separate unit is also recognised in the Group. A significant part of the clientele are credit institutions, which constitutes the majority of the revenues.

Recharging (rental fee, utilities, etc.): The recharging of goods and services (eg. rent, marketing tools, PR events, events, etc.) purchased centrally by DH for franchise partners and subsidiaries is included in this revenue group.

Revenue from rental fee:

The Group purchases, leases and sells real properties for investment purposes.

Revenue from the sale of real properties: Revenue from the sale of real properties belonging to the investment property portfolio in the real estate investment segment is shown here.

Revenue from fund management: The amount of the management fee and the fund management success fee attributable to Impact Alapkezelő Zrt after the management of the Duna House Magyar Lakás Ingatlanalap.

29. Other operating income

	<u>31 December 2018</u>	<u>31 December 2017</u>
Revaluation of investment properties	196,060	54,280
Reversal of impairment on receivables	46,267	46,566
Grants received	3,624	12,731
Penalties and proceeds from litigation	13,942	9,535
Revenues from postpaid sales	3,325	5,064
Time-barred liabilities	7,518	0
Profit from the sale of tangible assets	22,354	3,147
Insured events	391	1,638
Other	9,310	1,818
Revenue from recharged expenses	0	0
Various tax refunds, other	0	0
Reversal of pre-acquisition provisions	0	0
Total	<u>302,790</u>	<u>134,781</u>

The profit from the appreciation of the investment property portfolio constituted the major part of other operating income, i.e. HUF 196,060 thousand compared to HUF 54,280 thousand in the previous year. The sale of tangible assets includes revenue from the sale of two vehicles and a cellar.

30. Consumables and raw materials

	<u>31 December 2018</u>	<u>31 December 2017</u>
Utility fees and charges	33,093	34,044
Office supplies	10,501	12,630
Maintenance costs	8,860	10,417
Fuel	9,164	6,193
Total	<u>61,618</u>	<u>63,285</u>

31. Goods and services sold

	<u>31 December 2018</u>	<u>31 December 2017</u>
Cost of brokerage of financial product	882,080	607,805
Direct costs of real estate agency services	198,827	169,827
Other recharging (e.g., sales support, utilities, marketing)	184,424	96,088
Direct cost of the sale of real properties	104,772	0

DUNA HOUSE HOLDING NYRT.
31 DECEMBER 2018
CONSOLIDATED FINANCIAL STATEMENTS

Appraiser fees	31,132	31,532
Energy certificate fees	3,054	3,695
Cost of the sale of units	933	0
Total	<u>1,405,221</u>	<u>908,946</u>

The direct cost of real property sales in 2018 includes the book value of a sold investment property, as well as the derecognition of the land portion of Reviczky Liget apartments sold. The construction cost of the apartments sold by the development projects is eliminated on the Variation in self-manufactured stock line.

32. Services purchased

	<u>31 December 2018</u>	<u>31 December 2017</u>
MyCity planning costs and architect fees	1,487,345	1,382,103
Direct cost of the brokerage of financial products	956,307	500,878
Direct costs of real estate agency services	558,296	574,848
Other professional services (IT development, sales support, marketing, etc.)	465,813	431,234
Rent, common expenses	324,284	248,436
Professional service fees	143,296	85,674
Other services purchased (insurance, training, postal services, photocopying, cleaning, etc.)	135,119	126,385
Advertising, promotion	128,649	103,128
Legal fees	48,705	44,449
MyCity engineering consultancy and inspection	33,833	27,208
Duna House Magyar Lakásingatlan Alap distribution costs	30,701	18,385
Cost of IT operation	28,298	28,777
Telephone and communications expenses	26,027	24,590
Bank charges	24,493	26,807
Cost of stock exchange listings (BSE, KELER)	14,884	14,894
Direct cost of energy certificates	6,059	7,716
Direct cost of appraisal	3,062	6,651
Total	<u>4,415,172</u>	<u>3,652,162</u>

The amount of services purchased increased by 21% compared to the previous year, in which Gold Finance's consolidation of November-December (HUF 230,221 thousand) played a significant role. The acquisition resulted in a consultancy fee of HUF 17,866 thousand during the year. In addition, the cost of designing, constructing, as well as the engineering consultancy and controlling costs of residential properties in MyCity project companies has also risen, which, however, represent the historical cost of these projects and is therefore derecognised under the line "Variation in self-manufactured stock".

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

The costs of the stock market presence and the distribution costs of the Duna House Hungarian Magyar Lakásingatlan Alap investment units (these two together: HUF 45,585 thousand) resulted in a net cost increase compared to the comparative period.

33. Personnel costs

	<u>01.01.2018 - 31.12.2018</u>	<u>01.01.2017 - 31.12.2017</u>
Wage costs	509,685	417,755
Social taxes ³	75,337	67,679
Other personnel-type benefits	91,994	86,979
Total	<u>677,017</u>	<u>572,413</u>
Average statistical headcount	110	99

The increase of the average consolidated statistical headcount of the Company’s subsidiaries compared with the benchmark period is attributable to an increase in the personnel of the Hungarian operation to 85, as well as the acquisitions in Poland. With the number of hours to be worked borne in mind, the headcount of the employees of the Polish subsidiaries rose from 14 in the benchmark period to 24. As regards the subsidiaries in the Czech Republic, there was 1 employee in 2018. Of the HUF 677,017 thousand balance of the personnel-related expenses, the Polish and Czech subsidiaries’ share amounted to HUF 144,673 thousand.

³ It contains the recognised wage contributions of employees employed in Poland on assignment contracts (“civil contracts”), while the assignment fees themselves are shown in the services used row.

34. Other operating charges

	31 December 2018	31 December 2017 revised
Impairment of receivables	62,181	88,099
Non-profit taxes recognised as various expenses	33,663	20,439
Penalties	18,505	488
Expenses related to litigation	15,530	2,438
Expenses related to restructuring	14,588	
Write-off of bad debts	14,566	11,008
Provisions	8,327	0
Cost of the sale of tangible assets	7,805	2,189
Missing inventories	3,165	4,757
Contractual penalty, late payment interest	1,969	0
Grants provided	1,260	200
Earnest money	1,236	0
Expenses related to loss events	1,051	787
Free transfer	648	0
Other	3,719	2,208
Total	188,211	132,613

Other operating expenses increased mainly as a result of the HUF 17 million supervisory fine on Hungarian loan brokerage and the restructuring costs of HUF 14,588 related to the acquisition of Gold Finance and the increase in legal costs related to litigation in 2018.

35. Revenues of financial transactions

	31 December 2018	31 December 2017
Badwill related to the acquisition of MyCity Group	0	136,235
Exchange rate gain	31,952	49,314
Interest received	6,340	6,583
Proceeds from factoring	0	3,256
Total	38,292	195,388

Exchange rate gains comprise realised/unrealised exchange rate differences identified during debt consolidation and related to a currency-denominated intra-group foreign claim of Duna House Holding Plc.

36. Expenses of financial transactions

	<u>31 December 2018</u>	<u>31 December 2017</u>
Interest paid	84,477	42,258
Exchange rate losses	16,512	6,374
Total	<u>100,989</u>	<u>48,632</u>

37. Income tax expenses

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

	<u>31 December 2018</u>	<u>31 December 2017</u>
Actual income tax – corporate tax	165,019	90,361
Actual income tax – local business tax	108,048	54,115
Deferred taxes	37,018	28,592
Total	<u>310,085</u>	<u>173,068</u>

The corporate tax rate applicable to the Hungarian members of the Group is 9% irrespective of the actual amount of the corporate tax base.

Reconciliation of income taxes recognised in the consolidated income statement:

	<u>31 December 2018</u>	<u>31 December 2017</u>
Profit/Loss before taxation	2,014,535	1,091,965
Tax liability determined at the current rate	181,308	98,277
Business tax	108,048	54,115
Permanent differences	20,729	20,676
Total	<u>310,085</u>	<u>173,068</u>

38. 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.

Earning per share (EPS)	<u>31 December 2018</u>	<u>31 December 2017</u>
After-tax profit that can be allocated to shareholders (thousand HUF)	1,704,450	918,897
Dividend that may be distributed to preferential shareholders	(94,062)	(47,791)
After-tax profit that can be allocated to shareholders holding ordinary shares (thousand HUF)	1,610,389	871,106
Weighted average number of issued ordinary shares (thousand)	3,412	3,350
Earning per share (basic) (HUF)	<u>472</u>	<u>260</u>

No factor that could have diluted earnings per share emerged in 2017 or 2018 in the Company.

39. Segment information

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.

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

(1) The franchise segment carries out the operation of the franchise system that runs under the Duna House and Smart Ingatlan brands. The Company is the largest franchise network of real estate agents in Hungary. From April 2016, the franchise segment includes the Metrohouse Franchise S.A. and the MH Usługi Wspólne S.A of the Metrohouse companies in Poland. Due to the merger of MH Usługi Wspólne S.A and MH Poludnie Sp. z.o.o and MH Warszawa Sp., as of 1 January 2018, the franchise segment will no longer include the performance of MH Usługi Wspólne S.A., which has not been operating earlier, as they will be presented as part of the Own office segment operations. Since September 2016, the performance of the Czech Republic's Duna House Franchise s.r.o has also been shown in this segment.

(2) Operation of own office segment: the Company owns one of Hungary's leading real estate agencies through its own offices under the Duna House and Smart Ingatlan brands. Since April 2016, the own office segment includes the performance of MH Poludnie Sp. z.o.o and MH Warszawa Sp. Of the Metrohouse companies in Poland which, after being merged with MH Usługi Wspólne S.A., will continue to operate as Metrohouse S.A. as of 1 January 2018. As of September 2016, the Czech Center Reality s.r.o also belongs to the segment.

(3) Financial product brokerage segment: the Group offers a wide range of financial products to its clients under its multiple agency agreements with credit institutions and insurance companies. The performance of Metrofinance Sp. z.o.o and, as of 1 November 2018, the performance of Gold Finance Sp. z.o.o will also be shown in this segment.

(4) Segment of the related services of residential property management, energy certification and appraisal services. From the business year 2017 onwards, the performance of Impact Asset Management Zrt. is also shown in this segment.

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

In the second half of 2016, as a result of the change in management focus on real estate development within MyCity, a significant portion of the investment property portfolio was sold, resulting in an increase in the amount of sales and direct costs reported in the segment.

(6) Transactions within each segment were consolidated in the statement. The "Other and eliminations" column includes the effect of the central services and filters out the transactions between the segments. The performance of Impact Asset Management Zrt. that used to be presented in this segment has been presented in 'the segment of the services' related to real estate since 2017.

DUNA HOUSE HOLDING NYRT.
31 DECEMBER 2018
CONSOLIDATED FINANCIAL STATEMENTS

31 December 2018 (01 January 2018 - 31 December 2018)	Franchise	Financial products brokerage	Operation of own office	Sale of related services	Property investments	Other and eliminations	Consolidated
Intangible assets	58,750	62	5,232	107	1,161	1,494	66,807
Investment property	0	0	0	0	1,443,600	0	1,443,600
Land and buildings	4,399	711	29,198	2,066	483,708	306	520,387
Machinery and equipment	145,854	4,287	7,728	1,292	10,573	1,365	171,100
Trade receivables	196,040	364,014	34,977	106,231	8,950	649	710,861
Assets that cannot be allocated to other segments	1,257,914	1,204,306	272,644	482,363	5,750,594	-802,468	8,165,352
Total Assets	1,662,956	1,573,380	349,780	592,060	7,698,586	-798,654	11,078,107
	0	0	0	0	0	0	0
Trade payables	-170,730	618,232	63,293	14,847	57,535	15,917	599,094
Liabilities that cannot be allocated to other segments	1,285,905	255,289	519,978	233,715	5,318,020	-2,578,530	5,034,377
Total Liabilities	1,115,175	873,521	583,270	248,562	5,375,554	-2,562,613	5,633,470
Net revenue from sales to third parties	1,210,720	2,774,317	1,486,239	448,599	2,068,866	-3,571	7,985,170
Net revenue from sales between segments	239,662	0	38,772	169	66,239	-344,842	0
Net sales revenues	1,450,382	2,774,317	1,525,011	448,768	2,135,105	-348,413	7,985,170
Direct costs	-167,832	-1,839,017	-864,912	-124,151	-1,214,901	36,155	-4,174,657
Gross margin	1,282,550	935,299	660,100	324,617	920,204	-312,258	3,810,513
Depreciation and amortisation	-50,942	-1,870	-11,836	-1,332	-28,615	-5,101	-99,697
Indirect operating costs	-978,844	-331,438	-569,283	-176,253	203,639	255,874	-1,596,306
Operating Profit (EBIT)	252,764	601,991	78,980	147,033	1,095,227	-61,486	2,114,510

DUNA HOUSE HOLDING NYRT.
31 DECEMBER 2018
CONSOLIDATED FINANCIAL STATEMENTS

31 December 2017 (01 January 2017 - 31 December 2017)	Franchise	Financial products brokerage	Operation of own office	Sale of related services	Property investments	Other and eliminations	Consolidated
Intangible assets	71,196	104	7,435	185	1,996	1,741	82,656
Investment property	0	0	0	0	1,061,613	0	1,061,613
Land and buildings	4,685	0	26,207	2,100	505,159	333	538,484
Machinery and equipment	74,440	1,885	13,674	1,700	10,645	5,738	108,082
Trade receivables	204,447	156,805	74,506	39,273	6,175	1,041	482,247
Assets that cannot be allocated to other segments	878,037	840,739	295,863	403,544	4,981,118	-216,055	7,183,247
Total Assets	1,232,806	999,533	417,684	446,803	6,566,706	-207,202	9,456,330
Trade payables	-64,213	202,700	58,361	8,107	170,386	12,900	388,240
Liabilities that cannot be allocated to other segments	892,776	114,453	506,333	196,742	4,842,202	-2,014,935	4,537,571
Total Liabilities	828,563	317,152	564,694	204,849	5,012,588	-2,002,035	4,925,811
Net revenue from sales to third parties	1,090,085	1,883,402	1,367,624	308,889	53,928	-20,084	4,684,844
Net revenue from sales between segments	177,830	27	53,781	392	64,481	-296,510	0
Net sales revenues	1,268,915	1,883,429	1,421,405	309,282	118,409	-316,594	4,684,844
Direct costs	-163,621	-1,140,095	-805,048	-113,693	-15,104	27,494	-2,210,068
Gross margin	1,105,294	743,334	616,356	195,589	103,305	-289,101	2,474,776
Depreciation and amortisation	-39,102	-1,022	-18,746	-1,579	-22,076	-4,447	-86,973
Indirect operating costs	-908,294	-171,805	-520,127	-151,040	-51,258	278,473	-1,524,051
Operating Profit (EBIT)	157,897	570,507	77,484	42,970	29,970	-15,075	863,752

40. Risk management

The Company's assets contain liquid assets, securities, trade and other receivables and 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 its equity in an amount that is sufficient for investor and creditor confidence in the future to sustain the future development of the Group. The Board of Directors seeks to maintain a policy whereby the Company undertakes a higher exposure arising from lending only against 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 equity risk run by the Company was not significant in 2018.

Lending risk

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 2018 and 31 December 2017.

Lending risk	<u>31 December 2018</u>	<u>31 December 2017 revised</u>
Trade receivables	710,861	455,840
Other receivables	386,607	176,766
Financial instruments	79,950	69,609
Cash and cash equivalents	1,509,613	1,428,500
Total	<u>2,687,031</u>	<u>2,130,715</u>
Amount of collateral	<u>752,694</u>	<u>942,758</u>
Reviczky 6.-10. kft.	0	371,841
Pusztakúti 12. Kft.	625,994	440,917
Impact Asset Management Alapkezelő Zrt.	95,000	95,000
Duna House Holding Plc.	31,700	35,000

HUF 753 million of cash and cash equivalents are provided as collateral for Forest Hill project loans, Metrohouse acquisition loan, and fund management equity and are only available to the Group with certain restrictions. These restrictions have been presented in a note detailing the cash and cash equivalents.

Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations by the due date. Under the Group's liquidity management approach, there should always be sufficient liquidity available to cover the Group's obligations when they fall due under both standard and stressed circumstances without the Group's incurring unacceptable losses or risking its reputation. To further minimize liquidity risk, reduce transaction costs and increase efficiency, the Company has been managing its bank accounts linked to its operations under a cash pooling regime, which makes automatic group financing possible.

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.

Property development risks

Of the risks typical of property development, the management focuses mainly on risks posed by increasing construction costs. The increase in the number of parallel projects implemented by the project companies poses a consistently rising liquidity risk to MyCity Group until bank financing is secured.

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 tying up 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):

DUNA HOUSE HOLDING NYRT.
31 DECEMBER 2018
CONSOLIDATED FINANCIAL STATEMENTS

With actual interest	01.01.2018 31.12.2018	01.01.2017 31.12.2017
Profit before tax - excluding interest expense	2,105,573	1,137,107
Net interest income	-8,626	-5,395
Pre-tax profit/loss (less interest received and paid)	2,096,946	1,131,711
1%		
Profit before tax - excluding interest expense	2,105,573	1,137,107
Net interest income	-8,712	-5,449
Profit/Loss before taxation	2,096,860	1,131,658
<i>Changes in profit before tax</i>	<i>-86</i>	<i>-54</i>
<i>Changes in profit before tax (%)</i>	<i>-0.004%</i>	<i>-0.005%</i>
5%		
Profit before tax - excluding interest expense	2,105,573	1,137,107
Net interest income	-9,057	-5,665
Profit/Loss before taxation	2,096,515	1,131,442
<i>Changes in profit before tax</i>	<i>-431</i>	<i>-270</i>
<i>Changes in profit before tax (%)</i>	<i>-0.021%</i>	<i>-0.024%</i>
10%		
Profit before tax - excluding interest expense	2,105,573	1,137,107
Net interest income	-9,489	-5,935
Profit/Loss before taxation	2,096,084	1,131,172
<i>Changes in profit before tax</i>	<i>-863</i>	<i>-540</i>
<i>Changes in profit before tax (%)</i>	<i>-0.041%</i>	<i>-0.048%</i>
-1%		
Profit before tax - excluding interest expense	2,105,573	1,137,107
Net interest income	-8,540	-5,341
Profit/Loss before taxation	2,097,033	1,131,765
<i>Changes in profit before tax</i>	<i>86</i>	<i>54</i>
<i>Changes in profit before tax (%)</i>	<i>0.004%</i>	<i>0.005%</i>
-5%		
Profit before tax - excluding interest expense	2,105,573	1,137,107
Net interest income	-8,195	-5,126
Profit/Loss before taxation	2,097,378	1,131,981
<i>Changes in profit before tax</i>	<i>431</i>	<i>270</i>
<i>Changes in profit before tax (%)</i>	<i>0.021%</i>	<i>0.024%</i>
-10%		
Profit before tax - excluding interest expense	2,105,573	1,137,107
Net interest income	-7,764	-4,856
Profit/Loss before taxation	2,097,809	1,132,251
<i>Changes in profit before tax</i>	<i>863</i>	<i>540</i>
<i>Changes in profit before tax (%)</i>	<i>0.041%</i>	<i>0.048%</i>

41. Financial instruments

The IFRS 9 has replaced the IAS 39 standard. This standard is mandatory for the first time as of 1 January 2018 according to the 2014 amendments. Considering that the Group does not have financial instruments that are subject to classification or valuation changes in its investigations, there is no material impact on the financial statements in the context of classification and valuation. The new standard has revised the impairment of financial instruments, which has had a minor impact on the Company's result, according to which expected impairment losses should be determined using a new impairment model applied to trade receivables, which brings the timing of the recognition of impairment losses closer in time. For trade receivables, IFRS 9 permits the use of a simplified impairment model instead of the application of complex rules if the trade receivables do not contain a significant payment component. As there is no significant payment component among the Group's receivables, the simplified approach was used to determine the impairment under IFRS 9. The following table shows the impact of the new standard on the results.

31 December 2018	<u>Carrying value</u>	<u>Fair value</u>
Financial instruments		
<i>Assets recorded at fair value against profit</i>		
Financial instruments	79,950	79,950
Trade receivables	710,861	710,861
Cash and cash equivalents	1,509,613	1,509,613
Financial liabilities		
<i>Liabilities recorded at amortized historical cost</i>		
Long-term loans	236,082	236,082
Short-term loans and borrowings	2,746,177	2,746,177
Accounts Payable	599,094	599,094
31 December 2017	<u>Carrying value</u>	<u>Fair value</u>
Financial instruments		
<i>Assets recorded at fair value against profit</i>		
Financial instruments	69,609	69,609
Trade receivables	455,840	455,840
Cash and cash equivalents	1,428,500	1,428,500
Financial liabilities		
<i>Liabilities recorded at amortized historical cost</i>		
Long-term loans	1,271,662	1,271,662
Short-term loans and borrowings	996,748	996,748
Short-term portion of the lease	3,396	3,396
Accounts Payable	388,240	388,240

42. Remuneration of the Board of Directors and Supervisory Board

In 2018, the total amount of the remuneration due to the members of the Board of Directors and the Supervisory Board was HUF 62,312 thousand. (In 2017: HUF 44,988 thousand). These amounts also include the dividend paid to the members of the Board of Directors for preferential employee shares held by them.

	31.12.2018	31.12.2017
Members of the Board of Directors	56,912	39,588
Members of the Supervisory board	5,400	5,400
Total	62,312	44,988

43. Events after the balance sheet date

The following non-modifying events occurred between the balance sheet date and the date of the approval of these financial statements.

Treasury shares

The Board of Directors of the Company was authorised by the extraordinary meeting held on 18 December 2018, between 31 December 2018 and 22 March 2019 a total of 8,930 pieces of treasury shares were traded on the stock exchange for ongoing employee share programs. The amount of Company treasury shares on 22 March 2019 was 40,130.

Merger of subsidiaries

The following merger took place between the indirect 100% subsidiaries of the Company following the end of the financial year: Metrofinance Sp. z. o.o merged into Gold Finance Sp. z. o.o as of 28 February 2019. The aim of the merger was to execute operational synergies.

44. Liability declaration and approval of the financial statements for disclosure

In line with Annex 2 to Decree no 24/2008. (VIII. 15 15.) of the Minister of Finance on the information obligation related to publicly traded securities, the Board of Directors hereby declare that these consolidated financial statements give a fair picture of the situation, development and performance of the Company and the companies included in consolidation.

The Board of Directors of the parent company of the Group discussed the consolidated financial statements at its meeting held on 22 March 2019 and approved their disclosure in this form.

Budapest, 22 March 2019

Persons authorised to sign the consolidated statements:

Doron Dymschiz
Chair of the board of directors

Gay Dymschiz
Member of the Board of Directors

Ferenc Máté
Member of the Board of Directors

DUNA HOUSE HOLDING NYRT.
CONSOLIDATED BUSINESS REPORT
ON THE 2018 ACTIVITIES OF THE GROUP

1. Group profile

The Duna House Holding Nyrt. - hereinafter referred to as “Company” or “Group” - was founded in 2003; its main activity is real estate and loan brokerage. 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 at 165 locations. A transaction as a result of which Duna House Group, Hungary is now the sole owner of Metrohouse, the largest Polish real estate agency 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 two of its subsidiaries, Center Reality s.r.o and Duna House Hypotéky s.r.o., then, on 6 November 2018, acquired the Polish loan brokerage company Gold Finance Sp. z.o.o.

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

Principal activities:

- selling and operating franchise systems
- real estate agency services
- loan brokerage
- insurance brokerage
- real estate appraisal and related estate agency services
- energy certification and related estate agency services
- real estate management
- buying and selling of own real estate
- residential real estate fund management
- real estate development

1.1 Consolidated companies

As a Subsidiary

	address:	2018	2017
		31 December	31 December
Duna House Biztosításközvetítő Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Hitelcentrum 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%
Akadémia Plusz 2.0 Kft.	1016 Budapest, Gellérthegy u. 17.	100%	-
Hitelalkusz Közvetítő Kft. (formerly known as: IH Project X Kft.)	1016 Budapest, Gellérthegy u. 17.	100%	100%
Metrohouse Franchise S.A.	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	100%
Metrofinance Sp. z. o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	100%
Metrohouse S.A.	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	100%
Gold Finance Sp. z. o.o	00-832 Warszawa, Zelazna 28/30 Polska (Poland)	100%	0%
MyCity Residential Development Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Pusztakúti 12. Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Reviczky 6-10. Kft.	1016 Budapest, Gellérthegy u. 17.	100%	100%
Duna House Franchise s.r.o.	140 00 Praha 4, Michelská 300/60	80%	80%
Duna House Hypoteky s.r.o.	140 00 Praha 4, Michelská 300/60	80%	80%
Center Reality s.r.o.	140 00 Praha 4, Michelská 300/60	80%	80%

Jointly managed undertaking

		31 December 2018	31 December 2017
Hunor utca 24 Kft.	1016 Budapest, Gellérthegy u. 17.	50%	50%

2. Markets and economic environment

2.1 Real estate market

The Hungarian residential real estate market was also strong in 2018. The Duna House Group estimates that the total number of transactions for the year 2018 exceeded 152,000, which, compared to the previous year's value of 154 thousand transactions published by the Hungarian Central Statistical Office, represents only 1% increase, but due to the uncertainties in the statistical management of newly built residential contracts, it is more difficult to quantify the actual change compared to previous years. The data published by Duna House Franchise Kft. in the Duna House Barométer reveal that real estate prices reached another peak in Hungary.¹

Estimated by Ernst & Young's office in Poland², in the entire real estate market in Poland, due to the low interest rates, a steadily growing economy, low unemployment and more favourable prices compared to western European levels, real estate investments reached a record of more than 7 billion euros in 2018.

¹ Source: Duna House Barométer No 90 published by Duna House Franchise Kft.

² Source: EY – The Polish Real Estate Guide 2019 Edition - Poland

The newly built residential real estate market has slowed down in some parts of the country as a result of the increase in labour costs, while the total number of homes transferred has increased by 6.2% in the country as a whole.

No credible data is available on the used residential real estate market in Poland.

2.2 Loan market³

According to the analysis of the National Bank of Hungary, both corporate and household lending in 2018 was characterised by expansion. The household loan portfolio continued to grow, with annual growth exceeding 7%. Residential loan issuance increased by 31% over the year compared to 2017, reaching HUF 850 billion, thus reaching the nominal level of 2008. According to the MNB, in the current credit cycle, contrary to the period before the global financial crisis of 2008, the current debt brake rules prevent the over-indebtedness of the population. By the end of the year, banks provided new residential loans almost exclusively with over-the-year interest rate fixation, with loans over 5 years fixed interest rate increasing above 60% in the fourth quarter. In addition to the central bank programs aimed at reducing bank costs, the increasing market share of qualified consumer-friendly residential loans (Minősített Fogyasztóbarát Lakáshitelek) also played a role in the expansion of residential loans with over five years of initial rate fixation.

According to preliminary data of the Polish Bank Association, the size of the residential loan market in Poland increased by about 21% in 2018 compared to the same period of 2017, increasing from PLN 44.6 billion to PLN 53.8 billion. There is no public, objective data available on the ratio of loan disbursements through loan brokerage or on the level of brokerage commission.

³ Source: MNB: Lending Processes - March 2018

3. The Group's financial and equity situation

3.1 Income Statement

<i>data in HUF thousands</i>	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017 revised
Net sales revenues	7,985,170	4,684,844
Other operating income	302,790	134,780
Profit from the sale of instruments held for sale	51,946	0
Total income	8,339,907	4,819,624
Variation in self-manufactured stock	(621,540)	(1,434,113)
Consumables and raw materials	61,618	63,285
Goods and services sold	1,405,221	908,946
Services purchased	4,415,172	3,652,162
Personnel costs	677,017	572,413
Depreciation and amortisation	99,697	86,973
Other operating charges	188,211	132,613
Operating costs	6,225,396	3,982,278
Operating profit/loss	2,114,510	837,346
Financial revenues	38,292	195,388
Financial expenses	(100,989)	(48,632)
Profit of participations valued with the equity method	(37,278)	81,456
Profit/Loss before taxation	2,014,535	1,065,558
Income taxes	310,085	173,068
After-tax profit	1,704,450	892,491

Source: Audited Annual Report of the Company in accordance with the IFRS

Compared to the comparative period, consolidated sales increased by HUF 3.3 billion. The growth was mainly due to the sale of apartments in the Reviczky Liget development project (revenue from the sale of real properties), the acquisition of Gold Finance on 6 November 2018 and the strong core activity growth.

Other operating income increased mainly due to the realisation of profit on the investment property portfolio as a result of a further increase in property prices, and the Group realised a one-off gain of HUF 52 million on the sale of Zsinór 39 Projekt Kft.

Operating costs (excluding changes in stocks of own-produced inventories) increased significantly as a result of the acquisition of Gold Finance Sp. z.o.o and its consolidation as of 1 November 2018, as well as the higher cost of development projects in the current year. Other operating expenses increased due to restructuring costs related to the Gold Finance acquisition and legal costs related to litigation. The HUF 17 million supervisory fine on Hungarian loan brokerage activities also increased the costs of the current year.

In addition, a HUF 37 million loss realised on the revaluation of the 50% share in Hunor utca 24 Kft. also leads to a significant difference in the performance compared to the benchmark period. The

reason for the deterioration of the performance is that the residential property development company has started the construction work, but its revenue is not yet generated.

Overall, the Company's taxed profit rose by 91% from HUF 892 million to HUF 1,704 million.

Relative to the previous year, the following changes materialised in the Group's sales revenue structure. In the following statement, besides the significant "core" performance increase, the outstanding revenue of the investment segment including development activity is also included:

Revenue type	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Income from the brokerage of financial products	2,774,317	1,883,429
Income by the own office segment	1,525,011	1,421,405
Income by the franchise segment	1,450,382	1,268,915
Income by the related services segment	448,768	309,282
Income by the investment segment	2,135,105	118,409
Transactions between segments	(348,413)	(316,594)
Total	7,985,170	4,684,844

Source: Audited Annual Report of the Company in accordance with the IFRS

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

01.01.2018 - 31.12.2018

million HUF	Franchise segment	Financial product brokerage segment	Own office segment	Related services segment	Property investment segment	Other and eliminations	Consolidated total
Net sales revenues	1,450	2,774	1,525	449	2,135	(348)	7,985
Direct costs	168	1,839	865	124	1,215	(36)	4,175
Gross profit	1,283	935	660	325	920	(312)	3,811
Indirect operating costs	979	331	569	176	(204)	(256)	1,596
EBITDA	304	604	91	148	1,124	(56)	2,214
Depreciation and amortisation	51	2	12	1	29	5	100
EBIT	253	602	79	147	1,095	(61)	2,115
Gross margin	88%	34%	43%	72%	43%	90%	48%
EBITDA margin	21%	22%	6%	33%	53%	16%	28%
EBIT margin	17%	22%	5%	33%	51%	18%	26%

Group

01.01.2017 - 31.12.2017

million HUF	Franchise segment	Financial product brokerage segment	Own office segment	Related services segment	Property investment segment	Other and eliminations	Consolidated total
Net sales revenues	1,269	1,883	1,421	309	118	(317)	4,685
Direct costs	164	1,140	805	114	15	(27)	2,210
Gross profit	1,105	743	616	196	103	(289)	2,475
Indirect operating costs	908	172	520	151	51	(278)	1,524
EBITDA	197	572	96	45	52	(11)	951
Depreciation and amortisation	39	1	19	2	22	4	87
EBIT	158	571	77	43	30	(15)	864
Gross margin	87%	39%	43%	63%	87%	91%	53%
EBITDA margin	16%	30%	7%	14%	44%	3%	20%
EBIT margin	12%	30%	5%	14%	25%	5%	18%

Source: Annual Report of the Company in accordance with the IFRS

In parallel with the HUF 3,300 million increase in consolidated revenue, the gross profit margin decreased from 53% in 2017 to 48%, mainly due to the higher gross margin of the real estate investment segment in the benchmark period. The absolute amount of gross profit increased from HUF 2,475 million to HUF 3,811 million (an increase of 54%). Indirect costs increased by 5% from HUF 1,524 to HUF 1,596.

The consolidated operating profit of the Group was HUF 2,115 million at the end of the current year, up by approximately 145% compared with HUF 864 million in the benchmark period.

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

(1) The franchise segment carries out the operation of the franchise system that runs under the Duna House and Smart Ingatlan brands. The Company is the largest franchise network of real estate agents in Hungary. From April 2016, the franchise segment includes the Metrohouse Franchise S.A. and the MH Usługi Wspólne S.A of the Metrohouse companies in Poland. Due to the merger of MH Usługi Wspólne S.A and MH Poludnie Sp. z.o.o and MH Warszawa Sp., as of 1 January 2018, the franchise segment will no longer include the performance of MH Usługi Wspólne S.A., which has not been operating earlier, as they will be presented as part of the Own office segment operations. Since September 2016, the performance of the Czech Republic's Duna House Franchise s.r.o has also been shown in this segment.

(2) Operation of own office segment: the Company owns one of Hungary's leading real estate agencies through its own offices under the Duna House and Smart Ingatlan brands. Since April 2016, the own office segment includes the performance of MH Poludnie Sp. z.o.o and MH Warszawa Sp. Of the Metrohouse companies in Poland which, after being merged with MH Usługi Wspólne S.A., will continue to operate as Metrohouse S.A. as of 1 January 2018. As of September 2016, the Czech Center Reality s.r.o also belongs to the segment.

(3) Financial product brokerage segment: the Group offers a wide range of financial products to its clients under its multiple agency agreements with credit institutions and insurance companies. The performance of Metrofinance Sp. z.o.o and, as of 1 November 2018, the performance of Gold Finance Sp. z.o.o will also be shown in this segment.

(4) Segment of the related services of residential property management, energy certification and appraisal services. From the business year 2017 onwards, the performance of Impact Asset Management Zrt. is also shown in this segment.

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

In the second half of 2016, as a result of the change in management focus on real estate development within MyCity, a significant portion of the investment property portfolio was sold, resulting in an increase in the amount of sales and direct costs reported in the segment.

(6) Transactions within each segment were consolidated in the statement. The "Other and eliminations" column includes the effect of the central services and filters out the transactions between the segments. The performance of Impact Asset Management Zrt., Previously reported in this segment, is recognised as part of the "property related services" segment as of the 2017 business year. The following table shows the revenues and operating profit of the Duna House Group realised in each country.

Data in HUF thousands	01.01.2018 - 31.12.2018	01.01.2017 - 31.12.2017
Net sales revenues (consolidated)	7,985,170	4,684,844
Net sales revenues of the Hungarian operation	5,880,887	3,238,817
Net sales revenues of the Polish operation*	1,806,682	1,187,435
Net sales revenues of the Czech operation**	297,611	258,592
EBIT	2,114,510	863,752
Hungarian operation EBIT	2,160,879	868,747
Polish operation* EBIT	(41,680)	21,079
Czech operation** EBIT	(4,689)	(26,074)

* The performance of the Polish operation has been consolidated from 1 April 2016 in the consolidated financial statements of the Company.

** The performance of the Polish operation has been consolidated from 1 September 2016 in the consolidated financial statements of the Company.

Management forecast for the 2019 business year

For the 2019 business year, the Company published the following Management Forecast on the website of the Budapest Stock Exchange (BSE).

Consolidated annual profit after tax	HUF 2.2 – 2.5 billion	Note regarding Polish operations We expect strong volume and profitability increase in our Polish businesses. Due to a large marketing campaign in Q1 and the time needed to realizing synergies from the Gold Finance acquisition, the Polish businesses are expected to be significantly loss-making in Q1 2019 with gradual performance improvement over the year. In our real estate franchise, we see good trends as the number of offices closing decreases constantly, while the sales of new franchise rights is increasing. Altogether, we expect office numbers to grow at minimum from 67 to 77 by the end of 2019.
Consolidated annual profit after tax excluding MyCity*	HUF 1,100 – 1,400 million	
- out of which Poland	HUF 50 – 100 million	
Annual profit after tax of MyCity *	HUF 1,080 million	
* MyCity property development activity		
	In comparison with 2018	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. The guidance has been prepared with the assumption that 50% of the units will be handed over and invoiced of both the Forest Hill and MyCity Residence projects during 2019. Although sales is on track and both projects are expected to reach 80-90% sold unit ratio by the end of the year, we forecast slow handover process, as based on our recent experiences, the execution of loan financed or state subsidized home purchases take longer, than previously anticipated. Delays are frequent in property development in the current market situation, the chances of actual closing and profit realization taking place in early 2020 cannot be ruled out.
Annual transaction volumes on the Hungarian residential property market	160-180 thousand pieces	
Annual price change on the Hungarian residential property market	5 to 10% growth	
Changes in disbursed residential loan volume on the Hungarian loan market	20 to 30% 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	

3.2 Assets

data in HUF thousands

ASSETS	31.12.2018	31.12.2017 revised
Long-term assets		
Intangible assets	66,807	82,656
Investment property	1,443,600	1,061,613
Land and buildings	520,387	538,484
Machinery and equipment	171,100	108,082
Goodwill	1,320,667	1,048,936
Investments in associated companies and joint ventures	168,731	206,009
Financial instruments	79,950	69,609
Deferred tax assets	212,418	160,322
Total long-term assets	3,983,659	3,275,712
Current assets		
Inventories	3,882,715	3,399,013
Trade receivables	710,861	455,840
Amounts owed by related undertakings	154,622	146,098
Other receivables	386,607	176,766

Actual income tax assets	25,380	35,405
Accrued incomes	424,648	316,446
Cash and cash equivalents	756,919	485,742
Restricted cash	752,694	942,758
Assets classified as held for sale	0	196,143
Total current assets	7,094,448	6,154,211
Total Assets	11,078,107	9,429,923

Source: Audited Annual Report of the Company in accordance with the IFRS

The balance sheet total increased by 17% compared to 31 December 2017, due to an increase in inventories, an expansion of the investment property portfolio and the acquisition of Gold Finance

3.3 Liabilities

data in HUF thousands

LIABILITIES	31.12.2018	31.12.2017 revised
Equity		
Subscribed capital	171,989	171,989
Treasury shares	(117,000)	0
Capital reserves	1,493,267	1,490,536
Exchange reserves	35,283	27,518
Retained earnings	3,917,124	2,862,649
Total equity of the parent company	5,500,663	4,552,693
Non-controlling ownership interest	(56,027)	(48,581)
Total share capital:	5,444,637	4,504,112
Long-term liabilities		
Long-term loans	236,082	1,271,662
Provisions for expected liabilities	8,327	0
Deferred tax liabilities	163,992	144,087
Other long-term liabilities	0	0
Total long-term liabilities	408,401	1,415,749
Current liabilities		
Short-term loans and borrowings	2,746,177	996,748
Accounts Payable	599,094	388,240
Liabilities to related companies	292,360	581,775
Other liabilities	995,783	1,140,882
Actual income tax liabilities	128,386	8,799
Accruals and deferred income	463,269	388,136
Liabilities directly linked to assets classified as held for sale	0	5,481
Total current liabilities	5,225,070	3,510,062
Total liabilities and equity	11,078,107	9,429,923

Source: Audited Annual Report of the Company in accordance with the IFRS

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

A right of preferential dividend is associated with the employee shares issued by the Company. If the general meeting orders dividend payment for a particular year, the employee shares with preferential dividend give a right to dividend prior to the ordinary shares in the amount

of 6% of the profit after tax stated in the consolidated annual report prepared according to IFRS (adjusted with the impact of the valuation of investment properties and the revaluation of participations involved in the consolidation with the equity method).

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 preferential right attached to employee shares is not cumulative, and the date of dividend payments is set by the Board of Directors.

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

Dividends in the amount of HUF 653,017 thousand was approved at the ordinary general meeting of the Company on 20 April 2018. In line with the above, holders of preferred shares are entitled to an amount equal to 6% of the taxed profit less the 2017 revaluation of investment property and the revaluation of the ownership shares involved in the consolidation with the equity method (i.e. HUF 47,791,000); holders of ordinary shares are eligible for HUF 605,227,000.

Dividends on ordinary shares was paid in a lump sum on 19 June 2018; dividends on preferential employee shares is paid in four equal instalments quarterly. The first one was paid on 29 June 2018.

The increase in the long-term and short-term loan portfolio and other liabilities predominantly containing customer advances and deposits is due to the increase of bank or customer financing of real properties developed in MyCity project companies.

3.4 Consolidated Cash Flow Statement

data in HUF thousands

	01.01.2018- 31.12.2018	01.01.2017- 31.12.2017
OPERATING CASH FLOW		
After-tax profit	1,704,450	892,490
<i>Adjustments for:</i>		
Interest received or paid is stated in the financing cash flow.	49,965	17,814
Reporting year depreciation	99,697	86,973
Deferred taxes	(32,191)	(29,173)
Revaluation of investment property	(188,060)	(53,320)
Share scheme	2,731	0
Badwill	0	(139,595)
Shares measured with the equity method	37,278	(81,456)
Profit from the sale of instruments held for sale	(51,946)	0
<u>Changes in working capital</u>		
Changes in inventories	(437,313)	(1,429,065)
Changes in accounts receivable, other receivables and related receivables	(274,351)	(844,958)
Changes in accrued and deferred assets	(108,203)	5,298
Changes in accounts payable and related liabilities	(150,633)	(215,642)
Other current liabilities and accruals and deferrals	(25,513)	497,904
Changes in accrued and deferred liabilities	75,133	(97,149)
Net operating cash flow	701,043	(1,389,879)
Investment cash flow		
Tangible and intangible assets purchased	(374,541)	(233,343)
Sale of tangible assets	51,846	9,655
Sale of instruments held for sale	250,000	0
Acquisition/Disposal of subsidiaries (excluding acquired liquid assets)	(271,731)	(171,668)
Net investment cash flow	(344,425)	(395,355)
Financing cash flow		
Bank loans/(repayment)	713,849	1,225,942
Capital contribution	(117,000)	0
Dividend payments	(632,325)	(493,221)
Interest received (paid)	(49,965)	(45,430)
Net financing cash flow	(85,441)	687,291
Net change in cash and cash equivalents	271,177	(1,097,944)
Balance of cash and cash equivalents as at the beginning of the year	485,742	1,583,686
Balance of cash and cash equivalents as at the end of the year	756,919	485,742

Source: Audited Annual Report of the Company in accordance with the IFRS

The Company's operating cash flow amounted to HUF 701 million in 2018, which represents a significant amount of working capital (inventory) correction due to ongoing MyCity projects. At the same time, this item is largely refinanced on the financing cash flow side through bank loans.

In the investment cash flow, the acquisition of Gold Finance was compensated by the sale of Zsinór 39 Projekt Kft. Acquisition and sale of tangible assets impaired investment cash flow by HUF 375 million in the balance.

The financing cash flow was reduced by the dividend payment of HUF 632 million, and the change in the balance was due to the HUF 117 million acquisition of MRP shares and the amount of loan granted in connection with the development of MyCity projects.

The end-of-the period of cash and cash equivalents was HUF 757 million, HUF 271 million higher than what it was at the end of the benchmark period. In addition to this amount, additional use of HUF 753 million is possible with the following restrictions:

Restricted (2018)		Reason for restriction
Companies involved in the consolidation	Bank balance account (thousand HUF)	
Pusztakúti 12. Kft.	625,994	Security interest in collateral securing the repayment of the loans granted by Takarékbank Zrt. in connection with the Forest Hill residential development, with collateral including down payments, earnest money and purchase price by clients paid into a separate blocked bank account and available only for the re- and pre-payment of the loans. The prepayment of both loans is only allowed from the third working day from the notification to this effect by Takarékbank Zrt.

Impact Asset Management Alapkezelő Zrt.	95,000	Pursuant to Section 16 (3) and (7) of Act XVI of 2014 on collective investment forms and its managers and on the amendment of certain financial laws, in order to be able to ensure continuous operation and protect investors, Impact Asset Management Zrt. must, at all times, have solvency capital invested in liquid assets or assets that can be converted into immediately available liquid assets in an amount that covers the risk posed by its activity at all times.
Duna House Holding Plc.	31,700	Collateral for the loan granted by Raiffeisen Bank for the acquisition of Metrohouse and kept in a separate blocked account.
Total:	752,694	

4. Environmental protection, social responsibility, employment policy, diversity 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 from 99 to 110 compared with the benchmark period is attributable to an increase in the personnel of the Hungarian operation to 85, as well as the acquisition in Poland. The average number of employees working for the subsidiaries in Poland, taking into account the number of hours worked, increased from 14 to 24 in the benchmark period, while in the Czech subsidiaries this number remained unchanged at 1 in 2018. Of the HUF 677,017 thousand balance of the personnel-related expenses, the Polish and Czech subsidiaries' share amounted to HUF 144,673 thousand.

The Company puts emphasis on the diversified filling of jobs based on the skills and qualifications of employees.

5. Information on equity and share capital

Increase of the Company's equity

At its meeting on 16 September 2016, the Company's AGM authorised an equity capital increase of HUF 1.5 billion at most in connection with the public offering of the Company's shares in October. 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 through decision no. 01-10-048384/50 dated 1 February 2017.

The shares issued during the increase of the share capital were generated on 28 March 2017.

The Company's equity as at 31 December 2018

Type of shares	Class of shares	Share series	Number of shares issued	from this: treasury shares	Nominal value per share	Total nominal value
ordinary shares	-	"A"	3,438,787	31,200	HUF 50	HUF 171,939,350
employee share	preferential shares	"B"	1,000	0	HUF 50	HUF 50,000
Equity:						HUF 171,989,350

Number of voting rights attached to shares:

Share series	Number of shares issued	Number of voting rights per share:	Total number of votes	From this: for treasury shares	Number of treasury shares
"A"	3,438,787	50	171,939,350	1,560,000	31,200
"B"	1,000	50	50,000	0	-
Total	3,439,787	-	171,989,350	1,560,000	31,200

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 equity⁴, with the shares based on a pyramid structure and the cross-shares taken into account:

Shareholder Name	Number of shares held (number)	Share in equity (%)
Gay Dymischiz	1,346,611	39.15%
Doron Dymischiz	1,346,611	39.15%
AEGON Magyarország Befektetési Alapkezelő Zrt.		5.58%
Total equity	3,439,787	100.0%

⁴ As at 31 December 2018

7. Restrictions on the transfer of shares

Restrictions on alienation on ordinary shares

Shareholder Name			Ferenc Máté	Bernadett Szirtes	Krisztián Fülöp	Dr András Szabadházy	Nir Bitkover	Total
Number of ordinary shares held (number)			30,000	1,364	2,182	1,364	2,182	37,092
Is alienation restricted?			yes	yes	yes	yes	yes	
Restrictions on alienation	Beginning of the period	End of the period	Number of shares under restrictions on alienation					
	16.09.2015	11.11.2019	24,000	818	1,309	818	1,309	28,254
	01.01.2020 -	11.11.2020	21,000	546	873	546	873	23,838
	01.01.2021 -	11.11.2021	18,000	273	436	273	436	19,418
	01.01.2022 -	11.11.2022	15,000	0	0	0	0	15,000
	01.01.2023 -	11.11.2023	12,000	0	0	0	0	12,000
	01.01.2024 -	11.11.2024	9,000	0	0	0	0	9,000
	01.01.2025 -	11.11.2025	6,000	0	0	0	0	6,000
01.01.2026 -	11.11.2026	3,000	0	0	0	0	3,000	

Restrictions on the alienation on preferred employee shares

Shareholder Name	Gay Dymischiz	Doron Dymischiz	Ferenc Máté	Anikó Varga	Dr András Szabadházy	Dániel Schilling	Angelika Fóris	Total
Number of preferred employee shares held (number)	150	150	225	150	65	150	110	1000

There is an indefinite restriction on alienation for all employee shares that grant preferential shares *

** In accordance with Section 6:221 of Act V of 2013 on the Civil Code, the shareholder grants the right of first refusal, and in line with Section 6:224, the right to repurchase, to Guy Dymischiz or Doron Dymischiz for an indefinite period of time*

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:

<ul style="list-style-type: none">• Holders of issued ownership shares embodying special controlling rights and the presentation of such rights
<ul style="list-style-type: none">• Control mechanism under any employee shareholder scheme where controlling rights are not exercised directly by employees
<ul style="list-style-type: none">• 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)
<ul style="list-style-type: none">• Rules governing the appointment and dismissal of executive officers and the modification of the Statutes
<ul style="list-style-type: none">• The powers of executive officers, in particular, their powers to issue and repurchase shares
<ul style="list-style-type: none">• 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
<ul style="list-style-type: none">• 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 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 identify 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 its equity in an amount that is sufficient for investor and creditor confidence in the future to sustain the future development of the Group. The Board of Directors seeks to maintain a policy whereby the Company undertakes a higher exposure arising from lending only against 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 equity risk run by the Company was not significant in 2018.

Lending risk

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 2017 and 31 December 2018.

Lending risk	<u>31 December 2018</u>	<u>31 December 2017 revised</u>
Trade receivables	710,861	455,840
Other receivables	386,607	176,766
Financial instruments	79,950	69,609
Cash and cash equivalents	1,509,613	1,428,501
Total	<u>2,687,032</u>	<u>2,130,715</u>

Amount of collateral	<u>752,694</u>	<u>942,758</u>
Reviczky 6.-10. kft.	0	371,841
Pusztakúti 12. Kft.	625,994	440,917
Impact Asset Management Alapkezelő Zrt.	95,000	95,000
Duna House Holding Plc.	31,700	35,000

Liquidity risk

Liquidity risk is the risk that the Group is unable to fulfil its financial obligations by the due date. Under the Group's liquidity management approach, there should always be sufficient liquidity available to cover the Group's obligations when they fall due under both standard and stressed circumstances without the Group's incurring unacceptable losses or risking its reputation. To further minimize liquidity risk, reduce transaction costs and increase efficiency, the Company has been managing its bank accounts linked to its operations under a cash pooling regime, which makes automatic group financing possible.

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.

Property development risks

Of the risks typical of property development, the management focuses mainly on risks posed by increasing construction costs. The increase in the number of parallel projects implemented by the project companies poses a consistently rising liquidity risk to MyCity Group until bank financing is secured.

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 tying up liquid assets. The Group's currency risk is insignificant, primarily because in all three countries it carries out the sales and purchases in the given country's currency. The Group does not enter into currency hedging transactions.

10. Changes after the balance sheet date

The following non-modifying events occurred between the balance sheet date and the date of the approval of these financial statements.

Treasury shares

The Board of Directors of the Company was authorised by the extraordinary meeting held on 18 December 2018, between 31 December 2018 and 22 March 2019 a total of 8,930 pieces of treasury shares were traded on the stock exchange for ongoing employee share programs. The amount of Company treasury shares on 22 March 2019 was 40,130.

Merger of subsidiaries

The following merger took place between the indirect 100% subsidiaries of the Company following the end of the financial year: Metrofinance Sp. z. o.o merged into Gold Finance Sp. z. o.o as of 28 February 2019. The aim of the merger was to execute operational synergies.

11. Declaration on corporate governance

In light of its length and structural layout, our declaration on corporate governance ("Responsible Corporate Governance Report") will be published on the [website of the Budapest Stock Exchange](#)⁵.

12. Declaration on responsibility

The Board of Directors of the Company prepared this business report on the basis of the data included in the consolidated accounts for 2018 compiled in accordance with the International

⁵ [https://bet.hu/oldalak/ceg_adatlap/\\$issuer/3433](https://bet.hu/oldalak/ceg_adatlap/$issuer/3433)

Financial Reporting Standards (IFRS) and to the best of their knowledge. The accounts are audited; therefore an independent auditor's report has been attached.

This consolidated report gives a fair picture of the situation, development and performance of the Company and its companies included in consolidation.

Budapest, 22 March 2019

Persons authorised to sign the (consolidated) business report:

_____	_____	_____
Doron Dymshiz	Gay Dymshiz	Ferenc Máté
Member of the Board of Directors	Member of the Board of Directors	Member of the Board of Directors