



BUSINESS REPORT

on the activities of Graphisoft Park SE in 2016

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

- Financial results for the year 2016,
- Utilization, occupancy,
- Development activities,
- Future development potential,
- Financing,
- Other key issues,
- Forecast for the year 2017,
- General information.

Financial results for the year 2016

Changes in the results for 2016 (“Results from ordinary activities”) compared to the 2015 bases occurred by the effects of the following main factors:

- **Revenue** (2016: 9,525 thousand euros; 2015: 9,484 thousand euros) rose by 41 thousand euros compared to the previous year. The growth in occupancy rate increased revenue by 2%, while drop in rental revenues due to demolitions and remodeling in connection with the new developments that began in 2015 in the core area reduced it by almost the same rate (see details in the „Utilization, occupancy” and „Development activities” sections).
- **Operating expense** (2016: 1,131 thousand euros; 2015: 912 thousand euros) grew by 219 thousand euros, or 24% compared to the previous year due to the increase in employee related and other expenses (the development programs started in 2015 and 2016 required expanding staff). Property related expense stayed at the level of last year.
- **Other income** (2016: 349 thousand euros; 2015: 283 thousand euros) net amount was 66 thousand euros higher than the base last year.
- **Depreciation** (2016: 4,183 thousand euros; 2015: 4,194 thousand euros) did not change substantially compared to the previous year.
- **EBITDA** (2016: 8,743 thousand euros; 2015: 8,855 thousand euros) decreased by 112 thousand euros, or 1%, while **operating profit** (2016: 4,560 thousand euros; 2015: 4,661 thousand euros) fell by 101 thousand euros, or 2% compared to the previous year due to the factors mentioned above.



- **Net interest expense** (2016: 825 thousand euros; 2015: 1.306 thousand euros) decreased by 481 thousand euros, or 37% due to the following factors: interest expense fell by 499 thousand euros as a result of lower loan interest rates and lower principal amounts of earlier loans, and interest income dropped by 18 thousand euros due to the lower interest rates on deposits.
- **Exchange rate differences** (2016: 4 thousand euros loss; 2015: 216 thousand euros gain) worked out less favorably by 220 thousand euros compared to the previous year, attributable mostly to the fact that revaluation of cash reserves denominated in US dollars resulted in a gain in 2015 (135 thousand euros) and a loss in 2016 (38 thousand euros).
- **Income tax expense** (2016: 559 thousand euros; 2015: 592 thousand euros) decreased by 33 thousand euros, or 6% compared to the base period. Local business tax liability rose by 6 thousand euros due to the slight increase in revenues (2016: 258 thousand euros; 2015: 252 thousand euros), while corporate income tax fell by 39 thousand euros (2016: 301 thousand euros; 2015: 340 thousand euros) due to the following factors: higher profit before tax figure increased current tax by 26 thousand euros, and tax rate reduction (from 10% to 9%) effective from 2017 decreased deferred tax liability by 65 thousand euros.
- **Net profit** (2016: 3,172 thousand euros; 2015: 2,979 thousand euros) grew by 193 thousand euros, that is 6% in 2016 compared to 2015 because of the following factors: (1) operating profit decreased by 101 thousand euros, or 2% due to expenses incurred in relation to the new developments, (2) financial results improved by 261 thousand euros, or 24% due to the significant fall in net interest expense, despite less favorable exchange rate differences, and finally (3) income tax expense was lower by 33 thousand euros, or 6% less than the base last year due to corporate income tax rate reduction.

Due to the effect of the demolition of the last building to be demolished in relation to the new developments began in 2015 (see "Utilization, occupancy" section) a one-time 111 thousand euros net write-off (write-off of 123 thousand euros net book value of the building with its 12 thousand euros decreasing effect on income tax) had to be accounted for in the first quarter of 2016, therefore besides our profit from ordinary activities at 3,172 thousand euros the total net profit is 3,061 thousand euros including this one-off item.

Utilization, occupancy

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

Period:	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Occupancy:	96%	96%	97%	98%	100%	100%	100%	100%
Area (m2):	55,000	55,000	53,000	53,000	53,000	53,000	53,000	53,000



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

Development activities

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

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

New development in the core area

Graphisoft Park's largest tenant renting over 10,000 m² office space by the end of 2016, SAP Hungary Kft. renewed its lease in April 2015, which was to expire in the end of 2016 originally. In relation to the extension of the lease period new developments began in 2015, which will result in the construction of 8,000 m² new office space and underground parking for 300 cars until 2017 in two phases. Construction of a new wing of 5,500 m² directly adjacent to SAP's main building (marked S on the map below) has been completed. In addition to this another building with 2,500 m² floor space is under construction optimized for the needs of smaller companies and start-ups. With the new constructions as well as with the refurbishment of older sections we are committing to even more environmentally conscious and sustainable architectural solutions.

The new wing adjacent to the SAP building was delivered at the end of February, 2017, while the start-up building is expected to be delivered at the end of the second quarter in 2017.

The new developments required the demolition of a few smaller office and warehouse buildings with less economical uses of space under the current conditions. Most were demolished through 2015 while the last one was demolished in the first quarter of 2016. Demolition and remodeling works temporarily reduced rentable space by 2,000 m² in the office park, therefore the net expansion is 6,000 m².



By the completion of the first two phases of the new developments in the middle of 2017, Graphisoft Park will have 61,000 m² office, laboratory and educational space as well as underground parking for 1,550 cars available for its tenants coupled with 4 restaurants and 6 snack and coffee shops in the Park.



The planned total cost of these two development phases - including the construction of about 8,000 m² new office space and a three level underground parking facility for 300 vehicles, and in addition the upgrading of the existing S building, with the necessary works for public utilities and landscaping - is approximately 18 million euros, out of which 12.3 million euros occurred until the end of 2016.

New development in the southern development area

With regards to the recent expansion needs articulated by the tenants in 2016 and to the occupancy levels in the Park near their effective cap, we have started the construction of a new string of office building blocks with 12,000 m² floor space and of an underground parking facility for 450 cars on the part of the southern development area that is already prepared for construction. The buildings are expected to be delivered in the first quarter of 2018. One 3,300 m² floor space block out of the four of the building complex will be leased by SAP, and it also has an option to lease another 3,300 m² block.

The planned total cost of this development phase is 25 million euros, out of which 2.3 million euros occurred until the end of 2016.

In the summary of all the above, by the completion of the new developments expected in 2018, Graphisoft Park will have 73,000 m² office, laboratory and educational space as well as underground parking for 2,000 cars available for its tenants coupled with 5 restaurants and 7 snack and coffee shops in the Park.



Other developments

Simultaneously to the new developments, remodeling and renovation works are taking place in the existing office spaces as well as other infrastructure developments are being carried out to better meet the needs of tenants. These activities cost nearly 400 thousand euros in 2016.

Future development potential

After completing the development phases outlined above, other parts of the southern development area offer room for another 18,000 m² potential development, while the monument and northern development areas provide room for another 36,000 m² of potential office and educational space development. In the latter area no further preparatory work or development is planned until the clean-up projects planned by the Capital City Gas Works are finished.

Preparation for the future developments have cost 3.2 million euros to date.

Capital City Gas Works, the obligor of the environmental clean-up had started the procurement process with a call for proposals on December 9, 2016, but cancelled the tender on March 1, 2017 and plans to relaunch the process with a new call according to their information.

The lot neighboring the northern development area is owned by the Municipality of Budapest and has been designated as the site of the “New Budapest Velodrom” by a recent decree of the Hungarian Government (Kemény Ferenc Sportlétesítmény-fejlesztési Programról szóló 839/2016. (XII. 23.) Kormányhatározat).

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

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

Financing

We have executed a loan agreement with Erste Bank Hungary Zrt. in December 2015 with 10 years maturity to finance the ongoing development in the core area (see “Development activities” section for details). In accordance with the loan agreement and its modification in December 2017 Erste Bank makes a 4 billion HUF (12.6 million EUR) credit facility available to Graphisoft Park within Pillar I of the second phase of the National Bank of Hungary’s Funding for Growth Scheme and another 3 million EUR credit facility within Pillar II of the third phase of the Funding for Growth Scheme. In order to hedge exchange rate and interest rate risks associated with the forint-based loan, we have executed a cash flow hedge (CCIRS) agreement in June 2016 covering the entire loan amount and cash flows from the beginning of the loan



repayment period until the expiration of the loan contract, by which we have converted the forint-based capital and interest payment obligations onto euro base.

We have executed a loan agreement with UniCredit Bank Hungary Zrt. in November 2016 with 10 years maturity to finance the ongoing development in the southern area (see “Development activities” section for details). In accordance with the loan agreement UniCredit Bank makes a 24 million EUR credit facility available to Graphisoft Park within Pillar II of the third phase of the National Bank of Hungary’s Funding for Growth Scheme.

Other key issues

Realization of the educational function

In order to further strengthen Graphisoft Park’s “science park” features we have concluded an agreement with the Aquinum Institute of Technology (AIT) in 2009 to create and run international higher education functions in the Park. AIT does this in close cooperation with the Faculty of Electrical Engineering and Informatics of the Budapest University of Technology and Economics (BME) operating as an independent contractor, running a specialized program of that institution.



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

AIT was launched with a summer pilot program in 2010 concluding three years of preparation. The curriculum was finalized after gathering the feedbacks from students and faculty and drawing the conclusions from the pilot program. 12 semesters have been concluded since the pilot program, with 160 students in 2016. To this date a total of 50 North American universities



and colleges have sent students to participate in AIT's program and recognized its BME accredited credits. The most well-known universities among these are Harvard, Yale, MIT, Princeton, Brown, Cornell, Columbia, Dartmouth, UPenn, Rochester and Tufts (including all the prestigious schools of the Ivy League), and some of the famous colleges, such as Williams, Carleton, Harvey Mudd and Pomona. A significant proportion of the students remain in Hungary after the spring semesters for a 1 or 2 months internship with the best Hungarian IT companies (Graphisoft, Prezi, LogMeIn, Ustream, etc). These students return home with great impressions and spread the news of the Hungarian IT industry in the world. Some of them are coming back to Hungary after obtaining their diplomas to gain permanent employment with these companies.



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





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

AIT-Budapest reached the income level needed for long term operation in 2014 from the tuition collected from North American students, and it sustains profitable operation since. At the time of making this report the 2017 spring semester is in progress, which saw approximately 50% more applications over AIT's maximum capacity. This supports the long term sustainability of the educational venture (of which Graphisoft Park owns a 10% share), making the Park an even more attractive destination.

Creating the start-up ecosystem

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

Legal proceedings

Graphisoft Park SE's wholly owned subsidiary, Graphisoft Park Kft. filed suit on June 8, 2016 against the Municipality of Budapest for the removal of a pledge over property.

As published in our previous reports, in the purchase of land contract with the Municipality of Budapest in 2008 we have undertaken the duty to carry out development for educational purpose by renovating the protected monument parts of the purchased property. To secure the realization of this duty a pledge in the value of 1 billion forints had been recorded. The starting date of the 5 year deadline (execution of plot division) for completing the development has not passed yet, we have met and exceeded our duties ahead of time (see details in the „Realization of the educational function" section above). As the Municipality has refused our request to remove the pledge over property, we have filed suit to the same end with the Budapest-Capital Regional Court. The Court has ruled in Graphisoft Park's favor and ordered the removal of the pledge. At the time of making this report the proceedings continue at the appeals court as the Municipality appealed the decision with the execution pending for the duration of the appeal proceedings.



Forecast for the year 2017

Our forecast 2017 results (from ordinary activities) is summarized in the following table, based on signed and valid lease agreements with the current occupancy rate at an effective 100% (see details in section “Utilization, occupancy”; the first column shows 2016 actual results):

(million euros)	2016 actual	2017 forecast
Rental revenue	9.52	10.4
Operating expense	-1.13	-1.3
Other income, net	0.35	0.3
EBITDA	8.74	9.4
Depreciation	-4.18	-4.4
Operating profit	4.56	5.0
Net interest expense	-0.83	-0.8
Exchange rate difference	-	-
Profit before tax	3.73	4.2
Income tax expense	-0.56	-0.7
Net profit	3.17	3.5

Change in results for 2017 compared to 2016 bases is the impact of the following main factors:

- Revenue is expected to rise by 900 thousand euros in 2017 compared to 2016 due to the following factors: (1) rental revenue from the new buildings in the core area to be delivered in 2017 (see “Development activities” section for details) will increase revenue by 1.1 million euros (calculated at 10 months and 100% occupancy in the new SAP wing, and at 6 months and initial 60% occupancy in the start-up building); (2) internal tenant moving and significant remodeling works will temporarily reduce the current 100% occupancy in the existing buildings throughout 2017, which will result in a 200 thousand euros revenue dip.
- Cost of operation is expected to rise by 200 thousand euros in 2017 compared to 2016. Employee related and other expenses will grow at that rate due to the costs associated with the ongoing developments in the core area and the southern development area (see “Development activities” section for details), and due to the operating expenses associated with the buildings to be delivered in 2017 in the core area.
- Depreciation is expected to increase by 200 thousand euros in 2017 compared to 2016 due to the following factors: (1) depreciation for the new buildings to be delivered in the core area in 2017 (see “Development activities” section for details) will be 800 thousand euros (calculated at 10 months for the new SAP wing and at 6 months for the start-up building); and (2) depreciation for the existing buildings will decrease by 600 thousand euros due to depreciation ending for older assets.



- Net interest expense is not expected to change in 2017 compared to 2016 due to the following factors: (1) interest expense on the loan borrowed to finance the development of the new buildings to be delivered in the core area in 2017 is expected to be approximately 200 thousand euros in 2017 (interest expense accounted for in the income statement after the delivery of the buildings; calculated at 10 months for the new SAP wing and at 6 months for the start-up building); and (2) interest expense decrease over loans connected to the existing buildings and the diminishing principal result in a 200 thousand euros drop in net interest expense.
- Income tax is expected to increase by nearly 200 thousand euros in 2017 compared to 2016 due to higher revenue and profit before tax.

Due to all the above, for 2017 we are expecting a net profit of 3.5 million euros, 300 thousand euros higher than in 2016.

Forecasts published here are based on the valid lease contracts in effect at the time of writing this report. We will not try to predict the number or value of new lease contracts on one hand, as we will not account for the scenario of current tenants not prolonging their leases after expiration on the other, only if they have given notice by the closing date of our business report.

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

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



General information

Graphisoft Park Group

Graphisoft Park SE Real Estate Development European Company Limited by Shares (the "Company" or "Graphisoft Park SE") with its subsidiaries form the Graphisoft Park Group ("the Group" or "Graphisoft Park"). Graphisoft Park SE and subsidiaries are incorporated under the laws of Hungary. The court registration number of Graphisoft Park SE is CG 01-20-000002. The registered address of the Company is H-1031 Budapest, Záhony utca 7, Hungary.

Corporate Governance

Public companies are increasingly expected to state clearly their corporate governance principles and to what extent those principles are implemented. As a company listed on the Budapest Stock Exchange (BSE), we are highly committed to meeting these expectations and legal and stock exchange requirements (publicly available at BSE website: bse.hu).

The Statutes of Graphisoft Park SE provides as governing bodies the general meeting of shareholders and the Board of Directors (single-tier system). Under the single-tier system, the SE is managed by the Board of Directors. The members of the Board of Directors have the power to represent the company in dealings with third parties. Under the single-tier system the Board of Directors may delegate the power of management to one or more of its members. The independent members of the Board of Directors form the Audit Committee.

General Meeting

The General Meeting is the principal body of the Company, which comprises all the shareholders. The following activities shall fall within the exclusive authority of the General Meeting (inter alia, see details in the Articles of Association: graphisoftpark.com/corporate-governance):

- Decision on the establishment of, and amendment to these Articles, unless otherwise provided by the Companies Act;
- Electing and dismissing the members and chairman of the Board of Directors, the auditor, and determining their remuneration, including their service as members of the committees of the Board of Directors.



Board of Directors

The Board of Directors is responsible for the Company's management and decides on matters other than those that must be determined by shareholders. The Board of Directors is required to report annually to the shareholders at the annual general meeting of the shareholders.

Pursuant to the Company's Articles of Association, the Board of Directors consists of a minimum of 5 and a maximum of 11 members elected at the annual general meeting of the shareholders for a term not to exceed of 6 years. Presently Graphisoft Park SE operates with 5 members of Board.

Meetings of the Board of Directors are held at least four times a year. Meetings of the Board of Directors require the presence of 3 for a quorum. Each member has one vote. The Board of Directors passes resolutions by simple majority vote.

Members of the Board of Directors:

Name	Position	From	Until
Bojár Gábor	Chairman	August 21, 2006	May 31, 2018
Dr. Kálmán János	Member	August 21, 2006	May 31, 2018
Kocsány János	Member	April 28, 2011	May 31, 2018
Dr. Martin-Hajdu György	Member	July 21, 2014	May 31, 2018
Szigeti András	Member	July 21, 2014	May 31, 2018

Audit Committee

The Audit Committee assists in the appointment of independent auditors to be elected by the annual general meeting and reviews the scope of external audit services. It must pre-approve all audit and non-audit services to be performed by the external auditor.

The Audit Committee also reviews the annual financial statements of Graphisoft Park, taking into account the results of the audits and reviews performed by the independent auditors. The Audit Committee also reviews financial reports submitted to the stock exchanges, banks and regulatory bodies.

The Audit Committee shall have as many as necessary but at least four meetings each year. Audit Committee members are appointed from the independent members of the Board of Directors by the general meeting of the company.



Members of the Audit Committee:

Name	Position	From	Until
Dr. Kálmán János	Chairman	August 21, 2006	May 31, 2018
Dr. Martin-Hajdu György	Member	July 21, 2014	May 31, 2018
Szigeti András	Member	July 21, 2014	May 31, 2018

Stock information

Graphisoft Park SE's share capital consists of 10,631,674 class "A" ordinary shares of 0.02 euro face value, each representing equal and identical rights, and 1,876,167 class "B" employee shares of 0.02 euro face value.

Ordinary shares of the Company are publicly traded at Budapest Stock Exchange from August 28, 2006. The share ownership structure is the following according to the Company's shareholder records:

Shareholder	December 31, 2015		December 31, 2016	
	Shares (pcs)	Share (%)	Shares (pcs)	Share (%)
ORDINARY SHARES:	10,631,674	85.00	10,631,674	85.00
Shareholders over 5% share	5,324,649	42.57	5,793,531	46.33
Bojár Gábor	3,185,125	25.47	3,185,125	25.47
Concorde Zrt.	1,643,881	13.14	1,602,963	12.82
AEGON Zrt.	495,643	3.96	1,005,443	8.04
Other shareholders	4,757,949	38.04	4,289,067	34.28
Treasury shares*	549,076	4.39	549,076	4.39
EMPLOYEE SHARES**:	1,876,167	15.00	1,876,167	15.00
SHARES TOTAL:	12,507,841	100.00	12,507,841	100.00

* Treasury shares possessed by the Company do not pay dividend and bear no voting rights.



** Class „B” employee shares bear different (reduced) rights to dividend at the proportion of one third of their face value, and are governed by the provisions of the Articles of Association and the Management Share Ownership Plan.

Budapest, March 20, 2017

Hajba Róbert
Chief Financial Officer

Kocsány János
Chief Executive Officer