

**Report of the Board of Directors
on the business activity of
Budapesti Ingatlan Hasznosítási és
Fejlesztési Nyrt. in 2023**



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 2023 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 2023. 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.

The Board of Directors held three personal meetings in 2023. The Board of Directors made decisions electronically 10 times in 2023.

Members of the Board of Directors of the Company (31 December 2022)

Name	Position	Beginning of assignment	End of assignment
Dr Anna Ungár	President	30.04.2022	30.04.2027
Kristóf Berecz	Vice-President	30.04.2022	30.04.2027
Julian Tzvetkov	member	30.04.2022	30.04.2027
Dr Frigyes Hárshegyi	member	30.04.2022	30.04.2027
Miklós Vaszily	member	30.04.2022	30.04.2027

II. The Company's business policy and business activities in 2023

The business activity of **Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt.** (registered seat: 1033 Budapest, Polgár utca 8-10.; hereinafter: the “Company” and/or “BIF”) in 2023 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 optimal utilization of the Harsánylejtő development area in Budapest, District 3, owned by the Company.

From 20 October, 2017 the Company was active as a regulated real investment pre-company (hereinafter: “SZIE/Pre-REIT”) under Act CII of 2011 on regulated real estate investment companies (hereinafter: “SZIT/REIT Act”), and since 31 December, 2018 it has been active as a regulated real estate investment company (hereinafter: “SZIT/REIT”). The Company is engaged in real estate development and utilization for its own properties (offices and 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.

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

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

Office buildings

In Q4 2023, a new office block of a total floor space of 25,320 m² was added to the portfolio of modern office buildings in Budapest. The total office stock at the end of 2023 amounted to 4,369,900 m², comprising 3,571,710 m² of modern speculative office space in categories A and B and 798,190 m² of freehold office space. Total gross demand in 2023 was 575,504 m², while net demand over the same period was 290,082 m². Both gross and net occupancy showed an increase by 47% compared to 2022, whereas the vacancy rate reached 13.3% at the end of the previous year.

In Q4 2023, the vacancy rate increased by 0.1% compared to the preceding quarter and an increase by 2% compared to the same period of the previous year.

In Q4 2023, the lowest vacancy rate was recorded in the North Buda submarket (8.7%), while it was the highest in the Agglomeration (36.8%). Net absorption became positive during Q4, as the total portfolio of occupied office space increased by 6,590 m² in total. At the same time, the total office space in use decreased by 4,428 m² in 2023 as a whole.

In terms of tenant activity, the most popular sub-market in Budapest was again the Váci út office corridor in Q4 2023, which attracted 28% of demand. The Pest Centre sub-market came second (20%). (Source: BRF 2023 Q4 and Realista)

Within overall demand, the proportion of contract renewals was the highest, standing at 52%. New contract accounted for 43% of all leases, while the shares of expansions and prelease contracts were 2% and 3%, respectively. A total of 155 lease contracts were registered during Q4 2023, their average size was 847 m², which is 3% lower than in the preceding quarter. (Source: BRF 2023 Q4)

On December 31, 2023, our Company owned six category 'B' and four category 'A' office buildings with excellent location in terms of infrastructure and transport. Following its successful revitalization and conversion to a Category "A" building, the former Category "B" office building at 12-14 Városmajor Street, District XII of Budapest (hereinafter: "**Major Udvar** (Városmajor u. 12)") was handed over in October 2022, and 100% of the building has been leased since July 2023.

In H1 2020, our Company successfully 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 was converted into a Category "A" office building (hereinafter: "**BIF Tower**") in a development project launched in 2021. The construction project was handed over in January 2023, and 98% and 100% of the building had been leased by December 2023 and February 2024, respectively. In the case of the adjacent three-storey building, formerly operating as an educational centre (hereinafter: "Üllői Avenue Educational Centre"), our aim is to use it as an office or educational centre in line with market demand. The two buildings will add more than 10,000 m² of office space.

In the case of our office buildings, our main objective is to maintain tenant satisfaction and thus extend tenancy contracts. In all our office buildings the operator's staff is present on an uninterrupted basis and maintenance service for our tenants. In the case of our Class "A" office buildings, we pay particular attention to modernising public spaces, operating buildings efficiently, using environmentally friendly solutions and meeting tenants' custom needs.

Parking garages

In Budapest, the extension of the paid public parking zoning system continued in 2023, with some districts making free zones paid zones, which may not only boost public transport use but also improve the rate of utilisation of parking garages and underground car parks in the city.

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). 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. In addition to rental and hourly rates, short-term rentals are also becoming increasingly popular for events and conferences in the area at our Aranykéz Parking Garage with a downtown location. In the H2 2023, we introduced our electric car charging service at the Aranykéz Parking Garage in response to customer demand.

Building plots and residential properties

In Q1-3 2023, 10,808 new homes were built in the country, which was 21% fewer than a year earlier. In Budapest, there was a 29% drop, with 3,234 homes built. The number of homes to be built under building permits issued and simple notifications was 14,894, i.e. 43% fewer than in the same period of 2022. 34% of the new homes are planned to be built in Budapest.

There was also a decline in the housing market: after a 14% drop in 2022, the number of housing sales fell by a further 31% in Q1-3 2023 compared to a year earlier, although the rate of decline slowed down quarter by quarter in 2023. The decline in the new housing market exceeded the decline in the second-hand market, with new home sales in Q1-3 down 45% compared to the previous year.

In terms of prices, in Q3 2023, second-hand homes and new homes were sold for 2.6 and 3 times the 2015 baseline, respectively. At the same time, compared to the same period of the previous year, the price of second-hand homes remained almost unchanged, while the price of new homes increased by 11%. The aggregate house price index, which is determined by the change in the price of second-hand homes due to the dominance of the market, rose by only 1.5% year-on-year, the smallest annual price change in the last ten years. (Source: KSH)

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, plots suitable for land development, residential development and the construction of commercial units were developed as follows:

- **Land development:** A total of 153 land plots have been developed, constructed and sold within the framework of Phases I-II. 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 m² were built on an area of about 1 hectare. Phase I and II of the residential development project was successfully completed in 2019 and in H1 2021, respectively. The owner of the project was Harsánylejtő Ingatlanforgalmazó és -kezelő Kft. (hereinafter: "Harsánylejtő Kft."), which is 100% owned by the Company.
 - For two of the three plots of land suitable for residential development, sales contracts with reservation of title were signed in Q4 2021, one of which was delivered in possession in 2022 (the reservation of title subject to payment of the full purchase price was terminated in Q4 2022 and is to be terminated in H1 2024 in respect of the first and the second plot, respectively).
- A plot of land suitable for the development of a **commercial unit**, comprising a retail unit of approximately 1,000 m² and a further 1,500 m² of office or other service functions on an area of approximately 0.4 hectares.
- A sale and purchase agreement was signed in Q4 2022 for a plot of land of more than 2.4 hectares suitable for the development of **buildings of other functions**, for which the transfer of ownership has also been completed.

The Company is also investigating possibilities other than indicated above in respect of the utilization and sale of the plots of land owned by the Company.

In addition to the residential property development in the Harsánylejtő Project, the Company also owned a property of the function of residential 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") on 31 December 2022. Attila99Loft was the winner of the **Real Estate Awards "Residential Property Development of the Year 2021"** competition. The real property includes 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. The apartments and commercial premises are leased by the Company.

One of the most prominent properties in the Company's portfolio is located at 80-82 Andrassy Avenue, District VI of Budapest, a World Heritage Site (hereinafter: "**Andrassy Avenue Property**"). On the more than 1,400 m² site, the Company prefers the possibility of a residential development with upscale apartments and services, taking into account the changing market needs and the district regulatory conditions. The preliminary design for the development has been prepared, the building permit procedure was concluded in Q1 2024 and we have obtained the building permit.

Hotels

In December 2023, the number of guests and nights spent in tourist accommodation (commercial, private and other) was 16% and 13% higher than a year earlier, respectively. The year 2023 saw a rapid recovery in inbound tourism, particularly impressive in the capital, where foreign visitors to accommodation increased by nearly 20%. The number of nights spent in tourist accommodation in 2023 was 2.5% higher than in the previous year. Within this, domestic tourism was unable to make up for a weak first half of the year, with a 5% drop, offset by a 12.5% increase in foreign visitors.

There are many examples worldwide for offices being converted into hotels. The hotel market is changing, hotels are becoming much more functional, while the guest base is also changing: there is no longer an expectation of an in-hotel restaurant, or at most breakfast. The basic cost of an average hotel is €30-50,000 per room, and a minimum of 3,000 m² of building is required to efficiently run a hotel of around 100 rooms. Operating costs are rising for older buildings which are 10-15 years old. (Source: Portfolio, KSH Monitor and Realista)

The Company currently owns one property which was 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). In the **property at Madách Square** (3 Madách Imre Square, District V of Budapest), which has one of the most prominent downtown locations for the purposes of tourism, there was a 4-star hotel and two independent restaurants on the street front of the property. The hotel part of the property was taken back from the operator at the end of October 2023. The Company is currently investigating the possibility of improvements that would modernise the property, taking into account new tenant needs.

“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) has been leased out by the Company for student accommodation (hereinafter: **“BIF HOSTEL”**) since September 2021, taking advantage of the favourable conditions of the building (earlier, this building had been used as a 3-star transit hotel).

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 to risks caused by the war conflict (eventual request for the amendment or termination of lease contracts, substantial increase in operating costs, 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

Key Financial Data of the Company's 2023 audited Consolidated Annual Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Profit and loss statement (IFRS, audited)

HUF '000'	2022	2023
Net sales revenue	10 293 076	8 188 976
Other operating income	2 883 212	6 286 138
Changes in internally generated inventories	-123 863	0
Capitalized value of internally generated assets	0	0
Raw materials, consumables and other external charges	-2 068 658	-2 059 744
Staff costs	-678 665	-914 678
Other operating expenditure	-471 290	-871 916
EBITDA	9 833 812	10 628 776
Depreciation and impairment	-87 428	-253 629
Operating P/L	9 746 384	10 375 147
Financial income	651 165	703 846
Financial expenses	-335 871	-487 136
P/L before tax	10 061 678	10 591 857
Actual tax expenditure	-28 123	-24 121
P/L after tax	10 033 555	10 567 736

Key balance sheet items (IFRS, audited)

HUF '000'	2022.12.31.	2022.12.31.
Investment property	71 881 004	78 581 204
<i>Long-term assets, total</i>	<i>72 456 398</i>	<i>79 549 117</i>
Cash and cash equivalents	8 130 618	6 336 433
<i>Current assets, total</i>	<i>9 227 922</i>	<i>6 891 423</i>
Assets, total	81 684 320	86 440 540
Subscribed capital	2 870 244	2 870 244
<i>Equity allocated to the parent company, total:</i>	<i>55 515 392</i>	<i>62 274 173</i>
Financial liabilities	20 075 461	18 886 201
<i>Long-term liabilities, total</i>	<i>20 088 629</i>	<i>20 282 488</i>
Financial liabilities	1 446 747	1 446 747
<i>Current liabilities, total</i>	<i>6 080 299</i>	<i>3 883 879</i>
Liabilities and equity, total	81 684 320	86 440 540

IV. Summary, proposals and recommendation 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 2023 with the following main figures (data in thousand HUF):

Total assets	86 251 304
Equity	62 243 827
Sales revenue	8 092 506
Profit before taxes	10 566 927
Retained earnings	10 544 829

With regard to the applicable provisions of the SZIT Act, the Board of Directors proposes, to pay a dividend of HUF 2,961,306 thousand equivalent to 90% of the disposable profit for the current year that can be paid out as a dividend, based on the Audited Annual Financial Statements of the Parent Company, prepared in accordance with International Financial Reporting Standards (IFRS) for 2023. At the same time, the Board of Directors draws the attention of the Dear Shareholders that, in view of the ongoing and planned developments of the Company, the general meeting may decide not to pay dividends for the year 2023 for the purpose of creating reserves.

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 2023 with the following main figures (data in thousand HUF):

Total assets	86 440 540
Equity	62 274 173
Sales revenue	8 188 976
Profit before taxes	10 591 857
Retained earnings	10 567 736

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 2023, 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, 9 April, 2024

Dr. Anna Ungár
President of the Board of Directors

Annex

- Annual Report 2023 – Annual Financial Reports 2023
 - Annual Report 2023 – Annual Financial Report 2023 of the Parent Company (Audited Annual Financial Statements of the Parent Company prepared in accordance with the International Financial Reporting Standards (IFRS) for 2023 and Business (Management) Report)
 - Consolidated Annual Report 2023 – Consolidated Annual Financial Report 2023 (Audited Consolidated Annual Financial Statements of Budapesti Ingatlan Hasznosítási és Fejlesztési Nyrt. prepared in accordance with the International Financial Reporting Standards (IFRS) for 2023 and Consolidated Business (Management) Report)