ALTEO Nyrt.

Management Report

on Business Activities in 2018

for the consolidated, audited statement
prepared according to the IFRSs

April 5, 2019

Pursuant to Act CXX of 2001 on the Capital Market, the Regulation of the Budapest Stock Exchange Ltd. on Regulations on Listing and Continued Trading (hereinafter: "**Regulation**"), and Decree No. 24/2008 (VIII. 15.) of the Minister of Finance (hereinafter: "**MF Decree**"), ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (hereinafter: "**Company**") has prepared and hereby discloses its BoD report on the consolidated report for the 2018 financial year as well as its individual and consolidated statement for the 2018 financial year included in Chapter 2 of this document (hereinafter collectively: "**Management Report**"). Based on Annex 1 to the MF Decree and the requirements set forth in Act C of 2000 on Accounting, the consolidated Management Report and the consolidated financial statement of the Company were prepared in accordance to the international financial reporting standards published in the Official Journal of the European Union.

The information disclosed in the Company's individual and consolidated statement for the 2018 financial year has been audited by an independent auditor.

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	**Magyar**
The Company's share capital	**HUF 242,328,425**[1]
Date of the effective Articles of Association	**March 25, 2019**
The Company's core operations	**Electricity trading**
Business year	**same as the calendar year**
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** **HU0000166608**[2]
Stock exchange listing	**19,386,274**[3] **shares of the Company have been listed on the BSE in the "Premium" category.**
Other securities	**Bonds**

[1] As of the date of publication of this Management Report
[2] ISIN code of the shares involved in the share capital increase, by adding new shares, in a private placement as described in Section III.1.1. of this Management Report. The New 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 Management Report.

	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
The Company's Board of Directors	**Attila László Chikán, Member of the Board of Directors entitled to hold the title of CEO**
	Domonkos Kovács, Member of the Board of Directors, Deputy CEO, M&A and Capital Markets
	Gyula Zoltán Mező, Chairman of the Board of Directors
	Zsolt Müllner, Member of the Board of Directors
	Ferenc Karvalits, Member of the Board of Directors
	András Papp, Member of the Board of Directors, Deputy CEO
The Company's Supervisory Board	**István Bakács, Chairman of the Supervisory Board**
	Dr István Borbíró, Member of the Supervisory Board
	Péter Jancsó, Member of the Supervisory Board
	Dr János Lukács, Member of the Supervisory Board
	Noah M. Steinberg, Member of the Supervisory Board

The Company's Audit Committee	**István Bakács, Chairman of the Audit Committee** **Dr István Borbíró, Member of the Audit Committee** **Dr János Lukács, Member of the Audit Committee**
The Company's Auditor	**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.**
Shareholder of the Company with a share exceeding 5%	**WALLIS ASSET MANAGEMENT Zrt.**

II. 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 utilization	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 trading	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%
Zugló-Therm Energiaszolgáltató Kft.	heat energy production, electricity production	100%

III. The consolidated Management Report of the Group for 2018

1. *Company law summary*

1.1. Events at the Company relevant in terms of company law in the period between January 1, 2018 and the date of publication of this Management Report

At the ordinary general meeting of the Company held on April 20, 2018, the following resolutions were adopted:

a) The General Meeting approved the statement of financial position proposed by the Company's auditor regarding the Company's business year ending on December 31, 2017, along with the individual statement and business report prepared in line with the provisions of the Accounting Act applicable to entities preparing their annual report under the EU IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.

b) The General Meeting adopted the statement of financial position proposed by the Company's auditor regarding the Company's business year ending on December 31, 2017 and the consolidated report prepared in accordance with the IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.

c) The General Meeting approved the individual business report of the Board of Directors for the Company's 2017 business year.

d) The General Meeting approved the consolidated business report of the Board of Directors for the Company's 2017 business year.

e) The General Meeting adopted the corporate governance report relating to the Company's 2017 operations with the proposed content.

f) The General Meeting decided to pay HUF 250,098,816 as dividend from the free retained earnings (dividend fund) supplemented by the profit after taxes of the Company in the previous business year and the subsidiary dividends established after 2017. Furthermore, the General Meeting authorized the Board of Directors to adopt the resolutions specified in Article 18 of the Articles of Association and other decisions necessary in relation to the payment of dividend.

g) The General Meeting has given the discharge to the members of the Board of Directors in accordance with Section 3:117 (1) of Act V of 2013 on the Civil Code of Hungary, with the conditions described therein.

h) Based on the Audit Committee's proposal, the General Meeting appointed Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság as the permanent auditor of the Company, the mandate of which 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 but until May 31, 2019 at the latest. In line with the Audit Committee's proposal, the General Meeting appointed Dr Attila Hruby as the auditor personally responsible for the audit.

i) The General Meeting has taken note of and accepted the information provided by the Board of Directors regarding transactions involving own shares.

j) In acceptance of the grounds described in the Board of Directors' submission, the General Meeting decided to extend the authorization given to the Board of Directors regarding the own share transactions for eighteen months calculated from April 24, 2018.

k) The General Meeting has given its consent to the assets and activities demerging from Sinergy Kft. to merge into the Company with effect from September 30, 2018 (the legal effects of merger set in on October 1, 2018) and, at the same time, by granting the submission with the proposed content, approved the appointment of UNIKONTO Számvitelkutatási Kft. (H-1092 Budapest, Fővám tér 8. III/317.3, Hungary; tax number: 10491252-2-43) as the auditing company and Dr Csaba Adorján as the auditor personally responsible to act as the auditors checking the draft statement of assets and liabilities as well as draft property inventories in relation to the absorption-type demerger as regards both the Company and Sinergy Kft. Furthermore, the General Meeting approved the transformation plan along with the Deed of Absorption-type Demerger constituting a part thereof, decided that the Company's statement of financial position for 2017 can be used as the Company's pre-merger draft statement of assets and liabilities and draft property inventories, and approved the Company's post-merger (opening) draft statement of assets and liabilities and draft property inventories as at September 30, 2018. Furthermore, the General Meeting authorized the Company's Board of Directors to pass the member's resolutions regarding the absorption-type demerger of Sinergy Kft. on behalf of the Company, and to sign the Deed of Absorption-type Demerger in the Company's name.

l) The General Meeting adopted the Company's Articles of Association in a consolidated structure with the amendments.

Based on the resolution of the General Meeting of the Company concerning the payment of dividend, the Board of Directors of the Company specified May 28, 2018 as the starting date of dividend payment, and published the conditions of dividend payment through the Company's official disclosure points on May 10, 2018.

With its resolutions adopted in writing on July 16, 2018, December 6, 2018 and January 18, 2019, as well as in its resolution adopted at its meeting on September 21, 2018, the Company's Board of Directors updated the scope of the Company's authorized signatories, along with the list of its establishments and branches, in view of the changes that have taken place in the meantime and that are detailed hereinbelow.

With its Resolution No. 1/2019 (III. 12.), based on an authorization granted by Resolution No. 3/2015 (XI. 10.) of the General Meeting, the Board of Directors of the Company launched 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.

Events at the Company's subsidiaries relevant in terms of company law in the period between January 1, 2018 and the date of publication of this Management Report

Considering the number of its subsidiaries and the company law events affecting them, in this chapter the Company only addresses the major events of its subsidiaries relevant in terms of company law, thus in particular it will not cover decisions regarding changes in personnel, establishments and branches.

i. The Company and Sinergy Kft.[4] as the sole members of the subsidiaries[5] and, in the case of Tisza BioTerm Kft., the members' meeting adopted the annual report of the subsidiaries for 2017, have taken note of the auditor's report, and extended the auditor's mandate for another year on March 22, 2018 (on March 26, 2018 in the case of ALTEO Energiakereskedő Zrt.). In the case of Monsolar Kft. and IT-Solar Kft., the Company appointed Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság as auditor and Dr Attila Hruby as the auditor personally responsible for the audit, while in the case of the following subsidiaries the founders resolved to pay dividend:

Name of subsidiary:	Amount of dividend:
ALTE-A Kft.	HUF 12,000,000
BC-Therm Kft.	HUF 48,031,000
Sinergy Kft.	HUF 1,000,000,000
Tisza-WTP Kft.	HUF 35,946,000

ii. The Company as the sole member of ALTEO-Depónia Kft. adopted a decision on June 22, 2018 on increasing the equity capital of ALTEO-Depónia Kft. to HUF 4,000,000 (i.e. four million forints).

iii. Sinergy Kft. as the sole member of BC-Therm Kft. also passed a decision on March 22, 2018 to reduce the equity capital from HUF 423,000,000 to HUF 304,000,000, which was registered in the company register on July 25, 2018.

iv. On March 22, 2018 Sinergy Kft. as the sole member of Tisza-WTP Kft. adopted a resolution to reduce the equity capital from HUF 191,265,000 to HUF 95,265,000, which was registered in the company register on July 25, 2018.

[4] Until October 1, 2018 Sinergy Kft. was the sole member (founder) of the following companies belonging to the ALTEO Group: Balassagyarmati Biogáz Erőmű Kft., BC-Therm Kft., Kazinc-BioEnergy Kft., Kazinc-Therm Fűtőerőmű Kft., Ózdi Erőmű Kft., Sinergy Energiakereskedő Kft., Tisza-BioEnergy Kft., Tisza-Therm Fűtőerőmű Kft., Tisza-WTP Kft., Zugló-Therm Kft., and was the owner of the shares constituting 60% of the equity capital a Tisza BioTerm Kft. With effect from October 1, 2018 these companies became directly controlled by the Company.

[5] On March 22, 2018 in the case of the Companies belonging to ALTEO Group. In the case of Péberény Kft., with regard to the transaction closure on March 13, 2018, the previous owners passed the decisions regarding the adoption of the report.

v. Sinergy Kft. - as the sole member of Zugló-Therm Kft. as from March 20, 2018 - adopted the annual report of Zugló-Therm Kft. for 2017 on May 31, 2018, has taken note of the auditor’s report, decided not to pay dividend, and appointed Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság and Dr Attila Hruby as the personally responsible permanent auditor of Zugló-Therm Kft.

vi. On June 26, 2018 the Company passed a resolution on CIVIS-BIOGÁZ Kft. and ALTSOLAR Kft. merging into ALTEO-Depónia Kft. and on VENTEO Kft. merging into WINDEO Kft. by absorption. The mergers by absorption were scheduled to take place on September 30, 2018, and their legal effects were determined to set in with effect from October 1, 2018.

vii. Within the framework of the Company’s corporate restructuring project, in line with the resolution of the General Meeting dated April 20, 2018 as well as the Company’s resolutions on the mergers by absorption passed on June 26, 2018, the assets of Sinergy Kft. specified in its deed of absorption-type demerger (thus in particular the workforce and subsidiaries of Sinergy Kft., and the contracts and liabilities apart from those relating to MOM Park and the Gibárt and Felsődobsza hydropower plants) merged into the Company, CIVIS-BIOGÁZ Kft. and ALTSOLAR Kft. merged into ALTEO-Depónia Kft., while VENTEO Kft. merged into WINDEO Kft., all with effect from October 1, 2018 as the date of legal succession. Based on the above, ALTEO-Depónia Kft. became the sole subsidiary of the Company as regards the Debrecen landfill gas power plants, while WINDEO Kft. became the project company owning the wind power plants in Ács, Pápakovácsi and Jánossomorja. In view of the merger by absorption, the issued capital of ALTEO-Depónia Kft. was raised to HUF 7,000,000.

viii. Certain members of the ALTEO Group concluded financing agreements with Hungarian financial institutions to finance their activities. As customary in such cases, they provided collaterals in that regard, which are detailed in the table below:

Company	Designation of the collateral	Date of contract conclusion
ALTEO Energiakereskedő Zrt.	a lien on claim, surety and lien on bank accounts	December 28, 2018
Soproni Erőmű Kft.	a lien attached to a business share, a mortgage on real properties, movable properties, a lien on property, a surety and lien on bank accounts, an assignment by way of security and pledges on certain receivables	November 8, 2018
Monsolar Kft.	mortgage on a business share, mortgage on real property, as well as prohibition of alienation and encumbrance, mortgage on movable property, mortgage on receivables, surety and mortgage on bank accounts	July 24, 2018

Company	Designation of the collateral	Date of contract conclusion
IT Solar Kft.	mortgage on a business share, mortgage on real property, as well as prohibition of alienation and encumbrance, mortgage on movable property, mortgage on receivables, surety and mortgage on bank accounts	July 24, 2018
Péberény Kft.	purchase option and mortgage on a business share, purchase option and mortgage on real property, as well as prohibition of alienation and encumbrance, purchase option and mortgage on movable property, lien on receivables, surety on bank accounts	August 22, 2018
Domaszék 2MW Kft.	mortgage on a business share, mortgage on real property, mortgage on movable property, lien on receivables, surety and lien on bank accounts	August 30, 2018
F.SZ. ENERGIA Kft.	purchase option and mortgage on a business share, purchase option and mortgage on movable property, a lien on receivables, surety and lien on bank accounts	September 12, 2018
True Energy Kft.	purchase option and mortgage on a business share, purchase option and mortgage on real property, as well as prohibition of alienation and encumbrance, purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts	September 12, 2018

ix. The Company as the sole member of the subsidiaries and, in the case of Tisza BioTerm Kft., the members' meeting adopted the annual report of the subsidiaries for 2018, has taken note of the auditor's report, and extended the auditor's mandate for another year on April 4, 2019; furthermore, in case of the following subsidiaries, the Company decided to pay dividend:

Name of subsidiary:	Amount of dividend:
ALTE-A Kft.	HUF 21,000,000
BC-Therm Kft.	HUF 62,324,000
Tisza-WTP Kft.	HUF 28,790,000

2. *Evaluation of the Group's activities in the 2018 year, key IFRS consolidated financial information*

2.1. *Management summary on trends and financial performance in 2018*

In 2018 ALTEO Group's primary focus was the investment of the substantial funds from the successful public offering implemented in Q4 2016 and the profits generated by its operation in a manner that provides continuous and sufficient returns in line with the 2016-2018 strategy, as well as the optimized operation of its existing portfolio, the maintenance of the approximately HUF 2 billion annual EBITDA[6] generation capacity of its asset portfolio and the laying of the groundwork for future growth.

[6] In the opinion of the Company, the profit category that can most reliably be used to measure the profitability of the Group is EBITDA (a profit category from which financial items, taxes, depreciation, and non-systematic reductions - typically impairments - have been removed).

In the second quarter of 2018, Sinergy Kft., a member company of the Group purchased an additional 51% business interest in Zugló-Therm Kft., increasing its ownership share to 100%. Before the transaction, ALTEO Group had a 49% ownership share in the block heating plant, which has an 18 MW electrical capacity and a 17 MW heat capacity, is also operated by the Group, and has been a member of the ALTEO Control Center for years now.

On March 13, 2018 the Group acquired a 100% share in Péberény Kft., facilitating the construction of a solar power plant with 6.9 MW nominal capacity on the outskirts of Balatonberény. The construction of the plant started in the second half of 2018, and is expected to be completed in Q2 2019.

On July 20, 2018, the Group purchased a 100% business share in True Energy Kft. and F.SZ. ENERGIA Kft., facilitating the construction of a solar power plant with a 7 MW nominal capacity on the outskirts of Nagykőrös. The construction of the plant started in the second half of 2018, and is expected to be completed in Q2 2019.

With the already operating 2 MW Domaszék solar power plant acquired at the end of 2017, the 4 MW Monor solar power plant development acquired in the first quarter of 2018 and delivered in December 2018, and the Balatonberény and Nagykőrös solar projects mentioned above - in the event of the successful completion of the latter two projects - the total capacity of the Group's solar power plant portfolio is planned to reach 20 MW in the first half of 2019.

The development of an innovative application model of a battery energy storage unit is in progress, for the Group received a grant of close to HUF 500 million in a tender of the National Research, Development and Innovation Office. Following the receipt of the required permits for the energy storage unit, on August 23, 2018 the accreditation procedure necessary for participation in the primary control system was also successfully concluded. The grant enabled the Company to implement a research and development project with an aggregate budget of nearly HUF 1.1 billion to explore energy storage as well as its combination with the more predictable use of weather-dependent energy sources.

On the whole, the management of the Company is of the opinion that in light of the aforementioned projects and investments as well as the projects of the previous year, ALTEO is well on its way to realizing, by the end of the Q2 2019, the investment target of HUF 10-15 billion set in November 2016. As a result of its substantial investments completed or started last year and this year in various fields of sustainable energy production, energy storage and energy services involving capacity expansion and, to a lesser extent, modernization, by the end of the first half of 2019 the Group will have implemented development projects in excess of HUF 12 billion.

Considering the major business lines of ALTEO Group, the following conclusions can be made:

Profit generation in the **(market-based, non-KÁT) Heat and electricity production segment** slightly decreased in 2018 compared to the previous period, primarily as a result of one-time occurrences (the profit-improving effect of the significant provision released in 2017 was not felt in 2018). The Group's profitability resulting from continuous operation improved despite the fact that the CO_2 quota allocated to the Group free of charge is continuously shrinking in accordance with the relevant legislation, and the major rise in the quota price during 2018 significantly increased the costs of the segment. As a result of these two conflicting effects, the segment's EBITDA decreased by HUF 68 million compared to the base period.

The EBITDA of the **(KÁT system) Electricity production segment** dropped by HUF 125 million compared to the same period of 2017, since the Jánossomorja, Ács and Pápakovácsi wind power plants completed their respective KÁT quotas set at the time of their installation and so they have been selling the electricity they produce on the free market since April 2017, September 2017 and June 2018, respectively. Starting from September 2018, the Gibárt hydropower plant has also been selling the electricity produced there on the free market. The removal of the power plants from the KÁT system caused a HUF 236 million drop in the segment's EBITDA, but we achieved a major success by integrating the affected wind power plants and the hydropower plant into our Control Center, enabling us to efficiently sell the electricity produced by them even on the free market. The lower profitability of the power plants removed from the KÁT system was in part compensated by the power output of the new landfill gas power plant in Debrecen and the solar power plants in Domaszék and Monor. Together, they increased the segment's EBITDA by HUF 100 million.

The revenues and profitability of the **Energy services segment** exceeded those achieved in the comparative period. The segment's EBITDA increased from HUF 1,166 million in 2017 to HUF 1,257 million in 2018. While in 2017 the Group, as a main contractor, was involved in major construction projects for third parties (steam boiler construction and capacity expansion at the Tisza WTP water treatment plant for MOL Petrolkémia and the energy system of the Strabag office building), in 2018 it focused its construction resources and efforts mainly on its own large scale developments (energy storage, solar power plant developments).

The **Energy retail trade segment** saw a significant profit increase in 2018 as a result of higher volumes and average prices. The segment's EBITDA increased by HUF 423 million to HUF 282 million. Regarding the Energy retail trade segment, it should be noted that the Company does not take part in, and does not supply energy to retail consumers under, universal service, therefore, its activities and related profit generating capacities are not affected directly by any changes in legislation related to the universal service.

As a result of the above, ALTEO Group's consolidated EBITDA - considered to be of special importance by the Group management when evaluating the financial performance of the Company Group which is currently in its active investment and growth period - amounted to a total of HUF 1,801 million in 2018 compared to the HUF 1,952 million realized in 2017. The Company's profit slightly decreased - a significant part of the Company Group's resources are currently used for the Group's ongoing own developments due to the further intensification of its investment/implementation activities in 2018. Further growth of the EBITDA generation capacity requires, first of all, continuation of investments already started and put into operation in line with the strategy, and the implementation of additional new investments.

2.2. Detailed management analysis for the consolidated IFRS statement of profit or loss

2.2.1. Changes in methodology during the preparation of the Report

The management of the Group decided that in order to be in greater alignment with the practice employed by major issuers on the Budapest Stock Exchange, the Group will recognise its local business tax and innovation contribution liability as income tax expenditure from 2018 onwards. For the purpose of comparability, the Group will present figures of the affected profit categories for 2017 as if they had already been presented in accordance with the new rules.

The Group's 2018 performance can be presented with the following statement of profit and loss:

Consolidated statement of profit or loss

data in million HUF	**12/31/2018 audited**	**12/31/2017 comparison**	**12/31/2017 audited**	**Change compared to the previous year, in million HUF**	**Change compared to the previous year, %**
Revenues	**18,686**	**18,389**	**18,389**	**297**	**2%**
Material expenses	(14,264)	(14,606)	(14,606)	342	-2%
Personnel expenses	(2,507)	(2,154)	(2,154)	(353)	16%
Depreciation and amortization	(730)	(572)	(572)	(158)	28%
Other income and expenses, net	(147)	306	170	(420)	-148%
Impairment loss	(33)	(2)	(2)	(31)	N/A
Operating profit or loss	**1,038**	**1,361**	**1,225**	**(323)**	**-24%**
Net finance income	(232)	(329)	(329)	97	-30%
Profit or loss before taxes	**806**	**1,032**	**896**	**(226)**	**-22%**
Income tax expense	(276)	(117)	19	(159)	135%
Of which: Local business tax expenditure	(213)	(136)	-	(77)	57%
Net profit or loss	**530**	**915**	**915**	**(385)**	**-42%**
Of which, to owners of parent company	511	913	913	402	-44%
Of which, to minority shareholders	19	2	2	17	850%
Base EPS (HUF/share)	**32.72**	**58.38**	**58.38**	**(25.66)**	**-44%**
Diluted EPS (HUF/share)	**31.17**	**55.64**	**55.64**	**(24.47)**	**-44%**
EBITDA*	**1,801**	**1,952**	**1,799**	**(151)**	**-8%**

** In the opinion of the Company, the profit category that can most reliably be used to measure the profitability of the Group is EBITDA (a profit category from which financial items, taxes, depreciation, and non-systematic reductions - typically impairments - have been removed). Therefore, impairment and local business taxes and innovation contributions - if any - have been removed from the Other income and Other expenses lines that are used to provide a more detailed elaboration of the EBITDA in the above table.*

Consolidated statement of profit or loss

data in million HUF	**12/31/2018 audited**	**12/31/2017 comparison**	**12/31/2017 audited**	**Change compared to the previous year, in million HUF**	**Change compared to the previous year, %**
Net profit or loss	**530**	**915**	**915**	**(385)**	**-42%**
Other comprehensive income (after income tax)	(260)	(480)	(480)	220	-46%
Comprehensive income	**270**	**435**	**435**	**(165)**	**-38%**
Of which, to owners of parent company	252	433	433	(182)	-42%
Of which, to minority shareholders	19	2	2	17	850%

The Group's **Revenue** increased by HUF 0.3 billion to HUF 18.7 billion as compared to 2017, primarily as a result of the growth in the Energy Retail segment. Its effect was reduced by the fact that three wind power plants that predominantly produced energy within the Mandatory Offtake System (KÁT) in 2017 generated the maximum amount of energy that can be produced within the supported system by the end of the first half of 2018, so the rest could not be sold at a supported tariff. Revenue was further reduced in the short term by ALTEO Group's project development unit focusing primarily on work related to ALTEO's solar power plant projects within the Group that year; these projects were delivered in stages in the second half of 2018 and will continue to be delivered in the first half 2019. With these internal projects being implemented, less resources were allocated to the implementation of third-party projects.

Related **Material expenses** decreased despite the increase in revenue. The total amount of material expenses decreased despite the fact that the segment level material expenses of the Energy Retail segment rose by HUF 1.4 billion in relation to the increase in its revenue. This effect was mitigated by the consolidation of Zugló-Therm Kft. in the second quarter which led to the COGS (cost of goods sold) paid to the third party up to that point being covered by the Group from then on, and the absence of the expenditure associated with construction/installation services within the Group.

The HUF 0.4 billion increase in **Personnel expenses** represents the costs of wage increases required for new venture projects - as well as the additional costs of hiring more employees as a result of the growth of the Group and the costs of retaining existing employees - necessitated by the current labor market situation.

The increase in costs in the **Depreciation and amortization** line was caused by ALTEO Group's assets being increased by projects (landfill gas power plant in Debrecen, Zugló-Therm, solar power plants in Domaszék and Monor).

The balance of **Other income and expenses, net** decreased by HUF 0.4 billion as compared to 2017. This change was caused by a combination of three factors: first, the 2017 partial release of the provision for risks arising from previous contractual obligations related to the acquisition of Sinergy Kft. was no longer present in 2018. The price of the carbon dioxide quota paid on the basis of gas consumption tripled from EUR 7 per tonne to EUR 21 per tonne in the comparative period, while the amount of quota allocated to producers free of charge decreased significantly. Moreover, there was a HUF 0.3 billion increase in other income as a result of the Group successfully coming to an agreement with one of its long-term service partners on a retroactive compensation.

Owing to the above, ALTEO Group earned an **Operating profit** of HUF 1 billion in 2018, with an **EBITDA** of HUF 1.8 billion.

The HUF 97 million improvement in **Net finance income** is mainly attributable to translation gains realized on lease receivables and other transactions invoiced in foreign currency, and unrealized exchange gains from period-end revaluations (HUF 91 million). Owing to lower interest expenses on the bond portfolio refinanced in 2017, interest expenses decreased by HUF 40 million. Interest expenses on bank loans increased by HUF 24 million as a result of the loan of Zugló-Therm included in the scope of consolidation and interests paid on loans for solar power plants that are already operational.

ALTEO Group's **Profit before taxes** was HUF 0.8 billion in 2018. The Group recorded HUF 1.0 billion in this line in 2017.

Income tax expense increased by HUF 159 million as compared to 2017.

In total, the Group's post-tax, i.e. net, profit was HUF 530 million in 2018, down from HUF 915 million in 2017.

Consolidated **Comprehensive income** development was influenced by the following factors. The Group entered into interest rate swaps on its outstanding project loans in line with its risk management policy. This resulted in a considerable reduction in the interest rate risk on project loans. The Group entered into gas and electricity and foreign currency hedging transactions in relation to control center production and electricity retail, reducing the volatility of their hedges.

The Group recognized the cumulative effect (including deferred tax) of the end-of-period revaluation of these hedges in other comprehensive income as an item of unrealized losses in the amount of HUF 260 million. The management intends not to realize these transactions before maturity as the predictability of the profitability of the Group would otherwise be significantly impaired. Gains or losses on outstanding hedges show the reporting-date value based on the risk of an already hedged underlying transaction. This will be recognized at later dates, simultaneously with the future realization of the hedged underlying transaction, ensuring that the initial purpose of hedging is achieved.

As a result of the above, the **Comprehensive income was HUF 270 million** in 2018.

2.2.2. Activity statements by business

ALTEO GROUP MANAGEMENT STATEMENT - BY ACTIVITY FINANCIAL STATEMENT

31/12/2018 non-audited *data in million HUF*	**Heat and electricity production (market rate, outside the KÁT system)**	**Electricity production (within the KÁT system)**	**Energy services**	**Energy trading**	**Other**	**Items filtered out due to consolidation**	**Total**
Revenue	**10,231**	**627**	**7,582**	**6,943**	**347**	**-7,044**	**18,686**
Material expenses	-8,697	-164	-4,926	-6,626	-545	6,695	(14,264)
Personnel expenses	-30	-73	-1,611	-53	-800	60	(2,507)
Other revenues and Other expenses	-426	43	213	18	-10	48	(114)
EBITDA*	**1,078**	**433**	**1,257**	**282**	**-1,008**	**-241**	**1,801**

** In the opinion of the Company, the profit category that can most reliably be used to measure the profitability of the Group is EBITDA (a profit category from which financial items, taxes, depreciation, and non-systematic reductions - typically impairments - have been removed). Therefore, impairment and local business taxes and innovation contributions - if any - have been removed from the Other income and Other expenses lines that are used to provide a more detailed elaboration of the EBITDA in the above table.*

Heat and electricity production (market rate, outside the KÁT system)

The Heat and electricity production (market rate, outside the KÁT system) segment comprises all renewable electricity production facilities not producing in the KÁT balancing group as well as combined heat and power (cogeneration) heating plants. This business also includes heating plants and the Control Center that manages the Group's (market, non-KÁT) renewable electricity production as well as the electricity production of cogeneration equipment in heating plants. The business has two key sources of revenue: one is the electricity produced by renewable and cogeneration equipment under its management, while the other is the heat produced by gas engines and boilers. The business also includes the Control Center at Sinergy Energiakereskedő Kft., granting access to the System Services market through the integrated management of electricity production facilities. The profit that can be realized on the electricity production portfolio with integrated electricity management and structured electricity products greatly exceeds the levels that can be achieved by implementing conventional production strategies.

Heat and electricity production (market rate, outside the KÁT system)

data in million HUF	**12/31/2018 audited**	**12/31/2017 comparative**	**12/31/2017 audited**	**Change HUF million compared to the previous year**	**Change % compared to the previous year**
Revenue	**10,231**	**9,589**	**9,558**	**642**	**7%**
Material expenses	-8,697	-8,660	-8,660	-37	0%
Personnel expenses	-30	-1	-1	-29	2,900%
Other revenues and Other expenses	-426	217	181	-644	-296%
EBITDA*	**1,078**	**1,146**	**1,078**	**-68**	**-6%**

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In the "comparative" column shown, the Other income and Other expenses lines for 2017 were adjusted with the Local business tax and Innovation contribution recognized for the segment in 2017 in line with the principle of comparability. To provide a more realistic view of profit figures by segment, several minor items linked directly to the power plants (e.g. lease fees) were reclassified and presented under this segment.

In the second quarter of 2018 ALTEO Group also acquired majority ownership in Zugló-Therm Kft. Before the transaction, the Group had a 49% ownership share in the block heating plant, which has an 18 MW electrical capacity and a 17 MW heat capacity, is also operated by the Group, and has been a member of the ALTEO Control Center for years now.

The increase in the segment's revenue was essentially facilitated by the increase in the production and sale of structured electricity products resulting in part from the reliable operation of the Group's own combined heat and power (CHP) plants, the batteries for energy storage RDI project, which started live operation in August 2018, the successful sale transactions of the independent (third party) producers that joined the Control Center, and in part the successful integration of renewable electricity production facilities of the Group which had completed their KÁT quotas.

Material expenses include three major items: the cost of the gas purchased, the cost of the electricity purchased from external (non-consolidated, third party) power plants, and the costs and expenses associated with operation and maintenance.

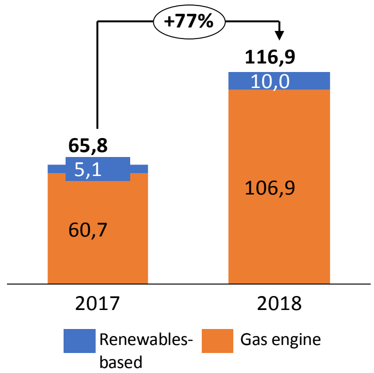
The scale of profitability of the industrial (not belonging to regulated district heating production) subsegment of the (market-based, non-KÁT) Heat and electricity production segment did not change between the periods under review (AUDI, Heineken, Agria Park, MOM Park etc.).

The Control Center successfully integrated into its portfolio several wind power plants and a hydroelectric power plant of the Group which had completed their KÁT quotas. The Control Center can already use these production units also on the System Services market, enabling it to achieve a higher added value.

For the most part, the **Batteries for Energy Storage R+D+I project** was realised by the end of 2018. The Company was awarded a HUF 500 million grant by the National Research, Development and Innovation Office to finance the project which had an anticipated total cost of HUF 1.1 billion. The grant allows the implementation of a research and development project which will explore energy storage as well as its combination with the more predictable use of weather-dependent energy sources. This development is integral to the activities carried out in the segment. The largest item within the project, the energy storage unit was completed and delivered, and it commenced live operation at the end of August 2018. The project includes some additional minor developments (electricity based heat generating device, IT developments), which are still in progress and are expected to be completed in 2019.

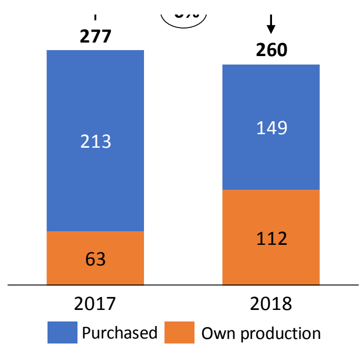
The impact of the sale of structured electricity products on the segment's profit

The significant increase in the segment's own **electricity production** was a consequence of including Zugló-Therm Kft. in the consolidation, while the increase in renewable energy production was a result of the successful integration of the facilities which had completed their KÁT quota and joined the segment in the period under review.



Changes in the segment's own electricity production (GWh) in 2017 and 2018

Electricity sales fell 6% below the previous period, due in part to the drop in the volume of electricity products purchased for the Retail segment on an ad-hoc basis and presented under this segment for technical reasons. But these are only pass-through items for the segment without any significant impact on profit.



Electricity sold by the Control Center (GWh) in 2017 and 2018

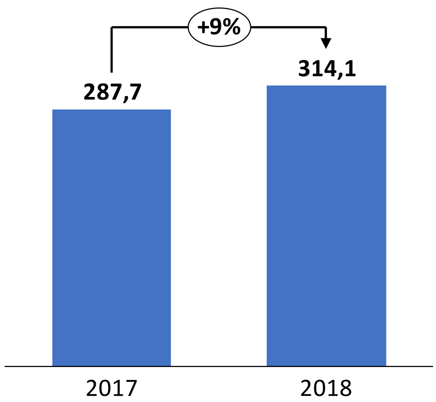
Despite the significantly higher CO_2 quota price, the segment realised a higher year-on-year **cover** on the production and sale of structured electricity products, as a result of the following factors:

- In 2018 the Control Center achieved higher cover on the capacity market than in 2017.
- With the go-live of the Batteries for Energy Storage R+D+I, a primary regulatory revenue was also realised.
- With the consolidation of Zugló-Therm Kft., the cover previously paid to an external third-party was channelled back into the Group from the second quarter of 2018 on.
- The extremely cold weather in the first quarter of 2017 did not return in 2018, which had a positive effect on the cover.

The impact of heat energy (district heating) production and sale on the segment's profit

Similarly to structured electricity products sale, the economic performance of the district heating subsegment also shows year-on-year improvement.

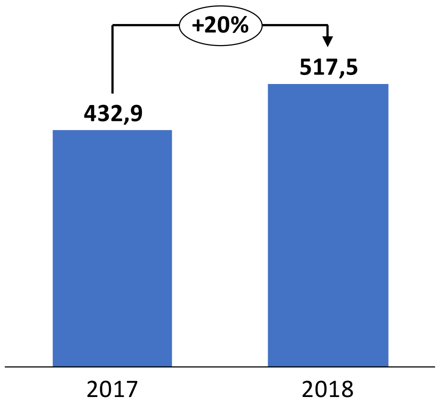
The heat energy produced by the segment increased by 9% in 2018, primarily as a result of the heat production of Zugló-Therm Kft. being included in that of the Group. The 28% increase in the revenues realized from heat sales is a result of the higher heat production volume and the more favourable feed-in tariff set by the authorities. According to the cover policy of the Group, the gas volume necessary for the production is covered, thus ensuring low volatility of the segment cover.



Amount of heat sold by the segment (GWh) in 2017 and 2018

The amount of natural gas used by the segment increased by 20%, primarily as a result of the gas volume associated with the heat and electricity production of Zugló-Therm Kft. being included in the existing gas consumption of the Group.

No major changes that are independent of the production volume, i.e. changes in the difference between the revenues and the fees that are proportional to the contracted performance, occurred and these figures remained roughly the same as in the previous period.



Amount of natural gas used by the segment (GWh) in 2017 and 2018

Other items impacting the segment's profit

The most significant items among the segment's other costs and expenses are the operating and management fees paid within the Group, which significantly increased with the consolidation of Zugló-Therm Kft. In addition, a number of general costs (e.g. insurance, real estate rent, banking costs) also grew compared to the previous year.

An increase in personnel expenses occurred in connection with exploring the possibility of operating the Control Center abroad.

A significant portion of the changes affecting the segment's Other income and expenses (releasing the provisions which had been created for onerous contracts and were settled in 2017) were identified as one-off items.

Electricity production (within the KÁT system)

Electricity production (within the KÁT system) comprises exclusively renewable energy assets (solar, wind, hydro, landfill gas) used for production within the KÁT balancing group. This business is not involved in energy sales to within the ALTEO Group. In terms of revenue, the business is dominated by weather-dependent (wind, hydro, solar) power plants.

Electricity production (within the KÁT system)					
data in million HUF	12/31/2018 audited	12/31/2017 comparative	12/31/2017 audited	Change HUF million compared to the previous year	Change % compared to the previous year
Revenue	**627**	**838**	**838**	**-211**	**-25%**
Material expenses	-164	-221	-223	57	-26%
Personnel expenses	-73	-97	-97	24	-25%
Other revenues and Other expenses	43	38	26	5	14%
EBITDA*	**433**	**558**	**544**	**-125**	**-22%**

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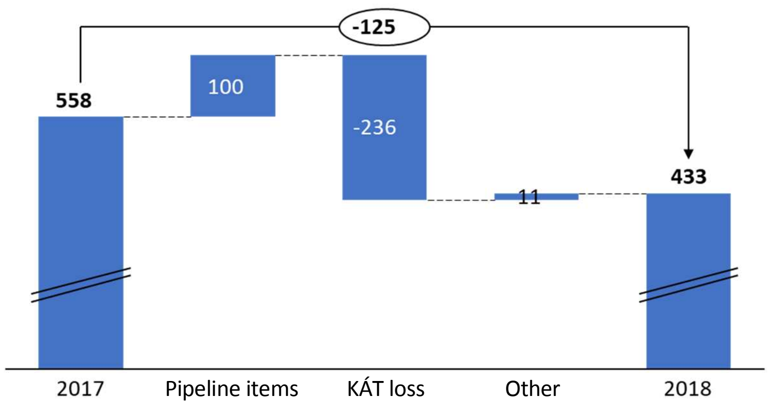
In the "comparative" column shown, the Other income and Other expenses lines for 2017 were adjusted with the Local business tax and Innovation contribution recognized for the segment in 2017 in line with the principle of comparability.

Revenue from the Group's **electricity production plants selling electricity within the KÁT system** was HUF 211 million lower as compared to the same period in 2017. The main reason for this decline in revenue was that the power plants of VENTEO Kft. and WINDEO Kft. were removed from the KÁT balancing group and consequently recognized in the Heat and electricity production (market rate, outside the KÁT system) segment. The impact of the operation of these power plants no longer being supported was significantly reduced by the revenue generated by the ALTEO Group's new renewable power plants producing within the KÁT system.

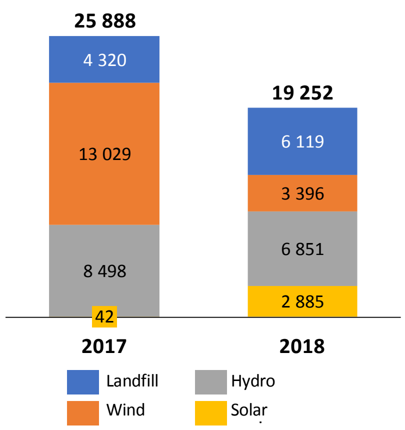
The production of the Group's power plants that produced within the KÁT system in both 2017 and 2018 was on average comparable to the quantity produced in 2017. The decline in their EBITDA (HUF -236 million) was mainly attributable to the wind power plants in Ács, Pápakovácsi and Jánossomorja as well as the Gibált hydropower plant being removed from the KÁT system and reclassified under the Heat and electricity production (market rate, outside the KÁT system) segment.

The Group is continuously monitoring investment opportunities into renewable energy. Accordingly, the Group implemented a new project to increase the capacity of the landfill gas power plant at ALTSOLAR Kft. in Debrecen by around 0.5 MW in 2017 and acquired Domaszék 2 MW Kft. to expand its weather-dependent renewable portfolio by 2 MW in November 2017. As a result of the capital expenditure and the acquisition, the segment's EBITDA value increased by HUF 100 million. On December 1, 2018, production was launched at the Monor solar power plant with a 4 MW capacity.



On account of the solar power plant projects in progress, the generation of substantial growth is expected in the sector. In addition to the existing solar power plants in Domaszék and Monor, the Group is implementing 2 solar power plant projects in Balatonberény and Nagykőrös, with a 7 MW nominal capacity each, in the first half of 2019.

In order to clean up its portfolio, the Group sold EXIM-INVEST BIOGÁZ Kft., the operator of its biogas power plant in Nyíregyháza, on August 15, 2018, which was removed from the state-supported KÁT system with effect from June 30, 2018.



Amounts sold in 2017 and 2018 and their distribution (MWh)

Energy Services

The Energy Services segment comprises power plant operation and maintenance (O&M) services provided both within the Group and to third parties as well as construction activity, engineering activity and energy consultancy. The revenues and cover of this business line come predominantly from O&M services provided to Group member and third party customers (including services provided - among others - at the TVK Power Plant for MOL Petrolkémia, at the BC Power Plant for BorsodChem, at the Nagykőrös Biogas Plant, at the MOM Park energy center, at the MOL Dunai Finomító and for the Budapesti Erőmű). We carry out operation and maintenance tasks for certain energy facilities owned by third parties and of certain power plants owned by ALTEO Group under long-term contracts, providing qualified staff and the materials and tools required for operation and maintenance. As part of the operation activities, we carry out daily operation and business process tasks including continuous operation and monitoring of the equipment, preparation of production schedules, fulfilling regulatory reporting obligations, ensuring that all operation and supply conditions are met, and carrying out repair work. Maintenance activities include planned maintenance work, the replacement of parts as necessary, carrying out renewal tasks and fixing any malfunctions.

In addition to O&M services, the Group also offers its customers engineering, project development and project management services, as well as main contractor construction services related to energy investments and developments, under individual orders and contracts.

Energy Services					
data in million HUF	12/31/2018 audited	12/31/2017 comparative	12/31/2017 audited	Change HUF million compared to the previous year	Change % compared to the previous year
Revenue	**7,582**	**6,216**	**6,216**	**1,365**	**22%**
Material expenses	-4,926	-3,759	-3,735	-1,167	31%
Personnel expenses	-1,611	-1,345	-1,237	-267	20%
Other revenues and Other expenses	213	54	1	159	294%
EBITDA*	**1,257**	**1,167**	**1,245**	**90**	**8%**

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The sales revenue of Energy Services increased by 22% (HUF 1,365 million), primarily on account of solar projects which accelerated from the third quarter. In 2017, the ALTEO Group implemented a number of projects for third parties (steam boiler construction and capacity expansion at Tisza WTP water treatment plant for MOL Petrolkémia and the energy system of the Strabag office building), while it focused on the implementation of its own, mainly solar power plant projects during 2018.

We implemented a steam generator construction project for MOL Petrolkémia, and the facility has been delivered. In the meantime, the costs of the prolonged construction have increased substantially, primarily due to the general labor shortage observed in the construction industry. The increased costs could not be claimed in full from MOL Petrolkémia and this had an adverse effect on profit in the amount of HUF -122 million in 2018.

The profit or loss from other income/expenses in the segment was HUF 159 million higher than in the same period last year. The Group came to an agreement concerning a previously unrealized revenue related to retroactive accounting in connection with a long-term service contract with a positive effect on profit in the amount of HUF +264 million in 2018. The item referred to above was not identified and recorded as an asset during the acquisition of Sinergy Kft. in 2015 due to its uncertainty. The 2017 base figure was improved by the release of a provision for a past dispute (in the amount of HUF 63 million).

Retail energy trade

The Group's energy trading activity involves selling electricity on the free market. During 2016, ALTEO launched its natural gas trading activity, also being recognized in this segment. Our energy retail activity does not include any sales activities under universal service. As of January 1, 2018, both licensee activities are conducted by a member of the ALTEO Group, ALTEO Energiakereskedő Zrt.; therefore, the Group did not renew ALTEO Nyrt.'s operating license for electricity trade that expired on September 19, 2018.

Retail energy trade					
data in million HUF	**12/31/2018 audited**	**12/31/2017 comparative**	**12/31/2017 audited**	**Change HUF million compared to the previous year**	**Change % compared to the previous year**
Revenue	**6,943**	**5,121**	**5,121**	**1,823**	**36%**
Material expenses	-6,626	-5,217	-5,217	-1,409	27%
Personnel expenses	-53	-47	-47	-6	12%
Other revenues and Other expenses	18	3	-34	15	500%
EBITDA*	**282**	**-140**	**-177**	**423**	**301%**

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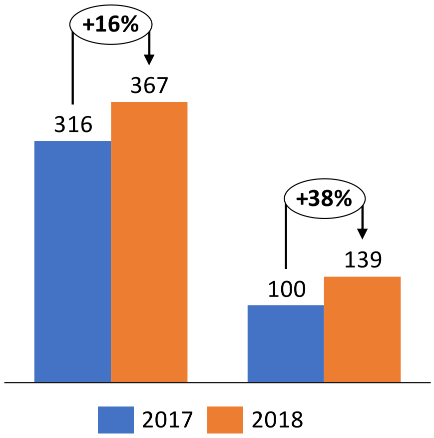

Changes in the amounts of natural gas and electricity sold in 2017 and 2018 (GWh)

The amount of the electricity sold increased from 316 GWh to 367 GWh (+16%), and the sale price (following the seasonal trends) grew by 15%. The amount of the natural gas sold increased from 100 GWh to 139 GWh (+38%), mainly as a result of acquiring a new industrial consumer customer and the portfolio expansion following the first gas year. Here, the average selling price did change significantly.

The revenue of the segment increased by HUF 1,823 million in 2018 as compared to 2017. This revenue increase is largely attributable to the growth of the electricity trading business (HUF 1,450 million); however, the revenue from the gas trading activity was also up by HUF 373 million as compared to last year.

The hedging of the segment's electricity trading business improved by HUF 426 million in 2018. Owing to extremely cold weather in the first two months of 2017, two factors had a negative effect on the segment: first, the additional consumption compared to the quantity hedged for ordinary weather could only be covered by purchasing electricity from the SPOT market at peak prices, and the associated costs could not be passed on to consumers. In order to avoid similar risks, the Company has since successfully changed its hedging policy.

COGS (cost of energy bought and resold) represented the greatest cost for the segment with HUF 6,442 million, recognized under material expenses. Nearly a quarter of the electricity was acquired from ALTEO's Heat and electricity production (market rate, outside the KÁT system) segment presented above (from the operator of the Control Center, Sinergy Energiakereskedő Kft., that buys electricity products in part from own power plants and in part directly from the exchange as a member of HUPX, and resells them).

As a result of the successfully changed hedging policy, the hedging of electricity trading improved by HUF 426 million as compared to 2017; however, there was a slight deterioration of HUF 3 million in the hedging of gas trading. Other costs not covered by hedging (membership fees, administrative costs, banking bank charges) somewhat increased compared to last year.

The segment's EBITDA was up by HUF 423 million as compared to 2017, primarily due to the significant improvement in hedging.

Other segment

Other business involves administrative and advisory revenues that are not directly attributable to any business. The Group's costs and expenses not allocated to segments are also recognized here.

Other segment					
data in million HUF	12/31/2018 audited	12/31/2017 comparative	12/31/2017 audited	Change HUF million compared to the previous year	Change % compared to the previous year
Revenue	**347**	**346**	**377**	**1**	**0%**
Material expenses	-545	-407	-431	-139	34%
Personnel expenses	-800	-681	-789	-119	18%
Other revenues and Other expenses	-10	9	-15	-20	-211%
EBITDA*	**-1,008**	**-733**	**-858**	**-277**	**-38%**

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In the "comparative" column shown, statement of profit and loss lines for 2017 were adjusted with management fees within the segment recognized as gross amounts in the previous period, revenue from leasing that is recognized under the market energy production segment as of January 2018, and primarily intra-Group activities that are recognized under the Energy Services segment as of January 2018. In the column presenting figures for 2017, the Other income and Other expenses lines were adjusted with the Local business tax and Innovation contribution recognized for the segment in line with the principle of comparability.

The profit or loss of the Group's Other segment is primarily determined by revenues from management fees collected from subsidiaries, costs of human resources performing administrative and other support functions, and other material costs necessary to perform functions.

There was only a slight change in the revenue generated by the Group's Other segment (HUF 347 million) in 2018 in line with refining the allocation of responsibilities within the Group.

Material expenses in 2018 were HUF 139 million higher mainly due to advisory services used in relation to investments, costs of marketing and training, and IT costs related to the optimization of the Group's operation.

As a result of the growth in certain activities of the Group, personnel expenses increased by HUF 119 million as compared to the same period of the previous year. In addition to the general labor market environment, the increased size of the company and the significant volume of ongoing development/investment projects justified certain third-party services to be arranged for in-house and the expansion of existing expert staff.

2.2.3. Consolidated IFRS statement of financial position

Consolidated Statement of Financial Position				
data in million HUF	12/31/2018 audited	12/31/2017 audited comparative	Change million HUF	Change %
Non-current assets	**13,716**	**7,546**	**6,170**	**82%**
Current assets	**9,143**	**9,106**	**37**	**0%**
of which, financial assets	*2,561*	*2,826*	*-265*	*-9%*
TOTAL ASSETS	**22,859**	**16,652**	**6,207**	**37%**
Equity	**5,145**	**5,119**	**26**	**1%**
Long-term liabilities	**9,130**	**6,255**	**2,875**	**46%**
of which loans, borrowings, bonds, leases	*8,165*	*5,382*	*2,783*	*52%*
Short-term liabilities	**8,584**	**5,278**	**3,306**	**63%**
of which loans, borrowings, bonds, leases	*1,597*	*547*	*1,050*	*192%*
TOTAL EQUITY and LIABILITIES	**22,859**	**16,652**	**6,207**	**37%**

The key group of assets (including power plants and equipment) of the Group, **non-current assets**, grew by 82% in comparison to the value in the comparative period.

In the current period, fixed and intangible assets showed an increase of over HUF 7 billion due to the combined effect of projects and purchases. Recognized depreciation was HUF 730 million.

This significant increase is attributable to the following items:

- The solar power plant project in Monor that was successfully delivered in the last month of the year added nearly HUF 1.6 billion to fixed assets in itself.
- In connection with the projects underway for the establishment of the solar power plants at Balatonberény and Nagykőrös purchased during the year, more than HUF 2.5 billion have been invested already.
- With the purchase of the Zugló heating plant, the stock of non-current assets increased by almost HUF 1.2 billion.
- The asset and intellectual property created under the R&D&I project also increased non-current assets by another HUF 1.1 billion.

In addition, the Group launched a smaller-scale investment program to improve the efficiency of its heating plants, which included a scheduled overhaul of the gas engines at the Soproni Erőmű Kft. and Zugló-Therm Kft. and certain improvements at the heating plants in Kazincbarcika and Tiszaújváros.

Recorded under non-current assets, assets under lease decreased by HUF 264 million to HUF 219 million. As the repayment of this latter part to the Group is expected within 1 year, it was reclassified as a current asset.

Current assets (HUF 9,143 million) remain roughly the same as in the balance at December 31, 2017.

This included a HUF 246 million increase in the combined amount of **trade receivables** (HUF 3,320 million) and **other receivables, accrued income and deferred charges** (HUF 1,636 million) as a result of the increased trade receivables due to the consolidation of Zugló-Therm Kft., a growth in trade receivables from heat customers of heating plants and decreased receivables from projects that existed at the end of last year, but have since concluded.

Other financial assets (HUF 915 million) increased by HUF 41 million, primarily due to changes in the composition and magnitude of hedging derivatives outstanding at the reporting date within the period and changes resulting from the valuation of transactions outstanding at the reporting date. The detailed impact of hedges is presented in the notes to the statement of profit and loss (Section 2.2.2).

Cash and cash equivalents (HUF 2,561 million) decreased by HUF 264 million as compared to December 31, 2017. The decrease is attributable to the significant level of investment and project activity, and dividend payment, partially offset by changes in net current assets (for details see the description of each line). Changes are presented in detail in the Cash Flow statement that forms part of the consolidated financial statements.

There was a HUF 26 million increase in the Group's **equity** compared to December 31, 2017.

The net profit attributable to the parent company in 2018 was HUF 511 million, and HUF 250 million was paid in dividends in the second quarter of 2018, reducing equity. The reasons for the changes in equity are described in detail in the table for equity movements.

In line with its hedging strategy, the Group entered into hedges for the upcoming years in order to ensure its operation with an acceptable level of risk. As of the reporting date, the aggregated fair value of outstanding hedges was negative and the Group recognized it in its equity. This reduced the equity by HUF 260 million as compared to the previous period.

The Group's **long-term liabilities** (HUF 9,130 million) increased by HUF 2,875 million as compared to December 31, 2017.

Long-term debentures were reduced by HUF 859 million (to HUF 2,624 million) in 2018, primarily due to bonds maturing in 2019 being reclassified as short-term debentures. Debentures due within a year (HUF 982 million) represent interest and principal payments due within a year.

Provisions decreased by HUF 74 million as compared to the amount at the end of the year, mainly due to the Group reporting power plants' emissions not covered by CO_2 quota under accruals instead of provisions from 2018.

There was a considerable increase of HUF 3,474 million in **long-term loans**. In addition to loans taken out for the construction of solar power plants, the Group refinanced its solar power plant in Domaszék and cogeneration power plant in Sopron.

Deferred tax liabilities were reduced by HUF 80 million as a result of the mechanism introduced to offset the income tax effect of different depreciation rates and other items of taxation and accounting between years.

The obligation recognized under **other long-term liabilities** in the amount of HUF 286 million is the present value of the so-called "conditional purchase price" related to the acquisition of the Zugló heating plant in the first quarter of 2018.

Finance lease liabilities increased by HUF 177 million in 2018 and the reason for this was that the Group renewed the lease agreements for two leased hydropower plants.

Short-term liabilities (HUF 8,584 million) grew by HUF 3,306 million, or 63% as compared to the comparative period owing to of the factors below.

Short-term loans (HUF 614 million) increased by HUF 92 million in the current period. The 2019 instalments of the loan consolidated with the first-quarter acquisition of the Zugló heating plant and the loans taken out for refinanced projects and the solar power plant project exceeded the reductions resulting from the repayment of existing loans as scheduled.

The cumulative amount of **trade payables** and **other short-term liabilities and accruals** grew by HUF 2,229 million in comparison to the previous year. The reasons for this considerable increase include new acquisitions (Zugló-Therm Kft., solar project companies) being consolidated, along with the related project activity, and an increase in turnover as a result of retail growth.

There was a year-on-year decline in **advances received** by HUF 274 million to HUF 365 million. The main reason for this decline was that a member of the Group, Tisza BioEnergy Kft., repaid the tender advance of HUF 221 million borrowed in connection with the Tiszaújváros biomass power plant during the year. Under advances, the Group records advances that have not yet been recognized for research & development projects.

3. ***Events and changes affecting the Group's position***

Considering the period from the beginning of 2018 to the disclosure date of this Management Report, the changes and events which occurred in said period related to the following Group member companies should be highlighted. With regard to the Company and each Subsidiary, this Management Report covers only major changes which occurred in 2018.

a) ALTEO Nyrt.

i) The Company's transactions, and information on existing shares in subsidiaries

Acquisition of Péberény Kft.

The Company - as buyer - concluded a business share purchase contract for the transfer of the ownership of a business share representing the entire issued capital of Péberény Ingatlanhasznosító Korlátolt Felelősségű Társaság (registered office: 1016 Budapest, Hegyalja út 7-13.; company registration number: 01-09-190766; hereinafter: "**Péberény Kft.**"), in the amount of HUF 100,000,000, to the Company.

With the so-called closing conditions specified in the business share purchase contract fulfilled, the ownership of Péberény Kft's business share was transferred to the Company on March 13, 2018.

Through Péberény Kft., the Company is implementing a small solar plant project with a nominal capacity of 6.9 MW on the outskirts of Balatonberény, on the 12.4 ha industrial property owned by Péberény Kft. Péberény Kft. has obtained all necessary permits for the construction of the solar power plant. The solar power plant is expected to start commercial operation in the first half of 2019. Afterwards, the produced electricity will be sold through the KÁT system for 25 years based on the license issued by HEA.

Acquisition of the project companies of the Nagykőrös solar power plant project

On July 20, 2018, the Group purchased a 100% business share in True Energy Kft. and F.SZ. ENERGIA Kft. Through these companies, the Group is implementing a small solar power plant project on the outskirts of Nagykőrös, with a total capacity of nearly 7 MW produced by 14 (7 for each company) solar panels, each with a nominal electrical capacity of 495 kW. The companies have obtained all necessary permits for the implementation of the solar power plant project. The solar power plants are expected to start commercial operation in the first half of 2019. Afterwards, the produced electricity will be sold through the KÁT system for 25 years based on the license issued by HEA.

Exiting from the Nyíregyháza landfill gas project

In order to clean up its portfolio, the Company sold EXIM-INVEST BIOGÁZ Kft., the operator of its biogas power plant in Nyíregyháza, on August 15, 2018, which was removed from the state-supported KÁT system with effect from June 30, 2018.

Investment in Germany

On April 17, 2018 the Company announced its decision to found a new limited liability company under the name ALTEO Deutschland GmbH with a registered office in Germany, which will be fully owned by the Company and have an issued capital of EUR 25,000 (twenty five thousand euros). ALTEO Deutschland GmbH was founded to enable the Company to start its business operation also in Germany, with an initial focus on identifying potential clients.

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).

ii) Personal changes in the senior management

On February 19, 2018, there were changes in the senior management of the Company. On this day, Zoltán Bodnár joined the company's management team as Chief Financial Officer, and is now responsible for the financial, controlling and accounting operation of the entire company group and the areas of IT and office management.

At the same time as the arrival of the new CFO, ALTEO Group's former M&A and Capital Markets Director Domonkos Kovács was also appointed to the position of Deputy CEO and will also be responsible for the operation of these areas in the future.

Controlling Director András Kósa left the Company on May 11, 2018, and Péter Kaderják - in light of his appointment to undersecretary - resigned his seat on the Board of Directors on July 3, 2018.

iii) Changes in the Company's disclosure policy

In view the fact that, according to the amendments of Act CXX of 2001 on the Capital Market and the related legal regulations, companies listed on the stock exchange are no longer required to prepare interim management reports, and no such reporting obligation is required by the Rules of

Listing and Continued Trading of Budapest Stock Exchange Ltd. either, the Company's Board of Directors passed a resolution on March 31, 2017 on discontinuing its practice of preparing and publishing interim management reports on a quarterly basis. At the same time, the Company switched to publishing interim reports on a semi-annual basis and also introduced flash reports as a new reporting and investor information item designed to evaluate the Company's performance in the second half of the relevant year and in the entire year, to be published by the last day of February of the year following the subject year. Under the analyst program launched by the Budapest Stock Exchange to provide analyses and market making services to Hungarian small- and mid-caps listed on the stock exchange, the Company agreed to resume publishing its financial information on a quarterly basis, necessitating the review of its disclosure policy described above.

In view of the above, in February 2018, the Company's Board of Directors passed a resolution on preparing and publishing presentations for investors on the first and third quarters of each business year with sufficient detail to enable comparison against year-on-year data and against the figures included in annual and semi-annual reports, and to enable investors to gain insight into events, changes and tendencies that occurred in the relevant period. In addition, the Company continues to prepare and publish flash reports - along with semi-annual interim reports - as set out in its communication dated March 31, 2017.

Furthermore, the Company's Board of Directors also decided - in accordance with the rules of the Budapest Stock Exchange related to premium category shares - that following 2018 it would publish the Company's corporate events calendar with the schedule for all major corporate events and announcements by no later than January 1 of each business year. Though this obligation only applies to issuers assigned by the Budapest Stock Exchange to the Premium Category, the Company, categorized as a Standard Category issuer (at the time of making the decision), voluntarily undertook to comply with this obligation.

iv) The share repurchase program of 2018

In the 10th year of the Company's existence, it launched its employee share award program with a view to establishing a tradition. The aim of the share award program is to recognize outstanding performance and loyalty of the employees by awarding shares. The CEO of the Company is authorized to designate the award recipients and beneficiaries in various categories, based on recommendations by management.

The Company's Board of Directors would like to maintain the share award program in the long term, therefore, for the coming years, it has allocated a maximum of 10,000 Company-owned shares per year for this purpose. The new share award program does not impact the executive remuneration program announced as part of ALTEO's Employee Share Ownership Plan (ESOP) announced by the Company in its communication dated March 14, 2017.

In order to acquire the shares to be used for the above-described employee share award program, the Company announced a share repurchase program (hereinafter: "**Program**") for 2018, and published its details on June 15, 2018. Eventually, the Company's Board of Directors prolonged the Program until March 14, 2019. Under the Program, ALTEO Group acquired a total number of 14,818 shares by March 14, 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.

v) Category switch

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

vi) The status of the Company's corporate restructuring

In relation to the absorption-type demerger operation between Sinergy Kft. and the Company decided by the Company's General Meeting of April 20, 2018, the Company has obtained the approval of HEA with respect to every licensee subsidiary. In view of this as well as the resolutions on the mergers by absorption passed on June 26, 2018, the assets of Sinergy Kft. specified in its deed of absorption-type demerger (thus in particular the workforce and subsidiaries of Sinergy Kft., and the contracts and liabilities apart from those relating to MOM Park and the Gibárt and Felsődobsza hydropower plants) merged into the Company, CIVIS-BIOGÁZ Kft. and ALTSOLAR Kft. merged into ALTEO-Depónia Kft., while VENTEO Kft. merged into WINDEO Kft., all with effect from October 1, 2018 as the date of legal succession. Based on the above, ALTEO-Depónia Kft. became the sole subsidiary of the Company as regards the Debrecen landfill gas power plants, while WINDEO Kft. became the project company owning the wind power plants in Ács, Pápakovácsi and Jánossomorja.

vii) The implementation of investments

As result of the total HUF 1.7 billion investment by Monsolar Kft. and IT-Solar Kft., the construction of the nearly 4 MW Monor solar power plant was successfully completed and commissioned. The solar power plant project consists of eight power plant units (four for each company) with a capacity of 499 kW each, assembled from Hanwha Type Q.Plus 285Wp solar panels. The implementation of the project started with on-site work in May 2018 and finished on November 23, 2018, when the plant was successfully commissioned. The new solar power plant has been selling electricity in the KÁT balancing group since December 1, 2018 and will continue to do so for 25 years.

viii) Launch of a new division

In the year 2019, ALTEO Group launched its Waste Management Division within the Energy Production and Energy Services Business Line, which became 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 was to further strengthen the Group's presence on the waste utilization market for energy purposes.

ix) Using non-audit services

In the fiscal year 2018, the 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 Company, and other companies within the network of the auditor with prior written consent from the Company's 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.

b) ALTEO Energiakereskedő Zrt.

With its resolution no. 5416/2017, HEA granted an operating license for electricity trade to ALTEO Energiakereskedő Zrt.

Obtaining this license by ALTEO Energiakereskedő Zrt. was related to the first step in the structural reorganisation program presented at the Company's extraordinary general meeting held on November 8, 2017. After obtaining this license and under the contract for the transfer of business line concluded by the Company and ALTEO Energiakereskedő Zrt. in November 2017, the Company successfully transferred its electricity trading operations - including in particular the related user portfolio and wholesale contracts - to ALTEO Energiakereskedő Zrt. with January 1, 2018 as the reporting date. In view of the Company's discontinuation of its electricity trading operations, the Company did not extend its operating permit for electricity trading which expired on September 19, 2018.

c) Sinergy Kft.

i) Transaction

Operated by the Company as a sole member, Sinergy Kft. - as buyer - concluded a business share purchase contract on January 29, 2018 with NKM Földgázszolgáltató Zrt. (registered office: 1081 Budapest, II. János Pál pápa tér 20., company registration number: 01-10-042416) - as seller - for the purchase of the business share constituting 51% of the equity capital of Zugló-Therm Kft. with a nominal value of HUF 37,230,000 (thirty-seven million two hundred and thirty thousand forints).

Before signing the contract, the Company already had 49% indirect control in Zugló-Therm Kft., and the daily operation of Zugló-Therm Kft's thermal power plant with 18 MW electrical and 17 MW heat capacity located on Füredi Street in Zugló, Budapest, was also carried out by ALTEO Group. The unit is a member of ALTEO Group's Control Center. The transaction was closed on March 19, 2018, once both the Hungarian Competition Authority and HEA had granted their respective permits necessary for completing the transaction. As a result of closing the transaction, Zugló-Therm Kft. became fully controlled by ALTEO Group.

ii) R&D&I funding

The battery storage facility constructed using grant funds awarded to Sinergy Kft. for its tender application titled "System level integration and an innovative application model of an electricity storage architecture" and submitted for the "Supporting R&D&I activities of companies - CORPORATE R&D&I_16" (Vállalatok K+F+I tevékenységének támogatása - VÁLLALATI KFI_16") program announced by the NRDI Office started its pilot operation in August 2018.

The Ministry of Finance Deputy State Secretariat for the Implementation of Economic Development Programmes awarded Sinergy Kft. with a non-reimbursable grant in the amount of nearly HUF 228 million and a reimbursable grant (loan) in an amount of nearly HUF 250 million for the grant application submitted by the company in response to the call for tender "Business RDI combined with loan" (Vállalatok K+F+I tevékenységének támogatása kombinált hiteltermék keretében) (code number: EDIOP-2.1.2-8.1.4-16). 50 percent of the grant amount becomes available as advance money following the conclusion of the grant agreement and the relevant loan agreement. The remaining funds can be drawn down in ex-post financing. If the above requirements are met, the Company can start a new R&D project aimed at integrating the power storage facility equipped with battery cells of different specifications into the electrical power system.

d) Sinergy Energiakereskedő Kft.

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 time of publishing this document.

e) Tisza Bio Energy Kft.

On February 27, 2018, Tisza Bio Energy Kft. repaid the tender advance of HUF 221 million borrowed in connection with the planned Tiszaújváros biomass power plant because it no longer considered that the project would be profitable in the current market environment and legislation background.

f) Zugló-Therm Kft.

Zugló-Therm Kft. and Budapesti Távhőszolgáltató Zártkörűen Működő Részvénytársaság (registered office: 1116 Budapest, Kalotaszeg u. 31.; company registration number: Cg. 01-10-042582; hereinafter: "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 - Zugló-Therm Kft. will provide FŐTÁV with thermal energy until the day of May 31, 2030.

4. *Major risks facing the Company's company 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.
- **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.

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.

5. *Statements of the Company as an issuer*

The Company hereby declares that its consolidated individual Management Report applicable exclusively to the Company for the year 2018 was prepared in accordance with the effective and applicable accounting standards and to the best of the Company's skills and knowledge, provides a true and fair view of the assets, liabilities and financial situation of the Company and the enterprises involved in the consolidation, as well as of their profit and loss.

The Company also declares that its consolidated individual Management Report applicable exclusively to the Company for the year 2018 provides a fair view of the situation, development and performance of the issuer and the enterprises included in the consolidation, outlining the risks and uncertainties likely to arise in the fiscal year.

Furthermore, the Company declares that the information in this Management Report was audited by an auditor.

Budapest, April 5, 2019

On behalf of ALTEO Nyrt.:

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