Appeninn Holding Public Limited Company

Quarterly Report for H1 of 2017

Name of the Company	Appeninn Nyrt.
Address of the Company	H–1022 Budapest, Bég u. 3–5.
Sectoral classification	Asset management (real-estate property utilization)
Accounting system of the report	as per the IFRS requirements
Reporting period	H1 of 2017
Audited data	interim data is not audited
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E-mail	info@appeninnholding.com
Investor relations	Attila Kovács Attila.kovacs@appeninnholding.com
Telephone	+36 1 346 8869

Summary of the Board of Directors

Mr. Gabor Székely has emphasized regarding the half year results of the Company:

Appeninn's revenue increased by more than 20 percent in the first quarter, mostly due to the utilization of the real estates acquired recently, and the increasing demand on the office lease market. At the same time, the net income of the real estate investment group was negative, following the devaluation of one of its investment properties by one million euros.

The Appeninn Nyrt. is listed in the Budapest Stock Exchange in the Premium category. Its revenue from leasing real estates (according to the IFRS and consolidated data) increased by 21 percent to EUR 2.6 million in the first half of 2017. Besides the favorable processes, the net income of the real estate investment company presents a loss of EUR 37,000, as during the evaluation of the real estates, the company accounted for a 1 million euro loss resulting from devaluation carried out for reasons of prudence convention. This was necessary because the lease agreement of a prominent tenant of one of the office buildings – concluded before the 2008 crisis – expired, and its continuation will involve a lower rent, so the real estate's revenue producing capability will temporarily decrease.

Gábor Székely, Appeninn Nyrt's Chief Operating Officer is basically satisfied with the first half year's result of the group, which already clearly shows the positive effects of the real estates purchased in 2016-2017. The management of the company is still working on the sales and investment assessment of the real estates purchased this year; the results are not significant in the data of the first six months. Appeninn continues to look for opportunities for purchasing investment properties on favorable prices.

Stable growth and evaluation loss at Appeninn

Appeninn Vagyonkezelő Public Limited Company (hereinafter referred to as the Company or Group) has prepared its consolidated report (hereinafter referred to as the Report) in relation to half year of 2017 (hereinafter referred to as the Period Under Review). This Report consists of the Company's consolidated management report pertaining to the first half year of 2017, the consolidated balance sheet and consolidated profit & loss account for the period under review, prepared in line with the IFRS requirements, as well as the associated evaluations. The accounting principles applied in the report correspond to the accounting policy applied in the benchmark period. The reporting currency is EUR.

Key items at Appeninn Holding in the first half year of 2017

Major values- consolidated	2017 1-6 mths* EUR	2016 1-6 mths* EUR
Profit & loss account		
Property rental revenue	2 604 313	2 151 840
Direct contribution from rental activities	1 866 572	1 480 152
Interest expense	(633 794)	(520 427)
Profit for the year	(37 971)	411 650
Eszközök, kötelezettségek és tőke:		
Investment properties	64 561 364	60 495 969
Total non-current liabilities	36 099 404	38 339 338
Current assets	1 826 705	1 355 679
Total current liabilities	5 674 604	2 934 888
Shareholder's equity	25 924 377	23 399 679

- Appeninn Plc closed the first half of 2017 with sales revenues amounting to EUR 2.6 million. As an outstanding effect of the performance of the first six months of 2017, the 21% increase in revenues has resulted in a positive shift in the profit & loss account.
- The Company's direct margin amounted to EUR 1.867 million over the 2016 level. The direct margin level of the Company was steadily above 65% in 2017, representing 65–72% return on sales.
- In the first half of 2017, the Company's loss after taxes amounted to EUR 38,000. The Company accounted for a change in the estimation of properties, which amounted to a loss of EUR 1 million in the profit for the period.
- The portfolio items were increased by the three properties purchased in 2017. The total value of the portfolio is EUR 64.5 million. (EUR 1.62 property value by issued shares)

Financial figures – analysis of the consolidated profit & loss account

Profit & loss account	2017 1-6 mths* EUR	2016 1-6 mths* EUR
Continuing operations		
Property rental revenue	2 604 313	2 151 840
Property related expense	(737 741)	(671 688)
Direct contribution from rental activities	**1 866 572**	**1 480 152**
Administration expense	(244 135)	(308 417)
Employee related expense	(1 420)	(15 520)
Other income/(expense)	59 373	185
	1 680 390	1 156 400
Penalty and received forfeit money	516 509	-
Net result from the revaluation of investment properties	(1 000 000)	35 170
Expenses for maintaining investment properties	(410 707)	(93 137)
Loss (-) recognised on purchase of subisidiary	(68 134)	-
Gross operating profit (EBITDA)**	**718 058**	**1 098 433**
Depreciation and amortization	-	(350)
Interest income	14 542	8 969
Interest expense	(633 794)	(520 427)
Other financial income/(expense)	(108 387)	(117 502)
Profit before tax	**(9 581)**	**469 123**
Income tax expense	(28 390)	(57 473)
Profit for the year	**(37 971)**	**411 650**
Other comprehensive income		
Exchange differences on translating operations	-	-
Other comprehensive income, net of taxes	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(37 971)**	**411 650**
Attributable to:		
Owners of the Company	(31 226)	443 968
Non-controlling interest	(6 744)	(31 127)
Earnings per sahre and Diluted earnings per share (EURcent/pcs)	**(0,08)**	**1,12**
Net asset value by shares	**0,70**	**0,59**

* The figures relating to the period have not been verified by an independent auditor

** Non IFRS classificatin of earnings

Revenues from property rental

In the first half of 2017, there was a major positive shift of 21% in leasing activity, which was due to three main components.

- By leasing out all the real-estate properties in Kecskemét, the level of lease revenues increased substantially, representing half of the growth of the Group's sales revenues.

- Revenues from new properties acquired by the Group in the third quarter of 2016 represented 26% of the Group's revenue increase. An additional rise was brought about by the Group's revenue indexation and the decrease in average EUR/HUF exchange rates in the first half of 2016 and 2017.

- The Group accounted for 85% of its revenues from real-estate property lease and 15% from related services. Considering revenues per segment, office lease represented 79%, while the rental income from logistics real-estate properties was 21%. Within office lease, the share of lease service and related services was 83% and 17%, while in the logistics segment these ratios came to be 93% and 7%, respectively.

The direct margin indicator of the Company corresponds to the positive balance of revenues from real-estate property and asset rents, as well as expenditures directly attributable to lease activities. The total performance of the portfolio, measured by the ratio of direct margin to sales revenue, represented 72% productivity.

- The margin in the ratio of sales revenues was 69% in 2016. This change was due to the increase in the Group's sales revenue, as well as the increase in proceeds from its outstanding land utilization activities.

- The 21% growth in sales revenue was associated with a 10%, i.e. 50% smaller increase in expenditures, and therefore the margin improved by 3%.

The administrative costs of the Company recorded a historical average value, with specific tax items in the value of the baseline period. As a result of planned sales and failure of investments, the Company realized earnest money in an amount of EUR 517,000.

During 2017, the Company accounted for EUR 411,000 expenses in relation to upkeeping of its investment properties, which were incurred with the expenditures of maintenance and investment activities. The Company adjusts its real-estate property conditions to the competitive environment, with a continuous task being the maintenance of the level of the productivity of real-estate properties.

Following the report as of 31 December 2016, three property elements were added to the Company's property portfolio in May and June 2017, in a combined value of EUR 3.5 million. The Company acts for the consistent conditioning of the revenue generating capacity of the new properties, and therefore investment-related expenditures are continuously incurred.

During the period under review, the Company added three new subsidiaries to the consolidated group entities. The integration of subsidiaries, as well as the estimation of the net asset values acquired, acquisition costs and profits were not closed during the period, therefore, due to changes in estimates in the subsequent periods – until the end of the year – , the following may change:

- *Appen-Retail Kft.* was integrated into the Group as a new company founded by the Group. Appen Retail Kft. acquired one real-estate property during the period under review. The property acquisition duty relating to the real-estate property was stated as part of the property value, against an item of liabilities.

- The assessment and evaluation of the net asset value acquired with the purchasing of *Várna 12 Holding Kft. and Sectura Ingatlankezelő Kft.* are in progress, the value of the 4% public duty associated with the companies – as the acquisition of a contributed fixed assets in the form of real-estate properties – was settled on the basis of the values of the real-estate properties stated as being available in the 2016 report, whereas the assets and liabilities of the acquired companies are also under assessment. The estimated loss – settled as the result of the assessment that remained incomplete by the time of the publication of the report – on acquisition of the entities as presented in this report amounts to EUR 68,000.

Owing the real-estate properties, the Group states the changes in fair values under the heading of the revaluation of income-generating investment properties. In this report, there was no change in fair value estimates, except for one real-estate property. The estimation of a EUR 1 million loss of fair value stated for the Mérleg Street (District V) property was necessary due to changes in tenant contracts, significant price reductions and temporary vacancy of a larger lease area. In the second half of the year, the Company will examine alternative market opportunities associated with this real-estate property, and if it finds an investor returning the favorable effects on the downtown real-estate property market in the form of cash flow, it will consider the selling of real-estate property. The property can be expected to have an active market as a hotel development area. The Group does not hold excessive income-generating investment properties, and does not depreciate other controlled assets.

The gross operating profit represents pre-tax profit/loss excluding depreciation and financial items. In the first half of 2017, the gross operating profit/loss amounted to EUR 718,000. The change in gross operating income was negatively impacted by the favourable margin ratios of the principal activities, while the effects of the revaluation of real-estate properties had a negative influence. The consolidated balance shows a decrease of EUR 308,000, which is considered to be justified by the Company on the basis of the information available at the time of the preparation of the report.

Financing and financial profit

- The interest expenses of the Company increased due to the funding needs of the investments. To cover real-estate property investments, the Company relied on favourable and long-term bank loans. In a time proportionate manner, the Company settled and paid interest on its own, privately issued bonds concerning the bonds expiring in February 2017.
- The Company's loss stated for the first half of 2017, resulting from the exchange rate changes and other financial items, corresponded to the level of loss realized in the previous year. With respect to its reporting in EUR currency, the Company recognizes exchange rate differences that are not realized on the basis of other changes in financial transactions due to exchange rate fluctuations in the period under review. For EUR values that were already converted in earlier periods for group entities reporting in EUR and keeping their books in HUF, the values typically denominated in HUF for assets and liabilities represent the settlement of exchange rate changes after conversion into the closing exchange rates. In the period under review, due to a favourable exchange rate changes of the Euro in comparison to the baseline period, the profit and loss items added up to a total amount of EUR 108,000.
- The tax on incomes was estimated as the average of previous periods. Deferred tax liabilities decreased due to the change in the fair value of the real-estate properties with a EUR 54,000 impact on the result.

The amount of the Group's loss before taxes was EUR 9500. The change in the fair market values of the properties prevented the pre-tax profit/loss from doubling. In the first six months of 2017, the combined effect of several concurrent factors with identically significant effects contributed to the Company's negative result.

The Company's consolidated profit/loss after taxes

- The loss on the Company’s controlled participations was EUR 31,000. Losses per issued shares kept circulation on the average amounted to EUR 0.08. The return on shares showed a negative trend.
- From the EUR 26.5 million value of the Company’s equity capital, EUR 0.7 could be allocated to each issued share kept in circulation on the average. The equity ratio increased by 19%.

Financial figures – consolidated balance sheet

The Company's balance sheet as of 30th June 2017 was closed with EUR 67.8 million.

Balance sheet - Assets	30. 06. 2017. * EUR	30. 06. 2016. * EUR	31. 12. 2016. EUR
Goodwill	-	2 149 186	-
Other intangible assets	-	3 066	-
Investment properties	64 561 364	60 495 969	62 040 000
Property, plants and equipments	-	92 554	-
Deferred tax assets	-	52 163	-
Other long term financial assets	985 451	1 236 123	978 639
Non-current assets	**65 546 815**	**64 029 061**	**63 018 639**
Inventories	-	3 700	-
Trade and other receivables	801 187	808 178	2 667 863
Loans given	262 321	-	296 571
Prepayments and accrued income	140 930	102 209	46 374
Cash and cash equivalents	622 267	441 592	1 151 876
Current assets	**1 826 705**	**1 355 679**	**4 162 684**
Assets classified as held for sale	466 216	-	462 993
Total assets	**67 839 736**	**65 384 740**	**67 644 316**

Balance sheet- Equity and liabilities	30. 06. 2017. * EUR	30. 06. 2016. * EUR	31. 12. 2016. EUR
Issued capital	12 893 071	12 893 072	12 893 071
Treasury shares	(1 714 813)	(2 463 403)	(234 863)
Other reserves	11 229 685	11 229 685	11 229 685
Retained earnings	4 288 224	1 740 325	4 319 450
Shareholder's equity	**25 924 377**	**23 399 679**	**28 207 343**
Non-controlling interests	141 351	710 835	148 095
Total equity and reserves	**26 065 728**	**24 110 514**	**28 355 438**
Long-term bank loans	33 368 906	33 987 987	32 271 782
Issued corporate bonds	200 000	823 640	200 000
Tenants deposites	882 937	778 897	858 865
Deferred tax liabilities	1 647 561	2 748 814	1 701 345
Total non-current liabilities	**36 099 404**	**38 339 338**	**35 031 992**
Short-term bank loan	677 997	805 448	1 521 378
Trade and other payables	3 396 006	1 650 866	1 272 831
Current tax liability	109 121	178 206	238 240
Issued corporate bonds	-	-	228 378
Dividend payable	771 790	-	-
Deferred revenue and accrued expense	719 690	300 368	996 059
Total current liabilities	**5 674 604**	**2 934 888**	**4 256 886**
Total liabilities	**41 774 008**	**41 274 226**	**39 288 878**
Total equity and liabilities	**67 839 736**	**65 384 740**	**67 644 316**

* The figures relating to the period have not been verified by an independent auditor

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Income-generating investment properties

The estimated value of the Company’s total property portfolio was EUR 64.5 million. In the first half of 2017, **three real-estate properties were added to the Company's income-generating real-estate property portfolio, with a combined value of EUR 3,500,000:**

- Budapest District XIV – The Group continued to expand its real-estate property portfolio by purchasing the Zugló office building. With an area of more than 3200 square meters and an occupancy rate of 95%, the characteristics of the office building are favourable. The estimated fair market value of the real-estate property is EUR 1.5 million.
- Budapest, District X – Appeninn acquired a property in Kőbánya, thereby enabling a more intensive real-estate property developments. Considering the area belonging to the acquired property, the Company owns a 8711 sq m office building located in a 4029 sq m lot, in a prominent part of District X. The consolidation of the real-estate properties in a single block offers an excellent opportunity for a new investment, even the construction of a residential property. The estimated fair market value of the real-estate property is EUR 300,000 million.
- Budapest, District XIII – The occupancy of the 3400 sq m property purchased in Frangepán Street is over 90 percent. The technical conditions of the superstructure in the plot covering nearly 2,000 square meters is appropriate, it has an occupancy rate of 90%, and therefore it fits well into Appeninn's real-estate property portfolio. The estimated fair market value of the real-estate property is EUR 1.7 million. The Company's management is confident that the collateral and credit performance indicators of the Company, as well as and the real-estate property are favourable, and thus the closing of the ongoing property-based financing is expected to be completed within one month. The Company has an indicative bank offer for financing. With this in mind, the Company has prepared a report based on the its right of disposal and property rights over the real-estate property.

The Company has maintained the already applied set of conditions and methodological approach in relation to the portfolio valuation for income-generating real-estate property that was prepared as of 13.12.2016 (with respect to the utilization of the asset elements and the less favourable market environment). Due to the changes in the tenant structure of the property in Mérleg Street (District V), future items represent the loss of revenue and margin. Lost items are generally considered to be significant for the future, and therefore the Board of Directors estimates the value of the change in the valuation of the property as bringing about a EUR 1 million decrease. The effect of fair valuation was recognized by the Company. Changes in the tenant structure of real-estate property offer a possibility to revise real-estate property market opportunities and align them with the plans of the Company.

In the first 6 months of the year 2017, the Company executed upkeep and investment works for the preservation of the prevailing conditions in a total amount of EUR 411,000; these expenditures were stated in the result.

Other long-term receivables

In 2015, the Group sold 40% of its share in W-GO 2000 Zrt. (its successor is Appeninn E-Office Zrt.), the customer will pay the purchase price over 10 years. This amount is stated by the Group after discounting. The applied long-term discount rate is 3%. There was a slight change in the amount of receivables due to the exchange rate changes in the period under review.

Current assets – Trade and other receivables

- Trade receivables amount to EUR 465,000, which represents a decrease compared to the EUR 572,000 at the end of the year. The decrease in receivables due to the larger amount of issued invoices, which was perceived as successful collection, and also represented a positive cash flow for the Group.
- From the line of other receivables, EUR 2,054,000 from the selling of treasury shares was stated, receivables were paid up by the respective obligors in the first quarter of 2017.
- Receivable-type tax balances that were used up were reported as decrease in other receivables; receivables to be fulfilled as caution money in connection with new trade receivables were reported as growth.

Current assets – Loans provided

Loans provided decreased from EUR 297,000 to EUR 262,000. In 2017, overdue receivables against the same party were offset against the debts of the Company.

Current assets – Accruals

83% of the accruals represented the Company's revenues attributable to seasonal performance, 17% represented accruals of invoiced expenditures that did not affect the period.

Assets declared to be held for sales

In the period under review, the Group acquired 100% share of Appeninn Credit Zrt. (formerly known as Milton Financing Zrt.), where the value of the share comprises the operational environment and personnel of financial company, system of financial business licenses, the license granted by the National Bank of Hungary (MNB), the right to use the software that records the operations of the financial enterprise, as well as the system of business management data and the established processes. Active efforts were made by the Board of Directors to sell the investment in the period under review.

Composition of liabilities

Long-term and short-term bank loans

The volume of the Company's bank loans changed due to two components. On the one hand, the Company paid up its EUR 655,000 liability for the period, and increased its loan portfolio with the purpose to purchase investments. In the first half of 2017, the Company purchased Várna 12 Holding Zrt, it secured its 100% stake by a bank loan of EUR 900,000 (HUF-based long-term, with 12-year maturity).

Debenture capital from own bonds

The Company paid up its bonds with a maturity closing on 26 February 2017 (HU HU0000354337) alongside the the associated interests. The maturity of the bonds in the balance sheet is 10.09.2018. Of the 150 bonds issued by the Company, 20 are kept in circulation. The Company does not intend to sell its own bonds, and therefore the related liabilities (capital and interest) are not presented in the financial statements as part of the bond items held by the Company, under the heading of liabilities and receivables, or incomes and expenditures. The consolidated balance is shown in the lines for liabilities and expenditures.

Deposits by tenants

The increase in revenues owing to changes in tenant also brought about growth in the items paid by tenants.

Tax liabilities and deferred taxes

The tax obligations imposed by the end of the year in the period under review were fulfilled. The estimate value of changes in deferred taxes altered with the decrease in the fair values of the real-estate properties. The change corresponded to the value assessed on the basis of the effective tax rate that fell on the EUR 1 million change of the fair value.

Trade payables

Trade payables increased in connection with investments and reconstructions.

Other short-term liabilities

- One of the most significant changes in other liabilities was the issuance of own promissory notes. The beneficiary of these notes accepted the purchase price of the real-estate property purchased by Appen Retail Kft. until settlement, i.e. until the involvement of a financing credit institution. Until financial settlement, the real-estate property in the Frangepán Street serves as collateral.
- The imposed 4% property property acquisition in connection with the three new real-estate properties that were purchased during the period under review amounted to EUR 130,000.
- Among the other liabilities, the EUR 254,431 payable for the purchase price of a business share reflected the same data and contents as of 31.12.2016, for which amount Appeninn Plc gained eligibility as kept collateral; the settlement of this liability has been in progress since 2016.
- The guarantee fee in the amount of EUR 158,599 granted by LEHN Consulting AG is presented as a short-term item.
- In 2016, the Company raised a provision, and maintained this item in this report, in an amount of EUR 84,249 for litigation.

Consolidated Changes in the Shareholders' Equity

Shareholders' Equity (in EUR)	Share capital	Other reserve	Treasury shares	Retained earnings	Attributable to the Owners of the Parent	Non-controlling interests	Total equity and reserves
Balance at January 1, 2017	12 893 071	11 229 685	(234 863)	4 319 450	28 207 343	148 095	28 355 438
Total comprehensive income for the year	-	-	-	(31 226)	(31 226)	(6 744)	(37 970)
Profit for the year	-	-	-		-	-	-
Transactions by the equity holders of the Company:	-	-	(1 479 950)	-	(1 479 950)	-	(1 479 950)
Purchase of treasury shares	-	-	(2 724 415)	-	(2 724 415)	-	(2 724 415)
Sale of treasury shares	-	-	1 244 465	-	1 244 465	-	1 244 465
Osztalék 2017.	-	-	-	(771 790)	(771 790)	-	(771 790)
Balance at June 30, 2017	12 893 071	11 229 685	(1 714 813)	3 516 434	25 924 377	141 351	26 065 728

Shareholders' Equity (in EUR)	Share capital	Other reserve	Treasury shares	Retained earnings	Attributable to the Owners of the Parent	Non-controlling interests	Total equity and reserves
Balance at January 1, 2016	11 850 483	10 081 366	(2 370 330)	1 296 357	20 857 876	741 962	21 599 838
Total comprehensive income for the year	-	-		443 968	443 968	(31 127)	412 841
Transactions by the equity holders of the Company:							
Purchase of treasury shares	-	-	(199 214)	-	(199 214)	-	(199 214)
Sale of treasury shares	-	-	106 141	-	106 141	-	106 141
Issue of treasury shares	1 042 589	-	-	-	1 042 589	-	1 042 589
Increase by owners for the advance of other reserves	-	1 148 319	-	-	1 148 319	-	1 148 319
Balance at June 30, 2016	12 893 072	11 229 685	(2 463 403)	1 740 325	23 399 679	710 835	24 110 514

The Company pays dividends to the shareholders of the parent company in an amount of EUR 771,790.

As of 30 June 2017, the portfolio of treasury shares was closed with 2,421,141 shares following the alienation of 1,712,165 shares, the setoff and acquisition of 3,820,284 shares during the first half of the year. The Company's equity share movements played a role in the expansion of the Company's real-estate property portfolio.

Appeninn Angel Zrt. purchased Várna 12 Holding Zrt. The 100% stake acquired was worth HUF 440 million, of which HUF 160 million was settled with Appeninn's treasury shares. The settlement price of Appeninn shares recognized by the Parties was HUF 227, and by handing over 704,845 shares in total, the buyer fulfilled its obligation.

The subsidiary of Appeninn Plc, Szent László Társasház Kft. acquired Sectura Ingatlankezelő Kft. (formerly known as Estate Pest Office Kft). The Company paid up the investment with 620,454 Appeninn shares, which represented HUF 136.5 million in investment value, while the share price recognized by the Parties was HUF 220 per share

The Company pays dividends to the shareholders of the parent company in an amount of EUR 771,790.

Change in uncontrolled participations

Appeninn Holding Plc executed a capital increase in Appeninn E-Office Zrt in 2017, and as a consequence of this capital increase, the minority share in Appeninn E-Office Zrt is now 1.2%.

Cash-Flow statement

Changes in the cash flow was EUR 530 000 in the first half of the year 2017.

CASH-FLOW STATEMENT	30. 06. 2017. * 1-6 mths* EUR	30. 06. 2016. * 1-6 mths* EUR
Profit before tax	**(9 581)**	**501 441**
Net result from the revaluation of income-generating investment properties	-	57 967
Exchange rate difference not realised	-	113 905
Gain on disposal of investment properties	1 000 000	-
Depreciation and amortization	-	350
Impairment of trade receivables	(29 871)	-
Changes of earnings allocated to non controlling interest	-	(31 127)
Interest received	(14 542)	(8 969)
Interest paid	633 794	422 865
Changes in trade and other receivables	1 923 986	(65 747)
Changes in prepayments and accrued income	(94 556)	(12 042)
Changes in inventories	-	37
Changes in deferred income and liabilities	1 846 806	188 084
Changes in deposit from tenants	24 072	7 921
Income taxes paid	(211 293)	(119 098)
Net cash generated by operating activities	**5 068 815**	**1 055 587**
Payments for property, plant and equipment	-	(114 760)
Proceeds from disposal of property, plant and eqipment	-	(350)
Proceeds from purchase of investment property	(3 521 364)	-
Proceeds from disposal of assets held for sale	(3 223)	64 272
Net cash generated by investing activities	**(3 524 587)**	**(50 838)**
Kölcsön visszafizetés / bevonás	(228 378)	-
Repayment of borrowings	253 743	(661 168)
Purchase of treasury shares	(2 724 415)	-
Sale of treasury shares	1 244 465	-
Interest received	14 542	8 969
Interest paid	(633 794)	(422 865)
Net cash used in financing activities	**(2 073 837)**	**(1 075 064)**
Net increase in cash and cash equivalents	**(529 609)**	**(70 315)**
Cash and cash equivalents at the beginning of the year	1 151 876	418 769
Cash and cash equivalents at the end of the year	**622 267**	**441 592**

Events after the period under review

Budapest, July 10, 2017 – Appeninn has purchased a car market property with full occupancy in Budapest. The lessees of the 2300 square meters real estate located at the crossing of Váci and Megyeri Street are the car dealership Budapest Autószalon and the Hungarian headquarters of Carglass.

At this time, Appeninn Nyrt. has purchased a real estate targeting actors of the dynamically growing car sector via its subsidiary Szent László Téri Szolgáltató Ház Kft. (registry ID: 01-09-947093), by purchasing VCT78 Ingatlanhasznosító Kft. (registry ID: 01-09-911556), the owner of the property located in Budapest, at the crossing of Váci and Megyeri Street.

The lessees of the car center with a rentable area of 2333 square meters, which lies on a 6438 square meters site, are the Budapest Autószalon, a distributor of Mitsubishi, Subaru and SsangYong branded vehicles, as well as the Hungarian headquarters of Carglass, which deals with car glass repair and replacement. Regarding the transaction, Gábor Székely, the CEO of Appeninn explained that the purchase of this real estate was a good example of how the company primarily decides about buying a property based on interest perspectives and growth outlooks, and so they were not exclusively looking for favorable investment opportunities on the office market. Appeninn purchases the owner of the property (VCT78 Ingatlanhasznosító Kft.) with a 6.7% yield. The purchase price of the transaction is symbolic; however, Appeninn overtakes the loans of the company owning the property, while also having the conditions changed to more favorable ones by the financing bank.

History of the Company

Appeninn Vagyonkezelő Holding Nyrt. was founded in December 2009, and started its income-generating business operations in 2010; today, the Company is one of the most dynamically growing property investment operators in Hungary. The Company is the owner and operator of 17 real-estate properties that are worth EUR 65.5 million in total.

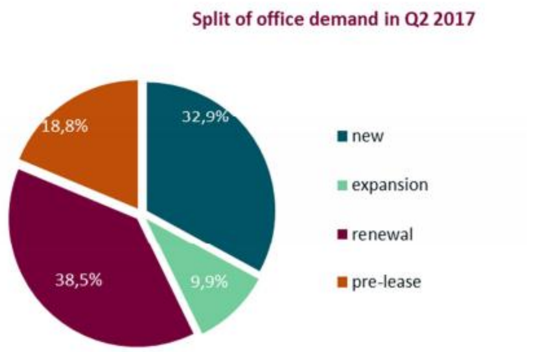
Appeninn Holding has the goal to become a real-estate property holding company that represents traditional, conservative business policy and readily definable asset-based values through the continuous expansion of the Company's real-estate property portfolio.

During its operations, the Company focuses on such market segments where favourably priced assets with high earning-generating potentials can be acquired and held as medium and long-term investments. This target area includes – among others – category B office buildings, industrial and logistics properties, but the Company would also be willing to take part in investments of a similar portfolio approach in other business areas.

Description of the sectoral environment

Office market in Budapest

The Budapest Research Forum (hereinafter the ‘BRF’, which comprises CBRE, Colliers International, Cushman & Wakefield, Eston International, JLL and Robertson Hungary) hereby reports its Q2 2017 office market summary. No new office buildings were completed in Q2 2017. The total Budapest office stock totalled 3,346,735 sq m. The total stock comprises 2,682,155 sq m of Category ‘A’ and ‘B’ speculative, and 664,580 sq m of owner occupied buildings.



Source:BRF

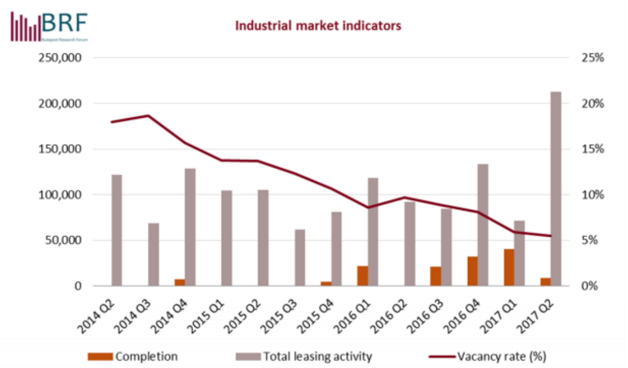
Vacancy rate has continued to decrease by 0.6 pps quarter-on-quarter to 8.6%, which is the lowest rate ever on record. The lowest vacancy rate is still recorded on the South Buda submarket (3.1%), whilst the Periphery submarket registered again the highest figure (33.1%). Demand in Q2 2017 increased by 47% compared to the previous quarter, comprising 98,730 sq m. Renewals were the major driver of the leasing activity with 38.5% share. In the second quarter of 2017 new lease agreements were represented by 32.9%, expansions accounted to 9.9%. Pre-leases showed a higher share compared to previous periods with 18.8%. There was no owner occupation registered during the period.

According to BRF, 178 deals were closed in Q2 2017, with an average size of 555 sq m. In terms of submarkets, Váci Corridor had the highest leasing activity, representing more than 34% of the total demand, followed by South Buda (25%) and Central Buda (13%) submarkets. The largest deal of the quarter was a renewal in Infopark D office building for more than 7,000 sq m. This was followed by a renewal in Átrium Park for 6,710 sq m. The largest pre-lease was signed in Office Garden III, extending to over 4,630 sq m. The quarterly net absorption totaled 19,265 sq m in Q2 2017.

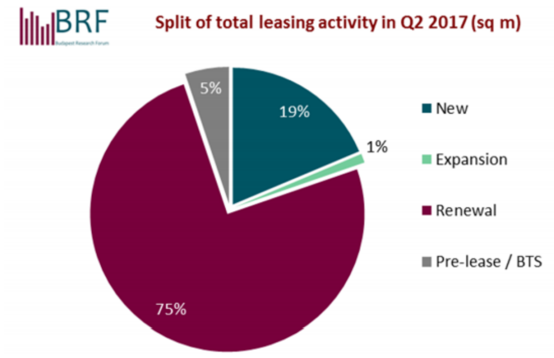
City logistics

The Budapest Research Forum (BRF, which comprises: CBRE, Colliers International, Cushman & Wakefield, Eston International, JLL and Robertson Hungary) sets out below its Q2 2017 industrial market snapshot.

In the second quarter of 2017, two buildings were added to the industrial stock with a total size of 20,380 sq m. A new 8,790 sq m warehouse was delivered at BILK Logistics Park, whilst the BRF included M7 Dunaharaszti - an existing 11,590 sq m warehouse to the Greater Budapest industrial stock. The total modern industrial stock in Budapest, and its surroundings, stands at 1,953,790 sq m as of the end of Q2 2017.



Source: BRF



Source: BRF

Total demand amounted to 212,750 sq m in Q2 2017, which is the highest quarterly volume on record. Renewals accounted for 75% of the total take-up, while the share of new lease agreements amounted to 19% of the total take-up. Two pre-leases were signed during the quarter, totalling 10,980 sq m and represented 5% of the total take-up, whilst the remaining 1% was generated by expansions. The BRF registered 24 industrial transactions in the second quarter, out of which five lease agreements were signed for more than 10,000 sq m. The average transaction size was 8,865 sq m in the quarter, which was significantly larger than the typical deal size. 98.5% of the total leasing activity was recorded in logistics parks where the average deal size was 11,030 sq m. The average deal size in city logistics schemes equated to 631 sq m.

The largest transaction of the quarter was a renewal of 95,000 sq m in BILK, in addition to which a 5,730 sq m prelease agreement was concluded by the same occupier. The largest new lease was signed in Prologis Park Budapest – Harbor for 13,640 sq m. The vacancy rate declined by 0.4 percentage points q-oq, reaching a record low of 5.5% at the end of Q2 2017. In total, 108,240 sq m is currently vacant, though there are no schemes that can offer more than 10,000 sq m of adjacent space. Net absorption remained positive in Q2 2017 and amounted 27,300 sq m.

Note on the methodology: BRF analyses modern industrial properties located in Budapest and Pest County, completed after 1995 for letting purposes, comprising a minimum of 2,000 sq m space in terms of city-logistics or minimum of 5,000 sq m space in terms of logistics park warehouses. The industrial stock excludes owner occupied buildings.

Goals and strategy

Property management – office market

In line with its strategy, Appeninn Holding fundamentally focuses on such niche market segments where favourably priced assets promising high earning-generating potentials with professional operation can be acquired and held as medium and long-term investments. Primarily, the Group has office complexes in Budapest, but also acquires logistic, commercial properties nation-wide. Through its acquisitions in recent years, Appeninn has been able to broaden its property portfolio.

In addition to maintaining the utilization rate of the office properties belonging to the Company's portfolio on a favourable level, Appeninn attributes importance to satisfying the existing demands of tenants and keeping operating efficiency in the center of attention. The favourable locations and the applied leasing policy ensuring outstanding price-to-value ratios gives the Group a steady utilization rate over 95%, which goes well beyond the average in Budapest.

The principal expectations in relation to office properties include good location, easy access and beneficial functions – these criteria are eminently considered by the Company in its acquisitions. The Group owns the individual real-estate properties via its subsidiaries, and performs operation-related services (accounting, finance, maintenance) in a centralized manner, via the entities belonging to the holding company. To counterbalance the impacts of the economic environment on the tenants, the Company always aspires to continuously control and reduce operating costs, thereby responding to the tenants' cost reduction demands, and consequently the Company does not come under pressure to reduce rental levels, but there remains some room for increasing the amounts of rents even in the current market atmosphere.

Appeninn Nyrt. has a holding company function without the Group, and renders the following services within the Group:

- provision of real-estate property maintenance and operating services that are necessary for the lease-out activities of the subsidiaries
- active portfolio management
- centralized management and administration, as well as legal representation
- centralized arrangement of purchasing transactions, finding the most favourable offers
- organization and implementation of property renovation, conversion works, professional supervision
- receivables management
- provision and operation of the central dispatcher/fault reporting line
- organization of the security guarding and reception services of the properties

- advertising properties/offices to let, recruitment of tenants, maintaining contacts with the tenants
- publication of advertisements in the electronic and printed media, presentation of the subsidiaries and their properties at the appeninn.hu website

Property management – City Logistics

At the end of 2010, the Company made a definite move towards the warehousing and industrial property market, started to expand its portfolio in subsequent steps at a fast pace, thereby creating a massive second holdfast for the holding company beside the office market. The Company's entry into the new segment was implemented with abidance by the core values formulated in the office market: acquisition and management of properties that could be operated with over-the-average utilization rates and levels of earnings offering value to shareholders. In this market segment, Appeninn successfully focused on populating the portfolio with tenants, and pursued effective portfolio management activities towards the optimization of the portfolio structure.

Main resources, risk factors and their changes, uncertainties

Strengths

- The Company flexibly adapts itself to special customer demands
- The Company realizes cost-efficient operation
- Thoroughly considered property portfolio size and consequential volume-efficient management
- Maintenance of a coordinated funding and income structure
- The Company has a proper liquid asset portfolio
- The Company has well-balanced leverage.

Uncertainties

- Uncertainties relating to the accurate forecasting of utilization rates in new acquisitions
- Duration of tenant changeover for continuous lease

Opportunities

- The underpriced property market in Hungary is an attractive investment target for foreign investors
- Acquisition of undervalued properties in the niche market segments

- The demands of small and medium-sized enterprises as tenants mostly surface in category B
- Long-term cooperation with liquid companies with steady cash flow when the prime of the small and medium-sized enterprises are acquired

Risk factors and mitigation

- The creation of the portfolio for the "bad bank" (MARK Zrt.) planned to be founded by the National Bank of Hungary (MNB) has the potential to substantially influence the selling parameters of the properties that are currently available in the market.
- Appeninn Nyrt.'s Treasury function coordinates participation in the financial markets in line with the Company's long-term business interests.
- Investments in the Hungarian office market can influence pricing indirectly and in the long term.
- The risks of non-payment or default payment that are generally experienced in the corporate segment have already been managed by the Company by maintaining continuous customer monitoring. Customer monitoring activities are continuously developed by coordinating information flow among operations, energy management, customer management and finance.
- 0% of Appeninn Nyrt.'s FX-based investment loans are denominated in EUR.

Consolidated entities and shares in controlled participations

Appeninn Angel Zrt.	1022 Budapest, Bég u. 3-5	01 10 048362	100,00%	Appeninn Nyrt.
Appeninn - BP 1047 Zrt.	1022 Budapest, Bég u. 3-5	01 10 047160	100,00%	Appeninn Nyrt.
Appeninn E-Office Zrt.	1022 Budapest, Bég u. 3-5	01 10 047783	98,80%	Appeninn Nyrt.
Appeninn Logisztikai Zrt.	1022 Budapest, Bég u. 3-5	01 10 046822	100,00%	Appeninn Nyrt.
Appeninn Solaris Zrt.	1022 Budapest, Bég u. 3-5	01 10 047055	100,00%	Appeninn Nyrt.
Appeninn Vagyonkezelő Holding Nyrt.	1022 Budapest, Bég u. 3-5	01 10 046538	100,00%	Appeninn Nyrt.
Bertex Zrt.	1022 Budapest, Bég u. 3-5	01 10 045752	100,00%	Appeninn Nyrt.
Curlington Kft.	1022 Budapest, Bég u. 3-5	01 09 728951	100,00%	Appeninn Nyrt.
Szent László Téri Szolgáltató Ház Kft.	1022 Budapest, Bég u. 3-5	01 09 947093	100,00%	Appeninn Nyrt.
Felhévíz Appen Kft.	1022 Budapest, Bég u. 3-5	01 09 285651	100,00%	Appeninn Solaris Zrt.
AppeninnCredit Hitelezési Zrt. *	1044 Budapest, Váci út 76-80.	01 10 045678	100,00%	Appeninn Nyrt.
APPEN-RETAIL Kft.	1022 Budapest, Bég u. 3-5	01 09 292725	100,00%	Appeninn-Solaris Zrt.
Várna 12 Holding Zrt.	1022 Budapest, Bég u. 3-5	01 10 048812	100,00%	Appeninn-Angel Vagyonkeze
SECTURA Ingatlankezelő Kft.	1022 Budapest, Bég u. 3-5	01 09 297215	100,00%	Szent László Téri Szolgáltat

*As a result of the active selling process, the financial enterprise is presented as an asset held for sale.

Property management, real-estate property leasing and operation companies are consolidated by means of full consolidation method, non-controlling interest is screened in the periodic result, following the category of profit after taxes.

Declaration on the audit of information presented in the Report

The information and data presented in the Report have been consolidated, but have not been audited.

Released information of dividend payment

Based on the resolutions adopted by the repeated annual General Meeting held on April 28, 2017, the Appeninn Vagyonkezelő Holding Public Limited Company (registered seat: H-1022 Budapest, Bég street 3-5.; company registration number: 01-10-046538; tax number: 11683991-2-41, hereinafter: „Company") hereby informs the Honourable Shareholders about the execution of payment of dividend for the financial year 2016.

For the ordinary registered shares of the Company having the face value of HUF 100,- (ISIN HU0000102132) the dividend of HUF 7 (in words gross seven Hungarian forints) paid. The Company keeps the amount of divided allocated to the treasury shares in the retained earnings of the Company.

On 22th August the Board of director released the final data of the dividend date.

The statement day concerning the payment of the dividends was June 12, 2017. On the date of dividend's day the dividend allocated and totalled to the traded 37 378 859 pieces number of shares was 261 652 Thousand HUF.

Changes in the headcount of full-time employees

	Beginning of the period	End of the period
At company level	1	1

List and description of owners with stakes larger than 5%

Name	Nationality[1]	Activity [2]	Number (pcs)	Stake (%) [3]	Voting right (%) [3,4]	Remark[5]
Lehn Consulting AG	K	T	9.847.004	24,74	26,34	
E-Milorg Kft.	B	T	7.040.000	17,69	18,83	
Appeninn Nyrt.	B	T	2.421.141	6,08	-	Treasury shares

[1] Domestic (D). Foreign (F)
[2] Trustee (T). Budgetary (B). International Development Institute (Dev). Institutional (I). Business entity (BE) Private (P). Employee, senior officer (E)

3 To be specified as rounded to two decimals
4 Voting rights allowing participation in decision-making at the general meeting of the issuing entity
5 E.g.: professional investor, financial investor, etc.

Senior officers, strategic employees

Name	Position	Starting date and end of the office	Shareholding (pcs)
György Ádámosi Jr. Indirect shareholding via Lehn Consulting AG	chairman of the BoD	17.01.2014 indefinite	9.847.004
Gábor Székely	BoD member, chairman of the Audit Committee	12.03.2010 indefinite	83.000
Balázs Szabó	BoD member, member of the Audit Committee	10.04.2012 indefinite	-
Lőrinc Éder	BoD member, member of the Audit Committee	12.03.2010 indefinite	-
Zoltán Prutkay	chief financial officer and BoD member	01.01.2015 indefinite	105.000
Attila Gábor Kovács	BoD member BoD member	15.04. 2016 indefinite	100.000

Company's declaration of liability

We, the undersigned hereby declare that to the best of our knowledge this interim report offers a reliable and true view of the financial standing and performance of Appeninn Nyrt. and its controlled undertakings, describes the major events and transactions that occurred and were consummated during the associated period, as well as the connected financial impacts exercised on the financial standing of Appeninn Nyrt. and its consolidated entities. In the period under review, there were no material changes in the accounting policy and accounting principles.

Budapest, 23th August 2017

Appeninn Holding Plc.

Zoltán Prutkay Gábor Székely
jointly as the members of the Board of Directors