



BUSINESS REPORT

on the activities of Graphisoft Park SE in 2015

In this business report, Graphisoft Park presents the progress made toward its goals in the following areas:

- Financial results for the year 2015,
- Utilization, occupancy,
- Development activities,
- Development potential,
- Financing,
- Other key issues,
- Forecast for the year 2016.

Financial results for the year 2015

Changes in the results for 2015 (“Results from ordinary activities”) compared to the 2014 bases occurred by the effects of the following main factors:

- **Revenue** (2015: 9,484 thousand euros; 2014: 8,473 thousand euros) rose by 1,011 thousand euros, or 12%. The growth in occupancy rate increased revenue by 7% and rental income coming from developments completed in the monument and the southern development areas in 2014 increased it by a further 5% (see details in the „Utilization, occupancy” and „Development activities” sections below).
- **Operating expense** (2015: 912 thousand euros; 2014: 931 thousand euros) did not change substantially compared to the previous year. Slight increase in employee related expense was offset by the decrease in property related expense and other operating expense.
- **Other income** (2015: 283 thousand euros; 2014: 203 thousand euros) net amount is 80 thousand euros higher than the base last year.
- **Depreciation** (2015: 4,194 thousand euros; 2014: 4,079 thousand euros) increased by 115 thousand euros, or 3% due to developments capitalized during the previous year (see details in the “Development activities” section).
- **EBITDA** (2015: 8,855 thousand euros; 2014: 7,745 thousand euros) grew by 1,110 thousand euros, or 14%, while **operating profit** (2015: 4,661 thousand euros; 2014: 3,666 thousand euros) rose by 995 thousand euros, or 27% compared to the previous year due to the factors mentioned above.



- **Net interest expense** (2015: 1,306 thousand euros; 2014: 1,286 thousand euros) increased by 20 thousand euros, or 2% due to the following factors. Even though the actual interest expense incurred fell by 110 thousand euros as a result of lower loan interest rates and loan liability, the interest payment of 94 thousand euros capitalized on construction in progress in the base period made interest payment accounted as expense decrease by 16 thousand euros. Interest income dropped by 36 thousand euros due to the lower interest rates on deposits and because of the depleting effect of last year's large developments on the cash reserves.
- **Exchange rate gain** (2015: 216 thousand euros; 2014: 222 thousand euros) worked out similarly favorably in both years. These gains are attributable mostly to cash reserves held partly in US dollars strengthening significantly against the euro in 2014 and 2015 (nearly 2 million USD; 135 thousand euros in 2015, 185 thousand euros in 2014 exchange rate gain not realized).
- **Income tax expense** (2015: 592 thousand euros; 2014: 199 thousand euros) is 393 thousand euros higher than in the previous year. The growth in revenue and profit before tax increased calculated corporate and local business tax by 130 thousand euros, while corporate income tax was lowered by a tax base decreasing item related to monument renovation by 263 thousand euros in 2014.
- **Net profit** (2015: 2,979 thousand euros; 2014: 2,403 thousand euros) rose by 576 thousand euros, that is 24% in 2015 compared to 2014 because of the following factors: (1) operating profit rose by 995 thousand euros, or 27% because of the growth in rentable area and occupancy rate, (2) financial results fell by 26 thousand euros, or 2% due to the increase in net interest expense, and finally (3) income tax expense was higher by 393 thousand euros than the base last year due to the higher tax base and the drop of a tax-base decreasing item.

Due to the effect of the demolition of older buildings in relation to the new developments began in 2015 (see "Utilization, occupancy" section) a one-time 482 thousand euros write-off had to be accounted for, therefore besides our profit from ordinary activities at 2,979 thousand euros the total net profit is 2,497 thousand euros including this one-off item.



Utilization, occupancy

Occupancy rate of Graphisoft Park’s rentable office, laboratory and educational space developed as follows (at the end of the quarter):

Period:	2014 Q1	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2	2015 Q3	2015 Q4
Occupancy (%):	80%	81%	90%	95%	96%	96%	97%	98%
Area (m2):	46,800	46,800	55,000	55,000	55,000	55,000	53,000	53,000

As demonstrated in the table above, rentable space in the Park grew by 8,200 m2 (5,200 m2 renovated and repurposed for education historical buildings and 3,000 m2 dormitory), while occupancy rose from 80% to 95% in 2014.

Occupancy of Graphisoft Park’s 53,000 m2 rentable office, laboratory and educational space reached 98% by the end of 2015 and stays at an effective 100% from the beginning of 2016 due to leases concluded for remaining vacant spaces. This means that until the delivery of the first phase of the new developments in the first quarter of 2017 (see details in the “Development activities” section below) there will be free rentable area only if any of current tenants decides not to extend their lease after expiration.

Development activities

The total area of Graphisoft Park is nearly 18 hectares covering the office park located in the core area, the campus formed in the monument area, and development areas north and south of these as well. Over the past 18 years 45,000 m2 of office and laboratory space have been developed and occupied on the core 8.5 hectares of Graphisoft Park. In the 2.4 hectares monument area directly adjacent to the core area from the west we have completed the renovation and repurposing of 7,000 m2 historical buildings into a state-of-the-art university campus since 2010. The 3,000 m2 dormitory building with 76 rooms constructed on the northeastern corner of the southern development area connects to and serves the same higher education function of the Park.

Until the end of 2014 altogether 55,000 m2 office, laboratory and educational space and underground parking for 1,250 cars were constructed on 11 hectares.

Graphisoft Park’s largest tenant renting over 10,000 m2 office space currently, SAP Hungary Kft. renewed its lease in April 2015, which was to expire in the end of 2016 originally. In relation to the extension of the lease period new developments began in 2015, which will result in the construction of 8,000 m2 new office space and underground parking for 300 cars until 2017 in several phases. Construction of a new wing of 5,500 m2 directly adjacent to SAP’s main building (marked S on the map below) has begun, which will allow a much more efficient placement of



the company than the current operation in multiple buildings. In addition to this another building with 2,500 m² floor space is under construction optimized for the needs of smaller companies and start-ups. With the new constructions as well as with the refurbishment of older sections we are committing to even more environmentally conscious and sustainable architectural solutions.

The new developments require the demolition of the N, L and K buildings with less economical uses of space under the current conditions. Buildings N and L were demolished through 2015 and building K will be demolished in 2016. Demolition and remodeling works temporarily reduce rentable space by 2,000 m² in the office park, therefore the net expansion is 6,000 m².

In the summary of all the above, at the end of the new developments expected in 2017, Graphisoft Park will have 61,000 m² office, laboratory and educational space as well as underground parking for 1,550 cars available for its tenants coupled with 4 restaurants and 6 snack and coffee shops in the Park.



The planned total cost of development activities - including the construction of about 8,000 m² new office space and a three level underground parking facility for 300 vehicles, and in addition the upgrading of the existing S building, with the necessary works for public utilities and landscaping - is approximately 18 million euros, out of which 1.1 million euros occurred in 2015.

Further investments in Graphisoft Park are focused on meeting the needs of tenants by remodeling and renovation of office space and by infrastructure development. These activities cost nearly 500 thousand euros in 2015, and are expected to cost 1 million euros in 2016.



Development potential

The 7 hectares of free development areas in Graphisoft Park (the southern development area, the northern development area and parts of the monument area) allow for the development of a combined total of 70,000 m² leasable office space.

In the southern and northern development areas we carried out the demolition of those structures that are not protected landmarks and the planned archeological excavations have been completed on roughly half of the southern development area. Land development costs amounted to 3.2 million euros to date.

No further preparatory work or development will take place in the northern development area until the clean-up projects planned by the Capital City Gas Works are finished.

The main risk factors and limitations associated with these areas remain as follows:

- residual environmental hazard from the prior gasification activity,
- regulations protecting landmark buildings limit the land's usability,
- potential flood risk due to the location on the Danube waterfront, which is to be reckoned with for the increasing water level fluctuation, despite the old Gasworks rampart protecting the area even during the historical high floods in 2013.

Financing

We have executed a loan agreement with Erste Bank Hungary Zrt. in December, 2015 for a 16.5 million EUR credit facility with 10 years maturity to finance the ongoing development in the core area (see the "Development activities" section for details). In accordance with the loan agreement Erste Bank shall make available a 4 billion HUF credit facility within Pillar I of the second phase of the National Bank of Hungary's Funding for Growth Scheme and another 5 million EUR market rate credit facility to Graphisoft Park (16.5 million EUR maximum altogether). The loan agreement is complemented by hedging agreements to cover exchange and interest rate risks (cross currency interest rate swap (CCRIS) for the HUF based loan and interest rate swap (IRS) for the EUR based loan).



Other key issues

Realization of the educational function

In order to further strengthen Graphisoft Park’s “science park” features we have concluded an agreement with the Aquincum Institute of Technology (AIT) to create and run international higher education functions in the Park. AIT does this in close cooperation with the Faculty of Electrical Engineering and Informatics of the Budapest University of Technology and Economics (BME) operating as an independent contractor, running a specialized program of that institution.



The constituents of AIT’s student body come from the most excellent Universities of the United States on their study abroad semester. AIT provides high-level education in small classes for selected students from BME as well, for whom tuition is waived. The personal relations developing with the North American students may prove to be invaluable assets for their later careers. AIT’s curriculum uniquely blends IT education in line with Graphisoft Park’s professional orientation with business studies. This is complemented by courses highlighting the riches of Hungarian culture (language, literature, film, music and architecture) tailored for the needs of the international students.

AIT was launched with a summer pilot program in 2010 concluding three years of preparation. The curriculum was finalized after gathering the feedbacks from students and faculty and drawing the conclusions from the pilot program. 10 semesters have been concluded since the pilot program, with 140 students in 2015. To this date a total of 50 North American universities and colleges have sent students to participate in AIT’s program and recognized its BME accredited credits. The most well-known universities among these are Harvard, Yale, MIT, Princeton, Brown, Cornell, Columbia, Dartmouth, UPenn, Rochester and Tufts (including all the prestigious schools of the Ivy League), and some of the famous colleges, such as Williams, Carleton, Harvey Mudd and Pomona. A significant proportion of the students remain in Hungary after the spring semesters for a 1 or 2 months internship with the best Hungarian IT companies (Graphisoft, Prezi, LogMeIn, Ustream, etc). These students return home with great



impressions and spread the news of the Hungarian IT industry in the world. Some of them are coming back to Hungary after obtaining their diplomas to gain permanent employment with these companies.



Since 2013 fall, AIT is operating in its permanent location, in one of the former industrial buildings renovated and repurposed exemplarily to suit educational functions.

With the renovation of another three buildings in the monument area in July, 2014, and with the International Business School's (IBS) moved in, the university campus in the former Gasworks with over 1,000 students is complete. The inauguration ceremony of the new educational facilities named "Aquincum Campus" took place on September 5, 2014, with the participation of István Tarlós, mayor of Budapest and Balázs Bús, mayor of the third district.





AIT-Budapest reached the income level needed for long term operation in 2014 from the tuition collected from North American students, and in 2015 it achieved a profit over 100 million forints after taxes. This supports the long term sustainability of the educational venture (of which Graphisoft Park owns a 10% share), making the Park an even more attractive destination.

Creating the Startup ecosystem

The demand for floor space generated by lively evolving Startup companies has already been a driving force behind Graphisoft Park's expansion. Graphisoft Park supports the startup companies by leasing office and laboratory space, and by providing pro bono business development advice from Gábor Bojár, founder of Graphisoft, Graphisoft Park and AIT-Budapest.



Forecast for the year 2016

Our forecast for 2016 results (from ordinary activities) is summarized in the following table, based on signed and valid lease agreements with the current occupancy rate of nearly 100% (see details in section “Utilization, occupancy”; the first two columns show 2014 and 2015 actual results):

(million euros)	2014 actual	2015 actual	2016 forecast
Rental revenue	8.47	9.48	9.5
Operating expense	-0.93	-0.91	-1.0
Other income, net	0.21	0.28	0.3
EBITDA	7.75	8.85	8.8
Depreciation	-4.08	-4.19	-4.2
Operating profit	3.67	4.66	4.6
Net interest expense	-1.29	-1.31	-0.9
Exchange rate difference	0.22	0.22	-
Profit before tax	2.60	3.57	3.7
Income tax expense	-0.20	-0.59	-0.6
Net profit	2.40	2.98	3.1

Change in results for 2016 compared to 2015 bases is the impact of the following main factors:

- Revenue is expected to stay at the 2015 level in 2016. Drop in revenue due to temporary decrease in rentable area (due to demolitions and remodeling) will be offset by additional revenues coming from the rise in occupancy rate (see “Utilization, occupancy” and “Development activities” sections for details).
- Combined total cost of operation is expected to increase by 100 thousand euros in 2016 compared to 2015. Employee related expense will grow by 100 thousand euros (the development program started in 2015 required expanding the engineering staff). Property related expense, other expense as well as depreciation and amortization are expected to stay at last year’s level.
- Due to the significant fall of interest rates for the existing loan obligations, as well as to the decreasing principal amount, the net interest expense is expected to decrease by 400 thousand euros. We are not making estimates for exchange rate differences for 2016, therefore our overall financial results forecast for the year 2016 is 200 thousand euros higher than the base, which contained the actual exchange rate gain of 200 thousand euros.
- Income tax expense is expected to remain at the 2015 level in 2016, considering that revenues and net profits are expected to come out nearly the same in these two years.



Due to all the above, for 2016 we are expecting 3.1 million euros net profit, 100 euros higher compared to 2015.

Due to the effect of the demolition of building K in relation to the developments that began in 2015 (see “Development activities” section) a one-time 100 thousand euros write-off have to be accounted for in 2016, therefore besides our forecast for net profit from ordinary activities at 3.1 million euros the total net profit is expected at 3 million euros including this one-off item.

Forecasts published here are based on the valid lease contracts in effect at the time of writing this report. At previous times actual revenues were repeatedly higher than forecasted, due to new leases concluded after the publication of reports. Despite this past pattern, it is not in our intention to change the forecasting methods. We will not try to predict the number or value of new lease contracts on one hand, as we will not account for the scenario of current tenants not prolonging their leases after expiration on the other, only in case they have given notice by the closing date of our business report.

It is our intention to maintain the price structure designed to match the high value services provided by Graphisoft Park in order to be able to preserve the level of service provided in the long run. As the current office rental market in Budapest is in the state of oversupply, very low prices can be observed at some places, with which Graphisoft Park has no intention to compete, losing some tenants for this is a probable but not likely factor to be reckoned with.

Other factors significantly affecting results are changes in the EUR/HUF exchange rate, the EURIBOR interest rate and the regulatory environment with special regards to the tax regulations. In this forecast we calculate with a 310 HUF/EUR exchange rate, EURIBOR of 0% and an inflation rate of 0% and unchanged legal and taxation environment.

Budapest, March 24, 2016

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