

## Management Report

### General

Fotex Holding SE (the “Company”) is an European public limited company registered in the Luxembourg companies register under the number R.C.S.B 146.938 and regulated under the laws of the Grand Duchy of Luxembourg. The Company’s registered address is at 75, Parc d’activités, L-8308 Capellen, Luxembourg. The Company is primarily the holding company of a group of subsidiaries (Fotex and its subsidiaries, hereafter the “Group”) incorporated in Hungary, Luxembourg and The Netherlands and engaged in a variety of property management, manufacturing, retailing and other activities. Except for Upington Investments S.à r.l., which is registered in Luxembourg, and Fotex Netherlands B.V. and FN2 B.V., which are registered in The Netherlands, all subsidiaries of the Group are registered and operate in Hungary. The ownership of principal consolidated subsidiaries, after considering indirect shareholdings, is:

<u>Subsidiary:</u>	<u>Principal Activities:</u>	<u>31 March 2012</u>	<u>31 March 2011</u>
		<u>%</u>	<u>%</u>
Ajka Kristály Kft. (Ajka)	Crystal manufacturing and retail	100,0	100,0
Balaton Bútor Kft.	Furniture manufacturer	100,0	100,0
Downington Holding S.à r.l.	Investment holding	-	100,0
FN 2 B.V.	Property management	100,0	-
Plaza Park Kft.	Property management	100,0	-
Europrizma Kft.	Advertising	-	100,0
Fotex Cosmetics Kft.	Cosmetics retailer	100,0	100,0
Fotexnet Kft.	Internet retail and other services	87,9	100,0
Hungaroton Music Zrt.	Music archive	99,2	99,2
Hungaroton Records Kft.	Music publishing and music retailing	99,8	99,8
Keringatlan Kft.	Property management	100,0	100,0
Fotex Netherlands B.V.	Property management	100,0	100,0
Proprimo Kft.	Intercompany advisory services	100,0	-
Primo Zrt.	Clothing retailing and wholesaling	-	100,0
Sigma Kft.	Property services	75,1	75,1
Székhely 2007 Kft.	Property management	99,1	99,1
Upington Investments S.à r.l.	Investment holding	100,0	100,0

During the period I-III. months 2012 the Group hasn't entered into transactions and mergers that affect the Group structure.

During 2011, Fotex Group entered into the following transactions and mergers that affect the Group structure:

- On 8 August 2011, the Group disposed of 100% of Europrizma Ügyviteli Kft. As a result Europrizma Ügyviteli Kft. has not been a Fotex Group member since 8 August 2011.
- On 1 July 2011, the Group purchased 100% of Plaza Park Kft. a company located in Hungary. As a result Plaza Park Kft. has been a 100% subsidiary of the Group since 1 July 2011.
- On 24 June 2011, Fotex Netherlands B.V. established a subsidiary in The Netherlands, FN 2 B.V. to enhance and manage the Group's property portfolio in The Netherlands.
- The assets and operations of Downington S.à r.l. were taken over by its former sole owner, Upington S.à r.l. in the second quarter of 2011 Downington S.à r.l. was struck off the Luxembourg companies register at 7 April 2011.
- Proprimo Kft. had been demerged from Primo Zrt, Proprimo Kft's core operations are intercompany advisory services. The demerger was registered by the Companies Court on 17 October 2011. Following the demerge, Primo Zrt's operations have been limited to the retail and wholesale of men's clothing.
- The Group sold its share in Primo Zrt. to third parties at 12 December 2011. Accordingly, Primo Zrt. has no longer been a Fotex Group member as of that date.
- On 1 September 2011 the share capital of Fotexnet Kft was increased, Fotex Ingtatlan Kft, a related party company took part in the capital increase which resulted, that the Group's share in Fotexnet Kft has decreased in comparison to prior year.

## Financial overview

The Group has operations in The Netherlands, Luxembourg and in Hungary. From management point of view the Group divided 3 business lines, which are the followings:

- Investment property holding and management
- Crystal and glass manufacturing
- Other – administration and holding activities

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements.

The following tables below summarize the Group's revenues and profit before tax for 31 March 2012 and 31 March 2011 by business lines:

	<u>31 March 2012</u>	<u>31 March 2011</u>
Net sales:	Net sales	Net sales
	EUR	EUR
Investment property	6,450,502	5,926,565
Crystal and glass	1,317,630	1,813,636
Other	1,813,343	2,324,505
Inter-segment elimination	<u>(652,494)</u>	<u>(680,531)</u>
Net sales	<u><u>8,928,981</u></u>	<u><u>9,384,175</u></u>

Profit before income taxes:	<u>31 March 2012</u>	<u>31 March 2011</u>
	EUR	EUR
Investment property	1,633,922	1,592,224
Crystal and glass	(92,814)	240,816
Other	<u>(183,237)</u>	<u>(140,551)</u>
Profit before income taxes	<u><u>1,357,871</u></u>	<u><u>1,692,489</u></u>

The operating results of the Fotex Group varies from year to year due to changes in exchanges rates, government tax rates, discontinuation of lines of business, as well as general European and global economic trends.

In the crystal and glass segment it can be seen that the revenue and the profit before tax has decreased in the period I-III months 2012 compared to the same period in the prior year. The reason for this decrease is that the volume of customer orders of Ajka Kristály Kft has dropped in the first quarter 2012, which was only a one-off event and not a long – lasting trend and it is expected that in the future the volume of the customer orders of Ajka Kristály Kft will increase to its previous normal level.

The management also monitors the activities which generate the Group’s revenues. The table below summarizes the main activities from which the Group generates its revenues:

Sales revenue	<u>31 March 2012</u>	<u>31 March 2011</u>
	EUR	EUR
Sale of goods	2,173,762	2,899,985
Provision of services	401,475	515,241
Rental income revenue	5,507,918	4,630,623
Revenue from service charges to tenants	774,267	808,518
Royalty revenue	5,846	26,251
Other sales revenue	<u>65,713</u>	<u>503,557</u>
Total sales revenue:	<u><u>8,928,981</u></u>	<u><u>9,384,175</u></u>

The structure of the activities hasn’t changed significantly in the first quarter of 2012 in comparison to the same period of 2011. It can be seen that revenue from the real estate management is the most significant, which is further improved mainly due to the new investment property acquisitions in 2011 (two investment properties were purchased by the FN 2 BV in The Netherlands and the investment property portfolio was also increased by the acquisition of Plaza Park Kft.). The rental income derived from these investment properties are reflected in the period I-III months 2012 but are not included in the same period of the prior year because these investment properties were acquired after 31 March 2011. It must be noted that the rental income derived from the investment property portfolio situated in Hungary has decreased due to the fact that the vacancy rate of these investment properties has increased and in parallel with this the attainable rental fees, on which these investment properties can be rented out, have dropped. This trend in relation to the investment properties situated in Hungary seems to be a long-lasting.

The revenue from selling of goods is generated mainly by selling crystal and glass products and other consumer products; the decrease in the year can be explained as it is written above.

The table below summarizes the Group's key financial indicators, which are monitored by the Group's management:

	<b>Selected financial information (EUR)</b>			
	<b>31.03.2012</b>	<b>31.12.2011</b>	<b>31.03.2011</b>	<b>31.12.2010</b>
Sales	8,928,981	39,127,440	9,384,175	38,995,678
Gross profit	7,389,052	30,822,651	7,435,662	30,008,607
Operating profit	2,126,597	10,492,984	2,003,272	6,910,565
Pre tax profit	1,357,872	8,409,550	1,692,489	7,050,770
Net profit*	983,108	6,638,657	1,277,882	6,375,028
Owner's equity**	114,136,843	109,835,692	119,222,850	114,276,069
Total assets	201,171,584	191,203,042	167,654,302	164,837,561
Number of issued shares	72,723,650	72,723,650	72,723,650	72,723,650
Earnings per share	0.02	0.11	0.02	0.11
Return on equity	0,88%	5,92%	1,09%	5,69%
Return on assets	0,5%	3,73%	0,7%	4,08%

\* *net profit attributable to equity holders of the Company*

\*\* *equity attributable to equity holders of the Company*

### **Risks and Risk management of the Group**

The Group's business, financial condition or results can be affected by the risks and uncertainties. The management has identified the following risks:

- Change in laws and regulations governing the operations of the Company and its subsidiaries may affect their business, investments and results of operations.
- Foreign currency risk
- Credit risk
- Interest rate risk
- Liquidity risk

Management monitors these risks and applies the following risk management procedures:

#### *Foreign currency ("FX") risk*

Financial instruments that potentially represent risk for the Group include debtors in foreign currency, creditors in foreign currency and deposits in foreign currency other than in EUR. The Group's rental contracts are stipulated in EUR or on EUR basis thus mitigating any FX risk associated with non-EUR revenues. Many EUR-based rental contracts are billed in HUF based on the applicable daily spot rate. In order to mitigate the risk of FX losses from any potential unbeneficial EUR/HUF rate fluctuations, the Group normally sets out a minimum EUR/HUF rate in its rental contracts.

In addition the Group entered into a small number of derivative contracts during the year, mainly FX forwards to manage FX risks related to the Group's operations.

#### *Credit risk*

The Group aims to mitigate lending risk by its careful and continuous debtor portfolio monitoring process and by requiring bank guarantees and collateral. In addition, the Group regularly follows up information about the main debtors in the market.

#### *Interest risk*

In order to mitigate the interest rate risk the Group tries to use mainly fixed rate loans. In parallel with this in case of variable interest rate loans the Group limits the increase of interest rate by applying cap. The loan interests vary between one to three month EURO-LIBOR + 2.2-2.7% and are at fixed rates varying between 3.59% and 4.32%. The interest risk of the variable interest mortgage loans, except for the smaller loan of EUR 3.75m is limited between 3.3 to 3.64%.

#### *Liquidity risk*

Liquidity risk is monitored as follows:

- Monitoring daily available deposited and free cash by entity
- Monitoring weekly cash flows by entity
- As part of the management information system, the Group monitors the operations of each entity on a monthly
- The Group monitors its long-term cash flows in order to match the maturity patterns of its assets and liabilities

### **Research and development**

The Company directly has no activity in relation to research and development and the research and development activity carried out through its subsidiaries is not significant.

### **Share capital**

The Company's approved and issued share capital totals EUR 30,543,933 consisting of shares with face value of EUR 0.42 each. At 31 March 2012, the Company's issued share capital included 70,723,650 ordinary shares and 2,000,000 dividend preference shares (31 December 2011: 70,723,650 ordinary shares and 2,000,000 dividend preference shares).

### **Treasury shares**

The 2,000,000 dividend preference shares issued by the Company which are shown as part of "Issued capital" (31 March 2012: EUR 840,000; 31 December 2011: EUR 840,000) are also shown in "Treasury shares". As at 31 March 2012 1,550,000 (31 December 2011: 1,550,000 shares) dividend preference shares are held by certain employees. These shares are shown within "Treasury shares" and as a liability (preference shares incentive scheme liability).

The “dividend-bearing preferred shares” carry the same rights as ordinary shares in the event of liquidation or dissolution. They entitle the holder to an annual dividend determined by the General Meeting, but do not carry voting rights.

The dividend rate on the preference shares shall not exceed 50% of the given year’s average stock exchange price of Fotex shares, but shall not be less than an amount equivalent to double of the European central bank twelve months base interest rate relevant for the year, applied to the face value of the share. The total sum of the dividend determined for preference dividend cannot exceed 30% of the consolidated IFRS profit after taxes minus minority interests.

Holders of dividend-bearing preferred shares are not entitled to any rights or dividends other than those granted to them by the General Meeting. They are paid once a year. Interim dividends may only be paid if the conditions required for such a distribution are met.

If the Company is unable to pay these dividends in a given year or if it only pays part of the minimum due in a given year and fails to pay the balance at the time of payment of the dividends for the following year, holders of dividend-bearing preferred shares shall be granted identical voting rights to those reserved for Ordinary Shares. This voting right shall remain valid until such time as the Company has paid all the minimum dividends due in respect of the dividend-bearing preferred shares.

As at 31 March 2012, the Company held 14,149,259 treasury shares (including dividend preference shares) at a historic cost of EUR 20,837,043 (31 December 2011: 13,449,525 shares at a historic cost of EUR 20,205,074). During 2012, the Company purchased 699,734 of its ordinary shares (2011: 816,976 shares) on an arm’s length basis. No dividend preference shares from senior officers were redeemed either in 2012 or in 2011.

The extraordinary general meeting held as of December 14, 2011 has decided to authorise the management body to carry out share buybacks for a further five years at a price set between the nominal value and the market value on the transaction date. The only restriction is that such transactions should not cause the net assets to fall below the share capital and non-distributable reserves combined.

#### **Significant Events After the end of the financial year**

After the end of the reporting period the following significant events have happened:

- According to resolution No. 5 at their ordinary annual meeting held on 26 April 2012, upon approving the financial statements for 2011, Fotex Holding SE’s shareholders decided to distribute dividends to the holders of dividend preference shares equalling the 75% face values of the shares.

#### **Significant direct and indirect Shareholders**

Gábor Várszegi, Chairman of the Board of Fotex, directly or indirectly controls a part of the voting shares of Blackburn International Inc. (“Blackburn”), a Panama company and Blackburn International S.à.r.l. (“Blackburn Luxembourg”), a Luxembourg company and Zurich Investments Inc. (“Zurich”), a British Virgin Islands company, Blackburn Luxembourg has a controlling interest in Fotex Ingatlan Kft. (“Fotex Ingatlan”). As at 31 March 2012, Blackburn controlled 16.9 % (31 December 2011: 16.9%). Fotex Ingatlan controlled 17.6 % (31 December 2011: 17.6%) Blackburn Luxembourg controlled 15.8% (31 December 2011: 15.8%) of the Company’s share capital. These companies are considered to be related parties. On 1 July 2011, the Group purchased 100% of the quota of Plaza Park Kft. Therefore, Plaza Park Kft. had been recognised as a related party up to 30 June 2011 and has been a Fotex Group members since 1 July 2011.

## Corporate governance

The Company is committed to adopt best practice corporate governance standards, including to comply with the Ten Principles of Corporate Governance of the Luxembourg Stock Exchange.

### *The Board*

The Company is managed by a board of directors (the “Board”) composed of a minimum of five and a maximum of eleven members (the “Directors”, each a “Director”).

The Directors shall be appointed by the general meeting of shareholders of the Company for a maximum period which will end at the annual general meeting of the Company to take place during the third year following their appointments. They shall remain in office until their successors are elected. They may be re-elected and they may be dismissed at any time by the general meeting, with or without cause.

In the event that one or several positions on the Board become vacant due to death, resignation or any other cause, the remaining Directors shall select a replacement in accordance with the applicable legal provisions, in which case this appointment shall be ratified at the next general meeting of the shareholders of the Company. The Board of Directors has been authorized by the shareholders to manage the day-to-day operations of the Company, as well as to make administrative decisions at the Company. All rights which have not been conferred to the shareholders by the articles of association or by the laws remain of the competence of the Board of Directors. The Board may decide paying interim dividends as prescribed by law. All long-term pay schemes, plans, or incentive programs relating to the employees of the Company and its subsidiaries, which the Board would like to implement have to be first brought before and approved by the shareholders and the General Meeting of the Shareholders.

The remuneration of members of the Board of Directors shall be fixed by the General Meeting.

The Board shall elect a chairman from among its members.

According to the Articles, persons with no legal or financial link to the Company other than their mandate as Director are considered “independent persons”.

“Independent persons” does not include persons who:

- a) are employed or were employed by the Company or its subsidiaries during the five years preceding their appointment as Director;
- b) carry out remunerated activities for the benefit of the Company or exercise technical, legal or financial duties within the Company;
- c) are shareholders of the Company and directly or indirectly hold at least 30% of the voting rights, or are related to such a person;
- d) receive financial benefits linked to the Company’s activities or profit;
- e) have a legal relationship with a non-independent member of the Company in another company in which the non-independent member has management and supervisory powers.

The Board is composed as follows:

<b>Name:</b>	<b>Position:</b>
Mr. Gábor VÁRSZEGI	Chairman of the Board
Mr. Dávid VÁRSZEGI	Member of the Board
Mr. Wiggert KARREMAN	Member of the Board
Mr. Jan Thomas LADENIUS	Member of the Board
Mr. Bob DOLE	Member of the Board
Mrs. Anna RAMMER	Member of the Board
Mr. Peter KADAS	Member of the Board

The annual general meeting of the Company held as of April 26, 2012 has not elected TITAN S.á.r.l as member of board of directors, and has elected Mr Peter KADAS as a member of board of directors, which means a personnel change in the composition of the Board of Directors.

The annual general meeting of the Company held as of April 26, 2012 has elected the members of the Board of Directors with a mandate expiring at the annual general meeting of shareholders of the Company called to approve the Company's annual accounts as at December 31<sup>st</sup> 2012.

Each member of the Board of Directors is high-qualified, acclaimed specialist.

#### *Audit Committee*

The audit committee of the Company (the "Audit Committee") shall be composed of a minimum of three and a maximum of five people.

The members of the Audit Committee shall be appointed by the general meeting of shareholders of the Company among the members of the Board deemed to be "independent persons" for a period not exceeding their respective mandates.

The Audit Committee shall elect a chairman from among its members. The quorum shall be met at Audit Committee meetings when the members have been validly called to attend and when a minimum of two-thirds or three of its members are present. All of the Committee's decisions shall be taken by a simple majority vote. In the event of a tied vote, the person presiding over the meeting shall have the casting vote. They may be re-elected and they may be dismissed at any time by the general meeting, with or without cause.

The Audit Committee opines the annual report of the Company, controls and evaluates the operation of the financial system, provides its tasks in connection with the Auditor of the Company.

#### Composition of the Audit Committee

The Audit Committee is composed as follows:

- Mr. Wiggert Karreman (Member of the Audit Committee)
- Mr. Jan Thomas Ladenius (Member of the Audit Committee)
- Mr Peter KADAS (Member of Audit Committee)

The Members of the Audit Committee has been appointed at the annual general meeting held on 26 April 2012. The mandate of the members of the Audit Committee will expire at the annual general meeting of shareholders of the Company called to approve the Company's annual accounts as at December 31<sup>st</sup> 2012.

No specific remuneration is attributed to the members of the Audit Committee.



## **Rules Governing Amendments to the Articles of Incorporation**

Amendments to the Articles of Incorporation are approved by resolution at an Extraordinary General Meeting of Shareholders under the conditions of the law.

## **Branches of the Company**

The Company has no branches.

## **Other Disclosures**

There are no agreements with shareholders which are known to the Company and may result in restrictions on the transfer of securities or voting rights within the meaning of the 2004/109/EC (transparency directive).

There are no restrictions on the transfer of securities in the Articles of Incorporation of the Company.

There are no securities granting special control right to their holders and there are no restrictions on voting rights of the ordinary shares.

There are no significant agreements to which the Company is party to and which would take effect, alter or terminate upon a change of control following a public offering or takeover bid.

There are no agreements between the Company and its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

There is no system of control of employee share scheme where the control rights are not exercised directly by the employees

The Board of Directors shall be vested with the most extensive powers to manage the affairs of the Company and to carry out all measures and administrative acts falling within the scope of the corporate object. Any powers not expressly reserved for the general meeting by the Articles of Association or by the law shall fall within the remit of the Board of Directors.

A subsequent General Meeting representing at least 50% of the Ordinary Shares may establish the limits and conditions applicable to the authorised capital, within the limits laid down by the Law. In this case, the Board of Directors is authorised and mandated to:

- carry out a capital increase, in one or several stages, by issuing new shares to be paid up either in cash, via contributions in kind, the transformation of debt or, subject to the approval of the Annual General Meeting, via the integration of profits or reserves into the capital;
- set the place and date of the issue or of successive issues, the issue price, and the conditions and procedures for subscribing and paying up the new shares;
- abolish or restrict the preferential subscription rights of shareholders with regard to new shares to be issued as part of the authorised share capital.

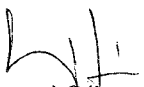
This authorisation is valid for a period of five years from the publication date of the authorisation deed and may be renewed by a General Meeting of Shareholders for any shares of the authorised capital which have not been issued by the Board of Directors in the meantime.

Following each capital increase carried out and duly recorded according to the legal formalities, the first paragraph of Article of Association shall be amended in such a way as to reflect the increase carried out; this amendment shall be recorded in the notarial deed by the Board of Directors or any other authorised person.

## **Future Prospects**

The Group will continue seeking favorable investment opportunities taking into account the market conditions given and the stable cash flow of the Group.

25 May 2012, Capellen



Várszegi Gábor  
Fotex Holding SE  
Chairman of the Board




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## Financial Statement Certification

In accordance with Article 3 of the law of 11 January 2008 on transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, we confirm that to the best of our knowledge, the consolidated financial statements as of 31 March 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and profit or loss of Fotex Holding SE and its subsidiaries included in the consolidation taken as a whole. In addition, the Management' report includes a fair review of the development and performance of the business and the position of Fotex Holding SE and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.



Gábor Várszegi  
Chairman of the Board

Capellen, 25 May 2012