

ALTEO Nyrt.

Consolidated Business Report on Business Activities in 2018



April 5, 2019

I The Company's details

The Company's name	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
The Company's abbreviated name	ALTEO Nyrt.
The Company's registered office	H-1131 Budapest, Babér u. 1-5.
The Company's telephone number	+36 1 236-8050
The Company's central electronic mailing address	info@alteo.hu
The Company's web address:	www.alteo.hu
The Company's place of registration	Budapest
Date of registration	April 28, 2008
Company registration number	Cg.01-10-045985
The Company's tax number	14292615-2-41
The Company's EU VAT number	HU14292615
The Company's statistical code	14292615-3514-114-01
Term of the Company's operation	indefinite
The Company's legal form	public limited company
Governing law	Hungarian
The Company's issued capital	HUF 242,328,425¹
Date of the effective Articles of Association	March 25, 2019
The Company's core operations	Electricity trading
Business year	same as the calendar year

¹ As of the date of publication of this Consolidated Business Report

Place of publication of notices	The Company discloses its notices regarding regulated information on its website www.alteo.hu, on the website of the BSE www.bet.hu and on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Company are also published in the Company Gazette.
ISIN code of the Shares	HU0000155726 HU0000166608²
Stock exchange listing	19,386,274³ shares of the Company have been listed on the BSE in the “Equities Prime Market” category.
Other securities	ALTEO 2019/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 925,000,000, issue value: 69.6421% of the face value; not listed. ISIN code: HU0000355144 ALTEO 2022/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 650,000,000, issue value: 76.6963% of the face value; not listed. ISIN code: HU0000357405 ALTEO 2020/I: publicly traded bonds with a fixed coupon rate of 5.5% p.a., with a maturity of 3.5 years, total face value: HUF 2,150,000,000, issue value: 100% of the face value; listed on the BSE. ISIN code: HU0000357603

² ISIN code of the shares involved in the share capital increase, by adding new shares, in a private placement as described in Section VI of this Consolidated Business Report. The Shares confer the same rights as the Company's previously issued shares; they are only differentiated for technical reasons, since the holders of the New Shares will only be entitled to dividends from the 2019 fiscal year. The use of separate ISIN codes is temporary; once the difference in entitlement to dividends ceases to exist, the New Shares will be assigned the same ISIN identifiers as the previously issued shares.

³ As of the date of publication of this Consolidated Business Report.

The Company's Board of Directors	<p>Attila László Chikán, Member of the Board of Directors entitled to hold the title of CEO</p> <p>Domonkos Kovács, Member of the Board of Directors, Deputy CEO, M&A and Capital Markets</p> <p>Gyula Zoltán Mező, Chairman of the Board of Directors</p> <p>Zsolt Müllner, Member of the Board of Directors</p> <p>Ferenc Karvalits, Member of the Board of Directors</p> <p>András Papp, Member of the Board of Directors, Deputy CEO</p>
The Company's Supervisory Board	<p>István Bakács, Chairman of the Supervisory Board</p> <p>Dr István Borbíró, Member of the Supervisory Board</p> <p>Péter Jancsó, Member of the Supervisory Board</p> <p>Dr János Lukács, Member of the Supervisory Board</p> <p>Noah M. Steinberg, Member of the Supervisory Board</p>
The Company's Auditor	<p>Currently, the auditor of the Company is Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered office: H-1068 Budapest, Dózsa György út 84/C.; company registration number: 01-09-071057). The mandate of the auditor is for the period from April 20, 2018 until the date of adoption of the General Meeting's resolution on the report for the business year ending on December 31, 2018 or until May 31, 2019, whichever occurs earlier. The auditor personally responsible for auditing the Company is dr. Attila Hruby.</p>
Shareholder of the Company with a share exceeding 5%	<p>WALLIS ASSET MANAGEMENT Zrt.</p>

II Information on the ownership structure of the Company and voting rights

a. Composition of the issued capital, rights and obligations related to the shares

The Company 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. The ordinary shares issued belong to the same series and have the same rights. The rights related to the shares of the Company are set out in the Civil Code and in the Company's Articles of Association. The transferability of the shares is not restricted.

b. Limitation of voting rights related to the shares

Pursuant to Section 9.8 of the Articles of Association of the Company, a shareholder or holder of voting rights (hereinafter, for the purposes of this section: "shareholder") is required, when notifying a change in their voting rights as defined in Article 61 of Act CXX of 2001 on the Capital Market ("Capital Market Act"), to submit a written declaration to the Board of Directors concerning the composition of the shareholder group and the nature of the relationship between the members of such shareholder group, taking into account Section 61(5) and (9) of the Capital Market Act. Such notification obligation applies to shareholders only if there has been a change in the shareholder group since the publication of the previous notice. In the event of failure to provide notification or full notification regarding the composition of the shareholder group as required in the previous sentence, or where the acquisition of control is subject to a regulatory approval or acknowledgement, which the shareholder had failed to obtain, or if there is reason to assume that the shareholder has deceived the Board of Directors concerning the composition of the shareholder group, the voting right of the shareholder will be suspended by the decision of the Board of Directors at any time even after its entry into the share register, and may not be exercised until the above requirement has been fully satisfied. Furthermore, at the request of the Board of Directors, shareholders are required to promptly make a statement specifying who the ultimate beneficial owner with respect to the shares owned, or the beneficial owner of the shareholder is. If the shareholder fails to act upon such request or if there is reason to assume that the shareholder has deceived the Board of Directors, the voting right of the shareholder is suspended and may not be exercised until the above requirements have been fully satisfied. For the purposes of this section, "shareholder group" means, with respect to a particular shareholder, such shareholder and the persons specified in Section 61(5) and (9) of the Capital Market Act, whose voting rights related to their share must be regarded as the voting rights of the shareholder concerned. For the purposes of this item, "beneficial owner" means the person specified in Section 3(r) of Act CXXXVI of 2007 on the prevention and combating of money laundering and the financing of terrorism.

c. Presentation of investors with a significant share

The majority shareholder of the Group's Parent Company is Wallis Asset Management Zártkörűen Működő Részvénytársaság (1055 Budapest, Honvéd utca 20, company registry number: 01-10-046529). The Company's ultimate parent company as at December 31, 2018 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**	9,663	9,626	4.71%	4.70%
Free float	48,171	45,076	23.50%	21.98%
TOTAL	195,352	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%).

d. Powers of senior executives

The rules governing the appointment and removal of senior executives and the amendment of the Articles of Association are laid down in the Articles of Association of ALTEO Nyrt., available on the Company's website (www.alteo.hu).

The Board of Directors is the main decision-making body of the Company. The members of the Board of Directors are elected by the General Meeting for a definite term of up to five years. The members of the Supervisory Board, who are independent of the Company, are elected by the General Meeting for a definite term of up to five years.

As a general rule, the amendment of the Articles of Association is within the competence of the General Meeting; however, in the context of decisions made pursuant to Section 13.5 of the Articles of Association, the Board of Directors has the powers to amend the Articles of Association in compliance with the relevant rules of the Civil Code.

Without the specific authorization from the General Meeting, senior officials may not issue shares.

In its Resolution No. 3/2015. (XI.10.) the General Meeting of the Company authorized the Board of Directors to make a decision on the increase of the share capital of the Company at its own discretion, with at least four members of the Board of Directors voting in favor. Pursuant to such authorization, the Board of Directors may increase the share capital of the Company by up to HUF 110,000,000, calculated at the face value of the shares issued by the Company, in aggregate (authorized share capital) over a five-year period starting on November 10, 2015. The authorization covers all cases and means of share capital increase (as specified in the Civil Code), as well as the restriction or exclusion of exercising preferential rights regarding subscription for and takeover of the shares, as well as the making of decisions relating to the share capital increase otherwise delegated by the Civil Code and other legislation and by the Articles of Association to the competence of the General Meeting, including any amendment of the Articles of Association necessitated by the capital increase.

In its resolution No 12/2018. (IV.20.), the General Meeting authorized the Board of Directors, for a period of eighteen months starting on April 24, 2018, to adopt resolutions concerning the acquisition by the Company of the ownership of shares of any type or face value issued by the Company – supported by at least three quarters of the votes that can be cast by the members of the Board of Directors – and to enter into and perform such transactions for and on behalf of the Company, or to engage a third party for the conclusion of such transactions. The number of shares that can be acquired pursuant to the authorization may not exceed the number of shares with a total face value of twenty-five per cent of the share capital, and the total face value of own shares owned by the Company may not exceed this rate at any time. The Company's own shares can be acquired for or without consideration, on the stock market and through public offering, or – unless the possibility is excluded by the law – in over-the-counter trading. In the event of the acquisition of own shares for consideration, the minimum and maximum consideration payable for one share should be HUF 1 and HUF 1,500, respectively. The authorization is also extended to include share purchases by the Company's subsidiaries so as to enable the Company to authorize and instruct the management of any subsidiary of the Company by means of resolutions of the members or shareholders (resolutions adopted by the members' meeting or the general meeting) to acquire the shares issued by the Company according to a resolution adopted by the Board of Directors under the above authorization. The authorization of the General Meeting will expire on October 24, 2019; the Board of Directors has initiated its extension by an additional eighteen months.

III Members of the Group

The Group and the enterprises involved in the consolidation and named below (hereinafter: “**Subsidiaries**”; the Subsidiaries and the Company are hereinafter jointly referred to as the “**Group**” or “**ALTEO Group**”) are as follows:

Name of subsidiary	Activity	Extent of influence
ALTE-A Kft.	property management	100%
ALTEO Deutschland GmbH	development of an energy production portfolio, as well as energy services for both wholesale and retail trade	100%
ALTEO Energiakereskedő Zrt.	gas trade	100%
ALTEO-AGRIA Kft.	heat energy production, electricity production	100%
ALTEO-DEPÓNIA Kft.	property management	100%
ALTEO-HIDROGÁZ Kft.	heat energy production, electricity production	100%
Balassagyarmati Biogáz Erőmű Kft.	heat energy production, electricity production, waste	100%
BC-Therm Kft.	heat energy production	100%
Domaszék 2MW Kft.	electricity production	100%
e-WIND Kft.	energy production (wind power plant)	100%
F.SZ. ENERGIA Kft.	electricity production (solar power plant)	100%
Győri Erőmű Kft.	heat energy production, electricity production	100%
HIDROGÁZ Kft.	energy production, hydrogas utilization	100%
IT-Solar Kft.	electricity production	100%
Kazinc-BioEnergy Kft.	heat energy production	100%
Kazinc-Therm Fűtőerőmű Kft.	heat energy production, electricity production	100%
Monsolar Kft.	electricity production (solar power plant)	100%
Ózdi Erőmű Kft.	heat energy production, electricity production	100%
Péberény Ingatlanhasznosító Kft.	electricity production	100%
Sinergy Energiakereskedő Kft.	electricity trade	100%
Sinergy Kft.	power plant operation and maintenance, engineering services, implementation, energy production	100%
Soproni Erőmű Kft.	heat energy production, electricity production	100%
SUNTEO Kft.	energy production	100%
Tisza BioTerm Kft.	heat energy production	60%
Tisza-BioEnergy Kft.	heat energy production	100%
Tisza-Therm Fűtőerőmű Kft.	heat energy production, electricity production	100%
Tisza-WTP Kft.	salt-free and demineralized water production	100%
True Energy Kft.	electricity production (solar power plant)	100%
WINDEO Kft.	energy production (wind power plant)	100%
Zuglói-Therm Energiaszolgáltató	heat energy production, electricity production	100%

IV Business activities

The Group is a comprehensive and integrated energy service provider that helps its customers achieve their goals related to competitiveness and sustainability with the provision of safe, environmentally friendly and affordable energy supply solutions. The aim of the Company is to leverage energy business opportunities arising in alternative energy production, energy trading and energy services in a changing energy industry environment.

The strategic goal of the Group is to become a significant energy service provider that offers sustainable energy supply for its consumers, adequate yields for its shareholders and returns for its financing partners through the optimized use of energy trading, decentralized energy production, energy services and efficient energy management.

Our Company puts great emphasis on protecting the environment and our investments aim at making use of renewable energy sources as efficiently as possible. We do not carry out any activities that would be harmful to the environment, thus we do not have any environmental obligations set forth by law.

A detailed description of our business activities is included in the document titled “Management Report on Business Activities in 2018”.

V Major risks facing the Group, and the relevant changes and uncertainties

1. 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.

CO₂ emission allocation system and CO₂ 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.

2. Risks specific to ALTEO Group:

Risks of growth: ALTEO Group is planning to expand further both in terms of business activities and geographical areas. 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 ALTEO Group and the owners' group, which it forms a part of. 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 Rules (HAR): Since 2017, ALTEO Nyrt. has been

obliged to prepare even its HAR-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 Kft., Tisza-Therm Kft., Ózdi Erőmű Kft. and Zugló-Therm Kft., which have district heating production activities too.

VI 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 (the events with company law relevance occurring after the reporting date, including in particular the private placement and the decisions about the dividend, are described in Section 1, Chapter III of this Management Report, and are therefore not covered again in this chapter).

Two members of the Group, Zugló-Therm Energiaszolgáltató Korlátolt Felelősségű Társaság and Budapesti Távhőszolgáltató Zártkörűen Működő Részvénytársaság (FŐTÁV) extended their long-term thermal energy purchase and sale contract signed on May 21, 2004 and effective until May 31, 2020,

as well as other contracts related 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, ALTEO Group launched 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, and the Project Development divisions. 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 Group 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 Group'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 Group's Parent 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 (hereinafter "**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 New 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.

Az üzletrész adásvételi szerződés aláírása a tranzakció első lépése, a Céltársaság üzletrészének tulajdonjoga – a szerződésben részletesen meghatározott – feltételek teljesülése esetén száll át a SUNTEO Kft.-re.

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).

VII Non-financial statements

1. Employment policy followed by the contractor

Following the line established in previous years, the employment policy of ALTEO Group continues to focus on the retention, motivation and development of existing employees and, at the same time, on the selection and integration of new ones.

The Group believes that the loyalty and motivation of their employees are founded on the stable workplace, good working conditions, complex tasks and competitive wages provided by the Group. Maintaining the employees' commitment and motivation is of key importance for the Company. This is a goal it wishes to accomplish with stability, complex responsibilities as well as competitive benefit/allowance packages which were expanded to include additional components in 2018.

The closing workforce headcount at the end of the year was 233, which is 13 more than in 2017. The number of part-time colleagues (9) has not changed, while the number of those with full-time employment contracts is 224. The number of employees with indefinite term contracts and fixed-term contracts was 231 and 2, respectively. In 2018, 81% of the staff members were men and 19% were women. This gender ratio is basically defined by the nature of the energy sector, as most of the staff deal with the operation of power plants. At the same time, the Company aims to increase the proportion of women, which is most feasible in the head office.

The rate of fluctuation grew to 14% in 2018 from 6% in 2017, primarily as a result of elderly colleagues retiring from our power plants.

The Group consciously looks to increase the proportion of the young generation within the organization, since the management of the Company believe that ALTEO Group can provide professional development and great opportunities to them. This is a fundamental criterion of maintaining ALTEO Group's quality services and reliable work performance, as the age pyramid of colleagues with great expertise and work experience – who in many cases have been working in the energy sector for 30 years – is very constrictive, with many set to retire in the coming years, and the Company strives to recruit highly-trained and committed young colleagues to the positions that will be opening up down the line.

The expertise and experience obtained in various fields of the energy industry are the core values of ALTEO Group. To ensure that ALTEO Group can provide high-quality services to its partners, it enables its employees to deepen their knowledge via regular training courses. The objectives of the courses are to enable our employees to improve their efficiency, to acquire critical qualifications for their work, and to update and complement their existing knowledge base. The training offerings also include compulsory courses prescribed by law or by internal regulations, as well as internal knowledge sharing.

Developing our managers and employees, as well as educating a new generation of highly skilled experts are key factors in ALTEO Nyrt's Human Resources strategy. As a result, the following new programs and training courses were launched or relaunched in 2018.

Launched in 2018, the two-year program involves 9 young graduate employees who were selected by a dedicated committee based on their entries (a precondition of application) and recommendation by their managers. The training course aims to identify and develop talents within the organization, motivate them, and help retain their skills and knowledge. The course consists of competency-based training sessions (assertiveness, communication, informal mentoring by senior executives) and project work (individual and group). The program consists of general competence development (e.g. time management) in year one and managerial competence development (e.g. delegation) in year two. Although they are only halfway through the program, the Group intends to keep it going, considering the feedback received (employees involved in the program face an increased workload).

The groundwork for dual training was laid at one of the Group's locations. The primary purpose is to find and educate the next generation of our employees, hence the program offers an opportunity for talented students with secondary education to gain professional experience.

In 2018, ALTEO Group worked with a vocational secondary school in Tiszaújváros for the first time. As part of that program, ALTEO Group received 4-5 students for summer internship and some of them also stayed for student work. In the Company's experience, the program was well-liked among both the youth and the Company's older employees. Therefore, next year, the Company wants to improve on it and supplement it with a mentoring program to train older employees in educating a new generation. As staff turnover is very low at ALTEO Group's sites outside Budapest, the Company can only hire new people for the positions of those who retire.

Seeing the success of the internship program in Tiszaújváros, ALTEO Group wants to establish cooperation with local vocational secondary schools also in Sopron.

ALTEO Academy, a series of events for internal knowledge sharing in an organized form, but in an informal setting, continued in 2018 as well. The Executive Program, a one-year program to strengthen key managerial competences in a modular system, also continued.

An e-learning framework (TOTARA LMS) will soon be implemented too. It aims to provide a resource-efficient way to provide in-house education and training courses within ALTEO Group.

2. Environmental guidelines

For the second time, the Group published its Sustainability Report in 2018, detailing the Company's information, guidelines and objectives related to environmental protection and sustainable business operations. This business report includes an overview of the environmental guidelines based on the content of the Sustainability Report.

We expanded the operation to the entire ALTEO Group within the framework of an Integrated Management System (IMS) which includes the standards ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems, OHSAS 18001:2007 Health & Safety Management System and ISO 50001:2011 Energy Management Systems. The Integrated Management Policy is the fundamental document for this system, in which the company's management commits itself to providing quality services, safe work environment, energy efficiency, environmental protection and sustainability.

In 2018, we ensured our compliance with the standards by conducting 23 internal audits covering the operation of the Integrated Management System in compliance with all four standards at all of our sites and organizational units.

In line with the IMS, 27 HSE-type inspections were carried out at all sites by various authorities, which resulted in 4 logged inspections; however, no fines were imposed.

A separate document, the Integrated Report 2018, will describe environmental guidelines and the associated results in detail.

3. Fight against corruption

The Group published its Code of Ethics on January 1, 2016, demonstrating its commitment to fair, compliant and transparent business operation. Due to the changes that have occurred since the publication of its first edition, the Code was reviewed and updated in the second half of 2018.

We believe that the new Code, reviewed in collaboration with KPMG, adjusted to reflect GDPR requirements, restructured and amended, transforms ALTEO into a company that sets and stands for high standards of ethics and conduct to their employees, business partners and investors. These companies aim to realize their business plans and become increasingly successful while implementing fair and transparent operation. The labor market has recently undergone fundamental changes – this is something we are also attempting to respond to at the level of the Code of Ethics in order to make our workplace even more attractive.

The Code of Ethics covers the prohibition of providing or receiving any improper advantage, lays down the conditions for accepting gifts and hospitality of small value and establishes detailed rules on conflict of interest. The Company maintains a hotline for reporting ethical issues, providing an opportunity for making reports anonymously. The Company's Code of Ethics is publicly available on its website.

The Group employs a compliance officer and a compliance expert to monitor compliance of operations with the applicable legislation and fair business principles, following activities and jobs particularly

exposed to corruption especially closely for the purpose of prevention. The compliance organization informs the Company's Compliance Committee and Supervisory Board about their activities and work plan and any issues identified.

Since 2016, the Company Group has prepared and published its annual Compliance Report each year (as part of the integrated report for 2017-2018).

When developing the ALTEO Group's regulatory regime, the priority was to ensure transparent operation within the organization, establish a framework for business operations, document processes, define cooperation among business functions and provide a clear definition of tasks and associated responsibilities.

In this context, in 2018, ALTEO Group issued 7 new policies and 2 new procedures and also amended 7 procedures to take into account changes in the business environment.

Compliance with ALTEO Group's Compliance Policy is compulsory for all managers and employees. In addition, several internal policies and regulations ensure ALTEO Group's responsible operation, the implementation of which is the responsibility of the managers of the affected areas.

In 2018, in addition to implementing the scheduled checks, implementation of the tasks assigned to business functions in the 2017 compliance studies were followed up.

2018 RISKS MAP – corruption index

In 2018, all managers completed the questionnaire that covered the assessment of the compliance risks of HR, Procurement, Management, Finance and Publicity. Based on the assessments by all managers, the compliance result of ALTEO Group was 81%, which is a 13% improvement as compared to the previous year.

- Procurement scored 20% higher in 2018 than in 2017.
- The assessment of HR (Human Resources) improved by 15%, that of Publicity by 13% and Governance by 11%.
- Finance ranked last, despite a 5% improvement of its assessment as compared to the previous year.

In 2018, no cases of potential corruption came to the Group's knowledge. As per ALTEO Group's Compliance Policy and Code of Ethics, any form of corruption is considered as a serious ethical violation. To learn more about ALTEO Group's approach to eliminating corruption, please refer to ALTEO Group's Sustainability Report 2018.

4. Corporate governance statement

The Group's Parent Company prepares its corporate governance statement in accordance with the Responsible Corporate Governance Recommendations of Budapest Stock Exchange Ltd. and publishes it in a separate document upon approval by the Company's general meeting. The Company only provides a summary in this business report.

The Board of Directors is the main executive body of the Group's Parent Company that governs the Group and monitors its day-to-day operation on the basis of effective legislation, the Articles of Association and the resolutions passed by the General Meeting and the Supervisory Board.

Members of the Board of Directors, its Chair and the member entitled to hold the title of CEO ("CEO") are elected by the General Meeting for a term of up to five years. The Group has no nomination committee or remuneration committee; the remuneration of members of the Board of Directors is determined by the General Meeting. The Board of Directors consists of six members.

The Board of Directors is entitled and required to decide on all issues that, by virtue of the provisions of legislation or the effective Articles of Association, do not fall within the competence of the General Meeting, the Supervisory Board or the Audit Committee.

The member of the Board of Directors entitled to hold the title of CEO is at the head of the Group's work organization and is responsible for managing and monitoring the Company's operations in accordance with the resolutions of the General Meeting and the Board of Directors. The CEO acts on and is entitled to decide all issues concerning the Group's operational management that do not fall within the exclusive competence of the Board of Directors as a body or the General Meeting according to the Articles of Association or the rules of procedure of Board of Directors. During the day-to-day operations of the Group, the CEO works with members of the management responsible for each function to make decisions.

The CEO is assisted in the day-to-day operational management of the Group by management, the members of which are responsible for functions within their scope of responsibility.

The Supervisory Board of the Group's Parent Company acts as a body under mandate from the General Meeting. Members of the Supervisory Board are required to act in person; agency is not allowed in the activities of this body. Members of the Supervisory Board may not be instructed in that capacity by their employers or shareholders of the Company. Members of the Supervisory Board are elected by the General Meeting for a definite term of up to five years. Members of the Supervisory Board can be removed at any time and may be reelected upon the expiry of their mandates. The General Meeting decides on the remuneration of members of the Supervisory Board. The Supervisory Board elects a

chair from its membership and, as necessary, a vice chair. The Supervisory Board sets out its own rules of procedure which are then approved by the General Meeting. The Supervisory Board currently consists of five members, three of whom are independent individuals.

The Audit Committee verifies the Group's accounting regime, comments on its annual report prepared pursuant to the Accounting Act, monitors compliance with professional requirements and conflict of interest rules applicable to auditors and performs the tasks specified in its rules of procedure.

Within the scope of the Group's risk assessment activities, business, financial, technical, commercial, legal and compliance functions supervised by members of management work together and assess types of risk based on written reports prepared by each function and presented to the entire management on a weekly basis and identify the steps needed to manage risks. These organizational units report directly to the CEO.

The assessment of financial risks is a part of every planning and forecasting process as well as preparing new investment decisions. Decisions regarding risks identified during planning and forecasting and how they should be managed are made. For new investments, the management of expected risks is already covered by the proposal.

Due to the changes at the ALTEO Group in 2015, resulting in considerable growth and a more complex business operations than before, the time came in the second half of the year to develop a compliance program for the Company Group.

VIII Non-audit services provided by the auditor

In the fiscal year of 2018, the Group, including the Parent Company and its subsidiaries, used non-audit services provided by Deloitte Kft., as the auditor engaged to perform the audit of the annual financial statement of the Group, and other companies within the network of the auditor with prior written consent from the Group Audit Committee in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council. The total fee for these services amounts to 51% of the audit fee set for Deloitte Kft. for 2018. These services (other assurance service, tax advisory) were used with prior consent from the Group's Audit Committee in each case. The auditor itself has also verified that the provision of these services does not compromise independence.

Budapest, 5 April, 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