Separate financial statements

of ENEFI Energy Efficiency Plc.

for the financial year ending 31 December 2018 in accordance with IFRSs

unikonto
Könyvvizsgálat

Unikonto Számvitelkutatási Kft.
Cím: H-1093 Budapest, Fővám tér 8.
Kamarai nyilvántartási szám: 001724

Independent Auditor's Report

To the Shareholders of the ENEFI Energiahatékonysági Nyilvánosan Működő Részvénytársaság

Opinion

We have audited the separate financial statements of **ENEFI Energiahatékonysági Nyilvánosan Működő Részvénytársaság** (seat: 1134 Budapest, Klapka u. 11., registration number: Cg.: 01-10-045428) („the Company"), which comprise the statement of financial position as at December 31, 2018., and the statement of comprehensive income, and notes to the financial statements, including summary of significant policies. In these financial statements the total asset values 5 206 500 tHUF, net assets 1 318 101 tHUF, the net profit is 267 727 tHUF.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union together with the additional requirements set out in the Accounting Act applicable for those preparing their separate financial statements under IFRSs.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Audit and in accordance with the law and other regulation applicable in the Hungarian jurisdiction, including the Regulation of the EU Council 537/2014/EU on statutory audit for public interest entities (hereinafter: 537/2014 EU Regulation). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We are independent of the Company in accordance with the ethical rules applicable in Hungary and in issues not regulated there in accordance with the Codex issued by the International Ethics Standards Board for Accountants (IESBA Codex) and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 37 where the Company discloses a provision due to a legal issue and to Note 25 where provision connected to this matter is explained. After the close of this legal issue there may be other effect on the financial position, financial performance and cash flows of the Company, which may not be included in these financial statements. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Our audit procedures, how the matter was addressed
The measurement of the company's investments in subsidiaries and joint ventures	
The company has several investments in Hungary, Romania and Cyprus. Several of these investments were impaired before the current period. The cost of the investment was 6 656 317 tHUF, the book value as at 31 December 2018 is 3 800 725 tHUF. The previously recognized impairment losses and the recognition of further expected impairment losses are tested annually to see if there are further adjustments needed. This test was conducted based on the equity of the investee, identifying the equity of the foresaid entity as market value. The prolonged effect is taken into consideration when recognizing or reversing impairment losses. The application of this method requires the management to make extensive judgements and estimations. Therefore, we identified the measurement of the investments a key audit matter.	We focused on the question whether the methodology and the assumptions of the management is appropriate to conduct a test like this. We investigated the equity of the investments, the pattern of the profit generated there, if the profit will be available for the parent, therefor if the investment will be recovered in any way. The long term investment's impairment or the reversal of the impairment we taken into consideration how prolonged the process is (was) and we investigated if an unreversable process is taken as prolonged. When assessing the prolonged nature we took into consideration the relevant accounting framework (IFRS as adopted by the EU), past experience and future expectations. We investigated if the relevant accounting regulation (IFRS as adopted by the EU) was met, if the assumptions and estimations of the management are reasonable and if the disclosures are in line with the requirements.
The measurement of the receivables of the company	
The Company, the subsidiaries and the joint venture are often provide each other intercompany loans. The entities operation in Romania received material amount of loan that was impaired in the previous period since it was not recoverable. The loan granted to the joint venture of the	When auditing the accounts receivable we have checked how much of these receivable are confirmed and how much was subsequently settled. When a receivable was not confirmed or not settled the information available for the customer was investigated. We have also audited if the assumption of the management was reasonable. In relation to receivables from the subsidiary

Company is material in respect to this financial statements. The subsequent measurement of this receivable – also considering the material balance of this item – requires assumptions and several judgement from the management and the possible impact on the financial statements are big. The collection of the amounts invoiced may also be complicated so the recoverable amount of those is also a material judgement. The subsequent measurement of the receivable requires the management to make extensive assumptions and judgements. Therefore, we identified the measurement of the receivables a key audit matter.	companies and the joint venture we have investigated is sufficient free cash flow will be available to settle the debt and the interest. In relation to non operational entities we have checked if the receivable will be recoverable based on the net assets of that entity. We also investigated if the assumptions and estimations of the management was reasonable and prudent.
The recoverable amount of the concession asset and the lease receivable	
The Company has rights that lead to concession income and also leases out various assets to customers. The correct treatment of these transactions needs complex estimations and requires complex calculation.	When carrying out our audit we identified... • if the contracts were classified in a correct way and • if the calculations were made according to the relevant rules. Latter required us to confirm if the cash flows from the project were derived correctly and the discount rates applied were appropriate. We also dealt with the assumption of the management and we compared it with the data available for us and seen if the expectations are realistic.

Report on other Regulatory Requirements: Business Report

The other regulatory requirements include the business report of the company for the year ending on 31 December, 2018. The management is responsible to prepare the business report in line with the Act of Accounting and other relevant legislation. Our opinion expressed in the "Opinion" section does not apply to the Business Report.

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Our responsibility in relation of the Business Report to read the report to assess if the Business Report contradicts the Financial Statements and to assess if based on our audit evidence obtained the Business Report contains a material misstatement.

Based on the Accounting Act it is our responsibility to asses if the Business Report meets the requirements of 95/B § (2) e) and f) in the Accounting Act. We also need to state if the information required by 95/B § (2) a-d) and g) are disclosed.

In our opinion the Business Report of ENEFI Energiahatékonysági Nyilvánosan Működő Részvénytársaság for the year ended on December 31, 2018 is in consistent with the financial statement for the year then ending in all material respect. The information required by 95/B § (2) a-d) and g) of the Accounting Act is disclosed. In the separate business report we did not identify controversy or material misstatement, so we do not have to report on these issues.

Since other regulation does not require any other disclosure in the Business Report we do not express an opinion required by 156 § (5) h of the Accounting Act.

Furthermore we are required to report if we are aware of any incorrect communication (material misstatement) made before the date of this audit opinion based on our information received from the Company. If yes, we need to identify the communication and report the nature of it. We do not have anything to report in this matter.

Responsibilities of the Management for the Financial Statements

Management is responsible of the preparation and fair presentation of the financial statements in accordance with the Accounting Act and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian Standards on Audit will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements.

As a part of an audit an accordance with the Hungarian Standards on Audit, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risk of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Furthermore, we notify those who are charged with governance – next to other issues – the planned scope and timing of the audit, the main findings of our audit, including the identified weaknesses of the internal control system of the Company, if any.

Furthermore, we declare that we met the independency requirement and the relevant ethical rules and communicate all other relation that may effect this independency, including the security measures we took.

We communicate to those charged with governance those issues that had great importance during the audit of the financial statements and they qualify for being key audit matters. We communicate these matters in our audit report unless the regulation prohibits it or an extremely important interest suggests otherwise, since the benefits of the public communication are expected to be outweighed by the consequences.

Report on the other legal or regulatory requirements

According to the Regulation 537/2014/EU we issue the following statements.

The appointment of the auditor

The Annual General Meeting of the Entity appointed us as auditors on 27th February 2017 as the statutory auditor of the Entity and our appointment was for the following three business years: 2016-2017-2018.

Report to the Audit Committee

We confirm that this audit report is in line with the additional report issued to the Audit Committee of the Entity in accordance with Paragraph 11 of 537/2014/EU, which was issued on 26th March 2019.

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Non-audit services

We confirm that we did not provide any services – other than the statutory audit of the financial statements – to the firm, so we did not provide any service that would fall under 537/2014/EU, paragraph 5, point 1. We did not provide any services for entities controlled by this Company. We maintained our independence during the audit fully.

The engagement partner of the audit that resulted in this audit report is dr. Csaba Adojrán, who is in charge of the audit since 27th February 2017.

At Budapest; 26th March 2019.

dr. Adorján Csaba
UNIKONTÓ Kft.,
1093 Budapest, Fővám tér 8.
Registration number: 001724

dr. Adorján Csaba
Registered auditor
Registration number: 001089.

Disclaimer!

This is the translation of the Audit Report issued in Hungarian.
This is only for information purposes. In case of any discrepancy the Hungarian language document remains valid!

Data in thousand HUF

Separate Comprehensive Income Statement for the financial year ended December 31, 2018

	Comm.	Year ending 31. 12. 2018. audited	Year ending 31. 12. 2018. audited
Revenue	(1)	457,994	444,132
Direct expenses	(2)	(197,463)	(187,430)
Gross profit/loss		**260,531**	**256,702**
Material expenses	(3)	(3,485)	(4,212)
Personnel expenses	(4)	(70,122)	(73,412)
Share-based payment expenses		0	(135,720)
Purchased services expenses	(5)	(142,766)	(118,313)
Other income / expense (-)	(6)	202,799	(310,462)
Operating expenses		**(13,574)**	**(642,119)**
Depreciation		(9,716)	(14,270)
Financial operations other income (cost)	(7)	38,385	3,438,633
Profit/loss before tax		**275,626**	**3,038,946**
Income tax	(8)	(7,899)	(10,788)
Net profit/loss of continuous operation		**267,727**	**3,028,158**
Discontinued operations			
Income on discontinued operation		0	206,024
Net profit/loss of discontinued operation		**0**	**206,024**
Other comprehensive income		0	0
Total comprehensive income		**267,727**	**3 234,182**

Positive and negative numbers are distinguished in the Comprehensive Income Statement. The bracket is the symbol of the negative number.

Data in thousand HUF

Separate Balance Sheet for the date of 31 December 2018

	Comm.	31.12.2018 audited	31.12.2017 audited
Tangible assets	(10)	19,099	32,419
Investments in affiliated companies	(11)	3,800,725	3,570,885
Other long-term receivables	(12)	343,311	0
Consession assets (IFRIC 12)	(13)	634,233	581,182
Lease receivables	(14)	0	160,019
Non-current assets		**4,797,368**	**4,344,505**
Customers	(16)	150,747	92,636
Other receivables	(17)	112,126	127,903
Accruals and prepaid expenses	(18)	35,437	4,648
Cash and cash equivalents	(19)	110,822	348,633
Current assets		**409,132**	**573,820**
Total assets		**5,206,500**	**4,918,325**
Subscribed capital	(20)	100,000	100,000
Capital reserve (share premium accounts)	(21)	21,423,391	21,423,391
Own shares	(22)	(60,122)	(11,652)
Retained earnings		(20,210,688)	(20,473,809)
Share-based payment reserve	(23)	65,520	65,520
Equity		**1,318,101**	**1,103,450**
Provision	(25)	99,872	97,564
Non-current liabilities		**99,872**	**97,564**
Short-term loans	(26)	3,715,103	3 662,344
Trade payables		5,336	29,731
Deferred income	(27)	45,968	7,530
Other current liabilities	(28)	22,120	17,706
Current liabilities		**3,788,527**	**3,717,311**
TOTAL EQUITY AND LIABILITIES		**5,206,500**	**4,918,325**

Data in thousand HUF

Separte Cash Flow Statement for the financial year ended December 31, 2018

	Year ending on 31.12.2018 audited	Year ending on 31.12.2017 audited
Cash flow from usual activity (Operating cash flow)	**176,294**	**586 310**
Profit/loss before tax from continuous activities	275,626	3,038,946
Profit/loss before tax from ceased activities	0	206,024
Received dividend	0	(3,223,467)
Share-based payments	0	135,720
Depreciation charge	9,716	14,270
Impairment, write-off of tangible assets	0	270,585
Difference of making and using provision	2,308	(2,517)
Profit/loss of investment assets' purchase	709	0
Profit/loss of investment asset' impairment	(113,121)	(229,582)
Profit/loss of trade receivables' impairment	(71,535)	(162,833)
Change of leasing receivables	0	386,615
Cash flow portfolio changes of concession assets	105,251	61,108
Changes of vendor liability	(24,395)	(65,855)
Change of other current liability	57,173	125,597
Change of accrued and deferred liabilities	38,438	(5,325)
Change of trade receivable	10,535	61
Change of other receivables	(75,723)	44,182
Change of accruals and prepaid expenses	(30,789)	3,569
Tax paid	(7,899)	(10,788)
Cash flow from investment activity (Investing cash flow)	**2,895**	**191,210**
Acquisiton of non-current assets	(577)	0
Purchase of non-current assets	3,472	0
Enerin project sale	0	191,210
Cash flow from financial transactions (Financing cash flow)	**(417,000)**	**(479,444)**
Share purchase in Pannon Fuel Kft.	(25,219)	0
Lending – Pannon Fuel Kft.	(343,311)	0
Share withdrawal, capital reduction	(48,470)	(479,444)
Cash flows	**(237,811)**	**298,076**
Opening financial assets and equivalents	348,633	50,557
Closing financial assets and equivalents	110,822	348,633
	(237,811)	**298,076**

Positive and negative numbers are distinguished in the Cash Flows. The bracket is the symbol of the negative number.

Data in thousand HUF

Separate statement on Changes of Total Equity for the period ending on 31 December 2018

	Subscribed capital	Captital reserve	Own shares	Retained earnings	Share-based payment reserve	Total
Balance – 01.01.2017	271,726	21,254,954	(4,399,285)	(17,979,530)	230,516	**(1,787,008)**
Transfer of profit / loss of previous year				(1,165,389)		**0**
Share acquisition			(479,444)			**(479,444)**
Issuance of employee share	25,000	275,716			(230,516)	**0**
Repurchase of employee share		(107,279)		107,279		**0**
Share-based benefits					65,520	**65,520**
Capital reduction	(196,726)		4,867,077	(4,670,351)		**0**
Total comprehensive income				3,234,182		**3,234,182**
Balance – 31.12.2017	100,000	21,423,391	(11,652)	(20,473,809)	65,520	**1,103,450**
Impact of amendment of Accounting Policy (IFRS 9)				**(4,606)**		**(4,606)**
Balance – on 01.01.2018, after the amendment of Accounting Policy	**100,000**	**21,423,391**	**(11,652)**	**(20,478,415)**	**65,520**	**1,098,844**
Share acquisition			(48,470)			**(48,470)**
Total comprehensive income				267,727		**267,727**
Balance – 31.12.2018	**100,000**	**21,423,391**	**(60,122)**	**(20,210,688)**	**65,520**	**1,318,101**

Positive and negative numbers are distinguished in the Statement on Changes of Total Equity. The bracket is the symbol of the negative number.

II. The key elements of accounting policies, the basis for preparing financial statements

1. Basis for preparing financial statements and continuation of undertaking

Statement on compliance with IFRSs

The financial statements have been prepared in accordance with IFRSs. The management declares that the Company has fully applied the rules contained in IFRSs / IASs and IFRICs / SICs as adopted by the European Union. The management made this statement being aware of its responsibility.

Contents of the financial statements

These financial statements present the financial position, performance and financial situation of the ENEFI Energy Efficiency Public Limited Company (hereinafter referred to as the Company).

Basis for preparing financial statements; the set of rules applying and the underlying assumptions, the philosophy of evaluation

The financial statements have been prepared in accordance with the International Financial Reporting Standard (IFRS) established by the International Accounting Standard Board (IASB). The Company has applied IFRSs as adopted by the European Union.

The Company's management has determined that the requirement to carry the business is fulfilled, that is, there is no indication that the Company will terminate or substantially reduce its operations within a foreseeable - at least one year - time.

This financial statement is prepared with natural approach, with the exception of the cash flow statement, ie the actual economic event is decisive for the presentation and not the cash flow.

The Company generally evaluates its assets at historical cost, except for those situations where the item is measured at fair value on the basis of IFRSs.

The Company published separate financial statements based on IFRSs for the first time in 2017.

2. The Company

Company Presentation (operation center, legal form, ownership structure, applicable law)

ENEFI Energy Efficiency Plc. is a company incorporated under Hungarian law (governing law). The Company was founded as a public limited company on March 1, 2006 for an indefinite period.

The Company's headquarters – being its center of operations at the same time – is: 1134 Budapest, 11 Klapka street.

The Company's predecessor (RFV Plc.) was established on June 29, 2000 with the aim of making primarily energy investments that provides return from savings for future customers and which also provides energy with high efficiency along a long-term operation.

The Company is a real ESCO company (Energy Service Company, i.e undertaking that implements energy savings) listed on stock exchange in Hungary. The Company has developed a unique solution for each of its projects that is independent of any technology and service provider. It carried out the elaborated projects as main contractor with the appropriate funding.

By the preparation of projects, ENEFI Energy Efficiency Plc. first examines, what opportunities are available for rationalizing the use at customers' energy consumption sites and then makes such investments that can achieve significant savings. Projects have further business value, as ENEFI Energy Efficiency Plc provides innovative energy services after the implementation of the investments, and operates and maintains the energy systems of the partners in the long run.

The ownership structure of the Company as of December 31, 2018 is as follows:

Owner	Participation level (%) 31 December 2018	31 December 2017
Own shares	9.42%	68.63%
Imre Kerekes	5.47%	1.84%
Csaba Soós	14.97%	5.05%
Free Float	70.14%	24.48%
Total	**100.00%**	**100.00%**

Currency and Accuracy of Presentation of Financial Statements

The functional currency of the Company is the Hungarian Forint. The financial statements are presented in HUF (presentation currency) and, unless otherwise indicated, the data is in HUF thousand (HUF).

The euro and the Romanian leu are the foreign currencies important for the Company. The exchange rates of the two currencies during the reporting period were as follows (one currency unit / forint, MNB exchange rates):

Currency	2018		2017	
	closing	avarage	closing	avarage
Euro (EUR)	321.51	318.87	310.14	309.21
Romanian Leu (RON)	69.01	68.51	66.57	67.69

Auditor of the Company

The current auditor of the Company is UNIKONTO Számvitelkutatási Kft. (seat: HU 1092 Budapest, 3rd floor 317, 8 Fővám square, company registry number: Cg.01-10- 045428). The auditor has the mandate from 27.02.2017 until 30.09.2019. Auditor responsible for auditing the Company is Dr. Csaba Adorján (Mother's name: Erzsébet Kiss, address: 2083 Solymár, 21. B. Árok street)

The auditor charges HUF 2,000 thousand + VAT auditor fee for the audit of these financial statements and does not perform any non-audit service for the Company.

3. Essential elements of Accounting Policies

Presentation of financial statements

The Company's financial statements include (parts):

- separate statement on financial position (hereinafter: balance sheet);
- separate comprehensive income statement (hereinafter: income statement);
- separate statement of changes in equity;
- separate cash flow;
- explanatory notes to separate financial statements.

The Company has decided to include the comprehensive income statement in a separate statement, showing the items related to the other comprehensive income in the same statement on an item by item basis after the period's net profit (loss).

Other comprehensive results are items that increase or decrease the net assets (ie the difference between assets and liabilities) and that change should not be accounted for either by assets, liabilities or income, but it directly changes one element of equity. An equity transaction that changes the capital provided, is not classified as, inter alia, other comprehensive income.

Major decisions about presentation

The Company prepared its separate financial statements in accordance with IFRS for the first time for the business year 2017, with comparative data for 2015 and 2016. The Company has prepared the financial statements in the spirit of transparency and comparability required by stock exchange presence.

The Company publishes separate financial statements in Hungarian Forints. This is the presentation currency. Separate financial statements cover one calendar year. The closing date for the separate financial statements is the last day of each calendar year, 31 December. The Company prepares interim financial statements every six months according to the stock exchange regulations. The rules of IAS 34 apply for interim financial statements, which do not contain all disclosures required by IAS 1, and contain the information in a condensed form.

Separate financial statements include a comparative information unless a period is restated. In this situation, the opening balance sheet of the comparative period is also presented. There was no such publication in 2018.

In the event that the presentation requires to shift one item to another category (for example, due to a new financial statement line), the Company adjusts the previous year figures in a way to achieve comparability. No such shift took place during this period.

The management of ENEFI Plc takes care of the disclosure of the financial statements in accordance with the relevant rules (legislation, stock exchange order).

The Company shall also disclose information about operating segments in its financial statements as explanatory notes. The operating segments are defined according to the strategic expectations of the members of the Board of Directors. In 2017, the Company found that it remained essentially a single segment of the energy supply, so the segment had no breakdown with content. Thus it will not be disclosed until such a division can be identified.

Accounting policies related to the income statement

Revenues

IFRS 15, Accounting for Customer Contracts - (issued in May 2014; effective for the business years beginning on or after 1 January 2018. The EU has adopted the standard). The new standard introduced the basic approach that revenue is recognized when goods or services are delivered to the buyer at the agreed price. All separable tied products or services shall be accounted for separately and all discounts shall be allocated to the corresponding elements of the contract. If the consideration changes, the minimum value can be recorded when the probability of reimbursement does not contain significant risk. Costs incurred by acquisition of a customer contract must be capitalized and amortized during the contract period as the related benefits are acquired by the company.

The Company applies IFRS 15 as of 1 January 2018 in its financial statements. The introduction of the new standard has no impact on the recognition of the Company's revenue, as the contract elements can be clearly distinguished and may be classified one by one by the conclusion of the contract. Consequently, the numerical data have not changed as a result of the modification.

The Company's revenue is recognized if it has performed in accordance with the contracts and there is a probability for the financial settlement of the receivables (by accounting of revenue).

Only direct returns of the Company's principal activity are classified as revenue. The Company presents the consideration for ad hoc activities among other items.

The Company's main activity is sale of thermal energy. Revenue items are invoiced and accounted on a monthly basis. In addition to thermal energy, the Company has significant revenue from service fees connected to individual contracts accounted for under IFRIC 12. Other rental and engineering services are included in revenue besides that.

Operating expenses

Non-financial expenses are referred into the following categories:

- direct costs: the expenses directly related to the revenue have to be referred here;
- indirect costs: items that do not belong to the above category and are not related to other income, which shall be allocated to
  - sales costs (advertising, marketing, sales promotion and similar items) and
  - administrative costs categories.

Other incomes

The consideration for sales that cannot be classified as revenue and any revenue that cannot be considered as a financial gain or as other issue that increases the overall result are recognized among other incomes by the Company. Other expenditures are expenditures that are indirectly related to the operation and do not qualify as financial expense or do not reduce other comprehensive income. The Company recognizes the other income and other expenses on a net basis in the income statement.

Financial incomes and expenses

Interest incomes shall be recorded on a pro rata basis and dividend income shall be recognized when the dividend is validly decided by the main body of the company making the distribution. Interest expenses shall be calculated by the effective interest rate method and shall be classified within the financial expense cathegory. The Company recognizes the foreign exchange differences on foreign currency items (if the effects of IAS 21 Conversion Rates are not part of other comprehensive income) in the financial result. The Company sets the financial result netted in the income statement.

Offsetting

In addition to the IFRS requirements, the Company discloses the effect of a transaction in the financial statements on a net basis, if the nature of the transaction requires such a statement and the item is not relevant to the business (e.g. sale of used asset outside of business).

Accounting policies related to the balance sheet, recognising and measuring of assets and liabilities

Properties, plants and equipments

The Company lists only productive or administrative assets among the properties, plants and equipments (PPE) that are utilised at least for one year after being put into service. The undertaking separates the assets by purpose (for productive and non-productive (other).

The initial book value of the asset includes all items relating to the purchase or creation of that asset, adding the borrowing costs (see in detail: accounting policy on borrowing costs).

The discounted liability shall be increased year by year, taking into account the course of time (the breakdown of the discount) and the subsequent changes in the estimation on the breakdown costs. The increase in the liability arising from the breakdown of the discount is recognized as interest expense.

The Company applies the component approach, namely, primarily by productive-assets, it separates the main parts with the same useful life within the physically homogeonus asset.

Tangible assets shall be valued according to the cost model rules after the initial recognition (initial value, less the accumulated depreciation and accumulated impairment losses).

The depreciable amount is the initial cost less residual value. The residual value shall be determined when its amount is significant. The residual value is the recoverable income after disposal of the asset, less the sale costs.

Depreciation shall be calculated on a depreciable amount per component. The Company uses operating hours method in the case of gas engines and calculates with the linear depreciation methods for the other assets. The below depreciation keys are applied for its assets:

Land	non-depreciable
Buildings	1 - 5%
Power Plant Equipment	1 – 14%
Non-Productive plants	14 – 33%

The useful life of the assets shall be reviewed per item and it shall be determined whether the asset can be utilized during the remaining useful life or whether the residual value is realistic. If not, the depreciable amount or the residual value shall be adjusted for the future.

The value of tangible assets is increased by major repair works (meaning real expenditure) that raises regularly but not annually. The Company considers these works to be one component of that asset, and their useful life aligns to the next (expected) occurrence of these investments.

Revenue from the sale of a tangible asset shall be recognized as an other item, less the remining book value of the asset. Expenditures arising from the write-off of tangible assets shall also be recognised under other items. No revenue, but only expenditure is generated in this case.

Intangible assets

The Company determines if there are intangible assets with indefinite useful lives.

The Company does not carry out research activity, does not produce software or other intangible assets that meet the recognition criteria. The Company accordingly does not present internally produced intangible assets and does not define accounting policies therefor.

The initial value of intangible assets is determined as described for tangible assets.

Intangible assets with indefinite useful lives shall not be depreciated, but shall be tested instead for impairment at every period (or immediately when there is an indication) (see impairment).

It shall be taken into account regards the other intangible assets whether there is any contractual period that limits the applicability of this right. In such situation, the depreciation period shall not be longer than this period, but may be shorter. By default, the contract period shall be adopted as the useful life.

Softwares and similar intangible assets require a depreciation rate of 20-33%. The cost model should be applied consistently to the measurement after the initial recongition of intangible assets. The residual value of intangible assets shall be deemed to be zero, unless the contrary is proved.

Leases

Leases are such contractual arrangements whereby the owner of the asset assigns the right to use the asset for a series of payments. Leases shall be referred into operating or finance lease cathegories.

Lease of an asset is a financial lease if any of the following conditions is met:

- ownership of the asset transfers at the end of the lease term;
- lease term reaches or exceeds most of the asset's economic lifetime (basically: 75%);
- the present value of the lease payments discounted by the effective interest rate is essentially equal to the fair value of the asset (normally: differs maximum up to 10%);
- the asset is of a special nature such that only the Company can use that.

Leasing of buildings and land may be considered finance leases in exceptional cases only. Land and the building thereon shall be unbundled if necessary.

Accounting for finance lease

All cash flows associated with contract shall be considered by accounting for a finance lease, including in particular:

- paid leasing fees;
- paid administrative fees;
- the final purchase price if it is low enough to make it almost certain that at the end the Company will exercise the option offered (this shall be always assumed if this fee is nominal - not below the 5% of the original asset value)

The implicit interest rate on the lease is the interest rate at which the above cash flows are discounted to give the amount of the leased asset's fair value and the initial direct costs of the lease (e.g. lawyers' fees, contract fees, etc.).

The leased asset shall be recorded in the balance sheet against the lease liabilities at the cash flows' value discounted by implicit interest rate. The leased asset is recognized in the balance sheet if the Company committed itself to the most significant terms of the lease.

In later periods, the lease fee shall be split to borrowing cost and repayment through this interest rate.

The useful life of the leased asset shall not exceed the lease term, except for the case when it is almost certain that the ownership will be transferred at the end of the lease. In this situation, the useful life of the asset may be extended to this longer lifetime.

Accounting for operating lease

Where the conditions of financial lease are not met, the lease is treated as an operating lease. In the case of an operating lease, the asset shall not be recognized, leasing charges shall be booked as expenses. In the case of an operating lease, all cash flows over the maturity of the lease shall be considered and those shall recognized as an expense (SIC 20), thus any incentives shall be spread over the entire maturity.

Service Concession Agreements (IFRIC 12)

The Company follows the below by accounting for public-to-private service concession arrangements.

Provisions set out under IFRIC 12 applies in case of public-to-private service concession arrangement, when these conditions are met: (a) the assignee controls or regulates which services shall be provided to whom and at what price by the operator trough the infrastructure; and (b) at the end of the period of the agreement, the assigner controls all significant residual interest in the infrastructure through ownership, beneficiary rights or otherwise.

The operator acts as a service provider under the terms of these types of contractual arrangements. The operator builds or develops the infrastructure used for the provision of the public service (construction or development services) and operates and maintains this infrastructure for a certain period of time (facility services).

If the contracts with each public sector operator meet the above conditions, the infrastructures covered by the contract will not be recorded in the Company's books as property, plant or equipment.

In cases these type of contracts, the construction or development services performed by the Company are recognized in the statements at fair value of the contractually agreed, received or receivable consideration. The contractual consideration may be recognized as a financial asset or an intangible asset.

Construction or development services performed by the Company are recognized as financial assets if, under the contract, the Company has an unconditional contractual right to receive funds from the assignor (Municipality) or on instructions thereof for the development or construction services; furthermore, the assignee has no or very limited possibilities to miss the payment, as the agreement is legally enforcable. The Company has the right to receive funds if the assignor gives a contractual guarantee to pay the Company certain or definable amounts or to pay the difference between the amounts received from the public service and the amounts specified or definable in the contract.

Construction or development services performed by the Company are recognized as intangible assets if the Company acquires a right (license) under the contract to charge public service users. In this case, the borrowing costs relaing to the agreement will be activated during the construction, implementation phase of the agreement. If the construction or development services performed by the Company are partly financed by a financial asset, partly by an intangible asset, then all components of the consideration received are accounted for separately.

The Company has such concessions that correspond to the financial asset model.

If the Company has contractual duties for maintenance or repair regarding the the infrastructure received or implemented, these liabilities are included in the financial statements at the value of the amount estimated at the date of the financial statements (as required by IAS 37).

Policy on Borrowing Costs

In accordance with the provisions of IAS 23, an entity capitalizes borrowing costs when it uses the loan for a qualifying asset. In case of dedicated loans (if the loan is assigned to a specific purpose), the effective interest rate of the loan determines the amount to be capitalized. Capitalization rate must be established in case of loans with general purposes. The capitalization rate is the average of the general purpose loans' effective interest rate weighted with the time passed since the payment or, if it is later, with the time passed since the commencement of capitalization and with the amount of the payment.

An asset (project) shall be considered a qualifying asset (project) in the following cases:

- if it is an investment contract;
- if it is an asset the construction and preparation of which requires more than half a year (regardless of whether the Company or third parties create the asset).
- value of the asset is not of relevance by the assessment.

The capitalization of borrowing costs shall begin when there is an irrevocable commitment or a probability thereof to acquire the asset and to implement the project. In the case of an asset, this is usually the order of the asset or, in the case of a project, the commencement of physical works, or, if the planning work is carried out by the Company, the commencement of the preparation of the plan subject to the authorization procedure.

The capitalization of borrowing costs shall be suspended if the works are interrupted for a longer period than is technically justified. The technical manager of the project verifies the progress of the project, the fact that there was no downtime longer than technically justified.

Capitalization of the borrowing costs shall be completed when the asset is completed, the (physical) works related to the project are completed or, if it falls earlier, the asset created in connection with the project is in use, the use thereof is authorized.

Accounting for government grants

In principle, the Company recognizes the grants as income. Revenue shall be allocated over the periods during which the asset is used. The item non-recognasible to the benefit of the result is recognised among the liabilities as deferred income. The item to be accounted for the benefit of the results is deducted from the related expense, if feasible. In accordance with the above principle, the Company recognizes the assets received free of charge among its assets.

If a grant is linked to expenses, it is accounted for primarily by the reduction of the expenses and if this is not feasible, it is recognized as other income.

Grants may be accounted for,

- if it is, in fact, certain that the Company will compy with the conditions attached to the grant, and
- the grant will be surely received.

At the time it is certain that a grant becomes repayable afterwards, a liability shall be recognised by way of increasing the asset value or the costs.

Inventories

Inventories are recognised in the financial statements at the lower of initial cost and net realisable value. Items to bring return within and over one year are distingwished within the inventories. Heating fuels are supposed to be used up within one year. The Company determines the closing value of the inventory on the basis of the average initial cost and includes all the cost to the inventory value that is required by the usage of the inventiry at the intended manner and location.

Recognition of impairment

The Company annually conducts impairment test for its assets. Testing consists of two steps. As a first step, it examines whether there is an indication of impairment of the assets. The following signs may indicate that a particular asset is impaired:

- injury;
- decline in revenues;
- unfavorable changes in market conditions, reduced demand;
- increase in market interest rates.

If there is an indication that an asset may be impaired, a calculation shall be made, with the help of which the recoverable amount of the asset is definable (second step). The recoverable amount is the higher of fair value less costs of disposal and the present value of cash-flow from continuing use.

The Company conducts the impairment test between December and February.

Provisions

Only a present obligation arising from a past event, the amount and timing thereof is uncertain, shall be recognized as a provision. It is not possible to recognise a provision that is not related to a present legal or constructive obligation.

If the existence of an obligation cannot be decided unambiguously, the provision should be recognized only if it is more likely that the provision exists than not (present obligation). If the probability is lower then a contingent liability must be disclosed (possible obligation). It should not be shown in the balance sheet but should be reflected in the explanatory notes.

Provisions should be included in liabilities and allocated to long and short-term liabilities. If the time value of money is of significant relevance relating to a provision (because it has to be paid much later) then the expected cash flows should be discounted. The time value of money should be considered significant if cash flows occur after 3 years or later.

Provisions typically include the below topics::

- compensation for damages in litigations;
- compensation, reimbursement under an agreement;
- instrument decommissioning duties;
- severance pay, reorganization costs.

When a particular topic may be given probability, the maximum level of the payable amount multiplied by the probability means the the nominal (non-discounted) value of the obligation.

If the Company concluded a contract, the costs of which exceed the revenue derived thereof, a provision may be made for the smaller of the legal consequence of non-performance of the contract and the losses resulting from the performance of the contract.

A provision may be made for reorganization (e.g. severance pay) if there is a formal reorganization plan that has been approved and communicated to the stakeholders. Provisions may be made for costs relating to discontinued activities only. No items related to the activities to be carried out (e.g. costs of retraining, relocation) may be provisioned.

No provision shall be made for:

- future operating losses;
- for security purposes, to cover future unexpected losses;
- write-offs (e.g. to write-off receivables, inventories).

Employee benefits

The Company mainly provides short-term employee benefits to its employees. The Company accounts these for to the burden of the results if those vest.

Employee rewards, bonuses and other items of a similar nature should be recognised in the balance sheet if they lead to a liability, namely

- if they are bound by a contractual term and this contract condition has been fulfilled (e.g. the particular level of revenue has been reached); then the item is not accounted for in the period when the occurance of the contractual condition is established, but when the condition is met.
- if it is not a contractual term but a management decision that establishes such an item, that may be recognisied when the Company becomes aware of such decision (a constructive obligation).

The Company participates only in a specified contribution pension scheme which is to be determined in the context of the wages paid, it is therefore settled with the wage.

The Company works in a legal environment where employees have paid leave. If a legal option or employee - employer agreement is available by the Company to carry forward the untaken leave to the following years, then a liability shall be made for the untaken leaves accrued at the end of the year with the simultaneous burdening of employee benefits.

Share-based payments

If the Company provides shares or share price-related benefits to its employees or elected officials in respect of their activities, they shall be accounted for as share-based benefits.

The Company currently has only equity-settled share-based payment. The fair value of the benefits shall be determined and, if there is a vesting condition attached thereto, it shall be accounted foragainst the income in proportion to the fulfilment of the vest condition recognizing a reserve at the same time among the components of equity (IFRS 2 reserve).

If there is no condition attached to the benefit (e.g. further work period, earnings target), it should be immediately recognized as an expense, without inter-period sharing.

The separately recognized reserve (IFRS 2 reserve) should be cancelled when the shares are issued or, if an option is included, expired, exhausted.

As the Company does not have any other share-based benefit plans, it does not form an accounting policy thereon.

Financial instruments

IFRS 9 'Financial Instruments' (issued in July 2014; effective for financial years beginning on or after 1 January 2018). The main features of the new accounting standard are:

- Financial assets shall be classified into three measurement categories: measured at amortized cost after initial recognition, measured at fair value after initial recognition against other comprehensive income (FVOCI) or at fair value after initial recognition against income statement (FVPL).
- IFRS 9 introduces a new model for the recognition of impairment - the expected credit loss (ECL) model. It uses a three-step approach, based on changes in the credit quality of financial instruments after the initial recognition. The new rules mean, in practice, that an entity is required to include an immediate loss of 12 months' ECL on initial recognition of financial assets not affected by other impairment. (a full ECL shall be presented in the case of trade receivables). If the credit risk has significantly increased, the impairment is determined by way of the full ECL rather than the 12-month ECL. The model also includes operational simplifications for leases and trade receivables.

- Hedge accounting requirements have been amended to make accounting more consistent with companies' risk management. The standard allows entities to choose between the applcation of IFRS 9 hedge accounting rules and the IAS 39 rules covering all other hedge accounting, as the standard does not currently deal with macro-hedge accounting issues. The Company does not apply hedge accounting rules.

The Company applies IFRS 9 in its financial statements as of 1 January 2018. As a result of the introduction of the new standard, only the impairment recognized for trade receivables has changed, but this has not had a significant impact on the financial statements.

Financial assets

Classification

The Company refers its financial assets into the following categories in accordance with the relevant legislative changes in force from 1 January 2018:

- assets carried at fair value (against other consolidated income [OCI] or income statement), and
- assets carried at amortized initial cost.

The chosen valuation method depends on the business model of the entity, it is determined based on the management of financial assets and the related cash flows.

The Company has only funds, receivables and loans as financial assets. All financial assets are measured at amortized initial cost, the Company has no financial instruments measured at fair value.

Recognition and measurement

Purchase or sale of a financial asset is recognised on the day the transaction is settled, namely on the day the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets that are not carried at fair value through profit or loss. Financial assets are derecognised when the Company's rights to the cash flows from the particular item have expired or are transferred and the Company has also transferred significant risks and rewards of ownership.

Offsetting of financial instruments

Financial assets and liabilities are set-off and recognized in the balance sheet as a net amount if the net settlement of the amounts recognized is legally permitted and the Company intends to settle the amounts on a net basis or intends to realize the asset and settle the liability simultaneously.

Impairment of financial assets

Assets carried at amortized cost

Az IFRS 9 egy három szakaszra tagolt értékvesztés modellt vezet be, amely a követelés minőségének változásához köti az értékvesztés mértékét: IFRS 9 introduces a three-stage impairment model that binds level of impairment to changes in the quality of a receivable:

CHANGE OF CREDIT QUALITY AFTER INITIAL RECOGNITION

RECOGNITION OF VARIABLE CREDIT LOSS

12-month expected credit loss	**12-month expected credit loss**	**12-month expected credit loss**
Performing (initial recognition)	**Non-performing** (Actual credit loss occurred)	**Underperforming** (Significant deterioration in credit quality since initial recognition)

'Credit Loss' is the difference between the present value of contractual cash flows and the expected cash flows under the Standard. 'Expected Credit Loss' is the weighted average of expected losses. The Company considers all available information by the estimation of the expected loss - whether it is available within the company, or externally or it is a past experience or a forward-looking forecast.

The Company applies the definition of default event corresponding to its internal risk analysis policy by the estimation of the credit risk, and also determines the probability of payment and non-payment as well as the expected timing of cash flows in the estimation.

Practical recourse is had to IFRS 9 by the Company. These are the below:

- Instead of a 12-month expected credit loss, the Company books the expected loan loss on the trade receivables not including significant financing component and the contractual assets at the time of presentation.
- In case of leasing receivables including a financing component and the receivables under IFRIC 12, the Company, at its choice, calculates the expected loan loss over its lifetime at the time of presentation.

the Company makes the above estimation on group level in case of trade receivables with the same risk.

Derecognition of financial assets

The Company shall only derecognise a particular financial asset in its books if the contractual rights to the asset cash flows cease to exist in the economic sense (e.g. expire) or if the Company transfers the financial asset and basically all the risks and rewards of holding the asset to another enterprise. If the Company does not transfer basically all the risks and rewards of holding the asset but does not keep it, and the Company continues to control the transferred asset, the Company accounts for its interests on the asset kept thereupon, and also accounts for a relating liability on the possibly payable amounts on the other hand. If the Company keeps basically all the risks and rewards of holding a transferred financial asset, the Company continues to recognize that financial asset and accounts for the revenues received as collaterilazed credit libaility.

When a financial asset is completely derecognised, the difference between the carrying amount of the asset and the sum of the consideration received or receivable plus the amount of cumulative gain or loss recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

Financial liabilities and equity instruments

Classification as liabilities or equity

Credit or equity instruments issued by the economic operators in the Company's interest are classified as financial liabilities or equity, taking into account the contractual terms and the definition of financial liabilities and equity instruments.

Equity instruments

An equity instrument is any contract that represents a residual interest in the enterprise's assets after the deduction of all the liabilities of an enterprise. Equity instruments issued by the Company are to be calculated at the value of the amount received, less direct issue costs.

When the Company reacquires its own equity instruments, it should be recognized, deducted directly in/from equity. The acquisition, sale, issue and cancellation of the Company's equity instruments does not result in any gain or loss recognized in profit or loss. The Company recognizes the reacquired treasury shares in the equity as a negative item in equity at the repurchase value, in a separate line of the balance sheet.

Financial liabilities

Financial liabilities are classified either as liabilities at 'fair value through profit or loss' ('FVTPL') or as 'other financial liabilities'.

A financial liability is classified as FVTPL if it is a trade item or has been designated as financial liability at fair value through profit or loss.

A non-trading financial liability may be designated as a financial liability at fair value through profit or loss if:

- such a classification eliminates or significantly reduces an inconsistency in an assessment or accounting that would otherwise arise; or
- if the financial liability is part of a group of managed financial assets, financial liabilities, or both, the management and performance evaluation thereof is carried out on a fair value basis, in accordance with the Company's documented strategy on risk management or investment and internal information on categorization is also ensured on this basis; or
- it is part of a contract with one or more embedded derivatives, and IFRS 9 Financial Instruments: Recognition and Measurement allows the entire contract (asset or liability) to be designated as an FVTPL.

Financial liabilities of the FVTPL category are measured at fair value and any gain or loss on revaluation is recognised through profit or loss.

Other financial liabilities

Other financial liabilities (including borrowings, trade and other payables) are measured at amortized cost using the effective interest rate method (the method is disclosed in the assets).

Derecognition of financial liabilities

The Company derecognises a financial liability in its books if, and only if the liability is settled, released or expired. The difference between the carrying amount of financial liabilities derecognised and the consideration paid or payable is recognized in profit or loss

Actual and deferred income tax

The Company calculates the actual income tax for the current year according to the tax regulations valid in Hungary which is shown among short-term liabilities (possibly claims). It also estimates the deferred tax that is included in long-term liabilities or non-current assets. Deferred tax is calculated by way of balance sheet method, taking into account the effect of subsequent key changes. A deferred tax asset is recognized only if it can be demonstrated that the item is realizable (reverse). Deferred tax is determined at the rate of expected reversal.

General accounting policies related to cash flow

Concerning the cash flow statement, the Company relies on the indirect method till the operative cash flow. Investment and financing cash flows are made by direct method. Overdrafts shall be considered as cash equivalents until proved to the contrary.

The foreign currency

The Company presents its separate financial statements in HUF. The functional currency is the currency that best describes the operation of a particular company.

The decision points are the following:

- which is the currency in which the firm earns its income;
- what is the currency in which the costs of the given enterprise are incurred;
- what is the main currency of funding.
- These aspects are prioritized.

An entity may have an exchange rate difference only in a foreign currency.

The Company divides its assets and liabilities to monetary and non-monetary assets. Monetary elements are those, the settlement or payment of which requires cash flow or the money itself is monetary element. Those asset-liability natured items (e.g. advances to services, inventories) that do not require cash flow are not monetary elements.

Monetary items denominated in foreign currencies should be revalued at the spot rate of the record date. All entities apply the exchange rate published by the National Bank of Hungary at the record date.

III. Relevant estimates used in the preparation of the financial statements and other sources of uncertainties

Management must make decisions, estimates and assumptions by the application of the Company's accounting policies about the carrying amount of assets and liabilities that are not apparent from other sources. Estimates and related assumptions are based on past experience and other factors considered relevant. Actual results may differ from these estimates.

Estimates and the underlying assumptions thereof should continuously be kept under review. Changes in the accounting estimates shall be accounted for in the period of the amendment if the change affects only that period or in the period of the amendment and subsequent periods if the amendment affects the current and future periods.

With the exception of those containing estimates, there are presented below those critical decisions that has been made by the Group when applying its accounting policies and had the most significant impact on the amounts presented in the financial statements.

Provisions

Provisions are recognized by the Company in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets. The Company is concerned with several ongoing litigation cases, and examined the expected outcome of legal cases with the assistance of experts, and presented accordingly the expected financial expenses.

The Company makes a provision when has a present obligation (legal or constructive) as a result of a past event and it is likely that an obligation will be settled through the transfer of economic assets, the amount of the liability furthermore can be well estimated.

Useful lives of tangible assets

The Company reviews the useful lives of property, plant and equipment at the end of each annual reporting period. During the year under review, the Board of Directors concluded that there was no need to change the useful life and residual value of tangible assets.

Impairment of tangible and intangible assets

The estimation of impairment for tangible and intangible assets is made on the basis of the realisable value of income-generating units, namely the real value, less sale costs or value in use. The value in use is determined on the basis of discounted expected cash flows. These cash flows reflect the future estimations of the management for each asset or investment.

We examined in the impairment test for tangible and intangible assets, whether the entity's assets are recoverable. The Company has included the adjustments required by the impairment test in these financial statements.

Gaining a profit that provides an adequate tax base, against which the deferred tax asset can be enforced

Deferred tax assets are only receivable if it is probable that future taxable profits will be realized against which the deferred tax asset can be utilized. In case of recognisable deferred tax assets, the management shall apply significant assumptions on the timing and amount of the taxable profit that may arise in the light of the tax planning strategy.

In the year under review the Company, based on conservative methodology, determined the expected rate of the deferred tax asset available based on the expected earning capacity of existing and contracted projects. This business plan does not count on external financing or spending on cash generated for the Hungarian operation.

Uncertainty about the evaluation of subsidiaries

Recoverable amount of the Company's subsidiaries means a significant uncertainty in the assessment thereof, the change of which may lead to impairment or the reversal of the impairment. These impairments and reversal of impairments directly affect the net result.

Uncertainty due to assets subject to IFRIC 12

Valuation of assets subject to IFRIC 12 depends on wether the counterparty initiates an amendment to the agreement or on its solvency. The recoverable amount of the asset is influenced by a combination of these factors that are partly independent from the entity.

IV. Changes in Accounting Policy, expected impact of IFRSs and IFRICs that have not yet entered into force on the date of the financial statements, past applications

The Company voluntarily did not change its accounting policies of 2017 by 2018.

We hereby explain in more details how the changes in IFRSs and IFRCs, that have become effective after the reporting date, effected the Company's financial statements. The expected impact of changes in existing IFRSs and IFRICs at the reporting date will not be analyzed in detail, as they have no significant impact on the financial statements and their omission does not affect the users' decisions.

New and amended standards and interpretations issued by the IASB and adopted by the EU, effective from the current reporting period:

- **IFRS 9 Financial Instruments** - adopted by the EU on 22 November 2016 (effective for reporting periods beginning on or after 1 January 2018),

- **IFRS 15, Revenue from Contracts with Customers, and other amendments** - adopted by the EU on 22 September 2016 (effective for reporting periods beginning on or after 1 January 2018),

- **Amendments to IFRS 2 Share-based Payment** - Classification and valuation of share-based payment transactions - accepted by the EU on 26 February 2018 (effective for reporting periods beginning on or after 1 January 2018),

- **Amendments to IFRS 4 Insurance Contracts** - IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts - adopted by the EU on 3 November 2017 (effective for reporting periods beginning on or after 1 January 2018 or from the date of first application of IFRS 9).

- **Amendments to IFRS 15, Revenue from Contracts with Customers** - Explanations to IFRS 15, Revenue from Contracts with Customers - as adopted by the EU on 31 October 2017 (effective for reporting periods beginning on or after 1 January 2018)

- **Amendments to IAS 40, Investment Property** - Reclassification of Investment Property - as adopted by the EU on 14 March 2018 (effective for reporting periods beginning on or after 1 January 2018)

- **Amendments to IFRS 1 and IAS 28 - Improvement of IFRSs (2014-2016)** - As a result of the IFRS Development Project, amendments were made to individual standards (IFRS 1, IFRS 12 and IAS 28), primarily to eliminate inconsistencies and clarify explanations - adopted by the EU on 7 February 2018 (IFRS 1 and IAS 28). In the case of Standards, the amendments shall be applied for reporting periods beginning on or after 1 January 2018).

- **Interpretation of IFRIC 22 Foreign Currency Transactions and Advance Consideration** - adopted by the EU on 28 March 2018 (effective for reporting periods beginning on or after 1 January 2018).

New and amended standards and interpretations issued by the IASB and adopted by the EU but not yet in force

At the time of approval of these financial statements, the following standards, as well as amendments to existing standards and interpretations issued by the IASB and accepted by the EU, were published without entry into force:

- **IFRS 16 Leases**- adopted by the EU on 31 October 2017 (effective for reporting nual periods beginning on or after 1 January 2019),

- **Amendments to IFRS 9 Financial Instruments** - Prepayment features with negative compensation - accepted by the EU on March 22, 2018 (effective for reporting periods beginning on or after January 1, 2019),

- **IFRIC 23 Uncertainty over Income Tax Treatments** - adopted by the EU on 23 October 2018 (effective for reporting periods beginning on or after 1 January 2019).

The Company does not apply these new standards and amendments to existing standards before the effective dates. The Company believes that the adoption of these standards and the amendment of existing standards will not have a material effect on the Company's financial statements in the period of initial application.

1.2.3. Standards and interpretations issued by the IASB and not accepted by the EU

The IFRS adopted by the EU do not significantly differ currently from those adopted by the International Accounting Standards Board (IASB), with the exception of the following new standards, amendments to existing standards and new interpretations that have not yet been adopted in the EU with the disclosure date of financial statements:

- **FRS 14 Regulatory Accounts** (came into force in the reporting periods beginning on or after January 1, 2016) - the European Commission made a decision not to apply the approval process to the current intermediate standard and to wait for the final standard.

- **IFRS 17, Insurance Contracts** (effective for reporting periods beginning on or after 1 January 2021),

- **Amendments to IFRS 3 Business Combinations -** Definition of business activity (effective for business combinations where the acquisition date falls on or after 1 January 2020, and on the reporting periods beginning thereafter and on the beginning of the actual period or on the following asset purchases).

- **Amendments to IFRS 10, Consolidated Financial Statements and IAS 28, Investments in Associates and Joint Ventures** - Sale or transfer of assets between the investor and its associate or joint venture (entry into force is postponed for an uncertain period until the research project reaches a conclusion on the equity method).

- **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors amendments -** Definition of materiality (effective for reporting periods beginning on or after 1 January 2020),

- **Amendments to IAS 19 Employee Benefits** - Modification, limitation or settlement of the plan (effective for reporting periods beginning on or after 1 January 2019)

- **Amendments to IAS 28, Investments in Associates** - Long-term interest in associates (effective for reporting periods beginning on or after 1 January 2019),

- **Amendments to some Standards - Improving IFRS (2015-2017)** - As a result of the IFRS Development Project, amendments were made to the individual standards (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily to eliminate inconsistencies and clarify explanations (effective from reporting periods beginning on or after 1 January 2019).

- **Amendments to References to Conceptual Framework in IFRS** (effective for reporting periods beginning on or after 1 January 2020)

Hedge accounting for the portfolio of financial assets and financial liabilities has not yet been regulated, as the EU has not yet adopted the relevant regulation.

The application of hedge accounting under IAS 39, Financial instruments: recognition and measurement to the portfolio of financial assets and liabilities would not significantly affect the Company's financial statements at the reporting date at the Company's estimation.

The implementation of these amendments, new standards and interpretations would not significantly affect the separate financial statements of the Company.

Data in thousand HUF

V. Explanatory notes to the comprehensive income statement

1. Revenue

The breakdown of revenue by activity is as follows:

	Year ending on 31.12.2018	Year ending on 31.12.2017
Sale of heat	200,258	186,505
Rental	243,121	246,948
Income of other operations	14,615	10,679
Total	**457,994**	**444,132**

Revenue includes only yields relating to the entity's principal activity.

The rental line includes the yield from the contracts covered by IFRIC 12 and leasing interest.

With the exception of accounting for accruals and prepaid expenses, invoicing was easy to follow in the accounting for the revenue, since the nature of the services does not require adjustment between the further periods.

The Company's revenue was nearly the same compared to the revious year.

The introduction of IFRS 15 Revenue from Contracts with Customers as of 1 January 2018 did not affect the Company's revenue, as the Company derives revenue from the service charge for the concession assets rented to municipalities, which is recognized in accordance with IFRIC 12 and does not result in a revenue adjustment difference.

2. Direct expenditures

	Year ending on 31.12.2018	Year ending on 31.12.2017
Passed utility charges	(197,463)	(187,430)
Total	**(197,463)**	**(187,430)**

Direct expenditures include expenditures that can be directly related to revenue. The Company discloses only the passed utility charges among direct expenditures.

The value of direct expenditures increased by 5.35% compared to the previous year.

Data in thousand HUF

3. Material expenses

	Year ending on 31.12.2018	Year ending on 31.12.2017
Office supplies	(161)	(185)
Fuel	(1,714)	(1,781)
Public utility charges	(1,202)	(1,899)
Other material expenses	(408)	(347)
Total	**(3,485)**	**(4,212)**

The above table shows the development of the material expenses. The value of material expenditures droped by 17.26% compared to the previous year, which is mainly due to the decrease of utility charges.

4. Personnel expenses

	Year ending on 31.12.2018	Year ending on 31.12.2017
Wages and benefits	(56,996)	(57,923)
Social security costs	(11,753)	(13,967)
Other personnel benefits	(1,373)	(1,522)
Total	**(70,122)**	**(73,412)**

The above table shows the development of the value of personnel costs. Form this table, it can be seen that the value of personnel expenses was at the same level as in the previous year

The Company's average staff number, also including executive directors, was 12 in 2017 and 11 in 2018.

Data in thousand HUF

5. Purchased services

	Year ending on 31.12.2018.	Year ending on 31.12.2017.
Legal costs	(25,169)	(23,149)
Facility management costs	(27,531)	(17,500)
Rental fees	(16,394)	(8,091)
Advisory fees	(28,602)	(26,667)
Bank costs	(1,980)	(3,864)
Other costs	(12,605)	(9,465)
Insurance fees	(684)	(914)
Communication, offices costs	(2,155)	(2,156)
Property costs	(624)	(571)
Maintenance costs	(27,022)	(25,936)
Total	**(142,766)**	**(118,313)**

The above table shows the development of the value of purchased services. Form the above table, it can be seen that the value of purchased services increased by HUF 24,453 thousand compared to the previous year. The increase in costs was mainly driven by the increase of rental and operating costs compared to the previous year.

Data in thousand HUF

6. Other income and expenses

	Year ending on 31.12.2018	Year ending on 31.12.2017
Other income		
Provision release		3,000
E-Star Management Ltd reversal of loan receivable impairment	91,500	0
CDR reversal of loan receivable impairment	9,725	9,726
E-Star Investment Management SRL reversal of loan receivable impairment	40,186	0
Distriterm reversal of loan receivable impairment	0	1,629
Reversal of impairment on trade contract	81,276	1,016
Interest received	13,206	0
Redemption fee of rented asset	7,154	0
Revenue on purchase of tangible assests	3,472	384
Other income	886	111
Total	247,405	15,866
Other expenses		
Impairment of assets	(34,903)	(310,133)
Provisioning	(2,308)	(483)
Penalties	(4)	(423)
Other taxes	(2,086)	(2,101)
Carrying amount of purchased tangible assets at derecognition	(4,183)	0
Result of tangible asset write-off	0	(561)
Other expenses	(1,122)	(12,627)
Total	**(44,606)**	**(326,328)**

Data in thousand HUF

Other income and expenses (net)	**202,799**	**(310,462)**

Impairment of assets was as follows:

	Year ending on 31.12.2018	**Year ending on 31.12.2017**
Impairment of tangible assets	0	(268,907)
Impairment of receivables towards affiliates		
E-Star Alternative Energy SA	(597)	(14)
E-Star Centrul de Dezvoltare Regionala SRL	(6,470)	(2,629)
E-Star Energy Generation SA	(9,797)	(4,990)
E-Star Heat Energy SA	0	(2,313)
E-Star Management Zrt.	(3,030)	(26,866)
E-Star Mures Energy SA	(4,118)	0
E-Star ZA Distriterm SRL	0	0
RFV Slovak	0	0
Impairment of trade receivables	(9,740)	(2,860)
Impairment of other receivables	(1,151)	(1,554)
Total	**(34,903)**	**(310,133)**

Data in thousand HUF

7. Income (expense) of financial operations

	Year ending on 31.12.2018	Year endig on 31.12.2017
Dividend income – EETEK Limited	0	3,223,467
Interest from affiliate	7,712	9,267
Banking interest income	0	0
Other interest income	517	528
IFRIC 12 interest income	32,672	99,741
Reversal of impairment on EETEK share	198,923	229,582
Exchange rate difference	(3,642)	264
Interest paid to affiliate	(106,647)	(124,162)
Financial expenses – expected credit loss	(5,349)	0
Impairment of E-Star Management Ltd share	(85,801)	0
Other financial expense	0	(54)
Total	**38,385**	**3 438,633**

Details of interest from affiliate:

	Year ending on 31.12.2018	Year endig on 31.12.2017
E-Star Centrul de Dezvoltare Regionala SRL	43	2,629
E-Star Heat Energy SA	1,151	2,313
E-Star Alternative Energy SA	18	14
E-Star Energy Generation SA	752	627
E-Star Management Ltd	3,030	3,684
Pannon Fuel Kft.	2,718	0
Total	**7,712**	**9,267**

Details of interest paid to affiliate:

	Year ending on 31.12.2018	Year endig on 31.12.2017
EETEK Limited	(106,599)	(123,987)
ENEFI Projekttársaság Kft.	(48)	(175)
Total	**(106,647)**	**(124,162)**

Data in thousand HUF

8. Income tax revenue / expense

	Year ending on 31.12.2018	Year endig on 31.12.2017
Company tax	0	0
Local business tax	(7,899)	(9,381)
Innovation contribution	0	(1,407)
Deferred tax expense (-) / income	0	0
Total	**(7,899)**	**(10,788)**

The below table shows the details of the company tax:

	31.12.2018	31.12.2017
Profit / loss before tax	**275,626**	**3,038,946**
Items increasing tax base	**48,045**	**743,141**
IT depreciation	9,716	554,785
Share-based payments	0	135,720
Provisioning	2,308	483
Fine, default interest	4	136
Impairment of trade receivables	34,903	41,226
Other increasing item	1,114	10,791
Items decreasing tax base	**1,490,699**	**4,600,499**
Depreciation under tax regulation	2,852	14,483
Dividend received	0	3,223,467
Irrecoverable receivables	1,348,761	1,348,761
Local business tax	7,899	10,788
Provision release	0	3,000
Reversal of impairment	131,187	0
Tax base	**-1,167,028**	**-612,388**
Tax payable	**0**	**0**

Data in thousand HUF

VI. Explanatory notes to the balance sheet

9. Intangible assets

At the end of the period, the value of intangible assets was as follows:

	Sotwares and other intangible assets	Total
Gross value		
01.01.2017	**63,390**	**63,390**
Write-off	(25,577)	(25,577)
31.01.2017	**37,813**	**37,813**
Changes	0	0
31.12.2018	**37,813**	**37,813**
Accumulated depreciation		
01.01.2017	**63,205**	**63,205**
Depreciation of current year	185	185
Write-off	(25,577)	(25,577)
31.12.2017	**37,813**	**37,813**
Depreciaion of current year	0	0
31.12.2018	**37,813**	**37,813**
Carrying amount		
1 January 2017	185	185
31 December 2017	0	0
31 December 2018	0	0

The Company does not intend to acquire higher value intangible assets in the upcoming years, and does not have an intangible asset of high value.

Data in thousand HUF

10. Tangible assets

The below table shows the changes in the assets:

	Properties and buildings	Technical equipments	Other equipments	Total
Gross value				
01.01.2017	**290,370**	**443,189**	**74,517**	**808,076**
Sale			(2,285)	**(2,285)**
Write-off	(19,174)	(142,596)	(47,953)	**(209,723)**
31.12.2017	**271,196**	**300,593**	**24,279**	**596,068**
Procurement		513	64	**577**
Sale		(3,472)	(2,515)	**(5,987)**
31.12.2018	**271,196**	**297,634**	**21,828**	**590,658**
Accumulated depreciation				
01.01.2017	**19,464**	**408,410**	**63,113**	**490,987**
Depreciation of current year	137	9,851	4,097	**14,085**
Derecognition due to sale			(1,169)	**(1,169)**
Derecognition due to write-off	(19,174)	(142,075)	(47,912)	**(209,161)**
Impairment	268,907			**268,907**
31.12.2017	**269,334**	**276,186**	**18,129**	**563,649**
Depreciation of current year	137	8,955	624	**9,716**
Derecognition due to sale		(1,415)	(391)	**(1,806)**
31.12.2018	**269,471**	**283,726**	**18,362**	**571,559**
Carrying amount				
01.01.2017	270,906	34,779	11,404	**317,089**
31.12.2017	1,862	24,407	6,150	**32,419**
31.12.2018	1,725	13,908	3,466	**19,099**

The Company does not intend to acquire any higher value tangible assets in the upcoming years, and does not have an tangible asset of high value.

Tangible assets include a Romanian site with a value of 0, for which the Company had to account for a 100% impairment as it was seized by the Romanian authorities. Litigation proceeding is pending in connection with the seizure.

Data in thousand HUF

11. Shares in subsidiaries, affiliates and joint ventures

	31.12.2018	31.12.2017
RFV Józsefváros Kft	1,470	1,470
Termoenergy SRL	38 ,500	38,500
E-Star Centrul de Dezvoltare Regionala SRL	34,525	34,525
E-Star ZA Distriterm SRL	0	1,380
E-Star Mures Energy SA	5,913	5,913
E-Star Energy Generation SA	5,913	5,913
E-Star Heat Energy SA	5,913	5,913
E-Star Alternative Energy SA	5,913	5,913
E-Star Management Zrt.	96,500	5,000
Pannon Fuel Kft.	25,219	0
EETEK Limited	6,384,260	6,384,260
ENEFI Projekttársaság Kft.	52,191	52,191
Total	**6,656,317**	**6,540,978**
Impairment recognised	(2,855,592)	(2,970,093)
Carrying amount	**3,800,725**	**3,570,885**

The below table shows the impairment recognised for the shares:

	31.12.2018	31.12.2017
RFV Józsefváros Kft.	0	0
Termoenergy SRL	(38,500)	(38,500)
E-Star Centrul de Dezvoltare Regionala SRL	(34,525)	(34,525)
E-Star ZA Distriterm SRL	0	(1,380)
E-Star Mures Energy SA	(5,913)	(5,913)
E-Star Energy Generation SA	(5,913)	(5,913)
E-Star Heat Energy SA	(5,913)	(5,913)
E-Star Alternative Energy SA	(5,913)	(5,913)
E-Star Management Zrt.	(90,801)	(5,000)
Eetek Limited	(2,615,923)	(2,814,845)
ENEFI Projekttársaság Kft.	(52,191)	(52,191)
Total	**(2,855,592)**	**(2,970,093)**

Data in thousand HUF

The below table shows the carrying amount of the shares:

	31.12.2018	31.12.2017
RFV Józsefváros Kft.	1,470	1,470
Termoenergy SRL	0	0
E-Star Centrul de Dezvoltare Regionala SRL	0	0
E-Star ZA Distriterm SRL	0	0
E-Star Mures Energy SA	0	0
E-Star Energy Generation SA	0	0
E-Star Heat Energy SA	0	0
E-Star Alternative Energy SA	0	0
E-Star Management Zrt.	5,699	0
Pannon Fuel Kft.	25,219	0
Eetek Limited	3,768,337	3,569,415
ENEFI Projekttársaság Kft.	0	0
Total	**3,800,725**	**3,570,885**

The Company records its shares at initial value less impairment. In the year under review, the Company acquired share in Pannon Fuel Kft. in the value of HUF 25,219 thousand and raised capital in E-Star Management Zrt. worth HUF 91,500 thousand.

On the reporting date, the Company recognized a loss of HUF 85,801 thousand on its shares at E-Star Management Ltd. and an impairment write-off of HUF 198,922 thousand on hits shares at EETEK Limited.

The Company has determined the recoverable amount of the shares based on the equity of the investments.

12. Other non-current receivables

	31.12.2018	31.12.2017
E-Star Heat Energy SA loan	20,247	20,247
E-Star Heat Energy SA loan interes	10,821	9,669
Pannon Fuel Kft loan	343,311	0
Total	**375,067**	**29,916**
E-Star Heat Energy SA loan impairment	(20,247)	(20,247)
E-Star Heat Energy SA loan interes impairment	(10,821)	(9,669)
Carrying amount	**343,311**	**0**

Data in thousand HUF

Among the non-current receivables, the Company recognises E-Star Heat Energy SA's loan and the interest thereon and a loan granted to Pannon Fuel Kft.

For the loan granted to Pannon Fuel Kft, the Company recognized an expected credit loss of HUF 688 thousand among the financial expenses in the income statement in accordance with IFRS 9 Impairment Accounting Rules.

13. Concession assets

Tangible assets recognized under IFRIC 12:

	31.12.2018	31.12.2017
Assets derived from service concession arrangements	634,233	581,182

Assumptions used to determine fair value at the reporting date:

The Group discounted the future cash flows in all cases with the internal discount rate applicable to the project at the time of the transaction (discount rates used in determining fair value are between 6% and 8%):

Project	Date	Expiry	31.12.2018	31.12.2017
Józsefváros	01.08.2007	31.07.2022	466,261	525,511
Csurgó	15.10.2005	14.10.2018	0	8,189
Pápa	01.09.2005	31.05.2018	0	1,283
Demecser	01.12.2006	30.11.2018	0	9,561
Fót	21.10.2005	2110.2018.	1,358	7,440
Gesztely	01.08.2006	31.07.2018	0	6,164
Inke	01.12.2006	30.11.2018	929	2,492
Tarnaméra	01.11.2007	31.10.2019	2,267	3,953
Győr	01.09.2008	31.08.2020	4,418	6,819
Pilisszentkereszt	01.10.2008	30.09.2020	4,803	6,437
Heves	01.11.2006	31.10.2018	0	3,333
Budapest	01.11.2015	31.10.2021	48,241	0
Érd	01.11.2015	30.09.2024	107,673	0
Hódmezővásárhely	01.11.2015	06.12.2018	0	0
Total			**635,950**	**581,182**

Data in thousand HUF

The Company recorded the following movements for the concession assets:

	31.12.2018	31.12.2017
Opening balance	**581,182**	**642,290**
Adjustment due to IFRS 9	(1,569)	0
Previous year amendment	(14,071)	54,674
New concession asset receivable	159,666	0
Receivable decrease	(90,827)	(115,782)
Expected credit loss	(148)	0
Closing balance	**634,233**	**581,182**

The Company recognized an expected loan loss of HUF 1,717 thousand for assets deriving from service concession arrangements. The Company determined the loss given default rate (LGD) at 45% and the probability of the default (PD) at 6 % by the calculation of the expected loss.

14. Leasing receivables

	31.12.2018	31.12.2017
Non-current receivables from asset rental	0	154,491
Current receivables from asset rental	0	5,528
Total	**0**	**160,019**

The Company restructured its leased assets as of 31 January 2018. The assets were previously leased to Pannon Fuel Ltd, which also leased these assets to three municipalities. As of January 31, 2018, the Company took over this contract from Pannon Fuel Kft., as a result of which the Company invoiced directly the lease fee to the (three) local governments by 31 January 2018. As a result of the above restructuring, the Company's leasing activities have been discontinued, and assets have been recognized under IFRIC 12 from that date.

Data in thousand HUF

Presentation of leasing receivables

The Company discounted the future cash flows in all cases with the internal discount rate applicable to the project at the time of the transaction.

	31.12.2018	31.12.2017
Opening balance	160,019	373,771
Change of previous year	1,036	-12 646
Leasing fee decrease	(1,389)	(28,243)
Derecognition due to the sale of lease portfolio	(159,666)	(172,863)
Total	**0**	**160,019**

15. Deferred tax assets and liabilities

The Company compares the taxable amounts with the carrying amount by assets and liabilities by calculating deferred tax. If it is a reverse difference (i.e. the difference is settled within the foreseeable future), deferred the tax liability or asset will be recognised according to its sign. The Company has separately assessed the return on the asset at the time of recognition.

In both years, all companies of the Company calculated the tax with a 9% rate at return, as the particular assets and liabilities become effective taxes at periods when the tax rate is set at 9% in the relevant legislation.

The Company has decided not to include deferred tax assets in the books as their recoverability is unlikely. The below table shows the amount of taxable differences including the value of the deferred tax asset not recognised:

Data in thousand HUF

The 2018 tax balance and temporary differences are as follows:

	Accounting value	Tax	Difference
Tangible assets	19,099	270,538	(251,439)
Investments in affiliates	3,800,725	3,800,725	0
Other non-current receivables	343,999	375,067	(31,068)
Financial assets (IFRIC 12)	634,233	0	634,233
Leasing receivables	0	0	0
Customers	150,747	450,605	(299,858)
Other receivables	111,438	9,234,262	(9,122,824)
Accruals and prepaid expenses	35,437	35,437	0
Cash and cash equivalents	110,822	110,822	0
Provision	99,872	0	99,872
Short-term loans	3,715,103	3,715,103	0
Vendor liabilities	5,336	5,336	0
Deferred income	45,968	45,968	0
Other current liabilities	22,120	22,120	0
Loss impairment	0	9,064,611	(9,064,611)
	9,094,899	**27,130,594**	**(18,035,695)**
	Taxable difference		**18,035,695**
	Deferred tax receivable		**1,623,213**

Data in thousand HUF

The tax balance and temporary differences of 2017 are as follows:

	Accounting value	Tax	Difference
Tangible assets	32,419	272,814	(240,395)
Investments in affiliates	3,570,885	3,570,885	0
Other non-current receivables	0	29,916	(29,916)
Financial assets (IFRIC 12)	581,182	0	581,182
Leasing receivables	160,019	0	160,019
Customers	92,636	456,478	(363,842)
Other receivables	127,903	9,662,942	(9,535,039)
Accruals and prepaid expenses	4,648	4,648	0
Cash and cash equivalents	348,633	348,633	0
Provision	97,564	0	97,564
Short-term loans	3,662,344	3,662,344	0
Vendor liabilities	29,731	29,731	0
Deferred income	7,530	7,530	0
Other current liabilities	17,706	17,706	0
Loss impairment	0	7,285,195	(7,285,195)
	8,733,200	**25,348,822**	**(16,615,622)**
	Taxable difference		**16,615,622**
	Deferred tax receivable		**1,495,406**

Data in thousand HUF

16. Trade receivables

The following information is relevant to customer receivables and the impairment thereof:

	31.12.2018	31.12.2017
Customer base	150,747	92,636

	31.12.2018	31.12.2017
Non-due	45,483	45,753
Between 1-90 days	8,785	24,382
Between 91-180 days	2,209	5,457
Between 181-360 days	20,757	17,716
More than 1 year overdue	373,370	363,170
Gross trade receivables total	**450,604**	**456,478**
Accounted impairment of trade receivables	(299,857)	(363,842)
Customer base at reporting date	**150,747**	**92,636**

The breakdown of non-impaired trade receivables is as follows

Non-imaired receivables	**31.12.2018**	**31.12.2017**
Non-due	45,028	45,753
Between 1-180 days	87,038	29,839
Between181-360 days	18,681	17,044
More than 1 year overdue	0	0
Total:	**150,747**	**92,636**

Data in thousand HUF

The impairment made by the Company on trade receivables is as follows:

	31.12.2018	31.12.2017
Balance as of 1 January	**363,842**	**674,145**
Impairment change due to first application of IFRS 9	3,037	0
Impairment for receivables	9,740	2,860
Derecognition of impairment	0	(147,469)
Impairment reversed	(81,275)	(165,694)
Expected credit loss	4,513	0
Balance as of 31 December	**299,857**	**363,842**

The expected credit loss is recognized in the financial operations' expenses within the income statement.

By the examination of the possibility of a specific trade receivable, the Company takes into account any changes in the credit quality of the receivable between the date of the borrowing date and the end of the reporting period. In all cases, the payment deadline for the customer accounts is 8 days.

17. Other receivables

	31.12.2018	31.12.2017
Affiliated loan	6,336,177	6,647,746
Affiliated loan interest	2,641,934	2,742,457
Granted loan and interest - Hőáramkör Kft.	33,960	33,960
Member's loan	11,271	10,763
Default interest receivable	13,206	
Other receivable - Pannon Fuel Kft.	0	47,755
Other tax receivable	6,381	5,398
VAT receivable	76,558	61,656
Other receivables	114,774	113,208
Other receivables gross total	**9,234,261**	**9,662,943**
Recognised impairment	(9,122,135)	(9,535,040)
Other receivables total	**112,126**	**127,903**

Data in thousand HUF

The below table shows the details of the affiliated loans and loan interests:

Affiliated loan	31.12.2018	31.12.2017
Termoenergy SRL	34,344	34,344
E-Star Centrul de Dezvoltare Regionala SRL	4,534,970	4,538,267
E-Star Mures Energy SA	1,659,568	1,655,450
E-Star Heat Energy SA	11,808	11,808
E-Star Alternative Energy SA	1,396	816
E-Star Energy Generation SA	47,863	38,818
E-Star ZA Distriterm SRL	0	169,788
E-Star Management Zrt.	0	123,065
E-Star Investment Management SRL	0	26,687
E-Star Investment Management SRL	0	3,285
E-Star Energy Generation SA	45,418	45,418
RFV Józsefváros Kft.	712	0
Enefi Projekttársaság Kft.	98	0
Total	**6,336,177**	**6,647,746**

Affiliated loan interest	31.12.2018	31.12.2017
Termoenergy SRL	19,772	19,772
E-Star Centrul de Dezvoltare Regionala SRL	2,143,726	2,143,683
E-Star Mures Energy SA	345,975	345,975
E-Star Heat Energy SA	3,201	3,201
E-Star Alternative Energy SA	4,751	4,733
E-Star Energy Generation SA	124,509	123,756
E-Star ZA Distriterm SRL	0	92,656
E-Star Management Zrt.	0	5,592
E-Star Investment Management SRL	0	3,089
Total	**2,641,934**	**2,742,457**

Data in thousand HUF

The below table shows the impairment of the other receivables:

	31.12.2018	31.12.2017
Affiliated loan		
Termoenergy SRL	(34,344)	(34,344)
E-Star Centrul de Dezvoltare Regionala SRL	(4,534,970)	(4,538,267)
E-Star Mures Energy SA	(1,659,568)	(1,655,450)
E-Star Heat Energy SA	(11,808)	(11,808)
E-Star Alternative Energy SA	(1,396)	(816)
E-Star Energy Generation SA	(47,863)	(38,818)
E-Star ZA Distriterm SRL	0	(169,788)
E-Star Management Zrt.	0	(123,065)
E-Star Investment Management SRL	0	(26,687)
E-Star Investment Management SRL	0	(3,285)
E-Star Energy Generation SA	(45,418)	(45,418)
Total	**(6,335,367)**	**(6,647,746)**

Affiliated loan interest		
Termoenergy SRL	(19,772)	(19,772)
E-Star Centrul de Dezvoltare Regionala SRL	(2,143,726)	(2,143,683)
E-Star Mures Energy SA	(345,975)	(345,975)
E-Star Heat Energy SA	(3,201)	(3,201)
E-Star Alternative Energy SA	(4,751)	(4,733)
E-Star Energy Generation SA	(124,509)	(123,756)
E-Star ZA Distriterm SRL	0	(92,656)
E-Star Management Zrt.	0	(5,592)
E-Star Investment Management SRL	0	(3,089)
Total	**(2,641,934)**	**(2,742,457)**
Granted loan and interest - Hőáramkör Kft.	(33,960)	(33,960)
Other receivables	(110,874)	(110,877)
Total	**(9,122,135)**	**(9,535,040)**

Data in thousand HUF

The below table shows the claims other than with a non-zero carrying amount:

	31.12.2018	31.12.2017
Affiliated loan		
RFV Józsefváros Kft.	712	0
Enefi Projekttársaság Kft.	98	0
Member's loan	11,271	10,763
Default interest receivable	13,206	0
Other receivable - Pannon Fuel Kft.	0	47,755
Other tax receivables	6,381	5,398
VAT receivable	76,558	61,656
Other receivables	3,900	2,331
Other receivables total	**112,126**	**127,903**

The Company recognises the taxes recorded by the same tax authority on net basis. Debt-type tax balances are classified as liabilities (if the company belongs to the tax authority after all).

18. Accruals and prepaid expenses

The below table shows the details of the accruals and prepaid expenses:

	31.12.2018	31.12.2017
Prepaid expenses, costs	1,087	785
Accruals of receivables	34,350	3,863
Total	**35,437**	**4,648**

Breakdown of the accrued costs is as follows:

	31.12.2018	31.12.2017
Insurance fee	198	161
Rental fee	696	624
Passing-on of public utility fees	193	0
Total	**1,087**	**785**

Data in thousand HUF

Breakdown of accrued receivables is as follows:

	31.12.2018	31.12.2017
Heating fee	32,350	1,863
Rental fee	2,000	2,000
Total	**34,350**	**3,863**

19. Financial assets and equivalents

	31.12.2018	31.12.2017
Bank balances	110,580	348,071
Cash	242	562
Cash and cash equivalent	**110,822**	**348,633**

Financial assets includes only balances that may immediatley be converted to money.

Data in thousand HUF

20. Subscribed capital

The subscribed capital includes the nominal value of the issued shares. The current face value is HUF 10 / piece. The table below shows the movements of equities in the reporting period:

Subscribed capital at nominal value	**31.12.2018**	**31.12.2017**
Nominal value as of 1 January	100,000	271,726
Nominal value of own shares withdrawn through the year	0	(196,726)
Nominal value of ordinary shares issued through the year	0	25,000
As of 31 December	**100,000**	**100,000**

Number of issued and paid ordinary shares	**31.12.2018**	**31.12.2017**
Quantity as of 1 January (piece)	10,000,000	27,172,579
Number of own shares withdrawn through the year	0	(19,672,579)
Number of share issued through the year	0	2,500,000
As of 31 December	**10,000,000**	**10,000,000**

The Company's subscribed capital did not changed in the reporting period.

21. Capital reserve (share premium accounts)

	31.12.2018	**31.12.2017**
Balance at the beginning of the year	21,423,391	21,254,954
Issuance of employee shares I	0	205,516
Repurchase of employee shares	0	(107,279)
Issuance of employee shares II	0	70,200
Year end balance	**21,423,391**	**21,423,391**

Capital reserve value did not change in the reporting period.

Data in thousand HUF

22. Own shares

Development of number of own shares	31.12.2018 piece	31.12.2017 piece
Opening value	55,071	17,801,409
Own shares of companies removed from consolidation	0	0
Number of repurchased own shares	256,669	1,926,241
Number of withdrawn own shares	0	(19,672,579)
Purchased own shares	0	0
Shares (piece)	**311,740**	**55,071**

Development of own shares quality	31.12.2018	31.12.2017
Opening value	11,652	4,399,285
Changes of previous years	0	0
Adjusted opening value	0	0
Own shares of companies removed from consolidation	0	0
Carrying amount of repurchased own shares	48,470	479,445
Carrying amount of withdrawn own shares	0	(4,867,078)
Purchased own shares	0	0
Shares at carrying amount	**60,122**	**11,652**

23. Reserve for share-based payments

The share-based payment reserve includes the fair value of a share option vested in an earlier period. The share option covers 630,000 piece of shares. The drawing period has not expired yet. During this period, the value of the reserve remained unchanged as the performance obligation was no longer related thereto and the option was not exercised. The reserve could not be revalued to its current market value.

The rate of exercising the option is HUF 330.

Data in thousand HUF

24. Calculation of Earnings per Share (EPS)

By the calculation of the earnings per share, the total result may be considered, as there is no profit or loss on minority interest or activity to be terminated.

The number of shares was as follows in 2017 and 2018:

Date	Event	Piece	Nominal value	Change of subscribed capital	Balance of subscribed capital
31.12.2017	**Closing value**	**10,000,000**	**10**		**100,000,000**
In 2018	Issuance	0	10	0	
In 2018	Withdrawal	0	10	0	
31.12.2018	**Closing value**	**10,000,000**	**10**		**100,000,000**

The average number of shares (time-weighted average) had to be considered by the calculation that was as follows (together with the EPS indicator):

	31.12.2018	**31.12.2017**
Basic EPS indicator for continuous activities (HUF / piece)	26.78	130.73
Diluted EPS indicator for continuous activities (HUF / piece)	25.19	127.26
Number of shares to EPS (piece)	10,000,000	23,163,702
Number of shares to diluted EPS (piece)	10,630,000	23,793,702

	31.12.2018	**31.12.2017**
Basic EPS indicator for ceased activities (HUF/piece)	0	8.89
Diluted EPS indicator for ceased activities (HUF/piece)	0	8.66
Number fo shares to EPS (piece)	10,000,000	23,163,702
Number of shares to diluted EPS (piece)	10,630,000	23,793,702

Data in thousand HUF

25. Provisions

	Provision made for tax related liabilities	Provision made for employmentship related contingent liabilities	Total
31 December 2017	**49,164**	**48,400**	**97,564**
Current provisions (-)			**0**
Non-current provisions (-)	2,308	0	**2,308**
Provision made through the year			0
Provision used through the year			0
Interim adjustment	2,308	0	2,308
Effect of exchange-rate movements			0
31 December 2017	**51,472**	**48,400**	**99,872**
Current provisions (-)	0	0	**0**
Non-current provisions (-)	51,472	48,400	99,872

The Company has recognized a provision for tax liabilities in their books in respect of a contingent administrative issue.

26. Short-term loans

	31.12.2018	31.12.2017
Loan from EETEK Limited – loan 1	3,615,515	3,565,249
Loan from EETEK Limited – loan 2	96,453	93,042
Loan – Dácz G.	3,135	0
Loan from Enefi Projekttársaság Kft	0	3,878
Loan interest from Enefi Projekttársaság Kftl	0	175
Total	**3,715,103**	**3,662,344**

Data in thousand HUF

The below table shows the conditions of the loans to EETEK Limited:

	Payment frequency	Interest rate	Nominal debt at 31.12.2018	Currency	Maturity
EETEK Limited – loan 1	End of maturiy	1 month BUBOR + 3%	3,442,196	Thousand HUF	31.12.1018
EETEK Limited – loan 2	End of maturity	interest-free	300,000	EUR	31.10.2018

The below table shows the changes in the loans from EETEK Limited in 2018:

Loan 1 from EETEK Limited	Amount
Balance 01.01.2018	3,565,249
Payment of loan	(56,332)
Interest	106,598
Total	**3,615,515**

Loan 2 from EETEK Limited	Amount
Balance 01.01.2018	93,042
Revaluation difference at year end	3,411
Total	**96,453**

Data in thousand HUF

27. Accrued and deferred liabilities

Breakdown of the balance sheet line is as follows:

	31.12.2018	31.12.2017
Accrued revenue	860	0
Accrued charges	45,108	7,530
Total	**45,968**	**7,530**

Breakdown of accrued and deferred liabilities of revenues is as follows:

	31.12.2018	31.12.2017
Heating fee	860	0
Total	**860**	**0**

Breakdown of accrued and deferred liabilities of costs is as follows:

	31.12.2018	31.12.2017
Gas fee	32,350	1,217
Audit	9,750	3,000
Accounting fees	1,929	1,850
Management fee	345	0
Facility management fee	320	338
Public utility fees	324	147
Other	90	978
Total	**45,108**	**7,530**

28. Other current liabilities

Breakdown of the balance sheet line is as follows:

	31.12.2018	31.12.2017
Other payable taxes	15,044	9,377
Payable remuneration	2,907	3,475
Social security costs	2,567	2,298
Other liabilities	1,602	2,556
~~Total~~	**22,120**	**17,706**

Data in thousand HUF

29. Effect of amendments to accounting policy

As described in the accounting policy chapter, the Company has applied IFRS 9 from 1 January 2018. The Company availed itself of the option provided for in paragraphs 7.2.1 and 7.2.15 of IFRS 9 and the comparative information was not amended. Based on the requirements of IFRS 7, the effect of the change in accounting policy as of 1 January 2018 is presented below:

1 January 2018	Classification		Carrying amount		
	IAS 39	IFRS 9	IAS 39	IFRS 9	Difference
Customer receivables	Amortised cost	Amortised cost	92,636	89,599	(3,037)
Cash and cash equivalents	Amortised cost	Amortised cost	348,633	348,633	0
Short-term loans	Amortised cost	Amortised cost	3,662,344	3,662,344	0
Vendor liabilities	Amortised cost	Amortised cost	29,731	29,731	0

Data in thousand HUF

The consolidated impact of changes in accounting policies on the financial statements is presented below. The changes were made against retained earnings.

	31.12.2017 Originally disclosed	Effect of IFRS 9 amendments	01.01.2018 After amendment of Accounting Policy
Tangible assets	32,419		32,419
Investment in affiliated entities	3,570,885		3,570,885
Other non-current receivables	0		0
Concession assets (IFRIC 12)	581,182	(1,569)	579,613
Leasing receivables	160,019		160,019
Non-current assets	**4,344,505**	**(1,569)**	**4,342,936**
Customer	92,636	(3,037)	89,599
Other receivables	127,903		127,903
Accruals and prepaid expenses	4,648		4,648
Cash and cash equivalents	348,633		348,633
Current assets	**573,820**	**(3,037)**	**570,783**
ASSETS TOTAL	**4,918,325**	**(3,037)**	**4,913,719**
Subscribed capital	100,000		100,000
Capital reserve (share premium account)	21,423,391		21,423,391
Own shares	(11,652)		(11,652)
Retained earnings	(20,473,809)	(4,606)	(20,478,415)
Reserve of share-based payments	65,520		65,520
Equity	**1,103,450**	**(4,606)**	**1,098,844**
Provision	97,564		97,564
Other non-current liabilities	0		0
Non-current liabilities	**97,564**	**0**	**97,564**
Short-term loans	3,662,344		3 662,344
Vendor liability	29,731		29,731
Accrued and deferred liabilities	7,530		7,530
Other current liabilities	17,706		17,706
Current liabilities	**3,717,311**	**0**	**3,717,311**
EQUITY AND LIABILITIES TOTAL	**4,918,325**	**(4,606)**	**4,913,719**

VII. Other disclosures

30. Operational segments

The Company is a listed company, thus it is obliged to disclose segment information.

An operating segment is such part of an entity that

a) conducts business activities that generate revenue and expenditure (including income and expenses related to transactions with other parts of the same entity);

b) the operating result of which is regularly reviewed by the entity's main operating decision maker in order to make a decision about the resources to be allocated to the segment and to assess its performance; as well as

c) has the relevant financial information.

Members of the Board of Directors make the strategic decisions regarding the Company's opeartion, so the management has prepared the financial statements on the establishment of segments with the consideration of the statements prepared for them. The members of the Board of Directors have determined that the Company's operations are essentially focused on one activity: the Company makes investments for its customers / future customers primarily energy investments that provides return from savings which also provides energy with high efficiency along a long-term operation. The Company's activity is exclusively focused on Hungary, so break down the operating segments is not possible neither by activity or by geographical region. The members of the Board of Directors also found that there are no segments the operating results of which would be reviewed on a regular basis in order to decide on the resources to be allocated to that segment.

In light of the above, the members of the Board of Directors of the Company have found that the Company, as listed, is obliged to disclose oerational segment information by a listed company, however, the Company cannot establish segments based on either the activity or the geographic region, so disclosure of these segment information is not possible.

Data in thousand HUF

31. IFRS 16

The company has identified tha, due to leases, changes may arise in the financial statements related to the following factors:

- car rental,
- boiler rental.

According to the present information, the Company changes to IFRS 16 with the revised retrospective method without redefining the right of use asset value, but recognising those on the present value of the remaining cash flows. According to preliminary assessments, this will have the below mpact on the balance sheet as of January 1, 2019:

Amendment on 1 January, 2019:	**ROU**	**Leasing Liability**
Values under IAS 17 rules	0	0
IFRS 16 transition effect	9,963	9,963
Values under IFRS 16 rules	**9,963**	**9,963**

Given the chosen transition methodology, the transition is expected to have no impact on opening retained earnnings.

The interest rate applied during the transition to IFRS 16 - an incremental interest rate - is 6% pa.

Data in thousand HUF

32. Related party disclosures

The key managers of the company are related parties. During the period of the financial statements, the management of the Company determined the following related parties:

For the BoD:

Csaba Soós, chairman of the Board of Directors

Attila Gagyi Pálffy, member of the Board of Directors

László Bálint, member of the Board of Directors

The balances arising from transactions with above parties are as follows:

	31.12.2018	31.12.2017
Transaction concerning the balance sheet		
Capital receivables from related parties- Attila Gagyi Pálffy	10,000	10,000
Interest receivables from related parties - Attila Gagyi Pálffy	1,271	763
Total	**11,271**	**10,763**
Transaction concerning the result		
Interest income from related party	508	512
Total	**508**	**512**

Conditions for related party transactions are market-based conditions.

The below table shows the remuneration of executive officers.

	31.12.2018	31.12.2017
Gross remuneration, management fee, honorarium	36,466	36,280
Share-based payments	0	114,400
Total	**36,466**	**150,680**

Data in thousand HUF

The Company conducted the following transactions with affiliated companies in 2018, and the following outstanding balances characterize the relationship (pricing of transactions on a market basis):

Partner	Transaction type	Amount
EEETEK Limited		
	Result positions	
	Interest expense	(106,599)
	Impairment of shares (result)	198,922
	Balance sheet positions	
	Share	6,384,260
	Impairment of share	(2,570,928)
	Short-term loans	3 538,649
	Interest of short-term loans	173,319
ENEFI Projekttársaság Kft.		
	Result positions	
	Revenue	180
	Interest expense	(48)
	Impairment of shares (result)	52,191
	Balance sheet positions	
	Share	52,191
	Impairment of share	(52,191)
	Loan receivables	98
	Trade receivables	686
E-Star Alternative Energy SA		
	Result positions	
	Impairment	(597)
	Interest revenues	18
	Balance Sheet positions	
	Loan receivables	4 751
	Impairment of loan receivables	(4,751)
	Loan receivables	1,396
	Impairment of loan receivables	(1,396)
	Share	5 913
	Impairment of share	(5,913)

Data in thousand HUF

E-Star Centrul de Dezvoltare Regionala SRL		
	Result positions	
	Impairment	(6,470)
	Interest revenues	43
	Management fees	(4,089)
	Reversal of impairment	9,725
	Balance Sheet positions	
	Loan interest receivables	2,143,726
	Impairment of loan interest receivables	(2,143,726)
	Loan receivables	4,534,970
	Impairment of loan receivables	(4,534,970)
	Share	34,525
	Impairment of share	(34,525)
	Trade payable	1,007
E-Star Energy Generation SA		
	Result positions	
	Impairment	9,797
	Interest revenues	752
	Balance Sheet positions	
	Loan interest receivables	124,509
	Impairment of loan interest receivables	(124,509)
	Loan receivables	93,281
	Impairment of loan receivables	(93,281)
	Share	5,913
	Impairment of share	(5,913)
E-Star Heat Energy SA		
	Result positions	
	Impairment	(1,151)
	Interest revenues	1,151
	Balance Sheet positions	
	Loan interest receivables	3,201
	Impairment of loan interest receivables	(3,201)
	Loan receivables	11,808
	Impairment of loan receivables	(11,808)
	Shares	5,913
	Impairment of shares	(5,913)
	Long-term loan	20,247
	Impairment of long-term loan	(20,247)
	Interest of long-term loan	10,821
	Impairment of long-term loan interest	(10,821)

Data in thousand HUF

E-Star Management Zrt.		
	Result positions	
	Revenue	80
	Impairment	(3,,030)
	Reversal of impairment	131,687
	Interest revenue	3,030
	Balance sheet positions	
	Share	96,500
	Impairment of share	(90,801)
	Trade receivables	9
E-Star Mures Energy SA		
	Result positions	
	Impairment	(4,118)
	Balance sheet positions	
	Loan interest receivables	345,975
	Impairment of loan interest receivables	(345,975)
	Loan receivables	1,659,568
	Impairment of loan receivables	(1,659,568)
	Share	5,913
	Impairment of share	(5,913)
	Trade receivables	18,485
RFV Józsefváros Kft.		
	Result positions	
	Revenue	227,000
	Interest revenue	35,710
	Balance sheet positions	
	Impairment of income	20,738
	Other current liabilities	70,882
	Financial asset - IFRIC 12	466,261
	Share	1,470
	Accrued and deferred liabilities	860
	Trade receivables	13,695
Termoenergy SRL		
	Balance sheet positions	
	Loan interest receivables	19,772
	Impairment of loan interest receivables	(19,772)
	Loan receivables	34,344
	Impairment of loan receivables	(34,344)
	Share	38,500
	Impairment of share	(38,500)

Pannon Fuel Kft.		
	Balance sheet positions	
	Long-term loan	343,311

Data in thousand HUF

Further related parties:

- NetCég Kft.
- Síaréna Kft.
- Swiss Skiland Kft.

Special disclosures to be included in a separate financial statement (IAS 27)

The Company, as parent company, publishes consolidated financial statements. These consolidated financial statements are published and deposited in accordance with the Hungarian regulations.

Subsidiaries of the Company:

Name	Country	2017		2018	
		Level of participation	Voting rights	Level of participation	Voting rights
EETEK Limited	Cyprus	100.00%	100.00%	100.00%	100.00%
RFV Józsefváros Kft.	Hungary	49.00%	70.00%	49.00%	70.00%
E-Star Management Zrt. (korábban RFV Management Kft.)	Hungary	100.00%	100.00%	100.00%	100.00%
ENEFI Projekttársaság Kft.	Hungary	100.00%	100.00%	100.00%	100.00%
E-Star Centrul de Dezvoltare Regionala SRL	Romania	100.00%	100.00%	100.00%	100.00%
Termoenergy SRL	Romania	99.50%	99.50%	99.50%	99.50%
SC Faapritek SA	Romania	99.99%	99.99%	99.99%	99.99%
E-Star Alternative Energy SA	Romania	99.99%	99.99%	99.99%	99.99%
E-Star Energy Generation SA	Romania	99.99%	99.99%	99.99%	99.99%

Data in thousand HUF

Group companies in liquidation that are not included in the consolidation:

Name	Country	2017		2018	
		Level of participation	Voting rights	Level of participation	Voting rights
E-STAR ZA Distriterm SRL „felszámolás alatt"	Romania	51.00%	51.00%	51.00%	51.00%
E-Star Mures Energy SA „felszámolás alatt"	Romania	99.99%	99.99%	99.99%	99.99%
E-STAR Investment Management SRL „felszámolás alatt"	Romania	99.93%	99.93%	99.93%	99.93%

The Company manages the subsidiary participation based on the cost model.

Data in thousand HUF

33. Sensitivity analysis

The Company found that its results depend on two key financial key variables of a financial nature (interest rate, foreign exchange rate). Sensitivity analysis has been made for these.

The Company has the following values Using the current exchange rates:

	31.12.2018	31.12.2017
Foreign currency assets	0	0
Foreign currency liabilities	96,453	93,042
Net foreign currency portfolio	**96,453**	**93,042**

The Company has significant foreign currency receivables from affiliated companies, however, taking into account the later feasibility, these foreign currency balances have been fully impaired in previous years. The Company consequently did not consider these foreign exchange assets by the analyzation of the exchange rate fluctuations' risk. In addition to the above-mentioned foreign exchange assets, the Company has a EUR-denominated short-term debt with affiliated company. The analysis of foreign exchange risk was made for this debt.

The same values for interest rates are:

	31.12.2018	31.12.2017
Income before tax – without interest expense	351,121	3,495,057
Net interest expense	(101,135)	(114,367)
Income before tax	**249,986**	**3,380,690**

Data in thousand HUF

Outcome of the interest sensitivity analysis (as a percentage of interest rate change):

+0,5 %	**31.12.2018**	**2017.12.31.**
Income before tax – without interest expense	351,121	3,495,057
Net interest expense	(117,632)	(134,050)
Income before tax	**233,489**	**3,361,007**
Change in income before tax	**(16,497)**	**(19,683)**

+1 %	**31.12.2018**	**31.12.2017**
Income before tax – without interest expense	351,121	3,495,057
Net interest expense	(134,121)	(153,749)
Income before tax	**217,000**	**3,341,308**
Change in income before tax	**(32,986)**	**(39,382)**

+3 %	**31.12.2018**	**31.12.2017**
Income before tax – without interest expense	351,121	3,495,057
Net interest expense	(200,077)	(232,545)
Income before tax	**151,044**	**3,262 512**
Change in income before tax	**(98,942)**	**(118,178)**

-0,5 %	**31.12.2018**	**31.12.2017**
Income before tax – without interest expense	351,121	3,495,057
Net interest expense	(84,655)	(94,652)
Income before tax	**266,466**	**3,400,405**
Change in income before tax	**16,480**	**19,715**

-1 %	**31.12.2018**	**31.12.2017**
Income before tax – without interest expense	351,121	3,495,057
Net interest expense	(68,166)	(74,953)
Income before tax	**282,955**	**3,420,104**
Change in income before tax	**32,969**	**39,414**

-3 %	**31.12. 2018**	**31.12. 2017**
Income before tax – without interest expense	351,121	3,495,057
Net interest expense	(1,651)	(3,310)
Income before tax	**349,470**	**3,498,367**
Change in income before tax	**99,484**	**117,677**

Data in thousand HUF

Sensitivity analysis of foreign exchange change (as a percentage of exchange rate change):

+1 %	**31.12.2018**	**31.12.2017**
Foreign currency assets	0	0
Foreign currency liabilities	97,418	93,972
Net foreign currency portfolio	**97,418**	**93,972**
Change in net foreign currency portfolio	**965**	**930**

+5 %	**31.12.2018**	**31.12.2017**
Foreign currency assets	0	0
Foreign currency liabilities	101,276	97,694
Net foreign currency portfolio	**101,276**	**97,694**
Change in net foreign currency portfolio	**4,823**	**4,652**

+10 %	**31.12.2018**	**31.12.2017**
Foreign currency assets	0	0
Foreign currency liabilities	106,098	102,346
Net foreign currency portfolio	**106,098**	**102,346**
Change in net foreign currency portfolio	**9,645**	**9,304**

-1 %	**31.12.2018**	**31.12.2017**
Foreign currency assets	0	0
Foreign currency liabilities	95,488	92,112
Net foreign currency portfolio	**95,488**	**92,112**
Change in net foreign currency portfolio	**(965)**	**(930)**

-5 %	**31.12.2018**	**31.12.2017**
Foreign currency assets	0	0
Foreign currency liabilities	91,630	88,390
Net foreign currency portfolio	**91,630**	**88,390**
Change in net foreign currency portfolio	**(4,823)**	**(4,652)**

-10 %	**31.12.2018**	**31.12.2017**
Foreign currency assets	0	0
Foreign currency liabilities	86,808	83,738
Net foreign currency portfolio	**86,808**	**83,738**
Change in net foreign currency portfolio	**(9,645)**	**(9,304)**

33. Equity Correlation Table

Pursuant to Section 114 / B of the Act C of 2000 on Accounting, an entity that draws up its annual financial statements in accordance with IFRSs, it shall also prepare an equity correlation table on the reporting date, presented as part of the explanatory notes.

Our Company hereby complies with this requirement:

	Euqity under IFRSs (that is the difference between the assets and liabilities under IFRSs)	1,318,101
+	Amount of received grant recognised as liability under IFRSs	0
-	Amount of provided grant recognised as liability under IFRSs	0
	Funds received to be added to capital reserve	
+	if it is a deferred income (IFRS)	0
	Value of assets received	
+	if it is recognised as deferred income (IFRS)	0
	Capital increase resulting in euqity elements	
-	if it shall be recognsied as receivables from shareholders (IFRS)	0
	Equity (aligned)	**1,318,101**

Subscribed capital under IFRS	*100,000*
Subscribed capital included in the deed of founddation is equal to the subscribed capital registered at company registry court	100,000

Subscribed, but not paid capital	*0*
Subscribed, but not paid capital	0

Tied-up reserve	*0*
Received grant	0
Development reserve (adjusted with tax effect)	195,824
Tied-up reserve (aligned)	**195,824**

Data in thousand HUF

	Retained earnings	
	Not distributed accumulated earnings from previous years taxed under IFRS (does not include current year part)	(20,478,415)
+/-	Amounts accounted for to the benefit or for the burden of the retained earnings under IFRSs	0
-	Provided grant amount recognised as asset	0
-	Amount of development reserve not used less relating deferred tax (tied-up reserve)	(195,824)
+	Closing retained earning before transition year, adjusted with the transition corrections [2]	0
	Retained eraning (aligned)	**(20,674,239)**
	Proift / loss after tax	*267,727*
	Profit / loss after tax, point 9 of Section 114/A of Accounting Act	**267,727**
	Revaluation reserve	*0*
	Accumulated amount of items recognised in other comprehensive income	0
	Capital reserve	0
	Aligned equity	1,318,101
	Subscribed capital under IFRSs	100,000
	Subscribed but not paid capital	0
	Tied-up reserve	195,824
	Retained earnings	(20,674,239)
	Profit / loss after tax	267,727
	Revaluationn reserve	0
	Capital reserve (aligned)	**21,428,789**
	Aligned equity (under Section 114/B of Accounting Act)	**1,318,101**
	Subscribed capital	**100,000**
	Subscribed but not paid capital	**0**
	Capital reserve	**21,428,789**
	Retained earnings	**(20,674,239)**
	Tied-up reserve	**195,824**
	Revaluation reserve	**0**
	Profit / loss after tax	**267,727**

Data in thousand HUF

Retained earnings available for dividend payment (under point b) paragraph (5) Section 114/B of Accounting Act)	(20,674,239)
Retained earinings (aligned)	
Profit/loss after tax for current year	267,727
Increase in the value of the properties with investment purposes (adjusted with tax effect)	0
Retained earnings available for dividend payment	**(20,406,512)**

There is no source available for dividend payment.

34. Contingent liabilities

In addition to contingent liabilities arising from litigation (see Note 38), there is no liability that would not be included in the financial statements of the Company because its occurrence would depend on a future event.

35. Events after the balance sheet date

The most significant events between the balance sheet date and the date when the financial statements were authorized for issue were as follows:

1. The Company had litigation cases with two local governments for payment of service fees and default interest. The final court decision was made and the municipalities settle their debts in installments. As a result, the Company has reversed a trade receivable of HUF 80,625 from the income statement. This is included in the results of the 2018 business year.
2. The price of the Company's ordinary shares reached HUF 330 on 22 March 2019,which resulted in 630,000 stock options being exercisable. In this respect, the financial statements do not include a transaction. Employee shares are converted into ordinary shares by decision of the General Meeting on March 22.

36. Major economic events

Major economic events of 2017, assessment

The major economic events of ENEFI in 2017 were described in detail in the announcements of the current year, among which the following points are highlighted:

- In 2017, the Company Group continued the share repurchase program accepted by the shareholders.
- The Company issued 2,500,000 employee shares upon the General Meeting's authorization in the current year, whereupon the share capital of the Company increased by HUF 25,000,000.
- During the year under review, the Company decided on the reduction of its share capital to HUF 100,000,000 by way of ordinary share based on the General Meeting's authorization. The registration of the capital decrease by the companyy registry court happenned in current year, shares were cancelled in 2018.
- The Company sold the public lighting projects previously purchased from Enerin Kft. along the originally calculated yield expectations. As a result of the successful transaction, the ENEFI public lighting business has been completely abolished.
- The Company Group in Romania continues to actively pursue its claims, which has been continuously notified to investors through its communications. The Group plans to enforce its claim before an international court in the future.
- Information about the ongoing litigation of the Company Group are included in Note 33.

Major economic events of 2018, assessment

The major economic events of the ENEFI in 2018 were described in detail in the announcements of the current year, among which the following points are highlighted

- In 2018, the Company Group continued the share repurchase program accepted by the shareholders.
- Litigation related to the operation in Romania will continue (for more details see paragraph 35 of the explanatory notes)
- The Company has acquired a stake in Pannon Fuel Ltd to participate in the implementation of 2 EU-supported projects. The Company provides

proprietary, professional and financial assistance for the successful completion of the projects (for more details see paragraph 15 of the explanatory notes).

37. Litigation cases

Plaintiff	Defendant	Matter of dispute
Private individual with bond	ENEFI Energy Efficiency Plc.	A private individual, not registered in bankruptcy proceedings, filed a lawsuit against the Company at the Permanent Court of Arbitration attached to the Hungarian Chamber of Commerce and Industry based on liabilities attached to bond.
ENEFI Energy Efficiency Plc.	Finance Dep. Maros	File No. 5058/2/2014 Complaint Against Rejection of a complaint Against one of our Protocol on the Establishment of a Second Tax Law Insolvency by the Finance by the Company's Tax Law. Financial Claim: 7.602.324 lei tax liability. The court judged in favour of our claim at first instance. Finance Dep. filed an appeal.
ENEFI Energy Efficiency Plc.	Regional Finance Dep . Brasov	Case number 9836/320/2017. Challenge of a warning and enforcable measure issued July 7, 2017 on 7,602,338 lei.

ENEFI Energy Efficiency Plc.	Regional Finance Dep . Brassó	2096/102/2018 Case Number - Request for a review in case number 12289/320/2017 (a separate action to establish that the Finance has fallen from the right to recover the amounts contained in the enforcement order under the new Code of Conduct, after not having enrolled in the closed bankruptcy proceedings), in which On July 5, 2018, by a final decision, the Tribunal upheld the decision of the court of first instance, which approved the objection of inadmissibility of Finance.

Data in thousand HUF

ENEFI Energy Efficiency Plc.	Finance Dep. Maros	15567/320/2017 Case Number Challanging an enforced booking to bank account in the amount of lei 7,602,338 ordered by finance The judge suspended the hearing till the closure of the previous litigation No 9836/320/2017 on the challange of enforcement measure on a final basis.
ENEFI Energy Efficiency Plc.	Finance Dep. Szilágy County	4028/337/2017 Case Number - Challanging the second protocol on the confiscation of a land at Zilah. - Case number has been suspended till the hearing of the Case No. 12289/320/2017. - our application for suspension of execution on the basis of the seizure record have been discussed separately and was approved on a final basis, thus the enforcement upon the second confiscasion protocol for the HUG 7.6 million is suspended , till the court decides on a final basis if the Finance lost its claim or not. -the court suspended till the closure of the Case No 9836/320/2017 on the challange of enforcement measure on a final basis.
ENEFI Energy Efficiency Plc.	Finance Dep. Szilágy County	Case Number 613/337/2019 and 842/337/2019 - delition of ron 72 + ron 105 enforcement costs.

Data in thousand HUF

38. Dividends to the Company's owners

No dividend was paid or established for the benefit of the owners of the Company in 2018. The management may not propose the distribution of dividends at the General Meeting that approves the financial statements of the 2018 business year.

39. Authorization of financial statements for disclosure

A pénzügyi kimutatásokat a Társaság menedzsmentje 2019. március 26-án ebben a formában közzétételre engedélyezte. The management of the Company authorized the current form of the financial statements for disclosure on 26 March 2019.

26/03/2019, Budapest

ENEFI Plc repsented by:

Csaba Soós	Attila Gagyi Pálffy	László Bálint
Member of the Board of Directors	Member of the Board of Directors	Member of the Board of Directors

ENEFI Energy Efficiency Plc.

BUSINESS REPORT OF THE BOARD OF DIRECTORS

on the management of the Company, the financial situation and business policy of the Company and the annual individual report of the Company of 31 December 2018

and

to the Annual Individual Report of the Company of 31 December 2018.

26/03/2019

Objective of the Report:

This report aims to present the property, financial and revenue circumstances, and the course of business of ENEFI Energy Efficiency Plc. (hereinafter: "Company", or "Enterprise", or "ENEFI", or "Issuer") together with the major risks and uncertainties arising in its operations so that it provides a reliable and realistic picture of these, meeting the actual circumstances on the basis of past factual and expected future data.

I.

Information on the Parent Company, ENEFI Energy Efficiency Plc.:

1. Basic Details of the Company, Composition of Subscribed Capital:

Basic Information of the Company

Company name:	ENEFI Energy Efficiency Plc.
The company's name in English:	ENEFI Energy Efficiency Plc.
Registered seat:	1134 Budapest, Klapka utca 11.
Branch office:	8413 Eplény, Veszprémi u. 66. Building A.
Vat number:	13719069-2-41
Country of registered seat:	Hungary
Telephone:	06-1- 279-3550
Facsimile:	06-1- 279-3551
Governing law:	(Hungarian)
Initial Public Offering:	Budapest Stock Exchange Warsaw Stock Exchange
Corporate form:	Public Limited Corporation

Predecessors of the Company and Changes in Corporate Form

The Company was founded as a limited liability company then it was converted into a private limited corporation and subsequently into a public limited corporation as follows:

Regionális Fejlesztési Vállalat Korlátolt Felelősségű Társaság (Regional Development Company Limited Liability Company)

Date of foundation:	17/05/2000
Date of registration:	29/06/2000
Date of termination:	12/06/2006

Regionális Fejlesztési Vállalat zártkörűen működő Részvénytársaság (Regional Development Company Private Limited Corporation)

Date of registration: 12/06/2006

RFV Regionális Fejlesztési, Beruházó, Termelő és Szolgáltató Nyilvánosan Működő Részvénytársaság (RFV Regional Development, Investment, Production and Service Public Limited Corporation)

Date of change: 12/03/2007

The Initial Public Offer of the shares took place at the Budapest Stock Exchange on 29 May 2007.

E-STAR Alternative Energy Service Plc.

Date of change: 17/02/2011

Date of registration: 04/03/2011

ENEFI Energy Efficiency Plc.
Date of change: 09/12/2013
Date of registration: 17/12/2013

Term of the Operation of the Company

The Company was founded for an indefinite period of time.

Registered Capital of the Company

Registered capital of the public limited company on 31/12/2017: HUF 100,000,000.

Shares of the Company

The share capital of the company consists of 7,500,000 number of dematerialised ordinary shares having a face value of 10 HUF (Series A) and 2,500,000 number of dematerialised employee shares having a face value of 10 HUF (Series B). The share capital of the company consists of 10.000.000 number of dematerialised shares.

22.03.2019.: **The registered capital consists of 10,000,000 pieces of registered, dematerialised ordinary shares, the par value of which is HUF 10, each.**

Composition of Registered Capital, Major Shareholders on the Balance Day:

Owner	Ownership Ratio (%)
Own shares	9,41
Affiliated companies	12,02
Soós Csaba	14,97
Kerekes Imre	5,47

The rights and liabilities set forth in legal regulations and the Articles of Association of the Company shall be associated to the shares, particularly but not exclusively including the relevant provisions of the Articles of Association:

"1. The responsibility of the shareholders for the Company covers the provision of the issuing value, except for the employee shares, which may be issued free of charge too. The shareholder otherwise shall not be responsible for the liabilities of the Company with the exceptions determined by law. The shareholder shall be entitled to exercise its rights following the registration in the share register.

2. Shareholders have the proprietary rights related to shares, especially the right of dividend, interim dividend and the right of liquidation margin. Employee shareholders also have the preferential right determined in the Civil Code if they have this type of employee shares. The right of ordinary share owners to dividend may be restricted in practice by the potentially issued preferential employer shares and other rights related to dividend shall be interpreted with the consideration of this.

The shareholder shall be entitled to acquire dividend who is registered into the share register on the basis of the owner identification issued by KELER Zrt. on the dividend payment day determined by the decision of the General Meeting deciding on the dividend payment. The dividend payment shall be due after at least 20 days after the decision of the General Meeting on the day determined by the General Meeting.

3. On the basis of the membership rights of shareholders in accordance with the provisions of Section VIII. 4. of the general rules, each shareholder has the right to take part at the General Meeting, request information within the legally determined frames, make remarks and proposals and vote in the possession of shares providing voting rights.

4. In addition to the above, shareholders have the legally determined minority rights and the right to transfer the shares but in the case of employer shares the restrictions of transfer set forth in Section 1., Chapter VI. of the Articles of Association shall be observed.

5. Upon the notice of the Board of Directors, the shareholder registered in the share register (custodian, shareholder trustee, and in case of shared property shares the representative) shall declare without delay that as an actual owner what extent of control it has in the Company. In the event that the shareholder fails to meet the notification within the deadline determined, then its right to vote shall be suspended until it fulfils its information liability."

2. Transfer of Issued Shares Constituting Registered Capital:

The rules of the transfer of shares are set forth in the Civil Code, the Capital Market Act and the Articles of Association of the Company. The Articles of Association of the Company do not include any provisions or does not require any restrictions differing from the law.

3. Issued Shares Providing Special Control Rights:

The Company did not issue such shares.

4. Control mechanism set forth by the employee shareholder system, in which control rights are not directly exercised by employees:

The Company does not have such a shareholder system.

5. Restriction of Rights to Vote

Upon the notice of the Board of Directors, the shareholder registered in the share register (custodian, shareholder trustee, and in case of shared property shares the representative) shall declare without delay that as an actual owner what extent of control it has in the Company. In the event that the shareholder fails to meet the notification within the deadline determined, then its right to vote shall be suspended until it fulfils its information liability.

The Articles of Association and other rules of the Company do not include further provisions differing from the law in terms of the restriction of the rights to vote.

6. Agreement between Owners:

The Company has no information about any agreement between owners, which may result in the restriction of the transfer of the issued shares or the rights to vote.

7. Rules of the assignment and withdrawal of chief executives and modification of the Articles of Association:

The major body of the Company, General Meeting shall make decisions by the simple majority of the votes except if the legal regulation or the Articles of Association on basis of the authorisation thereof, or the rules of the stock exchange compulsorily applicable for the operation of the Company make a higher rate of votes compulsory.

8. Authority of chief executives, especially the rights to issue and repurchase shares:

The Articles of Association of the Company do not include provisions differing from law in terms of the authority of the chief executive apart from the following authorisation based on a legal regulation:

> *"7. The Board of Directors shall be entitled to make decisions on modifying the name, registered seat (premises, branch offices), activities (except for the main activity) of the Company and to modify the Articles of Association accordingly."*

The general meeting may authorise the Board of Directors to increase the registered capital of the Company and to make the related decisions.

9. Agreement for the case of public purchase offer:

There is no significant agreement concluded with the participation of the Company which shall enter into effect, be modified or terminated following the change in the control of the Company after a public purchase offer.

10. Agreement between the Company and its employee:

There is no agreement concluded between the Company and any chief executive or employee thereof, which sets forth compensation for damages in the event that the chief executive resigns or the employee quits, if the legal relationship of the chief executive or the employee is unlawfully terminated or the legal relationship is terminated due to public purchase offer.

11. Board of Directors of the Company:

Name of Board Member	Position
Csaba Soós	Member of the Board of Directors
Attila Gagyi Pálffy	Member of the Board of Directors
László Bálint	Member of the Board of Directors

The managing body of the Company is the Board of Directors exercising its rights and liabilities as a body in accordance with the provisions of the Civil Code and other relevant legal regulations. The Board of Directors is mandated and authorised to make all decisions which do not belong to the authority of the Annual General Meeting or any other body on the basis of authorisation by any legal regulation or the Rules of the Company. The operation, mandate and authority of the Board of Directors are regulated by the Civil Code and the rules of procedure of the Board of Directors.

The members of the Board of Directors are elected by the Annual General Meeting for a definite or indefinite period of time. On the basis of the authorisation of the Annual General Meeting, the Board of Directors is entitled to permit the operation of committees, consulting and other bodies in order to prepare decisions.

12. Supervisory Board of the Company

The Supervisory Board of the Company regularly gets informed about the significant events in the Company, participates in the process of preparing and supervising reports, then accepts them and prepares a report on that. Members of the Supervisory Board:

Name of Supervisory Board Member	Position
Dr. Miklós László Siska	Member of the Supervisory Board
Gyula Bakacsi	Member of the Supervisory Board
Kerekes Imre	Member of the Supervisory Board
Bálint Ferencz	Member of the Supervisory Board (2019. 03. 22.)

The Supervisory Board supervises the management of the Company for the main body of the business association. During this it may require information from the managing officers, examine the books and documents of the Company. The Supervisory Board shall act as a body of three members and shall elect a chairman from the members.

The mandate, authority, organisation and operation of the Supervisory Board shall be governed by the provisions of the Civil Code and the rules of procedure of the Supervisory Board. The assignment of the members of the Supervisory Board shall be valid for an indefinite period of time.

13. Audit Committee of the Company

An Audit Committee of three members shall operate at the public limited company.

Name of Audit Committee Member	Position
Dr. Miklós László Siska	Chairman of the Audit Committee
Gyula Bakacsi	Member of the Audit Committee
Kerekes Imre	Member of the Audit Committee

The mandate and authority of the Audit Committee shall cover anything assigned to it by law or the Articles of Foundation on the basis of the authorisation thereof. The chairman of the Audit Committee shall be elected by the members from the members and makes decisions by simple majority.

14. The Auditor of the Company:

The responsibility of the selected auditor of the Company is to take care of conducting the audition determined in the Act on Accounting and especially determining whether the balance sheet of the business association in accordance with the Act on Accounting meets the legal regulations, furthermore whether it provides a reliable and real picture of the proprietary, financial and revenue situation of the Company as well as the results of its operations.

Name:	UNIKONTO Számvitelkutatási Kft.
Registered seat:	1092 Budapest, Fővám tér 8. 3. em. 317/3.
Company registration number:	Cg.01-09-073167
Chamber registration number:	001724

Person personally responsible for audition:

Name:	Dr. Csaba Adorján
Home address:	2083 Solymár, Árok utca 21/B.
Mother's name:	Erzsébet Kiss
Auditor licence number:	001089

II.

1. Business Environment and Development of Operations and Comprehensive Analysis of the Performance and the Circumstances of the Company; Business Policy of the Company:

Brief Story of the Issuer

The predecessor of the Company named Regionális Fejlesztési Kft. was founded by two private people in 2000. The founders intended to establish an ESCO (Energy Service Co., i.e. dealing with energy saving) type of company. Initially one of the main activities of the Company was cost-effective electrical energy supply which still provides significant revenues today. The Company provided continuous consultancy for its customers to assist them to choose the most favourable tariff package from the regionally competent energy supplier. In the framework of the service, the electrical energy was purchased by the Company and sold to its customers at a more favourable price than earlier. The customer and the Company shared the saved costs on the basis of a long term agreement concluded between them. Since 1 January 2008 however the free energy market was opened, which means that economic organisations may freely choose their energy suppliers and individually determine the conditions of the service. The Company also adapts to the changed circumstances and negotiates with several traders of the energy market, takes steps together with its partners to achieve the best possible conditions. The other main activity of the Company has been luminous flux regulation of street lighting since its foundation. Then in 2004 the Company took heating modernisation and thermal energy supply to its product range. A significant part of the customers of the Company are municipalities and municipal institutions but there are also public institutions, church institutions, condominiums and private enterprises among them. The Company was transformed into a private limited corporation on 12 June 2006, then on 12 March 2007 the Court of Registration registered the change of "private limited corporation" form into "public limited corporation". The Initial Public Offering of the shares of the Company took place at the Budapest Stock Exchange on 29 May 2007. The Initial Public Offering of the shares of the Company took place at the Warsaw Stock Exchange on 22/03/2011 too.

Business Environment of the Company

The Corporate group with its registered seat in Budapest consists of enterprises present in Hungary and Romania, the subsidiaries of which deal with heat production and supply as their main activity in the territories of the two countries mentioned above.

ENEFI sold its operations in Poland and it is not operating any working project in Romania any more, it is enforcing its claim in front of court. Among the Romanian companies of the group SC E-Star Mures Energy, SA SC E-Star Investment Management SRL and SC E-Star ZA Distriterm SRL are under liquidation.

Introduction of Business Activity by Spheres of Activity

The sales revenue of the Company comes from the following major activities:

- Heat supply service

Heat supply service with heating system modernisation

Municipalities and public institutions often solve the heating of their institutions with obsolete, wasteful heating systems. Moreover the maintenance of the obsolete systems can only be solved with greater difficulties and higher maintenance costs; the potential failure of the equipment may cause significant, unplanned investment. The investment may potentially be only implemented by loan and the further worsening credit rating due to the poor municipality management. Following the individual survey of the buildings of the customers and the preliminary survey of needs, the Company prepares an offer package in this business branch, which includes a proposal for the long term solution of heat supply at higher standards. Following the conclusion of the agreement the Company implements the energetic modernisation prepared during the survey and undertaken in the impact study without involving the resources of the customer, then it provides long term (10-25 years) heat supply service on the modern system, including operating and maintenance tasks. Depending on individual needs, the modernisation may include the replacement of the boiler, the conversion of the heat consumption into a controllable and measurable system (converting the heating systems into multiple circles, installing thermostatic controls, building in heat pump, etc.). The Company acquires the further factors required for providing the heat supply (e.g. leasing boiler-house, electric energy, water, etc.) partly from the customers. The Company purchases the equipment from the Hungarian representatives of worldwide companies (e.g. in case of boilers, these companies are typically Viessmann, Buderus, Hoval, etc.), who usually perform installation too. The Company also concludes long term agreements for the maintenance of the equipment with a local subcontractor. The modernisation results in significant, even 40-50% energy cost saving among the same conditions. In order to ensure heat supply, the Company usually uses gas-fired equipment. Instead of the direct "gas supplier - municipality" relationship, the Company purchases gas and supplies heat to the customers in a "gas supplier (gas trader) - Company" relationship. The customer uses the heat supply at lower costs while the heating system is modernised. The customer periodically (monthly) pays a basic, or service fee and a consumption fee according to a previously determined formula. The Company adjusts the unit price of the heat supply service to the gas price invoiced by the utility gas supplier.

Major Markets

Geographical Penetration of ENEFI

• Initially ENEFI Plc. implemented successful heating supply, public lighting and kitchen technology developments in Hungary, primarily in the municipality sector.

• Due to the changing economic and social requirement in our region, the demand for the solutions offered by the Company increased, which allowed for the regional expansion of the Company becoming stronger and obtaining references in Hungary.

• Since the municipalities are rather under-financed in our region, the heating technology of public institutions is also obsolete, significant savings may be achieved, therefore the attention of ENEFI has turned towards the surrounding countries, especially Romania since 2010 and Poland since 2011.

The Company sold its operations in Poland in 2016, thus the area of operation has been limited to the territory of Hungary and Romania.

The most important services (branches) of the entire group are the following

The most important services (branches) of the entire group are the following:

- efficient thermal energy and district heating supply based on sustainable primary energy sources
- modernisation and exploitation of efficiency in energy supply and transformation equipment

Management of the Company, Objectives and Strategy

Among its first tasks the newly elected Board of Directors of the Company have found it important to determine and communicate its short and medium term objectives about the Company to the honourable Shareholders:
https://www.bet.hu/newkibdata/120976438/K_zlem_ny_IG_c_lkit_z_sek.pdf
Modified strategy: https://www.bet.hu/site/newkib/en/2019.03./ENEFI_Energyefficiency_Plc._GM_-_Resolutions_128180468

Major Resources of the Company

The number of employees in the Company has been reduced to below 10 as a result of the former dramatic downsizing of operations. The head count is sufficient to maintain daily operations. Operations with the significantly downsized corporate centre can be compared with the basic operations of an investment. In case of starting new and large projects more staff may be required. The successful closure of the former bankruptcy proceedings stabilised the market position of the Company in Hungary. The amount of external liabilities in Hungary has practically been reduced to the incoming invoices during the daily operations. The payment discipline of the remaining customers is sufficient. The Company is able to finance the operations form its revenues. In case of starting new projects it acts with due carefulness and consideration of risks. The customers (municipalities and their institutions) involve the risk of not paying. Currently the entire Hungarian operation takes place without using bank financing. In the event that the capital requirement of the newly started projects exceeds the available amount of resources, the Company will need external financing.

Risk factors

The detailed description of the risk factors is included in the previously published Consolidated Report of the Company (pages 22-37), which is available here:
http://bet.hu/newkibdata/115693892/T_j_koztat_.pdf

Trading Profit of the Annual Report Period and Prospects

The trading profit of 2018 was negatively influenced by the fact that year 2018 was a record warm year.

Quantitative and Qualitative Indexes and Indicators of Performance Measurement.

The numerical analysis of the situation of the Company is included in the paragraph titled: **"The Typical Indexes of the Company in the Reference Period"** of the Supplementary Annex constituting a part of the Report. As the indexes reflect, the all aspects of the business of the Company show improvement. Keeping operation costs permanently low is also characteristic.

Mutatószám megnevezése	2018. december 31.	2017. december 31.
Rate of fixed assets: (fixed assets/total assets)	92,14%	88,33%
Indebtedness rate: (payables/Resources)	74,68%	75,58%
Profitability in the ratio of own capital (pre-tax profit/own capital)	20,91%	275,40%

Liquidity index I.: (current assets/short-term liabilities)	10,80%	15,31%
Quick liquidity ratio (cash/short-term liabilities)	2,93%	9,38%

Detailed Description of the Financial Situation of the Company

The detailed description of the financial situation of the Company is included in the annual report presented together with the present report, while the annual consolidated report includes it at corporate group level.

The Company hereby calls attention to the fact that as a public stock exchange company it shall publish all significant events related to the Company, which can be found on its website (www.e-star.hu, www.enefi.hu) and on the website of Budapest Stock Exchange Plc. (www.bet.hu) as well as the website operated by MNB (www.kozzetetelek.hu).

Major Economic Events and Assessment of 2018

ENEFI presented its major economic events of 2018 in details in its announcements of the reference year.

The Company hereby calls attention to the fact that as a public stock exchange company it shall publish all significant events related to E-Star in the form of announcements, which can be found on its website (www.e-star.hu , www.enefi.hu) and on the website of Budapest Stock Exchange Plc. (www.bet.hu) as well as the website operated by MNB (www.kozzetetelek.hu).

2. Major Events, Particularly Significant Processes after the Balance Sheet Day

ENEFI presented its major economic events of 2019 in details in its announcements of the reference year.

The Company hereby calls attention to the fact that as a public stock exchange company it shall publish all significant events related to E-Star in the form of announcements, which can be found on its website (www.e-star.hu , www.enefi.hu) and on the website of Budapest Stock Exchange Plc. (www.bet.hu) as well as the website operated by MNB (www.kozzetetelek.hu).

3. Expected Development (Known and Expected Development of the Economic Environment Depending on the Expected Effect of Internal Decisions):

The Company shall devote the near future to fulfil the strategic objectives announced earlier.

It had previously announced its short and medium term objectives of the Company: https://www.bet.hu/newkibdata/120976438/K_zlem_ny_IG_c_lkit_z_sek.pdf

4. Field of Research and Experimental Development:

The corporate group did not do such activity in 2018 and does not plan to do it in the future.

5. Premises:

The corporate group did not establish any new premises or branch offices in 2018.

6. Employment Policy of the Company:

The Company has a reduced number of employees according to its current economic situation. According to the employment policy of the Company, the headquarters of the Company, which is also the headquarters of the corporate group is operated with a "knowledge centred" view, typically employing highly educated professionals. The professionals required for the investments implemented in the operation of the Company are employed by ENEFI via contracts of agency.

7. Environment protection:

The Company pays particular attention to the protection of the environment in the business and operative activities. The major business of the Company is modern energy supply implemented by energy developments, which in addition to constituting the source of incomes of the Company, prevents the environment from significant amounts of pollution and use of energy. The Company had continuously looked for the possibilities of using and utilising renewable energies in its previous operations too. Energy saving and thus the increased protection of the environment is a fundamental objective and business policy of the Company.

8. Utilisation of Financial Instruments:

The Company did not have open positions in its business operations in 2017 and it will not open new ones.

9. Risk Management Policy and Hedging Transactions Policy:

The Company prevents potential risks arising from currency exchange rates by currency market transactions. Such transactions did not take place in the reference year.

10. Price, Credit, Interest, Liquidity and Cash-flow Risks:

The risks affecting the operation of the Company have been presented above with references.

III.

Report of the Board of Directors for the Individual Report of the Company for 2018:

The Board of Directors prepared and accepted the individual report of ENEFI Energy Efficiency Plc. for year 2018 in accordance with the Hungarian Act on Accounting.

The Company suggests its shareholders knowing the reports of the Board of Directors, the Supervisory Board and the Auditor, to accept its report for year 2018 prepared in accordance with the Act on accounting with 5.206.500 ezer Ft HUF thousand as assets-resources equalling amount for the reference year, 267.727 ezer HUF trading profit.

The Board of Directors hereby calls the attention of its reputable investors to the fact that the individual annual report of the Company constitutes an inseparable part of the present report and requests them to make their decision on the acceptance of the report (including the supplementary annex and the related notes as well) carefully getting informed of these.

The Board of Directors of the Company still does not suggest the General Meeting to decide on dividend payment.

The Board of Directors of the Company prepared and accepted its responsible company management report to be submitted to the Budapest Stock Exchange on the basis of a legal regulation, which was presented to the general meeting by the Supervisory Board.

IV.

Company Management Declaration:

The Company annually publishes its responsible company management report, which is prepared and published on the basis of the Civil Code, the Capital Market Act and the relevant rules of the Budapest Stock Exchange.

The responsible company management report of the Company can be found on its website (www.e-star.hu, www.enefi.hu) and on the website of Budapest Stock Exchange Plc. (www.bet.hu) as well as the website operated by MNB (www.kozzetetelek.hu).

The Company declares its company management practice and the reasons for the potential differences from the mandatory recommendations in a detailed manner in its responsible company management report.

During the preparation of the report, the Company acts with particular carefulness; in the supervision and risk management process (i) the accounting professionals of the Company prepare the report, (ii) the Board of Directors of the Company discusses it, (iii) following the acceptance by the management, the report is discussed by the Supervisory Board of the Company (iv) as well as the Audit Committee, (v) and the report is revised and audited by an auditor each year.

The Company did not apply any diversity policy in case of its management, managing and supervisory bodies, since it acts in accordance with the legal regulations in force in this field and the decisions in personal issues are made by the major governing body.

Declaration of the Issuer

The annual report prepared on the basis of the accounting provisions applied and according to our best knowledge provides a reliable picture of the assets. liabilities, financial situation and profit of ENEFI Energy Efficiency Plc.

The Company hereby states that the executive report provides a reliable picture of the circumstances, development and performance of the Issuer, informing about major risks and factors of uncertainty.

Csaba Soós László Bálint Attila Gagyi Pálffy

members of the Board of Directors

ENEFI Energy Efficiency Plc.

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