

# MANAGEMENT BOARD'S REPORT

ON THE ACTIVITIES OF GTC HUNGARY REAL ESTATE DEVELOPMENT PLTD. GROUP

IN THE SIX-MONTH PERIOD ENDED **30 JUNE 2022**



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## 1. Introduction

The GTC Hungary Real Estate Development Pltd. was registered in Budapest in September 1998. The company is part of the GTC Group, a leading real estate investor and developer focusing on Poland and capital cities in Eastern and Southern Europe: Belgrade, Budapest, Bucharest, Zagreb, and Sofia. The GTC Group was established in 1994.

Group's portfolio comprises: (i) completed commercial properties; (ii) commercial properties under construction; (iii) a commercial landbank intended for future development.

### GTC GROUP:

GTC Poland,  
GTC Hungary,  
GTC Serbia,  
GTC Romania,  
GTC Bulgaria,  
and GTC Croatia

As of 30 June 2022, the Group's property portfolio comprised the following properties:

- 8 office projects with a total combined commercial space of approximately 181 thousand sq m of GLA, an occupancy rate at 87% and a book value of EUR 544,037 which accounts for 85% of the Group's total property portfolio;
- 1 office project under construction with a total GLA of approximately 17 thousand sq m and a book value of EUR 36,500, which accounts for 6% of the Group's total property portfolio;
- investment landbank intended for future development with the book value of EUR 55,522, which accounts for 9% of the Group's total property portfolio.

8	181,000	1	landbank for
completed	sq m of	project	future
projects	GLA	under	development
		construction	

As of 30 June 2022, the book value of the Group's portfolio amounts to EUR 636,059 with: (i) the Group's completed investment properties account for 85% thereof; (ii) investment properties under construction for 6%; and (iii) an investment landbank intended for future development for 9%.

The GTC's headquarters are located in Budapest, at 22 Népfürdő. H-1138 Budapest.

Terms and abbreviations capitalized in this Management's Board Report shall have the following meanings unless the context indicates otherwise:

<b>the Company or GTC</b>	are to GTC Hungary Real Estate Development Pltd. (company registration number: 01-10-043913)
<b>the Group or the GTC Hungary</b>	are to GTC Hungary Real Estate Development Pltd. and its consolidated subsidiaries
<b>The GTC SA</b>	are to Globe Trade Centre S.A. (company registration number: 0000061500)
<b>The GTC Group</b>	are to Globe Trade Centre S.A. and its consolidated subsidiaries
<b>Shares</b>	are to the shares in GTC Hungary Real Estate Development Pltd., fully-owned by Globe Trade Centre S.A.
<b>Bonds</b>	are to the bonds issued by GTC Hungary Real Estate Development Pltd. and introduced to alternative trading market on Xbond and marked with the ISIN codes HU0000360102 and HU0000360284
<b>the Report</b>	are to the consolidated annual report prepared according to Act CXX of 2001 on the Capital Market and Prime Minister Decree no. 24/2008. (VIII. 15.)
<b>CEE</b>	are to the Group of countries that are within the region of Central and Eastern Europe (Hungary, Poland)
<b>SEE</b>	are to the Group of countries that are within the region of South-Eastern Europe (Bulgaria, Croatia, Romania, and Serbia)
<b>net rentable area, NRA”, or net leasable area, NLA</b>	are to the metric of the area of a given property as indicated by the property appraisal experts to prepare the relevant property valuations. With respect to commercial properties, the net leasable (rentable) area is all the office or retail leasable area of a property exclusive of non-leasable space, such as hallways, building foyers, and areas devoted to heating and air conditioning installations, elevators, and other utility areas. The specific methods of calculation of NRA may vary among particular properties, which is due to different methodologies and standards applicable in the various geographic markets on which the Group operates
<b>gross rentable area or gross</b>	are to the metric of all the office or retail leasable area of a property multiplied by add-on-factor

**leasable  
area, GLA**

**Commercial properties** are to properties with respect to which GTC derives revenue from rent and includes both office and retail properties

**In-place rent** are to rental income that was in place as of the reporting date. It includes headline rent from premises, income from parking, and other rental income

**EUR, €  
or euro** are to the single currency of the participating Member States in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time

**HUF** are to the lawful currency of Hungary

## **PRESENTATION OF FINANCIAL INFORMATION**

Unless indicated otherwise, the financial information presented in this Report was prepared according to International Financial Reporting Standards ("IFRS") as approved for use in the European Union.

All the financial data in this Report is presented in euro or HUF and expressed in thousands unless indicated otherwise.

Certain financial information in this Report was adjusted by rounding. As a result, certain numerical figures shown as totals in this Report may not be exact arithmetic aggregations of the figures that precede them.

## **PRESENTATION OF PROPERTY INFORMATION**

Information on properties is presented pro-rata to the Group's consolidation method in each of the properties. The properties' valuation is based on the value that the Group consolidates in its consolidated financial statements. The occupancy rate given for each of the markets is as of 30 June 2022.

## **FORWARD-LOOKING STATEMENTS**

This Report contains forward-looking statements relating to future expectations regarding the Group's business, financial condition, and results of operations. You can find these statements by looking for words such as "may", "will", "expect", "anticipate", "believe", "estimate", and similar words used in this Report. By their nature, forward-looking statements are subject to numerous assumptions, risks, and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by forward-looking statements. The Group cautions you not to place undue reliance on such statements, which speak only as of this Report's date.

The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that the Company or persons acting on

its behalf may issue. The Group does not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of this Report.

The Group discloses essential risk factors that could cause its actual results to differ materially from its expectations under Item 3. "Key risk factors", Item 5. "Operating and financial review", and elsewhere in this Report. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on behalf of the Group. When the Group indicates that an event, condition, or circumstance could or would have an adverse effect on the Group, it means to include effects upon its business, financial situation, and results of operations.

## **2. Selected financial data**

The following tables present the Group's selected historical financial data for the six-month period ended 30 June 2022 and 2021. The historical financial data should be read in conjunction with Item 5. "Operating and financial review" and the unaudited interim consolidated financial statements for the six-month period ended 30 June 2022 (including the notes thereto). The Group has derived the financial data presented in accordance with IFRS from the unaudited interim consolidated financial statements for the six-month period ended 30 June 2022.



	For the 6-month period ended 30 June	
	2022	2021
(in thousands)	EUR	EUR
<b>Consolidated Income Statement</b>		
Revenues from operations	19,155	18,391
Cost of operations	(4,616)	(4,028)
Gross margin from operations	14,539	14,363
Selling expenses	(191)	(116)
Administrative expenses	(1,754)	(1,099)
Profit from revaluation	22,851	7,510
Finance income/(expense), net	(1,828)	(5,282)
Profit for the period	29,308	12,075
<b>Consolidated Cash Flow Statement</b>		
Net cash from operating activities	16,267	8,092
Net cash from/(used in) investing activities	4,141	(663,306)
Net cash from/(used in) financing activities	(13,626)	691,232
Cash and cash equivalents at the end of the period	30,572	181,336
	<b>As at</b>	
	<b>30 June 2022</b>	<b>31 December 2021</b>
<b>Consolidated statement of financial position</b>		
Investment property (completed and under construction)	580,537	528,237
Investment property landbank	55,522	54,646
Cash and cash equivalents	30,572	15,338
Loan granted to related parties	653,767	595,480
Others	24,282	310,423
Total assets	1,344,680	1,504,124
Non-current liabilities	1,102,866	1,095,336
Current liabilities	19,363	13,106
Liabilities held for sale	-	172,058
Total Equity	222,451	223,624
Share capital	20,366	20,366

### 3. Key risk factors

#### RISKS SPECIFIC TO THE COMPANY / GROUP AND THEIR ACTIVITIES

The Group's business could be affected if the general economic conditions in the countries in which the Group operates continue or worsen.

A deterioration of the general economic conditions and the real estate market in the countries where the Group operates may adversely affect the willingness and ability of customers to

secure financing and purchase or lease property. If such demand falls, the Group may have to sell or let its projects at a loss or may not be able to sell or let its projects at all. A potential downturn in the general economic conditions and the real estate market, as a result of the outbreak of the COVID-19 pandemic or otherwise, may also lead to a drop in the market value of the Group's properties. The crisis on the financial markets may also adversely affect the Group's business in other ways, for example if tenants of the Group or the financial institutions that provide the Group with financing go bankrupt.

Any of these factors may have a material adverse effect on the Group's business, financial condition and results of operations.

### **RISK FACTORS RELATING TO THE GROUP'S BUSINESS**

#### **THE GROUP IS EXPOSED TO GENERAL COMMERCIAL PROPERTY RISKS INCLUDING ECONOMIC, DEMOGRAPHIC AND MARKET DEVELOPMENTS.**

The Group is exposed to all of the risks inherent in the business of owning, managing and using commercial real estate. Its performance may be adversely affected by an oversupply or a downturn in the commercial real estate market in general, or in the commercial real estate market in those cities in which the properties are located. For example, rental income and the market value for properties are generally affected by overall conditions in the EU and national and local economies, such as growth in gross domestic product ("GDP"), inflation and changes in interest rates. Changes in GDP may also impact employment levels, which in turn may affect tenants' ability to meet their rental obligations to the Group and impact the demand for premises generally. There can be no assurance that the Group will be able to maintain the current high occupancy rates, rental levels and lease terms of its properties in the future.

Other factors which could have an impact on the value of a property are more general in nature, such as national, regional or local economic conditions (including key business closures, industry slowdowns and unemployment rates, and any cyclical patterns relating to these trends); local property conditions from time to time (such as the balance between supply and demand); demographic factors; consumer confidence; consumer tastes and preferences; changes in governmental regulations including retrospective changes in building codes; planning/zoning or tax laws; potential environmental legislation or liabilities; the availability of refinancing; and changes in interest rate levels or yields required by investors in income producing commercial properties.

The demand for commercial properties and the ability of such properties to generate income and sustain market value is based on a number of factors, including:

- the economic and demographic environment;
- renovation work required on vacant units before they are re-let;
- tenant credit risk;
- workplace trends including growth rate, telecommuting and tenants' use of space sharing;
- local infrastructure and access to public transportation;
- the competitive environment; and



- tenant expectations of facility quality and upkeep.

Any deterioration in demand may result in increased pressure to offer new and renewing tenants financial and other incentives, which in turn may lead to an overall negative impact on net rental incomes as operating expenses increase. The occurrence of any one or a combination of the factors noted above may have a material adverse effect on the value of the properties, the potential to increase rent following rent reviews and the ability of the Group to sell its properties on favorable terms or at all. Any deterioration on net rental income, the value of the properties, or the Group's ability to sell its properties may have a material adverse effect on the Group's business, financial condition, and results of operations.

**THE GROUP MAY FAIL TO IMPLEMENT ITS STRATEGY AND THERE CAN BE NO ASSURANCE THAT THE SUCCESSFUL IMPLEMENTATION OF THE GROUP'S STRATEGY WOULD ACHIEVE ITS GOALS.**

The Group's strategy aims to achieve growth by: (i) expanding the Group's property portfolio by acquiring and improving yielding properties, supplemented by selected development projects in the Group's property portfolio; (ii) improving the efficiency of the Group's asset management activities to maximize operating performance; and (iii) selling the Group's non-core assets, which should allow the Group to reduce its financial leverage or obtain funds to be used for new investments.

The successful implementation of the Group's strategy may result in certain changes to the Group's property portfolio including, for example, the geographic composition of the Group's property portfolio, the ratio of the value of completed properties to the value of properties under construction, and the composition of the Group's property portfolio by asset classes (i.e. retail, office, residential and other properties). As a result, various measures of the Group's business and recurring cash flows derived from rental income may change. Moreover, no assurance can be given that the future performance of the Group's property portfolio or future investment strategies effected pursuant to the Group's strategy will enhance the value of its property portfolio and increase the Group's profitability.

The success of the Group's strategy relies, in part, on various assumptions and contingencies, including assumptions with respect to the level of profitability of any acquisition targets to be completed in the future and investment criteria that have been developed by the Group to achieve an expected level of returns on acquired properties. Such assumptions may prove to be partially or wholly incorrect and/or inaccurate.

Furthermore, the Group may fail to achieve its major goals due to internal and external factors of a regulatory, legal, financial, social or operational nature, some of which may be beyond the Group's control. In particular, volatile market conditions, a lack of capital resources needed for expansion and the changing price and availability of properties for sale in relevant markets may hinder or make it impossible for the Group to implement the core elements of its strategy. Moreover, expanding its presence in the asset management sector may be hindered or even impossible due to increasing competition from other real estate managers and investors in the real estate market.

As a consequence, the Group may be unable to implement its strategy in part or in full; it may decide to change, suspend or withdraw from its strategy or development program, and it may be unable to achieve, or it could encounter delays in achieving, the planned outcomes of its

strategy and development program. This could have a material adverse effect on the Group's business, financial condition and results of operations.

### **THE VALUATION OF THE GROUP'S PROPERTIES IS INHERENTLY UNCERTAIN, MAY BE INACCURATE AND IS SUBJECT TO FLUCTUATION**

The financial statements of the Group reflect property valuations performed by external valuation agents and are not guarantees of present or future value. One external valuation agent may reach a different conclusion to the conclusion that would be reached if a different external valuation agent were appraising the same property, and similarly the same external valuation agent may come to a different conclusion at different periods of time. The valuation of property is inherently subjective and uncertain as it is based different methodologies, forecasts and assumptions. Any change to valuation methodology may result in gains or losses in the Group's consolidated income statement, based on the change to each property's valuation compared with prior valuations.

The fair value of the Group's investment properties and undeveloped landbank is assessed semi-annually (as of 30 June and 31 December of each year) by independent certified appraisers based on discounted projected cash-flows from investment properties using discount rates applicable for the relevant local real estate market or, in case of certain properties, by reference to the sale value of comparable properties. Such valuations are reviewed internally and, if necessary, confirmed by the Group's independent certified appraiser and, verified by the Group's management.

There can be no assurance that the valuations of the Group's properties (undeveloped, in progress and completed) will reflect the actual sale prices or that the estimated yield and annual rental revenue of any property will be attained, or that such valuations will not be subject to be challenged by, among others, the regulatory authorities.

Additionally, the valuation and planning of projects is impacted by estimates of construction costs which are based on current prices and future price forecasts, whereas the actual costs involved may be different. Moreover, certain valuations are based on assumptions regarding future zoning decisions, which may prove to be inaccurate and, as a result, the Group may not be able to develop certain properties in accordance with its plans. This may adversely impact the valuation of such properties in the future.

If the forecasts and assumptions on which the valuations of the projects in the Group's portfolio are based prove to be inaccurate, the actual value of the projects in the Group's portfolio may differ materially from that stated in the valuation reports. Inaccurate valuations of the Group's properties and fluctuations in valuations may have a material adverse effect on the Group's business, financial condition and results of operations.

### **THE GROUP'S CONSOLIDATED BALANCE SHEET AND INCOME STATEMENT MAY BE SIGNIFICANTLY AFFECTED BY FLUCTUATIONS IN THE FAIR MARKET VALUE OF ITS PROPERTIES AS A RESULT OF REVALUATIONS**

The Group's income generating properties and properties under development are independently revalued on, at a minimum, a semi-annual basis in accordance with its accounting policy. In accordance with IAS 40 "Investment Property" as adopted by the European Union (the "EU"), any increase or decrease in the value of the Group's properties

are accounted for in accordance with fair value models recorded as a revaluation gain or loss in the Group's consolidated income statement for the period during which the revaluation occurred. Moreover, projects under construction which cannot be reliably valued at fair value are valued at historical cost decreased by impairment, if any. Such properties are tested for impairment on at least, a semi-annual basis. If the criteria for impairment is satisfied, a loss is recognized in the Group's consolidated income statement.

As a result, the Group can have significant non-cash revenue gains or losses from period to period depending on the changes in the fair value of its investment properties, whether or not such properties are sold. For instance, in some years, the Group may recognise revaluation losses and impairment in respect of certain assets and residential projects, and profits for the same assets and residential projects in other years.

If market conditions and the prices of comparable commercial real properties continue to be volatile, the Group may continue to experience significant revaluation gains or losses from the Group's existing properties in the future. If a substantial decrease in the fair market value of its properties occurs, over the longer term, this may have a material adverse effect on the Group's business, financial condition and results of operations.

### **THE GROUP'S BUSINESS IS DEPENDENT ON ITS ABILITY TO ACTIVELY MANAGE ITS ASSETS**

A core part of the Group's operations is the active management of its assets, which includes the management of vacancy rates and rent levels and the terms of executed lease agreements in the case of commercial properties, as well as achieving a desired tenant mix in the case of retail properties.

The active management of the Group's large-scale commercial properties is of particular importance. In addition to legal constraints, the Group's ability to reduce vacancies, renegotiate rents and create a desired tenant mix is partly subject to market-related factors. Some of these factors, such as the general economic environment, consumer confidence, inflation and interest rates, and others are beyond the Group's control. During periods of recession or downturns in the economy, or as a result of the uncertainty caused by the outbreak of the COVID-19 pandemic, it is more challenging for developers to attract new tenants and to retain existing ones, and competition between developers for each tenant is much stronger. If the Group is unable to create or capture demand for its properties by, for example, improving tenant services or motivating its external sales agents, it may not be able to reduce vacancy rates or renegotiate rents as desired. Moreover, tenants that experience liquidity shortages may not pay their rent on time over prolonged periods, but, despite that, the Group may not be able to replace them with different tenants with a better financial standing.

A prolonged period of higher vacancy rates could lower the rents tenants generally pay and make it more difficult to increase the average rent that the Group expects to charge. Higher vacancy rates would also increase the Group's overall operating costs, as the Group would have to cover expenses generated by empty properties or units. Any such decrease in rental revenue or increase in operating costs could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE GROUP'S GROWTH AND PROFITABILITY WILL DEPEND ON THE GROUP'S ABILITY TO IDENTIFY AND ACQUIRE ATTRACTIVE INCOME-GENERATING PROPERTIES, EFFICIENTLY MANAGE ITS PORTFOLIO AND DEVELOP SELECTED PROJECTS**

In accordance with its strategy, the Group intends to expand its business through: (i) the acquisition of yielding properties; (ii) asset management focused on realizing the full potential of, and maximizing returns from the Group's portfolio; and (iii) the development of selected projects. Accordingly, the growth and profitability of the Group and the success of its proposed business strategy depend, to a significant extent, on its continued ability to locate and acquire yielding properties at attractive prices and on favorable terms and conditions.

The ability to identify and secure accretive value-added acquisition opportunities involves uncertainties and risks, including the risk that the acquisition will not generate an income after the Group has carried out business, technical, environmental, accounting and legal examinations of the property or project. In addition, the Group also faces the risk that competitors may anticipate certain investment opportunities and compete for their acquisition. Additionally, any potential acquisition of properties may give rise to pre-acquisition costs which have to be paid by the Group even if the purchase of a property is not concluded. There can be no assurance that the Group will be able to: (i) identify and secure investments that satisfy its rate of return objective and realize their values; and (ii) acquire properties suitable for management in the future at attractive prices or on favorable terms and conditions.

As a part of its strategy, the Group intends to focus on maximizing the operating performance and efficiency of its income-generating commercial property portfolio. In pursuing this objective, the Group may expend considerable resources (including funds and management time) on managing properties that do not generate the expected returns and maintain certain ratios at the required level due to, for example, a decrease in demand for rental units or in rental levels which are not possible to anticipate.

The failure of the Group to identify and acquire suitable properties, effectively manage its properties portfolio and develop its projects could have a material adverse effect on the Group's business, financial condition and results of operations or prospects.

## **THE GROUP MIGHT NOT RECEIVE ADEQUATE INFORMATION ON RISKS RELATING TO, OR MIGHT MAKE ERRORS IN JUDGMENT REGARDING, FUTURE ACQUISITIONS OF REAL ESTATE**

The acquisition of real estate requires a precise analysis of the factors that create value, in particular the levels of future rental values and the potential for the improvement of the net operating income ("NOI"). Such an analysis is subject to a wide variety of factors as well as subjective assessments and is based on various assumptions. It is possible that the Group or its service providers will misjudge individual aspects of a given project when making acquisition decisions or that assessments on which the Group bases its decisions are inaccurate or based on assumptions that turn out to be incorrect. Such judgment errors may lead to an inaccurate analysis and valuation of the properties by the Group in connection with investment decisions that may only become apparent at a later stage and force the Group to revise its valuation amounts downwards. The Group can also not guarantee that the service provider it chooses to carry out its due diligence when purchasing property will identify all the risks related to the

property in question. In addition, the Group cannot guarantee that it will be able to have recourse to the seller of the property for not disclosing such risks. The Group may suffer financial loss if it is unable to learn of such risks. The occurrence of one or several of such risks could have a material adverse effect on the Group's business, financial condition and results of operations.

### **THE GROUP CANNOT GUARANTEE THAT IT WILL CONTINUE TO GENERATE RENTAL INCOME AT ASSUMED LEVELS**

Rental levels of the Group's properties are generally affected by overall conditions in the economies in which the Group operates, as well as the conditions of the Group's property portfolio itself (including future acquisitions of properties and the performance of the existing property portfolio), the development of the selected existing projects, their infrastructure condition, and vacancy rates. All of these elements are subject to various factors, many of which are outside of the Group's control.

In particular, due to increased competition and pressure on rents, amidst the general economic uncertainty arising from the COVID-19 pandemic, there can be no assurance that tenants will renew their leases on terms favorable to the Group at the end of their current tenancies or, if they do not, that new tenants of equivalent standing (or any new tenants) will be found to take-up replacement leases. Moreover, the Group's property portfolio includes numerous properties with non-fixed rents tied to the turnover of the tenants. Accordingly, if the turnover of such tenants declines, the rent payable by them will also decrease. For the year ended 31 December 2021, 3% of the GTC Group's revenues from rental activity came from properties on which the rents were tied to the turnover of the tenants. In addition, the Group has no influence on the operations of its tenants and may not be able to monitor on an ongoing basis the tenants' turnover in order to ensure that the level of turnover reflects the best and actual performance efforts of its tenants. Consequently, the amounts of rental income generated by the Group's office and retail properties in the past cannot be used to predict future rental income and there can be no assurance that rental income will develop positively in the future.

Additionally, the Group's rental income may also decrease as a result of asset disposals or acquisitions of properties with no or unsatisfactory income-generating capabilities. As part of its strategy, the Group is reorganizing its property portfolio and intends to acquire appreciating and value-added properties and to sell its non-core assets. The Group intends to integrate any newly acquired properties with the existing portfolio and rent them out in order to generate rental income for the Group. If these properties are not fully rented and/or the rental rates are agreed below the estimated rental values, the Group may not be able to realize its expected rates of return on the new acquisitions. Subdued or negative rental return and profits could have a material adverse effect on the Group's business, financial condition and results of operations.

### **ANY DECLINE IN OCCUPANCY LEVELS MAY HAVE A DIRECT IMPACT ON THE GROUP'S CASH FLOWS**

The Group invests in real estate and derives a significant proportion of its cash flows from rental payments received from the tenants occupying its properties. Any significant decline in occupancy levels in respect of the properties could have a material adverse effect on the ability

of the Group to generate cash flow at the earlier assumed values. Factors affecting occupancy may include, but are not limited to:

- demand for office and retail space;
- the age, quality and design of a property relative to comparable properties in the local market;
- the property's location relative to public transportation;
- the standard of maintenance and upkeep of a property, including any work done by third-party service providers; and
- perceptions regarding the safety, convenience and attractiveness of the property.

There can be no assurance that tenants will renew their leases on terms favourable to the Group at the end of their current tenancies or, if they do not, that new tenants of equivalent standing (or any new tenants) will be found to take-up replacement leases.

Any failure of the Group to sustain an adequate occupancy level would result in lower rental income from the management of the existing portfolio and in a lower valuation of the Group's properties and overall portfolio. Expected vacancies are reflected in the valuation reports as of 30 June 2022. If a significant portion of the Group's property portfolio remains vacant for a prolonged period of time, the fixed costs for maintaining such vacant spaces and the lack of rental income generated by such spaces could have a material adverse effect on the Group's business, financial condition and results of operations.

#### **THE GROUP MAY BE UNABLE TO FULLY RECOVER THE COSTS OF OPERATING THE PROPERTIES FROM THE TENANTS**

The majority of the Group's lease contracts are structured in a way that allows the Group to pass on certain of the costs related to the leased property to the tenant, including marketing costs, electricity costs on common space, real estate taxes, building insurance, and maintenance costs.

However, the Group is not able to pass on all such costs to the tenants, especially in a very competitive environment, where the Group has to offer attractive conditions and terms to be able to compete with other office buildings or has to improve conditions offered to attract new tenants to its retail projects. Deteriorating market conditions, increased competition and tenants' requirements may further limit the Group's ability to transfer such costs, in full or in part, to its tenants. The service charges of the Group's properties may increase due to a number of factors, including an increase in electricity costs or maintenance costs. Moreover, if vacancy rates increase, the Group must cover the portion of the service charge that is related to the vacant space. Some lease agreements provide for the maximum value combined rental rate and service charged to be paid by the tenant. In such cases, if the maintenance charges increase, the Group would be unable to pass on such increases to the tenants.



Any significant increases in property costs that cannot be compensated by increasing the level of costs passed on to its tenants may have an adverse effect on the Group's business, financial condition and results of operations.

#### **THE GROUP FACES COMPETITION FROM OTHER OWNERS, REAL ESTATE MANAGERS, AND DEVELOPERS OF COMMERCIAL REAL ESTATE**

The Group has faced and continues to face increased competition from other owners, local and international real estate managers and developers of commercial real estate. Such competition may affect the Group's ability to attract and retain tenants and may reduce the rents that the Group is able to charge. Such competing properties may have vacancy rates that are higher than the vacancy rates of the Group's properties, which could result in their owners being willing to rent their properties at lower rental rates than the Group would normally be prepared to offer but which the Group may have to match. Competition in the real estate market may also lead to increased marketing and development costs.

Given that the successful growth and profitability of the Group depends on: (i) the level of its vacancy rates; (ii) the increase and maintenance of occupancy on the best achievable market terms; (iii) the level of lease rent and rent collection; (iv) minimizing property maintenance costs; and (v) the acquisition of real estate at the lowest available prices, increased competition from other owners, real estate managers and developers of commercial real estate and surrounding factors could adversely affect the Group's business, financial condition and results of operations.

## **THE GROUP MAY BE SUBJECT TO SIGNIFICANT COMPETITION IN SEEKING INVESTMENTS AND MAY INCREASE THE PURCHASE PRICE OF PROPERTIES TO BE ACQUIRED**

The Group competes with a number of real estate companies and developers for properties, developments, contractors and customers. Some of the Group's competitors may be larger or have greater financial, technical and marketing resources than the Group and therefore the Group may not be able to compete successfully for investments or developments.

In addition, new acquisitions of existing properties at yields that the Group considers attractive may become difficult to complete for a number of factors that may be beyond the Group's control including, for example, increased competition. Accordingly, the implementation of the Group's strategy to make suitable investments in prime locations may be delayed or may not be possible.

Competition in the real estate market may also lead to a significant increase in prices for real estate available for sale, which could be potential acquisition targets for the Group. Each of these risks could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE GROUP MAY NOT BE ABLE TO SELL ITS PROPERTIES ON A TIMELY BASIS**

As part of its strategy, the Group sells from time to time its real-estate properties to recycle its equity and reinvest in new projects. The sale of a real estate project is usually a complex and lengthy process. There may be situations, however, when it would be beneficial for the Group to be able to sell one or more of its projects quickly. For example, the Group may wish to sell on short notice if it believes that market conditions are optimal or if it is approached by a party interested in purchasing a particular property on commercially attractive terms. The Group's ability to sell its property quickly may, however, be hindered by a number of factors beyond its control.

The Group's properties may constitute collateral established in favor of entities providing external financing, which may further restrict and/or delay their transferability if the lender's consent must first be obtained. Several of the Group's projects are also held through joint ventures with third parties and may, as a result, be subject to legal and/or contractual limitations on transferability, such as first refusal and co-sale rights, or a requirement to obtain joint approval for any such sale. Such limitations could adversely affect the Group's ability to complete a transaction and to generate cash flow as needed through the timely sale of its projects at favorable prices or to vary its property portfolio in response to economic or other conditions impacting the property value. It may be particularly difficult to sell real estate properties in an uncertain market environment caused by the COVID-19 pandemic. If the Group cannot sell a particular project within a reasonable time, it may not be able to generate the cash flow it may require to service ongoing operations or invest in new projects, or it may be unable to take advantage of favorable economic conditions or mitigate the impact of unfavorable economic conditions should they arise, which could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE GROUP'S PROPERTIES COULD SUFFER DAMAGE DUE TO UNDISCOVERED DEFECTS OR EXTERNAL INFLUENCES**

The Group's properties could suffer damage due to undiscovered or underestimated defects or from external influences (e.g., earthquakes, floods, landslides or mining damage). In addition to the significant health risks and related costs, the Group could also be required to pay for the removal and disposal of hazardous substances, as well as the related maintenance and restoration work, without the ability to pass those costs onto third parties. The occurrence of any such risk could have a material adverse effect on the Group's business, financial condition and results of operations.

If a given property is under renovation or undergoing modernization, there can be no assurance that any space that has not been pre-leased, can be let or otherwise marketed during or following the renovation or modernization phase on the appropriate terms and conditions. Such developments could have a material adverse effect on the Group's business, financial condition and results of operations.

## **FAILURE TO OBTAIN THE REQUIRED ZONING OR CONSTRUCTION PERMITS, OR ANY OTHER APPROVALS IN A TIMELY MANNER OR AT ALL MAY DELAY OR PREVENT THE DEVELOPMENT OF CERTAIN OF THE GROUP'S PROJECTS**

No assurances can be given that any permits, consents or approvals required from various government entities in connection with existing or new development projects will be obtained by the Group in a timely manner, or that they will be obtained at all, or that any current or future permits, consents or approvals will not be withdrawn. For example, as part of its operations, the Group, may occasionally purchase land that requires rezoning or a new or amended local spatial development plan or planning permission. The issuance of a required permission cannot be guaranteed, and the Group has encountered difficulties in the past in that respect.

If the Group cannot obtain the required approvals and permits in a timely manner or at all, its projects may be delayed or cancelled, which could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE GROUP MAY BE SUBJECT TO INCREASED COSTS OR PROJECT DELAYS OR CANCELLATIONS IF IT IS UNABLE TO HIRE GENERAL CONTRACTORS TO BUILD ITS PROJECTS ON COMMERCIALLY REASONABLE TERMS, OR AT ALL, OR IF THE GENERAL CONTRACTORS IT HIRES FAIL TO BUILD THE GROUP'S PROJECTS TO ACCEPTED STANDARDS, IN A TIMELY MANNER OR WITHIN BUDGET**

The Group outsources the construction of its projects to reputable general contractors and the successful construction of the Group's projects depends on its ability to hire general contractors to build its projects to accepted standards of quality and safety on commercially reasonable terms, within the limits of an agreed timeframe or an approved budget.

Accordingly, the Group's failure to hire general contractors on commercially reasonable terms could result in increased costs and a failure to hire general contractors at all could result in project delays or cancellations. The failure of general contractors to meet accepted standards of quality and safety or to complete the construction within an agreed timeframe or within an

approved budget may result in increased costs, project delays or claims against the Group. Additionally, such failure may damage the Group's reputation and affect the marketability of the completed properties. If the Group is unable to enter into contracting arrangements with quality general contractors or subcontractors on commercially reasonable terms, or their performance is substandard, this could have a material adverse effect on the Group's business, financial condition and results of operations.

The financial strength and liquidity of the Group's general contractors may be insufficient in the case of a severe downturn in the real estate market, which, in turn, could lead to their insolvency. Although most of the Group's subsidiaries' agreements with general contractors provide for the indemnification of the subsidiaries against any claims raised by sub-contractors engaged by such general contractors, there can be no assurance that such indemnification provisions will be fully effective, in particular if such indemnification is challenged in court or upon the insolvency of the general contractors. The Group requires general contractors to secure the performance of their obligations under their respective agreements through, for example, presenting bank guarantees. However, there can be no assurance that such guarantees will cover the entirety of costs and damages incurred by the Group in connection with the non-performance of agreements entered into with general contractors.

The Group's reliance on general contractors and subcontractors exposes it to risks associated with the poor performance of such contractors and their subcontractors and employees and construction defects. The Group may incur losses as a result of being required to engage contractors to repair defective work or pay damages to persons who have suffered losses as a result of such defective work. Furthermore, these losses and costs may not be covered by the Group's professional liability insurance, by the contractor or by any relevant subcontractor – in particular in the case of the architects engaged by the general contractors as both the scope of their liability and their financial strength is limited in comparison to the value of the Group's projects. If the performance of the Group's general contractors or subcontractors is substandard, this could have a material adverse effect on the Group's business, financial condition and results of operations.

#### **THE GROUP MAY FACE CLAIMS FOR DEFECTIVE CONSTRUCTION AND RISKS ASSOCIATED WITH ADVERSE PUBLICITY, WHICH COULD HAVE AN ADVERSE EFFECT ON ITS COMPETITIVE POSITION**

The construction, lease and sale of properties are subject to a risk of claims for defective construction, corrective or other works and associated adverse publicity. There can be no assurance that such claims will not be asserted against the Group in the future, or that such corrective or other works will not be necessary. Further, any claim brought against the Group, and the surrounding negative publicity concerning the quality of the Group's properties or projects, irrespective of whether the claim is successful, could also have a material adverse effect on how the Group's business, properties and projects are perceived by target customers, tenants or investors. This could negatively affect the Group's ability to market, lease and sell its properties and projects successfully in the future, which could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE CONSTRUCTION OF THE GROUP'S PROJECTS MAY BE DELAYED OR OTHERWISE NEGATIVELY AFFECTED BY FACTORS OVER WHICH THE GROUP HAS LIMITED OR NO CONTROL**

The construction of the Group's projects may be delayed or otherwise negatively affected by, among others, the following factors over which the Group has limited or no control:

- increased material, labor or other costs, which may make completion of the project uneconomical;
- acts of nature, such as harsh climate conditions, earthquakes and floods, that may damage or delay the construction of properties;
- industrial accidents, deterioration of ground conditions (for example, the presence of underground water) and potential liability under environmental laws and other laws related to, for example, ground contamination, archaeological findings or unexploded ordnance;
- acts of terrorism, riots, strikes or social unrest;
- building code violations or as yet undetected existing contamination, soil pollution, or construction materials that are determined to be harmful to health;
- changes in applicable laws, regulations, rules or standards that take effect after the commencement by the Group of the planning or construction of a project that result in the incurrence of costs by the Group or delays in the development of a project; and
- defective building methods or materials.

The inability to complete the construction of a project on schedule, within budget or at all for any of the above or other reasons may result in increased costs or cause the project to be delayed or cancelled, which could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE GROUP IS SUBJECT TO GENERAL DEVELOPMENT RISKS THAT MAY INCREASE COSTS AND/OR DELAY OR PREVENT THE DEVELOPMENT OF ITS PROJECTS**

Development of certain of the Group's projects has not yet begun and, as of the date of this Report, these projects do not generate any revenues. The successful development of these projects is an important factor for the Group's future success and involves a large number of highly variable factors which are complex and inherently subject to risk. Development risks to which the Group is sensitive include, among others:

- additional construction costs for a development project being incurred in excess of the amount originally agreed with the general contractor;
- liability to subcontractors related with bankruptcy of the general contractor;

- changes in existing legislation or the interpretation or application thereof (e.g. an increase of the rate of the goods and services tax, which impacts the demand for housing);
- actions of governmental and local authorities resulting in unforeseen changes in urban planning, zoning and architectural requirements;
- potential defects or restrictions in the legal title to plots of land or buildings acquired by the Group, or defects, qualifications or conditions related to approvals or other authorizations relating to plots of land held by the Group;
- the Group's potential inability to obtain financing on favourable terms or at all for individual projects or in the context of multiple projects being developed at the same time;
- potential liabilities relating to acquired land, properties or entities owning properties with respect to which the Group may have limited or no recourse;
- tenants' unwillingness to vacate a development site;
- obligations regarding the development of adjacent properties;
- inability to receive required zoning permissions for intended use;
- discrepancies between the planned area and the post-construction area of developments;
- obligations relating to the preservation and protection of the environment and the historic and cultural heritage of jurisdictions in which the Group conducts its operations, as well as other social obligations;
- COVID-19 pandemic associated development costs.

These factors, including factors over which the Group has little or no control, may increase costs, give rise to liabilities or otherwise create difficulties or obstacles to the development of the Group's projects. The inability to complete the construction of a property on schedule or at all for any of the above reasons may result in increased costs or cause the projects to be delayed or cancelled, which may have a material adverse effect on the Group's business, financial condition and results of operations.

**WITHOUT SUFFICIENT LOCAL INFRASTRUCTURE AND UTILITIES, THE CONSTRUCTION OF THE GROUP'S PROJECTS MAY BE DELAYED OR CANCELED, OR IT MAY BE UNABLE TO REALIZE THE FULL EXPECTED VALUE OF ITS COMPLETED PROJECTS**

The Group's projects can only be carried out if the sites on which they are located have access to the relevant technical infrastructure required by law (e.g. internal roads, utility connections, and fire prevention equipment and procedures). In cases where such sites do not have the necessary infrastructure, a use permit for the project may not be issued until such infrastructure



is assured. It is also possible that the relevant authorities may require the Group to develop the relevant infrastructure as a part of the works related to the project, which may have a significant impact on the costs of the construction works. The authorities may also demand that the investor develop technical infrastructure that is not required from the project's perspective but may be expected by the authorities as a contribution by the investor to the development of the local municipality.

In addition to the necessity of having adequate infrastructure during the construction process, the viability of the Group's projects, once completed, depends on the availability and sufficiency of the local infrastructure and utilities. In some cases, utilities, communications and logistics networks have not been adequately funded or maintained in recent decades and may be non-existent, obsolete or experience failures. To be sufficient, the existing local infrastructure and utilities may need to be improved, upgraded or replaced. As a consequence of this lack of maintenance, for example, the Group may from time to time experience shortages in the availability of energy and other utilities. There can be no assurance that improvements to the infrastructure in and around the Group's projects, or the infrastructure integrated into its projects, will be completed prior to the completion of the Group's projects or that any such improvement will be sufficient to support the Group's completed projects. This may have a material adverse effect on the Group's business, financial condition and results of operations.

#### **THE GROUP IS DEPENDENT ON A LIMITED NUMBER OF KEY MEMBERS OF ITS MANAGEMENT**

The Group's success depends on the activities and expertise of the members of its management. If the Group is unable to retain the key members of its management, this could result in a significant loss of expertise and could have a material adverse effect on the Group's business, financial condition, results of operations.

Additionally, in view of the increased spread of the COVID-19 pandemic, it cannot be excluded that key members of the Group's management will be subjected to quarantine and/or will test positive for COVID-19 pandemic what might result in such persons being subjected to isolation/hospitalization or not being able to devote sufficient time and resources to managing the Group's operations, and thus, could have an adverse effect on the Group's business, financial condition, and results of operations.

#### **SHORTAGES OF QUALIFIED EMPLOYEES AND OTHER SKILLED PROFESSIONALS COULD DELAY THE COMPLETION OF THE PROJECTS OF THE GROUP OR INCREASE ITS COSTS**

The Group relies on a skilled team of professionals, including its key management and project managers, mid-level managers, accountants and other financial professionals, in the development of its projects. The Group has in the past experienced delays in the completion of certain projects as a result of shortages of qualified employees and skilled professionals and, if the Group is unable to hire the necessary employees, staffing shortages may adversely affect its ability to adequately manage the completion of its projects and efficiently manage its assets or force it to pay increased salaries to attract skilled professionals or the necessary employees. Furthermore, the future success of the Group depends on its ability to hire senior personnel

such as managers with extensive experience in the identification, acquisition, financing, construction, marketing and management of development projects and investment properties. The failure by the Group to recruit and retain appropriate personnel may have a material adverse effect on the Group's business, financial condition and results of operations.

## **LEGAL AND REGULATORY RISKS**

### **CHANGES IN TAX LAWS OR THEIR INTERPRETATION COULD AFFECT THE GROUP'S FINANCIAL CONDITION AND THE CASH FLOWS AVAILABLE TO THE GROUP**

Tax regulations are complex and they are subject to frequent changes. The approach of the tax authorities in the countries in which the Group operates is not uniform or consistent and there are rather significant discrepancies between the judicial decisions issued by administrative courts in tax law matters. No assurance may be given that tax authorities will not employ a different interpretation of the tax laws which apply to the Group, and which may prove unfavorable to the Group. No assurance may be given that the specific individual tax interpretations already obtained and applied by the Group will not be changed or challenged. There is also a risk that once new tax law regulations are introduced, the Group companies will need to take actions to adjust to these laws, which may result in greater costs forced by circumstances related with complying with the changed or new regulations.

In light of the foregoing, there can be no assurance given that the tax authorities will not question the accuracy of tax reporting and tax payments made by the Group companies, in the scope of tax liabilities not barred by the statute of limitations, and that they will not determine the tax arrears of the Group companies, which may have a material adverse effect on the Group companies' business, financial standing, growth prospects or results of the Group.

### **THE GROUP MAY BE SUBJECT TO LEGAL DISPUTES AND RISKS**

The Group's business involves the acquisition, rental, sale and administration of properties, including under cooperation agreements that, as a matter of ordinary course of business, expose the Group to a certain degree of small-scale litigation and other legal proceedings. Legal disputes which, taken individually, are relatively immaterial, may be joined with disputes based on similar facts such that the aggregate exposure of the Group might become material to its business. Furthermore, the Group may face claims and may be held liable in connection with incidents occurring on its construction sites such as accidents, injuries or fatalities of its employees, employees of its contractors or other visitors on the sites.

It is standard practice in real estate transactions for the seller to make representations and warranties in the purchase agreement concerning certain features of the property. Typically, the assurances the seller gives regarding the property in the purchase agreement do not cover all of the risks or potential problems that can arise for the Group in connection with the purchase of property by the Group. The Group's possible rights of recourse towards the sellers of properties could fail for a variety of reasons, including due to the inability to establish that the persons in question knew or should have known about the defects, due to the expiration of the statute of limitations, due to the insolvency of the parties opposing the claim, or for other reasons. If this were to occur, the Group may suffer a financial loss.

The Group provides different types of guarantees when it leases real estate, especially with regard to legal title and the absence of defects in quality, as well as existing levels of hazardous contamination and the portfolio of leases. The same applies to the sale of real estate. Claims could be brought against the Group for breach of such guarantees and/or for the existence of defects of which the Group was not aware, but of which it should have been aware, when it concluded the transaction. The occurrence of one or several of the aforementioned risks could have a material adverse effect on the Group's business, financial condition and results of operations.

Conversely, when the Group disposes of its projects, it may be required to give certain representations, warranties and undertakings which, if breached, could result in liability to pay damages. As a consequence, the Group may become involved in disputes or litigation concerning such provisions and may be required to make payments to third parties, which may have a material adverse effect on the Group's business, financial condition and results of operations.

Moreover, if the Group's properties are subjected to legal claims by third parties and no resolution or agreement is reached, these claims can delay, for significant periods of time, planned actions of the Group. Such situations may include, for example, claims from third parties relating to plots of land where the Group has developed and completed a real estate asset which it then intends to sell, as well as claims from third parties relating to specific land plots the Group needs to acquire in order to complete a particular project (for example plots adjoining plots it owned as of the date of the delivery of this Report), which could delay the acquisition by the Group of such plots.

The occurrence of one or several of the aforementioned risks could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE GROUP MAY BE EXPOSED TO CERTAIN ENVIRONMENTAL LIABILITIES AND COMPLIANCE COSTS**

The Group is subject to environmental laws in CEE and SEE, pursuant to which it is required to conduct remedial action on sites contaminated with hazardous or toxic substances. Such laws often impose liability without regard to whether the owner of such site knew of, or was responsible for, the presence of such contaminating substances. In such circumstances, the owner's liability is generally not limited under such laws, and the costs of any required removal, investigation or remediation can be substantial. The presence of such substances on any of the Group's properties, or the liability for the failure to remedy contamination from such substances, could adversely affect the Group's ability to sell or let such property or to borrow funds using such property as collateral. In addition, the presence of hazardous or toxic substances on a property may prevent, delay or restrict the development or redevelopment of such property, which could have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE GROUP'S INSURANCE MAY BE INADEQUATE**

The Group's insurance policies may not cover it for all losses that may be suffered by the Group in the conduct of its business, and certain types of insurance are not available on commercially reasonable terms or at all.

As a result, the Group's insurance may not fully compensate it for losses associated with damage to its real estate properties. In addition, there are certain types of risks, generally of a catastrophic nature, such as floods, hurricanes, terrorism or acts of war that may be uninsurable or that are not economically insurable. Other factors may also result in insurance proceeds being insufficient to repair or replace a property if it is damaged or destroyed, such as inflation, changes in building codes and ordinances and environmental considerations. The Group may incur significant losses or damage to its properties or business for which it may not be compensated fully or at all. As a result, the Group may not have sufficient coverage against all losses that it may experience. Should an uninsured loss or a loss in excess of insured limits occur, the Group may lose capital invested in the affected developments as well as anticipated future revenues from such project. In addition, the Group may be liable to repair damage caused by uninsured risks. The Group could also remain liable for any debt or other financial obligation related to such damaged property. No assurance can be given that material losses in excess of insurance coverage limits will not occur in the future. Any uninsured losses or losses in excess of insured limits could have a material adverse effect on the Group's business, financial condition and results of operations.

## **RISK FACTORS RELATING TO THE GROUP'S FINANCIAL CONDITION**

### **THE GROUP'S LEVERAGE AND DEBT SERVICE OBLIGATIONS ARE MATERIAL AND MAY INCREASE, ADVERSELY AFFECTING ITS BUSINESS, FINANCIAL CONDITION, OR RESULTS OF OPERATIONS**

As of the date of this Report, the Group is leveraged and has significant debt service obligations. In addition, the Group may incur additional indebtedness in the future. The incurrence of additional indebtedness would increase the leverage-related risks described in this Report and may have a material adverse effect on the Group's business, financial condition and results of operations. The Group's leverage could have material consequences for investors, including, but not limited to, the following:

- increasing vulnerability to and simultaneously reducing flexibility to respond to downturns in the Group's business or general adverse economic and industry conditions, including adverse economic conditions in the jurisdictions in which the Group operates;
- limiting the Group's ability to obtain additional financing to fund future operations, capital expenditures, business opportunities, acquisitions and other general corporate purposes and increasing the cost of any future borrowings;
- forcing the Group to dispose of its properties in order to enable it to meet its financing obligations, including compliance with certain covenants under loan agreements;

- requiring the dedication of a substantial portion of the Group's cash flows from operations to the payment of the principal of and interest on its indebtedness, meaning that these cash flows will not be available to fund its operations, capital expenditures, acquisitions or other corporate purposes;
- limiting the Group's flexibility in planning for, or reacting to, changes in its business, the competitive environment and the real estate market; and
- placing the Group at a competitive disadvantage compared to its competitors that are not as highly leveraged.

Any of these or other consequences or events could have a material adverse effect on the Group's ability to satisfy its obligations.

### **THE GROUP MAY INCUR SUBSTANTIAL LOSSES IF IT FAILS TO MEET THE OBLIGATIONS AND REQUIREMENTS OF ITS DEBT FINANCING AND, FURTHERMORE, THE RESTRICTIONS IMPOSED BY ITS DEBT FINANCING MAY PREVENT IT FROM SELLING ITS PROJECTS**

In order to secure its loans, the Group has in the past and/or may in the future mortgage its assets, pledge participation interests in its subsidiaries, enter into guarantees and covenant to its creditors that it would not establish any further mortgages or pledges on its present and/or future assets without their consent (negative pledges provisions). In addition, the Group's loans contain restrictions on its ability to dispose of certain key assets, which in turn may be required in order to satisfy certain financial covenants. The Group could fail to make principal and/or interest payments due under the Group's loans or breach any of the covenants included in the loan agreements to which the Group has entered. In some cases, the Group may breach these covenants due to circumstances which may be beyond the control of the Group. These may include requirements to meet certain loan-to-value ratio, debt service coverage and working capital requirements. A breach of such covenants by the Group could result in the forfeiture of its mortgaged assets, the acceleration of its payment obligations, the acceleration of payment guarantees, trigger cross-default clauses or make future borrowing difficult or impossible. In these circumstances, the Group could also be forced in the long term to sell some of its assets to meet its loan obligations or the completion of its affected projects could be delayed or curtailed.

Any of the events described above could have a material adverse effect on the Group's business, financial condition and results of operations.

### **THE GROUP MIGHT BE UNABLE TO RENEW OR REFINANCE LOANS OR OTHER DEBT AS THEY MATURE OR MIGHT BE ABLE TO RENEW OR REFINANCE SUCH LOANS OR DEBT ONLY ON LESS FAVORABLE TERMS**

All of the Group's real estate developments have been financed through loans, which have been provided for a limited term. The Group may not be able to renew or refinance the remaining obligations in part or at all or may have to accept less favourable terms in respect of such refinancing. If the Group is unable to renew a loan or secure refinancing, the Group could be forced to sell one or more of its office properties in order to procure the necessary liquidity.

Additionally, if the Group is not able to renew certain loans, those properties which are financed through loans will become low leveraged and, as a consequence, will not be able to generate the expected returns on equity. Any combination of the above would have material adverse effects on the Group's business, cash flows, financial condition and results of operations.

### **THE GROUP IS EXPOSED TO FLUCTUATIONS IN FOREIGN CURRENCY EXCHANGE RATES**

The Group's financial statements are expressed in Euro and the Group's functional currency is the Euro. Moreover, the majority of the Group's revenues, specifically rent revenues, are expressed in Euro. However, certain of the Group's costs, such as certain construction costs, labour costs and remuneration for certain general contractors, are incurred in the local currency.

In making assumptions regarding the levels of equity required to implement its strategic objectives, the Group used Euro as the reference currency. Additionally, the majority of the investments that the Group plans to make as part of its business strategy are expressed in Euro. Therefore, no assurance can be given that the proceeds derived and expressed in HUF will suffice to meet the investment requirements of the Group's proposed acquisitions. While the Group may engage in currency hedging in an attempt to reduce the impact of currency fluctuations and the volatility of returns that may result from its exposure by, among other things, entering into derivatives transactions, obtaining debt financing denominated in Euro, as well as concluding agreements with contractors specifying remuneration expressed in Euro, there can be no assurance that such hedging will be fully effective or beneficial.

Moreover, given the fact that certain contractors of the Group engage in hedging arrangements with respect to their remuneration on the basis of, among other things, construction contracts, their flexibility to postpone certain phases of construction may be limited and may result in their financial distress. In addition, given that payments under most of the Group's commercial leases are expressed as the local currency equivalent of a Euro-denominated amount, some of the Group's tenants, specifically those leasing retail space, may face difficulties in meeting their payment obligations under such leases as they derive revenues in their respective local currencies. Consequently, any future material appreciation of the local currencies against the Euro could significantly decrease the Group's income in terms of the local currencies and could have a material adverse effect on the Group's business, financial condition and results of operations.

### **THE GROUP IS SUBJECT TO INTEREST RATE RISK**

The Group currently has and intends to incur certain indebtedness under existing debt facilities which is subject to variable interest rates. Interest rates are highly sensitive to many factors, including government monetary policies and domestic and international economic and political conditions, as well as other factors beyond the Group's control. The Group's exposure to interest risk and the extent to which the Group attempts to hedge such exposure vary significantly between the geographical markets in which the Group operates, but any changes in the relevant interest rates may increase the Group's costs of borrowing in relation to existing loans, thus impacting its profitability. The need to hedge interest rate risk is reviewed by the Group on a case by case basis, except for those projects in which the lenders require it to hedge



the relevant interest rate risk. Changes in interest rates may have a material adverse effect on the Group's business, financial condition, results of operations.

### **THE GROUP'S BUSINESS IS CAPITAL INTENSIVE, AND ADDITIONAL FINANCING MAY NOT BE AVAILABLE ON FAVOURABLE TERMS, ON A TIMELY BASIS OR AT ALL**

The Group requires substantial up-front expenditures for land acquisition, development construction and design costs. As a result, the Group requires substantial amounts of cash and construction financing from banks for its operations. The Group's capital needs depend on many factors, in particular on market conditions, which are beyond the Group's control. Should its capital needs differ significantly from those currently planned, the Group might require additional financing. In the case of difficulties in obtaining additional financing, the scale of the Group's growth and the pace of achievement of certain strategic objectives can be slower than originally assumed. It is not certain whether the Group will be able to obtain the required financing if needed or if such funds will be provided on conditions favorable to the Group.

In addition, construction loan agreements generally permit the drawdown of the loan funds against the achievement of predetermined construction and space leasing milestones or the sale of a specific number of flats. If the Group fails to achieve these milestones, the availability of the loan funds may be delayed, thereby causing a further delay in the construction schedule. Restrictions of or delays in the access to sources of external financing and conditions of such financing that are less favorable than assumed can have a material adverse effect on the Group's business, financial condition and results of operations.

### **RISK FACTORS RELATING TO THE MARKETS WHERE THE GROUP OPERATES**

#### **POLITICAL, ECONOMIC, AND LEGAL RISKS ASSOCIATED WITH COUNTRIES IN EMERGING MARKETS, INCLUDING CEE AND SEE COUNTRIES**

Investors in emerging and developing markets such as the regions of CEE and SEE, in which the Group operates, should be aware that these markets are subject to greater legal, economic, fiscal and political risks than mature markets and are subject to rapid and sometimes unpredictable change. As a result, investing in the securities of issuers with substantial operations in emerging or developing markets generally involves a higher degree of risk than investing in the securities of issuers with substantial operations in the countries of Western Europe or other similar jurisdictions.

Additionally, the governments of the developing countries in the CEE and SEE region may not have sufficient resources necessary to provide fiscal stimuli in response to the economic downturn caused by the outbreak of the COVID-19 pandemic on par with the levels implemented in more mature economies, which may delay or hinder any economic recovery following the impact of the COVID-19 pandemic.

The materialisation of any of the foregoing risks would have a material adverse effect on the Group's business, financial condition and results of operations.

## **THE LOCATIONS OF THE GROUP'S PROPERTIES ARE EXPOSED TO REGIONAL RISKS AND COULD LOSE SOME OF THEIR APPEAL**

The locations of each of the properties are influenced by macro-economic developments in the regions in which the Group operates, as well as being subject to specific local conditions in a given regional market. The Group's real estate portfolio focuses on commercial premises, which significantly exposes the Group to negative developments in those segments of the real estate market in the countries where the Group operates, including intensified competition or increased saturation.

Insolvencies, close-downs or moves of large companies or companies from individual or several sectors as a consequence of adverse developments or for other reasons could have a negative effect on the economic development of the location in question and, consequently, on the Group's portfolio as a whole. The Group has no control over such factors. Negative economic developments at one or more of the locations could reduce the Group's rental income or result in a loss of rent, which stem from a number of tenants being unable to pay their rent in full or in part, as well as cause a decline in the market value of the Group's properties, which may have a material adverse effect on the Group's business, financial condition and results of operations.

## **UNLAWFUL, SELECTIVE, OR ARBITRARY GOVERNMENT ACTIONS MAY IMPACT THE GROUP'S ABILITY TO SECURE THE AGREEMENTS, CONTRACTS, AND PERMITS REQUIRED FOR IT TO DEVELOP ITS PROJECTS**

Government authorities in the countries in which the Group operates have a high degree of discretion and may not be subject to supervision by other authorities, requirements to provide a hearing or prior notice or public scrutiny. Therefore, government authorities may exercise their discretion arbitrarily or selectively or in an unlawful manner and may be influenced by political or commercial considerations. The Group has faced administrative decisions in the past which forced it to unexpectedly change its investment plans (including limiting the scale of a project). Such discretion may have a material adverse effect on the Group's business, financial condition and results of operations.

## **4. Presentation of the Group**

### **4.1 General information about the Group**

The GTC Hungary Real Estate Development Pltd. Was registered in Budapest in September 1998. The company is part of the GTC Group, a leading real estate investor and developer focusing on Poland and capital cities in Eastern and Southern Europe: Belgrade, Budapest, Bucharest, Zagreb, and Sofia. The GTC Group was established in 1994.

Group's portfolio comprises: (i) completed commercial properties; (ii) commercial properties under construction; (iii) a commercial landbank intended for future development.

As of 30 June 2022, the Group's property portfolio comprised the following properties:

- **8 completed office projects** with a total combined commercial space of approximately 181 thousand sq m of GLA,
- **1 office** project **under construction** with a total GLA of approximately 17 thousand sq m; and
- **commercial landbank** designated for future development.

As of 30 June 2022, the book value of the Group's portfolio amounts to EUR 636,059 with: (i) the Group's completed investment properties account for 85% thereof; (ii) investment properties under construction for 6%; and (iii) an investment landbank intended for future development for 9%.

The GTC's headquarters are located in Budapest, at 22 Népfürdő.

## 4.2 Structure of the Group

The structure of GTC Hungary Real Estate Development Pltd. Capital Group as of 30 June 2022 is presented in the unaudited interim consolidated financial statements for the six-month period ended 30 June 2022 in Note 5 "Projects' description and basis of consolidation".

The following changes in the structure of the Group occurred in the six-month period ended 30 June 2022:

- acquisition of Glamp d.o.o. Beograd,
- sale of Office Planet Kft.,
- sale of GTC BBC d.o.o.,
- sale of Atlas Centar d.o.o. Beograd,
- sale of Demo Invest d.o.o. Novi Beograd,
- sale of GTC Business Park d.o.o. Beograd,
- sale of GTC Medjunarodni Razvoj Nekretnina d.o.o. Beograd.

## 4.3 The GTC Group's and the Group's Strategy

The GTC Group's and the Group's objective is to create value from an active management of a growing commercial real estate portfolio, supplemented by acquisitions and selected development activities; and

The GTC Group and the Group aims to create and maximize shareholder value by continually adapting to changes in the markets in which it operates while maintaining the maximum performance of its core portfolio of assets, always taking into consideration the Group's prudent financing policy.

The Group implements the following elements, among others, to achieve its strategic objectives:

### Achievement of continued portfolio and platform growth

One of the Group's primary strategic goals is the continued increase of the income-generating portfolio through acquisition of yielding properties, while completing prime development projects on already-owned or acquired land plots. Also, to have value-add acquisitions that provide tangible potential through re-letting, improvement in occupancy and rental upside as well as the realization of redevelopment potential. The Group will continue to convert ongoing development projects and land reserves into income-generating properties and the sale of non-core assets to unlock equity for new investments and acquisitions and increase the return on invested equity. The Group intends to develop its pipeline in accordance with its environmental and sustainability principles. The Group will carefully consider and evaluate attractive investment opportunities, which meet the investment criteria of the Group while taking into consideration the prevailing market yields and the Group's investment criteria targets. The Group is well-positioned to benefit from (i) the exceptionally high yield spread in the current low-interest rate environment, allowing for highly accretive growth, (ii) the future growth potential if the macro environment improves, (iii) a selective approach by lenders that operate in the region, which limits competition from other potential purchasers, and limited offer of high-class office and retail space in some markets, which results in increased demand for renting space in "Class A" properties. The GTC Group's acquisition strategy includes the acquisition of income generating office and retail assets that have cash generation ability (upon acquisition or shortly after) and demonstrate the potential for growth of net operating income, through re-leasing, optimizing occupancy, rental rates, and/or redevelopment and the potential to increase return on equity through active asset management.

### Optimization of operating and financial performance

The Group is committed to improving the efficiency of asset management activities and maximizing operating performance. This is achieved through active management of the income-generating property portfolio to achieve and maintain cost efficiency, to improve rental income and occupancy, and to diversify tenant risk by retaining a high-quality tenant base. The Group's financial management strategies include further optimizing administrative and platform costs through organizational streamlining and optimization of costs of finance through deleveraging, planning and resource allocation, and through continuous refinancing at improved terms to increase the recurring return on equity, always taking into consideration the Group's prudent financing policy.

## Strategic disposal of mature assets

The Group may sell certain of its mature assets from its portfolio (i.e., completed commercial properties that generate a stable flow of rental income and have reached their long-term value in the Group's view). Moreover, following the acquisition of existing income-generating properties and increasing their value, the Group may also sell such properties. In furtherance of this strategic objective, and based on the prevailing market conditions and GTC Group's strict criteria, the GTC Group in 2021 signed preliminary sale agreement and sold in Q1 2022 the office portfolio located in Belgrade, Serbia including 11 office buildings above their book value.

## Continued successful project delivery

The Group is committed to developing high-quality commercial projects, with focus on the delivery of major projects in the next two to three years. The Group's goal is to continue to build track record of delivery of projects (a) on time, (b) on budget and (c) at a quality that meets tenants' demand and also continue to adhere to all relevant environmental aspects and standards in the construction of developments (for example, continuing to develop Leadership in Energy and Environmental Design ("LEED") certified buildings). The Group is a real estate investor and developer and adjusts its development activities to market conditions. The management board believes that this approach allows the Group to better respond to the changing conditions of the real estate market and focus on more active and efficient asset management of its existing as well as its expanding portfolio.

The development of projects, which at the date of the Report were in the construction stage or the pre-construction stage, is an important value driver.

Currently, the Group has one office project consisting of 17 thousand sq m of office space under construction:

- GTC X - an office building in Belgrade, Serbia.

As of 30 June 2022, projects under construction represent approximately 6% of the Group's portfolio value.

The Group hold a number of landplots allowing for further development of commercial space. Currently, another four projects are in pipeline:

- Szeremi Gate - an office building in Budapest, Hungary;
- Twins - an office building in Budapest, Hungary;
- Center Point III - an office building in Budapest, Hungary;
- GTC Future - an office building in Budapest, Hungary.

The Group's rich commercial landbank designated for future development allows us to extend the planned projects in areas where there will be demand for commercial properties.

## **Maintaining a balanced mix of investments and adapting to changes in the real estate markets**

The GTC Group intends to continue its real estate management and development activities, characterized by macroeconomic stability, continued GDP growth, and investor and tenant demand. The Group believes that some other markets in which it operates also offer long-term growth potential due to their relatively underdeveloped real estate markets and relatively illiquid markets. Further investments in these markets will be explored on an opportunistic basis with strict risk-adjusted return criteria. Simultaneously, specific performance requirements will be imposed on all assets in the Group's portfolio.

## **Maintaining sustainability measures (ESG - Environmental, social, and governance)**

In 2015, the GTC Group adopted the first iteration of its ESG policy. The GTC Group undertook to develop properties in an environmentally responsible and resource-efficient manner throughout a building's lifecycle: from planning to design, construction, operation, maintenance, renovation, and demolition. The Group made a commitment that all its existing projects where possible and all new projects are assessed by sustainability certification schemes such as DGNB, BREEAM or LEED.

In 2020, GTC Group implemented a policy of ESG reporting based on the Global Reporting Initiative's Sustainability Reporting Standards (GRI), designed to be used by organizations to self-report on their impact on the economy, the environment, and/or society. The GTC Group engaged an external consultant to help in the process of selection of measures to report on that formed the basis of its ESG report for 2020.

The guiding principles of the GTC Group's evolving ESG policy are:

- promoting a sustainable approach towards real estate development and management;
- contributing to environmental protection and the development of local communities in which the Group operates;
- pursuing a sustainable business model that allows the GTC Group to achieve its business objectives without placing an excessive burden on the environment;
- actively managing the GTC Group's assets to continually improve environmental performance, quality and resilience; and
- encouraging proactive contributions from all employees, tenants, customers and stakeholders of the Group to meeting all objectives in compliance with the policy.

The GTC Group recognizes that the responsible management of urban areas is vital to achieving sustainable construction and development at industry level in the long-term. The Group seeks to use modern technological solutions in construction and modern architecture so as to reduce the negative environmental impact of the daily operation of entire communities. By implementing investments in a responsible manner, revitalizing post-industrial areas, and providing high-quality buildings. The GTC Group believes it can continue to make a positive impact on:

- reducing energy consumption in cities;
- improving the efficiency of water consumption;



- reducing the consumption of non-renewable resources;
- reducing the level of pollution; and
- preserving green areas.

Sustainability and environmental and social responsibility continue to be a priority for the Group. The GTC Group delivers modern buildings, equipped with technology solutions that meet the strict BREEAM or LEED criteria. The GTC Group's ESG policy aims to allow the Group to increase its market share, improve financial results and reduce operational risk all while making a positive contribution to the environment and society.

Additionally, the GTC Group subscribes to all 17 Sustainable Development Goals ("SDGs") as defined by the United Nations for the period 2015 - 2030, as well as the 2015 Paris Agreement within the United Nations Framework Convention on Climate Change. The GTC Group is at all times cognizant of the SDGs in operating its business.

The GTC Group is also a member of key industry initiatives, such as, the European Public Real Estate Association ("EPRA"). By participating in task groups with leading developers, consultants, engineers and manufacturers the GTC Group gains practical insights into innovative solutions for effective, environmentally friendly property management and access to information on upcoming legislation and the regional transposition of EU law.

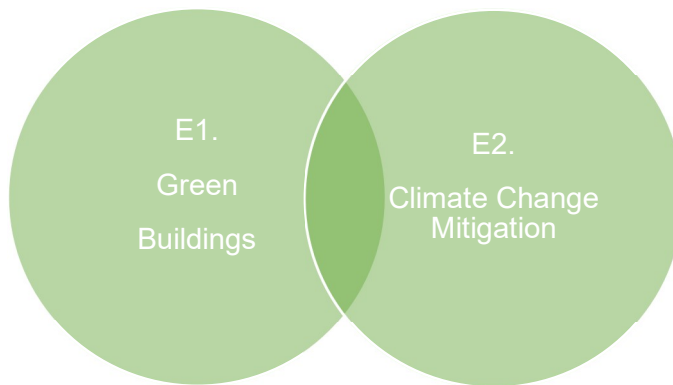
The GTC Group acknowledges the importance of its real estate footprint to society and the environment, and the benefits of maintaining and operating of an efficient and high-quality portfolio.

## ESG Policy Pillars

Environmental issues, including climate issues, are an important area of the GTC Group management. They are included in our ESG Policy which base on 3 pillars and 8 focus areas:

<p><b>ENVIRONMENT:</b> CONCERN FOR THE ENVIRONMENT</p> <p>” We are reduce our environmental footprint. We deliver and manage green-certified buildings (saving energy and resources, lowering carbon emissions). We contribute to circular economy.</p> <p><b>FOCUS AREAS OF THE PILLAR:</b></p> <ul style="list-style-type: none"> <li>E.1. Green Buildings</li> <li>E.2. Climate Change Mitigation</li> </ul>	<p><b>SOCIAL:</b> EMPOWERMENT, RESPECT AND DIVERSITY</p> <p>” We deliver office and retail space where our tenants can grow. We care about the employees who are our biggest asset. We are a good neighbour, investing in local communities.</p> <p><b>FOCUS AREAS OF THE PILLAR:</b></p> <ul style="list-style-type: none"> <li>S.1. Tenants</li> <li>S.2. People</li> <li>S.3. Communities</li> </ul>	<p><b>GOVERNANCE :</b> BEST GOVERNANCE PRACTICES</p> <p>” We act ethically and assure compliance of all our operations. We implement processes minimising ESG-related risks. We lead open and honest communication with all our stakeholders.</p> <p><b>FOCUS AREAS OF THE PILLAR:</b></p> <ul style="list-style-type: none"> <li>G.1. Compliance</li> <li>G.2. Risk Management</li> <li>G.3. Transparency</li> </ul>
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### Pillar I. Focus on Environmental issues ( E )



**Our main focus with regard to lowering the impact on the environment are:**

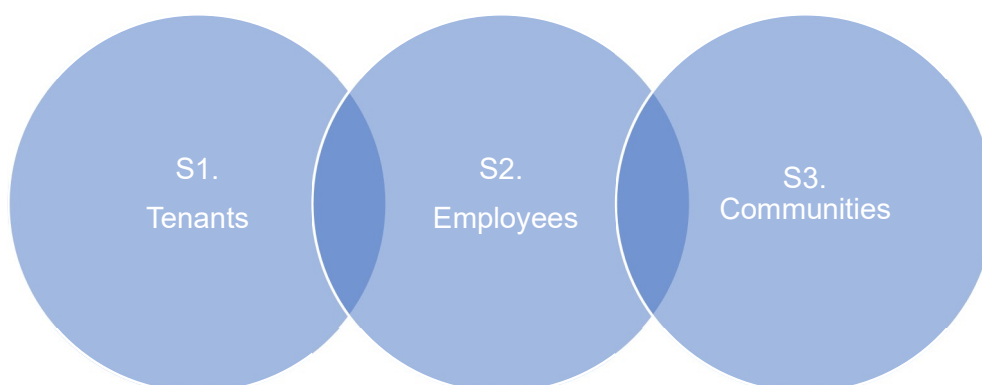
### **E1. Green Buildings**

- Delivering sustainable buildings that operate with a reduced impact on the climate, use green energy and substantially fewer natural resources (like water), and focus on well-being of tenants,
- Reduction of our carbon footprint lever by thorough analysis of way to limits CO2 emission and development of proper low emission strategy,
- Conduct our business in a closed-loop system that minimises waste and resource consumption,
- Developing processes as a result of which sustainability of our portfolio is confirmed by relevant green certificates (LEED, BREEAM, DGNB and WELL),
- Contribution to circular economy through refurbishment, minimizing waste and making the most of resources.

### **E2. Climate Change Mitigation**

- Developing new buildings, acquire and manage assets with focus on protecting the natural environment,
- Improving energy efficiency and lower carbon emissions in our buildings.

## Pillar II Focus of Social Issues ( S )



**Our main focus with regard to our social issues are:**

### **S1. Our Tenants**

- Loyalty through a professional approach,
- Direct and effective cooperation through tenant relationship between leasing teams and tenants to resolve any arising issue and meet their current needs;
- Coordination by our asset management teams; the activities of other departments and/or external suppliers when they are involved in tenant-related activities. We cooperate with lawyers, public institutions, insurance companies, contractors, etc. acting on behalf of our tenants;
- Involving tenants through cooperation and raising awareness how to achieve meaningful results on the properties' impact on environmental and social issues.

### **S2. Our Employees:**

- Creating a stable employment conditions in terms of respecting employees rights, adequate remuneration and benefits;
- Creating a good working atmosphere based on mutual trust and respect;
- Maintaining a rigorous approach and compliance to occupational health and safety;
- Employee's development through training and participation in industry events;
- Employee's involvement in social activities such as sports events and charity;
- Confirming, through our actions, that we are a reliable and competitive employer.

### **S3. Local Communities:**

Our main focus with regard to execute investments in a responsible manner taking in the account local community's concern through revitalization of post-industrial areas, and providing high-quality buildings, where we can make an impact on:

- building sustainable and accessible city spaces through our assets and local infrastructure;
- taking care of stimulating social growth and answering local needs in the neighbourhood where are our properties are located.

### **Pillar III. Focus on Governance Issues ( G )**



**Our main focus with regard to governance issues are:**

#### **G1. Compliance**

- Continuously working with the highest business ethics in a pro-active and open manner;
- The operations of GTC should always be made within the frame of good practices;
- Zero tolerance for any forms of corruption, fraud, anti-competitive and monopoly behaviour;
- Considering legal compliance in every decision about our investments, developments, management practices and other processes;
- Maintaining very good relations with our partners based on mutual trust.

#### **G2. Risk management**

- Conducting all the operations to assure sustained profitability of our business;

- Identify key risk factors and effective ways to mitigate risks before they materialise;
- Annually revise the risk management framework, and update our business procedures;
- First and foremost, we constantly raise our employees' awareness of the importance of risk management and encourage them to actively report risky situations and threats related to environment, social and governance issues in their daily business work.

ESG risks, including climate risks, challenges and trends in this area, company goals and progress in the implementation of major ESG initiatives – are discussed at least once a year at the meetings of the management board and the supervisory board.

The process of raising social and environmental awareness and ESG knowledge of the executives and employees of our organization, developing and monitoring the implementation of the Policy is coordinated by the management board, with the support and assistance of local technical teams.

Additionally, in August 2022, the management board of GTC announces strategy expansion. Potential new sectors identified to be considered for investment as part of the new strategy include:

1. investment in innovation and technology parks;
2. investment in renewable energy facilities;
3. investment in development of PRS assets (private rented sector property - residential).

## 4.4 Business overview

The Group's core business is geared towards commercial real estate, with a clear focus on creating value from active management of a growing real estate portfolio in Budapest supplemented by selected development activities. As of 30 June 2022, the book value of the Group's investment property amounted to EUR 636,059. The Group's investment properties include income generating assets (completed properties), projects under construction and commercial landbank.

### INVESTMENT PORTFOLIO

As of 30 June 2022, the Group manages completed commercial properties with a combined gross rentable area of approximately 181 thousand sq m, including 8 office projects which constituted 85% of the overall portfolio.

The Group's office buildings provide convenient space, flexible interiors, and a comfortable working environment. They are located in the heart of business districts and in proximity to the most important transport routes, including international airports. All projects have earned the

trust of a significant number of multinational corporations and other prestigious institutions, including Exxon Mobil, Budapest Bank, IBM, Huawei Technologies, Honeywell and others.

## PROJECTS UNDER CONSTRUCTION

As of 30 June 2022, the Group had one office building classified as an investment under construction with a book value of EUR 36,500, which constituted 6% of the Group's overall portfolio.

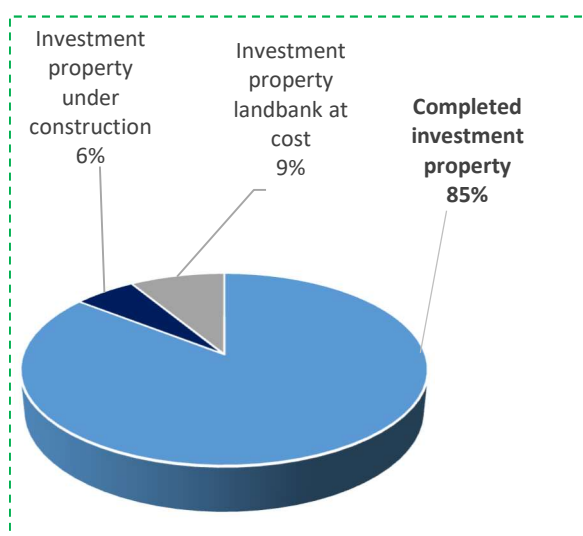
## INVESTMENT PROPERTY LANDBANK

As of 30 June 2022, the Group had land classified as an investment property landbank designated for the future development of EUR 55,522, which constituted 9% of the Group's overall portfolio (by value).

The Group's rich investment property landbank designated for future development allows us to extend the planned projects in areas where there will be demand for commercial properties.

### 4.4.1 Overview of the investment portfolio

The Group's strategy focuses on creating value from active management of a growing real estate portfolio. The Group has a presence in Budapest and Belgrade. The Group focused on commercial assets, mainly office buildings and office parks. The Groups investment properties include income generating assets (completed properties), projects under construction and investment property landbank.



#### 4.4.1.1 Overview of income generating portfolio

##### Office portfolio in Budapest

The Group's total gross rentable area in Hungary comprises 181 thousand sq m in eight office projects located in Budapest. The occupancy rate was 87%. The average duration of leases was 4.4 years at the period-end, and the applied equivalent yield (range) was 5.7%-9.8%. The average rental rate generated by the office portfolio in Hungary was 16.7 EUR/sq m/month. The book value of the Group's office portfolio in Budapest amounted to €544,037 as of 30 June 2022, as compared to €425,337 as of 31 December 2021. This increase is attributable mainly to the completion of Pillar, office building.

The following table lists the Group's office properties located in Hungary:

Property	Location	GTC's share (%)	Total gross rentable area (sq m)	Year of completion
Center Point I	Budapest	100%	19,400	2004
Center Point II	Budapest	100%	21,500	2006
Duna Tower	Budapest	100%	31,300	2006
GTC Metro	Budapest	100%	16,200	2010
Vaci 173-177 ( GTC Future) <sup>1</sup>	Budapest	100%	6,400	-
Vaci Greens D <sup>2</sup>	Budapest	100%	15,600	2018
Univerzum <sup>2</sup>	Budapest	100%	41,800	2017/2020
Pillar	Budapest	100%	29,100	2022
<b>Total</b>			<b>181,300</b>	

<sup>1</sup>Property acquired as landbank for future development, with a small office building located on the plot

<sup>2</sup> Acquired in 2021

## 4.4.1.2 Overview of properties under construction

As of 30 June 2022, the Group had office project with a total gross rentable area of 17 thousand sq m and a book value of EUR 36,500.

The following table lists the Group's properties under construction:

Property	Segment	Location	GTC's share	Total gross leasable area (sq m)	Expected completion
GTC X	office	Belgrade, Serbia	100%	16,800	Q3 2022
<b>Total</b>				<b>16,800</b>	

## 4.4.1.3 Overview of investment property landbank

Management has conducted a thorough, asset by asset, review of the whole portfolio, in parallel to its decision to focus on Group's new developments efforts, solely on the strongest



markets and, whilst supporting only the projects in its portfolio, which give the strongest mid-term upside potential, while reducing. Concurrently, the Management decided to reduce the cash allocation towards projects that has a longer-term investment horizon. The above-implied re-assessment of some of GTC's landbank projects development timetable and rescheduling them to a later stage or designating them for sale.

Additionally, in some cases, in view due to the decline in consumption and deteriorating of purchasing power, the timetable for stabilization of in relevant catchment areas around certain completed and cash generating assets, the timeframe for stabilization of had to be re-assessed, and consequently expectations for stabilized income were deferred.

As of 30 June 2022, the Group had land classified as investment property landbank designated for future commercial development of EUR 55,522. This landbank, designated for future commercial development, includes projects on Group's focus for the coming years.

The Group's rich investment property landbank designated for future development allows us to extend the planned projects in areas where there will be demand for commercial properties.

## **5. Operating and financial review**

### **5.1 General factors affecting operating and financial results**

The economic crisis may slow down the general economy in Hungary. Such economic downturn in Hungary may result in reduced demand for property, growth of vacancy rates, and increased competition in the real estate market, which may adversely affect the Group's ability to sell or let its completed projects at their expected yields and rates of return. The reduced demand for property that, on the one hand, may result in a drop-in sales dynamic, and, on the other, an increase in vacancy rates and lower rent revenues from leased space, may significantly impact the results of operations of the Group. Specifically, the Group may be forced to change some of its investment plans. Additionally, the Group may not able to develop numerous plans.

The Group derives the majority of its revenue from operations from rental activities, including rental and service revenue. The amount the Group can charge for rent largely depends on the property's location and condition and is influenced by local market trends and the state of the Hungarian economy. The Group's revenue from rent is particularly affected by the delivery of new rent spaces, changes in vacancy rates and the Group's ability to implement rent increases. Rental income is also dependent upon the time of completion of the Group's development projects as well as on its ability to let such completed properties at favorable rent levels.

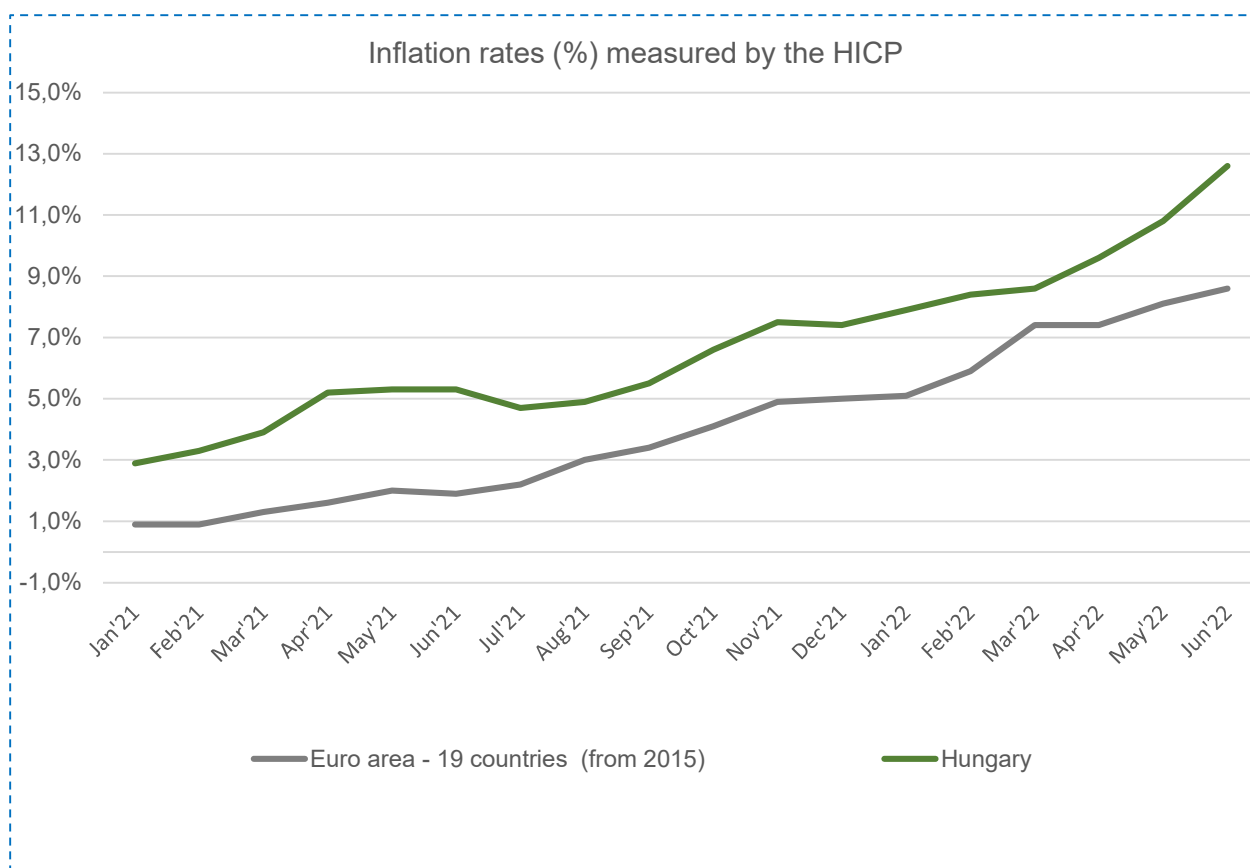
The Group's results of operations depend heavily on the fluctuation of the value of assets on the property markets. The Group revalues its investment properties at least twice per year. Any change in fair value of investment property is thereafter recognized as a gain or loss in the income statement. The following three significant factors influence the valuation of the Group's properties: (i) the cash flow arising from operational performance, (ii) the expected rental rates and (iii) the capitalization rates that result from the interest rates in the market and the risk premiums applied to the Group's business.

The cash flow arising from operational performance is primarily determined by current gross rental income per sq m, vacancy rate trends, total portfolio size, maintenance and administrative expenses, and operating expenses. Expected rental values are determined predominantly by expected development of the macroeconomic indicators as GDP growth, disposable income, etc. as well as micro conditions such as new developments in the immediate neighborhood, competition, etc. Capitalization rates are influenced by prevailing interest rates and risk premium. In the absence of other changes when capitalization rates increase, market value decreases and vice versa. Small changes in one or some of these factors can have a considerable effect on the fair value of the Group's investment properties and on the results of its operations. Moreover, the valuation of the Group's landbank additionally depends on among others the building rights and the expected timing of the projects. The value of landbank which is assessed using a comparative method is determined by referring to the market prices applied in transactions relating to similar properties.

Real estate development companies, such as the Group, usually finance their real estate projects with proceeds from bank loans, loans extended by their holding companies or the issuance of debt securities. The availability and cost of procuring financing are of material importance to the implementation of the Group's projects and for the Group's development prospects, as well as its ability to repay existing debt. Finally, the availability and cost of financing may impact the Group's development dynamics and the Group's net profit.

The COVID-19 outbreak in Europe has led governments to implement rescue packages, as well as supporting monetary policies by the European Central Bank to moderate the economic impact of the pandemic which have a direct or indirect impact on household consumption and thus consumer price indices. Increase of price of energy and services significantly influences the inflation rate.

According to Eurostat, the Euro area annual inflation was 8.6% in June 2022 and is expected to further grow. The graph below presents below the Harmonized Index of Consumer Prices (HICP) in countries which Group's operate and the Euro area. The main index reference period currently used is 2015.



Source: <https://ec.europa.eu/eurostat/web/hicp/overview>

## 5.2 Specific factors affecting financial and operating results

On 12 January 2022, GTC S.A. and the Company finalized sale of the entire share capital of Serbian subsidiaries: Atlas Centar d.o.o. Beograd ("Atlas Centar"), Demo Invest d.o.o. Novi Beograd ("Demo Invest"), GTC BBC d.o.o. ("BBC"), GTC Business Park d.o.o. Beograd ("Business Park") and GTC Medjunarodni Razvoj Nekretnina d.o.o. Beograd ("GTC MRN") (together "Serbian Disposal Group"), following the satisfaction of customary conditions precedent.

In March 2022, the Group has completed a Class A office building in Budapest, Hungary – Pillar.

On 5 April 2022, GTC Hungary acquired 70% of the shares in Glamp d.o.o. Beograd - which existing capital shares were fully held by GTC S.A. - after increase of share capital of the Company.

## **5.3** Statement of financial position

### **5.3.1** Key items of the statement of financial position

#### **INVESTMENT PROPERTY**

Investment properties that are owned by the Group comprise office and commercial space, including property under construction. Investment property can be split up into (i) completed investment property; (ii) investment property under construction; (iii) investment property landplots, and (iv) right of use.

#### **INVESTMENT IN ASSOCIATES AND JOINT VENTURES**

Investment in associates and joint ventures is accounted for pursuant to the equity method. Such investment is carried in the statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate and joint ventures.

#### **ASSETS HELD FOR SALE**

Assets held for sale comprise office or retail space and land plots that are designated for sale.

#### **BLOCKED DEPOSITS**

Short-term blocked, and long-term blocked deposits are restricted and can be used only for certain operating activities as determined by underlying contractual undertakings.

#### **DERIVATIVES**

Derivatives include hedge instruments held by the Group that mitigates the risk of interest and currency rate fluctuations. In relation to the instruments qualified as cash flow hedges, the portion of gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in other comprehensive income, and the ineffective portion (if any) is recognized in net profit or loss. The classification of hedges in the statement of the financial position depends on their maturity. For derivatives that do not qualify for hedge accounting, any gain or losses arising from changes in fair value are recorded directly in net profit and loss for the year. The fair value of interest rate swap contracts is determined by calculating the present value of cash flows of each leg of the transaction, taking into account several risk statistics.

## **5.3.2** Financial position as of 30 June 2022 compared to 31 December 2021

### **NON-CURRENT ASSETS**

The value of non-current assets on the date of 30 June 2022 was EUR **1,301,409**, out of which EUR 636,059 was investment properties (completed office buildings, investment properties under constructions and landbanks). This increase was mainly due to increase in the value of investment properties and increase in the value of granted to related parties.

The value of non-current assets as of 31 December 2021 was EUR 1,186,790, out of which EUR 582,883 was investment properties (completed office buildings, investment properties under constructions and landbanks) and EUR 595,480 was loan granted to related parties.

### **CURRENT ASSETS**

The value of the current assets on the date of 30 June 2022 was EUR **43,271**, out of which EUR 4,653 was trade receivables, EUR 2,854 was short-term deposits, EUR 1,616 was prepayments and deferred expenses, EUR 1,539 was derivatives, and EUR 30,572 was cash and cash equivalents. The value of derivatives increase is mainly attributable to the positive valuation of IRS instruments for bank loans.

The value of the current assets on the date of 31 December 2021 was EUR 30,250, out of which EUR 1,163 was trade receivables, EUR 9,218 was prepayments and deferred expenses, EUR 2,749 was short-term deposits and EUR 15,338 was cash and cash equivalents.

### **LIABILITIES**

The value of the liabilities on the date of 30 June 2022 was EUR 1,122,229 from which EUR 1,102,866 was long-term liabilities to related undertakings.

The value of the liabilities on the date of 31 December 2021 was EUR 1,280,500 from which EUR 1,095,336 was long-term liabilities to related undertakings and EUR 172,058 was liabilities held for sale.

### **PRESENTATION OF EQUITY, SHORT-LONG TERM LOANS**

The equity was EUR 222,451 on the date of 30 June 2022 and EUR 223,624 on the date of 31 December 2021.

The value of the long-term liabilities on the date of 30 June 2022 was EUR 1,031,328 from which EUR 381,973 was long-term part of Company's subsidiaries' bank loan financing and bonds and EUR 649,355 was long-term loans from shareholders.

The value of the long-term liabilities on the date of 31 December 2021 was EUR 1,036,089 from which EUR 394,816 was long-term part of Company's subsidiaries' bonds and bank loan financing and EUR 641,273 was long-term loans from shareholders.

The value of the short-term liabilities on the date of 30 June 2022 was EUR 19,363 from which EUR 5,622 was short-term part Company's subsidiaries' bonds and bank loan financing.

The value of the short-term liabilities on the date of 31 December 2021 was EUR 13,106 from which EUR 4,427 was short-term part Company's subsidiaries' bonds and bank loan financing.

## **5.4 Consolidated income statement**

### **5.4.1 Key items of the consolidated income statement**

#### **REVENUES FROM OPERATIONS**

Revenues from operations consist of:

- rental income, which consists of monthly rental payments paid by tenants of the Group's investment properties for the office or retail space rented by such tenants. Rental income is recognized as income over the lease term;
- service income, which comprises fees paid by the tenants of the Group's investment properties to cover the costs of the services provided by the Group in relation to their leases.

#### **COST OF OPERATIONS**

Costs of operations consist of:

- service costs, which consist of all the costs that are related to the management services provided to the individual tenants within the Group's properties — service costs should be covered by service income.

#### **GROSS MARGIN FROM OPERATIONS**

Gross margin from operations is equal to the revenues from operations less the cost of operations.

#### **SELLING EXPENSES**

Selling expenses include:

- brokerage and similar fees incurred to originate the lease or sale of space;
- marketing and advertising costs; and
- payroll and related expenses directly related to leasing or sales personnel.

#### **ADMINISTRATIVE EXPENSES**

Administration expenses include:

- payroll, management fees, and other expenses that include the salaries of all employees that are not directly involved in sales or rental activities;

- provisions made to account for the share-based incentive program that was granted to key personnel;
- costs related to the sale of investment properties;
- costs of an audit, legal and other advisors;
- office expenses;
- depreciation and amortization expenses include depreciation and amortization of the Group's property, plant, and equipment; and
- others.

## **PROFIT/(LOSS) FROM THE REVALUATION/IMPAIRMENT OF ASSETS**

Net valuation gains (loss) on investment property and investment properties under development reflect the change in the fair value of investment properties and investment property under development.

## **FINANCIAL INCOME/(EXPENSE), NET**

Financial income includes interest on loans granted to associate companies and interest on bank deposits.

Financial expenses include interest on borrowings and deferred debt rising expenses. Borrowing costs are expensed in the period in which they are incurred, except for those that are directly attributable to construction. In such a case, borrowing costs are capitalized as part of the cost of the asset. Borrowing costs include interest and foreign exchange differences.

Additionally, financial income or expenses include settlement of financial assets and gain or losses arising from changes in the fair value of derivatives that do not qualify for hedge accounting.

## **TAXATION**

Income tax on profit or loss for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantially enacted as of the balance sheet date and any adjustments to tax payable in respect of previous years. Generally, the Group disposes of property holding companies rather than the real estate itself, in part because, in certain jurisdictions, the sale and disposal of real estate are generally subject to real estate transfer tax and/or VAT.



## **5.4.2** Comparison of financial results for the six-month period ended 30 June 2022 with the result for the corresponding period of 2021

### **REVENUES FROM OPERATIONS**

The Group achieved revenues from operations of EUR 19,155 in the six-month period ended 30 June 2022 which amount comes solely from the Group domestic activity. The revenues from operations of the Group in the six-month period ended 30 June 2021 was EUR 18,391. Revenues from operations are driven by the rental income received that was 76% of revenues from operations in the six-month period ended 30 June 2022 and 77% revenues from operations in the six-month period ended 30 June 2021.

### **GROSS MARGIN**

The amount of the gross margin in the six-month period ended 30 June 2022 was EUR 14,539. The average statistical number of employees was 52 in the six-month period ended 30 June 2022.

The amount of the gross margin in the six-month period ended 30 June 2021 was EUR 14,363. The average statistical number of employees was 37 in the six-month period ended 30 June 2021.

### **PROFIT FROM REVALUATION OF ASSETS**

The profit from revaluation of assets was EUR 22,851 in the six-month period ended 30 June 2022 and was EUR 7,510 in the six-month period ended 30 June 2021. Net profit from the revaluation of the investment properties is driven mainly by progress on the leasing and development of GTC X (project under construction, Belgrade, Serbia) and completion of Pillar (Budapest, Hungary).

### **SELLING EXPENSES**

The amount of the selling expenses was EUR 191 in the six-month period ended 30 June 2022 and EUR 116 in the six-month period ended 30 June 2021.

### **ADMINISTRATIVE EXPENSES**

The amount of the administrative expenses was EUR 1,754 in the six-month period ended 30 June 2022 and EUR 1,099 in the six-month period ended 30 June 2021.

### **OPERATIONAL RESULTS**

The profit from continuing operation was EUR 34,606 and the amount of the EBITDA was EUR 10,493 in the six-month period ended 30 June 2022.

The profit from continuing operation was EUR 20,630 and the amount of the EBITDA was EUR 13,120 in the six-month period ended 30 June 2021.

## **FINANCE EXPENSES, NET**

The finance expenses, net in the six-month period ended 30 June 2022 was of EUR 1,828 and in the six-month period ended 30 June 2021 was cost of EUR 5,282.

## **PROFIT FOR THE PERIOD**

The profit for the period in the six-month period ended 30 June 2022 was EUR 29,308 and in the six-month period ended 30 June 2021 was EUR 12,075.

# **5.5 Consolidated cash flow statement**

## **5.5.1 Key items from consolidated cash flow statement**

### **NET CASH FROM (USED IN) OPERATING ACTIVITIES**

The operating cash flow is the cash that the Group generates through running its business and comprises cash inflows from rental activities.

### **NET CASH USED IN INVESTING ACTIVITIES**

The investing cash flow is the aggregate change in the Group's cash position resulting from any gains (or losses) from investments in the financial markets, investment properties, and operating subsidiaries, as well as changes resulting from amounts spent on investments in capital assets, such as property, plant, and equipment.

### **NET CASH FROM (USED IN) FINANCING ACTIVITIES**

The cash flow from (used in) financing activities accounts for, inter alia, the payment of cash dividends, receiving proceeds from loans or bonds, and issuing stock.

### **CASH AND CASH EQUIVALENTS**

Cash balance consists of cash in banks. Cash in banks may earn interest at floating rates based on daily bank deposit rates if those are positive. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates if those are positive. All cash is deposited in banks. All cash and cash equivalents are available for use by the Group.

## 5.5.2 Cash flow analysis

The table below presents an extract of the cash flow for the period of twelve months ended on 30 June 2022 and 2021:

	<u>Six-month period ended 30 June</u>	
	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>Net cash from operating activities</b>	<b>16,267</b>	<b>8,092</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditure on investments properties	(9,777)	(238,517)
Provided loan	(57,693)	(423,561)
Purchase of PPE	(206)	(272)
Interest received	1,394	-
Proceeds from disposal of subsidiary	70,809	-
Increase in short term investments	(440)	(956)
<b>Net cash from (used in) investing activities</b>	<b>4,141</b>	<b>(663,306)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from long-term borrowings	1,173	179,062
Repayment of long-term borrowings	(1,979)	(14,891)
Proceeds from related parties-loan	1,750	490,000
Interest paid	(14,570)	(2,773)
Borrowing cost	-	(866)
Proceeds from the issuance of shares	-	40,700
<b>Net cash from (used in) financing activities</b>	<b>(13,626)</b>	<b>691,232</b>
Effect of foreign currency translation	(322)	(48)
Net increase/(decrease) in cash and cash equivalents	6,460	35,970
<b>Cash and cash equivalents, at the beginning of the year</b>	<b>24,112</b>	<b>145,366</b>
<b>Cash and cash equivalents, at the end of the year</b>	<b>30,572</b>	<b>181,336</b>

The net cash from operating activities of the Group was EUR 16,267 in the six-month period ended 30 June 2022 and EUR 8,092 in the six-month period ended 30 June 2021. In contrast, the net cash from investing activities was EUR 4,141 in the six-month period ended 30 June 2022 and the net cash used in investing activities EUR 663,306 in the six-month period ended 30 June 2021. The net cash used in financing activities was EUR 13,626 in the six-month period ended 30 June 2022 and the net cash from financing activities EUR 691,232 in the six-month period ended 30 June 2021.

**GTC HUNGARY REAL ESTATE  
DEVELOPMENT PLTD.**

**Unaudited interim condensed  
consolidated financial statement**

**30 June 2022**



## **Report on review of the interim condensed consolidated financial information**

**To the shareholders of GTC Magyarország Zrt.**

### **Introduction**

We have reviewed the accompanying interim condensed consolidated financial statements of GTC Magyarország Zrt. ("the Company") and its subsidiaries (together the "Group") as at 30 June 2022, the related interim condensed consolidated statements of financial position, interim condensed consolidated income statement, the interim condensed consolidated statement of changes in equity, the interim condensed consolidated cash flow statement for the six-month period then ended.

Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, 'Review of interim financial information performed by the independent auditor of the entity'. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the EU.

Budapest, 22 September 2022

László Radványi  
Partner  
PricewaterhouseCoopers Könyvvizsgáló Kft.  
1055 Budapest, Bajcsy-Zsilinszky út 78.





## **GTC Hungary Real Estate Development Pltd.**

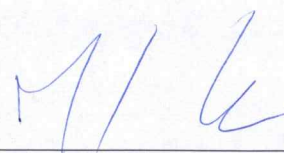
### **UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2022 TOGETHER WITH INDEPENDENT AUDITORS' REVIEW REPORT**

Prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union

Budapest, 22 September 2022



Ariel Alejandro Ferstman  
Member of the Management Board



Csaba Zovát  
Member of the Management Board



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**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

as of 30 June 2022  
(in thousands of Euro)

	Note	30 June 2022 (unaudited)	31 December 2021 (audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Properties, plant and equipment		3,610	3,469
Investment property	(7)	636,059	582,883
Blocked deposits		2,045	1,770
Loan granted to related parties	(12)	653,767	595,480
Derivatives		2,766	50
Deferred tax assets		3,162	3,138
		<b>1,301,409</b>	<b>1,186,790</b>
<b>Assets held for sale</b>	(5)	-	<b>287,084</b>
<b>Current assets</b>			
Trade receivables		4,653	1,163
Accrued income		1,252	670
Prepayments and deferred expenses		1,616	9,218
Derivatives		1,539	128
VAT receivable		601	897
Income tax receivable		184	87
Short-term blocked deposits	(8)	2,854	2,749
Cash and cash equivalents	(8)	30,572	15,338
		<b>43,271</b>	<b>30,250</b>
<b>TOTAL ASSETS</b>		<b>1,344,680</b>	<b>1,504,124</b>

The accompanying notes are an integral part of this interim condensed consolidated statement of financial position

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

as of 30 June 2022  
(in thousands of Euro)

	Note	30 June 2022 (unaudited)	31 December 2021 (audited)
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the Company</b>			
Share capital		20,366	20,366
Share premium		20,350	20,350
Foreign currency translation reserve		(6,209)	(6,209)
Cash-flow hedge reserve		(26,304)	(29,979)
Transaction reserve		(1,416)	61,332
Retained earnings		211,211	123,256
		<b>217,998</b>	<b>189,116</b>
Non-controlling interest	(10)	4,453	34,508
<b>Total Equity</b>		<b>222,451</b>	<b>223,624</b>
<b>Non-current liabilities</b>			
Non-current portion of long-term borrowing	(11)	381,973	394,816
Non-current portion of long-term loans from related parties	(12)	649,355	641,273
Lease liability		40	14
Derivatives		47,751	36,339
Deferred tax liabilities		20,500	20,097
Deposits from tenants		2,045	1,770
Provision for share-base payment	(9)	175	-
Other long-term liabilities		1,027	1,027
		<b>1,102,866</b>	<b>1,095,336</b>
<b>Liabilities held for sale</b>	(5)	-	<b>172,058</b>
<b>Current Liabilities</b>			
Trade and other payables		7,488	7,077
Deposits from tenants		79	45
Current portion of long-term borrowing	(11)	5,622	4,427
Current portion of lease liability		5	5
VAT payable		1,633	818
Income tax payables		3,383	535
Advances received		1,153	135
Derivatives		-	64
		<b>19,363</b>	<b>13,106</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,344,680</b>	<b>1,504,124</b>

The accompanying notes are an integral part of this interim condensed consolidated statement of financial position



**INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT**

for the six-month period ended 30 June 2022  
(in thousands of Euro)

	Note	Six-month period ended 30 June 2022 (unaudited)	Six-month period ended 30 June 2021 (unaudited)
Rental income		14,479	14,163
Management fees		286	-
Service charge revenue		4,390	4,228
Service charge costs		(4,616)	(4,028)
<b>Gross margin from operations</b>		<b>14,539</b>	<b>14,363</b>
Profit from revaluation		22,851	7,510
Loss on disposal of assets		(702)	-
Selling expenses		(191)	(116)
Administrative expenses		(1,754)	(1,099)
Other expense, net		(137)	(28)
<b>Profit from continuing operations before tax and finance cost</b>		<b>34,606</b>	<b>20,630</b>
Finance income		10,493	8,517
Finance cost		(12,321)	(13,799)
<b>Profit before tax</b>		<b>32,778</b>	<b>15,348</b>
Taxation	(13)	(3,470)	(3,273)
<b>Profit for the period</b>		<b>29,308</b>	<b>12,075</b>
<b>Attributable to:</b>			
Equity holders of the Company		26,623	10,941
Non-controlling interest	(10)	2,685	1,134
Gain/(Loss) on cash-flow hedge		4,039	(8,271)
Deferred tax income on cash-flow hedge		(364)	798
Net gain/(loss) on cash-flow hedge		3,675	(7,473)
<b>Total comprehensive profit for the period, net of tax</b>		<b>32,983</b>	<b>4,602</b>
<b>Attributable to:</b>			
Equity holders of the Company		30,298	3,407
Non-controlling interest		2,685	1,195

The accompanying notes are an integral part of this interim condensed consolidated income statement

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

for the six-month period ended 30 June 2022

(in thousands of Euro)

	Share capital	Share premium	Cash-flow hedge reserve	Foreign currency translation reserve	Transaction reserve	Retained earnings	Total	Non-controlling interest	Total
<b>Balances as of 1 January 2021</b> (audited)	<b>16</b>	<b>-</b>	<b>(5,952)</b>	<b>(6,209)</b>	<b>-</b>	<b>94,060</b>	<b>81,915</b>	<b>-</b>	<b>81,915</b>
Issuance of share capital	20,350	20,350	-	-	-	-	40,700	-	40,700
Other comprehensive income/(loss)	-	-	(7,534)	-	-	-	(7,534)	61	(7,473)
Profit for the period	-	-	-	-	-	10,941	10,941	1,134	12,075
Transaction reserve	-	-	-	-	61,332	-	61,332	-	61,332
Non-controlling interest	-	-	-	-	-	-	-	29,340	29,340
<b>Balances as of 30 June 2021</b> (unaudited)	<b>20,366</b>	<b>20,350</b>	<b>(13,486)</b>	<b>(6,209)</b>	<b>61,332</b>	<b>105,001</b>	<b>187,354</b>	<b>30,535</b>	<b>217,889</b>
<b>Balances as of 1 January 2022</b> (audited)	<b>20,366</b>	<b>20,350</b>	<b>(29,979)</b>	<b>(6,209)</b>	<b>61,332</b>	<b>123,256</b>	<b>189,116</b>	<b>34,508</b>	<b>223,624</b>
Other comprehensive income	-	-	3,675	-	-	-	3,675	-	3,675
Profit for the period	-	-	-	-	-	26,623	26,623	2,685	29,308
Capital restructuring (Note 6)	-	-	-	-	(61,332)	61,332	-	-	-
Transaction reserve (Note 6)	-	-	-	-	(1,416)	-	(1,416)	-	(1,416)
Non-controlling interest	-	-	-	-	-	-	-	(32,740)	(32,740)
<b>Balances as of 30 June 2022</b> (unaudited)	<b>20,366</b>	<b>20,350</b>	<b>(26,304)</b>	<b>(6,209)</b>	<b>(1,416)</b>	<b>211,211</b>	<b>217,998</b>	<b>4,453</b>	<b>222,451</b>

The accompanying notes are an integral part of this interim condensed consolidated statement of changes in equity



**INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

for the six-month ended 30 June 2022  
(in thousands of Euro)

	Note	Six-month period ended 30 June 2022 (unaudited)	Six-month period ended 30 June 2021 (unaudited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Profit before tax</b>		32,778	15,348
<i>Adjustments for</i>			
Depreciation		95	67
Gain from revaluation of assets		(22,176)	(7,510)
Provision for share-based payment loss		175	-
Other finance income/(expense)		262	(2,324)
Net interest expense		1,885	6,722
<b>Operating cash flow before working capital changes</b>		<b>13,019</b>	<b>12,303</b>
Changes in trade receivables		806	(935)
Changes in other current assets		1,909	1,522
Changes in trade and other payables		1,283	(585)
<b>Cash generated in operations</b>		<b>17,017</b>	<b>12,305</b>
Tax paid in the period		(750)	(4,213)
<b>Net cash from operating activities</b>		<b>16,267</b>	<b>8,092</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Expenditure on investments properties		(9,777)	(238,517)
Provided loan		(57,639)	(423,561)
Purchase of PPE		(206)	(272)
Interest received		1,394	-
Proceeds from disposal of subsidiary		70,809	-
Increase in short term investments		(440)	(956)
<b>Net cash from / (used in) investing activities</b>		<b>4,141</b>	<b>(663,306)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long-term borrowings		1,173	179,062
Repayment of long-term borrowings		(1,979)	(14,891)
Proceeds from related party loans		1,750	490,000
Interest paid		(14,570)	(2,773)
Borrowing cost		-	(866)
Proceeds from the issuance of shares		-	40,700
<b>Net cash from / (used in) financing activities</b>		<b>(13,626)</b>	<b>691,232</b>
Effect of foreign currency translation		(322)	(48)
<b>Net increase in cash and cash equivalents</b>		<b>6,460</b>	<b>35,970</b>
<b>Cash and cash equivalents, at beginning of year</b>	(8)	<b>24,112</b>	<b>145,366</b>
<b>Cash and cash equivalents at the end of the period</b>	(8)	<b>30,572</b>	<b>181,336</b>

The accompanying notes are an integral part of this interim condensed consolidated cash flow statement



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

for six-month period ended 30 June 2022  
(in thousands of Euro)

**1. PRINCIPAL ACTIVITIES**

GTC Hungary Real Estate Development Pltd. ("the Company", "GTC") and its subsidiaries ("Group") are real-estate corporation in Hungary. The Company was registered in Budapest on 11 September 1998. The Company's registered office is in Budapest, Hungary at 22 Népfürdő street, Tower "A" 15<sup>th</sup> floor. The Company owns through its subsidiaries commercial office companies in Budapest, Hungary and Belgrade, Serbia. The Group is developing, and leasing or selling space to commercial and individual tenants, through it's directly and indirectly owned subsidiaries (together "the Group").

The Group's business activity is development and rental of office. There is no seasonality in the business of the Group companies.

As of 30 June 2022, and 31 December 2021 the number of full-time equivalent personnel working in the Group companies was 52 and 43 respectively.

**2. SHAREHOLDERS STRUCTURE**

The Company is a wholly-owned subsidiary of Globe Trade Center S.A. ("GTC Poland", "GTC SA"), a company listed on the Warsaw Stock Exchange (WSE) and inward listed on Johannesburg stock exchange (JSE). The majority shareholder of the GTC SA is GTC Holding Zrt.

Share capital comprises the following as of June 30, 2022 and as of December 31, 2021:

Shares	Authorized in HUF	Issued and fully paid in EUR	Issued and fully paid in HUF	Nr of shares issued	Nominal value in HUF
Class "B" Common shares	7,107,400,000	20,385,042	7,107,400,000	7,107,400	1,000
Class "A" Preference shares	2,499,000	8,035	2,499,000	2,499	1,000
<b>Total</b>	<b>7,109,899,000</b>	<b>20,366,077</b>	<b>7,109,899,000</b>	<b>7,109,899</b>	

**3. BASIS OF PREPARATION**

The Group maintains its books of account in accordance with the accounting principles and practices employed by enterprises in Hungary as required by Hungarian Accounting Law (Act C/2000). The accompanying interim condensed consolidated financial statements reflect certain adjustments not reflected in the Group's books to present these statements in accordance with standards issued by the International Accounting Standards Board.

The interim condensed consolidated financial statements for the six months ended June 30, 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by EU.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2021.

The Group's Interim Condensed Consolidated Financial Statements are presented Euro, which is also GTC's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using the functional currency.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

for six-month period ended 30 June 2022  
(in thousands of Euro)

**3. BASIS OF PREPARATION (CONTINUED)**

The financial statements of those companies prepared in their functional currencies are included in the interim condensed consolidated financial statements by translation into Euro using appropriate exchange rates outlined in IAS 21. Assets and liabilities are translated at the period end exchange rate, while income and expenses are translated at average exchange rates for the period. All resulting exchange differences are classified in equity as "Foreign currency translation" without effecting earnings for the period.

These Interim Condensed Consolidated Financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of approval of these financial statements, no circumstances were identified which would indicate any threat to the Group' continuing as a going concern.

**4. SIGNIFICANT ACCOUNTING POLICIES AND NEW STANDARDS, INTERPRETATIONS AMENDMENTS ADOPTED BY THE GROUP**

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2021 (see Note 5 to the consolidated financial statements for 2021), except for the adoption of new standards effective as of 1 January 2022. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective. No changes to comparative data or error corrections were made.



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

for six-month period ended 30 June 2022  
(in thousands of Euro)

**5. PROJECTS' DESCRIPTION AND BASIS OF CONSOLIDATION**

The interim condensed consolidated financial statements include the financial statements of the Company, its subsidiaries ('Group') listed below as at the end of each period. In brackets, we mention the name of the project the subsidiary is part of as of 30 June 2022.

Name	Functional currency	30 June 2022	31 December 2021
1 Váci Út 81-85 Kft. (Center Point I + II + III)	EUR	100%	100%
2 Center Point I. Kft. (Center Point I)	EUR	100%	100%
3 Center Point II. Kft. (Center Point II + III)	EUR	100%	100%
4 Riverside Apartments Kft. <sup>(1)</sup>	HUF	100%	100%
5 GTC Metro Kft. (Metro)	EUR	100%	100%
6 Albertfalva Kft. (Szeremi Gate)	EUR	100%	100%
7 GTC Future Kft. (GTC Future)	EUR	100%	100%
8 Spiral I. Kft.	HUF	100%	100%
9 GTC White House Kft.	EUR	100%	100%
10 GTC Duna Kft. (Duna Tower)	EUR	100%	100%
11 VRK Tower Kft. (Twins)	EUR	100%	100%
12 Kompakt Land Kft. (Pillar)	EUR	100%	100%
13 Globe Office Investments Kft. (Váci Greens D)	EUR	100%	100%
14 GTC Investments Sp. z.o.o.	EUR	100%	100%
15 GTC Univerzum Projekt Ltd. (Universum)	EUR	100%	100%
16 Office Planet Kft. <sup>(2)</sup>	EUR	-	100%
17 GTC Business Park d.o.o. Beograd <sup>(2)</sup>	EUR	-	70%
18 GTC Medunarodni Razvoj Nekretnina d.o.o. Beograd <sup>(2)</sup>	EUR	-	70%
19 GTC BBC d.o.o. <sup>(2)</sup>	EUR	-	70%
20 Demo Invest d.o.o. <sup>(2)</sup>	EUR	-	70%
21 Atlas Centar d.o.o. <sup>(2)</sup>	EUR	-	70%
22 Glamp d.o.o. Beograd <sup>(3)</sup> (GTC X)	EUR	70%	-

<sup>(1)</sup> Under liquidation

<sup>(2)</sup> Sold

<sup>(3)</sup> Acquired

All inter-company balances and transactions are eliminated on consolidation.

**6. EVENTS IN THE PERIOD**

On 12 January 2022, GTC S.A. and the Company finalized sale of the entire share capital of Serbian subsidiaries: Atlas Centar d.o.o. Beograd ("Atlas Centar"), Demo Invest d.o.o. Novi Beograd ("Demo Invest"), GTC BBC d.o.o. ("BBC"), GTC Business Park d.o.o. Beograd ("Business Park") and GTC Medjunarodni Razvoj Nekretnina d.o.o. Beograd ("GTC MRN") (together "Serbian Disposal Group"), following the satisfaction of customary conditions precedent.

On 5 April 2022, GTC Hungary acquired 70% of the shares in Glamp d.o.o. Beograd - which existing capital shares were fully held by GTC S.A. - after increase of share capital of the Company.

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for six-month period ended 30 June 2022  
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**7. INVESTMENT PROPERTY**

The Investment Properties are office space owned by the Group, including property under construction.

The movements in investment property were as follows:

	<b>Period ended 30 June 2022</b>	<b>Year ended 31 December 2021</b>
<b>Fair value as of 1 January</b>	<b>582,883</b>	<b>319,683</b>
Purchase of completed assets and land	20,121	497,512
Capitalized expenditure	9,875	42,602
Reduction of lease income (SIC 15)	(44)	(140)
Adjustment to fair value, net	22,851	13,210
Borrowing cost capitalized	373	1,900
Transfer to Property, Plant and Equipment	-	(1,000)
Transfer to Asset held for Sale	-	(287,084)
<b>Fair value as of period end</b>	<b>636,059</b>	<b>582,883</b>

The Investment properties can be split up as follows:

	<b>Period ended 30 June 2022</b>	<b>Year ended 31 December 2021</b>
Completed investment properties at fair value	544,037	425,337
Investment property under construction at fair value	36,500	102,900
Investment property landbank at cost	55,522	54,646
<b>Total</b>	<b>636,059</b>	<b>582,883</b>

The valuations had been determined on a market value basis in accordance with the RICS valuation Standards. The valuations for investment properties were performed by Jones Lang LaSalle (JLL) accredited independent valuers with a recognized and relevant professional qualification and with recent experience in the location and category of the investment property being valued.

Management is constantly monitoring its assets and believes that the value of assets as at 30 June 2022 reflects the current macroeconomic climate and expectations.

As at 30 June 2022 and 31 December 2021 the portfolio had the following vacancy rates, calculated based on Estimated Rental Values ('ERV'), along with the following estimates of when vacancy will equal to the long-term rate:

	<b>Period ended 30 June 2022</b>	<b>Year ended 31 December 2021</b>
ERV sqm / month / EUR (range)	8.4-17.9	8.4-17.8
Equivalent yield (range)	5.7%-9.8%	6.0%-9.8%
Average occupancy	87%	97%



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**7. INVESTMENT PROPERTY (CONTINUED)**

As of 30 June 2022, the investment properties include the following projects:

**(a) Completed investment properties (at fair value):**

- Center Point I. (office)
- Center Point II. (office)
- Duna Tower (office)
- Metro (office)
- GTC Future (office)
- Váci Greens D (office)
- Universum (office)
- Pillar (office)

**(b) Investment property under construction (at fair value):**

- GTC X (office)

**(c) Investment property landbank (at cost):**

- Szeremi Gate (office)
- Twins (office)
- Center Point III (office)
- GTC Future (office)

**8. CASH AND CASH EQUIVALENTS AND SHORT-TERM BLOCKED DEPOSITS**

For the purpose of the statement of cash flows, cash and cash equivalents comprise the following at 30 June 2022 and 31 December 2021:

	Period ended 30 June 2022	Year ended 31 December 2021
Cash at banks and on hand	30,572	15,338
Cash at banks related to assets held for sale	-	8,774
<b>Cash and cash equivalents at the end of the period</b>	<b>30,572</b>	<b>24,112</b>

Short-term blocked deposits include deposits related to loan agreements and other contractual commitments and can be used only for certain operating activities as determined by underlying agreements (e.g., tenant deposits).

**9. PHANTOM SHARES**

Certain key management personnel of the Company are entitled to specific cash payments resulting from phantom shares in the Company (the "Phantom Shares"). The Company uses binomial model to evaluate the fair value of the phantom shares. The input data includes date of valuation, strike price, and expiry date. The Phantom shares (as presented in below table) have been accounted for based on future cash settlement.

As at 30 June 2022, phantom shares issued were as follows:

Strike price (PLN)	Blocked	Vested	Total
6.11	-	22	22
6.23	42	36	78
6.31	9	66	75
<b>Total</b>	<b>51</b>	<b>124</b>	<b>175</b>

The Phantom shares (as presented in above table) have been provided for assuming cash payments will be materialized, as the Company assesses that it is more likely to be settled in cash.

Last year of exercise date	Number of phantom shares
2023	350,000
2025	345,694
<b>Total</b>	<b>695,694</b>

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for six-month period ended 30 June 2022  
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**10. NON-CONTROLLING INTEREST**

Summarized financial information of the material non-controlling interest as of 30 June 2022 is presented below:

	<b>GTC X</b>	<b>Serbian Disposal Group</b>	<b>Total</b>
NCI share in equity	4,453	-	4,453
NCI share in profit / (loss)	3,122	(437)	2,685

**11. LONG-TERM BORROWINGS**

Long-term borrowings are linked to the following currencies and have been separated into the non-current portion and the current portion as disclosed below:

<b>Non-current portion</b>	<b>Currency linkage</b>	<b>30 June 2022</b>	<b>31 December 2021</b>
Loan from OTP (Center Point I)	EUR	20,318	20,725
Loan from OTP (Center Point II)	EUR	24,833	25,330
Loan from OTP (Duna Tower)	EUR	35,014	35,715
Loan from Erste (Váci Greens D)	EUR	23,311	23,688
Loan from OTP (Universum)	EUR	80,000	80,000
Loan from UniCredit (Pillar)	EUR	51,090	50,827
Green bonds mature in 2027-2030 (HU0000360102)	EUR	99,811	107,317
Green bonds mature in 2028-2031 (HU0000360284)	EUR	49,905	53,659
Deferred debt expenses	EUR	(2,309)	(2,445)
		<b>381,973</b>	<b>394,816</b>

<b>Current portion</b>	<b>Currency linkage</b>	<b>30 June 2022</b>	<b>31 December 2021</b>
Loan from OTP (Center Point I)	EUR	813	813
Loan from OTP (Center Point II)	EUR	994	994
Loan from OTP (Duna Tower)	EUR	1,401	1,401
Loan from Erste (Váci Greens D)	EUR	750	750
Loan from UniCredit (Pillar)	EUR	910	-
Green bonds mature in 2027-2030 (HU0000360102)	EUR	611	72
Green bonds mature in 2028-2031 (HU0000360284)	EUR	143	397
		<b>5,622</b>	<b>4,427</b>

Repayments of non-current loans are scheduled as follows:

	<b>30 June 2022</b>	<b>31 December 2021</b>
First year	5,624	4,427
Second year	5,779	5,293
Third year	7,248	6,472
Fourth year	154,061	7,268
Fifth year	4,929	108,080
Thereafter	212,263	270,148
	<b>389,904</b>	<b>401,688</b>



**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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**12. RELATED PARTY TRANSACTIONS**

The Company has entered into a variety of transactions with its related parties. All related party transactions are occurred in the normal course of business on an arm's-length basis.

Since 2021 the Company acts as financing entity for certain related parties. Loans granted to related parties as of 30 June 2022 was amounted to EUR 653,767 (EUR 595,480 as of 31 December 2021). Long-term loans from related parties as of 30 June 2022 was amounted to EUR 649,355 (EUR 641,273 as of 31 December 2021).

Outstanding loans from and to related parties are unsecured and presented with accrued interest.

**13. TAXATION**

The Group calculates the period income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the interim condensed consolidated statement of profit or loss are:

	Six-month period ended 30 June 2022	Six-month period ended 30 June 2021
Current year tax expense	3,455	1,188
Deferred tax credit/(charge)	15	2,085
<b>Total income tax expense</b>	<b>3,470</b>	<b>3,273</b>

The Group pay taxes in jurisdiction of Hungary and Serbia. The Group does not constitute a tax group under Hungarian legislation. Therefore, every subsidiary in the Group is a separate taxpayer.

**14. IMPACT OF THE SITUATION IN UKRAINE ON GROUP**

On 24 February 2022, Russian forces entered Ukraine and military conflict ensued. At the time of this financial statements were prepared the extent of the conflict and its longer-term impact are unknown. The conflict caused immediate volatility in global stock markets and uncertainties are anticipated in relation to the cost and availability of energy and natural resources, particularly within Europe. Significant economic sanctions have been imposed against Russia by the European Union. The direct impact on the real estate markets where the Company operates is yet unknown. At this stage, there is no evidence that transaction activity within the Markets that the Company operates and the sentiment of buyers or sellers has changed.

**15. COMMITMENTS**

As of 30 June 2022 (31 December 2021), the Group had commitments contracted for in relation to future building construction without specified date, amounting to EUR 22.8 million (EUR 12.5 million). These commitments are expected to be financed from available cash and current financing facilities, other external financing or future installments under already contracted sale agreements and yet to be contracted sale agreements.