| | |
|---|---|
| **Tax number:** | 18084764-2-41 |
| **Court of Registry:** | Budapest Metropolitan Court |
| **Ruling on registration:** | Pk.61.344/1996/2 |
| **Registration number:** | 7375 |

# HUNGART

## Collecting Society of Hungarian Visual Artists
(HUNGART CSHVA)

1055 Budapest, Falk Miksa utca 30.

Notes to the 2017 Annual Accounts

31 December 2017

30 April 2018

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# CORPORATE PROFILE OF HUNGART ASSOCIATION

HUNGART Collecting Society of Hungarian Visual Artists was founded by private individuals in accordance with Government Decree no. 146/1996.(19 September).

The registered seat of the Association is at 1055 Budapest, Falk Miksa utca 30.

In its ruling no. 01.Pk.61344/1996/2, which became final on 27 February 1997, the Metropolitan Court of Budapest registered the Association under registration number 7375.
Based on Decree No. 5/1997. (II.12.) of the Minister of Culture and Public Education, the Minister of Culture and Public Education registered HUNGART Collecting Society of Hungarian Visual Artists as a collecting society through passing a resolution on 19 April 1997.

The purpose of the Association is to collect royalties on behalf of and pay them to its members, i.e. artists active in visual and applied arts and industrial design as well as their legal successors, collectively: rights holders, and to enhance the protection of their copyright both in Hungary and abroad.

The rules governing the activities of the Association are Act XCIII of 2016 on the Collective Management of Copyright and Related Rights, Act LXXVI of 1999 on Copyright, the Civil Code and Government Decree no. 216/2016. (22 July) on the detailed rules governing the operation of collective and independent rights management organisations and the procedures related to rights management. In addition to the collective management of copyright and related rights as the Association's fundamental purpose, sponsorship for other artist associations and the improvement of the living conditions of artists in need also feature among the causes promoted by the Association.

Due to changes in law, all the regulations of HUNGART have been modified. The law stipulates that reports be prepared for the National Intellectual Property Office responsible for HUNGART's supervision. With effect from 2017, transparency reports must be prepared and disclosed. Furthermore, credible written information must be provided for rights holder on the terms and conditions of rights management, trends in royalties, management fees, deductions for the benefit of the artist community and the use of such deductions.

The Association does not have any authorised or initial capital. Operating costs are paid out of a management fee reserve funded from royalties and contributions in accordance with the Allocation Regulations (in the 2017 financial year: net 22% and net 15%).

HUNGART has not been engaged in any business activity since its foundation.

The primary decision-making organisation of the Society is the Delegates' Meeting. The Association is governed by an eight-member management committee Presided by a chairperson and two vice chairpersons elected from among its members. HUNGART's lawful operation and business management are supervised by a three-member supervisory board.
Daily duties are performed by members, who are also the employees of the Association. In areas where employment is not justified, outside organisations and private individuals are contracted for work.
All the members of the accounting unit are registered certified accountants and certified auditors.

The annual accounts of HUNGART Association are audited by GG PLUS Kft. (registration number: 000141). The contracted auditor is Ms Éva Gampel, CoHA membership number: 004681.

***ACCOUNTING POLICY***

The balance sheet compilation date is the last day of March in the year immediately following the reporting year because such seems to be justified by past years' experience. The reason underlying the selection of this date is that it makes accounting for the economic events that affect the reporting year and become known between the 31 December balance sheet date and the balance sheet compilation date possible.
The Association uses double-entry bookkeeping to keep its books. Its chart of accounts has been developed on the basis of the recommendations disclosed in financial and accounting journals.

With effect from 2012, the Association prepares annual accounts in keeping with the new act and decree pertaining to the collective management of rights. We continue to ensure consistency in order to be able to comply with the requirements set forth in Government Decree no. 479/2016. (28 December) on the specifics of reporting and accounting obligations of CSOs under the Accounting Act and Government Decree no. 350/2011. (30 December) on Certain Issues of the Financial Management, Fund-raising, and Public Benefit Status of CSOs.

In compiling the annual accounts, HUNGART Visual Artists' Association for the Collective Management of Rights observed the applicable accounting principles and complied with the requirement of providing a fair picture. Neither audit inspecting nor self-revision revising previous years' book-keeping was conducted.

***There was no change in the valuation procedures compared with the previous year. Reporting year's data are comparable with the previous year's in accordance with the stipulations set forth in the Accounting Act.***

Regarding the Association's business management and annual accounts, materiality and substantiality are governed by the Accounting Act.
The Association's revenues comprise all the income that is realised in the reporting year and is linked to the Association's principal activity and gainful activity including sponsorship. The costs incurred by the Association are direct costs incurred in connection with the Association's principal activity and gainful activity and its operating costs.

Fixed assets, tangible assets and intangible assets are stated at their respective net values in the balance sheet. Historical costs are purchase prices, which comprise the costs incurred before capitalisation and attributable to the assets individually.
The Association uses the straight-line method to depreciate its assets taking account of the expected useful life of the assets concerned, the depreciation rates stipulated in the Corporate Tax Act and the number of the days during which the assets have been in operation. The Association recognises the historical cost of tangible assets with an individual value of below HUF 100,000 as lump sum depreciation when such assets are put to service.
The value of the inventories is stated at actual production cost.
Purchased securities are stated as fixed assets if we do not intend to sell them within one year. When securities booked as fixed assets are sold after the balance sheet date, they are stated as current assets in the balance sheet.
When securities are sold, we derecognise them using the FIFO (First In First Out) method, i.e. we always derecognise the securities held for the longest period of time (i.e. those purchased first).

The carrying value of interest-bearing securities may not comprise the interest paid upon purchase, i.e. such securities are stated at face value.
The Association accounts for deferrals and accruals in accordance with the general provisions of the Accounting Act and the requirements of the supervisory authority.
The assets and liabilities other than those above are also stated in accordance with the general provisions of the Accounting Act.
The Association has an accounting policy as well as inventory-taking, scrapping, cash management and valuation regulations in conformity with the requirements set out in Act C of 2000 on Accounting and the government decree referred to.

### *SUPERVISORY REPORT AND CHANGES IN THE ACCOUNTING POLICY*

The Hungarian Intellectual Property Office supervising rights management proposed the introduction of a standard supervisory report developed by PwC in the spring of 2014 and the use of enhanced accounting reports, which affected the accounting policy of rights management organisations. The draft documents were finalised after several rounds of discussions. The use of the finalised document has been mandatory since 2016 on the basis of the relevant statutory regulations.

Changes target mainly the recognition of royalties in respect of both revenues and expenses as well as their entry into the books.
In line with the final decision, we first applied the changes affecting the accounting policy and accounting records on 1 January 2015 and those affecting reporting in the 2014 annual accounts with special regard to the supervisory report in addition to the standard balance sheet.
Relying on the changes approved and adopted, we have changed our adopted practice in order to be able to meet the general requirements in force since 2015.

Pursuant to the new requirements, HUNGART only accounts for royalties actually paid in the reporting year. The royalties which affect the reporting year, which are, however, only due early in the following year and which we used to state as accruals and deferrals under the Accounting Act are now presented only when actually paid.
We recognise all royalties due to the rights holders on the revenues collected as expenses in the reporting year. In conformity with the relevant requirements, expenses on royalties are stated as mediated services.
The royalties that we used to present as accruals and deferred income and that are payable the following year are presented as current liabilities. In 2015, we accounted for the management fees that we have not included in the royalties on the books for over five years. We accounted for such fees after the lapse of the time bar, concurrently with the re-allocation of royalties. Such fees were recognised as long-term liabilities, current liabilities or accrued and deferred income in the previous year.
Relative to the practice of previous years, there was no change to the booking, recognition, measurement and statement of operating costs, which are comparable not only with those incurred in the previous year and the reporting year, but also several years retrospectively.
In sum, the data in the reporting year's accounts are comparable with those in the previous year's.

Related to the annual accounts, a transparency report the content of which is regulated by the government decree and which must be inspected by the auditor must be published on the last day of the eighth month following the reporting year.

### *THE GENERAL ECONOMIC AND LEGAL CONTEXT OF RIGHTS MANAGEMENT*

The impact on rights management of the financial crisis and the economic crisis that followed has been petering out. Though the income from primary royalties received since the year after the end of the crisis has stopped declining, it still falls short of its pre-crisis level. Compared with the HUF 75-80 million in stagnating income realised earlier, income over the past two years has shown signs of recovery. However, there has been no significant change in the share of primary royalties (i.e. those collected directly) and secondary royalties (i.e. those collected for distribution), as they are almost identical in amount.

The lack of the payment discipline of art galleries contributed to the difficulties faced by rights management by the Association to a lesser extent. In this respect, even some major art dealers set a bad example sometimes. They either fail to pay or fall behind with payments considerably, and often court actions have to be brought against them due to undelivered promises to pay.
The court action documents sent to the owners of art galleries who default on or regularly fall behind with royalties are mostly effective because after receipt of such documents their payment discipline improves relatively fast.
As regards some art galleries, default on the payment of royalties goes hand in hand with intentional failure to report data regularly, which makes enforcing claims difficult.
Sound legal work resulted in claims worth approx. HUF 4 million; however, the chances of the collection of this amount are slim.

In order that EU legislation could be transposed into Hungarian legislation, the regulatory environment was changed as a result of the adoption of the new act on the collective management of rights in 2016. Rights holders are adversely affected by the fact that, in addition to an increase in the number of administrative and data reporting tasks, 90% (rather than 25% as was the case earlier) of the royalties due to unknown persons or persons whose whereabouts is unknown must be transferred to NKA (National Cultural Fund) after three years (rather than five as was the case earlier). However, the law permits the application of this rule only to the royalties collected after the entry into force of the law, and the members' meeting intends to exercise this right in the interest of the rights holders.
With effect from 2012, only 4% (rather than 5% as was permitted earlier) may be charged in royalties on the works of art sold. The 2016 plan budgeted a 22% management fee for primary royalties because interest on investments may also be used to cover operating costs. However, due to the treatment of accruals and deferrals, neither management fees nor any other income permitted to be used for covering operating costs could fully cover operating costs despite increasing royalty income. Heavier administrative burden also has cost implications, which may, in turn, force us to increase management fees.
Compared against revenues, over HUF 100 million disbursed to rights holders reflects the Association's successful operation.
Rights holders are beneficially affected by the fact that the health care tax rate was reduced from 27% to 22% in 2017 and that the case-by-case recognition of management fees counterbalancing health care tax continues to apply.
Management fees cannot cover public dues amounting to HUF 12 to 19 million depending on disbursements.

The Association's art sponsorship was similar to those in the past years.
Since 2012, HUNGART has been transferring amounts for cultural purposes to NKA. (7% of the received royalties subject to secondary distribution and 12.5% of the royalties redistributed and kept on the books for over 5 years had to be transferred to NKA). The use of the amounts thus transferred is still not transparent, as NKA does not provide any information on it.
The Act on the Collective Management of Rights allows for the possibility of rethinking sponsorship policy. Based on that, owing to the 90% transfer obligation to NKA, no deduction for

cultural purposes or sponsorship for the artist community is made from the revenues earned or royalties received for distribution after the entry into force of the law. The rate of social sponsorship was raised to 5% and royalties are distributed to rights holders.
The royalties received before 29 June 2016 are redistributed in accordance with earlier practice.

## *A SUMMARY ANALYSIS OF BUSINESS ACTIVITIES AND ANNUAL ACCOUNTS DATA*

Fundamentally, the HUF 4,703,000 balance sheet loss incurred by the Association was the outcome of recognised depreciation charges.

### *RIGHTS MANAGEMENT*

The 2014–2017 royalty data are stated in accordance with the cash accounting principle. Previous years' data also comprise accrued and deferred income. Due to valuation differences, a comparison of data does not provide any information of substance relative to 2014. Trends in royalties provide for the possibility of presenting such trends.
Based on that, it can be established that income fluctuates. Income from secondary royalties (e.g. empty data carriers, cable, reprography) depends on the activities of partner organisations. We cannot influence trends in royalties from abroad. For instance, we collected HUF 14 million due on the period between 2009 and 2013 in 2015 and 2016. 4% income from follow-up royalties and related taxes in 2018 is expected to be at least equal to the reporting year's – at least this is what can be inferred from Q1 data. Licensing related to 2–3 key arts exhibitions contributed to income from licensing (reproduction). Owing to the theme-based overhaul of MTVA and programmes, revenues from broadcasting will depend on a new contract currently being negotiated.

Invoiced revenues in a breakdown by royalty type (management fee included) in HUF thousand:

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| 4 % follow-up royalties | 59,139 | 53,066 | 70,626 | 86,233 | 90,483 |
| (of which, taxes) | (28,336) | (25,452) | (23,824) | (32,605) | (38,611) |
| Licensing (reproduction) | 8,718 | 16,396 | 16,680 | 14,138 | 15,521 |
| Empty data carriers, cable | 22,551 | 0 | 35,638 | 25,366 | 31,669 |
| Reprography fee | 27,702 | 0 | 28,725 | 33,903 | 27,152 |
| Broadcasting royalties | 12,684 | 8,450 | 14,366 | 14,988 | 16,923 |
| Cable | 18,875 | 0 | 19,044 | 16,029 | 17,393 |
| Royalties from abroad | 7,980 | 8,287 | 19,666 | 24,335 | 9,639 |
| Total: | 157,649 | 86,199 | 204,745 | 214,992 | 208,780 |

Disbursement of royalties in HUF thousand:

| | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Private individual rights holders | 90,277 | 92,413 | 81,272 | 121,586 | 120,521 |
| Domestic organisations | 5,964 | 6,931 | 6,712 | 13,089 | 11,666 |
| Foreign partner organisations | 13,444 | 21,167 | 9,285 | 11,189 | 10,736 |
| Total | 109,585 | 120,511 | 97,269 | 145,864 | 142,923 |

| Number of private individual rights holders | | | | | |
|---|---|---|---|---|---|
| | 637 persons | 643 persons | 609 persons | 774 persons | 748 persons |

HUF 105,353,000 disbursed in royalties in the reporting year was the amount received in 2017. Of this, the amount of distributed secondary royalties was HUF 43,698,000. We disbursed 67% of the amount of the redistributed royalties on the books for over 5 years (i.e. the applicable time bar) (HUF 16,528,000).
(The details of the recognition of royalties are contained in Annex 1 to the profit and loss account.)

*Sponsorship policy*

In accordance with the Assembly's approved sponsorship policy, the management committee decided on the publication of 3 monographs at its meeting in May 2017. The ambitious books presenting artists who had been awarded stipends in recognition of their artistic achievement were published in October. Thus, the number of the books in a series presenting contemporary artists has risen to 38.
The income earned from the sale of the books was HUF 544,000 in the reporting year. The fundamental aim of the publication of books is to support arts and artists and present the works of art produced rather than to post massive revenues for the Assembly. Preparatory work for the publication of the books planned to be published in 2018 has begun. We intend to publish three monographs this year as well, with the necessary funds already available.
As a result of the changes in the sponsorship policy, only royalties on the books for over 5 years (i.e. "archival") royalties) can be used for granting cultural and social sponsorship. No transfer was made to NKA. 90% of the royalties on the books for over three years will have to be transferred in two years. (Close to HUF 10 million on average has been transferred over the past five years.)
As regards distributions for sponsorship to the artist community, the management committee approved the granting of HUF 8,548,000 for supporting art organisations and HUF 7,419,000 for social sponsorship. (An itemised list of the amounts approved and used for sponsorship to the artist community in 2017 is contained in Annex 2 to the profit and loss account.)

*OPERATING BUDGET*

Compliance with HUNGART's 2017 operating budget is presented in Annex 1, and as part of such presentation, the costs stated in the 5th class of accounts of the general ledger has been attached. While compiling the plan, we estimated income at HUF 55,582,000. Income adjusted for accruals and deferrals amounted to HUF 54,778,000. The actual amount of annual expenses (HUF 56,413,000) was 1.5% higher than what had been budgeted.
An overall HUF 831,000 higher-than-planned amount of expenses was due to the costs of substitution for an employee on maternity leave (staff costs) and the legal fees incurred in connection with royalty litigation (material expenses); the latter are unlikely to be recovered due to the anticipated dissolution proceedings. Overall, most costs were in line with what had been planned.
No assets were purchased. According to the supervisory report, with the recognised depreciation charges taken into account, operating costs amounted to HUF 59,447,000.
As regards case-by-case management fees, health care tax in the amount of HUF 15,298,000 due on royalties did not incur losses because recognised income counterbalanced tax liabilities.

Key expense items: 2017 audit fee HUF 400,000

SZTNH (Hungarian Intellectual Property Office) supervisory fee:

| | |
|---|---|
| Royalties and financial income | HUF 224,171,243 |
| **0.5 % supervisory fee** | **HUF 1,120,856** |
| Other income | HUF 15,906,623 |
| **0.3 % supervisory fee** | **47,720** |
| **2017 supervisory fee** | **HUF 1,168,600** |

## *DETAILED DATA INCLUDED IN THE ANNUAL ACCOUNTS*

### 1.1 Changes in the balance sheet data

| | HUF 1,000 | Previous period | Reporting period | Absolute changes |
|---|---|---|---|---|
| | **ASSETS** | | | |
| **01.** | **A. Fixed assets** | **416,689** | **418,630** | **1,941** |
| **02.** | **I. Intangible assets** | **394** | **19** | **- 375** |
| **10.** | **II. Tangible assets** | **90,525** | **87,821** | **-2,704** |
| **18.** | **III. Financial fixed assets** | **325,770** | **330,790** | **5,020** |
| **27.** | **B. Current assets** | **90,624** | **68,604** | **-22,020** |
| **28.** | **I. Inventories** | **49,824** | **50,170** | **346** |
| **35.** | **II. Receivables** | **1,281** | **2,271** | **990** |
| **43.** | **III. Securities** | **0** | **0** | **0** |
| **49.** | **IV. Liquid assets** | **39,519** | **16,163** | **-23,356** |
| **52.** | **C. Prepayments and accrued income** | **3,859** | **5,979** | **2,120** |
| **56.** | **TOTAL ASSETS** | **511,172** | **493,213** | **-17,959** |
| | **LIABILITIES** | | | |
| **57.** | **D. Equity** | **127,400** | **122,697** | **-4,703** |
| **58.** | **I. Subscribed capital** | **0** | **0** | **0** |
| **60.** | **II. Subscribed capital unpaid (-)** | **0** | **0** | **0** |
| **61.** | **III. Changes in capital/profit/loss** | **131,400** | **127,400** | **-4,000** |
| **62.** | **IV. Retained earnings** | **0** | **0** | **0** |
| **63.** | **V. Blocked reserves** | **0** | **0** | **0** |
| **64.** | **VI. Valuation reserves** | **0** | **0** | **0** |
| **67.** | **VII. Profit/Loss after taxation** | **-4,000** | **-4,703** | **-703** |
| **68.** | **E. Provisions** | **0** | **0** | **0** |
| **72.** | **F. Liabilities** | **346,388** | **343,669** | **-2,719** |
| **73.** | **I. Subordinated liabilities** | **0** | **0** | **0** |
| **77.** | **II. Long-term liabilities** | **44,137** | **41,281** | **-2,856** |
| **86.** | **III. Current liabilities** | **302,251** | **302,388** | **137** |
| **98.** | **G. Accruals and deferred income** | **37,384** | **26,847** | **-10,537** |
| **102.** | **TOTAL LIABILITIES** | **511,172** | **493,213** | **- 17,959** |

## ASSETS

The real property purchased and renovated at the SunPalace was stated at HUF 86,863,000 in the balance sheet. The year-end residual value of a 10-year old passenger car was HUF 629,000.
The year-end net value of the Association's tangible assets (computers, telephone sets, fax machines and office furniture and upgraded work stations) was HUF 328,000.
The year-end net value of the Association's software was HUF 19,000. The chart of investment accounts attached reveals that no tangible asset was purchased in the reporting year; the change in the net value was due to the recognition of depreciation. (Annex 2: Assets and depreciation and a table of investments)

The treasury bills that are, based on the information available as at the balance sheet closing date, unlikely to be redeemed the following year are stated as fixed assets. With effect from April 2018, like other non-profit organisations, the Assembly may not invest in government securities, which is likely to lead to difficulties as the deposit rates currently offered by commercial banks are very low.

The production cost of the still available copies of the HUNGART book series in stock (HUF 50,170,000).
Invoiced accounts receivable were invoiced litigated amounts. (HUF 2,271,000)
Other claims included HUF 96,000 in royalty claims and HUF 4,000 in tax overpayment.

The closing balance of the bank account kept with Budapest Bank and that of securities accounts amounted to HUF 15,754,000. Cash transactions are kept to a bare minimum. The balance of petty cash was HUF 409,010.

Costs and charges were deferred in conformity with the applicable law; items (insurance covering the following period, GPS fees and programme updates)
Pro-rated interest on interest-bearing treasury bills in the amount of HUF 5,842,000 was stated as accrued income.

## LIABILITIES

***Long-term royalty liability on the books for over 1 year*** ***HUF 41,281,000***

***Current liabilities (detailed)***

| | |
|---|---|
| Returned royalty to be transferred again | HUF 238,000 |
| Domestic accounts payable | HUF 138,000 |
| Membership in foreign organisations | HUF 645,000 |
| VAT payable 12th month | HUF 1,280,000 |
| PIT liability 12th month | HUF 736,000 |
| Health care tax 12th month | HUF 680,000 |
| Social security tax 12th month | HUF 706,000 |
| Company car tax Q4 | HUF 33,000 |
| Taxes allocated, to be allocated | HUF 58,398,000 |
| Pending and payable royalties | HUF 237,866,000 |
| - 2017 supervisory fee | HUF 1,169,000 |

***Accruals and deferred income*** items:

| | |
|---|---|
| - public utilities December | HUF 125,000 |
| - securities account management fee | HUF 36,000 |
| - 2017 paid sick leave 1/3 | HUF 17,000 |
| - telephone bill | HUF 47,000 |
| - telecommunication | HUF 140,000 |
| - postal and courier fees | HUF 50,000 |
| - legal fees December | HUF 640,000 |
| - 2017 audit fee | HUF 400,000 |

***Deferred income*** included the management fee due on the broadcasting royalties (HUF 2,705,000) and taxes (HUF 4,131,000) received, but not yet allocated, the management fee due on invoiced follow-up royalties (HUF 710,000) and reproduction (HUF 379,000) received in December and re-categorised rights management fees (HUF 17,467,000) stated as long-term liabilities (on the books for over 5 years) in the previous year.

## 1.2 Changes in the data of the profit and loss account

| | HUF thousand | Previous period | Reporting period | % of changes |
|---|---|---|---|---|
| **I.** | **Net sales revenues** | **223,569** | **217,143** | **-2.87** |
| **II.** | **Own performance capitalised** | **0** | **0** | **0.00** |
| **III.** | **Other incomes** | **20,113** | **15,907** | **- 20.91** |
| **IV.** | **Material costs** | **208,118** | **201,044** | **-3.40** |
| **V.** | **Staff costs** | **43,761** | **40,470** | **-7.52** |
| **VI.** | **Depreciation charge** | **3,819** | **3,079** | **-19.38** |
| **VII.** | **Other expenses** | **164** | **144** | **-12.20** |
| **A.** | **OPERATING PROFIT (LOSS)** | **-12,180** | **-11,687** | **-4.05** |
| **VIII.** | **Income from financial operations** | **8,207** | **7,028** | **-14.37** |
| **IX.** | **Expenses on financial operations** | **27** | **44** | **62.96** |
| **B.** | **PROFIT/LOSS ON FINANCIAL TRANSACTIONS** | **8,180** | **6,984** | **-14.62** |
| **C.** | **PROFIT BEFORE TAXATION** | **-4,000** | **-4,703** | **-17.58** |
| **X.** | **Tax liability** | **0** | **0** | **0.00** |
| **D.** | **PROFIT/LOSS AFTER TAXATION** | **-4,000** | **-4,703** | **-17.58** |

In addition to the revenues presented above, HUF 7 161 000 in archiving fees not yet charged (i.e. redistribution after five years) is also included in net sales revenues.
Other revenues comprise invoiced case-by-case management fees (HUF 15,298,000) counterbalancing health care tax due on royalties, income from the sale of monographs (HUF 545,000) and the reimbursed amount of litigation costs (HUF 63,000).
Financial income comprised return on treasury bills invested in the amount of HUF 7,017,000. Exchange rate difference was HUF 34,000 in losses arising from exchange rate fluctuations.

Other expenses include vehicle tax in the amount of HUF 132,000 and HUF 12,000 credited to the tax current account. In line with the new accounting policy, sponsorship was stated as mediated services and the inventory value difference of the monographs sold was debited to royalty liabilities.

Annex 1 to the profit and loss account presents royalty disbursements. For the sake of transparency, the individual items of royalties are stated in the corresponding rows of the profit and loss account.

**What follows is the presentation of changes in the composition of the key balance sheet items and a few indicators applied by businesses and also interpretable in respect of the activities of the Association.**

## 1.1 Key balance sheet items

**Share of the individual balance sheet items**

| Assets (data in %) | Previous period | Reporting period |
|---|---|---|
| **Fixed assets** | **81.52** | **84.88** |
| Intangible assets | 0.08 | 0.00 |
| Tangible assets | 17.71 | 17.81 |
| Fixed financial assets | 63.73 | 67.07 |
| **Current assets** | **17.73** | **13.91** |
| Inventories | 9.75 | 10.17 |
| Receivables | 0.25 | 0.46 |
| Securities | 0.00 | 0.00 |
| Liquid assets | 7.73 | 3.28 |
| **Pre-payments and accrued income** | **0.75** | **1.21** |
| **TOTAL ASSETS** | **100.00** | **100.00** |

| Liabilities (data in %) | Previous period | Reporting period |
|---|---|---|
| **Equity** | **24.93** | **24.96** |
| Subscribed capital | 0.00 | 0.00 |
| Subscribed capital unpaid | 0.00 | 0.00 |
| Capital reserves/from changes in capital profit/loss | 25.71 | 25.83 |
| Retained earnings | 0.00 | 0.00 |
| Blocked reserves | 0.00 | 0.00 |
| Valuation reserves | 0.00 | 0.00 |
| Profit/Loss after taxation | -0.78 | -0.87 |
| **Provisions** | **0.00** | **0.00** |
| **Liabilities** | **67.76** | **69.58** |
| Subordinated liabilities | 0.00 | 0.00 |
| Long-term liabilities | 8.63 | 8.37 |
| Current liabilities | 59.13 | 61.21 |
| - Of which, royalty liability | (49.03) | (48.33) |
| - Of which, tax liability | (8.41) | (11.84) |
| **Accruals and deferred income** | **7.31** | **5.46** |
| **TOTAL LIABILITIES** | **100.00** | **100.00** |

As regards the key balance sheet rows, changes in fixed financial assets and liquid assets exceeded 1%. The treasury bill portfolio grew. By contrast, liquid assets diminished due to the sizeable disbursed amounts of royalties. Regarding liabilities, there were marked changes in current liabilities and accruals and deferred income.

## 1.2 Equity position

**Fixed asset ratio**

The net value (i.e. the usability) of tangible and intangible assets accounted for 62.9% of their gross value in the previous year and 60.8% in the reporting year. Within that, the net value of office machinery and equipment has been 1.0% and 0.1% over the past two years.

**Coverage for fixed assets**

Internal funds exceeding equity covered the closing balance of fixed assets: 30.6% in the previous year and 29.4% in the reporting year.

**Capitalisation**

The share of the equity of HUNGART VAACMR ASSOCIATION in the total liabilities was 24.9% in the previous year and 25.0% in the reporting year; thus, essentially, there was no change in it.

**Debt/Leverage ratio**

Liabilities accounted for 271.9 % of equity in the previous year and 278.8 % in the reporting year.

## 1.3. Liquidity and solvency

**Acid test ratio**

Acid test ratio reflecting short-term liquidity (the ratio of the combined value of receivables, securities and cash to current liabilities) was 0.13 in the previous year and 0.06 in the reporting year.

**Ratio of liquid assets**

The share of assets affecting short term liquidity within total assets was 8.0 % in the previous year and 3.7 % in the reporting year.

**Long-term liquidity**

Long-term liquidity (the ratio of current assets to liabilities) was 0.26 in the previous year and 0.20 in the reporting year.

**Liabilities and liquid assets**

As at the balance sheet date, liquid assets (receivables, securities and cash) covered liabilities in full.

## 1.4 Profitability

**Trends in revenues**

The Association's total income for the entire calendar year fell from HUF 251,889,000 in the previous year to HUF 240,078,000 in the reporting year. The HUF 11,811,000 decrease represents a 4.7% decline.

**Sales revenues**

Net sales revenues decreased from HUF 223,569,000 to HUF 217,143,000 representing a 2.9% decline.

**Profit/Loss after taxation**

The reporting year's accounting profit/loss exceeds previous year's by HUF 703,000.

## 1.6 Cash flow

| | Designation (HUF 1,000) | Previous year | Reporting year |
|---|---|---|---|
| **I.** | **Changes in liquid assets from ordinary operation (Operating cash flow, Rows 1-13)** | **29,900** | **-15,480** |
| 1 | Profit before tax (+-) | -4,000 | -4,703 |
| 2 | Amortisation recognised (+) | 3,819 | 3,079 |
| 3 | Recognised impairment and reversals (+-) | 0 | 0 |
| 4 | Provisions generated and released (+-) | 0 | 0 |
| 5 | Gains/Losses on the sale of fixed assets (+-) | 0 | 0 |
| 6 | Changes in accounts payable (+-) | - 288 | 298 |
| 7 | Changes in other current liabilities (+-) | 55,099 | - 162 |
| 8 | Changes in accruals and deferred income (+-) | -19,249 | -10,537 |
| 9 | Changes in accounts receivable (+-) | - 644 | - 1,527 |
| 10 | Changes in current assets (less accounts receivable and liquid assets) (+ -) | - 5,705 | 192 |
| 11 | Changes in prepayments and accrued income (+-) | 868 | - 2,120 |
| 12 | Taxes paid or payable (on profits) (-) | 0 | 0 |
| 13 | Dividends/profit-sharing paid or payable (-) | 0 | 0 |
| **II.** | **Changes in investment cash flow (Cash flow from investments, Rows 14-16)** | **-9,709** | **-5,020** |
| 14 | Fixed asset acquisition (-) | - 9,709 | - 5,020 |
| 15 | Disposal of fixed assets (+) | 0 | 0 |
| 16 | Dividends/profit-sharing received (+) | 0 | 0 |
| **III.** | **Changes in cash flow from financial transactions (Financing cash flow, Rows 17-27)** | **-37,542** | **-2,856** |
| 17. | Income from the issue of shares and investments (+) | 0 | 0 |
| 18 | Income from the issue of bonds and debt securities (+) | 0 | 0 |
| 19 | Borrowings of credit and loans (+) | 0 | 0 |
| 20 | Repayment of long-term loans granted, termination of accruals and deferrals and withdrawal of bank deposits (+) | 0 | 0 |
| 21 | Liquid assets received permanently (+) | 0 | 0 |
| 22 | Redemption of shares, disinvestment (capital reduction) (-) | 0 | 0 |
| 23 | Repayment of bonds and debt securities (-) | 0 | 0 |
| 24 | Credit and loan amortisation and repayment (-) | 0 | 0 |
| 25 | Long-term loans granted and long-term bank deposits made (-) | 0 | 0 |
| 26 | Liquid assets transferred free of charge (-) | 0 | 0 |
| 27 | Changes in payables to founders and in other long-term liabilities (+-) | -37,542 | -2,856 |
| **IV.** | **Changes in liquid assets (Rows I+II+III)** | **-17,351** | **-23,356** |

Budapest, 30 April 2018
Compiled: Ferenc Holocsi