

Report of E-Star Alternative Energy Plc. on the first half of 2012

31 August 2012

In the following, E-Star Alternative Energy Plc. presents its financial results for the period 1 January 2012 to 30 June 2012.

The report presents the Company's operation for the above period based on the consolidated, non-audited financial data of the Company and its consolidated subsidiaries, as available on 31 August 2012.

Budapest-based E-Star Alternative Energy Plc. heads a group of 31 enterprises operating in Hungary, Poland and Romania, the member companies of which are primarily engaged in heat generation and supply and, as a secondary line of business, in the supply of electrical energy, as well as the trading of energy within specific, clearly demarcated geographical territories of the aforementioned three countries. Besides this, certain companies of the Group are also engaged in projects for the modernisation and operation of public lighting systems in Hungary.

As already indicated by the Company in its previous communications, the auditing of its consolidated IFRS financial statements relating to 2011 was not completed prior to the annual general meeting with respect to the statutorily defined period, and the books relating to 2011 are still under review, due to the application of the IFRIC 12 standard. Since the financial reports for 2011 have not yet been closed and audited, the Company has published its report on the first half of 2012 in line with the principles applied in the previous report, of the first quarter of 2012. Accordingly, the provisions of IFRIC 12 are not applied in this report.

The Company draws the attention of investors to the fact that the stand-alone and consolidated financial statements prepared through the application of the principles referred to above will be available in the near future. These matters have no material bearing on the economic events and factors described in this report, but may do so with respect to the financial figures. The Company will therefore amend and re-publish this report following the publication of the audited, consolidated financial statements of the 2011 business year.

Presentation of the key factors impacting the operation and the business of the Company

In the first half of 2012 the following business and other significant events with a material impact on the Company's results and future prospects took place:

- ❑ **Weather, affecting sales revenue and profitability:** The first heating season of the 2012 calendar year showed pronounced fluctuations in terms of weather. In the first weeks of January the average temperature was well above the average of recent years in all three countries of operation, which had a negative impact on the profitability of the projects that depend on outside temperatures. However, this was offset by the period from the end of January to mid-February, which was the coldest period of the last 25 years. These temperature factors influenced the profitability of temperature-dependent projects, namely the profitability of the district heating projects in Romania and Hungary, as well as of the heat and electricity generation activity in Poland. The weather did not impact the profit of the heat supply and public lighting projects in Hungary at all, and had only a very marginal impact on the RESZ project. The Status Reports published by the Company on the 15th of each month also provide an overview with regard to the impacts of the weather.
- ❑ **Restructuring carried out to reduce head-office expenses:** EBITDA increased as a result of the cost-cutting measures taken at the head office. The following key measures were taken in the first half-year to reduce head-office costs:

- The Company closed its office in Poland and dismissed all the employees.
- It reduced the first quarter's average headcount employed at its headquarters in Hungary by 21% compared to the last quarter of 2011. Due to the severance payments, the result of this was only manifest in the wage costs from the month of April, net of one-off items.
- The Company has significantly cut back on its marketing and consultancy contracts.
- In the interest of procuring cheaper and – for the customers, more favourable – gas, E-Star concluded a new gas procurement contract, which, although it does not reduce the direct cost of sales, contributes to a cheaper cost structure in respect of the municipalities.

As a result of the comprehensive restructuring measures, the costs incurred at the head office of the Company were considerably lower in March than in January and February, while already in these latter months the head-office costs were significantly lower than in the same period of 2011. The time gap in terms of the cost reduction impacts of the restructuring compared to the actual implementation of the measures is explained by the fact that following the layoffs, the Company incurred severance payment obligations, while during the notice period of the terminated contracts the costs related to the contracts continued to be incurred. The efforts made in respect of the group-level restructuring significantly reduced the head-office costs.

Continuous increase of trade receivables from Hungarian municipalities: There was a significant increase in trade receivables from the Hungarian municipalities (mostly related to Sárospatak, Fejér and Veszprém Counties and to Hódmezővásárhely) during the first half-year due to continued non-payment by the clients. The sharp increase in trade receivables carries a constant and significant risk with regard to the financing of operations, as there is also a parallel increase in trade payables – mostly related to the gas fees recharged without added profit, at unchanged prices – the settlement of which is the Company's obligation. E-Star has made, and is making, continuous efforts to resolve the situation that has arisen. The Company is actively searching for possible means of solving the matter in consultation with the municipality clients involved, with these means including the amendment of the contracts in a manner favourable for the clients and the granting of significant fee discounts. The clients concerned, however, have unfortunately only in rare cases shown any substantive willingness to co-operate.

□ **Termination of certain projects in Hungary:**

During the reporting period several contracts were terminated with Hungarian municipality clients.

- E-Star terminated the heat supply contract with the Municipality of Hódmezővásárhely, Town of County Rank, on 24 June 2012, by extraordinary notice. The reason for the extraordinary notice was that during the last almost one year the Municipality had failed to meet its payment obligations to E-Star, and it showed no willingness to settle its accumulated debt of over HUF 100 million despite the series of payment demands and composition proposals. As a result of the termination of the contract, with effect from 1 July E-Star ceased to procure the natural gas and discontinued the operation of the heat generation equipment in the Municipality's institutions affected by the contract, and it is also enforcing its claims under the contract, including – in addition to the fee arrears in excess of HUF 100 million (service fee and heat charge) – the redemption value payable as a result of the contract termination (the amount of which also exceeds HUF 100 million) against the Municipality.
- The Company cancelled the contract with the *Municipality of Vámospércs* on 29 June 2012 by mutual agreement. In accordance with the agreement, on the day of the cancellation the Municipality paid its considerable outstanding debt and in the course of July the parties also settled accounts in respect of the agreed redemption value.

- **Liquidity situation of the Company:** In February 2012 the Company paid interest in the gross amount of HUF 706 million in connection with bonds 2014/A and 2015/A, and in May 2012 it paid gross interest of HUF 85 million in connection with the 2016/C bonds. In line with the deteriorating payment discipline of the municipalities, the Company faces increasing liquidity problems. The largest proportion of the outstanding receivables comes from the Hungarian operation, and within this, the biggest problem is non-payment by the municipalities, which account for the bulk of the Hungarian receivables total.

In order to manage this liquidity situation the Company implemented the following solutions and measures in the first half of 2012:

- Longer payment terms for suppliers (additional 60 days and in some cases 90 days)
- Instalment payment and rescheduling agreements with certain suppliers
- Temporary increase of the overdraft facility in the first quarter (up to HUF 300 million)
- Selling the non-operational CO2 quota of RESZ and using the funds at the head office
- Using the proceeds from the partial sale of the strategic owner's share portfolio (reduction from 37% to 27%) (all this earned HUF 950 million for the Group)
- Corporate finance provided by RESZ to the Parent Company in the amount of almost EUR 2 million.
- Terminating the contracts with non-paying clients in certain cases; enforcement of the claims through coercive measures.

- **Full reorganisation of the Company's operation in Romania; closure of the projects in Marosvásárhely (Targu Mures) and in Zilah (Zalau)**

During the first half of 2012 the Company performed the technical and financial due diligence review of all projects. This review impacted the projects in Romania as follows:

Marosvásárhely:

In June 2012, after several failed negotiations with the Municipality of Marosvásárhely, Town of County Rank, the Company's subsidiary in Marosvásárhely, E-Star Mures Energy S.A. called upon the client to meet its obligations under the concession agreement.

Among other things, Marosvásárhely Town of County Rank:

- provided the Company, in contrast to commitments under the district heating contract involving the supply of approx. 17,000 consumers and the distribution of approx. 100,000 Gcal of heat, with a concession for a system supplying approx. 6,000 end-users and selling at most 30,000 Gcal.,
- failed to put the assets necessary for the performance of the activity at the Company's disposal in an unencumbered state,
- failed to meet its obligations undertaken in relation to the licences,
- failed to provide the Uniform Heating Zone during the validity of the contract,
- failed to meet its commitment of ensuring that no public institution disconnects from the district heating system,
- failed to meet its obligations connected to the sanctioning of the breaches of law related to the district heating supply,
- failed to pay the heat energy subsidy in full.

The final negotiation held, after the final notice, on 7 June 2012 between the parties yielded no results; the Municipality was unable to prove the fulfilment of the obligations undertaken in the contract with facts, and therefore the Company decided to cancel the contract. Accordingly, on 8 June 2012 E-Star Mureş Energy S.A. cancelled concession agreement no. 301/2010 concluded with the Municipality of Marosvásárhely Town of County Rank on 26 October 2010.

E-Star suffered an operating loss of EUR 1 million per year on the Marosvásárhely project during the last two years and paid EUR 2 million for the concession.

Zilah:

The Company decided to terminate its project in Zilah.

The Municipality rejected E-Star's proposals to make the Zilah project cost-effective, and thus it was not possible to make the project profitable.

In view of the above, the contract was frustrated; the Company has begun to run down its Zilah operation in full, a process that is expected to end in the third quarter of 2012.

Gyergyószentmiklós:

The profit generation capacity of the project in Gyergyószentmiklós is stable and further developments will be implemented this year. According to the survey made by the Company, only one-quarter of the district heating consumers utilise the hot water service. E-Star has taken on a major role in the expansion, implementation and financing of this service as well.

□ **Financing projects:**

Poland: In June 2012 – after several months of negotiations – E-Star Polska Sp. z o.o, the Polish holding company wholly owned by E-Star, received a committed financing proposal for PLN 36 million from one of the largest Polish commercial and investment banks, Bank Zachodni WBK S.A (BZ WBK). The credit agreement was signed on 15 June. The most important conditions of the credit facility are as follows:

- *Purpose of the loan:* refinancing of the Polish part of the EETEK acquisition
- *Amount:* 36,000,000.00 PLN
- *Currency:* PLN (Polish Zloty)
- *Principal-repayment schedule:* 5 years (60 monthly instalments with a balloon payment)
- *Interest:* monthly interest fixing and payment
- *Interest rate:* 1M WIBOR + 3%

Hungary: The Company closed the financing negotiations with OTP in the reporting period; the parties were unable to conclude a mutually favourable agreement. The refinancing of the RESZ projects continues to be a priority for the Company, for which there are several potential scenarios. The Company expects to close the financing by the end of the year.

- **Sales in the first quarter of 2012 of the Polish “yellow certificates” received for the electricity generated during 2011:** In the first quarter of 2012, E-Star Group sold the “yellow certificates” to the Company, which were defined on the basis of the volume of energy produced during 2011 (this was paid to the Company as part of the subsidy scheme in connection with the combined electricity and heat production in Poland). Based on the consultations with the auditors, these items increase the result of the 2012 financial year.

- **Investment activities:** During the first half-year of 2012 the Company made no material capital expenditures other than the maintenance works necessary for the operation of the projects (part of which qualifies as capital expenditure).

- **Shareholder loan:** In January 2012 Csaba Soós – the main strategic owner of the Company, and the Company’s Chairman of the Board and CEO – sold 264,000 of the shares held by him at an average price of HUF 4,000 each. He put 90% of the proceeds at the Company’s disposal as a subordinated loan, thereby strengthening the liquidity position of the Company,

as well as demonstrating his future commitment and his confidence to the effect that the Company will be able to manage its outstanding receivables in 2012.

There were changes in the management of the Company during the reporting period, in the first month of 2012. Following the departure of Ákos Kassai by mutual agreement, the position of CEO at E-Star Plc. has been filled by Csaba Soós since 24 January.

Financial results

Since the second quarter of 2011 the Company has published its financial results in euro. For the purpose of calculating the financial results of the first half-year of 2012 the Company used the following cross-currency rates (NBH mid-rates quoted for 30 June 2012)

- HUF/EUR: 288.22
- PLN/EUR: 4.26
- RON/EUR: 4.45

Income Statement

Income Statement	k EUR 2011 TOTAL	k EUR 2011/H1	k EUR 2012/H1
Net revenue from sales	69 501	37 048	37 524
Sales revenue	69 501	37 048	37 524
Cost of goods sold	-48 294	-24 953	-25 916
Gross margin	21 207	12 095	11 608
Material costs	-752	-465	-182
Personnel costs	-8 750	-3 531	-3 904
Services used	-5 416	-4 282	-2 227
Other revenues and expenditures, net	-134	-434	-786
Operating costs	-15 052	-8 712	-7 098
EBITDA	6 155	3 383	4 510
Depreciation	-4 561	-1 442	-1 768
EBIT	1 594	1 941	2 742
Financial rev. / exp.	2 047	6 981	-4 000
Profit of affiliated companies	0	0	0
Profit before tax	3 641	8 923	-1 258
Non-controlling interests	-230	-347	-670
Tax expenditure	-1 336	-95	-320
Loss from discontinued operations	-760	-817	0
Net profit	1 314	7 663	-2 248

Balances Sheet

	k EUR	k EUR
Balance Sheet	2011 TOTAL	2012/H1
Fixed assets	53 145	65 245
Property, plant and equipment	0	0
Intangible assets	8 440	7 472
Investments in affiliated companies	0	0
Other investments	0	0
Goodwill	19 212	35
Long term receivables	200	200
Deferred tax assets	-269	-400
Long term assets	80 728	72 552
Inventories	5 348	2 019
Trade receivables	11 293	12 578
Other receivables	5 074	2 878
IC receivables	0	0
Accruals	2 823	2 650
Securities held for sale	4 900	0
Cash and cash equivalents	5 825	3 800
Current assets	35 263	23 925
Total assets	115 991	96 477
Subscribed capital	99	99
Capital reserves	13 121	13 121
Profit reserve	11 631	7 842
Reserves	-4 974	-10 588
Non-controlling interests	2 843	1 832
Total equity	22 718	12 306
Long term credit facilities and loans	46 485	42 590
Provisions	1 128	959
Deferred tax liabilities	40	10
Other long term liabilities	10 087	6 397
Long term liabilities	57 740	49 956
Trade payables	12 593	12 273
Other short term liabilities	4 177	8 805
IC payables	0	0
Short term credit facilities and loans	12 992	8 299
Accruals	5 771	4 838
Short term liabilities	35 533	34 215
Total liabilities and shareholders' equity	115 991	96 477

Company information

Company name: E-Star Alternative Energy Service Public Limited Company
(E-Start or the Company)

Abbreviated company name:

E-Star Alternative Plc.

Registered office: 1122 Budapest, Székács u. 29., Hungary

Tax number: 13557351-2-43

Start of business operations (by legal predecessor):

29 June 2000

Start of business operations by Company:

13 June 2006

Member state in which head office is located: Hungary

Telephone: +36 1 279 3550

Fax: +36 1 279 3551

Governing law: Hungarian

Industry classification: Energy services

Investor relations: Gabor Vilhelm

E-mail: vilhelm.gabor@e-star.hu

The Company's activity

The Company (and its legal predecessor) was established on 29 June 2000 with the objective of carrying out – primarily energy-related – investments on behalf of its prospective customers. These investments achieve a return through the savings they bring, and over the long term, ensure an efficient supply of energy.

In the period since then, the Company has grown into an enterprise and a corporate group that plays an increasingly important role in implementing energy-saving projects in the Central-Eastern European region – based on the use of renewable energy.

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

The Company's revenues are covered by the savings arising through implementation based on long-term contracts, as well as the fees for operation and maintenance of the completed projects.

The Company's most important services (lines of business) are

- Efficient heating and district heating supply based on sustainable primary energy sources
- Provision of energy-efficient public lighting services based on modern voltage regulations
- Modernisation and efficiency utilisation of energy transforming and supplying equipment
- Energy trade and distribution services in Poland

Scope of consolidation of E-Star Alternative Plc.

The scope of consolidation of E-Star Alternative Plc. covers the following subsidiaries on the last day of the reporting period:

	Company name	Country	Share capital	Share in equity (%)	Voting right (%)
1	E-Star Alternatív Nyrt.	Hungary	26 400 000 HUF	-	-
2	E-Star ESCO Kft.	Hungary	3 000 000 HUF	100%	100%
3	E-Star Geotherm Kft.	Hungary	3 000 000 HUF	100%	100%
4	E-Star Management Zrt.	Hungary	5 000 000 HUF	100%	100%
5	E-Star Távhőfejlesztési Kft.	Hungary	1 000 000 HUF	100%	100%
6	Patakhó Energiaszolgáltató Nonprofit Kft.	Hungary	500 000 HUF	48%	50%
7	Veszprém Megyei Fűtés- és Melegvíz-szolgáltató Non-Profit Kft.	Hungary	510 000 HUF	49%	50%
8	RFV Józsefváros Szolgáltató Kft.	Hungary	3 000 000 HUF	49%	70%
9	Fejér Megyei Energiaszolgáltató Nonprofit Kft.	Hungary	510 000 HUF	49%	51%
10	Rába Energiaszolgáltató Kft.	Hungary	3 000 000 HUF	96.67%	97%
11	EPV Biogáz Energiatermelő Kft.	Hungary	10 000 000 HUF	100%	100%
12	NRG Finance Kft.	Hungary	10 000 000 HUF	90%	90%
13	RFV Slovak s.r.o.	Slovakia	200 000 SKK	100%	100%
14	E-Star Polska Spółka z o. o.	Poland	31 965 600 PLN	100%	100%
15	E-Star Management Polska Spółka z o. o.	Poland	5 250 500 PLN	100%	100%

16	Euro-Energetyka Spółka z o. o.	Poland	500 000 PLN	51%	51%
17	E-Star Elektrociepłownia Gorlice Spółka z o. o.	Poland	19 842 500 PLN	72,99%	72,99%
18	E-Star Elektrociepłownia Mielec Spółka z o. o.	Poland	9 994 000 PLN	85.37%	85.37%
19	EC-Energetyka Spółka z o. o.	Poland	300 000 PLN	51.66%*	51.66%*
20	Termoenergy SRL	Romania	6 960 RON	99.50%	99.50%
21	E-Star Centrul de Dezvoltare Regionala SRL	Romania	525 410 RON	100%	100%
22	E-Star ZA Distrierm SRL	Romania	40 000 RON	51%	51%
23	E-Star Energy Generation SA	Romania	90 000 RON	99.99%	99.99%
24	E-Star Mures Energy SA	Romania	90 000 RON	99.99%	99.99%
25	E-Star Alternative Energy SA	Romania	90 000 RON	99.99%	99.99%
26	E-Star Heat Energy SA	Romania	90 000 RON	99.99%	99.99%
27	E-Star AR Energy SA	Romania	90 000 RON	99.99%	99.99%
28	E-Star CL Distrierm SRL	Romania	200 RON	100%	100%
29	E-Star OR District Heating SA	Romania	90 000 RON	99.99%	99.99%
30	E-Star Investment Management SRL	Romania	15 000 RON	99.93%	99.93%
31	EETEK Limited	Cyprus	1 000 000 EUR	100%	100%

* Euro Energetyka is a 48.34% owner of EC Energetyka's shares and voting rights.

Detailed core information relating to the subsidiaries:

Detailed core information relating to E-Star ESCO Kft.'s subsidiaries:

	Company name	Country	Share capital	Share in equity (%)	Voting right (%)
1	Veszprém Non-profit Kft.	Hungary	510 000 HUF	49%	50%
2	Fejér Megyei Nonprofit Kft.	Hungary	510 000 HUF	49%	51%

The subsidiaries previously owned by NRG Finance Kft. that have been partially consolidated by E-Star:

	Company name	Country	Share capital	Share in equity (%)	Voting right (%)
1	Rába Energiaszolgáltató Kft.	Hungary	3 000 000 HUF	96.67%	96.67%
2	EPV Biogáz Energiatermelő Kft.	Hungary	10 000 000 HUF	100%	100%

Detailed information on E-Star Alternative Energy S.A.'s subsidiaries:

	Company name	Country	Share capital	Share in equity (%)	Voting right (%)
1	E-Star AR Energy SA	Romania	90 000 RON	99.99%	99.99%
2	E-Star CL Distriterm SRL	Romania	200 RON	100%	100%
3	E-Star OR District Heating SA	Romania	90 000 RON	99.99%	99.99%
4	E-Star Investment Management SRL	Romania	15 000 RON	99.93%	99.93%

Detailed information on the companies owned by E-Star Polska Spółka z o. o.:

	Company name	Country	Share capital	Share in equity (%)	Voting right (%)
1	E-Star Elektrociepłownia „Gorlice” Spółka z o. o.	Poland	19 842 500 PLN	72,99%	72,99%
2	E-Star Elektrociepłownia Mielec Spółka z o. o.	Poland	9 994 000 PLN	85,37%	85,37%
3	E-Star Management Polska Spółka z o. o.	Poland	5 250 500 PLN	100%	100%

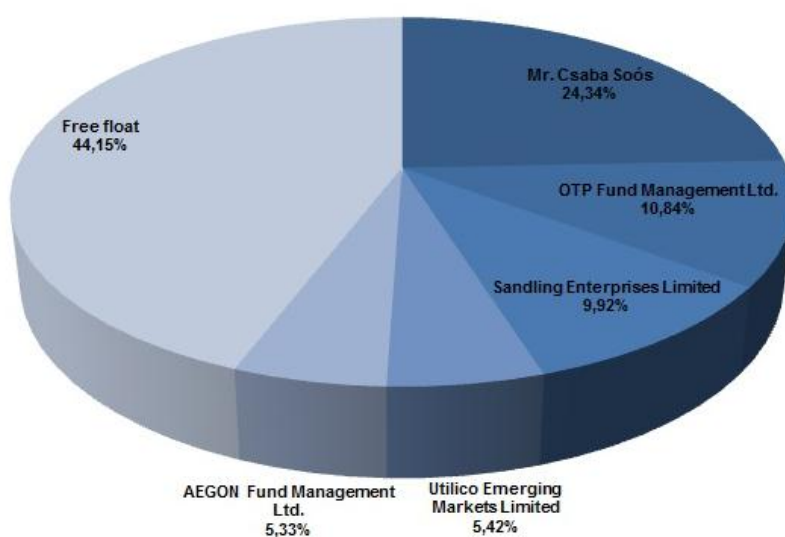
Information on the EC Mielec companies/subsidiaries:

	Company name	Country	Share capital	Share in equity (%)	Voting right (%)
1	EC-Energetyka Spółka z o. o.	Poland	300 000 PLN	51,66%*	51,66*
2	Euro-Energetyka Spółka z o. o.	Poland	500 000 PLN	51%	51%

* Euro Energetyka is a 48.34% owner of EC Energetyka's shares and voting rights.

Ownership structure as at 30 June 2012

Private individual/legal entity (company)	Shareholding (%)
Csaba Soós	24.34
OTP Alapkezelő Zrt.	10.84
Sandling Enterprises Limited	9.92
Utilico Emerging Markets Limited	5.42
AEGON Alapkezelő Zrt.	5.33
Free float	44.15



Of the total number of 2,640,000 shares, E-Star did not possess any treasury shares as of 30 June 2012. The Company draws the attention of investors to the fact that it has a forward position in respect of 114,100 shares.

Issuer's declaration

Issuer declares that the consolidated first half-year of 2012 financial statements were prepared on the basis of IFRS, and to the best of its knowledge present a true and fair picture of the Issuer and of the assets, liabilities and financial position of the companies included in the consolidation circle, as well as of profit and loss.

Budapest, 31 August 2012



Csaba Soós
Chairman of the Board of Directors
E-Star Alternative Plc.

Issuer declares that the consolidated management report presents a true and fair picture of the position, development and performance of the Issuer and of the companies included in the consolidation circle.

Budapest, 31 August 2012



Csaba Soós
Chairman of the Board of Directors
E-Star Alternative Plc.