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Company Registration Court: Regional Court of Budapest
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Registration Number: 7375

HUNGART

Collecting Society of Hungarian Visual Artists
[Vizuális Művészek Közös Jogkezelő Társasága Egyesület]
(HUNGART VMKJT SOCIETY)

1055 Budapest, Falk Miksa utca 30.

Notes to the financial statement of year 2016

December 31, 2016

May 2, 2017

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INTRODUCTION OF THE HUNGART SOCIETY

The HUNGART Collecting Society of Hungarian Visual Artists was established by individual artists based on Government Decree 146/1996.(IX.19.).

Registered seat of the Society is 1055 Budapest, Falk Miksa utca 30.

Referred Government Decree stipulates that the management of copyright and neighbouring rights may be done only by societies that are established – registered – based on Sections 61-64 of the Civil Code, with non-profit character.

The Court of the Capital in its decision 01.Pk.61344/1996/2 that became legally binding on February 27, 1997 registered the Society under sequence number 7375.

The Minister of Culture and Public Education registered the HUNGART Collecting Society of Hungarian Visual Artists on the basis of Regulation 5/1997. (II.12.) MKM with his decision of April 19, 1997, as a rights managing society.

The purpose of the organisation is to collect and disburse the royalties for the members – graphic artists, applied artists, photo artists – and the legal successors of these artists, that is, for the beneficiaries – and to enforce the protection of their copyrights in an enhanced manner both domestically and abroad.

The Delegates' Meeting at its session held on May 23, 2006 decided that the targeted activity of the Society meets the provisions of Act CLVI of year 1997 and the public benefit classification of the Society does not provide any significant advantages for the Society, therefore they decided to terminate it. The Court of Budapest with its decision 16.pk.61.344/1996/9 dated July 5, 2006 and which became legally binding on July 28, 2006 ordered the deleting of the public benefit legal status of the organisation.

The rules of the activities of the Society are set forth in Section 85-92 of Chapter XII of Act LXXXVI of year 1999 on copyrights. Supporting the art partner organisations and improving the social situation of indigent artists are connected to the joint management of copyrights and neighbouring rights, as to the core activity.

The European Parliament and Council adopted Directive 2014/26/EU on copyrights and the neighbouring rights on February 26, 2014. The transition of the Directive on Collective Rights Management into the Hungarian law was done with the acceptance of Act XCIII of year 2016 that came into effect on July 28, 2016, and consequently the rules of collective rights management have been removed from the copyright law. The detailed rules of the operation of collective rights management organisations and independent rights management organisations as well as of the rights management related procedures are included in Government Decree 216/2016. (VII.22.) effective as of August 22, 2016.

Due to the changes of law, all the policies of HUNGART had to be modified; based on the provision of law a report has to be prepared for the Hungarian Intellectual Property Office that takes care of supervision, and a “so-called” transparency report has to be prepared and published starting with year 2017, moreover, the beneficiaries have to be informed in writing in a certifiable manner about the conditions of rights management and the development of the royalty amounts, as well as about the management costs, about the community purpose deductions and utilisations.

The above have caused a significant administrative additional work already in year 2016, with observing the different, but relatively short deadlines, however, this will mean a continuous workload in the future.

The Society does not have any initial, founding assets. It was possible to cover its operation costs in financial year 2016 from the net 22 % and 15 % management cost part of the collected copyright fees and contributions, the extent of which is defined in the Distribution Policy.

HUNGART has not been implementing any business activities since its foundation.

The primary decision-making organisation of the Society is the Delegates' Meeting. The practical activity of the organisation is directed by the Board that consists of eight members, and which is led by a President and two Vice-Presidents, who are elected from its members. There is a Supervisory Board consisting of three members that supervises the proper operation and financial management of HUNGART.

The daily tasks are taken care of by the members of the work organisation of the Society in the framework of employment, and in those area where it is not practical to have employees, the work is done by external organisations and individual agents based on service contracts.

Each of the members of the organisation that provides accounting service (bookkeeping) are registered chartered accountants or registered chartered auditors.

The auditing of the annual report of HUNGART Society is implemented by GG PLUS Kft of registration number 000141, the assigned auditors is Éva Gampel, whose chamber membership number is 004681.

ACCOUNTING POLICY

The day when the balance sheet has to be prepared is the last day of March that follows the year involved, since this is justified by the experiences of the past years. With applying this date, it was possible to ensure the taking into account of the economic events involving the given year that became known between balance sheet date December 31 and the day, when the balance sheet is prepared.

The Society records its books according to the system of double entry bookkeeping, and it established the framework of its accounts on the basis of the recommendations that have been published in the financial and accounting magazines.

Based on Section 89 (13) on copyright, the collective rights managing organisations have to prepare instead of the previous simplified annual report an annual report starting with year 2012.

According to Section 89 (12) of the Act, in the course of preparing the report we had to take into consideration also the provision of the so-called Civil Act (Act CLXXV of year 2011), with special regard to the public benefit legal status. These provisions were overruled by the new legislation, however, provisions of practically identical contents had been stipulated by the already mentioned new acts and regulations on collective rights management. We did continue to ensure coherence in order to meet Government Decrees 224/2000. (XII.24.) and 342/2011. (XII.29.) that is based on the Accounting Act and which regulates the reporting obligation of "civil" organisations, and also the provisions of Government Decree 350/2011. (XII. 30.) that refer to the financial management of these organisations and the rules of specific issues of public benefit status.

The HUNGART Collecting Society of Hungarian Visual Artists followed and observed the accounting principles in the course of preparing the report, with focusing on providing a reliable and fair total view. As regards the previous years no revisions or self-revision took place.

No change was applied in the course of preparing the report as regards the valuation procedures compared to the previous year. The data are comparable with the previous year in line with the accounting stipulations.

As regards the financial management and the report of the Society concerning the substantial and significant extents the contents of the Accounting Act have to be applied.

The revenues of the Alliance are such revenues realised in the given year that are connected to the core activity and the business purpose activity, including the subsidies as well; while its costs are the direct costs of the core activity and the business activity, and the operation costs of the organisation.

The valuation of the fixed assets, the tangible assets and the intangible assets is done in the balance sheet at net value. The procurement value is the purchase price, which contains the costs that may be individually connected to the asset and which occurred until the capitalisation of the asset.

We defined the writing off of the depreciation of the assets with the linear method, based on the expectable lifetime, with the writing off rates that are stipulated in the Corporate Tax Act, proportionally with their actual days of operation. We write off an asset that has a procurement value that is below 100 thousand HUF on the occasion of taking into use, in one amount.

We present the value of the stocks at their actual production cost.

We present the purchased securities in the group of fixed assets, if according to expectations we will not sell them within a year; if a security that is registered as a fixed asset is sold after the balance sheet day, then it is included in the balance sheet as a current asset. At the time of selling the securities, removing them from the register is done according to the method of FIFO (First In First Out), that is, on the occasion of selling we always account the security that we had for the longest time (which was purchased the earliest). The book value of interest bearing securities

cannot contain the interest that is paid for on the occasion of purchase, that is, we register them at nominal value.

The Society accounts accruals according to the general provisions of the Accounting Act and the stipulation that is issued by the supervision.

The valuation and presentation in the balance sheet of the assets and liabilities that have not been highlighted above is done according to the general provisions of the Accounting Act.

According to the provisions of the Accounting Act (Act C of year 2000) and the referred Government Decree, the Society has an Accounting Policy and it has the connected inventory taking, scrapping, money management and valuation policies.

THE SUPERVISORY REPORT AND THE CHANGING OF THE ACCOUNTING POLICY

The Hungarian Intellectual Property Office supervising the area of rights management initiated as it was elaborated by PwC in the spring of 2014 the introduction of a “Single Supervisory Report”, and in addition to this the further extension of the accounting report, which also involved the established accounting policies of the rights managing organisations. They finalised the prepared document drafts after several conciliatory rounds and their application was phrased as a mandatory expectation.

The changes essentially focused on the royalty accountings; not only in respect of the revenues and expenditures, but also in respect of their registration.

According to the final decision, we applied the modifications concerning the accounting policy and the registration with January 1, 2015; and we applied the changes concerning the reports on the occasion of the report of year 2014 for the first time, with special regard to the supervisory report that is beyond the usual balance sheet.

According to the adopted and introduced modifications, we changed our established practice that was applied until then in order to be able to meet the general expectations that are effective as of year 2015.

Based on the changed provisions, HUNGART accounts only the financially settled royalty revenues in the given year; we present in the period of financial performance the royalties due, involving the given year, but paid in the beginning of the next year– in respect of which according to the Accounting Act previously we applied accrual.

We account as expenditure all royalties in the given year that are due to the beneficiaries after the collected revenues, independently of the fact that a significant proportion of the amount cannot be disbursed, because the conditions needed for performance are missing. We present the royalty expenditures as services mediated in line with the expectations.

The royalties that will be disbursed according to the expectations in the next year, which had been presented as accrued expenses and deferred revenues previously, we present as short-term liabilities. In year 2015, we settled in our registers those management costs that had not been enforced against the royalties that have been registered for five years retroactively, which after the passing of the lapsing period, we accounted during the redistribution. The accounting settlement was done still in the previous year among the accruals of the long-term liabilities longer than one year, the short term liabilities and the revenues.

As regards the bookkeeping, accounting, evaluation and presenting of the operation costs – compared to the previous years – no change had been introduced; they are comparable not only as regards the previous year and the given year, but for several years backwards as well.

/In summary: the data of the report of the given year are comparable with the data of the previous year./

THE GENERAL FINANCIAL AND LEGAL ENVIRONMENT OF RIGHTS MANAGEMENT

The impact of the financial crisis that evolved in the previous years and the economic crisis that occurred subsequently is dissolved slower than expected and this may be felt in the area of the rights managing activities as well. The dropping of the revenues of primary royalties stopped following the year that followed the crisis, however it still did not reach the level it had in the year before the crisis. After the stagnation of the revenues of the former years at 75-80 million HUF, in the last two years the revenue started to increase. However the revenue ratios did not change significantly, the ratio of the primary (directly collected) and of secondary (taken over for being distributed) royalties practically became equal.

The rights managing activity of the Society has been made more difficult for years by the insufficiency of the payment discipline of the art galleries – in this regard the “so-called” art dealers are leading the way. They do not pay, or pay only with significant delay even in spite of being summoned to do so, and in many cases even litigation procedures had to be initiated due to the non-observance of the promissory notes.

The petitions sent to art galleries that are regularly late or which do not pay are in the majority of the cases are efficient, because after receiving the summons there seems to be a “relatively” fast payment intention.

The non-payment of the royalty in the case of some of the art galleries goes hand in hand with the regular and conscious missing of providing the required data, as a consequence of which enforcing the claim becomes also cumbersome.

As a result of the well-founded legal work, the litigated claim is about 2 million HUF, however, in the case of two lawsuit the value of the object of the lawsuit is unknown.

The regulatory environment changed in year 2016, because the EU regulations were enforced in Hungary as well by adopting the new law concerning joint rights management. In addition to the increasing of the data providing and administrative tasks it is disadvantageous for the beneficiaries that the royalties of persons, who are unknown, or who stay at unknown places have to be handed over to the NKA [Nemzeti Kulturális Alap - NKA] now already after three years (previously this was five years), up to the extent of 90 % instead of the former 25 %. However, the law allows us to apply this rule only for the royalties that have been collected after its effective date and based on the decision of the delegate meeting the society wishes to apply this option in the interest of the beneficiaries.

It is possible to charge after art pieces sold only 4 % since 2012 instead of the 5 % rate. In the case of the planning of year 2016 we could calculate with a management cost of 22 % as regards the primary royalties, since the interests of investment may be also used for covering the operation costs. However, the extents of the management cost and the other revenues that could be used – in view of the enforcement of the accruals – did not fully cover the necessary operation costs, in spite of the fact that the increasing tendency of the royalty revenues continued. The increasing of the administration burdens has a cost impact as well, and therefore we were forced to increase the management cost.

The amount of annually net 100 million HUF that was paid to the beneficiaries compared to the revenues shows the successfulness of the activity of the Society in this regard.

It is favourable for the beneficiaries that the extent of EHO (health care contribution) of 27 % burdening the royalty disbursements was reduced to 22 % in year 2017, and nevertheless the individual management cost accounting that counterbalances the EHO was kept.

The public burden of 12-19 million HUF depending on the disbursements cannot be ensured from the management cost.

The art supporting activity of the Society developed according to the practice of the previous years.

Starting with year 2012, HUNGART transferred to NKA the amount of cultural purpose (7 % of the received royalties of secondary distribution and 12.5 % of the redistributed royalties older than five years have to be handed over to the National Cultural Fund [Nemzeti Kulturális Alap - NKA]). The utilisation of the amount continues to be non-transparent, because NKA does not provide any information; it does not provide any report on its utilisation.

The law on the joint management of rights provided an opportunity for reconsidering the supporting policy. Based on this – due to the 90 % taken away – there is no community purpose cultural deduction being made from the revenues that were collected after the effective date of the law and from the royalties that are taken over for being redistributed; while social purpose subsidies increased to 5 % and we distribute the royalties between the beneficiaries.

The redistribution of the royalties that have been received until July 29, 2016 is done according to the previous practice.

SUMMARY EVALUATION OF ECONOMIC MANAGEMENT AND OF THE REPORT

The balance sheet profit of the Society is 4,000 thousand HUF loss is basically the consequence of the accounted depreciation that was written off.

RIGHTS MANAGEMENT ACTIVITY

We already introduce the data of royalty revenues of years 2014-2016 in line with the cash-flow approach of royalty accounting. The data of the previous years include the accrued revenues as well. Due to the different method of evaluation, the comparison of the number data does not provide any significant information compared to year 2014. The development of the royalties only allows the presentation of the tendencies.

Based on this, it may be also concluded that the revenues develop in a fluctuating manner. The revenue of secondary royalties (empty carriers, cable, reprography) depends on the activities of our partner organisations. We do not have any influence on the royalties that are received from abroad either, for example in the years of 2015 and 2016 we received 14 million HUF reprography royalty concerning the years of 2009-2013. Hopefully, the 2017 revenues of the 4 % tracking royalties and contributions will reach the value of the given year – at least the values of the first quarter allow the assumption of this. The development of “licensing” (multiplication) was influenced by the licences that were connected to 2-3 outstanding fine art exhibitions. The revenue of broadcasting due to the thematic transformation of the channels and broadcastings of MTVA develops according to the operating new contract.

The data of the invoiced sales revenue by royalty types (with the management cost) are the following in thousand HUF:

	year 2012	year 2013	year 2014	year 2015	year 2016
- 4-5 % tracking royalty	54,550	59,139	53,066	70,626	86,233
(from this contribution)	(25,202)	(28,336)	(25,452)	(23,824)	(32,605)
“Licensing” (multiplication)	9,645	8,718	16,396	16,680	14,138
Broadcasting royalty	12,000	12,684	8,450	14,366	14,988
Empty carriers, cable	50,394	41,426	0	54,682	41,395
Reprographic fee	34,951	27,702	0	28,725	33,903
Royalty received from abroad	8,324	7,980	8,287	19,666	24,335
Total:	169,864	157,649	86,199	204,745	214,992

The distribution of royalty disbursements developed as follows in thousand HUF:

	year 2012	year 2013	year 2014	year 2015	year 2016
Personal royalties	93,338	90,277	92,413	81,272	121,272
Domestic organisation	11,145	5,964	6,931	6,712	13,089
Partner organisation abroad	13,452	13,344	21,167	9,285	11,189
Total	117,936	109,585	120,511	97,269	145,864

Number of individual beneficiaries

605 persons 637 persons 643 persons 609 persons 774 persons

From among the royalties that were disbursed in the given year, the amount that was received in year 2016 was 90,390 thousand HUF. From this 38,978 thousand HUF was the amount of distributed “secondary” royalties. We were able to disburse 65 % (16,718 thousand HUF) from the amount of the redistributed royalties older than 5 years (general lapsing period).

(The detailed data of royalty accounting are included in Appendix 1 of the profit and loss statement)

Subsidy policy

According to the contents of the approved subsidy policy of the Society, the 2016 May decision of the Board decided to publish 5 monographies. The high-quality books, the target of which is to introduce the artists that received previously creator fellowships were published in October, altogether with these the number of the books of the series that introduces the contemporary creators increased to 35.

We collected a revenue of 805 thousand HUF in the given year from selling the books that had been published so far. The purpose of publishing the books is basically to support the artist professional work and to present the results of the artist creating activities, and not to increase significantly the revenues of the Society. The preparatory works of publishing the books that are planned for 2017 have been started. We plan to publish three monographies this year, the financial resources of this are ensured.

8,718 thousand HUF in year 2012, 11,120 thousand HUF in year 2013, 9,273 thousand HUF in year 2014, 9,158 thousand HUF in year 2015, **10,7220** thousand HUF in year 2016. had been transferred to NKA.

The Board approved 3,431 thousand HUF for supporting artist organisations and 5,472 thousand HUF for social purposes from the community purpose distributions. (The amounts of the subsidies that had been approved and used for community purposes in year 2016 are included in an itemised manner in Appendix 2 of the profit and loss statement)

OPERATION BUDGET

The performance of the operation budget of year 2016 of HUNGART is introduced in Appendix 1; as a part of this we have attached the development of the costs, the development of general ledger accounting class 5, as well. At the time, when the plan was compiled we calculated with a revenue of 52,661 thousand HUF, and the revenue adjusted with the accruals was 54,449 thousand HUF. In respect of the annual expenditures (55,550 thousand HUF) including the necessary expenditures, the surpassing was 2 %.

Both the personal expenditures and the material expenditures were close to 1.5 million HUF higher than the planned expenditures. The surplus in the case of the personal expenditures was caused by the repeated starting of work of the lady colleague, who was on maternity benefit (GYES) and the granting of her leave. As regards the material expenditures, the difference was more significant in the case of post and bank costs as well as in respect of the processing of the royalties. These cost elements are connected to the fact that a more significant royalty disbursement was made compared to the previous years. Spending on the procurement of assets corresponded to the plans. According to the supervisory report – with taking into consideration the accounted and written off depreciation as well – the operation cost was 58,450 thousand HUF.

With the application of the personal management cost, the EHO payable after the royalties of 19,120 thousand HUF did not cause any losses, the accounted revenues counterbalanced the payment obligations.

Highlighted items of expenditure:	auditor fee of 2016	400,000- HUF
SZTNH [Hungarian Intellectual Property Office] supervisory fee:		
	Revenue until July 29	177,317,305-
	0.3 % supervisory fee	531,952-
	Revenue from July 29	74,571,665-
	0.5 % supervisory fee	372,858-
	Supervisory fee of year 2016	904,810- HUF

DATA OF THE ACCOUNTING REPORT AND THEIR DETAILED INTRODUCTION

1.1 Changing of the balance sheet data

	1000HUF	Previous period	Given period	Absolute change
	ASSETS			
01.	A. Fixed assets	410 799	416 689	5 890
02.	I. Intangible assets	874	394	- 480
10.	II. Tangible assets	92 995	90 525	-2 470
18.	III. Financial investments	316 930	325 770	8 840
27.	B. Current assets	101 626	90 624	-11 002
28.	I. Inventories	44 229	49 824	5 595
35.	II. Receivables	527	1 281	754
43.	III. Securities	0	0	0
49.	IV. Liquid assets	56 870	39 519	-17 351
52.	C. Accrued and deferred assets	4 727	3 859	- 868
56.	TOTAL ASSETS	517 152	511 172	-5 980
	LIABILITIES			
57.	D. Shareholders' equity	131 401	127 400	4 001
58.	I. Subscribed capital	0	0	0
60.	II. Subscribed capital unpaid (-)	0	0	0
61.	III. Capital reserve (capital change/profit)	136 383	131 400	-4 983
62.	IV. Accumulated profit reserve	0	0	0
63.	V. Toed-up reserve	0	0	0
64.	VI. Revaluation reserve	0	0	0
67.	VII. Profit after taxes	-4 982	-4 000	982
68.	E. Provisions	0	0	0
72.	F. Liabilities	329 118	329 118	14 769
73.	I. Subordinated liabilities	0	0	0
77.	II. Long-term liabilities	81 678	44 137	-37 541
86.	III. Current liabilities	247 440	302 251	54 811
98.	G. Accrued and deferred liabilities	56 633	37 384	-19 249
102.	TOTAL LIABILITIES	517 152	511 172	- 5 980

ASSETS

We presented in the balance sheet the real estate that was purchased in the SunPalace House and which was renovated at the net value of 90,525 thousand HUF. The remaining value of the ten-year old passenger car was 629 thousand HUF at the end of the year.

The year-end net invested asset portfolio of the Society was 851 thousand HUF (chattels, computers, phones, faxes and office furniture, renewed computer workstations).

The year-end net value of the software running on the machines was 394 thousand HUF. From the attached investment chart, it can be also seen that with the replacement of the old computers and the mobile devices the asset portfolio increased, and assets of a smaller amount were purchased for the establishment of the workplace for the worker returning from child care leave

(period of child care fee - GYED). (Assets and their depreciation, Appendix 2) The decreasing of the assets may be seen on the investment table, which is due to the removal of the old assets. We present as invested assets the treasury stock portfolio, from which according to the information available at the closing of the balance sheet none has to be redeemed during the next year.

We presented as stock the production costs of the „HUNGART book series” (49,824 thousand HUF).

The buyer receivables invoiced were the “licensing” amounts that were invoiced in December. (643 thousand HUF)

Other receivables included 194 thousand HUF royalty overpayment, and the advance money of the costs of the litigation cases of the amount of 436 thousand HUF, which will be refunded according to the expectations with the closing of the court procedures. The deductible VAT was 8 thousand HUF.

The closing value of the bank accounts (Budapest Bank, Securities Account) was 39,519 thousand HUF. The cash turnover is restricted to the most essential items, the petty cash was closed with the amount of 285,160 HUF.

The deferred expenditures were recorded as stipulated by law, with the relevant items (insurance of the subsequent period, gps-fee, programme update).

From the accrued revenues 3,769 thousand HUF was the time proportional interest of the interest-bearing treasury bills.

LIABILITIES

Long term royalty obligations over a year **44,137 thousand HUF**

Details of current liabilities

Returned royalties to be disbursed again	24 thousand HUF
Membership fee in organisations abroad	393 thousand HUF
VAT payable, month 12	0 thousand HUF
Personal Income tax liability, month 12	2,455 thousand HUF
Royalties, EHO, month 12	3,852 thousand HUF
Social security obligation, month 12	901 thousand HUF
Company car tax, Quarter 4	28 thousand HUF
Self-revision penalty	6 thousand HUF
Distributed, to be distributed contribution	42,977 thousand HUF
Pending and payable royalty	250,624 thousand HUF

- supervisory fee of year 2016 905 thousand HUF

Items of the accrued and deferred liabilities:

- public utility cost of the month of December	79 thousand HUF
fee of the securities account	36 thousand HUF
phone cist	60 thousand HUF
- post and currier service	134 thousand HUF
- lawyer work fee, December	640 thousand HUF
- auditor fee of year 2016	400 thousand HUF

The deferred revenues include the received, but not distributed management fees of broadcasting royalties and contributions (2,400 thousand HUF, 4,787 thousand HUF), the management cost of the distributed, but not disbursed tracking royalty and multiplication (1,240 thousand HUF and 701 thousand HUF) and the reclassified royalty management that was presented as long-term liability beyond five years in the previous year (26,907 thousand HUF).

1.2 Changing of the data of the profit and loss statement

	1000HUF	Pervious period	Given period	Change in %
I.	Total sales (revenues)	214 700	223 569	4.13
II.	Own performance capitalized	0	0	0.00
III.	Other income	13 841	20 113	45.30
IV.	Material costs	199 445	208 118	4.35
V.	Staff costs	34 883	43 761	25.45
VI.	Depreciation	5 597	3 819	-31.77
VII.	Other operating charges	160	164	2.50
A.	INCOME FROM OPERATIONS	-11 543	-12 180	917.09
VIII.	Income from financial transactions	6 573	8 207	24.86
IX.	Expenses on financial transactions	12	27	125.00
B.	PROFIT OR LOSS FROM FINANCIAL TRANSACTIONS	6 561	8 180	24.68
C.	INCOME BEFORE TAXES	-4 982	-4 000	-19.71
X.	Tax payable	0	0	0.00
D.	PROFIT AFTER TAXES	-4 982	-4 000	-19.71

The net sales revenue includes in addition to the previously introduced royalty revenues an 8,108 thousand HUF archiving management fee that had not been enforced previously (redistribution beyond five years).

Other revenues include the royalties' individual management fee invoiced that counterbalances the EHO (19,120 thousand HUF), the revenue of selling the monographies (805 thousand HUF), and the amount of the litigation cost refundings of 188 thousand HUF.

From the financial revenues 8,207 thousand HUF was represented by the yield of invested state security bills. We accounted only exchange rate losses this year due to the fluctuation of the exchange rates (27 thousand HUF).

The items of other expenditures include the vehicles taxes of 132 thousand HUF, and the paid late payment interest of 33 thousand HUF. Compared to the previous years, in line with the new accounting policy, we accounted the subsidies under the mediated services row; and the stock value difference of the sold monographies of the previous contribution distribution against the royalty liabilities.

We introduced the development of the royalty disbursements in Appendix 1 of the profit and loss statement. We highlighted the royalty items in the interest of transparency in the appropriate rows of the profit and loss statement.

In the following we present the changes of the composition of the highlighted balance sheet items and the development of some financial indices that are generally used in the entrepreneur sector and which may be interpreted in respect of the operation of the Society as well.

1.1. Highlighted balance sheet items

Distribution of the balance sheet items

Assets (data in %)	Previous period	Given period
Fixed assets	79.44	81.52
Intangible assets	0.18	0.08
Tangible assets	17.98	17.71
Financial investments	61.28	63.73
Current assets	19.65	17.73
Inventories	8.55	9.75
Receivables	0.10	0.25
Securities	0.00	0.00
Liquid assets	11.00	7.73
Accrued and deferred assets	0.91	0.75
TOTAL ASSETS	100.00	100.00

Liabilities (data in %)	Previous period	Given period
Shareholders' equity	25.41	24.93
Subscribed capital	0.00	0.00
Subscribed capital unpaid	0.00	0.00
Capital reserve /capital changes from the profit	26.37	25.71
Accumulated profit reserve	0.00	0.00
Tied-up reserve	0.00	0.00
Revaluation reserve	0.00	0.00
Profit after taxes	-0.96	-0.78
Provisions	0.00	0.00
Liabilities	63.64	67.76
Subordinated liabilities	0.00	0.00
Long-term liabilities	15.79	8.63
Current liabilities	47.85	59.13
- from this royalty liability	(41.38)	(49.03)
- from this contribution liability	(5.73)	(8.41)
Accrued and deferred liabilities	10.95	7.31
TOTAL LIABILITIES	100.00	100.00

As regards the main balance sheet rows, on the asset side, under the fixed financial and cash and cash equivalents, the change did not exceed 1 %. The treasury bill stock increased, however the

cash and cash equivalents decreased due to the significant royalty disbursements. On the asset side, the reclassification between long term and short term liabilities caused a significant change; and as regards deferred revenues and accrued expenditures the accrual releases of the given year led to a decrease.

1.2. Asset situation

Usability of the fixed assets

The net value of tangible assets and intangible assets (usability degree) was 64.3 % of the gross value in the previous year, and it was 63.0 % in the given year. In addition to this, the net value ratios of office machines and equipment were 5.0 % and 1.0 % in the previous two years respectively.

Fixed assets coverage

The closing stock of fixed assets were covered in both two years by own resources in excess of the amount of the equity, of the extent of 32.0 % in the previous year and 30.6 % in the given year.

Capital strength

The equity ratio of the HUNGART VMKJT SOCIETY within all the liabilities was 25.4 % in the previous year and it was 24.9 % in the given year. Capital strength shifted toward external liabilities due to the reshuffling.

Capital structure index

The liabilities represented 250.5 % of the own equities in the previous year and they represented 271.9 % in the given year.

1.3. Liquidity and solvency

Liquidity quick rate

The value of the liquidity quick rate that reflects short term liquidity (the ratio of total value of receivables, securities, cash and cash equivalents compared to the short-term liabilities) was 0.23 in the previous year and it was 0.13 in the given year.

Ratio of liquid assets

The ratio of the assets that influence the short-term liquidity within all the assets was 11.1 % in the previous year and it was 8.0 % in the given.

Long term liquidity

The long-term liquidity rate (the ratio of current assets to liabilities) was 0.31 in the previous year and it was 0.26 in the given year.

Liabilities and liquid assets

On the balance sheet date, the liquid assets (securities, receivables, cash and cash equivalents) fully covered the liabilities.

1.4. Profitability

Development of the revenues

The total revenue of the Society calculated for the entire calendar year increased from the 235,115 thousand HUF of the previous year to 251,889 thousand HUF. The increase of 16,774 thousand HUF represented a growth rate of 7.1 %.

Development of the sales revenue

The net sales revenue increased from 214,700 thousand HUF to 223,569 thousand HUF, the 8.869 thousand HUF increase represented an increase of 4.1 %.

Profit after taxes

The accounting profit (loss) of the given year was 982 thousand HUF lower than that of the previous year.

1.6. Cash-flow

	Name (1000HUF)	Previous period	Given period
I.	Variation in cash-flow from operations (Operating cash-flow, lines 1-13)	184 344	29 900
1	Income before taxes (+-)	-4 982	-4 000
2	Depreciation write-off (+)	5 597	3 819
3	Loss in value and backmarking (+-)	0	0
4	Difference between formation and utilization of provisions (+-)	0	0
5	Invested assets sold (profit -, loss +)	0	0
6	Variation in accounts payable (+-)	-1 089	- 288
7	Variation in other short-term liabilities (+-)	122 466	55 099
8	Variation in accrued and deferred liabilities (+-)	41 007	-19 249
9	Variation in trade debtors (+-)	4 037	- 644
10	Variation in current assets (without receivables and liquid assets) (+-)	20 114	-5 705
11	Variation in accrued and deferred assets (+-)	-2 806	868
12	Tax paid or payable (on profit) (-)	0	0
13	Dividends and profit-sharing paid or payable (-)	0	0
II.	Variation in cash-flow from investments (investment cash-flow, lines 14-16)	-3 685	-9 709
14	Purchase of invested assets (-)	-3 685	-9 709
15	Sale of invested assets (+)	0	0
16	Dividends and profit-sharing received (+)	0	0
III.	Variation in cash-flow from financial transactions (Financial cash-flow, lines 17-27)	-136 146	-37 542
17	Receipts from shares issue (capital influx) (+)	0	0
18	Receipts from the issue of bonds and securities signifying a creditor relationship (+)	0	0
19	Borrowings (+)	0	0
20	Repayment, termination or redemption of long-term loans and bank deposits (+)	0	0
21	Non-repayable assets received (+)	0	0
22	Cancellation of shares, disinvestment (capital reduction) (-)	0	0
23	Redeemed bonds and securities signifying a creditor relationship (-)	0	0
24	Loan instalment payments (-)	0	0
25	Long-term loans and bank deposits (-)	0	0
26	Non-repayable assets transferred (-)	0	0
27	Variation in liabilities due to founders and in other long-term liabilities (+-)	-136 146	-37 542
IV	Variation in liquid assets (lines I+II+III)	44 513	-17 351

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