ALTEO PLC.

Integrated Report

2018

alteo | WITH ENERGY IN MIND

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INTRODUCTION

LETTER FROM THE CEO

DEAR READER,

10 years ago, at the time of the foundation of ALTEO, our goal was to become a leading player of the energy sector, one that uncovers the business potential in the energy sector while keeping sustainability in mind. Right from the beginning, we were aware that - given the properties of the energy market - building our portfolio will require persistent work and patience as our projects typically generate returns and mature in the long term. Today, thanks to its professional expertise and know-how, ALTEO has reached a stage where it is able to substantially contribute to accomplishing energy and climate goals and - in respect of its activities and mission - it is able to serve as an example for other companies in several areas. We accomplished numerous results in the course of 10 years: We have ongoing activities in 19 Hungarian settlements and towns and have a total of 27 power plants - the construction of two of which is still in progress -, which are operated by a team comprising more than 230 committed experts.

Looking back, our capital market progress went according to plan in recent years - having implemented a successful Initial Public Offering in 2016, in addition to having an active bond program, not to mention the fact that last autumn we were successfully promoted to the Equities Prime Market, the highest category at the Budapest Stock Exchange. Our stock exchange successes are also the result of the confidence placed into our company by investors - we have hundreds of shareholders who believe in ALTEO and that the road we are on is the right one. Our company's value proposition goes beyond the fact that an ALTEO share is a stably profitable investment opportunity. ALTEO is so much more than this - we are one of the leading domestic representatives of the impact investment strategy, which means that in addition to being financially profitable, we also stand for an environmentally sustainable and socially responsible investment. This is exactly why we decided to - for the first time this year - publish an integrated report, containing both financial and sustainability data, for our investors and those interested in our company, in order to ensure that they gain a comprehensive picture of all areas of our operation.

ALTEO was actively involved in sustainability-related knowledge sharing in 2018 as well. As President of the Business Council for Sustainable Development in Hungary (BCSDH), I find the establishment of the Circular Economy Platform to be a very forward thinking initiative. The Platform was established by the BCSDH in collaboration with the Embassy of the Kingdom of the Netherlands and the State Secretariat for Sustainability of the Ministry for Innovation and Technology, and ALTEO was among the first to join. The Platform's goal is education, intending to pass on knowledge to companies and SMEs, knowledge that is essential for sustainable development and growth. It is a positive development moreover that in 2018 the government founded the State Secretariat for Sustainability, and this year saw the foundation of the Energy Innovation Council as well, where ALTEO is also a member.

In terms of activities, outlooks have never been better as this is when the demand for sustainability and innovation is becoming truly apparent in the energy market. The technological shift currently observed in energy, which supports decentralized production, distribution and consumption, favors the dissemination of renewable energy.

2018 was the year of constructions at ALTEO, during which we primarily focused on solar power plant developments, and on investing the investment volume set out during the public offering implemented in 2016. We accomplished this goal in the autumn of 2018. We currently have a 6 MW photovoltaic portfolio, we are building a capacity of an additional 14 MW, meaning that if everything goes according to plan, we will have a 20 MW capacity solar energy portfolio this year. In addition, our energy storage unit started operation in September, implemented in the framework of a close to HUF 1.1 billion R&D (Research and Development) Project, receiving HUF 500 million support in a tender procedure from the National Research, Development and Innovation Office. Although our investments continue to focus on the domestic market, last year we founded our German subsidiary, which serves as the first step of our international expansion.

From the very start, we have been building a company that is sustainable from a business, environmental and social aspect alike - all levels of our operation are permeated by this approach and we will be continuing our activities also in this spirit in the future. This, of course, requires us to be open to innovation, learning and knowledge sharing as well.

Attila Chikán Jr.
CEO of ALTEO Plc.

HIGHLIGHTS 2018

Our first self-implemented solar power plant project was completed

As a result of our very first RDI project, we commissioned our first battery facility

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We took further steps in the interest of rationalizing the Group's operation

We fully acquired Zugló Therm

We concluded contracts to be able to further increase our renewable capacity in 2019

The number of work accidents dropped

We laid down the foundations necessary to set up our new waste management division.

We founded our first foreign subsidiary in Germany

10

We became 10 years old

The turnover of our securities on the stock exchange grew by 343%, with daily trading volume increasing from HUF 1.4 million to HUF 4.83 million

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ALTEO shares werw promoted to the Equities Prime Market

BÉT

The ratio of recirculated and reused water increased to 15%

15%

We launched our Talent Program and our recognition system

The number of our female employees grew by more than 20%

We successfully extended several long term key contracts

Our energy retail segment increased its revenue by more than one third

CELEBRATING A DECADE OF EXISTENCE, ALTEO CONCLUDED AN EVENTFUL AND PROFITABLE YEAR IN 2018. IN JANUARY, SOPRONI ERŐMŰ LTD. AND HEINEKEN HUNGÁRIA SÖRGYÁRAK ZRT. EXTENDED THEIR COOPERATION FOR AN ADDITIONAL EIGHT YEARS. THE POWER PLANT OWNED BY OUR COMPANY GROUP WILL FULFILL ALL STEAM AND HOT WATER NEEDS OF HEINEKEN'S SOPRON BREWERY UNDER THE CONTRACT.

In March, we acquired Péberény Ingatlanhasznosító Ltd. to enable the further expansion of our photovoltaic fleet. With an annual output of 9,000 MWh, our solar power plant to be constructed - most likely in the first half of 2019 - on the outskirts of Balatonberény on the property of the project firm, will be able to cover the annual consumption of 4,000 households.

In June, ALTEO Plc. launched its share repurchase program.

In July, as a result of the acquisitions of F.SZ. ENERGIA Ltd. and True Energy Ltd., ALTEO Group is implementing a small solar power plant project on the outskirts of Nagykőrös, with a total capacity of nearly 7 MW, with solar panels each with a nominal electrical capacity of 495 kW.

As a significant step towards foreign expansion, we founded our first subsidiary outside of Hungary in Germany.

In August, our close to HUF 1 billion battery energy storage unit started test operations; the National Research, Development and Innovation Office supported this project with close to HUF 500 million.

Moreover, the Ministry of Finance also provides a non-reimbursable grant of HUF 228 million and a reimbursable grant of HUF 250 million for the research and development of the integration of energy storage activities into the electricity network.

In September, the Budapest Stock Exchange promoted our shares from the Standard category to the highest level, the Prime category.

As of October 1, through the (company law) mergers detailed below, ALTEO Group's company structure was simplified even further.

In November, our Group's first self-implemented solar power plant started operation in Monor. Our four solar power projects - along with two new investment projects currently in progress - will most likely reach a nominal capacity of 20 MW by the end of 2019.

By the end of the year, we laid down the foundations of our new waste management division.

Of the programs launched by HR in 2018, the two-year Talent Program as well as our share award scheme established to reward employees merit special mention.

TRACKING OUR COMMITMENTS

OUR FIRST SUSTAINABILITY REPORT IN 2016 FORMULATED MULTIPLE SUSTAINABILITY GOALS AND COMMITMENTS, AND WE HAVE BEEN WORKING TO ENSURE THE ON-TIME FULFILLMENT OF THESE AT THE COMPANY-LEVEL SINCE. OUR PROGRESS IS SHOWN IN THE TABLE BELOW:

COMMITMENTS	KPI	DEADLINE	CURRENT STATUS
Publication of an integrated report	Preparation of an integrated report	4/30/2019	In progress, expected to be completed on time.
Monitoring employees' trainings	Ratio of employees involved in monitoring: 2016: 0% 2018: 100%	12/31/2018	Implemented
Increasing the volume of electricity generated from renewable sources	2016: 43 000 MWh 2020: 65 000 MWh	12/31/2020.	In progress: additional energy production of approx. 28,800 MWh is expected from new renewable plants by 2020, which will allow us to accomplish the objective set.
Increasing the volume of avoided emissions using renewables	Rate of avoided emissions (cumulated) 2016: 3.200 t CO_2e 2020: 50.000 t CO_2e	12/31/2020.	By 12/31/2018, we successfully avoided CO_2e emissions of approx. 20,000 t (cumulated) With the solar power plants at Balatonberény and Nagykőrös currently under construction and the capacity-building reconstruction at Gibárt, will be able to accomplish our defined goal.
Reducing the number of work accidents	Number of work accidents: 2016: 2 2020: 0	12/31/2020.	2018: 1 work accident
Assessing the impact of our operation	True Value survey 2016: 0 2020: 1	12/31/2020.	We are examining the necessity of performing the assessment.

The table shows that some of our commitments have already been fulfilled, some are already underway and will most likely be completed on time.

This is why we added three more commitments to the above list in 2018:

NEW COMMITMENTS	KPI, TARGET VALUE	DEADLINE	CURRENT STATUS
Further training of employees	Introduction of e learning, expanding internal training courses	12/31/2019	The introduction of this has already commenced. Mandatory trainings (IT, compliance, IMS and HSE) in person + ALTEO Academy (internal knowledge sharing is only available at the HQ)
Raising awareness of and promoting corporate social responsibility within and outside of the company	Launch of our comprehensive Sustainability Program	12/31/2020	Recommendation formulated.
Enhancing the employee portfolio by increasing commitment, long-term retention and stabilization of employees	Introduction of the recognition system and reducing fluctuation	12/31/2020	Measures have already been taken, the objective is the continued operation of systems already in place (recognition system, mentoring program, etc.).

ABOUT THE INTEGRATED REPORT

THIS DOCUMENT IS THE FIRST INTEGRATED (FINANCIAL AND SUSTAINABILITY) REPORT OF ALTEO ENERGIASZOLGÁLTATÓ NYILVÁNOSAN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG (HEREINAFTER REFERRED TO AS: ALTEO PLC.) AND ITS CONSOLIDATED SUBSIDIARIES (HEREINAFTER JOINTLY REFERRED TO AS: ALTEO GROUP). THIS FULFILS OUR COMMITMENT MADE IN OUR FIRST SUSTAINABILITY REPORT ISSUED IN 2016 (WHICH WON THE GREEN FROG AWARD).

In addition to presenting consolidated financial data, this report also proves our commitment to sustainability and transparency, with the added purpose of also presenting the company's annual activities, financial and non-financial results and plans to all stakeholders.
The report presents key events and results for the period between January 1 and December 31, 2018, along with the economic, environmental and social impacts thereof.
The sustainability performance of the Group is presented in accordance with the new Global Reporting Initiative (GRI) Standards framework.

MATERIALITY ASSESSMENT

Since there were no major changes in the Group's business model or operating environment, the content of this Integrated Report was determined based on the results of the materiality assessment carried out in January 2016. During the previous materiality assessment, we defined the key stakeholder groups of ALTEO Group, and identified the most important topics and aspects for these stakeholders and our company . We defined the boundaries of material topics according to the degree of control that ALTEO Group has over each aspect, hence the report covers all topics where the Group is the decision-maker or implementer.

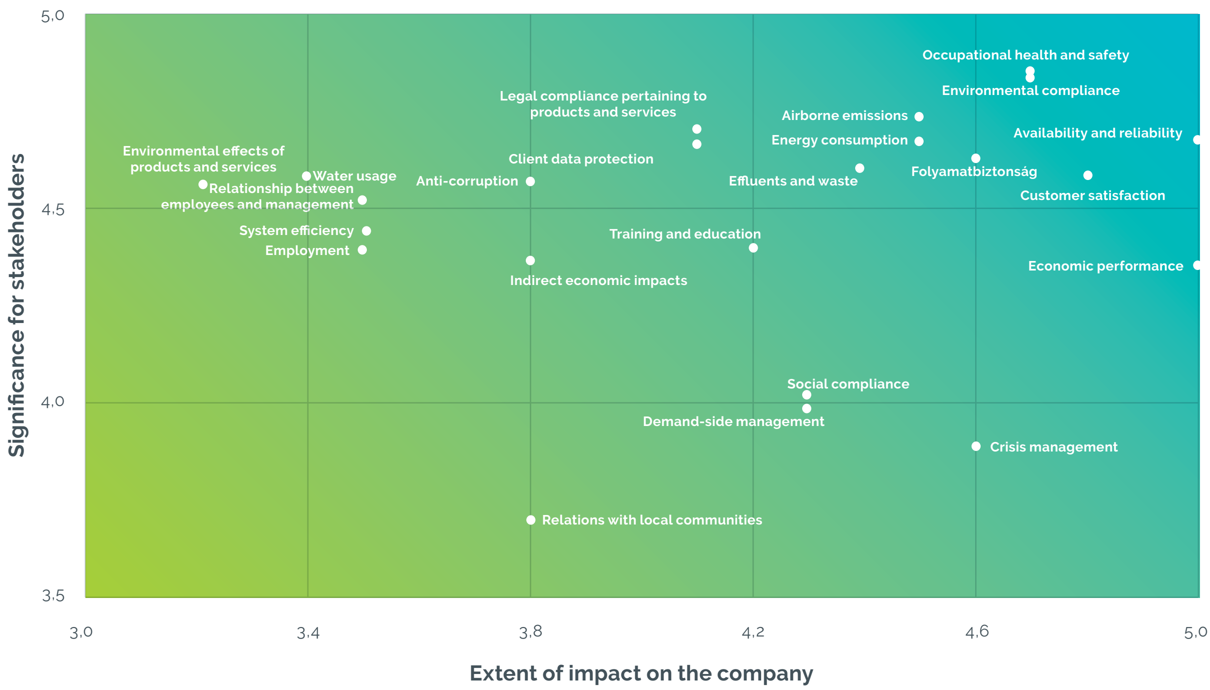
Our data supply focuses on the period between 2015 and 2018, in order to better show year-long trends and ensure the comparability of data.

Considering the transparency and relevance of the Report, we aim to minimize the scope of general and company information that were already published previously. For the various topics, the relevant detailed descriptions can be found in the two earlier Sustainability Reports and on our website. We will be referring to these and other additional information in the footnotes (using the format: "SR 2016, page number" or "SR 2017, page number" format).

Deloitte Audit and Advisory Ltd. was engaged to provide limited assurance on this Sustainability Report.

Please send your comments, recommendations and other remarks in connection with our Sustainability Report or the operations of ALTEO Group to the **fenntarthatosag@alteo.hu** email address. We will take these into account for next year's report.

ALTEO GROUP - MATERIALITY HEAT MAP



1. 2016 FJ 9-10. oldal
2. More details on the certification with limited assurance are contained in the Deloitte Independent Assurance Report.

ASSURANCE LETTERS

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

INDEPENDENT ASSURANCE REPORT

To the management of ALTEO Nyrt.

This report has been prepared in accordance with the terms of our contract dated 8 November 2018 in order to accomplish the independent external party examination of ALTEO Nyrt.'s Integrated Report 2018 document (hereinafter "Report") presenting the non-financial performance and sustainable operation of ALTEO Nyrt.

The responsibility of ALTEO Nyrt's management

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

The scope of the examination, its criteria and its limitations

The aim of this limited assurance engagement is to express a conclusion whether the selected information and data of the Report prepared for the year ended 31 December 2018 are prepared by the Management of ALTEO Nyrt. in line with the GRI criteria.
The limitations of our examination
The scope of our examination included solely the sustainable performance indicators stated in the Report.
During our examination we have not fully examined all the sustainable data and information stated in the Report. Our examination included solely the compliance of the data reporting procedure with GRI principles and the sample-based testing of the data sources.
Our examination of numerical data included in the Report was limited to the sustainability indicators

- 302-1 Energy consumption within the organization
- 303-3 Water recycled and reused
- 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities
- 404-1 Average hours of training per year per employee
- EU5 Allocation of CO_2 emissions allowances or equivalent, broken down by carbon trading framework

together with the testing of the data sources. The examination of the other numerical data presented in the Report has not been performed.
We have not examined previous years' data and trends relating to performance indicators presented in the Report.
Our report has been prepared solely for the purpose described in the first section of this report.

Our responsibility

Our responsibility is to report on the selected data and information included in the Report of 2018.
We prepared our report solely for the purpose of disclosing it in the documents of ALTEO Nyrt., and we do not accept any responsibility for any third party usage of the documents published as a result of this examination (for example the final examination report).
We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" ("ISAE 3000").
This standard requires that we comply with the ethical requirements as well as plan and perform the assurance engagement to obtain limited assurance whether the selected information and data included in the Report of 2018 have been prepared, in all material respects, in accordance with the GRI criteria.

Summary of the work performed

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

Deloitte Auditing and Consulting Ltd. 1

Procedures performed:
The verification of the reporting process:

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

The verification of GRI application level:

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

Limited examination of the appropriateness of five selected indicators on data level.
To confirm and to complete the statements above, we have accomplished the following interviews at the selected departments connected to the verification of the Report of 2018: IMS, HR, Tiszaújváros Power Plant, TVK Power Plant, Tisza Water Treatment Plant, MOM Park and Zugló Power Plant.

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement.
We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

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

Budapest, 3 April 2019.

Tamas Horvath
Partner
Deloitte Auditing and Consulting Ltd.
Dózsa György út 84/C, Budapest, H-1068, Hungary

Deloitte Auditing and Consulting Ltd. 2

ABOUT OUR COMPANY

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COMPANY INTRODUCTION

ALTEO - WITH ENERGY IN MIND

WE CELEBRATED THE 10TH ANNIVERSARY OF THE FOUNDATION OF OUR PARENT COMPANY, ALTEO PLC., IN 2018. AS A HUNGARIAN-OWNED ENERGY PROVIDER AND TRADING COMPANY WITH A MODERN APPROACH, OUR 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.

WE PROVIDE OUR CLIENTS WITH RELIABLE AND HIGH-EFFICIENCY ENERGY SUPPLY BASED ON THE SUSTAINABLE UTILIZATION OF NATURAL GAS AND RENEWABLE ENERGY. AS AN ENERGY TRADING COMPANY, OUR PARTNERS INCLUDE BOTH HUNGARIAN SMALL AND MEDIUM-SIZED BUSINESSES AND LARGE CORPORATIONS. OUR OPTIMUM MIX OF TOOLS AND OUR CONTROL CENTER ENABLE US TO SERVE THE NEEDS OF OUR CLIENTS EFFECTIVELY.

ALTEO PLC. SHARES WERE FLOATED ON THE BUDAPEST STOCK EXCHANGE (BSE) IN OCTOBER 2010, AND THE BSE PROMOTED THESE EQUITIES FROM THE STANDARD TO THE HIGHEST CATEGORY, THE EQUITIES PRIME MARKET IN SEPTEMBER 2018.

COMPANY DATA

COMPANY PROFILE

Name: ALTEO Plc.
(and its consolidated subsidiaries, hereinafter jointly referred to as: ALTEO Group)

Address: H-1131 Budapest, Babér utca 1-5.

Owners (December 31, 2018):

Wallis Asset Management Zrt. and its subsidiaries

65,95%

Board of Directors, Supervisory Board and Executive Board

5,84%

Own shares

4,71%

Free float*

23,50%

Issued capital ** (ALTEO Plc., December 31, 2018):

HUF 205 015 000

Revenue (December 31, 2018):

HUF 18,7 billion

Number of employees (December 31, 2018):

233 employees

MILESTONESL[3]

March 19, 2008	Foundation of ALTEO Plc.
January 1, 2009	Launch of electricity trading activities
July 2009	Acquisition of Hidrogáz Ltd.
December 31, 2009	Acquisition of Győri Erőmű Ltd. and Soproni Erőmű Ltd.
Spring 2010	Acquisition of landfill gas power plants in Nyíregyháza and Debrecen
September 2010	Becoming a public limited company
February 2012	Obtaining natural gas trading license
May 2012	Acquisition of 3 wind turbines (Ács, Pápakovácsi, Jánossomorja)
May 2013	Acquisition of a wind power plant (Törökszentmiklós)
May 4, 2015	Acquisition of Sinergy Ltd.
November 7, 2016	Initial public offering at the Budapest Stock Exchange
December 2017	Acquisition of the first solar power plant in Domaszék
March 13, 2018	Acquisition of Péberény Ingatlanhasznosító Ltd. in Balatonberény, which allows for the start of a new solar power plant project
March 2018	Acquisition of Zugló-Therm Energiaszolgáltató Ltd.
July 20, 2018	Acquisition of two project firms in Nagykőrös, which allows for the future start of a new solar power plant project
August 2018	Commencement of test operations at ALTEO Group's battery energy storage unit
September 12, 2018	ALTEO shares promoted from the Standard category to the Equities Prime Market
November 2018	Commencement of operations at ALTEO Group's first self-implemented solar power plant in Monor

**outside of management*

*** The issued capital of ALTEO Plc. was raised to HUF 242,328,425 in the framework of a private placement. The number of ALTEO Plc.'s shares, the voting rights related to them and the amount of the share capital affected by the change is detailed in an announcement published on April 4, 2019.*

3. More details on our company history: SR 2016, page 21.

GROUP STRUCTURE

Our operational structure reflects our diverse operational portfolio: all of our project, manufacturing and trading companies operate as a subsidiary of ALTEO Plc. to readily adapt to the constantly changing customer and consumer expectations and to utilize synergies in the organization more efficiently.
In line with our long-term strategy, the structure of ALTEO Group is based on our three core activities:

- TRADING: Electricity retail, gas retail, electricity wholesale
- ENERGY PRODUCTION: Heat and electricity production
- ENERGY SERVICES: Operation, maintenance, engineering services, construction, investment funding

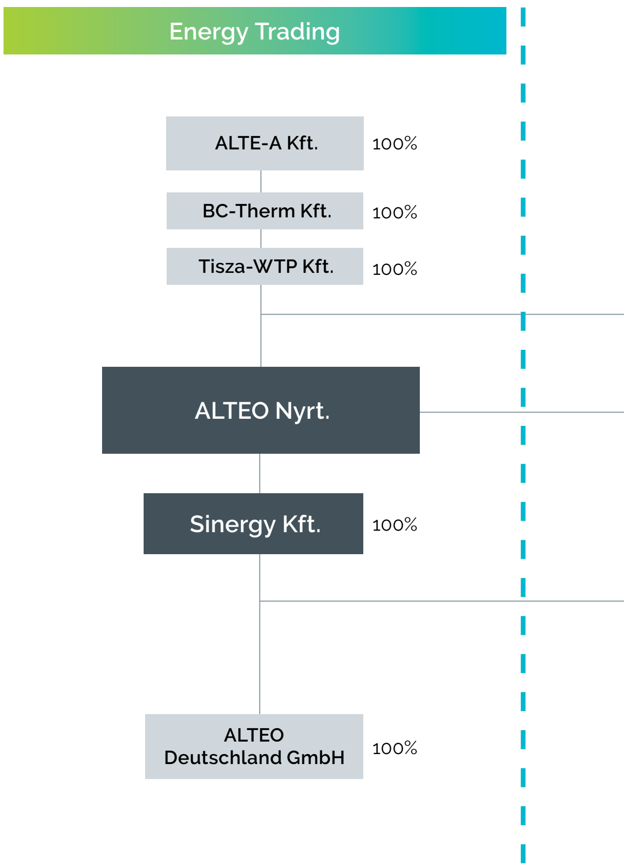
In 2018, ALTEO Plc. set up its first foreign subsidiary, ALTEO Deutschland GmbH in Germany, the scope of activities of which include the development of energy production portfolio, as well as the provision of energy services to wholesale and retail customers. ALTEO Deutschland GmbH was founded to enable ALTEO Plc. to start its business operation also in Germany, with an initial focus on identifying potential clients.

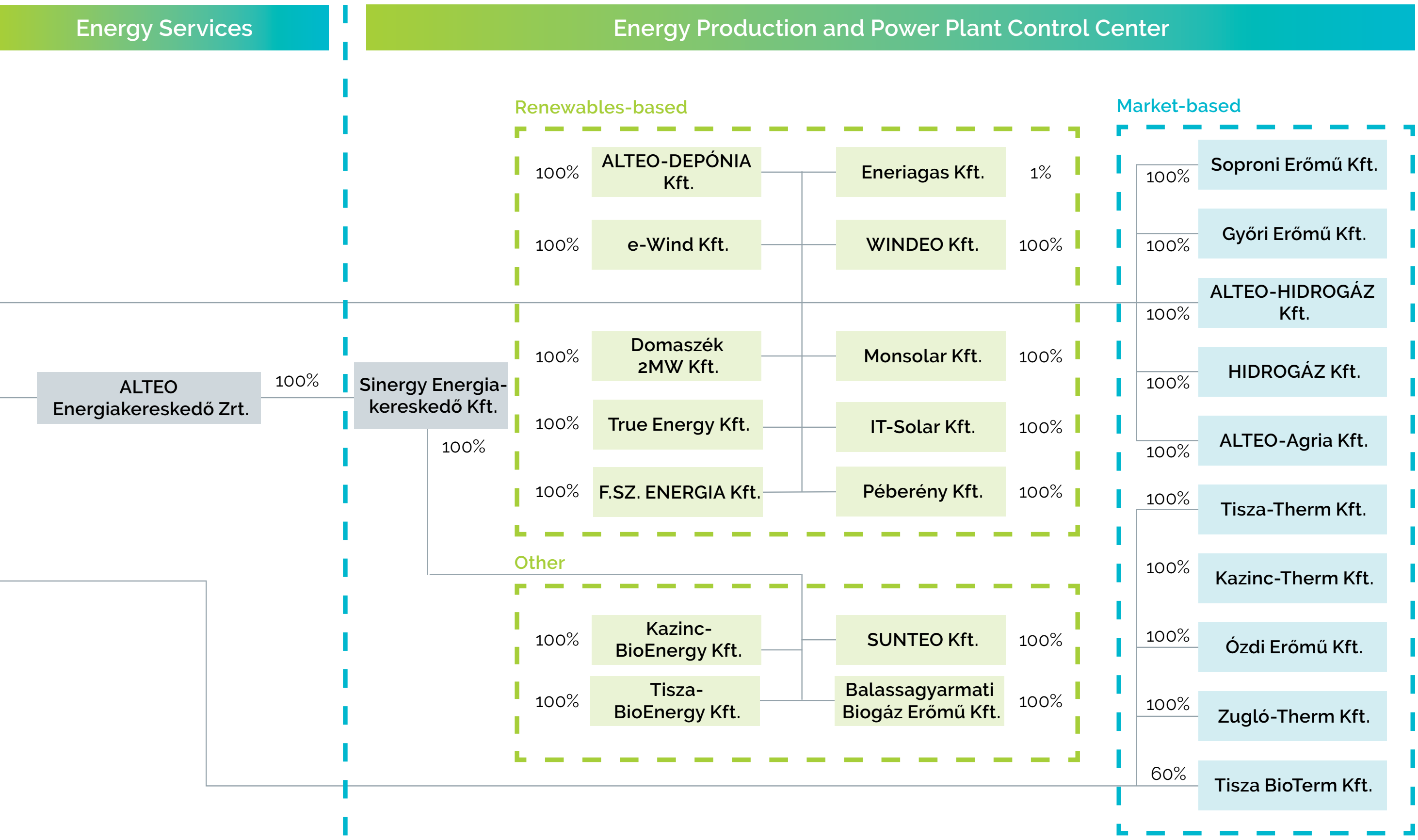
During the year 2018, several acquisitions were completed and, as a result, the portfolio of the ALTEO Group expanded with new project firms, whilst some of our project firms with similar profiles have merged, and one exit also took place .

CHANGES IN 2018	
MEMBER COMPANY	**EXPLANATION**
Péberény Ltd.	As a result of a successful transaction, ALTEO Plc. obtained a 100% ownership on March 13, 2018.
F.SZ. ENERGIA Ltd.	As a result of a successful transaction, ALTEO Plc. obtained a 100% ownership on July 20, 2018.
True Energy Ltd.	As a result of a successful transaction, ALTEO Plc. obtained a 100% ownership on July 20, 2018.
Zugló-Therm Ltd.	As a result of a successful transaction, Sinergy Ltd. obtained a 100% ownership on March 20, 2018, then following Sinergy Ltd.'s merger into ALTEO Plc., in the framework of an absorption-type demerger, the company was passed under the direct control of ALTEO Plc. as of October 1, 2018.
VENTEO Ltd.	With effect from September 30, 2018, VENTEO Ltd. was terminated with legal succession and merged into WINDEO Ltd., another company in which ALTEO Plc. directly holds a 100% stake.
CIVIS-BIOGÁZ Ltd., ALTSOLAR Ltd.	With effect from September 30, 2018, CIVIS-BIOGÁZ Ltd., with a 100% indirect ownership of ALTEO Plc., as well as ALTSOLAR Ltd., with a 100% direct ownership of ALTEO Plc., merged into ALTEO-Depónia Ltd.
EXIM-INVEST BIOGÁZ Ltd.	On August 15, 2018, ALTEO Plc. sold its 100% stake in EXIM-INVEST BIOGÁZ Ltd., which, from the perspective of ALTEO Group, we deem to be an exit implemented under favorable conditions. The registration of the ownership change at the court of registration was completed only in October 2018, due to the fact that the buyer had to obtain the resolution of the Hungarian Energy and Public Utility Regulatory Authority acknowledging acquisition of control.

As part of ALTEO Group's corporate restructuring project, pursuant to the business line transfer agreement entered into by ALTEO Plc. and ALTEO Energiakereskedő Zrt. in November 2017, ALTEO Plc. successfully transferred its electricity trading activity - including, in particular, the related user portfolio and wholesale contracts - to ALTEO Energiakereskedő Zrt. effective as of January 1, 2018. Given the fact that from this point on ALTEO Plc. performs no electricity trading activity, its operating license for electricity trade that expired on September 19, 2018 was not renewed.

Also within the framework of the corporate restructuring project, the assets of Sinergy Ltd. specified in its deed of absorption-type demerger (thus in particular the workforce and subsidiaries of Sinergy Ltd., and the contracts and liabilities apart from those relating to MOM Park and the Gibárt and Felsődobsza hydropower plants) merged into ALTEO Plc., CIVIS-BIOGÁZ Ltd. and ALTSOLAR Ltd. merged into ALTEO-Depónia Ltd., while VENTEO Ltd. merged into WINDEO Ltd., all with effect from October 1, 2018 as the date of legal succession. Based on the above, ALTEO-Depónia Ltd. became the sole subsidiary of ALTEO Plc. as regards the Debrecen landfill gas power plants, while WINDEO Ltd. became the project company owning the wind turbines in Ács, Pápakovácsi and Jánossomorja.




Energy Services
Energy Production and Power Plant Control Center
Renewables-based
Market-based
ALTEO Energiakereskedő Zrt.
100%
Sinergy Energia-kereskedő Kft.
100%
100% ALTEO-DEPÓNIA Kft.
Eneriagas Kft. 1%
100% e-Wind Kft.
WINDEO Kft. 100%
100% Domaszék 2MW Kft.
Monsolar Kft. 100%
100% True Energy Kft.
IT-Solar Kft. 100%
100% F.SZ. ENERGIA Kft.
Péberény Kft. 100%
Other
100% Kazinc-BioEnergy Kft.
SUNTEO Kft. 100%
100% Tisza-BioEnergy Kft.
Balassagyarmati Biogáz Erőmű Kft. 100%
100% Soproni Erőmű Kft.
100% Győri Erőmű Kft.
100% ALTEO-HIDROGÁZ Kft.
100% HIDROGÁZ Kft.
100% ALTEO-Agria Kft.
100% Tisza-Therm Kft.
100% Kazinc-Therm Kft.
100% Ózdi Erőmű Kft.
100% Zugló-Therm Kft.
60% Tisza BioTerm Kft.

OPERATION AND BUSINESS MODEL[4]

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..

CORPORATE STRATEGY, MISSION, VISION

The energy sector plays a key role in the societies of today and the future. The modern 21st century lifestyle would be unimaginable without reliable energy supply. At the same time, the sector also greatly contributes to climate change on account of substantial greenhouse gas emissions. This is precisely why it is essential to launch investment and development projects in the energy sector that provide the energy needed for our day-to-day lives - for all of us - in sustainable and reliable fashion. The future belongs to smart technologies, networks and measurement tools, as well as innovative solutions for energy storage. In addition - in the interest of reducing pollutant emissions -, emphasis in energy production is gradually shifting from fossil fuels to renewable energy. ALTEO Group is a forward-thinking, sustainably acting, consciously planning and reliably producing energy company providing high-quality services. We are striving to react to the environmental challenges of the future in the present.

Our **strategic goal** is closely linked to our core values. When compiling our portfolio, our endeavor was to become an 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.[5]

In the field of renewable energy, the energy strategies of ALTEO Group and the country are much alike. For ALTEO Group, renewable energy carriers and natural gas are equally important in the long term, and our portfolio is shaped along these lines. At the same time, in addition to constructing new power plants, we must also ensure the optimal operation and maintenance of already existing ones. This will be particularly true for the period after their removal from the Mandatory Offtake System (KÁT), where our Control Center plays an important role. Another strategic objective is to be able to gain strength in the field of services. The know-how and expertise we have at our disposal provide us with every chance of being able to develop in this area. Our investment activity cannot be replaced by the development and enhancement of services, and we are looking to build both areas parallel to one another.

We are planning to implement energy investments of HUF 15 billion in the 2017-19 period, and much of the funds available (HUF 12 billion) have already been utilized by December 31, 2018. The investments of ALTEO Group place great emphasis on energy production based on renewable energy, which is well-reflected by the fact that as a result of our investments in 2018, we will likely have two new solar power plants added to our portfolio in 2019.

As a responsible and forward-thinking company, from 2019, our strategy will focus on examining further electricity storage options and increasing the revenue of services (e.g. O&M, construction projects).

The direction we are growing and building towards coincides with the direction the country is taking. We wish to continue on this path with our current and future employees if our growth allows. As a publicly traded company, our investors are very important to us as well, and we feel the responsibility of knowing that if we are successful, we are also able to substantially contribute to the success of both the stock exchange and the capital market. Furthermore, it is our determined objective and, at the same time, our obligation to continue to maintain our investors' confidence through our investments, activities and capital market performance. We feel that supporting the government in renewing and stabilizing energy policy with our expertise is a welcome obligation.

PROFESSIONAL PARTNERSHIPS, MEMBERSHIPS

To support our professional and strategic goals, we are members of several professional groups and associations. By sharing and expanding our knowledge through these memberships, we can contribute to initiatives that help building a future that ALTEO envisions.

MANDATORY AND VOLUNTARY MEMBERSHIPS

- ENERGY INNOVATION COUNCIL
- BUSINESS COUNCIL FOR SUSTAINABLE DEVELOPMENT IN HUNGARY
- HUNGARIAN COGENERATED ENERGY ASSOCIATION
- HUNGARIAN ENERGY TRADERS' ASSOCIATION
- REGIONAL CENTRE FOR ENERGY POLICY RESEARCH - RCEPR
- ORGANIZATION OF HUNGARIAN INDUSTRIAL MAINTAINERS - OHIM
- HUNGARIAN BUSINESS LEADERS FORUM
- ASSOCIATION OF HUNGARIAN DISTRICT HEATING ENTERPRISES
- HUNGARIAN WIND ENERGY INDUSTRY ASSOCIATION
- HUNGARIAN BIOGAS ASSOCIATION
- BUDAPEST CHAMBER OF COMMERCE AND INDUSTRY
- HUNGARIAN CHAMBER OF COMMERCE AND INDUSTRY
- SOPRON CHAMBER OF COMMERCE AND INDUSTRY
- CHAMBER OF COMMERCE AND INDUSTRY FOR GYŐR-MOSON-SOPRON COUNTY
- HUNGARIAN CHAMBER OF ENGINEERS

4. Information about the company structure and corporate governance presented in this Report reflects the status on December 31, 2018.
5. More details on our strategy: SR 2016, pages 25 and 26.

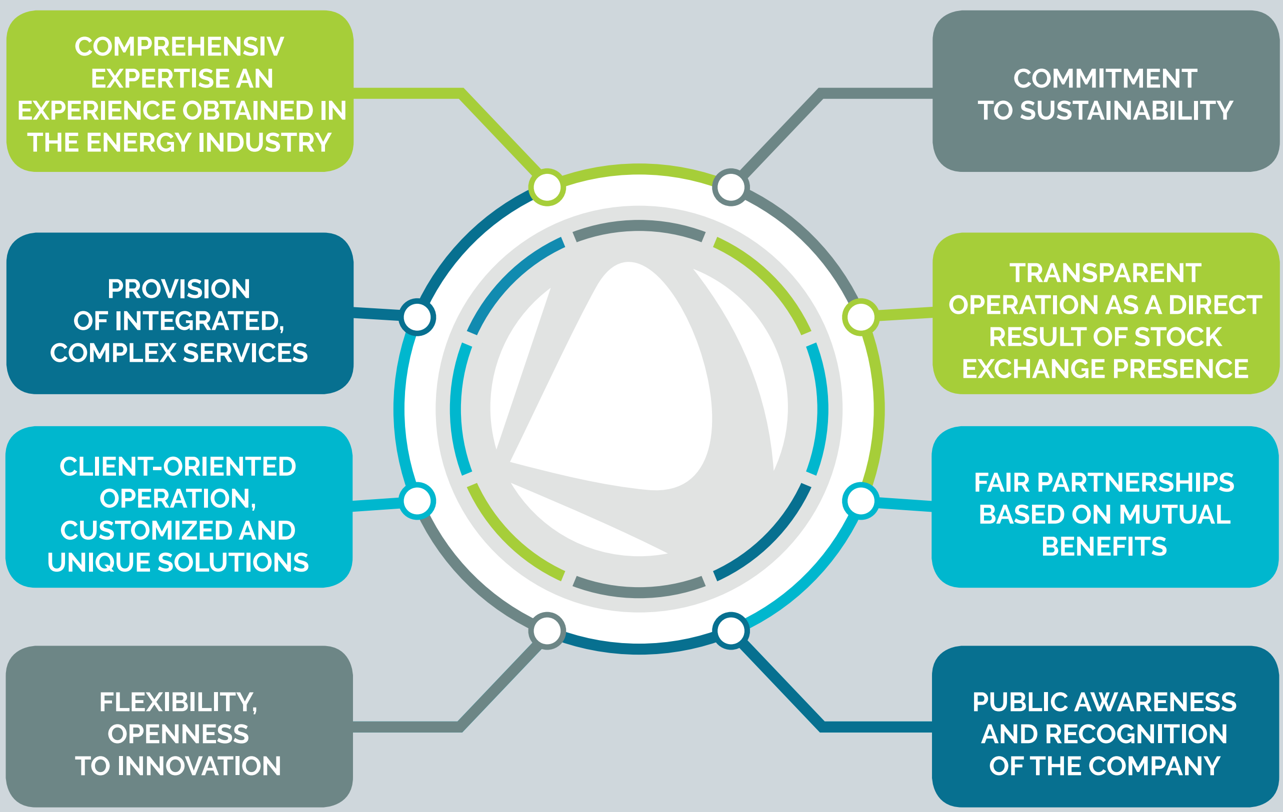
On November 29, 2018 the Circular Economy Platform was established in Hungary as an initiative of the Business Council for Sustainable Development in Hungary, the Embassy of the Kingdom of the Netherlands and the Ministry for Innovation and Technology. 41 companies, institutions and organizations have joined the Platform, including ALTEO Plc.

"For the new model to develop and spread, collaboration and knowledge sharing are required, with the involvement of businesses, government and science, as well as professional and social organizations" (Attila Chikán Jr.)

On December 4, our CEO Attila Chikán Jr. accepted the 2018 Energy Executive of the Year BEST Award at the gala held as part of the Budapest Energy Summit conference.

CORPORATE VALUES, CULTURE, ETHICS

VALUES OF ALTEO GROUP



1 WE SPECIALIZE IN EVOLUTION

We help our clients benefit from changes in our immediate environment..

2 WE ADAPT TO DEVELOP

We offer unique answers to new energy needs..

3 WE THINK AHEAD

Exemplary utilization of renewable energy sources is our mission.

4 WE LEAD BY EXAMPLE

Utilizing our expertise flexibly, every project offer is an innovation.

5 WE FOCUS ON WHAT IS RELEVANT

We perform our tasks proactively and assertively, saving time and creating a business advantage for our partners and investors alike.

6 WE ACT FLEXIBLY IN THE MARKET

We consider our deep knowledge, quick situation assessment capabilities and openness as keys to our successes.

7 WE ARE SUSTAINABLE IN OUR OPERATIONS

We want to make a positive change to the world. Our expertise and services enable the use of the best available options in the most sustainable way possible.

CODE OF ETHICS

At the beginning of 2016, our Group published its first Code of Ethics. The norms set out in the Code of Ethics have stricter requirements than effective laws. The Code of Ethics summarizes our fundamental ethical principles, the nature of our conduct and corporate culture, the avenues of interest enforcement, priorities and specific issues of liability.
In the period since the first publication, several changes relating to operation and regulation have occurred, and as a company now listed on the Equities Prime Market of the Budapest Stock Exchange, we consider clean and transparent operation to be even more important. Due to the changes that have occurred, we reviewed and updated the Code of Ethics in the second half of 2018.

Our Code of Ethics, revised and restructured in line with GDPR requirements, communicates high standards of ethics and conduct that we set for ourselves and for all our partners and contacts. Our goal is to realize our business plans and to become increasingly successful while implementing fair and transparent operation. The labor market has recently undergone fundamental changes - this is something we are also attempting to respond to at the level of the Code of Ethics in order to make our workplace even more attractive.

This year, new entrants also received ethics and compliance training, and they also made declarations on complying with the provisions of the Group's Code of Ethics throughout their work.

REPORTS ON ETHICS VIOLATIONS

In 2018, one report was submitted to ALTEO Group about a potential ethics violation.
We received an anonymous report concerning the conduct of a new staff member that was not in line with company culture, such as failure to greet direct colleagues, an unacceptable tone (deemed to be demanding, disrespectful, communicating superiority and condescending) used during face-to-face and over-the-phone communication and similar conduct to their direct colleagues and conversational partners, which resulted in a tense atmosphere in the working environment.
During the investigation, we interviewed numerous staff members about their experiences regarding the behavior of the new colleague during day-to-day work. As a result of the interviews, we established that with their conduct, the new staff member - although unwillingly - violated Section 6.3.2. of the Code of Ethics, pursuant to which: "we expect all our employees to build their workplace relationships on the principles of cooperation, openness, trust, mutual respect, mutual recognition and support".
We called on the colleague in question in writing that in the future, as part of day-to-day communication with colleagues and business partners, they should act in compliance with the principles set out in the Code of Ethics.

CORPORATE GOVERNANCE

On February 19, 2018, there was a change in senior management at ALTEO Group. On this day, Zoltán Bodnár joined ALTEO Plc.'s management team as Chief Financial Officer, and is now responsible for the financial, controlling and accounting operation of the entire company group and the areas of IT and office management.

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

Controlling Director András Kósa left ALTEO Group on May 11, 2018, and Péter Kaderják - with view to his assignment as State Secretary - stepped down as a member of the Board of Directors on July 3, 2018.

GENERAL MEETING[6]
The General Meeting is the chief body of ALTEO Plc., which consists of all shareholders. It has an exclusive responsibility to make decisions regarding the management and operations of ALTEO Plc. The Board of Directors convenes the General Meeting at least once a year.

BOARD OF DIRECTORS[7]
ALTEO Plc.'s main decision-making body is the Board of Directors, comprised of six legal representatives of the company. The Board of Directors coordinates and manages ALTEO Group, provides guidance and defines ALTEO Plc.'s business and development concept.
In line with the legal provisions on the conflicts of interest of state officials, in the spring of 2018 Péter Kaderják, who was appointed to Secretary of State for Energy and Climate Policy at the Ministry for Innovation and Technology, stepped down as Chairman of the Board of Directors.
Members of the Board of Directors
are currently the following:
- Gyula Mező, Chairman of the Board of Directors
- Attila Chikán Jr., Member of the Board of Directors
- Ferenc Karvalits, Member of the Board of Directors
- Domonkos Kovács, Member of the Board of Directors
- Zsolt Müllner, Member of the Board of Directors
- András Papp, Member of the Board of Directors

6. https://alteo.hu/az-alteo/szervezet/
7. https://alteo.hu/az-alteo/szervezet/igazgatosag/

SUPERVISORY BOARD[8]

The operation of ALTEO Group's management is supervised by the Supervisory Board (SB). Its objective is to ensure the efficient protection of the owners' interests as well as to supervise the management of ALTEO Plc. Current members of the SB were selected based on their expertise and industry knowledge:
- István Bakács, Chairman of the SB
- Dr István Borbíró, Member of the SB
- Péter Jancsó, Member of the SB
- Dr János Lukács, Member of the SB
- Noah M. Steinberg, Member of the SB

AUDIT COMMITTEE

The Audit Committee assists the Supervisory Board in overseeing the financial reporting system, in the selection of the statutory auditor and in cooperation with the statutory auditor. The Audit Committee has the right to request information from members of the Board of Directors or senior executives of the ALTEO Plc. The addressees are required to provide written answers. The Audit Committee consists of three members, who are elected by the General Meeting from the independent members of the Supervisory Board. In 2018, István Bakács, Dr János Lukács and Dr István Borbíró were members of the Audit Committee.

EXECUTIVE BOARD[9]

The Executive Board is responsible for ALTEO Group's operational leadership in accordance with the company's strategy, cost-effective operation, quality service delivery, provision of healthy and safe working conditions and environmental protection, complying with current legal requirements and the company's own Integrated Management System (IMS) requirements.

Its 7 members are ALTEO Plc.'s current Chief Executive Officer, Deputy CEO, Chief Financial Officer, M&A and Capital Markets Director, Director of Wholesale Energy Trading and VPP Management, Energy Production Director and Financial Director.

MEMBERS OF THE EXECUTIVE BOARD AS AT 12/31/2018:
- Attila Chikán Jr., CEO, Member of the Board of Directors
- Zoltán Bodnár, Chief Financial Officer
- Sándor Bodó, Financial Director
- Domonkos Kovács, M&A and Capital Markets Director
- Péter Luczay, Director of Wholesale Energy Trading and VPP Management
- András Papp, Deputy CEO
- Viktor Varga, Energy Production Director

AUDITOR

In accordance with current regulations, ALTEO Plc. is required to have a statutory auditor. In 2018 this role was delegated to Deloitte Könyvvizsgáló és Tanácsadó Ltd.

DISCLOSURE POLICY

In view of the fact that, according to the amendments of Act CXX of 2001 on the Capital Market and the related legal regulations, companies listed on the stock exchange are no longer required to prepare interim management reports, and no such reporting obligation is required by the Rules of Listing and Continued Trading of Budapest Stock Exchange Ltd. either, ALTEO Plc.'s Board of Directors passed a resolution on March 31, 2017 on discontinuing its practice of preparing and publishing interim management reports on a quarterly basis. At the same time, ALTEO Plc. switched to publishing interim reports on a semi-annual basis and also introduced flash reports as a new reporting and investor information item designed to evaluate the Company's performance in the second half of the relevant year and in the entire year, to be published by the last day of February of the year following the subject year. Under the analyst program launched by the Budapest Stock Exchange to provide analyses and market making services to Hungarian small- and mid-caps listed on the stock exchange, ALTEO Plc. agreed to resume publishing its financial information on a quarterly basis, necessitating the review of its disclosure policy described above.

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

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

8. https://alteo.hu/az-alteo/szervezet/felugyelo-bizottsag/
9. https://alteo.hu/az-alteo/szervezet/executive-board/
10. You can find more information about our Integrated Management System (IMS) in the Corporate governance chapter..

RISKS AND OPPORTUNITIES

TO ACHIEVE OUR STRATEGIC OBJECTIVES, WE MUST CONTINUOUSLY MONITOR THE CHANGES IN THE MARKET ENVIRONMENT AND THE ENERGY SECTOR, AND MUST REACT TO THEM WITHOUT DELAY TO MAINTAIN THE POSITION WE ARE HOLDING AND TO RETAIN OUR CLIENTS' TRUST.

However, we are also aware that we must take into account several direct and indirect risks arising from e.g. the consequences of the climate change, which are difficult to assess at this point. In order to avoid these, we leverage our environmental performance, our corporate social responsibility activities and also the work we do in professional organizations to promote sustainability. In line with our values and mentality, we strive to both utilize opportunities in innovative ways during our operation and successfully manage any emerging risks.

We sorted potential risks into two categories: those that are specific to the market and the industry, and those that are specific to ALTEO Group.

1. RISKS SPECIFIC TO THE MARKET AND THE INDUSTRY:

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

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

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

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

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

1.

RISKS SPECIFIC TO THE MARKET AND THE INDUSTRY:

- 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 RED 2 Directive[11] 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[12] and METÁR[13] regulations, or the termination of the relevant grants may have a significant impact on the operation, profitability, market position and competitiveness of ALTEO 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

11. RED-2 Directive: The European Commission's amended Renewable Energy Directive (RED) - 2009/28/EC)
12. KÁT: Mandatory Offtake System
13. METÁR: Renewable Support Scheme

2.

RISKS SPECIFIC TO ALTEO GROUP

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[14] or EURIBOR[15].
  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, ELECTRICITY AND HEAT ENERGY 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 ALTEO Plc.

2. RISKS SPECIFIC TO ALTEO GROUP:

- **RISKS OF GROWTH: :**
  ALTEO Group is planning to expand further both in terms of business activities and geographical areas. There is no guarantee that the company strategy will be successful and the company will be able to manage this growth efficiently and successfully.

- **RISKS STEMMING FROM ACQUISITIONS, BUYING OUT PROJECTS AND COMPANIES:**
  Although acquisition targets always undergo detailed screening before the transaction, we cannot exclude the possibility of such financial, legal or technical events occurring in relation to an acquired project or company that may have an adverse effect on the business and profitability of ALTEO Group.

- **RISKS RELATED TO POWER PLANT PROJECT DEVELOPMENT AND GREEN-FIELD INVESTMENT:**
  Although ALTEO Group draws up careful technical, legal and profitability plans when preparing for project implementation, there is always a possibility that the authorization of specific projects becomes unreasonably long or impossible. During implementation phases, ALTEO Group strives to contract main and subcontractors that offer appropriate guarantees and references, but even so, the possibility of disputes arising between the parties cannot be excluded in these phases.

- **RISK OF ENTERING NEW GEOGRAPHICAL MARKETS:**
  Any unfavorable changes in the macroeconomic, business, regulatory and/or legal environment of the target countries may have an adverse effect on the financial performance of the projects obtained through acquisition or implemented through green-field investments and consequently, on the profitability of ALTEO Group.

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

- **DEPENDENCE ON THIRD-PARTY SUPPLIERS:**
  If, for any reason, manufacturers or suppliers fail to deliver the equipment ordered by ALTEO Group at the right time, for the right price and in the right quality, delays may occur in the implementation of investments and additional costs may arise.

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

14. BUBOR (Budapest Interbank Offer Rate): Budapest interbank forint interest rate, the average lending rate of commercial banks
15. EURIBOR (Euro Interbank Offered Rate)

- **ENERGY TRADE RISKS:**
  Changes in the demand on electricity and natural gas markets may have a profound influence on the revenues, profitability and strategic expansion plans of ALTEO Group.

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

- **OPERATING RISKS: :**
  The economic performance of ALTEO Group depends on the proper operation of its projects, which may be influenced by several factors.

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

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

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

- **THE RISK OF NOT FULFILLING THE OBLIGATIONS ASSOCIATED WITH OPERATING ITS OWN BALANCING GROUP:**
  ALTEO Group itself has all licenses, financial securities, assets and resources required for operating the balancing group, but in the case of a malfunctioning or a shortage, the company group may not be able to perform its duties as the entity responsible for the balancing group, therefore, it would have to bear all relevant damages and fines.

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

THE PERFORMANCE AND SUCCESS OF ALTEO GROUP GREATLY DEPENDS ON THE EXPERIENCE AND AVAILABILITY OF ITS MANAGERS AND KEY EMPLOYEES.

- **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 Plc. or its subsidiaries.

- **ANY DISCREPANCIES BETWEEN THE DATA IN THE CONSOLIDATED AND IFRS REPORTS AND THE DATA IN THE REPORTS PREPARED IN LINE WITH THE HUNGARIAN ACCOUNTING RULES (HAR):**
  Since 2017, ALTEO Plc. has been obliged to prepare even its HAR-based individual report in line with the IFRS standards. Certain data elements and results of this may, however, be different from those used in IFRS.

- **THE RISK OF INTRODUCING AND USING NEW POWER PLANT TECHNOLOGIES:**
  Although ALTEO Group implements only proven technologies holding a number of references, if the performance of a given technology is lower than previously projected, it may cause a loss to ALTEO Group.

- **DEPENDENCE ON WEATHER:**
  Part of ALTEO Group's energy production capacities (e.g. the wind turbines) 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 Ltd., Tisza-Therm Ltd., Ózdi Erőmű Ltd. and Zugló-Therm Ltd., which have district heating production activities too.

COMPLIANCE

LEGAL COMPLIANCE

Although we intend to operate as determined competitors, we perform our activity in line with the standards of fair competition and in compliance with the effective competition rules. We monitor the Hungarian Official Gazette (Magyar Közlöny) on a daily basis and notify our staff of the new or amended laws if we notice any change affecting ALTEO Group's business or operation.

In 2018 again, all our new employees completed their conflict of interest statement. We have examined the conflict of interest statements of forty-two new hires and found conflict of interest in 12% of them, which we granted on certain conditions. We have also reviewed the conflict of interest statements of our senior employees but found no non-compliance.

In the framework of ALTEO Group's internal knowledge transfer project, we held further trainings on contractor's agreements as well as on the procedures conducted before the Hungarian Energy and Public Utility Regulatory Authority in connection with the 2018 transactions and the company structure transformation project, along with the practical experiences drawn in course of these.
We pay particular attention not to enter into cartel agreements and not to coordinate our behavior with competitors either directly or indirectly by fixing prices, dividing the market or setting production and sales quotas. However, as our industries have significant impact on the natural environment and the development of local communities, we cooperate with our competitors to promote joint social and environmental responsibility.

Our relationship with our suppliers and other business partners is based on mutual trust and respect. Our goal is to create equal opportunities for all our business partners and to adhere to the terms of our agreements.

In compliance with law, we have reviewed our electricity and natural gas trade business codes in every six months and have updated our retail model contracts in line with the business code amendments and the relevant practices

ONGOING PROCEDURES - DEEMED TO BE OF INCREASED SIGNIFICANCE BY ALTEO GROUP ON ACCOUNT OF SUBJECT AND/OR AMOUNT INVOLVED
Sinergy Energiakereskedő Ltd. 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 Ltd. 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 Ltd. 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 Ltd. 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 Ltd. After the analysis and based on its findings, Sinergy Energiakereskedő Ltd. explicitly and completely denied the claim of VPP Magyarország Zrt.

"OUR GOAL IS TO CREATE EQUAL OPPORTUNITIES FOR ALL OUR BUSINESS PARTNERS AND TO ADHERE TO THE TERMS OF OUR AGREEMENTS."

On March 14, 2018, Sinergy Energiakereskedő Ltd. 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 Ltd. 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 ALTEO Plc. published on February 14, 2018. The proceedings are still ongoing at the time of publishing this document.

REGULATION OF INSIDER DEALING
ALTEO Plc. as a public securities issuer listed at the Budapest Stock Exchange is obligated to comply with several pieces of legislation, including Regulation (EU) No 596/2014 (MAR - Market Abuse Regulation), the main goal of which is to avoid the most serious forms of market abuse, such as insider dealing, unlawful disclosure of inside information and market manipulation, and to adopt the relevant preventive measures.

ALTEO Plc.'s Insider Dealing Policy entered into force on November 9, 2018 and relies on the MAR Regulation in defining the most serious forms of market manipulation. The policy puts the main emphasis on insider dealing and, in that context, defines the scope of inside information and puts in place a detailed procedure for how ALTEO shall keep records of such information as well as of the persons aware of the same.

New hires are consistently trained about the company group's anti-insider dealing policy.

COMPANY LAW SUMMARY

Events at ALTEO Plc. relevant in terms of company law in the period between January 1, 2018 and the date of publication of this Integrated Report
At the ordinary general meeting of ALTEO Plc. held on April 20, 2018, the following resolutions were adopted:

a) The General Meeting approved the statement of financial position proposed by ALTEO Plc.'s auditor regarding ALTEO Plc.'s business year ending on December 31, 2017, along with the individual statement and business report prepared in line with the provisions of the Accounting Act applicable to entities preparing their annual report under the EU IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.
b) The General Meeting adopted the statement of financial position proposed by ALTEO Plc.'s auditor regarding ALTEO Plc.'s business year ending on December 31, 2017 and the consolidated report prepared in accordance with the IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.
c) The General Meeting approved the individual business report of the Board of Directors for ALTEO Plc.'s 2017 business year.
d) The General Meeting approved the consolidated business report of the Board of Directors for ALTEO Plc.'s 2017 business year.
e) The General Meeting adopted the corporate governance report relating to ALTEO Plc.'s 2017 operations with the proposed content.
f) The General Meeting decided to pay HUF 250,098,816 as dividend from the free retained earnings (dividend fund) supplemented by the profit after taxes of ALTEO Plc. in the previous business year and the subsidiary dividends established after 2017. Furthermore, the General Meeting authorized the Board of Directors to adopt the resolutions specified in Article 18 of the Articles of Association and other decisions necessary in relation to the payment of dividend.
g) The General Meeting has given the discharge to the members of the Board of Directors in accordance with Section 3:117 (1) of Act V of 2013 on the Civil Code of Hungary, with the conditions described therein.
h) Based on the Audit Committee's proposal, the General Meeting appointed Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság as the permanent auditor of ALTEO Plc., the mandate of which is for the period from April 20, 2018 until the date of adoption of the General Meeting's resolution on the report for the business year ending on December 31, 2018 but until May 31, 2019 at the latest. In line with the Audit Committee's proposal, the General Meeting appointed Dr Attila Hruby as the auditor personally responsible for the audit.
i) The General Meeting has taken note of and accepted the information provided by the Board of Directors regarding transactions involving own shares.
j) In acceptance of the grounds described in the Board of Directors' submission, the General Meeting decided to extend the authorization given to the Board of Directors regarding the own share transactions for eighteen months calculated from April 24, 2018.
k) The General Meeting has given its consent to the assets and activities demerging from Sinergy Ltd. to merge into the Company with effect from September 30, 2018 (the legal effects of merger set in on October 1, 2018) and, at the same time, by granting the submission with the proposed content, approved the appointment of UNIKONTO Számvitelkutatási Kft. (H-1092 Budapest, Fővám tér 8. III/317.3, Hungary; tax number: 10491252-2-43) as the auditing company and Dr Csaba Adorján as the auditor personally responsible to act as the auditors checking the draft statement of assets and liabilities as well as draft property inventories in relation to the absorption-type demerger as regards both ALTEO Plc. and Sinergy Ltd. Furthermore, the General Meeting approved the transformation plan along with the Deed of Absorption-type Demerger constituting a part thereof, decided that ALTEO Plc.'s statement of financial position for 2017 can be used as ALTEO Plc.'s pre-merger draft statement of assets and liabilities and draft property inventories, and approved ALTEO Plc.'s post-merger (opening) draft statement of assets and liabilities and draft property inventories as at September 30, 2018. Furthermore, the General Meeting authorized ALTEO Plc.'s Board of Directors to pass the member's resolutions regarding the absorption-type demerger of Sinergy Ltd. on behalf of ALTEO Plc., and to sign the Deed of Absorption-type Demerger in the Company's name.
l) The General Meeting adopted ALTEO Plc.'s Articles of Association in a consolidated structure with the amendments.

Based on the resolution of the General Meeting of ALTEO Plc. concerning the payment of dividend, the Board of Directors of the Company specified May 28, 2018 as the starting date of dividend payment and published the conditions of dividend payment through ALTEO Plc.'s official disclosure points on May 10, 2018.
With its resolutions adopted in writing on July 16, 2018, December 6, 2018 and January 18, 2019, as well as in its resolution adopted at its meeting on September 21, 2018, ALTEO Plc.'s Board of Directors updated the scope of ALTEO Plc.'s authorized signatories, along with the list of its establishments and branches, in view of the changes that have taken place in the meantime and that are detailed herein below.
With its Resolution No. 1/2019 (III. 12.), based on an authorization granted by Resolution No. 3/2015 (XI. 10.) of the General Meeting, ALTEO Plc.'s Board of Directors launched the process of increasing the share capital of ALTEO Plc., by adding new shares (hereinafter: **"New Shares"**) in a private placement (hereinafter: **"Private Placement"**). On the basis of the preliminary statements of commitment, the Board of Directors 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; 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 Resolutions No. 3-4/2019 (III. 21.), the Board of Directors also decided about an amendment in the Articles of Association, subject to the success of the capital increase. 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 ALTEO Plc., as registered in the Company register, to HUF 242,328,425 (that is, two hundred forty-two million three hundred twenty-eight thousand four hundred and twenty-five forints) at face value.

The New Shares will be first traded at the BSE on April 5, 2019.

Events at ALTEO Plc.'s subsidiaries relevant in terms of company law in the period between January 1, 2018 and the date of publication of this Integrated Report

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

I. ALTEO Plc. and Sinergy Ltd.[16] as the sole members of the subsidiaries[17] and, in the case of Tisza BioTerm Ltd., the members' meeting adopted the annual report of the subsidiaries for 2017, have taken note of the auditor's report, and extended the auditor's mandate for another year on March 22, 2018 (on March 26, 2018 in the case of ALTEO Energiakereskedő Zrt.). In the case of Monsolar Ltd. and IT-Solar Ltd., ALTEO Plc. appointed Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság as auditor and Dr Attila Hruby as the auditor personally responsible for the audit, while in the case of the following subsidiaries the founders resolved to pay dividend:

NAME OF SUBSIDIARY:	AMOUNT OF DIVIDEND:
ALTE-A Ltd.	HUF 12,000,000
BC-Therm Ltd.	HUF 48,301,000
Sinergy Ltd.	HUF 1,000,000,000
Tisza-WTP Ltd.	HUF 35,946,000

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

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

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

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

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

VII. Within the framework of ALTEO Plc.'s corporate restructuring project, in line with the resolution of the General Meeting dated April 20, 2018 as well as ALTEO Plc.'s resolutions on the mergers by absorption passed on June 26, 2018, the assets of Sinergy Ltd. specified in its deed of absorption-type demerger (thus in particular the workforce and subsidiaries of Sinergy Ltd., and the contracts and liabilities apart from those relating to MOM Park and the Gibárt and Felsődobsza hydropower plants) merged into ALTEO Plc., CIVIS-BIOGÁZ Ltd. and ALTSOLAR Ltd. merged into ALTEO-Depónia Ltd., while VENTEO Ltd. merged into WINDEO Ltd., all with effect from October 1, 2018 as the date of legal succession.

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

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

Based on the above, ALTEO-Depónia Ltd. became the sole subsidiary of ALTEO Plc. as regards the Debrecen landfill gas power plants, while WINDEO Ltd. became the project company owning the wind turbines in Ács, Pápakovácsi and Jánossomorja. In view of the merger by absorption, the issued capital of ALTEO-Depónia Ltd. was raised to HUF 7,000,000.

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

FINANCIAL AND ACCOUNTING TRANSPARENCY

Our presence at the stock exchange and the strict rules entailed by it, as well as compliance with our own corporate values all require us to provide complete and transparent information to our clients. Our operation is transparent and is accurately reflected in our reports and at our disclosure points accessible to everyone, such as the website of the Budapest Stock Exchange a**t www.bet.hu,** the website operated by the Central Bank of Hungary at **www.kozzetetelek.mnb.hu** and through ALTEO Group's own website.

Financial data are recorded in compliance with strict rules, subject to authorization and approval in each case. Transactions are subject to double approval and can only be performed based on the items entered in the accounting software. Individual transactions are checked one by one.

COMPANY	DESIGNATION OF THE COLLATERAL	DATE OF CONTRACT CONCLUSION
ALTEO Energia-kereskedő Zrt.	a lien on claim, surety and lien on bank accounts	December 28, 2018
Soproni Erőmű Ltd.	a lien attached to a business share, a mortgage on real properties, movable properties, a lien on property, a surety and lien on bank accounts, an assignment by way of security and pledges on certain receivables	November 8, 2018
Monsolar Ltd.	mortgage on a business share, mortgage on real property, as well as prohibition of alienation and encumbrance, mortgage on movable property, mortgage on receivables, surety and mortgage on bank accounts	July 24, 2018
IT Solar Ltd.	mortgage on a business share, mortgage on real property, as well as prohibition of alienation and encumbrance, mortgage on movable property, mortgage on receivables, surety and mortgage on bank accounts	July 24, 2018
Péberény Kft.	purchase option and mortgage on a business share, purchase option and mortgage on real property, as well as prohibition of alienation and encumbrance, purchase option and mortgage on movable property, lien on receivables, surety on bank accounts	August 22, 2018
Domaszék2MW Ltd.	mortgage on a business share, mortgage on real property, mortgage on movable property, lien on receivables, surety and lien on bank accounts	August 30, 2018
F.SZ. ENERGIA Ltd.	purchase option and mortgage on a business share, purchase option and mortgage on real property, as well as prohibition of alienation and encumbrance, purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts	September 12, 2018
True Energy Ltd.	purchase option and mortgage on a business share, purchase option and mortgage on real property, as well as prohibition of alienation and encumbrance, purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts	September 12, 2018

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

NAME OF SUBSIDIARY:	AMOUNT OF DIVIDEND:
ALTE-A Ltd.	HUF 21,000,000
BC-Therm Ltd.	HUF 62,324,000
Tisza-WTP Ltd.	HUF 28,790,000

We provide for the regular further training of accountants as well as the accounting and IFRS project manager, and their attendance at conferences. We also have a professional relationship with several accounting advisers from the field of IFRS and Hungarian accounting.
Tax compliance regarding wages is ensured by an external professional payroll expert. If needed, for instance in order to support the assessment of uncertain tax positions, we also consult with several tax advisers.
External audits have not detected any major inaccuracies in this area.
Besides planning, the role of controlling is to prepare monthly controlling reports and analyses. Monthly controlling reports (reviewing results) provide an analysis of our companies, the performance and relevant figures of our operations, therefore help identify any unusual events.
During 2018, we achieved significant improvements in the quality, level of details and timeliness of the controlling reports.
In the course of planning, by taking account of the inputs from the technical and commercials business lines, divisions, power plants etc. and executing any adjustments as necessary, the controllers prepared the plans suitable for reviewing the results next year.
As ALTEO Plc. discloses IFRS consolidated figures, the plan has also been prepared at a consolidated level as well.

COMPLIANCE WHEN PROVIDING PRODUCTS AND SERVICES

The constant high quality of the services and products offered by ALTEO Group, the flexible and client-oriented approach of our staff, and our transparent operation all contribute to the continuous improvement of customer satisfaction and ensure that our partners and clients characterize us as a reliable, highly professional and fair company group.

Apart from training all new colleagues joining our staff on our corporate values and the provisions of our Code of Ethics, the maintenance of our good repute also depends on the consistent compliance with our internal regulations, and on enforcing such compliance. Regular checks, their steps and documentation are regulated in the job description of the individual division heads and our policies.

CLIENT DATA PROTECTION AND IT SECURITY

Az ALTEO Group complies with the provisions of Act CXII of 2011 on the Right of Informational Self-Determination and on Freedom of Information[18] and the obligation to provide prior information pursuant to Section 20.[19]

The discussions on, elaboration and disclosure of the internal regulation based on the new EU Regulation on data protection and processing (GDPR) has been completed in due time (5/25/2018).

Along with that, the Company has also realized
- the creation of data controller's records
- the conclusion of interest balancing tests and impact assessments
- the conclusion of contracts with data processors
- internal trainings on the data protection and processing regulations in the key areas (HR, Office, Procurement)

We only collect information about our competitors in a lawful manner[20], using only publicly available information in order to understand business, consumer, supplier and technological trends, legislative proposals, and the activities of suppliers and competitors. To eliminate any conflict of interest, we have separated the IT area from IT security. In the future, IT security will be subordinated to Compliance, and the Chief Information Security Officer (CISO) support is ensured by ALTEO by using an external adviser.

The key tasks of 2018 included to improve the compliance of IT security and the development of IT culture, therefore the Company has taken care of the following:
- Discussions on, elaboration and disclosure of the IT Security Policy
- Elaboration and disclosure of the Business Continuity Management (BCM) policy regarding invoicing
- Management of the successful procedure certifying that the invoicing IT system is a closed system;
- The amendment of IT contracts in order to ensure the successful procedure certifying that the invoicing IT system is a closed system:
  - o examination of vulnerabilities, updates, designation of responsibilities
  - o checking and assessment of logs and log files
  - o provision of audit rights to us and to a third party over their systems
- Contracting an external adviser (CISO - Chief Information Security Officer) to perform IT Security tasks

In 2018, there were no incidents resulting in data loss or data theft, and the Compliance department did not receive any related complaints.

ANTI-CORRUPTION

Adherence to our Compliance Policy is compulsory for all managers and employees. In addition, several internal policies and regulations ensure our responsible operation, the implementation of which is the responsibility of the managers of the affected areas.[21]
In 2018, in addition to implementing the scheduled checks, we executed the follow-ups regarding the implementation of the tasks assigned to business areas in the 2017 compliance studies.

2018 RISKS MAP - CORRUPTION INDEX

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

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

In 2018, no cases of potential corruption came to our knowledge. As per our Compliance Policy and Code of Ethics, any form of corruption is considered as a serious ethical violation. More information about our anti-corruption approach can be found in our Sustainability Report of 2016.[22]

18. The original version of the Act can be accessed here: https://net.jogtar.hu/jogszabaly?docid=A1100112.TV
19. SR 2016, page 36.
20. SR 2016, page 36.
21. SR 2016, pages 34 and 35.
22. SR 2016, page 35.

INTEGRATED MANAGEMENT SYSTEM (IMS) AND HSE

We devote special attention to developing the quality of our services, applying innovative technologies, creating a healthy and secure workplace environment, constantly increasing energy efficiency, the sparing use of natural resources, environment protection, improving our environmental performance, preserving our natural values, while being committed to social responsibility, thus contributing to sustainable development.
With the introduction and operation of this system, the Group ensures full compliance with the applicable laws and the expectations of stakeholders.

Our Integrated Management System (IMS) consists of 4 standards:
- Quality Management - (ISO 9001:2015),
- Environmental Management - (ISO 14001:2015),
- Occupational Health and Safety Management - (OHSAS 18001:2007),
- Energy Management Systems (ISO 50001:2011).

The management of ALTEO Plc. is committed to quality, safe work, energy awareness, environmental protection and sustainability, which is recorded in the Integrated Management Policy (they key document for the IMS).

We are continuously striving for improving the quality of our services and our HSE (Health, Safety and Environmental Protection) activities. The latter includes reducing our HSE risks to a reasonable and acceptable level and the prevention of work accidents, fire incidents and environmental pollution. We also pay particular attention to protecting our employees' health.

Compliance with the IMS requirements is one of the selection criteria of our suppliers and business partners.

In order to attain our objectives, beyond compliance with the four standards mentioned above, we supervise the operation of the IMS and if we detect any deviation, investigate its reasons and introduce corrective measures for its elimination. We provide regular training courses to our employees based on the latest scientific knowledge and in accordance with the requirements of the IMS. Our managers are required to ensure the conditions for high-quality and safe work, and prioritize energy-consciousness and sustainability considerations. They are also expected to make sure that our employees and partners comply with these requirements, and aim for continuous development during their daily work.

Management reviews include the assessment of the results of the internal audit of the IMS and the previous external audits; feedbacks from customers and other external stakeholders, any complaints by them, the performance of operational processes and the compliance of products and services; quality and HSE performance; changes in energy performance indicators and the status of our energy performance; the status of tasks and measures defined by previous management reviews; risks and opportunities, as well as the effectiveness of implemented measures; policy, strategy, mission and goals, and any changes that can affect the operation of the system; the adequacy of resources and the performance of external service providers.

When defining goals, appropriations and programs, we consider applicable laws, the list of measures for reducing workplace, environmental and quality risks, the Integrated Management Policy, technological and financial possibilities, significant environmental factors and the opinion of our stakeholders.

In November 2018, the successful renewal audit of the ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 standards, as well as the review audit of the ISO 50001:2011 standard was completed by an independent external party (SGS Hungária Ltd.).
In accordance with the IMS rules, HSE site visits by the senior management, establishment and the IMS area took place at each site in 2018.

This year we ensured our compliance with the standards by conducting 23 internal audits covering the operation of the IMS for all four standards at all of our sites and organizational units. During the audits, a total of 309 non-compliances and proposals were found and put forward, respectively.

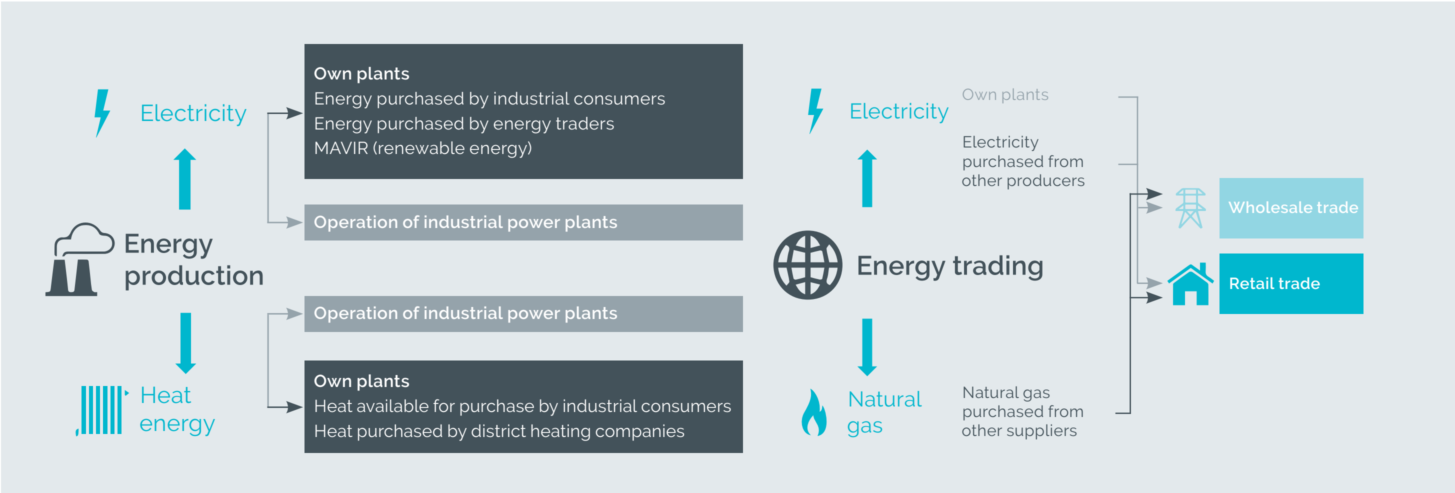
In line with the IMS, 27 HSE-type inspections were carried out at all sites by various authorities, which resulted in 4 logged inspections; however, no fines were imposed.

INTEGRATED MANAGEMENT SYSTEM

In 2018, we expanded our quality risk assessment to site level, in the same way that we did for environmental risk assessment implementation. We took into account stakeholder expectations and external risks while undertaking the risk assessment. We introduced corrective measures for emerging risks, preventive measures for potential mistakes in order to ensure the application of the precautionary principle in ALTEO Group's operation.

PRODUCTS AND SERVICES

ALTEO GROUP PRODUCTS AND SERVICES CAN BE GROUPED INTO FOUR SEGMENTS: ENERGY PRODUCTION (KÁT AND MARKET-RATE), ENERGY TRADING AND ENERGY SERVICES.



RENEWABLE ENERGY GENERATION

ALTEO Group has significant competences, among others in exploiting renewable energy sources.

WIND TURBINES
Ács
Jánossomorja
Pápakovácsi
Törökszentmiklós

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

HYDROPOWER PLANTS
Felsődobsza
Gibárt

BIOMASS HEATING PLANT
Tiszaújváros

SOLAR POWER PLANTS
Domaszék
Monor
Balatonberény*
Nagykörös *

INDUSTRIAL AND COMMERCIAL SERVICES

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

BORSODCHEM
BC-Therm Boiler
– heat supply service
BC Power Plant – operation

MOL PETROCHEMICAL:
TVK Power Plant
– operation
Tisza-WTP
– Water Treatment Plant

Audi Motor Hungária Kft.
– heat supply

Heineken Soproni Sörgyár
– heat supply

MOM Park
– energy center

Agira Park:
– energy center

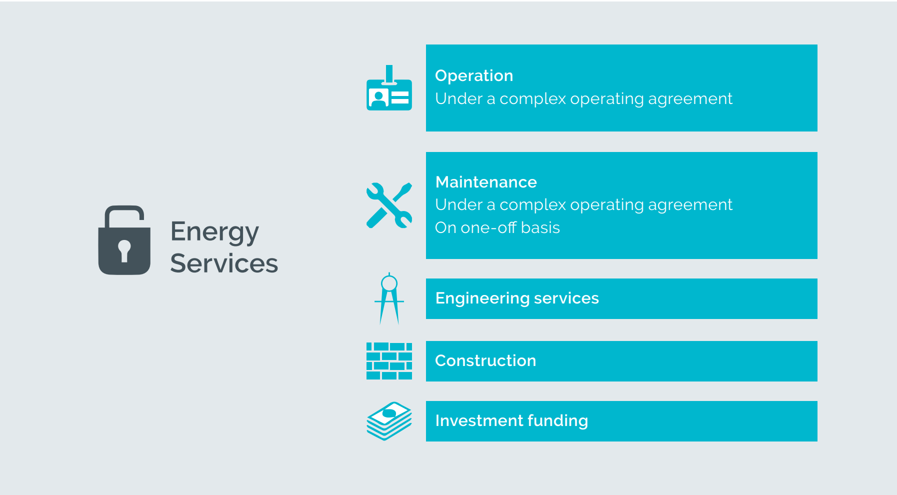
GAS-ENGINE AND HEATING POWER PLANTS

ALTEO Group operates highly efficient, hydrocarbon-fueled electricity generating systems

HEATING POWER PLANTS
Ózd
Tiszaújváros
Kazincbarcika
Zugló
Győr
Sopron

**The construction of the Balatonberény and the Nagykőrös plants is in progress*

In the course of energy production we produce electricity and heat energy in particularly highly efficient power plants owned or operated by us. Considering their share in our energy production portfolio, renewable energy sources are growing in importance; our 2018 portfolio also includes solar power plants in addition to hydropower plants and wind turbines and renewable gas power plants. In addition, we have several combined heating and power plants, which produce thermal energy for industrial plants and urban district heating systems.



We continuously develop our power plant portfolio so that we meet our clients' demands without compromise. Our energy trading segment is divided into retail and wholesale trade departments selling energy to small and medium-sized enterprises and large corporations, respectively.

Our energy services cover the operating, maintenance, engineering services, construction and investment funding areas.

We strive to fulfill all our clients' needs by providing innovative products and services.

In 2018, the power plants owned or operated by ALTEO Group had, altogether, 150.95 MW installed electrical capacity and 788.3 MW installed thermal capacity.

ENERGY PRODUCTION

Our company group currently owns and/or operates a total of 27 power plants, two of which are still under construction and a significant portion them use renewable sources of energy. In accordance with the Sustainable Development Goals of the UN and the circular economy objectives of the European Union, ALTEO Group attributes special value to sustainability including the conservation of natural resources as one of its important elements.

For this reason, our company group's energy production development projects are increasingly focusing on alternative, renewable energy sources replacing fossil fuels. ALTEO Group already has great competence in utilizing renewable sources and producing energy from waste. Our portfolio includes the utilization of almost every type of renewable energy sources. Our power plant portfolio includes 4 wind turbines, 2 hydropower plants, 2 already operational solar power plants and another 2 under construction, and also several units using alternative renewable gases.

AZ ALTEO CSOPORT ERŐMŰVI PORTFÓLIÓJA MAGYARORSZÁGON

WIND TURBINES

Of ALTEO Group's four wind turbines, the Törökszentmiklós unit remains the only one to produce energy fed into the Mandatory Offtake System. The Ács wind power plant, which is located in the northwestern part of the country and has an installed capacity of 2 MW, as well as the plants located in Jánossomorja and Pápakovács and having an installed capacity of 1.8 MW each, have been excluded from the scope of the KÁT system. In order to ensure their competitiveness, these wind turbines were integrated into our Control Center.

HYDROPOWER PLANTS

ALTEO Group leases and operates the two hydropower plants located at Gibárt and Felsődobsza on the Hernád river. Both facilities are more than 100-year-old industrial monuments with diversion canal systems.
The Gibárt hydropower plant has 0.5 MW installed capacity. As a result of a complete renovation of the Felsődobsza hydropower plant in 2013, we managed to achieve 0.98 MW there, nearly doubling its previous capacity.

RENOVATION OF THE GIBÁRT HYDROPOWER PLANT

In 2011, the KÁT period of the electricity produced by the Gibárt hydropower plant (then owned by Sinergy Ltd.) was extended, which ensured the profitable operation of the power plant until August 31, 2018. Due to the expiry of the KÁT period, the electricity produced by the hydropower plant must be brought to the free market, which renders the economical operation of the power plant no longer sustainable. The operation of the obsolete technology requires a large number of operators, and the cost of that exceeds the proceeds from selling the produced energy on the free market.

ALTEO Group looked into various detailed scenarios of renewing the Gibárt hydropower plant in 2017 and 2018. Finally, we decided to undertake complete renovation, similar to that implemented in Felsődobsza, in the framework of the new METÁR system.

Based on a September 2018 resolution of the Hungarian Energy and Public Utility Regulatory Authority (HEA), Sinergy[23], a member of our company group, gained the right to produce electricity within the METÁR green premium support framework system (for a maximum period of 19 years and 7 months, i.e. until December 2039 at the latest according to the current schedule), provided that the Gibárt hydropower plant undergoes complete renovation.

The METÁR permit creates a possibility for the long-term, sustainable operation of the more than 100-year-old Gibárt hydropower plant through renovating the engineering and electric systems of the entire plant. By installing new, highly efficient water turbines which implement modern technologies and are capable of harnessing higher than the current water yields, and by replacing the entire engineering-electric-control system. The capacity of the new turbines planned to be installed is 964 kWe (current capacity: 588 kWe).

The investment project is planned to be launched in February 2019 and completed in May 2020. The power plant is going to be stopped and the demolition work is planned to begin in early June 2019. Following the renovation work, the Gibárt hydropower plant will be able to produce 5,750 MWh electricity a year (average annual production of the present power plant calculated based on the last 5 years: 3,293 MWh/year).

The hydropower plants at Gibárt and Felsődobsza are physically separated but, in practice, for the two plants to operate efficiently, they must be harmonized as their operation is tightly interrelated. As a result of the Gibárt hydropower plant renovation, it will be possible to control and monitor the plant remotely, and so we are planning to operate the two hydropower plants in a more centralized manner, using remote monitoring. In addition to that, we are planning the temporary involvement of the maintenance organization in the winter months, which is a critical period with respect to operation. This optimization will allow us to significantly reduce our operating costs, which could not be achieved by operating only one of the hydropower plants, or without the renovation of the Gibárt hydropower plant.

SOLAR POWER PLANTS

ALTEO Group acquired an already functional solar power plant of a nearly 2 MW capacity from Domaszék 2MW Naperőmű Ltd. in December 2017, which became the first operating photovoltaic unit in our power plant portfolio. The power plant produces about 2,300 to 2,800 MWh of electricity a year in the first 25 years thanks to its favorable geographical location.
Further acquisitions in 2018 opened up the possibility to implement additional solar power plants:

- acquisition in March – a possibility to implement a solar power plant in Balatonberény
- acquisition in July – a possibility to implement a solar power plant in Nagykőrös.

MONOR SOLAR POWER PLANT

ALTEO Group reached a new milestone in November 2018, when we put into service the Monor solar power plant, the first one constructed by us. The solar power plant, which has a total capacity of nearly 4 MW, consists of eight units, each implemented using a 499 kW solar module. A solar module with a 499 kW nominal capacity is expected to produce 688 MWh electricity in the first year of its operation. The electricity produced by the solar power plant will be sold through the KÁT system for 25 years.
When the projects currently in progress have all come to an end, which is expected to occur in the first half of 2019, **the total combined nominal output of ALTEO Group's solar power plants will reach 20 MW.**
The operation of our solar power plants does not require constant monitoring or a standing staff, and have minimum maintenance requirements. Their average daily working time is 6 to 12 hours (depending on the hours of sunshine).

RENEWABLE GAS

Gases produced using renewable sources create an excellent opportunity to utilize energy in a clean, efficient, safe and sustainable way, as they offer a solution not only with respect to fulfilling the ever increasing demand for energy but can also be used to store energy produced from other renewable sources, to decrease the level of greenhouse gases, to improve the utilization rate of the existing gas infrastructure and to help compensate the inherently fluctuating power output of weather dependent energy-generating technologies.
By using gases from renewable sources, power plants do not only generate electricity and produce gas, but also neutralize greenhouse gases equivalent to tens of thousands of tonnes of carbon dioxide every year. ALTEO Group had five small power plants generating electricity from renewable gases (landfill gas, waste gases from thermal water and biogas) in 2018: one plant in Kisújszállás, Nagykőrös and Nyíregyháza each[24], and two plants in Debrecen.

LANDFILL GAS

Landfill gas power plants harness gases, primarily methane, and burn them to generate useful heat and electricity at high efficiency. ALTEO had three landfill gas-based units until August 2018, when the Nyíregyháza small power plant fueled with landfill gas was sold.

23. After introducing ALTEO Group's transformed corporate structure on October 1, 2018, the leasing agreements associated with the hydropower plants and the hydropower plant assets remained with Sinergy Kft., while their operation became the responsibility of ALTEO Plc. and is performed under an O&M contract..
24. The Nyíregyháza landfill gas power plant produced energy only until June 2018, and then it was sold in August.

THERMAL ASSOCIATED GAS

ALTEO Group has a long-term co-operation agreement with the Municipality of Kisújszállás about using the waste gases from the town's thermal water for energy production purposes. Our company installed the heat pipelines up to the connection points of institutional consumers to be able to supply them with heat. The small power plant currently sells the electricity it produces in the electricity trading balancing group of ALTEO Group.

BIOGAS

At the Nagykőrös site, energy is generated from biogas that is produced by waste treatment technology. The materials used include animal manure, sterilized byproducts, agricultural products and byproducts, as well as expired foodstuff waste. We produce biogas via anaerobic fermentation, and we use this gas to generate electricity and heat energy. One of the end products of the fermentation is an organic material (biogas manure), which can be used as a nutrient supply in agriculture/horticulture.

INSTALLED ELECTRICAL CAPACITY

In 2018, 73.5% of the installed electrical capacity of ALTEO Group-owned power plants came from natural gas, 10.5% from wind, and 16% from other (hydro, bio and landfill gas, solar) resources, thus - due primarily to putting into service the Monor solar power plant, which was constructed by the company itself - the rate of the power plants using renewable energy sources increased from 22% to 26.5% from 2017 to 2018 in terms of the total installed electrical capacity.

INSTALLED HEAT CAPACITY

In addition to the installed electrical capacity, a major part of our installed heat capacity is also based on natural gas, but we also use biomass, hydrogen and methane to generate heat. Regarding ALTEO Group-owned power plants, the installed heat capacity slightly (2%) decreased compared to 2017.

In 2018 we implemented the planned 61 MW capacity expansion at the ALTEO-operated TVK Power Plant, where the investment was necessary to meet the growing power demand of production processes. As a consequence of that, the total installed heat capacity of the power plants operated by us has increased by nearly 14%. The new boiler can use gases with high inert content[25] and also natural gas.

Except for those that use renewable energy sources, all of our plants are suitable for cogeneration (where electricity and heat energy are produced simultaneously in the same technological process). In 2018, 74% of the installed electrical capacity at power plants owned by ALTEO Group was based on such highly efficient cogeneration technology.[26] The remaining 26% of non-cogenerated capacity is installed at our wind, solar and hydropower plants.

INSTALLED ELECTRICAL CAPACITY (MW)

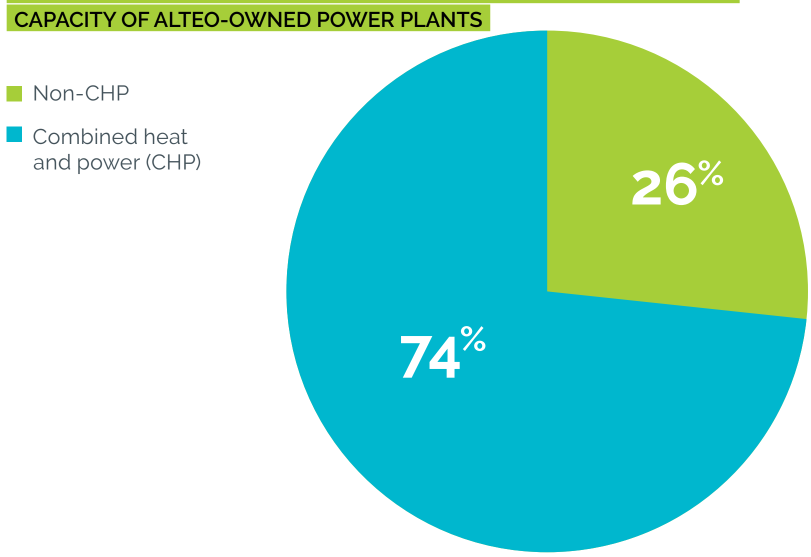
	2015	2016	2017	2018
POWER PLANTS OWNED BY ALTEO GROUP	**69.0**	**71.0**	**64.6**	**68.0**
NATURAL GAS	59.1	59.1	50.2	50.2
WIND	7.1	7.1	7.1	7.1
LANDFILL GAS/THERMAL ASSOCIATED GAS	1.3	1.3	1.8	1.3
HYDRO	1.4	1.4	1.4	1.4
BIOGAS	-	2.0	2.0	2.0
SOLAR	-	-	2.0	6.0
POWER PLANTS NOT OWNED BY ALTEO GROUP	**82.9**	**82.9**	**82.9**	**82.9**
NATURAL GAS	82.9	82.9	82.9	82.9

INSTALLED HEAT CAPACITY (MW)

	2015	2016	2017	2018
POWER PLANTS OWNED BY ALTEO GROUP	**318.8**	**290.5**	**290.8**	**284.8**
NATURAL GAS	316.7	288.5	288.4	283.0
HYDROGEN*	90.1	90.1	90.1	90.1
LANDFILL GAS / THERMAL ASSOCIATED GAS	1.48	1.48	1.87	1.29
BIOMASS	0.6	0.6	0.6	0.6
POWER PLANTS NOT OWNED BY ALTEO GROUP	**442.5**	**442.5**	**442,5**	**503.5**
NATURAL GAS	442.5	442.5	442.5	503.5
HYDROGEN*	58.0	58.0	58.0	58.0
METHANE*	-	58.0	58.0	58.0
GAS WITH HIGH INERT CONTENT*				61.0

**The materials marked with an asterisk serve as alternative fuel to replace natural gas, and as such are not added to aggregated installed capacity.*

RATIO OF COGENERATION WITHIN THE TOTAL INSTALLED ELECTRICAL CAPACITY OF ALTEO-OWNED POWER PLANTS



25. Inert gases are colourless, odourless, non-toxic gases which do not or only barely react with other materials (e.g. the noble gases), but when inhaled in large concentrations, they can lead to hypoxia and asphyxiation.

26. More details about the technology and its environmental and climate change benefits: SR 2016, pages 60 to 63.

ENERGY TRADING

BATTERY STORAGE FACILITY

Located next to the Zugló Power Plant, ALTEO Plc.'s battery storage facility started its test runs on August 23, 2018. This unit facilitates integrating our weather dependent wind and solar power plants into the company's portfolio and into the Hungarian electricity network. The investment was implemented in the framework of a HUF 1.1 billion R&D project, receiving HUF 500 million support from the National Research, Development and Innovation Office.[28]

Following a successful application, Sinergy Ltd. (a member of ALTEO Group), was awarded the nearly half a million forint support.

The first phase of the project was about constructing the energy storage facility, and when it was put into service, a period of testing and gathering operating experience followed. In the upcoming phases of the R&D project (in 2019) we will improve the existing Control Center, install an electricity-based heat producing unit and implement higher level market (Control Center) integration of our weather dependent production units.

ALTEO Group's electricity trading business line is continuously expanding, yet it is stable and predictable. Our electricity retail trading activities mainly serve a portfolio consisting of office buildings, shopping centers, industrial parks, as well as small and medium-sized businesses. In terms of the wholesale market of electricity, we have long-term and short-term sales contracts with international and domestic partners based on framework agreements. Our company started natural gas trading activities in 2016, and we experienced a dynamic growth in the past year.

BALANCING GROUP SERVICES FOR SMALL POWER PLANTS

ALTEO Group has years of experience in the field of balancing group services. We have created a flexible system that enables us to offer customized solutions to power plants and their operators to ensure optimal operations in both the short and long run.

CONTROL CENTER[27]

ALTEO Group is one of the few companies committed to sustainable and economical energy production in Hungary that operate their own Control Center. The Control Center is a flexible, innovative technical solution that allows multiple small, stand-alone power plants to enter the electricity and system services market as a single, large power plant, thereby offering a sustainable, economical business solution to the Group and its business partners.

The Control Center is capable of optimizing the production of cogeneration units, and also of optimizing weather dependent production. Since September 2018, our Gibárt hydropower plant has been producing for the free market, while three of our wind turbines have been generating power for the Control Center, following the expiration of their KÁT period.

Launching the test runs of our HUF 1.1 billion battery storage facility, which is unique even at regional level, is an important milestone in the company's history. The purpose of this investment was to integrate the weather dependent wind and solar power plants into the Control Center and the Hungarian electricity network.

27. For more information on the Control Center, please visit: https://alteo.hu/ezt-tesszuk/ho-es-villamosenergia-termeles/szabalyozo-kozpont/
28. Project KFI_16-1-2017-0152 is being implemented using funding from the National Research, Development and Innovation Fund under the "Funding of R&D&I activities of companies" program between July 1, 2017 and June 30, 2019.

SERVICES RELATED TO THE CONTROL CENTER

THE SIX PILLARS OF BUSINESS STRUCTURE

FLEXIBLE

Any electricity production capacity **can be integrated**

PERSONALIZED

Contractual conditions and custom solutions **adaptable** to customer needs

TRANSPARENT

"Linear" operational logic, settlement and interests system
Detailed **feedback** to our customers on a daily basis

OPTIMAL

Our goal is to **maximize** our customers' individual results and **profit**

SAFE

Guaranteed results - adapted to the needs of our customers; profits may even be independent of natural gas and electricity prices

CUSTOMER-FOCUSED THINKING

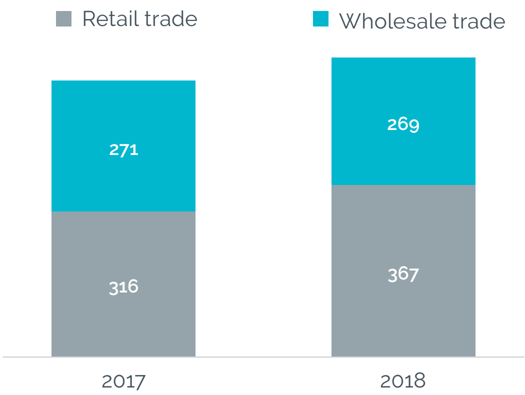
Continuous business innovation for the **success of our customers**

ELECTRICITY SOLD

Electricity trading opens up an opportunity for the power plants owned by us to sell the energy they produce in an efficient way.

ALTEO Group sold 636 GWh of electricity in 2018, which is a more than 8% increase compared to 2017. This significant growth was the result of a 16% increase in the retail portfolio.

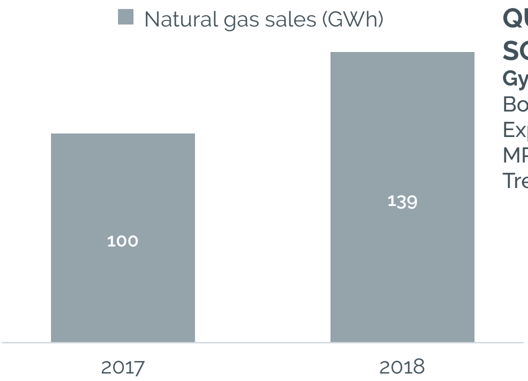
SCALE OF ELECTRICITY SALES OF ALTEO (GWH)



NATURAL GAS SOLD

The natural gas volume sold exceeded even that of electricity. We sold the natural gas equivalent of 138,813 MWh in 2018, which was a 41% increase compared to 2017 and was entirely generated by retail transactions.

NATURAL GAS RETAIL SALES DATA (GWH)



In the course of our retail trade activities we serve mostly commercial clients, whose number dynamically increases year by year. In 2018, the number of our commercial partners and institutional clients increased by 16% and nearly 43%, respectively, as a result of the efficient, friendly, flexible and client-oriented work done by our retail trade department.

NUMBER OF RETAIL CLIENTS	2015	2016	2017	2018
COMMERCIAL	540	686	1 041	1 126
INSTITUTIONAL	156	323	295	421
TOTAL	696	1 009	1 336	1 547

„ALTEO IS A COMPANY WHICH STRIVES TO BUILD FAIR AND SINCERE HUMAN RELATIONSHIPS AND TO PROVIDE QUALITY TECHNICAL SOLUTIONS."

György BOGÁNYI,
Bogányi és Fia Ltd.
Expert consultant on the MPK and TVK-Water Treatment Plant projects

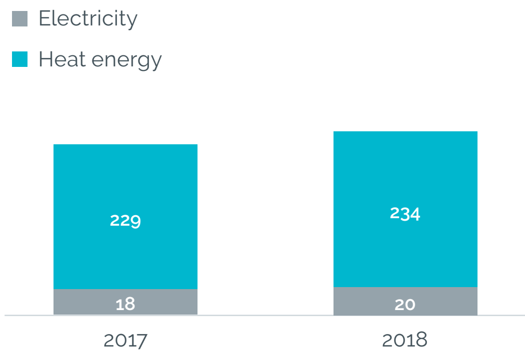
Below, you can see the number of our clients (connection points) broken down by client category and energy production type. Please note that one client can have more than one connection point associated with it.

NUMBER OF CLIENTS (connection points) In 2018

	Electricity	Heat energy
TOTAL NUMBER OF CLIENTS (BASED ON CONNECTION POINTS):	20	234
COMMERCIAL	20	8
INDUSTRIAL	0	27
INSTITUTIONAL	0	9
HOUSEHOLD	-	190

The number of our wholesale trade and energy production clients grew in 2018 both in the electricity (+11%) and in the heat energy (+2.2%) business lines.

CHANGES IN CLIENT NUMBERS



ENERGY SERVICES

Our company group offers to conduct activities related to energy services, maintenance and development of energy systems and implementation of new development projects, assuming the risks involved in these tasks and providing the technical and financial background necessary to carry out these activities. Our services include technical and financial preparation, implementation and/or end-to-end project management of investment projects, investment funding, and the operation and maintenance of the facilities.[29]

In the overall favorable macroeconomic atmosphere characterizing 2018 and boosting the willingness of companies to make investments, our existing and new clients send out one invitation to tender after the other related to constructing their investments and maintaining their operating facilities.
We successfully delivered the new steam boiler project implemented by Sinergy Ltd. as the main contractor and the Tisza-WTP capacity enhancement project to MOL Petrochemical; and continued the modernization of our Sopron Power Plant.

29. For more information on our energy services, please visit: SR 2016, pages 44 and 45 or https://alteo.hu/ezt-tesszuk/energetikai-vallalkozas-es-szolgaltatasok/.

INVESTMENT FUNDING
ALTEO Group funds its investments through equity, bank loans and - if possible - grants. We typically use bank loans to fund projects, of which our staff has extensive experience.
During the implementation of investment projects, we are prepared to ensure financing completely independently, or jointly with our partners, depending on their intentions and options.

We also have experience in using investment aids.
In 2018, we carried out several major investments.

SOPRON POWER PLANT BEING MODERNIZED
Soproni Erőmű Ltd. and HEINEKEN Hungária Sörgyárak Zrt. extended their cooperation for an additional eight years. The power plant owned by ALTEO Plc. will fulfill all steam and hot water needs of HEINEKEN's Sopron brewery under the contract. ALTEO Plc. has been implementing various developments improving efficiency and safety in its power plant supplying heat energy to the companies operating in the industrial zone of Sopron since 2011. As a result of the developments implemented from a HUF 300 million budget, the efficiency of the power plant is continuously rising, while CO_2 and other pollutant emissions as well as the fuel costs of heat production are decreasing. The company entered a new phase of the renovation efforts in 2018. The large scale project includes the reconstruction of the steam and hot water distribution systems, the water treatment facility, and the electric and control engineering systems.

This investment may also improve the operation, effectiveness and operational safety of the power plant. **Expected benefit**: the district heating of Sopron and the industrial steam supply to the HEINEKEN brewery become more reliable. The operation of the district heating network, which is jointly operated with Sopron Holding, will be simplified due to automation. Furthermore, we can expect an increase in the efficiency of the plant as a result of the investment. The installation of modern equipment operating at high efficiency and linked through optimized connections will entail a decrease in electricity and heat self-consumption. In addition to all this, the introduction of automation will allow minimizing losses resulting from inaccurate control.

CONTRACTING AND IMPLEMENTATION[30]
The major projects we worked on in 2018 as a main contractor and a contractor were related to solar energy. This was a consequence of acquiring three project companies, which offered us the opportunity to establish two additional solar power plant parks, and we also completed the first solar power plant we constructed ourselves in Monor.

BALATONBERÉNY SOLAR POWER PLANT
The March acquisition of Péberény Ltd. opened up an opportunity for us to construct a standalone solar power plant with a nominal capacity of 6.9 MW on the outskirts of Balatonberény in 2019. Prior to its acquisition in March, Péberény Ltd. had already held the permits and rights required for implementing the project. Following its implementation, the solar power plant can sell the electricity produced there in the KÁT system for 25 years. The investment was launched in 2018:
- There were industrial buildings in the area, which needed to be demolished (there was a timber processing plant on the lot earlier, but it had been out of operation for 10 to 20 years)
- The holding frames construction and the solar panel assembly are in progress and in line with the schedule provided by the contractor.
- The installation of the production cable and the fiber-optic cable progresses according to the schedule provided by the contractor. Cabling has been completed along approximately 10 km of a total line length of 13 km.

"THE INNOVATIVENESS OF ALTEO IS OUTSTANDING. THEY ARE A FAIR BUSINESS PARTNER PROVIDING QUALITY SERVICES."

Attila BALOGH,
Head of Business Development
Omexom Magyarország Ltd.,
subcontractor in charge of laying down the production cable

The following table shows the expected production data, operating and maintenance costs of the power plant:

EXPECTED PRODUCTION DATA OF THE BALATONBERÉNY POWER PLANT		
INSTALLED CAPACITY	kWp	7,633
PRODUCTION IN THE FIRST YEAR	MWh	9,195
PRODUCTION IN THE 25TH YEAR	MWh	7,447
AVERAGE PRODUCTION	MWh	8,214
KÁT ANNUAL PRODUCTION QUOTA	**MWh**	**7,989**
KÁT PERIOD	**year**	**25**

The plant is expected to be put into service by the end of June 2019.

NAGYKŐRÖS SOLAR POWER PLANT
By acquiring two project companies in July, we were granted an opportunity to construct 14 solar modules in 2019, each with a connected network capacity of 495 kW, on the 17 ha real estate acquired by the project companies on the outskirts of Nagykőrös. This investment has a special feature. The solar panels will be mounted on a single-axle solar tracking framework, and thus, they will achieve 15 to 20% higher electricity generation levels than fixed-position solar arrays. Following their implementation (i.e. it is expected to start in the second half of 2019), the solar power plants will sell the electricity produced by them in the KÁT system for 25 years, based on a permit issued by the Hungarian Energy and Public Utility Regulatory Authority.

MONOR SOLAR POWER PLANT
ALTEO Group made another big step forward in November 2018, when we put into service the Monor solar power plant, the first one constructed by us. The solar power plant, which has a total capacity of nearly 4 MW, consists of eight units, each implemented using a 499 kW crystalline silicon solar module. A solar module with a 499 kW nominal capacity is expected to produce 688 MWh electricity in the first year of its operation. The solar power plant will sell the electricity it produces in the KÁT system for 25 years, based on a permit issued by the Hungarian Energy and Public Utility Regulatory Authority.

"They demand high quality, but they are a fair business partner with fair business conduct and a high organization level. They observe their contracts to the letter and expect the same from their partners. They take a creative, positive, problem solving attitude towards any difficulties that may arise during project implementation. It is good to work with them. Our cooperation has resulted and results in really high quality solar panel projects."

Ármin KINCSES,
Managing Director
Electraplan Ltd.

30. For more information on our main contractor services, please visit: https://alteo.hu/ezt-tesszuk/energetikai-vallalkozas-es-szolgaltatasok/fovallalkozas/

Our main contractor and construction assignments beyond solar energy-related projects:
- MOL Petrochemical's 75 t/h boiler project, the largest turnkey contract in the history of ALTEO Group as a main contractor, has been completed. The new boiler will be connected to the existing system of TVK Power Plant and will produce the required quantity of 410 °C steam at 40 bar pressure.

OPERATION, FACILITY MANAGEMENT

ALTEO Group uses its staff to carry out the operation and management tasks associated with new or existing energy systems not only in its own power plants but also in two additional industrial power plants owned by its partners, offering guarantees for the required services. Our scope of activities covers the planning, organization, performance, management and monitoring of the work related to operation, as well as maintenance.

Our main goal - apart from full compliance with our contractual obligations - is to keep up our clients' satisfaction in the long run using our expertise, reliability and quality work, thus ensuring the continuous development of this area. Observing the procedures and instructions set out in the Integrated Management System (IMS) is an essential prerequisite for that.

BC POWER PLANT: CHANGING HRSG SUPERHEATERS

The HRSG superheaters had to be replaced in the BC Power Plant due to frequent rupturing of the superheater tube. The first phase of that work was completed as early as in 2017, and the second phase was implemented in the summer of 2018.

MAINTENANCE

Despite the high workload characterizing the whole year, we performed high quality professional work at our existing, key and new partners, whose satisfaction is also reflected in the findings of the third party customer satisfaction survey. It fills us with special pride that our partners gave us the highest score in the area of expertise.

RESULTS OF THE CUSTOMER SATISFACTION SURVEY

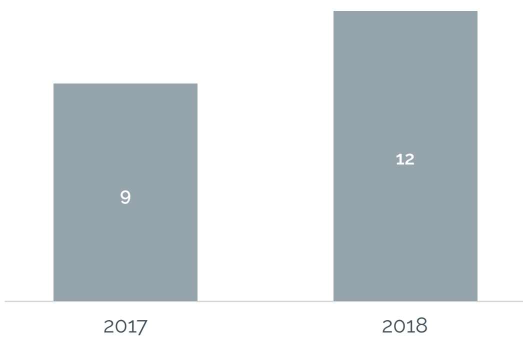
"ALTEO Plc. has been providing operating, maintenance and project management services to MOL Petrochemical Ltd. (and its subsidiary, TVK-Erőmű Ltd.) for several years. They carry out these operating and maintenance tasks at a high professional level and in a reliable manner, ensuring high availability of the technological units trusted to them and excellent quality services meeting all relevant requirements. Concerning their project management services, our cooperation has a history of only a couple of years, but we see the potential for our continued relationship in this area too."

Sándor LAKATOS,
MOL Petrochemical Ltd – Head of Management and Energy Management

MAJOR ACHIEVEMENTS IN 2018:

- Maintenance work was performed on the two boilers which are located on the premises of the BC POWER PLANT operated by ALTEO Plc. and have a capacity of 40 t/h each. We also performed a lifetime test during the maintenance, which will serve as the basis for a project aimed at prolonging the service life of the boilers.
- VEOLIA, our new partner, requested us to fully prepare the boilers at its Szakoly power plant for an authority inspection.
- We were requested to carry out a major overhaul of the steam turbine in TVK Power Plant as a main contractor, assisted by a senior mechanic delegated by Siemens.
- Commissioned by Mercedes Benz Manufacturing Hungary Ltd., in December Siemens Zrt. renovated one of the production lines of the assembly hall of the Mercedes plant in Kecskemét. During the maintenance of Siemens turbines at the BC Power Plant

NUMBER OF MAINTENANCE SERVICE CLIENTS



and the TVK Power Plant, in recent years our maintenance colleagues have convinced the Hungarian representatives of Siemens about their expertise and know-how to such a degree that Siemens Zrt. requested ALTEO Plc. to become the subcontractor to perform this work. This is a special honor for us as the renovation of production lines typically falls outside of our organization's scope of activities, yet we have won the confidence of the Client, who expressed maximum satisfaction concerning the work we performed.
- As a result of our success last year, our work which started in the Olefin 2 plant back in 2017 continued. As subcontractors of Petrolszolg Ltd., during the maintenance of high-value rotary machinery (compressors, turbines) at MOL Petrolkémia Zrt.'s Olefin 2 plant in 2017, we already proved that our company is an excellent choice for repair works requiring high technical expertise. We succeeded in convincing both the representative of the company manufacturing the equipment and the general contractor, Petrolszolg Ltd., of this fact. Proof of this is the fact that in 2018, our organization received the same assignment with considerably larger scope and, as early as at the end of the year, we managed to come to an agreement about our 2019 assignment, that would involve even more tasks for our company.
- We received a new maintenance assignment from LEGO.
- The number of our external clients grew by 25%.

The growing number of our new clients and the new, larger volume maintenance assignments our existing clients keep giving us proves the actual value of our colleagues' high level professional knowledge, reliability and precision. A considerable number of the assignments we were given in 2018 were the result of our good partnership history and the references that were given about us based on that.
Concerning projects with larger resource needs, we efficiently cooperate with the operating department of our company group.

MAINTENANCE WORKSHOP
ALTEO Plc. has always established workshops, tooled them up and procured the necessary logistics tools in accordance with the expansion of its maintenance tasks, and intends to continue upgrading them in the future as necessary to carry out its existing and new maintenance tasks smoothly and without any hindrances.
In addition to the sites, it was important and timely to establish a large, 252 m2 central maintenance workshop meeting our professional standards (with separate premises for engineering and electricity purposes and complete with a control engineering lab) on the territory of the MPK Industrial Zone.

3

OUR ECONOMIC PERFORMANCE

CONSOLIDATED STATEMENT OF PROFIT OR LOSS, COMPREHENSIVE STATEMENT OF PROFIT OR LOSS, CONSOLIDATED STATEMENT OF FINANCIAL POSITION (IFRS)

ALTEO GROUP'S 2018 PERFORMANCE CAN BE PRESENTED WITH THE FOLLOWING STATEMENT OF PROFIT AND LOSS:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

data in million HUF	12/31/18 audited	12/31/17 comparison	12/31/17 audited	Change compared to the previous year, in million HUF	Change compared to the previous year, %
Revenues	**18,686**	**18,389**	**18,389**	**296**	**2%**
Material expenses	(14 264)	(14 605)	(14 606)	340	-2%
Personnel expenses	(2 507)	(2 154)	(2 154)	(353)	16%
Depreciation and amortization	(730)	(572)	(572)	(158)	28%
Other income and expenses, net	(114)	305	170	(419)	-137%
Impairment loss	(33)	(2)	(2)	(31)	N/A
Operating profit or loss	**1 038**	**1 362**	**1 225**	**-324**	**-24%**
Net finance income	(232)	(329)	(329)	97	-30%
Profit or loss before taxes	**806**	**1 032**	**896**	**-227**	**-22%**
Income tax expense	(276)	(117)	19	(159)	136%
Of which: Local business tax expenditure	(212)	(136)	-	(76)	56%
Net profit or loss	**530**	**915**	**915**	**-386**	**-42%**
Of which, to owners of parent company	511	913	913	(403)	-44%
Of which, to minority shareholders	19	2	2	17	850%
Base EPS (HUF/share)	**32,72**	**58,38**	**58,38**	**(25,66)**	**-44%**
Diluted EPS (HUF/share)	**31,17**	**55,64**	**55,64**	**(24,47)**	**-44%**
EBITDA*	**1 801**	**1 936**	**1 799**	**(135)**	**-7%**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

data in million HUF	12/31/18 audited	12/31/17 comparison	12/31/17 audited	Change compared to the previous year, in million HUF	Change compared to the previous year, %
Net profit or loss	**530**	**915**	**915**	**-386**	**-42%**
Other comprehensive income (after income tax)	(260)	(480)	(480)	220	-46%
Comprehensive income	**270**	**435**	**435**	**-166**	**-38%**
Of which, to owners of parent company	251	433	433	(183)	-42%
Of which, to minority shareholders	19	2	2	17	850%

ALTEO 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 turbines 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 gradually in the first half 2019. With these internal projects being implemented, less resources were allocated to the implementation of third-party projects.

Related **Material expenses** decreased despite the increase in revenue. Total material expenses decreased despite the fact that in relation to the increase in the Energy Retail segment's revenue, segment-level material expenses rose by HUF 1.4 billion. Its effect was reduced by the fact that due to the consolidation of Zugló-Therm Ltd. in the second quarter, the COGS (cost of goods sold) paid to third parties until that point were moved to within the Group and that the expenditures of intra-Group construction-installation services are not shown.

The HUF 0.4 billion increase in **Personnel expenses** represents the additional costs for hiring employees as required for new venture projects and with a view to the increasing size of ALTEO Group as well as the costs of wage increases needed to retain existing employees in the current labor market situation.

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

The balance of **Other income and expenses**, net dropped by HUF 0.4 billion as compared to 2017.

COMPREHENSIVE INCOME WAS HUF

270

MILLION

This change was caused by a combination of three factors: first, the 2017 partial release of the provision for risks arising from previous contractual obligations related to the acquisition of Sinergy Ltd. 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 ton to EUR 21 per ton 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 ALTEO Group successfully coming to an agreement with one of its long-term service partners on a retroactive compensation.

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

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

ALTEO Group's Profit before taxes was HUF 0.8 billion in 2018. In the same line, ALTEO Group recorded HUF 1.0 billion in 2017.

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

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

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

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

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

CONSOLIDATED IFRS STATEMENT OF FINANCIAL POSITION:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

data in million HUF	12/31/18	12/31/17 audited comparison	Change million HUF	Change %
Non-current assets	**13 716**	**7 546**	**6 170**	**82%**
Current assets	**9 143**	**9 106**	**37**	**0%**
of which financial assets	2 561	2 826	-265	-9%
TOTAL ASSETS	**22 859**	**16 652**	**6 207**	**37%**
Equity	**5 145**	**5 119**	**26**	**1%**
Long-term liabilities	**9 130**	**6 255**	**2 875**	**46%**
of which credits, loans, bonds, leasing	8 165	5 382	2 783	52%
Short-term liabilities	**8 584**	**5 278**	**3 306**	**63%**
of which credits, loans, bonds, leasing	1 597	547	1 050	192%
TOTAL EQUITY and LIABILITIES	**22 859**	**16 652**	**6 207**	**37%**

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

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

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

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

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

Current assets (HUF 9,143 million) are almost unchanged as compared to the balance as at December 31, 2017.

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

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

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

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

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

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

ALTEO Group's **long-term liabilities** (HUF 9,130 million) increased by HUF 2,875 million as compared to December 31, 2017.
Long-term debentures were reduced by HUF 859 million (to HUF 2,624 million) in 2018, primarily due to bonds maturing in 2019 being reclassified as short-term debentures. Debentures due within a year (HUF 982 million) represent interest and principal payments due within a year.

Provisions decreased by HUF 74 million as compared to the amount at the end of the year, mainly due to ALTEO Group reporting power plants' emissions not covered by CO2 quota under accruals instead of provisions from 2018.

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

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

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

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

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

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

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

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

ECONOMIC AND OPERATING ENVIRONMENT

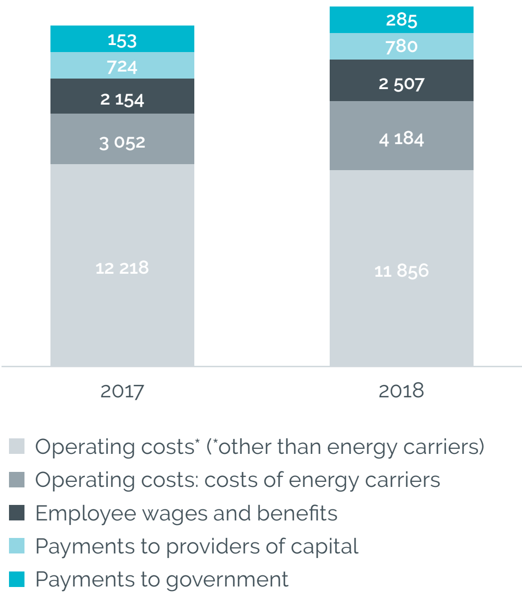
WE CONTRIBUTE TO THE DYNAMIC GROWTH OF THE DOMESTIC ECONOMY AS AN EMPLOYER, AND THROUGH OUR ENERGY EFFICIENCY INVESTMENTS, INCREASING ENERGY EFFICIENCY AND OUR INNOVATIVE SOLUTIONS. OUR PRIMAL PURPOSE IS TO ENSURE SHAREHOLDER VALUE CREATION IN THE LONG RUN, PROTECT THE ASSETS OF OWNERS AND THE SECURITY OF CREDITORS, WHICH WE ACHIEVE BY TRANSPARENT OPERATIONS, STABLE GROWTH AND CONTINUOUS DEVELOPMENT.[31]

PRODUCED AND DISTRIBUTED ECONOMIC VALUE

The key financial indicators of ALTEO Group, compared to previous years, brought definitely positive changes in the business year of 2018.

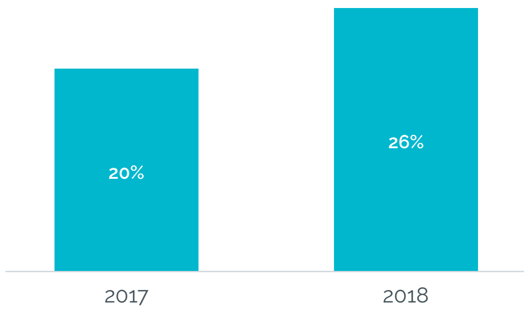
Produced economic value continued to grow in 2018, which is in line with the growth of ALTEO Group's portfolio. Revenue according to the GRI Standard[32] in 2018 was HUF 19.9 billion, representing a 5% increase over 2017 levels. This effect is primarily attributable to the increase in retail activity. Meanwhile, as a result of a 7% increase in distributed economic value, retained economic value showed a slight decline.

ALTEO'S DISTRIBUTED ECONOMIC VALUE LAST YEAR VS. THIS YEAR (MILLION HUF)



In 2018, ALTEO Group's operating costs also increased. By acquiring Zugló-Therm Ltd., we significantly increased the capacity of our own power plants producing for the Control Center. Accordingly, the cost of materials used in production went up as well. Moreover, ALTEO Plc. also implemented a wage hike to adapt to changes in the labor market.

RATIO OF THE COST OF ENERGY USED FOR PRODUCTION BY ALTEO TO OPERATING COSTS



Payments to providers of capital (according to GRI's methodology, dividends and financial expenses) made up around 5% of total costs, almost the same as in the previous year. In 2018, payments to the state amounted to HUF 285 million, 86% more than in 2017. The reason for this is that the taxes on the profits on developments implemented within ALTEO Group and filtered out also had to be paid.

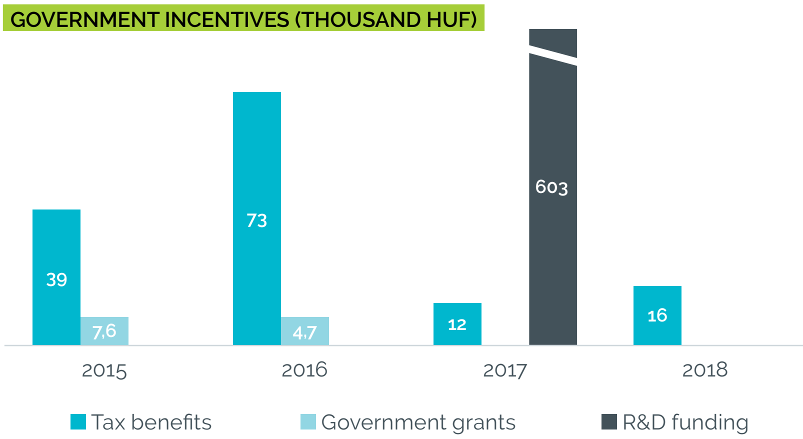
In 2018, ALTEO Group did not have community investment expenditure as per the definition of the GRI methodology. (For more information on ALTEO Group's community relations, see the Local communities chapter).

31. To learn more about the framework of our successful and sustainable operations, see: SR 2016, page 48.
32. Revenue according to the GRI includes net sales revenue, revenue from the sale of assets and revenue from investments. This methodology differs from the calculation method used in the IFRS.

SIGNIFICANT FINANCIAL ASSISTANCE RECEIVED FROM THE GOVERNMENT

In August 2018, the almost HUF 1 billion battery energy storage unit started test operations according as scheduled; the National Research, Development and Innovation Office supported this project with close to HUF 500 million.
In 2018, ALTEO Group was awarded a grant for another R&D&I project, this time by the Ministry of Finance (MoF). The MoF provides a non-reimbursable grant of HUF 228 million and a reimbursable grant of HUF 250 million for the research and development of the integration of energy storage activities into the electricity network. The other important government support was the corporate tax benefit of HUF 16.2 million, as the Group's multiple financial contributions to non-profit organizations were deemed as deductible.

GOVERNMENT INCENTIVES (THOUSAND HUF)



SIGNIFICANT INDIRECT ECONOMIC IMPACTS[33]

As a major player in the Hungarian energy sector, the ALTEO Group has both direct and indirect impact on growth of the Hungarian economy through its energy efficiency projects. ALTEO Group contributes HUF 285 million to the development of the country through the taxes it pays.
In 2018, in addition to the portfolio expansion through the acquisition of solar power plants, we launched or implemented a number of major projects that will not only continue to affect energy consumption, but have significant indirect economic impact in the long run.

The test run of our R&D&I project for battery energy storage and data collection are underway; the project will be completed in June 2019.

With the support of the National Research, Development and Innovation Office, we have been able to start a research project that is looking for ways to make the utilization of weather-dependent energy sources more plannable. As part of the project, an intelligent system was created that, beyond exploiting the production and market synergies, also has a positive impact on the Hungarian electricity network as a whole.

POTENTIAL POSITIVE EFFECTS:

- **Preparation for renovation in Gibárt:** Preparations for the renovation to be carried out in 2019. Hydropower plant development to expand installed electricity production capacity and extend service life.
  Significant indirect economic impact: : economic development in extremely poor regions, economic impact of improving or deteriorating social or environmental conditions.
- **Solar power plants: Balatonberény, Monor, Nagykőrös:** Replacement of fossil primary energy (gas) use, reduction of CO_2-emissions from electricity production. Indirect impact: area maintenance, equipment maintenance, troubleshooting, dispatch service, safety and security.
  Significant indirect economic impact: promoting job creation throughout the supply chain, economic impact of improving or deteriorating social or environmental conditions.
- **MPK boiler:** Fitting a new boiler capable of burning inert gas.
  Significant indirect economic impact: economic impact of improving or deteriorating social or environmental conditions.

All the impact listed above will be strongly felt in three regions within Hungary, namely the North East Region, Western Transdanubia and the Budapest-Capital Region, as these are where our sites are located.

33. To learn more about our management approach to out significant indirect economic impact, see: SR 2016, page 55.

PRESENTATION OF FINANCIAL PERFORMANCE BY SEGMENT

ALTEO GROUP MANAGEMENT STATEMENT - BY ACTIVITY FINANCIAL STATEMENT							
12/31/2018 data in million HUF	**Heat and electricity production (market rate, outside the KÁT system)**	**Electricity production (within the KÁT system)**	**Energy Services**	**Energy Trading**	**Other**	**Items filtered out due to consolidation**	**Total**
Sales revenue	**10 231**	**627**	**7 582**	**6 943**	**347**	**-7 044**	**18 686**
Material expenses	-8 697	-164	-4 927	-6 626	-545	6 695	(14 264)
Personnel expenses	-30	-73	-1 611	-53	-800	60	(2 507)
Other revenues and Other expenses	-426	43	213	18	-10	48	(114)
EBITDA*	**1 078**	**433**	**1 257**	**282**	**-1 008**	**-241**	**1 801**

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

HEAT AND ELECTRICITY PRODUCTION (market rate, outside the KÁT system)

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

HEAT AND ELECTRICITY PRODUCTION (MARKET RATE, OUTSIDE THE KÁT SYSTEM)					
data in million HUF	**12/31/2018 audited**	**12/31/2017 comparative**	**12/31/2017 audited**	**Change million HUF compared to previous year**	**Change % compared to previous year**
Revenue	**10 231**	**9 589**	**9 558**	**642**	**7%**
Material expenses	-8 697	-8 660	-8 660	-37	0%
Personnel expenses	-30	-1	-1	-29	2900%
Other revenues and Other	-426	217	181	-644	-296%
EBITDA*	**1 078**	**1 145**	**1 078**	**-68**	**-6%**

* *In the opinion of the management of ALTEO Plc., the profit category that can most reliably be used to measure the profitability of ALTEO Group is EBITDA (a profit category from which financial items, taxes, depreciation, and non-systematic reductions - typically impairments - have been removed). Therefore, impairment and local business taxes and innovation contributions - if any - have been removed from the Other income and Other expenses lines that are used to provide a more detailed elaboration of the EBITDA in the above table.*
In the "comparative" column shown, the Other income and Other expenses lines for 2017 were adjusted with the Local business tax and Innovation contribution recognized for the segment in 2017 in line with the principle of comparability. To provide a more realistic view of profit figures by segment, several minor items linked directly to the power plants (e.g. lease fees) were reclassified and presented under this segment.

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

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

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

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

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

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

ELECTRICITY PRODUCTION (within the KÁT system)

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

** In the opinion of the management of ALTEO Plc., the profit category that can most reliably be used to measure the profitability of ALTEO Group is EBITDA (a profit category from which financial items, taxes, depreciation, and non-systematic reductions - typically impairments - have been removed). Therefore, impairment and local business taxes and innovation contributions - if any - have been removed from the Other income and Other expenses lines that are used to provide a more detailed elaboration of the EBITDA in the above table. In the "comparative" column shown, the Other income and Other expenses lines for 2017 were adjusted with the Local business tax and Innovation contribution recognized for the segment in 2017 in line with the principle of comparability.*

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

Revenue from ALTEO Group's electricity production plants selling electricity within the KÁT system was HUF 211 million lower as compared to the same period in 2017. The main reason for this decline in revenue was that the power plants of VENTEO Ltd. and WINDEO Ltd. were removed from the KÁT balancing group and consequently recognized in the Heat and electricity production (market rate, outside the KÁT system) segment. The impact of the operation of these power plants no longer being supported was significantly reduced by the revenue generated by ALTEO Group's new renewable power plants producing within the KÁT system.
The production of ALTEO Group's power plants that produced within the KÁT system in both 2017 and 2018 was on average comparable to the quantity produced in 2017. The decline in their EBITDA (HUF 236 million) was mainly attributable to the wind turbines in Ács, Pápakovácsi and Jánossomorja as well as the Gibárt hydropower plant being removed from the KÁT system and reclassified under the Heat and electricity production (market rate, outside the KÁT system) segment.

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

On account of the solar power plant projects in progress, the generation of substantial growth is expected in the sector. In addition to the existing solar power plants in Domaszék and Monor, ALTEO Group is implementing 2 additional solar power plant projects in Balatonberény and Nagykőrös, with a 7 MW nominal capacity each, in the first half of 2019. In order to clean up its portfolio, ALTEO Group sold EXIM-INVEST BIOGÁZ Ltd., the operator of its biogas power plant in Nyíregyháza, on August 15, 2018, which was removed from the state-supported KÁT system with effect from June 30, 2018.

RETAIL ENERGY TRADE

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

RETAIL ENERGY TRADE

data in million HUF	12/31/2018 audited	12/31/2017 comparison	12/31/2017 audited	Change million HUF compared to previous year	Change % compared to previous year
Revenue	**6 943**	**5 121**	**5 121**	**1 823**	**36%**
Material expenses	-6 626	-5 217	-5 217	-1 409	27%
Personnel expenses	-53	-47	-47	-6	12%
Other revenues and Other expenses	18	3	-34	15	598%
EBITDA*	**282**	**-140**	**-178**	**423**	**301%**

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

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

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

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

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

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

ENERGY SERVICES

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

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

"THE SALES REVENUE OF ENERGY SERVICES INCREASED BY 22% (HUF 1,365 MILLION), PRIMARILY ON ACCOUNT OF SOLAR PROJECTS WHICH ACCELERATED FROM THE THIRD QUARTER."

"THE PROFIT OR OSS FROM OTHER INCOME/EXPENSES IN THE SEGMENT WAS HUF 159 MILLION HIGHER THAN IN THE SAME PERIOD LAST YEAR."

The sales revenue of Energy Services increased by 22% (HUF 1,365 million), primarily on account of solar projects which accelerated from the third quarter. In 2017, ALTEO Group implemented a number of projects for third parties (steam boiler construction and capacity expansion at Tisza WTP water treatment plant for MOL Petrolkémia and the energy system of the Strabag office building), while it focused on the implementation of its own, mainly solar power plant projects during 2018.
We implemented a steam generator construction project for MOL Petrolkémia, and the facility has been delivered. In the meantime, the costs of the prolonged construction have increased substantially, primarily due to the general labor shortage observed in the construction industry. The increased costs could not be claimed in full from MOL Petrolkémia and this had an adverse effect on profit in the amount of HUF -122 million in 2018.
The profit or loss from other income/expenses in the segment was HUF 159 million higher than in the same period last year. ALTEO Group came to an agreement concerning a previously unrealized revenue related to retroactive accounting in connection with a long-term service contract with a positive effect on profit in the amount of HUF +264 million in 2018. The item referred to above was not identified and recorded as an asset during the acquisition of Sinergy Ltd. in 2015 due to its uncertainty. The 2017 base figure was improved by the release of a provision for a past dispute (in the amount of HUF 63 million).

ENERGY SERVICES

data in million HUF	12/31/2018 audited	12/31/2017 comparison	12/31/2017 audited	Change million HUF compared to previous year	Change % compared to previous year
Revenue	**7 582**	**6 216**	**6 216**	**1 365**	**22%**
Material expenses	-4 927	-3 759	-3 735	-1 167	31%
Personnel expenses	-1 611	-1 345	-1 237	-267	20%
Other revenues and Other expenses	213	54	1	159	294%
EBITDA*	**1 257**	**1 166**	**1 245**	**91**	**8%**

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

OTHER SEGMENTS

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

OTHER SEGMENT data in million HUF	12/31/2018 audited	12/31/2017 comparison	12/31/2017 audited	Change million HUF compared to previous year	Change % compared to previous year
Revenue	**347**	**346**	**377**	**1**	**0%**
Material expenses	-545	-407	-431	-139	34%
Personnel expenses	-800	-681	-789	-119	17%
Other revenues and Other expenses	-10	-6	-15	-4	-67%
EBITDA*	**-1 008**	**-748**	**-858**	**-261**	**-35%**

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

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

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

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

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

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

CONSOLIDATED SUSTAINABILITY PERFORMANCE

4

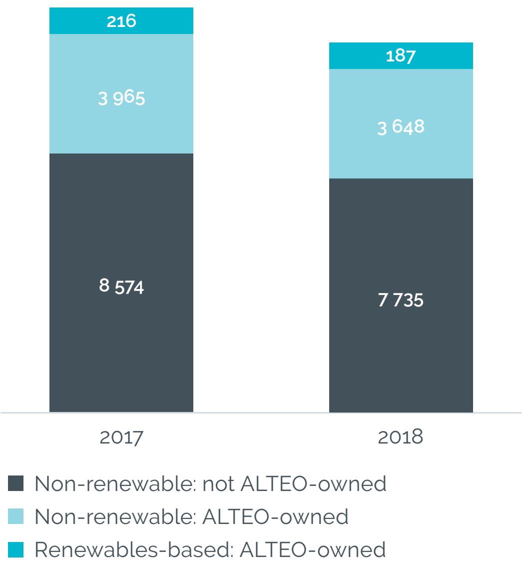
ENERGY

IN 2018, OUR ENERGY CONSUMPTION INCREASED IN TERMS OF PRIMARY ENERGY SOURCES, ENERGY TRADING AND IN-HOUSE CONSUMPTION. IN ADDITION, WE INITIATED OR COMPLETED SEVERAL INVESTMENTS TO IMPROVE OUR ENERGY EFFICIENCY OR ENERGY CONSUMPTION PERFORMANCE DURING THE YEAR.

FUEL USE AND SYSTEM EFFICIENCY[34]

In the power plants owned or operated by ALTEO Group, the main fuel used for operating these plants is natural gas. We collect our energy consumption data from meter readings, while our natural gas consumption data is based on invoices received from our gas supplier or distributor. In 2018, ALTEO Group's primary energy consumption amounted to 11,569,000 GJ, 9% less than in 2017. 187,000 GJ of this amount was renewable in 2018, which, however, represents a nearly 13% decrease compared to the previous year.

TOTAL PRIMARY ENERGY USE (GJ)



In 2018, the Group's total energy demand was 11.7 million GJ, over 9% lower than in 2017. At the same time, we saw a decrease in energy use and our total energy consumption was also around 22% lower. To calculate our energy consumption, we assessed the energy demand of all our sites (power plants and head office). This includes all primary and secondary energy consumption, less the energy (produced and) sold by our power plants.

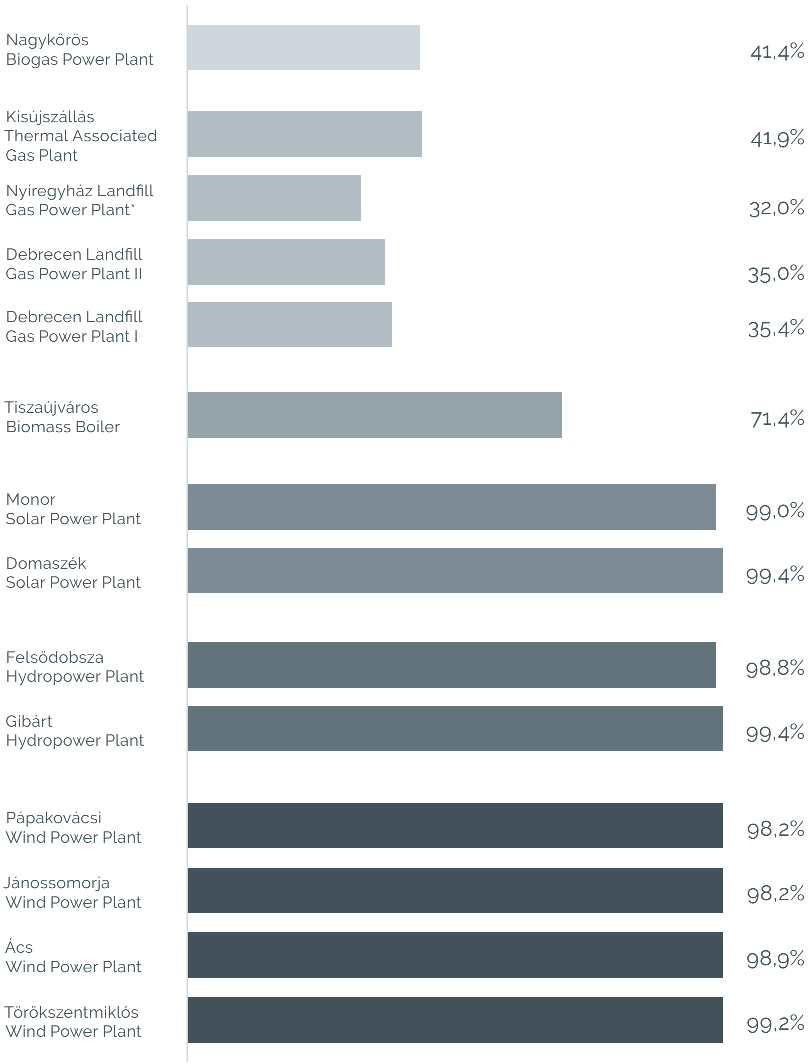
	2017	2018
TOTAL ENERGY DEMAND	**12 851 920**	**11 664 070**
TOTAL PRIMARY ENERGY CONSUMPTION	**12 755 547**	**11 569 396**
RENEWABLES-BASED	216 182	187 278
NON-RENEWABLE	12 539 366	11 382 118
PURCHASED ENERGY	-	-
ELECTRICITY	80 689	77 832
HEATING	656	1 008
STEAM	15 029	15 834
ENERGY SOLD	**11 097 541**	**10 298 515**
ELECTRICITY	2 512 975	2 088 077
HEAT ENERGY	8 584 566	8 210 438
TOTAL ENERGY CONSUMPTION WITHIN THE ORGANIZATION	**1 754 379**	**1 365 555**

System efficiency is a priority factor for our Group in order to maintain our competitiveness.

SITES	ELECTRICITY COGENERATION EFFICIENCY	HEAT COGENERATION EFFICIENCY	TOTAL COGENERATION EFFICIENCY	EFFICIENCY OF BOILER HEAT GENERATION
GYŐR	33,2%	24,6%	57,7%	92,3%
SOPRON	41,4%	30,9%	72,4%	89,7%
KAZINCBARCIKA	33,9%	42,5%	76,4%	97,7%
ÓZD	40,0%	43,2%	83,2%	
TISZAÚJVÁROS	33,2%	43,4%	76,6%	96,3%
ZUGLÓ	40,5%	39,0%	79,5%	
AGRIA PARK	36,2%	31,0%	67,2%	
BC-THERM				96,5%
MOM PARK[35]				97,1%

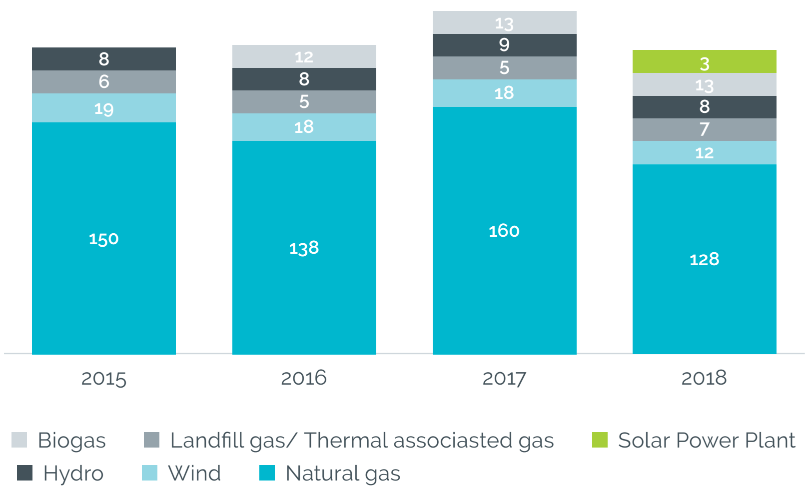
34. To learn more about system efficiency, see: SR 2016, page 60.
35. In 2018, there was no electricity production in MOM Park and therefore only the efficiency of heat production is reported.

EFFICIENCY OF OUR RENEWABLE POWER PLANTS[36]: EFFICIENCY OF POWER PLANTS OWNED BY ALTEO IN 2018



** sold during the year.*

ELECTRICITY PRODUCED BY POWER PLANTS OWNED BY ALTEO (GWH)



AMOUNT OF ELECTRICITY PRODUCED

In total, the power plants owned or operated by ALTEO Group generated over 587,000 MWh electricity in 2018.

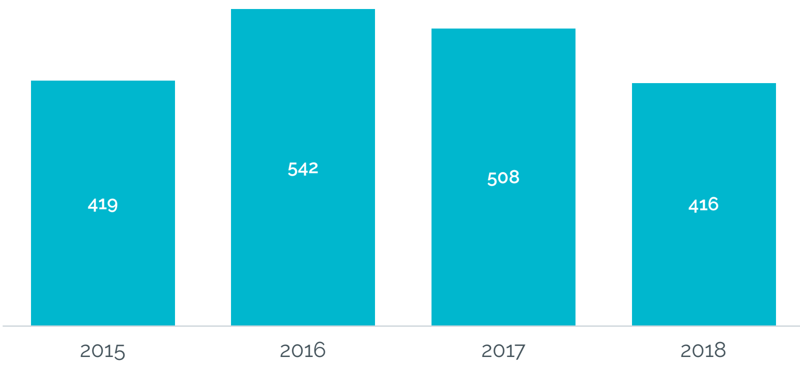
Power plants operated by ALTEO Group produced 416,000 MWh electricity, 18% less than in 2017. This is attributable to the characteristics of the Hungarian electricity market and the variable intensity of consumer needs.

There was a 16.5% decline in electricity produced by power plants owned by ALTEO Group in 2018 as a result of the changed market environment and the schedule of the Control Center (as a secondary control loop of MAVIR, production volume depends consumer needs).

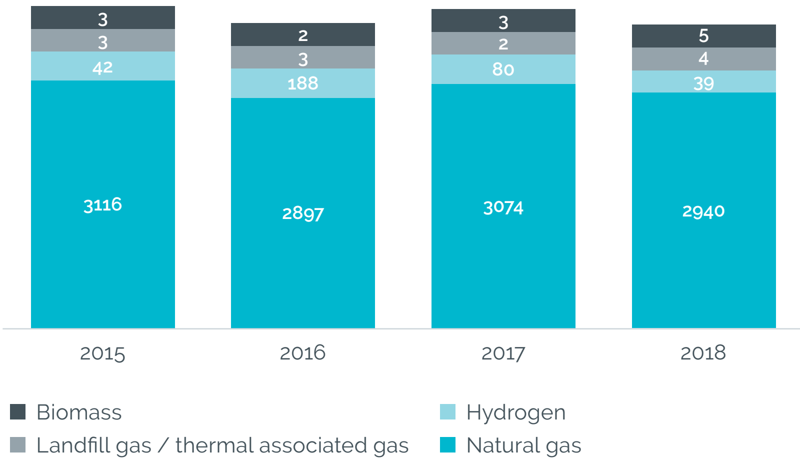
36. In the case of Wind Turbines, Solar and Hydropower Plants, efficiency was calculated from electricity consumption and electricity produced, thus in these cases efficiency means the efficiency of the electric transmission system.

With regard to the electricity produced by our renewable power plants, significant changes were observed at our wind and solar power plants. For the former, the removal from KÁT and the transition to production for the Control Center caused a decrease (electricity production fell from 18 GWh in 2017 to 12 GWh). For solar power plants, however, there was a positive development with 2018 being the first full year for ALTEO Group's first solar power plant in Domaszék; and the Monor solar power plant, the first one constructed by us, being put into service in November. As a result, electricity produced by our solar power plants reached 2.9 GWh.[37]

ELECTRICITY PRODUCED BY POWER PLANTS OPERATED BY ALTEO (GWH)

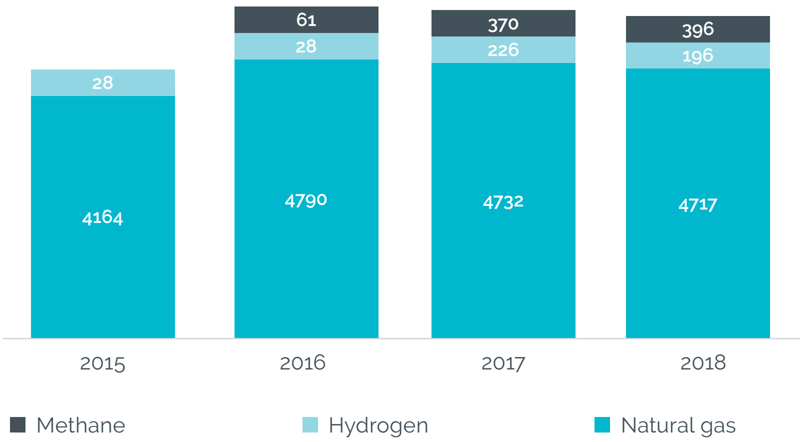


HEAT PRODUCED BY POWER PLANTS OWNED BY ALTEO (THOUSAND GJ)



In addition to electricity, power plants owned or operated by the ALTEO Group also produce heat. Power plants owned by ALTEO Group generated 2,988,000 GJ heat in total[38], a 5.4% decrease as compared to 2017.

HEAT PRODUCED BY POWER PLANTS NOT OWNED BY ALTEO (THOUSAND GJ)



Power plants operated by ALTEO Group produced 5,309 TJ heat energy, around the same as in 2017.

37. Data on the energy produced was aggregated by measurements, with the exception of our two landfill gas plants, where data was calculated on the basis of sold and estimated in-house consumption.

38. Of all the ALTEO Group-owned renewable gas based power plants, we only report the production figures of our associated gas based power plant in Kisújszállás, because our landfill gas plants did not use any heat energy during our reporting period.

AVAILABILITY[39]

AVERAGE AVAILABILITY RATE (ELECTRICITY)	2015	2016	2017	2018
AVERAGE AVAILABILITY RATE OF ALL POWER PLANTS	**98%**	**98%**	**97%**	**91%**
POWER PLANTS OWNED BY ALTEO GROUP				
NATURAL GAS	98%	98%	96%	95%
HEATING POWER PLANTS	97%	98%	96%	95%
INDUSTRIAL AND COMMERCIAL SERVICES	100%	100%	98%	100%
WIND	99%	98%	95%	83%
LANDFILL GAS	100%	100%	97%	78%
HYDRO	99%	83%	99%	98%
BIOGAS	99%	99%	97%	96%
SOLAR POWER PLANTS	0%	0%	0%	98%
POWER PLANTS NOT OWNED BY ALTEO GROUP				
NATURAL GAS	100%	100%	100%	89%

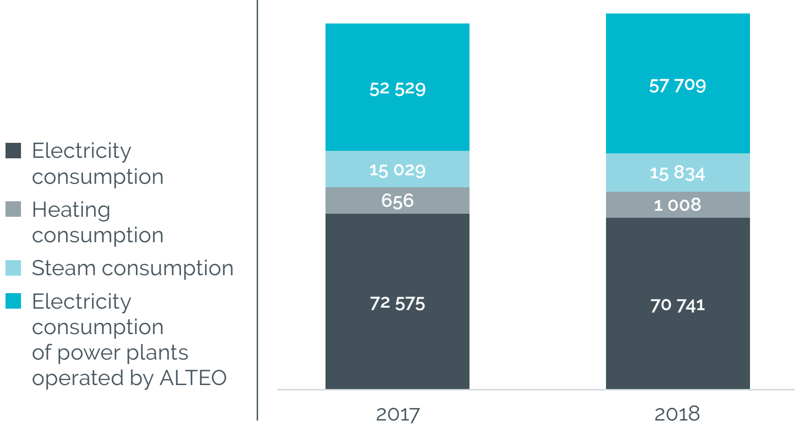
AVERAGE AVAILABILITY RATE (HEAT ENERGY)	2015	2016	2017	2018
AVERAGE AVAILABILITY RATE OF ALL POWER PLANTS	**98%**	**99%**	**97%**	**97%**
POWER PLANTS OWNED BY ALTEO GROUP				
NATURAL GAS	99%	99%	97%	95%
HEATING POWER PLANTS	99%	99%	97%	95%
INDUSTRIAL AND COMMERCIAL SERVICES	99%	98%	96%	96%
BIOMASS	100%	100%	100%	100%
POWER PLANTS NOT OWNED BY ALTEO GROUP				
NATURAL GAS	96%	99%	96%	97%

A key pillar of our strategy is to provide our clients with reliable energy supply in an economical and sustainable manner.
Overall, the availability of our power plants producing electricity decreased in comparison to 2017. In 2018, there were 13,562 hours of planned outage, nearly three times as much as in the previous year. This is mainly attributable to the major overhaul on the gas engine of the Sopron Power Plant, the Törökszentmiklós Wind Turbines and the landfill gas and biogas power plants. The number of hours of unplanned outage in 2018 quadrupled as compared to 2017. This was the result of hours lost due to troubleshooting at the Zugló Power Plant, the Törökszentmiklós Wind Turbines and our renewable gas power plants.

IN-HOUSE CONSUMPTION

We use electricity and heat (hot water and steam) to operate our sites. In 2018, the power plants owned and operated by the ALTEO Group consumed 145,293 GJ energy, a 3% increase compared to 2017. There was a significant increase of nearly 19% in energy consumption for heating, attributable to the increased needs for production.

IN-HOUSE CONSUMPTION (GJ)



39. *To learn more about availability, see: SR 2016, page 53.*

WATER CONSUMPTION[40]

WATER CONSUMPTION IN OUR FACILITIES COMPRISE THE FOLLOWING:

- PIPED POTABLE WATER
- INDUSTRIAL WATER
- INDIRECT SURFACE WATER (PRE-TREATED INDUSTRIAL WATER)

The largest water consumer within ALTEO Group is the Tisza-WTP Water Treatment Plant, which uses more than 3 million m^3 industrial water annually to produce desalinated water. We continuously monitor the quality and quantity of our emitted waste water. During the operation of our water treatment plant, the permissible limits were not exceeded.

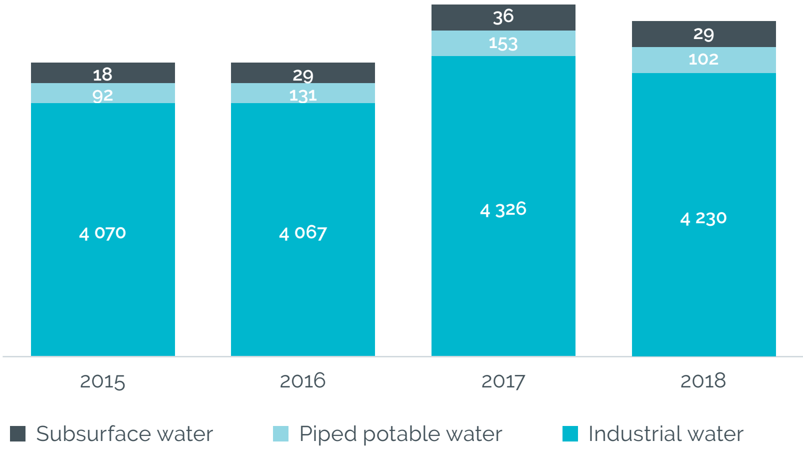
Water consumption in the Water Treatment Plant and the power plants owned by ALTEO Group (except for hydropower plants) amounted to 4,361,000 m^3 in 2018, a 3.5% decrease compared to 2017.

There was also a considerable decline in the water consumption of power plants operated by the ALTEO Group, almost 27% in total as compared to 2017.

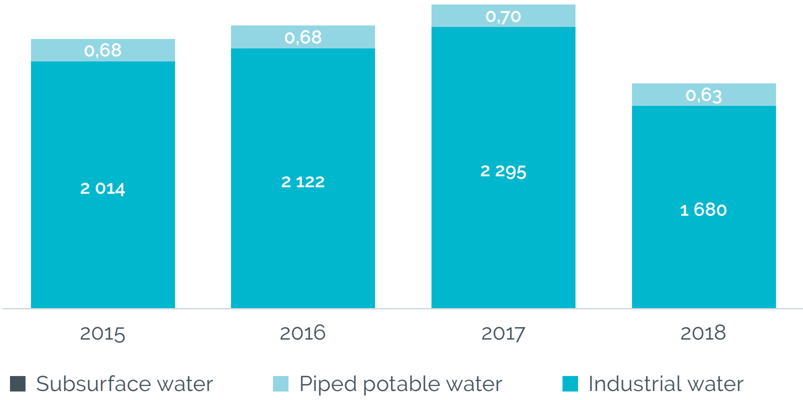
Only our hydropower plants use surface water directly. In 2018, annual water consumption was down by 11% in Gibárt and 10% in Felsődobsza.

We use recirculated and reused water[41] at three facilities: the Sopron Power Plant, the BC Power Plant and the Tisza-WTP Water Treatment Plant. Meters are used to track quantities. The total quantity of recirculated and reused water was nearly 697,000 m^3.

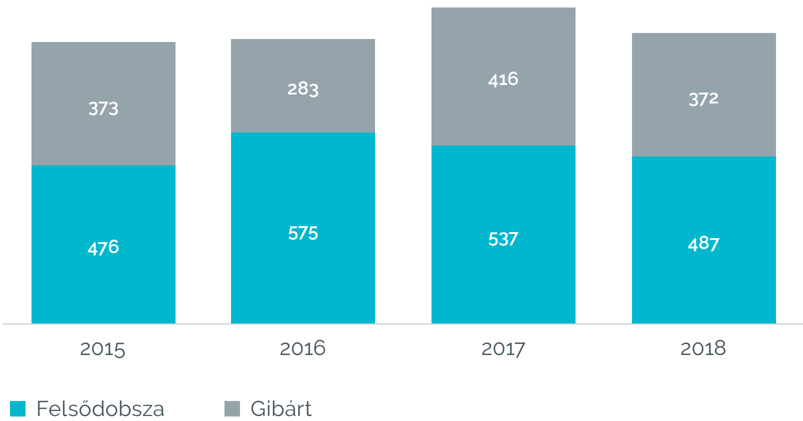
WATER CONSUMPTION OF POWER PLANTS AND WATER TREATMENT FACILITIES OWNED BY ALTEO (EXCEPT HYDROPOWER PLANTS) (THOUSAND M^3)



WATER CONSUMPTION OF POWER PLANTS OPERATED BY ALTEO (THOUSAND M^3)



ANNUAL WATER CONSUMPTION OF HYDROPOWER PLANTS (MILLION M^3)



40. SR 2016, pages 71 and 72.

41. Recirculated and reused water means water treated and desalinated to be reusable instead of discharged into sewage. At our sites that currently do this, typically condensate water received from other industrial companies is recirculated with this method. The above indicator does not include water that is part of, and circulated in, our different technologies.

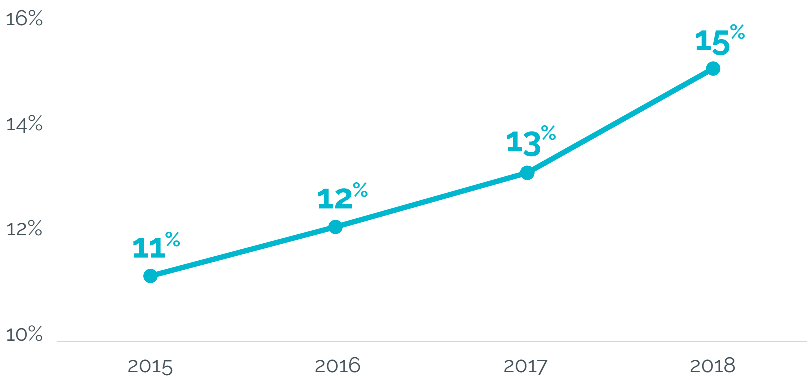
CAPACITY EXPANSION AT THE TISZA-WTP WATER TREATMENT FACILITY

The Tisza-WTP Ltd. project company supplies the entire desalinated water consumption needs of MOL Petrochemical Ltd. and TVK-ERŐMŰ Ltd. In 2018, due to a significant increase in the number of consumers, the expansion of the water treatment plant became necessary to cover the resulting capacity demand.

Of all the possible technical solutions, the option with the lowest environmental load, "Condensate Treatment" was selected. By producing desalinated water of suitable quality, this solution focuses on recirculation as much as possible, significantly decreasing water withdrawal from the Tisza River (285,000 m^3 per year), chemical use in the plant and the (direct and indirect) environmental load during production and discharge. After receiving an official permit for the selected concept and construction planning (2016), it was implemented in 2017-2018.

In August 2018, it received a water rights license for operation. The list of shortcomings after the delivery of the Tisza-WTP expansion was addressed, completing the repairs and commissioning of desalinated water tank 1. The 5 years' maintenance, repairs and official tightness test of the alkali storage tank was also performed.

RATIO OF WATER RECIRCULATED AND REUSED BY POWER PLANTS OWNED BY ALTEO (EXCEPT FOR HYDROPOWER PLANTS) VS. TOTAL WATER CONSUMPTION



At the power plants owned by ALTEO Group (except for hydropower plants), 15% of total water consumption was covered from recirculated or reused water in 2018, maintaining the upward trend seen in recent years.

SOIL AND WATER PROTECTION[42]

GROUNDWATER

The quality parameters of groundwater are continuously monitored using monitoring wells near the fuel oil tanks. There is one such monitoring well at the BC Power Plant, and three at the TVK Power Plant and the Nagykőrös Biogas Plant each. We have the quality parameters of groundwater examined by an accredited laboratory with the frequency prescribed by regulations. In 2018, there was no soil, groundwater or surface water contamination.

WASTEWATER TREATMENT AND RAINWATER DRAINAGE

In urban combined heating and power plants, wastewater is generated during the de-sludging of hot water boilers, the condensation of exhaust fumes from gas engines, operation of desalinating equipment, sampling, and discharging the equipment. This wastewater is collected, cooled and prepared in a cooling tunnel, pumped into the urban rainwater sewage system and then contained in the final collector. At the site of the BC Power Plant and TVK Power Plant, sewage is drained through the sewage conduits of BorsodChem Ltd. and MOL Petrochemical, thus the final emitters in both cases are these chemical companies.

42. SR 2016, page 73.

EMISSIONS AND AIR QUALITY PROTECTION

EMISSIONS

Sustainability ranks high among the values of ALTEO Group, meaning that, in addition to raising the prominence of energy from renewables in our energy production portfolio, we make efforts to minimize our environmental load. An important part of this is our effort to reduce our GHG emissions. The highest quantity of GHG produced is carbon dioxide, which contributes to temperature rise when it gets into the atmosphere. The Kyoto Protocol set up the emissions trading scheme as an economic incentive to reduce carbon dioxide emissions. The point of this scheme is that the facilities concerned get specific emissions allowances (quotas) for free and deliver a verified certified report on their emissions each subsequent year. If their emissions exceed the allocated quotas, they need to purchase the difference from the carbon dioxide market.

The current (third) phase (2013-2020) of the Emission Trading Scheme of the European Union (EU ETS) promotes an annual emission reduction of 1.74% in the sectors concerned. From 2021, this target is expected to rise to 2.2%. The aim is to achieve a 21% reduction in the emissions of sectors involved in the EU ETS by 2020 as compared to 2005.[43]

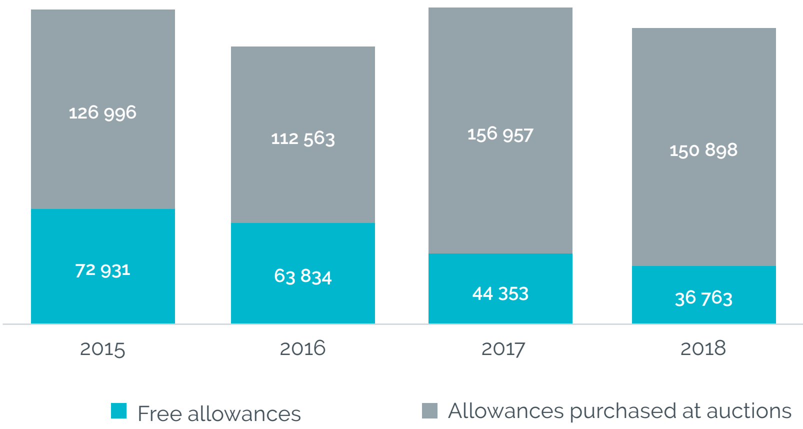
Within ALTEO Group, power plants with a thermal input exceeding 20 MW take part as separate entities in the EU ETS.

Our district heating power plants have gradually received reduced levels of CO2 allowances allocated free of charge in the recent trading period. Our biggest CO_2 emitter, the BC Therm industrial production unit, does not receive free allowances, therefore it has to purchase (at auction) allowances to cover its entire emissions. In 2018, freely allocated allowances covered around 25% of total emissions of power plants operated by ALTEO Group, making it necessary to purchase a large amount of CO_2 allowances at auctions.

Our direct CO_2 emissions (in the GRI system: "Scope 1") are generated from fuel use in our energy production processes. In 2018, direct carbon dioxide emissions produced by ALTEO Group's activities were 212.81 thousand tonnes,[44] an almost 6% reduction compared to the 226.92 thousand tonnes in 2017, in line with the decrease in production.[45]

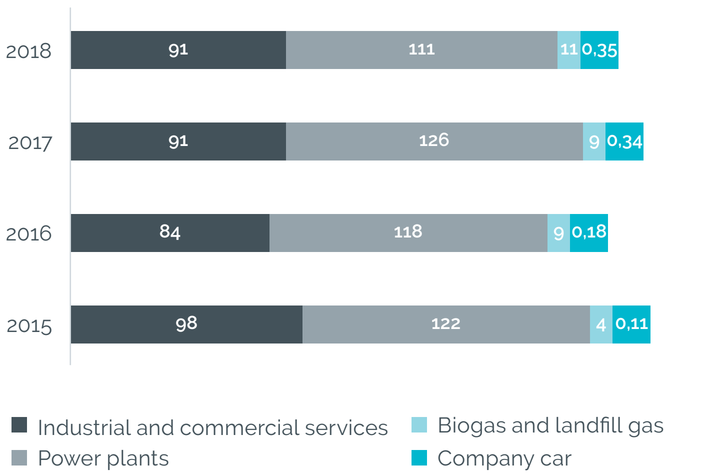
In 2018, only CO_2 emissions from biogas and landfill gas increased. The nearly 17% rise compared to the previous year is attributable to the increased production in our biogas plant.

TOTAL ALLOCATED AND PURCHASED CO_2 QUOTA OF ALTEO GROUP



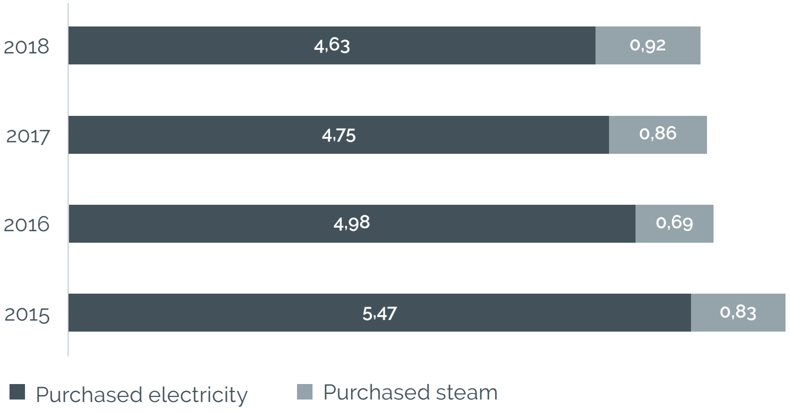
ALTEO Group's indirect CO_2 emissions (in the GRI system: "Scope 2") derive from the consumption of purchased energy, which we present here in two categories: purchased electricity and purchased steam. A slight increase was recorded for both in 2018. Purchased steam consumption is required only at the Tisza-WTP Water Treatment Plant; here, the rise is attributable to increased desalinated water demand.

TOTAL DIRECT CO_2 EMISSIONS GENERATED DURING THE OPERATION OF POWER PLANTS OWNED BY ALTEO (THOUSAND TONNES)



43. https://ec.europa.eu/clima/sites/clima/files/ets/revision/docs/high_level_qa_en.pdf
44. In the EU ETS, we report on our power plants' emissions based on verified measurements; we calculate other emissions arising during our operations using the country-specific emission factors and calorific values set in Government Decree No. 410/2012.
45. We do not have a reliable conversion factor to quantify the potential emissions at our associated gas plant in Kisújszállás, therefore carbon dioxide emissions from this site are not included in this Report.

INDIRECT CO_2 EMISSIONS OF ALTEO (THOUSAND TONNES)

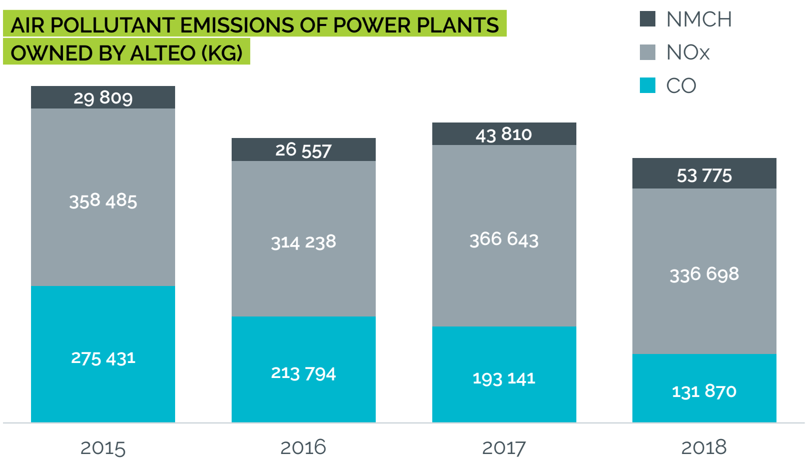


As an energy producing company, besides total emissions, our most important indicator is emission intensity, i.e. the volume of emissions per unit of energy. In 2018, ALTEO emitted GHG equivalent to 60.63 kg of carbon dioxide for every GJ of energy.[46] The slight increase is due to the larger rate of social utilization, to which no energy production is directly linked (more employees, larger office space, new maintenance workshop,… etc.).

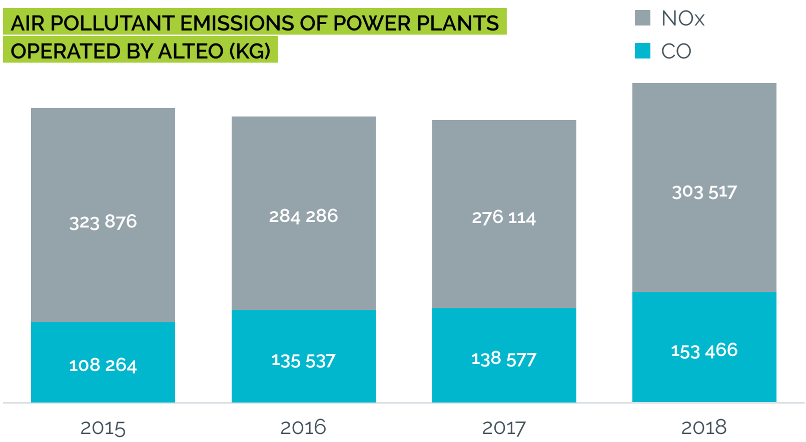
CO_2 EMISSIONS PER UNIT OF PRODUCTION (KG/GJ)	2015	2016	2017	2018
POWER PLANTS OWNED BY ALTEO	60,15	57,86	59,72	60,63

AIR QUALITY PROTECTION[47]

AIR POLLUTANT EMISSIONS OF POWER PLANTS OWNED BY ALTEO (KG)



AIR POLLUTANT EMISSIONS OF POWER PLANTS OPERATED BY ALTEO (KG)



There are 45 point sources in operation at sites operated by the ALTEO Group. Flue gas from gas engines contains nitrogen oxides (NOx), carbon monoxide (CO) and non-methane hydrocarbon (NMHC), while flue gas from hot boilers and steam boilers releases NOx and CO into the air when natural gas is used as fuel. With authorization from the competent environmental authority, air pollutant emissions from only one of similar types of equipment (gas engines and boilers) shall be determined in the power plants of Zugló-Therm Ltd., Győri Erőmű Ltd., Kazinc-Therm Ltd., Ózdi Fűtőerőmű Ltd. and Tisza-Therm Ltd. by accredited testing; however, a different piece of equipment shall be selected on a rotational basis for each testing period.

A key aspect of designing power plants is the application of the best available technology. Accordingly, many improvements have been made in order to reduce harmful emissions in recent years.

As of December 2017, new emission limits apply to air pollutant emissions from equipment with a rated thermal input exceeding 50 MW and the associated air pollution point sources subject to notification[48]. The changes affected all sites in our Group.

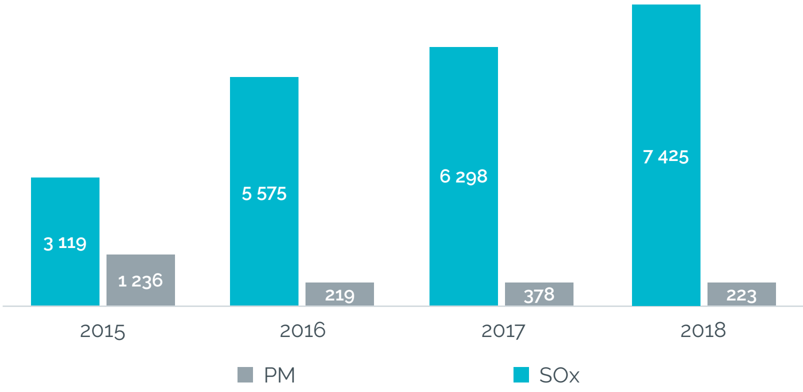
46. The indicator shows the ratio of total energy generated at power plants owned by ALTEO Group and total CO_2 emissions relating to the operation of ALTEO Group. Emissions figures were calculated using conversion factors. For indicators where they were available (e.g. petrol and diesel fuels, purchased steam), we used conversion factors from DEFRA (https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting). In cases where no internationally or legally acknowledged conversion factor was available, we applied factors calculated based on a 2017 publication on the Hungarian power system figures (https://www.mavir.hu/documents/10258/154394509/MEKH+MAVIR+VER+2017_kiadvany_vegleges_20181116.pdf/d345fdb8-7048-4af2-9a63-1d7415bb84c9). For the calculation methodology, we took CO_2 emissions of and electricity produced by large power plants as the basis for calculating the conversion factor for the electricity purchased. Due to updates in the publication issued in 2017, figures for 2016 have changed since last year's Report.
47. SR 2016, page 68.
48. Decree no. 53/2017 (X. 18.) of the Ministry of Rural Development on the operational requirements and emission limits of combustion plants with a rated thermal input of 140 kWth and above but less than 50 MWth.

In 2018, total carbon monoxide emissions at power plants owned by ALTEO Group dropped by nearly 32%, maintaining the downward trend from the previous year. Nitrogen oxides (NOx) also decreased; however, for non-methane hydrocarbons (NMHC), a significant increase occurred, as the latter are inversely proportional to the former (concerning a component found in flue gas). To meet the often hectic electricity demand in the Control Center, the gas engines of our combined heating and power plants were under a high load. Since the amount of emitted air pollutants is the product of the concentrations measured in flue gas during sampling, it is exponentially higher for NMHC.

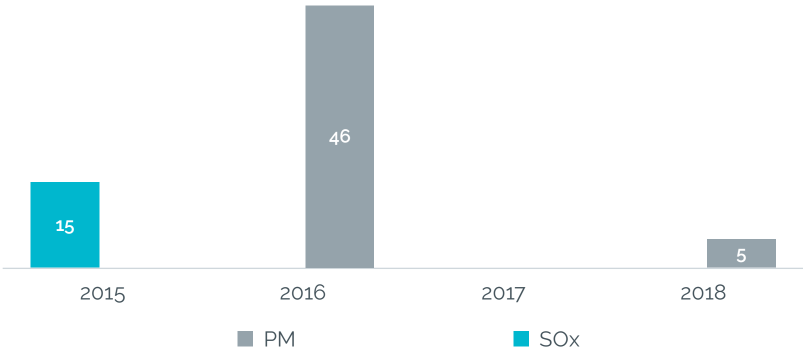
At the power plants operated by ALTEO Group, carbon monoxide and nitrogen oxide emissions showed a slight increase in proportion to the growth in production.

Our increased SO_x emissions are attributable to the increased production at our biogas plant in Nagykőrös. As opposed to natural gas fired plants, biomass results in higher SOx and particulate matter (PM) emissions due to its characteristics. In 2018, particulate matter emissions from the power plants we operate were negligible (5 kg).

AIR POLLUTANT EMISSIONS OF POWER PLANTS OWNED BY ALTEO (KG)



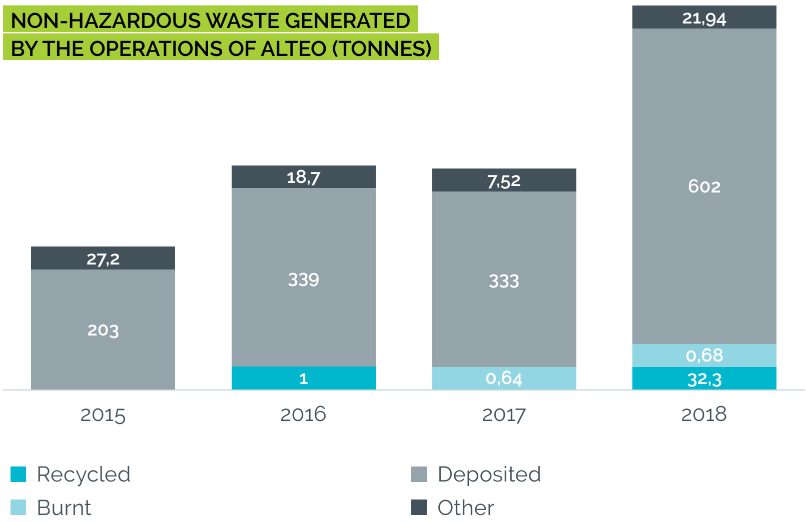
AIR POLLUTANT EMISSIONS OF POWER PLANTS OPERATED BY ALTEO (KG)



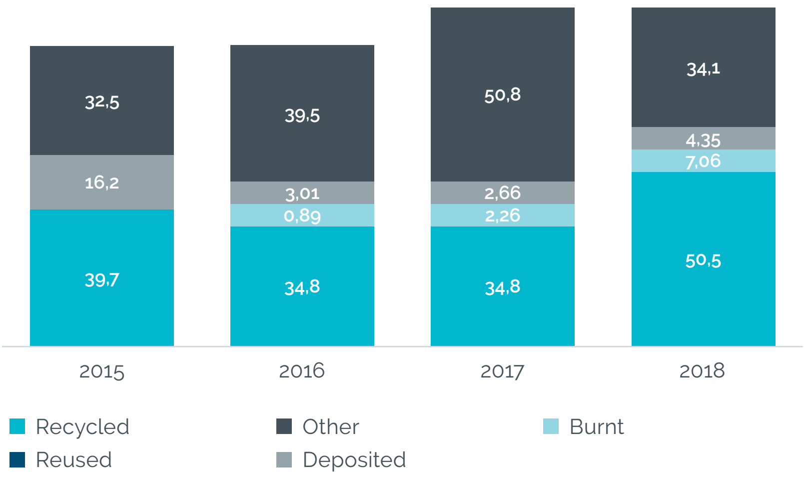
WASTE MANAGEMENT

AS PART OF ALTEO GROUP'S MAIN AND SIDE ACTIVITIES (AS A RESULT OF OPERATIONAL AND MAINTENANCE WORKS), NON-RECOVERABLE WASTE AND DEMOLITION WASTE ARE GENERATED, SOME OF WHICH CAN BE CATEGORIZED AS HAZARDOUS WASTE, INDUSTRIAL NON-HAZARDOUS WASTE OR MUNICIPAL SOLID WASTE. IN ADDITION, WE ENSURE THE MANAGEMENT (COLLECTION, TRANSPORTATION AND DISPOSAL) OF COMMUNAL WASTE GENERATED ON OUR SITES VIA AN EXTERNAL CONTRACTOR. THE DISPOSAL METHOD OF THE WASTE REMOVED IS IN EACH CASE SET OUT BY THE REMOVER OF SAID WASTE, PURSUANT TO LEGAL REGULATIONS AND THE PRINCIPLES SET OUT IN ITS PERMITS.

NON-HAZARDOUS WASTE GENERATED BY THE OPERATIONS OF ALTEO (TONNES)



HAZARDOUS WASTE GENERATED BY THE OPERATIONS OF ALTEO (TONNES)



At our sites, we store waste that have declaration obligations at workplace collection points. We document the quantity of collected waste in our waste register, which we also use to track wrapped and transported quantities. Regarding transported quantities, in case of hazardous waste delivery sheets are sources of detailed information, while for non-hazardous waste invoices provide accurate information. We also use this data to prepare our waste declarations. We classify our waste based on waste codes indicated on delivery notes.[49]

The total quantity of non-hazardous waste increased by more than 91%. The main reason for this is the nearly 81% (+269 tonnes) increase in landfill waste. Moreover, the amount of waste in other categories also grew by over 14 tonnes as compared to the previous year. Recycled waste increased to 32.3 tonnes compared to 2017 when there was no recycling.

A significant amount of waste was generated as a result of the following event:

The biogas power plant of Energigas Ltd. in Nagykőrös (whose operation and maintenance is also carried out by ALTEO Group) processed a large quantity of expired byproducts from stores in 2018, and its impact was mostly felt in the fourth quarter. Although 1,600 tonnes of packaged waste was processed in 2017 and 1,800 tonnes in 2018, the quality of the materials received did not meet plant specifications in many cases and were deemed unsuitable for use in the biogas plant; therefore, they were sent straight to landfill.

With regard to hazardous waste, there was a 5.7% increase, corresponding to 5.2 tonnes in total.

In addition, the amount of waste disposed of by burning more than tripled (+4.8 tonnes). This increase was driven by a rise in the amount of waste disposed of by landfill (+1.69 tonnes). The growth in the total amount of waste is attributable to these two factors. At the same time, recycling increased by 15.7 tonnes as a result of the transport and proper treatment of motor oils and lubricating oils used during the maintenance of the Zugló Power Plant.
Our Biogas Plant in Nagykőrös treats expired foodstuff waste, byproducts not suitable for consumption or processing, and animal manure, as well as agricultural products and byproducts. In 2018, this meant that over 44,000 tonnes of waste was processed and thereby did not end up in landfill. By burning the biogas generated by anaerobic fermentation, we produced over 13,000 MWh of electricity. Furthermore, with the organic end product of the fermentation, which is a sterile material high in organic content, we supplied environmentally friendly nutrients to local agricultural land.

49. As the majority of waste generated on our sites has to be declared, we disclosed information in this Report based on this data. In the Report, we did not include the quantity of municipal waste due to its negligible quantity, and the lack of accurate quantitative information.

5

OUR SOCIAL PERFORMANCE

VALUE CHAIN

MAINTAINING AND CONTINUOUSLY ENHANCING RELATIONSHIPS WITH ITS PARTNERS BASED ON TRUST AND MUTUAL RESPECT IS OF THE UTMOST IMPORTANCE FOR ALTEO GROUP.

Our indirect partners include district heating providers, owners of industrial facilities, operators of electricity supply systems, retail and wholesale clients, suppliers, subcontractors and the authorities. Indirect partners - on account of energy provision activities - include households and local municipalities. Our goal is to create equal opportunities for all our business partners and to adhere to the terms of our agreements.

"Day-to-day operative cooperation with Kazinc-Therm Ltd. is appropriate, with colleagues helping and assisting one another's work, and the required operational and technical information communicated in time and using the appropriate channels.
The conduct by the owner, ALTEO Plc., supporting our liquidity facilitates our financial management, and negotiations have commenced on the possibility of long-term cooperation, which represents progress for both companies. Overall, a well-balanced partnership has been established that is equally suitable for both parties, and which carries joint work forward."

*(**Barcika Szolg Ltd.:** Péter Kókai Managing Director)*

"The service provided by you fully complies with the contractual relationship between our two companies. Work relationship with the local representatives and dispatchers of Tisza-Therm Ltd. is continuously ongoing and providing safe and secure heating and hot water for domestic use in the area of Tiszaújváros covered by district heating, as well as the cooling of the town's clinic following the end of the heating season, is our mutual interest. Their staff cooperates in all matters in order to maintain secure and safe service.
We hope and trust that the existing work relationship will remain at the same level down the line, ensuring the provision of public service to our town."

*(**TiszaSzolg 2004 Ltd.:** Istvánné Ódor Managing Director)*

OUR CLIENTS[50]

In terms of our fundamental values, client-oriented operation, quality service and safe work are of utmost importance. Client feedback and client satisfaction surveys clearly show that one of the key virtues of ALTEO Group - beyond the provision of quality services - is that we strive to satisfy client needs to the greatest extent possible. We are flexible, capable of continuous development and we have the ability to increase the range of our products and services with innovative and energy-efficient solutions.

We carry out customer satisfaction surveys on an annual basis, and analyze and assess their results as part of management reviews. This is when all corrective and improving measures are also adopted, taken in the interest of maintaining high levels of customer satisfaction or raising of these levels even higher. In 2018, we conducted the satisfaction survey electronically, which resulted in 92% of our O&M partners providing feedback on our processes. Based on feedback from partners using our O&M, Maintenance and Project Development services, we can conclude that for the majority of aspects - rated on a scale of 1 to 6 - we were given average ratings close to or exceeding 5. The only category where we received lower ratings was adherence to deadlines undertaken. In the interest of uncovering the root causes and reviewing our internal processes, last year (for the first time) we launched an internal customer satisfaction survey, which we would like to apply comprehensively in 2019. In addition, we also implemented organizational restructuring measures that we hope will lead to an increase in efficiency and eliminate the effects of the labor shortage that is increasingly prevalent in Hungary. We expect that these measures will help us better adhere to deadlines.

50. More details on our clients: SR 2016, pages 79 and 80.

OUR KEY **PARTNERS**

- FŐTÁV – BUDAPESTI TÁVHŐSZOLGÁLTATÓ ZRT.
- BORSODCHEM ZRT.
- MOL PETROLKÉMIA ZRT., A MOL CSOPORT TAGJA
- AUDI HUNGARIA ZRT.
- MAVIR ZRT.
- ÓZDI TÁVHŐTERMELŐ ÉS SZOLGÁLTATÓ KFT.
- HEINEKEN HUNGÁRIA ZRT.
- TISZASZOLG 2004 KFT.
- BARCIKA SZOLG KFT.
- NEMZETI KÖZSZOLGÁLATI EGYETEM
- OTP INGATLANKEZELŐ ALAP
- MADÁCH SZÍNHÁZ
- HEGYVIDÉK KÖZPONT
- WING ZRT.
- SOPRON HOLDING ZRT.
- LEGO
- BUDAPESTI ERŐMŰ ZRT.
- STRABAG-MML KFT.
- VEOLIA ENERGIA MAGYARORSZÁG KFT.
- PETROLSZOLG KFT.
- MOM PARK TORONY KFT.
- ENERGIGAS KFT.

With our Integrated Management System, we continuously aim to provide services that comply both with client needs and legal provisions, and to prevent any non-compliance. The main evidence of this is positive feedback from our clients.

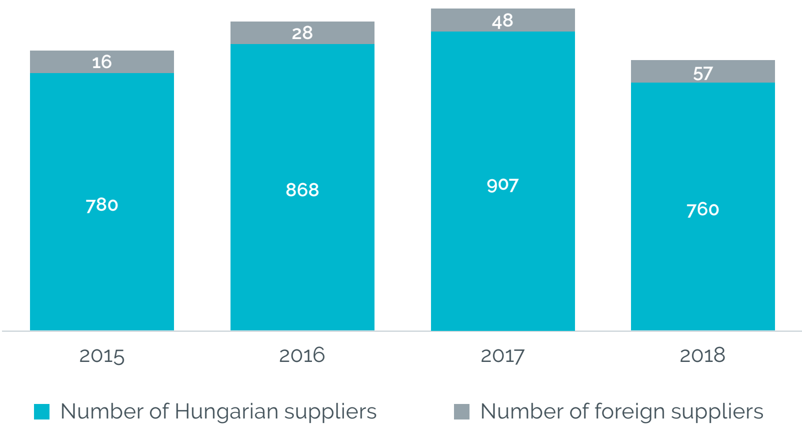
"The relationship between ALTEO Plc. and Insular-Tech Ltd. is characterized by a cooperation based on fair market conduct. Insular-Tech Ltd. views this partnership as a relationship with a strategic perspective, and will do everything in its power to maintain this relationship in the future as well. The cooperation between the two companies is based on mutual risk and liability assumption, and a high level of technical know-how. ALTEO typically does not insinuate the subordinate role set out in the contract. Instead, in each case, it strives to have the contractual tasks completed and to have continuous information exchange in place in the spirit of partnership. Through its fair conduct and partnership, ALTEO Plc. contributes to the development and operation of the subcontractor service provision system, and through its priority financing helps to maintain the secure liquidity of the company."

***INSULAR-TECH -** Zoltán Aparicio (Head Engineer)*

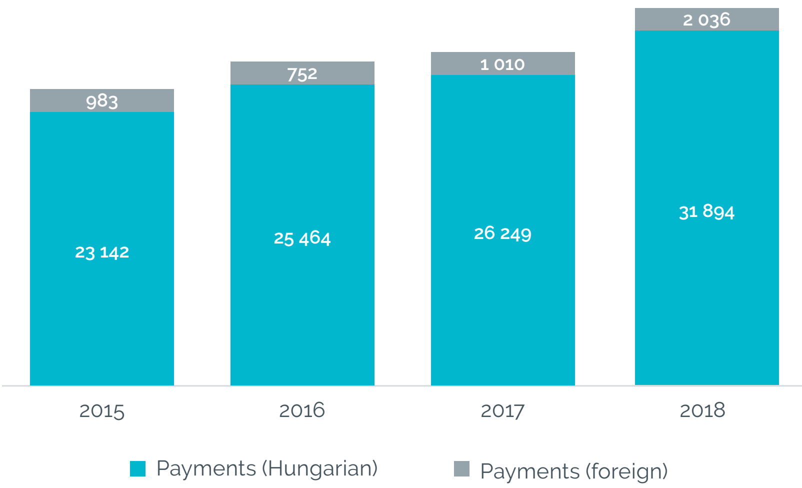
SUPPLIERS AND SUBCONTRACTORS[51]

Our business partner control system serves to ensure that we only work with suppliers that meet all our legal and business requirements. The pre-qualification procedure is an important component of this system.

NUMBER OF SUPPLIERS



PAYMENTS (MILLION HUF)



There are currently 263 companies on the qualified supplier list, of which 49 companies were qualified in 2018, where 39 received an "adequate" rating, 6 companies were rated "fairly adequate" and 4 were rated "inadequate".
In 2018, 13 companies fell into the pre-qualification category mandatorily subject to increased auditing in relation to tenders exceeding HUF 50 million and flat-rate tenders exceeding HUF 5 million. During the mandatory compliance audit of these firms, we screened out five companies that were deemed to be risky.
With the close supervision and professional support of our main suppliers' work, we promote the good performance of our subcontractors. In the interest of the work safety of our contracted partners and subcontractors, we have a strict work permit system in place. When establishing contractual relations with our suppliers, ALTEO Group tries to involve local entrepreneurs as much as possible, which helps the spillover of economic advantages from our regional operations in direct local environments.
In 2018, we spent more than HUF 33.93 billion on the services provided by our suppliers, a considerable part (96%) of which went to local companies and entrepreneurs.
Although 96% of payments were still made to Hungarian suppliers, the proportion of domestic suppliers dropped from 95% to 93% from 2017 to 2018. The primary reason for this was the self-implemented solar power plant investment project in Monor, as some of the technology required for the project could only be procured through international suppliers.
In 2018, the improvement/development of the Procurement Division launched in 2017 continued. Procurement was increasingly involved in both strategic and specialized operative tasks by the areas supported. Among other things, it participated in the solar power plant investment projects implemented by the Project Development Division, in the Sopron reconstruction project and, of course, in the day-to-day procurements of the O&M Division. Several projects were launched during the year that will impact the future operation of Procurement. In the second half of the year, the idea of elevating the Procurement Division to group level and centralizing procurement activities was discussed with increasing frequency.
The implementation of these measures is expected at the beginning of 2019.

51. More details about subcontractors and suppliers: SR 2016, pages 81. and 82.

OUR EMPLOYEES

MAINTAINING OUR EMPLOYEES' COMMITMENT AND MOTIVATION IS OF KEY IMPORTANCE FOR US. THIS IS A GOAL WE WISH TO ACCOMPLISH WITH STABILITY, COMPLEX RESPONSIBILITIES AS WELL AS COMPETITIVE BENEFIT/ ALLOWANCE PACKAGES THAT WE EXPANDED IN 2018.

Each year, we provide our employees with a "cafeteria" package, and we do our best to ensure that the staff can use the allocated amounts as favorably as possible. Therefore, we provide elements covering the widest range of usability possible - in accordance with the relevant laws.

We consider sports a crucial element of a sustainable lifestyle, which is why we maintained the support system for sports introduced in 2017. Staff members could request support for individual and team sports by way of applications. In 2018, the following sports activities aimed at healthy lifestyles were supported: running, folk dancing, dragon boating, rock climbing, bowling, swimming and sailing. The health insurance we introduced in June (comprising of a basic-level screening package) as a benefit for staff members serves the preservation of the health and fitness of our employees.

Our third Family Day, held in September 2018 with 250 colleagues in attendance, also focused on healthy lifestyle - in particular running, healthy diets and stress management -, as well as sustainability. We attempted to bring these topics closer to staff members in respect of both sports programs and healthy eating habits. We were also glad to see that the mobile screening bus available on site was a huge success.

We recognize that communication is important. Although our HR policy does not specify the minimum notification period to report major changes in the organizational operation, we place special emphasis on communication with our employees and we aim to provide information in a timely manner to ensure a good working relationship. Since personal communication between our employees and the management is limited to staff meetings that happen only a few times a year, we chose to strengthen in different ways in 2018. Such communications development now involves regularly informing everyone internally about our stock market announcements and any current and relevant events pertaining to the Group, and we also launched our Corporate Newsletter.
In order to establish closer contact with our employee community, we continued our "external HR consulting hours" in 2018, where our colleagues could ask questions, and share their comments and suggestions with our HR team visiting our sites.

**"I have been a Sinergy/ ALTEO VPFD employee since April 7, 2016, and work as a senior engineer in the control engineering area. I have known Sinergy Ltd. since the mid-2000s. My previous employer served as general contractor for the construction of the Zugló Power Plant as part of Sinergy Ltd.'s investment project, as well as the gas engine expansion of the Ózd Power Plant; in these projects, I was responsible for the implementation of control engineering tasks.
This meant that when we ultimately 'found each other', the environment was not wholly unfamiliar. Still, the organization provided by HR did come as a pleasant surprise: we had 1-1.5-hour acquaintance gatherings with other ALTEO organizations/ staff members. This helped me familiarize myself with the entire the organization as well as my associates very quickly. As a result, my future work relationships were more informal and hitch-free. I work in a great community, surrounded by young people, and I also feel great outside my work. The tasks I am assigned are diverse, they represent professional challenges and I enjoy my work even if there are some periods that are very taxing."**

GÉZA VÉSZI, Senior Engineer

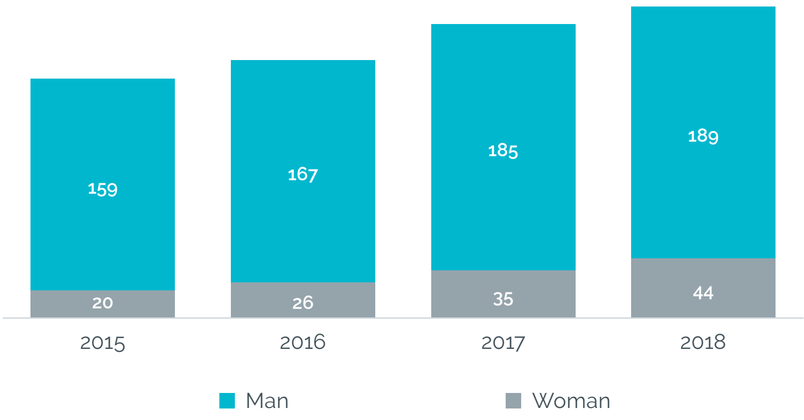
Our executives also have official consulting hours, but these are less frequently used by staff members as we have an "open door policy" in place, meaning they can drop in on anyone at any time.

The Orientation Days (2 half-days) held every quarter support the integration of new colleagues. These provide an opportunity to make them familiar with our corporate culture, corporate functions and the human side of other employees.
We encourage our colleagues to get to know other sites than their own, the technologies used there and, of course, colleagues outside their own direct workplace.

NEW RECOGNITION SYSTEM

Prior to the merger, both ALTEO Plc. and Sinergy Ltd. had their own recognition systems in place.
In the 10th year of our existence, we launched our 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 employees by awarding shares.
The CEO of ALTEO Plc. is authorized to designate the award recipients and beneficiaries in various categories, based on recommendations by management.
Our objective is to maintain the share award program in the long term, therefore, for the coming years, the Board of Directors has allocated a maximum of 10,000 shares owned by ALTEO Group per year for this purpose. The new share award program does not impact the executive remuneration program introduced as part of ALTEO's Employee Share Ownership Plan (ESOP) announced by ALTEO Plc. in its communication dated March 14, 2017.
In order to acquire the shares to be used for the above-described employee share award program, ALTEO Plc. announced a share repurchase program (hereinafter: "Program") for 2018 and published its details on June 15, 2018. Eventually, ALTEO Plc.'s Board of Directors prolonged the Program until March 14, 2019. Under the Program, ALTEO Group acquired a total number of 6,797 shares by December 31, 2018. Mandated by ALTEO Plc.'s Board of Directors, the CEO selected the employees to be recognized by ALTEO Plc. as part of the Program in December 2018. As a result, in January and February 2019 ALTEO Plc. granted 13,298 shares to the employees who have become eligible for them based on ALTEO Plc.'s recognition system and the CEO's decision.

RATIO OF FEMALE AND MALE EMPLOYEES



FLUCTUATION	2015	2016	2017	2018
NUMBER OF STAFF MEMBERS LEAVING	15	19	13	32
FULL WORKFORCE	179	193	220	233
FLUCTUATION	8%	10%	6%	14%

The changes in the number of new hires and staff members leaving are shown in the tables below::

NUMBER OF NEW HIRES	2015	2016	2017	2018
MAN	8	19	29	25
<30	2	4	9	7
30-50	3	13	16	11
50<	3	2	4	7
WOMAN	7	7	11	20
<30	5	3	8	6
30-50	1	4	3	14
50<	1	0	0	0
TOTAL	15	26	40	45

NUMBER OF STAFF MEMBERS LEAVING	2015	2016	2017	2018
MAN	10	18	11	21
<30	1	1	0	2
30-50	3	6	5	12
50<	6	11	6	7
WOMAN	5	1	2	11
<30	2	0	1	3
30-50	3	1	1	8
50<	0	0	0	0
TOTAL	15	19	13	32

THE ELEMENTS OF THE RECOGNITION SYSTEM ARE AS FOLLOWS:

- Role models: this is granted to employees that produce outstanding performance in the fields of client orientation, expertise, task orientation, positive approach and sustainability. Colleagues nominate and write recommendations on one another.
- Team of the Year Awards in various categories
- Lifetime Achievement Award: for retiring colleagues
- Innovation Awards: handed out in the categories of technical and process innovation
- Key Staff Member Award: given to colleagues who are deemed to be key staff members by their managers in their respective areas

The recognitions were given out to recipients at the Christmas dinner, which - for the first time in the history of ALTEO Group - we held in one location, Budapest. Staff members working at the company for at least 10 years were also rewarded with ALTEO shares, in celebration of the Group's 10th birthday. This meant approximately 100 people out of the 233 working at the firm, which shows a high degree of loyalty to the company among staff.
Our 2018 Christmas dinner was carbon neutral, and we are offsetting our pollutant emissions (3.18 tonnes of carbon dioxide) by planting 28 indigenous trees. The trees will be planted in the gardens of various educational institutions in the spring of 2019 in collaboration with the Foundation for School Gardens, meaning that in addition to mitigating carbon dioxide emissions, we are also providing local students with an educational and joint gardening opportunity, as well as a food-growing possibility for owners of the trees.

RATIO OF GENDERS

In 2018, 81% of our staff members were men and 19% were women.
This gender ratio is basically typical in the energy sector, as most of our colleagues deal with the operation of power plants. At the same time, we aim to raise the proportion of women, which is most feasible primarily in our head office.

FLUCTUATION

The rate of fluctuation increased to 14% from 6% in 2017, which is primarily the result of elderly colleagues retiring from our power plants, changes in residence, the restructuring of organizational operation and changed labor market conditions. Compared to 2017, the effect of the competitive situation in the labor market was more emphatic, from both a positive and a negative perspective. We have consciously look to increase the share of the young generation within our organization, since we believe that we can provide professional development and great opportunities. This is a fundamental criterion of maintaining our quality services and reliable work performance, as the age pyramid of colleagues with great expertise and work experience - who in many cases have been working in the energy sector for 30 years - is very constrictive, with many set to retire in the coming years. Our goal is to recruit highly-trained and committed young colleagues to the positions that will be opening up down the line.

There are more women among new hires than men, with their number increasing from 11 to 20 over the course of a year.
11 women and 21 men have left the company, most of them between the ages of 30 and 50.
The closing workforce headcount at the end of the year was 233, which is 13 more than in 2017.
The number of part-time colleagues (9) has not changed, while the number of those with full-time employment contracts is 224. There are 231 people employed with indefinite-term contracts, and 2 with fixed-term employment contracts.

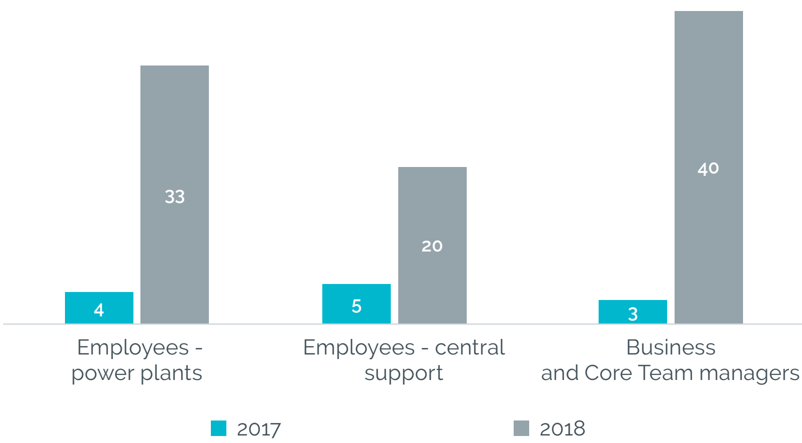
EMPLOYMENT CONTRACT	2015	2016	2017	2018
FULL-TIME	179	188	211	224
MAN	159	167	183	188
WOMAN	20	21	28	36
PART-TIME	0	5	9	9
MAN	0	0	2	1
WOMAN	0	5	7	8
TOTAL	179	193	220	233

TYPE OF EMPLOYMENT CONTRACT	2015	2016	2017	2018
INDEFINITE	179	188	217	231
MAN	159	162	183	188
WOMAN	20	26	34	43
FIXED-TERM	0	5	3	2
MAN	0	5	2	1
WOMAN	0	0	1	1
TOTAL	179	193	220	233

TRAINING AND EDUCATION

The expertise and experience we obtained in the energy industry are our core values. To ensure that we can offer high-quality services to our partners in every case, we enable our employees to deepen their knowledge via regular training courses. The objectives of the courses are the following: to improve the efficiency of our employees, to acquire critical qualifications for their work, and to update and complement their existing knowledge base. Our training portfolio also includes compulsory courses prescribed by law or by internal regulations, as well as internal knowledge sharing.[52]
For 2017, the number of training hours per capita, presented by gender and position/seniority, was calculated based on estimated values. As of 2018, we introduced the tracking and accurate data collection regarding training hours.[53] The average hours of training per employee were up by 6 hours (+23%) from 2017 to 2018.

AVERAGE HOURS OF TRAINING PER FEMALE EMPLOYEE



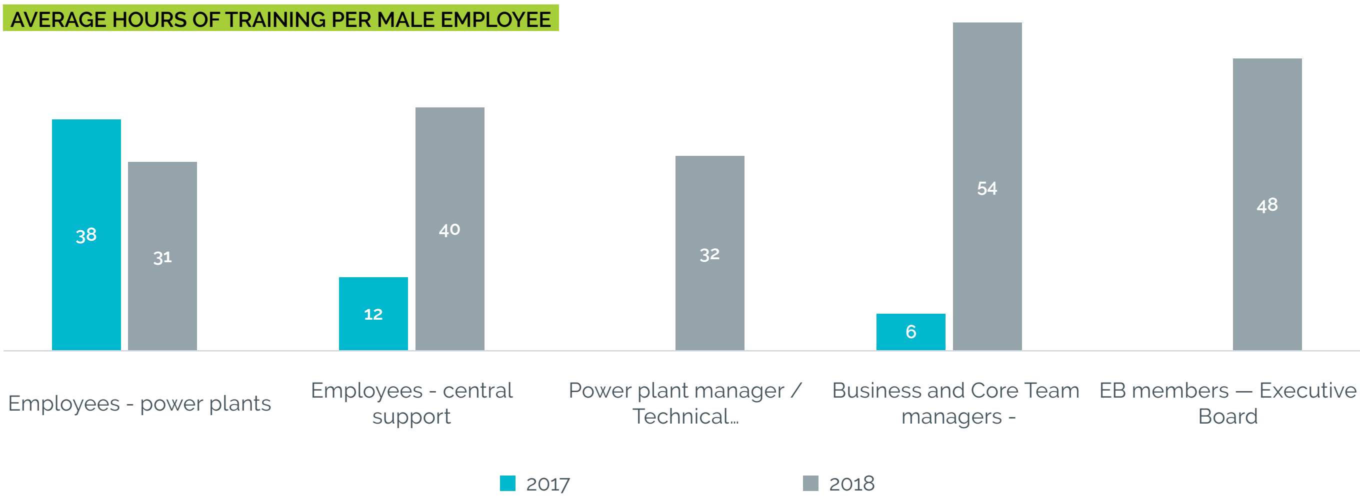
NEW PROGRAMS AND TRAINING COURSES

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

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

52. More details: SR 2016, page 85.
53. Values shown here represent the ratio of the total hours of training and the total number of employees.

AVERAGE HOURS OF TRAINING PER MALE EMPLOYEE



DUAL TRAINING

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

INTERNSHIP PROGRAM

In 2018, we worked with a high school in Tiszaújváros for the first time. We received 4-5 students for summer internship and some of them also stayed for student work. In our experience, the program was well-liked among both the youth and our older employees. Therefore, next year, we want to improve on it and use it to train older employees in educating a new generation, backed by a mentoring program. As staff turnover is very low at our sites outside Budapest, we can only hire new people for the positions of employees who retire. Seeing the success of our internship program in Tiszaújváros, we want to establish cooperation with local high schools in Sopron.

ALTEO Academy, a series of events for internal knowledge sharing in an organized form, but in an informal setting, continued in 2018 as well.

The Executive Program, a one-year program to strengthen key managerial competences in a modular system, also continued.

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

We not only pay attention to our employees but are also happy to offer an opportunity for a site visit to youth interested in power plants[54].

54. To learn more, see Local communities.

HEALTH AND SAFETY

OR GROUP CONSIDERS SAFE WORKING CONDITIONS AND HEALTH PROTECTION A KEY PRIORITY AS ALL OF OUR BLUE-COLLAR WORKERS (124 PERSONS) ARE CONSIDERED TO BE AT HIGH RISK OF WORK-RELATED DISEASES DUE TO THE JOBS THEY DO.

It is a fundamental goal in our Integrated Management Policy to reduce HSE (Health, Safety, and Environment Protection) risks to a calculated and acceptable level, and to prevent work accidents, fire damage, and environment pollution. We manage health and safety as part of our Integrated Management System under the direction of the IMS manager; we apply predefined procedures and policies, and analyze the annual performance during a management review. [55]

We also place great emphasis on health promotion for our employees, including support for sports activities (to learn more, see Section 5.2 Our employees).

DAYS OF ABSENCE AND WORK ACCIDENTS [56]

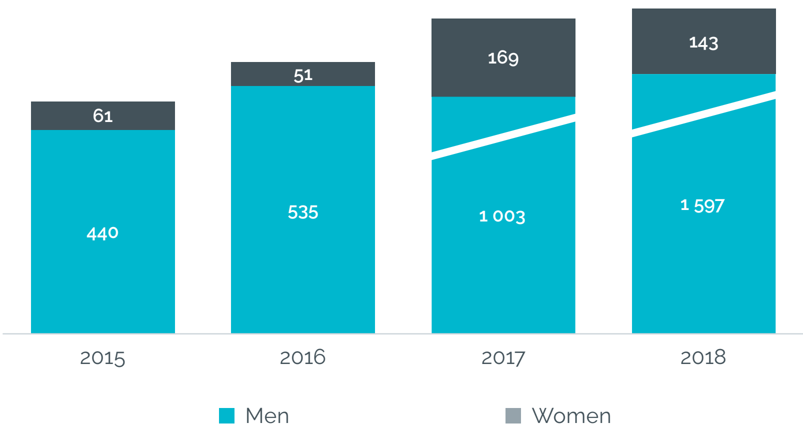
In 2018, the overall number of days of absence increased by 48% compared to the previous year; however, it decreased for female employees (-26 days). This significant increase is attributable to a number of our employees being absent due to sickness. The 1,740 days is shared among 81 employees, which is 35% of the total workforce. 10 employees were absent for more than 30 days, for 1,049 days in total, meaning that 60% of absence is attributable to 12% of absent people so the number grew due to the long-term illnesses of some employees, similarly to 2017.

At the same time, the number of employees on parental leave also grew; while there were 4 employees who stayed at home with their children (1 person for the entire year, 1 for 5 months, 1 for 2 months and 1 for 1 month) in 2017, there were 7 employees in 2018 (3 people for the entire year, 2 for 9 months and 2 for 2 months).

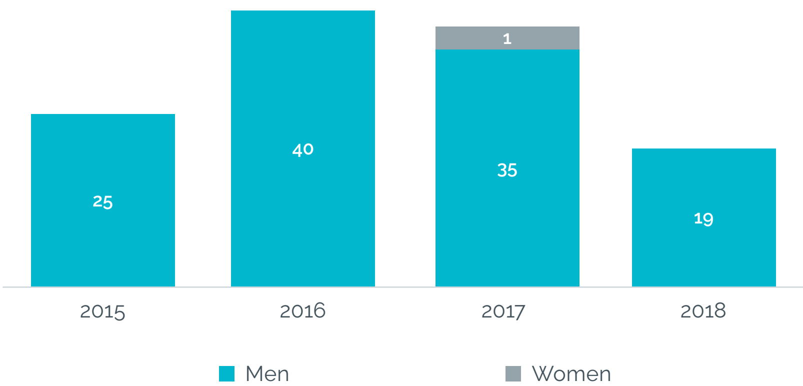
WORK SAFETY

We pay particular attention to ensuring our employees' safety and accident-free work. To do so, we have established internal work safety rules stricter than comparable legal regulations. The basis of work safety at each site is a focus on the workplace, chemical and psycho-social risk assessments that are carried out every three years. Based on these assessments, we set out annual goals and programs. We regularly organize HSE courses and annually HSE visits with the aim of raising our employees' awareness of how to avoid accidents. Reporting near-miss accidents gives us important feedback about the areas and situations where the risk of accidents exists. We are making

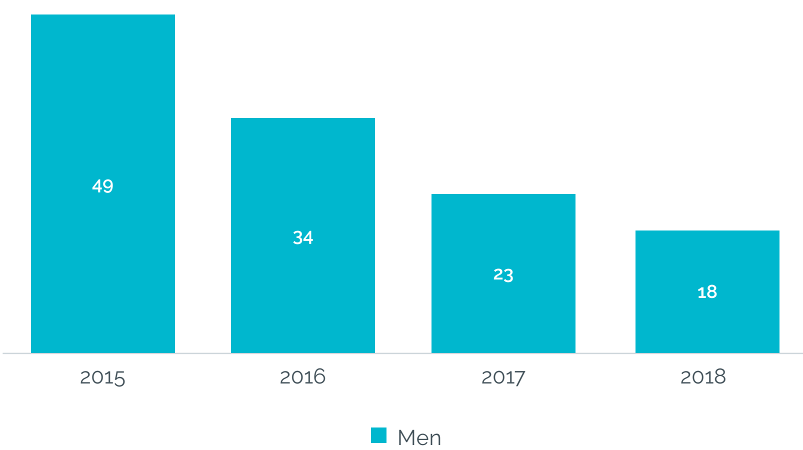
DAYS OF ABSENCE



NUMBER OF NEAR-MISS ACCIDENTS



NUMBER OF WORKING DAYS LOST AS A RESULT OF WORK ACCIDENTS



55. To learn more about our fire safety, disaster management and process safety measures and policies, see: SR 2016, page 75.
56. The total number of working hours was calculated on the basis of the statistical workforce at the end of the year and does not track changes resulting from staff turnover.

INJURY RATE (IR)	0.013%	0.004%	0.005%	0.002%
OCCUPATIONAL DISEASE RATE (ODR)	0%	0%	0%	0%
LOST DAYS RATE (LDR)	0.11%	0.07%	0.04%	0.03%
ABSENCE RATE (AR) - MEN	1.089%	1.257%	2.177%	3.380%
ABSENCE RATE (AR) - WOMEN	1.206%	0.764%	1.939%	1.300%

efforts to minimize and eliminate them. For these efforts to be successful, it is essential that near-miss accidents are reported to IMS. To facilitate this, we have a "near-miss accident management process" to encourage employees to report the occurrence of near miss accidents. In 2018, there was a decrease in the number of near-miss accidents reported, although the quality of the reports improved (in 2017 when the management process was adopted, there were cases where situations not considered near-miss accidents were reported). Based on the accident triangle theory, however, our goal is to achieve that as many near-miss accidents as possible are reported so we streamlined the reporting process to further encourage reports and now, it takes only a couple of clicks to submit reports through the extRIM system. As a result of our actions, the key security indicators in 2018 showed a positive trend.

There was one work accident at our sites, and it resulted in 18 working days lost. In line with the relevant legislation, we investigated this accident and reported our findings to the authorities. The frequency of near-miss accidents decreased by 47%, the number of work accidents fell by 2, while subcontractor accidents decreased by 2 to 0 compared to 2017.

Our key safety performance indicators compared to the changes in the number of employees is presented in the table below. [57]

LOCAL COMMUNITIES

THE ALTEO GROUP'S IMPACT ON THE ENVIRONMENT IS PRIMARILY OF AN ECONOMIC NATURE THROUGH WHICH WE PROVIDE JOBS FOR THE LOCAL POPULATION AND ENTREPRENEURS (FOR MORE INFORMATION SEE THE CHAPTER INDIRECT ECONOMIC IMPACTS). WE ALSO STIMULATE REGIONAL INFRASTRUCTURE DEVELOPMENT AND SUPPORT THE WORK OF LOCAL ORGANIZATIONS THROUGH SPONSORSHIP.[58] WE MAKE EFFORTS TO HAVE GOOD RELATIONSHIPS WITH THE MUNICIPALITIES WHERE OUR SITES ARE LOCATED.

We aim to minimize our impact that arises in the form of negative externalities. We intend to achieve this by setting higher internal quality standards than required by the authorities and regularly verify compliance.

"We are delighted to cooperate with ALTEO as a partner as a sustainable, fairer future is our common goal. InDaHouse Hungary is a volunteering program that has urban volunteers educating children living in villages in the Borsod region on a weekly basis. We do so because we believe that Hungarian society is a large community where children are our common responsibility, bearing in mind that the Borsod region cannot be allowed to fall behind. This is what we are working for with our volunteers to the highest standard we can, providing long-term help to 104 children who are the target audience for our education work. This fantastic and very important work would not be possible without supportive partners.

ALTEO is special for us as their site in Gibárt is located very close to us and we had the opportunity to visit it with children from Pere, Hernádszentandrás and Ináncs in 2018. This visit was a great experience for us, but we want our children to have more than a just one-time thing and that is why we want to find a way for them to keep working in power plants in mind when making career choices.

We use the educational toys we received at the ALTEO Family Day for our work with the aforementioned 104 children and clothes collected were given to their families.

We hope that we can keep our cooperation going and we will have ALTEO with us in our creative, empowering, but sometimes hard work."

Fruzsina Benkő
InDaHouse Hungary

57. Injury Rate (IR) captures the frequency of injuries relative to the total hours worked by all employees. Occupational Disease Rate (ODR) captures the frequency of occupational diseases relative to the total hours worked by all employees. Lost Days Rate (LDR) compares the number of days lost as a result of workplace accidents to the total hours worked by all employees. Absence Rate (AR) compares the number of days not worked by employees to the total number of days worked. Except for absence rate, the table does not show the figures by gender as all other incidents involved only male employees, hence for women all of the rates would be 0.

58. More information about our management approach: SR 2016, page 85.

In line with corporate tax regulations, ALTEO Plc. helped various organizations and foundations with over HUF 20 million of support in total in 2018. When choosing beneficiaries, considerations included their location (they operate in the vicinity of our sites) and their involvement in the Company's life as a result of their activities.

At the corporate level, the ALTEO Group provided over HUF 29 million in the form of other support to organizations in 2018.

Moreover, we also try to get involved in the lives of local communities, especially children and youth. A good example from 2018 is the Night of Trades held at Brassai Sámuel Vocational School in Tiszaújváros for students who are about to make their career choices. The ALTEO Group was one of the leading companies in the region to have an exhibition booth at the event.

We delivered an informative presentation and demonstrated state-of-the-art equipment to pique the interest of students who are about to make career choices in the beauty in engineering and the opportunities presented by various challenges. To develop the next generation of workforce, we concluded a cooperation agreement with the educational institution and we will have 5 students in Tiszaújváros for summer practice.

In February 2018, we had students from Trefort Ágoston High School in Budapest at the Felsődobsza Hydropower Plant, who also took an amazing drone shot of the plant.

From 2018, the Zugló Power Plant has become a place for knowledge transfer about sustainable future: from this year on, it regularly hosts pupils from the Mező Ferenc Elementary School in Zugló. We had a total of 60 upper elementary pupils and their teachers on three occasions on a tour around the plant. Our goal with hosting was to raise awareness among children so the topics we touched on during the tour included renewable and non-renewable energy, the protection of the environment and the world of industry. In addition, our little guests had a chance to study first-hand how gas engines and auxiliaries work and thereby get a clearer picture of the equipment we use to keep their school warm during the winter.
Our wind turbines in West Hungary (Jánossomorja, Ács, Pápakovácsi) have now joined our efforts to provide education and information on sustainable energy. Power plants host not only our partners but also students from nearby schools for visits that offer a memorable positive experience; we were particularly delighted that children had a smile on their faces after the tour.

SUPPORT DEDUCTIBLE FROM CORPORATE TAX:
Budafok Dohnányi Orchestra
Sajóvámos Sports Club
Airnergy Hungary Football Club
Football Club Tiszaújváros
Sopron water polo support
OTHER SUPPORT:
Perem Rock Climbing Association
Regional Centre for Energy Policy Research - REKK
Foundation for the Education and Culture of the Students at Brassai Sámuel Vocational School in Tiszaújváros
scholarship support for the Novofer Foundation
support for physics competitions at ELTE
Rozmaring Folk Dance Group in Abaújszina
Night of Trades at the Szerencs Vocational Training Center
Employee sports activities
Municipality of Felsődobsza

Our power plant in Győr was visited by the Győr Chamber of Commerce and Industry in May. They got to learn about the history and future of the power plant, and as a result we started a cooperation with the local organizations and business sector.

This year again, ALTEO Group sponsored day 4 of the Grand Triathlon Week in Tiszaújváros. As part of the program, members of the public got a chance to visit the Tiszaújváros Power Plant.

CORPORATE SOCIAL RESPONSIBILITY (CSR)
In 2018, the ALTEO Group launched a cooperation with InDaHouse Hungary Ltd. Volunteers from InDaHouse help children living in extreme poverty or difficult circumstances in villages near our hydropower plants (in North East Hungary) by organizing different activities and education for them on weekends. This includes help with homework, tutoring and talent management.

The cooperation between the two organizations in 2018 involved the following:

- we collected clothes and toys at the ALTEO Family Day and volunteers from InDaHouse delivered them to those in need.
- during fall break, InDaHouse organized a camp that included a visit to the hydropower plant where one of our employees took children on a guided tour.

We will continue this cooperation in 2019.

6

EVENTS AFTER THE REPORTING DATE [59]

AT THE BEGINNING OF 2019, ALTEO GROUP LAUNCHED ITS WASTE MANAGEMENT DIVISION WITHIN THE ENERGY PRODUCTION AND ENERGY SERVICES BUSINESS LINE, WHICH BECAME THE THIRD PROFIT CENTER IN ADDITION TO THE ENERGY PRODUCTION, OPERATION AND MAINTENANCE, AND THE PROJECT DEVELOPMENT DIVISIONS. THIS CHANGE HAD NO EFFECT ON THE OTHER BUSINESS LINE OF ALTEO GROUP, THE ENERGY TRADING BUSINESS LINE. THE PURPOSE OF FOUNDING THIS NEW DIVISION WAS TO FURTHER STRENGTHEN ALTEO PLC.'S PRESENCE ON THE WASTE UTILIZATION MARKET FOR ENERGY PURPOSES.

ZUGLÓ-THERM LTD. AND BUDAPESTI TÁVHŐSZOLGÁLTATÓ LTD. (REGISTERED OFFICE: H-1116 BUDAPEST, KALOTASZEG U. 31; COMPANY REGISTRATION NUMBER: 01-10-042582; HEREINAFTER: "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 - ZUGLÓ-THERM LTD. WILL PROVIDE FŐTÁV WITH THERMAL ENERGY UNTIL THE DAY OF MAY 31, 2030.

ALTEO Plc.'s consolidated enterprise, SUNTEO Ltd. - as buyer - concluded a business share purchase contract with Raiffeisen Energiaszolgáltató Ltd. (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 Ltd. (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 Ltd. 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).

59. *Events relevant in terms of company law after the reporting date are contained in section 2.4.2 of this Integrated Report, and consequently we are not presenting these again in this chapter.*

ANNEX 1:CONSOLIDATED FINANCIAL STATEMENT AND LISTS

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

TABLE OF CONTENTS

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.

Independent auditor's opinion

Page 5 of 5

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

I. NUMERIC REPORTS OF THE FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR ENDED ON DECEMBER 31, 2018

* *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

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
Translation 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.

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!

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)
Translation 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.*

CONSOLIDATED STATEMENT OF CASH FLOWS

data in thousand HUF		Year ending on 12/31/2018	Year ending on 12/31/2017
Negative values are denoted by parentheses.	Note		(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**

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%).

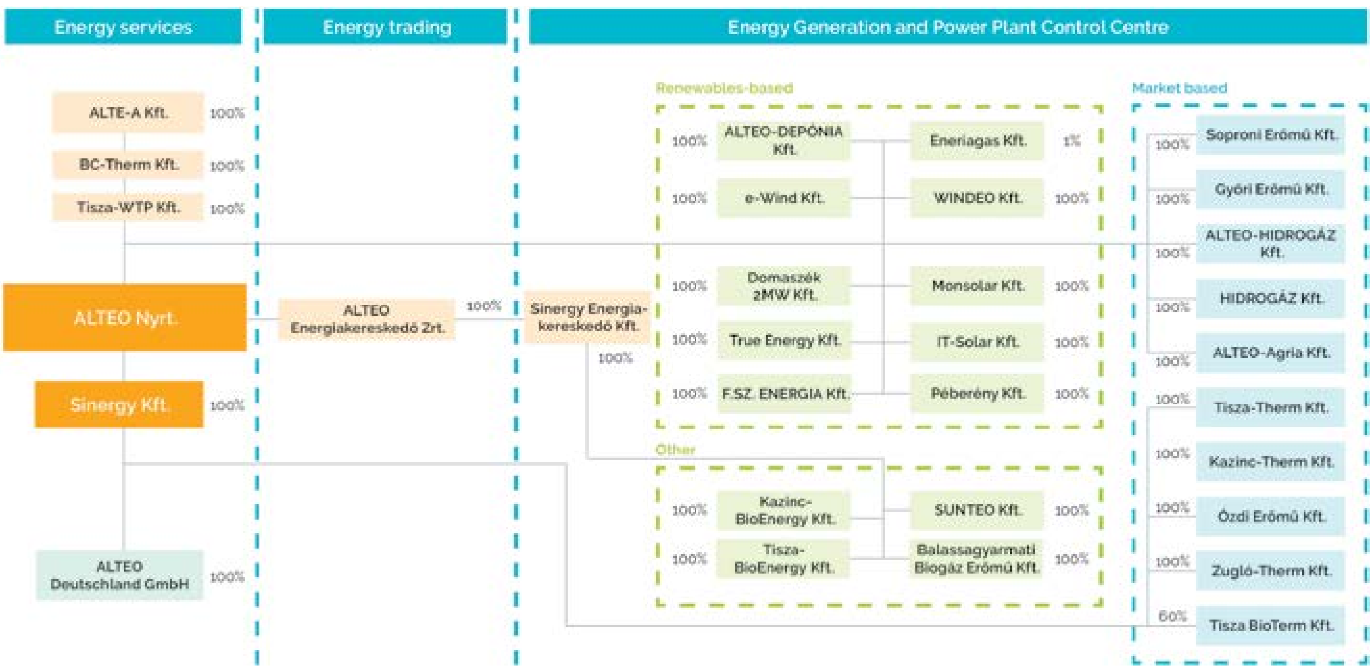
The publicly issued shares of the Parent Company of the Group are registered at the Budapest Stock Exchange; the closing exchange rate of the shares on the last trading day of 2018 (on December 28) was HUF 640, which is 9.7% lower than the same value in the last year (HUF 709). In the course of the year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

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

he 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:

Financial assets	Evaluation method		Value in thousand HUF	
	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
CO2 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 CO2 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 Capitalized asset retirement obligation	5,396,141	19,799	474,378	517,399	1,368,757	7,776,474
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 equipment	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.

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, CO2 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	CO2 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.

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 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)*
(restated)*	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***

AIn 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 CO2 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 CO2 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 CO2 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**

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		Operation	Not allocated to segments
		KÁT	Non-KÁT		
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)

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.

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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

GRI indicator	Description	Chapter	Page
102-1	Name of the organization	ALTEO - With Energy in Mind	13
102-2	The activity of ALTEO Group	ALTEO - With Energy in Mind	13
102-3	The registered office of the headquarters of ALTEO Group	ALTEO - With Energy in Mind	13
102-4	Number of countries where ALTEO Group operates and names of countries where the Group has major plants or that are particularly relevant to sustainability issues presented in this report.	ALTEO - With Energy in Mind	14
102-5	Ownership and legal form	ALTEO - With Energy in Mind	13
102-6	Markets served	ALTEO - With Energy in Mind: Energy Production	13, 31
102-7	Scale of the organization	ALTEO - With Energy in Mind	13
102-8	Information on employees and other workers	Our employees	67
102-9	Supply chain	Value chain	64
102-10	Significant change in the size, structure or ownership of the organization during the reporting period	Highlights 2017	6
102-11	Application of the precautionary principle within the organization	Integrated Management System (IMS) and HSE	29
102-12	Charters, principles or other initiatives containing economic, environmental or social standards developed by external organizations of which the organization is a member or supporter	Corporate strategy, mission, vision *More: 2016 Sustainability Report, pages 87 and 88.*	16
102-13	Most important membership in associations	Corporate strategy, mission, vision *More: 2016 Sustainability Report, pages 87 and 88.*	16
102-14	Statement from senior decision-maker	Letter from the CEO	5
102-16	Values, principles, standards and norms of behavior	Corporate values, culture, ethics	17
102-18	Governance structure	Corporate governance	18
102-40	Stakeholders engaged by the organization	About the integrated report; Local communities *More: ALTEO Sustainability Report 2016, page 78.*	9, 72
102-41	Collective bargaining agreements	*Similarly to 2016 and 2017, ALTEO did not apply collective bargaining agreements in 2018.*	n.a.
102-42	Identifying and selecting stakeholders, engagement, key topics	About the integrated report	9
102-43		Our clients *More: ALTEO Sustainability Report 2016, page 78.*	64
102-44		Integrated Management System (IMS) and HSE	29
102-45	Entities included in the consolidated financial statements	Structure of ALTEO Group	14
102-46	Process for defining the content and scope of the report	About the integrated report	9
102-47	Material topics within and outside the organization	About the integrated report	9
102-48	Reason for and explanation of the impact of restatement of information included in previous reports	About the integrated report	9
102-49	Significant changes in the form and topics of the report compared to the previous reporting period	About the integrated report	9
102-50	Reporting period	About the integrated report	9
102-51	Date of most recent report	We published our Sustainability Report for 2017 on July 10, 2018.	n.a.
102-52	Reporting cycle	About the integrated report	9
102-53	Availability	About the integrated report	9

GRI indicator	Description	Chapter	Page
102-54	Reporting in accordance with the GRI Standards and GRI content index. This report has been prepared in accordance with the GRI Standards: Core option.	About the integrated report	9
102-55		GRI index	78
102-56	Assurance	Assurance	10
103-201	Economy	Economic and operating environment *More: Sustainability Report 2016, page 48.*	45
201-1	Direct economic value generated and distributed	Produced and distributed economic value	45
201-2	Financial implications and other risks and opportunities concerning the organization's activities due to climate change	Risks and opportunities; Integrated Management System (IMS) and HSE; *More: Sustainability Report 2016, page 51.*	20, 29
201-4	Significant financial assistance received from the government	Significant financial assistance received from the government	46
103-203	Economy	Economic and operating environment *More: Sustainability Report 2016, page 55.*	45
203-2	Significant indirect economic impacts	Significant indirect economic impacts	46
103-205	Anti-corruption	Anti-corruption and compliance *More: Sustainability Report 2016, page 35.*	28
205-3	Confirmed incidents of corruption and actions taken	Ensuring compliance; Anti-corruption and compliance	24, 28
103-302	Environment	Integrated Management System (IMS) and HSE; Energy	29, 53
302-1	Energy consumption within the organization	Energy	53
103-303	Hydro	Integrated Management System (IMS) and HSE; Water consumption	29, 57
303-1	Water consumption by source	Water consumption	57
303-3	Rate of the total amount of water recirculated and reused	Water consumption	57
103-305	Environment	Integrated Management System (IMS) and HSE; Emissions and Air quality protection	29, 59
305-4	GHG emissions intensity	Emissions	59
305-7	Emission of air pollutants by type and quantity	Air quality protection	60
103-306	Effluents and waste	Integrated Management System (IMS) and HSE; Soil and water protection; Waste management	29, 62
306-2	Waste by amount, type and disposal method	Waste management	62
103-307	Environmental compliance	Integrated Management System (IMS) and HSE	29
307-1	Amount of major environmental sanctions, number of cases of non-compliance with environmental laws and regulations and non-financial consequences	No environmental protection fines or other non-monetary sanctions were imposed on ALTEO Group in 2018 either. More: Integrated Management System (IMS) and HSE	29
103-401	Employment	Our employees *More: Sustainability Report 2016, page 82.*	67
401-1	Global employee turnover	Our employees	67
103-402	Labor/Management relations	Our employees *More: Sustainability Report 2016, page 83.*	67
402-1	Minimum notification period to report major changes in the organizational operation and whether it is specified in the collective bargaining agreement	Our employees	67
103-403	Occupational health and safety	Integrated Management System (IMS) and HSE; Health and safety	29, 71
403-2	Number of injuries, occupational diseases, days lost, the absence rate and the number of fatal workplace accidents per region	Health and safety	71

GRI indicator	Description	Chapter	Page
403-3	Employees with high incidence or high risk of diseases related to their occupation	Health and safety	71
103-404	Training and education	Training and education *More: Sustainability Report 2016, page 85.*	69
404-1	Average hours of training per year per employee	Training and education	69
103-413	Local communities	Local communities *More: Sustainability Report 2016, page 85.*	72
413-1	Operations with local community engagement, impact assessments, and development programs, their nature, level and effectiveness	Local communities	72
103-416	Client health and safety	*More: Sustainability Report 2016, page 81.*	n.a.
416-2	Client health and safety	Just as in 2016 and 2017, in 2018 there was no instance of us causing any safety or health risk to our partners or clients by not complying with legal or other obligations. *More: Sustainability Report 2016, page 81.*	n.a.
103-418	Client data protection	Client data protection and IT security *More: Sustainability Report 2016, page 36*	28
418-1	Protection of personal data, number of complaints	Client data protection and IT security	28
103-419	Legal compliance	Ensuring compliance	24
419-1	Compliance with laws and regulations in the social and economic area	Corporate values, culture, ethics; Ensuring compliance; Compliance when providing products and services	17, 24, 28
EU1	Installed capacity broken down by primary energy source and control system	Energy production	33
EU2	Energy output broken down by primary energy source and control system	Energy	53
EU3	Number of residential, industrial, institutional and commercial client accounts	Energy trading	34
EU5	Allocated CO_2e emissions allowances broken down by carbon trading framework	Emissions	59
G4-DMA	Availability and reliability	Availability *More: Sustainability Report 2016 page 53.*	56
EU10	Planned capacity against projected electricity demand over the long term	Energy production	31
G4-DMA	Demand-side management programs including residential, commercial, institutional and industrial programs	Energy trading *More: Sustainability Report 2016, page 55.*	34
G4-DMA	System efficiency	*More: Sustainability Report 2016, page 60.*	n.a.
EU11	Average production efficiency of thermal power plants broken down by primary energy source	Fuel use and system efficiency	53
G4-DMA	Crisis management	Health and safety *Similarly to 2016 and 2017, in 2018 there was no emergency situation, fire or fatal incident, or any event causing lost days or deaths to our subcontractors or third-parties at our sites.* *More: Sustainability Report 2016, page 75.*	71
EU30	Average power plant availability by energy source	Availability	56
G4-DMA	Process safety	Work safety *More: Sustainability Report 2016, page 75.*	71
OG13	Number of process safety incidents per business activity	Days of absence and work accidents	71

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