



**Report of the Board of Directors
on the business activity of
Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. in 2021**

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 under a single management system. The Board of Directors is the Company's management body, representing the Company before courts and other authorities and in dealings with third parties.

The Board of Directors has established its rules of operation and has operated in accordance with its adopted By-laws for the year 2021. The majority of the members of the Board of Directors are independent.

The Board of Directors acts as a body. It decides which of the matters falling within its remit of duties should be placed on the agenda of its meeting, appoints the member of the Board of Directors and/or of the management responsible for preparing the matter, discusses the matter submitted to the Board meeting, makes a decision on it and monitors its implementation. The Board of Directors must fix the dates of its regular meetings and, to the extent necessary, the expected agenda for its regular meetings for the period between the annual General Meetings to close the balance sheet.

The Board of Directors held 1 meeting in 2021. The Board of Directors made a further 14 decisions electronically in 2021.

Members of the Board of Directors of the Company (31 December 2021)

Name	Position	Beginning 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 2021

In 2021, the Company performed its business activity in accordance with the development strategy and objectives listed below:

- Identifying office and other buildings that fit into the Company's existing portfolio of income-generating real properties and making acquisitions.
- To maximise the income potential of the existing real property portfolio and optimise the operation of office buildings.
- Optimal utilisation of the Harsánylejtő development site owned by the Company in District III of Budapest.

Since 31 December, 2018 the Company has been active as a regulated real estate investment company (hereinafter: “SZIT/REIT”) under Act CII of 2011 on regulated real estate investment companies (hereinafter: “SZIT/REIT Act”) engaged in real property development and utilization for its own properties (offices, other buildings and parking garages) by leasing, further development and the sale of construction sites in its ownership, the implementation of real estate developments on them, and the utilization and sale of completed properties.

The Company is active in the following main segments of the real estate market according to the types of properties owned:

- Office buildings
- Parking garages
- Building plots
- Residential properties
- Hotels

Office buildings

In 2021, a total of 44,000 sq. m. of new office space was delivered in Budapest, an 81% decrease compared to the previous year, which was due to the fact that some of the office deliveries planned for the end of 2021 had been postponed to 2022. The Váci Avenue office corridor remained the main target for investment in 2021, with the South Buda submarket coming in second. The total modern office portfolio had exceeded 3.95 million sq. m. by the end of 2021. In H2 2021, the modern office stock in Budapest did not add any new office buildings, the lowest number of office deliveries in a year since 2013. The completion of most of the development projects has been postponed to 2022, and this means that already in Q1 2022, twice as many office deliveries are expected as in 2021, i.e. approximately 302,000 sq. m.

The vacancy rate increased slightly compared to 2020, standing at 9.2% at the end of 2021; the most saturated sub-market was Buda-Centre with a ratio of 5.5%. Taking into account the continued expansion of developments and the pandemic situation, real estate marketers expect the vacancy rate to continue to increase slightly, although not at the same pace as in the first waves of COVID-19. Demand for office space reached a low point before the start of 2021, but started to increase after the COVID restrictions were lifted, bringing annual demand to 365,000 sq. m., a more moderate (9%) increase compared to the previous year. (Source: CBRE, BRF)

The office market's Q4 2021 results continue to reflect the uncertainty caused by the pandemic, but there is cause for optimism with a slight increase in annual gross demand, an increase in the number of transactions and stagnation in the vacancy rate. Rents are not expected to change significantly in 2022, but it is clear that operating costs will increase. Average operating fees in early 2022 ranged between EUR 3.5 and EUR 5 for most Category A buildings, possibly due to increased cleaning and disinfection needs, more modern mechanical equipment and significantly higher energy prices. (Source: CBRE, Portfolio.) Given the above, older but well-maintained properties may benefit from pricing flexibility against new projects increasingly constrained by cost pressures.

As of 31 December 2021, the Company owned seven Category B and two Category A office buildings in prime locations in terms of infrastructure and transportation. The revitalization of one of the existing Category B office buildings (the office building at 12-14 Városmajor Street, District XII of Budapest, hereinafter: "Major Udvar (Városmajor u. 12)") to convert it to Category A is currently underway and is expected to be handed over in May 2022. Our existing and operating office buildings typically operated at an average occupancy rate of 88% during the period, which is marginally below the market average.

In H1 2020, our Company acquired the former Posta Hotel at **114-116 Üllői út, Budapest, District X of Budapest**, an iconic 13-storey tower building in the area, which will be converted into a Category A office building (hereinafter: "**BIF Tower**") in a development project launched in 2021. Construction is expected to be completed in Q3 2022. The adjacent three-storey building, formerly operating as an educational centre (hereinafter: "Üllői úti Oktatási Központ"), has also been included in our portfolio, and we aim to use it as an office or educational centre in line with market demand. The two buildings will add more than 10,000 sq. m. of office space. The property can be used for the development of a further 13,000 sq. m. of gross floor area by modifying the parameters of the District Building Code, which will allow the Company to diversify its real estate portfolio by developing 4500 residential units and entering the dormitory market by selling them to foreign partners.

In the case of our office buildings, our main objective is to maintain tenant satisfaction and thus extend tenancy contracts, which is achieved through the introduction of new services and a continuous operator presence and maintenance. For our Category A office buildings, we pay particular attention to modernising the common areas and renovating and upgrading vacant office space.

Parking garages

Our Company owns 2 parking garages, the **Aranykéz Parking Garage** (Budapest V. district Aranykéz utca 4-6.) and the **Parking Garage of Flórián Udvar Office Building** (8-10 Polgár Street, District III of Budapest), located next to the Vigadó Palota Office Building (9 Apáczai Csere János Street, District V of Budapest, "Vigadó Palota Office Building"). The parking garage in the Flórián Udvar Office Building is primarily intended to serve the tenants of the office building. Both parking garages are equipped with the latest Hungarian mobile-app parking system and modern payment facilities to ensure maximum service quality. The special emergency measures, including free parking in public areas, were extended up to May 2021. However, our tenants who continued to walk into their offices kept their leases for convenience, and some of our larger tenants requested additional leases to support their employees' safe access to work. Hourly parking volumes declined during the curfew period, primarily affecting Aranykéz Parking Garage located in the downtown area.

Building plots and residential properties

By 2021, Duna House estimates that the residential property market would have returned to pre-pandemic levels, with a 15% increase in the number of transactions compared to 2020. (Source: Duna House Transaction Count Estimate.)

In new development projects, simultaneously with rising construction demand, some building materials saw a surge in prices in 2021, often accompanied by shortages of building materials and supply problems. In addition, government measures such as tax rebates and the Green Home Programme continued to generate demand for new housing beyond 2022. (Source: Portfolio Ingatlan)

Within the framework of the **Harsánylejtő Kertváros** project (District III of Budapest), the Company launched a development project (hereinafter: "Harsánylejtő Project") in several phases over the past years, covering an area of approximately 39 hectares. As part of the project, land development, residential development and commercial units were developed as follows:

- A total of 153 land plots have been developed, constructed and sold within the framework of Phases I-II of the **land development**. The project was successfully completed in terms of development and sales (the total area of the above-mentioned Phases I to II exceeds 25 hectares).
- **Residential property development**
 - In Phases I and II of the residential development, a total of 40 apartments of floor areas between 55 and 99 sq. m. were built on an area of about 1 hectare. The sale of the 20 apartments built in Phase I of the residential development project was successfully completed in 2019, and the sale of the 20 additional apartments built in Phase II of the residential development project was successfully completed in H1 2021. The owner of the project is Harsánylejtő Ingatlanforgalmazó és -kezelő Kft. (hereinafter: "Harsánylejtő Kft."), which is 100% owned by the Company.
 - For two of the three plots of land on an area of more than 2 hectares suitable for residential development, sales contracts with reservation of title were signed in Q4 2021 (the termination of the reservation of title subject to payment of the full purchase price is foreseen for Q4 2022 and Q1 2023). The remaining property owned by the Company is currently zoned for the construction of a 50-apartment condominium, but the sale of the land could remain an alternative to development, taking advantage of the increased demand due to the reduction in VAT on housing.
- A plot of land suitable for the development of a **commercial unit**, comprising a retail unit of approximately 1000 sq. m. and a further 1500 sq. m. of office or other service functions on an area of approximately 0.4 hectares.

- More than 1 hectare of land suitable for **office or residential development**, suitable for the construction of an office complex of approximately 2500 sq. m. or condominiums.

The Company is constantly evaluating the best options for each property. So far, decisions have been taken on the implementation of Phases I and II of the Harsánylejtő Plot Development and Phases I and II of the Harsánylejtő Residential Property Development projects, which have been completed. For the other development opportunities, the Company will consider the options of launching the development or selling it as a land parcel or project based on current market trends.

In addition to the residential property development in the Harsánylejtő Project, the construction of a significant development project of the Company had been completed at the end of July 2021 for the property registered under parcel number 6775 in District I of Budapest, located at 99 Attila Avenue, District I of Budapest, and 42 Logodi Street, H-1012 Budapest (hereinafter: "**Attila99Loft**" or "Attila Avenue Property"). Attila99Loft was the winner of the **Real Estate Awards "Residential Property Development of the Year 2021"** competition. The development project included 16 exclusive apartments, a 22-space robotic parking system, a restaurant and a bakery. In addition to its location in the Castle District and the unique style of the apartments, the exclusive services available within the building ensure the uniqueness of the building modelled on the "New York" style. After completion of the construction, the apartments and commercial premises are leased by the Company.

Hotels

In 2021, the hotel industry already showed signs of recovery, with Budapest improving 66.8% in terms of revenue per available room and 43% in terms of occupancy index in H2 2021 on a year earlier, mainly due to the easing of travel restrictions, allowing for example the hosting of international (sports) events. In terms of the pace of recovery, experts expect the region's hotel market to recover by 2024. (Source: tourism.com, 3 February 2022)

The Company currently owns 1 property which is operated as a hotel by the tenant (the Company does not generate any income from accommodation or catering services, it only rents out the properties it owns). The **Madách Square property** (3 Madách Imre Square, District V of Budapest), which has one of the most prominent downtown locations for the purposes of tourism, is a 4-star hotel with 115 rooms. A 3-star hotel operated as a transit hotel in "**Building C**" of the **Üllői Avenue property complex** (114-116 Üllői Avenue, District X of Budapest), located in the airport corridor, in the vicinity of Liszt Ferenc International Airport (114-116 Üllői Avenue, District X of Budapest) up to 30 June 2021, which the Company has been leasing out for student accommodation (hereinafter: "**BIF HOSTEL**") since September 2021, taking advantage of the favourable conditions of the building.

One of the most prominent properties in the Company's portfolio is located at 80-82 Andrassy Avenue, District VI of Budapest, and a World Heritage Site (hereinafter: "**Andrassy Avenue Property**"). On the more than 1400 sq. m. site, the Company is exploring the possibility of a residential development with upscale apartments and services, in addition to the Boutique Hotel concept, taking into account the changing market needs and the district regulatory conditions.

As a result of the widespread uptake of coronavirus vaccines, business activity started to return to normal in Hungary in the second half of 2021, and after the balance sheet date, in early 2022, and the restrictions previously imposed due to the pandemic were gradually lifted in Q1 2022 (e.g. the vast majority of health restrictions were lifted). Overall, the economic risks posed by the coronavirus pandemic decreased. However, the current coronavirus situation and its developments may continue to have adverse effects, difficult to estimate and quantify, on the Company's plans and objectives for 2022. The outbreak of the Russian-Ukrainian war on 24 February 2022 and the related international sanctions have a significant impact on the economic outlook and increase economic risks. In order to minimize the exposures caused by the coronavirus pandemic and the Russian-Ukrainian war (due to eventual request for the amendment or termination of lease contracts, possible delays in ongoing developments projects, and the renegotiation of supplier/service provider partnerships), the Company will continue to closely monitor the current situation – especially actions by the government and other official bodies –, take new measures, and inform its employees and partners accordingly.

III. Key financial data

The key financial data of the Company's Audited Consolidated Annual Financial Statements for 2021 prepared in accordance with the International Financial Reporting Standards (IFRS)

Profit and Loss Statement (IFRS, audited)		
data in thousand HUF	2020	2021
Net sales revenue	6 189 236	4 916 389
Other operating income	3 514 569	6 201 800
Changes in internally generated inventories	-1 185 643	-286 807
Capitalized value of internally generated assets	138 487	-142 048
Raw materials, consumables and other external charges	-1 775 077	-1 190 595
Staff costs	-479 158	-575 034
Other operating expenditure	-1 242 405	-395 436
<u>EBITDA</u>	<u>5 160 009</u>	<u>8 528 269</u>
Depreciation and impairment	-57 813	-174 111
<u>Operating P/L</u>	<u>5 102 196</u>	<u>8 354 158</u>
Financial income	110 284	164 774
Financial expenses	-231 398	-231 055
<u>P/L before tax</u>	<u>4 981 082</u>	<u>8 287 877</u>
Actual tax expenditure	-24 483	-18 693
<u>P/L after taxes</u>	<u>4 956 599</u>	<u>8 269 184</u>

Key balance sheet items (IFRS, audited)		
data in thousand HUF	2020.12.31	2021.12.31
Investment property	52 508 004	63 763 004
<u>Long-term assets, total</u>	<u>53 204 552</u>	<u>64 271 287</u>
Cash and cash equivalents	10 888 723	9 548 215
<u>Current assets, total</u>	<u>12 496 255</u>	<u>10 532 776</u>
<u>Assets, total</u>	<u>65 700 807</u>	<u>74 804 063</u>
Subscribed capital	2 870 244	2 870 244
<u>Equity allocated to the parent company, total</u>	<u>42 246 342</u>	<u>50 515 526</u>
Financial liabilities	19 032 327	19 213 740
<u>Long-term liabilities, total</u>	<u>19 051 413</u>	<u>19 226 362</u>
Financial liabilities	909 006	1 270 565
<u>Current liabilities, total</u>	<u>4 403 052</u>	<u>5 062 175</u>
<u>Liabilities and equity, total</u>	<u>65 700 807</u>	<u>74 804 063</u>

IV. Summary proposals 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 2021 with the following main figures (data in thousand HUF):

Total assets	74 667 596
Equity	50 529 309
Sales revenue	4 513 015
Profit before taxes	8 183 750
Retained earnings	8 171 169

With regard to the applicable provisions of the Articles of Association and the REIT Act, as well as the results of 2021, the Board of Directors proposes the payment of dividends against the retained earnings and profit reserve that can be paid as dividends based on the audited Annual Financial Statements of the Parent Company for 2021 in the amount of HUF 5,033,688,800, which is HUF 20 per share. In the course of the above dividend calculation, Company already divided the dividend for the treasury shares among the shareholders entitled to dividends in proportion to the nominal value of their shares.

The Board of Directors proposes the general meeting to approve the Audited Consolidated Annual Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS) for 2021 with the following main figures (data in thousand HUF):

Total assets	74 804 063
Equity	50 515 526
Sales revenue	4 916 389
Profit before taxes	8 287 877
Retained earnings	8 269 184

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 2021, 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, 8 April, 2022

dr. Anna Ungár
President of the Board of Directors

Annexes

- Annual Report 2021 – Annual Financial Report 2021 of the Parent Company (Audited Annual Financial Statements of the Parent Company prepared in accordance with the International Financial Reporting Standards (IFRS) for 2021 and Business (Management) Report)
- Consolidated Annual Report 2021 – Consolidated Annual Financial Report (Audited Consolidated Annual Financial Statements of Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. prepared in accordance with the International Financial Reporting Standards (IFRS) for 2021 and Consolidated Business (Management) Report)