



EU-SOLAR Business Report

December 31, 2023

1. Executive Summary

1.1 Performance in the 2023 financial year

The year 2023 presented the Company with a major challenge and an opportunity for growth, which the firm has taken full advantage of. In the first half of 2023, the focus was on installations related to the “Support for residential solar PV systems and electrification of heating systems combined with solar PV systems” (RRF-6.2.1), while in the second half of the year, due to various regulatory changes and government communications, the market took a more reserved stance, which resulted in a significantly lower than planned performance of the Company in the second half of the year. Our Corporation used this period to optimize and transform its entire organizational structure. This has prepared the entire structure for the successful and efficient operation of the diversified business units in 2024 and the new business units launched in 2023.

The 2023 financial year was closed with results beyond expectations and significant growth. The fact that all our customers who participated in the RRF-6.2.1 tender “Support for residential PV systems and electrification of heating systems combined with solar systems” which was fulfilled to the maximum extent possible and meeting our contractual obligations on time for our entire contract portfolio is considered an outstanding achievement. All completed in a post-financed tender, so that the full cost of installing the solar systems had to be pre-financed by the company.

Throughout 2023, cash-on-delivery transactions have virtually disappeared due to the anticipation of the government’s announcement regarding the Solar Plus Scheme and the unpredictable legal environment.

The number of our installations decreased slightly compared to 2022 (4707 installations), in 2023 there were 4552 installations, but instead of the previous year’s 13.6 billion HUF, we achieved sales revenues of 14.6 billion HUF, our operating profit slightly decreased (in 2022: 1.56 billion HUF, in 2023: 1.4 billion HUF).

It was due to the diversification of activities in response to market changes of 2023. In addition to residential installations (4,552 of which were carried out), it initiated industrial installations, heat pump sales and implementation. Foreign markets were also entered and the company achieved significant growth only within six months with a turnover ratio of over 25% by the end of the year.

1.2. Business expectations for the year 2024

In the framework of the Recovery and Resilience Plan of Hungary (HET) program several thousand residential customers applied for the installation of residential-scale power plants, which were predominantly completed by April 2024

Due to the uncertainty of government payments, customers who wished to implement their PV systems in this way could only access a functioning device much later than planned. Our company provided substantial assistance to the referred customers by installing the PV systems at its own risk, providing pre-financing before the start of state grant payments. Since the government financing is still delayed with respect to the final invoices, our company bears the burden of this interest-free “financing”.

All transactions related to the Recovery and Resilience Plan of Hungary (HET) program had to be concluded by the end of April 2024 (the date may be extended by three months), which required the VAT financing of these transactions. The timing of the disbursement of support amounts is uncertain, and there is no accurate information about them.

The Solar Energy Plus Program, starting on January 15, 2024, offers a new opportunity for private individuals who own residential properties, as well as those with usufruct rights or lease agreements, to equip their residential buildings with renewable energy sources through non-repayable grants. This investment can reduce the amount of electricity purchased from the grid. Consequently, the subsidy contributes to further reducing utility costs and by curbing the emission of greenhouse gases, it also helps preserve our environmental heritage. As a result, Hungarians are enabled to live in more modern homes.

A further priority of the Solar Energy Plus Program is to ensure that the installation of small-scale residential solar power plants (hereinafter: SRPPs) will continue after the introduction of gross solar accounting in January 2024. The aim of the Program is to encourage the self-supply and self-consumption of energy by households, in line with the logic of gross metering, and thus to gradually promote the shift towards self-sufficiency. To this end, for the first time in the history of Hungarian solar PV systems, the government is also encouraging the installation of battery back-up storage, which is a forward-looking approach.

In addition, our Company is investing significant resources to expand its business and diversify its portfolio. Business expansion is planned in both horizontal and vertical directions in fiscal year 2024.

As a result, our Company is expanding its markets in the Balkan region, and has taken the first steps to accomplish this target. In addition, the company has launched and made all the necessary preparations to participate in future REPowerEU complex energy programmes.

A further expansion path for the company is to achieve a significant market position in the corporate sector. In order to achieve this goal, our company intends to ensure a dynamic market entry through market acquisitions in addition to expanding its own capacity and competence.

2. The Introduction of EU-SOLAR Plc.

EU-SOLAR Plc is a listed company at the Budapest Stock Exchange, and a key player of the renewable energy market in the region.

Its main and planned activity is the installation, operation and servicing of residential solar systems, heat pumps, hybrid systems, electric battery systems, electric vehicle chargers, and small power plants.

However, the company also undertakes more complex tasks. In addition to the comprehensive management of photovoltaic systems and heat pump systems, the scope of activities includes project management, implementation, training, as well as ongoing monitoring and maintenance.

The Company was established in 2012 and was transformed into a private joint-stock company in 2016, and was listed at the Budapest Stock Exchange in 2022. Since 2015, PwC has been the Company's auditor for the eighth year. The accounting is provided by the SAP system.

The Company promotes continuity of customer acquisition through a regional sales network of several hundred of people, extensive marketing activities and an internally developed customer relationship management system (referred to as the "ERP system"). The national network of sales representatives and service partners is constantly growing and developing, ensuring direct access between customers and the Company.

The company has a strong internal IT development and support team and a significant IT infrastructure supporting sales, installation and customer service functions. Customer management is carried out within an ERP system which provides up-to-date



information on current transactions. The company also offers contactless contracting and invoicing to prospective and potential business partners.

The company sources the solar panel systems it installs and distributes, as well as its own custom-designed heat pump systems, from foreign partners, with whom it has strategic-level supplier relationships. The Company's largest suppliers are Shenzhen Growatt New Energy Co. Ltd. from China, and Fantastic Co. Ltd., for which it also serves as the exclusive domestic representative.

Since 2017, the Company also holds an accredited adult education license, primarily aimed at training its own employees and subcontractors to ensure the quality of the services they provide. In addition to training its own employees, the courses are available to anyone on the market who meets the necessary entry requirements for starting the training.

The company's headquarters are in Pécs, where customer service, sales, support, customer applications and financial management are located. This is a competitive advantage as Pécs is known as one of Hungary's largest university cities with approximately 40,000 students, providing easy access to a fresh workforce. In addition, its proximity to the southern border is also beneficial to our growth.

Historically, the Company's activities were exclusively focused on Hungary. However, in 2016, the Company began its international expansion by establishing its first subsidiary in Croatia (Cro Energija D.O.O.). In 2021, a second subsidiary was founded in Romania (EU-Solar System Romania S.R.L.), and in 2023, our third subsidiary began operations in Ukraine (EU-Solar Ukraine LLC). The Company holds a 100% ownership stake in each of these subsidiaries.

The company's inverter manufacturing partner covers the entire product range from 0.75 kW to 1.25 MW. Over the past decades, Growatt's products have proven to provide excellent operational continuity and are considered to be of the highest quality. In the inverter market, Growatt products are currently leading not only in efficiency, but also in warranty conditions and built-in advanced protection against overvoltage and overcurrent. Growatt is a world leader in the residential market.

The Company also operates its own small power plant and holds both aggregator and energy trading licenses.

The Company places great importance on reflecting environmentally conscious and energy-saving practices not only in the services it offers to its clients but also in its operations. To this end, several quality assurance systems have been implemented. The Company has obtained ISO 140001 certification for Environmental Management



Systems (EMS) and ISO 50001 for Energy Management Systems (EnMS), demonstrating its commitment to environmental stewardship and efficient energy management.

In 2017, the Company acquired an 'AA' credit rating, and by 2020, it had earned an 'AAA' rating according to the Bisnode system evaluation. Additionally, the Company has received several awards, notably the Business Ethics Award since 2020, and the Multiple (2021, 2022, 2023) Business Superbrands Award from 2021 onwards. These recognitions highlight the Company's strong ethical standards and its outstanding reputation in the business community.

3. Business information about the Company

Type of shares: common stock

Nominal value of shares: 250.000 HUF

Serial number of shares: 1-1.000

Executive officers of the company authorised to sign



**András Balázs
Petre**

Chairman of the
Board of Directors

Form of
representation:
independent



**Mrs Petre Kárpáti
Hortenzia**

Member of the
Board of Directors

Form of
representation:
joint



**Dr. András
Petre**

Member of the
Board of Directors

Form of
representation:
joint



**Antal Botond
Rencz**

Member of the Board
of Directors

Form of
representation:
joint
(effective from 12.03.2024)



The company's registered office:	7630 Pécs, Kocsz u. 127.
Company premises:	7630 Pécs, Kocsz u. 110.
Branch offices of the Company:	7800 Siklós, cadastral number 06/49. (Small PV Power Plant) 3530 Miskolc, Rákóczi Ferenc utca 13. 7636 Cserkút HRSZ 099/4 (Logistics Center)

Foreign branch offices of the Company:

Cro Energija D.O.O. (registered office: Pobjede 155 31214 Laslovo HR – Croatia, company, Registration number: HR92691248934)

The Company's holding: 100%

EU-Solar System Romania S.R.L. (registered office: Municipiul Oradea, Strada VASILE ALECSANDRI, Nr. 3, Ap. 12, Judet Bihor, Identification number: 45357454)

The Company's holding: 100%

EU-Solar Ukraine LLC (registered office: Ukraine, 03039 Kiev, Lobanovsky Valeriya av. 119. office 3.)

The Company's holding: 100%

4. Stock market listing

The Company transformed into a public limited company by shares (Nyrt.) on April 22, 2022 and subsequently entered the Budapest Stock Exchange's Xtend market on May 9, 2022 under the name EU-SOLAR Nyrt.

EU-SOLAR's planned stock market listing for 2022 was preceded by careful preparation in 2021. As part of this process, the Company participated in several initiatives that are part of the Budapest Stock Exchange's (BÉT) service portfolio supporting medium-sized enterprises in going public.

In 2021, EU-SOLAR joined the ELITE Program, an international corporate development training program introduced in Hungary by the BÉT. Through this program, the Company acquired essential corporate management and strategy-making knowledge necessary for public operations. The year-long preparation for stock market maturity was conducted by PwC.

Simultaneously with the training, the Company was featured in the publication "BÉT50 – Fifty Success Stories of Hungarian Companies," which highlights rapidly growing medium-sized enterprises in Hungary.

Following the stock market listing, the Company's representative and executive body became the Board of Directors.

Members of the Supervisory Board (name, address):

Mrs. Gadó Tünde Ibolya Szőke	7633 Pécs, Kőrösi Csoma Sándor utca 2. A lph.1. em./1.a.
Tamás Rózsás	2030 Érd, Hanság u. 16.
Tamás József Véghely	1174 Budapest, Csík u. 3.

The Chairman of the Supervisory Board is Tamás Rózsás. The members of the Board have an unlimited term of office.

5. The vision and mission of the Company

The vision of the Company is to be at the forefront of the transition from fossil to renewable energy and to achieve a leading position in the Central and Eastern European renewable energy market.

The Company's mission is to help households and businesses reduce their energy costs and dependence, as well as their ecological footprint, through innovative, environmentally friendly, and guiding solutions.

As a solution provider, the Company aims to assist its customers not only in gaining a competitive advantage but also in becoming self-reliant and actively contributing to a sustainable and healthy future for our planet and children.

6. The role of public subsidies

In recent years, numerous grant and preferential loan opportunities have been made available to both the residential sector and SMEs to finance the installation of solar panel systems.

In 2019–2020, the market received significant support through the 0% loan program provided by the Hungarian Development Bank (MFB), which offered interest-free loans to households investing in small-scale residential power plants (HMKE).

In 2021, the government launched its Home Renovation Support Program (OFT) available to families. This program provided a 50% non-repayable state grant for families installing solar panels, among others.

In the second half of 2021, the government announced a new subsidy opportunity for residents, offering low-income households a 100% non-refundable state subsidy scheme for investments in PV solar panels ("HET – Support for Residential Solar Systems and Electrification of Heating Systems Combined with Solar Systems").

The Solar Energy Plus Programme, which started on 15 January 2024, provided a new opportunity for private individuals who own residential property, as well as those with usufruct or lease agreements, to equip their homes with renewable energy sources through non-refundable grants. The company expects to sign more than 2,000 customer contracts under the programme, which will provide significant revenue support in 2024.

7. Employment policy

The organisation has been growing, with a small increase in physical, and a larger increase in intellectual workers. EU-SOLAR's employment policy is to retain loyal colleagues with a positive attitude. In the event of a loss of a function, the Company endeavours to offer new jobs to its employees. The Company is forward thinking and operates in a forward-looking manner, striving for equal treatment and diversity of employees. The Company rejects discrimination of any kind. Opportunities for continuous professional development are provided for open-minded colleagues.

8. Research and experimental development

The Company is a registered industrial innovator in the field of e-mobility and invests a significant amount of money each year in the development of back-end systems.

9. Environmental protection

The Company considers it important that, in addition to the services provided to its customers, its operations also reflect environmentally conscious and energy-efficient practices:

- A significant number of electric vehicles in the fleet
- Operation of an electric charging station since 2017
- EU-SOLAR has been carbon neutral since 2020
- The Company operates a solar park in Siklós
- Company's office equipment has been designed to be as green as possible in terms of energy use and manufacturing technology

10. Major risks

Changes in government subsidy for residential PV solar panel installations

Households remained the main customers of the Company in 2023. The installation of residential PV solar systems depends to a large extent on the availability of public subsidies for their procurement. Any suspension or delay in the payment of subsidies for the installation of residential solar systems could have a material adverse effect on the Company's sales volume, revenue and financial performance.

Taking into account the risks posed by the modified regulatory environment, the company decided to significantly expand and diversify its portfolio.

The connectivity of residential solar systems to the public electricity grid

The grid connectivity of the photovoltaic systems distributed by the Company depends on the requirements set forth by network operators and primarily by the Hungarian Transmission System Operator Ltd. (MAVIR). Stricter grid connection standards, as well as the introduction of new, cost-intensive installation regulations, could result in reduced demand for photovoltaic systems, including those distributed by the Company. Additionally, significant changes to the specifications regarding the size and other technical parameters of the systems may render the solar panels and other components already purchased by the Company non-compliant with the new requirements, potentially resulting in obsolescence and unsellability.

To address this issue, the Company is engaged in several pilot projects aimed at providing solutions to grid congestions by regulating and actively managing the generated energy output.

Risks arising from the default or insolvency of customers

The majority of the Company's clientele consists of households. Their purchases from the Company are primarily financed through government subsidies that support the use of renewable energy and the installation of PV solar panels. These grants are funded by both the European Union and Hungarian sources. However, the disbursement of the grants is fundamentally determined by the availability of EU and budgetary resources. As a result, disbursements may not align with the timelines set forth in the contracts between the customers and the Company, but may occur later, upon receipt of EU and budgetary funds by the grant provider.

Risks related to raw material procurement

The Company's procurement often occurs through supply chains, exposing it not only to risks arising from the non-fulfillment or inadequate fulfillment by its direct partners but also by their suppliers. The Company's raw material procurement is predominantly based on imports, with a significant portion sourced from the People's Republic of China. Given the current geopolitical climate, an extended sanctions policy or trade restrictions could substantially increase our Company's risk concerning raw material procurement. Therefore, our Company has implemented a strategic inventory policy to ensure the raw material coverage of all existing contractual obligations.

Foreign exchange rate fluctuations

The Company's revenue is predominantly denominated in Hungarian Forints. However, since the Company's operations rely heavily on imported goods, a significant portion of its material expenses, approximately 50%, is incurred in foreign currencies. As a result, the Company is significantly exposed to risks arising from exchange rate fluctuations between the Forint and certain foreign currencies. The Company's operations are primarily sensitive to changes in the Euro/HUF and Euro/Yuan exchange rates, with increases in these rates typically adversely affecting profitability.

Warranty and guarantee commitments

The primary warranty obligations for the products sold by the Company are assumed by the manufacturers, followed by the distributors, and finally the installers. EU-SOLAR provides comprehensive support for warranty claims in Hungarian. In certain cases, this involves transferring the warranty and guarantee obligations assumed by subcontractors to the Company's customers. The transfer of these warranty and guarantee rights to the Company's customers introduces a risk, particularly if subcontractors cease operations before the expiration of the warranty or guarantee periods.

Since the Company imports the solar panels it distributes into Hungary and, consequently, into the European Economic Area, it is considered the manufacturer of these panels under product liability regulations. This exposes the Company to risks related to claims arising from manufacturer product liability. Although the Company retains a right of recourse against the actual manufacturer in the event of a claim, there is no guarantee that this right can always be enforced. Additionally, due to the international nature of these transactions, enforcing the right of recourse could involve significant costs.

Risks related to Competition Office procedures

The Competition Authority initiated an investigation in 2022 following complaints regarding the so-called “Support for Residential Solar Panel Systems and Electrification of Heating Systems Combined with Solar Panels” (HET) subsidy. The investigation scrutinized the accuracy and comprehensiveness of the company’s communication activities related to this subsidy opportunity. Additionally, consumers raised concerns about the accuracy of on-site (technical) assessments, the Grant Support Package, and the costs and fees stipulated in the contractor agreement that exceeded the subsidy framework.

On March 8, 2024, the Competition Council issued a decision in the competition supervision procedure, in which it – without the statement of violation of the laws– obliged EU-SOLAR Trading and Service Plc. to establish an internal procedure that ensures the prevention of potential infringements; to providing free “Remote Monitoring” solar panel servicing and maintenance service package for a period of three years to all customers who have or will acquire solar panel systems through projects affected by the competition supervision procedure, including those whose projects are still pending completion, and originally began their projects with EU-SOLAR as the contractor; to provide the continuous operational monitoring of residential-scale power plants, remote troubleshooting of the Growatt system, and a 5% discount on non-warranty repair works.

Although the Competition Authority’s proceedings were concluded without a finding that the company had violated any laws, future complaints, whether justified or not, could potentially lead to further investigations by the Authority. The results of such potential investigations are subject to significant uncertainty due to their subjective nature and could consume significant resources of the Company.

The maximum possible penalty from a potential competition authority investigation could be up to ten percent of the company’s net revenue from the previous fiscal year. However, considering that no fines have ever been imposed on the company, the risk of such a significant penalty being levied is extremely low.

11. Risk management mechanisms

The Company operates ISO 14001 and ISO 50001 management systems, encompassing process-integrated environmental risk management. Additionally, a dedicated enterprise-level risk management framework is under development. Risk mitigation measures are embedded as process-integrated control activities, explicitly defined within the documentation of the Company's key processes.

The Company employs a dedicated compliance organization whose primary responsibilities include ensuring legal compliance within the organization, systematically detecting and managing misconduct, and preventing future occurrences. The Company has an Ethics Code that is accessible to all employees.

Regarding risks, the Company's senior management conducts risk assessment and management tasks as necessary based on input from relevant departments. If needed, the Board of Directors is involved in the decision-making process.

The Company plans the substitution of its existing risk management mechanisms, presently operating within partially formal frameworks, with a comprehensive corporate-level risk management framework to facilitate the systematic, cyclical, and documented identification, analysis, and mitigation of risks (through a risk register). Furthermore, the Company is laying out plans for the establishment of an internal control process. The development and implementation of the requisite policies and methodological frameworks for both risk management and internal control are presently undergoing refinements.

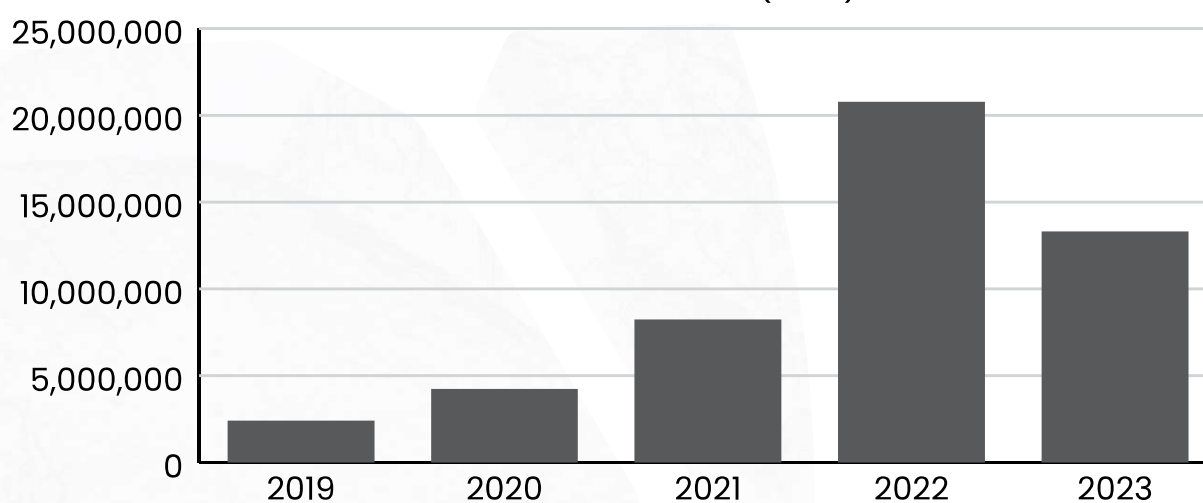
In 2023, the company voluntarily undertook a review of its processes according to ESG criteria, thereby demonstrating its commitment to long-term, predictable, and transparent operations.

12. Financial performance

12.1. The company's assets and liabilities

Designation (tHUF)	2019	2020	2021	2022	2023	2023/2022
Tangible assets,	473,385	813,397	1,182,181	1,979,327	2,431,094	122.82%
Inventories	621,423	853,535	2,652,822	6,055,124	5,137,389	84.84%
Receivables	460,452	734,061	768,441	2,445,450	2,907,584	118.9%
Financial instruments	782,741	1,760,839	3,214,537	7,359,742	617,575	8.39%
Equity	614,478	1,873,531	3,470,447	6,003,832	6,460,729	107.61%
Long + short-term loans	626,211	1,264,263	2,895,767	2,413,088	3,143,421	130.27%
Short-term loans	434,214	732,881	580,407	341,622	2,652,618	776.48%
Advances received from suppliers + customers	1,018,243	805,968	1,212,803	11,081,026	3,170,277	28.61%
Balance sheet total	2,404,340	4,230,913	8,237,277	20,768,761	13,307,142	64.07%

Total assets (tHUF)





As a result of continuous business expansion, the Company's total assets increased from 2.4 billion HUF to 13.5 billion HUF by December 31, 2023, over the past five years.

On the asset side, tangible assets saw significant growth (from 473 million HUF in 2019 to 2.4 billion HUF in 2023), attributable to the developments and expansions carried out at the Company's central facility in Pécs. In 2020, modernization of the central office building with a structure of 690 sqm located at Kocsz Street 127 took place, and the Company acquired a property with a structure of 3200 sqm located at Kocsz Street 110, just 50 meters away, for logistic and office expansion purposes. In 2021, renovation works were conducted at the property on Kocsz Street 110. In 2022, the Company's real estate portfolio saw significant growth with the acquisition of the warehouse in Cserkút.

There has been a significant increase in supplies as a result of the expansion of activity in recent years, which the Company decided to undertake due to the disruption in supply chains and to ensure 100% security of supply to its customers. Materials management is characterised by a focus on security of supply rather than stock optimisation.

The Company financed both the real estate acquisitions and the increase in inventories through supported bank loans, with the loan portfolio rising from 626 million HUF in 2019 to 3.1 billion HUF by 2023.

Since its establishment in 2012, the Company has been profitable every year.

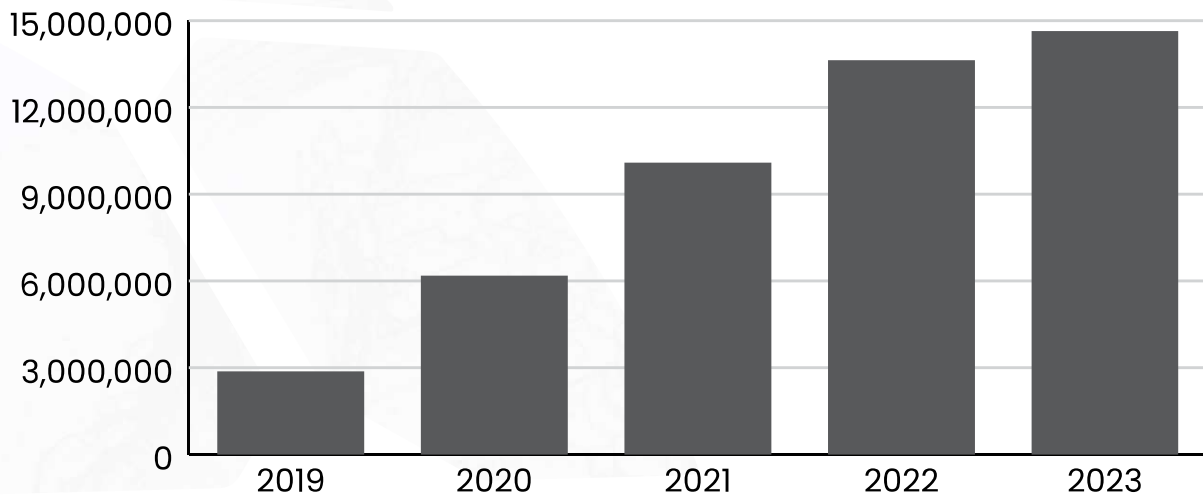
Due to its profitable operations, the Company's equity has also significantly increased over the years, from 615 million HUF in 2019 to 6.5 billion HUF by 2023.



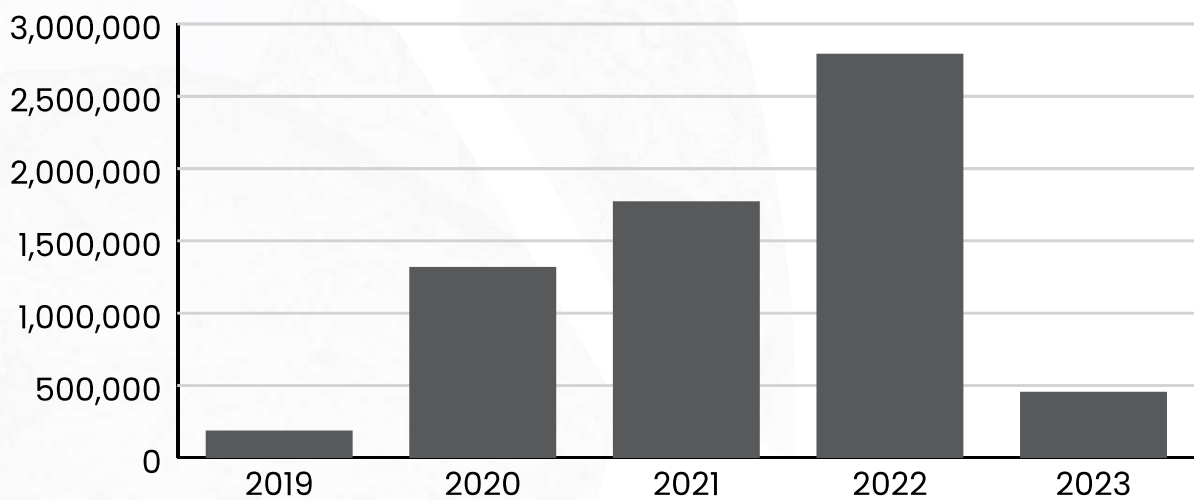
12.2. The Performance of the Company

Designation (tHUF)	2019	2020	2021	2022	2023	2023/2022
Net revenue from sales	2,867,807	6,176,248	10,087,787	13,624,717	14,630,171	107.28%
Material costs	2,260,666	4,237,700	6,901,449	10,992,609	11,618,250	105.69%
Staff related expenditure	325,900	398,559	570,416	729,987	1,179,200	161.54%
Result from operating activities	189,044	1,330,011	1,800,460	1,564,667	1,419,089	90.7%
After-tax income	188,083	1,319,053	1,773,915	2,794,042	456,897	16.35%

Net sales revenues (tHUF)



Profit after taxation (tHUF)





The Company's revenue has significantly increased over the past years (+115% in 2020, +63% in 2021, +35% in 2022, and +9% in 2023), surpassing 14.8 billion HUF in 2023. Despite the significant growth in turnover, the Company's indirect costs rose to a greater extent due to material and service price increases caused by the high inflationary environment and the substantially growing labour force.

Since the Company deals with the domestic installation of solar panels and inverters manufactured abroad, and these installations are carried out by subcontractors, the majority of the Company's costs consist of material-related expenses (material costs, services utilized, COGS, sold intermediary services). Commissions paid to salespersons are categorized under services utilized, while fees paid to subcontractors are accounted for under sold (intermediary) services.

Overall, it can be said that the Company is on a strong growth trajectory, with outstanding profitability and cash generation capabilities, as well as high liquidity and equity adequacy. The Company's future prospects are positive, and its current and future financial management and solvency are on solid ground.

Pécs, 21.05.2024.

András Balázs Petre
Chairman of the Board of Directors