ENEFI

ENEFI ENERGYEFFICIENCY PLC.

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2018

Prepared in accordance with International Financial Reporting Standards (IFRS) accepted by the European Union

General information

Members of Board of Directors

Csaba Soós

Attila Pálffy Gagyi

László Bálint

Member of Audit Committee

Gyula Bakacsi Dr.

Miklós Siska Dr.

Imre Kerekes

Group Contacts

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Auditor

dr. Csaba Adorján (Registration number: 001089)

UNIKONTO Számvitelkutatási Kft.

1092 Budapest, Fővám tér 8. 3. em. 317/3.

Company registration number: 001724

ENEFI

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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 consolidated financial statements of **ENEFI Energiahatékonysági Nyilvánosan Működő Részvénytársaság** (1134 Budapest, Klapka u. 11., Cg.: 01-10-045428) Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018 where the total assets is 1 759 317 tHUF, equity attributable to the shareholder of the parent company 1 362 211 tHUF, and the consolidated statement of comprehensive income – where the total comprehensive income is 52 375 losss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Group 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 matters

1. We draw your attention to Note 35 in the Notes to the financial statements, where the Group discloses a provision due to a legal issue. 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

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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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Basis for Opinion section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	Audit procedures
The recoverable amount of the concession asset and the lease receivable	
The Group 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.

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The measurement of the receivables of the company	
The Parent Company provided the joint venture company a loan. The loan granted to the joint venture of the 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. Therefore, we identified the measurement of this receivables a key audit matter.	In relation to receivables from the joint venture company and the joint venture we have investigated is sufficient free cash flow will be available to settle the debt and the interest. We also investigated if the assumptions and estimations of the management was reasonable and prudent.

Report on other Regulatory Requirements: The consolidated 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.

Our responsibility in relation of the Consolidated 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 Consolidated 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. The information required by 95/B § (2) a-d) and g) of the Accounting Act is disclosed. We have nothing to report in this respect. 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 Consolidated 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

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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 Group, 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 Parent appointed us as auditors on 27th February 2017 as the statutory auditor of the Group 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 Parent in accordance with Paragraph 11 of 537/2014/EU, which was issued on 26th March 2019.

Non-audit services

We confirm that we did not provide any services – other than the statutory audit of the consolidated 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 Group. We maintained our independence during the audit fully.

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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!

ENEFI ENERGYEFFICIENCY PUBLIC LIMITED COMPANY

Consolidated financial statements for the year ended December 31, 2018
Consolidated profit and loss account

All figures are in THUF unless otherwise indicated.

	Note	2017	2018
Revenue	5	671 928	472 169
Cost of mediated services	6	-300 571	-197 412
Gross Profit		**371 357**	**274 757**
Material cost	6	-11 657	-5 434
Personnel cost	7	-145 517	-114 103
Expenditures of share-based benefits		-135 720	0
Service used	8	-181 462	-201 744
Other revenue and expenditures, net	9	-191 571	313 166
Depreciation	13, 14	-20 964	-12 375
Net profit/loss from financial activities	10	41 329	27 797
Result of associated company granted for the group	15	0	-2 045
Profit before tax		**-274 205**	**280 019**
Income tax expense	11	211 138	-332 462
Profit for the year		**-63 067**	**-52 443**
Discontinued operations			
Result from discontinued operations	12	206 024	0
Profit for the year		**142 957**	**-52 443**
Attributable to:			
Owners of the Company		135 770	-53 582
Non-controlling interests	26	7 187	1 139
Foreign currency translation differences		10 567	67
Total other comprehensive income		**10 567**	**67**
Total comprehensive income		**153 524**	**-52 376**
Attributable to:			
Owners of the Company		146 337	-53 515
Non-controlling interests		7 187	1 139
Earnings per share (HUF)			
Continued and discontinued operations			
Basic earnings per share	30	15,55	-6,29
Diluted earnings per share	30	15,55	-6,29
Continued operations			
Basic earnings per share	30	-8,04	-6,29
Diluted earnings per share	30	-8,04	-6,29

Representative of ENEFI ENERGYEFFICIENCY PLC.

26 March, 2019

ENEFI Energiahatékonysági Nyrt.
1134 Budapest, Klapka utca 11.
Adószám: 13719069-4-41
Csoportazonosító: 17781846-5-41
Banksz.sz: 12001008-00123720-00100000

The notes set out are an inseparable part of these consolidated financial statements.

ENEFI

ENEFI ENERGYEFFICIENCY PUBLIC LIMITED COMPANY

Consolidated financial statements for the year ended December 31, 2018

Consolidated financial position

All figures are in THUF unless otherwise indicated.

Consolidated statement of financial position - Assets	Note	2017	2018
Property, plant and equipment	13	113 311	100 276
Intangible assets	14	5 846	5 846
Investments in associated companies	15	0	23 174
Receivables from concession assets	16	581 182	726 860
Finance lease receivables	17	276 871	0
Other long term receivables	18	0	343 310
Deferred tax assets	11	286 718	0
Total non-current assets		1 263 928	1 199 466
Inventories		59	11
Trade receivables	19	135 882	199 593
Other receivables due within a year	20	146 682	96 282
Accruals and prepaid expenses	21	75 831	91 217
Cash and cash equivalents	22	416 588	172 748
Total current assets		775 042	559 851
Total assets		2 038 970	1 759 317

Consolidated statement of financial position - Equity and liabilities		2017	2018
Share capital	23	100 000	100 000
Capital reserve		21 423 391	21 423 391
Accumulated revaluation reserve		44 448	44 516
Share-based benefit reserve	24	65 520	65 520
Treasury shares	25	-425 877	-474 237
Retained earnings	-	-19 738 767	-19 796 978
Equity attributable to owners of the Company		1 468 715	1 362 211
Non-controlling interests	26	29 588	29 697
Total equity		1 498 303	1 391 908
Provisions	27	97 564	144 867
Other long-term liabilities	-	0	3 135
Total non-current liabilities		97 564	148 002
Trade payables	28	66 453	46 423
Accruals and deferred income	29	11 321	50 194
Provisions (current)	27	0	3 472
Other liabilities	28	365 329	119 317
Total current liabilities		443 103	219 406
Total liabilities		540 667	367 408
Total equity and liabilities		2 038 970	1 759 317

Representative of ENEFI ENERGYEFFICIENCY PLC.
26 March, 2019

ENEFI Energiahatékonysági Nyrt.
1134 Budapest, Klapka utca 11.
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Banksz.sz: 12001008-00128720-00100000

The notes set out are an inseparable part of these consolidated financial statements.

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ENEFI ENERGYEFFICIENCY PUBLIC LIMITED COMPANY

Consolidated financial statements for the year ended December 31, 2018

Consolidated statement of change in equity

All figures are in THUF unless otherwise indicated.

	Share capital	Share premium	Accumulated revaluation reserve	Share-based benefit reserve	Treasury shares	Retained earnings	Equity attributable to owners of the Company	Non-controlling interest	Total equity
1 January, 2017	**271 726**	**21 254 954**	**33 881**	**230 516**	**-5 099 748**	**-15 406 796**	**1 284 533**	**22 459**	**1 306 992**
Issue of employee shares	25 000	275 716	0	-230 516	0	0	70 200	0	70 200
Repurchase of employee shares	0	-107 279	0	0	0	107 279	0	0	0
Issue of IFRS 2 option	0	0	0	65 520	0	0	65 520	0	65 520
Derecognition of treasury shares	-196 726	0	0	0	4 770 881	-4 575 020	-864	0	-864
Sale of treasury shares	0	0	0	0	-97 010	0	-97 010	0	-97 010
Comprehensive income	0	0	10 567	0	0	135 770	216 537	7 189	223 724
Other movement	0	0	0	0	0	0	0	-58	-58
31 December, 2017	**100 000**	**21 423 391**	**44 448**	**65 520**	**-425 877**	**-19 738 767**	**1 468 715**	**29 588**	**1 498 303**
Impact of transition to IFRS9	0	0	0	0	0	-4 684	-4 684	-1 030	-5 714
1 January 2018, including the impact of transition to IFRS9	**100 000**	**21 423 391**	**44 448**	**65 520**	**-425 877**	**-19 743 451**	**1 464 032**	**28 558**	**1 492 590**
Sale of treasury shares	0	0	0	0	-48 360	0	-48 360	0	-48 360
Other movement	0	0	0	0	0	55	55	0	55
Total comprehensive income	0	0	67	0	0	-53 582	-53 515	1 139	-52 376
31 December, 2017	**100 000**	**21 423 391**	**44 515**	**65 520**	**-474 237**	**-19 796 978**	**1 362 211**	**29 697**	**1 391 908**

*As of 1 January 2018, the Group applies the IFRS 9 [International Financial Reporting Standards version 9] and the depreciations of expected credit losses calculated on the opening balance of the financial assets are recorded against the accumulated profit reserves.

The notes set out are an inseparable part of these consolidated financial statements.

ENEFI

All figures are in THUF unless otherwise indicated.

Cash flow statement

	Note	2017	2018
Cash flow from operations			
Profit /loss for the period from continuing operations		142 957	-52 341
Profit /loss for the period from discontinuing operations	12	-206 024	0
Depreciation and amortization	13, 14	20 964	12 375
Impairment of asset	9	271 070	-69 460
Share-based benefit recognised in profit and loss	24	135 720	0
Gain on sale of fixed asset	9	0	710
Exchange difference		10 567	0
Unrealized foreign exchange gains/losses		0	17
Change in receivables from concession assets	16, 17	61 108	132 910
Other non-cash items	15	0	2 045
Changes of provisions	27	-101 067	50 775
Income tax expense recognised in profit and loss	11	11 145	53 844
Income tax paid		-10 030	-12 965
Interest income	18	0	-2 718
Change in deferred tax and liabilities	11	-216 837	286 718
Adjusted profit/loss in the year concerned		119 520	401 910
Change in operating capital			
Changes of receivables and other current assets	19, 20	304 507	49 407
Changes of accruals	21	15 054	-15 386
Changes of Inventories		9 995	49
Changes of Trade payables and other liabilities	29	-273 145	-268 045
Net cash-flow from operating activity		175 984	167 935
Cash flows from investing activities			
Payments related to purchasing property, machines and equipment	13, 14	-4 246	-577
Revenue from the sale of property, machines, equipment and financial instrument	13	3 197	527
Acquire of shares in affiliates companies		0	-500
Discontinued operation's income (lease portfolio)	12	230 451	0
Net cash flow from investing activity		229 402	-550
Cash flows from financing activities			
Sale - purchase of treasury shares	25	-97 874	-48 360
Change in loans (borrow-repayment)		0	3 135
Long-term loan to affiliated company	18	0	-366 000
Net cash flow from financial activities		-97 874	-411 225
Cash and cash equivalents at the beginning of the year	22	109 078	416 588
Cash and cash equivalents at the end of the year	22	416 588	172 748
Change of cash and cash equivalents		307 510	-243 840

1. General background

1.1. The basis of preparation of financial statements

Declaration on conformity with the IFRSs
The management declares that the consolidated financial statements were made in conformity with the International Financial Reporting Standards that were adopted by the European Union. The management made this declaration in the knowledge of its liability.

The contents of the financial statements
These financial statements present the assets, the performance and the financial position of ENEFI Energy Efficiency Plc., as parent company and its enterprises involved in the consolidation (together: Group). The Group's financial statements are prepared, approved and announced by the Parent Company's management.

The basis of preparing the financial statements; the applied set of rules and the underlying presumptions, evaluation philosophy.

The financial statements have been completed based on the International Financial Reporting Standards (IFRS) created by the International Accounting Standard Board (IASB). The Group applied the IFRSs in the form as those were adopted by the European Union.

The Parent Company's management established that the going concern principle is fulfilled, i.e. there is no sign implying that the Group will terminate or significantly curtail its operations within the foreseeable future (at least within a year).

The Group generally evaluates its assets at historical cost, except for the situations where the given element must be evaluated at fair value, on the basis of the IFRSs. In the financial statements, the financial instruments serving commercial purposes had to be evaluated at fair value.

1.2. Introduction of the Group

ENEFI Energy Efficiency Plc. (formerly named: E-Star Alternative Plc., RFV Plc.) (called „ENEFI" or „Company"), which is the parent company of the group ("Group"), is registered in Hungary. Its registered head office is at 1134 Budapest, Klapka str. 11. The Company's legal predecessor was established on 29 June 2000 with the aim of implementing for its clients – primarily energy-related – investments, the cost of which are recouped from the savings they generate, and by operating these projects in the long term, efficiently supplying energy to its clients. As of the balance sheet date, the Company's owners were as follows:

Owner	December 31, 2017	December 31, 2018
	Percentage of ownership (%)	
Treasury Shares	56.61	9.41
Shares of the parent company held by subsidiaries	12.02	12.02
Imre Kerekes	1.84	5.47
Csaba Soós	5.05	14.97
Free Float	24.84	58.13
Total	100%	100%

Initially, the Company implemented heat supply, public lighting and kitchen technology investments in Hungary, mostly in the municipal sphere. Owing to the changing economic and social expectations in our region, the demand for the solutions offered by our Company kept increasing, which permitted the Company, which was gaining strength and acquiring references in Hungary, to expand regionally as well.

At present the Company is an actual stock exchange-listed ESCO (an Energy Service Company that implements energy savings) in Hungary. The Company developed individual solutions for each of its projects, independent of any technology or service provider. It implemented projects as a main contractor while securing the appropriate financing.

When preparing projects, ENEFI Energyefficiency Plc. first examined/examines the possibilities of streamlining its customers' energy consumption points, then realises investments that help achieve considerable savings. An added business value of the projects is that, after the investments are completed, ENEFI Energyefficiency Plc. provides innovative energy services, as well as operates and maintains the energy systems of its partners over the long run.

The Group's business activities are following a narrowing trend, which is shown by the sale of the former Polish operation and the lower Romanian activities.

Major economic events and evaluation of the year 2017

ENEFI presented the main economic events of 2017 in its announcements for the reference year, and these events are also pointed out below:

- The Company Group continued its share repurchase programme – adopted by the shareholders – also in 2017.
- In the reference year, the Company issued 2,500,000 employee shares – based on the general meeting's authorization – therefore the Company's equity capital grew by HUF 25,000,000.
- In the reference year the company – authorized by the general meeting - decided to reduce the equity capital to HUF 100.000.000 by withdrawing own equity shares. The capital reduction was entered into the trade registry in the reference year, the shares were deleted in 2018.
- The Company sold to Enerin Kft. the public lighting projects – purchased from them earlier – with the originally calculated return expectation. As a result of the successful transaction, ENEFI's public lighting business was fully terminated.
- The Company Group continues to actively proceed to enforce its claims in Romania, and regularly informed its investors about these activities in its announcements. The group is planning to enforce its claim at an international court in the future.
- Note 35 provides information about the Company Group's lawsuits in progress.

Major economic event and evalutaion of the year 2018

ENEFI presented the main economic events of 2017 in its announcements for the reference year, and these events are also pointed out below:

- The Company Group continued its share repurchase programme – adopted by the shareholders – also in 2018.
- Litigation related to the operation in Romania continues (for more details, see the Additional Notes, Item 35)
- The Group acquired stakes in Pannon Fuel Kft. with the aim to participate in the implementation of 2 EU-supported projects. The Group provides proprietary, professional and financial assistance for the successful completion of projects (for more details, see the Additional Notes, Item 15).

1.3. The Basis for Preparing the Consolidated Financial Statements

The consolidated annual financial statements have been prepared in accordance with the International Financial Reporting Standards („IFRS"), also adopted by the EU. The International Financial Reporting Standards („IFRS") contain the standards approved by the Commission of the European Communities and issued by the International Accounting Standards Board („IASB") as well as the International Accounting Standards („IAS") issued by the International Accounting Standards Committee („IASC"). They include further the interpretations of the International Financial Reporting Standards Interpretation Committee („IFRS IC") and the Standing Interpretations Committee („SIC") approved by the European Commission

The basis of the consolidation

The consolidated financial statements cover the financial statements (assets) of the Group and the entities (Group's subsidiaries) controlled by the Group. From the business year starting on 1 January 2014, the term of control is defined in the IFRS 10 standard. Accordingly, the investor has control over the investee if it is entitled to the changing, positive returns (earnings) produced by the investee and bears the consequences of negative returns and is able to control operations through its decisions (power) and thus to influence these returns. Thus, the management ability and the control derive from rights.

Control can be mainly gained through an ownership share, an agreement with other owners or a special market position (e.g. monopoly). Regarding the enterprises covered by this financial statement, the parent company gained control through ownership share, without any exceptions.

Earlier, control was defined differently in the IFRSs (see former IAS 27). As the audits before the entry into force of the IFRS 10 standard also showed, the management concluded that the regulation did not change regarding the group structure transformation, as the existence of the rights originating control and the majority of the voting rights are concurrent, thus the voting right continues to be the guiding indicator. The revenues and the expenditures of subsidiaries purchased and sold through the year are covered in the comprehensive consolidated P/L account, from the actual date of acquisition until the actual date of sale. The total, comprehensive result of the subsidiaries is due to the owners of the Group and the non-controlling shares. The amount of the comprehensive result must also be assigned to the non-controlling unit if it is negative.

If needed, the subsidiaries' financial statements are modified so that their accounting policies conform with the accounting policies applied by other Group members.

At the date of consolidation, the transactions, balances, revenues and expenditures are fully filtered out even if the produced result appears in form of an asset value.

The revenues and the expenditures of affiliated companies purchased and sold through the year are covered in the comprehensive consolidated P/L account, from the actual date of acquisition until the actual date of sale. The total, comprehensive income of affiliated enterprises is due to the owners of the Company and the non-controlling shares even if in this manner the balance of non-controlling shares will be negative.

The companies pertaining to the Company Group apply a uniform accounting policy.

The transactions, balances, revenues and expenditures within the Group are fully filtered out upon the consolidation.

Companies involved in the consolidation:

ENEFI Energy Efficiency Plc. is the direct parent company, and it prepares the consolidated financial statements under the IFRS. The following Companies are involved in the course of the consolidation:

Name	Country of incorporation	2017		2018	
		Share ownership	Voting power	Share ownership	Voting power
EETEK Limited	Cyprus	100%	100%	100%	100%
RFV Józsefváros Kft.	Hungary	49,00%	70,00%	49%	70%
E-Star Management Zrt. (korábban RFV Management Kft.)	Hungary	100,00%	100,00%	100%	100%
ENEFI Projekttársaság Kft.	Hungary	100,00%	100,00%	100%	100%
E-Star Centrul de Dezvoltare Regionala SRL	Romania	100,00%	100,00%	100%	100%
Termoenergy SRL	Romania	99,50%	99,50%	99,5%	99,5%
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%

Group companies under liquidation that were not drawn into consolidation:

Name	Country of incorporation	2017 Share ownership	2017 Voting power	2018 Share ownership	2018 Voting power
E-STAR ZA Distriterm SRL „felszámolás alatt"	Romania	51,00%	51,00%	51%	51%
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%

Affiliated companies

Name	Country of incorporation	2017 Share ownership	2017 Voting power	2018 Share ownership	2018 Voting power
Pannon Fuel Kft.	Hungary	0,00%	0,00%	20,00%	20,00%

1.4. New and modified International Financial Reporting Standards

The Group voluntarily did not change its accounting policies applied in 2017 for 2018.

Below we cover the impact on the Group's financial statements by the changes in the IFRSs and IFRICs entering into effect after the balance sheet date. We do not analyse in details the expected impact of the changes in IFRSs and IFRICs that are in progress and known at the balance sheet date because they do not influence the financial statements significantly, and disregarding them does not affect the decisions of those using the report.

New and modified standards and interpretations entering into force from this reporting period, announced by IASB and adopted by the EU:

IFRS 9 "Financial instruments" standard - approved by the European Union on 22 November 2016 (entered into force on 1 January 2018 and in the later reporting periods).

IFRS 15 "Revenue from Contracts with Customers" standard - approved by the European Union on 22 November 2016 (entered into force on 1 January 2018 and in the later reporting periods).

Modifications to the IFRS 2 "Share-based payments" standard – Classification and evaluation of share-based payments – approved by the European Union on 26 February 2018 (entered into force on 1 January 2018 and in the later started reporting periods)

Modifications to the IFRS 4 "Insurance contracts" - Joint application of the IFRS 9 Financial instruments and IFRS 4 Insurance contracts - approved by the European Union on 3 November 2017 (entered into force on 1 January 2018 and in the later reporting periods or from the date of first applying IFRS 9).

Modifications to the IFRS 15 "Revenue from contracts with customers" standard – Explanations to the IFRS 15 "Revenue from contracts with customers" standard - approved by the European Union on 31 October 2017 (entered into force on 1 January 2018 and in the later reporting periods).

Modifications to the IAS 40 "Investment property" standard – Reclassification of properties for investment purposes (published on 8 December 2016, entered into force on 1 January 2018 and in the later started reporting periods)

Modification to the IFRS 1 and IAS 28 standards – "Extended IFRS development (in the years 2014-2016)" – As a result of the IFRS Development Project, there were modifications to some standards (IFRS 1, IFRS 12 and IAS 28), primarily in order to terminate inconsistencies and to clarify explanations - adopted by the EU on 7 February 2018 (for the IFRS 1 and IAS 28 standards the modifications shall apply from 1 January 2018 and in the later reporting periods).

IFRIC 22 interpretation "Foreign currency transactions and advance consideration" – approved by the European Union on 28 March 2018 (entered into force on 1 January 2018 and in the later reporting periods).

New and amended standards and Interpretations issued by the IASB and adopted by the EU, but still not 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 adopted by the EU, were published without entry into force:

IFRS 16 "Leasings" standard – approved by the European Union on 31 October 2017 (entered into force on 1 January 2019 and in the later reporting periods).

Amendments to IFRS 9 "Financial Instruments" standard - Prepayment features with negative compensation - adopted by the EU on 22 March 2018 (entered into force on 1 January 2019 and in the later reporting periods).

IFRIC 23 "Uncertainty over Income Tax Treatments" - approved by the EU on 23 October 2018 (entered into force on 1 January 2019 and in the later reporting periods).

The Group does not apply these new standards and amendments to existing standards before their effective dates. The Group believes that the approve of these standards and the amendment of existing standards will not have a significant impact on the Group's financial statements in the period of initial application.

Standards and interpretations issued by the IASB and not approved by the European Union

IFRSs adopted by the EU currently do not significantly differ from those approved 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 approved in the EU until the publication date of our financial statements:

IFRS 14 "Regulatory Deferral Accounts" standard (shall apply from 1 January 2016 and in the later reporting periods) - the European Commission decided not to apply the approval process for the current interim standard but to wait for the final standard.

IFRS 17 "Insurance contracts" (will enter into force on 1 January 2021 and in the later reporting periods).

Modifications to the IFRS 3 "Business Combinations" standard – Definition of business activity (effective for the business combination, where the date of the acquisition is on 1 January 2020 or in the later reporting periods, and for the assets purchased at the beginning of the given period or in the later period).

Modifications to the IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" standards – Selling or transferring assets between the investor and its associate or joint venture (the date of entry into force has been postponed for an uncertain period of time, until the research project arrives at a conclusion with regard to the capital method).

Amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - Definition of materiality (will enter into force on 1 January 2020 and in the later started reporting periods).

Modifications to the IAS 19 "Employee benefits" standard – Plan modification, limitation or accounting (entered into force on 1 January 2019 and in the later reporting periods).

Modifications to the IAS 28 "Investments in associates and joint ventures" standard – Long-term interests in associated enterprises (entered into force on 1 January 2019 and in the later reporting periods).

Modifications to certain standards "Extended development of IFRS (in the years 2015-2017)" – As a result of the IFRS Development Project, there were modifications to some standards (IFRS 3, IFRS 11, IAS 12 and IAS 23), primarily in order to terminate inconsistencies and to clarify explanations (entered into force on 1 January 2019 and in the later reporting periods).

Amendments to References to the Conceptual Framework in IFRS (will enter into force on 1 January 2020 and in the later started reporting periods).

Hedge accounting regarding the portfolio of financial instruments and financial obligations has not been regulated yet, as the EU has not adopted the regulation yet.

As the Group does not apply hedge accounting at all, the above rules do not impact the Group's financial statements.

The implementation of these modifications, new standards and interpretations would not influence significantly the Group's financial statements.

2. Significant accounting policies

a. The basic principles of making statements

The consolidated financial statements were made based on the cost value principle, except for financial instruments that were evaluated in a revaluated amount or at fair value, just as explained in the below accounting policies. The cost value is usually based on the fair value of the consideration (counter-value) delivered in exchange for the assets.

b. Changes in the owner interests in the Group's current affiliated enterprises

Changes in the shares held by the Group in affiliated enterprises that do not result in the termination of control are accounted as capital transaction. The Group corrects the registration value of its own shares and non-controlling shares in a manner that the values should reflect the distribution of the relative shares in the individual affiliated enterprises, with the proviso that certain priority shares may lead to deviations in the NCI value. The deviations between the amount of correction affecting non-controlling shares and the fair value of paid or received consideration (counter-value) are accounted directly in the equity capital and are assigned to the Company's owners.

If the Group's controlling right over an affiliated enterprise ceases to exist, the result of sale (i) is the amount of the fair value of the received consideration (counter-value) and the fair value of the kept share, as well as (ii) the difference between the fair value of the affiliated enterprise's assets (including goodwill) and liabilities and between the amount of non-controlling shares, with the proviso that evidently correction is needed with the formerly filtered out balances. If the assets of affiliated enterprises are registered at a revaluated value or fair value and the amount of the connected accumulated profit or loss was accounted in the other overall result and accumulated in the equity capital, accounting is made as if the Group had sold directly the relevant assets (i.e. they are reclassified into the result or directly into the accumulated result according to the relevant IFRSs). The fair value of the share maintained in the earlier affiliated enterprise and prevailing on the day of termination of control is the fair value of initial presentation stated in the course of the later evaluation under the IFRS 9 Financial instruments standard, or, if applicable, the cost value of investments in affiliated enterprises or common organizations incurring at the initial presentation.

c. Business combinations

Business combination is the situation where the Group gains control over a new company, and the purpose of the acquisition was to acquire the business activity of the purchased entity and not only to acquire the assets of the purchased business entity. The control shall be regarded as acquired from the day when any situation required for qualification as a subsidiary was fulfilled.

The purchaser is the entity that gains control over the purchased entity. If it is not clear which party is the purchased entity, it must be determined on the basis of the following features:

- In the course of a business combination that is primarily established by delivering cash instruments or other assets or by assuming liabilities, the purchaser is usually the entity that delivers the cash instruments or other assets or assumes the liabilities.
- In the course of a business combination that is primarily implemented through the exchange of capital shares, the purchaser is generally the entity issuing the capital shares. In the course of business combinations called reverse acquisition, the purchased entity is the issuing entity. Some other relevant facts and circumstances must also be considered for identifying the purchaser, like relative voting rights, existing minority share, composition of the controlling body, composition of the top management and the conditions on capital share exchange.

- The purchaser is usually the merging entity whose relative size (e.g. measured in assets, revenues or result) is much higher than that of the other merging entity or entities.
- In the course of a business combination affecting more than two entities, the definition of the purchaser must also consider, among other things, which of the merging entities initiated the combination, and what is the relative size of the merging entities.

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

If the first accounting of a business combination was not closed at the end of the reporting period when the business combination took place, the Group will account transitional estimated amounts for the items that were not accounted yet. The Group corrects these estimated amounts through the accounting period (see above), or accounts for further assets or liabilities so that the amounts also reflect the new information obtained about the facts and circumstances prevailing on the day of acquisition, which – if they had been known - would have influenced the amounts accounted on the day of acquisition. Such modifications do not qualify as an error.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain. In this case the calculation need to be done twice).

The non-controlling interest, which represent a share of ownership, and its owner shall grant the right of the net assets of the economic entity in proportion to the event of the liquidation, proportional part of either fair value or the acquiree's identifiable net assets recognized in the amount of is repeating non-controlling interests can be assessed. The Group doesn't apply the recognition of NCI at fair value.

If the initial accounting of a business combination is not full at the end of the reporting period when the combination took place, the purchaser must indicate temporary amounts in its own financial statements for the items where the accounting is not full. Through the evaluation period the purchaser must retroactively modify – with regard to the date of acquisition – the indicated temporary amounts in order to reflect new information on facts and circumstances prevailing at the date of acquisition which – if they had been known - would have influenced the evaluation of the amounts presented at that date. Through the evaluation period the purchaser must also indicate further assets or liabilities if it obtained new information on facts and circumstances prevailing at the date of acquisition which – if they had been known - would have resulted the presentation of assets and liabilities at that date.

The evaluation period is over when the purchaser receives the information that it searched about the facts and circumstances prevailing at the date of acquisition, or it learns that no further information can be obtained. At the same time, the evaluation period may not exceed one year calculated from the date of acquisition.

The evaluation period is the period after the date of acquisition when the purchaser can modify the temporary amounts presented with regard to the business combination.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or

loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

d. Goodwill

The difference of the consideration (counter-value) given for the acquired subsidiary (cost of control) and the acquired net assets is presented as goodwill, which is an immaterial asset that cannot be depreciated. The Group assigns this goodwill to a cash generator unit (CGU) and tests it every year to determine whether the goodwill is impaired. When testing the goodwill impairment, the CGU's returns value (recoverable amount) must be compared to the CGU's book value. If the returns value is lower than the CGU's book value, the goodwill must be written off first, unless there is a clearly damaged asset. The goodwill must not be reversed / written back later. The CGU returns value is the higher of its usage value and the fair value reduced with the sales costs.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

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

For the Group accounting policy regarding the goodwill on aquisition of investment in affiliate see notes 3.6 below.

e. Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Authoritative/standard control is if the vote for decisions regarding the investee's financial and operating policy directly or indirectly exceeds 20%.

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

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

Changes in fair value are made by the management within 12 months from the date of recognition. The spill-over effect of changes in fair value shall be included in the consolidated financial statements through appropriate amendments.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount, but the goodwill can't be reversed.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group. Claims and liabilities are not filtered out. If the investor grants a credit to the affiliated enterprise that is to be repaid only in a specific situation (in the far future), it is presented together with the value of investments, and the difference is recorded in the other comprehensive result in the course of the revaluation.

f. Leases

Whether a transaction is a leasing transaction or if it contains such component depends on its content at the time of its conclusion. If the performance of the agreement depends on the use of a specific asset or if it assigns the right to use the asset, it must be considered to contain a leasing component and is therefore accounted for accordingly.

Financial leasing in the context of which the majority of the risk and rewards related to the ownership right to the leased asset is transferred to the Company is capitalised at the start of the lease at the fair value of the leased asset or at the present value of the minimum lease payments if it is lower.

A contract is qualified as financial leasing if it fulfils one of the following qualifications:

- specified and fixed term
- each element of ownership goes to the lessee during the term of the contract
- the lessee gets a purchase option right where the trade price is much lower than the market price known when exercising the option
- the term of lease reaches 75% of the asset's economic obsolescence period (most part of the leasing object's economical lifecycle)
- the present value of leasing fee payments exceeds 90% of the asset's purchase value (market value)

The leasing payments are divided between the financial expenditure and the reduction of the prevailing liability in a manner that it results in a permanent interest rate with regard to the existing stock of the liability. The financial expenditures are accounted directly against the result, as leasing fees. The activated leased asset is depreciated during the shorter of the estimated useful lifecycle or the leasing period, except where the lessee acquires ownership of the asset at the end of the leasing. The initial costs incurring when concluding the financial leasing contract increase the cost value of the leased asset, and are considered during the leasing period, similarly to the leasing revenues.

The leasing whereby the lessor keeps most of the risk and profit involved in the ownership of the leased asset (i.e. it cannot qualify as financial leasing) is presented as operative leasing.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

Although the concession contracts behave as leasing in many respects, they must be accounted under IFRIC 12.

g. Revenue recognition

IFRS 15, Revenue from Contracts with Customers - (issued in May 2014; approved by the IASB and entered into force on 1 January, 2018 or in the later reporting periods . The EU has adopted this standard). The new standard introduced the basic directive that any revenue shall be recorded in the books when the goods or services in question are delivered to the buyer at the agreed price. All itemisable tying products or services shall be separately accounted and all discounts shall be allocated to the corresponding elements of the contract. After the counter value has changed, the minimum value can be recorded when the probability of reimbursement does not involve significant risks. Costs

incurred with acquiring customer contracts shall be capitalized and amortised over the term of the contract as the related benefits are acquired by the Group.

As of 1 January 2018, the Group applies IFRS 15 in its financial statements. The introduction of the new standard has no impact on the accounting of the Group's sales revenue, since contract elements can be clearly distinguished and individually identified at the time of contract signing. Consequently, the numerical data are the same.

The Group's revenues are recorded after the deliveries have been performed in accordance with the contracts and the financial settlement of receivables (when recording the revenue) is probable.

In the sales revenue, the Group only includes direct returns from its main activity. The Group records the counter value of ad hoc activities among Other items.

The Group's core business is heat energy production and sale. The items related to sales revenues are invoiced and accounted on a monthly basis. Apart from heat energy, the Group has significant revenues from service fees related to individual contracts, accounted on the basis of IFRIC 12. In addition, the sales revenues also cover other rental fees and engineering services.

From 2018 onwards, dividends and interest income are recorded by the Group in accordance with the general rules of IFRS 9.

h. Foreign currencies

Presentation currency:

The financial statement was made in "Forint".

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

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

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

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

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

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

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

Functional currency:

The functional currency of the subsidiaries is identical with the currency of the relevant countries because most of the sales revenues of the subsidiaries are invoiced in the currency of their own country.

i. Borrowing costs

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

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

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

j. Share-based payments

Should the Company provide its employees or elected officials with shares or benefits related to their price with regard to their activities, it shall be accounted as a share-based benefit,

Currently the Company only has share-based benefit made in equity instrument. The real value of the benefits must be determined and if a vesting condition is attached to it, it must be accounted against the profit in proportion with the fulfilment of the vesting condition, by simultaneously indicating a separated reserve among the equity capital elements (IFRS 2 reserve).

If no condition is attached to the benefit (e.g. further period to be spent at work, profit target), it must be presented as a prompt expenditure, without division between the periods.

The separately indicated reserve (IFRS 2 reserve) must be terminated when the shares were issued or - if the benefit covered an option – it expired, ran out.

The Company works out no accounting policy for other share-based benefit programmes, as it does not have any.

k. Government grants

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

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

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

l. Retirement benefit costs

Defined contribution plan

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

m. Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the end of the reporting period. The Group apply 9% income tax for the Hungarian entities and 16% for Romanian entities.

Deferred tax

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

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

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

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

Current and deferred tax for the year

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

n. Property, plant and equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in

accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

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

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

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

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

o. Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

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

p. Impairment of tangible and intangible assets other than goodwill

The Group tests its assets from the viewpoint of impairment every year. The test has two steps. First, it is checked whether there are any signs suggesting that the given assets are impaired. The following signs can indicate impaired assets:

- damage;
- falling revenues;
- unfavourable change in market relations, decline of demand;
- rising market interest rates

If there is a sign of impaired assets, a calculation must be made to establish the returns value (recoverable amount) of the asset (second step). The returns value is the higher of the fair value of the asset reduced with the sales costs and the present value of cash flow deriving from regular use. In lack of more accurate estimates, the sales costs must be established at 10%. If the usage value of an asset group cannot be established because it does not produce cash flow on its own (cannot be utilized), the test must be accounted for a CGU, If the usage value could only be established for a CGU and impairment had to be accounted, the impairment has to be divided as follows:

- first the damaged assets must be reduced;
- then the goodwill must be reduced;
- in the third step the remaining impairment must be divided for the tangible assets (PPE) and the immaterial assets, in proportion to their book value prior to the impairment.

No asset value can be reduced below the fair value reduced with the individual sales costs. The immaterial goods that have no defined useful lifecycle and cannot be used yet are reviewed at least every year in the case of signs of impairment.

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

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

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

q. Inventories

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

r. Provisions

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

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

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

s. Financial instruments

IFRS 9 "Financial Instruments" (issued in July 2014; enterd into force on 1 January 2018 and in the later reporting periods).

The main features of the new accounting standard are the following:

- Financial assets are classified into three evaluation categories immediately after initial recognition: measured at amortised cost, measured at fair value through other comprehensive income (FVOCI) and/or measured at fair value through profit or loss (FVPL).
- IFRS 9 introduces a new model for amortisation, i.e. the expected credit loss (ECL) model. It uses a three-stages approach, based on changes in the credit quality of financial instruments after their first recognition. In practice, the new rules mean that immediately after the first recognition of a financial instrument not affected by any other amortisation the economic entity shall record a loss equivalent to a 12-months' ECL. (in the case of trade receivables the entire ECL shall be recorded). If the credit risk has significantly increased, the impairment is determined using the full lifetime ECL rather than the 12-months ECL. The model also includes some operational simplifications for leases and receivables.
- Hedge accounting requirements have been amended to make accounting more consistent with companies' risk management. The Group does not apply hedge accounting rules.

As of 1 January 2018, the Group applies IFRS 9 in its financial statements. As a result of the introduction of the new standard, only the impairment loss recognized for trade receivables changed, but this had no significant impact on the financial statements.

ENEFI

Financial assets

Classification

The Group classifies its financial assets in the following categories in accordance with the related changes effective as of 1 January 2018:

- recorded at fair value (incl. other consolidated income [OCI] or through profit or loss), and
- assets measured at amortised value of recognition (amortised cost).

The acquired capital instruments, if they are not for trading, are included by the Group in the category of other assets measured at fair value through profit or loss (FVPL). As for financial liabilities, the valuation method chosen is determined by the business model of the specific company and shall be based on the management of financial assets and related cash flows.

The only financial instruments of the Group are monetary assets, receivables and loans. All financial assets are measured at amortised cost, there are no financial instruments measured at fair value.

Recognition and measurement

The purchase or sale of a financial asset is recorded on the date of completion of the transaction, i.e. on the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets that are not recorded at fair value through profit or loss. Financial assets are derecognized when the Group's rights to the cash flows related to that item have expired or are transferred and the Group has transferred the significant risks and rewards of ownership as well.

Netting of financial instruments

Financial assets and liabilities are netted and recognized in the balance sheet as net amounts if the net settlement of the amounts recognized is legally permitted and the Group intends to settle the amounts on a net basis or intends to simultaneously recognize the asset and settle the liability.

Impairment of financial assets

Assets measured and recorded at amortised cost

IFRS 9 introduces a three-stage impairment model that binds impairment to changes in the quality of a receivable:

- 12-months expected credit loss: Normal performance (initial recognition)
- Lifetime expected credit loss: Low performance (Significant deterioration in credit quality since initial recognition)
- Lifetime expected credit loss: Non-performance (actual loss of credit occurred)

Based on the Standard, the "credit loss" is the difference between the present value of contractual cash flows and expected cash flows. (discounted by the original effective interest rate). The "expected credit loss" is the weighted average of expected losses. When estimating the expected loss, the Group considers all available information, whether it is within the Group, or external or past experience or a forward-looking statement.

In estimating the credit risk, the Group applies in its internal risk analysis policy the definition of default event and determines the probability of payment and non-payment as well as the expected timing of cash flows.

The Group benefits from the practical benefits of IFRS 9. These are the following:

- Instead of a 12-month expected credit loss on customer receivables and contractual assets that do not have a significant financing component, the Group recognizes the lifetime expected credit loss.

- In the case of trade receivables, contractual assets and leasing receivables that include a significant funding component, the Group will also recognize the lifetime expected credit loss.

In case of receivables with the same risk, the above estimate is made by the Group for entire groups of receivables.

The expected credit losses and thus the accumulated impairment losses are not significant for the Group. The reason for this is that retail or online customers can make immediate payment or prepayment, and after-sale claims will only appear with wholesale partners.

Derecognition of financial assets

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

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

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

Other financial liabilities

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

Derecognition of financial liabilities

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

t. Earnings per share (EPS)

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

u. Service Concession Agreements (IFRIC 12)

In accounting for public-to-private service concession agreements, the Group applies the following principles.

The provisions in interpretation 12 of the IFRIC are applied if the following conditions are met in case of a public-to-private service concession agreement: (a) the concession grantor has control over or can regulate what services, to whom and at what price are to be provided by the operator using the infrastructure; and (b) at the end of the agreement, the concession grantor will control, through ownership, beneficiary rights or otherwise, all the major residual assets relating to the infrastructure.

According to the terms of such agreements, the operator works as a service provider. The operator builds or develops the infrastructure used for providing public services (construction or development services), and operates and maintains the infrastructure for a definite period of time (operating services).

If certain contracts made with public authorities meet the above conditions then the infrastructure covered by such a contract will not be recognized in the Group's accounts as real estate property, machinery or equipment.

In the case of such contracts, the construction or development services provided by the Group will be presented at the actual value set out in the contract, whether received or receivable. The consideration set out in the contract will be accounted for as a financial asset or intangible asset.

Construction or development services provided by the Group will be presented as financial assets if, on the basis of the contract, the Group has an unconditional contractual right to receive funds from the concession grantor (local municipality) or at the latter's instruction in return for the construction or development services; and the concession grantor has no or hardly any chance for avoiding payment because the contract is lawfully enforceable. The Group is entitled to receive funds if the concession grantor provides a contractual guarantee that it will pay a fixed or calculable amount to the Group or pay the difference between the amounts received from the users of the public service and the fixed or calculable amount set out in the contract.

Construction or development services provided by the Group will be presented as intangible assets if, on the basis of the contract, the Group acquires the right (licence) to charge a fee on the users of the public service. In this case the costs of raising loans for the agreement will be capitalized during the construction or implementation phase of the agreement. If the construction or development services provided by the Group are paid partly in cash and partly by intangible assets then the respective parts of the consideration so received will be accounted for separately.

The Group has such concession rights that are defined as financial assets.

If the Group has any liabilities arise from the contract regarding maintenance or restoration of built or received infrastructure, than these liabilities get presented in the financial statements based on the estimated value at balance sheet date as mentioned in IAS 37.

The capacity increase recognised based on IFRS 15 standard rules.

v. Operating segments

An operating segment is a component of the business entity:

(a) which conducts business activities involving revenues and expenditures (including revenues and expenditures related to transactions that are conducted with other components of the same business entity)
(b) the operating results of which are regularly reviewed by the key operating decision maker of the business entity to be able to make a decision regarding the funds to be allocated to the segment and to evaluate its performance, and
(c) in respect of which separate financial information is available.

Based on the foregoing, the Group defined and presents its operational segments. The management concluded that the Group's operational segments can be defined on a geographical basis, and activity-based segmentation cannot be carried out sensibly.

w. Own share transactions

The Group made several own share transactions, repurchases. These items are shown in the consolidated financial statements as equity capital reducing elements. The Group indicates this as an equity capital component and reduces the capital at cost.

4. Critical accounting judgements and key sources of estimation uncertainty

With respect to the application of the Group's accounting policies, the management has to make decision, estimates and assumption as to the registration value of the assets and liabilities that cannot be clearly determined from other sources. The estimates and related assumptions are based on past experience and other factors that are considered relevant. The actual results may be different than these estimates.

The estimates and the assumptions on which they are based must be reviewed continuously. The modifications of accounting estimates must be recognised in the period when the modification was made if the modification only affects this period, or in the period when the modification was made and the periods after that if the modification affects the period under review as well as the future.

The following describes the critical decisions - with the exception of those that contain estimates - that the Group made in the context of the application of its accounting policies and which made the biggest impact on the amounts presented in the financial statements.

4.1. Provisions

Provision is recognized and measured based on IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The entities of the Group are involved in several ongoing legal disputes. Based upon historical experience and expert reports, the Group assesses the developments in these cases, and the likelihood and the amount of potential financial losses which are appropriately provided for.

A provision is recognized by the Group when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

4.2. Concession rights valuation

The Group is recognized the value of the project at Gyergyószentmiklós according to the standard of IFRIC 12 Service Concession Agreements. During the calculation the Company estimated the future net income of the project and determined the realisable value less cost to sell. During the determination of the fair value the Company calculated with discounted future cash flows. These future cash flows represent the management's best estimation. The details of the concession contract are disclosed in the Note 15.

Further uncertainty was caused about the evaluation of the above project due to the fact that the Group is in dispute in connection with the project, and they had to make assumptions about the evaluation.

The company measured all components of the Hungarian portfolio both in terms of assets and contracts, that is, on the basis of the net present value calculations. These assets are presented between financial assets in the statement of financial position.

4.3. Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, the management determined that the useful lives of the properties, plants and equipments remained as in the previous years.

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

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

In respect of tangible and intangible assets, the recovery on the business entity's assets is tested in the context of an impairment test. The corrections that appear necessary on the basis of the impairment test are presented by the Group in these consolidated financial statements.

4.5. Generating profit to create enough tax base to apply the deferred tax method

A deferred tax asset shall be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. The Group currently does not display deferred tax assets and any such existing amounts have been written down. If such items are recorded later, the return will affect the operating profit of that time.

5. Revenue

The revenue per activities are the following:

	2017	2018
Heat sales	416 419	331 483
Other revenue	146 182	128 852
Lease interest income	109 327	11 834
Total	671 928	472 169

The sales revenues exclusively cover the returns that can be connected to the Company's core business.

The Group's primary revenues come from heat sales and returns from assets operated for other entities. The Group produces heat for sale on its own.

Invoicing could be followed upon sales revenue accounting – except accounting for accruals – as the type of services does not require further correction between periods. As for assets operated for other entities, the Group determined the revenues with the implicit interest rate method, by starting out from future cash flows. These assets are within the scope of IFRIC 12.

At the beginning of 2018, contracts classified as leases in previous years have been amended, and consequently these transactions have been reclassified and are being recorded in accordance with IFRIC 12.

6. Cost of sales

Direct costs	2017	2018
Cost of mediated services	300 571	197 412
Total	300 571	197 412

Material costs	2017	2018
Material costs	11 657	5 434
Total	11 657	5 434

The direct costs cover those costs that can be directly related to the sales revenues. The Group registers the passed-on public utility fees among the direct costs.

The material costs cover expenditures deriving from heating materials.

The rate of direct costs decreased by 35,03% compared to the previous year, the decrease is in accordance with the decrease of the income.

7. Personal costs

	2017	2018
Wages and salaries	116 534	98 732
Social security contributions	27 143	13 589
Other employee benefits	1 840	1 781
Total	145 517	114 103

The above table shows the trend in personal expenditures. The table goes to show that the rate of personal expenditures reduced as against the previous year.

The Group's average staff number was 21 employees in 2017 and 16 employees in 2018 (employed 5 person in the Romanian operation).

8. Service used

	2017	2018
Legal fees	23 149	27 480
Operation costs	29 594	28 105
Rental fees	31 869	38 778
Advisory fees	44 410	40 967
Bank charges	5 916	3 559
Insurance fees	1 196	1 060
Office, communication	3 416	3 133
Maintenance costs	0	27 022
Other costs	41 912	31 639
Total	181 462	201 744

The above table shows the value of the Group's services used, which has been increased compared to the previous year. The increase was caused by the increase of rental fees and maintenance costs.

9. Other revenue and expenditure

	2017	2018
Other revenue		
Reversal of provisions	6 060	0
Reversal of impairment of assets	187 210	201 461
Derecognition of lapsed liabilities	123 594	200 301
Net profit on sale of plant, property and equipment	384	0
Other revenues	3 690	7 286
Income related to concession right	38 869	38 869
Received penalty, income	0	57 832
Redemption fee	0	7 154
Total	**359 806**	**474 034**

Other expenditure

Impairment of assets	-455 269	-13 434
Provision made during the year	-483	-46 935
Fines	-8 686	-3 228
Other taxes	-52 409	-5 195
Other expenditures	-34 530	-2 131
Subvention-related default interest	0	-89 235
Net profit on sale of plant, property and equipment	0	-710
Total	**-542 777**	**-160 868**
Other income and expenses (net)	-191 571	313 166

Impairment write back can be linked to two companies: THUF 81,276 amortisation written back by Enefi for trade receivables as agreed, THUF 120,185 written back amortisation linked to a Romanian company. The latter can be linked to the written back amortisation (THUF 89,235) due to default interest claims for previous years and related to the legal proceedings closed, as well as to the written back amortisation due to receivables related to [public utility] distant heating services.

The liability barred by the statute of limitations is entirely related to the derecognition of the E-Star share obligations settled by an arrangement with creditors regarding Enefi Projekttársaság Kft.'s liabilities.

10. Net profit/loss from financial activities

	2017	2018
Interest income	64 331	9 227
Interest income from concession assets	35 204	32 672
Other finance income	55	0
Net foreign currency gain / loss	-44 750	-5 751
Realized foreign currency gain / loss	0	232
Interest expense	-9 162	23
Expected credit loss	0	-5 738
Other finance cost	-4 349	-2 867
Net profit/loss from financial activities	41 329	27 797

11. Income tax

	2017	2018
Corporate income tax	-919	-45 121
Local business tax	-10 226	-8 763
Deferred tax loss (-) / gain	222 283	0
Changes in impairment of deferred tax	0	-278 578
Total income tax	211 138	-332 462

Applicable to profits of the consolidated entities as follows:

	2017	2018
Hungary – income tax	9%	9%
Hungary – Local business tax	2%	2%
Romania – income tax	16%	16%
Cyprus – income tax	12.5%	12.5%

Balance of the deferred tax assets and deferred tax liabilities:

	2017	2018
Deferred Tax Assets	286 718	0
Deferred Tax Liabilities	0	0
	286 718	0

When calculating deferred taxes, the Group compares with the book value the value that can be considered for taxation as asset and liability. If the difference is reversing (i.e. the difference is balanced off within a foreseeable time), it takes deferred tax liability or asset according to its sign. The Group separately checked the returns when adopting the asset.

In both years, the Group's Hungarian companies calculated with 9%, the Romanian enterprises with 16% and the Cyprian companies with a 12.5% tax rate as the given assets and liabilities become actual taxes in periods when the tax rate is specified in the given percentage in the effective legal regulations.

The Group decided not to enter the deferred tax assets into the books for Hungarian companies because they are not likely to produce returns. The amount of taxable differences - thus also the value of non-stated deferred tax asset - is shown in the following table:

	Accounting value	Tax value	Difference
Fixed assets	100 276	351 715	-251 439
Investments in affiliated companies	14 475 998	14 475 998	0
Investments in associated companies	25 219	25 219	0
Other long-term receivables	343 311	374 379	-31 068
Financial assets (IFRIC 12)	634 233	0	634 233
Leases	0	0	0
Trade receivables	199 593	499 451	-299 858
Other receivables	96 282	9 219 106	-9 122 824
Accruals and prepaid expenses	91 217	91 217	0
Cash and cash equivalents	172 748	172 748	0
Provisions	148 339	48 467	99 872
Long term loans	3 135	3 135	0
Short term loans	0	0	0
Trade payables	46 423	46 423	0
Accruals and deferred income	50 194	50 194	0
Other long-term liabilities	116 961	116 961	0
Effect of interest rates and FX	0	0	0
Tax loss carry forward	0	10 856 598	-10 856 598
Total	**16 503 929**	**36 331 611**	**-19 827 682**
		Total difference	**-19 827 682**
Companies in Hungary			
Difference			-18 035 695
Tax rate			9%
Calculated deferred tax			-1 623 213
Deferred tax asset			0
Deferred tax liability			0
Companies in Romania			
Difference			-1 791 987
Tax rate			16%
Calculated deferred tax			-286 718

Deferred tax asset	0
Deferred tax liability	0

As the return is unlikely, the Group has not included deferred tax assets in its books.

In the period under review, the Group derecognised deferred tax linked to the operation in Romania, as no tax strategy could be established in relation to its return. Later, if this tax loss is recovered, then it will increase the operating profit of those future years.

The table below shows the revenue tax figures broken down by countries:

	Hungary	Romania	Cyprus	Total
Profit before tax	482 088	21 835	95 339	
Current year tax (income, local business)	19 492	29	16 142	35 663
Deferred tax (temporary differences)	0	296 799	0	296 799
Income tax value:	**19 492**	**296 828**	**16 142**	**332 462**

12. Discontinued operations

I. Sale of lease claims business

On 30.09.2017, the Company sold the leasing of public lighting lamps. The profit realized on the ceased activity was as follows:

	2017	2018
Revenues from lease	14 814	0
Sales value of the leasing claims business	215 637	0
Value of leasing claims upon sale	-172 863	0
Derecognition of trade receivables	-174 591	0
Derecognition of default interest on trade receivables	158 351	0
Derecognition of customer impairment	164 676	0
Total	206 024	0

In 2018, no activity was considered as discontinued activity.

13. Tangible assets

	Land and buildings	Plant and equipment	Other equipment	Asset under construction	Total
Costs or deemed costs					
31 December 2016	260 350	836 792	85 277	41 081	1 223 500
Additions	0	3 309	0	0	3 309
Disposals	-39 888	-517 968	-51 893	0	-609 749
31 December 2017	220 462	322 133	33 384	41 081	617 061
Additions	0	513	64	0	577
Disposals	0	-2 272	-1 269	-38 467	-42 008
31 December 2018	220 462	320 374	32 179	2 614	575 630
Depreciation and impairment					
31 December 2016	46 531	786 090	72 394	39 162	944 178
Depreciation for the year	3 099	12 840	4 658	0	20 597
Disposals	-39 888	-517 207	-50 593	0	-607 688
Impairment loss	146 663	0	0	0	146 663
31 December 2017	156 405	281 723	26 459	39 162	503 750
Depreciation for the year	1 368	9 930	1 077	0	12 375
Disposals	0	-590	-1 715	-38 467	-40 772
31 December 2018	157 774	291 063	25 821	695	475 353
Carrying amounts					
At December 31, 2016	213 819	50 702	12 883	1 919	279 322
At December 31, 2017	64 057	40 410	6 925	1 919	113 311
At December 31, 2018	62 688	29 311	6 358	1 919	100 276

14. Intangible assets

	Concession rights	Software and other	Total
Costs or deemed costs			
31 December 2016	4 860 356	72 794	4 933 150
Disposals	-4 860 356	-26 334	-4 747 732
31 December 2017	0	46 460	185 418
Additions	0	0	0
Disposals	0	0	0
31 December 2018	0	46 460	185 418
Depreciation and impairment			
31 December 2016	4 860 356	66 576	4 926 931
Additions	0	367	367
Disposals	-4 860 356	-26 328	-4 747 726
31 December 2017	0	40 614	179 572
Additions	0	0	0
Disposals	0	0	0
31 December 2018	0	40 614	179 572

Carrying amounts			
At December 31, 2016	0	6 219	6 219
At December 31, 2017	0	5 846	5 846
At December 31, 2018	0	5 846	5 846

No impairment was accounted for software and other immaterial goods. The Company writes off the concession right in 25 years, and the Group accounts depreciation for other immaterial goods in a linear manner, during 3 years.

E-STAR Centrul de Dezvoltare Regionala SRL (hereinafter: CDR) provided district heating service in Gyergyószentmiklós. The concession contract related to this activity was already terminated earlier. On 8 March 2017 the infrastructure constituting the district heating system was delivered to the county-rank town of Gyergyószentmiklós, and from that time on the company has provided no such service. The infrastructure was delivered without remuneration, according to the local legal rules. Parallel with this, the gross value of concession rights stated in the books and the value of depreciation calculated until that time was derecognized in the books.

CDR has several ongoing lawsuits for damages in Romania. Some of them are related to the return of concession rights and to the compensation of damage deriving therefrom, and some others prevail for other reasons (these are explained in details in the chapter of Lawsuits, at the end of the Supplementary annex). A part of the claims that were written off now are expected to be recovered if the ongoing lawsuits are closed down with a positive result.

ENEFI provides continuous information on CDR at www.e-star.hu/www.enefi.hu, www.bet.hu, www.kozzetetelek.hu, detailing the background and the current standing of the legal dispute. The notices of the company are also available now at the above addresses.

15. Investments in associated companies

In the year under review, the Group acquired a 20% share — worth HUF 500,000 — in Pannon Fuel Kft. The financial data of Pannon Fuel Kft., as of the date of shares' acquisition, are shown in the following table. The management of the Group considered that the available balance sheet data of Pannon Fuel Kft. do not reflect the implementation risks of the projects it manages, or due to the existence of certain contingent liabilities the fair value of the net asset had to be adjusted (as required by IFRS 3). The net asset calculation is as follows:

	16 October 2018
Non-current assets	2 923 784
Current assets	6 924 314
Short-term liabilities	-8 190 863
Long-term liabilities	-19 866
Net equity on the date of acquisition	1 637 370
Acquired equity	327 474
Fair value correction	-326 974
Fair value of acquired share	500
Purchase price	500
Calculated goodwill/badwill	0

Presentation of the associated company's periodic result:

	2018
Periodic result of associated company	-10 227
Periodic result granted for the group	-2 045
Result of the associated company granted for the group	-2 045

The value of the investments in associated company consist of the following:

	2018
Purchase price	500
Correction of initial cost due to interest free loan	24 719
Periodic result granted for the group	-2 045
Total	23 174

The Group granted an interest-free loan to Pannon Fuel Kft. (see detailed information in Additional Notes, Item 18), and, at the time of loan granting, the fair value adjustment was recognized as an increase in the cost of the shares in the associated company, since the loan was granted in order to increase the influence in that affiliated undertaking.

16. Receivables from concession assets

Financial assets recognized under IFRIC 12

	2017	2018
Gross value of assets from service concession agreements	581 182	728 577
Expected credit loss	0	-1 717
Net value of assets from service concession agreements	581 182	726 860

Assumptions used in determining the fair value of the balance sheet date:

In any case, the group at the time of the project, the existing internal discount rate (used in determining the fair value discount rates vary from 6% to 8% range) discounted future cash flows. (The table doesn't include the expected credit loss.)

Partner	Date	Expiration	2017	2018
Project 1	2007.04.24	2022.04.24	525 511	466 261
Project 2	2005.10.06	2017.11.15	8 189	0
Project 3	2005.06.13	2017.06.13	1 283	0
Project 4	2006.11.30	2018.12.21	9 561	0
Project 5	2005.06.21	2017.10.21	7 440	1 358
Project 6	2006.01.17	2019.02.06	4 653	0
Project 7	2006.03.23	2018.03.23	1 511	0
Project 8	2006.12.04	2018.12.04	2 492	929
Project 9	2007.01.01	2019.10.19	3 953	2 267
Project 10	2008.07.16	2020.10.31	6 819	4 418
Project 11	2008.05.20	2020.10.02	6 437	4 802
Project 12	2008.05.20	2020.10.02	3 333	0
Project 13	2015.11.01	2021.10.31	0	64 722
Project 14	2015.11.01	2024.09.30	0	187 021
Project 15	2015.11.01	2018.12.06.	0	-3 201
Total			581 182	728 577

17. Financial lease receivables

	2017	2018
Long-term receivables from the rental fee of assets	259 386	0
Receivables from the rental fee of assets	17 485	0
Összesen	276 871	0

The group was given the context of the financial lease assets Enerin Public Lighting Ltd., and E-Star ESCO for. The transfer of assets in January 2014, December 2015 and in October. The lease term varies by device, typically a 4-7 years lease contract with the partners. The equipment for heating, public lighting and related machines and equipment. The lessee of leased equipment can help meet the service specified in the concession contract. The award was assigned to service these devices lessor company. According to the tenant lease agreements found right in favour of the landlord, which includes the right to collect rents and penalty payments to be paid any outstanding future.

As of 31 January 2018, the Group restructured its leased assets. These assets were previously leased to Pannon Fuel Kft., which sub-leased these assets to three municipalities. As of 31 January 2018, the Group took over this contract from Pannon Fuel Kft., then after 31 January 2018 the Group started to directly invoice to the three municipalities the leasing fees of the said assets. As a result of the above restructuring, the Group's leasing activities have been discontinued, and after the above-mentioned date the assets have been recognized under IFRIC 12.

Presentation of the lease receivables

In any case, the deal is valid at the time of the project internal discount rate of future discounted cash flows.

	31 December 2017		31 December 2018	
	Minimal lease	Discount value of lease fees	Minimal lease	Discount value of lease fees
Within 1 years	144 144	17 485	0	0
Between 1 and 5 years	470 981	169 123	0	0
Over 5 years	115 019	90 263	0	0
Total minimum lease	730 144	276 871	0	0
Financial expenses related lease	-453 273	0	0	0
Lease payments present value	276 871	276 871	0	0

The movement of lease receivables in the reference period are the following:

	2017	2018
Opening	499 102	276 871
Instalment of leasing fees (without interest)	-49 368	-
Derecognition due to leasing portfolio sale	-172 863	-
Re-rating of the leasing portfolio	0	-276 871
Closing balance	276 871	0

18. Other long-term receivables

The Group records a loan granted to Pannon Fuel Kft. among Other long-term receivables.

Main parameter of the loan contract:

Credit line amount	500 000
Date of credit line amount provided	2018.07.30
Expiry date	2020.07.31
Interest rate	0%

The below table contains the changes in Other long-term receivables:

Balance at 31 December, 2017	0
Granted loan	366 000
Fair value adjustment when recognising a financial instrument (recorded at the initial recognition cost by the associated company)	-24 718
Fair value adjustment on the previous year's balance sheet date (recorded as interest income)	2 718
Expected credit loss	-688
Balance at 31 December, 2018	343 310

19. Trade receivables

	2017	2018
Trade receivables	135 882	199 593

	2017	2018
Not past due	87 265	65 057
Past due 0-90 days	24 382	38 825
Past due 91-180 days	5 457	2 362
Past due 181-360 days	19 450	21 625
More than one year	344 685	354 595
Trade receivables gross total	481 239	482 464
Impairment	-345 357	-273 823
Expected credit loss	0	-9 047
Trade receivables total	135 882	199 593

The expected credit loss is recorded in the Profit and Loss Statement among expenditures linked to the financial activity.

In respect of receivables that were overdue on the balance sheet day but in terms of the probability of their influence - in the opinion of the Company's management - they do not pose a risk (or are covered with other assets or liabilities), the Company did not recognise impairment.

Non-impaired overdue receivables	2017	2018
Past due 0-90 days	29 492	38 825
Past due 91-180 days	5 457	2 362
Past due 181-360 days	18 778	21 625
More than one year	672	147

Total	54 399	62 959

When examining whether a given account receivable can be realised, the Group takes into account the changes, if any, in the quality of the receivable that occurred between the date of the loan provision and the end of the reporting period. The payment deadline of accounts receivable is always 8 days.

The balance sheet value of customers was reduced by the expected credit loss.

20.Other receivables

	2017	2018
Loans given	44 723	45 948
Other tax receivables	30 630	5 225
VAT reclaimable	63 472	14 668
Advance Payments	1 567	488
Other receivables	55 760	78 912
Foreign VAT reclaimable	67 855	67 855
Receivables of assignment	25 976	25 976
Other receivables due within a year	289 982	239 073
Impairment	-145 645	-145 414
Total other receivables	144 337	93 659

	2017	2018
Corporate income tax receivable	2 345	2 623
Total tax receivable	2 345	2 623

Impairment was recognized with regards to the following receivables:

	Gross values	Impairment	Net value
Loans given	45 948	-33 960	11 988
Receivables of assignment	18 830	-18 830	0
Foreign VAT reclaimable	67 855	-67 855	0
Other receivables	86 058	-24 769	61 289
Total	218 691	-145 414	73 277

21. Accruals

	2017	2018
Accrued expenses	72 325	13 638
Rental fee of property, plant and equipment	0	55 754
Accrued revenue	3 506	1 087
Revenue from heat sales	0	20 738
Total	75 831	91 217

22. Cash and cash equivalents

	2017	2018

Bank balances	410 153	171 225
Call deposits	4 271	0
Cash on hand	2 164	1 524
Cash and cash equivalents	416 588	172 748

Cash exclusively covers balances that can be turned into cash and used immediately.

A significant part of the bank accounts balance is given by the balances of accounts held at Equilor Befektetési Zrt. and Raiffeisen Bank, respectively.

23. Subscribed capitals

The subscribed capital contains the face value of issued shares. The current face value is HUF 10/piece. The following table contains share movements in the reference period:

	2017 piece	2018 piece
Issued pieces' shares (10 HUF par value/ shares)	10 000 000	10 000 000

Registered capital on par value	2017	2018
Balance at 1 January	271 726	100 000
Par value of the issued treasury shares during the year	25 000	0
Par value of the cancelled treasury shares during the year	-196 726	0
Balance at 31 December	100 000	100 000

Movement of issued and fully paid shares	2017	2018
Balance at 1 January	27 172 579	10 000 000
Number of the issued treasury shares during the year	2 500 000	0
Number of the cancelled treasury shares during the year	-19 672 579	0
Balance at 31 December	10 000 000	10 000 000

On 7 July 2017 the Group issued 2,500,000 employee shares, therefore the subscribed capital grew by THUF 25,000.

On 26 September 2017 the Group decreased the capital by withdrawing 19,672,579 own shares, therefore the subscribed capital went down by THUF 196,726.

24. IFRS 2 reserves

Programme in the year 2017

Since the shares were issued in 2017 to the debit of the option, the share based option reserve formed in 2016 terminated on the day of the benefit and was replaced by employee shares (subscribed capital, capital reserve).

The share-based payments reserve includes the fair value of a share option acquired in an earlier period. The share option is for 630,000 shares. The exercising (call-off) period has not expired yet. During this period, as no performance obligation was linked to it, no call-off happened and the reserve value remained unchanged. The reserve could not be revalued to its current market value.

The exchange rate required before the call-off is HUF 330/share.

25. Treasury shares

Movements of pieces of treasury shares	2017 piece	2018 piece
Opening	20 444 723	1 257 443
Number of treasury share purchase in the period	485 299	256 669
Number of the cancelled treasury shares during the year	-19 672 579	0
Closing (piece)	1 257 443	1 514 112
Attributable to subsidiary	1 202 372	1 202 372
owned by EETEK:	370 033	370 033
owned by Enefi Projekttársaság	832 339	832 339

Movements of book value of treasury shares	2017	2018
Opening	5 099 748	425 877
Book value of treasury shares purchased	97 010	48 360
Book value of the cancelled treasury shares during the year	-4 770 881	0
Movements of treasury shares in book value	425 877	474 237

26. Non-controlling interest

The Group faced no uncertainty and did not have to decide on any difficult question when considering how to manage its investments. All of its enterprises qualify as subsidiaries and the Group has 100% ownership with the exception of two companies. The Group has less than 100% ownership in RFV Józsefváros Kft. and Thermoenergy srl. It is clear about all subsidiaries (also including those not in 100% ownership) that they are controlled by the parent company as both the control, the daily operative tasks and the conditions on exposure to variable yields are fully and spectacularly fulfilled.

	2018 Józsefváros	2018 Thermoenergy
Current assets	168 736	200 958
Non-current assets	0	6 777
Liabilities	-113 481	-56 018
Net assets	55 255	151 717
Non-controlling interest %	51%	1%
Non-controlling interest	28 180	1 517

	2018 Józsefváros	2018 Thermoenergy
Revenue	355 343	0
Profit before tax	3 700	195
Profit after tax	2 134	195
Other comprehensive income	0	0

Changes in non-controlling interest in previous and current year:

	2017	2018
Balance at beginning of the year	22 459	29 588
Transition to IFRS 9	0	-1 027
Share of profit for the year	7 187	1 085
Dividend paid to non-controlling interests	0	0
Disposal of the non-controlling interests related to sold subsidiary	-58	51
Balance at end of year	29 588	29 697

27.Provisions

	Provisions related to supervisory procedures	Provisions related to administrative procedures	Employment related provisions	Total
31 December, 2017	0	49 164	48 400	97 564
Current portion of provisions (-)	0	0	0	**0**
Non-current portion of provisions	0	49 164	48 400	**97 564**
Provisions recognized during the year	44 995	3 472	0	**48 467**
Provisions reversed during the year	0	0	0	**0**
Correction during the year	0	2 308	0	**2 308**
31 December, 2018	44 995	54 944	48 400	148 339
Current portion of provisions (-)	0	3 472	0	**3 472**
Non-current portion of provisions	44 995	51 472	48 400	**144 867**

In 2018, a provision was created for regulatory and supervisory procedures as well for the THUF 3,472 debt absorbed from E-Star Mures Energy.

28.Other short-term liabilities

	2017	2018
Trade payables	66 453	46 423

	2017	2018
Liabilities related to ESTAR share	200 300	0
Other taxes payable	103 093	112 224
Wages and salaries	5 160	4 754
Social security	1 299	1 958
Other liabilities	55 477	381
Total	365 329	119 317

29. Accruals and deferred income

	2017	2018
Deferred revenue	0	860
Revenue from gas sales	0	32 350
Audit fee	0	9 750
Accrued expenditures	11 321	7 234
Total	11 321	50 194

30. Earnings per share

Basic and diluted EPS	31 December, 2017	31 December, 2018
Profit for the period attributable to ordinary shareholders from continuing operations	-70 254	-53 582
Profit for the period attributable to ordinary shares from discontinuing operations	206 024	0
Weighted average number of ordinary shares (shares)	8 732 633	8 522 258
Basic EPS from continuing operations (THUF/pieces)	-8,04	-6,29
Basic EPS from discontinuing operations (THUF/pieces)	23,59	0,00
Total basic EPS	15,55	-6,29
Diluted EPS from continuing operations(THUF/pieces)	-8,04	-6,29
Diluted EPS from discontinuing operations(THUF/pieces)	23,59	0,00
Total diluted EPS	15,55	-6,29

Weighted average – used upon the calculation - of the earning used for calculating the basic value of the earning per share and the number of primary shares.

31. Transition to IFRS 9

As described in the accounting policy chapter, the Group has applied IFRS 9 from 1 January 2018. The Group has exercised the options provided for in paragraphs 7.2.1 and 7.2.15 of IFRS 9 and the comparative information have not been amended. Based on the requirements of IFRS 7, the effect of the change in accounting policy as of 1 January 2018 is presented below.

	Book value		
	IAS 39	IFRS 9	Difference
Financial assets	581 182	581 182	0
Lease receivables	276 871	276 871	0
Trade receivables	135 882	130 169	-5 713
Other receivables	146 682	146 682	0
Cash and cash equivalents	416 588	416 588	0

	31 December, 2017			31 December, 2018		
	Amortization cost	Expected credit loss	Net value	Amortization cost	Expected credit loss	Net value
Financial assets	581 182	0	581 182	728 577	-1 717	726 860
Lease receivables	276 871	0	276 871	0	0	0
Other long-term receivables	0	0	0	343 999	-688	343 311
Trade receivables	135 882	-5 713	130 169	208 640	-9 047	199 593
Other receivables	146 682	0	146 682	96 282	0	96 282
Cash and cash equivalents	416 588	0	416 588	172 748	0	172 748
Other long-term liabilities	0	0	0	3 135	0	3 135
Trade payables	66 453	0	66 453	46 423	0	46 423
Other short-term payables	365 329	0	365 329	119 317	0	119 317

Amortised cost includes impairment previously recognized for receivables.

32. Related party transactions

Affiliated parties outside the consolidation circle:

Related party	Relationship	Reference
Csaba Soós	CEO	Note 1
Attila Pálffy Gagyi	Member of Board of directors	
László Bálint	Member of Board of directors	

Balances from transactions with the above affiliated parties at the balance sheet day:

Item	2017	2018
Transactions in balance sheet accounts		
Loan to related party- Attila Pálffy Gagyi	10 000	10 000
Interest receivables to related party- Attila Pálffy Gagyi	763	1 271
Total	10 763	11 271
Transactions in profit and loss accounts		
Interest income from related parties	512	508
Total	512	508

The terms and conditions for transactions with associated parties are in line with market conditions.

The following table presents the remuneration of leading officials:

	2017	2018

Gross honorarium	14 016	13 923
Commission fee	7 008	6 962
Share-based payments	0	144 400
Total	21 024	165 285

The Company has conducted the following transactions with associated companies in 2018, and the following outstanding balances characterize the relationship (transactions priced on a market basis):

Pannon Fuel Kft. Balance Sheet position	2017	2018
Long-term given loan	0	343 311
Total	0	343 311

33. Segment information

As the Company is at the stock exchange, it is obliged to publish segment information.

The operating segment is an element of the economic unit:

a) that carries out business activities involving revenues and expenditures (also including revenues and expenditures attached to transactions with other components of the same economic unit);

b) whose operating results are regularly revised by the main operating decision-maker of the economic unit in order to decide on the sources to be allocated to the segment and to evaluate its performance; as well as

c) that possesses the relevant financial information.

From the viewpoint of the Group's operations, strategic decisions are made by the members of the board of directors, thus – in order to determine the segments – the management considered the statements made for them as a basis when compiling this financial statement. The members of the board of directors established that the Company's operations are basically focused on one activity: The Company makes – primarily energetics - investments for its customers / future customers that have returns from savings and that provide the customers with energy effectively and with long-term operation. The Group's activities focus on Hungary, Romania and Cypress, thus the operating segments can be broken down according to geographical regions.

In the light of the above, the members of the Group's board of directors established that the Company – being entered to the stock exchange - it is obliged to publish information on its operating segments.

Figures of 2017:

	Hungarian	Romanian	Other	Total
Revenue	477 028	194 900	0	671 928
	-187 430	-113 141	0	-300 571
Gross Profit	289 598	81 759	0	371 357
Material cost	-4 352	-7 305	0	-11 657
Personnel cost	-78 023	-67 494	0	-145 517
Share-based benefits	-135 720	0	0	-135 720
Service used	-134 874	-34 616	-11 972	-181 462
Other revenue and expenditures, net	-149 473	-162 772	120 674	-191 571
Depreciation	-14 270	-6 694	0	-20 964
Net profit/loss from financial activities	-40 765	-30 387	112 481	41 329
Profit before tax	-557 477	-309 268	221 183	-274 205
Income tax expense	-11 114	222 252	0	211 138
Profit for the year from continuing operations	-568 591	-87 016	221 183	-63 067

Figures of 2018:

	Hungarian	Romanian	Other	Total
Revenue	466 856	5 314	0	472 170
Cost of mediated services	-197 463	51	0	-197 412
Gross Profit	269 393	5 365	0	274 758
Material cost	-3 629	-1 805	0	-5 434
Personnel cost	-74 461	-39 642	0	-114 103
Share-based benefits	0	0	0	0
Service used	-177 252	-19 498	-4 994	-201 744
Other revenue and expenditures, net	282 658	33 716	-3 208	313 166
Depreciation	-9 716	-2 659	0	-12 375
Net profit/loss from financial activities	-74 095	-1 547	103 541	27 797
Result of associated company granted for the group	-2 045	0	0	-2 045
Profit before tax	210 853	-26 070	95 339	280 122
Income tax expense	-19 492	-296 828	-16 142	-332 462
Profit for the year from continuing operations	191 361	-322 898	79 197	-52 443

34. Management of financial and market risks

The Group is exposed to risks relating to the changes of market and financial conditions. These changes may have an impact on the profit as well as on the value of the assets and liabilities. The purpose of financial risk management is to continuously diminish risks through operative and financing measures.

The Group is exposed to the following risks:

- Market risk
  - Currency risk
  - Interest risk
- Liquidity risk
- Credit risk

The following table shows the difference between the fair value of financial instruments and book value:

	Book value	Fair value
Long-term lease receivables	343 310	343 310
Trade receivables	199 593	199 593
Other receivables	96 282	96 282
Financial Asset	172 748	172 748
Other long-term liabilities	3 135	3 135
Trade payables	46 423	46 423
Other short-term liabilities	119 317	119 317

The Group's calculation of the fair value of financial instruments to an appropriate level triple.

For finance leases and the value of real differences in the values of the difference in the carrying number of assets leased arise.

34.1. Market risk

The Group's operations are primarily exposed to the financial risk relating to the changes of exchange rates and interest rates. The Group does not purchase derivative financial instruments to cover its interest rate and exchange rate risks.

34.2. Currency risk

The Group makes transactions also in foreign currencies therefore it is exposed to exchange rate risk. The Group manages exchange rate risks by means of forward currency transactions in accordance with its relevant regulation.

The Group's selling prices are primarily determined in HUF and RON and payments are also received mostly in these currencies. The Group operates primarily in Hungary and in Romania.

The management periodically reviews contracts made in foreign currencies and considers the opportunity of managing the relevant risk by means of derivative transactions.

The Group's foreign currency denominated assets and liabilities were valued at the end of the reporting period as follows.

31 December 2018	RON	EUR	HUF
Receivables	5 774	45 232	244 869
Trade payables	-38 621	-81 865	-45 255
Net position	-32 847	-36 633	199 614

34.3. Sensitivity analysis

Transactions are mostly made in RON or HUF, our exposure to exchange rates were evaluated on the basis of the fluctuation of the exchange rates of these three currencies.

The Company's exchange rate sensitivity for the year 31 December, 2018 presented in the table below:

Change (%) of FX rate	FX HUF/EUR	HUF/RON	Effect on profit
97,50%	313,4723		
		67,2848	1 737
		69,0100	916
		70,7353	95
100,00%	321,5100		
		67,2848	821
		69,0100	0
		70,7353	-821
102,50%	329,5478		
		67,2848	-95
		69,0100	-916
		70,7353	-1 737

34.4. Risk of changing interest rate

Interest rate risk is the risk that future cash-flows from certain financial assets and liabilities may fluctuate due to the changes in market interest rates.

34.5. Sensitivity analysis

The change in the interest environment has no impact on the Group's performance.

34.6. Liquiditiy risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations. Liquidity risk must be managed eventually by the Board of Directors. The Group manages its liquidity risk by keeping a proper level of reserves, bank credit lines, reserve loan raising opportunities; and by continuously monitoring its planned and actual cash-flow data as well as by reconciling the expiry dates of financial assets and liabilities.

34.7. Liquiditiy and interest risk table

2017						
In THUF	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Contractual	Carrying
Loans and borrowings	0	0	0	0	0	0
Other long-term liability	0	0	0	0	0	0
Trade and other payables	431 782	0	0	0	431 782	0
Total financial liabilities	431 782	0	0	0	431 782	0

2018						
In THUF	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Contractual	Carrying
Loans and borrowings	0	0	0	0	0	0
Other long-term liability	0	0	0	0	0	0
Trade and other payables	165 741	0	0	0	165 741	0
Total financial liabilities	165 741	0	0	0	165 741	0

34.8. Credit risk

Credit risk is the risk that a debtor defaults on its contractual obligations which may cause a financial loss to the Group.

Most of the Group's customers are large multinational firms, local municipalities, or listed firms or subsidiaries of companies controlled by local municipalities.

Most of the Group's customers have been doing business with the Group for years and credit losses have been very rare. As a result of the current market environment, watching the creditworthiness of partners on a day-to-day basis became one of the most important tasks of the management.

Aged accounts receivable as follows:

	2017	2018
Not past due	87 265	65 057
Past due 0-90 days	24 382	38 825
Past due 91-180 days	5 457	2 362
Past due 181-360 days	19 450	21 625
More than one year	344 685	354 595
Trade receivable gross total	481 239	482 464
Impairment	-345 357	-273 823
Expected credit loss	0	-9 047
Trade receivable at the end of the year	135 882	199 3

35. Presentation of off-balance sheet items and their impact on financial statements

Hungarian lawsuits in progress when preparing the report:

Plaintiff	Defendant	Subject matter
Natural person bond holder	ENEFI Energy Efficiency Plc.	A private person not registered in the bankruptcy proceedings started a lawsuit against the Company at the Arbitration Court of the Hungarian Chamber of Industry and Commerce due to a bond claim.

Romanian lawsuits in progress when preparing the report:

No.	Claimant	Defendant	Matter in dispute
1.	E-Star Mures Energy SA	51 tulajdonosi társulás tag	Enforcement of attachment
2.	E-Star Mures Energy SA		Case number: 168/1371/2013 Filing bankruptcy protection request on 08/02/2013
3.	E-Star Mures Energy SA	City of Târgu Mures	Case number: 3104/102/2013 Compensation for the breach of concession agreement, district heating subvention claim and payment of fees according to consumer contract. Amount: RON 124,040,531.19 The Town demanded within this lawsuit the qualification of the termination of the agreement by a counterclaim.
4.	E-Star CDR SRL	193 residential consumers	payment of fees according to consumer contract
5.	E-Star CDR SRL	Town of Gheorgheni	Case number: 905/96/2016 Establishing the termination of the concession agreement and Compensation for damages due to breach of concession contract. Amount: RON 104,225,844.69 RON + interests thereof + 15% of the annual internal profit rate for the entire contracted period. The Court has ordered that contract cancellations must be examined apart from the establishment of indemnification amounts, the latter being examined in the new case with ref. № 2238/96/2017 to be handled by the same judge. The initial case number (905/96/2016) was inherited by the section on the notice of cancellation, where our claim was rejected by the Court of first instance The Court of Appeal in Târgu Mureş approved both the appeal of the Company regarding the first instance court decision, as well as the related appeal of the Municipality regarding the first instance court decision and injunction (the latter, among other things, established the suspension of the right of representation of the Municipality's lawyer). Annulling the first instance court decision and injunction, the Court of Appeal ordered retrial by the Court of Second Instance of Harghita County.
6.	E-Star CDR SRL	Town of Gheorgheni	Case number: 2238/96/2017 The Court in file no. 905/96/2016 ordered the separation of the examination of the termination of the contract from the determination of the amount of compensation, the latter being examined in the new file No 2238/96/2017 to be discussed at the same judge. Here the judge suspended the trial until the final closing of case № 905/96/2016.
7.	E-Star CDR SRL	Town of Gheorgheni	Case number: 148/96/2018 The subject of the case separated from the indemnity claim trial (905/96/2016) is a RON 447,454.13 plus default interests claim related to the difference in distant heating service prices, i.e. profit losses due to non-voting of the

		latter, calculated from March 2015 to February 2016. Here the judge suspended the trial until the final closing of case № 905/96/2016.
8. E-Star CDR SRL	Town of Gheorgheni	Case number: 261/96/2018 In case № 148/96/2018, separated from the initial case related to damage claims, the judge further separated case № 261/96/2018, which concerns compensation for projects included in the initial ("basic") action for damages. Here the judge suspended the trial until the final closing of case № 905/96/2016.
9. E-Star CDR SRL	Town of Gheorgheni	File number: 324/96/2017 Contest of council resolution No: 243/13.12.2016 Here the judge suspended the trial until the final closing of case № 905/96/2016.
10. E-Star CDR SRL	Town of Gheorgheni	File number: 793/96/2017 Objection of council resolution No: 2/2017.01.16 amending council resolution No: 243/13.12.2016. The court dismissed the action. (first degree) Following the application for appeal submitted by our Company, the Court approved the suspension of the trial until the final closing of case № 905/96/2016.
11. ENEFI Energy Efficiency Plc.	Mures Financial Authority	File number: 5058/2/2014 Complaint against the rejection of the complaint against the minutes taken by the Finance Dept. to establish the second tax-law insolvency status against the Company's tax-law business site. Claim by the Finance Dept.: Tax obligation of RON 7,602,324 The Court accepted our claim at first instance. The Finance Dept. filed an appeal.
12. ENEFI Energy Efficiency Plc.	Brasov Regional Public Funds Directorate	File number: 9836/320/2017 Contest of notice and enforcement order about RON 7,602,338 dated 7 July, 2017
13. ENEFI Energy Efficiency Plc.	Brasov Regional Public Funds Directorate	Case number 2096/102/2018: Application for judicial review in case № 12289/320/2017 (a separate action to establish that the Finance Dept. was deprived of the right to recover the amounts included in the enforcement order issued under the new Code of Civil Procedure, after not having enrolled in the bankruptcy proceeding closed), in which by a final decision issued on 5 July 2018 the regional court upheld the decision of the court of first instance approving the objection of inadmissibility raised by the Finance Dept.
14. ENEFI Energy Efficiency Plc.	Mures Financial Authority	Case number: 15567/320/2017 objection to bank account seizure ordered by Mures Financial Authority for 7.602.338 RON Here, the judge suspended the trial until the final closure of case № 9836/320/2017, i.e. objection against the enforcement order issued before the locking of the bank account.
15. ENEFI Energy Efficiency Plc.	Salaj Financial Authority	Case number: 4028/337/2017 (objection to land seizure protocol ordered by Zalău Financial Authority against Zalau land – propriety of ENEFI) - the case was suspended until the closing of case № 12289/320/2017. - our application for the suspension of the enforcement order was separately discussed and finally approved by the Court, so execution is suspended on the basis of the second seizure protocol issued for RON 7.6 million until the Court finally decides that the Finance Dept. was once and for all deprived of the right of debt recovery.

			- the Court suspended until the final closure of case № 9836/320/2017, i.e. objection against the enforcement order
16.	ENEFI Energy Efficiency Plc.	Salaj Financial Authority	Case number: 613/337/2019 and 842/337/2019 - annulment of the compulsory execution costs amounting to RON72 + RON105.

36. Material events after the Reporting Period

ENEFI Energy Efficiency Plc. presented the main economic events of 2019 in its announcements for the reference year, and these events are also pointed out below:

- The Company has sued two municipalities asking for the payment of service fees and default interests. The final court decision was issued, and the municipalities shall settle their debts in installments. As a result, the Company has recovered receivables amounting to THUF 80,625 and recorded them in its Profit and Loss Statement. This was included among the profit and loss items of the financial year 2018.
- The unit price of the Company's ordinary shares reached a rate of HUF 330 on 22 March 2019, and consequently stock options, worth HUF 630,000 became available for call-down. The financial statements do not include any transaction in this respect. The employee shares have been converted into ordinary shares by decision of the General Meeting on 22 March.

37. Statements

We caution you that a number of important factors could cause actual results to differ materially from statements for the future.

Statement of responsibility – We declare that the Consolidated Financial Statements which have been prepared in accordance with the applicable accounting standards and the best knowledge, give a true and fair view of the assets, liabilities, financial position and profit or loss of ENEFI Energy Efficiency Plc. and its undertakings included in the consolidation, development and performance of the Company and its undertakings included in the consolidation, together with a description of the principal risks and uncertainties of its business.

The Board of Directors approved the financial statement on March 26, 2019 and recommended it for publication.

38. Approval of financial statements

The Annual General Meeting of ENEFI Energy Efficiency Plc. on March 26, 2019 approved the 2018 consolidated financial statements of the Company prepared in accordance with International Financial Reporting Standards (IFRS).

Budapest, March, 26, 2019

Representative of ENEFI ENERGYEFFICIENCY Plc.

ENEFI Energiahatékonysági Nyrt.
1134 Budapest, Klapka utca 11.
Adószám: 13719069-4-41
Csoportazonosító: 17781846-5-41
Banksz.sz: 12001008-00123720-00100000

ENEFI Energy Efficiency Plc.

CONSOLIDATED BUSINESS REPORT OF THE BOARD OF DIRECTORS

to the Annual Consolidated 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 of the company:	8413 Eplény, Veszprémi u. 66. Building A.
Tax number:	13719069-2-41
Country of registered seat:	Hungary
Phone:	06-1- 279-3550
Fax:	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 registered capital consists of 7,500,000 pieces of registered, dematerialised, regulated, publicly offered ordinary shares, the par value of which is HUF 10, each (Series A) and 2,500,000 pieces of dematerialised employee shares, the par value of which is HUF 10, each (Series B). Therefore the total number of shares issued by the Company: 10,000,000 pieces

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.

II.

Information on the Companies Involved in the Consolidation:

The following subsidiaries belong to the sphere of consolidation of ENEFI Energy Efficiency Plc (31/12/2017):

	Name of Company	Country	Registered Capital	Direct and indirect business share (%)	Voting Ratio (%)
1	ENEFI Energy Efficiency Plc.	Hungary	HUF 100,000,000	-	-
2	E-STAR Management Zrt.	Hungary	HUF 5,000,000	100%	100%
3	ENEFI Projekttársaság Kft.	Hungary	HUF 3,000,000	100%	100%
4	RFV Józsefváros Szolgáltató Kft.	Hungary	HUF 3,000,000	49%	70%
5	Termoenergy SRL	Romania	RON 6,960	99.50%	99.50%
6	E-STAR Centrul de Dezvoltare Regionala SRL	Romania	RON 525,410	100%	100%
7	E-STAR Energy Generation SA	Romania	RON 90,000	99.99%	99.99%
8	E-STAR Alternative Energy SA	Romania	RON 90,000	99.99%	99.99%
9	SC Faapritek SA	Romania	RON 90,000	99.99%	99.99%
10	EETEK Limited	Cyprus	EUR 1,000,000	100%	100%

III.

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. The Company was brought under bankruptcy proceedings in 2012 which was successfully closed by an agreement with the creditors. The actual operation of the Company is currently limited to the territory of Hungary and there are legal proceedings in progress concerning its terminated agreements.

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.

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, it is not operating any working project in Romania either, thus the area of operation has been limited to the territory of Hungary.

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 the minimum 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 an exceptionally warm year. After the actual closure of the Romanian branch of the Company, the future temperatures will not affect the business of the Company.

Quantitative and Qualitative Indexes and Indicators of Performance Measurement.

The corporate group level indicators as per 31 December 2018 are presented in the table below.

Name of index	31 December 2018	31 December 2017
Rate of fixed assets: (fixed assets/total assets)	68%	62%
Indebtedness rate: (payables/Resources)	21%	27%
Profitability in the ratio of sales revenues (pre-tax profit/net sales revenues)	-59%	-21%
Profitability in the ratio of own capital (pre-tax profit/own capital)	20%	-9%
Liquidity index I.: (current assets/short-term liabilities)	255%	175%
Quick liquidity ratio (cash/short-term liabilities)	79%	94%

Detailed Description of the Consolidated Financial Situation of the Company

The detailed description of the consolidated 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 corporate group 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:
The corporate group has a reduced number of employees according to its current economic situation. According to the employment policy of the corporate group, 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 corporate group are employed via contracts of agency.

7. Environment protection:
The corporate group pays particular attention to the protection of the environment in the business and operative activities. The major business of the corporate group is modern energy supply implemented by energy developments, which in addition to constituting the source of incomes of the corporate group, prevents the environment from significant amounts of pollution and use of energy. The corporate group 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 corporate group.

8. Utilisation of Financial Instruments:
The Company did not have open positions in its business operations in 2018 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.

IV.

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

The Board of Directors prepared and accepted the consolidated annual report of ENEFI Energy Efficiency Plc. for year 2018 in accordance with IFRS.

The Company suggests its shareholders knowing the reports of the Board of Directors, the Supervisory Board and the Auditor, to accept its annual consolidated report for year 2017 prepared in accordance with IFRS

the amount of HUF 1 759 317 thousand	total assets for the reference year,
the amount of HUF -52 443 thousand	profit for the reference year.

The Board of Directors hereby calls the attention of its reputable investors to the fact that the consolidated 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.

V.

Company Management Declaration:

Apart from the parent company, none of the transferable securities of any companies involved in the consolidation are traded with on any regulated market of the European Economic Area.

The company management declaration of the Company is included in its individual business report.

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. and its affiliates involved in the consolidation, the situation, development and performance of the companies involved in the consolidation, describing the major risks and uncertain factors.

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.

ENEFI Energiahatékonysági Nyrt.
1134 Budapest, Klapka utca 11.
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Csoportazonosító: 17781846-5-41
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