12732225-3530-113-05
Statistical Code

05-09-009234
Corp. Reg. Nr.

Kazinc-Therm Kft.

name

3700 Kazincbarcika, Gorkij út 1.
address

31st December 2018

Simplified Annual Financial Statements

Budapest, 28th March 2019.

Deloitte Auditing and Consulting Ltd.
Dózsa György út 84/C.
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Registered by the Capital Court of Regsitration:
Company Registration Number: 01-09-071057

VAT ID: 10443785-2-42
EU VAT ID: HU10443785

Translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

To the Quotaholders of Kazinc-Therm Kft.

Opinion

We have audited the simplified financial statements of Kazinc-Therm Kft. (the „Company") for the year 2018 which comprise the balance sheet as at December 31, 2018 − which shows total assets of thHUF 1.277.324 and loss after tax for the year of thHUF 141.857 −, as well as the related profit and loss account for the year then ended and the notes to the simplified financial statements including a summary of significant accounting policies.

In our opinion, the accompanying simplified financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and its financial performance for the year then ended in accordance with Act C of 2000 on Accounting (the „Accounting Act") effective in Hungary.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor's Responsibilities for the Audit of the Simplified Financial Statements*" section of our report.

We are independent of the Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Responsibilities of Management and Those Charged with Governance for the Simplified Financial Statements

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

In preparing the simplified financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern principle, and preparing the simplified financial statements using the going concern basis of accounting. Management must apply the going concern principle, unless the use of this principle is precluded by any provision, or if any fact or circumstance prevails, which precludes the Company to continue as a going concern.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

The Auditor's Responsibilities for the Audit of the Simplified Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the simplified financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, 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 National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these simplified financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the simplified 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 management.
- Conclude on the appropriateness of management's preparation of the simplified financial statements in accordance with the going concern principle 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 the auditor's report to the related disclosures in the simplified financial statements or, if such disclosures are inadequate, to modify the 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 cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the simplified financial statements, including the disclosures, and whether the simplified 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 the Company's internal control that we identify during the audit.

Other reporting obligation regarding the divisional financial statements

In accordance with Section 105/A (1) of Act LXXXVI of 2007 on Electricity and Section 18/B (1) of Act XVIII of 2005 on District Heat Supply, we reviewed Note XII of the notes to the simplified financial statements for 2018, Activity reports, which presents the distribution of activities for accounting purposes.

The management is responsible for developing and applying an accounting policy for the distribution of activities, and the pricing of the individual activities to avoid cross-financing between the various divisions of the company, as well as for disclosing the individual activities separately in accordance with Section 105 (2)-(4) of Act LXXXVI of 2007 on Electricity and Section 18/A (2)-(4) of Act XVIII. of 2008 on District Heat Supply.

We are responsible for issuing a report on the information in Note XII. The review was conducted in accordance with the Hungarian International Standard on Review Engagements no. 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. Such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The review is of significantly limited scope compared to an audit performed in line with the auditing standards; therefore we were unable to obtain assurance to have reviewed all significant matters that would potentially be identified in the course of an audit. Accordingly, we shall not issue an audit report.

Based on the review no facts or circumstances came to our attention that would cause us to believe that the accounting rules applied by the Company or the information disclosed in Note XII would not be in line with the provisions of the Accounting Act in all material respects, the provisions of Section 105 (2)-(4) of Act LXXXVI of 2007 on Electricity, the provision of Section 18/A (2)-(4) of Act XVIII. of 2008 on District Heat Supply and recommendations issued by the Hungarian Energy and Public Utility Regulatory Authority on the unbundling of activities and avoidance of cross-financing.

Budapest, April 3, 2019

The original Hungarian version has been signed.

....

Horváth Tamás
Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

....

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

Kazinc-Therm Kft. **12732225-3530-113-05** **05-09-00923** 2018. december 31.

Balance Sheet Statistical code Company reg. Nr.

Assets *Data in THUF*

Nr.	Description	31. Dec 2017.	31. Dec 2018.
1	**A. NON-CURRENT ASSETS**	**587 534**	**551 820**
2	I. INTANGIBLE ASSETS	0	0
3	II. TANGIBLE ASSETS	587 534	551 820
4	III. FINANCIAL INVESTMENTS	0	0
5	**B. CURRENT ASSETS**	**878 393**	**609 755**
6	I. INVENTORIES	22 083	542
7	II. RECEIVABLES	460 641	583 884
8	III. MARKETABLE SECURITIES	0	0
9	IV. LIQUID ASSETS	395 669	25 329
10	**C. PREPAID EXPENSES AND ACCRUED INCOME**	**109 248**	**115 749**
11	**TOTAL ASSETS**	**1 575 175**	**1 277 324**

Equity and Liabilities *Data in THUF*

Nr.	Description	31. Dec 2017.	31. Dec 2018.
12	**D. SHAREHOLDERS' EQUITY**	**135 281**	**79 424**
13	I. ISSUED CAPITAL	3 000	3 000
14	*thereof: treasury shares repurchased at face value*	0	0
15	II. ISSUED BUT NOT PAID CAPITAL (-)	0	0
16	III.CAPITAL RESERVES	0	0
17	IV. ACCUMULATED PROFIT RESERVE	- 28 780	- 57 719
18	V. NON-DISTRIBUTABLE RESERVES	190 000	276 000
19	VI. REVALUATION RESERVE	0	0
20	VII. PROFIT AFTER TAX	- 28 939	- 141 857
21	**E. PROVISIONS**	**39 570**	**0**
22	**F. LIABILITIES**	**1 171 663**	**858 784**
23	I. SUBORDINATED LIABILITIES	0	0
24	II. LONG TERM LIABILITIES	0	0
25	III. SHORT TERM LIABILITIES	1 171 663	858 784
26	**G. ACCRUED EXPENSES AND DEFERRED INCOME**	**228 661**	**339 116**
27	**TOTAL LIABILITIES AND SHEREHOLDERS' EQUITY**	**1 575 175**	**1 277 324**

Budapest, 28th March 2019.

Bana Gábor **Lőrincz Attila**

Directors of the Company

Translation only - in case of any difference the Hungarian original prevails

Kazinc-Therm Kft. **12732225-3530-113-05** **05-09-009234**

P/L Statement Statistical code Company reg. Nr.

Data in THUF

Nr.	Description	2017.01.01. - 2017.12.31.	2018.01.01. - 2018.12.31.
I.	**NET SALES REVENUES**	**1 880 236**	**1 913 597**
II.	**CAPITALISED VALUE OF OWN PERFORMANCE**	**0**	**0**
III.	**Other revenues**	**97 769**	**77 700**
	of which: reversal of impairment loss provision	0	0
IV.	**MATERIAL TYPE EXPENDITURES**	**1 808 691**	**1 867 343**
V.	**PAYMENTS TO PERSONNEL**	**0**	**0**
VI.	**DEPRECIATION CHARGE AND AMORTIZATION**	**35 126**	**35 714**
VII.	**Other expenses**	**160 405**	**229 957**
	of which: impairment loss provision	0	0
A.	**PROFIT ON OPERATIONG ACTIVITIES** (I.±II.+III.-IV.-V.-VI.-VII.)	**- 26 217**	**- 141 717**
VIII.	**Financial revenues**	**0**	**0**
IX.	**Financial expenses**	**0**	**140**
B.	**PROFIT ON FINANCIAL ACTIVITIES** (VIII.-IX.)	**0**	**- 140**
C.	**NET PROFIT BEFORE TAXATION (±A.±B.)**	**- 26 217**	**- 141 857**
X.	**Tax liability**	2 722	**0**
D.	**PROFIT AFTER TAX (±C.-X)**	**- 28 939**	**- 141 857**

Budapest, 28th March 2019.

Bana Gábor **Lőrincz Attila**

Directors of the Company

Translation only - in case of any difference the Hungarian original prevails

Kazinc-Therm Kft. **12732225-3530-113-05** **05-09-009234** 2018. december 31.
Balance Sheet Statistical code Company reg. Nr.

Assets *Data in THUF*

Nr.	Description	31. Dec 2018.	Heat	Electricity
1	**A. NON-CURRENT ASSETS**	**551 820**	**395 392**	**156 428**
2	I. INTANGIBLE ASSETS	0		0
3	II. TANGIBLE ASSETS	551 820	395 392	156 428
4	III. FINANCIAL INVESTMENTS	0		0
5	**B. CURRENT ASSETS**	**609 755**	**593 458**	**16 297**
6	I. INVENTORIES	542	487	55
7	II. RECEIVABLES	583 884	571 408	12 476
8	III. MARKETABLE SECURITIES	0	0	0
9	IV. LIQUID ASSETS	25 329	21 562	3 767
10	**C. PREPAID EXPENSES AND ACCRUED INCOME**	**115 749**	**78 470**	**37 279**
11	**TOTAL ASSETS**	**1 277 324**	**1 067 319**	**210 005**

Equity and Liabilities *Data in THUF*

Nr.	Description	31. Dec 2018.	Heat	Electricity
12	**D. SHAREHOLDERS' EQUITY**	**79 424**	**- 32 253**	**111 677**
13	I. ISSUED CAPITAL	3 000	2 754	246
14	*thereof: treasury shares repurchased at face value*	0	0	0
15	II. ISSUED BUT NOT PAID CAPITAL (-)	0	0	0
16	III.CAPITAL RESERVES	0	0	0
17	IV. ACCUMULATED PROFIT RESERVE	- 57 719	- 52 981	- 4 738
18	V. NON-DISTRIBUTABLE RESERVES	276 000	253 345	22 655
19	VI. REVALUATION RESERVE	0	0	0
20	VII. PROFIT AFTER TAX	- 141 857	- 235 371	93 514
21	**E. PROVISIONS**	**0**	0	**0**
22	**F. LIABILITIES**	**858 784**	**788 292**	**70 492**
23	I. SUBORDINATED LIABILITIES	0		0
24	II. LONG TERM LIABILITIES	0		0
25	III. SHORT TERM LIABILITIES	858 784	788 292	70 492
26	**G. ACCRUED EXPENSES AND DEFERRED INCOME**	**339 116**	**311 280**	**27 836**
27	**TOTAL LIABILITIES AND SHEREHOLDERS' EQUITY**	**1 277 324**	**1 067 319**	**210 005**

Budapest, 28th March 2019.

Translation only - in case of any difference the Hungarian original prevails

Kazinc-Therm Kft. **12732225-3530-113-05** **05-09-009234**

P/L Statement Statistical code Company reg. Nr.

Data in THUF

Nr.	Description	Total 2018	Heat	Electricity
I.	**NET SALES REVENUES**	**1 913 597**	**1 574 436**	**339 161**
II.	**CAPITALISED VALUE OF OWN PERFORMANCE**	**0**	**0**	**0**
III.	**Other revenues**	**77 700**	**77 664**	**36**
	of which: reversal of impairment loss provision	0	0	0
IV.	**MATERIAL TYPE EXPENDITURES**	**1 867 343**	**1 666 029**	**201 314**
V.	**PAYMENTS TO PERSONNEL**	**0**	**0**	**0**
VI.	**DEPRECIATION CHARGE AND AMORTIZATION**	**35 714**	**25 590**	**10 124**
VII.	**Other expenses**	**229 957**	**195 782**	**34 175**
	of which: impairment loss provision	0	0	0
A.	**PROFIT ON OPERATIONG ACTIVITIES** (I.±II.+III.-IV.-V.-VI.-VII.)	**- 141 717**	**- 235 301**	**93 584**
VIII.	**Financial revenues**	**0**	**0**	**0**
IX.	**Financial expenses**	**140**	**70**	**70**
B.	**PROFIT ON FINANCIAL ACTIVITIES** (VIII.-IX.)	**- 140**	**- 70**	**- 70**
C.	**NET PROFIT BEFORE TAXATION (±A.±B.)**	**- 141 857**	**- 235 371**	**93 514**
X.	**Tax liability**	0	0	**0**
D.	**PROFIT AFTER TAX (±C.-X)**	**- 141 857**	**- 235 371**	**93 514**

Budapest, 28th March 2019.

Translation only - in case of any difference the Hungarian original prevails

I PRESENTATION OF THE COMPANY

Key information concerning the Company	
Name	Kazinc-Therm Fűtőerőmű Korlátolt Felelősségű Társaság
Registered office	H-3700 Kazincbarcika, Gorkij u 1, Hungary
Company registration number	05-09-009234
Tax number	12732225-2-05
Core business	NACE 3530 – Steam and air conditioning supply
Capital stock on 1/1/2018	HUF 3,000 thousand
Capital stock on the reporting date	HUF 3,000 thousand
Chosen auditor	Deloitte Könyvvizsgáló Kft.

Kazinc-Therm Kft. is a single-member company owned by ALTEO Energiaszolgáltató Nyrt. (company registration number: 01-10-045985).

Date of the Articles of Association: October 1, 2001.

In line with the provisions of the District Heating Production and Long-term Heat Supply Contract concluded with the Municipality of Kazincbarcika, the Company started its trading activity on October 15, 2002.

The Company publishes its simplified annual report on the electronic reporting portal operated by the Ministry of Justice (www.e-beszamolo.im.gov.hu).

II ACCOUNTING SYSTEM, ACCOUNTING POLICY

a) General information

The Company prepares a simplified annual report and, accordingly, maintains its books in conformity with the rules of double entry book-keeping.

The Company is included by ALTEO Nyrt. in its consolidated annual report compiled in accordance with the IFRSs and its consolidated business report, and consolidated by Wallis Portfólió Kft. as a superior parent company in its report.

The business year of the Company coincides with the calendar year. The date of the preparation of financial statements is January 31 of the year following the subject year.

The simplified annual report is prepared in compliance with the Hungarian Accounting Act, using the cost principle.

Pursuant to Section 155 of the Accounting Act, the Company is subject to an audit requirement; its chosen auditor is Deloitte Könyvvizsgáló Kft. The person responsible for auditing is Dr. Attila Hruby (Chamber of Auditors membership number: 007118).

The Company prepares its simplified annual report in conformity with Section 96 (1) of the Accounting Act, with the statement of financial position prepared in the structure required for version "A" set forth in Appendix 1 to the Accounting Act, with the simplification that it only contains the items indicated in capital letters and Roman numerals. The Company prepares its statement of profit or loss using the total cost method, with the simplification that it only contains the items indicated in capital letters and Roman numerals.

Apart from the exceptions highlighted, data in the simplified annual report are expressed in thousand forints.

Gábor Bana, managing director (H-3529 Miskolc, Szentgyörgy út 85) and Attila Lőrincz, managing director (H-1094 Budapest, Liliom u. 30) are jointly authorized to sign the simplified annual report.

Zoltán Gergely Lakatos is responsible for the tasks relating to bookkeeping services and the preparation of the simplified annual report. Number of the authorization to perform such activities: 164933.

The definition of material error is set out in the Accounting Policy. An error is regarded as material if in the year of its detection the aggregate value of errors and impacts of errors discovered by various audits and affecting a particular business year (separately for each year) that increase or decrease profit or loss, equity (irrespective of sign) is greater than 2 per cent of the total assets of the Company or, if 2 per cent of total assets does not exceed HUF 1 million, it is HUF 1 million. Section 3 (3).

An income or expenditure item can be considered to be of exceptional magnitude if it satisfies either of the following criteria:

– One-off significant, unpredictable item (e.g.: loss event)
– Unexpected, excessively change relative to previous years (e.g.: significant change in the portfolio of contracts)

b) Valuation principles and procedures

Accounting for amortization
Fixed assets with a cost under HUF 100,000 are written off in all cases in one amount on the date of first use pursuant to the option provided in Section 80(2) of the Accounting Act.

In case of fixed assets with an initial recognition cost above HUF 100,000, depreciation is established in the following steps:

1. establishment of the useful life of the asset;
2. estimation of the realizable value (as residual value) at the end of its useful life.

For assets used for its core business, the Company specifies a residual value depending on the nature and use of the specific assets, using estimates based on technical information and market intelligence. Other asset categories represent an immaterial portion within the aggregate value of fixed assets; consequently, their residual value is also zero.

The depreciation charge is based on gross value as depreciable initial recognition cost. The initial recognition cost is depreciated using rates established taking into account period of use and useful life, with the straight-line or the hours-of-service method.

The depreciation charge is recognized as a cost from the first day of the month after the asset is first used for its intended purpose (is commissioned).

The Company regards the date of first use for the intended purpose or installation to be the completion of the successful trial run, or the first day of commercial operation.

Valuation of inventories

Purchased inventories are measured at purchase price.

The initial recognition cost is the value calculated in accordance with Section 47 (1) to (4) of the Accounting Act: purchase price adjusted for related (ancillary) items.

If no invoice is received by the time of delivery to the warehouse, the inventory is initially measured based on the items known from the contract (order) in compliance with Section 47 (9) of the Accounting Act and, when the invoice is received, the difference,

- if significant, is used to modify initial recognition cost,
- if not significant, is recorded through the price difference account as other income or other expenditure.

In accordance with the accounting principles, the Company maintains records in value terms only.

Valuation of receivables

Receivables are measured individually.

Impairment and the reversal of impairment losses of receivables and receivable-type assets are recognized in accordance with Section 55 of the Accounting Act.

Recognition of exchange rate changes

Upon acquisition:

- all FX assets and FX liabilities relating to the date of performance of the contract or the date of acquisition are converted into HUF using the official foreign exchange rate published by the MNB (Central Bank of Hungary).

Upon financial settlement:

- liabilities and receivables are converted into HUF at the official foreign exchange selling rate or buying rate, respectively, published by the financial institution executing the financial transaction.

Valuation at the end of the reporting period:

Assets and liabilities denominated in foreign currency must be re-valued using the official exchange rates of the Central Bank of Hungary published on the last day of the reporting period.

Recognition of the aggregate revaluation difference:
– In case of exchange rate losses: other expenses of financial transactions,
– In case of exchange rate gains: other incomes of financial transactions.

c) Fixed assets

The Company's major assets include the power plants and power plant equipment.

Fixed assets are recognized in the statement of financial position at cost and/or production cost less accumulated depreciation.

<u>The depreciation of the Power Plant:</u>
The Company's management has determined the depreciation method of the Power Plant's fixed assets by taking the significant market trends of recent years into consideration.

* the lifecycle of the buildings is 50 years,
* the lifecycle of the pipelines and the boilers is 30 years, and
* the lifecycle of the lightweight buildings and the electrical equipment is 20 years.

The shorter of the above lifecycles and the presumed lifecycle of the project (the current expiry and a one-time extension by 15 years) has been considered.

Fixed assets are measured by the Company on an individual basis as required by the Accounting Act; such individual measurement is based on item-by-item records.

d) Receivables

The Company measures receivables on an individual basis.

e) Revenue

The net revenue from sales is recognized at the time of performance, without VAT. The Company records as revenue the amount stated on invoices calculated and issued in the manner specified in the service contract and accepted by the customer. The Company recognizes revenue invoiced by the end of the year but relating to the business year in question from the perspective of performance as accrued income in the statement of financial position.

f) Corporate tax

Corporate tax is recognized through profit or loss in accordance with tax legislation in effect in the subject year.

g) Changes in the accounting policy and accounting estimations

There were no changes in the accounting policy or the critical accounting estimates of the Company during the year.

III Analysis of the financial position and liquidity

Indicators of financial position and capital structure:

NAME OF INDICATOR	CALCULATION OF INDICATOR	PREVIOUS YEAR	SUBJECT YEAR
Leverage ratio	*Equity / Liabilities*	11.5%	9.2%
Equity to issued capital ratio	*Equity / Issued capital*	45.09	2,647.5%
Coverage of non-current assets	*Equity / Non-current assets*	23.0%	14.4%
Asset structure	*Non-current assets / Current assets*	66.9%	90.5%
Ratio of non-current assets	*Non-current assets / Total assets*	37.3%	43.2%

Short-term indicators of financial position:

NAME OF INDICATOR	CALCULATION OF INDICATOR	PREVIOUS YEAR	SUBJECT YEAR
Quick ratio	*Liquid assets + Receivables / Short term liabilities*	73.1%	70.9%
Net working capital	*Current assets – Short-term liabilities*	HUF - 293,270 thousand	HUF -249,029 thousand
Accounts receivable in days	*Closing balance of accounts receivable / Revenue per day*	79 days	107 days

Profitability indicators:

NAME OF INDICATOR	CALCULATION OF INDICATOR	PREVIOUS YEAR	SUBJECT YEAR
Profit after taxation to equity	*Profit after taxes / Equity*	-21.4%	-178.6%
Asset efficiency	*Profit after taxes / Total assets*	-1.8%	-11.1%

IV ADDITIONAL INFORMATION TO THE FINANCIAL STATEMENTS

a) Intangible assets and Fixed assets

The Company has no intangible assets; the value of fixed assets changed during the year as follows:

data in thousand HUF	Opening balance	Increase	Decrease	Closing balance
Change in gross value				
Buildings	950,007	0	0	950,007
Production equipment	1,986,657	0	0	1,986,657
Other equipment	2,872	0	0	2,872
Total investments, renovations	0	0	0	0
TOTAL GROSS VALUE	**2,939,536**	**0**	**0**	**2,939,536**
Accumulated depreciation				
Buildings	729,135	9,307	0	738,442
Production equipment	1,619,995	26,407	0	1,646,402
Other equipment	2,872	0	0	2,872
Total investments, renovations	0	0	0	0
TOTAL ACCUMULATED DEPRECIATION	**2,352,002**	**35,714**	**0**	**2,387,716**
Change in net value				
Buildings	220,871	0	9,307	211,564
Production equipment	366,663	0	26,407	340,256
Other equipment	0	0	0	0
Total investments, renovations	0	0	0	0
TOTAL NET VALUE	**587,534**	**0**	**35,714**	**551,820**

No extraordinary depreciation was recognized in the reporting period. Growth in the subject year in the production equipment results from the more modern control equipment purchased under the Company's program for improving heat production efficiency.

b) Non-current financial assets

The Company had no such assets either in the reporting period or in the comparative period.

c) Current assets

The composition of the Company's current assets changed as follows:

data in thousand HUF	12/31/2017	12/31/2018
TOTAL INVENTORIES	**22,083**	**542**
Trade receivables	407,798	558,932
Other receivables	52,843	24,952
TOTAL RECEIVABLES	**460,641**	**583,884**
Operating account – ERSTE	395,669	25,329
Operating account – MKB	0	0
TOTAL LIQUID ASSETS	**395,669**	**25,329**
TOTAL CURRENT ASSETS	**878,393**	**609,755**

In the subject year, other receivables comprise local business tax, corporate tax, energy tax, building tax, energy suppliers' tax and supplier credit notes.

d) Accrued income and deferred charges

The accrued income and deferred charges include the capacity fee, capacity premium and electricity charge owed by Sinergy Energiakereskedő for December 2018, and the monthly fees owed to MET for January 2019. Deferred expenditures: in 2002, the Company transferred transmission lines in the value of HUF 196,000 thousand to the district heating provider in Kazincbarcika free of charge. In 2002, the Company recognized the free-of-charge transfer among extraordinary expenses, then booked it to accruals, and recognizes the accrual as expenses during the project lifetime, on the grounds that the value of the transferred asset will be recovered by the Company in the form of the heat fee received during the project lifetime. The Company recognized extraordinary expenses in the amount of HUF 2,042 thousand in 2002, from 2003 HUF 9,800 thousand per year as extraordinary expenses and from 2016 as other expenses, pro rata temporis. The recognition of the carrying value of the transferred asset in this fashion facilitates the enforcement of the principle of comparison.

data in thousand HUF	12/31/2017	12/31/2018
MET Zrt. Jan 2018 - Jan 2019 system usage fee	12,857	11,907
Accrued income from loss insured	5,246	0
Émász Hálózati Kft. system usage fee for January	268	0
Accrued expenses	**18,371**	**11,907**
Sinergy En.ker. Kft. Dec 2017 - Dec 2018 capacity and capacity premium, electricity	43,919	66,684
Accrued revenue	**43,919**	**66,684**
Deferred expenditures	**46,958**	**37,158**
Accrued income and deferred charges	**109,248**	**115,749**

e) Equity

data in thousand HUF	Issued capital	Allocated reserves	Retained earnings	Profit after taxes
Opening balance as at 1/1/2018	**3,000**	**190,000**	**-28,780**	**-28,939**
Profit transfer			-28,939	28,939
Additional monetary contribution		86,000		0
Subject year profit or loss				-141,857
Closing balance as at 12/31/2018	**3,000**	**276,000**	**-57,719**	**-141,857**

The profit and loss after taxes for 2018 is HUF -141,857 thousand, which is transferred by the Company to the retained earnings.

As warranted by the Company's capital situation, the Company's owner resolved that additional monetary contribution is required to cover the Company's losses. Accordingly, they reclassified HUF 86,000 thousand of their dividend receivables from the Company to serve as additional monetary contribution.

The Company has no treasury shares.

f) Provisions

The Company did not recognize provisions in 2018. The Company did not need to set up special provisions for environmental purposes. The management of the Company established that the year-end amount of the CO_2 quota is not to be considered uncovered even though there is no CO_2 quota in stock.

g) Liabilities

The liabilities of the Company were as follows:

data in thousand HUF	12/31/2017	12/31/2018
Trade payables	217,379	211,213
Short-term liabilities to affiliated companies	952,908	625,366
Other short-term liabilities	1,376	22,205
TOTAL SHORT-TERM LIABILITIES	**1,171,663**	**858,784**
LIABILITIES TOTAL	**1,171,663**	**858,784**

The short-term liabilities to affiliated companies include trade payables to the owner ALTEO Nyrt. in the amount of HUF 563,257 thousand, to Sinergy Energiakereskedő Kft. in the amount of HUF 635 thousand, to Alteo Zrt. in the amount of HUF 2,321 thousand, and the dividend to Sinergy Kft. for 2010 in the amount of HUF 59,132 thousand.

Other short-term liabilities include the water abstraction fee and environmental pollution tax payable, VAT payable and one customer liability.

The Company's short-term liabilities exceed the value of its current assets by HUF 249,029 thousand as at December 31, 2018, of which liabilities HUF 625,354 thousand are owed to affiliated companies. The Company's ability to operate as a going concern depends on the repayment of these liabilities. The Company's owner confirmed that, if necessary, he will provide financial backing to the Company by changing the due date of the above-mentioned liabilities so that the Company can continue its operation in the future to ensure there will be no material going concern uncertainty.

h) Accrued expenses and deferred income

data in thousand HUF	12/31/2017	12/31/2018
MET gas costs	195,570	209,285
Interest to Sinergy	11,209	0
Sinergy Energiaker. service fee, contingency fee, penalty	9,788	7,062
Non-reclaimable energy tax / energy tax	8,134	0
Audit	1,556	1,706
Émász – Alteo Zrt. electricity	893	5,314
ÉRV water costs, default interest	0	4,150
CO_2 quota accrual	0	111,565
Other costs	49	34
Cost accruals	**227,199**	**339,116**
Deferred income (CO_2 quota)	**1,462**	**0**
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**228,661**	**339,116**

i) Revenue

data in thousand HUF	12/31/2017	12/31/2018
Heat sales	1,291,022	1,322,030
Electricity sales, capacity and compensation fees	582,656	584,806
Rent	6,558	6,761
Balancing energy	0	0
Net revenue from domestic sales	**1,880,236**	**1,913,597**

The Company's revenue is generated from domestic sales only.

j) Other revenues

data in thousand HUF	12/31/2017	12/31/2018
CO_2 quota	42,744	77,573
Insurance compensation	5,792	0
Penalties, default interests	46,232	0
Other income	1	127
Other revenues	**97,769**	**77,700**

k) Material expenses

Key components of material expenses:

data in thousand HUF	12/31/2017	12/31/2018
Gas costs	1,251,428	1,345,822
Other (electricity costs, water costs, heat)	39,821	34,231
Cost of raw materials	**1,291,249**	**1,380,053**
Operating, administration and maintenance fees paid to parent company	403,786	411,855
Service and compensation fees	98,772	63,804
Auditor's fee	1,465	1,500
Other	653	325
Value of services used	**504,676**	**477,484**
Insurance	9,940	7,623
Other	2,826	2,183
Value of other services	**12,766**	**9,806**
Purchase value of goods sold	0	0
Value of services sold (intermediated)	0	0
Total material expenses	**1,808,691**	**1,867,343**

In 2018, the Company recognized HUF 1,500 thousand as cost of auditing.

l) Other expenditures

data in thousand HUF	12/31/2017	12/31/2018
Fines, default interest, penalties paid	50,118	1,805
CO_2 quota	42,744	182,893
Provisions recognized	39,570	0
Local tax paid	11,780	10,671
Fixed assets transferred without charge	9,800	9,800
Support for sports from corporate tax	4,000	0
Other taxes and contributions	1,996	2,120
Other	397	22,668
Other expenditure	**160,405**	**229,957**

m) Finance income

Key components of the Finance income include the following:

data in thousand HUF	12/31/2017	12/31/2018
Exchange rate gains from hedge transactions	0	0
Income from financial transactions	**0**	**0**
Interest payable on investment loan	0	0
Exchange rate loss on assets and liabilities denominated in foreign currency	0	140
Expenditures of financial transactions	**0**	**140**
Financial profit	**0**	**-140**

V TAXATION

The relationship between accounting profit and taxable profit is outlined below:

data in thousand HUF	12/31/2017	12/31/2018
Profit or loss before taxes	**-26,217**	**-141,857**
Depreciation and amortization eligible under the Accounting Act	11,574	12,385
Amount used from the provisions of previous years	0	39,570
Loss carried forward from previous years	0	0
Total items decreasing the tax base	**11,574**	**51,955**
Recognized depreciation	35,126	35,714
Provisions recognized	39,570	0
NTCA fines	1	0
Assets transferred without charge	9,800	9,800
Receivable released	0	22,668
Supplementary support for sports	270	0
Total items increasing the tax base	**84,767**	**68,182**
TAX BASE	**46,976**	**-125,630**
Corporate tax (9%)	4,228	0
Tax benefits (sponsorship of team spectator sports)	**2,960**	**0**
Corporate tax (9%)	**1,268**	**0**
Special tax of energy suppliers (31%)	**1,454**	**0**
Profit after taxation	**-28,939**	**-141,857**

The corporate income tax was calculated based on Section 19 of Act LXXI of 1996.

The tax authority may review books and records at any time within the 6 years following the relevant tax year and may impose additional taxes or fines. The management of the company is not aware of any circumstances from which a significant obligation might originate burdening the Company under such a legal title.

VI TRANSACTIONS WITH THE PARENT COMPANY

During the year, the Company concluded the following transactions with its parent company:

data in thousand HUF	Balance as at 12/31/2018	Flows in 2018
Operating and maintenance fee	560,726	492,561
Administration fee	2,541	30,494
Other	0	311
Parent company (Sinergy Kft.)	**563,267**	**523,366**

In the view of the management of the Company, intercompany transactions with affiliated companies were priced on an arm's length basis.

VII THE COMPANY'S ACTIVITY IN RELATION TO ENVIRONMENTAL PROTECTION

Kazinc-Therm Kft. performs its activity subject to an integrated IPPC permit which specifies maximum emissions and limits for each environment. The comprehensive environmental review of our activity pursued subject to the IPPC permit took place in 2016 and was approved by the environmental authority. The environmental risk to the ground and groundwater involved in the activity is minimal, and the developed and integrated technical controls prevent the pollution of these environments. The air pollutant emissions of all combustion plants were below the emission limit, as evidenced by test reports. The hazardous and non-hazardous wastes are stored at collection points within the site and, in compliance with regulatory requirements, are removed twice a year. We do not exceed the noise nuisance limits during our operation.

The environmental risk of the operation of Kazinc-Therm Kft. is low.

VIII COMPANY MANAGEMENT, BOARD OF DIRECTORS, SUPERVISORY BOARD

In 2018 executive managers received no fees or other remuneration, and the Company did not extend to them any advances, loans or credit.

In 2018 the Company had no employees; the statistical headcount is zero.

IX LEGAL PROCEEDINGS

There are no ongoing legal proceedings against the Company.

X Events after the reporting date

There were no events after the end of the reporting period that would have a significant impact on the financial statements of the Company as of December 31, 2018.

XI Errors discovered, effects of errors

No errors pertaining to prior periods were discovered at the Company in 2018.

XII Activity reports

The applicable directives of the Hungarian Energy Office and the European Union stipulate that integrated electricity companies unbundle their accounts for their authorized activities as if they were carried out by companies with separate legal personalities.

Accordingly, as part of its accounting policy, Kazinc-Therm Kft. has completed the recognition and distribution rules underlying its reports on

- electricity production
- heat energy production, service provision and
- other activities

The statement of financial position of the activity report of Kazinc-Therm Kft.: on a separate sheet
The statement of profit or loss of the activity report of Kazinc-Therm Kft.: on a separate sheet

Budapest, March 29, 2019

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Gábor Bana	Attila Lőrincz
managing director	managing director