E-STAR ALTERNATIVE PLC.

CONSOLIDATED FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS AS ADOPTED BY THE EUROPEAN UNION

FOR THE YEAR ENDED DECEMBER 31, 2011

E-STAR ALTERNATIVE PUBLIC LIMITED COMPANY

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Consolidated statement of comprehensive income

Continuing operations	Notes	Year ended 31/12/11 EUR	Year ended 31/12/10 EUR
Revenue	5	65,517,592	28,660,491
Cost of sales	6	(22,851,467)	(17,186,210)
Gross Profit		**42,666,125**	**11,474,281**
Material cost		(24,337,081)	(302,708)
Personnel cost	7	(9,061,089)	(1,176,659)
Service used	8	(10,398,613)	(2,146,849)
Other revenue and expenditures, net		7,591,131	(257,315)
Depreciation		(2,865,759)	(1,067,976)
Profit of operation		**3,594,714**	**6,522,774**
Net profit/loss from financial activities	9	(612,730)	(250,777)
Net profit/loss from associated companies		-	(2,116)
Profit before tax		**2,981,984**	**6,269,881**
Income tax expense	10	(2,964,617)	(1,051,006)
(Loss) / Profit for the year from continuing operations		**(17,367)**	**5,218,875**
Loss for the year from discontinued operations		(2,383,315)	**-**
(LOSS) / PROFIT FOR THE YEAR		**(2,365,948)**	**5,218,875**
Attributable to the Shareholders		(2,425,944)	5,249,106
Non-controlling interest		59,996	(30,231)
Other comprehensive losses			
Foreign currency translation differences		(242,678)	(159,690)
Other comprehensive losses for the year		**(242,678)**	**(159,690)**
Total comprehensive (loss) / income for the year		**(2,608,626)**	**5,059,185**

The notes set out on pages 10 to 50 are an inseparable part of these consolidated financial statements.

Consolidated statement of comprehensive income (continued)

Earnings per share **From continuing and discontinued operations**	**Notes**	**Year ended 31/12/11 EUR**	**Year ended 31/12/10 EUR**
Basic	18	(0.964)	2.175
Diluted	18	(0.944)	2.081
From continuing operations			
Basic	18	(0.007)	2.175
Diluted	18	(0.007)	2.081

Csaba Soós, CEO   Dániel Molnos, Director   Ákos Benke, CFO

March 29, 2012

Consolidated statement of financial position

	Notes	Year ended 31/12/11 EUR	Year ended 31/12/10 EUR
Assets			
Property, plant and equipment	11	65,733,279	27,680,043
Intangible assets	12	9,646,266	8,212,369
Investments in associates		-	2,400
Investments in other companies		15,478	-
Goodwill		54,336	74,999
Other long term receivables		55,014	-
Deferred tax assets		-	81,033
Total non-current assets		**75,504,373**	**36,050,844**
Inventories	14	3,777,579	866,645
Trade receivables		10,581,289	15,001,910
Other receivables	15	13,748,875	280,939
Prepayments		2,803,039	4,284,454
Securities		972,753	1,657,712
Cash and cash equivalents	16	3,565,573	4,723,832
Total current assets		**35,449,108**	**26,815,492**
Total assets		**110,953,481**	**62,866,336**

The notes set out on pages 10 to 50 are an inseparable part of these consolidated financial statements.

Consolidated statement of financial position (continued)

	Notes	Year ended 31/12/11 EUR	Year ended 31/12/10 EUR
Equity			
Share capital	17	94,937	86,345
Share premium		12,525,322	3,943,155
Retained earnings and Reserves		5,702,358	10,347,825
Equity attributable to Shareholders		**18,322,617**	**14,377,325**
Non-controlling interests		138,344	(19,694)
Total equity		**18,460,961**	**14,357,631**
Liabilities			
Financial liabilities	19, 20	34,332,796	23,599,698
Provisions		1,023,558	62,382
Deferred tax liabilities	10	2,741,892	953,941
Deferred income		3,252,849	-
Other long-term liabilities		6,173,175	2,688,275
Total non-current liabilities		**47,524,270**	**27,304,296**
Trade payables		11,893,082	15,256,784
Financial liabilities (current)	19, 20	12,758,742	4,050,272
Provisions (current)		1,553,678	-
Accruals and deferred income		6,097,276	1,624,465
Other liabilities		12,665,473	272,887
Total current liabilities		**44,968,251**	**21,204,408**
Total liabilities		**92,492,521**	**48,508,704**
Total equity and liabilities		**110,953,481**	**62,866,336**

Csaba Soós, CEO — Dániel Molnos, Director — Ákos Benke, CFO

March 29, 2012

Consolidated statement of changes in equity

	Attributable to equity holders of the parent					
	Share capital	Share premium	Retained earnings & Reserves	Total	Non-controlling interest	Total equity
Balance at January 1, 2010	**86,346**	**3,943,155**	**5,145,364**	**9,174,865**	**4,735**	**9,179,600**
				-		-
Profit or loss for the period			**5,249,134**	**5,249,134**		**5,249,134**
						-
Other comprehensive income				-		-
Foreign currency translation differences			(46,673)	(46,673)		(46,673)
Total other comprehensive income	***-***	***-***	***(46,673)***	***(46,673)***	***-***	***(46,673)***
						-
Transactions with owners, recorded directly in equity				-		-
Share-based payment				-		
Issue of shares / share increase				-	5,533	5,533
Loss on a non-controlling interest					(29,962)	
Total transactions with owners	***-***	***-***	***-***	-	***(24,429)***	***(24,429)***
Balance at December 31, 2010	**86,346**	**3,943,155**	**10,347,825**	**14,377,326**	**(19,694)**	**14,357,632**
						-
Profit or loss for the period			(42,629)	**(42,629)**	59,996	17,367
Discontinued operations			(2,383,315)	**(2,383,315)**	-	(2,383,315)
Other comprehensive income						-
Foreign currency translation differences for foreign operation				-	(4,735)	(4,735)
Total other comprehensive income	***-***	***-***	***-***	***-***	***(4,735)***	***(4,735)***
						-
Transactions with owners, recorded directly in equity						-
Share-based payment			223,130	223,130	-	223,130
Issue of shares / share increase	8,591	8,582,167	(4,825,968)	3,764,790	102,777	3,867,567
Total transactions with owners	***8,591***	***8,582,167***	***(4,602,838)***	***3,987,920***	***102,777***	***4,090,697***
Balance at December 31, 2011	**94,937**	**12,525,322**	**5,702,358**	**18,322,617**	**138,344**	**18,460,961**

The notes set out on pages 10 to 50 are an inseparable part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Year ended 31/12/11	Year ended 31/12/10
Cash flows from operating activities			
(Loss) / profit for the period		(2,365,948)	5,218,875
Adjustments for:			
Depreciation and amortisation		2,865,759	294,206
Impairment of assets		86,359	-
Unrealized foreign exchange (gains)/losses		(242,678)	-
Other Non-cash items		(13,078)	751,877
		330,414	**6,264,958**
Change in working capital:			
(Increase)/Decrease in trade and other receivables		(7,707,272)	(13,234,431)
(Increase)/Decrease in inventories		(2,910,934)	(791,905)
(Increase)/Decrease in trade and other payables		16,986,599	14,388,764
Increase/(Decrease) in deferred income		3,252,849	159,709
Increase/(Decrease) in deferred taxes		1,868,983	-
Increase/(Decrease) in provisions		2,514,854	-
Net cash from operating activities		**14,335,493**	**6,787,095**

The notes set out on pages 10 to 50 are an inseparable part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

		EUR	EUR
Cash flows from investing activities			
Acquisition of property, plant and equipment		(22,808,633)	(19,518,403)
(Proceeds)/sales of property, plant and equipment		-	-
Acquisition of subsidiaries net of cash	13	(19,544,259)	-
Proceeds from available for sale assets		-	-
Proceeds from sale of group entities		-	-
Other investments		705,622	(1,632,348)
Net cash used in investing activities		**(41,647,270)**	**(21,150,751)**
Cash flows from financing activities			
Proceeds/sales from subscribed capital & capital reserves		6,371,234	-
Proceeds from borrowings		19,441,569	18,560,137
Proceeds from issue of shares to non-controlling interest		98,042	-
Dividends paid to non-controlling interests		-	-
Net cash from (used in) financing activities		**25,910,845**	**18,560,137**
Net decrease in cash and cash equivalents		(1,400,932)	**4,196,481**
Cash and cash equivalents at 1 January	16	4,723,831	527,350
Effect of exchange rate fluctuations on cash held		242,678	-
Cash and cash equivalents at 31 December		**3,565,573**	**4,723,831**

The notes set out on pages 10 to 50 are an inseparable part of these consolidated financial statements.

Notes to the consolidated financial statements

1. General information of the Reporting Entity

E-Star Alternative Plc. ("E-Star" or the "Company"), which is the parent company of the group ("Group"), is registered in Hungary and was founded at 12 June 2006. Its registered head office is at 1122 Budapest, Székács u. 29. The Company's legal predecessor was established on 29 June 2000 with the aim of implementing for its clients – primarily energy-related – investments, the cost of which are recouped from the savings they generate, and by operating these projects in the long term, efficiently supplying energy to its clients. On 7 March 2011 the Company changed its name to E-Star Alternative Plc., which was more in keeping with the Company's activities and international expansion. As of the balance sheet date, the Company's owners were as follows:

Owner	**2011**	**2010**
	Tulajdoni hányad (%)	
Csaba Soós	24.34	40.95
OTP Alapkezelő Zrt.	10.84	16.54
Sandling Enterprises Limited	7.27	-
Utilico Emerging Markets Limited	5.42	-
Aegon Alapkezelő Zrt.	5.33	6.65
József Makra	-	8.00
East Capital	-	(less than 5%)
Generali Gold KKE Részvényalap	-	(less than 5%)
Widely held	46.80	27.86
Total	**100.00**	**100.00**

The Company provides its services in the context of an ESCO ("Energy Services Company") structure, which is a form of public-private partnership ("PPP") arrangement specific to the energy sector. It implements energy sector projects in proprietary investments, which it subsequently maintains and operates in the long term following completion of the inital investment. In this manner the Company uses the assets created in the investment to provide energy services, typically under an 8-15 year contract, depending on the rate of return.

The Company's revenues come from the savings that are realised in the course of the implementation under the long-term contracts as well as from the fees charged for operation and maintenance. A significant number of the Company's customers are municipalities.

The Company's most important business activities are the following:

- efficient heat and remote heat supply based on sustainable primary energy sources
- energy-efficient public lighting services based on modern voltage regulation.

After successful investments in Hungary, the Company embarked on regional expansion and has been increasingly active in the neighbouring countries, especially in Romania and in Poland.

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 The effect of adopting new and revised International Financial Reporting Standards effective from 1 January 2011

The following amendments to the existing standards issued by the IASB and adopted by the EU are effective for the current period:

- IAS 24 (Amendment) "Related Party Disclosures" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IAS 32 (Amendment) "Financial Instruments: Presentation" – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- IFRS 1 (Amendment) "First-time Adoption of IFRS"- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- Various standards and interpretations (Amendment) "Improvements to IFRSs (2010)" resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- IFRIC 14 (Amendment) "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" - Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of the above presented Amendments and new Standards and Interpretations had no significant impact on the Consolidated Financial Statements of the Group.

2.2 Amendments to IFRSs effective on or after 1 January 2012, which are not yet endorsed by EU, not yet adopted

At the balance sheet date of these financial statements, the following Standards and Interpretations were issued but not yet effective:

- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2015),
- IFRS 10 "Consolidated Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 11 "Joint Arrangements" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 12 "Disclosures of Involvement with Other Entities" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 13 "Fair Value Measurement" (effective for annual periods beginning on or after 1 January 2013),
- IAS 27 (revised in 2011) "Separate Financial Statements" (effective for annual periods beginning on or after 1 January 2013),
- IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2013),
- IFRS 1 (Amendment) "First-time Adoption of IFRS" - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),

- IFRS 7 (Amendment) "Financial Instruments: Disclosures"- Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- IAS 1 (Amendment) "Presentation of financial statements" -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- IAS 12 (Amendment) "Income Taxes" - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- IAS 19 (Amendment) "Employee Benefits" - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine" (effective for annual periods beginning on or after 1 January 2013).

The adoption of the above presented Amendments and new Standards and Interpretations would have no significant impact on the Consolidated Financial Statements of the Group.

3. Significant accounting policies

3.1. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU").

3.2. Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

3.3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3.3.1. Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between the aggregate of the fair value of the consideration received and the fair value of any retained interest and the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3.4. Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.
At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.
Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.5. Goodwill / negative goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see note 3.4 above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is

less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

A bargain purchase could happen in a business combination that is a forced sale in which the seller is acting under compulsion. However, the recognition or measurement exceptions for particular items may also result in recognising a gain (negative goodwill) on a bargain purchase. Before recognising a gain on a bargain purchase, the Company as acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and shall recognise any additional assets or liabilities that are identified in that review. The Company as acquirer shall then review the procedures used to measure the amounts this IFRS requires to be recognised at the acquisition date for all aspects presented in IFRS 3 *Business Combinations*.

3.6. Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate

had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3.7. Leases

Prepaid rent represents title to perpetual usefruct of land acquired by or granted to a group entity by the Polish State which is accounted for as an operating lease. The amount paid to acquire a title to perpetual usefruct of land is recognized as operating lease expense in profit or loss over the period of entitlement to use of the land.

There is no contract or agreement in the Group designated as financial lease.

3.8. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The revenue from sales transactions is recorded on the date of performance in accordance with the terms and conditions of the relevant supply contracts. The sales revenue does not include value added tax. All income and expense is recognized in accordance with the comparability principle in the appropriate period.
The Group's revenue consist mainly of the services from efficient heat and remote heat supply based on sustainable primary energy sources and energy-efficient public lighting services based on modern voltage regulation. The revenue from rendering of services is recognized when all it could be measured reliably and the economic benefit will flow to the Group.

3.8.1. Rendering of services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined as follows:

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period;

- servicing fees included in the price of products sold are recognised by reference to the proportion of the total cost of providing the servicing for the product sold; and

- revenue from time and material contracts is recognised at the contractual rates as labour hours and direct expenses are incurred.

The Group's policy for recognition of revenue from construction contracts is described in note 3.10 below.

3.8.2. Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.9. Foreign currency translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's entities are translated into euro ("EUR") using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

These consolidated financial statements are presented in EUR (presentation currency); the functional currency of the:

- companies operating in Hungary is Hungarian forint ("HUF")
- companies operating in Romania is Romanian lei ("RON")
- companies operating in Poland is Polish zloty ("PLN")

3.10. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.11. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

3.12. Retirement benefit costs

3.12.1. Defined contribution plan

One subsidiary of the Company operates a defined contribution pension plan for employees. Pension costs are charged against profit or loss as the related service is provided.

3.12.2. Other long term employee benefits

A provision is recognized for the amount of the present value of obligations under schemes at certain group companies which entitles employees to receive benefits at retirement.

The Group’s net obligation in respect of other long-term employee benefits is discounted to determine its present value. The discount rate is the yield at the reporting date on government bonds that have maturity dates approximating the terms of the Group’s obligations. Any actuarial gains or losses are recognized in profit or loss in the period in which they arise.

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10 per cent of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognised actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

3.13. Share-based payment arrangements

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share-based payment transactions that were granted after 1 February 2010 and is effective until December 31, 2014. No amounts have been recognised in the consolidated financial statements in respect of other equity-settled shared-based payments.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

No amounts have been recognized in the consolidated financial statements as cash-settled share-based payments.

3.14. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

3.14.1. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period.

3.14.2. Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against

which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

3.14.3. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.15. Property, plant and equipment

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their carrying amounts, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

Buildings	50 years
Structures	10 years
Plant and equipment	3-25 years
Vehicles	5 years

3.16. Intangible assets

3.16.1. Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

3.16.2. Intangible assets acquired in business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).
Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.16.3. Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

3.16.4. Concession rights and emission quotas

Concession rights are intangible assets which arise on the acquisition of exclusive rights to supply certain partners with energy over a finite time period. Concession rights are recognized at cost and subsequently measured at cost less accumulated amortization and impairment losses.

Emission quotas ("CO2 quotas") are granted by governments annually, free of charge, to entities which emit greenhouse gases. The quotas are valid for a predetermined period of time. Such emission quotas are initially recognized as intangible assets at fair value which is the market price at the grant date. Subsequently the emission quotas are accounted for using the cost model, and then tested for impairment. Emission quotas are not amortized.

Emission quotas are reviewed to assess whether their net recoverable amount is lower than their carrying value at the reporting date. Net recoverable amount is the lower of value in use or fair value less cost to sell. As the value in use of emission quotas is approximately equal to their fair value less cost to sell and the cost to sell is not material, the recoverable amount of emission quotas is the average spot price of the emission quotas of the market obtainable data (www.bluenext.com). Each emission quota is measured in the statement of financial position at the lower value and any impairment loss is recognized in profit or loss. Emission quotas which expire within a year are classified as current assets.

Throughout the period of their validity, emission quotas may be sold in the market. Therefore derecognition occurs when emission quotas are sold or returned to government against emitted greenhouse gases.

The Group can settle the obligations created by its emission of pollutants only by surrendering emission quotas to the government. Provisions are measured at the best estimate of the expenditure required to settle the present obligation at the date of the end of the reporting period. A provision for emitted CO2 quotas is recognized at the reporting date for the actual quantity of emitted greenhouse gas. Where the Group holds CO2 quotas, the provision is recognized based upon the carrying amount of CO2 quotas on hand at the reporting date. If the Group needs to purchase additional quotas to meet its liabilities, the provision for new purchases is recognized at the current market price of the quota as at the reporting date.

3.17. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Any impairment loss related to tangible and intangible assets is recognized among depreciation in the comprehensive income.

3.18. Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in-first-out (“FIFO”) basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.19. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.19.1. Contingent liabilities

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less cumulative amortisation recognised in accordance with IAS 18 *Revenue*.

3.20. Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.21. Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM") investments, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

3.21.1. Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

3.21.2. Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

3.21.3. Held-to-maturity investments

HTM investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, HTM investments are measured at amortised cost using the effective interest method less any impairment.

The Company has HTM securities which are discounted Treasury bills issued by the Hungarian government in the nominal value of EUR 664,724.

3.21.4. Available-for-sale financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, HTM investments or FVTPL.

Listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the directors consider that fair value can be reliably measured). Fair value is determined based on market prices or in case of reliable obtainable market prices, valuation mode is applied as alternative method. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured with a valuation model as an alternative approch and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

3.21.5. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.21.6. Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3.21.7. Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.22. Financial liabilities and equity instruments

3.22.1. Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

3.22.2. Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.22.3. Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

3.22.4. Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss.

3.22.5. Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

3.22.6. Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by the Group are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

3.22.7. Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3.23. Derivative financial instruments

The Group enters into derivative financial instruments for trading purposes.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

There is no embedded derivative recognized in the Group's derivative transactions.

The Group doesn't apply hedge accounting; the concluded deals are futures for trading purposes recognized FVTPL.

3.24. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

3.25. Operating segments

An operating segment is a distinguishable component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the management include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

The Group determines and presents operating segments based on the information that is provided internally to the Board of Directors. The Board is the Group's chief operating decision maker. For this purpose the Group categorizes its operations into geagraphical segments. The segmentation was adopted when preparing these consolidated financial statements.

3.26. Comparative figures

The presentation currency from previous years have been changed from HUF to EUR. Therefore the comparision in respect of the base data of this consolidated financial statements with the last year's published consolidated financial statements is impracticable.

Some restructuring in the supplementary information were applied in order to have a better understanding of the operation of the Group. These reclassifications were not material to the consolidated financial statements.

4. Critical accounting judgments and key sources of estimation uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The estimates and underlying assumptions are reviewed on ongoing basis. Revisions to accounting estimates are recognized in the period. Actual results could differ from those estimates. Significant areas of subjective judgement include:

4.1. Provisions

Provision is recognized and measured based on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The entites of the Group is involved in a number of ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.
A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.
Provision for off-balance sheet items includes provision for litigation, provision for retirement and expected liabilities, provision for warranties arising from financing institutions and other provision.

4.2. Useful lives of property, plant and equipment

As described at 3.15 above, the Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. The determination of the useful lives of assets is based on historical experience with similar assets. During the current year, the management determined that the useful lives of the properties, plants and equipments remained as in the previous years. Property, plant and equipment and intangible assets are recorded at cost and, except for goodwill, are depreciated or amortized on a straight-line basis over their estimated useful lives or, for gas engine parts, over the estimated machine hours. Due to the significance of property, plant and equipment in the statement of financial position of the Group, the impact of any changes in these assumptions could be material to the results of the Company.

4.3. Impairment of property, plant and equipment and intangible assets

Impairment on property, plant and equipment or on intangible assets is determined based on estimations concerning the recoverable amount of those assets. Changes in accounting estimates relating to asset impairment (estimates of the asset's fair value less cost to sell and value in use, the free cash flow estimate, considerations regarding the discount rate, etc.) could have a material impact on the results of the Group.

4.4. Determination of fair values of acquisition

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

4.5. Valuation of share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The Company has a share option scheme for executives and senior employees of the Company.

Each employee share option converts into one ordinary share of the Company on exercise. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is calculated in accordance with the performance-based formula approved by shareholders and is subject to approval by the remuneration committee. The formula rewards executives and senior employees to the extent of the Group's and the individual's achievement judged against both qualitative and quantitative criteria from the following financial and customer service measures:

- improvement in share price
- improvement in net profit
- improvement in return to shareholders
- reduction in warranty claims
- results of client satisfaction surveys
- reduction in rate of staff turnover

As described in 3.13. above, the Group determines the fair values of the equity-settled share based payments at fair value of the equity instruments at the grant date. The Group used the Black-Scholes formula for the determination of the value of the equity-settled share based payment transactions, as the conditions of this model could be applied. The exercise prices of the options is calculated as the average of the market price of E-Star shares quoted by the BSE daily during the five years period ended as at the grant date of the options. The Group estimates the fair value of the equity instruments using volatility calculated from historical market data derived from the Budapest Stock Exchange, the risk free rates in the model were calculated as average yields of the best bid and ask offers in the database of Államadósság Kezelő Központ (ÁKK). The Group, while determining the fair values of the options, took into consideration that the employment of some employees has been terminated in the course of 2011 and as at the balance sheet date they already have not had the right to exercise any previously vested options. Hence any ongoing vesting period for further options have been also terminated. For these employees above, no costs have been recorded and no employee benefits reserves have been recorded in equity, the effect of the previously vested, but not exercised and already not exercisable options have been reversed.

5. Revenue

	2011	**2010**
Electricity sales and energy efficiency services	20,340,295	972,847
Heat sales	24,377,274	17,384,202
Distrinct heating	1,219,498	272,252
Other	19,580,525	10,031,190
Total	**65,517,592**	**28,660,491**

The Group's primary sources of revenue is sales of electricity and heat; sales of heat are mostly generated from the Group's own production while sales of electricity are generated partly from own production and partly from the resale of electricity purchased from third parties. In addition to sales of energy, the Group provides energy efficiency services.

6. Cost of sales

	2011	2010
Cost of sales	22,851,467	17,186,210

Cost of sales includes natural gas, coal, electricity and heat used for heat and power generation, as well as cost of purchased professional fees sold relating to the conduct the Company's services: licenses, calibration of assets, periodical reviews of boilers, monitoring of the equipment used for energy production.

7. Personnel cost

	2011	2010
Wages and salaries	6,626,910	922,768
Other employee benefits	693,149	44,029
Social security contributions	1,517,900	209,862
Share-based payments	223,130	-
Total	**9,061,089**	**1,176,659**

8. Service used

	2011	2010
Maintenance costs	986,835	352,439
Advisory fees	2,171,174	571,486
Rental fees	2,270,434	548,377
Office, communication	392,164	149,281
Property related services	94,958	3,285
Legal fees	1,008,382	-
Car operation costs	8,876	69,625
Bank charges	262,502	-
Insurance fees	73,246	-
Other services	3,130,042	452,356
Total	**10,398,613**	**2,146,849**

Professional fees relate to the conduct the Company's services: licenses, calibration of assets, periodical reviews of boilers, monitoring of the equipment used for energy production.

9. Financial income and expense

	2011	2010
Net foreign currency loss	(2,844,667)	(436,271)
Interest income	4,396,207	231,585
Interest expense	(459,206)	(1,044,728)
Other finance income	-	4,648,835
Other finance cost	(1,705,064)	(3,650,198)
Net loss from financial activities	**(612,730)**	**(250,777)**

Other financial income includes late payment penalties paid by fixed assets suppliers.

Net foreign currency loss in 2011 is mostly caused by the year end revaluation of bank loans, cash and FX denominated suppliers.

10. Income taxes

The Company is presently liable for income tax at a rate of 19% of taxable income. In 2010 due to the fact that the Hungarian Government approved a law effected that the income tax rate will be reduced to 10% from 1 January 2013 the deferred tax is calculated at 10% for those temporary differences that are expected to be resulted in taxable amounts or amounts deductable from the taxable profit after 2012. 19% was used for the calculation of the deferred tax for the remaining items.

The corporate income tax expenses recognized in profit or loss

	2011	2010
Current tax expense in respect of the current year	1,095,634	911,161
Deferred tax expense recognised in the current year	1,868,983	139,845
Total	**2,964,617**	**1,051,006**

Deferred tax assets and deferred tax liabilities:

	31 December 2011	31 December 2010
Deferred Tax Assets	18,520	81,033
Deferred Tax Liabilities	(2,760,411)	(953,941)
Total	**(2,741,892)**	**(872,909)**

The details of deferred tax receivables and deferred tax liabilities were as follows:

Deferred Tax receivable (liability)	**Balance as 31 December 2009**	**Change**	**Balance as 31 December 2010**	**Change**	**Balance as 31 December 2011**
Loss accruable under tax law	57,337	(57,337)	-	-	-
Impairment of receivables	43,177	(35,442)	7,735	8,705	16,440
Tangible and intangible assets	(839,124)	(47,758)	(886,883)	(252,062)	(1,138,944)
Risk provision	5,547	692	6,239	(4,159)	2,080
Other (deferred tax effect of acquisition)	-	-	-	(1,621,467)	(1,621,467)
Net deferred tax receivables / (liabilities)	**(733,063)**	**(139,845)**	**(872,909)**	**(1,868,983)**	**(2,741,892)**

11. Property, plant and equipment

	Property, Plant and equipment	Other equipment	Assets under construction
Gross value			
January 1, 2010	**12,926,788**	**-**	**6,619,371**
Additions	17,726,844	-	-
Capitalizations	-	-	(6,316,284)
Disposals	-	-	-
Effects of movements in exchange rates	(507,732)	-	(123,198)
December 31, 2010	**30,145,900**	**-**	**179,889**
Additions	23,905,885	292,728	13,859,186
Capitalizations	-	-	(24,287,194)
Acquisition through business combination	12,791,628	490,166	15,590,509
Valuation of acquired assets	16,214,670	-	-
Disposals	(14,300,381)	(34,621)	(708,555)
Effects of movements in exchange rates	(3,863,219)	(63,534)	(124,567)
December 31, 2011	**64,894,483**	**684,739**	**4,509,268**
Depreciation and impairment losses			
January 1, 2010	**1,684,635**	**-**	**-**
Depreciation for the year	1,015,776	-	-
Disposals	-	-	-
Effects of movements in exchange rates	(54,665)	-	-
December 31, 2010	**2,645,746**	**-**	**-**
Depreciation for the year	2,124,464	144,646	-
Disposals	(166,520)	(11,857)	-
Impairment loss	6,568	-	618,917
Reversal of impairment	-	(4,196)	(502,182)
Acquired depreciation through business combination	-	-	-
Effects of movements in exchange rates	(502,008)	(23,733)	25,366
December 31, 2011	**4,108,250**	**104,860**	**142,101**
Carrying amounts			
January 1, 2010	**11,242,153**	**-**	**6,619,371**
December 31, 2010	**27,500,154**	**-**	**179,889**
December 31, 2011	**60,786,233**	**579,879**	**4,367,167**

12. Intangible assets

	Concession rights	Software and other intangible assets
Gross value		
January 1, 2010	**-**	**70,875**
Additions	8,158,774	125,352
Disposals	-	-
Effects of movements in exchange rates	(72,503)	(3,034)
December 31, 2010	**8,086,271**	**193,193**
Additions	48,947	148,437
Assets of the newly purchased subsidiary, net	1,189,428	722,076
Disposals	-	(219)
Transfer to assets held for sale	-	(5,529)
Effects of movements in exchange rates	(121,155)	(95,100)
December 31, 2011	**9,203,491**	**962,858**
Depreciation and impairment losses		
January 1, 2010	**-**	**17,883**
Amortization	13,525	36,616
Effects of movements in exchange rates	(120)	(809)
December 31, 2010	**13,405**	**53,690**
Amortization	396,433	83,482
Disposals	-	(832)
Impairment loss	-	-
Reversal of impairment	-	(2,373)
Transfer to assets held for sale	-	-
Effects of movements in exchange rates	(9,100)	(14,622)
December 31, 2011	**400,738**	**119,345**
Carrying amounts		
January 1, 2010	**-**	**52,992**
December 31, 2010	**8,072,866**	**139,503**
December 31, 2011	**8,802,753**	**843,513**

Concession rights mostly relate to two projects where the Group made up front payments under contracts in exchange for exclusive rights to supply energy for periods of 15 and 20 years, respectively.

During the year there was a significant acquisition of tangible assets and there was a significant revaluation related to the acquired assets (See note 13)

13. Business Combinations

E-Star Alternative Plc. acquired companies of EETEK Group in Hungary and Poland, and determined that the date od acquisition was January 1, 2011 – based on gain of de facto control over them. The total purchase price was EUR 21 million, which had been paid fully from the Company's own funds, furthermore during the restructuring process an additional EUR 28,5 million was transferred to the owners' of the ultimately held hungarian and polish entities.

Due the complexity and diversified operational and geographical focus of the acquired group, E-Star has been restructuring the purchased assets, which process could result two outcomes:

- Entitites which are not fitting apparently to E-Star's operationinal portfolio: divest and sell
- Entities, which are planned to be retained: purificate operational profiles and fully integrate them to E-Star's organizational and operational structure and culture

E-Star holds two Hungarian and three Polish companies from the EETEK-transaction:

In Hungary:

- **Rába Energiaszolgáltató** ("Rába Energy Service", RESZ) **Kft.** and its related assets which provide energy services to industrual clients located in Rába Industrial Park (Győr)
- **EPV Biogáz Kft**., a legal entity that holds the licenses and authorisation to build up a biogas plant on the territory of the Pécs sewage works.

In Poland:

- **Heat and Power Plant Mielec** (E-Star Elektrociepłownia Mielec Sp. z o. o) located in South-Eastern Poland, which provides heat and electricity to the municipality-owned local heat supplier and to industrial clients located in the Mielec Industrial Zone
- **Heat and Power Plant Gorlice** (E-Star Elektrociepłownia Gorlice Sp. z o. o) located in South-Eastern Poland as well, which provides heat mainly to the municipality-owned local heat supplier
- **Euro-Energetyka** (Euro-Energetyka Sp. z o. o), an electricity-trader company, headquarted in Mielec

This acquisition had the following effect on the Group's assets and liabilities:

	Recognized value	**Fair value adjustments**	**Pre-acquisition carrying amounts**
Property, plant and equipment	30,066,415	16,214,670	13,851,744
Perpetual usufruct	494,248		494,248
Intangible assets	63,970		63,970
Goodwill	54,336		54,336
Other investments	252,566		252,566
Inventories	1,591,601		1,591,601
Emission quotas	2,436,745		2,436,745
Other investments (current)	7,348,301		7,348,301
Current tax assets	17,216		17,216
Trade and other receivables	11,168,222		11,168,222
Cash and cash equivalents	2,205,741		2,205,741
Bank loans and borrowings	(2,268,609)		(2,268,609)
Deferred income	(3,669,683)		(3,669,683)
Provisions	(921,703)		(921,703)
Deferred tax liabilities	(246,553)		(246,553)
Bank loans and borrowings (current)	(2,197,407)		(2,197,407)
Trade and other payables	(6,578,461)		(6,578,461)
Deferred income (current)	(72,097)		(72,097)
Provisions (current)	(2,744,849)		(2,744,849)
Net identifiable assets and liabilities	**36,945,664**	**16,214,670**	**20,730,994**

Total consideration paid	27,648,747
Less payable in future periods	-5,898,732
less cash in the company	-2,205,741
Acquisition of subsidiary net of cash acquired	**19,544,274**

At acquisition, the Company revalued the assets of RESZ, E-Star Elektrociepłownia Mielec Sp. z o. o, E-Star Elektrociepłownia Gorlice Sp. z o. o and Euro-Energetyka Sp. z o. o to their fair value.

14. Inventories

	2011	**2010**
Coal	1,257,290	288,445
Other fuel	3,813	875
Other materials	2,516,476	577,325
Total	**3,777,579**	**866,645**

Other fuel represents mostly heavy fuel oil which is stocked for backup purposes.

15. Other receivables

	2010	**2010**
Corporate income tax receivable	785,569	-
VAT reclaimable	2,718,096	-
Other tax receivables	2,810	-
Accrued income	172,983	-
Others	10,069,417	280,939
Total	**13,748,875**	**280,939**

16. Cash and cash equivalents

	2011	2010
Cash in hand	20,853	7,569
Bank balances	3,544,720	4,716,263
Total	**3,565,573**	**4,723,832**

17. Share capital and reserves

Share Capital

On December 31, 2008 the Company's share capital consisted of 2,000,000 shares. The nominal value of the shares is HUF 10/share. At the end of 2009 the Company carried out a share offering at above nominal value, issuing 400,000 shares. The value of the issue of the shares was HUF 2,750/share, while the nominal value was HUF 10/share. As a result of the share offering at above nominal value, the Company's share capital rose by HUF 4 million, while its capital reserve increased by HUF 1.096 million. There was a capital increase in July 1, 2011. The amount issued in current year was HUF 10/share nominal value, and as a result the share capital increased by HUF 2.4 million to HUF 26.4 million.

18. Earnings per share

The calculation of basic earnings per share is based on the result for the period attributable to ordinary shareholders of EUR 2,425,944 in 2011 (2010: profit of EUR 5,249,106) and the weighted average number of ordinary shares outstanding during the year.

In 2011, there was a change in the number of outstanding ordinary shares. In July 1, 2011 a capital increase was registered in the amount of HUF 2,400,000 that means 240,000 peices of ordinary shares.

In 2011 there was the share-based payment program effective from 2010 which has a dilutive effect on the number of potential ordinary shares and in 2010 there was a dilutive effect of the ordinary shares grantable at a discount.

Basic and diluted EPS from continuing and discontinued operations	**2011**	**2010**
(Loss) / Profit for the period attributable to ordinary shareholders	(2,425,944)	5,218,876
Weighted average number of ordinary shares (shares)	2,517,041	2,400,000
Basic EPS (EUR/pieces)	**(0.964)**	**2.175**
Number of ordinary shares grantable at a discount	-	108
Potential ordinary shares related to the share-based payment program	51,944	-
Diluted EPS (EUR/pieces)	**(0.944)**	**2.081**

Basic and diluted EPS from continuing operations	**2011**	**2010**
(Loss) / profit for the period attributable to ordinary shareholders	(17,367)	5,218,876
Weighted average number of ordinary shares (shares)	2,517,041	2,400,000
Basic EPS (EUR/pieces)	**(0.007)**	**2.175**
Number of ordinary shares grantable at a discount	-	108
Potential ordinary shares related to the share-based payment program	51,944	-
Diluted EPS (EUR/pieces)	**(0.007)**	**2.081**

19. Loans and borrowings

	2011	**2010**
Liabilities from issued securities	27,566,596	13,617,557
Secured bank loans	12,313,556	13,465,407
Other loans	7,211,387	567,005
Total liabilities	**47,091,539**	**27,649,969**
Current portion of liabilities from bond issues	4,507,915	-
Current portion of secured bank loans	3,929,097	4,050,272
Current portion of other loans	4,321,730	-
Total current liabilities	**12,758,742**	**4,050,272**
Non-current portion of liabilities from bond issues	23,058,681	13,617,557
Non-current portion of secured bank loans	8,384,459	9,415,136
Non-current portion of other loans	2,889,657	567,005
Total non-current liabilities	**34,332,797**	**23,599,698**

The Group's bank loans as at December 31, 2011 and 2010 are secured, denominated in HUF and fall due for repayment, as follows:

	2011	**2010**
Within 1 year	3,107,068	4,050,272
1 to 2 years	368,518	-
2-5 years	3,174,436	2,066,426
More than 5 years	12,853,230	7,915,715
Total bank loans	**19,503,252**	**14,032,412**

The interest rates for all bank loans are floating and determined by 1 month EURIBOR + spread between 2.50% to 3.50% depending on the relevant project.

Property, plant and equipment are pledged as security for bank loans, and the municipalities guarantee the loans are connected to theirs heating system development. In addition, receipts of certain project revenues are directed to specified project bank accounts. The banks have prompt collection rights over these accounts.

Financial covenants

Under the terms of one bank loan agreement between E-Star Alternative Plc and Commerzbank, the Company was obliged to maintain a minimum net debt per EBITDA ratio of 3.5. If the ratio would be below the agreed upon level, the loan may had to be repaid upon the request of the bank. The related loan was repaid during 2011 and the ratio was above the required level both in 2011 and 2010, respectively.

20. Liabilities from issued securities

On October 4, 2010 the Budapest Stock Exchange ("BSE"), based in its resolution 349/2010, included a total of 20,000 dematerialised, registered RFV 2014/A (HU0000346432) securities with a nominal value of HUF 100,000 each and a total nominal value of HUF 2,000 million in the product list of the BSE. The maturity of the bonds is February 12, 2012. There were additional issuances of the securities, the total issued amount is HUF 5,902 million as of December 31, 2011.

On May 30, 2011 the Budapest Stock Exchange ("BSE"), based in its resolution 207/2011, included a total of 7,898 dematerialised, registered E-STAR 2015/A (HU0000347802) securities with a nominal value of HUF 100,000 each and a total nominal value of HUF 789.800 million in the product list of the BSE. The maturity of the bonds is February 12, 2015. There were additional issuances of the securities, the total issued amount is HUF 1,248.7 million as of December 31, 2011.

On May 30, 2011 the Budapest Stock Exchange ("BSE"), based in its resolution 208/2011, included a total of 14,305 dematerialised, registered E-STAR 2016/C (HU0000347794) securities with a nominal value of HUF 100,000 each and a total nominal value of HUF 1,430.5 million in the product list of the BSE. The maturity of the bonds is May 30, 2016.

On July 1, 2011 the Budapest Stock Exchange ("BSE"), based in its resolution 305/2011, included a total of 14,181 dematerialised, registered E-STAR 2012/A (HU0000348081) securities with a nominal value of HUF 100,000 each and a total nominal value of HUF 1,418.1 million in the product list of the BSE. The maturity of the bonds is October 24, 2012.

Issued securities denominated in HUF are the following as of December 31, 2010:

Name	ISIN	Issuance	Maturity	Nominal value in HUF	FX	NV in EUR	Interest
RFV 2014/A	HU0000346432	Oct 4, 2010 Nov 30, 2010 Dec 7, 2010	12-Feb-2014	3,785,000,000	HUF	13,617,557	fix
Total				**3,785,000,000**		**13,617,557**	

Issued securities denominated in HUF are the following as of December 31, 2011:

Name	ISIN	Issuance	Maturity	Nominal value in HUF	FX	NV in EUR	Interest
RFV 2014/A	HU0000346432	Oct 4, 2010 Nov 30, 2010 Dec 7, 2010 March 9, 2011 March 17, 2011 Aug 19, 2011	Feb 12, 2014	5,465,800,000	HUF	17,374,913	fix
E-STAR 2012/A	HU0000348081	Jul 1, 2011 Aug 4, 2011	Oct 24, 2012	1,418,100,000	HUF	4,507,915	fix
E-STAR 2015/A	HU0000347802	May 30, 2011 Jun 7, 2011 Aug 22, 2011	Feb 12, 2015	357,500,000	HUF	1,136,436	fix
E-STAR 2016/C	HU0000347794	May 30, 2011	May 30, 2016	1,430,500,000	HUF	4,547,333	BUBOR6M + 5.00% spread
Total				**3,785,000,000**		**27,566,597**	

21. Employee benefits

The Group's employees participate in state pension plans to which employers and employees pay contributions. The pension liability resides with the state in Hungary, Poland and Romania.

Polish entities have a defined contribution pension plan in addition to the state plan, which is available for all employees after three months' employment. These subsidiaries pay contributions equal to 8% of the basic salary of employees who are members of the fund. The contribution expense was EUR 345,528 in 2011, however in 2010 there was no contribution for such purpose, since these entities were outside the Group. The payments are made to separate trustee administered funds and the funds are not consolidated in these financial statements.

Employees of certain subsidiaries are entitled to retirement leave, pension and jubilee payments (employee benefits). The Group sets up provisions for these employee benefits based on the actuarial valuations as at the reporting date prepared by an independent actuary firm. Provisions are measured on the basis of the present value of the Group's future obligations with regard to employee benefits that employees have earned in return for their service in the current and prior periods. Provisions are calculated separately for each employee. The basis for the calculation of the provision is the projected amount of the benefit that the Group is committed to pay. The projected amount of the benefit is calculated considering the basis of the benefit, projected increases in the benefit and a percentage ratio depending on the length of service of the employee. The calculated amount is then discounted to the reporting date based on actuarial assumptions. Employee turnover is estimated on the basis of historical data and projected employment levels in the future.

The actuarial discount is a product of the financial discount and the probability that the employee will continue his/her service till the moment the benefit is received. The discount rate is the yield on long-term treasury bonds at the valuation date. The possibility of the employee's resignation is defined with the use of a probability distribution and the Group's statistical data. Risk of incapacity and death is estimated using statistical data.

Movement in the present value of the defined benefit obligation

	2011	2010
Defined benefit obligation as at January 1	**917,673**	**-**
Current service costs	56,309	-
Interest expense	49,034	-
Benefits paid	(75,979)	-
Actuarial gains and losses	(2,382)	-
Defined benefit obligation as at December 31	**944,655**	**-**

Expense recognized in profit or loss

	2011	2010
Current service costs	56,365	-
Interest expense	49,022	-
Actuarial gains and losses	(2,427)	-
Total expense recognized in profit or loss	**102,960**	

The expense is recognized in the following line items in the statement of comprehensive income:

	2011	2010
Cost of sales	102,897	-
Administrative expenses	63	-
Total expense recognized in profit or loss	**102 960**	**-**

Actuarial assumptions as at the reporting dates:

	2011	2010
Discount rate as at 31 December	5.50%	0%
Future salary increases	3.50%	0%

22. Significant subsidiaries

All investements in companies are held by the parent Company are eliminated in full, i.e. it has control over the following subsidiaries:

Name	Country of incorporation	2011 Share ownership	2011 Voting power	2010 Share ownership	2010 Voting power
EETEK Limited	Cyprus	100%	100%	-	-
E-Star ESCO Kft. (formerly RFV Esco Kft.)	Hungary	100%	100%	100%	100%
RFV Beruházó Kft.	Hungary	-	-	100%	100%
RFV Józsefváros Kft.	Hungary	49%	70%	49%	70%
E-Star Geotherm Kft. (formerly RFV Geotherm Kft.)	Hungary	100%	100%	100%	100%
Veszprém Megyei Non-profit Kft.	Hungary	49%	50%	49%	50%
Fejér Megyei Energia Nonprofit Kft.	Hungary	49%	51%	49%	51%
Patakhő Energiaszolgáltató Nonprofit Kft.	Hungary	48%	50%	48%	50%
E-Star Management Zrt. (formerly RFV Management Kft.)	Hungary	100%	100%	100%	100%
Grep Zrt.	Hungary	-	-	25%	25%
Rába Energiaszolgáltató Kft.	Hungary	97%	97%	-	-
NRG Finance Kft.	Hungary	90%	90%	-	-
E-Star Távhőfejlesztési Kft.	Hungary	100%	100%	-	-
EPV Biogáz Kft.	Hungary	100%	100%	-	-
Euro-Energetyka Spółka z o. o.	Poland	51%	51%	-	-
Elektrocieplownia „Gorlice” Spółka z o. o.	Poland	73%	73%	-	-
Elektrocieplownia Mielec Spółka z o. o.	Poland	85%	85%	-	-
E-Star Management Polska	Poland	100%	100%	-	-
EC-Energetyka Spółka z o. o.	Poland	51%	51%	-	-
E-Star Polska	Poland	100%	100%	-	-
E-Star Centrul de Dezvoltare Regionala SRL (formerly RFV S.R.L)	Romania	100%	100%	100%	100%
Termoenergy srl	Romania	99%	99%	99%	99%
RFV Heat Energy SA	Romania	99.99%	99.99%	99.99%	99.99 %
E-Star Mures Energy SA (formerly RFV Mures Energy SA)	Romania	99.99%	99.99%	99.99%	99.99 %
E-Star Alternative Energy SA (formerly RFV Alternative Energy SA)	Romania	99.99%	99.99%	99.99%	99.99 %
E-Star Energy Generation SA (formerly RFV Energy Generation SA)	Romania	99.99%	99.99%	99.99%	99.99 %
E-Star ZA Distriterm srl (formerly RFV Distriterm srl)	Romania	51%	51%	51%	51%
E-Star AR Energy SA (formerly RFV AR Energy SA)	Romania	99.99%	99.99%	99.99%	99.99 %
E-Star CL Distriterm srl (formerly RFV CL Distriterm srl)	Romania	100%	100%	100%	100%
E-Star OR District Heating SA (formerly RFV OR District Heating SA)	Romania	99,99%	99,99%	-	-
E-Star Investment Management SRL	Romania	99,93%	99,93%	-	-
RFV Slovakia sro	Slovakia	100%	100%	100%	100%

23. Segment reporting

The Group distinguishes geographical segments. The report on the base of the geographical segments is reported bellow.

The reportable geographical segments of the Group are those components where:
- separated incomes and expenses, assets and liabilities can be identified and assignable to the segments
- transactions between the different segments were eliminated
- the main decisive board of the Group regularly controls the operating results
- separated financial information is available

Geographical segment information

The following table sets forth information as to the countries in which the Group operates.

	December 31, 2011		**December 31, 2010**	
	Revenues	**Non-current assets**	**Revenues**	**Non-current assets**
Cyprus	-	-	-	-
Hungary	11,391,438	12,174,590	19,993,234	30,380,080
Poland	31,249,828	21,981,228	-	-
Romania	22,876,326	41,348,555	8,667,257	5,670,765
Other countries	-	-	-	-
Total	**65,517,592**	**75,504,373**	**28,660,491**	**36,050,844**

24. Financial risks and risk management

The Group has financial assets, which include cash and cash equivalents, securities HTM, trade and other receivables and other assets except for taxes. The Group has financial liabilities which include loans and borrowings, trade and other payables except for taxes and financial liablities at fair value throug profit or loss that consist of derivative transactions.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate controls, and to monitor risks. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Capital management

The Group's policy is to maintain a capital base which is sufficient to maintain investor and creditor confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to invest into projects which create significant net present value. The Company monitors the net present value of implemented projects and projects under development on a regular basis. The cost of capital is measured project by project.

Neither the Company nor any its subsidiaries are subject to externally imposed capital requirements.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial assets which may be subject to credit risk consist of long and short term investments, cash and cash equivalents and trade and other receivables.

The carrying amount of financial assets represents the maximum credit exposure. The following table sets out the Group's maximum exposure to credit risk as at December 31, 2011 and 2010.

	2011	**2010**
Trade and other receivables	24,330,164	15,282,849
Securities HTM	972,753	1,657,712
Cash and cash equivalents	3,565,573	4,723,832
Total	**28,868,490**	**21,664,393**

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, has less of an influence on credit risk.

Most of the Group's clients are utilities, listed companies or subsidiaries of large multinational companies, municipalities or municipality controlled entities.

Under the credit policy of the Group, each new customer is analyzed individually for creditworthiness before contracting. The Group's review includes external ratings, where available, and in some cases bank references. In addition, the Group monitors the most relevant customers, including the use of external rating agencies and monitoring by credit agencies.

Most of the Group's customers have been transacting business with the Group over a period of years, and credit losses have occurred infrequently. However, the Group's business involves the provision of services to a relatively small number of large customers which use dedicated equipment and thus the inability of an individual customer to pay its debts can result in the Group incurring impairment losses on equipment and other assets as well as receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. Since the number of customers and investments is limited, each customer and investment is assessed individually. Trade receivables are presented net of allowances for doubtful debts.

Guarantees

The Group's policy is not to provide financial guarantees. At December 31, 2011 no corporate guarantees were outstanding (December 31, 2010: none).

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as these fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's cash inflow, in local currencies, is relatively predictable since most of its sales revenue is based on long term contracts. Along with these sources of cash, the typical cash outflows, such as natural gas, coal and electricity purchases, bank loan repayments and interest payments, and payments for overheads are relatively predictable for the next 3-12 months period. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses, including the servicing of financial obligations, for at least 30 days (this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters). In addition, certain group entities maintain overdraft facilities, including special credit lines to conduct foreign currency and interest rate hedges.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and prices of mutual funds will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Sensitivity analysis

There is no significant foreign currency risk exposure recognized to the Group's financial statements, that requires the presentation of an analysis of the sensitivity.

All other foreign currency exposures as at December 31, 2011 and 2010 are immaterial.

Interest rate risk

Management has not entered into any interest rate hedging contracts but periodically reviews the merits of entering into such contracts.

Interest rate exposure as at December 31, 2011 and 2010 on bank loans and on other financial instruments, for securities and for futures are not material.

Fair value classes

Methods and significant assumptions used to determine fair value of the different classes of financial instruments:

- 1st Level: quoted prices in active markets for identical assets or liabilities;
- 2nd Level: inputs other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly;
- 3rd Level: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

As at 31 December 2011	Total	Level 1	Level 2	Level 3
Negative FVA of derivative financial instruments designated as held for trading	429,907	429,907	-	-
Financial liabilities measured at fair value total	**429,907**	**429,907**	**-**	**-**

As at 31 December 2010	Total	Level 1	Level 2	Level 3
Negative FVA of derivative financial instruments designated as held for trading	6,244	6,244	-	-
Financial liabilities measured at fair value total	**6,244**	**6,244**	**-**	**-**

25. Subsequent events

Subsequent to December 31, 2011 the following material events have occurred:

As at January 20, 2012 CEO of the Company was terminated with immediate effect upon a mutual agreement between the Company and the CEO.

The lease agreement of Euro Energetyka sp. z.o.o., Group member of E-Star Group and Agencja Rozwoju Przemislu S.A., minority owner of Euro Energetyka sp. z.o.o. for the using of electric network in the special electronic zone in Mielec has been terminated by the Agencija Rozwoju Przemislu S.A. in February 2012. Euro Energetyka sp. z.o.o. is the main purchaser of the energy generated by Elektrocieplovina Mielec Sp. z.o.o., and its revenues are mainly generated from selling this energy to the companies situated in the special economic zone through this electric network. The operation of Euro Energetyka sp. z.o.o. is hence strongly dependant on its ability to sell the electric energy through this network. The management board of the Elektrocieplovina Mielec Sp. z.o.o. has decided to start negotiations about the acquisition of the electric network with the owner. The intention of the Group management is the acquisition of the electric network and ensure the future operation of the Euro Energetyka sp. z.o.o. by means of this transaction. The negotiations are not closed until the date of the acceptance of the Consolidated financial statements by the Group Management Board.

As at September 30, 2011 the E-Star Beruházó Kft. merged into E-Star ESCO Kft. The companies continue the opeations previously performed by the two companies under the name E-Star ESCO Kft. from that date.

The tax authorities in Romania had tax review procedures launched in connection with the E-Star Group members E-Star Centrul de Dezvoltare Regionala SRL, E-Star Mures Energy SA, RFV ZA Distriterm SRL. These reviews are in connection with value added tax reclaimed by the companies. In case of the E-Star Mures Energy SA a first degree resolution has been drafted by the fiscal authority that was onerous for the company. The company appealed against the decision. In case of E-Star Centrul de Dezvoltare Regionala SRL the review of the tax authorities is still in progress, there is still no resolution drafted. In case of RFV ZA Distriterm SRL the tax authority decided in favour of the company. Neither of the procedures have been closed with a full legal legal force decision.

E-Star Centrul de Dezvoltare Regionala SRL, E-Star Mures Energy SA, RFV ZA Distriterm SRL companies have long-term heat supply contracts for performing heating rationalisation projects with the local municipalities of Gheorgheni, Mures, Zalau, respectively. Based on these contracts, the companies are obliged to perform long-term investments in the local heating systems int he course of 2012. The municipalities are entitled to terminate the contracts in case E-Star Centrul de Dezvoltare Regionala SRL, E-Star Mures Energy SA, RFV ZA Distriterm SRL do not fulfill their investment obligations.The future operation of these companies, being established for these projects is strongly dependant on the fulfilment of these contracts.The intention of the Group Management is to continue these projects, hence to continue the operation of these companies.

26. Approval of consolidated financial statements

These consolidated financial statements were authorized for issue as at March 29, 2012.