Consolidated Financial Statements

of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság and its consolidated entities

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

Translation only

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The financial statements consist of 102 pages.

Explanation of the abbreviations used in the financial statements:

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders of ALTEO Nyrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ALTEO Nyrt. and its subsidiaries (the „Group”) for the year 2018 which comprise the consolidated statement of financial position as at December 31, 2018 – which shows a total assets of thHUF 22.859.098 –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of thHUF 530.079 –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

Emphasis of Matter

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

Key Audit Matters

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

Key audit matter	Related audit procedures
Impairment of assets	
(See Sections 11. of the Notes to the Consolidated Financial Statements for the details) The Group's Financial Statements includes property plant and equipment in amount of thHUF 10.715.944. The management investigated the existence of any trigger event and in case of such event, prepared an impairment test. To determine the carrying value of the assets, the Group used the discounted cash-flow model. This model requires significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth, exchange rates etc. Based on the significance of the above described circumstances the valuation of assets was identified as a key audit matter.	Our procedures in relation to management's impairment assessment included: - Examined the trigger events in case of the cash generating units, - Assessing the valuation methodology, - Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and, - Analyzing the future projected cash flows used in the model to determine whether they are reasonable and supportable given the expected future performance of the assets, - Comparing the projected cash flows and growth rates, against historical performance to evaluate the accuracy of management's projections. We also evaluated the appropriate application of the relevant accounting standards and disclosures.

Other Information

Other information comprises the information included in the consolidated business (annual) report of the Group for 2018 and the integrated report, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") and other regulations. Our opinion on the consolidated financial statements provided in the section of our report entitled *"Opinion"* does not apply to the other information.

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

Furthermore, in accordance with the Accounting Act, our responsibilities regarding the consolidated business report also include reviewing the consolidated business report to assess whether the consolidated business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the consolidated business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting Act. Furthermore, in accordance with the Accounting Act we shall make a statement whether the information referred to in Section 95/B. (2) a)-d), g) and h) has been provided in the consolidated business report.

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

The auditor's responsibilities for the audit of the consolidated financial statements

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

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

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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

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

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

Report on Other Legal and Regulatory Requirements

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

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

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

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

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

Budapest, April 5, 2019

The original Hungarian version has been signed.

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

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118

Consolidated statement of profit or loss and other comprehensive income for the financial year ended on December 31, 2018

data in thousand HUF

** Modifications of the comparative period are presented among the notes*	Note	Year ending on 12/31/2018	Year ending on 12/31/2017 (restated)*
Revenues	(1)	**18,685,767**	**18,389,284**
Material expenses	(2)	(14,264,354)	(14,606,384)
Personnel expenses	(3)	(2,506,534)	(2,153,923)
Depreciation and amortization	(4)	(729,818)	(571,665)
Other income and expenses, net	(5)	(146,835)	304,626*
Operating profit or loss		**1,038,226**	**1,361,938***
Finance income	(6)	*295,574*	*140,717*
Financial expenses	(6)	*(527,907)*	*(469,826)*
Net financial profit or loss	(6)	(232,333)	(329,109)
Profit or loss before taxes		**805,893**	**1,032,829***
Income tax expense*	(7)	(275,814)	(117,874)*
Net profit or loss		**530,079**	**914,955**
from which the owners of the Parent Company are entitled to:		511,218	912,526
from which the minority interest is entitled to:		18,861	2,429
Base value of EPS (HUF/share)	(8)	**32.72**	**58.38**
Diluted value of EPS (HUF/share)	(8)	**31.17**	**55.64**
EBITDA		**1,800,567**	**1,934,954***

Other comprehensive income

data in thousand HUF

Other comprehensive income (after income tax)	**(259,632)**	**(479,544)**
Other comprehensive income from cash flow hedges	*596,238*	*(1,109,287)*
Reclassification of other comprehensive income from cash flow hedge to profit or loss	*(856,132)*	*629,743*
Conversion reserve	*262*	
from which the owners of the Parent Company are entitled to:	*(259,632)*	*(479,544)*
from which the non-controlling interest is entitled to:	-	-
Comprehensive income	**270,447**	**435,411**
from which the owners of the Parent Company are entitled to:	*251,586*	*432,982*
from which the non-controlling interest is entitled to:	*18,861*	*2,429*

** The Group has changed its accounting policy. The local business tax and the innovation contribution are presented among income taxes. See Note 7.*

Negative values are denoted by parentheses.

The notes constitute an integral part of the financial statements. The references in parentheses refer to Chapters V through VII of the financial statements.

Consolidated Statement of Financial Position for December 31, 2018 (Assets)

data in thousand HUF

	Note	12/31/2018	12/31/2017 (restated)*
Non-current assets		**13,715,608**	**7,546,115**
Power plants and power generating properties, plants and equipment	(9)	10,715,944	5,850,512
Other property, plant and equipment	(9)	38,108	33,708
Net investment in lease	(13)	253,772	482,092
Emission allowances	(10)	4,019	54,981
Other intangible assets	(9)	868,526	420,621
Operation contract assets	(12)	1,476,732	283,640
Deferred tax assets	(14)	139,756	234,875
Long-term loans given	(15)	218,651	185,586
Long-term share in an associate	(15)	100	100
Current assets and assets held for sale		**9,143,490**	**9,106,005***
Inventories	(16)	213,144	303,271
Trade receivables	(17)	3,319,584	3,699,986
Part of lease investment due within the year	(13)	287,000	265,753
Other financial assets	(18)	915,401	873,949
Other receivables and accruals	(19)	1,654,961	1,009,650
Income tax receivables	(19)	192,182	127,698*
Cash and cash equivalents	(20)	2,561,218	2,825,698
TOTAL ASSETS		**22,859,098**	**16,652,120**

** The data of the base period marked with an asterisk was re-established due to the change in the accounting policy, as compared to the Consolidated Financial Statements issued for the business year ended on December 31, 2017. The presentation of the changes in accounting policy is exhibited in the notes to the financial statements.*

Equity and liabilities data on the next page!

The notes constitute an integral part of the financial statements. The references in parentheses refer to Chapters V through VII of the financial statements.

Consolidated Statement of Financial Position for December 31, 2018 (Equity and liabilities)

data in thousand HUF

	Note	12/31/2018	12/31/2017 (restated)*
Equity		**5,144,733**	**5,119,495**
Equity attributable to the shareholders of the Parent Company		**5,151,573**	**5,145,196**
Issued capital	(21)	195,314	195,390
Share premium	(21)	3,080,838	3 080.838
Share-based payment reserve	(24)	92,690	83,740
Retained earnings		2,267,980	2,006,861
Transactions with owners	(22)	(186,408)	(182,424)
Cash-flow hedge reserve	(23)	(299,103)	(39,209)
Conversion reserve	(23)	262	-
Non-controlling interest	(25)	(6,840)	**(25,701)**
Long-term liabilities		**9,130,467**	**6,254,790**
Long-term loans	(27)	5,263,185	1,789,587
Debts on the issue of bonds	(26)	2,624,241	3,483,096
Finance lease liabilities	(29)	286,298	108,971
Deferred tax liabilities	(14)	277,543	325,808
Provisions	(34)	251,739	326,090
Deferred income	(33)	141,248	221,238
Other long-term liabilities	(27)	286,213	-
Short-term liabilities		**8,583,899**	**5,277,835***
Short-term loans	(28)	614,062	522,364
Short-term bond payables	(26)	982,683	24,732
Advances	(32)	364,730	639.602
Trade payables	(31)	2,419,613	2,092,355
Other financial liabilities	(32)	602,533	305,704
Other short-term liabilities and accruals	(32)	3,584,851	1,683,233*
Income tax liabilities	(32)	15,425	9,845
TOTAL EQUITY and LIABILITIES		**22,859,098**	**16,652,120**

** The data of the base period marked with an asterisk was re-established due to the change in the accounting policy, as compared to the Consolidated Financial Statements issued for the business year ended on December 31, 2017. The presentation of the changes in accounting policy is exhibited in the notes to the financial statements.*

The notes constitute an integral part of the financial statements. The references in parentheses refer to Chapters V through VII of the financial statements.

Consolidated Statement of Cash Flows

data in thousand HUF

Negative values are denoted by parentheses.	Note	**Year ending on 12/31/2018**	**Year ending on 12/31/2017 (restated)**
Profit or loss before taxes		**805,893**	**1,032,829***
Interest income and expenses (net)	(6)	316,906	322,216
Non-cash-movement items:			
Depreciation write-offs	(4)	729,818	571,665
Impairment losses (other than net current assets)		32,523	1,350
Provisions recognized and released	(5)	(86,628)	(225,587)
Provisions for asset retirement obligations recognized and released (IAS 16)		12,278	-
Changes in deferred income	(33)	(79,990)	(140,096)
Non-realized translation gains and losses (other than net current assets)		(6,227)	(472,893)
Share-based payment cost	(24)	8,950	41,444
		1,733,523	**1,130,928***
Change in inventories	(16)	90,127	(248,049)
Change in trade receivables, other receivables, accrued income and deferred charges		(186,820)	(834,994)
Change in other financial assets	(18)	(4,255)	676,214
Change in trade payables, other liabilities, accrued expenses and deferred income		2,234,456	(275,694)*
Change in financial liabilities		-	264,399
Change in advances received from customers		(274,871)	532,851
Change in net current assets		1,858,637	114,727*
		3,592,160	**1,245,655***
Profit or loss on derecognizing fixed assets		529	(50,362)
Interest paid		(236,557)	(231,950)
Operating cash flow before taxes		3,356,132	963,343*
Income tax paid	(7)	(228,962)	(230,758)
Cash generated / (used) in operating activity		**3,127,170**	**732,585**
Interests received on deposits and investments		8,254	22,950
Purchase of fixed and intangible assets		(6,422,335)	(1,547,890)
Investment in acquiring businesses (net of cash)		(450,903)	-
Proceeds from derecognizing fixed assets		1,213	102,581
Long-term loans - disbursement	(15)	(22,571)	-
Long-term loans - repayment		-	448
Cash generated / (used) in investment activities		**(6,886,342)**	**1,403,640**
Long-term loans received	(27)	3,742,623	189,000
Long-term loans repaid	(27)	-	(320,140)
Bonds repaid	(26)	-	(2,636,464)
Bonds issued	(26)	-	2,630,623
Other transactions with owners	(22)	(4,059)	-
Dividend paid	(21)	(250,099)	(254,007)
Distribution to non-controlling interest	(25)	-	(2,429)
Cash generated / (used) in financing activities		**3,488,465**	**(393,417)**
Changes in cash and cash equivalents		**(270,707)**	**1,082,743**
Opening cash and cash equivalents	(20)	2,825,698	3,915,091
Cash exchange gains/losses		6,227	(6,651)
Closing cash and cash equivalents	(20)	**2,561,218**	**2,825,698**

The notes constitute an integral part of the financial statements. The references in parentheses refer to Chapters V through VII of the financial statements.

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

data in thousand HUF

	Issued capital	Share premium	Share-based payment reserve	Retained earnings	Transactions with owners	OCI provisions (CF, conv.)	*Equity attributable to the shareholders of the Parent Company*	Non-controlling interest	*TOTAL EQUITY*
December 31, 2015	**158,075**	**1,628,451**	**-**	**818,707**	**(356,136)**	**(90,595)**	***2,158,502***	**385,095**	***2,543,597***
Minority share contribution	7,316	343,600	-	-	173,712	(16,582)	***508,045***	(508,045)	-
Public share issue (IPO)	29,999	1,108,787	-	-	-	-	**1,138,786**	-	**1,138,786**
Share-based payments	-	-	42,296	-	-	-	***42,296***	-	***42,296***
Dividend paid	-	-	-	-	(198,469)	-		***(198,469)***	***(198,469)***
Comprehensive income	-	-	-	728,105		547,511	**1,275,616**	94,822	***1,371,437***
December 31, 2016	**195,390**	**3,080,838**	**42,296**	**1,348,343**	**(182,424)**	**440,335**	**4,924,778**	**(28,130)**	***4,896,648***
Dividend paid	-	-	-	(254,007)	-	-	(254,007)	-	(254,007)
Share-based payments	-	-	41,444	-	-	-	41,444	-	41,444
Comprehensive income	-	-	-	912,526	-	(479,544)	432,982	2,428	435,411
December 31, 2017	**195,390**	**3,080,838**	**83,740**	**2,006,861**	**(182,424)**	**(39,209)**	**5,145,196**	**(25,701)**	**5,119,495**
Dividend paid	-	-	-	(250,099)	-	-	(250,099)	-	(250,099)
Share-based payments	-	-	8,950	-	-	-	8,950	-	8,950
Purchase of own shares	(76)	-	-	-	(3,984)	-	(4,060)	-	(4,060)
Comprehensive income	-	-	-	511,218	-	(259,632)	251,586	18,861	270,447
December 31, 2018	**195,314**	**3,080,838**	**92,690**	**2,267,980**	**(186,408)**	**(298,841)**	**5,151,573**	**(6,840)**	**5,144,733**

Negative values are denoted by parentheses.

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

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

Statement of IFRS compliance

The management declares that the consolidated financial statements for the year 2018 were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, based on management's best knowledge, providing a true and reliable picture of the assets, liabilities, financial situation of the Group as an issuer, as well as of its profit and loss. Furthermore, the management declares that its consolidated financial statements for the year 2018 provide a true and fair view of the situation, development and performance of the issuer, outlining main risks and uncertainties. The management made this declaration in full awareness of its responsibility.

Contents of the financial statements

These financial statements present the financial position, performance and financial situation of the Parent Company ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság and its consolidated entities (collectively referred to as: the Group).

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

The consolidated financial statements of the Group can be viewed on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary, the website of the Budapest Stock Exchange (www.bet.hu) and on its own website (www.alteo.hu).

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

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) developed by the International Accounting Standards Board (IASB). The IFRSs were adopted by the Group as endorsed by the European Union.

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

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

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

The Group first published consolidated financial statements prepared under the IFRSs in 2010. The financial statements are comparable.

2. Brief introduction to the Group's activity

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

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

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

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

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

The present activity of ALTEO Group can be classified in the following main groups (segments):

Segment	Activities
Energy trading	Electric power and gas retail activities
Energy production – KÁT	Electric power production of power plants producing for the supported KÁT system (utilizing renewable energy).
Energy production – Non-KÁT	Market-based heat and electric power production, including the portfolio performance of the Control Center.
Energy services	Operation, maintenance of energy generating assets and construction-installation activity.

The principle of identifying segments is the separate presentation of individual activities with different business models (risks, industry, etc.). When establishing and reviewing segments the management of the Group strives for clarity and the implementation of separable presentation.

In presenting segment reports, balancing items are omitted to improve readability. Reconciliation with the consolidated figures is presented. Since the COD does not review these devices continuously, this financial statement omits the breakdown of the same. Due to the unified national market, geographical segmentation does not apply, so the management of the Group does not review the result of the single activities in a geographical breakdown.

The objective of the Group's operation is to maximize shareholder value and its strategy was developed with this in mind.

In order to implement the above strategy, the Group

- plans to develop an expanding portfolio of energy production operations in which the use of alternative and renewable energy sources is a priority;
- plans to operate a customer-oriented and flexible energy trading business line which significantly enhances the Group's profitability in addition to complementing its energy trading portfolio;
- supports the efficient energy management of its customers to allow them to minimize the environmental impact and energy costs of their operations and to ensure the optimal utilization of efficient renewable energy sources;
- constructs various power plants which are installed or erected at the clients' premises and, therefore, it uses its experience in relevant construction projects and in energy production for the benefit of both its clients and itself.

The Group currently operates in Hungary, although in the medium term, the Company may consider expanding its operations to other countries as well, mainly to the neighboring countries in the Central and Eastern European region. Its customer base comprises small and medium-sized enterprises, large corporations and, to a smaller extent, institutional and residential customers. As a first step of expansion abroad, in 2018 the Company set up its first foreign subsidiary, ALTEO Deutschland GmbH in Germany, the scope of activities of which include the development of energy production portfolio, as well as the provision of energy services to wholesale and retail customers.

3. The Group

Definition of "the Group"

The Group consists of the Parent Company and the subsidiaries. The Group includes all entities which are directly or indirectly controlled by the Parent Company.

Starting from the business year beginning after January 1, 2014, control is defined in IFRS 10. According to this standard, an investor has control over an investee if it has rights to the variable positive returns generated by the investee and bears the consequences of negative returns and has the ability to direct operations and, as a result, to affect those returns through its decisions (power). The ability to direct operations (and, as a result, control) arises from rights.

Control is primarily obtained through equity ownership, agreements with other shareholders or a special market position (e.g. monopoly). The Parent Company obtained control over all of the entities included in these financial statements by virtue of equity ownership.

Control had previously been defined differently in IFRSs (see the history of IAS 27). As supported by its analyses before the effective date of IFRS 10, the management concluded that the change in the regulations did not lead to a transformation of the group structure as the rights resulting in control and the majority of voting rights coincide, which means that voting rights are still the decisive factor.

Introduction to the Group's Parent Company (center of operations, legal form, ownership structure, governing law)

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

The registered principal activity of the Parent Company is Electric power trade (NACE 3514'08).

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

Ownership structure of the Parent Company (ALTEO Nyrt.) based on the share register as at December 31, 2018.

Present shareholders of the Company based on the share register on 12/31/2018	Face value (in thousand HUF)		Ownership ratio (%)	
	2018	2017	2018	2017
Wallis Asset Management Zrt. and its subsidiaries	135,200	135,200	65.95%	65.94%
Members of the Board of Directors, the Supervisory Board and the Executive Board*	11,981	15,113	5.84%	7.37%
Own shares**	9,710	9,626	4.71%	4.70%
Free float	48,133	45,076	23.50%	21.99%
TOTAL	**195,314**	**195,389**	**100.00%**	**100.00%**

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

*** Excluded from the face value in circulation*

Voting rights of Wallis Asset Management Zrt. and its subsidiaries as at December 31, 2018: 65.95% (December 31, 2017: 65.94%).

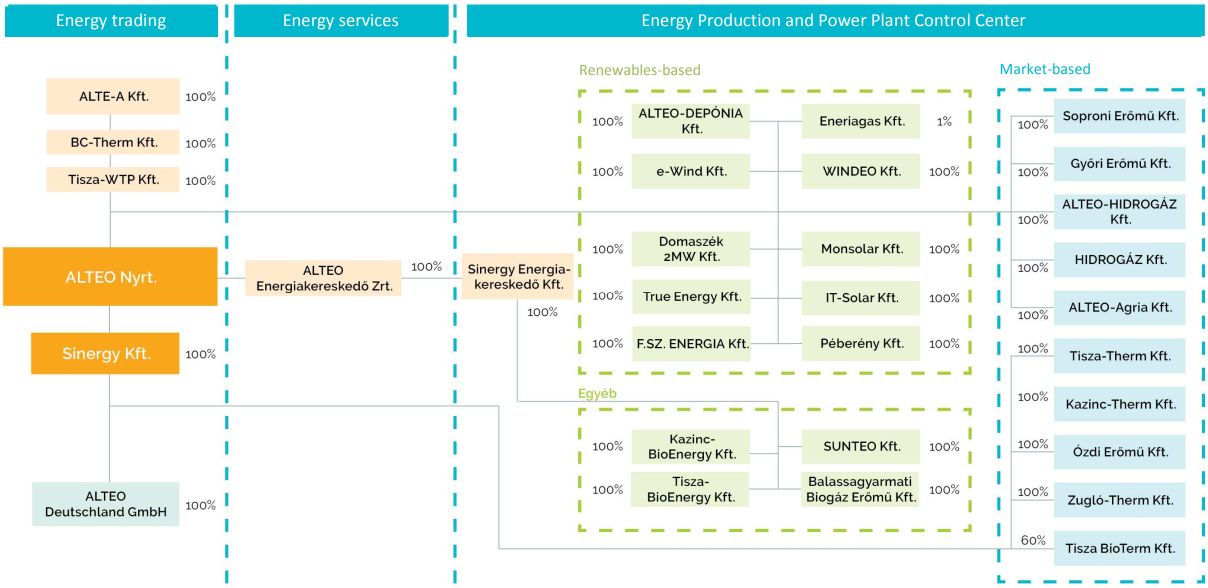
The publicly issued shares of the Parent Company of the Group are registered at the Budapest Stock Exchange; the closing exchange rate of the shares on the last trading day of 2018 (on December 28) was HUF 640, which is 9.7% lower than the same value in the last year (HUF 709). In the course of the year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

Subsidiaries of the Group

The Group consists of the Parent Company and the subsidiaries. The subsidiaries of the Group, with one exception, are the companies of the Parent Company, directly or indirectly owned in 100% by the Parent Company. Tisza BioTerm Kft., in which the Group has a 60% share, so the share of the group from the net assets of Tisza BioTerm Kft. is 60%, with that control, however, is at the group in connection with this company. The laws of Hungary are to be applied to the subsidiaries of the Group, with the exception of ALTEO Deutschland Gmbh. The subsidiaries – with the exception of ALTEO Deutschland Gmbh – pay tax in accordance with the Hungarian regulations.

During the year 2018, several acquisitions were completed and, as a result, the portfolio of the ALTEO Group expanded with new project firms, whilst some of our project firms with similar profiles have merged. In addition, in order to simplify the corporate structure, with effect from October 1, 2018, Sinergy Kft. merged into ALTEO Nyrt., in the framework of an absorption-type demerger and, by the same, each of the subsidiaries came under the direct influence of ALTEO Nyrt. Sinergy Kft. continues its operation, and continues to work with its remaining assets specified in the absorption-type demerger document. As part of this company law development, all employees of Sinergy Kft. were transferred to ALTEO Nyrt., within the framework of employer succession.

The structure of ALTEO Group on the reporting date is as follows:



The subsidiaries of the Group, its associates on December 31, 2018, and the subsidiaries' and associates'

- registered office,
- activity,
- day and legal title of involvement,
- extent of the influence of the Group:

Data in thousand forints

Name of subsidiary	Registered office	Activity	Ownership acquisition date	Legal title	Extent of influence
ALTE-A Kft.	H-1131 Budapest, Babér u. 1-5.	property management	8/2/2011	Founding	100%
ALTEO Energiakereskedő Zrt.	H-1131 Budapest, Babér u. 1-5.	gas trade	12/5/2011	Founding	100%
ALTEO-AGRIA Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	8/27/2008	Founding	100%
ALTEO-DEPÓNIA Kft.	H-1131 Budapest, Babér u. 1-5.	property management	10/1/2008	Founding	100%
ALTEO-HIDROGÁZ Kft.	H-1131 Budapest, Babér u. 1-5.	heat provision services	7/23/2009	Founding	100%
ALTEO Deutschland GmbH	D-53359 Rheinbach, Marie-Curie-Str. 5	development of an energy production portfolio, as well as energy services for both wholesale and retail trade	4/18/2018	Founding	100%
Balassagyarmati Biogáz Erőmű Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production, waste utilization	5/4/2015	Purchase	100%
BC-Therm Kft.*	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	100%
Domaszék 2MW Naperőmű Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	12/4/2017	Purchase	100%
e-WIND Kft.	H-1131 Budapest, Babér u. 1-5.	energy production (wind power plant)	2/11/2013	Purchase	100%
F.SZ. ENERGIA Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	7/20/2018	Purchase	100%
IT-Solar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	11/6/2017	Purchase	100%
Győri Erőmű Kft.	H-9027 Győr, Kandó Kálmán u. 11-13.	heat energy production, electricity production	12/31/2009	Purchase	100%
HIDROGÁZ Kft.	H-1131 Budapest, Babér u. 1-5.	energy production, hydrogas utilization	7/13/2009	Purchase	100%
Kazinc-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	100%
Kazinc-Therm Fűtőerőmű Kft.	H-3700 Kazincbarcika, Gorkij u 1. sz.	heat energy production, electricity production	5/4/2015	Purchase	100%
Monsolar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	11/6/2017	Purchase	100%
Ózdi Erőmű Távhőtermelő és Szolgáltató Kft.	H-3700 Kazincbarcika, Gorkij u 1. sz.	heat energy production, electricity production	5/4/2015	Purchase	100%
Péberény Ingatlanhasznosító Kft.	H-1131 Budapest, Babér u. 1-5.	Energy production (solar power plant)	3/13/2018	Purchase	100%
Sinergy Energiakereskedő Kft.	H-1131 Budapest, Babér u. 1-5.	electricity trade	5/4/2015	Purchase	100%
Sinergy Kft.	H-1131 Budapest, Babér u. 1-5.	power plant operation, engineering service plans, execution, energy production	5/4/2015	Purchase	100%
Soproni Erőmű Kft.	H-9400 Sopron, Somfalvi utca 3.	heat energy production, electricity production	12/31/2009	Purchase	100%
SUNTEO Kft.	H-1131 Budapest, Babér u. 1-5.	energy production	1/30/2013	Founding	100%
Tisza BioTerm Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	60%
Tisza-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	5/4/2015	Purchase	100%
Tisza-Therm Fűtőerőmű Kft.	H-3580 Tiszaújváros, Tisza út 1/D	heat energy production, electricity production	5/4/2015	Purchase	100%
Tisza-WTP Kft.*	H-3580 Tiszaújváros, Ipartelep 2069/3.	salt-free and demineralized water production	5/4/2015	Purchase	100%
True Energy Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	7/20/2018	Purchase	100%
WINDEO Kft.	H-1131 Budapest, Babér u. 1-5.	energy production (wind power plant)	5/24/2012	Purchase	100%
Zugló-Therm Energiaszolgáltató Kft.**	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	5/4/2015	Purchase	100%

* Although the Group acquired a 100% share in two of the entities listed above, the management arrived at the conclusion that these companies could not be consolidated as the Group did not obtain control over these entities under IFRS 10. The Group acts as a lessor with respect to these business entities (see Note 13). The two entities concerned were:

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

These entities do not qualify as subsidiaries for accounting purposes.

(**)In 2015, the Group acquired a 49% share in Zugló-Therm Energiaszolgáltató Korlátolt Felelősségű Társaság. After that, the company was qualified as an associate, until 2018 when the Group acquired the remaining stake of 51% of the Company's registered capital as well. Having obtained the permits of the Hungarian Competition Authority and the Hungarian Energy and Public Utility Regulatory Authority necessary for the transaction, in March 2018 Zugló-Therm became fully controlled by the ALTEO Group.

Besides the companies mentioned above, the other businesses qualify as subsidiaries. The Group had no joint ventures on December 31, 2018 or December 31, 2017.

Changes in the Group's structure

On the extraordinary general meeting of ALTEO Nyrt. held on 8 November 2017, the management of the Group announced a plan to transform the Group. As of the reporting date, the consolidation of the legal entities belonging to the Group was carried out in accordance with the announced plans.

In the subject year, the Group's structure changed in the following way:

Member company	Explanation
ALTEO Deutschland GmbH	was established on April 17, 2018, with an ownership stake of 100%, with their seat in Germany.
Péberény Kft.	As a result of a successful transaction, the Group obtained a 100% ownership on March 13, 2018.
F.SZ. ENERGIA Kft.	As a result of a successful transaction, the Group obtained a 100% ownership on July 20, 2018.
True Energy Kft.	As a result of a successful transaction, the Group obtained a 100% ownership on July 20, 2018.
Zugló-Therm Kft.	As a result of a successful transaction, the Group obtained a 100% ownership on March 20, 2018.
VENTEO Kft.	With effect from September 30, 2018, VENTEO Kft. was terminated with legal succession and merged into WINDEO Kft., another company in which ALTEO Nyrt. directly holds a 100 % stake.
CIVIS-BIOGÁZ Kft., ALTSOLAR Kft.	With effect from September 30, 2018, CIVIS-BIOGÁZ Kft., with a 100% indirect ownership of ALTEO Nyrt., as well as ALTSOLAR Kft., with a 100% direct ownership of ALTEO Nyrt., merged into ALTEO-Depónia Kft.
Exim Invest Biogáz Kft.	With effect from October 17, 2018, the Group sold its 100% ownership stake in Exim Invest Biogáz Kft.

Currency and accuracy of the presentation of the financial statements

The Parent Company's functional currency is the Hungarian Forint. The financial statements were drawn up in HUF (presentation currency) and the figures displayed are in thousand HUF unless otherwise indicated.
The foreign currency relevant to the Group is the Euro. The exchange rate of the currency in the reporting period was as follows (currency unit per HUF according to the exchange rates of the Central Bank of Hungary):

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

4. Significant accounting policies

Presentation of the financial statements

The Group prepares consolidated financial statements involving its controlled entities and the Parent Company (hereinafter: financial statements). The Group's financial statements are comprised of the following (parts):

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

The Group has decided to present the consolidated statements of profit or loss and of other comprehensive income separately.

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

Significant decisions regarding presentation

The Group prepared its previous IFRS consolidated financial statements for the business year of 2017 with comparative figures for 2016. The financial statements were prepared by the Group in view of the transparency and comparability requirements applicable to companies listed on the stock exchange.

The consolidated financial statements are presented by the Group in Hungarian Forints. This is the presentation currency. The consolidated financial statements cover a period of one calendar year. The reporting date of the consolidated financial statements for each year is the last day of the calendar year, i.e. December 31. The Group prepares interim financial statements every six months in accordance with the stock exchange requirements. Such interim financial statements are subject to the provisions of IAS 34 and do not include all disclosures required under IAS 1 and contain data in a condensed form.

The consolidated financial statements contain one set of comparative data, except when the figures for a period had to be restated or when the accounting policies had to be amended. In such cases, the opening figures of the statement of financial position for the comparative period are also presented. In 2018, the figures related to the local business tax and the innovation contribution were presented.

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

From the subject year, the Group changed the presentation method of the local business tax and the innovation contribution. Instead of presenting these two items as other expenses as in previous years, these will be presented as income tax, in accordance with the statements of the main market players. The management of the Group established that financial statements prepared with a method different from that of the significant actors registered at the Budapest Stock Exchange makes comparison of the received sets of information more difficult for interested parties. Therefore, the management decided to change the method of presentation.

The Group is required to disclose segment information in the notes to the financial statements. Operating segments are determined in accordance with the strategic requirements of the members of the Board of Directors.

The Group's current operations are classified into four main segments:

- energy trading,
- energy services
- and energy production (KÁT and non-KÁT based) segments are emphasized.

These activities are monitored by the strategic and operational decision-makers. The content and name of the single segments is continuously tracked by the management of the Group and is also clarified by the management of the Group as necessary. Traffic between the segments is presented in the operational segments statement, but traffic within the single segments is not presented. The management of the Group strives to present the breakdown according to segments in a manner that reflects the structure serving as basis for the decisions and reviewed by the management as well. Since the management does not review the assignment of assets and resources to specific segments, the segment level breakdown of assets and resources is not published.

The Group’s management continuously monitors the correctness of the classification of revenues and expenses among the different segments. In line with the management’s decision, from the subject year, the revenues and expenses inseparable from a given power station (such as rental fees) shall be presented hereinafter under the Energy Production segments. For reasons of comparability, the Group prepared and presented a statement on the comparable segments for the period of 2017 as well. The change in accounting policy has no impact on the net profits.

The activities of the Group are limited exclusively to Hungary, with the exception of ALTEO Deutschland GmbH in charge of assessing the market in Germany; the management did not consider the creation of regional segments specified for the territory of the country necessary.

Determining the structure of the Group

Subsidiaries

Starting from 2014, consolidation has been performed by the Group in accordance with the provisions of IFRS 10. The adoption of the new standard did not result in changes in the Group's structure.

Before preparing financial statements for each period, the Group verifies whether

- it still has control over the entities which were previously in the Group;
- it acquired control over any new entities.

If the existence of control is established, then that unit is consolidated regardless of its legal form (full consolidation). Consolidation is to be performed using the acquisition method.

The Group's ability to control means (after the effective date of IFRS 10) that it is able to direct the subsidiary (has power over it), it has exposure, or rights, to variable returns, and is able to determine the use of such variable returns. Rights existing as at December 31, 2018 that were exercisable at that time or convertible to voting rights and provided substantial rights (i.e. actually provided control and there were no limitations which could restrict the exercise of such rights) were considered by the Group for the purpose of determining the extent of such control.

Control (power) is assessed based on the following factors which are usually indicators of control. These factors shall be assessed in their entirety and conclusion shall be derived by examining the factors together, not separately:

- Any member of the Group or the Group collectively holds 50% of voting shares or initial contributions plus one vote and there are no express agreements that would restrict the Group when voting. Where a subsidiary entity which is not wholly owned possesses a share in another entity, such share is considered in its entirety when determining the full extent of the share (second-tier subsidiaries and below).
- If any member of the Group exercises the right to appoint senior executives (senior executives include managers, as well as members of the Board of Directors and the CEO).
- If there is an agreement which provides conclusive evidence that the Group is able to make significant decisions in respect of a given entity by itself.
- If there is an entity whose assets or capacities are fully and consciously allocated by the Group. Control is not deemed to exist if this situation arises but not as a result of the Group's conscious decisions.

Control is not deemed to exist by the Group if the Parent Company has a share of over 50% in an entity but operates the assets of that entity at the specific direction and on behalf of someone else, or if the capacities of that entity are fully allocated by someone else. The net assets of such entities are treated by the Group as if such assets were leased to someone else (IAS 17 and IFRIC 4), which means that these entities are not consolidated.

The ability to control is not deemed by the Group to exist if such control is only on someone else's behalf in such a way that the controlling entity (apparent Parent Company) does not bear any risks in connection with the controlled entity.

Entities which are insignificant and subsidiaries whose operations are different from the Group's scope of activities are not exempted from consolidation by the Group.

The reporting date of the subsidiaries' financial statements was the same as the Parent Company's reporting date, and the accounting policies adopted by the subsidiaries were identical to the Parent Company's accounting policies. The accounting policies of the entities which have recently joined the Group have been harmonized with the Group's accounting policies and accounting policies have been developed in connection with the newly introduced activities and accounting events.

Associates

Associates are presented by the Group in the financial statements using the equity method. These entities do not form part of the Group and their net assets are not consolidated (for details concerning accounting treatment see the chapter on the accounting policy). The consolidation takes place using the so-called equity method. This means that the investment's underlying assets and liabilities are not recognized line-by-line, but the investment (share) value is adjusted for the Group's share of the associate's comprehensive income. In the comprehensive income statement, the Group's share of the net profit or loss is shown as an item on one line, and the share of other comprehensive income is shown as an item on another line rather than including them on a line-by-line basis.

In the statement of financial positon, balances with entities of the group are not eliminated, but the profit and loss (or the comprehensive income) shall be eliminated proportionally (to the extent the Group is an investor). Goodwill arising on the acquisition of these investments will not be recognized separately, but will be included in the value of the share.

Principles for performing consolidation

Treatment of business combinations

Business combinations include cases where the Group acquires control over a new entity and the goal of the transaction is to acquire the business operations of the acquiree and not only its assets. The acquisition of control is recorded as of the day after which any of the circumstances that result in the entity being treated as a subsidiary apply.

The value of goodwill or negative goodwill is determined for the date of the business combination. This value is the difference between the fair value of the assets transferred in return for the share (the consideration) and the fair value of the share of net assets acquired. The consideration includes previously held shares in the entity.

The consideration includes the following:

- money paid or due;
- the fair value of the stocks issued by the acquirer in relation to the combination (the fair value is derived from the stock price at the date of issue);
- the fair value of other assets transferred (reduced by any liabilities transferred);
- the fair value of any contingent consideration, i.e. the part of the consideration which is payable or refundable if certain future events occur (or do not occur).

If the actual amount transferred (returned) is different from the estimated value of the contingent consideration, then such difference is recognized by the Group in profit or loss in the period in which the value of the difference can be calculated.

Determining the acquired net assets

The assets and liabilities acquired as part of the business combination are measured at the fair value as at the date of the combination. The principles for determining fair value are described in the chapter on fair value. During valuation, assets and liabilities which are not included in the acquiree's separate financial statements but need to be recognized under the standards are recorded in the statement of financial position. In particular, this includes internally-generated intangible assets and owned by the acquiree; in addition, any contingent liabilities of the acquiree as at the date of the business combination are recognized (at fair value) as liabilities, regardless of the fact that these may not be recognized as liabilities in separate financial statements under IAS 37.

Goodwill

The difference between the consideration paid for the acquired subsidiary (cost of control) and the net assets acquired is recognized by the Group as an intangible asset which cannot be amortized, provided that such difference is greater than zero. If the value of the goodwill is negative, the procedure to be adopted is as follows:

- an organization that is different from the one that performed the original calculation (or, if none is available, a different person within the organization) recalculates the value of goodwill (does calculations and reviews the valuation, focusing on the undervaluation of liabilities and overvaluation of assets) and makes adjustments as required;
- if the result of the calculation is still a negative value, then such difference is credited to profit or loss in one lump sum as profit on a "bargain purchase" from the Group's perspective; such profit is attributable to the shareholders of the acquirer.

Measurement period

Determining the fair value of the assets acquired may take a long time. In accordance with the provisions of IFRS 3, the value of net assets acquired as well as the resulting goodwill or negative goodwill are finalized by the Group within one year from the date of acquisition (measurement period). The value of net assets and goodwill (negative goodwill) is recognized by the Group in the financial statements issued in the measurement period at a value that is based on its best estimate at the time of issue; however, such estimate may change considerably during the measurement period. In accordance with the rules under IFRS 3, these changes are treated by the Group not as corrections, but as adjustments relating to the measurement period. No such change happened in the subject year. Note 11 contains further details on the acquisitions.

Impairment of goodwill

The Group recognizes goodwill when it participates in a business combination as a buyer and the value of assets handed over in order to obtain control (including the value of liabilities accepted from former owners) exceeds the fair value of its net assets concerning the purchased group. The Group assigns it to the cash generating unit (CGU) and tests it every year whether the goodwill became impaired. In the course of the impairment test of the goodwill the recoverable amount of the CGU must be compared to the carrying amount of the CGU. If the recoverable amount is smaller than the carrying amount of the CGU then - if there are no clearly damaged assets - the goodwill must be written off first. The goodwill must not be reversed later. The recoverable amount of CGU is the greater one from the value in use and the fair value decreased by the sales costs.

Treatment of non-controlling interests (NCI)

Since Q2 2015, the Group has had net assets in subsidiaries which are controlled but not wholly owned by the Group. These net assets were included in the financial statements by virtue of the acquisition of Sinergy Kft. For the Group, NCIs are recognized currently in the case of Tisza Bio Term Kft.

The net assets (assets and liabilities) of subsidiaries are recognized by the Parent Company in their entirety. However, only the part of equity which is held after the acquisition and attributable to the Group is recognized by the Group as equity attributable to the Parent Company.

The value of the net assets of the subsidiaries attributable to non-controlling interests is recognized by the Group separately, in one line, as non-controlling interest. The non-controlling interest is part of the equity not attributable to the owners of the Parent Company.

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

Changes in the structure of the Group (in respect of existing shares)

In the event that the Group sells a part of its share in a subsidiary, the following procedure must be used:

- if control is retained (the entity remains a subsidiary), then the difference between the change in non-controlling interest and the selling price (compensation) is accounted for in equity (no profit or loss is realized) and is recognized separately as a transaction with owners in the statement of changes in equity;
- if control is lost, then the difference between the value of the derecognized net assets and the selling price (compensation) is recognized in the consolidated financial statements as profit or loss. Any share that is retained is measured at fair value as at the date on which control is lost and shown as associate or financial instruments.

If the Group acquires an additional share in an entity in which it already has a share, and

- if control is not obtained even after the increase in its share, then the Group continues to account for its share in the relevant entity as a financial instrument or associate;
- if control is obtained as a result of the increase in share through the transaction in question, then the Group applies the rules if IFRS 3 to this step, consolidates the assets and liabilities of the relevant entity and recognizes goodwill or negative goodwill according to the provisions of the standard;
- if a share is increased in such a way that the entity associated with the share was already controlled by the Group before the increase, then the Group reduces the amount of non-controlling interests and the difference between this reduction and the compensation received is recognized directly in equity as a transaction of owners; no profit or loss is recognized with respect to these transactions and the value of goodwill (negative goodwill) remains unchanged.

Transactions with owners

No profit or loss or other comprehensive income may be realized with respect to transactions with shareholders of the Parent Company in which the other counterparty is the Group. This rule is applicable to transactions where the parties involved in the transaction acted in their capacity as members or determined the terms of the transaction with a view to their capacity as members. Such items are accounted for directly in equity as dividend payment or additional capital contribution (designated as a transaction with owners).

Besides the above the Group recognizes the difference between the value of the share recognized among non-controlling interests and the value of the capital increase in the case of ownership share obtained through contribution among the Transactions with owners.

Dividends

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

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

Accounting policies relating to the statement of profit or loss

Revenues

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

The IFRS 15 established a unified model for revenues originating from contracts. With the help of the unified five step model the standard determines when and in what amount do revenues have to be recognized. This standard states explicit expectations for the situation when several elements are transferred to the customer at the same time. The IFRS 15 describes two methods for timing the recognition of revenue: revenue accounted for at a given time and during a given period.

The IFRS 15 standard also creates theoretical rules concerning what happens with the costs in connection with acquiring and providing - not recognized elsewhere - the contract. The standard does not contain revenue recognition rules for the financial instruments; those will be settled in IFRS 9.

The adoption of IFRS 15, which brought significant changes as compared to the previous accounting rules, caused no changes in the method of accounting for revenues in the case of the Group.

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

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

Name	Content of item
Value added tax	Value added tax within the meaning of Act CXXVII of 2007.
Energy tax	The tax within the meaning of Act LXXXVIII of 2003 on Energy Tax.
Excise duty	The tax within the meaning of Act LXVIII of 2016 on Excise Duty.
Electric power system usage fees	Distribution fees within the meaning of Item c) of Section 142 (1) of Act LXXXVI of 2007 on Electric Energy: the distributor's base fee, the distributor's performance fee, the distributor's traffic fee, the distributor's reactive energy fee, the distributor's loss fee and the distributor's schedule balancing fee.
Financial assets	Financial assets within the meaning of Article 147 of Act LXXXVI of 2007 on Electric Energy: the fee payable for the structural transformation of the coal industry, the fee payable for supporting the discount price electric power and the related production structure transformation fee.
HHSA fee	Based on the decision of the General Meeting of the Hungarian Hydrocarbon Stockpiling Association No. 2/2016. (XII. 16.) a membership contribution payable after mineral oil products and natural gas, according to the provisions of Section 40(2) of Act 23/2013 on the safety stockpiling of imported mineral oil and oil products and of Sections 8 (1) and (2) of Act 26/2006 on the safety stockpiling of natural gas.
Products, services acquired for third parties in agent status and forwarded in unchanged form	If forwarding a given procurement (service or product) is done in the same form in unchanged amount by the Group and no practical risk arises on the part of the Group in connection with this, then reselling is done in an "agency structure" and the item is no part of the revenue. Usually, water rates invoiced forward under district heating service can be such transactions.

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

- General construction-installation contracts: In the case of general construction-installation contracts, revenues are accounted for depending on the stage of completion of the project in question. The determination of the stage of completion shall be performed proportionately to the ratio of any actually occurred costs to the total planned costs. If, in the case of the project as a whole, a loss may be expected, that expected loss must be accounted for immediately. All the estimates concerning the revenues accounted for must be prepared considering all the information that is available at that moment. If the amount of the planned (expected) profit changes in the course of a given project, then it involves the adjustment of the revenues accounted for. If a given project is expected to generate loss, then accounting for the loss in full becomes necessary in the earliest period when the related information becomes available the first time. Estimates concerning the revenues accounted for must be prepared considering all the information available at the time of publishing the report in question.

- The overhaul component of flat-rate operation and maintenance contracts (at present, this is relevant only in the intra-Group contract cases) For the appropriate operation of certain pieces of power plant equipment (e.g. gas turbines, gas engines etc.), overhaul repairs are required at predetermined intervals. If an operation and maintenance contract concluded with an external party contains such a periodical element, the proportion of the related revenue must be separated and shall be realized against the respective costs.

- Energy retail contracts' TAKE-OR-PAY component: Certain energy trade contracts may contain a provision determining that the consumer shall pay the contractual amount for the allocated reserve even if it was not consumed. If it can be safely assumed that the Group is entitled to such revenue and that revenue is realizable (enforceable), then that revenue must be settled. In the case of the Group, according to market experience, no such realizable revenue is available.

According to the opinion of the Group's management, the revenues to be settled do not differ from the invoiced amounts in the case of the following contracts:

- Energy retail transactions: Invoicing (settlement invoice) takes place on the basis of actual consumption.
- Energy wholesale transactions: The settlement takes place according to the contractual terms.
- Energy regulation, energy production: The settlement takes place on the basis of actual production.
- Open-book accounting: The settlement takes place for a given period on the basis of cost elements accepted by the parties.

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

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

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

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

Expenses related to operation

Non-finance expenses are to be classified as follows:

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

Changes in the inventory of stocks produced by the Company

From the perspective of heat and electricity produced by the Group, storage does not apply.

Other income

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

Income from the sale of quotas

The Group is allowed to sell its EUA quotas (emission allowances) under certain conditions. The profit on such sales is recognized as other income.

Finance income and expenses

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

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

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

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

Income taxes

The corporate tax and the income tax of energy suppliers is recognized as income tax. In addition, from the subject year, the Group changed the presentation method of the local business tax and the innovation contribution. Instead of presenting these two items as other expenses as in previous years, these will be presented as income tax, in accordance with the statements of the main market players. The management of the Group established that financial statements prepared with a method different from that of the significant actors registered at the Budapest Stock Exchange makes comparison of the received sets of information more difficult for interested parties. Therefore, the management decided to change the method of presentation. The change in accounting policy has no impact on the net profits.

Sharing the profit of associates

The Group accounts for the Group’s share of the profit of the associates on this line.

Offsetting

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

Application and concept of EBITDA

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

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

EBITDA =	net income concerning the owners of the Parent Company
	+ finance income
	+ taxes
	+ depreciation and amortization

where

The Group modifies the net profit or loss concerning the owners of the Parent Company with the following items:

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

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

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

EPS – earnings per share the shareholders are entitled to

When calculating earnings per share the "net earnings of the owners of the Parent Company" are divided for the shares in circulation. When calculating the diluted EPS indicator all the diluting factors (e.g. shares bought back, issued options, etc.) shall be considered.

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

Property, plant and equipment

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

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

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

The Group estimates the ARO using a percentage coefficient between 0% and 10%. The Group used a discount rate of 8.57% for discounting in 2018.

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

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

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

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

Depreciation is calculated on the basis of the depreciable value for each component.

The Group uses the hours of service for gas engines and the straight-line depreciation method for all other assets. The following depreciation rates are used for assets:

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

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

In the subject year, the Group reviewed the depreciation method, in connection with the wind power plants dropped from KÁT. As a result of this review, the depreciation expense and the useful life parameters were adjusted to comply with the power plant’s operating license, instead of the previous performance-based accounting.

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

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

Intangible assets

The Group determines whether any of its intangible assets have indefinite useful lives. Goodwill is classified as an asset with an indefinite useful life; such items arise upon consolidation.

The Group is not engaged in any research activities. The Group performed development activities concerning the production of other intangible assets that meet the recognition requirements of IAS 38 in the year 2017 the first time. According to the opinion of the management of the Group, know-how that can generate income is expected to be realized by 2019 as the result of the development activity. Costs incurred in the course of the development project are recognized among intangible assets. If no asset could be produced as the result of development that meets the relevant requirements of IAS 38, recognition of impairment becomes necessary.

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

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

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

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

The emission units allocated based on the National Allocation Plan (EUA) are accounted for by the Group as intangible assets. When determining the value of emission units on initial recognition, the price at the date on which the units are credited is taken into account. Emission units are amortized on the basis of verified emission data at the time of use (charging the cost of revenues).

Similarly to intangible assets with indefinite useful lives, emission allowances are subject to impairment testing by the Group. Emission units are tested by the Group for impairment at the end of each calendar year. Even though trading with such rights is possible, the Group does not engage in buying and selling these rights. If necessary, the surplus will be sold and, if need be, the missing emission allowance will be obtained.

The Group amortizes KÁT permits in proportion to production. The KÁT permit gives the right to the group to put the production of certain power plants to the state (the state is obligated to buy at a guaranteed price). A KÁT permit can only be recognized as an asset if a given project got to the Group by way of purchase. KÁT permits connected to projects developed internally cannot be recognized with values.

Accounting for concession assets according to the IFRIC 12 standard: when acquiring certain heat power plants (Kazinc-Therm Kft, Tisza-Therm Kft., Ózdi Erőmű Kft.) the Group determined that the contents of long-term remote district heating production contracts concluded with local municipalities meet the conditions of concession as specified in IFRIC 12. At the time of purchase, no value was allocated to concession assets in the course of allocating purchase price. Accounting for revenues is performed based on the "Intangible assets" model according to the standard. During the subject year, the Group modified the long-term district heating production contract concluded with the municipality of Tiszaújváros, with mutual understanding, according to which the expiration of the contract was extended to January 1, 2034. According to the amendment of the contract the investments to be performed by the Group increase the value of the concession contract. Amortization of the concession contract is time proportionate, in accordance with the duration of the contract. Also in the case of Zugló-Therm Kft. consolidated in the subject year, the subsidiary assets acquired in the course of the acquisition are recognized as concession assets.

In the case of Győri Erőmű and Soproni Erőmű, there is no contractual structure or specific asset that could be allocated to it that would make accounting according to IFRIC 12 necessary.

Leases

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

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

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

Leases of land and buildings may be considered finance leases only in exceptional cases. Land and any buildings on such land must be separated as required.

Accounting for finance leases

When accounting for finance leases, all cash flows relating to the contract are taken into account, including, in particular:

- lease fees paid;
- administrative fees paid;
- the final purchase price, provided that it is low enough that the Group is practically certain to exercise the option available at the end of the term (this is assumed whenever the fee is nominal, i.e. is below 5% of the original value of the asset).

The implicit interest rate of the lease is the interest rate which is used to discount the above cash flows to arrive at the sum of the fair value of the leased asset and the initial direct costs of the lease (e.g. attorney's fees, contracting fee, etc.).

The leased asset is recognized in the statement of financial position against lease liabilities at the value of the cash flows discounted by the implicit interest rate. The leased asset is shown in the statement of financial position when the Group agrees to the commitments under the key conditions of the lease contract.

The lease fee is to be split into borrowing costs and repayment in subsequent periods using this interest rate.

The useful life of the leased asset may not exceed the term of the lease, except for cases where it is practically certain that ownership will be transferred at the end of the lease. In such cases, the useful life of the asset may be extended to match this longer period.

Accounting for operating leases

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

Leases and agreements that qualify as leases

The Group records assets and asset groups for which it transfers the right to use such assets and asset groups to other parties based on a contractual relationship and, at the same time, transfers control over such assets or asset groups. The latter means that, for the given asset or asset group

- the entire capacity is used by that other party;
- essentially all of the outputs are obtained by that other party;
- that other party has physical access;
- and the Group is essentially unable to change this situation or any change would be completely irrational from an economic perspective.

In such situations, in accordance with the provisions of IAS 17 and IFRIC 4, the Group does not recognize the underlying asset in as an own fixed asset, but instead the contract is treated as a lease (despite the legal form) where the Group acts as a lessor in such cases.

In cases where the given asset group is organized in a separate legal entity, the subsidiary is not consolidated (i.e. individual assets and liabilities are not recognized); instead, the entire arrangement is treated as a lease contract.

Where the Group acts as a lessor, it

- recognizes the related receivable (which will first be the present value of future cash flows);
- splits subsequent cash flows into principal repayment and return using the implicit interest rate applied in the lease (the former reduces the asset, while the latter is recognized in profit or loss);
- and, if required, performs the foreign currency translation of the remaining asset according to the rules of IAS 21.

The return on the lease is recognized by the Group as revenue (in accordance with its content).

Two entities joined the Group as a result of the acquisition of the Sinergy subgroup in Q2 2015, for which the above accounting policy had to be applied. The Group had not had transactions of this nature prior to Q2 2015 (new accounting policy). The entities in question are:

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

Impact of IFRS 16 on the Group

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

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

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

Name	IAS 17	IFRS 16
Asset (opening value)	-	93,698
Liability (opening value)	-	93,698
Service used (annual)	47,442	-

Policy on borrowing costs

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

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

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

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

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

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

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

Accounting for government grants

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

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

Grants may be accounted for if

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

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

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

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

Assets held for sale and discontinuing operations

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

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

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

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

According to the provisions of the standard, the Group recognizes its discontinuing operations separately, if they are significant. It does not qualify as a discontinuing operation if the legal form of a given activity gets changed but the underlying economic content does not change significantly (e.g. the amount of heat sold earlier as “district heating supplier licensee activity” is sold later as “district heating producer licensee activity”).

Associates

Associates are presented by the Group using the so-called equity method. The compensation paid for the share is recognized by the Group at initial recognition as the initial value. If the amount paid for the share exceeds the fair value of the net assets, then this difference is treated by the acquirer as goodwill in such a way that this difference is not shown in a separate line in the statement of financial position; instead, the amount will be the same as the value of the share. Any negative difference is immediately credited by the Group to profit or loss as negative goodwill.

Subsequent to initial recognition, the part proportional to the comprehensive income for the subject year is recognized by the Group as an increase or decline in the value of the share. The effect of the change is recognized by the Group in a separate line in the statement of profit or loss and other comprehensive income (share of profit of associate) up to the part which is derived from net profit or loss. Any change in the net assets of the associate against other comprehensive income is presented by the Group in other comprehensive income, also in a separate line (share of other comprehensive income of the associate).

Should the value of the share turn negative as a result of the year-end valuation, then a liability arising from this position is recognized by the Group only if it is subject to a legal or constructive obligation to meet its liability. If no such obligation exists, then the Group merely discloses the value of unrecognized loss.

The first time that an associate joined the Group was in Q2 2015. The Group had not had any such investments previously. In 2018, the associate was fully consolidated.

Inventories

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

Accounting for impairment losses other than financial instruments and identifying CGUs

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

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

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

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

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

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

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

The Group tests the value of goodwill generated in the course of earlier acquisitions on every reporting date for impairment regardless of indications, as provided for in IAS 36. All the goodwill created in the course of previous acquisitions was already impaired.

Provisions

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

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

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

The following items are typically included in provisions:

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

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

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

If there is such a CO_2 emission position at the end of the period that is not covered by a quota, then provision must be recognized for the future liabilities. The amount of the provision needs to be determined considering the market price of the emission unit at the end of the period.

A restructuring provision (e.g. for severance pay) may be recognized if there is a formal plan for the restructuring which has been approved and communicated to those affected. Provisions may only be recognized for costs associated with discontinued operations. But no provision can be recognized for continuing operations (e.g. cost of retraining or relocation).

No provisions may be recognized for:

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

Employee benefits

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

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

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

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

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

Financial instruments

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

The IFRS 9 Financial instruments standard replaced the previous IAS 39 standard, with effect from January 1, 2018. The Group had no financial instruments the classification or evaluation of which would have changed, therefore the transition did not have a significant effect on the financial statements.

Financial assets

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

Financial assets are classified by the Group as follows:

- Debt
- Equity instrument
- Derivative

In the case of debt instruments:

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

- Loans given
- Trade receivables
- Advances received
- Other receivables

These assets are held by the Group not for trading purposes, and not for achieving short-term profits based on these instruments. These assets are priced at fair value and the follow-up valuation is performed based on amortized costs. The valuation of the assets is performed individually; at present, the Group has no assets with massive multiplicity or assets with similar characteristics in the case of which the portfolio method could be applied.

Equity instruments include the following items:

- Shares in other companies

These assets are held by the Group not for trading purposes, and not for achieving short-term profits based on these instruments. These assets are priced at fair value and the follow-up valuation is performed based on the fair value against the OCI. The Group performs the necessary impairment tests, using the approved business plans and long-term assumptions as a basis.

In accordance with its investment policy, the Group does not purchase instruments acquired in order to earn short term profits. The carrying amount of the shares show no significant difference from their fair value.

Derivatives also include derivative transactions, except where the rules on hedge accounting provide otherwise. If the Group concludes a transaction (such as forward foreign exchange contracts or interest rate swaps) which do not comply with the hedge accounting rules, these will be classified as FVTPL.

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

	Evaluation method		Value in thousand HUF	
Financial assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**
Shares in associates	FVTPL	FVTOCI	100	100
Loans given	Amortized initial recognition cost	Amortized initial recognition cost	185,586	185,586
Trade receivables	Amortized initial recognition cost	Amortized initial recognition cost	3,699,986	3,699,986
Cash and cash equivalents	Amortized initial recognition cost	Amortized initial recognition cost	2,825,698	2,825,698
Derivatives	FVTPL	FVTPL	277,975	277,975

Financial liabilities must be classified into the following groups:

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

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

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

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

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

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

Financial liabilities	Evaluation method		Value in thousand HUF	
	IAS 39	IFRS 9	IAS 39	IFRS 9
Loans and borrowings	Amortized initial recognition cost	Amortized initial recognition cost	2,243,601	2,243,601
Bonds	Amortized initial recognition cost	Amortized initial recognition cost	3,507,828	3,507,828
Trade payables	Amortized initial recognition cost	Amortized initial recognition cost	2,092,355	2,092,355
Advances received from customers	Amortized initial recognition cost	Amortized initial recognition cost	639.602	639.602
Derivatives	FVTPL	FVTPL	305,704	305,704

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

Items not resulting in interest expense or interest income

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

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

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

Items resulting in interest expense or interest income

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

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

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

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

Application of the ECL model

The expected credit loss model (ECL) has been applied in connection with the opening items for the subject year. The extent of the impairments relating to electric energy is low in the retail business line, due to the receivable management processes developed in the past years. The Group performed the segmentation of its revenues and studied the recovery of billings on this basis. In the case of the following areas, each billing was recovered in the past periods, there was no need for a recognition of impairment:

- electric energy production and wholesale trade
- district heating production
- industrial services
- other (not classified)

On the basis of data for the three previous business years, 0.01% of the revenue was accounted for as impairment in the above areas. In the case of the following areas, the Group calculates with some minimal non-recoverable revenues.

- Electricity and gas retail
- Heat provision services

In these two areas, the minimum expected value was determined on the basis of calculation of data for the three previous business years.

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

Financial asset	ECL %	Gross value	Recognized impairment	ECL ratio
Electric energy prod. - not overdue	0.01%	658,815	-	66
Electric energy prod. - 0 to 30 days	0.01%	4,171	-	-
District heating production - not overdue	0.01%	593,062	-	59
District heating production - 0 to 30 days	0.01%	89,038	-	9
Industrial services - not overdue	0.01%	809,354	-	81

Industrial services - 0 to 30 days	0.01%	151,065	-	15
Industrial services - 31 to 60 days	0.01%	13,173	-	1
Industrial services - 91 to 180 days	0.01%	32,267		3
Retail energy trade - not overdue	0.05%	1,117,931	-	559
Retail energy trade - 0 to 30 days	0.09%	57,802	-	52
Retail energy trade - 31 to 60 days	1.69%	5,728	-	97
Retail energy trade - 61 to 90 days	4.92%	7,804	-	384
Retail energy trade - 91 to 180 days	15.70%	2,784	445	437
Retail energy trade - 181 to 365 days	69.01%	1,368	1,368	944
Retail energy trade - 365+ days	100.00%	14,857	14,857	14,857
Heat provision services - not overdue	0.11%	133,873	-	147
Heat provision services - 0 to 30 days	0.17%	3,919	-	7
Heat provision services - 31 to 60 days	1.99%	315	-	6
Heat provision services - 61 to 90 days	4.11%	218	-	9
Heat provision services - 91 to 180 days	1.99%	304	304	6
Heat provision services - 181 to 365 days	1.45%	617	617	9
Heat provision services - 365+ days	100%	2,559	2,559	2,559
Other - not overdue	0.01%	4,850	-	48
Other - 0 to 30 days	0.01%	6,646	-	67
Other - 31 to 60 days	0.01%	100	-	0

According to the data in the table, no additional impairment was recognized in connection with the transition.

Hedge accounting

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

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

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

Share-based payments

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

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

Current income tax expense and deferred taxes

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

General accounting policies relating to the statement of cash flows

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

Foreign currencies

Transactions denominated in foreign currencies

The Group presents its consolidated financial statements in HUF. Each entity within the Group determines its functional currency. The functional currency is the currency which reflects the operation of the entity in question the most accurately.

The points to consider are as follows:

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

The above considerations are listed in order of importance.

An entity may incur exchange differences on translation only with respect to a foreign currency.

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

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

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

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

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

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

- estimates concerning the depreciation of the fixed assets (e.g.: useful life),
- estimates concerning the creation of provisions (e.g.: methodology of calculation, indicators for determining provisions),
- estimates concerning the evaluation of inventories and receivables,
- estimates concerning fair value.

The following might indicate the review of accounting estimates:

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

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

The fair value of assets acquired in the course of business combinations is determined on a discounted cash flow basis, which requires several complex assumptions. Subsequent changes in estimated amounts can have a direct impact on profit or loss.

Permits disclosed in relation to an earlier business combination (KÁT) represent a significant asset value. This permit makes it possible for the Group to sell certain previously produced energy to the state. Although reception is guaranteed; however, the related prices may change and also the extension of this permit and the requirements depend on factors outside the Group's control. The permits were evaluated based on the presently available data, but the evaluation can change due to the above uncertainties.

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

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

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

In the case of an obligation arising from a conditional purchase price, the management estimates applied influence the size of the obligation. These estimates must be reviewed at least on an annual basis.

Many of the Group's assets can be tested for impairment at CGU level only. Identifying CGUs requires complex professional judgement. In addition, when determining the recoverable value of CGUs, the Group's management is forced to rely on forecasts for the future which are uncertain by nature. The estimation of the recoverable value involves significant amounts even at the level of the financial statements.

The Group's profit or loss is heavily dependent on the global market price of energy carriers and indirectly on the exchange rates of the USD and the Euro in which the price of such commodities is denominated. In 2018, purchases of natural gas for the power plants were typically made in foreign currencies (EUR), which allowed the Group to rely on a more favorable procurement source in terms of the energy carriers used for production, although this also increased the activity's foreign exchange exposure to some extent. The Group enters into forward contracts in order to hedge foreign exchange exposures. Similarly, the Group enters into hedge transactions to protect itself from changes in the price of energy carriers themselves.

In the previous periods, the Group reduced the stock of the euro-based long-term loans (ALTEO-Agria Kft.). Therefore, a permanently weak HUF exchange rate can less reduce the Group's profitability and cash balance. The multi-currency long-term borrowings (WINDEO Kft.) are presently HUF-based, therefore they carry no exchange rate risk. Subsidiaries presented as leases according to the rules of the IFRIC 4 standard are also accounted for in an EUR-based manner.

For the electricity trade division, purchases are also made predominantly in EUR, while sales contracts are denominated mostly in HUF. The Group enters into hedging instruments and, where possible, uses foreign-currency-indexed customer price formulas in order to manage foreign exchange exposure.

Of the power plant units of the ALTEO Group the energy production of

- wind power plants (WINDEO Kft., e-Wind Kft.),
- heat power plants (Győri Erőmű Kft., Soproni Erőmű Kft. Kazinc-Therm Kft, Tisza-Therm Kft, Ózdi Erőmű Kft),
- hydropower plants (Felsődobobsza, Gibárt) and
- solar power plants (Domaszék, Monor)

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

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

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

The Group's operation and profitability depends on the government regulation of the market, especially on the taxation policy adopted by the state.

The Group carried out a sensitivity analysis of the quantifiable relevant risk factors which is presented in Note 38.

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

The Group's accounting policies applied earlier did not change, with the exception of the listed items.

The Group's management continuously monitors the correctness of the classification of revenues and expenses among the different segments. In line with the management's decision, from the subject year, the revenues and expenses inseparable from a given power station (such as rental fees) shall be presented hereinafter under the Energy Production segments. For reasons of comparability, the Group prepared and presented a statement on the comparable segments for the period of 2017 as well. The change in accounting policy has no impact on the net profits.

Changes in the presentation of the local business tax and innovation contribution

From the subject year, the Group changed the presentation method of the local business tax and the innovation contribution. Instead of presenting these two items as other expenses as in previous years, these will be presented as income tax, in accordance with the statements of the main market players. The management of the Group established that financial statements prepared with a method different from that of the significant actors registered at the Budapest Stock Exchange makes comparison of the received sets of information more difficult for interested parties. Therefore, the management decided to change the method of presentation.

Amount of the change (thousand HUF)	Year ending on 12/31/2018	Year ending on 12/31/2017
Local business tax and Innovation contribution	213,601	136,338

New accounting policies

Founding a foreign subsidiary with a different functional currency

The Group's management decided to found a new limited liability company, named ALTEO Deutschland GmbH, with registered seat in Germany, operating with a 100% ownership stake of the Company and an issued capital of EUR 25,000 (twenty five thousand euros). The legal registration of the subsidiary took place on April 17, 2018. The exchange gains/losses originating from the consolidation of the different functional currency are recognized as part of the equity, in the foreign currency translation reserve.

Contingent consideration element

When the Group acquired a 51% stake in Zugló-Therm Kft., a portion of the purchase price payable shall be paid only if certain future events materialize. The payment of this element of the purchase price depends on the occurrence of specific, uncertain elements in the future. The fair market value of the contingent consideration was determined on the basis of an estimate by the Group's management. The related obligations are recognized in other long-term liabilities. The recognition of this liability takes place using the method of amortized cost.

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

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

New and amended standards and interpretations published by IASB and accepted by the EU that become effective from this reporting period:

IFRS 9 "Financial Instruments"

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

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

IFRS 15 "Revenue from Contracts with Customers"

The standard describes conception changes about the method of accounting for income. The mandatory date for the application of the standard is January 1, 2018. A couple standards and interpretations become null and void due to the amendment:

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

The IFRS 15 established a unified model for revenues originating from contracts. With the help of the unified five step model the standard determines when and in what amount do revenues have to be recognized. This standard states explicit expectations for the situation when several elements are transferred to the customer at the same time. The IFRS 15 describes two methods for timing the recognition of revenue: revenue accounted for at a given time and during a given period.

The IFRS 15 standard also creates theoretical rules concerning what happens with the costs in connection with acquiring and providing - not recognized elsewhere - the contract.

The standard does not contain revenue recognition rules for the financial instruments; those will be settled in IFRS 9.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

V. Notes to the statement of profit or loss and other comprehensive income

1. Revenue

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Electricity production	5,004,321	5,080,584
Electric power trade	4,861,091	4,090,442
Heat sales	4,433,441	3,744,671
Operation and maintenance	2,365,764	2,356,263
Gas trade	1,095,968	670.877
Energy industry service fees and project	595,635	2,069,668
Assets given to lease	73,401	91,949
Other	256,146	284,830
	18,685,767	**18,389,284**

Revenue contains returns attributable to the Group's core activity.

When recognizing revenue in energy trade and production (with the exception of accruals and deferrals), the Group uses the amounts invoiced as the basis, given that due to the nature of the services, no adjustment is required with respect to subsequent periods. In the case of the energy industry projects, the recognized revenue was determined taking account of the stage of completion. The Group leaves out taxes, fees recovered on behalf of the state or some other party from its revenues and recognizes then as items decreasing costs.

The 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.

In the course of production, the Group produces the energy sold in its own power plants (electricity and heat energy). The trading activity is an operation for which the Group requires a permit; as part of this activity, the Group sells electricity purchased from members of the Group and from third parties to its customers and commercial partners. Due to the operational characteristics of the Control Center, the retail segment also sells energy produced by the energy production segment.

The Group did not have interest, royalty or dividend, which should be presented as revenue.

2. Material expenses

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Energy carrier - electricity	6,186,585	6,906,743
Energy carrier - gas	5,025,586	3,468,051
Material and service needs of maintenance and projects	1,637,080	3,049,245
Expert services (counselling, auditing, IT)	323,568	204,125
Rent (office, machinery, vehicles, data cables, IT)	231,105	207,594
Agent's commission	119,332	146,174
Other fuels and water	122,670	138,423
Bank expenses, insurance	143,269	107,865
Marketing	85,320	65.910
HSE, ISO, environmental protection	82,548	80.861
Administration and office costs	72,996	86,433
Other	234,295	144,960
	14,264,354	**14,606,384**

Material expenses decreased despite the increase in revenue.

When comparing the periods, certain specificities must be taken into account:

- Involving the Zugló heating plant in the consolidation resulted in a partially transformed cost structure. This is one of the reasons why a shift was observed in the subject year, in respect of the use of gas and electricity within energy carriers. In the previous period, energy produced by external parties was received entirely in the form of electricity, while the electricity sold in the reporting period was produced by the Group using gas.

- Due to the operational characteristics of the Control Center, the electricity obtained for reselling is not only connected to retail sales but to electricity production as well.
- Gas usage is also special because a part of it is used in the power plants and another portion is sold within the framework of gas trade.

The main reason behind the increased costs of energy carriers is the significant increase in the volume of retail sales.

In 2018, the reason for the reduced level of the costs related to maintenance and projects is in part the direction of project development (internal projects), and in part involving the Zugló heating plant in the consolidation.

Due to certain cash-flow hedge transactions certain items had to be reclassified in the profit or loss category of material expenses during the year from the other comprehensive income.

3. Personnel expenses

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Wages	1,842,733	1,515,348
Other disbursements of personal nature	244,673	249,181
Benefits	419,128	379,394
	2,506,534	**2,153,923**

The personal expenses line contains the wages, other disbursements of the group and the related benefit expenses. Personnel expenses increased compared to the previous year. The main reasons for this increase are the increased headcount and the wage raises required for the retention of employees already working at the company. In connection with the internal projects, the wage costs allocated to these have been activated.

In the 10th year of the Parent Company's existence, it launched an 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 burdens of the share option program and the shares granted to the employees, dispensed through the MRP organization, are also accounted for as part of the wage expenses. Related presentations are in Note 24.

The average statistical workforce of the Group was 248 persons in 2018 and 210 persons in 2017.

As part of the reshaping of the structure, all employees of the Group have been employed by the Parent Company since October 1, 2018.

4. Depreciation and amortization

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Depreciation and amortization	729,818	571,665
	729,818	**571,665**

The value of depreciation and amortization accounted for increased compared to the previous year. The growth comes from new capital expenditure and an increase in the asset base due to acquisitions. Typically, the charging of depreciation on new assets starts in the second half of the year.

5. Other income and expenses, net

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Fines, compensation, default penalty received	312,476	135,835
Government grants	89,299	52,928
CO_2 expenses	(408,976)	(88.134)
Taxes and other payment obligations	(47,236)	(62,431)
Sale/disposal of fixed and intangible assets	(33,052)	(17,447)
Release/creation of the provision (except for CO_2 quota)	(21,666)	322.688
Fines, compensation, default penalty paid	(16,612)	(30,410)
Grants, released receivables	(19,489)	-
Other settlements	(1,579)	(8,403)
	(146,835)	**(304,626)**

The change in other items 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 the Other income line as a result of the Group successfully coming to an agreement with one of its long-term service partners on a retroactive compensation.

Taxes among other items are not income taxes. These items contain mainly deductions imposed by municipalities (vehicle tax, building tax, line tax and duties) and environmental burden fees.

The most significant items among the items in the Fines, compensation, default penalty received line were penalties received for non-performance of the schedule keeping obligation related to electricity production and trade.

Other items include income and expenses not categorized elsewhere, such as settlements on partner and tax current accounts, rounding differences and levies not classified as income tax.

Detailed description of the information concerning the preparation and release of provisions is in Note 34.

Additional details about the government grants received can be found in Note 33.

6. Finance expenses, net

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Paid/payable interest	(335,654)	(345,639)
Received/receivable interest	18,748	22,950
Net interest expenses	**(316,906)**	**(322,689)**
Foreign currency translation gains and losses, and other financial settlements	84,573	(6,420)
	(232,333)	**(329,109)**

The improvement in net finance income is mainly attributable to translation gains and losses realized on transactions invoiced in foreign currencies and unrealized exchange rate gains due to period-end revaluations. Owing to lower interest expenses on the bond portfolio refinanced in 2017, interest expenses decreased. Interest expenses on bank loans increased 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.

Within finance income and expenses, the main element in exchange differences was the unrealized exchange loss at year-end. Exchange rate differences arose on repayments, revaluations and translations of subsidiary project borrowings denominated in foreign currencies, as well as on EUR transactions.

The Group applies cash flow hedges to avoid certain risks. The hedges - due to their nature - were all 100% effective during the period therefore nothing was recognized in the net profit due to hedge ineffectiveness.

7. Income tax expense

The Group's members pay tax under Hungarian tax law, with the exception of the subsidiary in Germany. In the Hungarian tax system, such tax expenses for the entity included corporate tax and income tax for energy suppliers (the so-called Robin Hood tax which is a solidarity tax payable by entities operating in the energy production sector). The breakdown of tax expenses is as follows:

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Actual local business tax	196,767	122,582
Actual innovation contribution	16,834	13,756
Actual corporate tax	40,518	31,154
Special tax of energy producers	16,288	13,242
Deferred tax expense	5,407	(62,860)
Total	**275,814**	**117,874**

Tax matters often require estimates and decisions which will later contradict the opinion of the tax authority; therefore, a subsequent tax audit may reveal additional tax liabilities for periods for which a tax return has already been submitted.

The Group operates in a tax environment which grants tax authorities a wide range of powers to reclassify items and taxpayers are usually helpless against these powers.

In 2018, the tax authorities carried out the following reviews concerning the Group:

Taxable entity	Type of 2018 review, form of tax, period
ALTEO Nyrt.	Comprehensive tax review - 2017 (closed)
Sinergy Kft. - ALTEO Nyrt.	Absorption-type demerger - target review
Kazinc-Therm Kft.	Aimed at the performance of certain tax liabilities - VAT - September 2018 (closed)
Tisza-Therm Kft.	Aimed at the performance of certain tax liabilities - VAT - March 2017 to January 2018 (closed)
Tisza WTP Kft.	Aimed at the performance of certain tax liabilities - VAT - August to October 2017 (closed)
IT-Solar Kft.	Aimed at the performance of certain tax liabilities - VAT - May 2018 (closed)
Monsolar Kft.	Aimed at the performance of certain tax liabilities - VAT - May 2018 (closed)
True Energy Kft.	Aimed at the performance of certain tax liabilities - VAT - July to September 2018 (closed)
Győri Erőmű Kft.	Aimed at the performance of certain tax liabilities - VAT - October to November 2018 (closed)
Soproni Erőmű Kft.	Aimed at the performance of certain tax liabilities - VAT - December 2017 (closed)

The amount of deferred taxes disclosed in the statement of financial position is included in Note 14.

Subsequent to the reporting date, some of the Group's subsidiaries set up a Corporate Tax group. This amendment has no implication for the subject year.

8. Calculation of earnings per share (EPS)

When calculating earnings per share, the net earnings are divided among the owners of the Parent Company. We presented the changes in the number of shares in the note on issued capital.

Name	Year ending on 12/31/2018	Year ending on 12/31/2017
Base value of net earnings per share (HUF/share)	32.72	58.38
Diluted value of net earnings per share (HUF/share)	31.17	55.64
Number of shares for EPS	15,624,379	15,631,176
Number of shares for diluted EPS	16,401,200	16,401,200

VI. Notes to the statement of financial position

9. Fixed assets and intangible assets

The changes in assets are detailed in the following table:

Gross value	Power plants and power generating properties, plants and equipment	Other PPE	Emission allowances	Other intangible assets	Value of operation contracts	Total
12/31/2017	**8,268,477**	**91,027**	**54,981**	**629,698**	**595,936**	**9,640,119**
Acquisition/put to use	5,396,141	19,799	474,378	517,399	1,368,757	7,776,474
Capitalized asset retirement obligation						
Disposal/sale	(338,648)		(525,340)	(73,133)		(937,121)
Reclassification						-
12/31/2018	**13,325,970**	**110,826**	**4,019**	**1,073,964**	**1,964,693**	**16,479,472**
Accumulated depreciation	**Power plants and power generating properties, plants and equipment**	**Other PPE**	**Emission allowances**	**Other intangible assets**	**Value of operation contracts**	**Total**
12/31/2017	**2,417,965**	**57,319**	**-**	**209,077**	**312,297**	**2,996,658**
Derecognition due to disposal/sale	(299,846)			(72,839)		(372,685)
Derecognition due to reclassification						-
Impairment	20,522	1,830				22,352
Depreciation write-offs	471,385	13,569		69,200	175,664	729,818
12/31/2018	**2,610,026**	**72,718**	**-**	**205,438**	**487,961**	**3,376,143**
Net amount	**Power plants and power generating properties, plants and equipment**	**Other property, plant and equipmen t**	**Emission allowances**	**Other intangible assets**	**Value of operation contracts**	**Total**
12/31/2017	**5,850,512**	**33,708**	**54,981**	**420,621**	**283,639**	**6,643,461**
12/31/2018	**10,715,944**	**38,108**	**4,019**	**868,526**	**1,476,732**	**13,103,329**

The depreciation write-offs of fixed assets is determined as explained in the accounting policy, i.e. in proportion to production or in a straight-line manner.

There are assets that need to be removed at the end of their useful lives and such removal involves significant expenses. Such expenses are added by the Group to the initial amount at a discounted value. The discount rate applied was changed to 8.57% by the entity during the business year.

The Group adopts a strict component approach, i.e. all significant parts of an asset which have different useful lives are depreciated separately.

For the Group, as at December 31, 2018 exclusively investments into solar power plants were regarded as qualified assets, where borrowing costs had to be capitalized.

During the year, with the purchase of the Zugló heating plant, the stock of non-current assets increased by almost HUF 1.2 billion. The contractual system of the power plant complies with the concession under IFRIC12. Accordingly, these assets are recognized among intangible assets.

For each asset, the value of high-value regular repair projects is indicated as a separate component increasing the value of the asset; these values correspond to the figures in the following table (i.e. these amounts were spent on overhauls).

Name of project	12/31/2018	12/31/2017
Cívis Biogáz Kft.	-	11,694
Hidrogáz Kft.	-	6,949
Soproni Erőmű Kft.	90,156	-
Zugló Therm Kft.*	148,203	
Total	**238,359**	**18,598**

* The cost of overhaul works related to assets recognized as a concession right under IFRIC12 increases the recognized value of the concession right.

The Group does not possess assets which are expected to cause environmental damage that the Group would be required to neutralize.

For power plants financed using borrowings, a lien is attached to the assets of the entity owning the asset (including assets of the wind power and solar power project companies) under the loan contracts. The details of the pledges promised are disclosed in detail in Note 30.

In the year 2018 the Group performed the following significant investments:

Project	Quarter	Value of invested asset
Monor solar power plant	Q4 2018	HUF 1,465 million
R&D project – Energy storage asset	Q3 2018	HUF 934 million
Projects total		**HUF 2,399 million**

The Group created the above assets using its own capacity as main contractor with the exception of the solar power plant park acquired under the acquisition. The table above only contains completed projects and excludes the increase in intangible assets related to the investments (KÁT, R&D, Concession). It is the opinion of the management of the Group that an asset meeting the criteria of the IAS 38 standard may be generated within the framework of the R+D+I projects.

In addition to the completed investments listed above, 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. The Group expects to complete these projects during the year 2019.

10. Emission allowances

The annual allocation of emission allowances for the third trading period between 2013 and 2020 was performed. The Group only has allocated (EUA) quotas. The table in Note 9 contains the changes in emission allowances.

11. Goodwill, negative goodwill and acquisitions

(a) Goodwill recognized in previous periods

The value of goodwill created upon earlier acquisitions was recognized by the Group as impaired in the previous years according to the provisions of IAS 36. No goodwill was generated upon the acquisitions in the subject year.

(b) Initial consolidation of the acquisitions in the subject year

In the subject year, the group acquired the following subsidiaries:

- Péberény Ingatlanhasznosító Kft. (100% share, 3/13/2018)
- Zugló-Therm Energiaszolgáltató Kft. (51% share, 3/19/2018)
- F.SZ. ENERGIA Kft. (100% share, 7/20/2018)
- True Energy Kft. (100% share, 7/20/2018)

The Group invests the amounts received upon the public capital increase performed in the business year 2016 in the project company above. The project companies, with the exception of Zugló Therm Kft., a heating power plant, will operate solar power plants producing into the KÁT system. The Group had no business connection with the referred companies before (with the exception of Zugló Therm Kft., with partial ownership of 49%), the 100% ownership and the influence was obtained in one step.

The Group evaluated the net assets of the subsidiaries acquired in the business combination - for initial consolidation - for fair value. The Group settled the purchase price exclusively in cash, a contingent consideration related to the acquisitions referred to was established only in the case of Zugló Therm Kft. as a portion of the purchase price.

In the case of the solar power plants, the Group treats the difference between the paid consideration and the acquired assets as intangible asset, as the value of KÁT rights related to the project. The amortization of the KÁT asset is proportionate to production. The value of the assets is recoverable, realized through the production in the KÁT period. Goodwill or negative goodwill was not accounted for in the case of the acquisitions in the subject year.

The contractual system of Zugló Therm Kft. complies with the concession under IFRIC12. Accordingly, the assets acquired in the course of the acquisition are recognized among the intangible assets.

The fair value of the acquired assets, the paid consideration was as follows.

Name	Péberény Kft.	TRUE Energy Kft.	F.SZ. Energia Kft.
Total amount of payment	353,615	138,044	137,066
Fair value of net assets on the day of acquisition	158,315	3,532	2,786
Purchase price allocated to KÁT value	175,050	134,512	134,280
Acquired deferred tax liability	20,250	12,160	12,085
Revenue in the period following the acquisition	-	-	-
Earnings in the period following the acquisition	(27,824)	(1,229)	(1,246)

The Group reviewed the acquired assets and found them to be recoverable. No additional capital instrument was issued with regard to the acquisitions, and no costs were capitalized. The group covered the activities related to the acquisition (e.g. due diligence) mainly from its own internal sources. No specific work hours report was recorded with regards to the acquisitions.

9% of the value of the KÁT assets included in the balance sheet generated deferred tax liabilities, further increasing the value of the KÁT asset accounted for.

The Project Companies have not started their operations yet.

In the case of Zugló Therm Kft., the fair value of the acquired assets, the paid consideration was as follows:

Name	Zugló-Therm Kft.
Total amount of payment (taking account of the conditional purchase price and the previous balance sheet data)	582,654
Fair value of net assets on the day of acquisition	6,230
Acquired deferred tax liability	33,286
Value of the concession asset acquired	1,166,728
Revenue in the period following the acquisition	530,149
Earnings in the period following the acquisition	(98,633)

12. Operation contracts, concessions

The Group enters long term operation and maintenance agreements. As part of the business combination the Group recognized these long term agreements - that were already effective on the day of the acquisition - as acquired intangible assets. During the useful life period of the asset the Group amortizes these operation agreements by recognizing the property item in the balance separately. Additional agreements of this type (concluded later) cannot be taken as assets, only if the group acquires them within the framework of a business combination.

The Group presents the assets in this line of the statement of financial position, on the basis of IFRIC 12, based on concession rights (Tisza, Kazinc, Ózd, Zugló heating plants).

The table in Note 9 contains the changes in the Operation agreements in the subject year.

13. Net investment in lease

The Group does not consolidate two companies (BC Therm Kft., Tisza-WTP Kft.) since it came to the conclusion that they do not control the relevant activities of these subsidiaries nor the variable returns. The full capacity of these entities is taken up by another entity and they make all relevant operational decisions. The Group came to the conclusion that this arrangement falls under the scope of IFRIC 4, so these investments have the legal form of lease.

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

The Group has official knowledge about the other parties to the arrangement do consolidate the above said entities.

The progress of the lease in time is the following:

Project	12/31/2018	12/31/2017
Amounts due within a year	287,000	265,752
Amounts due between 1 and 5 years	253,772	482,092
Amounts due in more than 5 years	-	-
Total lease receivables	**540,772**	**787,844**
Unearned interests	64,643	150,460
Total lease revenue	**605,415**	**898,304**

The Group gives certain parts of the properties of Győri Erőmű and Soproni Erőmű to operative lease (based on lease agreements). These revenues are recognized among other revenues.

14. Deferred tax assets and liabilities

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

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

Deferred tax assets are supported by a tax strategy which confirms that the asset is expected to be recovered based on the information available. Deferred tax assets and liabilities were calculated by the Group for each taxpayer. The change in deferred taxes was recognized by the Group in the statement of profit or loss.

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

12/31/2018	Tax value	Accounting value	Difference
Power plants and power generating properties, plants and equipment	9,314,057	10,715,943	(1,401,886)
Other property, plant and equipment	35,727	38,108	(2,381)
Other intangible assets and operation agreements	136,990	2,345,258	(2,208,268)
Shares	(77,697)	100	(77,597)
Trade receivables	3,340,961	3,319,584	21,377
Long-term loans	5,333,602	5,263,185	70,417
Provisions	-	251,739	251,739
Derivative assets (liability)	-	328,685	(328,685)
Allocated reserve	(228,950)	-	(228,950)
Deferred tax liabilities of the IFRS transition	(156,566)	-	(156,566)
Tax assets not qualifying as returning	-	801,953	(801,853)
Losses carried forward	3,331,697	-	3,331,697
			(1,530,956)
		Deductible temporary difference	1,552,844
		Taxable temporary difference	(3,083,800)

Deferred tax asset	**139,756**
Deferred tax liability	**277,543**

The following differences were identified in 2017:

12/31/2017	Tax value	Accounting value	Difference
Power plants and power generating properties, plants and equipment	4,156,194	5,850,512	(1,694,318)
Other property, plant and equipment	14,839	33,708	(18,869)
Other intangible assets and operation agreements	365,862	704,260	(338,398)
Shares	77,577	100	(77,588)
Trade receivables	3,720,136	3,699,986	(20,150)
Other receivables and accruals			
Long-term loans	1,839,644	1,789,587	50,057
Provisions	-	326,090	(326,090)
Derivative assets (liability)	-	27,729	(27,729)
Allocated reserve	(1,200,000)	-	(1,200,000)
Deferred tax liabilities of the IFRS transition	(313,132)	-	(313,132)
Tax assets not qualifying as returning	-	485,872	(485,872)
Losses carried forward	3,625,667	-	3,625,667
			(826,421)
		Deductible temporary difference	2,609,720
		Taxable temporary difference	(3,620,089)
		Deferred tax asset	**234,875**
		Deferred tax liability	**325,808**

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

Deduction	12/31/2018	12/31/2017
Profit or loss before taxes	805,893	1,032,829
Theoretical tax @ 9%	72,530	92,955
Explanation:		
Current tax	275,814	117,874
Within that, other taxes (local business tax, innovation contribution)	213,601	136,338
Timing differences (deferred tax)	5,407	(62,860)
Permanent differences and unrecognized tax assets	(15,724)	(48,559)
Amount of theoretical tax	**72,530**	**92,955**

15. Other long-term financial assets (deposits, loans and shares in associates)

Other long-term loans, deposits were as follows:

Name	12/31/2018	12/31/2017
Loans given	147,492	130,070
Clearing house deposit	49,110	47,376
Employee loan	22,049	8,140
Total	**218,651**	**185,586**

Clearing house deposits are KELER deposits related to the electricity stock exchange presence of Sinergy Energiakereskedő Kft.

Ownership of business interest representing 1% of the business interest of another company, Energigas Kft (HUF 100,000) is recognized as long-term investment. The fair value of the asset is identical to its initial recognition cost, so this value change was not recognized in connection with this investment.

16. Inventories

Inventories include the fuels (fuel oil) and other materials used by the power plants and contain, amongst others, work clothing, empties and auxiliary materials.

The breakdown of inventories by type is as follows:

Name	12/31/2018	12/31/2017
Projects	-	192,517
Other materials	189,709	87,393
Fuels	23,435	23,361
Total inventories	**213,144**	**303,271**

In the previous year, inventories related to projects are uninvoiced items related to additional works in connection with the construction-installation works of the MPK boiler.

The increase in other materials is the stock of spare parts related to the gas engine maintenance services.

Inventories are evaluated by the Group on a case by case basis, with the average price method.

17. Trade receivables

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

Name	12/31/2018	12/31/2017
Gross value of trade receivables	3,344,791	3,720,136
Recognized impairment	(25,207)	(20,150)
	3,319,584	**3,699,986**

The breakdown of impairment losses is as follows:

Trade impairment losses	12/31/2018	12/31/2017
Opening balance	**20,150**	**18,697**
Impairment recognized	5,057	1,453
Reversal of impairment loss	-	-
Closing balance	**25,207**	**20,150**

The impairment of receivables and write-offs are recognized in direct expenses. Buyers are qualified on a case by case basis. Trade receivables are unsecured (i.e. are not covered by deposits, bank guarantees, etc.).

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

12/31/2018	Not overdue	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cost	2,485,559	614,962	71,080	32,115	116,173	2,102	22,800	3,344,791
Applied average ratio of the ECL	0.02%	0.09%	0.06%	0.09%	0.06%	47.12%	100%	
Impaired trade receivable at acquisition cost	(550)	(345)	(434)	(28)	(68)	(972)	(22,800)	(25,207)
Total trade receivables								3,319,584

Previous year's data (2017):

12/31/2017	Not overdue	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cost	3,322,077	312,644	19,236	18,133	11,722	18,966	17,358	3,720,136
Impaired trade receivable at acquisition cost						(2,792)	(17,358)	(20,150)
Total trade receivables								3,699,986

The Group is present in industries where the payment risk is low or non-existent. On the basis of experiences in previous years, in electricity production, electricity wholesale and district heating production, there were no trade receivables to be impaired at all. The maximum credit risk is equal to the carrying value of trade receivables.

The Group's five largest customers:

In 2018	In 2017
MAVIR Zrt.	MAVIR Zrt.
Barcika Szolg Vagyonkezelő és Szolgáltató Kft.	TVK-Erőmű Kft.
TVK-Erőmű Kft.	ALPIQ Energy SE
ALPIQ Energy SE	Barcika Szolg Vagyonkezelő és Szolgáltató Kft.
TiszaSzolg 2004 Kft.	Tisza-WTP Vízelőkészítő és Szolgáltató Kft.

18. Other financial assets

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

Other financial assets	12/31/2018	12/31/2017
Held for trading financial assets	-	340,970
Bank account for special purposes	254,438	255,004
Derivative assets	660,963	277,975
Total	**915,401**	**873,949**

Separate bank accounts contain cash which is limited in terms of use. This essentially means funds earmarked for debt service. These assets are not treated as cash or cash equivalents in the financial statements. These amounts may also bear interest at a rate of BUBOR minus 0 to 2% points (depending on the amount and term of the deposit).

At the end of the subject year, the Group had no financial instruments held for trading. Financial assets classified as held for trading include a portfolio of securities arising from the investment of funds transferred to a fund manager. The Group intends to use this amount to earn short-term profits by making lucrative investments. The impact on profit or loss is reflected in other finance income.

The receivable balance of derivative assets includes the non-realized profit balance of hedging transactions (electricity forward, EUR/HUF FX forward, CO_2 forward) at the end of the year. Detailed notes concerning derivative assets are in Note 23.

19. Other receivables and income tax receivables

The value of the actual income tax receivables (local business tax, Innovation Contribution, corporate tax and special tax) are not included in the table below. The amount of it is HUF 192,182 thousand (in 2017: HUF 127,698 thousand).

The breakdown of other receivables is the following:

Name	12/31/2018	12/31/2017
Accrued revenue	1,133,292	450,664
Accrued expense	65,429	166,695
Deposits, sureties	345,431	185,490
Advances given	79,104	94,356
Receivables purchased	-	76,998
Customer receivables	-	25,190
Receivables from employees	6,875	9,875
Other receivables	24,830	382
	1,654,961	**1,009,650**

The large increase in the proportion of deposits is due to the value of the deposits necessary because of the presence of Sinergy Energiakereskedő Kft at the electricity stock exchange. Purchased receivables are items related to the gas engine maintenance contract of Zugló Therm Kft., which were eliminated in the consolidation process. The increase in deposits changes in correlation with the changes in the value of the hedged items. Advances given are related to the construction-installation projects in progress.

20. Cash and cash equivalents

Name	12/31/2018	12/31/2017
Cash in hand - HUF	-	114
Cash in hand - foreign currency	-	44
Bank account - HUF	1,532,186	2,069,496
Bank account - foreign currency	1,029,032	520,449
Other	-	235,595
	2,561,218	**2,825,698**

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

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

The other category contains the discount treasury bills and money market fund shares with a maturity date closer than 3 months.

21. Elements of equity

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

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

Date	Event	Number of shares	Face value (HUF/share)	Changes in issued capital (in thousand HUF)	Balance of issued capital (in thousand HUF)
12/31/2015	**Closing balance**	**1,580,747**	**100**		**158,075**
3/4/2016	Sinergy share contribution	73,158	100	7,316	
10/24/2016	Open issue of shares	299,992	100	29,999	
12/31/2016	**Closing balance**	**1,953,897**	**100**		**195,390**
11/8/2017	Splitting of shares	N/A	N/A	-	
12/31/2017	**Closing balance**	**15,631,176**	**12.5**		**195,390**
2018	Purchases of own shares	(6,797)	12.5	(76)	
12/31/2018	**Closing balance**	**15,624,379**	**12.5**		**195,314**

Premium contains the amount of share premium paid, decreased by the cost of equity involvement.

Retained earnings contain the accumulated profit and no dividends have been paid out as yet.

There are no other agreements between owners or with other parties which would require the Group to issue new ordinary shares or repurchase existing ones.

The Group’s approved issued capital (the share capital registered with the registry court) is equal to the amount of the issued capital.

22. Transactions with owners

This line of the statement of financial position shows the movements of the own shares purchased on the stock market in the subject year.

ALTEO, in the framework of a share buyback program for the year 2018, announced on the day of June 15, 2018 and extended as specified on the day of November 28, 2018, purchased a total of 6,797 ordinary shares of ALTEO on the Budapest Stock Exchange. A portion of the shares were bought by Sinergy Kft., these shares became the property of the Parent Company during the merger.

The opening balance of this line is from the following transactions from previous years.

During the business year of 2015 the Group acquired its own shares in accordance with the effective regulations. As the consequence of involving its own shares the Group decreased its equity so that the face value was directly deduced from the issued capital. The remaining difference was recognized in the separate element of equity, as transaction with the owners. This line presents that compared to the face value how much larger the amount that left the Group was in connection with transactions with the owners.

Contribution of the share of non-controlling interests

The owners of Sinergy Kft, having 20%, added the business part of Sinergy Kft. in the Group, as the effect of which the issued capital of Alteo Nyrt. was increased by HUF 7,316 while the share premium was increased by HUF 344 million. In this settlement the Group deducted the actual market value of the newly issued shares from the stock exchange price effective on the day of the transaction. The Group recognizes the difference between the value of the Sinergy share (that was recognized among non-controlling interests in the previous year) and the value of the capital increase among the transactions with own shares. In accordance with the provision of IFRS, the part of the profit of Sinergy Kft. and its subsidiaries achieved until the day of the contribution attributable to the non-controlling interest is recognized in the non-controlling interest line of the statement of financial position, along with the periodical profit of Tisza BioTerm Kft.

23. Cash-flow hedge reserve, exchange gains/losses

The accounting policy of the Group established hedge connection between certain transactions and certain derivatives. These hedges qualify as cash-flow hedges. The Group recognizes profits and losses from the hedging item of the cash-flow hedge as other comprehensive income, and gathers such profits and losses in this equity component. The balance in the cash-flow hedge fund is reclassified by the Group in the net result at the closing of the transaction (or if the hedge connection is cancelled from any other reason).

The hedge activity of the Group has the following important characteristics:

Exposure	Interest rate-BUBOR	Foreign exchange rate - EUR/HUF	Foreign exchange rate - price of electric power	Foreign exchange rate - price of gas	CO_2 quota price
Nature of the risks being hedged	Increase in the BUBOR rate	EUR/HUF rate increase	Rate of electricity increase / decrease	Rate of gas increase	Increase in quota prices
Description of the hedging activity	Transactions to fix the rates	Future purchases	Purchase or sale of products in the future	Purchasing products in the future	Future purchases
Description of the financial instruments designated as hedging instruments	Interest rate swap derivative	Forward deals	Bilateral transactions with partners	Asian swap deals, options	Forward deals
OCI on 12/31/2017	**HUF 28,383 thousand (loss)**	**HUF 10,340 thousand (gain)**	**HUF 279,648 thousand (loss)**	**HUF 241.579 thousand (gain)**	**N/A**
OCI on 12/31/2018	**HUF 382,114 thousand (loss)**	**HUF 11,064 thousand (loss)**	**HUF 188,220 thousand (loss)**	**HUF 113,485 thousand (gain)**	**HUF 144,229 thousand (gain)**

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

Name	12/31/2018	12/31/2017
Opening	(39,209)	440,335
Remeasurement in other comprehensive income	596,238	(1,109,287)
Reclassification to the statement on profit or loss	(856,132)	629,743
	(299,103)	**(39,209)**
Reclassification to finance expenses	(6.005)	6.305
Reclassification to other expenses	(52,245)	-
Reclassification to material expenses	914,382	(636.048)
	856,132	**(629,743)**

All items removed from the cash flow hedge reserve were reclassified in the income statement, and were not included in the carrying amount of assets or liabilities. All hedging derivatives will mature in less than one year.

The exchange gains/losses arise on the transactions of the subsidiary in Germany.

24. Share-based payment reserve

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

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

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

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

The Company, in the framework of a share buyback program for the year 2018, announced on the day of June 15, 2018 and extended as specified on the day of November 28, 2018, purchased own shares. Of these shares, shares to the value of HUF 8,950 thousand (i.e. 13,222 shares) were distributed to the employees, who were entitled to these on the basis of the Company's recognition system. In connection with the shares granted, the transfer of the shares started on January 25, 2019.

In the framework of the program, further share repurchases took place after the reporting date, as presented in detail in the outline of the events after the reporting date.

25. Non-controlling interest

The non-controlling interest is in the Sinergy subgroup, since the Group only controls 60% of Tisza BioTerm Kft.

The Group recognizes the non-controlling interest proportionate to the net assets, does not take goodwill or negative goodwill in connection with these interests.

Dividend payments were not paid at Tisza BioTerm Kft., neither in the subject year, nor in the year preceding it.

26. Debts on the issue of bonds

Name	12/31/2018	12/31/2017
Opening balance	3,507,828	3,400,453
Issue of bonds	-	2,636,464
Capitalized interest (with the method of effective interest rate)	195,632	229,571
Repayment	96,535	2,758,660
Closing balance	**3,606,924**	**3,507,828**
of which long term	*2,624,241*	*3,483,096*
of which short term	*982,683*	*24,732*

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

The Parent Company of the Group (the issuer) set up a public placement bond scheme for HUF 2,000,000 thousand (two billion forints) under the name "ALTEO Bond Scheme 2014-2015". The consolidated prospectus dated May 12, 2014 relating to the Bond Scheme was approved by the Central Bank of Hungary as of May 13, 2014. On June 18, 2014, as part of the Bond Scheme, the Company issued dematerialized bonds with a total face value of HUF 1,483,690 thousand, a fixed coupon rate of 6.50% p.a. and a maturity of 3 years and 2 months by way of public placement under the designation "ALTEO 2017/II". The Company listed the "ALTEO 2017/II" bonds on the Budapest Stock Exchange.

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

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

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

For the purpose of uniform presentation, the detailed terms of the bonds are listed in Note 30. Terms of borrowings.

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

The Group's funding is supported by borrowings and loans, broken down as follows:

Project loan	12/31/2018	12/31/2017
Péberény Kft. (HUF)	1,170,562	-
WINDEO Kft. (Multicurrency - HUF)	1,253,933	1,426,962
IT Solar Kft.	619,404	-
Monsolar Kft.	619,404	-
Domaszék (HUF)	586,340	-
Soproni Erőmű Kft. (HUF)	482,167	-
e-WIND Kft. (HUF)	389,435	433,499
ALTEO Depónia and its legal predecessors (HUF)	181,567	254,810
Zugló Therm Kft. (HUF)	175,416	-
Ózdi Erőmű Távhőtermelő és Szolgáltató Kft. (HUF)	-	99,937
Interest rate swap correction (wind power and solar project loans)	387.124	28,393
	5,865,352	**2,243,601**
Instalments due within a year	602,167	454,014
	5,263,185	**1,789,587**

In the subject year, in connection with the ongoing investment projects, the Group made use of large amount funding from banks. The terms of the borrowings and loans are summarized in the table in Note 30. A borrowing is classified as non-current in the financial statements only if at the end of the year the Group had a unilateral right not to repay the amount before the next reporting date. The instalments for the next year are included in current liabilities.

The above stated items are measured at amortized initial recognition cost. The fair value of the items above does not materially differ from their initial recognition cost.

The Group funded the loans of the wind power plants and the solar power plants with interest swap transactions. The fair value of the interest swap transactions on the reporting date is recognized in the statements of financial position together with the related loan. In the year 2018 the Group did not renew the interest swap funding of Windeo Kft.'s loans.

The other long-term liabilities (HUF 286,213 thousand) include the fair value of the conditional purchase price payment obligation that arose in the subject year in connection with the Zugló heating plant.

28. Short-term loans

These borrowings are repayable within one year or upon request (i.e. have no fixed maturity). This is the position where we recognize the part of lease debts due within the year as well.

Name	12/31/2018	12/31/2017
Part of long term loans due within the year	602,167	454,730
Working capital loan	-	50,127
Finance lease liabilities due within the year	18,756	17,507
HUF payment account	(6,861)	-
	614,062	**522,364**

The main terms are listed in Note 30.

29. Finance lease liabilities

On December 23, 2011 the gas engine used for the energy production activity of ALTEO-Agria Kft. was refinanced as part of a leaseback transaction. The lease qualifies as a finance lease. Only repayment was made in connection with the lease during the year. The part of the lease due within one year is shown in the statement of financial position in current borrowings.

Besides this the building and the machinery in the Gibárt power plant and the building in the Felsődobsza power plant were acquired through a lease construction. During the subject year, the Group extended the lease agreements of two power plants until the end of 2035. The increases in the obligation arising from the extensions are accounted for by the Group in the liabilities.

Name	12/31/2018	12/31/2017
Opening balance	126,478	143,509
Recording (extension)	196,124	-

Repayment	(17,083)	(16,502)
Foreign currency translation gains and losses	(465)	(529)
Finance lease liabilities	**305,054**	**126,478**
of which long term	*286,298*	*108,971*
of which short term	*18,756*	*17,507*

The following table represents the timing of the lease:

Name	12/31/2018	12/31/2017
Amounts due within a year	18,756	17,507
Amounts due between 1 and 5 years	64,670	70,205
Amounts due in more than 5 years	221,628	38,773
Lease liabilities	**305,054**	**126,478**
Interest not yet paid	145,269	29,855
Total lease payments	**450,323**	**156,333**

No lease construct includes contingent lease fees. The ownership of the gas engine is transferred to the Group at the maturity of the lease; there is no such opportunity or option in the case of the hydropower plants. The contract includes extension options in the case of none of the leases.

In the subject year, the Group rented its central office, its personal vehicles and certain IT equipment under an operating lease, in accordance with IAS 17. The lease of these assets is recognized directly in the statement of financial position of the period in question among the material expenses.

The Group completed the calculations and assessments required for the introduction of IFRS 16. Accordingly, these rental schemes are transformed into leases, where the necessary conditions are met.

Data in thousand forints

30. Terms of borrowings

Financed enterprise	Financing party	Frequency of repayments	Amounts paid	DNEM	Nominal liabilities, 12/31/2018	DNEM	Maturity date
ALTEO Depónia Kft. (ALTSOLAR)	Erste	quarterly	184,442,422	HUF	146,642,422	HUF	11/15/2022
ALTEO Depónia Kft. (CIVIS-BIOGÁZ Kft.)	Erste	quarterly	1,297,069	EUR	34,924,120	HUF	9/2/2019
e-WIND Kft.	MTB	quarterly	542,830,000	HUF	389,434,786	HUF	11/30/2026
WINDEO Kft. (the former VENTEO is also indicated here)	RAIF	quarterly	7,504,935	EUR	1,252,703,455	HUF	9/30/2022
ALTEO-AGRIA Kft.	UniCredit	monthly	245,184	EUR	82,764	EUR	12/31/2021
Domaszék Kft.	OTP	quarterly	601,000,000	HUF	586,340,802	HUF	6/30/2033
Soproni Erőmű Kft.	K&H	quarterly	500,000,000	HUF	482,166,630	HUF	9/30/2025
Zugló-Therm Kft.	MKB/OTP	quarterly	430,708,932*	HUF	175,416,130	HUF	6/15/2019
Monsolar Kft.	MKB	six-monthly	625,779,465	HUF	619,403,920	HUF	6/30/2033
IT-Solar Kft.	MKB	six-monthly	625,779,465	HUF	619,403,920	HUF	6/30/2033
Péberény Ingatlanhasznosító Kft.	K&H	quarterly	1,190,075,455	HUF	1,170,562,271	HUF	9/30/2034
ALTEO Nyrt. “2019/I” bond	-	end of maturity	644,189,425	HUF	925,000,000	HUF	7/18/2019
ALTEO Nyrt. “2020/I” bond	-	end of maturity	2,146,103,279	HUF	2,150,000,000	HUF	9/30/2020
ALTEO Nyrt. “2022/I” bond	-	end of maturity	498,525,950	HUF	650,000,000	HUF	1/10/2022

* The loan of Zugló-Therm Kft. was transferred to the Group in the framework of the acquisition. When the loan was originally disbursed (in 2004), its term was 15 years to maturity.

The ALTEO Group has variable rate borrowings and lease liabilities where the rate of interest is based on the BUBOR or the EURIBOR, with premiums between 1% and 5.5% depending on the disbursement currency. ALTEO Nyrt.’s “2019/I” bond issued in 2014 is a zero coupon bond with a discount rate of 7.50%.

All borrowings are recognized in the statement of financial position at amortized initial recognition cost. The working capital loan facility available to ALTEO Zrt. amounts to HUF 550,000 thousand. Soproni Erőmű Kft. and Sinergy Kft. also have working capital loan facilities, to the amount of HUF 100,000 thousand and HUF 1,100,000 thousand, respectively. The loan of CIVIS-BIOGÁZ Kft. was converted into forint in January 2018.

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

data in thousand HUF

	2019	2020	2021	2022	2023
ALTEO Depónia Kft. (HUF)	72,724	37,800	37,800	33,242	-
e-WIND Kft. (HUF)	48,315	50,998	47,882	30,433	43,457
WINDEO Kft. (Multicurr. - HUF)	200,142	213,285	227,811	242,568	394,519
ALTEO-AGRIA Kft. - Lease (EUR)	26,735	27,576	28,453	-	-
Soproni Erőmű Kft.	63,821	66,412	69,109	71,914	74,835
Zugló-Therm Kft.	175,416	-	-	-	-
Monsolar Kft.	32,535	34,155	35,978	37,733	39,758
IT-Solar Kft.	32,535	34,155	35,978	37,733	39,758
Péberény Kft.	16,441	101,674	110,111	117,682	124,605
Domaszék Kft.	23,000	27,000	28,000	33,000	35,500
ALTEO Nyrt. “2019/I” bond	925,000	-	-	-	-
ALTEO Nyrt. “2020/I” bond	96,535	2,246,800	-	-	-
ALTEO Nyrt. “2022/I” bond	-	-	650,000	-	-

The following pledges and similar additional surety is provided to the financers:

Company	Designation of the collateral
ALTEO Energiakereskedő Zrt.*	a lien on claim, surety and lien on bank accounts
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
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
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
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 and lien on bank accounts
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
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
True Energy Kft.**	purchase option and mortgage on a business share, purchase option

Company	Designation of the collateral
	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
ALTEO Depónia Kft.	purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts
e-WIND Kft.	purchase option and mortgage on movable property and real property, lien on receivables, surety and lien on bank accounts
WINDEO Kft.	mortgage on a business share, purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts
Zugló-Therm Kft.	purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts
ALTEO-AGRIA Kft.	purchase option and mortgage on movable property

* The credit facility has not been used up by the reporting date.

** The credit has not been drawn down by the reporting date.

31. Trade payables

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

The five major suppliers of the Group in 2018 were:

MET Magyarország Zrt.
NKM Földgázszolgáltató Zrt.
E.On Energiakereskedelmi Kft.
MVM Partner Zrt.
Hanwha Q CELLS GmbH

The Group’s five largest suppliers in 2017:

MET Magyarország Zrt.
Zugló Therm Kft.
ECC Energiatőzsde
E.On Energiakereskedelmi Kft.
CYEB Energiakereskedő Kft.

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

These liabilities do not bear interest.

The above table does not contain the actual income tax liability, the amount of which is HUF 15,690 thousand (previous year: HUF 9,845 thousand).

Name	12/31/2018	12/31/2017 (restated)*
Cost accruals	3.143.532	1.258.644
Income accruals	78.641	74.812
Projects - amounts payable to customers	6.797	56.225
Other tax liabilities	256.690	192.967*
Accrued interest payable	8.574	772
Interest expenses payable	90.617	85.304
Other short-term liabilities	-	14.509
	3,584,852	**1,683,233***

In the course of the business year, the Group concluded two large value fixed price construction-installation contracts with its business partner. Revenue concerning the project is recognized by the Group in accordance with the rules of the IFRS 15 standard. The content of the received income fully consists of revenues recognized proportionate to performance in connection with the project. Since the realization of the revenue is separated from the invoicing milestones in the contract, in accordance with the provisions of the standard, the differences from early invoicing are recognized among the liabilities as “amount payable to customer”. The major projects implemented for external clients are complete, the related accounting tasks were performed. As at the reporting date, in connection with a new smaller project, receivables in the value of HUF 6,797 thousand were recognized. Apart from that, only projects within the Group are in progress; in connection with these, the stock of receivables and liabilities has been filtered as part of the consolidation.

Note 39 contains the presentations concerning the construction-installation contracts.

The total amount of the advances received is HUF 364,730 thousand (last year: HUF 639,602 thousand). The advances contain a part of the advance related to the R&D&I project that has not been settled. On February 27, 2018, Tisza Bio Energy Kft. repaid the tender advance of HUF 221 million borrowed in 2017 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.

The total amount of financial liabilities is HUF 602,533 thousand (last year: HUF 305,704 thousand). These only contain the end-of-year market value of hedging derivatives. The contents of these are detailed in Notes 44 and 23.

33. Deferred income

Name	12/31/2018	12/31/2017
Deferred income related to funded assets	141,248	202,589
EUA CO_2 quota	-	18,649
	141,248	**221,238**

These items in long-term liabilities include deferred income from emission quotas received from the government free of charge; such income is included in the comprehensive statement of profit or loss in proportion to the rate at which the emission quotas are used up.

Returns on non-current assets which were received free of charge or were partly funded are recognized by the Group as deferred income. This item is not expected to impact cash flows and its acquisition and use does not involve the movement of cash. The significant increase in the year 2015 occurred due to a government grant yet unused by the Felsődobsza hydropower plant and Tisza BioTerm Kft.

The main requirements of funding are the following:

	Felsődobsza	Tisza BioTerm
Purpose of the grant	Hydroplant enhancement and lowering GHG emissions	Building a biomass boiler
Conditions of the grant	lowering greenhouse gas emission by 1,647.12 t/year and renewable energy carrier production increase by 1.762 GJ/year	lowering greenhouse gas emission by 1,190.5 t/5 years and renewable energy carrier usage increase by 32,615 GJ/5 years
Grant period	5 years starting from August 2014	5 years starting from 7/30/2013

Advance received for the awarded grants cannot be recognized in the deferred income line, it must be recognized among advances received. In the case of the Biomass boiler, the final settlement of the grant has not taken place as yet.

34. Provisions

Name	12/31/2018	12/31/2017
Provisions for expected liabilities	155,032	241,661
Provisions for asset retirement obligation	96,707	84,428
	251,739	**326,089**

Provisions include currently existing legal and constructive obligations (at the reporting date) whose existence is certain but the date when they will be incurred and their precise amount are uncertain. Provisions also include the asset removal obligation (ARO). The asset removal obligation is shown at discounted value. When measuring provisions, the Group was not required to modify the discount rate or significant estimates during the period as they were not subject to substantial changes.

There is no item among the provisions that would become due within the year. The provision recognized for the existing onerous contracts of the Group (non-terminable, causes losses) and for elements of similar nature is recognized among provisions with a significant value. These items - almost all of them- were obtained by the Group by acquiring Sinergy Subdivision. A significant part of the risks present at the acquisition does not exist anymore according to the opinion of the management of the Group. Because of this, components of the provision that are not directly related to the operation liability burdening the equipment were released.

As at the reporting date, the Group has no positions in CO_2 emission not covered by quota, given that its liability is covered by a hedge transaction. In the previous year, due to this deficiency, a provision was created in the amount of HUF 86,629 thousand, based on the market value at the end of the year.

Name	12/31/2017	Release	Creation	12/31/2018
For onerous contracts	134,311	-	-	134,311
For not covered CO_2 quota	86,628	86,628	-	-
Provisions for asset retirement obligation	84,429	-	12,278	96,707
Other	20,721	-	-	20,721
Total	**326,089**	**86,628**	**12,978**	**251,739**

and its subsidiaries involved in the consolidation Data in thousand forints

VII. Other disclosures

36. Operating segments

As the Group is listed on the stock exchange, it is required to disclose segment information. Strategic decisions concerning the Group's operation are made by members of the Board of Directors (CODs); therefore, when identifying segments for the purpose of preparing these financial statements, the management relied on the reports prepared for the CODs. Four segments were identified by the CODs: energy trading (KÁT and non-KÁT), energy production and operation. The principle of identifying segments is the separate presentation of individual activities with different business models (risks, industry, etc.).

In presenting segment reports, balancing items are omitted to improve readability. Reconciliation with the consolidated figures is presented. Since the COD does not review these devices continuously, this financial statement omits the breakdown of the same.

The information concerning the following segments relates to 2018.

Year ending on 12/31/2018	Energy trading	Energy production		Operation	Not allocated to segments
		KÁT	Non-KÁT		
Revenue from external parties	5,965,774	626,957	8,895,782	2,975,777	221,476
Revenue from other segments (intersegment)	977,715	-	1,334,809	4,605,910	125,487
	6,943,489	**626,957**	**10,230,591**	**7,581,687**	**346,963**
Segment profit (before taxes)	**284,931**	**81,069**	**626,966**	**1,131,549**	**(1,318,622)**

Reconciliation of revenue	Year ending on 12/31/2018
Segment revenue	25,382,724
Intersegment revenue eliminated	(7,043,920)
Revenues not allocated to segments	346,963
	18,685,767
Reconciliation of segment profit	
Segment profit	2,124,515
Profit not allocated to segments	(1,318,622)
	805,893

Similar breakdown of comparative data (2017):

Year ending on 12/31/2017	Energy trading	Energy production KÁT	Energy production Non-KÁT	Operation	Not allocated to segments
Revenue from external parties	4,758,881	837,774	8,134,011	4,549,116	109,501
Revenue from other segments (intersegment)	361,945	-	1,424,777	1,667,264	266,472
	5,120,826	**837,774**	**9,558,788**	**6,216,380**	**375,974**
Segment profit (before taxes)	**(144,636)**	**200,333 ***	**886,763***	**1,175,833***	**(1,085,464) ***

Reconciliation of revenue	Year ending on 12/31/2017
Segment revenue	21,733,768
Intersegment revenue eliminated	(3,720,457)
Revenues not allocated to segments	375,974
	18,389,284
Reconciliation of segment profit	
Segment profit	2,118,293*
Profit not allocated to segments	(1,085,464)*
	1,032,829*

The Management Report presents the performance of the individual segments in detail.

37. Disclosures regarding related parties

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

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

On behalf of the Supervisory Board:
Dr István Bakács
István Borbíró
Péter Jancsó
Dr János Lukács
Noah M. Steinberg (from April 24, 2017)

and its subsidiaries involved in the consolidation Data in thousand forints

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

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

The ones mentioned are all employed by the Parent Company of the Group.

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

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

** Non-BoD members only*

The same values in 2017 were as follows.

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

** Non-BoD members only*

38. Disclosure of risks and sensitivity analysis

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.

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 risk: 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 Standards (HAS): Since 2017, ALTEO Nyrt. has been obliged to prepare even its HAS-based individual report in line with the IFRS standards. Certain data elements and results of this may, however, be different from those used in IFRS.
- The risk of introducing and using new power plant technologies: Although ALTEO Group implements only proven technologies holding a number of references, if the performance of a given technology is lower than previously projected, it may cause a loss to ALTEO Group.
- Dependence on weather: Part of ALTEO Group's energy production capacities (e.g. the wind power plants) and the energy demand of certain buyers (e.g. heat demands) depend on the weather, therefore, changes in the weather may significantly impact the profitability of ALTEO Group.

- Information technology systems: The improper operation or security of ALTEO Group's information technology (IT) systems may have adverse consequences for the business and profitability of the Group.
- Environmental risks: Members of the ALTEO Group have the necessary environmental licenses and policies in place, and their expert staff do their job with special care as required by the nature of this business. But there could be extraordinary events which may entail invoking the environmental remediation obligation of the affected company or imposing a fine, or may lead to enforcing claims against the affected company.
- Political risks: ALTEO Group provides some of its services to institutions which are owned by municipalities or are under the influence of municipalities or certain statutory corporations. Furthermore, the agreements made with such institutions have a major effect on the operation of certain members and projects of ALTEO Group. The considerations governing the motivation of bodies having influence over such institutions may differ from the considerations of a rational, profit-oriented market player, which is a risk in terms of contract performance. Risks of this type could be present primarily in the case of the Sopron Power Plant, which provides district heating services, and Kazinc-Therm, Tisza-Therm, the Ózd Power Plant and Zugló-Therm, which have district heating production activities too.

Interest rate risk calculation

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

The Group manages its interest rate risk by developing a long-term policy on loans with balanced fixed/floating rate instruments to be present in the portfolio in the best possible ratio. To manage this, the Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The effects of these swaps are considered to be cash-flow hedges.

The exposure to the interest rates is disclosed in the interest rate sensitivity analysis. The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and the proportion of financial instruments denominated in foreign currencies remain constant at the level on December 31, 2018.

Using the current interests the Group can be characterized by the following values.

Actual interest	12/31/2018	12/31/2017
Profit or loss before interest and taxes	1,122,799	1,355,518
Net interest expenses	(316,906)	(322,689)
Profit or loss before taxes	**805,893**	**1,032,829**

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

12/31/2018	-10%	-5%	-1%	+1%	+5%	+10%
Profit or loss before interest and taxes	1,122,799	1,122,799	1,122,799	1,122,799	1,122,799	1,122,799
Net interest expenses	(348,597)	(332,751)	(320,075)	(313,737)	(301,061)	(285,215)
Profit or loss before taxes	**774,202**	**790,048**	**802,724**	**809,062**	**821,738**	**837,584**
Changes in the profit or loss before taxes(in thousand HUF)	**(31,691)**	**(15,845)**	**(3,169)**	**3,169**	**15,845**	**31,691**
Changes in the profit or loss before taxes (%)	**-3.93%**	**-1.97%**	**-0.39%**	**0.39%**	**1.97%**	**3.93%**

12/31/2017	-10%	-5%	-1%	+1%	+5%	+10%
Profit or loss before interest and taxes	1,355,518	1,355,518	1,355,518	1,355,518	1,355,518	1,355,518
Net interest expenses	(354,958)	(338,823)	(325,916)	(319,462)	(306,555)	(290,420)
Profit or loss before taxes	**1,000,560**	**1,016,695**	**1,029,602**	**1,036,056**	**1,058,963**	**1,065,098**
Changes in the profit or loss before taxes(in thousand HUF)	**(32,269)**	**(16,134)**	**(3,227)**	**3,227**	**16,134**	**32,269**
Changes in the profit or loss before taxes (%)	**-2.37%**	**-1.18%**	**-0.24%**	**0.24%**	**1.18%**	**2.37%**

Foreign currency risk calculation

Foreign currency risk is the risk that the fair value or the Group's future cash flows will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the Group's operating activities (certain expenses are denominated in a foreign currency).

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 12-month period for hedges of forecasted purchases.

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency.

The Group hedges its exposure to fluctuations on the translation into HUF (from EUR or USD) by using foreign currency swaps and forwards. Converting the loans and hedge transactions into HUF of the past years continuously reduced the Group's foreign currency exposure.

39. Effects of the construction-installation contracts

The Group concluded two large value fixed price construction-installation contracts with its business partner. Revenue concerning the project is recognized by the Group in accordance with the rules of the IFRS 15 standard. The Group registers its costs concerning the construction-installation contract separately, and recognizes revenue against the amount due from the Customer, proportionate to the occurrence of such costs, considering the level of completion and the planned (expected) profit. According to the management of the Group it is likely that the economic benefits concerning the contract will be realized. The estimate concerning the recognized revenue was prepared considering all the information available at the time of the disclosure of the statement.

40. Contingent liabilities

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

For certain products (electricity, gas), the suppliers of the energy trading division require guarantees as part of the normal course of business. In 2018, such guarantees were provided by OTP Bank Nyrt. and ERSTE Bank Hungary Zrt., the banks used for funding the retail and wholesale trading business.

Takarékbank provided guarantee in the amount of HUF 1,000,000 due to the KÁT balance group membership.

ERSTE Bank provides an advance repayment and good performance bank guarantee for the customers in connection with its construction-installation contract.

ERSTE Bank provides a good performance bank guarantee for the customer in connection with the power plant’s operation and maintenance contract.

The following bank guarantees existed as at the reporting date:

	12/31/2018	12/31/2017
HUF bank guarantee	HUF 1,540,486 thousand	HUF 1,105,971 thousand
Euro bank guarantee	EUR 3,366,000	EUR 400,000

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

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

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

- surety (general) for HUF 71,598 thousand

The hedged liabilities are recognized in the financial statements of the Group.

We detailed the contacts towards other banks that have no value in the financial statements in Note 30 in connection with these financial statements.

41. Events after the reporting date

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

Zugló-Therm Energiaszolgáltató Korlátolt Felelősségű Társaság operated by ALTEO as a sole member and Budapesti Távhőszolgáltató Zártkörűen Működő Részvénytársaság (FŐTÁV) extended their long-term contract signed on May 21, 2004, in effect until May 31, 2020 on purchasing and selling thermal energy, as well as other contracts related thereto. Pursuant to the newly signed contracts – in accordance with the terms and conditions therein – ZuglóTherm will provide FŐTÁV with thermal energy until the day of May 31, 2030.

In the year 2019, the ALTEO Group will launch its Waste Management Division within the Energy Production and Energy Services Business Line, which will be the third profit center in addition to the Energy Production, Operation and Maintenance, as well as the Project Development Division. The present change has no effect on the other business line of the ALTEO Group, Energy Trading Business Line. The purpose of founding this new division is to further strengthen ALTEO's presence on the waste utilization market for energy purposes.

ALTEO, in the framework of its share repurchase program for the year 2018, announced on June 15, 2018 and extended as published on November 28, 2018, purchased a total of 8, 401 ordinary shares of ALTEO (ISIN: HU0000155726) on the Budapest Stock Exchange in 2019. Mandated by the Company's Board of Directors, the CEO selected the employees to be recognized by the Company as part of the Program in December 2018. As a result, in January and February 2019 the Company granted 13,298 shares to the employees who have become eligible for them based on the Company's recognition system and the CEO's decision.

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

EURO GREEN ENERGY CONSUMPTION Kft. - signing the business share purchase contract

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

Signing the business share purchase contract represents the first step of the transaction. The ownership of the Target Company's business share will be transferred to SUNTEO Kft. once the conditions detailed in the contract have been met.

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).

42. Litigation and claims

Other than the (non-litigation) procedures for negative clearance mentioned in Note 43, the Group is involved in no other significant litigations and claims which might have an impact on the content of the statements.

43. Other issues

At the extraordinary general meeting of ALTEO Nyrt., held on November 18, 2017 the management presented a plan to reorganize the operation of the ALTEO Group. The shareholders acknowledged the plan. Under this reorganization the electricity retail branch belongs to ALTEO Energiakereskedő Zrt. as of January 1, 2018.

On February 27, 2018, following the reporting date, Tisza Bio Energy Kft. repaid the tender advance of HUF 221 million borrowed in connection with the planned Tiszaújváros biomass power plant.

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

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

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

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

Sinergy Energiakereskedő Kft. initiated the procedures for the so-called negative clearance with the goal to clearly and definitively disprove the infringement assumed by VPP Magyarország Zrt. and presented in the announcement of the Company published on February 14, 2018. The proceedings are still ongoing.

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

44. Fair value measurement disclosures

The Group measures one portfolio of financial instruments - handled as a portfolio - at fair value subsequent to initial recognition, i.e. the portfolio shown in other financial assets with a carrying amount of HUF 0 thousand (previous year: HUF 340,970 thousand). The value of this asset was disclosed by the fund manager and was calculated on the basis of quoted prices, which means that the fair value is treated as a Level 1 input.

The fair value of derivative transactions is HUF 660,963 thousand (previous year: HUF 340,970 thousand). These qualify as fair value measurement built-up from observable inputs, therefore they are on Level 2 of the fair value hierarchy.

No differences were identified between the carrying amount and fair value of the remaining financial instruments. For valuation purposes, all other assets are on Level 3 of the fair value hierarchy.

The content of FVTPL financial instruments is as follows.

Name	12/31/2018	12/31/2017
Derivative assets (in hedge relationship)	660,963	277,975
Assets held for sale	-	340,970
Assets evaluated at fair value through profit and loss (FVTPL)	**660,963**	**618,975**
Derivatives (in hedge relationship)	602,533	305,704
Liabilities evaluated at fair value through profit and loss (FVTPL)	**602,533**	**305,704**

45. Disclosure of interests in other entities

The Group was not faced with any uncertainty and was not forced to decide on complex matters when making a judgment about how to treat its investments. All controlled entities qualify as subsidiaries. The subsidiaries are controlled by the Parent Company, since control, operative daily tasks and exposure to variable return can be justified easily and in full. Where the Group does not control the entity, it is not consolidated but treated another way (see Note 13).

The Group has no associates, it does not participate in joint organizations.

The Group has to face no limitations concerning any of its entities that would influence access to net assets, the profit or the cash flow. The Group has no consolidated or not consolidated interests in which control is not established through voting rights or where voting rights are not for controlling relevant activities leading to control (structured entities). None of the members of the Group qualify as or have shares in an investment entity.

and its subsidiaries involved in the consolidation Data in thousand forints

46. Calculating EBITDA

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

Name	12/31/2018	12/31/2017
Profit from operations	1,038,226	1,361,938
Recognized depreciation	729,818	571,665
Recognized impairment of fixed assets	32,523	1,351
EBITDA	**1,800,567**	**1,935,954**

The detailed analysis of EBITDA is included in the Management Report for the period.

47. Dividends to the owners of the Group

Members of the Group decided to pay dividend during 2018 as follows:

Subsidiary	Amount of dividend
Alte-A Kft.	HUF 12,000 thousand
BC-Therm Kft.	HUF 48,031 thousand
Sinergy Kft.	HUF 1,000,000 thousand
Tisza-WTP Kft.	HUF 35,946 thousand

The Parent Company recognized these items as revenue and in the course of consolidation the Group eliminated them or modified the amount of IFRIC 4 lease receivables with them.

In 2019, after the reporting date, the members of the Group decided to pay dividend as follows. These dividends are not in the individual financial statements either, because those were generated after the reporting date.

Subsidiary	Amount of dividend
Alte-A Kft.	HUF 21,000 thousand
BC-Therm Kft.	HUF 62,324 thousand
Tisza-WTP Kft.	HUF 28,790 thousand

In 2018 payment and approval of dividend was performed for the shareowners of the Parent Company in the amount of HUF 250,098 thousand. The dividend approved by the general meeting of the Company is HUF 16/share, projected to 1 share with a face value of HUF 12.5/share.

At the general meeting approving the financial statements of the business year of 2018 the management recommends the payment of HUF 16 per share as dividend. The financial statements cannot contain the effects of the recommended dividend; it must be recognized when approved by the General Meeting.

48. Estimates, uncertainties

The management of the Group uses estimates when preparing the financial statements. The estimates are always based on the best information available at that time.

The following significant items are determined using estimates.

- Allocating the purchase price to assets in the case of acquisitions. The estimate concerning the distribution of the purchase price may change during the year of the measurement period if any new information arises.
- The useful life of Power Plant equipment was determined considering the present market and regulatory environment. Possible negative changes in these factors may lead to impairment.
- The present market and regulatory environment was also considered when determining the provision for the asset retirement obligation.
- Revenues and profit or loss recognized in connection with the construction-installation projects were determined considering the present circumstances.
- The recovery of deferred tax assets recognized was accounted for based on the present market environment and tax legal regulations. Changes in any of these factors may modify actual recovery.
- The asset produced as the result of the R+D activity may be recognized among the intangible assets.
- The value of the obligation due to the contingent purchase price component, included in the liabilities.

49. Approval of the disclosure of the financial statements

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

Budapest, April 5, 2019

On behalf of ALTEO Nyrt.:

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