



ALTEO Group
Sustainability
Report
2016

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I. LETTER FROM THE CEO



“My experience show me that environmental consciousness is more present than ever in corporate culture as well as in everyday thinking.”

Attila Chikán Jr., CEO of ALTEO Nyrt.

LETTER FROM THE CEO

Dear Reader,

2016 was all about the collision of the contradictory social and political impacts of globalisation, of which one manifestation was Brexit. As the Paris Agreement and the following COP 22 results have shown, the international community realized that Climate Change can only be tackled by harmonizing the environmental objectives with the Sustainable Development Goals in place. In whatever direction we are heading, **the importance of sustainability – which is one of the strongest symbols of responsible economical and modern social thinking – is now an unavoidable, international goal that is generally accepted by the public.**

New trends are opening new opportunities for all economic actors, including enterprises. Closing a successful year on the energy market, ALTEO has arrived at the moment when customized renewable energy solutions are becoming competitive

alternatives to traditional solutions. My experience show me that environmental consciousness is more present than ever in corporate culture as well as in everyday thinking. From the beginning, **ALTEO's main goal has been to build success on sustainability. The most important element of achieving this goal is to continuously increase the share of energy produced either from renewable sources or from highly efficient cogeneration technology, whilst always considering our clients' needs (individual needs and capabilities).** We are committed to conducting transparent and trustworthy business, therefore we published our first Ethical Codex in January 2016, and developed our Integrated Management System, which includes the Energy Management System as well. We are proud to operate in compliance with all legal and environmental regulations and that we have had no serious work accidents in 2016.

The acquisition of Sinergy Group in 2015 laid the basis of the company's development in 2016. Consequently, we have widened our range of activities and experiences. **Proving we are on the right track to fulfilling our strategic goals, we launched our initial public offering (IPO) in the fall of 2016. Our vision was well received: private and institutional investors underwrote a total of approximately HUF 1.4 billion worth of shares.** Now, we are focusing on achieving appropriate share liquidity. Regarding this, my personal creed focusses beyond the urge to look for financial return on investments, supporters of sustainability should also think about investing in ALTEO.

Naturally, the success of a business enterprise is best expressed in numbers. Last year, Audi Hungaria, MOL Petrolkémia and Sopron Holding extended their contracts with us by five more years each. In addition, ALTEO Group designed and built the renewable energy system for the largest BMW store in Central Europe. And our active investment policy led to an increase in our figures in 2016: our EBITDA margin grew by 62%, while our turnover improved by 33%. This year marks the beginning of a dynamic period: in the next two years, we are planning to invest HUF 15 billion, focusing on renewables and in ensuring that we provide professional services to fulfil the special and economic needs of our customers.

As company CEO, I am happy to say that we have again been successful in shaping the image of ALTEO, as defined at its foundation, an image which fits our sustainability value system. We are lucky, because our personal convictions are in line with the company's strategic and financial goals – therefore we can work to further base our business success on sustainability, which, I believe, is in the common interest of all.

Attila Chikán Jr.,
CEO of ALTEO Nyrt.



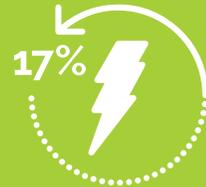


II. HIGHLIGHTS

HIGHLIGHTS



Publication of our **first** Code of Ethics



17% of our built-in electricity capacity is generated by renewable power plants



The number of our employees increased by **7%**



20,5% of ALTEO Group's shares is free float



We have contributed to the elimination of **3200** tons of carbon dioxide emission in the BC- Power Plant



The sales of retail electric energy increased by **11%**



The Tisza-WTP Water treatment plant treats **3,5 million m³** industrial water annually



150 of ALTEO Group's partner companies were certified



97% of our suppliers are Hungarian firms

We conducted **26** internal audits In our Integrated Management System



The general availability of our power plants was above **96%** on average



300 persons participated at the ALTEO Family Day



III. ABOUT THE REPORT

ABOUT THE REPORT

This document is the **first Sustainability Report of ALTEO Energy Services Public Limited Company** (referred to as ALTEO Plc. or the Company) and its consolidated subsidiaries (henceforth referred to as ALTEO Group). With the document we confirm our commitment to sustainability and transparency. The purpose of this document was to provide useful information to all our stakeholder groups. Similarly to our financial reports our Sustainability Report covers the 2016 financial year (from January 1 to December 31 2016), and gives an account of ALTEO Nyrt. and its subsidiaries' operations. In the future we will publish the Sustainability Report together with the Financial Report.

In 2015 Sinergy Kft. joined ALTEO Group. Sinergy Kft., committed to sustainability and with its existing and planned energy efficiency projects, was an ideal strategic fit for ALTEO Group's future plans. Data included in this report for the years 2013 and 2014 contain only the data of ALTEO Group; data from 2015 onwards also includes data of Sinergy Kft. and its subsidiaries. Since the services and assets of Sinergy Kft. are now integrated in ALTEO Group's portfolio, to ensure completeness, we have also included some details related to Sinergy Kft.'s operations that took part or originated before the fusion.

Our report was compiled according to the fourth generation (GRI G4) guidelines of the Global Reporting Initiative (GRI) the world's most widespread reporting standard¹. The report fulfills the criteria set for the "Core" application level. KPMG Tanácsadó Kft. provided assistance in the preparation of the report and Deloitte Auditing and Consulting Ltd. provided limited assurance on the data and information presented.

The Report's content was determined based on the results of the materiality assessment carried out in January 2016. In the course of the materiality assessment, we defined the key stakeholder groups of ALTEO Group. In cooperation with these key stakeholder groups, we have identified the topics and aspects, which we wish to focus most upon.

We have defined the scope of material topics according to the degree of control that ALTEO Group has over each aspect. Therefore the report contains the results and outputs of the topics where ALTEO Group is considered the decision-maker or implementer. The scope for most aspects is the operations of ALTEO Group, but in certain cases we also include results which go beyond the organization,



for example the results of power plants operated or overseen by ALTEO Group experts. In such cases we indicate the results of facilities owned and operated by ALTEO Group separately.

We welcome your comments, recommendations, questions or other remarks in connection with our Sustainability Report or with the operation of ALTEO Group at this e-mail address:

fenntarthatosag@alteo.hu

¹ United Nations: World Population Prospects. (https://esa.un.org/unpd/wpp/Publications/Files/Key_Findings_WPP_2015.pdf).

ALTEO Group – Materiality Heat Map





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INDEPENDENT ASSURANCE REPORT

To the management of Alteo Nyrt.

This report has been prepared in accordance with the terms of our contract dated 28 July 2017 in order to accomplish the independent external party examination of Alteo Nyrt.'s Sustainability Report 2016 document (hereinafter "Report") presenting the non-financial performance and sustainable operation of Alteo Nyrt.

The responsibility of Alteo Nyrt's management

Alteo Nyrt. is responsible for the preparation of the Report in accordance with the Global Reporting Initiative (GRI) G4 as described in the guideline to the Report. This responsibility includes the selection and application of appropriate methods to prepare the Report and the use of assumptions and estimates which are reasonable in the given circumstances.

The scope of the examination, its criteria and its limitations

The aim of this limited assurance engagement is to express a conclusion whether the selected information and data of the Report prepared for the year ended 31 December 2016 are prepared by the Management of Alteo Nyrt. in line with the GRI criteria.

The limitations of our examination

The scope of our examination included solely the sustainable performance indicators stated in the Report.

During our examination we have not fully examined all the sustainable data and information stated in the Report. Our examination included solely the compliance of the data reporting procedure with GRI principles and the sample-based testing of the data sources.

Our examination of numerical data included in the Report was limited to the sustainability indicators

- G4-10 Total number of employees
- G4-EU2 Net energy output
- G4-EN18 Greenhouse gas (GHG) emissions intensity
- G4-EN21 NOx, SOx, and other significant air emissions
- G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with environmental laws and regulations

together with the testing of the data sources. The examination of the other numerical data presented in the Report has not been performed.

We have not examined previous years' data and trends relating to performance indicators presented in the Report.

Our report has been prepared solely for the purpose described in the first section of this report.

Our responsibility

Our responsibility is to report on the selected data and information included in the Report of 2016.

We prepared our report solely for the purpose of disclosing it in the documents of Alteo Nyrt., and we do not accept any responsibility for any third party usage of the documents published as a result of this examination (for example the final examination report).

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" ("ISAE 3000").

This standard requires that we comply with the ethical requirements as well as plan and perform the assurance engagement to obtain limited assurance whether the selected information and data included in the Report of 2016 have been prepared, in all material respects, in accordance with the GRI criteria.

Summary of the work performed

The verification process, the examination and evaluation of the Report have been prepared according to the Electric Utilities Sector Supplement of GRI G4 guideline.

Procedures performed:

The verification of the reporting process:

- Examination of the organization's operational processes;
- Examination of regulations of the reporting process;
- Examination of the data gathering and maintaining practice;
- Examination of the reporting practice;
- Examination of documentation practices and regulations.

The verification of GRI application level:

- Examination of the completeness and appropriate application of indicators used in the Report.
- Examination of the definition level application of GRI indicators stated in the Report.
- The evaluation of the Report's compliance with GRI principles.

Limited examination of the appropriateness of five selected indicators on data level.

Preparation of the final examination report: professional evaluation and elaboration of recommendations. We have summarized the possible development areas connected to the reporting process in the final examination report prepared for the management of Alteo Nyrt. These statements do not have influence on our conclusions on the Report stated in this independent assurance report.

To confirm and to complete the statements above, we have accomplished the following interviews at the selected departments connected to the verification of the Report of 2016: IMS, HR, Energy production operation and maintenance division, Tiszaújváros Cogeneric Heat Plant, TVK Power plant, Tisza-WTP Water Treatment Plant, Füredi street Cogeneric Heat Plant, MOM-Park Trigeneration Energy Center.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.

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

Conclusion

Based on our limited assurance engagement, nothing has come to our attention that would cause us to believe that the selected information and data of the Report have not been prepared, in all material respects, in accordance with Core option of GRI G4 criteria, and the Report would not comply with the GRI.

Budapest, 18 September 2017.

Tamas Horvath

Partner

Deloitte Auditing and Consulting Ltd.

Dózsa György út 84/C, Budapest, H-1068, Hungary





IV. OPERATING ENVIRONMENT

OPERATING ENVIRONMENT

In contrast with our previous historical periods the 21st Century is the era of a range of structural and global problems that can only be addressed by structural and global responses. **The impacts of the activities of mankind has grown to a size that makes local initiatives and local responsibility insufficient. The interconnectedness of global society and peoples has reached a level where each slight movement can be felt on the other side of the world.** This is true for every part of society, not just in cases of mutual international economic dependence, global pandemics, disruptions in food supply chains and famines, but also regarding social inequalities as well as environmental pollution and the degradation of ecological systems.

The sustainability challenge is encoded in the current socio-economic and ecological system, because the expanding needs of the growing population (consider the consumption of meat, telecommunications, energy, etc.) have to be provided for from the same limited amount of resources as before. The population of our planet

is expected to grow at its current rate until 2050, by which time we will be sharing the Earth with 10 billion other people. This growth will be distributed unequally: the share of African populations will rise in global terms from 16% to 25%, while the Asian population share is expected to fall to 54% from the current 60%.²

By 2030, the number of people in the global 'middle class' will reach 4.9 billion.³ Thus billions of people will be joining a resource-intensive lifestyle.

The greatest challenge of the future, therefore, will be how to satisfy the needs and consumption of the new middle class while combating the ever-growing resource scarcity and ensuing price volatility. Access to water, energy, food and other resources will be most affected by this challenge.⁴

As growing needs contribute to growing emissions; Climate Change will pose an even greater threat to our access of to resources.



² United Nations: World Population Prospects. (https://esa.un.org/unpd/wpp/Publications/Files/Key_Findings_WPP_2015.pdf).

³ OECD Observer: An emerging middle class. (http://oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html)

⁴ KPMG: Expect the Unexpected (<https://home.kpmg.com/xx/en/home/insights/2012/03/sustainable-insight-expect-the-unexpected.html>)

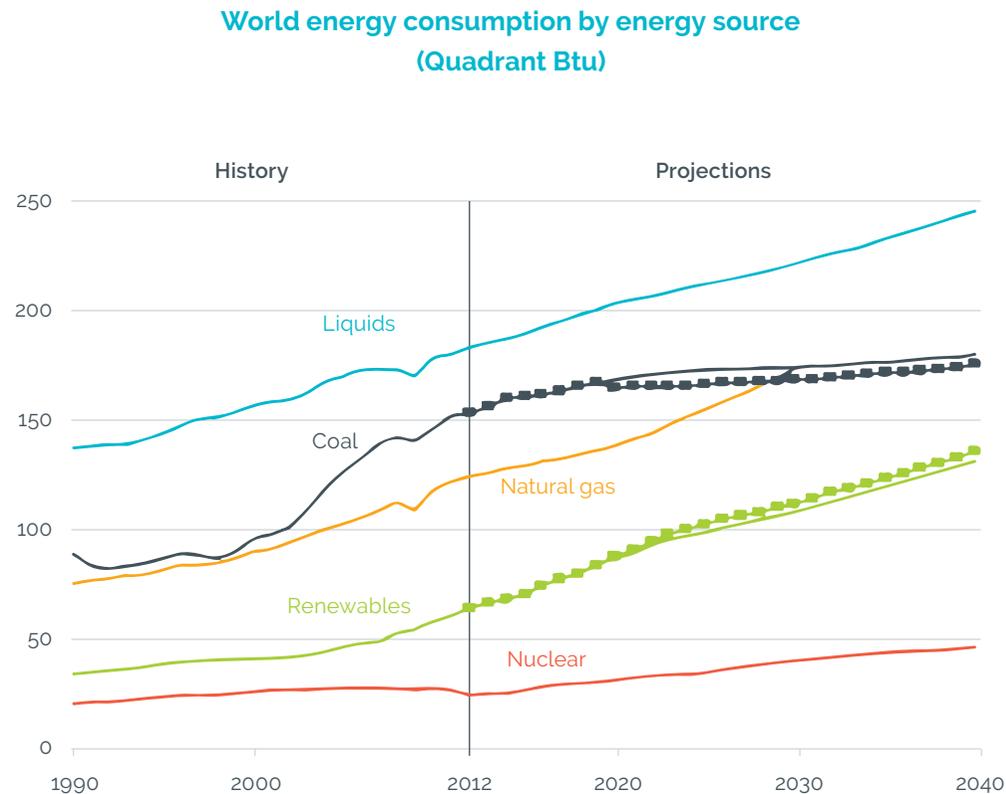
Global energy sector

Easily available and affordable energy is the basis of modern society: we cannot produce or consume without energy. Consequently, energy consumption has nearly doubled over the past 50 years.⁵ Changing demands and technological development have caused great changes in the composition of the energy resources used: the reliance on coal and natural gas in total energy consumption has increased the most.⁶ The cause for the boom in energy consumption is economic growth, as experienced by the developing world, where millions of consumers are emerging from deep poverty, increasing global energy demand. The fastest ways to meet such skyrocketing demand was the use of coal and natural gas-fueled power plants.

Climate Change, caused by increased greenhouse gas (GHG) emissions, is still a growing risk for society, the economy and the natural environment. The extreme weather conditions caused by Climate Change contribute not only to a potential decline in food safety, but also carry the risk of financial losses and can be the potential cause of the spread of global epidemics as well as the destruction of local and regional ecosystems.

Growing awareness of Climate Change reached its climax in 2015, when the leading decision-makers of the world signed the Paris Agreement. The Agreement documents the shared objective of the signatories to work to decelerate the rise of the global average temperature to below 2°C, and to decrease greenhouse gas emissions.⁷

⁵ International Energy Agency: World Energy Outlook 2012 (<http://www.worldenergyoutlook.org/media/weowebiste/2012/PresentationtoPress.pdf>)
⁶ International Energy Agency: International Energy Outlook 2016 (<https://www.eia.gov/outlooks/ieo/world.php>)
⁷ European Environment Information and Observation Network, Hungary: Bonjour Párizs, Klimacsúcs 2015 (<http://eionet.kormany.hu/bonjour-parizs-klimacsucs-2015>)



Energy Strategies

The Paris Agreement became the first global energy target that was widely accepted in the world, by nearly 200 countries.

Achieving the goals defined in the Agreement requires the cooperation of the public, private and civil sectors. Hence the stakeholders of the energy sector started to work at finding new solutions, frameworks and paradigms to align their strategies and operations to the Agreement. Complying with the Agreement is especially important for members of the energy sector, which, globally, is a state-regulated industry that provides universal service, and is responsible for one third of global greenhouse gas (GHG) emissions.



For the last 20 years the European Union (EU) has been at the forefront of global efforts to mitigate Climate Change. Independently of the Paris Agreement, the EU has launched a Climate- and Energy package also aimed at curbing Climate Change. The initiative sets the EU-wide objective of decreasing GHG emissions by 80%. To meet the goal set, the EU formulated emissions targets for 2020 and 2030⁸

The EU's 2030 Strategy determines four main directions: a 40% cut in GHG emissions compared to the base year of 1990; increasing the share of renewable energy to 27% of total energy consumption; harmonizing the energy efficiency and security plans of all member states; as well as reforming of the EU Emissions Trading System (ETS).

In 2012, Hungary put together its National Energy Strategy 2030 in order to focus on reaching its energy efficiency-related goals. The objectives contained in the Strategy correspond to the EU's basic goals, which are sustainability, competitiveness and security of supply.⁹

⁸ European Commission: 2030 Energy Strategy. (<https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/2030-energy-strategy>)

⁹ National Energy Strategy 2030 (<http://2010-2014.kormany.hu/download/4/f8/70000/Nemzeti%20Energiastrat%C3%A1gia%202030%20teljes%20v%C3%A1ltozat.pdf>)



Renewable Energy

The Paris Agreement and the EU's and Hungary's Energy Strategies would not be feasible without the use of renewable energy sources.

The biggest advantage of the use of renewable resources is that they generate energy with little environmental burden, emit no greenhouse gases, and are inexhaustible.

Furthermore renewable power plants can be used in a decentralized way, adapting to local needs and demands. Based on its characteristics, renewable energy production offers solutions applicable to local challenges both in the developing and developed world.

Renewable energy plays an important role in developing and diversifying local energy supply. By building an adequate network and infrastructure, power generated from renewable sources may also significantly contribute to reducing dependence on fossil fuels. Furthermore, investing in renewable

technologies creates jobs worldwide; in the European Union more than 1.5 million jobs were related to the renewable energy industry in 2016, and based on the forecast of a research project for the European Commission, this number will be close to 3 million by 2020.¹⁰

The share of electricity generated from renewable resources increased from 18% to 23% between 2005 and 2015.¹¹

Globally, this increase was chiefly caused by the development of photovoltaic (solar) power plants and wind power plants, with installed capacities growing in the past 10 years accordingly. Meanwhile the production costs of photovoltaic power plants have dropped sharply, contributing to a significant increase in their application both by industries and households.¹²

In 2015, energy from renewable resources amounted to 14.5% of energy consumption of Hungary.¹³

Next to developing the Paks Nuclear Power Plant, the use of renewable sources for the generation of electricity has the greatest potential to reduce Hungary's dependence on imported energy, because the natural conditions and environment support the use of renewables.



In 2004, the share of renewable energy in Hungary amounted to only 4.4%,¹⁴ but this figure had tripled by 2015. Based on this trend, Hungary has the chance to meet its target of 14.65% by 2020 – or even before that date.

¹¹ Renewables Global Status Report (http://www.ren21.net/wp-content/uploads/2016/06/GSR_2016_Full_Report.pdf)

¹² International Energy Agency: World Energy Investment 2016 (<https://www.iea.org/Textbase/npsum/WEI2016SUM.pdf>)

¹³ Eurostat: Renewable energy in the EU (43/2017) (<http://ec.europa.eu/eurostat/documents/2995521/7905983/8-14032017-BP-EN.pdf/af8b4671-fb2a-477b-b7cf-d9a28cb8beea>)

¹⁴ Eurostat: Renewable energy statistics (http://ec.europa.eu/eurostat/statistics-explained/index.php/Renewable_energy_statistics)



V. ABOUT THE COMPANY

ABOUT THE COMPANY

Company history

The ALTEO Group was established in March 2008, with the purpose of producing electric power.

In the early years the Company grew by way of acquisitions, acquiring the Győr and Sopron Power Plants from E.ON Group and purchasing three wind turbines from Raiffeisen Energy. ALTEO Group's first own project was the development of a small-scale cogeneration plant for the AGRIA Park shopping centre in Eger. **Expanding its portfolio, ALTEO Group gave preference to power generation from renewable resources as well as to tech-**

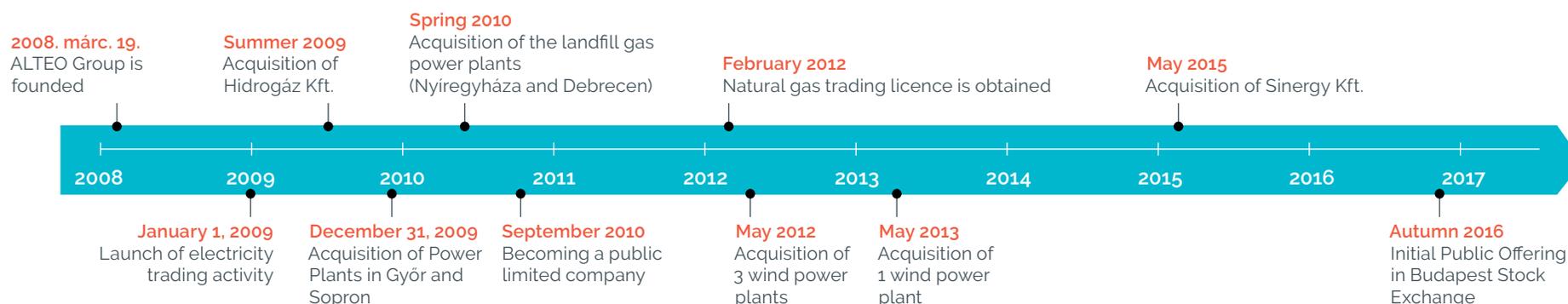
nologies ensuring efficient electricity and heat generation. Apart from developing a stable and sustainable portfolio in energy production, ALTEO Group was also working on extending its corporate financing possibilities. **In September 2010 ALTEO became a public limited shareholding company and the Budapest Stock Exchange (BÉT) launched ALTEO Group shares in category "B", creating the possibility for stock fundraising.**

In May 2015 ALTEO Group successfully finalised the acquisition of Sinergy Kft., formerly owned by

the ELMŰ-ÉMÁSZ Group. This acquisition was one of the biggest energy deals of the year, and it enabled ALTEO Group to join the leading companies of the Hungarian energy sector.

In autumn 2016, ALTEO Plc. successfully concluded its initial public offering (IPO). As a result, the company managed to quadruple the number of its free float shares and secure HUF 14 billion of funding for projects supporting its strategic objectives.

Milestones of ALTEO Group



COMPANY PROFILE



Name: ALTEO Group



Address: 1131 Budapest, Babér street 1-3.



Owners (December 31, 2016):

67,4% Wallis Asset Management Zrt. and subsidiaries
7,4% Board of Directors, Supervisory Board and members of top management
4,7% Own shares
20,5% Free float



Registered capital (December 31, 2016):
195 million HUF



Sales revenue (December 31, 2016):
14 billion HUF



Number of employees (December 31, 2016):
192 persons

ALTEO Group is one of the leading companies of the Hungarian energy sector, offering complex, Smart Energy Management services. Its business activities cover power generation based on renewable resources, as well as on highly efficient, hydrocarbon-based technology; energy wholesale and retail trading; and services provided to industrial companies, focusing on establishing, operating and maintaining energy systems and power plants.

ALTEO Group

ALTEO Group owns or operates 23 power plant units; the total portfolio's electricity generating capacity is 156 megawatts and also 880 megawatts of heat generating capacity. The portfolio

contains plants based on renewable resources: ALTEO owns four wind power plants, operates two hydroelectric power plants and several plants based on gases from renewable sources and biogas. ALTEO Group's operational structure reflects its diversified portfolio: all project companies, power generating and trading companies are subsidiaries of ALTEO Nyrt. ALTEO Group is made up of the parent company and its subsidiaries. Spreading power generation based on renewable resources and highly efficient decentralised systems more widespread is one of the Group's main tasks. In line with this ambition, ALTEO Group has built and is continuously developing a plant portfolio that consists of units of alternative and renewable energy as well as complementary, high efficiency, natural gas fired electricity and heat cogeneration systems located close to heat consumers. Furthermore the Group operates and owns several thermal plants, which produce energy for industrial plants and serve urban district heating systems.

ALTEO Group also supports the efficient energy management of its customers in order to help them minimize the environmental burden caused by their operations, decrease their energy costs, and to ensure the maximum use of the economical renewable energy sources. **The "smart energy management" approach is the basis of all ALTEO Group services provided to industrial plants. The philosophy behind this solution has three pillars: on the supply-side, it is characterised by a reliable energy supply, energy efficiency and the integration of energy from renewable sources; on the demand-side it is characterised by increasing cost- and energy efficiency initiatives; and finally ALTEO Group offers complete solutions that are tailor-made and innovative.** Security of supply and reliability and availability of services stand out as most important factors in meeting such expectations. As this new approach spreads, Hungary's energy system will become more sustainable, while the services and cooperation of partners will be more customized and flexible.

Power plant portfolio of ALTEO Group in Hungary



ALTEO Group's continuously expanding retail activities offer affordable electricity to Hungarian small- and medium-sized companies. In addition, ALTEO Group has its own Virtual Power Plant (VPP) and balance group. In 2016 ALTEO Group also launched its gas business, with the help of which the company is able to meet all the energy purchase demands of its clients.

VIRTUAL POWER PLANT – In 2011 Sinergy Kft. set up its Virtual Power Plant (VPP) – a system that ensures central control and regulation of small-scale power plants. In 2016 ALTEO's VPP included six small-scale power plants owned by the company, and is able to integrate further units. The total capacity was 48 MWe in 2016. Further information about the Virtual Power Plant can be found in the *Products and Services* chapter.



RENEWABLE ENERGY GENERATION

ALTEO Group has significant competencies, among others, in the utilization of renewable energy sources.

WIND MILLS

Ács
Jánossomorja
Pápakovácsi
Törökszentmiklós

RENEWABLE GAS

Debrecen – landfill gas
Nagykőrös – biogas
Nyíregyháza – landfill gas
Kisújszállás – thermal methane gas

HYDROELECTRIC POWER PLANTS

Felsőörsz
Gibárt

BIOMASS

Tiszaújváros



INDUSTRIAL AND COMMERCIAL SERVICES

By providing professional services to industrial plants, ALTEO Group contributes to the energy efficiency of its customers.*

BORSODCHEM:

BC-Therm boiler
BC-Power Plant

MOL PETROLKÉMIA:

TVK Power Plant
TISZA-WTP Water Treatment Plant

AUDI MOTOR HUNGÁRIA KFT: HEAT SUPPLY

HEINEKEN: HEAT SUPPLY

MOM PARK: ENERGY CENTER

AGRIA PARK: ENERGY CENTER

*See further information about our clients in the Clients section of the Report.



GAS ENGINES AND HEATING POWER PLANTS

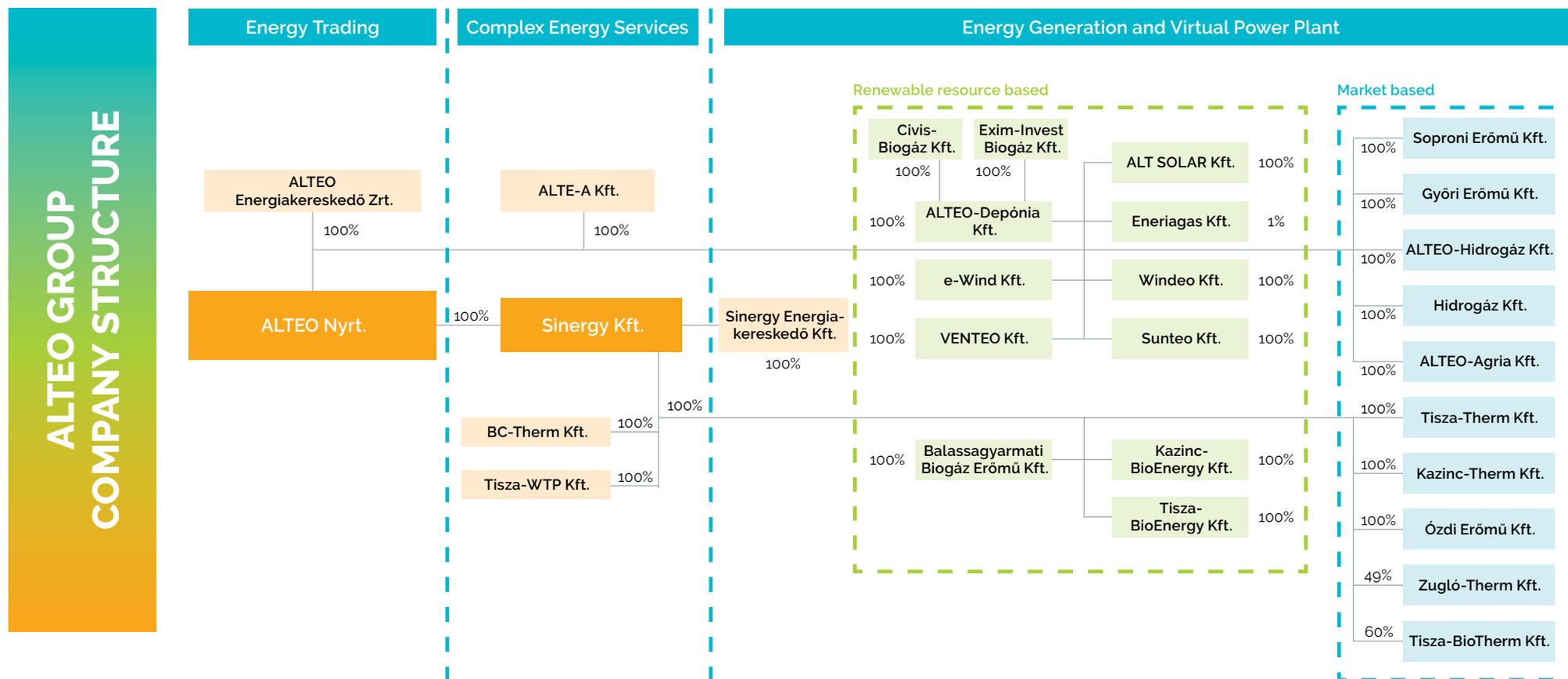
ALTEO Group operates highly efficient, hydrocarbon-fuelled electricity generating systems.

HEATING POWER PLANTS

Kazincbarcika
Tiszaújváros
Ózd
Zugló
Győri Power Plant
Soproni Power Plant

Company Structure

ALTEO Group is organized into project companies and subsidiaries in order to offer the most flexible responses to our continuously developing customer needs. **Activities are focused in three main areas with the aim of maximizing the organizational synergies and to execute ALTEO Group's long-term strategy: energy trading, energy production and VPP, and complex services.** The figure below presents the key partners and subsidiaries of ALTEO Group and their ownership relationships.



Strategy and values

The energy industry was, is and will be crucial for mankind. Modern life could not have evolved without reliable energy sources; energy has become so ubiquitous, we do not always realize when we are using it.

Our future is defined by energy: on the one hand, the inventions of the future will be based on reliable, easily attainable energy, and on the other hand, greenhouse gases (GHG) generated during energy production and Climate Change cannot be overlooked. Electricity and heat production come with disproportionate emissions: globally, they only account for 10% of the world's GDP¹⁵, but they are responsible for approximately 25% of the world's GHG emissions.¹⁶

These characteristics of the energy industry drive innovations and investments aimed at achieving sustainable and reliable energy supply for everyday life and future inventions. Accordingly, global energy policy is adapting to the circumstances, focusing on efficient technologies and low- or zero

emission power plants. The future will be about smart networks, tools, homes, high-tech services, electric vehicles and even smart decentralized energy supplies based on renewable resources. ALTEO Group identified the opportunities alongside this shift of focus and aims to be an active, leading player in this energy revolution, shaping the solutions of the future.



ALTEO Group's strategic goal is to become an energy supplier that offers an optimal combination of energy trading, decentralized energy production and complex energy services to its clients, while granting steady yields to its investors and shareholders. The main aim of this strategy is to ensure sustainable operations while taking the economic, environmental and social impacts into account.

In order to reach these goals, the company is developing an energy portfolio that includes power generation based on renewable resources, as well as on highly efficient, hydrocarbon-based technology, while building a customer-focused and flexible energy trading branch. Moreover, the ALTEO Group assists with its partners' energy management in order to reduce the environmental impact as well as the energy costs that stem from their operations and to be able to utilize cost-efficient renewable energy sources to the maximum.

¹⁵ Leonardo Energy: World Energy Expenditures (<http://www.leonardo-energy.org/resources/798>)

¹⁶ United States Environmental Protection Agency (EPA): Global Greenhouse Gas Emissions Data (<https://www.epa.gov/ghgemissions/global-greenhouse-gas-emissions-data>)

ALTEO Group's strategy is based on three pillars: reliable power supply, energy efficiency and climate consciousness.

Reliable power supplying is key for the ALTEO Group so that we can become a highly trusted energy provider; energy efficiency ensures that our services are carried out in a safe manner with minimal environmental impact; climate consciousness represents ALTEO Group's responsibility towards future generations that goes beyond reducing negative environmental impacts. All present and future developments and investments are evaluated according to these three criteria.

The capital requirements of all investment opportunities between 2017 and 2019 identified by ALTEO Group run at approximately 10-15 billion HUF.

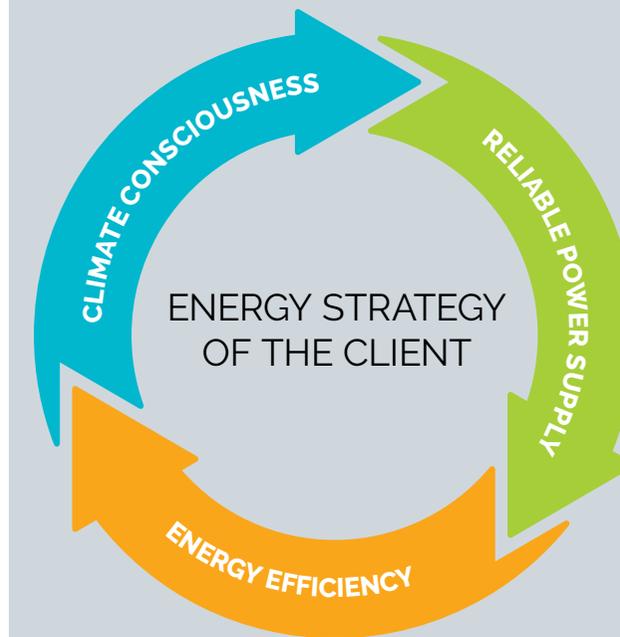
These investments would be realized in the areas of ALTEO Group's current service lines.

Energy produced from renewable resources plays an important part in ALTEO Group's planned investments. On the company's list of future investments, renewable resources account for ca. 50%. The share of investments into power production and VPP among all planned investments is above

35%, and the last 10% of our investments will be aimed at the complex energy services offered to clients.¹⁷

Currently ALTEO Group only operates in Hungary; however, its goal is to extend activities to neighbouring and other Central and Eastern European countries.

„SMART ENERGY” CONCEPT OF ALTEO GROUP



ENERGY STRATEGY OF THE CLIENT

CLIMATE CONSCIOUSNESS

- Maximizing energy savings, optimizing the use of existing asset stock
- Modern technology
- Renewable technologies for the reduction of harmful environmental effects

RELIABLE POWER SUPPLY

- High level of availability
- Reliable technologies
- Independence from energy supply problems

ENERGY EFFICIENCY

- Highly efficient energy generation, reduction of CO₂ emission
- Local electricity generation for minimizing grid loss

¹⁷ It is important to note that ALTEO Group's plans only reflect the opportunities identified. ALTEO Group does not guarantee that realized investments will maintain the levels reported, as plans may dynamically change over time. Investment plans included in this report only reflect the ALTEO Group's intentions and strategy.

Our values

Our values define the direction of ALTEO Group's future development. These are:

**Expertise and experience
in a wide range of energy
services**

**Providing integrated,
complex services**

**Customer focus, tailor-made
solutions in line with clients'
needs**

**Flexibility, openness to new
ideas and innovation**

**Commitment to protecting
the environment**

**Transparent operations as
a result of stock exchange
listing**

**Fair partnerships based
on mutual benefits**

**Steady, reliable local
offerings**

**Brand awareness
and brand-recognition**

Organizational operation

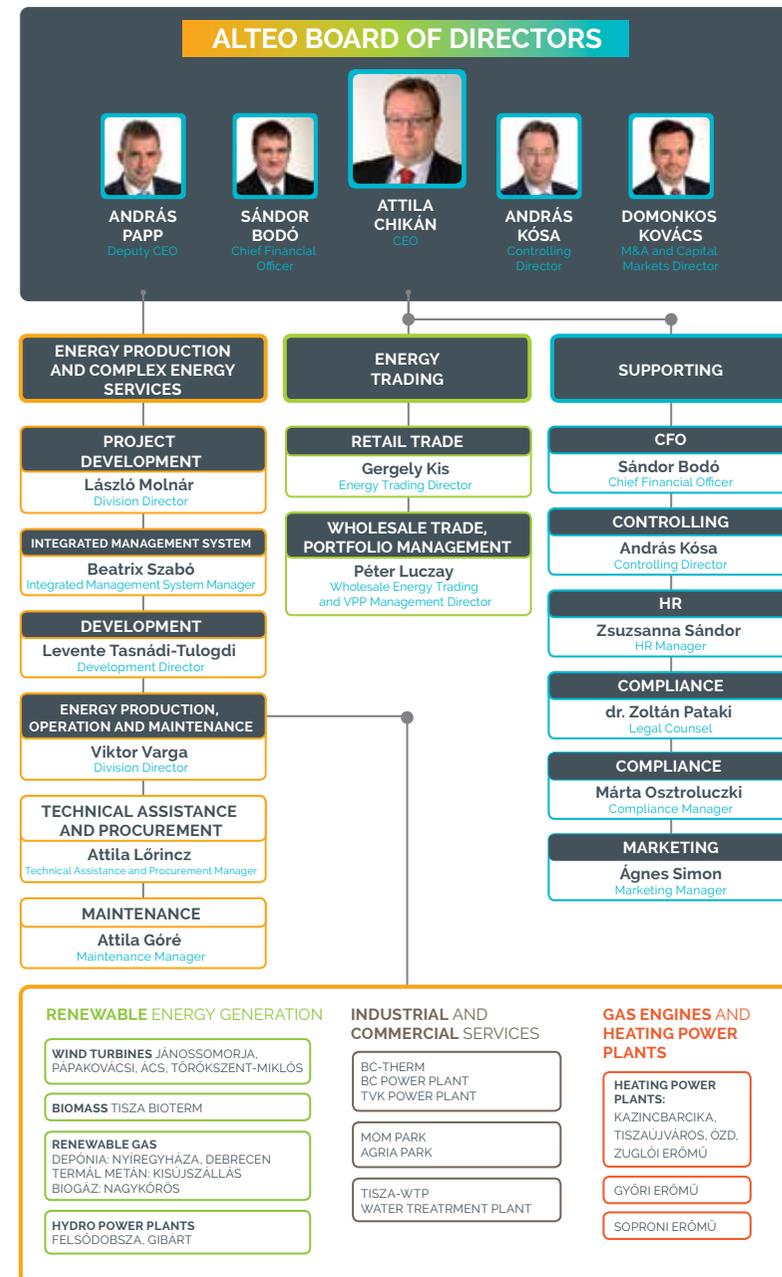
Organizational Structure

ALTEO GROUP'S ACTIVITIES ARE DIVIDED INTO TWO BUSINESS LINES:

ENERGY PRODUCTION AND COMPLEX ENERGY SERVICES,
and **ENERGY TRADING.**

These operations are supported by the financial, controlling, HR, marketing, legal and compliance functions. This structure was established after the acquisition of Sinergy Kft. in order to enhance the synergies between departments.

The organizational structure reported reflects its status on December 31, 2016.



Corporate Governance¹⁸

GENERAL ASSEMBLY

The company's chief body is the General Assembly, comprised of all shareholders. The General Assembly is exclusively responsible for decisions regarding leadership and operations, such as changes in the company charter, transformation and potential cessation of the company, election of the members of the Board of Directors and the Supervisory Board, and the approval of the company's annual reports. The Board of Directors convenes the General Assembly at least once a year.

BOARD OF DIRECTORS

ALTEO Group's main decision-making body is the Board of Directors, which comprises of seven members, who are legal representatives of the company. **The Board of Directors coordinates and manages ALTEO Group, provides guidance and defines the company's business development concept.** The Board of Directors consists of at least three individuals, not executive bodies. The Chairman of the Board is elected by its members. The members of the Board of Directors are elected by the General Assembly to represent the company for up to five years.

In 2016, the mandate of all members of the Board of Directors was valid until April 30, 2020.

The members were:

- Péter Kaderják, Chairman of the Board of Directors
- Attila Chikán Jr., Member of the Board of Directors
- Domonkos Kovács, Member of the Board of Directors
- Zsolt Müllner, Member of the Board of Directors
- Gyula Mező, Member of the Board of Directors
- András Papp, Member of the Board of Directors
- Ferenc Karvalits, Member of the Board of Directors

SUPERVISORY BOARD

The work of the ALTEO Group is supervised by the Supervisory Board (SB). In 2016, the mandates of the SB were valid until April 30, 2020.

Members of the SB as of 2016 were:

- István Bakács, Chairman of the SB
- Dr. János Lukács, Member of the SB
- Dr. István Borbíró, Member of the SB
- Peter Jancsó, Member of the SB

AUDIT COMMITTEE

The Audit Committee consists of three members, who are elected by the General Assembly from the independent members of the Supervisory Board. In 2016 István Bakács, Dr. János Lukács and Dr. István Borbíró were members of the Audit Committee. The Audit Committee has the right to request information from members of the Board of Directors or senior executives of the company to which the addressees are required to reply in writing.

The Audit Committee assists the Supervisory Board in overseeing the financial reporting system, in the selection of the statutory auditor and in cooperating with the statutory auditor.

¹⁸ Data related to corporate governance reflect its status on December 31, 2016.



EXECUTIVE BOARD

The Executive Board is responsible for the executive management of the company. The Board has five members: the current CEO, the Deputy CEO, the Chief Financial Officer, the Controlling Director and the M&A and Capital Markets Director. **The Executive Board is responsible for ALTEO Group's operational leadership in accordance with the company's strategy, in compliance with current legal requirements, cost-effective operation, quality service delivery, healthy and safe working conditions and environmental protection.**

According to the requirements of the ALTEO Group's Integrated Management System (IMS), the management review, convened once a year by the CEO, provides a platform for the Executive Board to review the company's compliance in line with the above mentioned criteria, and, where further development options are identified. During the review, the management monitors the fulfilment of the sustainability-related tasks of the Quality and Workplace Health, Safety and Environmental Protection (HSE) objectives, amongst others. If necessary, the Executive Board also defines new tasks.

AUDITOR

In accordance with accepted regulations, ALTEO Group is required to have a statutory auditor. **It is the auditor's duty to ensure that the audit is carried out, to determine whether the company's accounts are in accordance with the Accounting Act and whether they provides a true and fair view of the financial position and operating results of the company.**



Integrated Management System

Underlining ALTEO Group's activities related to implementation, engineering services, investments, energy production and operations as well as during energy trading, the company commits itself to offering services that surpass customer expectations.

ALTEO Group pays special attention to ensuring a healthy and safe working environment, protecting its environment, developing energy efficiency in line with good precautionary principles and that of responsible care. The company is also committed to corporate responsibility, in this way contributing to sustainability.

Sinergy Kft. launched its integrated quality and environmental system in 2003; in 2006, it introduced a workplace health and safety management system, creating the Integrated Management System (IMS). After the merger, the IMS was extended to all subsidiaries of ALTEO Group. In 2016, the IMS was certified in line with the ISO 9001, ISO 14001, ISO 50001 and OHSAS 18001 standards. During our reporting period, all four systems have been audited and certified by an external party - SGS Hungária Kft.

The Integrated Management Policy summarises the system, in which the company's management commits itself to providing quality services, a safe working environment, energy efficiency, environmental protection and sustainability.

In 2016, 26 internal audits were carried out, covering the entire IMS of ALTEO Group, including all sites and organization units.

In line with the IMS, HSE inspections/HSE visits were carried out at all sites. Various authorities carried out 16 HSE-type inspections, which resulted in four logged observations and one fine of HUF 54,000. Apart from these, there were no non-compliance issues regarding ALTEO Group's operations that would have resulted in a significant fine or non-monetary penalty.

ALTEO Group in turn rated approx. 150 partner companies, of which 92% received "adequate" rating, 8% were rated "fairly adequate" and one company was rated "inadequate".



SGS

Certificate CH16/0129.00

The management system of

ALTEO Group

H - 1131 Budapest, Babér utca 1-5.

has been assessed and certified as meeting the requirements of

OHSAS 18001:2007

For the following activities

Management, construction and supervision of construction, operation and maintenance of energy and HVAC projects, energy services, electricity and natural gas retail and whole sale trading.

This certificate is valid from 6 December 2016 until 4 January 2019 and remains valid subject to satisfactory surveillance audits
Recertification audit due before 13 December 2018
Issue 2. Certified since March 2007

This is a multi-site certification.
Additional site details are listed on the subsequent page.

Authorised by




SGS Société Générale de Surveillance SA Systems & Services Certification
Technoparkstrasse 1 8005 Zurich Switzerland
t +41 (0)44 445-16-80 f +41 (0)44 445-16-88 www.sgs.com

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SGS

Certificate HU16/7812

The management system of

ALTEO Group

H - 1131 Budapest, Babér utca 1-5.

has been assessed and certified as meeting the requirements of

ISO 14001:2004

For the following activities

Management, construction and supervision of construction, operation and maintenance of energy and HVAC projects, energy services, electricity and natural gas retail and whole sale trading.

Further clarifications regarding the scope of this certificate and the applicability of ISO 14001:2004 requirements may be obtained by consulting the organisation.

This certificate is valid from 6 December 2016 until 15 September 2018 and remains valid subject to satisfactory surveillance audits.
Recertification audit due before 15 July 2018
Issue 2. Certified since 5 January 2004

This is a multi-site certification.
Additional site details are listed on the subsequent page.

Authorised by

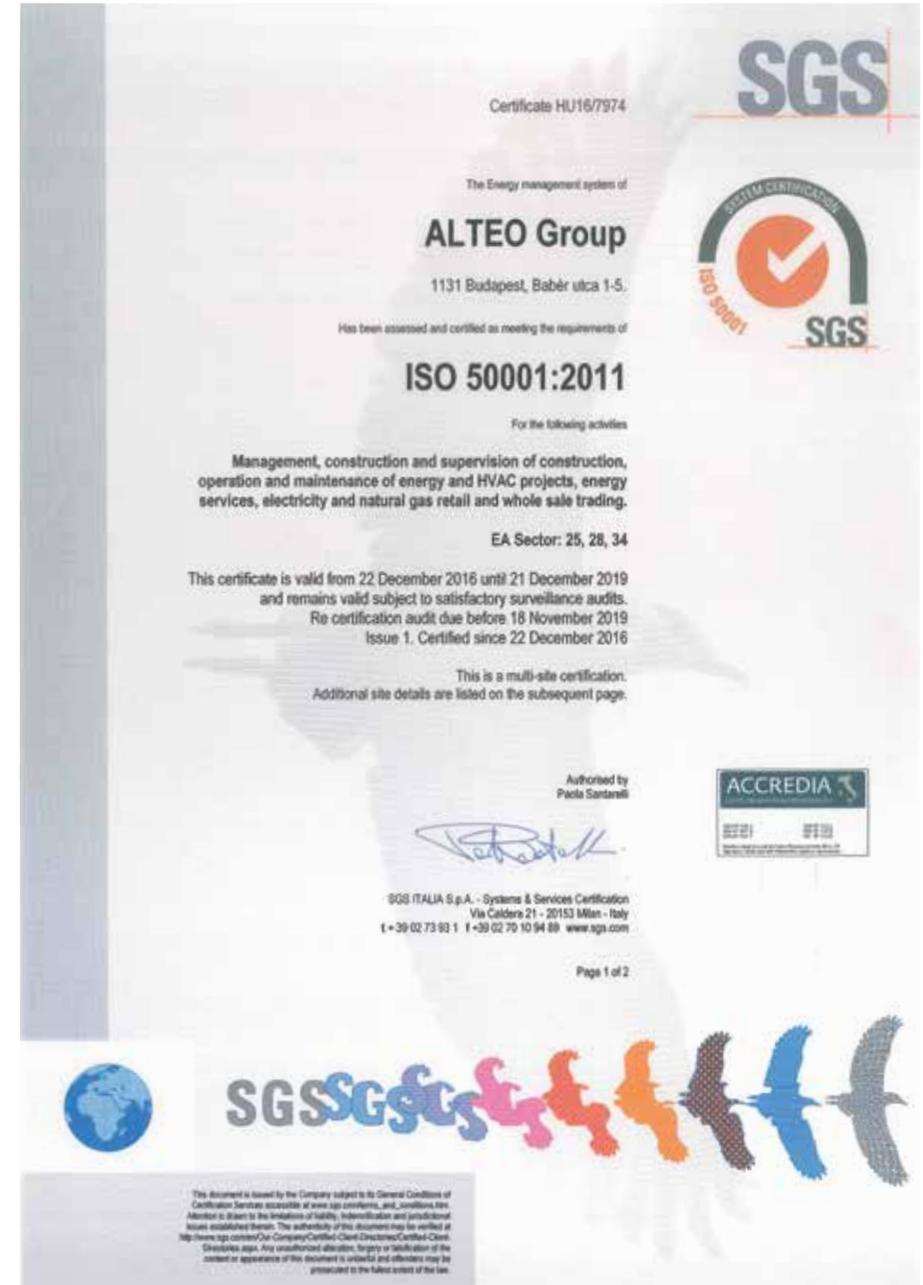
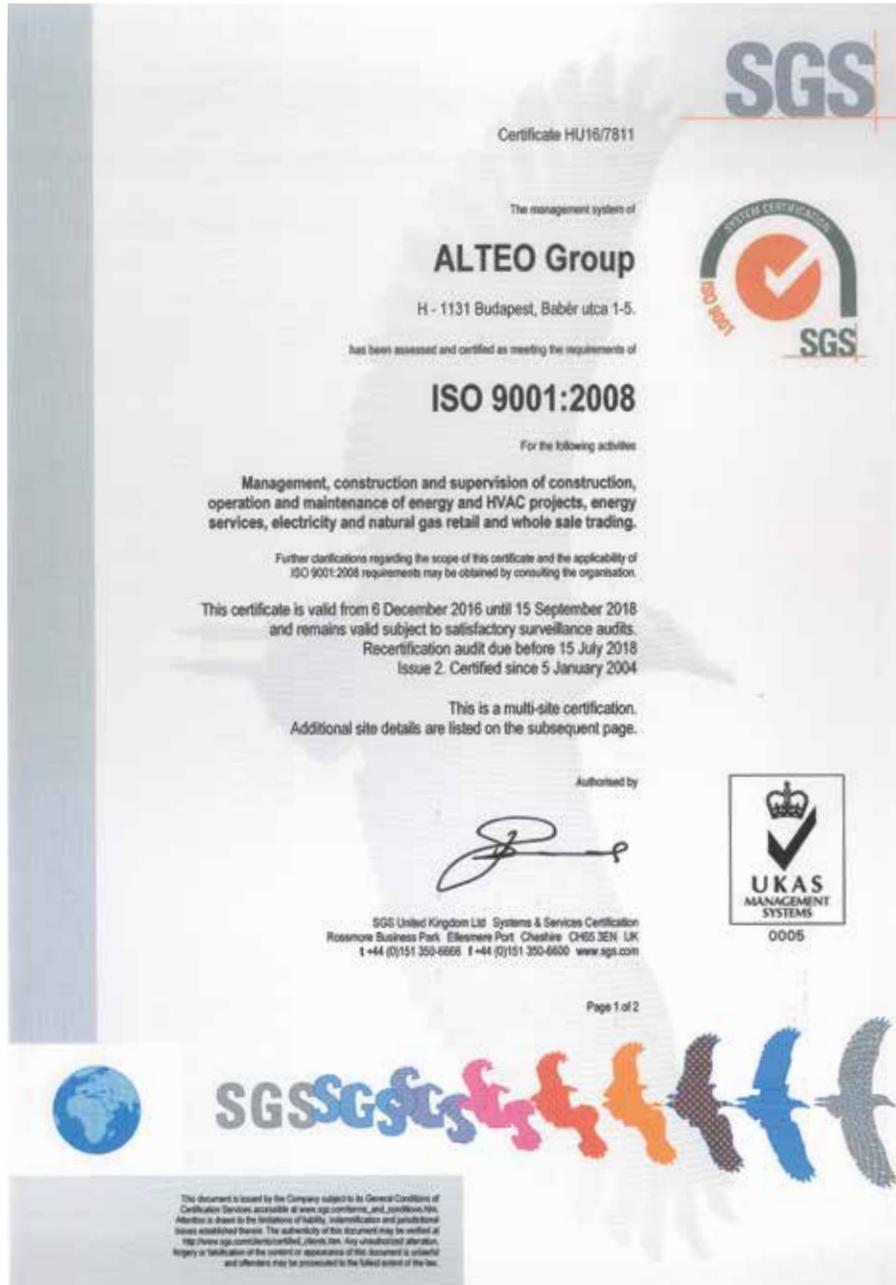



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Compliance



The main tasks of Compliance are to ensure ALTEO Group's proper compliance with corporate law, internal rules and the Corporate Code of Ethics, identifying any unethical or illegal activities, excessive business or workplace safety risks, irregularities, infringements, to identify liabilities, to execute corrective actions and to track the company's business actions.

COMPLIANCE POLICY

ALTEO Group introduced its Compliance Policy in January 2016 and established the Compliance Committee. The Compliance Policy, just like the Code of Ethics, is reviewed on an annual basis.

During the development of the company's regulatory policy, ALTEO Group's aim was to provide the basis for transparent operations, to define the framework of its business, to document its processes, to specify the cooperation between departments, to clearly define tasks and to determine responsibilities associated with them.

All members of the Executive Board and all employees of ALTEO Group must comply with the Compliance Policy. Within the framework of the

privacy and data protection rules, ALTEO Group's Compliance Manager has the right to access all information and data and documents owned by the company, data stored on company-owned devices and computers. ALTEO Group records the details of compliance reviews in a database where the information is evaluated and reported to the Compliance Committee and to the Supervisory Board annually. The Annual Compliance Report is available on ALTEO Group's website and is also distributed to staff members through an internal communication channel. All educational and internal briefings are designed to prevent abuse of power and develop compliance-related awareness. ALTEO Group corrects any detected non-compliances and regularly assesses and reviews the results of such corrective actions.

COMPLIANCE RESPONSIBILITIES

In addition to the Compliance Policy, several internal policies and regulations ensure the responsible operation of the company, which belongs among the responsibilities of the company's managers.

The CFO of ALTEO Group is responsible for the compliance of activities related to financial operations and taxation. The IMS Manager is responsible for quality management, environmental protection, work safety and energy efficiency. The company's IT head is responsible for IT security.

The Executive Board is responsible for creating and maintaining a culture that supports ethical operations. ALTEO Group expects them to show exemplary ethical behavior, to monitor employees' compliance with ethical principles, and to provide support to staff who ask questions regarding the Code of Ethics and to raise issues in a constructive way.

It is very important that no staff member should suffer any kind of discrimination in retaliation to raising an issue or problem. Finally, managers are expected to report ethical issues that go beyond their level of responsibility to the Compliance Manager immediately – issues that require ethical investigation according to the ethical procedure. Appropriate behavior and compliance with the Code of Ethics and internal regulations are a key aspect in evaluating the performance of ALTEO Group's executives and employees.

All of ALTEO Group's staff members participate in ethical training courses, IT courses, and they must sign a written declaration about their compliance with the Corporate Code of Ethics and agree

to comply with the IT Code. Furthermore, each employee of ALTEO Group must fill out a Declaration of Conflict of Interests, which is verified by the Compliance department. In the case of uncovered conflicts of interest the Compliance department either initiates the termination or averting of conflicts of interest or authorizes these after an approval by the management.

ANTI CORRUPTION

ALTEO Group strives to take into account the interests of its many stakeholders, and consider them when assessing the effect of the company's operations on its shareholders, employees, business partners, suppliers, the environment and the wider society. At ALTEO Group, corruption is considered a serious ethical offense.



In 2016 no cases of potential corruption came to ALTEO Group's knowledge.

COMPLIANCE WITH PROVIDING PRODUCTS AND SERVICES

ALTEO Group's long-term business relationships are based on honest, correct and fair behavior with its partners.

ALTEO Group's goal is to provide quality, secure and innovative solutions to its customers, therefore it is sensitive to their needs - making suggestions for product development, services, technologies and business processes as well as providing sufficient, accurate and comprehensible information about ALTEO Group's products and services in good time, and treating customer data confidentially.

To this end, ALTEO Group regulates the activities of its Energy Trading business line, as well as the Project Development, and Energy Production, Operation and Maintenance divisions, and it operates an Integrated Management System and checks compliance with all relevant laws. Job descriptions of line managers define the tasks, documentation and traceability to provide controls that help to eliminate negative effects and prevent possible violations of law.



DATA PROTECTION

ALTEO Group intends to comply with the provisions of Act CXII. of 2011 on Freedom of Information (Hereinafter referred to as "Info. Act."). As data controller, ALTEO Group's primary task is to define the method of data management and the scope of handling personal data concerning natural and legal persons as well as other companies; to ensure the constitutional principles of data protection and data security requirements; and to prevent unauthorized access to data and unauthorized disclosure or use of it. ALTEO Group fulfilled this obligation by issuing its IT Policy in September 2016.

ALTEO Group's goal is to protect its customers' data and to prevent it from being forwarded to unauthorized third parties.

Personal data may be collected and handled solely for a specific purpose, in accordance with the requirements of fairness and legality. Personal data can only be handled to the extent and for the duration necessary for a previously defined purpose. Upon signing a contract with ALTEO Group, its customers accept the Business Rules regarding personal data. ALTEO Group takes responsibility in handling customer data in accordance with the law.

ALTEO Group assumes responsibility for managing personal data with maximum consideration of the Data Management Policy set out in the Info. Act and in the Data Handling Notice, and it will not disclose such to an unauthorized third party. In exceptional cases, ALTEO Group makes the personal data of its customer available to third parties on the basis of a court decision or statutory provision.

ALTEO Group assumes responsibility for ensuring data security, and therefore takes appropriate measures that ensures the protection of data and prevents the destruction, the unauthorized use or alteration of data collected, stored or processed.

The data management activities of business areas are reviewed case-by-case on a regular basis annually. If non-conformities are identified, corrective actions are planned and these are later followed-up on. In 2016 the Compliance Department did not identify any case related to data leakage or loss, nor did it receive any related complaints. In 2016 no cases or complaints involving data loss were reported to our Compliance department.

CODE OF ETHICS

At the beginning of 2016 ALTEO Group issued the Corporate Code of Ethics, created an online whistle-blowing platform and created the regulative framework for an ethical investigation procedure. The Ethics line is available by phone twice a week, and anytime on ALTEO Group's website.

The Code of Ethics is available to all interested parties via ALTEO Group's website, and was introduced to ALTEO's employees via a training course. The course also provided opportunities for staff to ask related questions.

The Code of Ethics was created with the aim of creating a useful guide that helps and protects ALTEO Group's employees, and informs the company's partners about the behavioural norms represented and expected by the Group. In this document, ALTEO Group summarized the fundamental ethical principles of ALTEO Group, the nature of its behaviour and corporate culture, its attitude towards advocacy and responsibility.

Regarding employees, the norms set out in the Code of Ethics have higher requirements than the related laws, because ALTEO Group believes that

even some non-violent, well-intentioned acts can have adverse consequences for the company and its employees.

In addition to fundamental ethical principles such as protecting and respecting universal human rights as well as honesty, trust, humanity, tolerance and responsibility, ALTEO Group's shared corporate values provide a good foundation - such as honesty, commitment, expertise, success, sustainability and good atmosphere.

H O N E S T Y :

We are honest, trustworthy and reliable. Honesty is the central principle of all our actions, it defines how we act and behave with each other and with all of our partners.

C O M M I T M E N T :

We are committed to our customers, teammates, communities, owners, suppliers and partners. We want our business to contribute to the development of society.

E X P E R T I S E A N D T H E P U R S U I T O F E X C E L L E N C E :

We want to be the best in everything we do. Our goal is to fulfill our duties to the satisfaction of our partners and ourselves.

R E S U L T - O R I E N T A T I O N :

Our goal is to run our business activity in a way that grows profitability year by year.

S U S T A I N A B I L I T Y :

We strive to guide the company by sustainability-related aspects. This requires strategic thinking, commitment and a high level of operational culture.

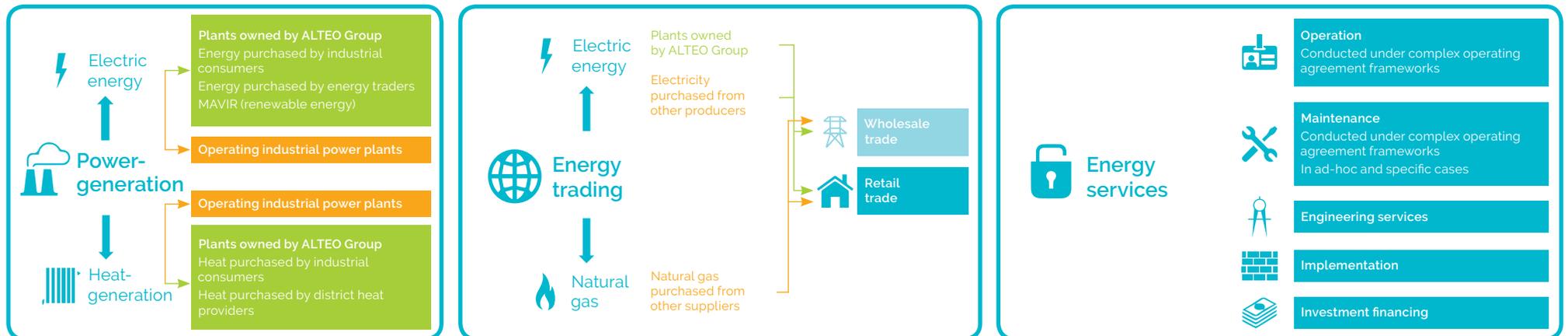
G O O D A T M O S P H E R E :

We find joy in work and we are delighted to work in a high-performance team.

Products and Services

ALTEO Group is a company focusing on energy investments, energy production and trading. ALTEO Group's service portfolio mirrors this threefold division: power generation, energy trading and energy services.

Products and services of ALTEO Group



Power Generation

ALTEO Group generates electric and thermal energy in its own heating power plants and by operating industrial power plants. Only electricity is generated from renewable sources, i.e. at our hydroelectric and wind power plants. Generated electricity is purchased either by industrial consumers or commercial facilities (operated industrial power plants and energy centres), or by energy trading companies, or MAVIR Hungarian Independent Transmission Operator Co. Ltd., which purchases power from thermal plants and other plants on a system-level, and, in the case of renewable energy sources, through the FIT (feed-in tariff) system.

Heat generated by plants owned or operated by ALTEO Group are used in two different ways: power is either used in the industrial production process (in the case of operated power plants), or is sold either to district heating service providers or to

Heat generated by plants owned or operated by ALTEO Group are used in two different ways: power is either used in the industrial production process (in the case of operated power plants), or is sold either to district heating service providers or to

industrial partners (as is the case with 6 heating power plants), or by shopping centers (MOM Park, AGRIA). In 2016, the installed electricity capacity of the power plants owned and operated by ALTEO Group was 156 MW, and the installed heat capacity was 880 MW. According to the requirements of the Global Reporting Initiative (GRI) the total built-in capacity is shown broken down by primary energy source (see below).¹⁹

INSTALLED ELECTRIC CAPACITY

Based on our installed electricity capacity, we can produce the most energy from natural gas with highly efficient cogeneration technology or with independent steam or hot water boilers.

During the acquisition of Sinergy in 2015, the installed capacity increased dramatically thanks to the new power plants which were brought into the portfolio of ALTEO Group. They were mainly high efficiency, cogeneration power plants. In 2016, 83% of installed electric capacity was made up of natural gas and by wind (11%) for all power plants owned by ALTEO Group. The remaining 6% was derived from other resources, like water, biogas and landfill gas.²⁰ In cases of power plants operated for our clients, all electricity is produced by using natural gas. Besides this we also keep stocks of fuel oil at the TVK Power Plant, at the BC-Power Plant and at the BC-Therm boiler, as well as at the Power Plants of Sopron and

¹⁹ ALTEO Group acquired Sinergy Kft. in 2015. Since the power plants operated by Sinergy Kft. represent a significant part of the whole power plant portfolio of ALTEO Group, we have retrospectively included the data of Sinergy Kft. into the Group data. The data before 2015 does not show the performance of ALTEO Group at that time, but contains an artificial total created for the purposes of unification and simplification. The purpose of this totalling is to make the assessment of trends evolved during the years easier.

²⁰ The quantity and distribution of the energy actually generated by ALTEO Group are presented in the Economic Results chapter.

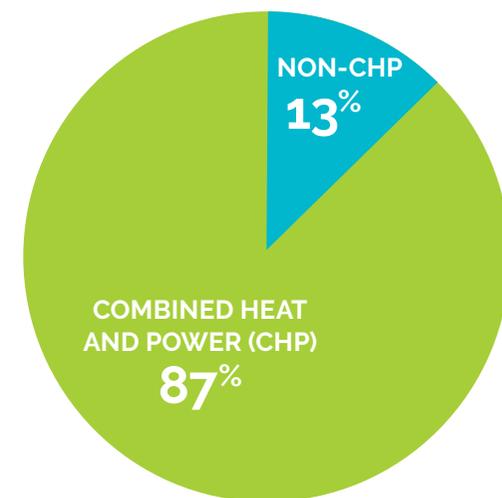
Installed electrical capacity (MW) - Total

| | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|
| POWER PLANTS OWNED BY ALTEO | 34 | 34 | 69 | 71 |
| NATURAL GAS | 25 | 25 | 59 | 59 |
| WIND | 7.5 | 7.5 | 7.5 | 7.5 |
| LANDFILL GAS/THERMAL ASSOCIATED GAS | 1.3 | 1.3 | 1.3 | 1.3 |
| WATER | - | - | 1.4 | 1.4 |
| BIOGAS | - | - | - | 2.0 |
| POWER PLANTS NOT OWNED BY ALTEO | - | - | 85 | 85 |
| NATURAL GAS | - | - | 85 | 85 |

Győr for emergency cases when there is natural gas restriction.

Except for our power plants operating with renewable energy sources, all our power plants are able to cogenerate energy (where heat and electricity are generated in the course of the same technological process). In 2016, 87% of installed electricity capacity at power plants owned by ALTEO Group was based on high efficiency cogeneration technology. The technology and its environmental and climate change advantages are discussed in more detail in the System efficiency sub-chapter. 13% of our non-cogenerated technology was derived from the installed electrical capacity of wind and water power plants, from which we produce so-called "clean" electricity.

Share of cogeneration capacity at power plants owned by ALTEO Group (2016)



In the future we wish to extend the installed capacities according to the demands of our clients. We are extending capacities in TVK Power Plan in the framework of main contracting by installing a 75 tons/hour capacity steam-boiler. Further capacity increases depend on the future projects of MOL. Capacity increase is envisaged at the BC power plant, too which depends on the scheduling of the intensification of the plants of our client. Besides this we wish to increase the capacities of our Water Power Plant in Gibárt by 500-500 kW and also significantly that of the landfill gas power plant at Debrecen.

INSTALLED HEAT CAPACITY

Similarly to installed electric capacity, most of our installed heat capacity is based on natural gas technology. Besides this we are generating heat using biomass, hydrogens and methane.

The biomass boiler was installed for experimental purposes in order to gain experience about biomass firing. More information about this can be found in the Biomass sub-chapter. We do not utilize heat generated by burning landfill gas; in cases of thermal associated gas, we use the heat generated by electricity production.

We have been burning hydrogen at the TVK Power Plant since 2014, but in 2016 the power plant was already suitable for the combustion of methane. The developments implemented at the TVK Power Plant being on the premises of MPK improve the efficiency of the whole industrial park so that we can use

any extra hydrogen and methane gas for energy production. This and similar solutions are excellent examples of ALTEO Group strategy, where we meet all requirements of reliable power supply, energy efficiency and climate consciousness.

In the future we intend to increase our capacities in line with the heat requirements of our clients. We would like to increase the heat generating capacities of our thermal power plants at Sopron and at Tiszaújváros. We are planning the increase of water treatment capacity of Tisza-WTP in order to cover the desalinated water needs of the MPK plant. When planning the project we envisage greater extension (by nearly 30%) than the future needs of MOL Petrolkémia so that we will be able to supply desalinated water continuously even in cases of bigger than envisaged growth.

HEATING POWER PLANTS

In 2016 the portfolio of ALTEO Group included six heating power plants: in Budapest, Kazincbarcika, Ózd, Tiszaújváros, Győr and Sopron. The heat generated by the power plants is forwarded to the population by the local district heating service companies. Besides this the Power Plant at Győr ensures the thermal power supply of Audi Hungária Motor Kft., while the Power Plant of Sopron supplies thermal energy to the Heineken brewery in Sopron.²¹

WIND TURBINES

ALTEO Group has 4 wind turbines: in Ács (2 MW), Jánossomorja (1,8 MW), Törökszentmiklós (1,5 MW) and Pápakovácsi (with 2 MW installed capacity). We have been selling the electricity generated by the wind power plants via MAVIR Hungarian Independent Transmission Operator Co. Ltd. within the

Installed heat capacity (MW)

| | 2013 | 2014 | 2015 | 2016 |
|--|------|------|------|------|
| POWER PLANTS OWNED BY ALTEO | 220 | 220 | 397 | 371 |
| Natural gas | 220 | 220 | 322 | 296 |
| Hydrogen | - | - | 74 | 74 |
| Biomass | - | - | 0,5 | 0,5 |
| POWER PLANTS NOT OWNED BY ALTEO | - | - | 471 | 509 |
| Natural gas | - | - | 430 | 430 |
| Hydrogen | - | - | 41 | 41 |
| Methane | - | - | - | 38 |

²¹ See more detailed information about our heating power plants at: www.alteo.hu

framework of the mandatory off-take (FIT) system. According to our prognosis, our wind turbine sites will produce the allowed quantity (different per wind turbine) until 2017-2018, after this they will produce for the free market.

SUBSIDY TO RENEWABLE POWER GENERATION

Without state subsidy, renewable energy sources are, in general, not competitive today against the traditional energy carriers. Hungary also has a number of incentives in place to ensure the achievement of the objectives formulated in the National Energy Strategy, e.g. the mandatory feed-in tariff (FIT) offered for electricity generated by renewable energy sources. Subsidies can be obtained for investments in the framework of tendering for Environmental and Energy Operational Program (EEOP) and National Energy Saving Program (NESV) funds, plus domestic and EU agricultural programs support activities connected to biomass production.

HYDROELECTRIC POWER PLANTS

In 2016, ALTEO Group operated two water power plants at Gibárt and Felsődobosza. Both of these water power plants are more than 100 years old - they are industrial monuments. Regarding their technological fabric, both plants have diversion canal systems. The water power plants are owned by the North Hungarian Electricity Service Co. (ÉMÁSZ);

the units affected by reconstruction in Felsődobosza are already owned by ALTEO Group. Since May 2015, ALTEO Group has been taking part in the operation of the water power plants on a rental and operator set-up based on the contracts concluded by Sinergy Kft. in 2004. And now Sinergy Kft. is a member of ALTEO Group.

The installed capacity of the Gibárt Power Plant is 0.5 MW, the capacity of the power plant is Felsődobosza was increased to nearly double in 2013, thus its total installed capacity is now 0.95 MW.

DEVELOPMENTS AT FELSŐDOBSZA

Due to the high degree of wear and tear of the rotary machines of the Felsődobosza Power Plant (which was declared a monument in 2009 and was hundred years old in 2011) the owner, ÉMÁSZ, and the operator, Sinergy, decided on a performance enhancing reconstruction together with the replacement of key turbine fittings. Within the framework of the project, implemented for more than HUF 900 million by Sinergy Kft. in 2012-2013, modern turbines were installed thanks to which the electricity generating capacity of the water power plant has nearly doubled to 950 kW. In the framework of the rehabilitation project, all technological equipment was replaced and the waterworks and the engine-room of the power plant were rebuilt in compliance with the site's monument-status and environmental regulations.

Project No. KEOP-4.4.0/A/09-2010-0094 Sinergy Kft. was awarded HUF 376 million non-refundable assistance, co-financed by the European Regional Development Fund and by the Hungarian central budget.

GASES FROM RENEWABLE SOURCES

In the portfolio of ALTEO Group, three small-scale power plants generate electricity from gas deriving from renewable sources: at Kisújszállás, Nyíregyháza and Debrecen.²² The climate and environment protection impacts of the energy generated by power plants operating with landfill gas and alternative gas are very important from a sustainability point of view, since these power plants neutralize methane. Methane is a kind of greenhouse gas which has 21 times greater environmental effects than carbon dioxide, thus the prevention of its emission into the air greatly contributes to combating climate change.

BIOGAS

At the premises in Nagykőrös, energy is generated from biogas produced by waste treatment. The materials used include animal manure, sterilized by-products, agricultural products and other by-products, as well as expired foodstuff waste. Biogas, and from it electric and thermal energy, is generated by anaerobic fermentation. The end product of this fermentation is an organic material (biogas manure) which can be used for the supply

²² See more detailed information about our small-scale power plants built to manage renewable gas at: www.alteo.hu

of nutrients in the course of plant growing. ALTEO Group has been operating the related plant since 1 January 2016.

BIOMASS

Our fluidized bed biomass boiler was put into operation in Tiszaújváros in January 2013 and it has been generating heat for the district heat system of Tiszaújváros since then. Tisza Bioterm

Kft., the boiler operating project company, is 60% owned by ALTEO Group and 40% by GDHS Kft. The fluid bed technology used is the proprietary development of GDHS, and one of its main advantages against the traditional technologies is that it is capable for burning different types of biomass basic materials. The technology is based on mixed firing methods and it is able to burn woody, herbaceous and other agricultural waste. The boiler's

installed capacity is 500 kW thermal energy. The operating of the boiler offers us an excellent opportunity to learn about the technology and to utilize its hidden potential. The project was granted a HUF 65 million non-refundable subsidy by the National Environmental and Energy Center Non-profit Co. acting on behalf of the National Development Agency, which amounted to 50% of the project's budget.

Energy trading

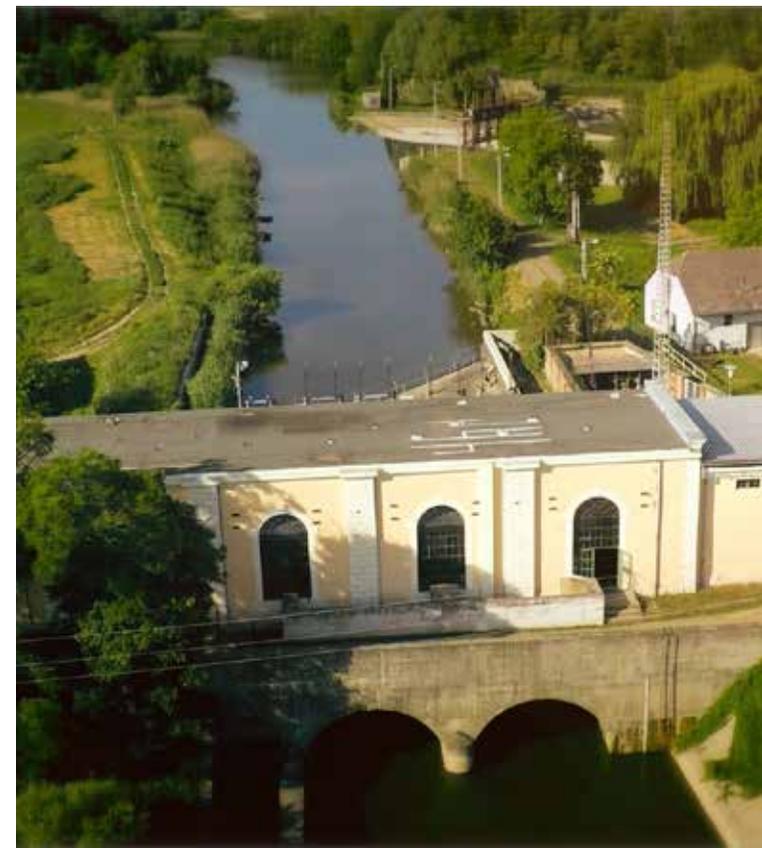
ALTEO Group started its electricity retail trading and responsible 'balance circle' activities in 2009. The wholesale trading activities were also extended with the acquisition of Sinergy Kft. The primary aim of the Group is to ensure the energy demand of the consumer portfolio; the sales of aggregated capacities of power plants owned and operated by the company and of small-scale power plants joined our Virtual Power Plants on the market of secondary reserve system level services organized by MAVIR; adding to sales of parallel generated electricity to other electricity traders and to the organized market.

RETAIL TRADE OF ELECTRICITY

Our electricity retail trading activities mainly serve a portfolio consisting of office buildings, shopping centers, industrial parks, as well as small-scale and medium sized businesses. As free market electricity energy traders, we do not deal with universal services i.e. services direct to residential customers.

RETAIL TRADE OF NATURAL GAS

Natural gas trading activities have been carried out by ALTEO Energiakereskedő Zrt. since 2016, after we received the relevant license from the Hungarian Energy Office in 2012. The addition of trading in natural gas to the activity portfolio serves a double aim. Besides meeting the demands of power plants, the primary aim is the serving of retail trade and consumer portfolios and thus the better utilization of the synergic opportunities within the group.



WHOLESALE TRADE OF ELECTRICITY

In terms of the wholesale market of electricity, ALTEO Group has long term and short term sales contracts with international and domestic partners based on framework agreements. ALTEO Group has opportunities for sales and purchases on the Hungarian and international electricity stock exchanges too. The contact system, sales and purchase channels of ALTEO Group have increased continuously since 2008.

VIRTUAL POWER PLANT

In 2011 the mandatory off-take system of cogenerated heat and electricity generated on any non-renewable basis terminated, and this formerly made the sales of generated electricity at subsidized prices possible. One year after this, the balance circle operated by MAVIR Zrt. and embracing its circle of producers also ceased to exist, thus the small-scale power plants continuing their activities left the officially regulated environment and went over to the organized electricity market. This new environment made the revision of the operating concept of small-scale power plants necessary and also the establishment of new contractual relations.

Therefore Sinergy Kft., operating as a member of ALTEO Group since May 2015, decided to set up a Virtual Power Plant in 2011. The Virtual Power Plant integrates and puts under a single IT plat-

form the linked power generating systems, offering us the possibility to create a bigger “virtual” power plant, with bigger potential in all areas.

This method of capacity aggregation increases the market weight and flexibility of producers integrated into the Virtual Power Plant, which allows for the widening of the circle of products that can be sold on the electricity market and ensures the development of better trading conditions.

The IT system enabling the operation of the Virtual Power Plant was set up in Hungary at the beginning of 2012, and its extension with a module overseeing our key regulatory reserves also continued in that year. The successful accreditation proving the eligibility of the system was granted by MAVIR in 2012. Since the beginning of 2013 the producers working with the Virtual Power Plant have been actively taking part in the secondary regulatory reserve market of MAVIR.

The Virtual Power Plant of ALTEO Group comprises six small-scale power plants belonging to the company group and it is able to integrate other – practically of unlimited number and capacity – producers. The gross capacity of the Virtual Power Plant was 48 MW in 2016.

MAIN CHARACTERISTICS OF THE VIRTUAL POWER PLANT:



Continuous, on-line remote monitoring of production units



Centralized start-stop option in the Control Center of Virtual Power Plant (CC)



Timetable planning and timetable keeping module for the automatic operating of the power plant units according to a schedule defined up to one year ahead



Group regulatory operational mode in order to keep the Virtual Power Plant schedule



Balancing of schedule of production units within the group



IT module and communication tools for offering system level reserves for MAVIR

Energy services

In the field of energy services, ALTEO Group offers management of new projects, technical inspection and turn-key implementation, furthermore development of existing energetic systems and operation and maintenance of existing technologies.

OPERATIONAL ACTIVITY

There are industrial companies, local governments, district heating service companies and building operators among our partners, all using our services. **Our energetic services comprise electricity, hot water, steam, cooling energy, desalinated water generation and services, but we also undertake the completion of other works meeting special energetic demands** (e.g. compressed air production/distribution, other industrial gas services, etc.).

Our operating activities include the planning, organization, implementation, management and control of these works. In addition to meeting in full our contractual obligations, the main purpose of our activities is to achieve, maintain and improve the satisfaction of our customers. The special customer demands are met taking into

account the principles of climate consciousness, reliability, and energy efficiency. All these are served by the system of procedures and instructions formulated in the Integrated Management System and by the implementation of these regulations. All these are the basis of our high quality provision.²³

MAINTENANCE ACTIVITY

During the operation of technological systems and equipment we provide complete maintenance activities in order to ensure long term reliable operation. We also carry out service works in the framework of our operational activities, as we also offer these services to our other business partners.

We mainly perform the maintenance of any service equipment using our own employees. The continuous development of our activities and the knowledge of our professionals make it possible for us to use the skills of our own employees in an ever larger circle, ensuring professional and cost-efficient maintenance for our partners.

See further information about our Maintenance activities in the Availability chapter.

ENGINEER SERVICES, CONSTRUCTION AND INVESTMENT

The building up of a new energetic system as a green field project, or the energetic developments rendered necessary by the changing of consumer demands and legal regulations require significant time and cost expenditure, not to speak of the internal resources tied to the implementation of the project. ALTEO Group undertakes all the responsibilities and costs of these activities, and allows for its partners to invest their free cash into business opportunities connecting to their main activities thus offering bigger revenue generation.

Using the best available technology, we prepare the technical and economic concept of such projects based on financial calculations and models, then we conduct the implementation of the project according to the environmental and labour-safety criteria and construction designs.

In the framework of our energy efficiency increasing activities, we undertake the screening of the operation of the existing energetic infra-

²³ More information about our operational activities is available at our website www.alteo.hu

structure, based on which we make proposals for the more efficient operating of the systems and equipment. If required, we tender for carrying out modernizations and reconstructions and make

guarantees for achievable energy and cost savings. If our offers are accepted, our subsidiary coordinates the whole process of project financing and implementation.

Our most important projects are covered in our Indirect Economic Impacts chapter.

Value Chain

As no 'man' is an island, ALTEO Group is also a member, or a part of a much bigger system. In line with our strategies and values, we endeavour to create partnerships with many actors across the energetic sector, and with our suppliers and clients. We look for solutions which are profitable

for all stakeholders and try to ensure sustainability in the long run.

Based on the value chain approach, ALTEO Group is present in the field of energy production, energy trading and energy services.

Our strategy is aiming at balanced, diversified and dynamic growth, built on greenfield power plant developments and market acquisitions of profitable power plant projects, focusing on renewable, highly efficient or alternative decentralized energy production.

ALTEO Group's Value Chain





VI. SUSTAINABILITY PERFORMANCE

SUSTAINABILITY PERFORMANCE

In order to see ALTEO Group's performance as a whole, it is important to evaluate its results based on a holistic approach, taking into account the three pillars (economic, social and environmental) of sustainability. In order to maintain and support

our strategy in the long-run, ALTEO Group had to define its targets. To do so, it has to collect, assess and develop data related to its activities. **It is a priority for ALTEO Group to report the data of its performance and to make it publicly available.**

This report divides sustainability performance into three main groups: economic, environmental and social.

Economic performance



One of the biggest challenges of the 21st Century is the supply of competitive, environmentally friendly, sustainable and reliable energy, whether for industrial processes or for households. The purpose of ALTEO Group is to meet this challenge in a sustainable way with innovative and client-focused solutions, in cooperation with all partners.

After the acquisition of Sinergy Kft., ALTEO Group became the leading Smart Energy solution provider in Hungary.

The company will continue its intensive growth in the future, with investments into new power plants and technologies, creating solutions in cooperation with its partners. These solutions provide benefits not just for ALTEO Group's partners, but also for the sustainable economy.

In 2016 the global economy was still tending upwards as a result of a decrease in raw material prices and low yield levels. The economic

performance of the EU Member States had also increased, stimulated by the nearly 2% growth of the biggest economies (United Kingdom and Germany).

Similarly, Hungary's GDP growth was nearly 2%, however, it lost some of its recently won new momentum. Nonetheless the rates of inflation and unemployment also decreased. Investments in the energy industry declined by 10% in 2016, compared to 2015.²⁴

²⁴ Central Statistical Office: The CSO reports: Economy and Society, 2017/1 (<http://www.ksh.hu/docs/hun/xftp/gyor/jel/jel21701.pdf>)

Economic results

ALTEO Group's purpose in the long run is to create value for its shareholders and to protect the assets of its owners and the security of its creditors.

Therefore, authenticity and reputation are priorities for the Group, and these can be achieved through transparency and continuous data reporting.

„For us economic sustainability means that we develop our business ambitions and plans within the given frameworks, based on available competences. Furthermore, while we work on realizing our objectives, our decisions take into account aspects of sustainability. In consequence, we operate our company by keeping our promises, ensuring dynamic growth, and making innovation possible.“

Sándor Bodó,

Chief Financial Officer

ALTEO Group's objective is also to ensure stable revenue and profit growth through the acquisition and development of new projects.

The Chief Financial Officer, working in close cooperation with the heads of the different divisions, is responsible for the company's financial performance. ALTEO Group intends to implement stable growth in a sustainable and responsible way, in line with its internal regulations (Financial Policy, Controlling Policy, Procurement Policy, Compliance Policy and Corporate Code of Ethics). Moreover, it lays great emphasis on transparency and reliability: ALTEO Group meets the strict transparency and reporting obligations of the Budapest Stock Exchange and reports covering its member companies are certified by third-party auditors. **Ethical and responsible operations require ethical and responsible decisions; to ensure that, the majority of ALTEO Group's Supervisory Board are independent members.**

ALTEO Group collects feedback from different sources in order to check if it is on the right track. The annual reports of the company and its subsidiaries are certified every year by an independent auditing firm. At the end of the audit process the auditor gives feedback to the top management of the company with the conclusions of the audit and

recommendations on how to improve. Every year the auditor summarizes the insights of the report for the Audit Committee. ALTEO Group's Integrated Management System is audited by a third-party, an accredited certification body, and this ensures the possibility for continuous development.

ALTEO Group also collects feedback from its employees and managers on an annual basis, and also offers possibilities for its customers and suppliers to give feedback in person.

Every year, ALTEO Group defines the objectives that contribute to the implementation of its strategy.

These objectives are approved by the Executive Board and the Board of Directors. The focus of ALTEO Group's first strategic period is to establish integrated and efficient operations, and achieving growth in selected business lines and activities. The acquisition of Sinergy Kft. aligned with ALTEO Group's strategy and made it possible to explore the synergies between the two companies. An important result of the fusion is the optimization of ALTEO Group's costs, and improvement of its result. Furthermore, the fusion brought about knowledge sharing and the extension of the company's service portfolio.

ALTEO GROUP'S EXTENDED CONTRACTS

MOM PARK has recently extended its 15-year cooperation with ALTEO Group by three years, with the option of extending it for another three years. As a result, ALTEO Group will provide electricity as well as heating and cooling energy for the shopping centre until 2019.

In 2016, **AUDI HUNGARIA MOTOR KFT.** renewed its contract with ALTEO Group for five more years. The new contract was drawn up according to the guidelines defined by Smart Energy Management and in line with Audi's special requirements. As agreed, ALTEO Group will meet technological heat demands in peak periods and ensure reserve capacities.

MOL PETROLKÉMIAI ZRT. extended its contract with Tisza-WTP Water Treatment Plant (owned by ALTEO Group) focussing on capacity booking, operations and maintenance until 2026.

Based on the agreement signed with **SOPRON HOLDING KFT., THE SOPRON POWER PLANT** will supply heating and hot water to Jereván housing estate until 2025.

2016 was the first full financial year after the fusion with Sinergy Kft. The data for 2015 also contain the figures of Sinergy in consolidated form.

Data regarding ALTEO Group's financial performance shows that the business year of 2016 was very favourable for the company.²⁵ The consolidated revenue of ALTEO Group was HUF 13.9 billion.

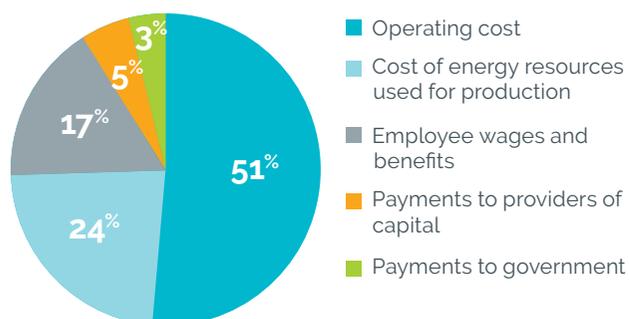
Produced and distributed economic value (HUF th)

| | 2013 | 2014 | 2015 | 2016 |
|--|-----------|-----------|------------|------------|
| SALES REVENUE | 6 208 350 | 5 893 926 | 12 021 530 | 14 136 171 |
| ALLOCATED ECONOMIC VALUE | 6 265 811 | 6 239 840 | 10 855 754 | 13 511 715 |
| Operating cost | 5 161 303 | 4 945 459 | 8 206 343 | 10 063 700 |
| Cost of energy resources used for production ²⁶ | 2 341 257 | 1 697 787 | 2 402 749 | 3 206 159 |
| Employee wages and benefits | 520 782 | 533 213 | 1 640 354 | 2 315 818 |
| Payments to providers of capital | 461 139 | 637 756 | 725 888 | 661 823 |
| Payments to government | 122 587 | 123 412 | 283 169 | 470 374 |
| RETAINED ECONOMIC VALUE | -57 461 | -345 914 | 1 165 776 | 624 456 |

²⁵ In the enclosed table the data for ALTEO Group were aggregated according to GRI guidelines, which are identical with terms used in accounting. More detailed information about the GRI methodology at: <https://g4.globalreporting.org/specific-standard-disclosures/economic/economic-performance/Pages/G4-EC1.aspx>.

²⁶ The cost of sources for energy production are part of Operating costs.

Direct Economic Value Distributed by ALTEO Group (2016)



In 2016, operational costs represented the majority of ALTEO Group's expenses (nearly 75%).²⁷ Close to a third of all operational costs were spent on the cost of energy sources used for energy production: in 2013 this amounted to 45% of the operational costs, in 2014 to 34%, in 2015 to 29%, while in 2016 to 32%. Wages and benefits paid to employees amounted to 17% of total costs, nearly HUF 2.3 billion. This is an 11% increase compared to 2015; the increase can be explained by the fact that Sinergy Kft. joined ALTEO Group in May 2015, so its employee-related expenses were not counted for the whole year of 2015, unlike in 2016. Payments to capital providers (the GRI methodology includes dividends and financial expenditures) made up 6.6% of all costs, which is 9% decline compared to the previous year. In 2016 ALTEO Group paid 66% more to the state budget than in 2015, nearly HUF 470 million. This increase is explained by Sinergy's acquisition and the fact

that the share of companies with higher tax rates was greater within the Group in 2016 than had been the case in 2016. In 2016 ALTEO Group did not have community expenses as defined by the GRI methodology (ALTEO Group's community relations are introduced in the chapter titled Local communities.)

Tax reliefs (HUF million)

| | 2015 | 2016 |
|-----------------------|------|------|
| Sport subsidies | 39.0 | 73.0 |
| Educational subsidies | 7.6 | 4.7 |

State subsidies were granted to ALTEO Group in the form of tax reliefs in 2015 and in 2016.

In 2016 59.4% of ALTEO Group's sales revenue came from market-based power generation, 22.2% from energy trading and 27.9% from energy services.

For the time being renewable energy production amounted to only 7.3% of our revenues.²⁸

Share of Business Lines (2016)

| | Sales revenue | Gross provision |
|---------------------------------|---------------|-----------------|
| Market-based power generation | 59.4% | 40.7% |
| Energy Trading | 22.2% | 3.5% |
| Energy Services | 27.9% | 22.0% |
| Energy from renewable resources | 7.3% | 17.4% |
| Other | 5.2% | 16.3% |

ALTEO Group's sales revenue structure well reflects the main business lines. However, the gross provision shows ALTEO Group's added value in each business line; **in 2016 41% of ALTEO Group's gross provision was produced by its market-based power generation activity, 22% by its energy services and 17% by its energy production from renewable resources.**

ALTEO Group's market-based power generation activities require profound technical knowledge about the operation, maintenance and development of power plants.

The value provided to its customers through energy services evolved and was enhanced by ALTEO Group's professionals over several decades of work, knowledge-sharing, and training.

The outstanding profitability of power generation from renewable resources shows that ALTEO Group is developing its renewable energy production activity with the right focus, competence and profitable portfolio.

²⁷ Since 2016 was the first full financial year after the fusion with Sinergy Kft. we do not report the cost structure of the previous years, as they are not comparable with our latest data.

²⁸ The distribution of the different business lines contains consolidated effects, therefore it totals to 122%. The consolidation impact is 22%.

RISKS AND OPPORTUNITIES INFLUENCING OUR ECONOMIC PERFORMANCE

It is important to know the risks ahead, and the opportunities brought by the future. In order to realize ALTEO Group's objectives, it is important to identify the risks and opportunities that Climate Change poses, as these can fundamentally influence patterns of energy consumption and generation.

THE TWO MAIN RISKS OF CLIMATE CHANGE:

1. Global warming may influence the operation of power plants, as it may decrease the water flow of rivers, and extreme weather conditions may contribute to shorter or longer power outages. Overall, the effects may reduce ALTEO Group's revenues and increase costs.



2. A global tendency in warmer weather may lead to the reduction of customers' heat demand, further reducing ALTEO Group's potential revenues.



MAIN OPPORTUNITIES OF CLIMATE CHANGE:

1. Changing customer demands and increasing consciousness related to Climate Change and environmental protection will probably increase demand for green energy for industrial and household customers.
2. Companies, governments and consumers will be more energy efficiency-conscious in the future, which will increase the market for investments in energy efficiency. Act LVII. of 2015 on Energy efficiency, as well as other market trends, strengthen the expectation for mass demand for energy projects in the future.

Production

GENERATED ENERGY

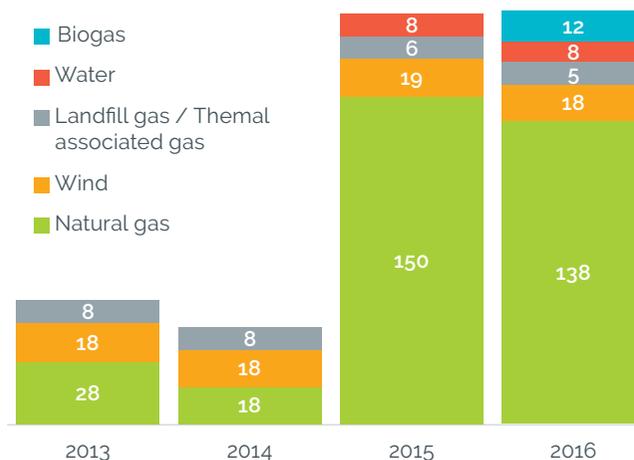
Our annual report for 2016 presents the generated energy quantities resource-by-resource in line with GRI regulations. Data of the power plants owned by ALTEO Group and of those operated by the company are presented separately.

In total, 721 115 MWh electricity was generated by our own and other operated power plants of ALTEO Group in 2016.

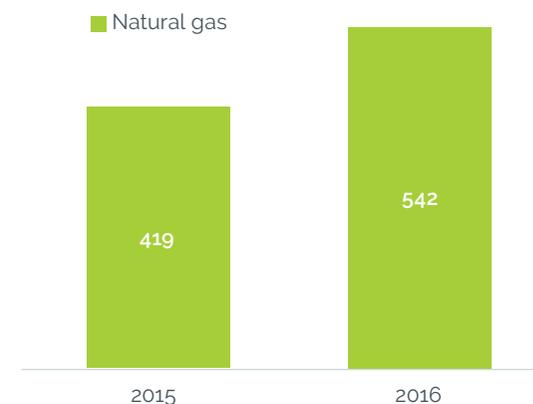
Of the total generated energy, power plants not owned by ALTEO Group produced 542,000 MWh in 2016 which is nearly 20% growth compared to 2015. One of the reasons for the difference is the launching of the Butadiene unit at the MOL Petrolkémia plant, which saw a 29% increase in the electricity generation of the power plant. The other reason is the energy generated by the BC power plant, the levels of which were lower than hoped in the period due to a fire incident in 2015. Thus there seems to be an increase in the generated quantity in 2016, although this is only a return to the expected level. The fire incident was caused by a technical breakdown and not by an operational failure.

The quantity of power generated by power plants owned by ALTEO fell by 2% in 2016. The reason for this was the changed market environment. Of the power plants owned by ALTEO Group, those producing green energy (wind, water, landfill gas and biogas) contributed 24% of our total generated electricity.²⁹

Electric energy generated by power plants owned by ALTEO Group (ths MWh)



Electric energy generated by power plants not owned by ALTEO Group (ths MWh)



Besides electricity, the power plants owned by ALTEO Group and operated by the company also generated usable heat in nearly the same quantity in 2016 as in the previous year. In total, power plants owned by ALTEO Group generated 2.9 million GJ heat³⁰, while the power plants operated by ALTEO generated 4.9 million GJ.

²⁹ We compiled our data of generated electricity on the basis of measurements, except for our two landfill gas plants, where the data were calculated on the basis of energy sold and estimated self-consumption.

³⁰ In our Report we cannot publish heat generating data of power plants built on renewable gases and owned by ALTEO Group, because we did not use them in the reporting period, thus they were not measured.

One of the reasons for the increase in heat generated by power plants operated in the framework of industrial services is the increased steam demand of BC. The other reason is the increased steam demand of MOL Petrolkémia plants, which on the one hand was satisfied by energy generated at natural gas-based power plants, and by heat produced from hydrogen and methane. Hydrogen and methane firing used for such production utilized gas remainders from the processes of MOL Petrolkémia. This is a good example of our cooperation with our partners in sustainability solutions.

AVAILABILITY

The main pillar of our strategy is to provide reliable energy to our clients in economic and sustainable ways. Ensuring reliable and continuous operation for our partners is one of the guiding principles of our operation, since it basically influences the quality of our services. According to the GRI regulations, we also present the availability in the breakdown of energy sources, separating the power plants owned by ALTEO Group from the ones operated by us.

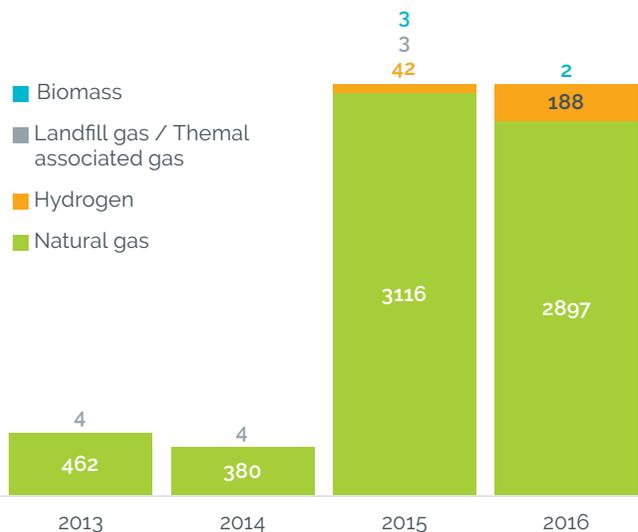
ALTEO Group formulates the energy production, operation and maintenance guidelines in the form of rules and procedures included in the Integrated Management System. These procedures and their annexes regulate in detail the operational guidelines to be followed in order to achieve the highest availability, and to ensure the handling of eventual operational failures and to keep our maintenance duties in focus.

PREVENTION

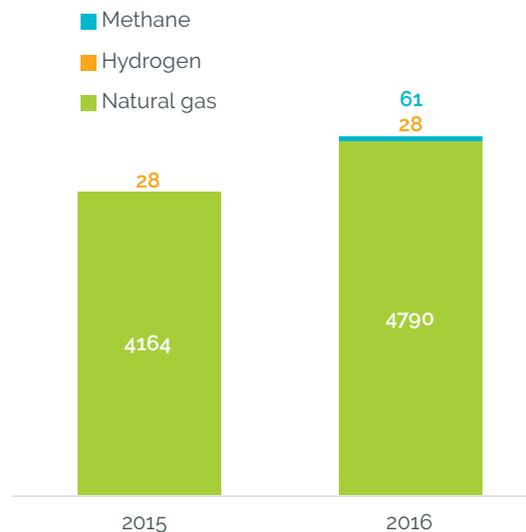
One of the primary aspects and basic business interests of ALTEO Group is to avoid negative impacts, thus this became the daily task and job duty of the employees. **In all premises of ALTEO Group, our employees continuously monitor factors influencing availability and safety, and they identify targets by which the indicators can be further improved.**

The relevant processes and maintenance instructions are formulated in the procedures of the Integrated Management System of the Company. The actual developments and targets are also set and evaluated in the framework of the Integrated Management System during the annual management audits. The time requirement of these implemented developments can be shorter (smaller-scale maintenance), but also longer in the form of a more serious refurbishment. These targets are often based on legislative regulations, but in many cases in favour of own internal developments or in order to add to the possibly higher quality service of the

Thermal energy generated by power plants owned by ALTEO Group (ths GJ)



Thermal energy generated by power plants not owned by ALTEO Group (ths GJ)



partners. The responsible persons prepare status reports about the meeting of the targets concerning the expiration of deadlines, or of partial deadlines. The efficiency and implementation of developments, performance indicators and production data are presented and evaluated during the annual management audits.

MAINTENANCE

An annual maintenance plan is prepared for the organization, implementation and control of maintenance activities in order to ensure reliability. Maintenance works carried out on a rotational basis are well and efficiently supplemented with condition-based maintenance works, where we monitor the condition of the critical equipment and components using diagnostic tools and methods, and in the course of assessment we determine the condition of the equipment. **Our main diagnostic activities are vibration measurement, thermal imaging, laser alignment and destruction-free material testing.** Today, diagnostics-based maintenance is the basis of our maintenance strategy.

Wherever necessary, we intervene in order to prevent more serious and longer breakdowns. With Reliability Centered Maintenance (RCM) and Risk Based Inspection (RBI) methods we pay special attention to ensuring the functioning of key equipment and to the safety of people and technology.

In every field of service, we make efforts to carry out the maintenance of the key technological

equipment or technological systems in cooperation with our strategic partners involving our own maintenance staff, hence increasing the availability and reliability of the equipment. In order to cover the greatest possible part of the maintenance activities from our own resources, we lay great emphasis on the continuous training of our employees. We conclude contracts with the official service companies of the manufacturers for the maintenance of the main equipment, ensuring in this way reliable component supply, high quality execution of the necessary maintenance works and a high degree of availability.

AVAILABILITY

In 2016 the availability of the electricity generating power plants was on the whole around 90%.

In 2016 there were in total 9,287 hours scheduled shutdown time, nearly 50% higher than in 2015. The difference is mainly due to the planned outage at BC power plant. Non-planned shutdown time was 3,141 hours in 2016, which is nearly 40% less compared to 2015. The non-scheduled shutdown time was longer in the case of the power plant of Gibárt, because the sluice-gates were replaced in 2016, and also the heating power plants had longer than planned stoppages due to unforeseeable events (e.g. puncture).

Average availability rate (electricity)

| | 2015 | 2016 |
|--|-------------|-------------|
| Average availability rate of all power plants | 0,96 | 0,96 |
| POWER PLANTS OWNED BY ALTEO | | |
| Natural gas | | |
| Heating power plants | 0,88 | 0,90 |
| Industrial and commercial services | 1,00 | 1,00 |
| Wind | 0,99 | 0,98 |
| Deposited gas | 1,00 | 1,00 |
| Water | 0,99 | 0,83 |
| Biogas | 0,99 | 0,99 |
| POWER PLANTS NOT OWNED BY ALTEO | | |
| Natural gas | 0,96 | 1,00 |

Average availability rate (heat energy)

| | 2015 | 2016 |
|---|------|------|
| Average availability rate of all power plants | 0,98 | 0,99 |
| POWER PLANTS OWNED BY ALTEO | | |
| Natural gas | | |
| Heating power plants | 0,99 | 0,99 |
| Industrial and commercial services | 0,99 | 0,97 |
| Biomass | 1,00 | 1,00 |
| POWER PLANTS NOT OWNED BY ALTEO | | |
| Natural gas | 0,96 | 1,00 |

Indirect economic effects

ALTEO Group is a dominant actor in the Hungarian economic sector, and within this the energetic sector. Thanks to energy projects, ALTEO Group strongly contributes to domestic economic growth directly through the tax content of the purchased assets and indirectly with the reduction of energy costs due to the improvement of energy efficiency.³¹ **The nearly HUF 470 million**

tax paid by ALTEO Group contributed to the development of the country. In cooperation with our clients and partners, we continuously search for ways of improving energy efficiency, for the utilization of renewable energy sources and for the development of sustainable solutions. Below we present such common solutions and projects.



³¹ We do not compile the cost- and energy savings and emissions reductions of our clients in this report, because such data is confidential.

RENEWABLE ENERGY DEVELOPMENTS

ENERGY PLANTATION

Sinergy Kft., in cooperation with WWF Hungary, launched its energy plantation project in Tiszakeszi in 2013. The purpose of the project is to find the

type of plant or technology which make plant production possible in the most sustainable way using agricultural land less suitable for the production of food-based plants. The result of plant production for energy purposes can be used as biomass, which

is a renewable energy source. The collection of 'energy' plants, and the production, treatment and transportation of fuels offer employment possibilities for workers in agriculture, also outside the agricultural season.

"There are a lot of arguments in favour of renewables: either globally, or regarding the European Union renewable energy is the most important means of reducing greenhouse gas emission, which helps to slow down and mitigate negative impacts of climate change; plus, according to the latest reports 9.8 people worked in this sector globally in 2016; besides fossil energy production the renewable energy potential is distributed more evenly on the planet and also in our country, thus it offers possibilities and added value for a much wider circle; finally, renewable energy significantly improves the situation of regions hit by air pollution, since renewable energy does not result air pollution.



Investments into the renewable energy sector are increasing rapidly and they are considered good business in countries today, where there is good legislative and subsidizing environment. At the same time the investment and building costs have reduced significantly, mainly in case of wind and solar energy. Today the investment and building costs of renewable energy are much lower in more and more countries than similar costs of the cheapest fossil energy. Renewable energy is sustainable, if the emission reduction achieved by its use is measurable and detectable; that is why both the EU and Hungary support this type of energy. In case of good legislative framework the mature renewable technologies are competitive, which means that return is an important factor. It is also important that it should offer added value to as many as possible stakeholders, should create and maintain jobs and should not destruct the condition of the relating natural resources.

I find this a lively, practical and very useful pilot project for many, since we follow the way of biomass from the generation through processing until utilization. It is very important to gain own, authentic and reliable experiences useable in many different fields. I have seen a number of poorly launched biomass projects, which worsened the chances of the sector, but we hope that our common project will improve them."

Csaba Vaszkó, Climate Change and Energy Team Leader, WWF Hungary

Within this project, Sinergy was responsible for the plantation of propagating materials, for harvesting and purchases, while WWF Hungary was responsible for professional management, know-how and general consulting. The plantation involved identifying cooperative farmers and the right land they owned. During the experiment we converted several types of energy willows and poplars into energy.

HUNGARIAN INTERCHURCH AID WITH SOLAR ENERGY

In 2014 we completed the energy development of the office building of Hungarian Interchurch Aid in Budafok. In the framework of this project we developed a 29 kW capacity ground source heat pump system and we commissioned a 14 kWp capacity solar panel system. The installed heat pump system is the most efficient solution among all current heat pump systems, because its efficiency does not depend on the fluctuation of the outside temperature. This is ensured by the heat 'usage' of the ground, which provides constant heat transfer and heat absorbing capacity for the heat pump in winter and summer. The solar system generates uninterrupted electricity for the building.

BMW DEALERSHIP WITH GREEN POWER

The new Wallis Motor Pest Kft. BMW dealership meets not only the latest international architectural and technical standards of BMW, but 100% of the building's power supply is ensured from green energy, which was implemented with the

help of ALTEO Group. The electricity demand of the dealership is partly covered by its own resources (30%) with the help of a small power plant installed by ALTEO Group, partly from electricity derived from renewable sources.

The new HUF 3 billion dealership project sees priority given to the reduction of environmental harm, and so preference is given to heat insulation levels of the doors and windows and of the facades, as well as to the collection of rainwater for lawn sprinkling purposes, and to the use of highly efficient engineering equipment which ensure the minimization of the energy consumption of the facility. The operation of the premises with green electricity organically fits into this sustainability approach. The in-house energy production of the new car dealership not only reduces the energy costs by 30

percent annually, but also saves the environment from the emission of about 20,000 tons of greenhouse gases.

ENERGY EFFICIENCY PROJECT ENERGY EFFICIENCY DEVELOPMENT IN BC-POWER PLANT

In 2012, Sinergy Kft. made a proposal for the improvement of the energy efficiency of BC Power Plant (BC-Therm) with the pre-heating of the feed water. The solution improves the heat recuperation ability of the system and the efficiency of the steam valve of the degassing unit. Annually, the energy efficiency investment ensures 14,400 MWh more recovered energy, which is two-thirds more than was the case before the project's implementation. This also means that 3,200 tons of carbon dioxide emission is avoided annually.



ENVIRONMENT POLLUTION REDUCING PROJECTS

REDUCING AIR POLLUTANT EMISSIONS

The air pollutant emission limit values of large firing equipment was first regulated in 1998 and was last updated in 2013. Decree 110/2013 VM specified new, more stringent NOx limiting values which relate also to the MOL Petrolkémia (MPK) power plant and BC-Therm boiler, thus there was a need for emission reducing investment.

After analysing a number of different scenarios, ALTEO Group proposed to its clients the installation of Flue Gas Recirculation (FGR) systems. Following this the MPK power plant could operate within the specified limit values. As for BC-Therm, it became clear that the FGR system alone cannot guarantee the meeting of NOx limiting values in the top loading range of the boiler, thus we proposed the application of a burning modelling solution. Based on the modelling results, the boiler was able to operate within the emission limit value with the rebuilding and optimization of the burner without installing FGR.

ENERGY AUDIT OF HEINEKEN BREWERY IN SOPRON

In the framework of the energy audit carried out for the Heineken Sopron brewery, Sinergy Kft was looking for development possibilities in the field of energy utilization and distribution in 2015, in order to ensure the long term and economic operation of the brewery. During the energy audit, the possibility was mentioned that part of the large volume of water used in beer production could be obtained by the brewery from Sinergy water wells, hence replacing demand for urban drinking water. This solution on the one hand reduces the use of urban drinking water for industrial/technological purposes, and on the other the annual water consumption costs of the brewery.

REGIONAL IMPACTS

ALTEO Group has projects and premises in three regions of Hungary, in the North-Eastern Hungarian region, in the Western Transdanubian region and in Budapest. Our role is especially important in the Northern Hungarian region. In these workplaces ap-

plying state-of-the-art technology, 100% of the managers and employees were recruited from the local manpower market and they are employed by us at competitive wages. **Of the municipalities hosting our premises, we provide heating to about 60,000 district-heated homes using modern, economic and environment saving technology.**



We want to contribute to the development of these regions by purchasing the major part of the tools, materials and services used in the operation and maintenance of these premises from local small and medium size businesses, ensuring stability for ourselves and for our suppliers by long term contracts.

Regional impacts

| Settlement | Kazincbarcika | Ózd | Sopron | Tiszaújváros | Zugló | Total |
|---------------------------------------|---------------|--------|--------|--------------|--------|--------|
| No. of supplied inhabitants (persons) | 28 680 | 17 162 | 240 | 10 696 | 36 900 | 93 678 |

Environmental Performance

With its operation and performance of duties, ALTEO Group inevitably influences the natural and developed environment. In our Integrated Policy we have formulated that besides our basic business interests we should pay good attention to environment protection keeping in mind the principles of prudence, responsible thinking and prevention, thus contributing to sustainable development. Therefore, we observe the regulations of the law,

requirements formulated by the authorities, by the owners and by our partners and also those specified by our internal regulations, and we expect the same from our sub-contractors.

We intend to contribute to broad, efficient energy management and to the reduction of greenhouse gas emissions by minimizing the environmental risks arising from technologies, preventing en-

vironment pollution, continuously improving our environmental performance and by spreading cogenerated heat and electricity generation and renewable energy sources widely.

The premises use electricity during their operation. The proportion of used and generated energy is around 3%. Fluctuation of our power generation also depends on the demand for heat.

Use of energy sources

In the framework of the Integrated Management System, ALTEO Group operates an energy management system which meets the requirements of standard MSZ EN ISO 50001. We run these activities within frameworks regulated by internal measures, in the framework of the so-called Energy Management System (EMS). The efficient operation of this field belongs to the responsibilities of the head of Integrated Management System and of the Energy working group.

The purpose of the Energy working group is the rationalization of the energy utilization of the infra-

structure of the facility and of energy production (energy rationalization of the technological and service infrastructure of the facility), the improvement of energy performance, and the carrying out of other activities defined in the energy management system, or their coordination within the organization.

ALTEO Group has an integrated policy, which, is a document – approved by the top management – that formulates the commitments of the Company Group regarding energy consciousness and efficiency, as well as the most important objectives.

Energy auditing defined by standard ISO 50001 is performed at least once a year, or in cases of bigger changes in the infrastructural elements and in the related processes. Energy auditing is carried out by the Energy working group under the control of the Energy Management leader. The evaluation of the results is a recurring topic at the meetings of the Energy working group. The energy performance indicators and their assessment are included in the monthly reports of the different premises, and they are presented during the management audit annually.

In 2016 we made several energy and cost saving technical developments. We modernized the lighting in our heating power plants using flood-light LED light sources. We added modern and more operationally safe lighting in the gas motor areas. After the investment in the BC Power plant, we used the up until then not used hot water for the pre-heating of natural gas. We partially renovated the building of Power Plant of Győr, the doors and windows were replaced and heat insulation was introduced within the office building of the Power Plant of Sopron, resulting in further energy saving in both cases.

We are planning further developments in 2017. In 2016, 44% of waste water arriving at the Water Treatment plant from MOL Petrolkémia units was not utilized; we used to cool it with other industrial water and discharge it into river Tisza. The purpose of our investment due in 2017 is to better utilize 90% of waste water arriving at Water Treatment plant. To this end we will install a heat exchanger system during the extension of the Tisza-WTP Water Treatment Plant which, besides the maximum use of waste water, will also ensure the technological/effective use of the waste water.

SYSTEM EFFICIENCY

The main service segments of ALTEO Group are energy production, energy services - and trading with electricity and natural gas. **ALTEO Group offers customized services to its customers taking into account the profitability, environmental and operational safety aspects. Besides the centrally determined prices of electricity deriving from renewable sources and of district heat, all our products are market based, and they all have to prove themselves on a competitive market. The basic condition of our being competitive is that the selected technologies should always be the most efficient available ones – this is why we prefer cogenerated energy production technology, and why we have renovated our water power plant.** The efficient operation of our main activity is supported by our internal processes, management systems, management guidelines, trading and risk management.

The Integrated policy of the ALTEO Group reflects the officially declared intention and values of the Executive Board, which are in line with the basic values, business policy and strategic objectives of the Company. The targets of our policy include, among other things, the paying of special attention to the continuous improvement of energy efficiency, to the economic use of environmental sources,

to the protection of the environment, and to the conservation of natural values, while we are committed to social responsibility, thus contributing to sustainability.

Besides this, the top management of the Company and the middle level managers of the different premises are responsible for the basic operation, management, continuous development and improvement of efficiency. Developments improving system efficiency appear in the annual quality, HSE and EIR targets, while special tasks are formulated in the bonus plans serving as a basis for performance assessments of the different employees. Concerning the expiry of deadlines, or partial deadlines, the responsible persons prepare status reports about the achievement of targets. The efficiency and realization of development, the performance indicators and production data are presented and assessed during the annual management audits.

SYSTEM EFFICIENCY IN THE TRADING BUSINESS

The central issues of trading business units are the reliability of equipment, pricing and risk management, thus our activities should be optimized based on these aspects. ALTEO Group carries out the operating of the existing facilities and the management tasks with its own staff.

SYSTEM EFFICIENCY IN ENERGY PRODUCTION BUSINESS

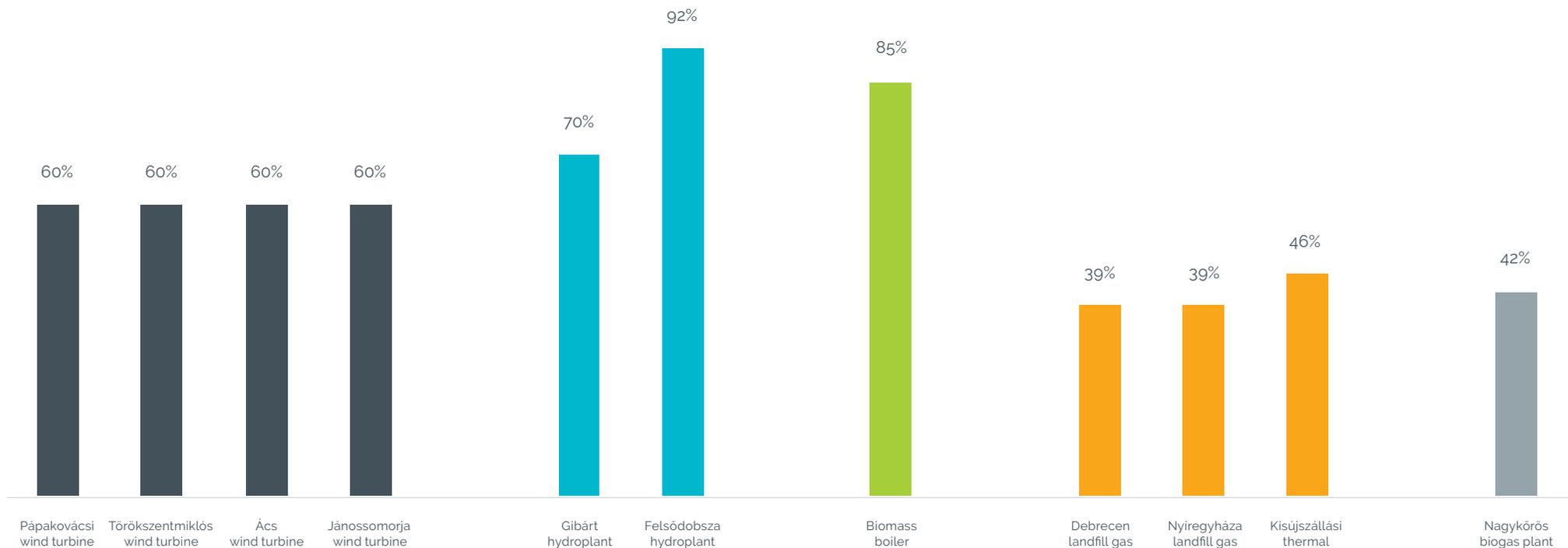
In the energy production business, we sell electricity or heat generated by our own assets to our contracted partners or via the Virtual Power Plant. Regarding the sales of electricity, our key customer is MAVIR, who purchase system level services from us. This is a completely regulated market, where regulatory centers operate in competition with each other. System efficiency is

of elemental importance here, since capacities should be offered at a price which on the one hand produces enough coverage for the producers, but on the other is competitive compared to the other regulatory centers. System efficiency and risk management have decisive roles in the operation of the Virtual Power Plant. We can sell thermal energy at a centrally determined price, so it is very important that the energy should be generated at the defined beneficial (economic) cost level.

Efficiency of the premises is a good indicator of the efficiency of the different power plants. Efficiency expresses the extent of utilization of the generated energy. The higher the efficiency of a technology or a power plant, the more the energy of the given energy carrier is utilized.

We present the efficiency of power plants operating with cogeneration technology in the Cogenerated power generation chapter.

Efficiency of power plants owned by ALTEO Group (2016)



SYSTEM EFFICIENCY IN INDUSTRIAL SERVICES

Operation and maintenance activities, investment management, engineering services and main contracting all make up part of the energy services business.

Our customers are large industrial companies, district heat service providers having different preference systems; industrial consumers give preference to operational safety, while in cases of district heat suppliers, profitability is everything. Therefore we have to handle the priorities of our clients flexibly.



COGENERATION

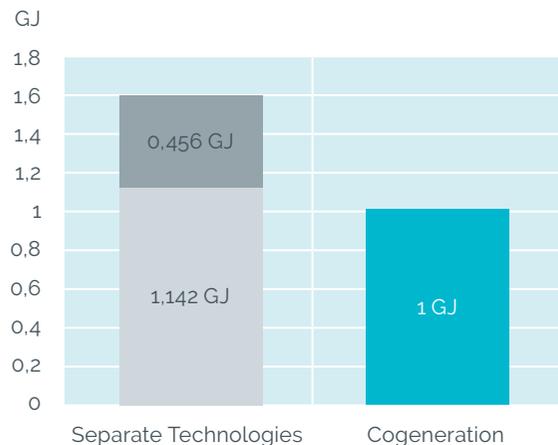
The main characteristic of cogeneration is that it has two "energetic products" useful heat and electricity, and they are produced in the course of the same technological process using the same primary energy carrier(s). Cogeneration power plants implement this so that the gas engines or gas turbines drive the generator, which generates electricity. In the case of gas engines the flue gas and the other waste heat from the gas engine is used for heating purposes through hot water based heat exchangers. In cases of gas turbines the heat of flue gas (in certain cases also with gas engines, too) is utilized through heat recovery boilers suitable for heat production.

Improvement of efficiency of fuel utilization is locally economic, environmental and of national economic interest. It is an environment protection task also, because fuel that can be saved by cogeneration need not be generated at the expense of the environment, and such fuel saving results in the reduction of environment pollution through the reduction of CO2 emissions. In cases of proper technical design, cogeneration has significant economic advantages, which encourages the reduction of the prices of energy products. Compared to various separate technology, nearly 40% of the required primary energy can be saved during the production of the same quantity of heat energy and electricity.

| Plants | Efficiency of cogenerated electric energy | Efficiency of cogenerated thermal energy | Total efficiency of cogeneration | Efficiency of heat generation by boilers |
|---------------|---|--|----------------------------------|--|
| Győr | 31.64 | 22.10 | 53.74 | 91.00 |
| Sopron | 41.19 | 32.51 | 73.70 | 91.70 |
| Kazincbarcika | 33.23 | 40.40 | 73.63 | 96.42 |
| Tiszaújváros | 32.17 | 43.25 | 75.42 | 97.17 |
| Ózd | 40.55 | 41.17 | 81.72 | - |
| Zugló | 42.67 | 39.81 | 82.48 | - |
| BC-Therm | - | - | - | 97.00 |
| MOM Park | 34.00 | 40.70 | 74.70 | 92.00 |
| Agria park | 37.40 | 47.60 | 85.00 | - |

In terms of the total cogeneration efficiency of the Power Plant of Győr there is reduced efficiency due to the summer non-heating period, because of the economic optimisation of the Virtual Power Plant.

Primary energy required for the production of identical amounts of heat and electric energy



ENERGY SAVINGS ACHIEVED BY COGENERATION

The statement is supported by the following calculation:

By introducing 1 GJ of natural gas (appr. 29.4 m³) into a gas engine 0.4 GJ (m.1 kWh) of electric energy and 0.42 GJ of thermal energy can be obtained as useful products. To produce 0.4 GJ (m.1 kWh) of electric energy in a condensing power plant of 35% efficiency $0.4/0.35 = 1.142$ GJ of natural gas is required.

To produce 0.42 GJ of thermal energy in a thermal plant with boilers of 92% of efficiency $0.42/0.92 = 0.456$ GJ of natural gas must be input.

Therefore, we have used a total of $1.142+0.456=1.598$ GJ of natural gas, in contrast to the 1 GJ introduced into the cogenerating facility.

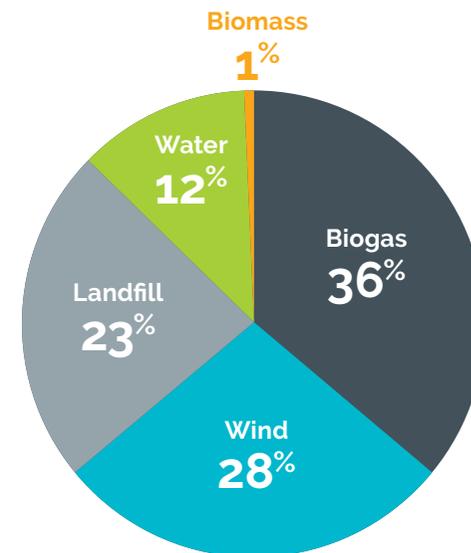
FUEL USE

We mainly use natural gas as fuel to the operation of equipment in the facilities of ALTEO Group. In 2016 94% of the used energy sources was natural gas, 2% was renewable, 2% hydrogen and nearly 2% methane.

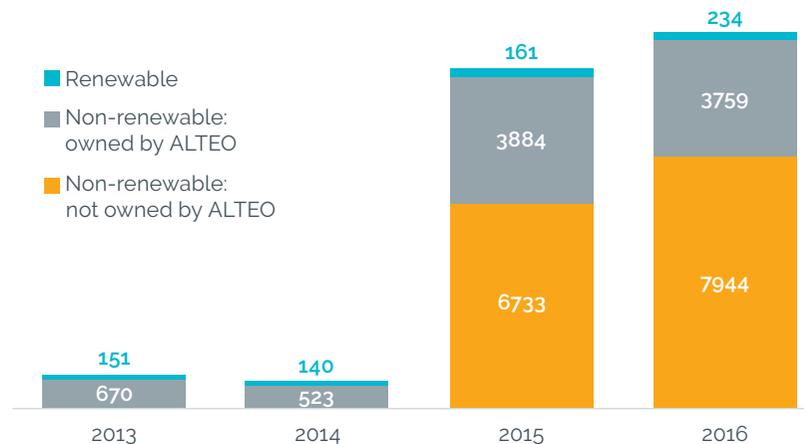
The power demand of power plants owned by ALTEO Group was totally 4 million GJ in 2016, nearly 6% of which originated from renewable sources. The power demand of power plants operated by ALTEO Group was 7,9 million GJ. Thus the total energy requirement was 11,9 million GJ in 2016, which is by 1,1 million GJ more than in 2015.³²

The greatest part of the renewable energy demand is provided by biogas (36%), wind (28%) and landfill gas (23%); we have met 12% of our renewables from water and 1% from biomass.

Distribution of renewable energy sources used by ALTEO Group (2016)



Primary energy utilization of power plants operated by ALTEO Group (thousand GJ)



³² Our data are published based on measurements.

HYDROGEN BURNING

Sinergy Kft. introduced hydrogen burning – the first instance in Hungary – in 2011. The main by-product of technologies applied by BorsodChem Zrt. is hydrogen. The generated hydrogen is utilized as a marketable energy source instead of being burnt on site or wasted. Thus we not only reduce waste, but save significant amounts of natural gas fuel.

The mixed firing with hydrogen and natural gas has very strict technological requirements. Hydrogen can only be burnt with the minimal amount of natural gas, or the quantity of natural gas in the mix cannot exceed the pre-defined value per burners and hydrogen cannot be burnt with oil firing. The compliance with these requirements is monitored by control technological systems.

TOTAL ENERGY CONSUMPTION

During their operational activities the relevant premises use electricity. In 2016 the power plants operated by ALTEO Group (own properties and plants operated in the framework of industrial

services) consumed 308 083 GJ energy in total, which is a nearly 9.5% increase compared to 2015. The growth was mostly due to the increase of heating consumption.

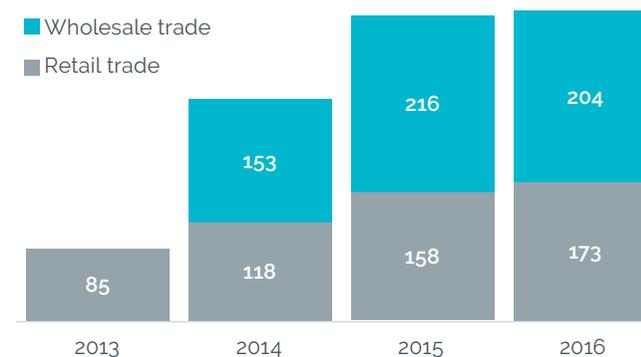
ENERGY SALES

In 2016 ALTEO Group sold 377 085 MWh electricity in total and 106 114 GJ natural gas. ALTEO Group started sales of natural gas only in 2016. The retail trade of electricity has continu-

Primary energy required for the production of identical amounts of heat and electric energy

| Self consumption (GJ) | 2013 | 2014 | 2015 | 2016 |
|--|-------|-------|---------|---------|
| POWER PLANTS OWNED BY ALTEO | | | | |
| Electricity consumption | 9 735 | 8 146 | 56 564 | 58 143 |
| Heating consumption | - | - | 164 283 | 186 392 |
| Steam consumption | - | - | 14 887 | 11 503 |
| POWER PLANTS NOT OWNED BY ALTEO | | | | |
| Electricity consumption | - | - | 45 613 | 52 045 |

Sale of electric energy by ALTEO Group (ths MWh)



ously increased during the past four years, while the wholesale trading activity launched in 2014 has also shown dynamic increases during the past three years. In the field of electricity retail trading

activities of the Company, the range of customers was increased in 2016, resulting in a nearly 10% increase in the quantity of electricity sold. Trading with electricity is now a greater priority activity

of the company. Besides supplying the end-customers, we also offer valuable electricity selling opportunities to the energy generating units of ALTEO Group.

Emission

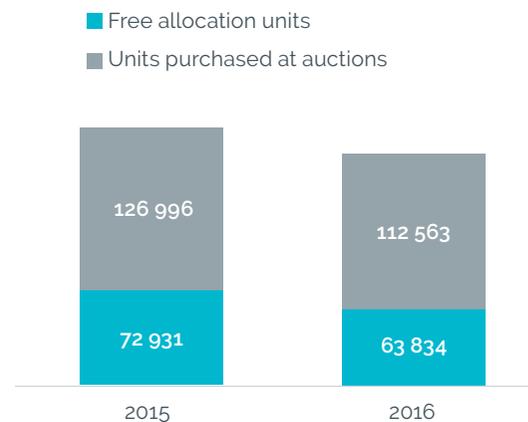
Emitted carbon dioxide is what is mainly responsible for the increase of the average temperature on Earth. Carbon dioxide (similarly to other gases) is a greenhouse gas, and if it accumulates in the atmosphere it does not allow the energy arriving as sunshine to be released and this results in global temperature increases. **The Kyoto Protocol was the first international treaty aiming at the reduction of greenhouse gas emissions, in the framework of which the setting up of an emission trading system was also decided as an economic incentive.** The main point of this system is that the facilities in question receive a certain emission unit (quota) free of charge and in the year following the current year they give an audited report about their emissions. If the audited emissions exceed the allocated threshold, the difference would be procured from the carbon

dioxide trading market (quota purchase), or a fine is paid. Any company having lower actual emissions can sell their unused emission units (quota sales). Hungary is a member of the EU Emissions Trading System, EU ETS.

In 2016 the third phase of the EU ETS was in force. Its purpose is by 2020 to cause a 21% reduction in the emission of the sectors participating in the system compared to 2005.³³ The purpose of the Paris Climate Convention adopted in 2015 and ratified by Hungary in 2016 is to keep global warming below 2 °C. In order to achieve this target, every country made voluntary commitment for the reduction of emissions. **According to the new plans, the fourth phase of EU ETS covers the period of 2021-2030. In line with the Energy Strategy of the EU 40% reduction of the greenhouse gases is envisaged for 2030. This new objective means nearly 2.2% reduction against the present 1.74%.³⁴**

As a power generating and trading company we can reduce our emissions in two ways, while supplying enough energy to meet the demands of our customers: with the improve-

Emission units allocated to ALTEO Group



³³ European Commission: The EU Emissions Trading System (https://ec.europa.eu/clima/policies/ets_en)

³⁴ European Commission: Revision for phase 4 (2020-2030) (https://ec.europa.eu/clima/policies/ets/revision_en)

ment of energy efficiency and with generating renewable energy. Thanks to our modern firing equipment we have only marginal possibilities for development in the field of energy efficiency. Our strategic aim is to invest in energy production based on renewable sources, and this is what we will further develop in the future.

The companies which own ALTEO Group's power plants have more than 50 MW input fuel capacity so they are taking part as independent entities in the EU ETS. During the past trading period the district heat generating power plants received significant CO₂ quotas allocated free of charge. In 2016 only Zugló-Therm Kft. which owns the Power Plant of Zugló was forced to buy a quota. BC-Therm industrial production unit does not receive free quota, thus it had to purchase the total quantity of emissions at auction. In 2016 the freely allocated quota covered 36% of the total emission of power plants operated by ALTEO Group, while the total emitted quantity fell.

Our direct carbon dioxide emission level ("scope 1" in GRI system) is the result of our use of fuel for energy production process. In 2016 emissions of carbon dioxide generated by the operation of the power plants owned by AL-

TEO Group was 205 000 tons,³⁵ which was an over 8% reduction compared to 2015, thanks to the reduced production of the Power Plant of Győr.³⁶ In 2016 emissions of biogas and landfill gas were 3 179 tons and emissions of company cars was 176 tons. This jump in the data up to 2015 was due to the integration of Sinergy Kft.



The indirect carbon dioxide emissions of ALTEO Group ("scope 2" in GRI system) derives from the use of purchased energy, thus we present it in two categories: purchased electricity, and purchased heating. Our indirect emissions are only a fragment of the direct total, there were only 10 thousand tons of carbon dioxide emissions in 2016, that is 4.5% of total emissions (total of scope 1 and scope 2). Only the Tisza-WTP Water Treatment power plant requires energy for steam. **As an energy generating company, the most important indicator for us is the intensity of emissions, i.e. what volume of total emission (scope 1 and 2) each energy unit results in.** In 2016, power plants owned by ALTEO Group emitted on average 74 kg CO₂ GHG gas for every GJ of energy produced, a reduction compared to the 2015 value.

CO₂ emissions per unit of production (kg/GJ)

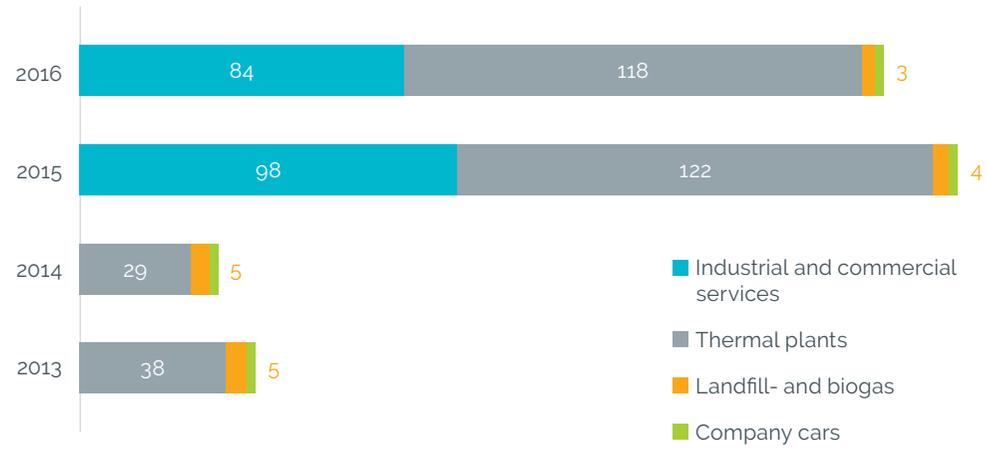
| | 2015 | 2016 |
|-----------------------------|-------|-------|
| Power plants owned by ALTEO | 74.58 | 73.89 |

ALTEO Group does not report the carbon dioxide emission of its clients, since MOL Zrt. and BorsodChem Zrt. will be publishing their own reports for 2016.

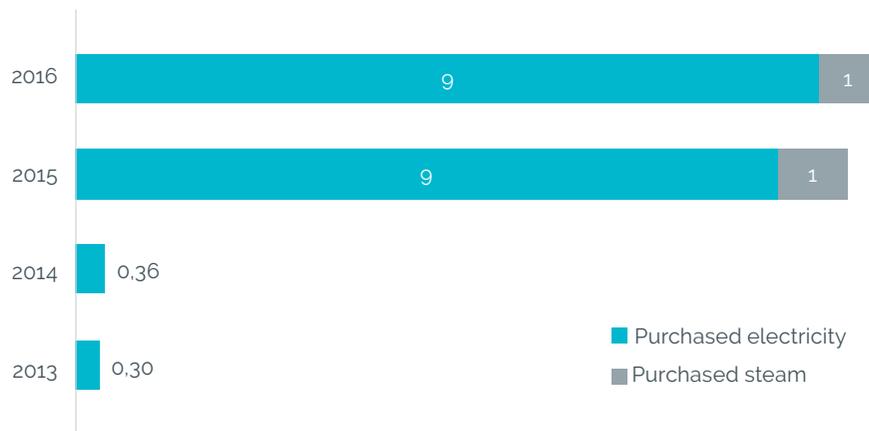
³⁵ The emissions of our power plants belonging to the EU ETS system is reported based on certified measurements; other emissions of our operation were estimated using conversion factors published by DEFRA, Great Britain (Department for Environment, Food and Rural Affairs).

³⁶ The totalling does not contain the emissions of our biomass boiler, because it is not measured, nor the emission of the biogas plant, since the composition of primary energy used by the plant is changing and we do not have a reliable conversion factor for the numerical determination of potential emission. We hope to account for this in future reports.

Total direct CO2 emissions by power plants owned by ALTEO Group (ths ton)



Total indirect CO2 by power plants owned by ALTEO Group (ths ton)



Air Cleanness protection

In the premises operated by ALTEO Group totally 42 point sources are operating. The flue gas of gas engines contains nitrogen oxides, carbon monoxide and non-methane hydrocarbons (NMCH), while flue gas of hot water boilers, or steam boilers pollute the environment with nitrogen oxides or carbon monoxide in case of natural gas firing. **Every premises has either a uniform license for the use of the environment, or a point-source operational permit, which contains regulations relating to point sources, measurements and compliance.**

When designing the plants the basic aspect was the use of the best available technology. In order to reduce harmful emission catalytic converters

were built into the flue gas system of gas engines, and so-called LOW-NOx burners were installed in order to reduce of the concentration of the emitted nitrogen oxides. In the boilers the burning process takes place at high temperature, the flue gas has low carbon monoxide content and the soot formation is minimal. There is no dust emission. In the gas turbines of industrial power plants there are also burning chambers with low emission. The average daily emission of the point sources did not exceed the technological emission limit value at none of the locations during the whole operational period. We continuously measure emission in TVK Power Plant and BC-Power Plant with emission measuring

system. At the other locations compliance is based on the accredited measuring of annual emission. The completion of annual reports and accredited measurements, as well as liaison with the authorities is the responsibility of HSE; operation of the continuous emission measuring equipment and keeping the daily limit values, as well as reporting of exceeds is the duty of the Power Plant manager. The compliance of the operational practices is checked during HSE internal audits and authority inspections.

Emissions of air polluting materials, namely of CO, NOx and NMCH emitted by power plants owned by ALTEO Group reduced between 2015 and 2016.



The reduction of nitrogen oxide emissions can be explained by the technical adjustment of the gas engine in the associated gas based power plant in Kisújszállás, which now works more efficiently and with lower emissions.

In the case of power plants operated by ALTEO Group the reduction of nitrogen oxide emissions is the result of our keeping to the new limit values.

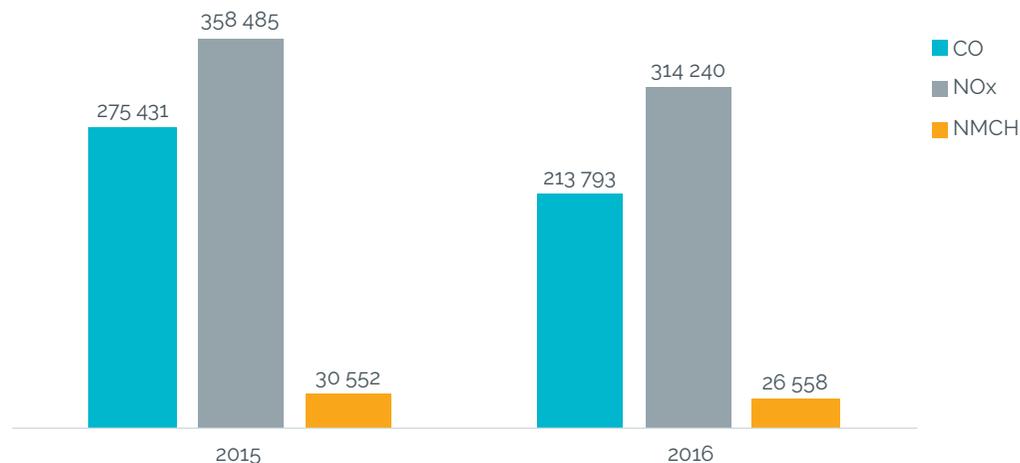
ADAPTATION TO NEW LIMIT VALUES

As of January 1, 2016 new and more stringent NOx limiting values directly relate to our large combustion equipment, thus TVK Power Plant, BC Power Plant, and BC-Therm plant sites in Sopron and Győr had to achieve about 30% NOx reduction.

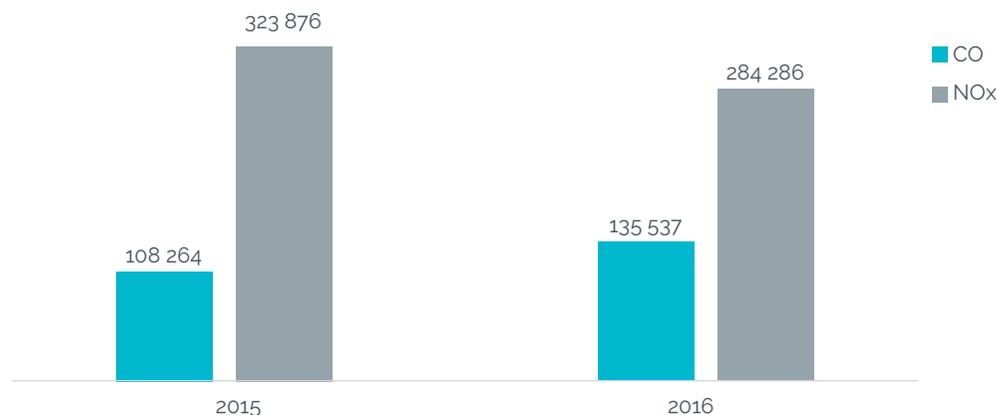
In Sopron and Győr the KVZ and DUKLA boilers ceased operations. At these premises, smaller reconstruction of the combustion equipment was necessary in the TVK Power Plant and at BC-Therm. In the case of BC-Therm, there was a smaller intervention for the adjustment of the burners with the modification of the proportion of primary and secondary air-flow. At the TVK Power Plant, flue gas recirculation was implemented.

The increase of SOx emissions at power plants owned by ALTEO Group was due to the emission of the biogas plant of Nagykőrös taken over in 2016.

Air pollution of power plants owned by ALTEO Group (kg)



Air pollution of power plants not owned by ALTEO Group (kg)

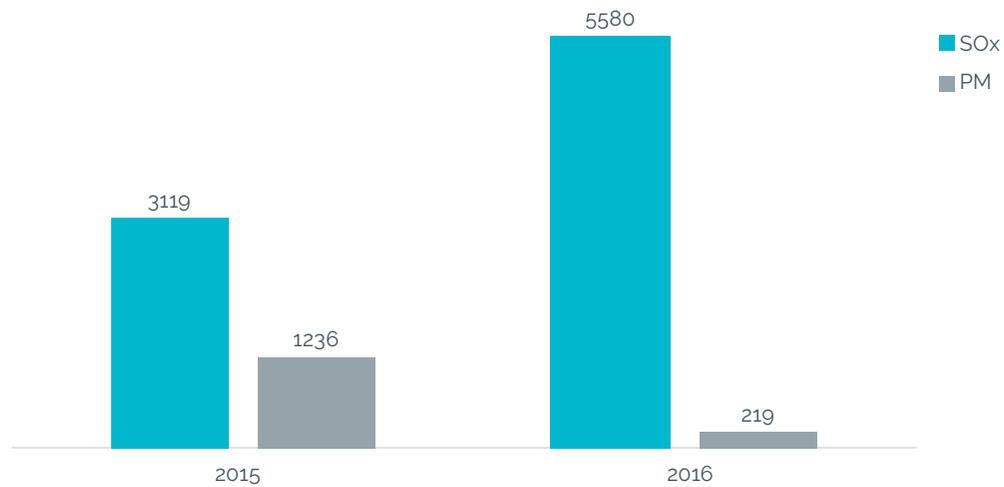


EMITTED OZONE DEPLETING SUBSTANCES

At the TVK Power Plant, in the Tisza-WTP Water Treatment Plant and in BC Power Plant and also at the MOM Park Energy Center we are operating HVAC equipment meeting the specifications of the Government Decree 14/2015. (II. 10.) for activities in relation to ozone-depleting substances and certain fluorinated greenhouse gases. We run the legally mandatory maintenance and leakage inspection of the HVAC equipment in place, and in the reporting period there was no need for the filling up of the systems. Thus there was no emission documented with the HLH monitoring system.



Air pollution of power plants owned by ALTEO Group (kg)



Air pollution of power plants not owned by ALTEO Group (kg)



Water consumption

During their operation, our facilities use drinking water, industrial water and, indirectly, surface water in the form of pre-treated industrial water.

Our biggest consumer of water is Tisza-WTP Water Treatment Plant which produces desalinated water for MOL Petrolkémia. The Water Treatment Plant produces desalinated water from settled water from the river Tisza, and from condensed water returning from the different areas of usage of MOL Petrolkémia after passing through ultra-filter equipment, reversed osmosis and mix bed ion exchange process technology.

The membrane technology determines the temperature of the inlet feed water at 20-40°C. The heating of the raw water is run using the available condensation water, and additionally the use of heating steam is also necessary. In order to protect the membranes, the condensed water is also treated. The treatment of condensed water aims at the screening of disperse corrosion products and the reduction of oil content. De-oiling is more efficient at lower temperatures, therefore the total quantity of condensed water is led through a heat exchanger and is cooled down with raw water.

According to our self-control plans, we continuously check the quality (conductivity, pH value, temperature indicators) and quantity of the emitted waste water. Every quarter we have the chemical and bio-chemical oxygen demand, pH values, total nitrogen, total phosphorous and all solute content measured by an accredited laboratory. No limitation excesses were registered during the operating period of the water treatment plant.

During the operation of our facilities, water recycling occurred only in the TVK Water Treatment Plant, no other material was recycled. MOL Petrolkémia returns part of the desalinated water received from Water Treatment in the form of condensed water which is then re-processed. This amounts to 9-12% of our total water consumption.

Annual water consumption of water plants (million m³)

| | 2015 | 2016 |
|-------------|------|------|
| Felsőöbbsza | 476 | 575 |
| Gibárt | 373 | 283 |

Surface water is used only by our water plants. From 2015 to 2016 the water consumption of the power plant of Gibárt fell due to the maintenance of the sluice-gates (during the reconstruction, the production also fell).

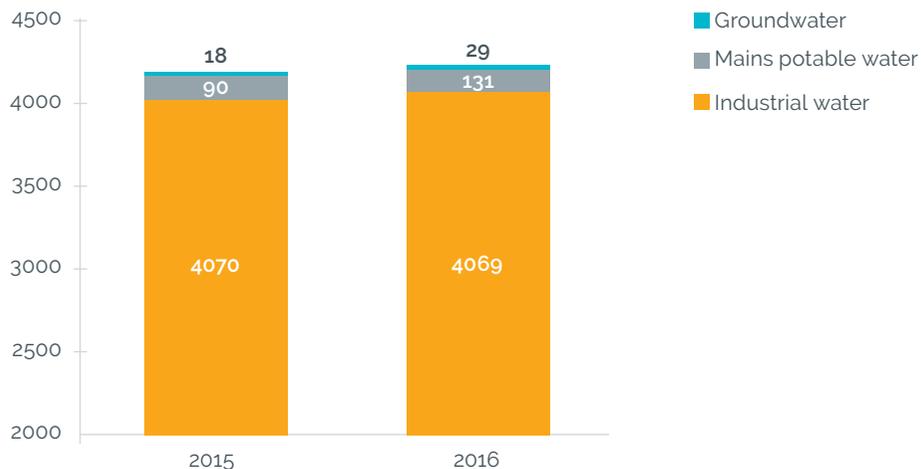
The power plants owned by ALTEO Group primarily use drinking water, subsurface water and some industrial water.

In 2016 the subsurface water consumption increased due to the filling up of a certain water pipe used in the Audi factory, while drinking water consumption increased due to the addition of supplementary water in the thermal power plants of Kazincbarcika and Tiszaújváros.

Power plants operated by ALTEO Group use mains drinking water only to a small extent, but they are significant industrial water users.

Tisza-WTP Water Treatment Plant is the most important water consumer in the portfolio of ALTEO Group, treating nearly 3.5 million m³ of industrial water annually. Before the integration of Sinergy Kft., the power plants of ALTEO Group did not use significant volumes of water, 30,759 m³ in 2013 and 23,968 m³ in 2014. Thus detailed data is only presented for 2015 and 2016.

Water consumption of power plants and water treatment plant owned by ALTEO Group (except hydroplant) (thousand m³)

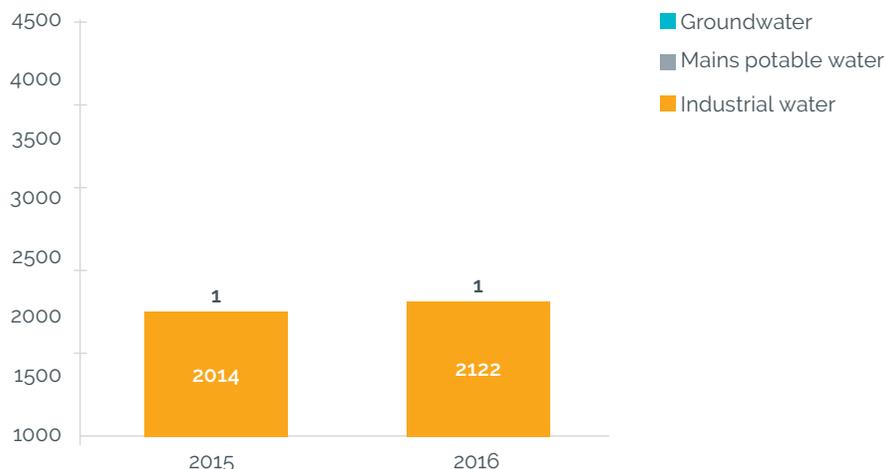


We use recirculated and recycled water at three facilities: at the power plant of Sopron, at BC power plant and at Tisza-WTP Water Treatment Plant. Of these the biggest quantity, nearly 494 000 m³ of water was recirculated in the Water Treatment Plant in 2016; the total volume of recirculated and recycled water was 533 386 m³. Of the total water consumption of power plants owned by ALTEO Group (without water power plants) the proportion of recirculated and recycled water amounted to 12% in 2016.

Proportion of recycled and reused water

| | 2015 | 2016 |
|---|------|------|
| Proportion of recycled and reused water | 11% | 12% |

Water consumption of power plants not owned by ALTEO Group (thousand m³)



Soil and water protection

SEWAGE WATER AND RAINWATER DRAINAGE

At the urban heating power stations waste water is produced whenever we generate heat either during the de-sludging of hot water boilers, or alongside condensation from exhaust fumes of gas engines, or during the operation of desalinating equipment, or during sample taking and discharging of the different equipment. Waste water is collected in cooling shafts. The waste water of maximum 40°C is discharged into the sewage system after cooling and proper treatment. Water collected in the cooling shafts is pumped into the urban rainwater sewage system and onwards from there.

On the territory of BC and TVK Power plants the communal and non-oil sewage waters are drained through the sewage conduits of BorsodChem Zrt. and MOL Petrolkémia, thus the power plants are only indirect emitters. Rainwater and used waters, where there is the risk of oil contamination, or waste waters emitted by other equipment, is released into the sewage system of the companies after pre-treatment. Pre-treatment is ensured by two sewage water treatment units per power plants. The authorities have not specified special limit values for sewage water emitted by the power plants, since the final emitters are in both cases chemical industrial companies.

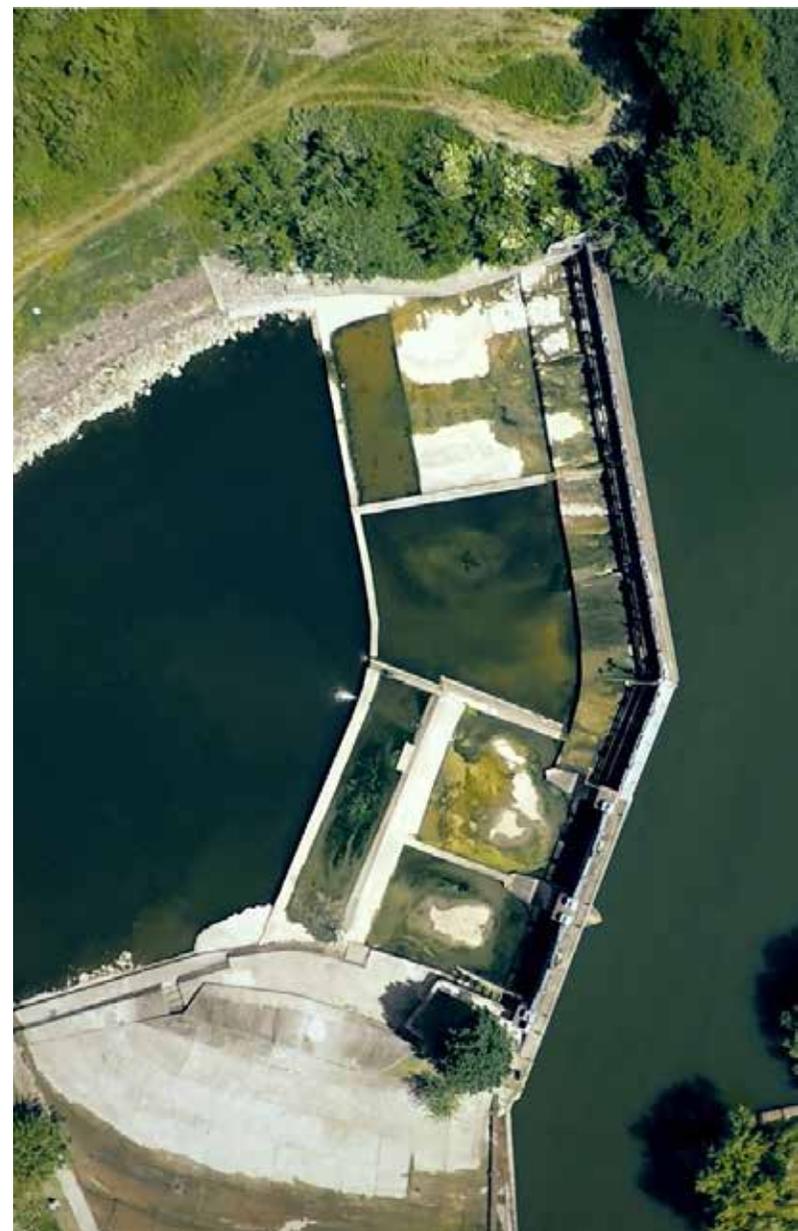
GROUND WATERS

At MOL Petrolkémia and BorsodChem power plants the heating oil is stored in 300m³ double-walled tanks. Around the tanks there are three monitoring wells in the case of the TVK Power Plant, one in the case of BC Power plant and three in the area of the biogas plant at Nagykőrös, to monitor the quality parameters of ground water.

The purpose of maintaining the monitoring well system is the monitoring of pollutions appearing with the contact with ground water. We have the quality parameters of the ground water checked by an accredited laboratory as frequently as defined by the law.

In the case of operational failures, ground water or surface water pollution may occur. In 2016 there was no ground water pollution.

For power plants with greater than 50 MW input capacity and where the law requires it, we have water quality damage control plans, and these are continuously revised according to the regulations.



Waste management

In the course of the Company's activity, hazardous waste, industrial non-hazardous wastes and solid settlement waste are generated, while during the maintenance work demolition waste may be produced. Third party sub-contractors perform the collection and transportation and disposal of communal waste based on contracts concluded by the different plants.

Monitored quantities of hazardous waste is generated by our operation and maintenance activities. Of the waste produced by this activity, the majority is oil waste and liquid fuel waste (oily sludge, exhausted oil, oily water and emulsion). Significant amounts of waste is also generated by the use of absorbents, absorbing materials and filters.

According to the above, exhausted oil and negligible quantities of batteries can be found in the priority waste streams. PCB containing waste are not generated, we do not use such materials. **We pass on our exhausted oil waste to companies who ensure that this oil is not recycled but managed properly. The other hazardous wastes are burnt or deposited.**

| Waste generated (kg) | | | | |
|----------------------------|--------|--------|---------|---------|
| | 2013 | 2014 | 2015 | 2016 |
| NON-HAZARDOUS WASTE | 14 327 | 10 833 | 229 742 | 358 857 |
| Recycled | - | - | - | 680 |
| Deposited in landfills | 4 930 | 4 460 | 202 560 | 339 480 |
| Burnt | - | - | - | - |
| Other | 9 397 | 6 373 | 27 182 | 18 697 |
| HAZARDOUS WASTES | 2 004 | 2 845 | 88 378 | 78 338 |
| Recycled | - | - | 39 685 | 34 917 |
| Burnt | 111 | 446 | 16 215 | 892 |
| Deposited in landfills | - | - | - | 3 014 |
| Other | 1 893 | 2 399 | 32 478 | 39 515 |

All of our premises have workplace collection sites established according to the regulations relating to hazardous wastes. Our waste records are based on the transportation data of waste, therefore data indicated for the different years also relate to this. Differences between the annual data are partly due to the differences in the dates of generation and transportation, and partly due to the greater waste quantities generated by bigger maintenance works.

The increase of waste quantities in 2015 followed the integration of Sinergy Kft.

We report the quantities of hazardous and non-hazardous wastes in our official waste reports; the disposal data is based on estimations of the experts of ALTEO Group.

Environmental compliance

Many of the facilities of ALTEO Group have a uniform environment usage licence and point-source operating permits, as well as other environmental permits. Requirements and specifications relating to environmental protection are regulated by procedures of the Integrated Management System. Accordingly, compliance with the internal requirements and legal regulations are controlled by internal and external audits organized in the framework of IMS, as well as in the course of authority controls. In 2016 and in the preceding 3 years we did not receive any significant environmental fine.

DISASTER MANAGEMENT

The basis of our fire control and disaster management activities is prevention, reliant on our safety technology. Prevention can be ensured by emergency management measures, by providing fire extinguishers and by reporting various grades of accident. Fire is regarded as a priority risk. The majority of our premises are equipped with fire alarm systems and automatic extinguishers. In the cabins of the gas turbines, CO₂ extinguishers are in operation. Fire regulations state the fire control and emergency rules of the facilities; besides this, damage control plans and complex protection plans were prepared for the two industrial power plants, and these plans

contain all the response rules and regulations to be followed in emergency cases specified by HSE legal requirements for fire cases. In order to be prepared for emergency cases, the plans are integral to our training programs and we organize regular emergency practices. The fire control regulations of the facilities are detailed in the full fire regulations and in the fire alarm plans.

PROCESS SAFETY

The operation of our power plants may basically be regarded as a dangerous business, since we have to operate burning equipment working at high temperatures and high pressure hot water and steam, and flue gas passes through our systems. **In addition to the legislative requirements and the prevention of workplace accidents, serious expositions and fire cases avoidance and management are of great importance for ALTEO Group.** The Energy Management System (ISO 50001, EMS) or the Occupational Health and Safety Assessment System (OHSAS 18001) compose part of our Integrated Management System, which ensures the reduction to the minimum of operational risks by supplementing the work safety management system and the environmental management system, and we coordinate all of these at system level.

"We pay special attention to the environment and safety technological performance of our premises. Besides the keeping of the relevant Hungarian and EU environmental regulations the continuously high level of environmental work also means for us the keeping on the lowest possible level of the environmental impact of energy generated by us. We operate our premises in this spirit.

Regarding workplace safety we had outstanding performances also compared with the other Hungarian energy generating companies, since there was no serious workplace accident at our plants, so our employees can return to their families safely every day. We continue to pay special attention to our environmental and safety performances, preserving the basic conditions of sustainable operation."

Beatrix Szabó,
Integrated Management System Manager

In 2016 we had no cases which caused lost days or employee fatality, or of sub-contractors or third parties; we also did not have any explosion cases. The last fire was in the BC Power Plant in 2015, the cause of which was a technical defect and not operational failure.

As part of the Integrated Management System we have introduced environmental impact registers for the assessment of risks. We also implement measures for risky processes. Operational safety is maximised by preventive maintenance and by our extrIM program, supporting the IMS.

HEALTH AND SAFETY

ALTEO Group introduced the IMS based on four standards in 2016 and this was attested by a third party.

Our purpose is the uniform handling of HSE tasks, the reduction to the minimum of risks generated by our technologies and operational activities, the cost efficient implementation of the necessary measures and the meeting of legislative regulations. Of outstanding importance remains the prevention of workplace accidents, of increased incidents and of occupational diseases, the avoidance of fire cases, the efficient cooperation between the stakeholders of occupational health and safety, assessment of performance indicators serving for the continuous

measurement of our HSE performance and the continuous improvement of our performances. The basis of our labour safety activity is the chemical and psycho-social risk assessment prepared completely for every premises and revised every year. Our basic safety aim is the prevention of workplace accidents and the provision of preventive occupational medical services for which purpose we state and launch annual targets and programs. The annual targets are determined based on risk assessments, the experiences of site visits and on quasi-accidents³⁷ and are approved by the General Manager. We announce every year a quasi-accident competition where we reward the "most successful" applicant, and also Zero Accidents is a managerial target and relating to this the reporting of quasi-accidents.

Our results are monitored during HSE visits and surveys. **We have four site visits in all of our premises every year**, one made by the top management, one local "self-review", and one with the involvement of broader HSE, and also an internal audit performed by HSE / Internal Audit department. The annual targets are met and followed up in the framework of the Integrated Management System. Regarding the checking of introduced procedures and regulations, the HSE visits, internal and third party audits and authority controls provide opportunities and feedback. We

Health and Safety

| | 2015 | 2016 |
|-------------------------------------|------|------|
| Incidents of occupational diseases | - | - |
| Men | - | - |
| Women | - | - |
| Number of semi accidents | 25 | 40 |
| Men | 25 | 40 |
| Women | - | - |
| Number of accidents | 6 | 2 |
| Men | 6 | 2 |
| Women | - | - |
| Number of subcontractor's accidents | 2 | - |
| Men | 2 | - |
| Women | - | - |
| Number of lost days | 2 | - |
| Men | 2 | - |
| Women | - | - |
| Number of missed (absentee days) | 501 | 586 |
| Men | 440 | 535 |
| Women | 61 | 51 |

present the labour and safety technological performance of the Company at the annual Management audit.

³⁷ Quasi-accidents ("almost accidents") are events that did not result in injuries.

Every new entrant takes part in HSE training courses according to the regulations of the management. In the course of these courses they become acquainted with the functioning of the management system, with the risk factors and environmental impact, with the behaviour rules, with the methods of reporting HSE cases, with the rules and tasks to be followed in case of fire and emergency. During the annual refresher courses we update the relevant educational material supplemented by the current internal and legislative changes.

The health and safety activities are treated together with the Integrated Management System and belong under the control of the Head of the Integrated Management System. In every plant site, the Managers of the premises are responsible for ensuring the conditions of healthy and safe work.



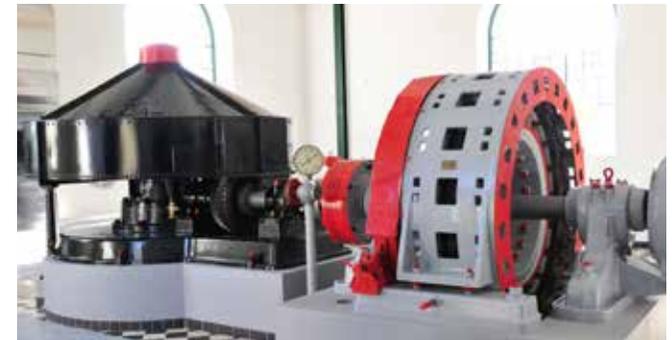
In the employment of the ALTEO Group most blue-collar workers work in ways where the risks of occupational incidents is high. The number of medical incidents in 2016 was 116. Thanks to our organized and disciplined labour safety regulations and practices there were no occupational disease cases at our plants in 2015 and 2016. The number of workplace accidents fell to two in 2016, but they did not result in lost days. Our sub-contractor accidents were caused by the fire incident in BC-Therm plant in 2015. We are also publishing health and safety rates in line with GRI guidelines with the aim to show how health and safety-related data changed as a result of the growing number of our employees.³⁸

GRI rates

| | 2015 | 2016 |
|---------------------------------|--------|--------|
| Injury Rate (IR) | 0.013% | 0.004% |
| Occupational Disease Rate (ODR) | 0% | 0% |
| Lost days Rate (LDR) | 0.11% | 0.07% |
| Absentee Rate (AR) | 1.11% | 1.20% |

The Injury Rate and the Lost Days Rate decreased to 2016, while the Absentee Rate increased, which is due to the increased number of employees resulting from the fusion with Sinergy.

³⁸ Injury Rate (IR) captures the frequency of injuries relative to the total hours worked by all employees. Occupational Disease Rate (ODR) captures the frequency of occupational diseases relative to the total hours worked by all employees. Lost Days Rate (LDR) compares the number of days lost as a result of workplace accidents to the total hours worked by all employees. Absentee Rate (AR) compares the number of days not worked by employees to the total number of days worked.



At ALTEO Group there is a Labour Safety Committee. The subjective and objective conditions of their operation and the provided budget were laid down in separate agreements concluded with each organization.

The Labour Safety Committee oversees labour safety activities, besides specifying relevant tasks, rights and obligations are also included in the procedures of the management system.

The Committee takes part in the preparation of such decisions for the Company which have an impact on the health and safety of the employees, including investments, mechanization, modernization and establishment of new jobs. Our labour safety representatives has the role of exploring the causes of workplace accidents and occupational diseases, and may participate in commissioning procedure changes and HSE site visits.

Social performance

Due to the nature of our operations, ALTEO Group's network is wide. **We have links with district heat suppliers, owners of industrial plants, electricity supply system operators, retail and wholesale trading partners, equipment suppliers, maintenance service providers and authorities among our direct partners. Due to the great importance of the services provided by us, our indirect partners also include local governments and the population.** We seek to present our social performance in terms of the most and largest affected groups so that our readers can more easily find the relevant information.

THE OWNER SHAREHOLDERS

As a public joint stock company, our shareholders are some of the most important stakeholders, since we can realize our plans, achieve our objectives and strategy thanks to their confidence. We have continuous and active contact with all of our shareholders by providing regular reports, and involving them in the decision-making processes. Three of the seven Board members of ALTEO Group are delegates of Wallis Asset Management Zrt.

ALTEO Group started its activity as a subsidiary of Wallis Asset Management Zrt. in 2008. **The shares of the company were introduced to the Budapest Stock Exchange at the end of 2010, and the trading of stocks started after September 2012, but Wallis Group remained the majority owner holding nearly 79% of the shares.** In autumn 2016, ALTEO Group raised capital through open sales of shares, reducing Wallis Group's ownership ratio to 67%.

To the best of our knowledge, the government did own ALTEO Group shares in 2016.

"Among the companies belonging to Wallis Asset Management Zrt. ALTEO Nyrt. is showing the most dynamic changes, development and growth.

The Company's management and employees working here have good attitudes, professional knowledge and commitment that enable them to react to challenges. We believe in the Company's enduring profitability, exceeding the market averages. Furthermore, it is important for us that ALTEO can reduce the ecological footprint of the whole Company Group with its sustainable and environmentally friendly energy services."

Zsolt Müllner, CEO, Wallis Asset Management Zrt.

GOING PUBLIC

ALTEO Energiaszolgáltató Nyrt., ALTEO Group's parent company, raised capital by the public issue of new shares between 26 September and 17 October 2016, at which time both institutional and private investors could subscribe to the Company's securities. During the capital increase, ALTEO Group sold in total 299,992 new company shares at a price of HUF 4,630 with a total value of around HUF 1.4 billion. With these shares present on the Budapest Stock Exchange and with new share releases, the company now has a significant, nearly 400,000 share equity stake which significantly improved liquidity. Shares of the Company were later re-assigned from the Technical category to the Standard category in the Budapest Stock Exchange.

Regarding our values and operation, transparency is a priority. Therefore, we publish on our website all relevant information concerning operations and documents created to inform investors and owners. By sharing the information in an open, voluntary and free way we build confidence among stakeholders, especially among our owners and investors. The most important topics for our owners are ALTEO Group's profitability, financing and growth strategy, and its competitiveness and market position.

INVESTORS

ALTEO Group could not have grown without its deliberate and sustainable capital raising strategy. **Since 2011 we have also ensured the indispensable funds to our operation and growth with several rounds of public bond issue for individuals and institutions.**

It is important for our owners and investors that we create value in a responsible and sustainable manner. Thus, it is important for us to create value for our shareholders in the long run, to protect the assets of the owners and the security of the creditors. For all these reasons it is extremely important for us to ensure our credibility and reputation.

CLIENTS

Our clients are as diverse and varied as the portfolio of our products and services. In order to ensure that our clients feel that they are the most important for us we have to work with them flexibly and efficiently.

Our positive operational experiences and the customers' need for reliable and consumer-focused distributors on the energy market encourage us to enlarge our clientele by way of competitive offers customized to the place of consumption. **Our main activities here are direct sales to the consumers** to which we can ensure the advantages of competitive energy sources and sound balancing of the circle. We promote price setting adjusted to

the place and consumer habits following targeted energy efficiency consulting. In addition, we ensure the satisfaction of customer needs with flexible contractual and settlement conditions.

"The long term cooperation of BC-Erőmű Kft. with its operator means predictable costs, high levels of availability and environment-conscious energy production activity. With the technical support and implementation of our energy efficiency projects we create value together."

Zoltán Rigerszki, Managing Director
BC-Erőmű Kft.

Our customers' basic service requirements are included in service contracts and in cooperation agreements. ALTEO Group places great emphasis on the complete fulfilment of services and contractual obligations.

The basis of keeping contact with our customers is good daily communication, which has become an everyday activity of our plant sites. Including on-line transfer of operational data through the daily reporting system, together with the close cooperation between the relevant operational levels, our communication with customers is also an impor-

tant way of us remaining aware of their demands and expectations. Another important means of communication is the customer visits system operated within the framework of customer satisfaction surveys.

MAIN CLIENTS OF ALTEO GROUP:

- MOL Petrolkémia Zrt., member of MOL Group
- Wing Zrt.
- AUDI Hungaria Zrt.
- National University of Public Service
- Madách Theatre
- Heineken Hungária Zrt.
- BorsodChem Zrt.
- MAVIR Zrt.
- Local Government of Budapest District II

ACCESS TO SERVICES

For ALTEO Group, access to services can only be interpreted in a limited sense. The access to our services and products is ensured by the highest possible availability of our production units, all of which is presented in detail in the Economic Performance chapter.

TRADING PARTNERS

Considering the figures, **we serve most of our clients within the framework of retail trading. The number of our trading and institutional clients dynamically increases year by year.** In 2016 the number of our trading partners grew by 26% and that of our institutional partners nearly doubled. The long term plan of ALTEO Group is to further increase the circle of trading partners in the future. Currently the ALTEO Group has various contracts with national and foreign partners.

Number of retail trade partners

| | 2013 | 2014 | 2015 | 2016 |
|---------------|------------|------------|------------|-------------|
| Commercial | 416 | 495 | 540 | 686 |
| Institutional | 15 | 9 | 156 | 323 |
| TOTAL | 431 | 504 | 696 | 1009 |

ENERGY PRODUCTION, OPERATION AND MAINTENANCE

We typically work with only a few partners on a long term cooperation basis in the course of our energy production, operation and maintenance activities.

Here we give the number of our clients in the breakdown of connection points as required by GRI specifications, but several connection points refer to the same client. Our electricity purchasing trading

partners are mainly E.ON and Northern-Hungarian Electricity Service Co. (ÉMÁSZ). The power generated by our landfill gas power plant is purchased by MAVIR.

Number of clients (connection points)

| | Electricity | Heat energy |
|---------------------------------------|-------------|-------------|
| POWER PLANTS OWNED BY ALTEO | | |
| Commercial | 15 | 242 |
| Industrial | | 34 |
| Institutional | | 2 |
| POWER PLANTS OPERATED BY ALTEO | | |
| Industrial | 5 | 3 |

We mainly sell heat energy through institutional partners in Győr and Sopron. The heat generated by our thermal power plants is purchased by local district heat supplier companies in Kazincbarcika, Ózd, Tiszaújváros and Zugló. Until autumn 2016 our power plant in Sopron also generated heat for residential customers, but we have now rescinded our district heat supplying licence, thus heat is purchased from us by Sopron Holding.

The industrial and trading partners purchasing electricity and heat energy from us are: BC, MOM Park, MOL Petrolkémia and Agria Park.

CUSTOMER SATISFACTION SURVEY

The feedback from our customers and the collection of key information are vital to the continuous quality improvement of our services. ALTEO Group places extraordinary attention to learning about the demands and opinions of its customers, thus the satisfaction surveys give us the opportunity to serve our clients at higher quality levels.

Parallel to the introduction of the Integrated Management System, the monitoring of customers' satisfaction in documented form is carried out continuously. We measure the satisfaction of our customers every year with questionnaires and at personal meetings. In 2016 we did not involve our retail trade business customers, but we plan to implement this in 2017.

Based on the survey made in 2016, we can say that our customers have good opinions about our activities (in general we received 5 points on a 6 points scale). We have achieved improvements in almost every measured field in 2016 (competence, maintenance, scheduling, keeping of deadlines, contact keeping, helpfulness of our colleagues, etc.). According to the feedback of our customers we have to improve our website, the newsletter and the organization of technical days, and we plan to realize these in 2017. We made immediate efforts for the correction of the smaller, operative type problems mentioned in the survey.

SUPPLIERS, SUB-CONTRACTORS

Building and developing supplier relations is very important to us. In every service field we make efforts to cover the maintenance of key technological equipment and technological systems with long term contracts. An established supplier network contributes to the high level of energy services and creates a predictable and stable environment for our suppliers.

Our contact with our suppliers and with other business partners is based on mutual confidence and respect. We make efforts to work only with suppliers who perform activities meeting the legal and business ethical requirements. To this end we have developed a business partner control system,

including an important pre-qualification procedure. Our potential business partners and suppliers complete pre-qualification questionnaires. When signing a contract with us, our business partners make a statement that they agree with the Code of Ethics of ALTEO Group.

When establishing contractual relations with our suppliers – also keeping cost efficiency in mind – ALTEO Group pursues the involvement of local entrepreneurs as much as possible (i.e. whose premises are registered in the given region) and this contributes to the engendering of economic advantages for our regional operations.

Number of suppliers

| | 2013 | 2014 | 2015 | 2016 |
|---------------------------------|-------------------|-------------------|------|------|
| Number of suppliers (total) | 391 | 433 | 796 | 896 |
| Number of suppliers (Hungarian) | no data available | no data available | 780 | 868 |
| Share of Hungarian suppliers | no data available | no data available | 98% | 97% |

Payments (million HUF)

| | 2013 | 2014 | 2015 | 2016 |
|------------------------------|-------------------|-------------------|--------|--------|
| Payments (total) | 7257 | 6636 | 24 125 | 26 216 |
| Payments (Hungarian) | no data available | no data available | 23 143 | 25 464 |
| Share of Hungarian suppliers | no data available | no data available | 96% | 97% |

Compared to previous years, we were in contact with a great number of suppliers in 2016 due to the installation of a boiler house in our plant operating in the industrial area of MOL Petrolkémia. Nearly 97% of our suppliers are Hungarian companies and businesses. During the past 4 years, the proportion of Hungarian companies among the total number of our suppliers was 97-98%.

In 2016 we paid more than HUF 26 billion for the services of our suppliers. The major part of this (97%) was paid for the services of Hungarian companies and entrepreneurs.

We pre-qualify every new supplier and we re-evaluate our existing suppliers every three years. Over a certain value limit we submit our suppliers to further compliance tests. In 2016 we created a new pre-qualification questionnaire.

Transparency and other requirements, like General Terms and Conditions (GTC) of maintenance, supply and business activities, working conditions of contractors (HSE regulations and sanctions) or the Code of Ethics are contained in the mandatory annexes of our supplier contracts. Their compliance with requirements contained in mandatory Annexes are checked regularly, we made one such audit per year up until 2016. From 2017 we plan to attach supplier assessment to every completion certificate.

The performance of our suppliers is examined and evaluated during management reviews. As a result of such reviews made in 2016 we found complaints in the cases of twelve suppliers, which were investigated. Up until the end of 2016, six such cases were closed satisfactorily, the rest will be closed in 2017.

With the close supervision of our main suppliers' work (e.g. maintenance companies of main equipment) and in providing professional support as much as possible, we promote the good performance of our sub-contractors. This is extremely important from the point of view of the operation reliability, work safety of our contracted partners and sub-contractors during the implementation and building of our projects, operations and maintenance.

In order to ensure the safety of our sub-contractors, we operate a very strict work permit system. In our permits, works can only be carried out by personnel with a work permit. Prior to issuance of work permits, we ensure equipment safety too. In order to ensure the safe work conditions of foreign sub-contractors, the work permits and safety documents are also available in English.

EMPLOYEES

ALTEO Group's organizational structure has been continuously developing, always with a clear focus on environmental impacts, the many business

landscape changes and the demands of our customers. **After the acquisition of Sinergy Kft. one of the greatest challenges for us was the development of a new and efficient organizational structure, unification of central functions and establishment of shared company culture. All this had to be done by finding economic solutions while preserving values.**

"In the course of the fusion and after that we faced a lot of HR challenges. We had to make efforts for the restoration of the feeling of security. Our important task was the keeping of the employees and the workplaces, the strengthening of the integrated organizational units, and the development of the new organizational structure. Of the different HR systems of the two companies we had to create new systems (e.g. performance assessment system) best suited to the common operation. During the two years we spent together two different company cultures were and are mixed, and merged day by day, the change and development of our shared culture is continuous."

Zsuzsanna Sándor, HR manager

Our objective is that the management of ALTEO Group can continue to build the future of the Company Group hand in hand with committed and motivated employees. The basis of the loyalty and motivation of our employees is that we are providing them with a stable workplace, complex and motivating tasks and competitive salaries. In order to ensure competitiveness we also provide a 'cafeteria' plan and we subsidise travel to work.

As responsible employers, we assist our workers in case they get into difficult situations, thus we pay higher wages than required by the law for sick leave (85% instead of 70%), we take out group personal insurance on our employees, and if necessary, we pay funeral aid. Besides this, we help the safe and efficient financial pre-saving of our employees for the years of retirement by way of employer's voluntary pension fund contributions.

The Performance Assessment Bonus System (PBS) is our method of assessment of individual performances in the framework of which we determine personal tasks and competency development targets for the current year and we evaluate them early in the following year.

The Central HR Department operating at ALTEO Nyrt. manages the human resources of ALTEO

Group, dealing with matters connected to the employment of colleagues. The HR rules regulate the accounting of benefits, training and selection, while the PBS rules define performance assessment. Our payroll accounting is outsourced. Our management determines all responsibilities and duties within the organization in the job descriptions, as well as the requirements relating to education, qualification and practice.

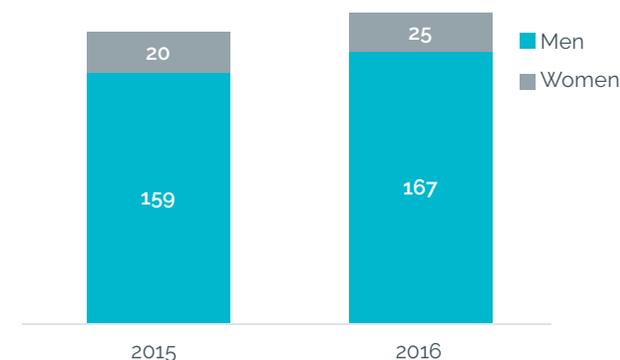
In line with with the economic growth of ALTEO Group and with the development of business areas, the number of employees has also increased continuously during the past years. In the course of recruitment we make efforts to find the best match between the future employee and the posted position, trying to reduce unwanted staff turnover.

Besides the professional managers, HR colleagues also take part in the selection process. ALTEO Group supports the promotion and change of position of our employees, therefore we first post new positions internally and then these are posted externally later. In 2016 we set up 15 totally new positions for employees. It is a typical practice, that even if an internal colleague does not apply for the position, we regularly receive recommendations and we are contacted by applicants from within our colleagues' circles of acquaintances.

In the course of 2016 we changed our five employer model into a two employer one; thus we could reduce administration in several fields (e.g. HR and HSE) and we unified the processes and the regulations. Until 2016 collective agreement was in force at two of our employers (Power Plants of Győr and Sopron); this was terminated as part of the reorganization, thus we do not have employees belonging to the scope of the older collective agreement.³⁹

In 2016, 87% of our employees were men and 13% were women.⁴⁰ This is mainly due to the nature of the power plant operations, since the majority of our workers perform physical work.

Total No. of employees



³⁹ ALTEO Group started the operation of the biogas power plant in Nagykőrös in 2015, but the Company has been exercising the employer' right only since the beginning of 2017, thus employee data does not cover this power plant.

⁴⁰ Due to the ALTEO-Sinergy fusion we publish data about the total number of employees only for 2015 and 2016. If we add the number of employees of ALTEO and Sinergy Kft. in 2013 and in 2014 we get a similar number of total employees. From the point of view of the report, this, however is not representative, since at that time both were separate companies.

The facilities operated by the Company are run by our own employees, and the thermal power plant of Ózd is operated based on a contract overseen by the employees of the local district heating company and under our remote control. Almost all of our employees have contracts of indefinite duration; in 2016 five persons had fixed term contracts for a project. In 2016 we had in total five part-time employees, all of them women, two of them had just returned from maternity leave.

„I have been working at ALTEO Group ever since its foundation. I was the Chief Financial Officer for seven years, after which I took a maternity leave. Apart from professional challenges, it is important to me to be able to align myself to the values of the company. I found both of these at ALTEO Group, the defining values related to being listed on the stock exchange and operating power plants based on renewable energy and giving a high importance to environmental protection. Furthermore, the company supports flexible working which is made possible by communicating openly about one's career and family plans with one's superiors.“

Dr. Bea Fodor-Lakatos, Advisor to the CEO

Number of employees leaving and joining

| | 2015 | | 2016 | |
|---------------|---------|---------|---------|---------|
| | Leaving | Joining | Leaving | Joining |
| MALE | 10 | 8 | 18 | 19 |
| Under 30 | 1 | 2 | 1 | 4 |
| 30-50 | 3 | 3 | 6 | 13 |
| Over 50 | 6 | 3 | 11 | 2 |
| FEMALE | 5 | 7 | 1 | 7 |
| Under 30 | 2 | 5 | – | 3 |
| 30-50 | 3 | 1 | 1 | 4 |
| Over 50 | – | 1 | – | – |

During the past years, the number of employees leaving and joining stayed nearly the same YoY, thus the total employee number has not changed significantly this year. In 2015, the fluctuation at ALTEO Group was about 5%, this increased to 10% in 2016.

In 2016, in parallel with the development and automation of one of our power plants, we terminated the employment of six colleagues by mutual agreement. We ensured outplacement programs for them in order to help them to find work. In the framework of the program they prepared for their job seeking with the help of a consultant (writing a curriculum vitae, attending job interviews). All participants of the program succeeded in finding a job.

In the course of its activities, ALTEO Group makes efforts to widen the cooperation with its employees as much as possible, assisting in this way the maintaining of personal values and a sense of initiative embedded in the organization. Although our HR Policy does not specify minimum notice periods, we place special emphasis on communication with our employees to ensure that they are informed about important decisions in a timely manner.

At annual staff meetings, all employees of the Company receive information directly from the top management about the results achieved in the previous year, about the most important tasks and about the current strategic plans. Staff meet-

ings held at the different premises every half year also give opportunities for the local managers to discuss with the employees the events of the past period, the tasks ahead for the given plants and the events influencing the activity of the Company.

ALTEO GROUP FAMILY DAY

As the name suggests, the ALTEO Group Family Day is an occasion for informal meeting and greeting, the aim of which is to allow all employees and their families to meet and have fun in collective programs. The first ALTEO Group Family Day was organized in 2016 with nearly 300 participants, consisting of 100 ALTEO Group employees and 200 family members. At the Family Day we symbolically rode 512 km on exercise bikes, representing is the longest distance between 2 of our work sites. We also built a huge LEGO cake symbolizing how all of our employees are regarded as valuable 'bricks' within the company; 1 piece of LEGO represented each employee to make the ALTEO LEGO-cake.



EDUCATION AND TRAINING

Our employees participate in training courses regularly. The basic objective of the courses is to increase the efficiency of the employees, the obtaining of (new) qualifications needed for the job, and the continuous updating and obtaining of new knowledge.

Relating to the employment and actual positions of our employees, we organize mandatory courses based on internal rules and regulations and on the Code of Ethics based on the legal regulations. Besides this we also run internal knowledge-sharing sessions.

The training and development of the employees is determined based on the Annual Training Plan.

When designing the Annual Training Plan we aim to include courses which support the implementation both our annual and long term strategies, and we consider the requests for courses mentioned during the discussions in connection with the Performance Assessment Bonus System, as well as any statutory training needs.

Since we do not track the average training time of our employees in our existing systems, we cannot report that here. The collection and systemization of such data will be reported in 2018.

LOCAL COMMUNITIES

The implementation and operation of an energy producing facility is a long term process and can have an effect on the local community for many decades. **On the one hand we have economic effects, since we create jobs for people, for the businesses** (see more detailed information in the Indirect economic effects chapter), **we pay local taxes, take part in the development of local infrastructure and support local organizations.** **On the other hand the operation of power plants can influence the local environment, be it via emission, noise or sewage discharge. We have very strict rules about these and measure and control them in order to minimise potential damage** (see more detailed information in the Environmental performance chapter).

Our industrial energy-producing activities, environment pollution and the permissible levels of potentially negative effects and outcomes are correctly regulated by Hungarian and EU laws. Thus it is of primary importance to observe the legal rules, also in terms of the design, implementation and operation of energy projects. We continuously monitor changes in legal rules determining our activities and we meet our compliance requirements.

The responsible person for local community projects is typically the project manager during the implementation and the plant manager (power

plant manager) in the course of operations. This makes it possible for all our sites to have a development programme supporting local communities. Dialogue with local communities has an important role in the life of ALTEO Group, thus we maintain direct contact with local governments and with civil organizations. In order to better understand their demands and expectations, our managers meet them several times per year and coordinate with the leaders of local governments.

"The population was very happy about the operation of the local turbine plant. The contacts are very good and are based on cooperation. The programs of the local government have been supported by the company for many years. Furthermore, we owe thanks for gifting the monumental machine unit to us. Since December 2016 the machines of the water power plant of Felsődobsza, the dam and the building are recorded in the historical value repository of the County."

András Luterán, Mayor Felsődobsza

To give the widest possible information about our activities and to achieve social acceptance we regularly organize visit-days at our premises,

SUBSIDIZING OF SPORTS:

Supporting sports activities is important for us, therefore we make efforts to support sport clubs organized by municipalities where we are present. Currently, we support the following organizations:

- Girls handball in Balmazújváros
- Handball Sports Club
- Bulls Basketball Club
- Csabai Csirkefogók Waterpolo Club
- Egri Waterpolo Kft.
- Football Club Tiszaújváros
- Railway Sports Club of Miskolc
- Handball Club of Ózd
- Ragály Spartacus Sports Club
- Sajóvamos Sports Club
- Sopron Tigers Sports club
- Tiszaújvárosi Termálfürdő-Phoenix Basketball Club
- Tatabánya Waterworks Sports club ("Dragonfly" team)
- Electricity industrial sports coordinators

where we welcome school groups and professional organizations. In the course of these tours, our employees give detailed information about the history of the power plants, about the technology, the machines and equipment used. We have often hosted students from the University of Miskolc and from the ELTE Trefort Ágoston Secondary School, as well as members of professional organizations MKET and MATÁSZ.

In the framework of supporting tourism we have opened the Water Power Plant of Felsődobsza to the public, and it is now a feature of the regional touristic route. We gave some old equipment and dismantled machines as presents to the small town of Felsődobsza, and these were exhibited in the town center. Besides this we give regular

funding to the local kindergartens, schools and the Village Day organized once a year.

Mutual support with the populations living in our direct environments is very important for us. The procedure for keeping contact with the localities and for handling complaints from the inhabitants is regulated by the IMS. We examine all residential complaints and make the necessary corrective actions and we respond to the complainant directly. In 2016 we did not receive any complaint from local communities.

STATE AND AUTHORITIES

Contact with the authorities is an extremely important part of the contact system of ALTEO Group, and this is closely related to our energy service and investment activities. **During local authority meetings, our primary focus is full compliance with the regulations.** This is ensured by the creation and operation of the contact keeping and data supply system of ALTEO Group. In order to develop personal and professional relations, we make efforts to involve and inform the representatives of the authorities concerned about our activities beyond the official obligations and opportunities as well.

As industrial actors we take active part in the state legislative activity by lodging opinions about legislative drafts influencing our activity, and by creating dialogue within the industry. Thus, during the past years, the General Deputy CEO of ALTEO Group, as Professional Deputy Chairman of the Hungarian Cogeneration Society has played an active role in the coordination with the authorities of legislation effecting co-generated energy producers and has also made efforts to encourage the creation of a more functional environment for the producers.

The Company regards as vital all constructive dialogue with the governmental organizations and with the representatives of political bodies. But in

order to avoid even the pretence of non-correct influencing, we remain neutral from a political point of view, we do not donate to political parties, neither organizations nor foundations which are closely related to political parties.

MEDIA CONTACTS

We have less intensive contact with the representatives of the media than with other stakeholders, but we still regard it as important. Similarly to the wider public, the media players may also have access to every important document about our operations on our website. For special requests we publish further information, make statement or give interviews, etc. Otherwise, we are in contact with media actors as customers, and we mainly publish our advertisements in technical publications.

PROFESSIONAL CONTACTS

ALTEO Group takes part in the work of various relevant organizations in order to play a role in the determination of common development directions and to run lobbying activities towards and in co-operation with governmental organizations. We are also supporting initiatives and organizations which support the future vision of ALTEO Group. In this way we have been supporting the work of the Regional Center for Energy Policy Research (REKK) for some years.

The active participation in the work of professional organizations is not limited only to our membership, but in certain cases we also delegate members to the management.

MANDATORY MEMBERSHIPS INDUSTRIAL CHAMBERS

Several member companies of ALTEO Group, among them ALTEO Nyrt. are based in Budapest, thus we are members of the Budapest Chamber of Commerce and Industry (BCCI). Through our Power Plant of Sopron we are members of the Sopron Chamber of Commerce and Industry, and through our Power Plant in Győr we are members of the Chamber of Commerce and Industry of County Győr-Moson-Sopron.

STRATEGIC MEMBERSHIPS BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT IN HUNGARY (BCSDH)⁴¹

The Business Council for Sustainable Development in Hungary, BCSDH is the Hungarian organization of the World Business Council for Sustainable Development, WBCSD. The purpose of BCSDH is to promote the introduction into economic practise of the application of three pillars of sustainable development (economic profitability, ecological balance and social quality of life) and to improve, using innovative solutions, the competitiveness of Hungary and to contribute to the sustainable de-

41. Further information about the BCSDH at: <http://bcsdh.hu/about-us/>.

velopment of the Hungarian economy and society. Environment and socially responsible behaviour have accentuated their roles in the strategy of ALTEO Group. We attach priority to the stimulation of good working and social practices following the sustainability principles of the new generations and of our partners, therefore we have been members of BCSDH since 2013. ALTEO Group takes active part in several initiatives of the organization – we were member of the team working out the recommendation for Hungarian managers containing complex interpretations of sustainability of companies and had mentor roles in various development programs for managers of the future.

Attila Chikán, CEO of ALTEO Group has been the President of BCSDH since the beginning of 2016 with a mandate for 3 years.

PROFESSIONAL ASSOCIATIONS

Due to our very diversified operation and portfolio we are members of a number of other professional organizations. We consider these memberships of strategic importance, since we are growing in terms of knowledge-sharing due to these connections and we can also take part in the future development and formation of certain special fields. Based on our energy trading activities, we are members of the Hungarian Energy Traders' Association; by way of our renewable power plants we are members of the Hungarian Biogas Association, and of the Hungarian Wind Energy Industrial Asso-

ciation, where our Development Director Levente Tasnádi-Tulogdi is a Board member. Our colleague, Attila Kiss is a member of the Economic Committee of the Hungarian Association of District Heating Professionals.

Based on our Power Plant operating activities and maintenance activities we are members of Organization of Hungarian Industrial Maintainers (MIKSZ).

HUNGARIAN COGENERATED ENERGY ASSOCIATION

Chairmanship of the Hungarian Cogenerated Energy Association (MKET) was held by the Managing Director of Sinergy Kft. from 2007 to 2012. András Papp, who has been the General Deputy CEO of ALTEO since the ALTEO-Sinergy fusion was also the Technical Deputy Chairman of MKET in 2016, and our colleague, Tibor Papp led the Gas Engine Working Committee. Through the activity of MKET, we are also able to participate in the development of the legislative framework of the Hungarian energy-provision system, and within this mainly concerning co-generated heat and electricity generation. The Gas turbine Working Committee of MKET was set up on our initiative. ALTEO Group contributes to publishing in the widest possible realistic circles on topics such as the advantages and results of co-generated heat and electricity generation.







VII. OUR COMMITMENTS

OUR COMMITMENTS

| Taks | Key Performance Indicator (KPI) | Area | Responsible | Schedule |
|--|--|---|------------------------------|-------------------|
| Publication of integrated report | Preparation of integrated report | IMS | Beatrix Szabó | April 30, 2019 |
| Monitoring employees' training | Proportion of employees involved in monitoring: 2016: 0% 2018: 100% | HR | Zsuzsanna Sándor | December 31, 2018 |
| Increase of the volume of electricity generated from renewable sources | 2016: 43 000 MWh 2020: 65 000 MWh | CEO | Attila Chikán András Papp | December 31, 2020 |
| Increase of volume of prevented emission using renewables | Prevented emission (accumulated): 2016: 3 200 tonna CO ₂ e 2020: 50 000 tonna CO ₂ e | Energy production, operation and maintenance division | Viktor Varga | December 31, 2020 |
| Reduction of the number of work accidents | Number of work accidents: 2016: 2 2020: 0 | IMS | Beatrix Szabó | December 31, 2020 |
| Assessment of the impact of our operation | True Value survey: 2020: 1 2016: 0 | IMS | Beatrix Szabó | December 31, 2020 |



VIII. GRI INDEX

GRI INDEX

| GRI indicator | Description | Chapter | Page | Assurance |
|-------------------------------|---|---|----------|-----------|
| Strategy and Analysis | | | | |
| G4-1 | Statement from the most senior decision-maker of the organization (such as CEO, chair, or equivalent senior position) about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability | Letter from the CEO | 4 | |
| Organizational Profile | | | | |
| G4-3 | Name of the organization | ALTEO Group | 21 | |
| G4-4 | Primary brands, products, and services | ALTEO Group | 21 | |
| G4-5 | Location of the organization's headquarters | ALTEO Group | 22 | |
| G4-6 | Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report | ALTEO Group | 23 | |
| G4-7 | Nature of ownership and legal form. | ALTEO Group | 22 | |
| G4-8 | Markets served (including geographic breakdown, sectors served, and types of customers) | ALTEO Group Clients | 22 79 | |
| G4-9 | Scale of the organization | ALTEO Group | 22 | |
| G4-10 | Total number of employees by employment contract and gender | Employees | 83 | |
| G4-11 | Percentage of total employees covered by collective bargaining agreements | Employees | 83 | |
| G4-12 | Description of the organization's supply chain | Value Chain | 45 | |
| G4-13 | Significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain | Company history | 21 | |
| G4-14 | Application of the precautionary approach or principle by the organization | Environmental Performance | 59 | |
| G4-15 | Externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses | Integrated Management System Professional contacts | 31 87 | |
| G4-16 | Memberships of associations (such as industry associations) and national or international advocacy organizations | Professional contacts | 87 | |
| G4-EU1 | Installed capacity, broken down by primary energy source | Power generation | 39 | |
| G4-EU2 | Energy output broken down by primary energy source | Production | 52 | |
| G4-EU3 | Number of residential, industrial, institutional and commercial customer accounts | Clients | 80 | |

| Identified Material Aspects and Boundaries | | | | |
|--|---|--------------------------|----|--|
| G4-17 | Entities included in the organization's consolidated financial statements or equivalent documents | Organizational structure | 24 | |
| G4-18 | Process for defining the report content and the Aspect Boundaries | About the report | 9 | |
| G4-19 | Material Aspects identified in the process for defining report content. | About the report | 10 | |
| G4-20 | Aspect Boundary within the organization for each material Aspect | About the report | 9 | |
| G4-21 | Aspect Boundary outside the organization for each material Aspect | About the report | 9 | |
| G4-22 | Restatements of information provided in previous reports, and the reasons for such restatements | not relevant | | |
| G4-23 | Significant changes from previous reporting periods in the Scope and Aspect Boundaries | not relevant | | |
| Stakeholder engagement | | | | |
| G4-24 | List of stakeholder groups engaged by the organization | Social Performance | 78 | |
| G4-25 | The basis for identification and selection of stakeholders with whom to engage | Social Performance | 78 | |
| G4-26 | The organization's approach to stakeholder engagement | Social Performance | 78 | |
| G4-27 | Key topics and concerns that have been raised through stakeholder engagement | Social Performance | 78 | |
| Report profile | | | | |
| G4-28 | Reporting period for information provided | About the report | 9 | |
| G4-29 | Date of most recent previous report | About the report | 9 | |
| G4-30 | Reporting cycle | About the report | 9 | |
| G4-31 | Contact point for questions regarding the report or its contents | About the report | 9 | |
| G4-32 | GRI content index | GRI Index | 93 | |
| G4-33 | Assurance | About the report | 11 | |
| Governance | | | | |
| G4-34 | The governance structure of the organization | Corporate Governance | 29 | |
| Ethics and Integrity | | | | |
| G4-56 | The organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics | Strategy and values | 25 | |
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| G4-DMA | Disclosure on Management Approach (Direct Economic Value) | Economic Performance | 47 | |

| | | | | |
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| G4-EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change | Letter from the CEO Strategy and values Economic results | 4 25 48 | |
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| G4-DMA | Disclosure on Management Approach (Indirect Economic Impacts) | Indirect economic effects | 55 | |
| G4-EC8 | Significant indirect economic impacts, including the extent of impacts | Indirect economic effects | 55 | |
| G4-DMA | Disclosure on Management Approach (Availability and Reliability) | Availability | 53 | |
| G4-EU10 | Planned capacity against projected electricity demand over the long term | Power generation | 38 | |
| G4-DMA | Disclosure on Management Approach (Demand-Side Management) | Indirect economic effects | 55 | |
| G4-EU30 | Average plant availability factor | Availability | 53 | |
| Environmental Performance | | | | |
| G4-DMA | Disclosure on Management Approach (Energy) | Use of energy sources | 59 | |
| G4-EN3 | Energy consumption within the organization | Fuel use Total energy consumption | 63 64 | |
| G4-DMA | Disclosure on Management Approach (System Efficiency) | System efficiency | 60 | |
| G4-EU11 | Average generation efficiency of thermal plants | System efficiency | 62 | |
| G4-DMA | Disclosure on Management Approach (Water) | Water consumption | 71 | |
| G4-EN8 | Total water withdrawal by source | Water consumption | 72 | |
| G4-EN10 | Percentage and total volume of water recycled and reused | Water consumption | 72 | |
| G4-DMA | Disclosure on Management Approach (Emissions) | Emission Air Cleannes protection | 65 68 | |
| G4-EN18 | Greenhouse gas (GHG) emissions intensity | Emission | 67 | |
| G4-EN21 | Significant air emissions by type | Air Cleannes protection | 69 | |
| G4-EU5 | Allocation of carbon-dioxide emissions allowances or equivalent | Emission | 65 | |
| G4-DMA | Disclosure on Management Approach (Effluents and Waste) | Soil and water protection Waste management | 73 74 | |
| G4-EN23 | Total weight of waste by type and disposal method | Waste management | 74 | |

| | | | | |
|---------------------------|--|------------------------------|----|--|
| G4-DMA | Disclosure on Management Approach (Environmental Impacts of Products and Services) | System efficiency | 61 | |
| G4-EN27 | Extent of impact mitigation of environmental impacts of products and services | System efficiency | 62 | |
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| G4-EN29 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations | Environmental compliance | 75 | |
| G4-DMA | Disaster / Emergency Planning and Response | Environmental compliance | 75 | |
| G4-DMA | Disclosure on Management Approach (Process Safety) | Environmental compliance | 75 | |
| G4-OG13 | Number of process safety events | Environmental compliance | 75 | |
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| G4-DMA | Disclosure on Management Approach (Employment) | Employees | 82 | |
| G4-LA1 | Total number and rates of new employee hires and employee turnover | Employees | 84 | |
| G4-DMA | Disclosure on Management Approach (Labour/Management Relations) | Employees | 83 | |
| G4-LA4 | Minimum notice periods regarding operational changes | Employees | 84 | |
| G4-DMA | Disclosure on Management Approach (Occupational Health and Safety) | Workplace health and safety | 76 | |
| G4-LA6 | Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities | Workplace health and safety | 77 | |
| G5-LA7 | Workers with high incidence or high risk of diseases related to their occupation | Workplace health and safety | 76 | |
| G4-DMA | Disclosure on Management Approach (Training and Education) | Education and training | 85 | |
| G4-LA9 | Average hours of training per year per employee | Education and training | 85 | |
| G4-DMA | Disclosure on Management Approach (Local Communities) | Local communities | 85 | |
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| G4-DMA | Disclosure on Management Approach (Anti-Corruption) | Anti corruption | 35 | |
| G4-SO5 | Confirmed incidents of corruption and actions taken | Anti corruption | 35 | |
| G4-DMA | Disclosure on Management Approach (Social Compliance) | Compliance | 34 | |
| G4-SO8 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations | Integrated Management System | 31 | |
| G4-DMA | Disclosure on Management Approach (Customer and Community Health and Safety) | Integrated Management System | 31 | |
| G4-PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle | Integrated Management System | 31 | |

| | | | | |
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| G4-DMA | Disclosure on Management Approach (Customer Satisfaction) | Customer satisfaction | 81 | |
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| G4-DMA | Disclosure on Management Approach (Customer Privacy) | Data protection | 36 | |
| G4-PR8 | Total number of substantiated complaints regarding breaches of customers privacy and losses of customer data | Data protection | 36 | |
| G4-DMA | Disclosure on Management Approach (Social Compliance) | Compliance with providing products and services | 35 | |
| G4-PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services | Compliance with providing products and services | 35 | |
| G4-DMA | Disclosure on Management Approach (Access) | Clients | 79 | |



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