Individual Financial Statements

of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság

for the business year ended on December 31, 2018
in accordance with the IFRSs
as adopted by the EU

Translation only

Explanation of the abbreviations used in the financial statements:

Abbreviation	Explanation
AFS	Available for Sale (financial instrument)
ARO	Asset Retirement Obligation
BoD	Board of Directors
BSE	Budapest Stock Exchange
BUBOR	Budapest Interbank Offered Rate
Capital Market Act	Act CXX of 2001 on the Capital Market;
CDO	Chief Decision Officer
CGU	Cash-generating Unit
Company	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization (typically: impairment)
Electricity Act	Act LXXXVI of 2007 on Electric Energy;
EPS	Earnings per Share
EUA	European Emission Allowances
FVTPL	Fair Value through Profit or Loss
Gas Supply Act	Act XL of 2008 on Natural Gas Supply
HEA	Hungarian Energy and Public Utility Regulatory Authority (former name: Hungarian Energy Office)
HUPX	Electric power market organized by the electric stock exchange - a trading system facilitating regional electric power trade operated by the organized electric power licensee (HUPX Zrt)
HTM	Financial instruments held to maturity
IFRIC/SIC	Interpretations of the International Financial Reporting Standards
IFRS	International Financial Reporting Standards
KÁT	Electric power offtake system based on the provisions of the Electricity Act, the Government Decree implementing the Electricity Act and Government Decree no. 389/2007. (XII. 23.) on the mandatory reception and reception price of electric power produced from renewable energy sources or waste and of electric power produced in a combined manner
KELER	Központi Értéktár Zártkörűen Működő Részvénytársaság (Central Treasury Private Limited Company)
MAVIR	Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zártkörűen Működő Részvénytársaság
METÁR	Mandatory offtake system for heat and electric energy produced from renewable and alternative energy sources
O&M	Operation and Maintenance contract;
PM	Ministry of Finances
SB	Supervisory Board

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The financial statements consist of 91 pages.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ALTEO Nyrt,

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ALTEO Nyrt. (the „Company”) for the year 2018 which comprise the statement of financial position as at December 31, 2018 – which shows a total assets of thHUF 13.626.857 –, and the related statement of recognized income, statement of comprehensive income – which shows a net profit for the year of thHUF 577.338 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS”), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act”) relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Emphasis of Matter

We draw the attention to the fact described in notes IV., that particular data concerning 31 December 2017 have been restated due to a changed presentation of the local business tax and the innovation contribution. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters	Related audit procedures
Valuation of long-term participations in subsidiaries	
(Details are to be found in Note VI/11 Shares in subsidiaries and associates.) The Company recognised thHUF 2.890.273 as long-term shares in associated parties. The management performed impairment test on the ownership shares in business entities to identify potential signs of impairment, and if so, to consider whether impairment should be recognised. The impairment test performed on long-term shares in associated parties was based on the discounted cash flow model, which model requires certain assumptions and professional valuation from the part of the management (e.g. discount rates, growth rates, exchange rates). Accordingly, the valuation of long-term shares in associated parties was considered to be a key audit matter.	In the course of our audit procedures involving the valuation test of long-term shares in associated parties, we focused on examining the appropriateness of the assumptions used by management. We performed the following procedures: - reviewed whether the model applied by management was in line with the Accounting Act, - validated the discount and growth rates used for the assumptions, - analysed the assumptions used in the model to see if they were reasonable and supportable for the future performance of the given investment, - compared expected cash-flows and growth rates with the facts to test the accuracy of management forecasts. We also examined whether the accounting standards were applied properly and whether the accounting statements and disclosures were accurate.

Other Information

Other information comprises the information included in the business (annual) report of the Company for 2018 and the integrated report, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditor's report entitled *"Opinion"* does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting

Act, and to express an opinion on the above and on whether the business report is consistent with the financial statements. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the business report.

In our opinion, the business report of the Company for 2018 corresponds to the financial statements of the Company for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Company is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Company and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Company's internal control that we identify during the audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other reporting obligation regarding the divisional financial statements

In accordance with Section 105/A (1) of Act LXXXVI of 2007 on Electricity, we reviewed Note VII/40 of the Supplementary Notes to the Company’s financial statements for 2018, Licensee distribution based on the Electricity Act, which presents the distribution of activities for accounting purposes.

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

We are responsible for issuing a report on the information in Note VII/40. The review was conducted in accordance with the Hungarian International Standard on Review Engagements no. 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. Such a review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The review is of significantly limited scope compared to an audit performed in line with the auditing standards; therefore we were unable to obtain assurance to have reviewed all significant matters that would potentially be identified in the course of an audit. Accordingly, we shall not issue an audit report.

Based on the review no facts or circumstances came to our attention that would cause us to believe that the accounting rules applied by the Company or the information disclosed in Note VII/40 would not be in line with the provisions of the Accounting Act in all material respects, and the provisions of Section 105 (2)-(4) of Act LXXXVI of 2007 on Electricity and recommendations issued by the Hungarian Energy and Public Utility Regulatory Authority on the unbundling of activities and avoidance of cross-financing.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement
We were appointed as the auditors of the Company by the General Meeting of Shareholders on April 20, 2018 and our uninterrupted engagement has lasted for four years.

Consistence with the Additional Report to the Audit Committee
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on April 5, 2019 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services
We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the business report.

The engagement partner(s) on the audit resulting in this independent auditor's report are the signatories of the report.

Budapest, April 5, 2019

The original Hungarian version has been signed.

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

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

ALTEO Nyrt.
Individual statement of financial position
for December 31, 2018
(Assets)

Data in thousand HUF

	Note	12/31/2018	12/31/2017
Non-current assets		**7,222,322**	**5,449,618**
Property, plant and equipment	9	991,422	17,028
Other property, plant and equipment	9	18,970	4,392
Other intangible assets	9	86,207	77,888
R&D	9	243,563	-
Deferred tax assets	12	-	146,280
Long-term loans given	10	2,773,196	2,470,232
Lease assets	13	218,591	
Long-term share in subsidiary	11	2,890,273	2,733,698
Long-term share in an associate	11	100	100
Current assets and assets held for sale		**6,404,535**	**3,578,522**
Inventories	14	146,950	1,000
Trade receivables	15	2,470,141	1,535,677
Other financial assets	16	22,049	351,310
Part of lease asset liabilities due within the year	13	277,968	-
Other receivables and accruals	17	2,129,216	1,350,878
Cash and cash equivalents	18	1,344,530	339,657
Income tax receivables	17	13,681	-
TOTAL ASSETS		**13,626,857**	**9,028,140**

Equity and liabilities data on the next page!

ALTEO Nyrt.
Individual statement of financial position
(Equity and liabilities)

Data in thousand HUF

Negative values are denoted by parentheses.	Note	12/31/2018	12/31/2017 (restated)*
Equity		**6,229,388**	**4,161,173**
Issued capital	19	195,314	195,390
Share premium	19	3,116,887	3,116,887
Retained earnings	19	3,184,617	1,110,952
Share-based payment reserve		92,690	83,740
Transactions with owners	22	(360,120)	(356,136)
Cash-flow hedge reserve	20	-	10,340
	21		
Long-term liabilities		**2,956,466**	**3,488,807**
Long-term loans	25	5,700	5,711
Debts on the issue of bonds	24	2,624,241	3,483,096
Deferred tax liabilities	12	24,812	-
Provisions		15,500	-
Other long-term liabilities	25	286,213	-
Short-term liabilities		**4,441,003**	**1,378,160**
Short-term loans	25	-	50,127
Short-term bond payables	24	982,683	24,732
Advances received	29	364,730	-
Trade payables	28	1,087,126	874,800
Other short-term liabilities and accruals	29	2,006,464	424,001*
Income tax liabilities	29	-	4,500*
TOTAL EQUITY and LIABILITIES		**13,626,857**	**9,028,140**

* From the subject year, the Group changed the presentation method of the local business tax and the innovation contribution. Instead of presenting these two items as other liabilities as in previous years, they will be presented as income tax liabilities, in accordance with the statements of the main market players.

ALTEO Nyrt.
Individual statement of profit or loss
and other comprehensive income

Data in thousand HUF

	Note	Year ending on 12/31/2018	Restated for the year ending on 12/31/2017
Revenues	**1**	**4,503,172**	**1,415,023**
Material expenses	2	(2,751,362)	(429,439)
Personnel expenses	3	(1,310,012)	(646,128)
Depreciation and amortization	4	(58,669)	(24,387)
Other income and expenses, net	5	(23,946)	188,141*
Operating profit or loss		**359,183**	**503,210***
Finance income	6	*1,162,437*	*2,140,835*
Financial expenses	6	*(699,328)*	*(658,881)*
Net finance income	6	463,109	1,481,954
Profit or loss before taxes		**822,292**	**1,985,164***
Income tax expense	7	(244,954)	153,151*
Net profit or loss from continuing activities		**577,338**	**2,138,315**
Profit or loss from discontinued activities	8	0	(148,925)
Net profit or loss		**577,338**	**1,989,390**
EBITDA		**417,852**	**378,692**

Individual other comprehensive income

Data in thousand HUF

Other comprehensive income (after income tax)	**(10,340)**	**(125,049)**
Other comprehensive income from cash flow hedges	-	*10,340*
Reclassification of other comprehensive income from cash flow hedge to profit or loss	*(10,340)*	*(135,389)*
Comprehensive income	**407,512**	**1,864,340**

* From the subject year, the Group changed the presentation method of the local business tax and the innovation contribution. Instead of presenting these two items as other expenses as in previous years, these will be presented as income tax, in accordance with the statements of the main market players.

Individual Statements of Changes in Equity
for the period ended on December 31, 2018

Data in thousand HUF

	Issued capital	Share premium	Share-based payment reserve	Retained earnings	Transactions with owners	Cash-flow hedge reserve	*Equity TOTAL*
January 1, 2017	**195,390**	**3,116,887**	**42,296**	**(624,431)**	**(356,136)**	**135,389**	***2,509,395***
Share-based payments			41,444				***41,444***
Dividend paid				(254,007)			***(254,007)***
Share splitting							-
Development reserve establishment							-
Comprehensive income				1,989,390		(125,049)	***1,864,341***
December 31, 2017	**195,390**	**3,116,887**	**83,740**	**1,110,952**	**(356,136)**	**10,340**	***4,161,173***
Dividend paid				(250,099)			***(250,099)***
Share-based payments			8,950				***8,950***
Merger by absorption	(37)			1,746,426	(2,008)		***1,744,381***
Purchase of own shares	(39)				(1,976)		***(2,015)***
Comprehensive income				577,338		(10,340)	***566,998***
December 31, 2018	***195,314***	***3,116,887***	***92,690***	***3,184,617***	***(360,120)***	-	***6,229,388***

Individual Statement of Cash Flows

Data in thousand HUF

Negative values are denoted by parentheses.	Note	Year ending on 12/31/2018	Year ending on 12/31/2017 (restated)*
Profit or loss before taxes		**822,292**	**1,970,016**
Profit or loss from discontinued activities	8	-	(148,925)
Interest income and expenses (net)	6	88,796	169,163
Non-cash-movement items:		-	
Depreciation	4	58,669	24,387
Impairment losses (other than net current assets)		500,590	392,078
Provisions recognized and released		15,500	-
Non-realized translation gains and losses (other than net current assets)		2,694	(124,769)
Share-based payment cost	22	8,950	41,444
		1,497,491	**2,323,394**
Change in inventories		(145,950)	-
Change in trade receivables, other receivables, accrued income and deferred charges		(1,711,569)	(2,173,171)
Change in other financial assets		318,921	(55,806)
Change in trade payables, other liabilities, accrued expenses and deferred income		1,790,288	479,950
Change in financial liabilities		-	-
Change in advances received from customers		364,730	-
Change in net current assets		616,420	(1,749,026)
		2,113,911	576,941
Profit or loss on derecognizing fixed assets		-	-
Interest paid	6	(96,535)	(236,235)
Operating cash flow before taxes		**2,017,376**	340,737
Income tax paid	7	(73,862)	-
Cash generated / (used) in operating activity		**1,943,514**	**338,134**
Interests received on deposits and investments	6	113,523	67,071
Purchase of fixed and intangible assets	9	(1,299,523)	(18,320)
Investment in acquiring businesses (net of cash)	11	(370,953)	(280,938)
Proceeds from derecognizing fixed assets		-	-
Long-term loans given - disbursement	10	(801,300)	(760,810)
Long-term loans given - repayment		-	-
Cash generated / (used) in investment activities		**(2,358,253)**	**(992,997)**
Long term loans borrowed and bonds issued		(69,961)	2,743,839
Long term loans and bonds repaid		-	(2,782,480)
Capital increase	19	-	-
Effect of the merger by absorption on capital		1,746,426	-
Other transactions with owners	20	(4,060)	-
Dividend paid		(250,099)	(254,007)
Cash generated / (used) in financing activities		**1,422,306**	**(292,648)**
Changes in cash and cash equivalents		**1,007,567**	**(947,513)**
Opening cash and cash equivalents	18	339,657	1,287,450
Cash exchange gains/losses		(2,694)	(280)
Closing cash and cash equivalents	18	**1,344,530**	**339,657**

II. General information, significant accounting policies and the basis for the preparation of the financial statements

1. Basis for the preparation of the financial statements and the going concern principle

Statement of IFRS compliance

The Company declares that its individual Financial Statements for the year 2018 were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, based on the Company's best knowledge, providing a true and fair view of the assets, liabilities, financial situation of the Company as an issuer, as well as of its profit and loss. Furthermore, the Company declares that its individual Financial Statements for the year 2018 provide a true and fair view of the situation, development and performance of the issuer, outlining main risks and uncertainties.

Contents of the financial statements

These financial statements present the financial position, performance and financial situation of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság.

The Company's financial statements and the related business report are prepared and approved by the Company's management acting on behalf of the Board of Directors. The Board of Directors publishes the finished financial statements and the individual (annual) business report and submits it to the general meeting after having it reviewed by the Supervisory Board. This submission shall be done on the 30th day before the Company's annual general meeting at the latest. In accordance with the Rules of Listing and Continued Trading of the BSE, the general meeting accepting the financial statements and the business report shall be held until 30 April following the business year in question.

The Company publishes its annual report on the electronic reporting portal operated by the Ministry of Justice (www.e-beszamolo.im.gov.hu), on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary, the website of the Budapest Stock Exchange (www.bet.hu) and on its own website (www.alteo.hu).

The annual report of the Company (these financial statements) was prepared based on the effective Act C of 2000 on Accounting, applying the rules concerning the preparation of the IFRS report. The above-mentioned law prescribes for the Company the preparation of the individual financial statement, which, in accordance with Section 155 (2) of that Act, is to be mandatorily reviewed by the auditor. The chosen auditor of the Nyrt. is Deloitte Könyvvizsgáló Kft. (chamber registration number: 000083), the person responsible for auditing is Dr Attila Hruby, chamber membership number: 007118.

The fee for auditing the non-consolidated annual report and auditing the IFRS consolidated annual report is HUF 5,700 thousand + VAT.

The authorized signatories of the annual report are Attila László Chikán CEO and Domonkos Kovács, M&A and Capital Markets Director.

The person commissioned to control, lead the auditing tasks in accordance with Section 88(9) of Act 100/2000: Lakatos Gergely Zoltán (1094 Budapest, Viola u. 43 5. em 4., registration number: 164933).

Basis for the preparation of the financial statements, set of rules applied and underlying assumptions, and the measurement policy

These financial statements were prepared using the rules concerning the preparation of the IFRS report, according to effective Act C of 2000 on Accounting. The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) developed by the International Accounting Standards Board (IASB). The IFRSs were adopted by the Company as endorsed by the European Union. Where an IFRS does not provide detailed guidelines for certain rules but the Accounting Act has such rules, the provisions of the Accounting Act shall be applied.

Besides the above the Company prepared the financial statements considering the provisions of Decree no. 24/2008 (VIII. 15.) of the Minister of Finance on the detailed regulations on information obligation in connection with the securities trade on the stock exchange.

The Company's management determined that the Company will be able to continue as a going concern, which means that there are no signs that would imply that the Company intends to terminate or significantly reduce its operations in the foreseeable future (within one year from the reporting date).

The Company generally measures its assets on a historical cost basis, except for cases where a given item should be measured at fair value under the IFRSs. In the financial statements the trading financial instruments, the derivatives and in certain situations the assets held for sale had to be evaluated at fair value.

The Company first published individual financial statements prepared under IFRS for its 2017 business year. These financial statements contain information for a comparable period and were prepared based on the same principles. The Company was a first-time adopter of IFRS 1 in 2017.

2. Brief introduction to the activity of ALTEO Nyrt. and the ALTEO Group

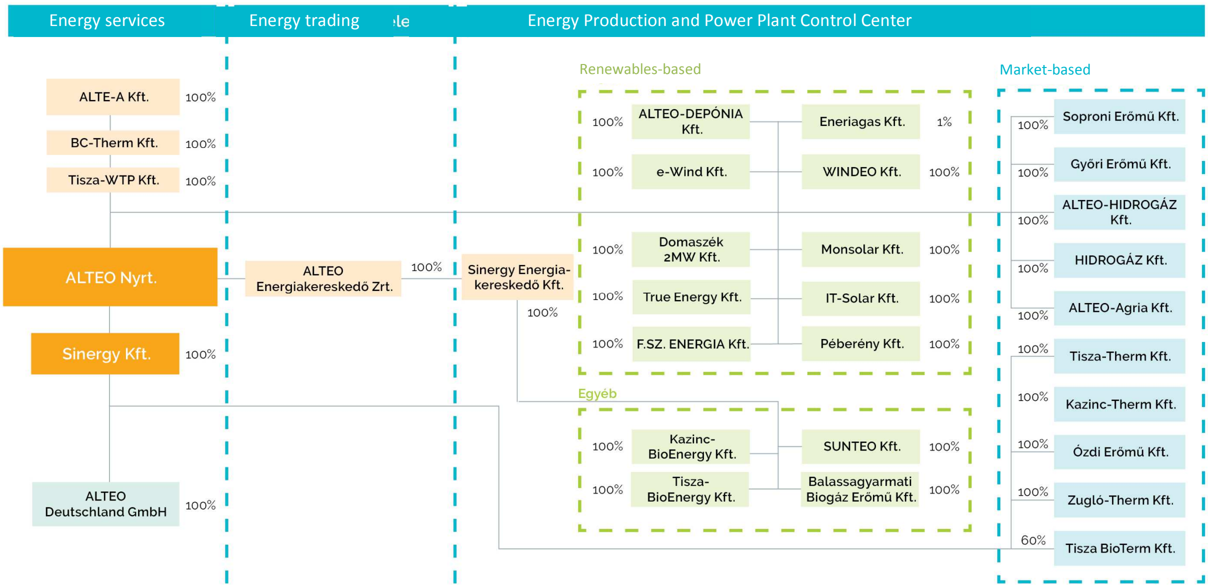
By today, the ALTEO Group - founded in 2008 and having celebrated a decade of operations in 2018 - has become a leading comprehensive energy service provider. The shares of the company, having entered the Budapest Stock Exchange in 2010, are listed on the Equities Prime Market of the BSE since 2018, but ALTEO is a member of the Hungarian stock exchange through its corporate bonds as well.

The corporate group is an energetics service provider and trader that represents a modern approach and is in Hungarian ownership. Its business activity covers energy production based on renewable energy carriers and on natural gas, energy trading, as well as personalized energy services, development projects and maintenance for corporate entities.

The company group considers spreading renewable resource-based electric energy production in Hungary a priority task. Accordingly, we are striving for the development of an energy portfolio which strikes a careful balance between relying on renewable energy and small power plants burning hydrocarbons, as well as combining them with cogeneration technologies to achieve even higher efficiency. We are building a client-oriented, reliable and flexible energy trading business to provide assistance to small, medium and large corporations in our clientele by managing their energy efficiently, therefore minimizing environmental burdens and costs.

Our strategic goal is closely linked to our core values. When compiling our portfolio, our endeavor was to become a decisive energy service provider on several fronts through the optimal application of both wholesale and retail energy trading, decentralized energy production and efficient energy management. This way we provide our customers and partners with high quality and innovative services, and produce sufficient yields to our shareholders.

In order to simplify the ALTEO Group's corporate structure, with effect from October 1, 2018, Sinergy Kft. merged into ALTEO Nyrt., in the framework of an absorption-type demerger and, by the same, each of the subsidiaries came under the direct influence of ALTEO Nyrt. Sinergy Kft. continues its operation, and continues to work with its remaining assets specified in the absorption-type demerger document. As part of this company law development, all employees of Sinergy Kft. were transferred to ALTEO Nyrt., within the framework of employer succession. In addition, during the year 2018, several acquisitions were completed and, as a result, the portfolio of the ALTEO Group expanded with new project firms, whilst some of our project firms with similar profiles have merged. As a first step of expansion abroad, in 2018 the Company set up its first foreign subsidiary, ALTEO Deutschland GmbH in Germany, the scope of activities of which include the development of energy production portfolio, as well as the provision of energy services to wholesale and retail customers. The structure of ALTEO Group on the reporting date is as follows:



3. Introduction to ALTEO Nyrt. (center of operations, legal form, ownership structure, governing law)

ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság is a company established under Hungarian law (governing law). The Company was founded on April 28, 2008 as a private limited company for an indefinite period of time. The legal form was changed to public limited company as of September 6, 2010 and the company was listed on the Budapest Stock Exchange. Registered office and center of operations of ALTEO Nyrt.: H-1131 Budapest, Babér utca 1-5. The registered principal activity of the Company is Electric power trade (TEÁOR 3514'08).

The majority shareholder of the Company is Wallis Asset Management Zártkörűen Működő Részvénytársaság (H-1055 Budapest, Honvéd utca 20, company registry number: 01-10-046529). The Company's ultimate parent company as at December 31, 2017 was WALLIS PORTFOLIÓ Korlátolt Felelősségű Társaság (H-1055 Budapest, Honvéd utca 20, company registry number: 01-09-925865). The shareholders of this entity are all private individuals. Ownership structure of ALTEO Nyrt. based on the share register as at December 31, 2018.

Present shareholders of the Company based on the share register on 12/31/2018	Face value (in thousand HUF)		Ownership ratio (%)	
	2018	2017	2018	2017
Wallis Asset Management Zrt. and its subsidiaries	135,200	135,200	65.95%	65.95%
Members of the Board of Directors, the Supervisory Board and the Executive Board*	11,981	15,113	5.84%	7.37%
Own shares**	9,710	9,626	4.71%	4.70%
Free float	48,133	45,076	23.50%	21.98%
TOTAL	**195,314**	**195,389**	**100.00%**	**100.00%**

** Including the property of direct relatives and controlled companies as well*

*** Excluded from the face value in circulation*

Voting rights of Wallis Asset Management Zrt. and its subsidiaries as at December 31, 2018: 65.95% (December 31, 2017: 65.95%).

The publicly issued shares of the Company are registered at the Budapest Stock Exchange; the closing exchange rate of the shares on the last trading day of 2018 (on December 28) was HUF 640, which is 9.7% lower than the same value in the last year (HUF 709). In the course of the year 1,669,574 shares were exchanged at the BSE.

Subsidiaries of the Company, consolidation

ALTEO Nyrt., as parent company, is obligated to prepare a consolidated annual report and a consolidated business report. In accordance with Section 10 (2) of the effective Act C of 2000 on Accounting, the Company complies with its consolidation obligation by publishing a report and a management report compiled in accordance with the IFRSs. The consolidated report of the Company prepared in accordance with the above can be viewed on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary, the website of the Budapest Stock Exchange (www.bet.hu) and on its own website (www.alteo.hu).

The Company is consolidated by Wallis Portfólió Kft., as superior parent company in its own report, this report can be viewed on the electronic reporting portal operated by the Ministry of Justice (www.e-beszamolo.im.gov.hu).

The subsidiaries of the Company, with one exception, are the companies of the Parent Company, directly or indirectly owned in 100% by the Parent Company. The Company has a 60% share in Tisza BioTerm Kft.; however, control is at the Company in connection with this company. The laws of Hungary are applicable to subsidiaries of the Company, with the exception of ALTEO Deutschland GmbH. The subsidiaries - with the exception of ALTEO Deutschland GmbH - pay tax in accordance with the Hungarian regulations.

The subsidiaries of ALTEO Nyrt., its associates on December 31, 2018, and the subsidiaries' and associates'

- registered office,
- activity,
- Ownership acquisition date and legal title
- extent of the influence of the Company:

Name of subsidiary	Registered office	Activity	Ownership acquisition date	Legal title	Extent of influence	Amount of the equity (HAS)	Amount of the revenue (HAS)
ALTE-A Kft.	H-1131 Budapest, Babér u. 1-5.	property management	8/2/2011	Founding	100%	25,068	29,489
ALTEO Energiakereskedő Zrt.	H-1131 Budapest, Babér u. 1-5.	gas trade	12/5/2011	Founding	100%	78,093	7,598,741
ALTEO-AGRIA Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	8/27/2008	Founding	100%	131,651	62,663
ALTEO-DEPÓNIA Kft.	H-1131 Budapest, Babér u. 1-5.	property management	10/1/2008	Founding	100%	87,093	413,850
ALTEO-HIDROGÁZ Kft.	H-1131 Budapest, Babér u. 1-5.	heat provision services	7/23/2009	Founding	100%	8,761	1,359
ALTEO Deutschland GmbH	D-53359 Rheinbach, Marie-Curie-Str. 5	development of an energy production portfolio, as well as energy services for both wholesale and retail trade	4/18/2018	Founding	100%	-	-
Balassagyarmati Biogáz Erőmű Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production, waste utilization	5/4/2015	Purchase	100%	3,241	-
BC-Therm Kft.*	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	100%	366,324	5,973,387
Domaszék 2MW Naperőmű Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	12/4/2017	Purchase	100%	(2,906)	87,684
e-WIND Kft.	H-1131 Budapest, Babér u. 1-5.	energy production (wind power plant)	2/11/2013	Purchase	100%	67027	64,923
F.SZ. ENERGIA Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	7/20/2018	Purchase	100%	3635	-
IT-Solar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	11/6/2017	Purchase	100%	-281	2,299
Győri Erőmű Kft.	H-9027 Győr, Kandó Kálmán u. 11-13.	heat energy production, electricity production	12/31/2009	Purchase	100%	422,096	290,051
HIDROGÁZ Kft.	H-1131 Budapest, Babér u. 1-5.	energy production, hydrogas utilization	7/13/2009	Purchase	100%	18,585	14,497
Kazinc-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	100%	3,060	-
Kazinc-Therm Fűtőerőmű Kft.	H-3700 Kazincbarcika, Gorkij u 1. sz.	heat energy production, electricity production	5/4/2015	Purchase	100%	79,424	1,913,597
Monsolar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	11/6/2017	Purchase	100%	11	2,327
Ózdi Erőmű Távhőtermelő és Szolgáltató Kft.	H-3700 Kazincbarcika, Gorkij u 1. sz.	heat energy production, electricity production	5/4/2015	Purchase	100%	7,504	762,154
Péberény Ingatlanhasznosító Kft.	H-1131 Budapest, Babér u. 1-5.	Energy production (solar power plant)	3/13/2018	Purchase	100%	145,624	-
Sinergy Energiakereskedő Kft.	H-1131 Budapest, Babér u. 1-5.	electricity trade	5/4/2015	Purchase	100%	151,827	5,984,056
Sinergy Kft.	H-1131 Budapest, Babér u. 1-5.	power plant operation, engineering service plans, execution, energy production	5/4/2015	Purchase	100%	488,742	6,097,648
Soproni Erőmű Kft.	H-9400 Sopron, Somfalvi utca 3.	heat energy production, electricity production	12/31/2009	Purchase	100%	186,176	1,363,635
SUNTEO Kft.	H-1131 Budapest, Babér u. 1-5.	energy production	1/30/2013	Founding	100%	4,396	-
Tisza BioTerm Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	60%	(16,145)	22,631
Tisza-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	100%	3,601	-
Tisza-Therm Fűtőerőmű Kft.	H-3580 Tiszaújváros, Tisza út 1/D	heat energy production, electricity production	5/4/2015	Purchase	100%	(32,467)	1,314,792
Tisza-WTP Kft.*	H-3580 Tiszaújváros, Ipartelep 2069/3.	salt-free and demineralized water production	5/4/2015	Purchase	100%	222,790	1,157,914
True Energy Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	7/20/2018	Purchase	100%	2,286	-
WINDEO Kft.	H-1131 Budapest, Babér u. 1-5.	energy production (wind power plant)	5/24/2012	Purchase	100%	371,753	165,595
Zugló-Therm Energiaszolgáltató Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	5/4/2015	Purchase	100%	(6,659)	2,479,680

(*) Although the Company acquired a 100% share in two of the entities listed above, the management arrived at the conclusion that the Company did not obtain control over these entities. ALTEO acts as a lessor with respect to these business entities (see Note 13). For the same reason, these two entities are also recognized under leases instead of shares in individual financial statements.

The two entities concerned were:

- BC-Therm Energiatermelő és Szolgáltató Korlátolt Felelősségű Társaság
- Tisza-WTP Vízelőkészítő és Szolgáltató Korlátolt Felelősségű Társaság

Currency and accuracy of the presentation of the financial statements

The Company's functional currency is the Hungarian Forint. The financial statements were drawn up in HUF (presentation currency) and the figures displayed are in thousand HUF unless otherwise indicated.

The foreign currency relevant to the Company is the Euro. The exchange rate of the currency in the reporting period was as follows (currency unit per HUF according to the exchange rates of the Central Bank of Hungary):

Currency	12/31/2017	2017 average	12/31/2018	2018 average
euro (EUR)	310.14	309.21	321.51	318.85

4. Significant accounting policies

Presentation of the financial statements

The financial statements of ALTEO Nyrt. are comprised of the following (parts):

- individual statement of financial position;
- individual statement of profit or loss;
- individual statement of other comprehensive income;
- consolidated statement of changes in equity;
- individual statement of cash flows;
- notes to the individual financial statements.

The Company has decided to present the statement of profit or loss and other comprehensive income in separate statements.

Other comprehensive income includes items which increase or decrease net assets (i.e. the difference between assets and liabilities) and such decrease may not be recognized against any asset, any liability or profit or loss, but instead change an element of equity directly in respect of the broadly defined performance of the Company. Other comprehensive income does not include, amongst others, equity transactions which result in a change in the available equity and transactions conducted by the Company with the owner acting in its capacity as owner.

Significant decisions regarding presentation

The financial statements were prepared by the Company in view of the transparency and comparability requirements applicable to companies listed on the stock exchange.

The financial statements are presented by the Company in Hungarian Forints. This is the presentation currency. The financial statements cover a period of one calendar year. The reporting date of the financial statements for each year is the last day of the calendar year, i.e. December 31. The Company prepares individual financial statements annually. No interim individual financial statements are prepared.

The financial statements contain one set of comparative data, except when the figures for a period had to be restated or when the accounting policies had to be amended. In such cases, the opening figures of the statement of financial position for the comparative period are also presented.

In the event that an item needs to be reclassified for presentation purposes (e.g. due to a new line in the financial statements), the figures for the previous year are adjusted by the Company so as to ensure comparability.

The Company is required to disclose segment information in the notes to the financial statements. Operating segments are determined in accordance with the strategic requirements of the members of the Board of Directors. Definition of operating segments for 2017 is impossible due to selling the electricity trade activity. With regard to the previous year, information concerning the electricity trade segments is available in the presentation of discontinued activities.

With regard to the year 2018, the Company's management established the following segments:

- Operation Business
- Ventures and Power Plant Construction Business
- Other

The activity of the Company is limited to Hungary only, the management did not consider it necessary to establish regional segments for the area of the country.

Accounting policies relating to the statement of profit or loss

Revenues

In 2018, the Company accounted for its revenues in accordance with the rules of the newly adopted IFRS 15.

The IFRS 15 established a unified model for revenues originating from contracts. With the help of the unified five step model the standard determines when and in what amount do revenues have to be recognized. This standard states explicit expectations for the situation when several elements are transferred to the customer at the same time. The IFRS 15 describes two methods for timing the recognition of revenue: revenue accounted for at a given time and during a given period. The IFRS 15 standard also creates theoretical rules concerning what happens with the costs in connection with acquiring and providing - not recognized elsewhere - the contract. The standard does not contain revenue recognition rules for the financial instruments; those will be settled in IFRS 9.

The method of accounting for revenues has not changed in the case of the Company, due to the adoption of IFRS 15 where significant changes were made, as compared to the previous accounting rules. The main reason for that is the change in the Company's contract portfolio. The Company sold its electricity retail portfolio to ALTEO Energiakereskedő Zrt. concurrently with the year change so as to ensure that previous contracts were no longer relevant at the time of the adoption of the new standard. Accordingly, no transitional amendments were relevant to the trade portfolio as a result of the new standard.

In 2018, most of the contracts generating the recognized revenue were either newly concluded by the Company or the Company became a party to them as the successor to its subsidiary absorbed in October of that year. Accordingly, no transitional amendments were relevant to the applicable contracts as a result of the new standard. With regard to other contracts (e.g. accounting, operational, etc.) for which revenues were recognized on an ongoing basis in 2017 and 2018, no transitional amendments were needed as a result of the adoption of the standard.

According to the IFRS 15 standard, the elements of the revenue shall be accounted for at the moment of the completion of the performance obligation. Performance obligations shall be considered as completed when an entity transfers the control over the goods or services to the buyer. Revenues must be accounted for when the Company realized them - that is, if the Company contractually performed towards its customers and the financial settlement of the claim (the realization of the economic advantage in connection with the transaction by the company) is likely, and the amount of that and the related costs can be adequately (reliably) measured.

The Company recognizes items collected on behalf of other entities to be recharged later as reductions of revenue because the Company has no control over these items, therefore these cannot be transferred. The Company identified the following as such items:

Name	Content of item
Value added tax	Value added tax within the meaning of Act CXXVII of 2007.
Energy tax*	The tax within the meaning of Act LXXXVIII of 2003 on Energy Tax.
Excise duty*	The tax within the meaning of Act LXVIII of 2016 on Excise Duty.

Name	Content of item
Electric power system usage fees*	Distribution fees within the meaning of Item c) of Section 142 (1) of Act LXXXVI of 2007 on Electric Energy: the distributor's base fee, the distributor's performance fee, the distributor's traffic fee, the distributor's reactive energy fee, the distributor's loss fee and the distributor's schedule balancing fee.
Financial assets*	Financial assets within the meaning of Article 147 of Act LXXXVI of 2007 on Electric Energy: the fee payable for the structural transformation of the coal industry, the fee payable for supporting the discount price electric power and the related production structure transformation fee.
Products, services acquired for third parties in agent status and forwarded in unchanged form	If forwarding a given procurement (service or product) is done in the same form in unchanged amount by the Company and no practical risk arises on the part of the Company in connection with this, then reselling is done in an "agency structure" and the item is no part of the revenue.

* Items related to electricity retail. In 2018, they are only applicable in relation to amendments resulting from previous periods that have not yet lapsed under the Electricity Act.

In connection with the customer contracts, the Company applied the 5-step model specified in the standard. In most of the existing contracts, the date of performance is not separate from the billing period, therefore, the realization of the revenues is not separate from the actual billing. Regarding contracts where several elements are transferred to the buyer at the same time or as recognized revenue for a period, the Company performs the realization of the revenue - the allocation to contractual elements or periods - by taking into consideration the underlying economic content. The following contracts or contractual elements are included in this category:

- general construction-installation contracts
- overhaul component in operation and maintenance contracts

In the case of general construction-installation contracts, revenues are accounted for depending on the stage of completion of the project in question. The determination of the stage of completion shall be performed proportionately to the ratio of any actually occurred costs to the total planned costs. If, in the case of the project as a whole, a loss may be expected, that expected loss must be accounted for immediately.

The Company performs individual assessments and investigations of its buyers' contracts. Due to the individual character of the contracts, the portfolio method is not applicable, either to the contract portfolio or any part thereof.

Wherever a contract or a contractual element contains a significant financing element which is more favorable than the market practice, with the deferral of payment exceeding one year, then that financial component must be recognized separately. In such cases, only the present value of the invoiced consideration can be accounted for as revenue.

If, in connection with a long-term contract, costs directly related to that contract incur where the return is guaranteed by the contract for the full contractual period, these costs shall be recognized as assets related to that contract and amortized over the term of the contract. Such elements may include various legal, intermediation and success fees.

The Company presents any proceeds from leases strictly related to its main activities as revenues.

Expenses related to operation

Non-finance expenses are to be classified as follows:

- material expenses;
- personnel expenses;
- depreciation and amortization.

Changes in the inventory of stocks produced by the Company

The Company does not produce any goods that can be bought out of storage.

Other income

Other income recognized by the Company includes the consideration for sales that cannot be classified as revenue, as well as any income that cannot be considered finance income or an item increasing other comprehensive income. Other expenses include those that are directly related to operations and are not classified as finance expenses or do not reduce other comprehensive income. Other income and other expenses are recognized by the Company in the statement of profit or loss and other comprehensive income as net figures.

Finance income and expenses

The Company accounted for its finance income and expenses in accordance with the newly enacted IFRS 9 regulation.

The IFRS 9 reassessed the impairment of financial instruments as well, introducing the expected impairment model. The basis of determination is the expected impairment, as opposed to the objective, incurred (already happened) impairment. The expected impairment model brings the time of recognizing (occurrence) of impairments closer. The accepted model includes the simplified method that allows it for the entity to apply rules other than the complex ones in connection with certain financial assets (e.g.: trade receivables and similar instruments). This solution is very close to the method that the Company already used in connection with such instruments. Since these instruments are by far the most significant among the financial instruments of the Company, the change did have a significant numerical effect.

The IFRS 9 regulated hedge accounting anew as well; according to this, far more connections (economic phenomena) will meet the conditions of the application of hedge accounting, and the previous conditions of compliance (extent of efficiency, proving the existence of efficiency) were relaxed.

Dividend income and interest income are recognized as finance income. Interest income is accounted for in a pro-rated manner and dividend income may only be recorded if a final decision on dividend payment has been made by the entity disbursing such dividend. Interest expenses are calculated using the effective interest method and are classified as finance expenses. Exchange differences on foreign currency items (if not a part of other comprehensive income under IAS 21 - The Effects of Changes in Foreign Exchange Rates) are recognized by the Company in finance income. The Company shows finance income in its statement of profit or loss and other comprehensive income after offsetting.

Income taxes

Going forward, the management of the Company decided to recognize local business tax and innovation contribution under income tax, considering the feedback from investor analysts and to better align with the practices of major issuers at the Budapest Stock Exchange. For reasons of comparability, the Group prepared and presented a comparative consolidated statement of profit or loss and consolidated statement of financial position also for 2017. The change in accounting policy has no impact on the net profits.

Recognized as income tax from 2018 on:

- corporate tax
- income tax of energy suppliers
- local business tax and
- innovation contribution.

Offsetting

In addition to the requirements under IFRS, the impact of a transaction is recognized in the Company's financial statements on a net basis if the nature of the given transaction requires such recognition and the item in question is not relevant to business operations (e.g. sale of a used asset outside business operations).

Application and concept of EBITDA

Although the IFRS does not use the concept of EBITDA, the Company decided to also use this often used indicator, considering the widely characteristic industrial practice and that it is the conviction of the Company that recognizing this value is useful for users of the financial statements, it has information content.

We present the method of calculation below so it can be interpreted:

EBITDA = Net profit or loss
+ finance income
+ taxes
+ depreciation and amortization

The net profit or loss containing the profit or loss from discontinued activities are modified with the following items.

Finance income: the Company adjusts the net income with all the items in the finance income (effective interest, exchange rate differences, etc.) so the Company fully neutralizes the effect of the finance income when calculating this indicator.

Taxes: income taxes in the net profit or loss (current and deferred tax alike) are neutralized by the Company when calculating the indicator.

Depreciation and amortization: the depreciation, amortization of assets belonging under IAS 16, IAS 40 and IAS 38 and assets recognized at the Company as assets and given to operating leasing or concession is eliminated when calculating the indicator (they are "given back"). The non-systematic decrease of such assets (typically: impairment) is adjusted by the Company retroactively, similar to depreciation and amortization. We do not adjust the depreciation of other assets, e.g. financial instruments when calculating the indicator.

EPS - earnings per share the shareholders are entitled to

When calculating earnings per share, the Company presents them in the consolidated statements based on the net profit or loss concerning the ALTEO Group. In accordance with the provisions of the IAS 33 standard, the individual IFRS statement does not contain EPS data.

Accounting policies relating to the statement of financial position and the recognition and measurement of assets and liabilities

Property, plant and equipment

Only assets which are used in production or for administrative purposes and are used for at least one year after commissioning are classified by the Company as property, plant and equipment (PPE). In terms of their purpose, the Group makes a distinction between production and non-production (other) assets.

The initial carrying value of an asset comprises all items which are related to the purchase or creation of the given asset, including borrowing costs (for details, see the accounting policy on borrowing costs).

If an asset needs to be removed or demolished at the end of its useful life (or if the given asset is no longer used, it is sold or abandoned), then the costs incurred to retire it (asset retirement obligation or ARO) are added to the initial value of the asset and a provision is recognized in this respect, given that the Company has at least a constructive obligation for the retirement. No provisions are made for ARO is the estimated expense of deconstruction is not significant, that is, it remains under HUF 500,000. Assets that belong together must be reviewed as a group and if the decommissioning costs of a group of assets that belong together is significant in total, then provisions must be made for ARO concerning the group of assets.

The Company estimates the ARO using a percentage coefficient between 0% and 10%. The Company used a discount rate of 8.57% for discounting in 2018. For the present PPE inventory, no ARO need to be recognized.

The discounted liability is increased each year, taking into account the passing of time (unwinding of the discount) and future changes in the estimation of unwinding costs. The increase in the liability arising from the unwinding of the discount is accounted for as interest expense.

The Company uses the component approach, which means that the parts of a physically uniform asset which have different useful lives are treated separately, mainly in the case of production assets.

Fixed assets are measured subsequent to initial recognition using the cost model (initial value reduced by accumulated depreciation and accumulated impairment losses).

The depreciable amount is the value on initial recognition reduced by the residual value. Residual value is determined if its amount is significant. Residual value is equal to the income that can be realized after the asset is decommissioned, reduced by the cost of disposal.

Depreciation is calculated on the basis of the depreciable value for each component. The Company uses the hours of service for gas engines and the straight-line depreciation method for all other assets. The following depreciation rates are used for assets:

Asset group	Extent of depreciation
Land	non-depreciable
Buildings	1–5%
Power plant equipment	1–14%
Non-production machinery	14–33%
Office equipment	14–33%

The Group reviews the useful life of each component and determines whether the asset can be utilized during its remaining useful life and whether the residual value is realistic. If not, then the depreciable amount and/or the residual value are adjusted for the future.

The value of a fixed asset is increased by significant repair projects which involve substantial cost and occur regularly but not every year. These projects are treated by the Company as a component of the given asset and the Company examines whether the asset's useful life is aligned with the next (expected) occurrence of such projects.

Income from the sale of a fixed asset is recognized among other items, with the remaining carrying value of the asset deducted. Expenses arising upon the scrapping of fixed assets are also recognized among other items. Only expenses are accounted for in this case and no income.

Intangible assets

The Company determines whether any of its intangible assets have indefinite useful lives.

Through a merger into the Company, the development (R&D&I) activity in progress was also added to intangible assets. According to the opinion of the management of the Company, the research activity aimed at generating other intangible assets meets the IAS 38 recognition criteria and know-how that can generate revenue is expected to be realized by the second half of 2019 as the result of this activity. Costs incurred in the course of the development project are recognized among intangible assets. If no asset could be produced as the result of development that meets the relevant requirements of IAS 38, recognition of impairment becomes necessary.

The initial value of intangible assets is determined using the method described in the case of fixed assets.

Intangible assets with indefinite useful lives are not amortized; instead, they are subject to impairment testing in each period or when there is an indication of impairment (see impairment losses).

For all other intangible assets, the existence of any contractual periods which restrict the use of such rights must be considered. In such cases, the amortization period may not be longer (though it may be shorter) than this period. By default, the term of the contract is accepted as the useful life.

For software and other similar intangible assets, straight-line amortization rates of 20% to 33% are used. Subsequent to initial recognition, intangible assets are uniformly measured using the cost model. The residual value of intangible assets is considered zero, unless proven otherwise.

Leases

Leases are contractual arrangements where the owner of an asset transfers the right to use that asset in return for a series of payments. Leases are classified as either operating leases or finance leases.

The lease of an asset qualifies as a finance lease if any of the following criteria is fulfilled:

- the ownership of the asset is transferred at the end of the term;
- the term of the lease is equal to or exceeds the majority of the economic useful life of the asset (75% by default);
- the present value of the lease fee payments, discounted using the effective interest rate, is essentially equal to the fair value of the asset (no more than 10% difference by default);
- the asset is special in nature and can only be utilized by the Company.

The Company has no assets financed under a finance lease.

The IFRS 16 “Leases” standard enters into force on January 1, 2019. This standard drastically changes the accounting treatment of leases. As a general rule, all leased items are recognized as assets at the lessee in the statement of financial position, along with the related lease payment obligation. The operating lease category basically disappears. The accounting settlements of the lessor do not change in their content, but the classification of the leases does. The new standard - besides the drastic change - also modifies the rules of evaluation and allows the inclusion of variable elements in the lease fees in a wider scope. The definition of lease also changes and certain earlier contracts concerning the allotment of capacities will not count as leases.

The Company is assessed what changes the standard might cause in the financial statement, but based on the rules of the standard it cannot be checked on the effective date whether the contracts already in progress are leases, these must be classified based on the earlier classification. For the Company as a lessor, the application of the new standard does not imply a change. The Company has operating lease contracts. Where the market interest rate is established, the Company used the statistics published by the Central Bank of Hungary.

The table below summarizes the effects of the application of IFRS 16, as at January 1, 2019:

Name	IAS 17	IFRS 16
Asset (opening value)	-	81,647
Liability (opening value)	-	81,647
Service used (annual)	46,350	-

Accounting for operating leases

A lease is treated as an operating lease if the requirements for classification as a finance lease are not fulfilled. Assets involved in operating leases are not capitalized and recognized in the statement on financial position; lease fees are accounted for as costs. For operating leases, all cash flows during the term of the lease are taken into account and are evenly accounted for as expenses over the term (SIC 15), i.e. any incentives are spread out over the entire term.

Policy on borrowing costs

In accordance with the provisions of IAS 23, borrowing costs are capitalized by the entity if the borrowing is attributable to a qualifying asset. For dedicated borrowings (those that are assigned to a specific purpose), the amount to be capitalized is determined using the effective interest rate of the borrowing. For general purpose borrowings, the capitalization rate is calculated manually. The capitalization rate is the average of the effective interest rates of general purpose borrowings weighted by the time elapsed since the date of payment or, if later, the time elapsed since the start of capitalization and the amount of the payment.

An asset (project) is regarded as a qualifying asset (project) in the following cases:

- if a construction contract is involved that is longer than six months;
- if an asset is involved whose construction, preparation or transformation takes longer than six months (regardless of whether the asset in question is created by the Company or third parties).

The value of the given asset is irrelevant for the purpose of classification.

The capitalization of borrowing costs starts when an irrevocable commitment to acquire the asset or implement the project exists or is probable. For assets, this is usually when the cost necessary to build the asset is incurred; for projects, this occurs when the actual work begins or, if planning is also done by the Company, the start of the preparation of the plan subject to the licensing process.

The capitalization of borrowing costs is suspended if work is interrupted for a period of time that is longer than technologically reasonable.

The capitalization of borrowing costs is finished when the asset is ready or when the actual work on the project is completed or, if earlier, the asset created in the course of the project is in use or its use has been approved.

Accounting for government grants

As a general rule, grants are recognized by the Company as income. Income is spread out over the periods in which the asset is used. The part that cannot be credited to profit or loss is recognized in liabilities as deferred income. Items to be credited to profit or loss are deducted from the related expenses where possible.

If a grant is related to expenses, then such grant is principally accounted for by reducing expenses or, if this is not possible, by recognizing it as other income.

Grants may be accounted for if

- it is essentially certain that the Company will meet the requirements for the grant, and
- it is certain that the Grant will be awarded to the Group.

In the event that a grant must be repaid subsequently, a liability is recorded when this becomes known by increasing the value of the asset or the expense.

If any advance is paid against the government grant, it must be recognized among liabilities. In the case of such a grant construct deferred income may only be recognized if the grant settlement is done.

In accordance with the above principle, the Company recognizes assets received without consideration as assets by recording deferred income (liability) against the asset (as a result, emission quotas received from the government without consideration is recognized as assets at their fair value).

Assets held for sale and discontinuing operations

Non-current assets whose carrying amount will be recovered principally through an imminent sale transaction rather than through continuing use are classified as assets held for sale. Assets held for sale also include so-called disposal groups which comprise assets and closely related liabilities that are expected to be disposed of subsequently as part of a transaction (e.g. a subsidiary to be sold).

This classification may be used if it is highly probable that the sale in question will be completed within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition, the activities necessary for the sale to take place are underway and the asset or disposal group is being offered at a reasonable price.

Assets held for sale are separately presented by the Company in its statement of financial position and their value is not included in either non-current or current assets. These assets are not depreciated by the Company and are measured at the lower of their carrying amount as at the reporting date and fair value less the cost of disposal. The resulting difference is recognized by the Company against profit or loss.

If an asset needs to be subsequently reclassified as a non-current asset due to the fact that the conditions of classification are no longer met, then after the reclassification the asset is measured at the lower of the value adjusted by the unrecognized depreciation and the recoverable amount. The resulting difference is recognized in profit or loss.

According to the provisions of the standard, the Company recognizes its discontinuing operations separately, if they are significant. It does not qualify as a discontinuing operation if the legal form of a given activity gets changed but the underlying economic content does not change significantly.

In 2017, the performance of the electricity retail business was recognized under discontinued activities as it was sold to ALTEO Energiakereskedő Zrt. In 2018, a negligible volume of transactions took place in electricity retail exclusively in relation to amendments resulting from previous periods that have not yet lapsed under the Electricity Act. These items are only presented for 2018 as part of the licensee breakdown.

Inventories

Inventories are stated in the financial statements at the lower of initial recognition cost and net realizable value. Inventories are classified as inventories expected to be recovered within a year and those expected to be recovered after more than one year. The Company determines the closing value of inventories based on their average cost and the value of inventories includes all costs which are required for the use of inventories in the intended manner and at the intended location.

Accounting for impairment losses other than financial instruments and identifying CGUs

The Company tests its assets for impairment each year. Testing consists of two stages. The first stage is to examine whether there are signs indicating that the assets in question are impaired. The following may be signs that a given asset is impaired:

- damage;
- decline in income;
- unfavorable changes in market conditions and a decline in demand;
- increase in market interest rates.

Should there be any indication that an asset is impaired, a calculation that allows the recoverable amount of the asset to be determined is performed (this is the second step). The recoverable amount is the higher of the fair value of the asset reduced by the cost of disposal and the present value of the cash flows derived from continuous use. In the absence of more precise estimations, the cost of disposal is deemed to be 10%.

If the value in use of a group of assets cannot be determined as it does not generate any cash flows itself (it is not in use), the test is performed with respect to the cash-generating units (CGUs).

If the value in use can only be determined with respect to the CGUs and impairment needs to be accounted for, impairment losses are split as follows:

- first, damaged assets are impaired;
- second, the remaining amount of impairment losses are split among fixed assets (PPE) and intangible assets in proportion to their carrying value prior to impairment.

The value of assets may not drop below their fair value reduced by their individual cost of disposal.

Provisions

Only existing liabilities which are based on past events and have uncertain value and timing may be recognized as provisions. No provisions may be recognized for liabilities which are not linked to present legal or constructive obligations.

If the existence of a liability cannot be clearly identified, then a provision may only be recognized if its existence is more likely than not (probable obligation). If the probability is lower than this, a contingent liability is disclosed (possible obligation). Such items may not be shown in the statement of financial position; instead, they are presented in the notes to the financial statements.

Provisions are shown as liabilities and are classified as non-current and current liabilities. If the time value of money in respect of a provision is considered material (as it will be due much later), the expected cash flows are discounted. The time value of money is considered material if cash flows are still generated after 3 years or even later.

The following items are typically included in provisions:

- compensation payable in relation to legal cases;
- indemnification or compensation based on an agreement;
- warranty liabilities;
- asset decommissioning liabilities;
- severance pay and costs arising due to restructuring;
- CO_2 emission costs not covered by a quota.

If a decision needs to be made in respect of a specific obligation, then the value of the provision will be the most likely unique outcome, while the effect of all remaining outcomes must be reasonably taken into account. If the value of the provision needs to be estimated based on a set of data (guarantees, payments concerning a large number of persons), then the fair value (probability-weighted average) of the expected outcomes is used as the value of the provision.

If a contract has been signed by the Company where the costs arising from the contract exceed the benefits derived therefrom, then a provision is recognized for the lower of the legal ramifications of a failure to carry out the contract and the losses arising from executing the contract (onerous contracts).

If there is such a CO2 emission position at the end of the period that is not covered by a quota, then provision must be recognized for the future liabilities. The amount of the provision needs to be determined considering the market price of the emission unit at the end of the period.

A restructuring provision (e.g. for severance pay) may be recognized if there is a formal plan for the restructuring which has been approved and communicated to those affected.

Provisions may only be recognized for costs associated with discontinued operations. But no provision can be recognized for continuing operations (e.g. cost of retraining or relocation).

No provisions may be recognized for:

- future operating losses;
- “safety purposes” to cover unforeseeable losses;
- write-offs (e.g. for the write-down of receivables and inventories) - these reduce the value of the relevant assets.

Employee benefits

The Company provides predominantly short-term employee benefits to its employees. These are recognized by the Company in profit or loss after they have vested.

Employee bonuses and other items of similar nature are shown in the statement of financial position if they result in liabilities, i.e.

- if they are subject to a contractual condition and such condition has been fulfilled (e.g. a given revenue level is reached), the item is accounted for not in the period when the Group established that the contractual condition was fulfilled, but in the period when such condition was fulfilled (when the employees rendered the service entitling them to the benefit).
- if such an item is created as a result of a management decision instead of a contractual condition, then the item may be recognized when the decision is communicated to the company affected (constructive obligation).

The Company operates a defined contribution retirement benefit plan only and the contribution is calculated on the basis of salaries paid; therefore, such contribution is accounted for at the same time as salaries.

The Company operates in a legal environment in which employees are entitled to paid leave. If for any member of the Company there is a legal possibility or an agreement between the employer and employees which provides that any unused leave may be carried forward to subsequent years, then a liability is recognized against employee benefits with respect to such unused leave accrued by the end of the year.

Financial instruments

Financial instruments are contracts which create financial assets for one party and financial liability or equity instruments for the other party. Financial instruments include financial assets, financial liabilities and equity instruments.

The IFRS 9 Financial instruments standard replaced the previous IAS 39 standard, with effect from January 1, 2018. The Company had no financial instruments the classification or evaluation of which would have changed, therefore, the transition did not have a significant effect on the financial statements, except for amendments due to expected credit loss (ECL).

Financial assets

These include cash, equity instruments of another entity, contractual rights which entitle the Company to future cash flows as well as those which entitle the Company to exchange financial instruments at potentially favorable conditions.

Financial assets are classified by the Company as follows:

- debt
- equity instrument
- derivative

In the case of debt instruments:

Loans and receivables (assets evaluated at amortized initial recognition costs): this group includes financial assets with fixed (or at least determinable) cash flows that are not quoted in an active market and are not classified into any of the remaining three categories. The Company typically records the following items in this category:

- loans given
- trade receivables
- advances received
- other receivables

The purpose of holding these assets is to collect contractual cash flows, that is, these assets are held by the Company not for trading purposes, and not for achieving short-term profits based on these instruments. These assets are priced at fair value and the follow-up valuation is performed based on amortized initial recognition cost. The valuation of the assets is performed individually. At present, the Company has no assets with massive multiplicity or assets with similar characteristics in the case of which the portfolio method could be applied.

Capital instruments include only assets that represent a shareholding and do not fall within the scope of the standards regulating group accounts, that is, are not subsidiaries, joint organizations or associates.

Derivatives include all instruments whose value is a function of a change in an underlying variable; their initial investment need is negligible and their settlement takes place in the future. In the case of the Company, these are typically derivative transactions, except where the rules on hedge accounting provide otherwise. If the Company concludes a transaction (such as forward foreign exchange contracts or interest rate swaps) which do not comply with the hedge accounting rules, these will be classified as FVTPL.

The table below summarizes the evaluation effects of the application of IFRS 9, as at January 1, 2018:

Financial assets	Evaluation method IAS 39	IFRS 9	Value in thousand HUF IAS 39	IFRS 9
Loans given	Amortized initial recognition cost	Amortized initial recognition cost	2,470,232	2,470,232
Trade receivables	Amortized initial recognition cost	Amortized initial recognition cost	1,535,677	1,535,677
Cash and cash equivalents	Amortized initial recognition cost	Amortized initial recognition cost	339,657	339,657
Derivatives	FVTPL	FVTPL	10,340	10,340

Financial liabilities must be classified into the following groups.

Financial liabilities measured at fair value through profit or loss: derivative transactions and forward contracts acquired for trading purposes are included by the Company in this category. Typically, the Company does not enter into contracts which result in such financial liabilities, with the exception of forward foreign exchange contracts and interest rate swaps.

Other financial liabilities: All other financial liabilities are classified into this category. Typical items include:

- trade payables;
- loan payables;
- bond payables;
- advances received from customers.

Issued instruments that represent an interest in the residual assets of the Company and no repayment obligation is attached thereto are classified by the Company as equity instruments.

At initial recognition, all financial instruments are measured by the Company at fair value. Transaction costs are capitalized unless the instrument is classified as FVTPL. In this case the transaction cost is expensed.

The table below summarizes the evaluation effects of the application of IFRS 9, as at January 1, 2018:

Financial liabilities	Evaluation method IAS 39	IFRS 9	Value in thousand HUF IAS 39	IFRS 9
Loans and borrowings	Amortized initial recognition cost	Amortized initial recognition cost	55,838	55,838
Bonds	Amortized initial recognition cost	Amortized initial recognition cost	3,507,828	3,507,828
Trade payables	Amortized initial recognition cost	Amortized initial recognition cost	874,800	874,800
Derivatives	FVTPL	FVTPL	-	-

In the case of a follow-up valuation based on amortized costs, the rules applicable to follow-up valuation of financial instruments are:

Items not resulting in interest expense or interest income

For initial measurement these items are measured at fair value. Fair value is the present value of the expected future cash flows. Where the time value of money is material, the item is discounted. For subsequent measurement purposes these items are measured at amortized initial recognition cost.

The value of a receivable is reduced by write-offs if such receivable is not settled after 180 days from its due date or there is any other indication at the reporting date which requires impairment to be recognized. Receivables that have been overdue for more than one year may only be shown in the financial statements with a value assigned to them if there is an agreement on deferred payment or rescheduled payment and the debtor has provided collateral. This rule is not applicable to tax assets. Collective assessment is used for calculation of impairment in case of large portfolios of individually insignificant assets based on statistical data.

In the case of liabilities, rules concerning delay are, accordingly, not applicable. An item may not be reclassified as a long-term liability merely because the Company has failed to meet its payment obligation. Only an irrevocable contractual commitment may provide a basis for reclassification. Items which are repayable on demand (those that have no fixed maturity) are classified as short-term liabilities.

Items resulting in interest expense or interest income

These items are measured at amortized initial recognition cost. The principles for calculating amortized initial recognition cost are as follows: the Company determines the cash flows relating to the given borrowing or receivable. In addition to principal and interest rate payments, these cash flows also include all items directly associated with the given movement of cash (e.g. disbursement commission, contracting fee, fee for the certification of the contract by a public notary, etc.) and the interest rate (effective interest rate) at which the net present value of the cash flows will be zero is determined. The interest expense for the period is calculated using this effective interest rate. Changes in interest rates for a floating rate instrument may be accounted for only with respect to the future. If impairment needs to be recognized with respect to such an asset (receivable), then the last applicable interest rate is used by the Company as the effective interest rate.

The Company also issues bonds through public placement in order to fund its operations. Liabilities resulting from the bonds are recognized using the effective interest method, i.e. the effective interest rate is determined on the basis of all bond-related cash flows. For zero coupon bonds, the difference between the issue price and the redemption price is regarded by the Group as interest.

The Company derecognizes financial assets when substantially all of the risks and rewards of ownership of the asset are permanently transferred to another entity or the asset is repaid or expired.

Financial liabilities are derecognized when they are discharged (e.g. settled) or when they no longer need to be met for any other reason (e.g. expired or ended).

Application of the ECL model

The expected credit loss model (ECL) has been applied in connection with the opening items for the subject year. The extent of the impairments relating to the electric energy sold is low in the retail business line, due to the receivable management processes developed in the past years. In the case of the related transactions (including the majority shareholder, the WALLIS Group), previously there was no need to account for impairment.

The effects of the application of the ECL model are summarized in the table below, as at January 1, 2018:

Financial asset	ECL %	Gross value	ECL ratio
Trade receivables - external, not expired	0.01%	959,253	95
Trade receivables - external, 0 to 30	0.19%	45,020	84
Trade receivables - external, 31 to 60	0.72%	5,516	40
Trade receivables - external, 61 to 90	1.20%	2,784	33
Trade receivables - external, 91 to 180	1.68%	7,924	134
Trade receivables - external, 181 to 365	2.24%	1,368	31
Trade receivables - external, 365+ days	100%	14,858	14,858
Trade receivables - related	0.01%	2,177,438	218

Under the ECL model developed, the amount of the impairment to be accounted for is HUF 15,493 thousand. Accordingly, no additional impairment was recognized in connection with the transition. In the case of loans given, there are no expired items.

There are no historical data available for the activities of the Company launched in 2019 and acquired in the framework of the merger by absorption. In these cases, the expected impairment was established by using an estimate.

Hedge accounting

The Company has adopted the hedge accounting provisions of IFRS 9. In the case of cash flow hedge transactions, in accordance with IFRS 9, the difference arising on hedge instruments is recognized in other comprehensive income instead of net profit or loss to the extent of the effective portion, and the resulting difference is accumulated in a separate reserve in equity (the cash flow hedging reserve). The concerned part of this reserve is recognized in the statement of profit or loss when the hedged cash flow (interest) occurs or when the hedge becomes ineffective.

If a hedge relationship is subsequently terminated, the cumulated effective portion is not recognized in the statement of profit or loss as long as the earlier hedged item does not affect the statement of profit or loss.

To qualify for hedge accounting, the relevant transaction must be formally designated and there must be evidence for hedge effectiveness (the aggregate impact of the change in the hedging instrument and the hedged item falls within a range of 80% to 125%).

Interest in other entities

The Company holds several investments in other entities that are consolidated or must be treated as associates. In the separate financial statements, these shall be valued by the Company at their initial recognition cost, reduced by accumulated impairment. Dividends received from a subsidiary are recognized by the Company in the profits.

Detailed information relating to subsidiaries are provided in the presentation of the ALTEO Group. Although the Group acquired a 100% share in two of the entities listed above, the management arrived at the conclusion that these companies shall not be consolidated, but rather recognized as leases due to the special characteristics of the transaction. The Group act as a lessor with respect to these business entities. The two entities concerned were:

- BC-Therm Energiatermelő és Szolgáltató Korlátolt Felelősségű Társaság
- Tisza-WTP Vízelőkészítő és Szolgáltató Korlátolt Felelősségű Társaság

These entities do not qualify as subsidiaries for accounting purposes.

In 2015, the Group acquired a 49% share in Zugló-Therm Energiaszolgáltató Korlátolt Felelősségű Társaság. After that, the company was qualified as an associate, until 2018 when the Group acquired the remaining stake of 51% of the Company’s registered capital as well. Having obtained the permission of the Hungarian Competition Authority and the Hungarian Energy and Public Utility Regulatory Authority necessary for the transaction, in March 2018 Zugló-Therm became fully controlled by the ALTEO Group.
Besides the companies mentioned above, the other businesses qualify as subsidiaries. In the case of these subsidiaries, the Group was not faced with any uncertainty and was not forced to decide on complex matters when making a judgment about how to treat its investments.
For the Group, NCIs are recognized currently in the case of Tisza Bio Term Kft. where the parent company has a stake of 60%. The net assets (assets and liabilities) of the respective subsidiary are recognized by the parent company in their entirety. However, only the part of equity which is held after the acquisition and attributable to the group is recognized by the Group as equity attributable to the parent company. The value of the net assets of the subsidiaries attributable to non-controlling interests is recognized by the Group separately, in one line, as non-controlling interest. The non-controlling interest is part of

the equity not attributable to the owners of the parent company. Non-controlling interests are recognized by the Group in proportion to net assets (at carrying value) at each reporting date and are not re-measured at fair value at the end of each reporting period.

The Group had no joint ventures on December 31, 2018 or December 31, 2017.

The Group has to face no limitations concerning any of its entities belonging to its scope of consolidation that would influence access to net assets, the profit or the cash flow.

The Group has no interests (both consolidated or not consolidated) in which control is not established through voting rights (e.g. on the basis of a management contract or senior management appointment). Furthermore, has no interests where voting rights are not for controlling relevant activities leading to control (structured entities). None of the members of the Group qualify as or have shares in an investment entity. The Company valuates its subsidiaries on the basis of the cost model.

Share-based payments

The Company motivates certain senior employees with share option benefits within the framework of an MRP organization. The internal value of the share options in question must be accounted for as expense under the vesting period in accordance with the provisions of the IFRS 2 standard against personnel expenses.

Upon the management's decision, the Company distributes Shares to the employees who have become entitled to these on the basis of the Company's recognition system. The market value of the shares given as a reward must be accounted for as expense at the moment when they are granted, in accordance with the provisions of the IFRS 2 standard, against personnel expenses.

Current income tax expense and deferred taxes

The actual income tax expense for the subject year is calculated by the Company in accordance with the tax laws that the given member is subject to and is recognized in current liabilities (or current receivables, as the case may be). In addition, deferred taxes are also estimated for each entity and are shown in long-term liabilities or non-current assets. Deferred taxes are calculated using the balance sheet method, with the effects of subsequent changes in tax rates taken into account. Deferred tax assets are recognized only if it is certain that the item in question will be realized (reversed). Deferred taxes are determined using the tax rate effective at the expected date of reversal. For local business tax and innovation contribution, deferred tax is only applicable in exceptional cases.

General accounting policies relating to the statement of cash flows

The Company's statement of cash flows is based on the indirect method for cash flows from operating activities. Cash flows from investing activities and cash flows from financing activities are calculated using the direct method. Overdrafts are regarded as cash equivalents until proven otherwise.

Equity

The Company recognizes the following items in the statements as parts of the equity:

Name of capital element	Content of capital element
Issued capital	Number of issued shares times the face value. The face value of treasury shares bought back is deducted from the capital element.
Share premium	The entirety of payments for the issued shares above their face value.
Retained earnings	The amount of the cumulated profit or loss not paid as dividend (that is, the aggregate profit or loss).
Transition reserve	The recognized balance of revaluations applied at the time of the transition to IFRS and other transition differences.
Share-based payment reserve	Reserves established based on the IFRS 2 standard.
Cash-flow hedge reserve	Reserves established in accordance with the provisions of the IAS 39 standard, based on the value of the non-realized cash-flow positions at the end of the period. Only the efficient part according to the documentation of the cash-flow hedge transactions can be recognized as part of the reserves.
Transactions with owners	value of transactions conducted with capital owners as such, presenting allocations for the owners (e.g. part of the shares bought back above face value) separately.

In the notes the Company publishes information concerning the following shares with regards to all classes of the share capital:

- number of shares authorized for issuing;
- number of shares issued and fully paid, and the number of shares issued but not yet fully paid;
- face value of shares;
- checking the number of shares in circulation at the beginning and the end of the period;
- rights, priority rights and limitations assigned to the share class in question, including
- limitations concerning dividend payment and capital repayment;
- shares owned by the Company or its subsidiaries or associates;
- shares reserved to be issued under options and contracts concerning sale of shares, including terms and amounts.

The Company prepares the equity correlation table prescribed in Section 114/B of the Accounting Act. The equity correlation table contains the opening and closing data of the individual elements of equity according to the IFRSs and, deduced from that, the opening and closing data of the following equity elements:

Name of element	Content
Equity	amount of the equity according to the IFRSs, increased by the amount of the received additional monetary contribution recognized as liabilities according to the IFRSs, decreased by the amount of the paid additional monetary contributions recognized as assets according to the IFRSs, increased by the amount recognized as deferred income from the value of financial assets, assets received to be transferred into capital reserve according to legal regulations, decreased by the amount of the receivable recognized against shareholders due to capital increase qualifying as capital instrument.
Issued capital according to the IFRSs	the issued capital as determined by the articles of association if it qualifies as capital instrument.
Issued but yet unpaid capital	the amount not yet at the disposal of the business entity from the issued capital according to the IFRSs.
Capital reserve	the amount of all the elements of equity not belonging to the concepts of issued capital, the issued but unpaid capital, the retained earnings, the evaluation reserve, the profit after taxes or allocated reserve according to the IFRSs.
Retained earnings	accumulated profit after taxes recognized in the annual report according to the IFRSs not yet paid to the shareholders, including amount accounted for the benefit or against the accumulated profit or loss according to the IFRSs; it cannot contain other comprehensive income according to the standard IAS 1 Presentation of Financial Statements with the exception of reclassification modifications. Amounts generated this way must be decreased by the amount of the paid additional monetary contribution recognized as asset according to the IFRSs and the amount of the unused development reserve decreased by the related deferred tax calculated based on the standard IAS 12 Income Taxes.
Evaluation reserve	the cumulated amount of the other comprehensive income in the comprehensive income statements according to the standard IAS1 Presentation of Financial Statement also including the other comprehensive income in the subject year.
Profit after taxes	the concept defined in Section 114/A (9) of the Accounting Act;
Allocated reserve	the amount of the received additional monetary contribution recognized as liability according to the IFRSs, increased by the amount of the unused development reserve decreased by the related deferred tax calculated based on the standard IAS 12 Income Taxes.

When preparing the final statement of assets and liabilities in the case of transformation, the Company settles negative capital elements from retained earnings during the settlement phase. However, these capital elements are only reclassified with a view to the final statement of assets and liabilities.

Transformation under company law

In the subject year, certain assets of Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Kft., a subsidiary of the Company, were integrated into the Company.

Assets and liabilities were recorded at carrying value by assessing related market values in connection with the necessary impairments. In addition, conversion between different accounting systems (IFRS and Chapter III of the Accounting Act) was also carried out. Effects of the conversion were recognized in equity. Integrated assets are listed in the absorption-type demerger document. The share in the subsidiary was derecognized in equity with consideration to the fair value of remaining operations.

Dividends

At the ordinary general meeting of the Company held on April 20, 2018 the shareholders decided to pay HUF 250,098,816 as dividend. Based on the resolution of the General Meeting of the Company concerning dividend payment the Board of Directors of the Company established May 28, 2018 as the starting date of dividend payment.

The dividend approved by the general meeting of the Company means a dividend of HUF 16/share projected to 1 share with a face value of HUF 12.5/share.

Other accounting policies

Transactions denominated in foreign currencies

The Company determines its functional currency. The functional currency is the currency which reflects the operation of the entity in question the most accurately. The Company's functional currency is the Hungarian Forint (HUF).

The points to consider are as follows:

- which is the currency in which the majority of the entity's income is derived;
- which is the currency in which the entity's costs are incurred;
- which is the main financing currency.

The above considerations are listed in order of importance.

An entity may incur exchange differences on translation only with respect to a foreign currency. Transactions in foreign currencies are translated into forint using the foreign exchange rate announced by the Central Bank of Hungary, effective on the day of performance. Incoming supplier and outgoing customer invoices where the exchange rate calculation according to the provisions concerning the determination of the tax base in forint, within the meaning of Act CXXVII of 2007 on Value Added Tax shall be applied, are exceptions.

During the year the realized exchange rate gain/loss amounts are from the difference between the exchange rates effective on the day of performance and the day of financial performance; these amounts are recognized by the Company among other incomes, expenses of financial transactions.

The Company classifies its assets and liabilities as monetary and non-monetary items. Monetary items include those whose settlement or inflow involves the movement of cash, and also include cash itself. Items relating to receivables or liabilities which do not involve the movement of cash (e.g. advances given for services or inventories) do not qualify as monetary items.

At the reporting date, monetary items denominated in foreign currency are revalued to the spot rate effective at the reporting date. For the purpose of translation, the Company uses the exchange rate for the reporting date published by the Central Bank of Hungary.

Reporting requirements other than IFRS

The Company established the structure of its financial system (e.g. chart of accounts, analytics) beyond the provisions of the IFRS to a depth so that data not required by IFRS reporting but required by other fields of expertise can be retrieved (e.g. local business tax).

Significance, faults and fault effects

According to the rules of the IFRS an item qualifies as significant if omission or false presentation of the item can influence the decisions of users made based on the financial statements. Considering significance the Company uses the value limit of the fault with a significant amount as defined in Act C of 2000 on Accounting.

An item is always significant if the total amount (regardless of sign) of faults and fault effects increasing or decreasing profits, equity, discovered in the year of discovering the fault, in the course of the series of reviews - concerning the same year - exceeds 2 percent of the Company’ statement of financial position total of the business year under review. If 2% of the statement of financial position total exceeds HUF 150 million, then the limit of significance is HUF 150 million. At the same time the management of the Company reserves the right to qualify an item of smaller amount significant, depending on the evaluation of the extent and nature of the omission or false presentation under the given circumstances. When evaluating an item the size and nature of the item in question or the combination of the two is the decisive factor.

With regards to their content, the faults can be omissions or false presentations in the financial statements of the entity for one or more previous periods, originating from not using or improper usage of reliable information. Such faults can be mathematical faults, faults in the application of the accounting policy, disregarding or incorrect interpretation of facts and the effects of fraud.

Earlier periodical faults shall be corrected with retroactive re-establishment, except if the effects or cumulative effects of the fault concerning individual periods are impossible to determine. Impossibility occurs if the Company cannot correct a fault or cannot apply a new rule retroactively even after doing everything that can be reasonably expected for the right application. The causes of impossibility can be for example uncertainties of calculations due to the lack of available data.

Limited comparability

With regard to the subject year and the previous period, the comparability of the statement of financial position and the statement of profit or loss is limited due to the following reasons:

- The Company sold its electricity trade portfolio to ALTEO Energiakereskedő Zrt. with effect from December 31, 2017.
- In order to simplify the corporate structure, with effect from October 1, 2018, Sinergy Kft. merged into ALTEO Nyrt., in the framework of an absorption-type demerger and, by the same, each of the subsidiaries came under the direct influence of ALTEO Nyrt. Sinergy Kft. continues its operation, and the demerged assets and operations specified in the absorption-type demerger document continue to function under ALTEO Nyrt. As part of this company law development, all employees of Sinergy Kft. were transferred to ALTEO Nyrt., within the framework of employer succession.

III. Critical estimates used in preparing the financial statements and other sources of uncertainty

In preparing its financial statements, the Company made critical estimates in connection with the following topics which, as a result, are sources of uncertainty.

Changes in accounting estimates is done by assessing the modification of the carrying value of an asset or liability or the amount of the periodical use of the asset, performed based on the evaluation of the present situation of the assets and liabilities and the related expected future profits and commitments. Changes in accounting estimates are caused by new information or new developments, so, accordingly, these do not qualify as corrections. It is not necessary to change the modification of the data of the comparative period if the accounting estimates change.

The management of the Company must review the accounting estimates of the following areas at least annually:

- estimates concerning the depreciation of the intangible assets (e.g.: useful life),
- estimates concerning the depreciation of the fixed assets (e.g.: useful life),
- estimates concerning the creation of provisions (e.g.: methodology of calculation, indicators for determining provisions),
- estimates concerning the evaluation of inventories and receivables,
- estimates concerning fair value,
- accounting for project revenues,
- estimates concerning R&D assets,
- estimates concerning conditional purchase price.

The following might indicate the review of accounting estimates:

- changes in legal regulations,
- changes in the economic environment,
- changes in the operation, procedures of the company.

The useful lives and residual values of fixed assets and the related decommissioning liability can be determined using estimates. Due to the high value of fixed assets, even slight changes in such estimates can have a considerable effect.

Deferred tax assets were recorded due to considerable deferred losses and are expected to be recovered according to the Company’s plans; however, changes in the legal environment may result in a significant change in the value of such assets.

The interest rate used for discounting could not be determined using actual market data; instead, the Group was forced to employ alternative methods.

The management's judgement in calculating the impairment of trade receivables is a critical decision which directly impacts profit or loss.

Whether the assets and know-how created under the R&D project can be utilized is highly dependent on the market and regulatory environment.

Of the power plant units of certain subsidiaries of the Company, the energy production of

- wind power plants,
- heat power plants,
- hydroelectric power plants,
- solar power plants

depends on the weather, therefore, changes in certain elements of the weather (wind force, temperature, water yield) can also have a significant impact on the efficiency of the units in question.

Certain subsidiaries of the Company are involved in the district heating production business. This business has been consistently making a loss for an extended period of time.

In the case of certain subsidiaries of the Company, much of the capacities of power plants of are devoted to one or two clients. Power plants where the Group has not signed long-term supply contracts with clients are exposed to the risk of clients being lost.

The operation and profitability of the Company and its subsidiaries depends on the government regulation of the market, especially on the taxation policy adopted by the state.

IV. Changes in accounting policies, potential impact of IFRSs and IFRICs not yet effective as at the reporting date of the financial statements and earlier application

During the IFRS transition, the Company did not change its accounting policies applied in 2017 by 2018. An exception to this is the application of accounting policies related to the adoption of new standards and previously not pursued activities.

The potential impact of revised IFRSs and IFRICs becoming effective after the reporting date on the Company's financial statements are described below in detail. The potential impact of ongoing amendments to IFRSs and IFRICs at the reporting date is not examined in detail as they do not have a significant impact on the financial statement and disregarding them will not affect the decisions of the users of the financial statements.

Amendment to previous year's financial information and significant decisions regarding presentation

Going forward, the management of the Group decided to recognize local business tax and innovation contribution under income tax, considering the feedback from investor analysts and to better align with the practices of major issuers at the Budapest Stock Exchange. For reasons of comparability, the Group prepared and presented a comparative consolidated statement of profit or loss and consolidated statement of financial position also for 2017. The change in accounting policy has no impact on the net profits.

Amount of the change (thousand HUF)	Year ending on 12/31/2018	Year ending on 12/31/2017
Local business tax and Innovation contribution	71,232	15,148

The following standards and interpretations (and their respective amendments) become effective during the 2018 business year

New and amended standards and interpretations published by IASB and accepted by the EU that become effective from this reporting period: The following changes become effective starting from 2018.

IFRS 9 "Financial Instruments" - IFRS 9 reassessed the impairment of financial instruments as well, introducing the expected impairment model. The basis of determination will be the expected impairment, as opposed to the objective, incurred (already happened) impairment. The expected impairment model brings the time of recognizing (occurrence) of impairments closer. The accepted model includes the simplified method that allows it for the entity to apply rules other than the complex ones in connection with certain financial assets (e.g.: trade receivables and similar instruments). This solution is very close to the method that the entity already used earlier in connection with such instruments. The change did not have a significant numerical effect.

The IFRS 9 regulated hedge accounting anew as well; according to this, far more connections (economic phenomena) will meet the conditions of the application of hedge accounting, and the previous conditions of compliance (extent of efficiency, proving the existence of efficiency) were relaxed.

IFRS 15 “Revenue from Contracts with Customers” describes conception changes about the methodology of accounting for income. The mandatory date for the application of the standard is January 1, 2018. A couple standards and interpretations become null and void due to the amendment:

- IAS 18 “Revenue”
- IAS 11 “Construction Contracts”
- IFRIC 13 “Customer Loyalty Programmes”
- IFRIC 15 “Agreements for the Construction of Real Estate”
- IFRIC 18 “Transfers of Assets from Customers”
- SIC 31 “Barter Transactions Involving Advertising Services”

The IFRS 15 established a unified model for revenues originating from contracts. With the help of the unified five step model the standard determines when and in what amount do revenues have to be recognized. This standard states explicit expectations for the situation when several elements are transferred to the customer at the same time. The IFRS 15 describes two methods for timing the recognition of revenue: revenue accounted for at a given time and during a given period. The IFRS 15 standard also creates theoretical rules concerning what happens with the costs in connection with acquiring and providing - not recognized elsewhere - the contract. The standard does not contain revenue recognition rules for the financial instruments; those will be settled in IFRS 9.

The amendments prescribed by IFRS 15 (including adjustments performed during the period) did not have significant effects from the perspective of the financial statements of the Company, because the Company has already relied on the principles of the standard to recognize the settlement of revenues of its products and services.

Amendments to IFRS 4 “Construction Contracts” - Application of IFRS 9 “Financial Instruments” with the IFRS 4 “Construction Contracts” standard (adopted by the EU on November 3, 2017, to be applied in the reporting periods beginning on or after January 1, 2018). This standard has no relevance for the Company.

IFRS 2 (Amendment) “Share-based Payment” - The change of the standard clarifies that consistent rules must be used for the evaluation of share options settled in capital and cash. At the same time, the amendment states that in situations when the provider is obliged to perform certain tax payments in cash concerning a share-based payment settled in capital the classification does not change, so it remains an obligation performed in capital. The Amendment also clarifies the accounting settlement of situations when a share based payment settled in cash becomes one settled in capital. At this time the obligation has to be derecognized, the consideration for the service performed so far has to be recognized in the capital - based on the values calculated on the day of change - and the generated difference modifies the profit or loss (immediately).

IAS 28 (Amendment) “Investments in Associates and Joint Ventures” - In accordance with the amendment in the case of such investments evaluated at fair value due to their exceptional situation it can be decided one by one whether the company wishes to evaluate the asset element in question at fair value or no.

Amendments of IAS 40 “Investment Property” - Reclassification of investment property - Adopted by the EU on March 14, 2018 (to be applied in the reporting periods beginning on or after January 1, 2018). This standard has no relevance for the Company.

IFRIC 22 (new interpretation) “Foreign Currency Transactions and Advance Consideration”. Based on the interpretation it was clarified that in the situation if advance payment is performed for a non-monetary asset (e.g.: machine) in foreign currency, then, when the transaction is settled, at the same time as derecognizing the advance the cost of the obtained non-monetary asset must be evaluated not at the foreign exchange rate effective on the day of settlement but on the foreign exchange rate of the advance. If advance payment is performed several times then the foreign exchange rate effective on the days of the single advance payments must be considered when determining the initial recognition cost of the asset. The interpretation is to be applied from January 1, 2018.

The adoption of these amendments to the existing standards has not led to any changes in the accounting policies of the Company, and generally does not have a significant effect on the Company.

Amendments to the existing Standards issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following standards issued by IASB and adopted by the EU and amendments to the existing standards and interpretations were in issue but not yet effective.

IFRS 16 “Leases” (to be applied in the reporting periods beginning on or after January 1, 2019)

The “Leases” standard drastically changed the accounting treatment of leases. As a general rule all leased items are recognized as assets at the lessee in the financial statements, along with the related lease payment obligation. The operating lease category basically disappears. The accounting settlements of the lessor do not change in their content, but the classification of the leases does. The new standard - besides the drastic change - also modifies the rules of evaluation and allows the inclusion of variable elements in the lease fees in a wider scope. The definition of lease also changes and certain earlier contracts concerning the allotment of capacities will not count as leases.

The Company analyzed what changes may be caused by this standard in its financial statements. On the lessor's side, there is no change in the accounting settlement, therefore, those items will remain unchanged in the Company's statements as well. In connection with the contracts already in progress (car, office and other leases), classification amendments can be expected. The Company's impact assessment related to the stocks at the end of 2018 was completed.

Amendments to IFRS 9 "Financial Instruments" - Early repayment with negative compensation - Adopted by the EU on March 22, 2018 (to be applied in the reporting periods beginning on or after January 1, 2019)

IFRIC 23 "Uncertainty over Income Tax Treatments" - Adopted by the EU on October 23, 2018 (to be applied in the reporting periods beginning on or after January 1, 2019).

The implementation of these amendments, new standards and interpretations would not influence the individual financial statements of the Company in a significant manner. The application of IFRS 16 that would have a material effect on the unique financial statements of the Company is an exception. The analysis of these items was conducted by the Company in 2018; the Group is ready to apply the changes.

New and amended standards and interpretations issued by IASB and not adopted yet by the EU

The IFRSs adopted by the EU currently do not significantly differ from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the new standards listed below, any amendments of the existing standards and new interpretations that were not yet adopted by the EU by the disclosure date of the financial statements:

IFRS 14 "Regulatory Deferral Accounts" (to be applied in the reporting periods beginning on or after January 1, 2016) - The European Commission decided not to apply the approval process to the present intermediate standard and will wait for the final standard.

IFRS 17 "Insurance Contracts" (to be applied in the reporting periods beginning on or after January 1, 2021). This standard has no relevance for the Company.

Amendments to IFRS 3 "Business Combinations" - Definition of a business activity (to be applied for business combinations if their acquisition date falls in the reporting periods starting on or after January 1, 2020, and for the procurement of assets at the beginning of the given period or after that).

Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates or Joint Ventures” - Sale or contribution of assets between an investor and its associate or joint venture (the effective date was postponed for an uncertain period of time until the research project comes to a conclusion with regard to the capital method).

Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting policies, Changes in Accounting Estimates and Errors” - Definition of materiality (to be applied in the reporting periods beginning on or after January 1, 2020).

Amendments to IAS 19 “Employee Benefits” - Plan amendment, curtailment or settlement (to be applied in the reporting periods beginning on or after January 1, 2019).

Amendments to IAS 28 “Investment in Associates and Joint Ventures” - Long-term interests in associates (to be applied in the reporting periods beginning on or after 1 January 2019).

Amendments of certain standards - “Annual Improvements to IFRS Standards (2015–2017 Cycle)” - As a result of the IFRS Development Project, some standards (IFRS 3, IFRS 11, IAS 12 and IAS 23) were amended, primarily in order to eliminate the inconsistencies and to clarify the explanations (to be applied in the reporting periods beginning on or after January 1, 2019).

The IASB issued a new version of its Conceptual Framework with the aim of clarifying some basic concepts and including the definition of reporting entity. Moreover, many other changes of lesser importance were made. Entities will be required to apply the new version of the Conceptual Framework from 2020.

V. Notes to the statement of profit or loss

1. Revenue

The breakdown of revenue by activities is as follows:

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Operation	2,293,611	1,235,999
Project development, maintenance	2,076,885	-
Agency fees	22,639	100,420
Accounting fees	71,188	73,405
Other	38,849	5,199
Total	**4,503,172**	**1,415,023**

Revenue contains items attributable to the Company's core activity only, not being revenues connected to discontinued activities. Statements concerning the discontinued electricity trade activity are in Note 8. The revenue generated by the Company from the discontinued electricity trade activity in 2018 was negligible and therefore it is reported under other items.

When recognizing revenue (with the exception of accruals and deferrals), the amounts invoiced were used as the basis since, due to the nature of the services, no adjustment is required with respect to subsequent periods. The Company leaves out taxes, fees recovered on behalf of the state or some other party from its revenues and recognizes then as items decreasing costs.

The revenue of the Company from remaining activities is recognized on the revenue line.

This revenue increased significantly in the subject year compared to the previous year. The structure of the revenue changed compared to the similar period of the previous year. It is mainly caused by the continuous transformation in progress since the purchase of Sinergy Kft. in 2015. The revenue includes operation, control services provided by the Company for entities within and outside the ALTEO Group. In addition, items recognized for contracts that were added to the Company portfolio through succession as part of the merger by absorption are also recognized as revenue.

A significant part of the revenue is from related parties. According to the judgement of the management of the Company, transactions with related parties are transactions concluded under market terms, with market based pricing.

Lease income on subsidiaries recognized under leases according to IFRIC 4 rules are recognized as revenues.

The Company did not have royalty or dividend which should have been presented as revenue; its revenue is only from domestic sales.

2. Material expenses

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Operation, maintenance and project development	2,154,885	-
Expert fees /accounting, auditing, counselling/	217,201	185,866
Rent /office, car, other devices, IT/	207,853	118,906
Marketing, education, further training expenses	86,132	67,507
Fuel	22,803	6,630
Bank expenses, insurance	20,462	15,375
Office maintenance exp. /operation, telephone, materials/	19,706	15,478
Membership fees, duties	7,794	8,776
Other	14,526	10,902
Total	**2,751,362**	**429,440**

Material expenses include items attributable to the Company's core activity only, not being expenses connected to discontinued activities. Statements concerning the discontinued electricity trade activity are in Note 8.

There was an increase in material expenses primarily due to the O&M, project management and maintenance activities added as a result of the merger. The increase in additional material costs was also caused by the expansion in the range of activities and the workforce. In 2018, the Company recognized HUF 8,133 thousand of auditing expenses which include the fee for the audit of the interim statement of financial position related to the statement of assets and liabilities, in addition to the annual report.

3. Personnel expenses

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Wages	958,780	431,709
Other personnel expenses	115,516	62,221
Share-based contribution expenses	8,950	41,444
Benefits	226,766	110,754
Total	**1,310,012**	**646,128**

Wage and contribution expenses more than doubled in comparison to 2017. Wage expenses incurred in the subject year can only be allocated to continuing activities. The average workforce of the Company in the business year of 2018 was 98 persons (41 persons in 2017).

This significant expansion is the result of the merger by absorption. The Company as the legal successor retained the employees of the absorbed subsidiary.

The increase in personnel expenses was caused by the significant expansion of the workforce and the related wage bill.

The ALTEO Group developed an equity settled share-based incentive scheme for some of its employees in which these employees will become entitled to ALTEO Nyrt.'s shares within the framework of MRP, provided that certain requirements are met. The fair value of the options granted was calculated using option pricing models. The value of the options were not remeasured later. ALTEO Nyrt. does not provide cash benefits with respect to this scheme.

Under the option program, the options were earned in August 2017. The options were not drawn down until the reporting date. Disclosures concerning the MRP organization (remuneration policy, etc.) are available on the website of the Company among disclosures.

The Company, in the framework of a share buyback program for the year 2018, announced on the day of June 15, 2018 and extended as specified on the day of November 28, 2018, purchased own shares. Of these shares, shares to the value of HUF 8,950 thousand (i.e. 13,298 shares) were distributed to the employees, who were entitled to these on the basis of the Company's recognition system. In connection with the shares granted, the transfer of the shares started on January 25, 2019.

4. Depreciation and amortization

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Recognized depreciation, amortization	58,669	24,387

This item also considerably increased in comparison to the previous year. The main reason for that is the time-proportionate depreciation of assets acquired by the Company through merger by absorption as of October 1st, 2018.

5. Other income and expenses, net

Items recognized on the other income and expenses line incurred in the subject year and the comparative period may only be allocated to continuing activities.

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Sale/disposal of fixed and intangible assets	-	233,000
Fines, compensation, default penalty received	(1,445)	8,660
Impairment, receivable released	(4,599)	(18,036)
Taxes and other payment obligations	(29,324)	(24,669)
Other settlements	11,422	(10,814)
Total	**(23,946)**	**188,141**

Other income considerably declined in comparison to the previous year as the Company earned a one-off revenue of HUF 233 million from the sale of its electricity retail business in 2017.

Taxes among other items are not income taxes. These mainly contain deductions imposed by municipalities (vehicle tax, building tax) and other fees. Released receivables and liabilities include items released for or by associates.

Other items include expenses and incomes that cannot be categorized, like support, partner and tax current account settlements, rounding differences.

6. Finance expenses, net

Finance income consists of the following items:

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Paid/payable interest	(202,319)	(236,235)
Received/receivable interest	112,523	67,071
Net interest	**(89,796)**	**(169,163)**
Dividend received	1,012,000	2,047,000
Impairment of shares	(496,788)	(391,092)
Foreign currency translation gains and losses	37,914	(4,791)
Other financial settlements	(221)	-
Total	**463,109**	**1,481,954**

Due to the favorable interest environment, paid interests decreased as compared to previous amounts.

The Company is entitled to dividend after its shares. In the case of the subsidiaries, the owner decided about the payment of dividend during 2018 as follows.

Subsidiary	Amount of dividend
Alte-A Kft.	HUF 12,000 thousand
Sinergy Kft.	HUF 1,000,000 thousand

Within finance income and expenses, the main component in translation gains and losses was the exchange loss realized on items recognized in euros. The Company did not enter into cash flow hedges in 2018.

Recognized impairment of shares was determined based on the discounted cash-flow model considering the recoverable amount. The share traffic table in Note 11 contains the distribution of recognized impairment concerning certain subsidiaries.

7. Income tax expense

The Company pays tax under Hungarian tax law. In the Hungarian tax system, such tax expenses for the entity included corporate tax and income tax for energy suppliers (the so-called Robin Hood tax which is a solidarity tax payable by entities operating in the energy production sector). The breakdown of tax expenses is as follows:

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Actual corporate tax	3,424	2,603
Other income taxes (local business tax, innovation contribution, support deductible from corporate tax)	91,802	15,148
Deferred tax expense	149,728	(170,902)
Total	**244,954**	**(153,151)**

Tax matters often require estimates and decisions which will later contradict the opinion of the tax authority; therefore, a subsequent tax audit may reveal additional tax liabilities for periods for which a tax return has already been submitted. The Company operates in a tax environment which grants tax authorities a wide range of powers to reclassify items and taxpayers are usually helpless against these powers.

The tax authorities conducted the following reviews at the Company in 2018:

- Follow-up audit of returns for all tax categories for 2017 (completed)

The amount of deferred taxes disclosed in the statement of financial position is included in Note 12.

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

The recognized tax expense can be related to the theoretical tax (which is the profit or loss before taxes times the effective tax rate):

Deduction	12/31/2018	12/31/2017
Profit or loss before taxes	822,292	1,970,016
Theoretical tax (9%)	74,006	177,301
Explanation:		
Current tax	3,424	2,603
Tax for discontinued activities	-	(13,403)
Timing differences (deferred tax)	149,728	(170,902)
Permanent differences and unrecognized tax assets	(79,146)	359,003
Amount of theoretical tax (corporate tax)	**74,006**	**177,301**

Permanent differences include, for example, the Company's significant dividend income, which is a factor decreasing the tax base, and all expenses not recognized by the Corporate Tax Act.

8. Profit or loss from discontinued activities

The Company sold the customer portfolio belonging to its electricity retail activity to ALTEO Energiakereskedő Zrt. Although the Company did not return the electricity retail permit to the HEA, the permit expired in the third quarter of 2018.

Name	Year ending on 12/31/2017 Continuing activities	Year ending on 12/31/2017 Discontinued activities	Year ending on 12/31/2018 Continuing activities	Year ending on 12/31/2018 Discontinued activities
Revenues	**1,415,023**	**4,271,633**	**4,503,172**	**-**
Material expenses	(429,440)	(4,420,558)	(2,751,362)	-
Personnel expenses	(646,128)	-	(1,310,012)	-
Depreciation and amortization	(24,387)	-	(58,669)	-
Other income and expenses, net	172,993	-	(23,946)	-
Operating profit or loss	**488,061**	**(148,925)**	**359,183**	**-**
Net finance income	1,540,403	-	463,109	-
Profit or loss before taxes	**2,028,464**	**(148,925)**	**822,292**	**-**
Income tax expense	168,299	-	(244,954)	-
Net profit or loss	**1,989,389**	**(148,925)**	**577,338**	**-**

No income tax may be allocated for the discontinued activities. Based on the dynamics of tax effects, both the actual and the deferred tax result from continuing activities in the subject year and in the previous period as well.

Discontinued activities greatly, but not entirely overlap with the licensee distribution to be prepared based on the Electricity Act. The licensee distribution of the statement of financial position and the statements on profit or loss of the Company is included in Note 40.

VI. Notes to the statement of financial position

9. Fixed assets and intangible assets

The changes in assets are detailed in the following table:

Gross value	Technical equipment	Other PPE	Other intangible assets	Total
1/1/2017	**21,390**	**26,243**	**98,794**	**146,427**
Acquisition/put to use	38	4,754	13,528	18,320
Disposal/sale	-	-	-	-
Reclassification	-	-	-	-
12/31/2017	**21,428**	**30,997**	**112,322**	**164,747**
Acquisition/put to use	1,004,498	20,072	274,953	1,299,523
Disposal/sale	-	-	8,515	8,515
Reclassification	-	-	-	-
12/31/2018	**1,025,926**	**51,069**	**378,760**	**1,455,755**
Accumulated depreciation	**Technical equipment**	**Other PPE**	**Other intangible assets**	**Total**
1/1/2017	**2,213**	**23,075**	**15,764**	**41,052**
Derecognition due to disposal/sale	-	-	-	-
Derecognition due to reclassification	-	-	-	-
Impairment	-	-	-	-
Depreciation	2,187	3,530	18,670	24,387
12/31/2017	**4,400**	**26,605**	**34,434**	**65,439**
Derecognition due to disposal/sale	-	-	8,515	8,515
Derecognition due to reclassification	-	-	-	-
Impairment	-	-	-	-
Depreciation	30,104	5,494	23,071	58,669
12/31/2018	**34,504**	**32,099**	**48,990**	**115,593**
Net amount	**Technical equipment**	**Other property, plant and equipment**	**Other intangible assets**	**Total**
12/31/2017	**17,028**	**4,392**	**77,888**	**99,308**
12/31/2018	**991,422**	**18,970**	**329,770**	**1,340,162**

The depreciation of fixed assets is determined as explained in the accounting policy, in a straight-line manner.

The value of fixed and intangible assets from the absorbed subsidiary is determined by taking account of previous net value and the rules on impairment. The cost of these assets was HUF 1,206,157 thousand.

The Company's management considers that the fixed assets acquired and intangible asset (the R&D asset) recorded under the R&D project for "Developing an innovative model for battery energy storage applications" acquired through succession as part of the merger by absorption can be recognized and will deliver a return on investment as indicated by existing business plans. The R&D asset meets the IAS 38 criteria.

There are no assets that might need to be removed at the end of their useful life and such removal would involve significant expenses. There is no asset to which the component approach needs to be applied.

On December 31, 2018 the Company had no asset that would have been a qualified asset, so no borrowing costs had to be recognized. The Company does not possess assets which are expected to cause environmental damage that the Company would be required to neutralize.

As an internally produced asset the portfolio sold to ALTEO Zrt. in 2017 was not recorded before and carried no value. Accordingly, there are no fixed or intangible assets to be separated in connection with the discontinued activity.

10. Long-term loans given

In the subject year, long-term loans given were as follows:

thousand HUF	12/31/2018	12/31/2017
SOPRONI ERŐMŰ Kft. loan	563,103	887,093
GYŐRI ERŐMŰ Kft. loan	507,000	507,067
Péberény Kft.	380,000	-
Alteo Zrt.	295,910	-
Monosolar Kft. loan	219,500	7,000
IT-Solar Kft. loan	219,500	7,000
Energigas Kft. loan	133,905	124,442
True Energy Kft.	110,022	-
ALTEO-Depónia Kft. loan	97,000	40,286
F.SZ. ENERGIA Kft.	74,800	-
Alteo Deutschland GmbH	48,292	-
Domaszék 2MW Kft. loan	44,970	663,498
e-Wind Kft. loan	26,500	11,500
ALTEO-AGRIA Kft. loan	27,500	10,287
ALTEO-HIDROGÁZ Kft. loan	1,005	1,005
ALTSOLAR Kft. loan*	-	80,000
CIVIS-BIOGÁZ Kft. loan*	-	54,162
Exim Invest Biogáz Kft. loan	-	23.371
Interests on loans given to associates and related undertakings	24,189	53,521
	2,773,196	**2,470,232**

* Merged into ALTEO-Depónia Kft. during 2018.

Interests of loans given are determined individually, between 1 month of Bubor + 1.25% to 3%, and besides the assets of the subsidiaries, no specific security was determined.

According to the assessment of the management of the Company, the loans provided will be recovered, there is no need to recognize impairment.

11. Shares in subsidiaries and associates

The amounts of the shares of the Company in subsidiaries were as follows in the subject year:

Subsidiary	12/31/2017	Merger by absorption/ Acquisition	Additional monetary contribution/ Capital increase	Impairment	12/31/2018
ALTE-A Kft.	1.070	-	-	-	1.070
ALTEO-AGRIA Kft.	126.130	-	-	(72,119)	54,011
ALTEO-DEPÓNIA Kft.	-	7,348	91,546	(98,894)	-
ALTEO-HIDROGÁZ Kft.	-	-	-	-	-
HIDROGÁZ Kft.	-	-	-	-	-
GYŐRI ERŐMŰ Kft.	153.186	-	-	-	153.186
SOPRONI ERŐMŰ Kft.	365.388	-	88,873	-	454,261
ALTEO Energiakereskedő Zrt.	48.094	-	-	-	48.094
VENTEO Kft.	145.432	(145,432)	-	-	-
WINDEO Kft.	164.819	145.432	-	(310,251)	-
e-WIND Kft.	49.360	-	-	(15,524)	33,836
SUNTEO Kft.	4.239	-	-	-	4.239
ALTSOLAR Kft.	3.648	(7,348)	3,700	-	-
IT Solar Kft	19.000	-	4,051	-	23,051
Monosolar Kft	19.000	-	4,051	-	23,051
Domaszék Kft	171.170	-	9,490	-	180,660
Péberény Kft	-	353,614	4,112	-	357,726
F.SZ. Energia Kft	-	137,555	2,079		139,634
True Energy Kft	-	137,555			137,555
Alteo Deutschland GmbH	-	7,815	-	-	7,815
Kazinc-Therm Kft	-	-	86,000	-	86,000
Tisza-Therm Kft	-	-	100,000	-	100,000
Ózdi Erőmű Kft	-	-	10,000	-	10,000
Zugló-Therm Kft	-	530,729	200,000	-	730,729
Sinergy Energiakereskedő Kft	-	100,000	-	-	100,000
Sinergy Kft.	1,463,160	(1,217,807)	-	-	245,353
Total	**2,733,698**	**49,461**	**603,902**	**(496,788)**	**2,890,273**

The Company also acquired ownership over all subsidiaries of Sinergy Kft. through succession as part of the merger by absorption with effect from October 1, 2018. With regard to the absorbed shares, the initial value was determined at previous net value and by taking account of the rules on impairment. The transition between accounting standards (Chapter III of the Accounting Act and IFRS) was completed. As apart of this, two subsidiaries were not recorded under shares, but were rather recognized as lease receivables in accordance with

IFRIC 4 rules (see Note 13). In addition, a share value of HUF 280,729 thousand was recognized as conditional purchase price under liabilities in relation to Zugló-Therm Kft. (see Note 25).

Concerning shares in subsidiaries, the Company performs the impairment test by every reporting date. If the expected recovery from subsidiaries does not reach the carrying value of the share, impairment is recognized. Concerning subsidiaries, the Company applied the DCF model with the discount rate according to the activity of the subsidiary in question (renewable/traditional energy production) and the date of the generated cash flows (5.95% to 8.67%).

The Company has shares in Energigas Kft. in the amount of HUF 100,000.

12. Deferred tax assets and liabilities

When calculating deferred taxes, the Company compares the amounts to be considered for taxation purposes with the carrying value for each asset and liability. If the difference is reversible (i.e. the difference is equalized in the foreseeable future), then a deferred tax liability or asset is recorded in a positive or negative amount as appropriate. Recoverability was separately examined by the Company when recording each asset.

When computing taxes, the Company used a 9% rate upon reversal for both years as the assets and liabilities in question will turn into actual taxes in periods when the tax rate is 9% as specified by the effective laws.

Deferred tax assets are supported by a tax strategy which confirms that the asset is expected to be recovered based on the information available. The change in deferred taxes was recognized by the Company in the statement of profit or loss.

The tax balances and temporary differences for 2018 are as follows:

12/31/2018	Tax value	Accounting value	Difference
Fixed and intangible assets	214,916	1,340,162	1,125,246
Trade receivables	2,516,186	2,496,877	(19,309)
Development reserve	(190,568)	-	190,568
Advance on grant	(292,533)	(364,730)	(72,197)
TAO effect of IFRS transition (not yet taxed)	(156,566)	-	156,566
Losses carried forward	1,105,178	-	(1,105,178)
		Deductible temporary difference	1,196,684
		Taxable temporary difference	1,472,380
		Deferred tax liability	**24,812**

The following differences were identified in 2017:

12/31/2017	Tax value	Accounting value	Difference
Fixed and intangible assets	99,132	99,307	175
Trade receivables	1,551,191	1,535,677	(15,513)
Development reserve	(200,000)	-	200,000
Derivative transactions (liability)	-	10,340	10,340
TAO effect of IFRS transition (not yet taxed)	(313,132)	-	313,132
Losses carried forward	2,133,469	-	(2,133,469)
		Deductible temporary difference	2,148,983
		Taxable temporary difference	523,647
		Deferred tax asset	**146,280**

Recognized tax expense may be related to the theoretical tax (profit or loss before taxes times the effective tax rate) in the following manner. Details under Note 7.

13. Receivables from lease assets

The Company recognizes the following subsidiaries as lease assets as per IFRIC 4 rules:

- Tisza WTP Kft.
- BC-Therm Kft.

Both assets came under the ownership of the Company as part of the merger from Sinergy Kft. The Company has no influence over the operation (relevant activities and variable returns) of these subsidiaries. The Company has formal knowledge of business partners that are parties to the arrangement consolidating these entities in their own financial statements.

The Company did not identify unguaranteed residual values in any of the contracts. There are no contingent fees in the relevant contracts. Both business partners have purchase options for the business interest of underlying legal entities. Due to the special conditions, the lease deal cannot be cancelled, only terminated by calling the buy option.

The progress of the lease in time is the following:

Project	12/31/2018	12/31/2017
Amounts due within a year	277,968	-
Amounts due between 1 and 5 years	218,591	-
Amounts due in more than 5 years	-	-
Total lease receivables	**496,559**	**-**
Unearned interests	60,945	-
Total lease revenue	**557,504**	**-**

14. Inventories

Name	12/31/2018	12/31/2017
Parts	139,298	-
Project development inventories	7,552	1,000
Total	**146,950**	**1,000**

Inventories include parts purchased for the operation and maintenance of gas engines in the amount of HUF 139,298 thousand and various works related to project development in the amount of HUF 7,552 thousand to be recognized for a later period.

15. Trade receivables

Relevant information on trade receivables and impairment losses of trade receivables:

Name	12/31/2018	12/31/2017
Gross value of trade receivables	2,489,457	1,551,191
Recognized impairment	(19,316)	(15,514)
Total	**2,470,141**	**1,535,677**

The breakdown of impairment losses is as follows:

Trade impairment losses	12/31/2018	12/31/2017
Opening balance	**15,514**	**15,141**
Impairment recognized	3,802	373
Closing balance	**19,316**	**15,514**

The impairment of receivables and write-offs are recognized in other expenses. The expected credit loss model (ECL) has been applied in connection with the opening items for the subject year, relying on the following principles. In the case of the related transactions (including the majority shareholder, the WALLIS Group), previously there was no need to account for impairment. Accordingly, 0.01% of the revenue was accounted for. Trade receivables are unsecured (i.e. are not covered by deposits, bank guarantees, etc.).

Impairment related to the electricity retail business was insignificant in the previous year compared to continuously increasing revenues (about 0.01%). The practice of recognizing impairment was designed so that the wide range of protection provided by the Electricity Act - provided by legal regulations to traders (disconnecting customers, etc.) - and our own commercial receivable management experience amounting to approximately 10 years were also considered when elaborating the policy. With the sale of the portfolio, the closing of receivables from previous periods is still ongoing. The remaining receivables are impaired.

With regard to revenues from continuing activities in 2018, no impairment was recorded.

The aging list of outstanding trade receivables is as follows (2018):

12/31/2018	Not overdue	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cost	554,903	311,097	317,773	195,477	48,958	422,001	639,248	2,489,457
Impaired trade receivable at acquisition cost	-	-	-	-	-	-	19,316	19,316
Total trade receivables								**2,470,141**

The Company does not recognize impairment on overdue receivables from subsidiaries owned by the Company itself.

Previous year's data (2017):

12/31/2017	Not overdue	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cost	1,449,810	-	46,832	15,283	10,235	5,559	23,472	1,551,191
Impaired trade receivable at acquisition cost	-	-	-	-	-	-	15,513	15,513
Total trade receivables								**1,535,677**

The maximum credit risk is equal to the carrying value of trade receivables.

The Company's five largest customers in 2018:

PÉBERÉNY KFT.
SINERGY ENERGIAKERESKEDŐ KFT.
KAZINC-THERM KFT.
TISZA-THERM KFT.
SINERGY ENERGIASZOLGÁLTATÓ KFT.

The Company's five largest customers in 2017:

STRABAG PROPERTY AND FACILITY
WPR ALFA KFT.
PÓLUS TÁRSASHÁZ ÜZEMELTETŐ KFT.
HÁMOR ZRT.
CAMPONA SHOPPING CENTER KFT.

16. Other financial assets

This line of the statement of financial position includes the following items:

Other financial assets	12/31/2018	12/31/2017
Held for trading financial assets	-	340,971
Derivative transactions	-	10,340
Employee loan	22,049	-
Total	**22,049**	**351,310**

In 2018, the Company sold its financial instruments held for trading and did not purchase new instruments. In the subject year, home-purchase loans provided to employees, totaling HUF 22,049 thousand, are recognized on this line of the statement of financial position.

17. Other receivables and income tax receivables

The breakdown of other receivables is the following:

Name	12/31/2018	12/31/2017
Accrued revenue	1,246,082	748,514
Accrued expense	6,078	15,079
Short-term loan, Tisza BioEnergy Kft.	7,324	520,000
Short-term loan, Kazinc BioEnergy Kft.	7,589	
Customer receivables	440,049	-
Other receivables	422,094	67,285
Total	**2,129,216**	**1,350,878**

Accrued incomes are connected to the operational contracts of the Company.

Other receivables include items to employees (advances given, etc.), advances and deposits to suppliers and other settlements within the ALTEO Group.

In the subject year, the Company's claim position was HUF 13,681 thousand on the income taxes.

18. Cash and cash equivalents

Name	12/31/2018	12/31/2017
Cash in hand - HUF	-	114
Cash in hand - foreign currency	-	44
Bank account - HUF	845,549	(2,065)
Bank account - foreign currency	498,981	30,735
Other	-	209,440
Total	**1,344,530**	**289,530**

Cash only includes the balances of items which can be converted to cash and used three months from acquiring. The interest rate on current account balances is about 0%, considering the extremely low interest environment.

The Company discontinued the use of foreign-currency and HUF petty cash in 2018.

The cash-flow statement contains the detailed causes of the changes in financial assets.

The other category contains the discount treasury bills and money market fund shares with a maturity date closer than 3 months; these securities were sold in 2018.

19. Elements of equity

Issued capital includes the face value of the shares issued. All issued shares are from one series (series A). The current face value is HUF 12.5 per share.

The Company also acquired own shares through the merger from Sinergy Kft. As part of the transition to IFRS, the Company accounted for the value of these assets against equity elements. The final statement of assets and liabilities prepared for 9/30/2018 included a transition reserve of HUF 153,775 thousand. This reserve represented the net impact of the IFRS transition made during the merger on assets and liabilities. The transition reserve was transferred to retained earnings by the Company.

The movements in shares in the current period are listed in the following table:

Date	Event	Number of shares	Face value (HUF/ share)	Changes in issued capital (in thousand HUF)	Balance of issued capital (in thousand HUF)
1/1/2016	**Opening balance**	**1,580,747**	**100**		**158,075**
3/4/2016	Sinergy share contribution	73,158	100	7,316	
10/24/2016	Open issue of shares	299,992	100	29,999	
12/31/2016	**Closing balance**	**1,953,897**	**100**		**195,390**
11/8/2017	Splitting of shares	N/A	N/A	-	
12/31/2017	**Closing balance**	**15,631,176**	**12.5**		**195,390**
10/1/2018	Merger by absorption - own shares	(3,757)	12.5	(37)	

During 2018	Purchase of own shares	(3,040)	12.5	(39)	
12/31/2018	**Closing balance**	**15,624,379**	**12.5**		**195,314**

In the share premium line, the premium of the purchase price paid for the share is shown (HUF 3,116,887 thousand), reduced by the capital-raising costs. Retained earnings contain the accumulated profit (HUF 3,184,617 thousand), reduced by the amount of the dividend payments. In connection with the profit for the subject year, no dividend payment was made as yet.

There are no other agreements between owners or with other parties which would require the Company to issue new ordinary shares or repurchase existing ones. The Company's approved issued capital (the share capital registered with the registry court) is equal to the amount of the issued capital.

On 11/8/2017, the extraordinary general meeting of the Company decided to split the shares so that 1 share with a face value of HUF 100 is split in a 1:8 proportion, that is, instead of it 8 pieces of shares, belonging to the same class of shares, with a face value of HUF 12.5 are generated. As of 11/8/217 the registry court registered the splitting of shares. The split had no effect on the amount of the issued capital.

The development of capital elements is illustrated in the Equity table.

20. Transactions with owners

This line of the statement of financial position shows the movements of own shares acquired as part of the merger by absorption or purchased later in the year.

ALTEO, in the framework of a share buyback program for the year 2018,

announced on June 15, 2018 and extended as published on November 28, 2018, purchased a total of 3,040 ordinary shares of ALTEO on the Budapest Stock Exchange at an average price of HUF 662.50.

A portion of the own shares held at the end of the year were bought by Sinergy Kft.; these shares were transferred to the ownership of the Company during the merger.

The opening balance of this line is from the following transactions from previous years. During the business year of 2015 the Company acquired its own shares in accordance with the effective regulations. As the consequence of involving its own shares, the Company decreased its equity as part of the IFRS transition by directly deducing the face value from the issued capital. The remaining difference was recognized in the separate element of equity, as transaction with the owners. This line presents that compared to the face value how much larger the amount that left the Company was in connection with transactions with the owners.

21. Cash-flow hedge reserve

The accounting policy of the Company established hedge connection between certain transactions and certain derivatives. These hedges qualify as cash-flow hedges. The Company recognizes profits and losses from the hedging item of the cash-flow hedge as other comprehensive income, and gathers such profits and losses in this equity component. The balance in the cash-flow hedge fund is reclassified by the Company in the net profit or loss at the closing of the transaction (or if the hedge connection is cancelled from any other reason). No such transaction took place in 2018.

With regard to the previous year, major hedges and risks included.

Exposure	Foreign exchange rate (EUR/HUF)	Foreign exchange rate - price of electric power
Nature of the risks being hedged	EUR/HUF rate increase	Rate of electricity increase/decrease
Description of the hedging activity	Future purchases	Purchase or sale of products in the future
Description of the financial instruments designated as hedging instruments	Forward deals	Bilateral transactions with partners
OCI on 12/31/2017	**HUF 10,340 thousand (gain)**	**N/A**
OCI on 12/31/2018	**HUF 0 thousand**	**N/A**

Concerning electricity trade, the Company transferred its transactions for the period following 1/1/2018, along with the portfolio, to the buyer, ALTEO Zrt. Transactions for previous periods have been completed. This is the reason why there are no such items in the portfolio held at the end of the year for any of these periods.

The current cash-flow hedge reserve has the following movement in its balance:

Name	12/31/2018	12/31/2017
Opening	10,340	135,389
Remeasurement in other comprehensive income	-	10,340
Reclassification to the statement on profit or loss	(10,340)	(135,389)
	-	**10,340**
Reclassification to finance expenses	(10,340)	-
Reclassification to material expenses	-	(135,389)
	-	**(135,389)**

All items removed from the cash flow hedge reserve were reclassified in the income statement, and were not included in the carrying amount of assets or liabilities.

All hedging derivatives will mature in less than one year.

22. Share-based payment reserve

Name	12/31/2018	12/31/2017
Opening balance	83,740	42,296
Remeasurement in other comprehensive income	8,950	41,444
	92,690	**83,740**

ALTEO Nyrt. developed an equity settled share-based incentive scheme for some ALTEO Group employees in which these employees will become entitled to ALTEO Nyrt.'s shares within the framework of MRP, provided that certain requirements are met. The fair value of the options granted was calculated using option pricing models. The value of the options were not remeasured later. ALTEO Nyrt. does not provide cash benefits with respect to this scheme.

Expenses concerning the entire option scheme were recognized as personnel expenses in the periodical statement of profit or loss.

Under the option scheme the options - 96,253 in total - were earned in August 2017, no options were drawn down until the reporting date. No additional options were distributed in the subject year. The options were not drawn down until the reporting date. The price of the options is uniformly HUF 3,800/share, apportioned by splitting the shares in 1:8 proportions. By splitting the shares the number of share options changed proportionately (770,024 options). During the year 2018 no share was called in connection with the program.

23. Equity correlation table required as part of Section 114/B of the Accounting Act

The correlation table presents the impact of transactions that modify equity compared to the format required by the annual report according to the Accounting Act applied earlier.

12/31/2018	IFRS	Own share	CF hedge	IFRS 2	Develop. reserve	Subject year profit or loss	Equity HAS
Total equity	**6,229,388**	**369,821**	**0**	**0**	**0**	**0**	**6,599,209**
Issued capital	195,314	9,701	-				205,015
Share premium / capital reserve	3,116,887		-				3,116,887
Retained earnings	3,184,617	-369,821	-	92,690	-190,568	-577,338	2,139,580
Allocated reserve	-	369,821	-	-	190,568		560,389
Profit after taxes	-		-	-		577,338	577,338
Share-based payments	92,690	-	-	-92,690	-	-	-
Transactions with owners	-360,120	360,120	-	-	-	-	-
Cash-flow hedge reserve	-	-	-	-	-	-	-

The table below shows the reconciliation for the comparative period (2017):

12/31/2017	IFRS	Own share	CF hedge	IFRS 2	Develop. reserve	Subject year profit or loss	Equity HAS
Total equity	**4,161,173**	**365,761**	**(10,340)**	**-**	**-**	**-**	**4,516,594**
Issued capital	195,390	9,625	-	-	-	-	205,015
Share premium / capital reserve	3,116,887	-	-	-	-	-	3,116,887
Retained earnings	1,110,952	(365,761)	-	83,740	(200,000)	(1,989,390)	(1,360,459)
Allocated reserve	-	365,761	-	-	200,000	-	565,761
Profit after taxes	-	-	-	-	-	1,989,390	1,989,390
Share-based payments	83,740	-	-	(83,740)	-	-	-
Transactions with owners	(356,136)	356,136	-	-	-	-	-
Cash-flow hedge reserve	10,340	-	(10,340)	-	-	-	-

Content of the above differences:

- The face value of own shares repurchased decreases the amount of the issued capital according to the IFRS standards. At the end of the period the Company has 776,821 shares of HUF 12.5 face value each. This share inventory is the reason for the difference between the amount of issued capital from the value registered at the registry court.
- The non-realized market value of cash-flow hedge at the end of the year. Its content is detailed in Note 21.
- Share based payments reserve. Its content is detailed in Note 22.
- Unused development reserve. In 2017, the Company established development reserves in the amount of HUF 200,000 thousand, of which HUF 190,568 thousand was still available at the end of 2018.

24. Debts on the issue of bonds

Name	12/31/2018	12/31/2017
Opening balance	3,507,828	3,400,453
Issue of bonds	-	2,636,464
Capitalized interest (with the method of effective interest rate)	195,632	229,571
Repayment	96,536	2,758,660
Closing balance	**3,606,924**	**3,507,828**
of which long term	*2,624,241*	*3,483,096*
of which short term	*982,683*	*24,732*

On January 10, 2017 the Company issued dematerialized zero coupon bonds with a maturity of 5 years by private placement under the designation "ALTEO 2022/I". The total face value of the issue is HUF 650,000,000, the issue value is 76.6963% of the face value.

The Company (the issuer) set up a public placement bond scheme for HUF 2,000,000 thousand (two billion forints) under the name "ALTEO Bond Scheme 2014-2015". The consolidated prospectus dated May 12, 2014 relating to the Bond Scheme was approved by the Central Bank of Hungary as of May 13, 2014. On June 18, 2014, as part of the Bond Scheme, the Company issued dematerialized bonds with a total par value of HUF 1,483,690 thousand, a fixed coupon rate of 6.5% p.a. and a maturity of 3 years and 2 months by way of public placement under the designation "ALTEO 2017/II". The Company listed the "ALTEO 2017/II" bonds on the Budapest Stock Exchange.

On July 18, 2014 the Company issued dematerialized zero coupon bonds with a maturity of 5 years by private placement under the designation "ALTEO 2019/I". The face value of the bonds is 10,000, while the total par value of the issue is HUF 925,000 thousand; the issue value is 69.6421% of the face value. The bonds were not introduced by the Company to a regulated market.

On August 13, 2014 the Company issued dematerialized bonds with a fixed coupon rate of 6.50% p.a. with a maturity of 3 years and 4 months by private placement under the designation "ALTEO 2017/III". The face value of the bonds is HUF 10,000, while the total face value of the issue is HUF 500,000 thousand. The bonds were not introduced by the Company to a regulated market.

On March 30, 2017 the Company issued bonds by private placement under the designation ALTEO 2020/I in a total amount of HUF 2,150,000,000, that is, two billion one hundred and fifty million forints. The primary goal of the issue was the refinancing of the bonds of ALTEO maturing in 2017. Therefore, in the course of issuing the new bonds, the bonds named ALTEO 2017/II and/or ALTEO 2017/III owned by the investors participating in the issue were also accepted as consideration. As a result, the investors exchanged 97,229 ALTEO 2017/II to 101,859 ALTEO 2020/I bonds. The remaining part of the maximum offered amount of 215,000 ALTEO 2020/I bonds were subscribed by the investors against cash. The non-exchanged part of the ALTEO 2017/II bond matured on August 18, 2017, the ALTEO 2017/III bond matured on December 12, 2017, repayment and deletion of these bonds was done by the maturity date.

For the purpose of uniform presentation, the detailed terms of the bonds are listed in Note 27. Terms of borrowings.

25. Long-term loans and other long-term liabilities

The Company takes loans from the members of the Group, the distribution of which is as follows:

Project loan	12/31/2018	12/31/2017
Loan from Balassa-Bioenergy Kft.	2,500	2,505
Loan from Sunteo Kft.	3,200	3,206
	5,700	**5,711**
Instalments due within a year	-	-
	5,700	**5,711**

The terms of the borrowings and loans are summarized in the table in Note 26. A borrowing is classified as non-current in the financial statements only if at the end of the year the Company had a unilateral right not to repay the amount before the next reporting date. The instalments for the next year are included in current liabilities.

As part of the merger by absorption, a share value of HUF 280,729 thousand was recognized as conditional purchase price under other long-term liabilities in relation to the share in Zugló-Therm Kft.

The above stated items are measured at amortized initial recognition cost. The liability's carrying amount as of the reporting date was HUF 286,213 thousand. The fair value of the items above does not materially differ from their initial recognition cost.

26. Short-term loans

In the previous year, on the reporting date, the Company had outstanding borrowings from its retail working capital credit line at OTP Bank in the amount of HUF 50,127 thousand. This credit facility was cancelled as a result of the sale of the business.

27. Terms of borrowings

Name	Frequency of repayments	Amounts paid	DNEM	Nominal liabilities, 12/31/2018	DNEM	Maturity date
ALTEO Nyrt. "2019/I" bond	end of maturity	644,189,425	HUF	925,000,000	HUF	7/17/2019
ALTEO Nyrt. "2020/I" bond	end of maturity	2,146,103,279	HUF	2,150,000,000	HUF	9/30/2020
ALTEO Nyrt. "2022/I" bond	end of maturity	498,525,950	HUF	650,000,000	HUF	1/10/2022

The working capital loan facility available to ALTEO Nyrt. amounts to HUF 700,000 thousand. A mortgage on receivables and a surety and mortgage on bank accounts serve as security for the working capital credit facility.

The planned cash flows from borrowings for the upcoming five years based on the relevant loan contracts and the year-end rate of the Central Bank of Hungary:

data in thousand HUF

	2019	2020	2021	2022	2023
ALTEO Nyrt. "2019/I" bond	925,000	-	-	-	-
ALTEO Nyrt. "2020/I" bond	96,535	2,246,800	-	-	-
ALTEO Nyrt. "2022/I" bond	-	-	650,000	-	

28. Trade payables

This line in the statement of financial position contains liabilities arising from the purchase of goods and services. Trade payables are unsecured, which means that the Company does not provide guarantees, with the exception of those routinely provided in the normal course of business.

The Company's five largest suppliers in 2018:

Sinergy Energiaszolgáltató Kft.
Hanwa Q Cells GmbH
Electraplan Termelő Kft.
Omexom Magyarország Kft.
Univill-Trade Kft.

The Company's five largest suppliers in 2017:

Sinergy Energiakereskedő Kft.
E.On Energiakereskedelmi Kft.
MVM Partner Zrt.
MOL Nyrt.
MAVIR Magyar Villamosenergia-ipari
Átviteli Rendszerirányító Zrt.

29. Other short term liabilities and deferred income, income tax liabilities and advances received

The breakdown of this line is as follows:

Name	12/31/2018	12/31/2017
Cost accruals	927,599	210,501
Income accruals	19,087	-
MAVIR financial assets	1	13,943
Amounts payable to customers	286,681	-
Income settlement	90,618	18,484
Other tax liabilities	230,030	177,075
Other STL towards ALTEO Group members	452,448	3,998
	2,006,464	**424,001**

These liabilities do not bear interest.

Other tax liabilities cumulatively contain VAT, local tax, energy tax, and other taxes or contributions related to wages.

The above table does not include the actual income tax payables, the amount of which is HUF 0 thousand (previous year: HUF 4,500 thousand).

The balance sheet line Advances received (HUF 364,730 thousand) includes the part not affected by the settlement in connection with the advance on the R&D&I project.

VII. Other disclosures

30. Operating segments

As the Company is listed on the stock exchange, it is required to disclose segment information. Strategic decisions concerning the Company's operation are made by members of the Board of Directors (CODs); therefore, when identifying segments for the purpose of preparing these financial statements, the management relied on the reports prepared for the CODs.

For 2018, CODs identified the following segments:

- operation,
- power plant construction,
- and other.

Transfers between segments are not examined by the COD as they take place within the same Company. The Company's funding and financial activity is currently not related to segments.

Since the COD does not review assets constantly, this financial statement does not present their breakdown.

Presentation of segment information is not feasible for 2017, due to the discontinued activity.

Breakdown of the statement of profit or loss by segments for 2018.

Distribution of the statement of profit and loss	Construction	Operation	Other
Revenues	**1,964,112**	**2,442,586**	**96,474**
Material expense	1,714,811	428,794	607,757
Personal expense	83,418	394,734	831,860
Depreciation, amortization	220	5,804	52,645
Other income and expense	(29,648)	14,490	(8,788)
Operating profit or loss	**136,015**	**1,627,744**	**(1,404,576)**

31. Disclosures regarding related parties

The entity's key management personnel qualify as related parties. The Company's management identified the following related parties for the period covered by the financial statements and in the comparative period.

On behalf of the Board of Directors:
Attila László Chikán, Chief Executive Officer, member of the BoD
Domonkos Kovács, Director of Investments, member of the BoD
Dr Péter Kaderják, Chairman of the BoD (until 7/3/2018)
Ferenc Karvalits, member of the BoD, shareholder representative
Gyula Zoltán Mező, member of the BoD, shareholder representative, Chairman of the BoD from 7/3/2018
Zsolt Müllner, member of the BoD, shareholder representative
András Papp, General Deputy CEO, member of the BoD

On behalf of the Supervisory Board:
István Bakács, Chairman of the SB
Dr István Borbíró
Péter Jancsó
Dr János Lukács
Noah M. Steinberg

The Executive Board (EB) is part of the internal control structure of the Company. The members of this board make operative, financial and other decisions that are not in the jurisdiction of the Board of Directors. As a consequence, members of this board also qualify as related parties.

On behalf of the EB:
Zoltán Bodnár (from 2/19/2018)
Sándor Bodó
András Kósa (until 5/11/2018)
Péter Luczay
Viktor Varga (from 1/2/2018)

Those mentioned were all employed by the Company during the period referred to above.

Remuneration paid to related parties (senior executives) in 2018.

Name	Board of Directors	Supervisory Board	Executive Board*	Total
Wages	89,669	-	125,051	214,720
Commissions	19,500	12,600	-	32,100
Benefits	4,583	-	5,819	10,402
Reimbursements	5,960	-	9,297	15,257
Total	**123,312**	**12,600**	**140,167**	**276,079**

* Non BoD members only

The same values in 2017 were as follows.

Name	Board of Directors	Supervisory Board	Executive Board*	Total
Wages	88,557	-	66,491	155,048
Commissions	21,000	11,596	-	32,596
Benefits	3,740	-	3,379	7,119
Reimbursements	13,110	-	5,948	19,058
Total	**126,407**	**11,596**	**75,818**	**213,821**

* Non BoD members only

32. Disclosure of risks and sensitivity analysis

a. Risks specific to the market and the industry:

Macroeconomic factors: Certain negative developments in the macroeconomic environment may have adverse effects on the profitability of specific ALTEO Group activities.

Risks stemming from the legal system: The relative disorganization of the legal system (e.g. frequently changing legal regulations) can make it difficult for the company to perform its tasks in a manner fully compliant with legal regulations, and this can expose the company to arbitration, litigious, non-litigious and other risks of legal nature that affect its profitability.

Energy market legislation: The operation and the profitability of ALTEO Group greatly depend on the energy market regulations ratified in Hungary and in the European Union, and on the application of such regulations. In 2018, the European Union drafted new energy-related legal regulations under the title “Clean Energy For All Europeans”, some of which have already been adopted and published, while some other are still in the legislative process.

Environmental legislation: Any unfavorable changes in the environmental legislation affecting the ALTEO Group may generate surplus costs or additional investment requirements for the company.

Regulated prices: Prices that are set out in legal regulations or set by an authority and their changes may have a significant impact on the profitability and competitiveness of ALTEO Group.

CO_2 emission allocation system and CO_2 prices: Based on the national implementing measure, a decreasing number of emission units are allocated to specific power plants of ALTEO Group free of charge every year in the period between 2013 and 2020.

Changes in the allocation system, the allocation rules or the price of the emission allowances could have a considerable impact on the operating costs and economic results of the ALTEO Group.

Government grants: The operation and profitability of ALTEO Group may depend on the volume of and the future changes in government grants. The Commission Guidelines on State Aid for Environmental Protection and Energy set up a new framework of EU requirements to be met by any government grant provided to the energy sector and to be applied in Hungary too. Furthermore, the EU adopted the RED2 Directive in December 2018, and the Member States, including Hungary, will have to transpose it by June 30, 2021. Changes in the government grant schemes and especially in the KÁT and METÁR regulations, or the termination of the relevant grants may have a significant impact on the operation, profitability, market position and competitiveness of the Group.

Taxation: The current tax, contribution and levy payment regulations applicable to ALTEO Group may change in the future, which would increase the tax burdens of ALTEO Group.

Technological innovations: Technological innovations can significantly improve the efficiency of the energy industry, especially in the area of renewable energy production. If ALTEO Group has no appropriate experience with or cannot access the solutions and technologies that take over the lead, that may lead to a loss of market share and a decrease in the Group’s revenues and profitability.

Competitive situation: Several companies with considerable market positions and substantial experience in Europe and in Hungary, as well as advanced technologies, major capacities and financial standing are competing in certain markets of ALTEO Group or may enter the competition in the future. This may necessitate unforeseen developments and investments, and it can also have an adverse effect on the prices of ALTEO Group or increase the Group’s costs.

Funding risk: Preparing for and implementing investments and developments in the energy segment are capital-intensive processes requiring substantial funding. Changes in certain factors (including the general economic environment, credit markets, bank interest rates and foreign exchange [FX] rates) may increase the costs of funding, make accessing and repaying funding more difficult, and may delay the latter or even render it outright impossible. A large part of ALTEO Group’s loans come with variable interest rates and are tied to certain reference interest rates, such as BUBOR or EURIBOR. An unfavorable change in the interest rates could have an adverse effect on the profitability of the ALTEO Group. Some of ALTEO Group’s loans were drawn down in a foreign currency or against a multi-currency facility. An unfavorable change in FX rates could have an adverse effect on the repayment instalments and the interests payable relating to specific loans and, consequently, could have a negative impact on the profitability of ALTEO Group too.

Impact of international market developments on domestic trade: Market prices formed on foreign commodity exchanges have a major influence on Hungarian energy prices. New developments in economic processes and changes in supply-demand relations may have a negative effect on ALTEO Group’s profitability under certain circumstances.

Risk of changing natural gas, electric energy and heat price margins: If this margin dropped, it would have an adverse effect on the business and profitability of ALTEO Group.

Risks related to the United Kingdom leaving the European Union (Brexit): ALTEO Group does not have any direct customers or suppliers in the United Kingdom for its revenue-generating activities or services that affect its operation. However, Brexit may affect those markets where ALTEO Group is also active, and so it may have an indirect impact on ALTEO Group's operations and profitability. The management of ALTEO Group is not in a position to assess the risks from the potential outcomes of Brexit in the entire supply chain, or the risks indirectly affecting the Company.

b. Risks specific to ALTEO Group:

Risks of growth: ALTEO Group is planning to expand further both in terms of business activities and geographical areas. However, there is no guarantee that the company strategy will be successful and the company will be able to manage this growth efficiently and successfully.

Risks stemming from acquisitions, buying out projects and companies: Although acquisition targets always undergo detailed screening before the transaction, we cannot exclude the possibility of such financial, legal or technical events occurring in relation to an acquired project or company that may have an adverse effect on the business and profitability of ALTEO Group.

Risks related to power plant project development and green-field investment: Although ALTEO Group draws up careful technical, legal and profitability plans when preparing for project implementation, there is always a possibility that the authorization of specific projects becomes unreasonably long or impossible. During implementation phases, ALTEO Group strives to contract main and subcontractors that offer appropriate guarantees and references, but even so, the possibility of disputes arising between the parties cannot be excluded in these phases.

Risk of entering new geographical markets: any unfavorable changes in the macroeconomic, business, regulatory and/or legal environment of the target countries may have an adverse effect on the financial performance of the projects obtained through acquisition or implemented through green-field investments and consequently, on the profitability of ALTEO Group.

Large-scale, customized projects: In line with the characteristics of the industry, a significant share of ALTEO Group's revenues comes from large-scale, customized projects. Consequently, completing or not implementing just a few projects may already make a big difference in terms of the company group's future revenues and profitability.

Dependence on third-party suppliers: If, for any reason, manufacturers or suppliers fail to deliver the equipment ordered by ALTEO Group at the right time, for the right price and in the right quality, delays may occur in the implementation of investments and additional costs may arise.

Buyer risk: A significant share of ALTEO Group's revenues comes from a small number of buyers making large purchases. Consequently, winning or losing a client contract may already make a big difference in terms of the company group's future revenues and profitability. Even fixed-term contracts offer no guarantee against their termination before the end of their specified term due to some unexpected or exceptional event.

Energy trade risks: Changes in the demand on electric energy and natural gas markets may have a profound influence on the revenues, profitability and strategic expansion plans of ALTEO Group.

Wholesale partner risks: If the partner in a wholesale sales transaction does not deliver or accept the contracted amount of energy, or cannot pay for the energy delivered, such failed transactions may lead to short- or long-term losses for the company group.

Operating risks: The economic performance of ALTEO Group depends on the proper operation of its projects, which may be influenced by several factors.

Fuel risk: The possibility that the price of the fuels procured by ALTEO Group will increase in the future cannot be excluded, which can have a negative effect on the Group's profitability. The natural gas transport agreements made by ALTEO Group are in line with the practices used by the entire industry. Despite that, there is no guarantee that the fuel required for fueling the power plants will always be available, and it is especially difficult to plan with fuel supply in the case of external events.

Key licenses and qualifications: If the certificates, qualifications and licenses required for ALTEO Group to carry out its business activities are revoked or not extended, the business of ALTEO Group would be profoundly limited. Therefore, this could have a significant negative impact on the Group's profitability.

Authority risk: ALTEO Group does everything that can reasonably be expected of it to ensure the compliance of its operation with the requirements set out in legal regulations or specified by the authorities. Nevertheless, the possibility that future inspections by the authorities will make statements leading to substantial expenses, or that the determining authorities will impose certain sanctions on the company group cannot be excluded.

The risk of not fulfilling the obligations associated with operating its own balancing group: ALTEO Group itself has all licenses, financial securities, assets and resources required for operating the balancing group, but in the case of a malfunctioning or a shortage, the company group may not be able to perform its duties as the entity responsible for the balancing group, therefore, it would have to bear all relevant damages and fines.

Risks arising from operating the Control Center: The revenues of the Control Center greatly depend on the success rate of the bids it submits to the calls to bid MAVIR periodically announces for the provision of system services. If the Control Center is disqualified from bidding or cannot win such bids due to a change in the regulatory environment, that might have a significant influence the profitability of ALTEO Group's energy production business line.

Options to purchase certain means of production: Third parties have options to purchase certain means of production of ALTEO Group. If the relevant contracts are not amended or new service contracts are not signed, these assets will not contribute to the Company's revenues and profits after the time when they are sold. Apart from that, ALTEO Group may suffer losses from such sale transactions.

The risk of key managers and/or employees leaving the Company: The performance and success of ALTEO Group greatly depends on the experience and availability of its managers and key employees. If managers or key employees left the Company, that may have a negative impact on ALTEO Group's operation and profitability.

Renewing and/or refinancing outstanding debts: In addition to loans granted by financial institutions, ALTEO Group uses in part bonds - issued by ALTEO either to a closed, limited group of buyers or to be publicly traded - to fund its financing needs. Negative changes in the business prospects of ALTEO Group, in the general financing environment, in the interest environment or in the general capital market atmosphere may have a negative effect on the future funding of the Company Group's operation and financial position.

Business relationships associated with the Owners' Group: There are several business relationships between the various parts of ALTEO Group and the Owners' Group. The termination of these buyer, financing and supplier relationships may have a negative effect on the profitability of ALTEO Group and limit its options to access funding in the future.

The risk of being categorized as an actual company group: It cannot be excluded that based on the request of a legal entity with an interest of legal nature, the court will oblige the member companies of ALTEO Group to enter into a subordination agreement and to initiate the registration of the company group with the Court of Registration, or categorize ALTEO Group as an actual company group even in the lack of a court registration. In a situation like that, if a subsidiary was liquidated, the company group would be obligated to honor its debt repayment obligations toward the creditors, except if it can prove that the insolvency was not the consequence of the company group's integrated business policy.

Taxation: ALTEO Group does everything that can reasonably be expected of it to ensure that its operation is in compliance with the regulations, but it cannot be excluded that a future tax audit will result in substantial expenses in the form of a tax liability payable by ALTEO Nyrt. or its subsidiaries.

Any discrepancies between the data in the consolidated and IFRS reports and the data in the reports prepared in line with the Hungarian Accounting Standards (HAS): Since 2017, ALTEO Nyrt. has been obliged to prepare even its HAS-based individual report in line with the IFRS standards. Certain data elements and results of this may, however, be different from those used in IFRS.

The risk of introducing and using new power plant technologies: Although ALTEO Group implements only proven technologies holding a number of references, if the performance of a given technology is lower than previously projected, it may cause a loss to ALTEO Group.

Dependence on weather: Part of ALTEO Group's energy production capacities (e.g. the wind power plants) and the energy demand of certain buyers (e.g. heat demands) depend on the weather, therefore, changes in the weather may significantly impact the profitability of ALTEO Group.

Information technology systems: The improper operation or security of ALTEO Group's information technology (IT) systems may have adverse consequences for the business and profitability of the Group.

Environmental risks: Members of the ALTEO Group have the necessary environmental licenses and policies in place, and their expert staff do their job with special care as required by the nature of this business. But there could be extraordinary events which may entail invoking the environmental remediation obligation of the affected company or imposing a fine, or may lead to enforcing claims against the affected company.

Political risks: ALTEO Group provides some of its services to institutions which are owned by municipalities or are under the influence of municipalities or certain statutory corporations. Furthermore, the agreements made with such institutions have a major effect on the operation of certain members and projects of ALTEO Group. The considerations governing the motivation of bodies having influence over such institutions may differ from the considerations of a rational, profit-oriented market player, which is a risk in terms of contract performance. Risks of this type could be present primarily in the case of the Sopron Power Plant, which provides district heating services, and Kazinc-Therm, Tisza-Therm, the Ózd Power Plant and Zugló-Therm, which have district heating production activities too.

Calculation of the interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Company illustrates the exposure to the interest rate risks in the interest rate sensitivity analysis.

Actual interest	12/31/2018	12/31/2017
Profit or loss before interest and taxes	912,088	2,154,327
Net interest	(89,796)	(169,163)
Profit or loss before taxes	**822,292**	**1,985,164**

Results of the interest rate sensitivity analysis (as a percentage of the change in interest rates).

12/31/2018	-10%	-5%	-1%	+1%	+5%	+10%
Profit or loss before interest and taxes	912,088	912,088	912,088	912,088	912,088	912,088
Net interest	(98,776)	(94,286)	(90,694)	(88,898)	(85,306)	(80,816)
Profit or loss before taxes	**813,312**	**817,802**	**821,394**	**823,190**	**826,782**	**831,272**
Changes in profit or loss before taxes (in thousand HUF)	**(8,980)**	**(4,490)**	**(898)**	**898**	**4,490**	**8,980**
Changes in the profit (%)	**(1.09%)**	**(0.55%)**	**(0.11%)**	**0.11%**	**0.55%**	**1.09%**

With respect to the previous year:

12/31/2017	-10%	-5%	-1%	+1%	+5%	+10%
Profit or loss before interest and taxes	2,154,327	2,154,327	2,154,327	2,154,327	2,154,327	2,154,327
Net interest	(186,079)	(177,621)	(170,855)	(167,471)	(160,705)	(152,247)
Profit or loss before taxes	**1,968,248**	**1,976,706**	**1,983,472**	**1,986,856**	**1,993,622**	**2,002,080**
Changes in profit or loss before taxes (in thousand HUF)	**(16,916)**	**(8,458)**	**(1,692)**	**1,692**	**8,458**	**16,916**
Changes in the profit (%)	**(0.85%)**	**-0.43%**	**-0.09%**	**0.09%**	**0.43%**	**0.85%**

33. Contingent liabilities

Other than contingent liabilities arising from litigation, there are no liabilities which are not included in the Company's financial statements with their amounts for the reason that their existence depends on future events.

In line with the course of business in the industry, the Company issued guarantees related to its activities in accordance with its contracts for energy trading, construction & installation services and operation. The guarantees were provided by Erste Bank Zrt.

These guarantees expired or were renewed in accordance with the relevant contracts.

The following bank guarantees existed as at the reporting date:

	12/31/2018	12/31/2017
HUF bank guarantee	HUF 848,576 thousand	HUF 350,000 thousand
Euro bank guarantee	EUR 1,912 thousand	EUR 0 thousand

Within the ALTEO Group, the Company provided the following guarantees with respect to the loans of Windeo Kft. and Venteo Kft. (to protect against exchange rate risk and for general purposes).

- joint and several guarantee contract for HUF 272,280 thousand (exchange rate risk)
- joint and several guarantee for HUF 50,000 thousand (general purpose)

Within the ALTEO Group, the Company provided the following guarantees with respect to the loans of E-Wind Kft. with general purposes.

- surety (general) for HUF 71,598 thousand

We detailed the contacts towards other banks that have no value in the financial statements in Item 27 of the notes in connection with these financial statements.

34. Events after the reporting date

The following significant events occurred between the reporting date and the date of approval of the disclosure of the financial statements.

Zugló-Therm Energiaszolgáltató Korlátolt Felelősségű Társaság operated by ALTEO as a sole member

and Budapesti Távhőszolgáltató Zártkörűen Működő Részvénytársaság (FŐTÁV) extended their long-term contract signed on May 21, 2004, in effect until May 31, 2020 on purchasing and selling thermal energy, as well as other contractsrelated thereto. Pursuant to the newly signed contracts - in accordance with the terms and conditions therein - ZuglóTherm will provide FŐTÁV with thermal energy until the day of May 31, 2030.

In the year 2019, the ALTEO Group will launch its Waste Management Division within the Energy Production and Energy Services Business Line, which will be the third profit center in addition to the Energy Production, Operation and Maintenance, as well as the Project Development Division. The present change has no effect on the other business line of the ALTEO Group, Energy Trading Business Line.

The purpose of founding this new division is to further strengthen ALTEO’s presence on the waste utilization market for energy purposes.

ALTEO, in the framework of its share repurchase program for the year 2018, announced on June 15, 2018 and extended as published on November 28, 2018, purchased a total of 8,021 ordinary shares of ALTEO (ISIN: HU0000155726) on the Budapest Stock Exchange in 2019. Mandated by the Company’s Board of Directors, the CEO selected the employees to be recognized by the Company as part of the Program in December 2018. As a result, in January and February 2019 the Company granted 13,298 shares to the employees who have become eligible for them based on the Company's recognition system and the CEO's decision.

With its Resolution No. 1/2019 (III. 12.), based on an authorization granted in Resolution No. 3/2015 (XI. 10.) of the General Meeting, the Board of Directors of the Company decided on commencing the process of increasing the share capital of the Company, by adding new shares (hereinafter: "New Shares") in a private placement ("Private Placement"). On the basis of the preliminary statements of commitment, the Board under Resolution No. 1-2/2019 (III. 21.) made decisions regarding the allocation of the shares: it excluded the shareholders' subscription rights and any preferential rights for the New Shares; taking account of the preliminary statements of commitment for the acceptance of the New Shares submitted during the sale (book-building), the issue price of the New Shares was set at HUF 670.00 (that is, six hundred and seventy forints); an oversubscription was accepted up to a total value of HUF 1,999,999,580 (that is, one billion nine hundred ninety-nine million nine hundred ninety-nine thousand five hundred and eighty forints) for the issue, and so, the decision was made to issue a total of 2,985,074 units of New Shares; that is, the Board designated from among the investors who had submitted their preliminary statement of commitment according to Section 3:296 (3) of the Civil Code to qualify for participation in the Private Placement, and established the number of the New Shares available to them; furthermore, specified the details for the submission of the final statement of commitment, as well as the deadline for the payment of the capital contribution. With its Resolution No. 3-4/2019 (III. 21.), the Board also decided about an amendment in the Articles of Association, subject to the success of the capital contribution. Each of the investors designated by the Board of Directors to receive the New Shares complied with their obligation undertaken and paid the total consideration for the 2,985,074 units of New Shares issued in the course of the Private Placement as required. By the same, the transaction aimed at the issue of 2,985,074 units of shares was completed, and all conditions were met for increasing the share capital of the Company, as registered in the Company register, to HUF 242,328,425 (that is, two hundred forty-two million three hundred twenty-eight thousand four hundred and twenty-five forints) at face value. The shares will be first traded at the BSE on April 5, 2019.

EURO GREEN ENERGY CONSUMPTION Kft. - signing the business share purchase contract
The Company's consolidated enterprise, SUNTEO Kft. - as buyer - concluded a business share purchase contract with Raiffeisen Energiaszolgáltató Korlátolt Felelősségű Társaság (registered office: H-1158 Budapest, Késmárk utca 11-13.; company registration number: 01-09-876219) - as seller - for the transfer of the ownership of a business share representing the entire issued capital (HUF 8,100,000) of EURO GREEN ENERGY Fejlesztő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-1158 Budapest, Késmárk utca 11-13; company registration number: 01-09-921340; hereinafter: "Target Company") to the Company.

Signing the business share purchase contract represents the first step of the transaction. The ownership of the Target Company's business share will be transferred to SUNTEO Kft. once the conditions detailed in the contract have been met.
The Target Company owns and operates a wind farm near Bőny consisting of 13 wind turbines and providing an electrical capacity of 25 MW. The electricity produced at this wind farm is sold through the mandatory offtake system (KÁT).

35. Litigation and claims

On the reporting date the Company has no significant instances of litigation that might influence the content of the statements.

36. Other issues

The Company's subsidiary, Sinergy Energiakereskedő Kft., received a letter from VPP Magyarország Zrt. (registered office: 1113 Budapest, Bocskai út 134-146. C. ép. 3. em.; company registration number: 01-10-048666) in 2018; in this letter the sender assumed - based on information of unclear origin - that the control center of Sinergy Energiakereskedő Kft. performs its activity in violation of the patent "Decentralized energy production system, control tool and procedure, controlling the energy production of the system" registered for VPP Magyarország Zrt. as holder under the number E031332. In its letter, VPP Magyarország Zrt. initiated negotiations to clarify the situation and envisaged filing a lawsuit should such negotiations remain unsuccessful.

Sinergy Energiakereskedő Kft. reviewed the patent and the related claim, involving the professionals developing the system and a renowned patent agent with expertise in the technology involved.

Based on the reviews it can be stated with certainty that the system operating the control center of Sinergy Energiakereskedő Kft. is not and never was covered by patent protection, since a significant part of the characteristics of the claims related to the patent of VPP Magyarország Zrt. is not realized in the course of the operation of the system used by Sinergy Energiakereskedő Kft. After the analysis and based on its findings, Sinergy Energiakereskedő Kft. explicitly and completely denied the claim of VPP Magyarország Zrt.

On March 14, 2018, Sinergy Energiakereskedő Kft. requested the Hungarian Intellectual Property Office to establish that the six control procedures in total it uses in the course of operating the control center is not in violation of the patent "Decentralized energy production system, control tool and procedure, controlling the energy production of the system" registered for VPP Magyarország Zrt. as holder under the number E031332.

Sinergy Energiakereskedő Kft. initiated the procedures for the so-called negative clearance with the goal to clearly and definitively disprove the infringement assumed by VPP Magyarország

Zrt. and presented in the announcement of the Company published on February 14, 2018. The proceedings are still ongoing.

At the Company's request and based on Resolution No. 265/2018 of the CEO of the Budapest Stock Exchange, the equities of the Company were promoted to the Equities Prime Market, effective from September 12, 2018.

37. Fair value measurement disclosures

In 2017, the Company measured one portfolio of financial instruments - handled as a portfolio - at fair value subsequent to initial recognition, i.e. the portfolio shown in other financial assets with a carrying amount of HUF 392,321 thousand. The value of this asset was disclosed by the fund manager and was calculated on the basis of quoted prices, which means that the fair value is treated as a Level 1 input.
The fair value of derivative transactions is HUF 0 thousand (previous year: HUF 10,340 thousand). These qualify as fair value measurement built-up from observable inputs, therefore they are on Level 2 of the fair value hierarchy.
No differences were identified between the carrying amount and fair value of the remaining financial instruments. For valuation purposes, all other assets are on Level 3 of the fair value hierarchy.

The content of FVTPL financial instruments is as follows.

Name	12/31/2018	12/31/2017
Derivative assets (in hedge relationship)	-	10,340
Assets held for sale	-	392,321
Assets evaluated at fair value through profit and loss (FVTPL)	**-**	**402,661**

38. Disclosure of interests in other entities

The Company was not faced with any uncertainty and was not forced to decide on complex matters when making a judgment about how to treat its investments. All controlled entities qualify as subsidiaries.

The Company has one associate, and is not involved in any joint arrangements. The Company has to face no limitations concerning any of its entities that would influence access to net assets, the profit or the cash flow.

The Company has no consolidated or not consolidated interests in which control is not established through voting rights or where voting rights are not for controlling relevant activities leading to control (structured entities).

None of the members of the ALTEO Group qualify as or have shares in an investment entity.

39. Calculating EBITDA

The Company discloses its EBITDA indicator. The IFRSs do not define this indicator. The process of the calculation is in the accounting policies summary. EBITDA is calculated as follows.

Name	12/31/2018	12/31/2017
Profit from operations	359,183	503,210
Profit or loss from discontinued activities	-	(148,925)
Recognized depreciation, amortization	(58,669)	(24,387)
EBITDA	**417,852**	**378,672**

40. Licensee distribution based on the Electricity Act

The following table presents the distribution of licensee and other profit items belonging to the electricity trade. This table is the distribution of the items of the statement of profit and loss, prepared based on NOT the IFRS standards but according to the provisions of the Electricity Act.

The electricity trade license of ALTEO Nyrt. expired in 2018 and was not renewed.

Distribution of the statement of profit and loss	Total	Electricity trade	Other - not licensee
Revenues	**4,503,172**	**2,470**	**4,500,702**
Material expense	(2,751,362)	(4,573)	(2,755,935)
Personal expense	(1,310,012)	-	(1,310,012)
Depreciation, amortization	(58,669)	-	(58,669)
Other income and expense	(23,946)	-	(23,946)
Operating profit or loss	**359,183**	**(7,043)**	**352,140**
Net finance income	463,109	-	463,109
Profit or loss before taxes	**822,292**	**(7,043)**	**815,249**
Income tax expense	(244,954)	-	(244,954)
Net profit or loss	**577,338**	**(7,043)**	**570,295**

The distribution of licensee and other assets and liabilities related to electricity trade on the reporting date is not applicable as the electricity trade license of ALTEO Nyrt. expired in 2018 and was not renewed.

41. Approval of the disclosure of the financial statements

On April 5, 2019, the Board of Directors of the Company approved the disclosure of the financial statements in its current form.

Budapest, April 5, 2019

On behalf of ALTEO Nyrt.:

Attila László Chikán Member of the Board of Directors entitled to hold the title of CEO	Domonkos Kovács Member of the Board of Directors M&A and Capital Markets Director