



**Annex 1 to the proposal prepared for the
Board of Directors exercising the powers of the General Meeting
of Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt.**

Report of the Board of Directors on the business activity in 2020



**Report of the Board of Directors
on the business activity of
Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. in 2020**

Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. (registered office: 1033 Budapest Polgár utca 8-10.; Company Registration No.: 01-10-042813; website: www.bif.hu; hereinafter: the “Company” and/or “BIF”) hereby informs its shareholders, business partners and investors on the management, the business activity in 2020 and the financial position of Company.

I. Management of the Company:

The Company operates in a unified control system. The Board of Directors is the executive body of the Company, which shall represent the Company in front of courts of law and other authorities, as well as third parties.

The Board of Directors established the rules of its operation and operated according to its Order of Procedure in 2020. The majority of the members of the Board of Directors are independent.

The Board of Directors performs its activities as a body. It designates the issues necessary to be put on the agenda of its meeting from the issues in its scope of responsibilities, appoints the member of the Board of Directors and/or management responsible for the preparation of the issue, discusses the issue presented at the meeting of the Board of Directors, passes a resolution in that regard, and provides for the monitoring of its implementation. The Board of Directors determines the dates of its regular meetings to be held in the period between its annual balance closing general meetings, as well as the expected agenda of such meetings to the necessary extent.

In 2020, the Board of Directors held 4 meetings. In 2020, the Board of Directors passed decisions through electronic means on 16 additional occasions.

Members of Company’s Board of Directors (31 December 2020)

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

II. The Company's business policy and business activities in 2020

The business activity of **Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt.** (registered office: 1033 Budapest Polgár utca 8-10.; hereinafter: the “Company” and/or “BIF”) in the first half of 2020 was along the lines of realizing the development strategy and goals listed below:

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

As a Company developing and utilizing property, operating since December 31, 2018 as a regulated real estate investment company as defined in Act CII of 2011 on Regulated Real Estate Investment Companies (hereinafter: the “SZIT/REIT Act”), it is involved in the utilization of properties (office and other buildings and parking garages) owned by the Company by giving them into lease, the further development of such properties and the sale of its own construction lots, as well as property development projects on such construction lots and the utilization and sale of the such properties.

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

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

Office buildings

In 2020, a total of 232 thousand m² new office area was delivered in Budapest, which meant a growth by more than three times compared to the previous year. The office corridor on Váci út remained the major target of investments in 2020 as well, and the total portfolio of this market increased above one million m². The total portfolio on the modern office market exceeded 3.9 m² by the end of 2020. At the end of 2020, a total office area of 470 thousand m² was under construction, of which about 160 thousand m² can be expected to be delivered by the end of 2021; the majority of the development activity tends to focus on the South-Buda market, where a total area of 73 thousand m² can be expected to be delivered in 2021. (Source: Eston).

The vacancy rate, which hit the record low of 5.6% at the end of 2019, started to increase and was at 9.1% at the end of 2020. Considering a continuing expansion of the developments and the third wave of the epidemic situation, real property traders expect an additional minor growth in the vacancy rate, which may be as high as 10-11% in 2021. After its record high in 2019, the demand for offices decreased in 2020 significantly, by 47% as a result of the pandemic. The total volume leased was 335 thousand m², and it was only in 2010 that a lower rate (311.5 thousand m²) has ever been registered. (Source: CBRE)

It is a general challenge that the pandemic situation has brought about numerous changes concerning the office use by tenants as well, and lessors probably have to prepare for such changes in the long run. With the spread of the culture of “home office” and distant working, the possibility for certain tenants to require a decreased leased area or the flexible utilization of office sizes cannot be excluded. The demand for the safe and hygienic operation of the working area, including common areas, elevators and the equipment supplying fresh air has also been clearly formulated. Modern, touchless solutions and tracking systems may also be expected to be added to the basic features required in modern offices.

Development activity can be expected to diminish in 2021, but the demand on the office market will presumably increase from the middle of the year, which is expected to stabilize the vacancy rate from the second half of the year. We expect rental fees to increase and the yields on the office market to decrease in 2021, while the dynamics of such changes can be expected to continue becoming moderated. The activity of real property investors will foreseeably grow in 2021, as a large volume of capital not invested in 2020 is looking for its place on the market.

On December 31, our Company owned seven category ‘B’ and two category ‘A’ office buildings with excellent location from infrastructural and traffic perspective, and one of the current category ‘B’ office buildings (the office building located at Budapest, district XII, Városmajor str. 12-14, hereinafter: “Major Udvar (Városmajor12)”) is being upgraded to a category ‘A’ office building. Our existing, operating office buildings tended to be run at a utilization rate of 90% in the subject period, falling behind the average utilization rate measured on the market minimally.

In the first half of 2020, our Company acquired **the former “Posta Szálló” at Üllői str. 114-116 in district X of Budapest**, the iconic 13-storey tower building of the neighbourhood, which is being reconstructed for being used as a category ‘A’ office building (hereinafter: “Üllői str. Tower Office Building”). The 3-storey building next to it, once used as a training centre (hereinafter: the “Üllői str. Training Centre”) has also been added to our portfolio, which we intend to utilize as office area or training centre, corresponding to the market demand. These two buildings jointly increased our office portfolio by more than 10 thousand m².

The reconstruction of **Major Udvar (Városmajor12)** started in August of 2020 and is expected to be completed in Q1 of 2022. We managed to agree with one of the major tenants of the office building on its moving to our office building at Városmajor str. 35 in district XII of Budapest (hereinafter: “**Major Park (Városmajor u. 35)**”) successfully acquired at an auction in early 2020, which ensures the continuity of the lease. We developed a modern office and an archive at a floor space of nearly 3.3 thousand m² on several storeys for the tenant.

Our major goal in respect of our office buildings is to keep our tenants satisfied and thus encourage them to extend the term of their lease contracts, and try to achieve such goal by the introduction of new services and the continuous provision of operator’s presence and maintenance. In the case of our category “A” office buildings, we pay special attention to the modernisation of common areas and the overall renovation and upgrading of the office areas becoming vacant.

Parking garages

The market of the existing parking garages operating on commercial basis was also heavily hit by the pandemic situation. At the beginning of April, the government announced free parking on public areas to reduce the use of public transport and hold up the spread of the virus, and this measure remained in force until July 1. During the second wave of the epidemic, free parking on public areas was reintroduced in November 2020. In addition, the availability of free parking was also extended by a new Government Decree to parking garages, underground garages and outdoor parking areas operated for commercial purposes from 7.00 p.m. to 7.00 a.m. Free parking, which was originally meant to expire in December 2020, was extended because of the state of danger, therefore it continued into 2021.

Our Company owns 2 parking garages: **Aranykéz Parking Garage** (Budapest V. kerület Aranykéz utca 4-6.) located next to Vigadó Palota Office Building (Budapest V. kerület Apáczai Csere János utca 9.) (“Vigadó Palota Office Building”) and the **parking garage in Flórián Udvar Office Complex** (Budapest III. kerület Polgár utca 8-10.). The parking garage in Flórián Udvar Office Building is primarily intended to serve the tenants of the office building. Both of our parking garages strive at providing services of an utmost standard, including the use of the latest mobile application based parking system developed by Hungarian experts and modern payment methods. As the extraordinary measures introduced during the state of hazard gave rise to difficulties in the availability of free parking spaces in public places, our tenants who continued going to work to their offices maintained their parking spaces leased for reasons of convenience, what more, some of our major tenants even requested additional parking spaces to support their workers in reaching their workplace safely. The revenues from parking charged for based on parking meter diminished significantly during the curfew restrictions, which primarily affected Aranykéz Parking Garage located downtown.

Construction lots and residential buildings

The rust belt regulation announced in July, 2020 also mobilized developers, but no transactions were made by that time because of the uncertainties concerning the applicable VAT rate. From the governmental measures announced in October, 2020, the reintroduction of the 5% VAT rate on residential properties until 2022, and the new home creation subsidies were the ones which have a major impact on the market, including the market of plots suitable for the construction of residential buildings (source: KPMG). The new VAT rate of 5%, reintroduced universally, finally put an end to uncertainty. Low interest rates and the home creation subsidies provided by the state may help with sustaining the level of demand during the coronavirus pandemic as well. Newly built apartments in Budapest became more expensive by an average rate of 6.1% in 2020, representing a significant slow-down compared to the price increase by 19.5% measured in 2019 (source: Eltinga). In this new situation, increased attention is expected to be directed at the high prestige zones in Buda, which classically preserve their value, by customers buying for residential or investment purposes.

As part of the **Hársánylejtő Kertváros Project** to be realized by the Company as a developer (in District III of Budapest), the Company has launched development projects on a total area of 39 hectares in recent years in several phases (hereinafter: “Hársánylejtő Project”). The project has included construction lot development, residential property development and the creation of lots suitable for the construction of commercial units in the following breakdown:

- **Construction lot development:** A total of 153 construction lots were regulated, created and sold in phases I and II of the project. The phases were successfully concluded in terms of development and sales alike (the total area subject to phases I and II referred to above exceeds 25 hectares).
- **Residential property development**
 - In phases I and II of the residential property development, 40 apartments of floor spaces of 55 – 99 m² were constructed in total on an area of 1 hectare. The sale of the 20 apartments constructed in phase I of the residential property development was successfully concluded in 2019, while the technical delivery took place and the occupancy permit was issued for additional 20 apartments constructed in phase II of the project and only 2 apartments have remained available to potential buyers. The project owner is Hársánylejtő Ingatlanforgalmazó és -kezelő Kft, the exclusive owner of which is the Company (hereinafter: “Hársánylejtő Kft”).
 - In the second half of 2020, our Company sold the development area of 1 hectare, comprising 8 plots of land made suitable for the development of residential properties in phases III – IV. According to the current regulations, the Company could construct condominium properties including 30, 50 and 55 apartments respectively on another area of more than 2 hectares, comprised of 3 plots suitable for residential property development, however, the sale of these plots might be an alternative to development activity for the Company to make use of the growing demand as a result of the cutting of the VAT rate related to residential properties. **Commercial unit development:** there is a plot of an area of 0.4 hectare, which is suitable for the construction of a retail unit of ca. 1,000 m² and an additional office or other service function area of 1,500 m².
- **Office or residential property development:** a plot of 1 hectare suitable for the construction of an office complex of ca. 2500 m² or condominium properties.

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

In addition to the residential property development realized as part of Hársánylejtő Project, the Company realized a significant development project regarding the real property entered into the Land Register under Topographical No. 6775, Budapest, district I, physically located at 1012 Budapest, Attila str. 99 and 1012 Budapest, Logodi str. 42 (hereinafter: the “**Attila99Loft**” or “Attila str. property”). As part of this development project, 16 exclusive apartments, an automated parking system with 22 parking spaces, a restaurant and a bakery are being constructed in the real property. The building with a design inspired by New York will be made special not only by being located in the Castle District and the unique style of each apartment, but also the exclusive services to be offered in it. The Company wishes to utilize the apartments to be developed by leasing them after their completion expected to take place at the end of April, 2020.

Hotels

The hotel market of Budapest saw record low reservation rates and revenues in 2020. The revenue per room to let decreased by 82% in Budapest. Although a total of 580 new hotel rooms were delivered in 2020 on a national level as a result of development projects commenced in the previous period, additional planned developments became uncertain. The number of available hotel rooms also fell back significantly because of closures and it is uncertain for the time being when certain hotels can reopen, especially those specialized in receiving foreign tourists. Although domestic tourism seems to be on an upsurging trend, the figures of the previous years will probably remain unattainable without foreign guests, and this is particularly true for Budapest. According to forecasts, the hotel sector of Budapest can reach the pre-Covid level in 2-3 years, which is still one of the most promising indicators in the region (source: CBRE).

At the moment, there are 2 real properties owned by the Company which are operated by the companies leasing them as hotels (the Company generates no revenues from providing accommodation or catering services, but only leases the real properties owned). In one of the real properties of the most prominent location from the point of view of tourism, **the property at Madách square** (Madách Imre sqr 3 in district V of Budapest), there is a 4-star hotel with 115 rooms. The 3-star hotel with 81 rooms and 1 apartment in **building “C”** within **the real property complex on Üllői street** located in the catchment area of Liszt Ferenc international airport, more specifically the airport corridor Üllői street functions as a transit hotel.

One of the most outstanding real properties in the portfolio of the Company is located at a World Heritage Site under Andrassy str. 80-82 in district VI of Budapest (the “**Andrassy str. property**”). A Boutique Hotel concept is being developed currently for this plot of a total area of more than 1.4 thousand m², and an agreement is being negotiated for its utilization with an operator with significant references on the Budapest hotel market. The phasing of the development is fundamentally affected by how the coronavirus pandemic evolves and its impact on the market.

Unfortunately, the new (third) wave of the coronavirus pandemic reached Hungary as well after the balance sheet day, in March, 2021. The current coronavirus situation and the changes to such situation may unfortunately have some negative impacts on the plans and objectives formulated by the Company for 2021, which are difficult to estimate or express in numerical terms for the time being, however, economic life may be expected to start getting back to normal in the second half of 2021 as the vaccines against coronavirus become more and more widespread. In order to minimize its exposure to risks due to the coronavirus pandemic (such as some of its tenants initiating the renegotiation or termination of their lease contracts, delays in current development projects or the renegotiation of its relations with suppliers/providers) and to protect its employees, the Company continues closely monitoring all changes to the current situation, with special regard to the measures of the government and official bodies, so that it may introduce new measures and provide information to its employees and partners accordingly.

III. Major financial data

The major financial data of the Company's audited Consolidated Financial Statements for 2020 prepared in accordance with the International Financial Reporting Standards (IFRS)

Profit and Loss Statement (IFRS, audited)

data in thousand HUF	2019	2020
Net revenue from sales	5 288 254	6 189 236
Other operating income	350 046	3 514 569
Changes in the inventory of internally generated products	132 299	-1 185 643
Capitalized value of internally generated assets	58 441	138 487
Material expenses	-2 157 835	-1 775 077
Personnel expenses	-458 306	-479 158
Other operating expenses	-505 240	-1 242 405
EBITDA	2 707 659	5 160 009
Depreciation and impairment	-227 173	-57 813
Operating profit	2 480 486	5 102 196
Financial income	16 209	110 284
Financial expenditure	-206 683	-231 398
Profit before taxes	2 290 012	4 981 082
Current tax expense	-13 270	-24 483
Deferred tax	-860	0
Profit after taxes	2 275 882	4 956 599

Major balance sheet items (IFRS, audited)

data in thousand HUF	31.12.2019	31.12.2020
Investment properties	41 696 004	52 508 004
<i>Total long-term assets</i>	<i>42 695 504</i>	<i>53 204 552</i>
Cash and cash equivalents	14 937 817	10 888 723
<i>Total current assets</i>	<i>17 284 975</i>	<i>12 496 255</i>
Total assets	59 980 479	65 700 807
Issued capital	2 870 244	2 870 244
<i>Equity attributable to parent company:</i>	<i>41 158 588</i>	<i>42 246 342</i>
Financial liabilities	15 618 427	19 032 327
<i>Total long-term liabilities</i>	<i>15 635 060</i>	<i>19 051 413</i>
Financial liabilities	515 354	909 006
<i>Total short-term liabilities</i>	<i>3 186 831</i>	<i>4 403 052</i>
Total liabilities and equity	59 980 479	65 700 807

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

The Board of Directors proposes the general meeting to approve the audited Annual Financial Statements of the Parent Company prepared in accordance with the International Financial Reporting Standards (IFRS) for 2020 with the following main figures (data in thousand HUF):

Total assets:	65 470 528
Equity:	42 358 140
Sales revenues:	4 751 723
Profit before taxes:	4 486 760
Retained earnings:	4 472 127

With special regard to the relevant provisions of the REIT Act, the Board of Directors proposes the payment of dividend in the amount of HUF 2,041,399 thousand corresponding to 90% of the available retained earnings of the subject year based on the audited Annual Financial Statements of the Parent Company prepared for 2020 in accordance with the International Financial Reporting Standards (IFRS), in accordance with the expected dividend according to the REIT Act should be paid as dividend. The Board of Directors reminds the shareholders that the Board of Directors exercising the powers of the General Meeting may also decide, in view of creating reserves, not to pay any dividend for 2020, with special regard to the current and planned developments of the Company.

The Board of Directors proposes the general meeting to approve the Audited Consolidated Annual Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) for 2020 with the following main figures (data in thousand HUF):

Total assets:	65 700 807
Equity:	42 246 342
Sales revenues:	6 189 236
Profit before taxes:	4 981 082
Retained earnings:	4 956 599

The Board of Directors of Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. hereby declares that the Audited Annual Financial Statements of the Parent Company and the Audited Consolidated Annual Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS) and the Business (management) Reports of the Company, each prepared for 2020, contain true and correct data and statements and do not omit any fact that might have any significance concerning the assessment of the position of Company.

Budapest, April 19, 2021

dr. Anna Ungár
President of the Board of
Directors

Annexes

- The Audited Annual Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS) and Business (management) Report for 2020
- The Audited Consolidated Annual Financial Statements prepared in accordance with the International Financial Reporting Standards (IFRS) and Consolidated Business (management) Report for 2020