

INFORMATION MEMORANDUM



for the private offering of the bond designated as ALTEO NKP/2029, to be issued by
ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság, as Issuer

Distributing and Paying Bank: Erste Bank Hungary Zrt.

October 16, 2019

This information memorandum (hereinafter: “**Information Memorandum**”) was prepared in relation to the private offering of the bonds to be issued by ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: H-1131 Budapest, Babér u. 1-5.; company registration number: 01-10-045985; hereinafter: “**Issuer**”).

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1. RISK FACTORS

When preparing this Memorandum, the Company considered and—in accordance with Article 16(1) of the Regulation—assessed the specific risk factors associated with the ALTEO Group and the securities issued by the Company, as well as the potential risks involved in making an informed investment decision, based on the probability of the occurrence of such risks and the anticipated extent of their negative impact. This Memorandum only contains the risk factors that were assessed as material by the Company. The Company provides the results of the materiality analysis using a qualitative scale, indicating a “low”, “medium” or “high” risk level next to each risk factor.

1.1 Macroeconomic and legal system related risk factors

1.1.1 Risks stemming from the legal system

The legal system can be considered relatively underdeveloped in Hungary—where the ALTEO Group currently pursues its activities—and in the Company’s various strategic target countries. According to conventional wisdom throughout these countries, legal regulations change quite frequently, authority and court decisions are, on occasion, contradictory or inconsistent or difficult to construe. These circumstances 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.

Risk level: high.

1.1.2 Macroeconomic factors

The ALTEO Group’s operations and profitability stands exposed to macroeconomic developments in Hungary and the countries of the European Union, particularly to how economic growth and industrial production, as well as the financial position of general government shapes up. Certain negative developments in the macroeconomic environment may have adverse effects on the profitability of specific the ALTEO Group activities.

Risk level: medium.

1.1.3 Taxation

The current taxation, contributions and duties payment regulations applicable to the ALTEO Group are subject to change in the future, meaning that it is particularly impossible to rule out potential increases in the rate of the special tax imposed on energy generators and energy traders, moreover that new taxes with adverse effects on enterprises active in the electricity sector could be imposed, any of which would, in turn, increase the ALTEO Group’s tax liability. Applicable tax regulations are open to frequent and major changes, even with retroactive effect, and that could impact the ALTEO Group’s sales revenue and profitability alike.

Risk level: medium.

1.1.4 Risks related to the United Kingdom leaving the European Union (Brexit):

The 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 the ALTEO Group is also active, and so it may have an indirect impact on the ALTEO Group's operations and profitability. The management of the 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 Issuer.

Risk level: low.

1.2 Risks specific to the Market and the Industry

1.2.1 Energy market regulation

The operation and profitability of the ALTEO Group greatly depend on the energy market regulations in Hungary and in the European Union, as well as on the application of such regulations, including in particular legislation, authority and court practice, Hungarian and international processes, trade and operational regulations, as well as other applicable regulations relating to electricity generation, electricity trade, the market of system-level services in the electricity industry, the utilization of renewable energy sources, energy and heat produced in cogeneration power plants, district heat generation and district heating services, natural gas trade, as well as allowance allocation and trade. In 2018, the European Union adopted new energy-related legal regulations under the title "Clean Energy For All Europeans".

Changes in these regulations and the transposition of the EU regulatory framework may have a significant impact on the operation, profitability, market position and competitiveness of the ALTEO Group.

Risk level: high.

1.2.2 Regulated prices

The various affiliates of the ALTEO Group engage in activity whose price is determined or capped through legislation or regulation by some authority (including in particular the HEA, ministries and municipal governments). These prices, set out in legal regulations or set by an authority, furthermore, any modifications in the material scope of official price regulation may have a significant impact on the profitability and competitiveness of the Company, as well as its various Subsidiaries.

Risk level: high.

1.2.3 Pricing and accessibility of the electricity system markets for balancing reserve capacity and energy

In addition to the development of the price margin between electricity and heat energy, the financial position of gas-fired power plants is significantly influenced by the pricing and accessibility of the electricity markets for balancing reserve capacity and energy. If, for any reason, access to these markets becomes limited with respect to production units within the sphere of business interests of the ALTEO Group, including a drop in service volumes attributable to a substantial fall in market prices,

this may have an adverse impact on the business activity and profitability of the ALTEO Group.

Risk level: high.

1.2.4 Government grants

The ALTEO Group's operation and profitability could depend on the amount of state subsidies applicable to the utilization of renewable energy sources and cogenerated energy, as well as those for investment projects and operation, moreover on any 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.

In recent years, the 'KÁT' (i.e. mandatory electricity off-take) system has undergone changes that also affected the operating model. 'METÁR' (i.e. the support system for renewables), which embodies a comprehensive recast of the KÁT regime, became effective on 1 January 2017 (some of its elements on 21 October 2017). Changes in state subsidy regimes, and especially in the KÁT and METÁR regulations, or a possible cancellation of applicable grants may have a significant impact on the operation, profitability, market position and competitiveness of the Company. Hungarian legal regulations aimed at transposing the RED2 Directive have not yet been created, furthermore, no tender subject to the METÁR system has yet been announced, so whatever potential impact those might have on the Company's sales revenue and profitability is as yet unknown.

Risk level: high.

1.2.5 CO₂ emission market, CO₂ quota allocation system and CO₂ quota prices

The third EU ETS trading period (2013–2020) began on 1 January 2013. During this period, emitters—subject to certain exceptions—are and will be able to acquire emission allowances solely at auctions or through secondary commercial channels. In the period between 2013 and 2020, specific power plants in the ALTEO Group are going to be allocated, free of charge, an emission unit allowance that will decrease every year, based on the preliminary national implementing measure published by the Ministry of National Development and approved by the European Commission.

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.

Risk level: medium.

1.2.6 Changes in technology

Technological innovations can significantly improve the efficiency of the energy industry, especially in the area of renewable energy production. Technological development can not only reshape the technologies the ALTEO Group uses, but, in some cases, might even completely eliminate their use. If the ALTEO Group has no appropriate experience with or cannot access (on account of patent protection or due to other grounds) solutions and technologies that become prominent, this may lead to a loss of the ALTEO Group's market share and a decrease in its revenues and profitability. There is no way to guarantee that the ALTEO Group will always be in a position to choose and procure, then operate—in a most profitable way—the most efficient technology.

Risk level: medium.

1.2.7 Competitive situation

There are multiple companies both in Europe and Hungary that have significant positions and experience, as well as advanced technologies, major capacities and financial strength—among them state or municipal government owned and controlled ones—that compete on the ALTEO Group's various markets or may start competing with the ALTEO Group in the future. Should it become more intensive in the future, competition may necessitate unforeseen improvements and investments, furthermore, might also have a negative effect on the price of the ALTEO Group's services or increase the Group's costs, which may have an adverse effect on the ALTEO Group's bottom line, as measured on a consolidated basis. That notwithstanding, the ALTEO Group's competitive position has improved significantly with the acquisition and integration of the Sinergy Group, due to the substantial professional experience and background it represents in terms of the preparation, implementation, as well as the operation and maintenance of power-engineering projects.

Risk level: medium.

1.2.8 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 the accessing and repayment of funding more difficult, and cause delays in the same or even render it outright impossible, and this is understood to also include financing schemes already established on the date of this Information Memorandum.

A large part of the 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. The ALTEO Group enters into interest rate swap (IRS) transactions to mitigate its interest rate exposure. Such transactions are concluded on a discretionary basis, after the due consideration of the respective economic environment and facility-related terms and conditions. These transactions allow for reducing risk, however, the ALTEO Group is not able to completely eliminate negative risks stemming from variable interest rates.

Some of the ALTEO Group's loans were drawn down in a foreign currency or against a *multi-currency* facility. A significant part of the loans is organically covered through sales revenue realized in foreign currencies, however, any change in FX-rates that are unfavorable for the ALTEO Group could have a negative effect on repayment installments and interest relating to the various credit facilities, which could consequently have a negative impact on the ALTEO Group's profitability, as well.

ALTEO's current indebtedness in bonds fully comprises HUF-denominated, zero-coupon or fixed annual interest-bearing bonds.

Risk level: medium.

1.2.9 Foreign exchange rate changes

A significant part of ALTEO Group's sales revenue is generated in HUF, but there are numerous items on the expenditure side which are not covered with FX-revenue, are to be settled in FX or are subject to foreign exchange rates (including, among others, electricity purchase prices and the price of natural gas procurement). As a consequence, any change in foreign exchange rates that is unfavorable for the ALTEO Group might have a negative effect on the business activity and profitability of the ALTEO Group.

Risk level: low.

1.2.10 Impact of international market developments on domestic trade

Market prices seen on foreign commodity exchanges have a major influence on energy prices in Hungary, even though those prices move, to a significant degree, on the basis of economic processes, as well as supply/demand conditions outside Hungary. 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 level: medium.

1.2.11 Risk of changing natural gas, electricity and heat energy price margins

Any changes in the difference between (margin on) the (procurement) price of natural gas and the price of electricity and/or heat that is sold influence the financial position of natural gas-fired power plants significantly. Were this margin to drop significantly, it could have a negative effect on the business and profitability of the ALTEO Group.

Risk level: medium.

1.2.12 Environmental legislation

Any unfavorable changes in the environmental legislation applicable to the ALTEO Group may generate surplus costs or additional investment requirements for the ALTEO Group.

Risk level: medium.

1.3 Risks specific to the ALTEO Group

1.3.1 Risks arising from operating the Control Center

The income generating capacity of the ALTEO Control Center and related production units within the sphere of business interests of the ALTEO Group is highly dependent on the current accessibility and pricing of the electricity markets for balancing reserve capacity and energy. If, for any reason, access to these markets becomes limited with respect to the Control Center, including a drop in service volume attributable to a substantial fall in market prices, this may have a highly adverse impact on the business activity and profitability of the ALTEO Group.

Risk level: high.

1.3.2 Political risks

The 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 the 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, Kazinc-Therm, Tisza-Therm, the Ózd Power Plant and Zugl6-Therm, which have district heating production activities too.

The occurrence of events that may be classified as political risks may have an adverse impact on the exposed Subsidiaries of the ALTEO Group and, overall, the profitability of the ALTEO Group.

Risk level: high.

1.3.3 Dependence on weather

Part of the ALTEO Group's energy production capacities (e.g. wind turbines, solar power plants, hydropower plants) and the energy demand of certain buyers (e.g. heat demands) depend on the weather, therefore, changes in weather may significantly affect the profitability of the ALTEO Group. In the case of weather-dependent energy production, no major change can be expected in the average annual output, but within a year and between years, differences may occur. In the case of a weather-dependent change in energy demand, even longer-term trends of changes may develop (such as milder winters).

In weather-dependent energy production the Company relies on meteorological forecasts to estimate the quantity of energy to be produced. If the weather is not as predicted, the amount of energy produced may change as compared to the plans, which may cause a loss for the ALTEO Group.

The Company's strategy is to keep on developing weather-dependent, renewable energy production projects, and that might increase the dependence on weather in the future.

Risk level: high.

1.3.4 Risks of growth

The ALTEO Group is in the phase of business growth, coupled with the growth of employee staffing, the number and value of the facilities and tools. The 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.

With contributions from its Subsidiaries, as per the present Information Memorandum, the Company is preparing several project implementations. In addition to the Company's intention, these project implementations depend on a number of other external factors. It cannot be guaranteed that these projects will be actually implemented, or will be implemented in accordance with the present Information Memorandum, furthermore, the implementation of other future projects may precede or substitute projects known as at the date of the present Information Memorandum.

Any of the potential risk events associated with growth may result in stagnation of the Company's growth or even operation at a loss.

Risk level: medium.

1.3.5 Risks stemming from acquisitions, buying out projects and companies

The ALTEO Group wishes to implement its business plans partially via acquisition of already existing energy projects and/or buying out 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 the ALTEO Group.

Any of the potential risk events associated with the acquisition strategy may result in stagnation of the Company's growth or even operation at a loss.

Risk level: medium.

1.3.6 Risks related to power plant project development and green-field investment

In ALTEO Group's business plans, licensing and implementation of green-field energy investments plays an important role. Although the 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, the 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.

Any of the potential risk events associated with green-field investments or development projects in power plants may result in stagnation of the ALTEO Group's growth or even operation at a loss.

Risk level: medium.

1.3.7 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's future revenues and profitability. These large-scale projects are frequently long-term (may take even several years), require a long-term allocation of significant resources and are, in several cases, implemented using subcontractors. An eventual failure of or loss on such large-scale investments may have a significant negative impact on ALTEO Group's profitability.

Risk level: medium.

1.3.8 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 the ALTEO Group.

During ALTEO Group's energy trading activities, portfolio planning is done on the basis of data service from consumers and the Group's calculations. A planning mistake or incorrect data service may lead to inappropriate procurement strategy, where a subsequent correction can cause losses to the ALTEO Group.

In order to provide flexible services to meet consumer needs, the Company does not provide hedging for the full contracted amount, hence, open positions remain, and their closing takes place primarily on the cash (spot) market. Prices on the spot markets cannot be planned in advance, any unfavorable developments for the Company may have adverse effects on the profitability of the ALTEO Group.

Commitment of natural gas and electricity volumes increasingly tends to take place on high-liquidity commodity exchanges. Given that large volume transactions occur each day, the prices of these goods change on a daily basis. Day-by-day price movements, sometimes with significant changes, may represent a risk in the case of longer-term consumer proposals. Even though the ALTEO Group performs its trading activities with great caution, an eventual mistaken transaction may have a significant negative effect on the profitability of the ALTEO Group.

Risk level: medium.

1.3.9 Operating risks

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

- (a) costs of general and unexpected maintenance or renewals;
- (b) unplanned outage or shutdown due to malfunction of the equipment;
- (c) natural disasters (fire, flood, earthquake, storm and other natural disasters);
- (d) change in operative parameters;
- (e) change in operating costs;
- (f) eventual errors during operations; and
- (g) dependence on third-party operators.

The energy producer companies of the ALTEO Group have in place “*all risk*” type property insurance policies for machinery breakdown and outage, as well certain natural disasters. These provide cover for damages traceable to such causes and also apply to liability insurance policies as well, where a cover is provided for third-party damages caused by energy production activities. However, it is not excluded that a loss event is partially or entirely outside the scope of the risk assumed by the insurer, and so, the insurant—either as the injured party or the responsible party—may be obliged to bear the damage.

The occurrence of any operational risks may have a highly adverse impact on the perception and profitability of the ALTEO Group.

Risk level: medium.

1.3.10 Fuel risk

The price of strategic fuels used by the ALTEO Group is in line with the market processes. The possibility that the price of the fuels procured by the ALTEO Group will increase in the future cannot be excluded, which can have a negative effect on the Group’s profitability.

For ALTEO Group’s power plants burning hydrocarbons, the key types of fuel (primarily natural gas) are procured from third-party suppliers. The natural gas transport agreements made by the 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. The natural gas transport agreements made by the ALTEO Group are also in line with the practices used by the entire industry and these may include an offtake (a.k.a. “*take-or-pay*”) obligation, for the respective period, with a certain tolerance band. In the event of a significant drop in natural gas consumption, incurrence of a major penalty by the ALTEO Group due to gas not taken over cannot be completely ruled out, and such an occurrence would have an adverse impact on the profitability of the Company.

Risk level: medium.

1.3.11 Renewing and/or refinancing outstanding debts

In addition to loans granted by financial institutions, the ALTEO Group uses in part bonds—issued by ALTEO either in a private or public offering—to fund its financing needs. On the date of this Information Memorandum, the ALTEO Group holds a bond inventory with a face value of HUF 4,493.63 million.

Negative changes and risks in the business prospects of the 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 renewal of bond debt and the refinancing of the ALTEO Group’s outstanding loans would be possible only with significantly worse conditions or it might even become impossible. These circumstances may have a negative effect on future financing and on the financial situation of the ALTEO Group.

Risk level: medium.

1.3.12 Information technology systems

The activity of the ALTEO Group (in particular, the supervision of the power plants) depends on the information technology systems. The improper operation or security of the ALTEO Group's information technology (IT) systems may have adverse consequences for the business and profitability of the ALTEO Group.

Risk level: medium.

1.3.13 Wholesale partner risks

If the partner in a wholesale 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. Although the ALTEO Group exercises utmost care in selecting its partners, any failure by them to meet their obligations would have a negative impact on the profitability of the ALTEO Group.

Risk level: medium.

1.3.14 Dependence on third-party suppliers

During the implementation of energy investments, the ALTEO Group greatly depends on the suppliers, manufacturers of certain equipment, as well as on the implementers and subcontractors, and that may have an impact on the implementation of the investments. The ALTEO Group does not always have full control over the equipment, installations and materials. If, for any reason, manufacturers or suppliers fail to deliver the equipment ordered by the 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, which may have an adverse impact on the profitability of the ALTEO Group.

Risk level: medium.

1.3.15 Buyer risk

A significant share of the 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's future revenues and profitability.

As a consequence of having significant buyers, the ALTEO Group is exposed to non-payment risk. If an important buyer of the ALTEO Group fails to pay or pays late, that might cause a significant loss to the ALTEO Group.

The ALTEO Group has fixed-term contracts with its significant buyers, suppliers and financing partners. There is no guarantee that after the expiry of these contracts, the parties can reach an agreement regarding the extension of these contracts. Even fixed-term contracts offer no guarantee against their termination before the end of their specified term due to some unexpected or exceptional event.

The ALTEO Group sells electricity and provides district heating services for certain public institution users. Upon request from such users, the relevant Subsidiary is obliged to provide an exemption from termination due to late payment (a moratorium),

for a specified period, subject to the conditions laid down by law. Costs occurred due to the moratorium must be borne by the relevant Subsidiary.

Risk level: medium.

1.3.16 The risk of key managers and/or employees leaving the Company

The performance and success of the 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 the ALTEO Group's operation and profitability.

Risk level: medium.

1.3.17 The risk of introducing and using new power plant technologies

In accordance with its business plans, the ALTEO Group may introduce into the portfolio certain technologies that were not included in their power plant portfolio until now. Although the 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 the ALTEO Group.

Risk level: medium.

1.3.18 Authority risk

In addition to the tax authority, several other authorities (such as the Central Bank of Hungary and HEA) are entitled to check the proper functioning of the rules at the ALTEO Group. The 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 result in statements leading to substantial expenses for the ALTEO Group, or that the competent authorities will impose certain sanctions (such as penalty, suspension of operation or withdrawal of the license required for operation) against some companies of the ALTEO Group cannot be excluded, which may have an adverse impact on the perception and profitability of the ALTEO Group.

Risk level: low.

1.3.19 Key licenses and qualifications

For performing their activities, members of the ALTEO Group need several permissions (such as small power plant consolidated permit, KÁT permit, as well as environmental and water rights licenses). If these certificates, qualifications and licenses are revoked or not extended, the business of the ALTEO Group would be profoundly limited. Therefore, this could have a significant negative impact on the Group's profitability.

Risk level: low.

1.3.20 The risk of not fulfilling the obligations associated with operating its own balancing group

As part of its electricity trading activity, ALTEO Energiakereskedő operates a balancing group of its own, an accounting organization with the membership of electricity users and electricity producers in contractual relationship with ALTEO Energiakereskedő, and performs its related tasks specified in legislation and in the electricity supply regulations. ALTEO Energiakereskedő 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, ALTEO Energiakereskedő 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.

ALTEO Energiakereskedő is involved in a balancing group cooperation with several balancing group managers. Should these balancing group managers suspend or terminate their activities, the transfer of their tasks may imply significant costs for ALTEO Energiakereskedő and, if the transfer of the tasks performed by the balancing group managers cannot be settled immediately, without problems, then, even a significant amount of surcharge payment may be the result thereof.

Risk level: low.

1.3.21 Options to purchase certain means of production

Third parties have options to purchase certain means of production of the 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, the Company may suffer losses from such sale transactions. In its business plans, the Company anticipates the expiration of these contracts and the loss of ownership of the means of production; any contract renewals or the retention or more favorable sale of ownership will result in additional profits compared to the plans.

On the basis of the investment and long-term heat supply contracts concluded between the Subsidiaries holding the heat power plants of Kazincbarcika, Ózd and Tiszaújváros and the local municipalities, the municipalities are entitled to buy those heat power plants upon the expiry of such contracts, at the value specified in the accounting records. If these contracts are not extended, the Kazincbarcika and Tiszaújváros contracts expire in 2022, the Ózd contract in 2020.

MOM-Park MFC Kft has options to purchase the Energy Centre established and owned by Sinergy Kft that ensures the primary energy supply of the MOM Park building complex, for a purchase price calculated according to the methodology specified in the contract.

Under a purchase option contract between MOL Petrochemicals Co. Ltd. and Sinergy on the Tisza-WTP business share, MOL Petrochemicals Co. Ltd. is entitled to purchase, until June 30, 2027 at the latest, the Tisza-WTP business share at a price calculated according to the methodology specified in the contract.

On the basis of a heat supply and capacity utilization contract concluded between BC-Therm and BorsodChem Zrt, BorsodChem Zrt is obliged to purchase from Sinergy the BC-Therm business share, at book value, upon expiry of the contract (expected by December 31, 2020).

Under a long term contract concluded by and between Zugló-Therm and FŐTÁV Zrt on purchasing and selling thermal energy, as well as an agreement establishing a purchase option, concluded at the same time, upon expiry of that contract (expected by May 31, 2030) or in the case of termination by Zugló-Therm, FŐTÁV Zrt is entitled to buy the gas engine block heat power plant established by Zugló-Therm for an amount of EUR 1, further to its decision adopted at its discretion. If FŐTÁV Zrt. fails to exercise their purchase option, and the parties are unable to reach an agreement on the future of the heat power plant, Zugló-Therm will be obliged to demolish it at its own expense and restore the property used by it for this purpose to its original condition.

Risk level: low.

1.3.22 Business relationships associated with the Owners' Group

The ALTEO Group is part of the Owners' Group, and there are several business relationships between the two groups. A portion of the ALTEO Group's revenues and services used comes from the Ownership Group. There is no guarantee that in the case of an eventual future change in the ownership structure of the Company or of these businesses the relationship of the ALTEO Group with these businesses remains unchanged. The termination of these buyer, financing and supplier relationships may have a negative effect on the profitability of the ALTEO Group and limit its options to access funding in the future.

Risk level: low.

1.3.23 The risk of being categorized as an actual company group

The ALTEO Group includes several Subsidiaries. In the case of the ALTEO Group, in the absence of a uniform business policy or, in the case of certain Subsidiaries, the lack of other conditions, no control agreement was concluded and the ALTEO Group does not qualify as a recognized company group. At the same time, 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 the ALTEO Group to enter into a subordination agreement and to initiate the registration of the company group with the Court of Registration, or categorize the 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 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.

Risk level: low.

1.3.24 Taxation

The 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 the Company or its subsidiaries. NAV performed a comprehensive tax audit at the Company for the year 2017. The audit findings did not result in any noteworthy changes in the tax positions of the Company, and the Company met all obligations imposed on it on the basis of those findings.

In certain acquisition contracts, the parties to the contract acting as sellers to the ALTEO Group accepted a full guarantee for the period of tax law limitation for the reimbursement of the tax debts of the target companies for the periods prior to their getting into the ALTEO Group. Nevertheless, there is no guarantee that any claims for reimbursement against the sellers may be fully enforceable, which may result in a loss for the ALTEO Group.

Risk level: low.

1.3.25 Environmental risks

During their activities the ALTEO Group's companies use materials and apply technologies that could be harmful to the environment if used inappropriately, not complying with legislation or with the relevant permissions. 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. The ALTEO Group's insurance policies may not provide any cover or full cover for damages and costs resulting from such events, which may result in a loss for the ALTEO Group.

Risk level: low.

1.3.26 Risk of bankruptcy and liquidation proceedings

If the court requires bankruptcy proceedings to be instituted against the Company, the Company will be granted a payment extension. According to Section 10 (4) of the Bankruptcy Act, the term of payment is extended until 00:00 am on the second working day following the 120th day from the publication of the decision on the bankruptcy proceedings. Under certain conditions, the extension may be prolonged for up to 365 days from the start date of the bankruptcy proceedings. In the event of liquidation proceedings, the Bond claims of Bond holders will be satisfied as other receivables according to Section 57 (e) of the Bankruptcy Act. Any bankruptcy or liquidation proceedings initiated against the Company would have a significantly adverse impact on the rate of Bonds and the probability of their full repayment.

Risk level: low.

1.3.27 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)

The Company and its Subsidiaries prepare individual reports in line with HAS for each financial year. However, beginning with the financial year of 2010, the Company prepares a consolidated report according to the IFRS standards. Furthermore, since 2017, the Company has been obliged to prepare even its individual report in line with the IFRS standards. Due to differences in the rules of preparation and compilation, certain items and results of the reports prepared in line with HAS may be different from those prepared according to the IFRS; however, such differences are not quantifiable, and any false conclusions drawn from such differences may result in an incorrect perception of the past performance of the Company.

Risk level: low.

1.3.28 The risk of entering new geographical markets

The ALTEO Group might implement acquisitions and green-field investments overseas as well, therefore, 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 the ALTEO Group.

Risk level: low.

1.4 Risks related to Bonds or investments in Bonds

1.4.1 Bonds are regarded as extremely risky

The number of Bonds to be issued and the balance sheet total in excess of the equity capital as indicated in the last audited report of the Issuer are more than twice the equity of the Issuer. Therefore, the issuance of Bonds and their listing on a regulated market are considered extremely risky to Investors pursuant to the Capital Markets Act.

The ratio of (i) the equity capital of the Issuer indicated in its last audited consolidated annual report for 2018 to (ii) the sum of the number of Bonds to be issued and the amount of balance sheet total in excess of the equity capital as indicated in the last audited consolidated annual report of the Issuer for 2018, rounded to one decimal, is 0.3.

Risk level: high.

1.4.2 Shifting of market yields

The market rates of the Bonds are dependent on various factors. The unfavorable evolution of market rates may incur a risk for the Investor, as the rate of the Bonds will fall if there is a general increase in the market yields. Thus, if the Investor does not hold the Bonds until maturity, it is possible that he will realize a loss in such a case. The rate of zero-coupon (discount) bonds reacts to market-driven yield changes more sensitively than fixed interest bonds with an identical maturity.

Risk level: high.

1.4.3 The Bonds are not secured by assets

The Bonds are not secured by assets, this is why the Investor may lose the invested value fully or partly in the case of the Issuer's potential insolvency.

Risk level: high.

1.4.4 Lack of liquidity and secondary markets

The market of Hungarian corporate bonds, especially the OTC market, is characterized by the lack of liquidity, this is why the liquidity risk of the Bonds is much higher than that of the government securities. This means that the Investor may only be able to sell his Bond with an exchange loss before the Bond matures.

Risk level: high.

1.4.5 Shifting of market yields

The market rates of the Bonds are dependent on various factors. The unfavorable evolution of market rates may incur a risk for the Investor, as the rate of the Bonds will fall if there is a general increase in the market yields. Thus, if the Investor does not hold the Bonds until maturity, it is possible that he will realize a loss in such a case. The rate of zero-coupon (discount) bonds reacts to market-driven yield changes more sensitively than fixed interest bonds with an identical maturity.

Risk level: high.

1.4.6 Changes in legislation

The Hungarian law effective at any time has governing effect for the Bonds. In accordance with this, it cannot be excluded that, after closing this Information Memorandum, a legislative change that may affect the Bonds will happen.

Risk level: medium.

1.4.7 Regulation of investments in Bonds

Some Investors may pursue their investment activities in line with specific laws and other requirements, and these activities of theirs are controlled and supervised by the relevant authorities. The Investor should consult his own legal adviser and he should make sure that the investments in the Bonds are in compliance with the laws and other requirements related to the activities in question.

Risk level: medium.

1.4.8 Changes in the rules on taxation

The laws on the taxation of the income generated by the Bonds effective at the time of this Information Memorandum may change in the future; in the event of unfavorable tax conditions, the net income from Bonds falls short of the one anticipated at the time when this Memorandum was published.

Risk level: medium.

1.4.9 Foreign exchange risks

If the Investor represents his investments in a foreign currency that is different from the currency of the Bonds, he may even book an exchange loss. This is explained by that, if the currency in which the Investor represents his investments is appreciated against the currency of the Bond, the yield that can be realized on the Bonds in the Investor's currency will decrease, and so will the value of the principal amount of the Bonds expressed in the Investor's currency, and the market value of the Bonds expressed in the Investor's currency will also go down.

Risk level: medium.

1.4.10 Lack of assets securitization

The protection provided by the National Deposit Insurance Fund (or another insurer like the Investor Protection Fund) does not extend to Bonds, this is why no third party warranty may be expected in the case of a potential default of the Issuer with regard to the Bonds.

Risk level: medium.

This Information Memorandum was prepared in relation to the private offering of the bonds to be issued by ALTEO Nyrt.

2. LIABLE PERSONS—LIABILITY STATEMENT

With the exception of the content of the statement in Annex no. 2 (for which responsibility is assumed by Erste Bank Hungary Zrt. as the Distributor, represented by Kinga Oravecz and Mihály Geiszbühl), legal responsibility for all information, and the lack of any information, in this Information Memorandum, will be borne by the Issuer (ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: 1131 Budapest, Babér u. 1-5.; company registration number: Cg. 01-10-045985)), i.e. no other person is responsible for any information, or the lack of any information, in this Information Memorandum.

In line with the above, the undersigned representatives of the Issuer hereby declare on behalf of the Issuer that, to the best of their knowledge, the information contained in this Information Memorandum are true and correct, and no information has been omitted from the Information Memorandum that could influence the conclusions to be drawn from it.

Dated: Budapest, October 16, 2019

**ALTEO Energiaszolgáltató
Nyilvánosan Működő Részvénytársaság**

**ALTEO Energiaszolgáltató
Nyilvánosan Működő Részvénytársaság**

Name: Domonkos Kovács
Position: Deputy CEO, M&A and Capital Markets

Name: dr. Zoltán Pataki
Position: chief legal counsel

3. REGISTERED AUDITORS

3.1 The Company's auditor

Currently, the auditor of the Company is Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered office: H-1068 Budapest, Dózsa György út 84/C.; company registration number: Cg. 01-09-071057, registry number in the Hungarian Chamber of Auditors: 000083). The auditor personally responsible for auditing the Company is Dr. Attila Hruby.

The mandate of the auditor is from April 26, 2019 to the date of the adoption of the general assembly decision approving the financial statements of the business year ending on December 31, 2019 but to May 31, 2020 the latest.

Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság and Dr. Attila Hruby are members of the Hungarian Chamber of Auditors.

3.2 Auditor responsible for the historical financial information

With regard to the business year 2018, the mandate of Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság and auditor personally responsible for auditing the Company Dr. Attila Hruby was from April 20, 2018 to the date of the adoption of the general assembly decision approving the financial statements of the business year ending on December 31, 2018 but to May 31, 2019 the latest.

4. INFORMATION ON BONDS, BOND CONDITIONS

Pursuant to Section 12/B (1) of the Capital Markets Act, Bonds are transferable debt instruments. According to Section 12/B (1) of the Capital Markets Act, the Issuer (debtor) of a Bond agrees to pay or render, the predetermined interest or other commissions for the amount specified there, any other services it agreed to provide, as well as the amount of money specified there to the current holder or beneficiary of the Bond (creditor) at the specified time and in the specified manner. According to the Bond Decree, there is no statute of limitations for bond claims against the Issuer. All Bonds consist of securities representing identical rights and obligations.

The face value of Bonds exceeds an amount equivalent to EUR 100,000; therefore, the offering of Bonds is considered to be private according to Section 14 (d) of the Capital Markets Act.

The Bonds are considered to be bonds placed under the BGS.

4.1 Basic information on Bonds

Designation of the series:	ALTEO NKP/2029
Announced quantity:	HUF 9,300,000,000 at face value
Proposed total face value:	HUF 9,300,000,000
Defined currency:	The Bonds are denominated in HUF.
Minimum gross placement price	87.8550%
Face value:	HUF 50,000,000
Number of bonds:	186 bonds
Date of placement	October 24, 2019
Start date of interest calculation:	October 28, 2019
Settlement Day:	October 28, 2019
Value Date:	October 28, 2019
Maturity date:	October 28, 2029
Maturity:	10 years
Basis of interest calculation:	Fixed interest
Basis of redemption/repayment:	Redemption at face value
Type of placement:	private

4.2 Type and class of Bonds offered/placed for sale

4.2.1 Type of Bonds by interest

The Bonds have a fixed interest rate.

4.2.2 Type of Bonds by repayment

The Bonds are repaid upon maturity in one sum (Bonds with final repayment).

4.2.3 ISIN code

HU0000359252

4.2.4 Notices

So-called other notices about Bonds addressed to Bond holders, not considered to be publications related to placement, are regarded as validly made if published at the places of disclosure specified in Section 4.14.

Bond holders must send their notices in writing to the current registered office of the Issuer. If required to reply, the Issuer must send its reply letter to the address indicated in the notice sent by the Bond holder or, if no such address indicated, to an address known to it, provided that the Issuer will not be liable for any consequences of a failure to provide an address or the correct address.

4.3 Laws underlying the issuance of Bonds

Laws underlying the issuance of Bonds include, among others, the following:

- (a) Act V of 2013 on the Civil Code;
- (b) Act CXX of 2001 on Capital Markets;
- (c) Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC;
- (d) Commission Delegated Regulation (EU) 2019/979 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council with regard to regulatory technical standards on key financial information in the summary of a prospectus, the publication and classification of prospectuses, advertisements for securities, supplements to a prospectus, and the notification portal, and repealing Commission Delegated Regulation (EU) No 382/2014 and Commission Delegated Regulation (EU) 2016/301;
- (e) Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004;
- (f) Government Decree no. 285/2001 (XII. 26.) on bonds
- (g) Government Decree no. 284/2001. (XII. 26.) on the method of generation and transfer of dematerialized securities and the relevant safety requirements, and on the requirements regarding the opening and management of securities account, central securities account and account for customers.

4.4 Type of Bonds, method of generation

Type of Bonds: Registered Bonds.

Method of Bond generation: Bonds are issued in a dematerialized form.

Name and address of registering organization: KELER (H-1074 Budapest, Rákóczi út 70-72)

The Document on registered dematerialized Bonds is deposited with KELER pursuant to Section 9 (1) of the Capital Markets Act. A template for the Document is attached as Annex no. 1 to this Information Memorandum.

4.5 Sequence of Bonds, commitments of the Issuer

The Bonds represent direct, unconditional, non-subordinated and unsecured obligations of the Issuer. The Bonds all have identical priority, as well as the same priority as any other unsecured, non-subordinated bond obligations the Issuer may have at any given time (except for any obligations with a higher priority based on statutory requirements). Any violation of this obligation must be remedied by the Issuer within 6 months. After the expiry of this 6-month period, the Issuer must redeem the Bonds at their face value plus any accrued interests not yet paid (*pari passu*).

Furthermore, the Issuer agrees not to issue collateralized bonds which would have a higher priority than Bond claims until its liabilities arising from the bonds have been fully settled. Any violation of this obligation must be remedied by the Issuer within 6 months. After the expiry of this 6-month period, the Issuer must redeem the Bonds at their face value plus any accrued interests not yet paid (*negative pledge*).

In the event of any default by the Issuer exceeding 90 days from the due date with respect to any of its Bonds, the Issuer must promptly redeem the Bonds at their face value plus any accrued interests not yet paid (*cross default*) upon expiry of this 90-month period.

If the rating of Bonds falls below B+, but it is still at least B-, and the Bonds are not upgraded to B+ over the next 2 years, after the expiry of this 2-year period, the Issuer must redeem the Bonds at their face value plus accrued interests not yet paid. If the rating of Bonds is downgraded to CCC or lower, the Issuer must redeem the Bonds at their face value plus accrued interests not yet paid (*downgrading of external credit rating*).

4.6 Description of rights related to Bonds, including any limitations of rights and procedures for their exercise

4.6.1 Rights of Bond holders:

According to Section 12/B (1) of the Capital Markets Act, the Issuer (debtor) of a Bond agrees to pay or render, the predetermined interest or other commissions for the amount specified there, any other services it agreed to provide, as well as the amount of money specified there to the current holder or beneficiary of the Bond (creditor) at the specified time and in the specified manner.

According to the Bond Decree, there is no statute of limitations for bond claims against the Issuer.

A Bond holder has, among others, the following rights to the Bonds under the terms and conditions set forth in the applicable Bond terms and legislation:

This Information Memorandum was prepared in relation to the private offering of the bonds to be issued by ALTEO Nyrt.

- (a) upon the maturity of the Bond, it may claim from the Issuer the face value specified for the Bond plus the predetermined interest;
- (b) it may hold the Bond in a securities account as specified in the relevant legislation during the term, and provide it as a collateral or dispose of it;
- (c) it may receive regular and extraordinary information from the Issuer or its contributor, as defined in the Capital Markets Act; and
- (d) it may exercise any other rights specified in the Capital Markets Act or other applicable legislation.

4.6.2 The Bond holder, acquisition and transfer of the Bond, and limitations thereof

In accordance with Section 138 (2) of the Capital Markets Act, any reference to the **Bond holder** means, with respect to the Bonds, the persons in whose securities accounts the Bonds are held. The Bonds may be transferred only in accordance with the applicable rules and procedures of KELER by debiting the securities account of the Seller and crediting the securities account of the Buyer. According to Section 6 (5) of the Capital Markets Act, Bond holders may not request print production of dematerialized Bonds.

Bonds may only be purchased by Hungarian private individuals, legal entities or institutional investors, as well as by foreign individuals, legal entities, organizations and institutional investors in Hungary in accordance with the currently applicable legislation and the terms and conditions relating to the Bonds.

The Bonds are issued in Hungary. The placement and sale of Bonds may be subject to statutory limitations in certain legal systems.

4.6.3 Governing law and jurisdiction

- (a) Governing law

The Bonds, their validity and effect-, as well as the interpretation of the relevant terms and conditions is governed by Hungarian law.

- (b) Jurisdiction

In the event of any controversy, legal dispute or interpretation issue arising from or in connection with the Bonds, their placement, or any document generated in the course of their placement, the ordinary Hungarian courts will have jurisdiction in accordance with the applicable rules on material jurisdiction and territorial jurisdiction.

4.7 Interests and interest calculation methods

- | | |
|---|--|
| (i) Interest rate(s): | 3.15 percent, to be paid subsequently on an annual basis |
| (ii) Interest Payment Days and Fixed Interest Amounts: | 10/28/2020 HUF 1,575,000 / 1 Bond
10/28/2021 HUF 1,575,000 / 1 Bond
10/28/2022 HUF 1,575,000 / 1 Bond
10/28/2023 HUF 1,575,000 / 1 Bond
10/28/2024 HUF 1,575,000 / 1 Bond
10/28/2025 HUF 1,575,000 / 1 Bond
10/28/2026 HUF 1,575,000 / 1 Bond
10/28/2027 HUF 1,575,000 / 1 Bond
10/28/2028 HUF 1,575,000 / 1 Bond
10/28/2029 HUF 1,575,000 / 1 Bond |
| (iii) Interest base: | Actual/Actual (ISMA) |
| (iv) Working Day Rule: | Next Working Day Rule |
| (v) Interest Base Determination Day(s): | 10/28/2019; 10/28/2020; 10/28/2021; 10/28/2022;
10/28/2023; 10/28/2024; 10/28/2025; 10/28/2026;
10/28/2027; 10/28/2028; 10/28/2029; |
| (vi) Party responsible for calculating payable amounts: | Paying Agent |
| (vii) Accrued Interest on the Value Date: | 0.0000% |

Fixed Interest Bonds pay an interest based on their face value during the Interest Payment Period at an annual rate equal to the Interest Rate expressed in percentage. The Interest Amount calculated based on the Interest Rate is payable subsequently, on the Interest Payment Day.

Interpretation of “Interest Payment Period”

The Interest Payment Period is the period starting on the Interest Calculation Start Date (including that day) and ending on the first Interest Payment Date (not including that day), as well as any subsequent period starting on the Interest Payment Date (including that day) and ending on the following Interest Payment Date (not including that day), provided that the last Interest Payment Date is the Expiration Date.

Interpretation of “Maturity Date”

The day on which the Bonds reach their maturity and are to be repaid.

Interpretation of the “Interest Base” in the case of Actual/Actual (ISMA)

The actual number of days of the Interest Payment Period divided by the product of (1) the number of days of the Interest Base Determination Period and (2) the number of Interest Base Determination Days within a calendar year

Interpretation of the “Interest Base Determination Period”

The Interest Base Determination Period means each period starting on the Interest Base Determination Day (including that day) and ending on the following Interest Base Determination Day (not including that day).

Interpretation of “**Interest Rate**”

The interest rate payable on the Bonds at any given time on an annual basis, determined or calculated in accordance with the provisions of the Bond terms.

Interpretation of the “**Working Day Rule**”

If any Interest Payment Day does not fall on a Working Day, then, pursuant to the Rules of the Next Working Day Rule, the Interest must be paid on the first Working Day following such Interest Payment Day. The Bond holder is not liable to pay any additional interest or any other payment for such deferred payment

Interpretation of “**Working Day**”

Any day on which commercial banks, money and foreign exchange markets make payments and settlements in Budapest, and on which KELER is open.

Determination of the Fixed Interest Amount

The Paying Agent will calculate the amount of interest (“**Fixed Interest Amount**”) that is payable on fixed-interest Bonds for the given Interest Payment Period. Each Fixed Interest Amount is calculated by applying the Interest Rate to each face value, and the resulting value is multiplied by the Interest Base, and then the result is aggregated for each securities account holder and rounded to a whole HUF number value according to the general rounding rules. Any resulting value must be rounded up from the half (not including the half).

The due date of the Fixed Interest Amount and its payment date

The Fixed Interest Amount is due on the Interest Payment Date(s), subject to the Working Day Rule.

4.7.1 Default Interest

The Bonds will not pay an interest starting from their Maturity Date, unless the Bond holder provides sufficient evidence that the Issuer unlawfully delays or refuses payment of the principal or the interest. In that case, the interest on the relevant principal or interest is further accumulated at a rate specified in the provisions of the Civil Code until the Issuer has paid the total amount due for the relevant Bond.

4.7.2 The person calculating the interests

Interests are calculated by the Paying Agent.

4.8 Expiry and provisions for the repayment of the Bond

4.8.1 Payments

Redemption Amount of Bonds at Maturity Date: Face value

Method of payment

Bond payments are always subject to the financial, tax and other laws and regulations in force at the location of payment, particularly the policies and regulations of KELER.

Bond payments are made to the Bond holders by the Paying Agent by wire transfer. The payments must be made to the securities account holders having a portfolio of the given Bonds, in accordance with the applicable policies and regulations of KELER. The beneficiary of the payment is the person in whose securities account the Bond is held on the reporting date specified in the applicable policy of KELER. With respect to the Bonds, payments made in line with the Bond terms are considered

to be appropriate payments made to the Bond holders, and the Issuer is released from any obligation associated with the amounts paid in that way.

In the event that the repayment of Bonds (or any part thereof) becomes due according to the Bond terms, or the Bonds have expired but have not yet been fully paid to the Bond holders, then Bond holders are entitled, by making reference to the securities account in which the Bonds are held, to take action before the competent court against the Issuer, unless, within seven days of the relevant due date, the amount due for the Bonds is fully paid to the Bond holders in accordance with the Bond terms.

Payment Day (maturity):

With respect to any Bond, the date on which any principal or interest payment becomes due or (in the event the payment is withheld or declined in violation of the applicable regulations) on which the outstanding amount is fully paid.

Settlement Day

The date specified for the settlement of the proceeds from placement and any associated fees and costs.

Non-Working Days

If the due date for any payment to be made for a bond does not fall on a Working Day, the Bond holder becomes entitled to payment on the day as per the applicable Working Day Rule and may not claim any interest or other payment from such delay.

4.8.2 Repayment and Redemption, redemption/repurchase of Bonds prior to maturity

Repayment of Bonds:

The Issuer must pay the Redemption Amount at Maturity Date to the Bond holder on the Maturity Date.

Without a separate agreement with the Bond holder, a Bond can be redeemed prior to the Maturity Date only in the cases specified in Section 4.5 of this Information Memorandum, subject to the conditions specified there.

Subject to an agreement with the Bond holder, the Issuer may repurchase all or part of the Bonds held by the Bond holder at a price specified in the agreement. In the event of repurchasing part of the series prior to the Maturity Date, the Issuer agrees to repurchase Bonds from the Central Bank of Hungary at least in the same proportion as the Central Bank of Hungary holds Bonds from that series at the time of repurchase. Decision on any cancellation or deletion of the repurchased Bonds is made by the Issuer, in its own competence.

4.9 Calculation of yield

The yield of Fixed Interest Bonds calculated at the time of placement is the internal rate of return at which the discounted value of interest and principal payments on the Fixed Interest Bond is equal to the gross placement price (placement price plus accrued interests).

4.10 Representation of Bond holders during the term of Bonds

The Bond holder may act in person or through a representative (ad-hoc or permanent power of attorney), unless excluded by law or otherwise. Any investor/Bond holder who is not a natural person is represented by natural persons defined by law and/or a contract made according to its legal form, in the manner and to the extent specified by law or the contract.

The Issuer will not designate an organization representing Bond holders and will not establish rules for such representation.

4.11 In the event of new issues, a statement on resolutions, licenses and approvals based on which the securities have been and/or will be created and/or issued

The Private Offering detailed in this Information Memorandum is subject to resolution no. 1/2019 (IX. 16.) of the Board of Directors of the Issuer.

4.12 Place and date of Bond issuance (value date of creation)

The place of Bond issuance is Budapest, and the date (value date of creation) is October 28, 2019.

4.13 Description of limitations to the free transferability of Bonds

The Bonds are freely transferable.

The Bonds may be transferred only in accordance with the applicable rules and procedures of KELER by debiting the securities account of the Seller and crediting the securities account of the Buyer. According to Section 6 (5) of the Capital Markets Act, Bond holders may not request print production of dematerialized Bonds.

Bonds may only be purchased by Hungarian private individuals, legal entities or institutional investors, as well as by foreign individuals, legal entities, organizations and institutional investors in Hungary in accordance with the currently applicable legislation and the terms and conditions relating to the Bonds.

The Bonds are issued in Hungary. The placement and sale of Bonds may be subject to statutory limitations in certain legal systems.

The Bonds are not subject to any transfer limitations other than those specified in this Information Memorandum.

4.14 Method of providing information to Bond holders

The Issuer/Distributor sends a signed version of this Information Memorandum to the bidders making counter-offers specified in Section 5.1.2 at least 7 (seven) days prior to the date of the auction by email.

The Issuer discloses its notices regarding regulated information on its website www.alteo.hu, on the website of the BSE <http://bet.hu> and on the <https://kozzetetelek.mnb.hu/> (<https://kozzetetelek.hu>) website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Issuer are also published in the Company Gazette.

Besides the above, the Issuer also sends all the information that is subject to regular and extraordinary information obligation to the editorial office of a communication medium with

a website, 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.

In addition, in the event of circumstances that will or may affect the proper discharge of the Issuer's obligations related to the Bonds during the term of the Bonds, including in particular those delaying or preventing such discharge of obligations, the Issuer must immediately, but no later than within 3 (three) working days, notify the Bond holders directly in writing about the relevant circumstance, the reasons why it arose, the measures taken or intended to be taken to remedy the situation and to prevent similar situations, and the expected duration of the remedial action.

4.15 Provisions on the BGS

Under the BGS, Bonds must meet the following requirements:

place of the issue: Hungary;

- currency: HUF;
- original term: minimum 3 years, maximum 10 years;
- type of interest: fixed, variable or zero coupon (Discount Bond);
- quantity placed on the market at the time of issuance: minimum HUF 1 billion;
- face value: HUF equivalent of at least EUR 100 thousand
- the Issuer has a credit rating of at least B+ or equivalent assigned by a credit rating agency registered and supervised by the European Securities and Markets Authority (ESMA) and approved by the Central Bank of Hungary for central bank collateral valuation;
- the security is listed in a trading location operated by the BSE or, in the case of primary market purchases, the Issuer has committed in writing to ensure listing within 180 days from the closing of placement at the latest and maintain the listing until maturity;
- it will not entitle any party to acquire any security or other financial instrument by means of conversion or the exercise of the right represented by it;
- during the issuance, all securities offered to Investors for purchase consist of securities representing identical rights and obligations.

The Bonds may only be sold via the auction trading system of the BSE.

The Issuer lays down the following conditions in the auction announcement:

- maximum 50% of any series of securities to be placed on the market after the auction may be transferred to a single player;
- the upper limit of yield offers and/or the lower limit of price offers that can be submitted;
- following submission of the offers, the quantity accepted by the Issuer may only exceed the quantity indicated in the auction announcement by up to 10%;
- in the event of repurchasing part of the series prior to the Maturity Date, the Issuer agrees to repurchase Bonds from the Central Bank of Hungary at least in the same proportion as the Central Bank of Hungary holds Bonds from that series at the time of repurchase.

The Issuer acknowledges that, in the case of private offering in a primary market, the Central Bank of Hungary will submit a bid only if the organizer of the issue has made a prior written announcement saying that at least 5 qualified investors, in which The issuer has no majority influence, have been invited to the auction. Qualified investor means a qualified investor as defined in Article 2 (e) of Regulation (EU) 2017/1129 of the European Parliament and of the Council. The relevant statement of the Distributor acting as the organizer of the issue is attached as Annex no. 2 to this Information Memorandum.

The Issuer expressly agrees to (i) refrain from all transactions or combination of transactions or schemes which, in itself or in combination, may be capable of raising funds, by means of

bond issue under the BGS, from a member of a company group or the owner, or a close relative of the owner, of a company belonging to a company group in which the Issuer is a member, and (ii) provide, at the request of the Central Bank of Hungary, information on an ad-hoc basis for the purpose of verifying compliance with the condition.

The Issuer has committed to ensure that at least one market maker will sign an agreement (market making agreement) with the BSE for the entire term of the security for the maintenance of mandatory market making at the relevant location, under which:

- on each trading day, the market maker makes two-way bids (simultaneous bid and offer) on their own account, to be maintained for at least 15 minutes,
- the face value of the bid will be an amount representing the HUF equivalent of at least EUR 100,000, on both the buy- and sell-sides,
- the difference between the bid and ask yields on the second trading day following the quotation date will not exceed 200 basis points.

The Issuer will provide the following documents to the Central Bank of Hungary:

- a statement to the effect that the security will be listed in a trading location operated by the BSE within 180 days from the closing of placement and maintain the listing until maturity;
- the market making agreement or a statement on its conclusion;
- where necessary, a statement to the effect that it will provide the credit rating agency in due time with all relevant documents and information necessary for credit rating, cooperate with such agency in every respect during the rating process and agree to the publication of the rating of the Issuer and of the security to be issued as well as the annual review of such rating, along with the associated rating reports, by the Central Bank of Hungary on its website.

4.16 Credit risk rating

For the purpose of potential participation in the BGS, Scope Ratings GmbH on behalf of the Central Bank of Hungary performed the rating of the Company. Company rating: BB+/Stable/S-3. Ratings of Bonds to be issued under the BGS: BBB-. In the long-term credit rating scale, considered to be the most authoritative one, bonds with a rating of at least BBB- belong to the so-called investment grade category. A BBB (BBB+, BBB, BBB-) rating implies good creditworthiness, where the risk of financial loss is currently low, and the issuer will be able to meet its payment obligations with sufficient certainty, but may be affected by adverse business or economic conditions to a greater extent than in higher rating categories. According to the report of the credit rating agency, the Company's increasing cash flow in the subsidized energy production segment, its quasi-local monopoly position in heat generation, the comfortable level of the interest coverage ratio and its integrated energy strategy support the credit rating, while the geographical concentration of energy production equipment and the financial risk profile have been considered as negative factors, but a gradual improvement in the financial risk profile is anticipated for the next 3 years. The credit rating agency assigned a stable outlook to the rating. During the winding-up process, the rating of the Bonds provides an above-average yield according to the credit rating agency, so the Bonds receive a rating one level higher than the corporate credit rating.

4.17 The planned financial cover for obligations based on the bond

The planned financial cover for the payment obligations based on the Bond is provided by the permanent free cash flow generated by the Issuer and available at all times.

5. RULES FOR MAKING OFFERS AND FOR STOCK EXCHANGE LISTING

5.1 Auction

In Section 5 (1) 5 the Capital Markets Act, auction is defined as a method of placement where the Issuer provides an opportunity for making offers subject to the conditions specified by it, and where the counter-offers received compete according to specific criteria.

The Issuer and its Distributor conduct the auction of the securities using the auction system (MMTS1) of the Budapest Stock Exchange (BSE), according to the provisions of the resolution of the Chief Executive Officer of the BSE on “The rules of the Budapest Stock Exchange Ltd. for trading using the Auction Board and the MMTS1 Trading System” currently in effect (and in particular the rules applicable to the special parameters of auctions conducted under the BGS announced by the Central Bank of Hungary). Since the system of BSE can only be used by members of the stock exchange and persons with access to the Auction Trading System, the offer for the Bond to be sold will be made on behalf of the Issuer as the auctioneer by Erste Befektetési Zrt., an auctioneer who is a stock exchange member, engaged by the Distributor to act as a contributor.

The terms used in this Section 5.1 will have the following meaning:

Allocation:	In the event of excess demand in the auction, a procedure following the closing of the auction whereby the Issuer decides to what extent to accept the auction orders in accordance with the principles announced in advance.
Auction bid:	An auction order for purchase.
Auction offer:	An auction order for sale.
Auction Trading System:	the auction board in the trading system called MMTS1, operated by the Budapest Stock Exchange.
Auctioneer stock exchange member:	Since the system of BSE can only be used by members of the stock exchange and persons with access to the Auction Trading System, the offer for the security to be sold or repurchased will be made on behalf of the Issuer by an auctioneer stock exchange member.
Average price:	The arithmetic mean of the prices of the transactions made at the auction, weighted with the quantities involved in the transactions.
BSE Regulation:	The rules of the Budapest Stock Exchange on auction trading using the auction board in the MMTS1 trading system.
Competitively priced auction counter-offer:	A counter-offer that contains a specific price/yield expressed in a numerical value.
Counter-offer:	An order for the opposite transaction.
Direction of the auction order:	The auction order can be for purchase or sale, depending on the statement of the auctioneer.
Lot size:	The smallest, indivisible quantity of an order for a security. Orders for a bond can only be submitted for a given lot size or an integral multiple thereof.

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Multiple-price matching:	For every auction counter-offer, the transactions are concluded at the price included in the auction counter-offer or at the price they are deemed to have.
Non-public order book:	The auction counter-offers included in the order book are not available to the exchange members who make auction counter-offers (except for their own auction counter-offers), and such information is available to the auctioneer only via the MMTS1 trading workstation operated by the exchange. If a non-public order book is used, the auctioneer stock exchange member may only make an auction counter-offer before the order book becomes available to it.
Order book:	Electronic records continuously accessible to stock exchange members and the persons with access to the Auction Trading System, designed for the systematic handling of the orders for securities.
Trade-matching algorithm	A pre-defined principle and method of calculation that specifies the manner of coupling (matching) orders to create a transaction as well as the quantity and price for concluding the transaction.

5.1.1 Basic information on the auction

(i) Time and date of the auction	10:00:00-10:59:59, October 24, 2019 (only the competitive phase)
(ii) Place of the auction	BSE MMTS1
(iii) Auctioneer	Erste Befektetési Zrt.
(iv) Announced quantity	HUF 9,300,000,000 at face value The Issuer reserves the right to deviate from the announced quantity downwards or to declare the auction unsuccessful, depending on the offers received for the auction. In the case of an unsuccessful auction all offers are rejected.
(v) Upper limit/excess demand	HUF 9,300,000,000 at face value, i.e. the Issuer will not accept any excess offers
(vi) Lower limit/low demand	HUF 1,000,000,000 at face value
(vii) Minimum placement price:	87.8550% of the face value (tick size: 0.0001%)
(viii) Minimum amount of auction bids	HUF 50,000,000 (1 Bond)
(ix) The highest total face value of all auction bids submitted by an Investor	HUF 4,650,000,000 (93 Bonds)—up to 50% of the offered Bonds can be owned by the same Investor after the Auction.

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- (x) Trade-matching algorithm Multiple-price, that is, for every auction counter-offer, the transactions are concluded at the price included in the auction counter-offer or at the price they are deemed to have.
- (xi) Method and date of Allocation: BGS pro-rata, 10/24/2019.
- (xii) The place and date of the announcement of the Allocation: 12:30 10/24/2019, BSE

5.1.2 Investors

In addition to the Central Bank of Hungary, the following qualified investors (including the funds managed by them) can participate in the Auction. These persons will be directly contacted by the Issuer/Distributor for the purpose of submitting auction bids. The Issuer has no controlling interest in these entities:

K&H Bank Zrt.
MKB Bank Nyrt.
OTP Bank Nyrt.
Raiffeisen Bank Zrt.
MTB Magyar Takarékszövetkezeti Bank Zrt.
Erste Bank Hungary Zrt.
UniCredit Bank Zrt.
GRÁNIT Bank Zrt.
Amundi Alapkezelő Zrt.
Dialóg Befektetési Alapkezelő Zrt.
Generali Alapkezelő Zrt.
OTP Alapkezelő Zrt.
MKB-Pannónia Alapkezelő Zrt.
Magyar Posta Biztosító Zrt.
Magyar Posta Életbiztosító Zrt.
Marketprog Alapkezelő Zrt.
K&H Alapkezelő Zrt.
Erste Alapkezelő Zrt.

5.1.3 The submission of auction counter-offers

Auction counter-offers can be made at a price equal to or higher than the minimum placement price included in Section 5.1.1, taking into account the tick size provided.

With the exception of the Central Bank of Hungary, the Investors may submit their auction bids

- to the Distributor via the chat system *Instant Bloomberg*,

between 10:00 a.m. and 10:45 a.m. on October 24, 2019 (“Bid Collection Period”).

The Distributor can record the counter-offer through the Auction Trading System if the auction counter-offer made by the Investor contains at least the following data:

- The name or ISIN code of the Bond
- The number or total face value of the Bonds
- Bid (price expressed as a percentage, to four decimal places)

The bids submitted can be freely withdrawn or amended during the Bid Collection Period. The Central Bank of Hungary may directly submit its auction bid as an Investor through the Auction Trading System during the auction period by entering the data required by the Auction Rules of BSE.

A bidder may submit several auction counter-offers at different prices or yields. In this case, the auction counter-offers made with different prices or yields will constitute separate counter-offers, and offers submitted with the same price but at different times will also constitute separate counter-offers.

Following the Bid Collection Period (after the bids have been recorded in the MMTS1 system), the bidders assume a binding and irrevocable obligation to buy the securities to the extent of the total amount indicated in their counter-offers by submitting their auction counter-offers, and acknowledge that their auction counter-offers can also be accepted in part (in respect of a certain part of the quantity included in the offer).

The persons entitled to make auction counter-offers in the MMTS1 system Auction counter-offers may only be made through the Distributor, which means that only the Distributor can be a participant (through a stock exchange member with trading rights in the relevant section, involved by the Distributor), except that the Central Bank of Hungary acting as an Investor may submit its counter-offer directly through the auction module of the MMTS1 system. Since only an auctioneer stock exchange member may make an auction counter-offer, an auctioneer stock exchange member may only make an auction counter-offer using its own MMTS1 trading workstation. The order book is not public.

5.1.4 The acceptance of auction counter-offers

The submitted valid auction counter-offers are aggregated by the MMTS1 system on the day of the auction, and the Issuer makes a decision whether to accept them. Taking the prices of the counter-offers submitted into consideration, the Issuer is not required to make an auction order—through the auctioneer—for the quantity announced in advance, even if the total amount of the counter-offers exceeds the lower limit. The Issuer may declare the Auction unsuccessful under the conditions specified in the BSE Regulation.

The *BGS allocation algorithm* included in Annex 4 of the BSE Regulation ensures that up to 50% of the Bonds to be issued after the auction can be transferred to a single bidder.

During a sell auction at competitive prices, an auction counter-offer made at a higher price will have priority over an auction counter-offer made at a lower price.

During the transaction period, the auctioneer stock exchange member makes its auction order and the transactions are concluded according to the matching algorithm.

Taking into account the minimum placement price, counter-offers are accepted in a descending order of prices, starting with the counter-offer with the highest price, up to the amount of the maximum announced quantity.

The Issuer does not accept any counter-offers with a price lower than the minimum placement price, and therefore such offers will be considered invalid and will not be accepted. Acceptable counter-offers can also be allocated in part, according to the procedure described in Section 5.1.6 (“Allocation”).

The Distributor will inform the Investors about the acceptance or rejection of the counter-offers (or in the event of partial acceptance, about the accepted part of the amount offered) on the day of the auction using one of the appropriate means specified in its regulation. The Issuer will publish the results of the auction at the places specified in Section 56 of the Capital Markets Act and in Decree no. 24/2008 (VIII. 15.) PM. The Issuer will publish its notices on the website of the BSE (www.bet.hu), the capital market publications website operated by the Central Bank of Hungary (www.kozzetetelek.mnb.hu) (www.kozzetetelek.hu) and on the Issuer's website (www.alteo.hu), and it will also send them to the editorial office of a communication medium with a website, selected by the Issuer.

5.1.5 The minimum total face value of the Bonds offered for sale in an auction procedure

The Auction/Private Offering will be invalid if the Investors make counter-offers for Bonds representing less than HUF 1 billion calculated at face value.

5.1.6 Allocation

If several auction bidders submit auction counter-offers with the same price, and it is not possible to fulfill the requests for Bonds of all such auction bidders at the relevant price at the time of the distribution of the Bonds (excess demand), an allocation procedure will be conducted using the BGS allocation algorithm according to the BSE Regulation, through the MMTS1 system of BSE, and up to 50% of the Bonds can be transferred to a single Investor following the auction.

5.1.7 Financial performance, settlement

The transactions will be settled by KELER Zrt. according to the DVP principle on the Settlement Date (T+2), by the closing date of the client item in VIBER. Viewed from the seller's perspective, during the execution of a DVP transaction defined in the effective regulations of KELER, a specific security is debited to the security account in exchange for the crediting of the financial consideration to a cash account, in such a manner that the crediting and the debiting take place at the same time.

To ensure the DVP settlement,

- the amount corresponding to the purchase price of the Bonds (the exchange value) must be available at the latest by 3:00 p.m. on October 28, 2019 on the account of the Investor (including the Central Bank of Hungary) or the designated account of the investor's securities account manager managed by KELER Zrt, and
- the Investor's account manager must submit a "recipient" side DVP transaction order with cover via KELER's KID system by 4:00 p.m. on October 28, 2019.

Transactions will be matched and settled taking into account the amount of the price tolerance determined by KELER, always in consideration for the purchase price specified in the order of the buyer. In the event of any discrepancy between the amount specified in the auction counter-offer and the available amount, the Distributor will be able to accept the counter-offer to the extent of the available amount. If the financial cover is not available at the Investor's account manager or is only available in part, the Issuer and the Distributor will ensure that any Bonds created that are not covered by the Investor's resources are deleted, and the Issuer will repurchase Bonds from the Central Bank of Hungary in the same proportion, which Bonds will also be deleted.

5.1.8 The crediting of the Bonds

The Bonds will be credited to the securities account specified by the Investor on the Value Date.

5.2 Pre-emption rights

No pre-emption right will apply to the Bonds.

5.3 Pricing

The Bonds may be issued at face value, below par or above par.

When making payments for the Bonds, the Distributor will proceed in accordance with the Hungarian laws and international conventions in force at the time of making the payments. The legal information on taxes and duties concerning a specific security and transaction can only be assessed accurately according to the individual circumstances of the client entitled to the security, and such information can be subject to changes in the future.

The Bonds are issued in a dematerialized form, and are therefore held on securities accounts, the costs of which Investors must reckon with. The Distributor will not pass on any costs directly to the subscribers or buyers of the Bonds other than those mentioned above.

5.4 Investment service providers, consultants and underwriting

The investment service provider that organizes the issue and placement of the Bonds, performs the tasks of the paying agent and is in charge of secondary market making is Erste Bank Hungary Zrt. For the distribution and market-making activities, Erste Bank Hungary Zrt. will use Erste Befektetési Zrt. as a contributor.

No underwriter has been appointed for the Bonds.

5.5 Stock exchange listing

The Issuer agrees to list the Bonds in the “Corporate Bonds” category of BSE within 180 days after the closing of the Private Offering of the Bonds. The trading of the Bonds can begin at the BSE after such listing. The Bonds will not be listed on any regulated market other than the BSE, and as far as the Issuer knows, they are not traded on any other regulated market. The Issuer agrees to keep the Bonds listed on the BSE until maturity.

5.6 The promotion of secondary trading

In order to meet the criteria of the BGS, the Issuer entered into a market making agreement with Erste Bank Hungary Zrt for the Bonds issued by it and listed by it on a regulated market.

6. KEY FINANCIAL INFORMATION

It is recommended that the key financial information in the present chapter of the Information Memorandum should be considered together with the financial reports and the notes thereto (including in particular the unaudited report for H1 2019) incorporated by reference in Chapter 18, as well as with the risk factors described in Chapter 1. “Risk Factors” of the Information Memorandum. Furthermore, the present chapter must be interpreted together with the information in Chapter 8, “Overview of the Company’s Business Activity” of the Information Memorandum.

The Company would like to point out that Information Memorandum Section 8 “Overview of the Company’s Business Activity”, and this section contains certain figures reflecting different accounting methodologies, which is why certain figures in Information Memorandum Chapter 8, “Overview of the Company’s Business Activity” do not correspond fully to one another. The analysis of the business activity is focused on the EBITDA value.

The key financial information of the Company’s annual reports, according to the IFRSs, audited, consolidated for the year 2018 and unaudited, consolidated for the year 2019 are as follows.

The Company’s auditor issued an unqualified opinion for the consolidated financial report for the year 2018.

6.1 Statement of profit or loss

Consolidated profit and loss statement		
	H1 2019	2018
<i>figures in HUF million</i>	non-audited	audited
Sales revenues	12 141	18 686
Material-type expenditures	-8 407	-14 264
Personnel expenditures	-1 291	-2 507
Depreciation and amortization	-908	-730
Other revenues, expenditures, net	-321	-114
Impairment loss	-80	-33
Operating profit or loss	1 134	1 038
Net financial profit	-361	-232
Profit or loss before taxes	773	806
Income tax expenditure	-290	-276
Net profit	483	530
<i>Of which, to owners of parent company</i>	483	511
<i>Of which, to minority shareholders</i>	-	19
Base EPS (HUF/share)	28,10	32,72
Diluted EPS (HUF/share)	26,89	31,17
EBITDA	2 123	1 801

The ALTEO Group’s revenue in the first half of 2019 grew to HUF 12.1 billion, spread across several segments. Revenues from the Energy Retail segment and the Heat and Electricity Generation segment increased significantly, resulting mainly from market acquisition and successful pricing policies, as well as from the success of the generation facilities on the structured electricity market, respectively. The acquisition of 100% of EURO GREEN ENERGY’s registered capital, consolidated by the Company from April 1, also played a role. Revenue was reduced in the short term by the ALTEO Group’s project development unit focusing primarily on work related to investments into the solar power

plant projects within the ALTEO Group that year; these projects were delivered in stages in 2019. With these internal projects being implemented, less resources were allocated to the implementation of projects originating from outside the ALTEO Group.

Compared to revenues, material expenses increased at a proportionately lower rate, mostly because while the revenue of the Energy retail trade segment is associated with a significant increase in COGS, no significant direct costs are associated with the surplus revenue from the structured electricity market and the acquisition costs of EURO GREEN ENERGY are low compared to the revenue.

The increase in personnel expenses for the prorated period is not significant.

In the line of depreciation and amortization, the increase in costs for a proportionate period was caused by a substantial rise in the asset base resulting from capital expenditures and acquisitions realized.

Owing to the above events, in H1 2019, the ALTEO Group earned an Operating profit of HUF 1.1 billion, with an EBITDA of HUF 2.1 billion.

The drop in net financial income was caused primarily by the interest expenses used to fund the implementation of the investment program, while the revaluations of the changing exchange rates in 2018 increased the financial income in the accounts.

In H1 2019, the ALTEO Group realized a profit of HUF 773 million before taxes and a net profit of HUF 483 million.

6.1 Balance Sheet

Consolidated balance sheet			
	2019.06.30	2018.12.31	2018.12.31
<i>figures in HUF million</i>	non-audited	comparison*	audited
Non-current assets	24 087	13 809	13 716
Current assets	9 124	9 143	9 143
<i>of which, financial assets</i>	<i>2 333</i>	<i>2 561</i>	<i>2 561</i>
TOTAL ASSETS	33 211	22 952	22 859
Shareholders' equity	6 310	5 145	5 145
Long-term liabilities	19 876	9 192	9 130
<i>of which credit, loans, bonds, leasing</i>	<i>18 308</i>	<i>8 227</i>	<i>8 165</i>
Short-term liabilities	7 025	8 615	8 584
<i>of which credit, loans, bonds, leasing</i>	<i>1 775</i>	<i>1 628</i>	<i>1 597</i>
SHAREHOLDERS' EQUITY and LIABILITIES TOTAL	33 211	22 952	22 859

*The comparison column contains the value adjusted for the impact of changes resulting from the application of the IFRS16 standard. The analysis below was prepared on the basis of comparable data.

The ALTEO Group closed the first half of 2019 with a balance sheet total of HUF 33,211 million. Among the items increasing the ALTEO Group's assets, the total stock of power plants and equipment played a significant role in the first six months of 2019. In the current period, fixed and intangible assets showed an increase of over HUF 10.3 billion due to

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the combined effect of projects and purchases. The 75% increase in the means of production during H1 2019 resulted from the following items:

- In connection with the purchase of EURO GREEN ENERGY, an expansion of the asset inventory in an amount of HUF 7.6 billion ;
- In connection with the construction of solar power plants (in Balatonberény, already completed, and in Nagykörös, under construction) HUF 3.8 billion in new assets;
- In the Consolidated Balance Sheet, the Company included the rights to use the assets, in accordance with changes in the IFRS 16 standard;
- The Company also proceeded with the efficiency-increasing programs started in the previous year for its heat power plants.

The value of current assets (HUF 9,124 million) remained almost unchanged compared to the closing value at the end of 2018.

Financial assets decreased by HUF 228 million in H1 2019. The ALTEO Group used liquid assets for investments and capital expenditures, as well as for the payment of dividends.

The equity of the ALTEO Group increased by HUF 1,165 million in H1 2019.

The ALTEO Group's long-term liabilities increased by HUF 10,684 million, mainly as a result of the increase in long-term loans used to finance an intensive investment activity, and of the successful issue of bonds in the first half of the year. As part of the latter, investors did not only approve the refinancing of the maturing bonds, but also provided additional resources to exploit further growth opportunities.

Short-term liabilities decreased by a total of HUF 1,590 million compared to the comparative period. One reason was the high level of trade payables due to project development in the comparative period. Once the project came to an end, after the settlement of supplier receivables, trade payables closed at a lower level at the end of the current period. Another reason was the repurchase of bonds issued by the Company on July 7, 2019. The Company derecognized the bonds reaching maturity in July 2019 but repurchased as a result of the successful bond issue from the short-term liabilities in its H1 2019 balance sheet since the term of the new bonds exceeds one year.

7. THE COMPANY

7.1 General information

The Company's name	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
The Company's abbreviated name	ALTEO Nyrt.
The Company's registered office	H-1131 Budapest, Babér u. 1-5.
The Company's telephone number	+36 1 236 8050
The Company's place of registration	Hungary
The Company's legal entity identifier (LEI)	529900PHL3J3ZRBC2J44
The Company's legal form	public limited company
Law governing the Company's operation	Hungarian
The Company's web address	www.alteo.hu (no information published on the web site (except for information incorporated by reference via a link) constitutes a part of this Information Memorandum or has been verified and approved by the competent authority)

7.2 A summary of all information published according to Regulation (EU) No 596/2014 over the past 12 months and relevant as at the date of releasing this information.

2018

- (a) With its resolution No. H-PJ-III-B-66/2018. issued on November 5, 2018, the Central Bank of Hungary reprimanded the Company and, imposed a HUF 150,000 regulatory fine for late compliance with its obligation to provide information under Section 54(9) of the Capital Markets Act in September 2018. **(Category: regulatory issue)**
- (b) On November 19, 2018 the Company published extraordinary information regarding the grant application submitted by Sinergy, the Company's consolidated subsidiary, in response to the call for tender (code number GINOP-2.1.2-8.1.4-16). The competent authority awarded the subsidiary with a non-reimbursable grant in the amount of approximately HUF 228 million and a loan in an amount of nearly HUF 250 million. The above amount was intended by the Company for the funding of another R&D project. **(Category: financial event)**
- (c) On November 28, 2018 the Company informed its investors of the extension of its share repurchase program until March 14, 2019. The program provided coverage for its employee share award program initially planned for the period between June 15, 2018 and November 30, 2018. **(Category: company event)**
- (d) On November 28, 2018 the Company informed its investors that as a result of the total HUF 1.7 billion investment by Monsolar Kft and IT-Solar Kft,

the construction and commissioning of the nearly 4 MW Monor-based solar power plant was successfully completed. **(Category: business event)**

- (e) On January 10, 2019 the Company published extraordinary information on launching the Waste Management Division within its Energy Production and Energy Services Business Line, which will be the third profit center in addition to the Energy Production, Operation and Maintenance and the Project Development divisions. **(Category: business event)**

2019

- (a) On January 17, 2019 the Company published extraordinary information about Zugló-Therm Kft. and Budapesti Távhőszolgáltató Zrt. extending their long-term contract signed on May 21, 2004 and effective 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 will provide Budapesti Távhőszolgáltató Zrt. with thermal energy until May 31, 2030. **(Category: business event)**
- (b) On March 25, 2019 and April 4, 2019 the Company published extraordinary information according to which the Board of Directors of the Company, with its Resolution No. 1/2019 (III. 12.), based on an authorization granted by Resolution No. 3/2015 (XI. 10.) of the General Assembly, decided to launch the process of increasing the share capital of the Company by adding new shares in a private offering. The issue price of the new shares was set at 670 (six hundred and seventy) Hungarian forints; oversubscription was accepted up to a total issue amount of HUF 1,999,999,580, and thus a total of 2,985,074 new shares were issued. The Majority Shareholder acquired 1,567,164 new shares through this private offering. The new shares were first traded at the BSE on April 5, 2019. **(Category: company event)**
- (c) On April 5, 2019 the Company issued extraordinary information about the conclusion of a business share purchase contract by its consolidated enterprise, SUNTEO, as buyer, with Raiffeisen Energiaszolgáltató Kft., 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 Kft. (hereinafter: **“EURO GREEN ENERGY”**) to SUNTEO. Signing the business share purchase contract represents the first step of the transaction. With the fulfillment of the detailed conditions stipulated in the business share sales agreement, the ownership rights of EURO GREEN ENERGY were conferred to SUNTEO on May 28, 2019. On May 28, 2019 the Company published extraordinary information on the conclusion of the transaction. **(Category: transaction event)**
- (d) On May 10, 2019 the Company published extraordinary information on its plan to refinance the “2019/I.” zero-coupon bonds it had issued in a total face value of HUF 925 million and expiring in July 2019. **(Category: financial event)**
- (e) In relation to the above SUNTEO—EURO GREEN transaction, the Company published extraordinary information on May 28, 2019 to the effect that SUNTEO will pay part of the purchase price through deferred payment and, in order to ensure fulfillment of this payment, the Company had issued a bill of exchange in an amount of HUF 700,000,000 to Raiffeisen Energiaszolgáltató Kft, and provided it to the company on May 28, 2019. The due date of the bill of exchange is January 10, 2020. **(Category: transaction event)**

This Information Memorandum was prepared in relation to the private offering of the bonds to be issued by ALTEO Nyrt.

- (f) On June 25, 2019 the Company published extraordinary information on having acquired ownership of a business share representing 66.6% of the HUF 3,000,000 issued capital of ECO-FIRST. This transaction is connected to the launch of the Waste Management Division announced in the Company communication published on January 10, 2019. ECO-FIRST was established in 2017 for the purpose of pursuing organic waste trading service operations to close the market gap. **(Category: transaction event)**
- (g) On July 3, 2019 the Company sold its business share representing 100% of the share capital of ALTEO-Hidrogáz operating the Kisújszállás and the Tiszaföldvár power plants. **(Category: transaction event)**
- (h) On August 7, 2019 the Company issued extraordinary information regarding its intention to participate in the Bond Funding for Growth Scheme announced by the Central Bank of Hungary. For that purpose, Scope Ratings GmbH, on behalf of the Central Bank of Hungary, performed the rating of the Company. Company rating: BB+/Stable/S-3. Ratings of the bonds which may be issued under the BGS: BBB-, which is four rating levels higher than the minimum required by the Central Bank of Hungary. **(Category: financial event)**
- (i) On August 13, 2019 the Company published extraordinary information announcing that CFO Sándor Bodó was leaving the Company as of August 30, 2019. **(Category: staff changes)**
- (j) On August 26, 2019 the Company published extraordinary information announcing that Deputy CEO András Papp was leaving the Company as of August 31, 2019, and that he also resigned his seat in the Board of Directors on August 26, 2019. **(Category: staff changes)**
- (k) On September 10, 2019 the Company published extraordinary information on having concluded a contractor contract with a value of over one billion Hungarian forints with TVK-Erőmű Kft. to carry out the implementation works to extend the service life of the main and auxiliary equipment as part of the reconstruction of the MOL Petrochemicals Co. Ltd. power plant located in the Industrial Park, and to coordinate the activities of the other contractors involved in the reconstruction project. The implementation works for the specific systems will be carried out in 2020 with a final deadline set for December. **(Category: business event)**
- (l) On September 13, 2019 the Company published extraordinary information announcing that the battery storage facility RDI project launched by the Company in November 2018 had come to an end. The Company successfully integrated the energy storage capacity with the Control Center. **(Category: business event)**
- (m) On September 24, 2019 the Company published extraordinary information announcing that the Company and TVK-ERŐMŰ Kft. owned by MOL Petrochemicals Co. Ltd. had concluded an O&M contract for the long-term operation and maintenance of TVK-Erőmű on September 23, 2019. This new contract was necessitated by the expiry of the O&M contract signed by the parties on July 26, 2004 and subsequently amended several times. Under the contract, the Company will provide the production plants of MOL Petrochemicals Co. Ltd. with industrial steam, heating hot water and power supply services until December 31, 2027. **(Category: business event)**

8. OVERVIEW OF THE COMPANY'S BUSINESS ACTIVITY

This section includes the Company's strategy, the business activities that the Company and the Subsidiaries actually pursue, and information referring to projects that are in the preparation stage.

In its business policy, the ALTEO Group uses the expression renewable energy to denote all energy generated from renewable energy sources or waste, and, accordingly, it likewise does so in this Information Memorandum.

The Company would like to point out that Information Memorandum Section 6 "Key Financial Information", and this section contains certain figures reflecting different accounting methodologies, which is why certain figures in Information Memorandum Section 6 "Key Financial Information", and in this section do not fully correspond to one another. The analysis of the business activity is focused on the EBITDA value.

8.1 The Company's key areas of operation

The ALTEO Group's activities can be grouped into five key segments:

- (a) Market-based energy production (sold outside the KÁT regime)
 - (i) Heat power production
 - (ii) Electricity generation
 - (iii) Delivering system-level services (Control Center)
- (b) Renewables-based electricity generation sold in the scope of the KÁT regime
- (c) Energy trading
 - (i) electricity trading
 - (ii) Natural gas trading
 - (iii) Balancing group services
- (d) Energy and power engineering services
 - (i) Operation and maintenance of power plants and power engineering installations
 - (ii) Energy and power engineering services
 - (iii) Other services
- (e) Waste management
- (f) Other—Central costs

The Issuer's core activities as specified in the Articles of Association: engineering activities and related technical consultancy.

This Section 8.1 includes a separate inset highlighting the year 2018 audited and the H1 2019 non-audited profit and loss data of the ALTEO Group broken down by the various segments indicated above.

Executive Profit and Loss Statement Broken down by Segments

The following profit and loss statement provides a summary illustration of the financial details for the Company's segments. In preparing these accounts, the Company made the following assumptions and took the steps below:

- (1) In the report, revenues and expenditure was assigned to the ALTEO Group segments.
- (2) The Company did not split central costs (typically including salaries, rent and expert fees), and these appear on the Other segment lines.
- (3) The report presents each segment as profit centers, i.e. both revenue and expenditure is carried at the respective actual values appearing in the given segment. Intra-segment transactions were eliminated from the figures below, but inter-segment items that remained within the ALTEO Group were not. Items that were eliminated among segments appear on specific lines in the Elimination segment.

ALTEO GROUP EXECUTIVE STATEMENT—FINANCIAL STATEMENTS (IFRS)

figures in HUF million	2019.06.30 non-audited	2018.12.31 audited
Heat and electricity generation (outside the KÁT regime)	6 574	10 231
Electricity generation (under the KÁT regime)	891	627
Energy and power engineering services	5 375	7 582
Retail energy trade	4 725	6 943
Other	201	347
Elimination among segments	-5 624	-7 044
Sales revenue	12 141	18 686
Heat and electricity generation (outside the KÁT regime)	-5 442	-9 153
Electricity generation (under the KÁT regime)	-192	-194
Energy and power engineering services	-4 252	-6 325
Retail energy trade	-4 489	-6 661
Other	-550	-1 356
Elimination among segments	4 906	6 803
Operating costs	-10 019	-16 885
Heat and electricity generation (outside the KÁT regime)	1 132	1 078
Electricity generation (under the KÁT regime)	700	433
Energy and power engineering services	1 122	1 257
Retail energy trade	236	283
Other	-349	-1 009
Elimination among segments	-718	-240
EBITDA	2 123	1 801

8.1.1 Market-based energy production (sold outside the KÁT regime)

In the scope of their operations, the Subsidiaries generate electric and thermal power using primary energy sources, typically natural gas. The Subsidiaries feed the electricity they generate to the nationwide power grid or the consumer grid, and use direct pipelines to deliver the heat they produce to their partners, typically district heating utilities or industrial consumers. Sinergy Energiakereskedő acts as a Control Center combining the ALTEO Group's various power generation capacities to provide system-level services to MAVIR (see the last subheading in this section for details).

The Subsidiaries sell the electricity they feed to the grid to electricity traders, MAVIR or their own consumers. Sales are realized on the basis of direct commercial agreements, in the framework of the organized electricity market (HUPX) or on MAVIR's ancillary services market. Electricity generated to the consumer grid is sold directly to consumers, based on commercial agreements.

Some of the heat that is produced is sold by the Subsidiaries, as district heat production licensees, to district heating utilities. The Subsidiaries sell the rest of the heat they produce directly to industrial and commercial consumers on the basis of long-term agreements.

The ALTEO Group's various power plants (Győr power plant, Sopron power plant, Kazincbarcika power plant, Tiszaújváros heat power plant, Zugló power plant) participate in the EU-ETS allowance trading scheme and also receive emission unit allocations. As part of its power generation activity, the ALTEO Group purchases allowances in a quantity required for the operation of the power plants, and sells the same if it turns out to have any surplus.

Győr Power Plant (Győri Erőmű)

The ALTEO Group purchased the Győr Power Plant from E.ON Hungária Zrt. at the end of 2009. The power plant's current capacity is 3MW of electricity, generated with state-of-the-art gas engines, and 24MW of thermal power. The power plant is operated by ALTEO's team of specialists. The power plant engages in industrial heat supply for plants in the vicinity, and district heat production for the local district heating utility. Audi Hungária Motor Kft. is the biggest of the Győr Power Plant's customers, and the thermal capacity provision and heat supply agreement concluded with it will be effective until 30 June 2021. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's system-level services market with the help of the Control Center.

Kazincbarcika heat power plant (Kazinc-Therm)

The Kazincbarcika heat power plant cogenerates heat and electric power, and was implemented as a greenfield investment project with three gas engines and three hot water boilers installed. The power plant is owned and operated by Kazinc-Therm, which sells heat solely to the local district heating utility at the price under the Price Decree, based on an agreement subject to a 20-year term, slated to expire in 2022. Upon the expiry of the agreement, the town's district heating utility will have the right to purchase Kazinc-Therm's assets at their book value net of taxes. The heat power plant's installed electricity generation capacity is 9.6MW, its installed thermal capacity is 58.2MW. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's system-level

services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

Ózd Power Plant (Ózdi Erőmű)

The heat power plant in Ózd is owned by the Ózd Power Plant, and cogenerates thermal and electric power. The Ózd heat power plant sells heat to the local district heating utility at the price under the Price Decree in the scope of an agreement subject to a 15-year term, slated to expire at the end of 2020. Upon the expiry of the agreement, the town's district heating utility will have the right to purchase the Ózd Power Plant's assets at their book value net of taxes. The power plant's installed electricity generation capacity is 4.8MW, its installed thermal capacity is 4.8MW. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's system-level services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

Sopron Power Plant (Soproni Erőmű)

The ALTEO Group purchased the Sopron Power Plant from E.ON Hungária Zrt. at the end of 2009. The generation array currently comprises three steam boilers, one hot water boiler and a gas engine. The power plant's current capacity is 6MW of electricity and 38MW of thermal power. The boilers can be operated with both gas and fuel oil. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's system-level services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

As a district heating utility, the Sopron Power Plant used to supply residential consumers directly as well, but it terminated this activity, and accordingly, in its Decision no. 5052/2016, HEA revoked Sopron Power Plant's district heating utility license at the power plant's request, effectively as of 31 December 2016.

The power plant currently supplies heat to neighboring plants and the local district heating utility. Sopron Power Plant entered into an agreement to expire on 31 December 2025 with its largest customer, HEINEKEN Hungária Sörgyárak Zrt. in 2017, securing a stable thermal power market until 2025.

In Year 2017, the ALTEO Group began the comprehensive conversion and retrofit of the power plant by installing a state-of-the-art new steam boiler with 10MW of output. During Year 2018, the ALTEO Group completed an additional significant energy efficiency and modernization project at the Sopron Power Plant. Overhaul work included the steam and hot water distribution systems, the water treatment facility, as well as the electric and control engineering systems.

Tiszaújváros heat power plant (Tisza-Therm)

The Tiszaújváros heat power plant cogenerates thermal and electric power, and sells heat to the local district heating utility at the price under the Price Decree, based on an agreement subject to a 20-year term, slated to expire in 2022. The power plant is owned by Tisza-Therm, however, upon the expiry of the agreement the town's district heating utility will have the option to purchase Tisza-Therm's assets at their book value net of taxes. The power plant's installed electricity generation capacity is 6.4MW, its installed thermal capacity is 42.8MW. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity

market and MAVIR's system-level services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

Agria Park small-scale power plant (ALTEO-Agria)

Established in the Agria Park shopping center in the town of Eger, this small-scale cogeneration power plant runs a gas engine with an electrical and thermal capacity of 1MW and 1.3MW respectively, and serves to meet a part of the electricity demand during the shopping center's business hours, and on the other hand, covers some of the shopping center's hot water and heating energy demand during the winter. The power plant is owned by ALTEO-Agria, and operated by ALTEO's specialists.

Zugló Power Plant (Zugló-Therm)

The tender announced by FŐTÁV Zrt. in 2003 for the expansion of its Budapest, Fűredi utca heat power plant with a gas engine block thermal power plant was awarded to the consortium comprising FŐGÁZ Zrt. and Sinergy. Zugló-Therm, which was established for the project and owns the block thermal power plant, was transferred to Sinergy's 100% ownership from March 2018, and has been 100% owned and operated by the Company from 1 October 2018. In October 2018, Zugló-Therm and FŐTÁV Zrt. began negotiations in the matter of extending the long-term heat sale and heat purchase agreement that will expire in 2020. Following successful negotiations, the parties extended their agreement for an additional 10 years, and Zugló-Therm will thus continue supplying FŐTÁV Zrt. with heat until 31 May 2030. The block thermal power plant currently provides heat energy to the district heating utility subject to the fees specified in the Price Decree. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's system-level services market with the help of the Control Center.

Power Storage Facility (ALTEO)

In August 2018, normal operations commenced at the battery power storage facility constructed using grant funds awarded to Sinergy for its tender application titled "System-level integration and innovative application model for an electricity storage architecture"—which it submitted in the scope of the "Supporting R&D&I Activities of Companies—CORPORATE RDI_16" program announced by NRDI—whose total cost came to HUF 1.1 billion overall, with the Company awarded support of HUF 500 million. In addition to participating in frequency regulation for the electricity system, the purpose of the energy storage facility—innovative in both design and implementation with a focus on 21st century technical solutions—is to promote the market-based integration of renewable energy sources, particularly weather-dependent wind and solar power plants.

MOM Park (Sinergy)

Sinergy implemented the energy center that provides primary energy for the MOM Park building complex (MOM Park shopping mall, offices and condominiums) in the scope of its own investment project. Sinergy currently uses the energy center to provide MOM Park's full cooling, heating and electricity supply in the in the scope of an energy supply agreement effective until December 31, 2019. MOM Park Shopping Mall's current owner, OTP Ingatlankezelő Alap holds the right to purchase the energy center owned by Sinergy.

Pápakovácsi, Ács and Jánossomorja Wind Farms (WINDEO)

ALTEO acquired WINDEO, which owns and operates the Ács and Pápakovácsi wind farms, from Raiffeisen Energiaszolgáltató Kft. in May 2012. The wind farms have a capacity of 2MW each, and sold generated electric power to MAVIR under the KÁT regime until September 2017 and April 2018, as by then, they each reached their total authorized generation volumes. The wind farms were then successfully integrated with the Control Center and are now generating electricity for the free market. Therefore, revenues and expenditure from these wind farms are recognized in this segment since the expiry of the mandatory off-take under KÁT. The wind farms are maintained by ALTEO and the Hungarian subsidiary of the wind turbine manufacturer, VESTAS Hungary Kft.

ALTEO acquired VENDEO, which owns and operates the Jánossomorja wind farm, from Raiffeisen Energiaszolgáltató Kft. in May 2012. VENDEO became a part of WINDEO through merger by acquisition, effective as of October 1, 2018. The wind farm has a nominal capacity of 1.8MW, and sold generated electric power to MAVIR under the KÁT regime until March 2017, as it reached its total authorized generation volume that month. The wind farm was then successfully integrated with the Control Center and are now generating electricity for the free market. Therefore, revenues and expenditure from this wind farm are recognized in this segment since the expiry of the mandatory off-take under KÁT. The wind farm is maintained by ALTEO and the Hungarian subsidiary of the wind farm OEM, VESTAS Hungary Kft.

Gibárt Hydropower Plant (Sinergy)

Sinergy leases the assets of the hydropower plant operating on the Hernád River from EMÁSZ Nyrt. Sinergy used to sell electric power generated through the hydropower plant's operation to MAVIR under the KÁT regime until August 2018, as it reached its total authorized generation volume that month. After that, the hydropower plant was successfully integrated with the Control Center and is now generating for the free market, therefore its revenues and expenditure are recognized in this segment since the scope of mandatory off-take (KÁT) has expired. The installed electricity generation capacity of the Gibárt hydropower plant is 0.49MW. The power plant is operated by ALTEO's own specialists.

Tiszaújváros Experimental Biomass Boiler (Tisza BioTerm)

The purpose of operating the 0.5MW capacity biomass-fired boiler operated by Tisza BioTerm is to develop biomass firing technology and to engage in technical/cost-efficiency studies related to biomass-based heat production. The experimental power plant sells heat produced by burning biomass to Tisza-Therm on the basis of a long-term heat purchase agreement. As part of this pilot operation, Tisza BioTerm also has agricultural entrepreneurs produce ligneous biomass.

Control Center (Sinergy Energiakereskedő)

The ALTEO Group's electricity generation portfolio is made up of small-scale power plants, which it has organized into a system operations unit, referred to as a Control Center, for the sake of efficient interoperability. This harmonized operation makes it possible for our small-scale power plants to be combined under standard control as a stand-alone entity, and work as a major generator. Among others, this affords the opportunity for the electricity generation capacities of the ALTEO Group that do not sell in the scope of the KÁT regime to appear on the system-level, i.e. ancillary services market.

Sinergy Energiakereskedő began its operation in 2014 as a Control Center, combining production from and the capacities of power plants belonging to the Sinergy Group, to sell the same on the electricity market and the system-level services market. Zuglő-Therm, Kazinc-Therm, Tisza-Therm and the Ózd Power Plant joined the Control Center in 2014, with the Győr Power Plant and Sopron Power Plant following suit in 2015.

In part, the Control Center operates as a commercial, and in part as a generation regulator, controlling electricity generation at the power plants, disposing of the power plants' electricity generation capacities and orchestrating the sale of electricity generated by the power plants, as well as that of any available power generation capacities the power plants may have, on the electricity market and the system-level services market.

As part of its commercial operations, the Control Center plays an active role on the wholesale electricity market, moreover, it concludes hedging transactions that comply with the Company's risk management expectations.

Market-based energy production (outside the KÁT regime)

This segment has two core revenue streams. One is electricity generated by gas engines, while the other is heat energy produced by gas engines and boilers. In the case of electric power, the segment takes quite a significant share of sale and purchase within the ALTEO Group, as can be seen in the summary profit and loss statement appearing in Section 8.1. The Energy Storage Unit and the Control Center also belong to this segment, since they primarily facilitate selling the electricity that the power plant portfolio generates, and their stand-alone commercial activity is but marginal.

On the output side, the gas engines produce heat and electricity at the same time. Materials-related expenditure includes costs that can be unequivocally mapped to natural gas used, furthermore to operations, maintenance and generation, while Other expenditure includes CO₂-related expenditure.

HEAT AND ELECTRICITY PRODUCTION (outside the KÁT regime) SEGMENT— Executive financial statement

Heat and electricity generation (market rate, outside the KÁT system)		
	2019.06.30	2018.12.31
<i>figures in HUF million</i>	non-audited	audited
Sales revenue	6 574	10 231
Material-type expenditures	-5 044	-8 697
Personnel expenditures	-58	-30
Other revenues and Other expenditures	-340	-426
EBITDA	1 132	1 078

HEAT AND ELECTRICITY PRODUCTION (outside the KÁT regime) SEGMENT—
Physical indicators and specific revenues

Heat and electricity generation (market rate, outside the KÁT system)		
	2019.06.30	2018.12.31
	non-audited	non-audited
Electricity sold MWh	112 169	260 414
Specific revenue from electricity sold (per schedule) – HUF/GWh	15 808	13 759
Heat energy sold (GJ)	761 220	1 130 779
Specific revenue from heat energy – HUF/GJ	4 338	3 904

The Control Center achieved considerably higher margin on the balancing reserve market than in the same period in 2018.
The increase in the CO₂-related expenditure recognized in the heat price set for 2019 and hedged by the ALTEO Group did not result in any decrease in the margin. With the consolidation of Zugló-Therm Kft., the margin previously realized by a third-party was channeled back into the ALTEO Group from the second quarter of 2018 on.

8.1.2 Renewables-based energy production sold in the scope of the KÁT regime

In the scope of this activity, Subsidiaries generate electricity using renewable primary energy in their owned power plants, which they feed to the nationwide electricity grid. The Subsidiaries sell the electricity that is fed to the grid in the scope of the KÁT regime, to the KÁT balancing group operated by MAVIR, subject to a subsidized purchase price.

The ALTEO Group's renewable energy portfolio includes weather-dependent wind farms, solar and hydropower plants and non-weather-dependent small-scale power plants that utilize renewable gas alike.

Wind Power

The ALTEO Group purchased the following small-scale power plants utilizing wind energy in an already operational state: three power plants in May 2012, one in February 2013 and one in May 2019.

Pápakovácsi, Ács and Jánossomorja wind farms (WINDEO)

ALTEO acquired WINDEO, which owns and operates the Ács and Pápakovácsi wind farms, from Raiffeisen Energiaszolgáltató Kft. in May 2012. The wind farms have a capacity of 2MW each, and sold generated electric power to MAVIR under the KÁT regime until September 2017 and April 2018, as by then, they each reached their total authorized generation volumes. The wind farms were then successfully integrated with the Control Center, and are now generating electricity for the free market. The wind farms are maintained by ALTEO and the Hungarian subsidiary of the wind turbine manufacturer, VESTAS Hungary Kft.

ALTEO acquired VENTEO, which owns and operates the Jánossomorja wind farm, from Raiffeisen Energiaszolgáltató Kft. in May 2012. VENTEO became a part of WINDEO through merger by acquisition, effective as of October 1, 2018. The wind farm has a nominal capacity of 1.8MW, and sold generated electric power to MAVIR under the KÁT regime until March 2017, as it reached its total authorized generation volume that month. The wind farm was then successfully integrated with the Control Center, and is now generating electricity for the free market. The wind farm is maintained by ALTEO and the Hungarian subsidiary of the wind farm OEM, VESTAS Hungary Kft.

Törökszentmiklós wind farm (e-Wind)

ALTEO acquired e-Wind, which owns and operates the Törökszentmiklós wind farm, in February 2013. The wind farm has a nominal capacity of 1.5MW, and sells generated electric power to MAVIR under the KÁT regime, and will do so until 30 June 2022 at the latest or until the total authorized generation volume is reached. On May 10, 2016, e-Wind applied for the extension of its KÁT License until June 30, 2022, because generation was suspended due to maintenance work at the power plant.

Bőny wind farm (Euro Green Energy)

ALTEO acquired Euro Green Energy, which owns and operates the Bőny wind farm, in May 2019. The wind farm has a nominal capacity of 25 MW, and sells the generated electric power to MAVIR under the KÁT regime, and will do so until January 31, 2023 at the latest or until the total authorized generation volume is reached.

Hydro Power

Felsőobsza hydropower plant (Sinergy)

The relevant energy-generation assets and installations of this hydropower plant operating on the Hernád River (including, among others, turbines and transformers) are owned by Sinergy, while Sinergy leases the property and the power plant's sections classified as other water structures from ÉMÁSZ Nyrt. Sinergy sells electricity generated through the operation of the hydropower plant to MAVIR under the KÁT regime, and will do so until 31 July 2022 at the latest or until the total generation volume authorized under KÁT is reached. The installed electricity generation capacity of the Felsőobsza hydropower plant is 0.948MW. The power plant is operated by ALTEO's own specialists.

Gibárt hydropower plant (Sinergy)

Sinergy leases the assets of the hydropower plant operating on the Hernád River from ÉMÁSZ Nyrt. Sinergy used to sell electric power generated through the hydropower plant's operation to MAVIR under the KÁT regime until August 2018, as it reached its total authorized generation volume that month. After that, the hydropower plant will generate for the free market. Sinergy shut down the Gibárt hydropower plant in August 2019 to implement a HUF 1.1 billion investment project designed to extend its lifetime and increase its efficiency. One of the key elements of the investment is the replacement of the turbines with state-of-the-art high-efficiency turbines that provide higher water yield and have a capacity of 5.75 GWh/year, representing a 70% increase in performance. The installed electricity generation capacity of the Gibárt hydropower plant is currently 0.49 MW. The power plant is operated by ALTEO's own specialists. The technical delivery of the power plant is scheduled for the second half of 2020.

Landfill Gas

Debrecen small-scale power plant (CIVIS)

The ALTEO Group purchased this small-scale power plant in an already operational state in March 2010. The small-scale power plant has an installed electricity generation capacity of 639kW, and generates power from landfill gas produced at the waste disposal compound in Debrecen. The small-scale power plant sells generated electric power to MAVIR under the KÁT regime, and will do so until December 2019 at the latest or until the total authorized generation volume is reached, after which it will continue to produce for the free market.

Debrecen small-scale power plant (ALTSOLAR)

This small-scale power plant was built by the ALTEO Group, and it began production in August 2018. The small-scale power plant has an installed electricity generation capacity of 499kW, and generates power from landfill gas produced at the waste disposal compound in Debrecen. The small-scale power plant sells generated electric power to MAVIR under the KÁT regime, and will do so until 30 June 2022 at the latest or until the total authorized generation volume is reached, after which it will continue to produce for the free market.

Solar Power

Domaszék solar power plant (Domaszék)

The ALTEO Group acquired the solar power plant in Domaszék, which was already operational at the time, in December 2017. The solar power plant sells electricity generated through its operation to MAVIR under the KÁT regime, and will do so until September 2042 at the latest or until the total generation volume authorized under KÁT is reached. The Domaszék solar power plant's installed electricity generation capacity is close to 2MW. The power plant is operated by ALTEO's own specialists.

Monor solar power plant (IT-Solar és Monsolar)

The ALTEO Group implemented this solar power plant in the scope of its own construction project, and it began generation in December 2018. The solar power plant sells electricity generated through its operation to MAVIR under the KÁT regime, and will do so until December 2043 at the latest or until the total generation volume authorized under KÁT is reached. The solar power plant's installed electricity generation capacity is close to 4MW. The power plant is operated by ALTEO's own specialists.

Balatonberény solar power plant (Péberény)

The construction works of this solar power plant were performed by the ALTEO Group itself, and it began generation in July 2019. The solar power plant will sell the electricity it generates to MAVIR under the KÁT regime for a period of 25 years from the start of its commercial operation or until the total generation volume authorized under KÁT is reached. The solar power plant's installed electricity generation capacity is close to 6.9 MW. The power plant is operated by ALTEO's own specialists.

Nagykőrös solar power plant (F.SZ. ENERGIA, True Energy)

The construction works of this solar power plant were performed by the ALTEO Group itself, and it began generation in July 2019. The solar power plant will sell the electricity it generates to MAVIR under the KÁT regime for a period of 25 years from the start of its commercial operation or until the total generation volume authorized under KÁT is reached. As a unique feature, instead of the fixed support structure typically used for solar power plants, it operates with a single-axle solar tracking system, through which it is able to use the energy of solar irradiance more efficiently, and thereby produce approximately 15% more electricity than traditionally installed solar power plants. The solar power plant's installed electricity generation capacity is close to 6.9 MW. The power plant is operated by ALTEO's own specialists.

Generated Electricity Sold Under the KÁT Regime

Electric power sold to MAVIR is the only revenue stream in this segment. Materials-related expenditure includes operation and maintenance costs.

ELECTRICITY GENERATION (UNDER THE KÁT REGIME) SEGMENT—Executive financial statement

Electricity generation (under the KÁT regime)		
	2019.06.30	2018.12.31
<i>figures in HUF million</i>	non-audited	audited
Sales revenue	891	627
Material-type expenditures	-211	-164
Personnel expenditures	0	-73
Other revenues and Other expenditures	20	43
EBITDA	700	433

ELECTRICITY GENERATION (UNDER THE KÁT REGIME) SEGMENT—Physical indicators and specific revenue statement

Electricity generation (under the KÁT regime)		
	2019.06.30	2018.12.31
	non-audited	non-audited
Electricity sold MWh	43 406	19 252
Specific revenue	35,4	32,4

The increase in electricity sales was caused by a combination of the elimination of the previously mentioned wind power and hydropower plants from KÁT, the commencement of electricity generation by the new solar power facilities and the purchase of the wind farm operated by EURO GREEN ENERGY.

8.1.3 Energy trading

Electricity trade and balancing group services (ALTEO Energiakereskedő)

The ALTEO Group started its activities through the Company as an electricity trader and balancing group manager, on the day of January 1, 2009. During 2009 and 2010, it built up a stable, well-predictable consumer portfolio, consisting primarily of office buildings, shopping centers, industrial parks, as well as small- and medium-sized businesses (SME). By 2011, it held contracts with prime customers with a country-wide network, and at the same time, it managed to increase the number of SME customers, defined as the target market. Within the scope of the Company's electricity trading activity, electricity is sold exclusively on the free market. The Company's portfolio also includes users eligible for the provision of universal service on the free market, furthermore, since February 2012, the Company is entitled to supply retail consumers as well, but it does not deal with the supply of these consumers in detail.

Under the contract for the transfer of business line concluded by the Company and ALTEO Energiakereskedő in November 2017, the Company successfully transferred its electricity trading operations—including in particular the related user portfolio and wholesale contracts—to ALTEO Energiakereskedő with January 1, 2018 as the reporting date.

As a criterion for performing the above activity, ALTEO Energiakereskedő obtained an operating license from HEA, under Resolution no. 5416/2017, for trading in electricity and so, from the day of January 1, 2018, this activity is performed by ALTEO Energiakereskedő.

The main activity of ALTEO Energiakereskedő is to deal with direct sales to users, without the intermediation of another electricity trading company. ALTEO Energiakereskedő pursues to promote setting favorable prices tailored to consumption locations and consumer habits by providing targeted advice on energy efficiency. Its goal is flexible, in order to meet the different needs of the users, mainly based on one-year contractual and settlement schemes.

ALTEO Energiakereskedő does not deal with speculative trading, but due to the varying size of customer needs timewise, the company keeps a certain level of open positions. However, ALTEO Energiakereskedő strives to cover the demand generated by new contracts and new needs from the buyers. For that purpose, ALTEO Energiakereskedő concludes commercial agreements based on commercial, standardized samples (typically EFET), on the one hand, and it also buys electricity thru intermediaries, on the energy exchanges in Hungary (HUPX), in Leipzig (EEX), Prague (PXE) and Vienna (EXAA), on the other. ALTEO Energiakereskedő sells any superfluous electricity via wholesalers.

Natural gas trading (ALTEO Energiakereskedő)

ALTEO Energiakereskedő started its retail activities aimed at serving the users with natural gas, in the gas year beginning on October 1, 2016.

ENERGY RETAIL—Executive financial statement

Retail energy trade		
	2019.06.30	2018.12.31
figures in HUF million	non-audited	audited
Sales revenue	4 725	6 943
Material-type expenditures	-4 464	-6 626
Personnel expenditures	-36	-53
Other revenues and Other expenditures	11	18
EBITDA	236	283

The profitability of the energy trading segment shows significant year-on-year improvement compared to 2018, as a result of an overall increase in the volume of, as well as the revenues and margins from both natural gas and electricity sale transactions.

ELECTRICITY RETAIL TRADE—Physical indicators and statement of specific revenue/expense

	2019.06.30	2018.12.31
	non-audited	non-audited
Retail trade in electricity (MWh)	201 789	366 964
Specific revenue – HUF/MWh	18 108	15 561
Specific expense – HUF/MWh	17 243	14 951
Specific coverage – HUF/MWh	866	609

NATURAL GAS RETAIL TRADE—Physical indicators and statement of specific revenue/expense

	2019.06.30	2018.12.31
	non-audited	non-audited
Natural gas retail trade (MWh)	111 038	135 310
Specific revenue – HUF/MWh	9 644	9 018
Specific expense – HUF/MWh	8 598	7 941
Specific coverage – HUF/MWh	1 046	1 078

8.1.4 Energy and power engineering services

(a) Operation and maintenance of power plants and power engineering installations

ALTEO carries out operation and maintenance tasks (*O&M*) for certain energy facilities owned by third parties and of certain power plants owned by the 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, ALTEO carries out daily operation and business process tasks including the provision of fuel supply, preparation of production schedules, fulfilling regulatory reporting obligations, ensuring that all conditions for the operation and the safety of supply are met, and repair works requiring simpler jobs are done. Within the framework of maintenance activities ALTEO carries out the interventions typically required based on the number of hours operated, the replacement of parts as necessary, carrying out renewal jobs and repairing extraordinary malfunctions.

At present, ALTEO carries out the operating and maintenance tasks of the TVK power plant, the BorsodChem power plant, the BC-Therm boiler, the Water Preparation Plant built by Tisza-WTP, the biogas plant of Nagykőrös, as well as the heat power plants, hydropower plants and solar power plants in its ownership

Facilities related to O&M tasks:

BorsodChem power plant

The BorsodChem power plant is owned by BC Erőmű Kft and it provides most of the energy needs of BorsodChem Zrt's steam requirements and most of its electricity needs. Within the ALTEO Group, Sinergy participated in the development and implementation of that investment project and at present ALTEO carries out the operation and maintenance of the power plant, in the framework of a long-term contract.

TVK Power Plant

The TVK power plant is in the ownership of TVK Power Plant (a subsidiary of MOL Petrochemicals Co. Ltd.). The power plant established in 2001 with the participation of Sinergy, a member of the ALTEO Group, satisfies the entire steam demand of MOL Petrochemicals Co. Ltd.'s technology, it satisfies its entire steam demand, supplies its heating system and meets a significant part of its electricity demand. In addition, it provides steam for MOL Nyrt's Tiszai Refinery plant. Sinergy participated in the implementation of that investment, as a technical and financial expert, and the ALTEO Group currently conducts the operation and maintenance of the power plant with its own staff on a long-term contract.

Nagykőrös Biogas power plant

Sinergy, a company belonging to the ALTEO Group concluded a long-term, 14-year operation and maintenance contract with Energigas Kft. on December 12, 2015, for the purposes of carrying out operation and maintenance tasks related to the 2 MW electricity generation capacity biogas power plant owned by it. Simultaneously with the conclusion of the operation and maintenance contract, the Company also acquired a 1% share in Energigas Kft. The power plant is now operated by ALTEO's team of specialists.

Own facilities

A significant portion of the power plants in the ownership of the ALTEO Group the operation and partial maintenance works are carried out by ALTEO, on the basis of long-term contracts. The facilities involved are as follows: Győr power plant, Kazincbarcika power plant, Ózd power plant, Tiszaújváros power plant, Sopron power plant, Felsőöbbsza and Gibárt hydropower plant, Zugló power plant, Tisza-WTP water treatment plant, as well as the Monor and Domaszék solar power plants.

Other

The maintenance organization of the Energy Production Division also carries out maintenance jobs, in addition to works to be done in power plants owned by the ALTEO Group, typically for other power plant companies. Notably, a multiple-year maintenance contract was concluded with Budapesti Erőmű Zrt. in 2015 under which the Company carries out the regular maintenance and repair of the engineering, electric and control systems of the Kelenföld, Kispest and Újpest power plants of Budapesti Erőmű Zrt. The contract was extended for another two years in January 2019, the expiry date is January 15, 2021. Priority partners of the Company also include Petrolszolg Karbantartó és Szolgáltató Kft. (*Maintenance and Service*) belonging to the MOL Group, and from 2017, the Company (Sinergy until October 1, 2018) provides maintenance works of rotary machines at the industrial site of MOL in Százhalombatta and Tiszaújváros, as well as LEGO Manufacturing Kft., with a factory in Nyíregyháza where regular maintenance and repair works are carried out on cooling towers, on the basis of individual assignments.

(b) Energy and power engineering services

The ALTEO 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.

(c) Waste management services

The Company intends to have an active presence in complex waste management through Eco-First. The first step towards that goal was developing a waste management strategy and purchasing a 66% business share

in Eco-First. Its services mainly include waste collection from supermarkets as well as complex sustainability services in waste management. The Target Company provides professional services to several large enterprises and is also involved in the development of new, complex activities, aligned with the needs of the waste management market.

(d) Other services

In some cases, possibly related to other activities, the Subsidiaries implement energy assets for their customers and make these available to their customers in the framework of long-term contracts qualified as leases under the IFRS classification. After the expiry of this contractual period, the customer has the possibility to buy these assets. In each case, the operation and maintenance of the assets are performed by specialists of ALTEO, on the basis of a long-term contract.

Tisza-WTP

Tisza-WTP created in an area owned by MOL Petrochemicals Co. Ltd., a high-capacity water treatment plant, producing desalinated water for technology purposes for MOL Petrochemicals Co. Ltd. ALTEO supplies the total quantity of desalinated water for MOL Petrochemicals Co. Ltd. under a long-term contract. Due to the capacity increase investment implemented in 2018, the water treatment plant will be able to cover the increasing needs of the chemical company also in the future. The facility is operated and maintained by the ALTEO Group with its own staff. On the basis of a purchase option contract between MOL Petrochemicals Co. Ltd. and ALTEO, on the Tisza-WTP business share, MOL Petrochemicals Co. Ltd. is entitled to purchase, until the day of June 30, 2027 at the latest, the Tisza-WTP business share at a price calculated according to the methodology specified in the contract.

BC-Therm boiler (BC-Therm)

BC-Therm built a large-capacity boiler plant (110t/h) on the site of BorsodChem Zrt, servicing exclusively the steam demand of BorsodChem Zrt. The boiler plant is operated and maintained by ALTEO. On the basis of a heat supply and capacity utilization contract concluded between BC-Therm and BorsodChem Zrt, BorsodChem Zrt is obliged to purchase from ALTEO the BC-Therm business share, at book value, upon expiry of the contract (expected by December 31, 2020).

ALTE-A

ALTE-A implemented a portion of the medium-voltage system of Hegyvidék Shopping Center (transformer and medium-voltage distributor) and leases it to VPR Nonus Kft, the operator of the shopping center. The assets are operated and maintained by ALTEO.

Energy business and power engineering services

In this segment we show the revenues and expenses related to the operation and maintenance tasks (*O&M*) for certain energy facilities owned by third parties and of certain power plants owned by the ALTEO Group, and we also show here the revenues (interests) due, based on leased assets. In the consolidation procedure, the revenues and expenses of the ALTEO Group from the power plants in its ownership are eliminated. This is the segment where revenues and expenses of third parties and from within the ALTEO Group, related to engineering, project development and project management services, as well as main contractor construction services and implementation services related to energy investments and developments are presented. In the consolidation procedure, the Revenues and Expenses of implementation services within the ALTEO Group are eliminated. The expenditures of the Company's waste management business are also included here, but given it has been established recently, it has no substantial impact on the segment's profit as yet.

ENERGY BUSINESS AND SERVICES—Executive financial statement

Energy and power engineering services		
	2019.06.30	2018.12.31
<i>figures in HUF million</i>	non-audited	audited
Sales revenue	5 375	7 582
Material-type expenditures	-3 257	-4 926
Personnel expenditures	-949	-1 611
Other revenues and Other expenditures	-46	213
EBITDA	1 122	1 257

8.1.5 Other segments

Other segments

We present among revenues the management and accounting fees paid by the Subsidiaries, to be eliminated in the consolidation procedure. Among material expenses, the most important items are rental fees, assignments of third-party experts and advisors, as well as IT costs.

OTHER SEGMENT—Executive financial statement

Other segments		
	2019.06.30	2018.12.31
<i>figures in HUF million</i>	non-audited	audited
Sales revenue	201	347
Material-type expenditures	-213	-545
Personnel expenditures	-335	-800
Other revenues and Other expenditures	-1	-10
EBITDA	-349	-1 009

8.2 Project under implementation and preparation

With contributions from its Subsidiaries, as per the present Information Memorandum, the Company is preparing the following project implementations. The following description is for general purposes only. The implementation of these projects depend not only on the Company's intentions but also on a number of other external factors. It cannot be guaranteed that these projects will be actually implemented, or will be implemented in accordance with the present Information Memorandum, furthermore, the implementation of other future projects may precede or substitute the projects below.

8.2.1 Renovation of the Gibárt Hydropower Plant (Sinergy)

Sinergy plans a renovation of the Gibárt hydropower plant, similarly to the Felsődobosza hydropower plant's renovation, implemented in 2013. A full-scale renovation also means a significant increase in the hydropower plant's electricity generation, with installing turbines and auxiliary system in line with today's age. In 2018, Sinergy gained the right to produce electricity at the Gibárt power plant within the METAR 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), with a complete renovation of the power plant.

9. RECENT TRENDS IN THE MARKETS OF THE ALTEO GROUP

The major recent and current trends affecting the Company and the Subsidiaries are described in Section 9 of this Information Memorandum. To the best of the Company's knowledge, no significant changes adversely impacting either the Company's/ALTEO Group's prospects or its financial performance have taken place since the publication of the 2018 financial statements beyond those described in this section.

This subsection of the Information Memorandum was compiled based on public market data and information, primarily from the MAVIR, HEA and the Committee websites, as well as by using the Company's own estimates.

9.1 Renewables-based electricity generation sold in the scope of the KÁT regime

The role of renewable sources of energy in the energy mix

The utilization of renewable sources of energy is gaining ever increasing significance due to the growing environmental consciousness of society, the narrowing of the traditional energy sources, as well as the endeavors at ensuring a safe energy supply.

The support systems available in some countries largely contribute to the increasing use of renewable energy sources. However, the speedy development of technologies relying on renewable energy, along with the ever more expensive traditional energy carriers have led to a situation in which the renewable sources of energy are competitive with the traditional energy sources in some areas, and this tendency is likely to continue.

Objectives regarding renewable EU energy sources

One of the key elements of the EU's climate and energy policy is to increase the proportion of renewable energy sources. The goal of RED (Renewable Energy Directive) adopted in April 2009 is to ensure that 20% of the total energy consumption should come from renewable sources of energy in the member states of the EU by 2020.

In 2018, the European Union drafted new power engineering legal regulations under the title "Clean Energy for All Europeans", which already reckons with a minimum 32% rate of renewable energy sources on the EU level by 2030, and not with the earlier 27% rate accepted in 2014. Furthermore, the EU partially adopted the law package in late 2018, and as a part of this, the Member States, including Hungary, will have to transpose the RED2 Directive into their respective national laws by June 30, 2021. Some of the key objectives of this directive include creating an investment environment which is reliable in the long term, and to accelerate the licensing procedures of the renewable energy projects; boosting competition in the renewable energy sector and promoting market integration; speeding up the introduction of the production of renewable energy in the heating/cooling sector; and promoting innovative, novel solutions.

Hungary's strategy on renewable energy

According to RED, Hungary has to increase the rate of its energy coming from renewable sources within its gross energy consumption from the 4.3% in 2005 to 13% by 2020.

The National Action Plan (NAP) drafted by the Hungarian government based on RED in December 2010 set the achievement of 14.65% by 2020, which exceeds the mandatory minimum target. In NAP, it is stated that the increased utilization of renewable energy sources is of major significance and the development of green economy is one of the breakout points for the Hungarian economy.

The National Assembly approved the National Energy Strategy 2030 for Hungary on October 3, 2011, the key elements of which include, among others, the increase of renewable and low CO₂ emission energy production, as well as waste utilization for power engineering purposes.

In 2017, 16.4% of the electric energy produced in Hungary was generated by coal and oil power plants, 19.4% was produced by natural gas power plants, 51.6% was provided by the Paks nuclear power plant, 8.2% by power plants fueled by renewable energy sources, 1.6% by waste, while 2.8% by some other sources of energy. The number and capacity of power plants operated by using renewable sources of energy are rather low in Hungary, as compared to the EU average.

In 2018, the Hungarian Government set it as a goal that it would elaborate a new National Energy Strategy by September 1, 2019, in harmony with the National Climate Change Strategy (NÉS-2) for the period between 2018 and 2030 and giving an outlook for the period until 2050 as well, and Hungary's international commitments, with special regard to the program entitled EU Clean Energy for All Europeans and the Paris Agreement. At the same time, the Government approved Hungary's commitment to the European Commission to achieve a 20% utilization rate for renewable sources of energy by 2030.

Despite the fact that in 2010, the proportion of renewable energy in the generation of energy was in harmony with the rate that Hungary committed to at the time of its joining the European Union (EU), and the minimum member state commitment under RED was also fulfilled, this rate will definitely have to be increased significantly for the realization of the new policy and strategy goals and commitments.

In Hungary, the state provides support for the generation of electricity by using renewable energy sources and waste through two systems that work simultaneously in a transitional period: (i) in the KÁT system, those producers who obtained eligibility prior to January 1, 2017, or those who have already submitted such an application, may take part, and (ii) the METÁR system, in which those power plants which applied for support after January 1, 2017, or those which take part in the tendering procedure and use renewable sources of energy, may participate.

The KÁT regime

Originally, the KÁT regime was built on the mandatory offtake of electricity generated from a renewable source of energy or waste; however, since April 1, 2016, the entire amount of electricity subject to mandatory offtake has been sold through HUPX. Thus, those entities responsible for the balancing group who are obliged for the offtake do not actually accept any electricity any more but they contribute to supporting renewable electricity production in the form of the so-called KÁT premium (KÁT instrument). The KÁT producers conclude a contract on their balancing group membership with MAVIR, the entity that accepts KÁT energy also sells the MAVIR and KÁT amounts through HUPX, and the allocation of the payment of the KÁT instruments by the balancing group owners is also performed by MAVIR.

It was possible to apply for participation in the KÁT system before January 1, 2017 the latest, and applications that were received after this date may only receive government grant from the METÁR system. In late 2016, i.e. directly before the METÁR system started operating, a high number of KÁT participation applications were submitted to HEA, mostly for solar panel power plants.

The entitled parties may transfer from the KÁT regime to the METÁR system at any time, however, from there, they cannot return to the KÁT system.

METÁR:

The concept of the re-regulation of the KÁT system was published by the Ministry of National Development in September 2011, under the name of “mandatory offtake system for heat and electricity produced from renewable and alternative energy sources”. It was only in March 2016 that the concept developed into a specific proposed regulation, then after administrative coordination, the fundamental statutory framework of METÁR (the METÁR Amendment and the METÁR Decree) was announced in June 2016. According to the new METÁR Amendment, METÁR took effect on January 1, 2017, and as a result of the statutory changes in October and November 2017, it was extended and modified according to the new METÁR Decree. METÁR as a government grant system was approved by the European Commission on July 11, 2017 and it was also established by the latter that it was compatible with the internal market on the basis of the Commission Guidelines on the State Aids for Power Engineering.

After METÁR had taken effect, the newly established producers of renewable electricity can only receive government grants in the frameworks of METÁR. METÁR does not affect the KÁT eligibility that was obtained before its taking effect, so the KÁT system will work until the last effective contract runs out. Pursuant to the relevant provision of the METÁR Decree, the KÁT producers are eligible according to their choice, or if a KÁT producer wishes to sell electricity on a producer’s basis as well, then they will be obliged to transfer to the METÁR system, from which it is not possible to return to the KÁT regime.

METÁR has introduced several types of grants, depending on the size and technology of the power plant:

- (i) METÁR-KÁT: under 0.5 MW: Newly built power plant units with an electric capacity below 0.5 MW (except for wind energy) and demonstration projects that are also granted investment aid¹ may apply for the (mandatory) offtake of the electricity that they produce in practically the same way as under the KÁT regime.
- (ii) Green Premium I under 1 MW: HEA may be requested to define the period of the grant, without a specific tendering procedure, in the case of newly built power plant units with an electric capacity under 1 MW (except for wind energy), and demonstration projects;²
- (iii) Green Premium II with a capacity of 1 MW and higher: it is only possible to win grants in the framework of a tendering procedure for the electricity produced in the following types of power plant units: (i) a power plant with a minimum electric capacity of 1 MW, or (ii) wind turbine, furthermore, (iii) a power plant unit already running, one which has undergone major modernization or development. The volumes that are distributable through the tender are stipulated by a ministerial decree on the frame conditions of operating METÁR, in an annual breakdown, for five-year intervals, which volumes will be revised each year. No METÁR tender was invited in 2017-18.
- (iv) Brown Premium: it is those already working power plant units that may be eligible for the brown premium which use biomass or biogas, where eligibility is defined for 5 years by HEA, at the request of the producer.

The highest extent of annual grant distributable in the framework of the above forms of METÁR aids is regulated by a ministerial decree.

¹ Pursuant to the METÁR Act, those projects will qualify as demonstration projects which are the first to introduce a technology in the European Union, and which represent a major innovation that exceeds the current state of technology.

² Pursuant to the modified New METÁR Decree, no application may be submitted for the grant type Green Premium I that can be provided without a tendering procedure with effect from May 1, 2019.

9.2 Market-based energy production (sold outside the KÁT regime)

In line with the endeavor to reduce CO₂ emission and increase energy efficiency, the small power plants that are close to the consumers, that work with high efficiency, and are cogenerated, i.e. produce both electricity and heat are gaining increasing significance within energy production. The environmental advantage of cogenerated energy production lies in that it is capable of transforming primary energy into electricity and heat at the same time more efficiently than if the same amount of energy were generated by distinct electricity and heat production equipment. Placement near the consumer, on the other hand, allows the considerable reduction of transportation losses. Through this, cogenerated small power plants make a significant contribution to the reduction of CO₂ and the increase of energy efficiency.

In harmony with this, the support to be provided to high efficiency cogenerated energy production is mentioned as one of the key goals of the Energy Efficiency Directive, among others. The Energy Efficiency Directive obliges the EU member states to perform the comprehensive assessment of the feasibility potentials of high efficiency cogenerated energy production and efficient district heating / district cooling, which assessment has to be updated every five years, at the request of the Commission. The Energy Efficiency Directive encourages the EU member states to pursue local and regional policies that reckon with the potentials in the application of the systems using high efficiency cogenerated energy production.

Hungary supported the spreading of cogenerated power plants that produce both electricity and heat through the KÁT mechanism until June 30, 2011. It was due to this favorable regulation that the number and proportion of cogenerated small power plants grew dynamically in the national energy production until mid-2011. The majority of cogenerated small power plants were located relatively close to the users of district heat, at the sites of the district heat producers and other users of district heat.

Unsubsidized small cogeneration power plants are also often competitive against large power plants using traditional fuel, primarily in cases where flexible energy production is required, and also, when they are linked at the Control Center, in the market of system-level services. The operation of the Control Center is described in more detail in Section 9.2.3 of this Information Memorandum.

In parallel with the increase in the number of power plants relying on weather-dependent renewable sources of energy, there seems to be a growing demand for flexible energy production and energy storage solutions that can be operated efficiently. In this field, the ALTEO Group has valuable assets, knowledge and experience thanks to its gas engines and Control Center.

The EU regulatory package called Clean Energy for All Europeans will also affect the electricity production sector. The package aims to introduce a novel type of electricity market model, which, among other changes, restricts the producer's grants provided through capacity mechanisms and removes the grants provided to power plants with an emission value of 550g CO₂ per kWh or higher, promotes the active involvement of consumers and users in production, as well as the market competition in electricity and cross-border trading in such a way that it will promote energy safety, create new jobs, and encourage investments. The law package entitled Clean Energy for All Europeans was partially approved and announced in late 2018 (at the same time, defining the transposition deadlines for the member states, depending on the individual laws, for 2020-21), and partially it is still going through the legislative process.

9.2.1 Heat energy production and district heat production

Heat energy producers supply heat to industrial users in the framework of individual heat supply agreements. In this case, the price of the heat provided and the price formulas are the subject of agreements between the parties.

The district heat producers sell the heat energy, which they generate in boilers and to an increasing extent, in cogenerated heat and electricity producing equipment (gas engines), to the district heat suppliers at an established price. The district heat suppliers, on the other hand, supply the heat energy obtained in such a way or produced by themselves at established prices as well, to the users entitled to receive household and district heat supply. The prices of district heat are defined by the minister in charge of energy affairs, in a decree, based on a proposal from HEA. From January 1, 2013, the highest price of district heat supply was defined in a value 10% lower than the service fee applied on November 1, 2012.

Some district heat suppliers are eligible for a grant of district heat supply with effect from October 1, 2011 based on the Grant Decree, with regard to the amount of district heat and cogenerated heat supply provided to household consumers, and some other separately treated institutions are also eligible for a grant in district heat supply, with regard to the amount of the heat produced by cogeneration for the performance of their public duties. The district heat supply grant is paid to the debit of the transformation fee of the cogenerated production structure, which was included in the Electricity Act by Act LIX of 2011.

Natural gas (75-80%) plays a key role in the fuel utilization of district heat supply.

According to the data provided by HEA, the number of settlements supplied with district heat is nearly one hundred, while the number of affected households exceeds six hundred and fifty thousand. It can be observed that with the increase in the number of users, there are more and more consumer substations as well, due to the expansion of the markets and the regular modernization efforts.

In recent years a drop could be observed in heat demand at consumers already having heat supply in place, which can on the one hand be put down to the regular building modernization efforts, while on the other hand, to the significant increase in the energy consciousness of the users.

9.2.2 Energy production sold outside the KÁT regime

On the sales aspects of the electricity production market, see Section 9.3.1 below on wholesale electricity markets.

The majority of the power plants of the ALTEO Group which do not sell electricity through the KÁT regime are natural gas-fueled gas engine power plants, this is why the changes in the market rate of natural gas, which depends on the price formulae defined in the individual natural gas purchase agreements, exert a significant effect on the competitiveness of such power plants.

9.2.3 Control Center and system-level services

MAVIR, as a system controller, commits reserve production capacities with a view to the settlement and regulation of the momentary difference between the production and consumption of electricity and utilizes them as needed. For the capacities required for satisfying the regulatory needs, MAVIR invites tenders from time to time, where the producers, individually or—in particular producers with lower capacity—jointly make bids through a control center, appearing as a so-called control center. A control center is a production organization concept for the generation of electricity in which small power plants form a system management unit; this allows them to operate as a large producer which can be treated as an independent entity.

MAVIR pays a capacity fee for availability and an energy fee for the actually used negative or positive balancing electricity to the power plants involved in the regulation as well as to the Control Center.

The coverage of the costs of the electricity used by MAVIR for regulatory purposes is partly provided by the system utilization fees, partly by the fee of the balancing energy collected from the balancing groups led by the traders, furthermore, by the regulatory surcharge fees that sanction the changes in the producers' schedules.

MAVIR is in a monopolistic position on the customer's side, the tendering is a public bid that takes place according to the procedural rules established by HEA, contracts are concluded and settlement takes place under transparent rules, using sample contracts approved by HEA.

9.3 Electricity trading

In harmony with the directives of the European Union, the market of electricity trading, including the sale of the electricity producers' own output, is fully free-market in Hungary, and from January 1, 2008, practically every domestic user can freely choose their own electricity trader. The EU regulatory package called Clean Energy for All Europeans is expected to supplement and modify the rules of electricity trading as well, with a view to promoting electricity market competition and cross-border trading; however, the respective EU laws have only been partially adopted and announced, and some are still going through the legislative process.

In 2018, according to the records on the HEA website, 163 companies had a Hungarian electricity trading license. Some of these are not active, or are only active on the wholesale market, and on the retail market, only 10-15 licensees perform actual activities.

The Company has a diversified producer's portfolio. This vertical integration provides a possibility for the ALTEO Group to optimize the trading portfolio. The Company is active in the wholesale and retail market segments.

9.3.1 Electricity production and wholesale trade

The electricity producers of the ALTEO Group sell the electricity they generate under individual contracts, either directly to the users, or to the Control Center.

On the electricity wholesale market, the Company has both long- and short-term electricity sales contracts with international and Hungarian partners, concluded on the basis of framework agreements.

In addition, the Company has the opportunity to buy and sell on Hungarian and international exchanges. The Hungarian power exchange (HUPX) started its operation with day-ahead products in July 2010, besides which, from July 2011, it also became possible to trade in monthly, quarterly and annual string and peak time long-term products. The HUPX intraday market was launched on March 9, 2016. With the extended product structure, the Company's wholesale opportunities increased further. The transparency and liquidity of wholesale markets may be increased by the fact that since 2012, there has been a market coupling of the Czech, Slovakian and Hungarian day-ahead electricity markets. Romania also joined the coupled electricity market in 2013, and the preparation for extending this coupling to the Polish market also began. Such a demonstration of market integration is a great stride forward in developing an internal European electricity market.

The REMIT Regulation and the related Hungarian laws may increase the transparency of electricity wholesale, by this also strengthening the integrity of the energy markets in the EU. However, the REMIT Regulation and the related Hungarian laws put a considerable administrative burden on the Company, furthermore, the yet immature Hungarian practices may carry risks.

9.3.2 Retail trade

Some of the electricity users are eligible for universal services and they can enter the competitive market or use universal services, according to their own choice. Those users who are not eligible for universal services may only buy electricity in the competitive market, including the organized markets.

Within the scope of the Company's electricity retail activity, electricity is sold exclusively on the free market. The Company's portfolio also includes non-household users eligible for the provision of universal services on the free market; furthermore, since February 2012, the Company is entitled to supply retail consumers in the free market as well, but it does not deal with the supply of these consumers in detail.

The market is characterized by total supply-based frame agreements entered into with the users, in the context of which only the contracted merchant is entitled to supply the users in the contract period.

Even though the number of conscious consumers increased as a result of the market opening and the competition among traders, good market opportunities still exist for the users with little experience in merchant services, still undiscovered by traders with less market knowledge. As a result of the economic crisis, a significant temporary drop in consumption demand and increasing competition among traders were observed from 2009 onwards.

9.3.3 Balancing group services

The aging of the Hungarian power plants, as well as the probably rising electricity consumption in the long run justify that besides the large developments, the smaller natural gas-based energy production units and those that are removed from the KÁT regime after the mandatory setoff expires should not drop out of the market only because they do not receive the KÁT grants any longer. A possible way to integrate small capacity production units that are in this situation is for them to join a professionally operated balancing group with a reasonably sophisticated portfolio of producer and consumer capacities and with good wholesale relations, or to take

unified action in the market as a control center through a Control Center mentioned in Section 9.2.3 above.

A balancing group service does not involve the same level of integration as provided by a Control Center; the owner of the balancing group providing the service takes the electricity produced by the individual producers for its own balancing group and sells it in an optimized form in line with the current market needs. One of the advantages of this scheme is that the service makes it easier for the small producers otherwise unable to enter the market as independent sellers to enter the market, furthermore, it allows them to sell the electricity that they have produced as a product.

Both of the above solutions may be favorable for the power plants with gas engines and those which are removed from the system of mandatory offset and which produce renewable energy. In Hungary, the capacity of the small power plants potentially affected by the balancing group schemes can be estimated at several hundred megawatts.

9.4 Natural gas retail activities

ALTEO Energiakereskedő started its retail activities aimed at serving the users with natural gas, in the gas year beginning on October 1, 2016.

In harmony with the directives of the European Union, similarly to the market of electricity trading, the market of natural gas trading is fully liberalized in Hungary, and every domestic user can freely choose their own natural gas trader.

In January 2019, according to the records on the HEA website, 46 companies were in possession of a Hungarian natural gas trading license (excluding the restricted license holders in natural gas) but it is only a small part of these companies that are genuinely active in the retail segment.

ALTEO Energiakereskedő is primarily planning to build and then extend its natural gas retail activities by relying on its electricity trading clients.

9.5 Trading in emission units

In order to help the member states fulfill their commitments undertaken in the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC), the EU, or then the European Community established the Community emissions trading system for greenhouse gas emission units (ETS) by the ETS Directive in 2003. ETS is built on the obligation of the individual facilities to deliver an annual amount of emission units corresponding to their greenhouse gas emissions to the member state in which they operate and thus, trading in the unused units becomes possible (cap and trade principle).

In order to promote the appropriate operation of ETS, from June 20, 2012, each EU member state introduced a uniform EU emission unit turnover system.

In the current, third trading period (2013-2020), emitters—subject to certain exceptions—are and will be able to acquire emission allowances solely at auctions or through secondary commercial channels. The Greenhouse Gas Act, in line with the ETS Directive, only allows a narrow scope of exceptions. District heating and high-efficiency cogenerated energy production are provided free of charge allocation with regard to the heat production or cooling services provided for satisfying demands and in an economically justified way.

Furthermore, some electricity producers are provided derogation allocation at an established rate to an extent defined in a specific government decree.

In the period between 2013 and 2020, specific power plants in the ALTEO Group (BC-Therm, the Győr Power Plant, the Sopron Power Plant, Kazinc-Therm, the Ózd Power Plant, Tisza-Therm and Zugló-Therm) are going to be allocated, free of charge, an emission unit allowance that will decrease every year, based on the preliminary national implementing measure published by the Ministry of National Development and approved by the European Commission.

9.6 Operation and maintenance of power plants and power engineering installations

The operation and maintenance of power plants and power engineering installations require special expertise and an appropriately qualified and experienced labor force. For reasons of economies of scale, supply and operational security, power plants with a size exceeding that of small power plants (those with a nominal capacity over 50 MW) typically use their own employees for the operational tasks. The maintenance tasks related to the key equipment are often performed by the manufacturer or the specialist company accredited by the manufacturer.

However, there is an increasing need for the clients to use comprehensive operational and maintenance services from a company that can understand and coordinate the ever more sophisticated power engineering systems in the most efficient possible way, even in such a way that already the planning and establishment phases are completed by the future operating and maintenance company. Such a complex solution may help the clients in reducing their energy demands, and thus, in achieving their respective energy efficiency goals, and ultimately, to the improvement of their competitiveness.

9.7 Energy and power engineering services

The objective of the Energy Efficiency Directive was to update the EU legal framework for energy efficiency, opening a wider space for the solutions and developments supporting a more efficient utilization of energy. The Energy Efficiency Directive mentions it as one of its key goals that the achievement of its objective concerning the reduction of the consumption of primary energy set by the Council of Europe for 2020 be encouraged. One of the tools of realizing this objective is to perform the comprehensive assessment of the feasibility potentials of high efficiency cogenerated energy production and efficient district heating / district cooling, which assessment has to be updated every five years, at the request of the Commission. Furthermore, the Energy Efficiency Directive encourages the EU member states to pursue local and regional policies that reckon with the potentials in the application of the systems using high efficiency cogenerated energy production.

The provisions of the Energy Efficiency Directive had to be transposed into the individual legal systems of the members states by June 5, 2014. In Hungary, the transposing law is the Energy Efficiency Act, which, in harmony with the Energy Efficiency Directive, encourages energy consciousness, and in order to realize this goal, it introduced, among others, the system of mandatory power engineering audits. Pursuant to the Energy Efficiency Act, large companies are obliged to conduct a power engineering audit every four years, from which obligation they can be exempted if they run an energy management system certified by an accredited certification body in line with the EN ISO 50001 standard.

Among others, making power engineering audits mandatory, the increasing prices of energy, as well as the rising climate consciousness of society encourage consumers to be energy conscious and use services and realize developments that promote the efficient use of energy, which allows the development of the energy business and engineering services sector.

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Besides the energy efficiency developments, those that aim to ensure the energy supply of the new or expanding industrial facilities also offer substantial business potentials for the energy business and engineering services sector.

The ALTEO Group, by relying on the energy sector knowledge and experience of its expert staff, is able to satisfy the changing and novel needs of energy users.

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10. PROFIT FORECASTS OR ESTIMATES

The Issuer does not publish any profit forecasts or estimates in this Information Memorandum.

11. GOVERNING, CONTROLLING AND SUPERVISORY BODIES

11.1 Corporate Governance

11.1.1 Board of Directors

Name	Position	Start of membership in the Board of Directors	Termination of membership in the Board of Directors
Attila László Chikán	Member of the Board of Directors, CEO	March 19, 2008	April 30, 2020
Domonkos Kovács	Member of the board of directors	May 1, 2011	April 30, 2020
Zsolt Müllner	Member of the board of directors	January 27, 2015	April 30, 2020
Gyula Zoltán Mező	Chairman of the Board of Directors	November 10, 2015	April 30, 2020
Ferenc Karvalits	Member of the board of directors	April 19, 2016	April 30, 2020

The business contact details of the Members of the Board of Directors are the same as the contact details of the Company.

11.1.2 Supervisory Board

Name	Position	Start of membership in the Supervisory Board	Termination of membership in the Supervisory Board
István Bakács	Chairman of the Supervisory Board	August 31, 2010	April 30, 2020
Dr. János Lukács	Member of the Supervisory Board	August 31, 2010	April 30, 2020
Dr. István Borbíró	Member of the Supervisory Board	August 31, 2010	April 30, 2020
Péter Jancsó	Member of the Supervisory Board	August 31, 2010	April 30, 2020
Noah M. Steinberg	Member of the Supervisory Board	April 24, 2017	April 30, 2020

The business contact details of the Supervisory Board members are the same as the Company's contact details.

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11.1.3 Top management

Name	Position	Start of top management position	End of top management position
Attila László Chikán	Member of the Board of Directors, CEO	March 19, 2008	Indefinite
Domonkos Kovács	Deputy CEO, Director for M&A and Capital Markets	May 1, 2011	Indefinite
Péter Luczay	Director for Wholesale and Regulations Centre Management	March 8, 2017	Indefinite
Viktor Varga	energy production director	January 1, 2018	Indefinite
Zoltán Bodnár	CFO	February 19, 2018	Indefinite

The business contact details of members of the top management are the same as the Company's contact details.

11.1.4 Audit Committee

Name	Position	Start date of Audit Committee membership	End date of Audit Committee membership
István Bakács	Chair of the Audit Committee	August 31, 2010	April 30, 2020
Dr. János Lukács	Audit Committee member	August 31, 2010	April 30, 2020
Dr. István Borbíró	Audit Committee member	August 31, 2010	April 30, 2020

11.2 Conflict of interest between administrative, management and supervisory bodies and executive employees

To the best of the Company's knowledge, there is no conflict of interest between the tasks performed by the persons mentioned in Section 11.1 above, the private interests and other tasks of those persons.

The Company has not concluded any agreement or covenant with its major Shareholders, clients, suppliers or other persons based on which the persons mentioned in Section 11.1 above were elected or appointed for their positions held with the Company.

12. OWNERSHIP STRUCTURE OF THE COMPANY

12.1 Parties holding a capital share or voting right

The Majority Shareholder owns 63.88% of the Company's shares, and controls the Company by virtue of this controlling interest. Current and former Board members, Supervisory Board members and executive employees hold an additional 5.46% of Shares. The fact that most Supervisory Board and all Audit Committee members are independent is intended to counterbalance the Majority Shareholder's control.

Ownership structure	Ownership ratio based on the Shares
Majority Shareholder	63.88%
Free float	32.25%
Own shares	3.87%
Total:	100.00%

To the Company's knowledge, only the Majority Shareholder holds a stake reaching or exceeding 5% in the Company.

WALLIS PORTFOLIÓ Korlátolt Felelősségű Társaság (registered office: H-1055 Budapest, Honvéd u. 20.; company registration number: Cg. 01-09-925865), fully owned by the Ultimate Private Individual Shareholder, is the majority shareholder of the Majority Shareholder.

12.2 Agreements leading to the modification of control over the Company

Based on the agreements concluded between the Majority Shareholder and other shareholders, the Majority Shareholder holds 63.88% of the votes that may be cast based on Shares.

In order to finance their activities, certain members of the ALTEO Group concluded financing agreements with Hungarian financial institutions, in connection with which they granted security in the manner customary in such cases.

Other than the collateral agreements granting an option to acquire a business share as a collateral, an option agreement for the business share of Tisza-WTP was concluded by MOL Petrochemicals Co. Ltd. and Sinergy. Under this agreement, MOL Petrochemicals Co. Ltd. may purchase Tisza-WTP's business share against the purchase price calculated by the method specified in the agreement by unilateral statement no later than by June 30, 2027.

Under the heat supply and capacity commitment agreement concluded between BC-Therm and BorsodChem Zrt., BorsodChem Zrt. shall purchase BC-Therm's business share from the Company at book value upon the expiry of the agreement (expected to be on December 31, 2020).

Under a long term contract concluded by and between Zugló-Therm and FŐTÁV Zrt on purchasing and selling thermal energy, as well as an agreement establishing a purchase option, concluded at the same time, upon expiry of that contract (expected by May 31, 2030) or in the case of termination by Zugló-Therm, FŐTÁV Zrt is entitled to buy the gas engine block heat power plant established by Zugló-Therm for an amount of EUR 1, further to its decision adopted at its discretion. If FŐTÁV Zrt. fails to exercise their purchase option, and the parties are unable to reach an agreement on the future of the heat power plant,

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Zugló-Therm will be obliged to demolish it at its own expense and restore the property used by it for this purpose to its original condition.

As far as the Company is aware, by the time this Information Memorandum is closed no agreement other than the one indicated above was concluded the implementation of which may lead to the alteration of the control over the Company at any time in the future.

13. FINANCIAL INFORMATION CONCERNING THE ISSUER'S ASSETS AND LIABILITIES, FINANCIAL POSITION AND PROFITS AND LOSSES

The Company and its Subsidiaries prepare individual reports in line with HAS for each financial year. However, beginning with the financial year of 2010, the Company prepares a consolidated report according to the IFRS standards. Furthermore, since 2017, the Company has been obliged to prepare even its individual report in line with the IFRS standards. Certain data elements and results of the reports prepared in line with HAS may be different from those used in IFRS.

The latest financial information concerning the Issuer's assets and liabilities, financial position and profits or loss is included in the Issuer's audited consolidated annual reports for 2018, prepared according to IFRS, and its report for H1 2019. This financial information is included in this Information Memorandum with references made in Chapter 18 of the present Information Memorandum.

The latest disclosed financial information is included in the Issuer's audited annual report for the year 2018, prepared according to the IFRS, and in the unaudited report for H1 2019. No major changes have occurred in the financial and trade positions of the Issuer and the ALTEO Group since the disclosure of their audited annual report for 2018, prepared according to the IFRS, and in the unaudited report for H1 2019.

The present chapter of the Information Memorandum should be interpreted together with the financial reports and the notes thereto incorporated by reference in Chapter 18, as well as with the risk factors described in Chapter 1. "Risk Factors" of the Information Memorandum. Furthermore, this chapter should be interpreted together with the information in Chapter 8, "Overview of the Company's Business Activity" of the Information Memorandum.

14. ADMINISTRATIVE, COURT AND ARBITRATION COURT PROCEDURES

14.1 Court, arbitration and administrative proceedings launched by the ALTEO Group

Sinergy Energiakereskedő received a letter from VPP Magyarország Zrt. (registered office: H-1113 Budapest, Bocskai út 134-146. C. ép. 3. em.; company registration number: 01-10-048666) in early 2018 in which the sender assumed—based on information of unclear origin—that the control center of Sinergy Energiakereskedő 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 patent 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 reviewed the patent and the related claim, involving the professionals developing the system and a renowned patent agent with expertise in the technology involved. These reviews came to the conclusion that the system operating the control center of Sinergy Energiakereskedő is not and has never been covered by patent protection, since a significant part of the characteristics of the claims related to the patent of VPP Magyarország Zrt. are not present in the course of the operation of the system used by Sinergy Energiakereskedő Kft. After the analysis and based on its findings, Sinergy Energiakereskedő explicitly and completely denied the claim of VPP Magyarország Zrt.

On March 14, 2018, Sinergy Energiakereskedő requested the Hungarian Intellectual Property Office to establish that the six control procedures it uses in total in the course of operating the Control Center are 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 a patent holder under number E031332. Sinergy Energiakereskedő 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. In the opinion of the Company, the above procedure will not have a significant impact on the financial standing or the profitability of the ALTEO Group.

At the time of closing of this Information Memorandum the Company is not aware of any further proceedings initiated against any member of the ALTEO Group that could have a significant effect on the financial position or profitability of the ALTEO Group.

14.2 Court, arbitration and administrative proceedings to be launched by the ALTEO Group

At the time of closing of this Information Memorandum the Company is not aware of any further proceedings to be initiated by any member of the ALTEO Group that could have a significant effect on the financial position or profitability of the ALTEO Group.

14.3 Court, arbitration and administrative proceedings launched against the ALTEO Group

At the time of closing of this Information Memorandum the Company is not aware of any further proceedings initiated against any member of the ALTEO Group that could have a significant effect on the financial position or profitability of the ALTEO Group.

14.4 Court, arbitration and administrative proceedings potentially launched against the ALTEO Group

At the time of closing of this Information Memorandum the Company is not aware of any further proceedings potentially initiated against any member of the ALTEO Group that could have a significant effect on the financial position or profitability of the ALTEO Group.

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15. ADDITIONAL INFORMATION

15.1 Guarantee

No guarantee is attached to the Bonds.

15.2 Further additional information

In the Information Memorandum where the data were presented we used rounded numbers, on the basis of the general rules for rounding. As a result, there may be differences between the total amount in some rows and the total value of the summary rows.

This Information Memorandum was prepared in relation to the private offering of the bonds to be issued by ALTEO Nyrt.

16. RELEVANT AGREEMENTS

The Company has no knowledge of any substantial contract concluded outside the scope of the general business activity on which basis any member of the ALTEO Group would have a liability or an entitlement according to which this fact might have an impact from the point of view of the Company's ability to perform its obligations in respect of the Bonds towards the Investors.

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17. THIRD-PARTY INFORMATION, EXPERT STATEMENT AND CONFLICT OF INTEREST STATEMENT

The Information Memorandum does not contain any statement or report of persons contributing in the quality of experts.

During the preparation of the Information Memorandum, exclusively information obtained from the Subsidiaries, the Majority Owner or third parties explicitly indicated in the Information Memorandum was built in. Such information originating from these persons was used accurately and from the information received, no facts were omitted that might lead to inaccuracy or make the information received misleading.

Information originating from third persons were not prepared explicitly for the Issuer, and the Issuer did not confirm or control their contents.

18. DOCUMENTS AVAILABLE OR INCORPORATED BY REFERENCE

Documents to be viewed:

The following electronic documents (or their copies) can be viewed on the Company's website, www.alteo.hu (no information published on the website (except for information incorporated by reference via a link) constitutes a part of this Information Memorandum or has been verified and approved by the competent authority):

- (a) [the Company's Charter;](#)
- (b) [the Rules of Procedure of the Board of Directors;](#)
- (c) [the Rules of Procedure of the Supervisory Board;](#)
- (d) [the Rules of Procedure of the Audit Committee;](#)
- (e) [The individual, audited, HAS-based reports for the financial years 2010-2017, individual, audited, IFRS-based report of the Company for the financial year 2018, the audited, IFRS-based consolidated report for the financial years 2010-2017;](#)
- (f) [The individual, audited, HAS-based reports of BC-BC-Therm, CIVIS, E-WIND, EXIM, Győr Power Plant, Kazinc-Therm, Ózd Power Plant, Sopron Power Plant, Sinergy, Sinergy Energiakereskedő, Tisza-Therm, Tisza-WTP, VENTEO and WINDEO from among the Company's Subsidiaries for the financial years 2013-2018;](#)
- (g) [Annual reports of the Company's Board of Directors for the financial years 2010-2018;](#)
- (h) [a consolidated base prospectus approved by HFSA with its Resolution KE-III-320/2011 dated June 28, 2011, for the bond issue scheme designated as "ALTEO bond scheme for the years 2011-2012";](#)
- (i) [addition No. 1 to the consolidated base prospectus prepared by the Company for the bond issue scheme designated as "ALTEO bond scheme for the years 2011-2012" and approved by HFSA with its Resolution KE-III-50057/2011 dated November 9, 2011;](#)
- (j) [a consolidated base prospectus approved by the Central Bank of Hungary with its Resolution H-KE-III-372/2014 dated May 13, 2014, for the bond issue scheme designated as "ALTEO bond scheme for the years 2014-2015";](#)
- (k) [addition No. 1 to the consolidated base prospectus prepared by the Company for the bond issue scheme designated as "ALTEO bond scheme for the years 2014-2015", approved by the Central Bank of Hungary with its Resolution H-KE-III-387/2014 dated May 29, 2014;](#)
- (l) [a consolidated base prospectus approved by the Central Bank of Hungary with its Resolution H-KE-III-541/2016 dated June 28, 2016;](#)
- (m) [addition No. 1 to the consolidated base prospectus prepared by the Company and approved by the Central Bank of Hungary with its Resolution H-KE-III-669/2016 dated September 14, 2016;](#)
- (n) [addition No. 2 to the consolidated base prospectus prepared by the Company and approved by the Central Bank of Hungary with its Resolution H-KE-III-679/2016 dated September 20, 2016;](#)
- (o) [consolidated base prospectus prepared by the Company and approved by the Central Bank of Hungary in its Resolution H-KE-III-385/2017 dated May 29, 2017; and](#)
- (p) [Investor Presentation prepared by the Company for Q1 2019;](#)

Documents incorporated by reference (available at the <https://alteo.hu/befektetoknek/az-alteo-nyrt-kozlemenyei/> website):

- (q) [The Company's audited, IFRS-based consolidated report for the 2018 financial year;](#)
- (r) [Unaudited report prepared by the Company for H1 2019](#)

19. RELEVANT INFORMATION

19.1 Interests of natural persons and legal personalities affected by the issue

To the best of the Issuer's knowledge, there is no conflict of interest between the interests of other natural persons and legal persons affected by the placement on the one hand, and the purpose of the Private Offering on the other hand.

19.2 Reasons for the offer and the use of the proceeds

The primary purpose of the issue of the Bonds is the refinancing of the Issuer's existing bank loans and its bonds with a maturity ending in 2020 (90% of the proceeds from the Bonds is expected to be used for this purpose). In addition, the Issuer will use the funds raised in part to fund investments into energy projects, as well as for corporate financing purposes (10% of the proceeds from the Bonds is expected to be used for this purpose. If the proceeds from the Bonds do not cover these costs, the Issuer will probably use bank loans or further Bond issues to cover the missing amount). The total costs of the Private Offering and the listing of the Bonds on a regulated market are not intended to exceed 0.2% of the total face value of the Bonds placed on the market. The Issuer will not pass on any costs to the Investors in connection with the issue of the Bonds and their stock exchange listing.

20. TAX LIABILITIES RELATED TO THE BONDS

20.1 General rules

This part of the Information Memorandum only contains general information and the rules of taxation in force in the territory of Hungary at the time of the preparation of the Information Memorandum. The tax laws of the Investor's Member State and the country in which the Company—as the issuer—is incorporated (Hungary) may affect the income generated from the Bonds.

The general information included in the Information Memorandum cannot take into account all individual circumstances affecting the tax liabilities of different investors, and therefore does not constitute tax advice. Furthermore, the Issuer undertakes no liability for any consequences of any changes in the applicable laws or the relevant judicial practice made after the date of the preparation of this Information Memorandum. Therefore, it is recommended and necessary to use the services of a tax advisor in each individual case.

Payments in relation to the Bonds will be made in accordance with the financial or other laws and regulations as amended. As a result, the Issuer will not make any additional payment in the event the payer needs to deduct tax or any other amount from the payments to be made in relation to the Bonds.

Under the laws in force, the Issuer as payer is not liable to the Bond holders or any other persons for any charges, costs, losses or expenses arising from or in connection with such payments, and the Issuer may not claim any such charges, costs, losses or expenses against the Bond holders or other persons.

20.2 Private individuals and companies with tax residence in Hungary

(a) Private individuals

In respect of the taxation of the income from the Bond, according to 7 (31) of Act CL of 2017 on the Rules of Taxation (hereinafter: “Act on the Rules of Taxation”) and Section 65 (2) (a) of the Personal Income Tax Act, the credit institution/investment service provider will be regarded as the payer (hereinafter: the “**Final Payer**”) instead of the Issuer.

Private individuals are required to pay a personal income tax of 15% on their interest income from Bonds, determined and deducted when making the payment of the income by the Final Payer. Pursuant to Section 65 of the Personal Income Tax Act, interest income means, among other things, the following in the case of publicly placed and traded debt securities:

- (i) the income paid (credited) to a private individual as interest and/or yield, based on the fact that such private individual holds the relevant securities at a specific time prescribed as a precondition for entitlement to interest and/or yield;
- (ii) part of the income from the calling, redemption or transfer of securities payable to the private individual—irrespective of the distribution between net current value, accumulated interest or yield—calculated according to the provisions applicable to capital gains.

Accordingly, in addition to interest payment, income from the sale of the Bond also constitutes interest income and is taxed as described above.

The interest tax is determined and deducted (accounted for) by the Final Payer acting as a payer, for the date when the interest is earned. Private individuals are not required to declare their interest income to the tax authority if the payer has already deducted the tax from it.

(b) Companies

Companies covered by the Corporate Tax Act account for their incomes from the Bonds (including the sale of the Bonds) and their expenses related to the Bonds according to the general rules when determining their profit or loss before taxes. The Issuer will not deduct any taxes from the income from the Bond; it is the responsibility of companies engaged in economic activities to determine, declare and pay the 9% corporate tax liability on their profit or loss (it is noted that those subject to other types of tax such as KATA, KIVA etc., are treated differently).

In addition to the above, in the case of credit institutions, financial enterprises and insurers, the difference between the interest and interest expenses (including other items) will be used as a reserve for local business taxes and innovation contributions.

20.3 Private individuals and companies with foreign tax residence

(a) Private individuals

Private individuals with tax residence abroad will pay tax depending on whether there is a double taxation treaty or reciprocity between Hungary and the country of their tax residence, provided they prove their foreign tax residence and furnish a declaration of beneficial ownership if required by the treaty. Foreign tax residence can be evidenced by presenting the English version of a document issued by the foreign tax authority (or by the international organization for the purpose of certifying eligibility for tax exemption), the Hungarian translation of such document or a copy of the document or its translation into Hungarian. Foreign tax residence can be evidenced by presenting a copy of the Hungarian translation of the document issued by the foreign tax authority. As a rule, the rate of the withholding tax payable in Hungary is 15%. This amount can be limited, or reduced to zero by double taxation treaties (in the latter case the income is exempt from Hungarian withholding tax). In most cases, private individuals with foreign tax residence may deduct the withholding tax paid in Hungary from the tax they have to pay abroad.

In the absence of a certificate of tax residence or if there is no treaty or reciprocity between the two states, or if the required documents are not available, foreign private individuals will pay tax according to the provisions of the act on personal income tax as amended, that is, a personal income tax of 15% will be deducted. Following payment, the Bond holder may file a claim for tax refund to the competent tax authority according to the applicable legal provisions if they have a certificate of tax residence and a certificate from the payer, and if the rate of tax deducted from the private individual with a foreign tax residence is higher than the tax rate used under the international convention.

A private individual with foreign tax residence and a place of business in Hungary will represent an exception since in that case, any income linked to the place of business will be taxed according to the general rules.

Please note that interest income paid to private individuals with a tax residence in the European Union are subject to mandatory reporting rules.

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(b) Companies

The income from the Bonds of companies with foreign tax residence (and without a place of business in Hungary) are not subject to any tax liability in Hungary. If such a company has a place of business in Hungary, the income generated by such place of business will be taxed according to the general rules and according to the provisions of the double taxation treaty, if applicable.

21. DEFINITIONS

The terms used with capital initials in this Information Memorandum but not separately defined in the text will have the meaning set out below.

Accounting Act	Act C of 2000 on Accounting;
Act on the Rules of Taxation	Act XCII of 2003 on the Rules of Taxation;
ALTE-A	ALTE-A Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-901186);
ALTEO Energiakereskedő	ALTEO Energiakereskedő Zártkörűen Működő Részvénytársaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-10-047253);
ALTEO Group	the Issuer and the Subsidiaries together;
ALTEO-Agria	ALTEO-Agria Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-904433);
ALTEO-Arrabona	ALTEO-Arrabona Vagyonkezelő Korlátolt Felelősségű Társaság, formerly fully owned by the Issuer, which was merged into Győri Erőmű as of October 31, 2010;
ALTEO-Depónia	ALTEO-Depónia Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-906261);
ALTEO-Hidrogáz	ALTEO-Hidrogáz Korlátolt Felelősségű Társaság, previously fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-919643);
ALTEO-Sopron	ALTEO-Sopron Vagyonkezelő Korlátolt Felelősségű Társaság, formerly fully owned by the Issuer, which was merged into Soproni Erőmű as of October 31, 2010;
ALTSOLAR	ALTSOLAR Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-997686), which was merged into ALTEO-Depónia as of October 1, 2018;
Amendment Act	Act XXIX of 2011 Amending Legislation on Energy;
Audit Committee	the Issuer's Audit Committee;
Audit Committee Procedure	procedures of the Issuer's Audit Committee effective from March 24, 2017;
Balassagyarmati Biogáz	Balassagyarmati Biogáz Erőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-998498);

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Bankruptcy Act	Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings;
BC-Therm	BC-Therm Energiatermelő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-887812);
BGS	The Bond Funding for Growth Scheme launched by the Central Bank of Hungary, the details of which are available on the website of the Central Bank of Hungary;
Board of Directors	the Issuer's Board of Directors;
Board Procedures	procedures of the Issuer's Board of Directors effective from September 14, 2010;
Bond Decree	Government Decree no. 285/2001 (XII. 26.) (or any other piece of legislation amending or replacing it);
Bonds	registered dematerialized securities embodying the Issuer's liability (credit relationship) with a face value of HUF 50,000,000 to be issued in the framework of the Private Offering, designated as ALTEO NKP/2029;
BSE or Budapest Stock Exchange	Budapesti Értéktőzsde Zártkörűen Működő Részvénytársaság (registered office: H-1054 Budapest, Szabadság tér 7., Platina torony, I. épület, IV. emelet; company registration number: Cg. 01-10-044764);
Capital Markets Act	Act CXX of 2001 on Capital Markets;
CBH	the Central Bank of Hungary;
Civil Code	Act V of 2013 on the Civil Code;
CIVIS	CIVIS-BIOGÁZ Szolgáltató Korlátolt Felelősségű Társaság, formerly owned fully owned by ALTEO-Depónia (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-938515), which was merged into ALTEO-Depónia as of October 1, 2018;
Clean Energy For All Europeans	revision of the EU's energy policy framework, which entails eight pieces of legislation and/or draft legislation including the RED2 Directive (see: https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans);
Commission Guidelines on State Aid for Energy	Guidelines of the European Commission 2014/C 200/01 on State aid for environmental protection and energy 2014-2020;
Control Center	Sinergy Energiakereskedő's activity, in the framework of which it organizes certain electricity generator units of the ALTEO Group in a system operation unit;
Corporate Tax Act	Act LXXXI of 1996 on Corporate Tax and Dividend Tax;

Distance Heating Act	Act XVIII of 2005 on Distance Heating;
Distributor	Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.);
Domaszék	Domaszék 2MW Naperőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-278226);
DVP	(Delivery versus Payment) A transaction defined in the effective regulations of KELER, whereby a specific security is debited to the security account in exchange for the crediting of the financial consideration to a cash account, in such a manner that the crediting and the debiting take place at the same time.
ECO-FIRST	ECO-FIRST Hulladék Kereskedelmi Korlátolt Felelősségű Társaság, owned 66% by the Issuer (registered office: H-1131 Budapest, Babér u. 1-5.; company registration number: Cg. 01-09-344380);
EFET	European Federation of Energy Traders;
Electricity Act	Act LXXXVI of 2007 on Electricity;
Energy Efficiency Act	Act LVII of 2015 on Energy Efficiency;
Energy Efficiency Directive	Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC;
ETS	The European Union's trading system for emission units (<i>EU Emissions Trading Scheme</i>);
ETS Directive	Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC;
EU ETS	The European Union's trading system for emission permits (<i>EU Emissions Trading Scheme</i>);
EURO GREEN ENERGY	EURO GREEN ENERGY Fejlesztő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-921340);
European Commission	the European Commission, the executive body of the European Union;
e-Wind	e-Wind Szélergetikai Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-733622);

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EXIM	EXIM-INVEST BIOGÁZ Ipari és Szolgáltató Korlátolt Felelősségű Társaság, formerly fully owned by ALTEO-Depónia (registered office prior to sale: H-1131 Budapest, Babér utca 1-5.; company registration number prior to sale: Cg. 01-09-938516), which was sold on August 15, 2018;
F.SZ ENERGIA	F.SZ ENERGIA Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-328112);
Gas Supply Act	Act XL of 2008 on Natural Gas Supply;
General Assembly	the Issuer's General Assembly;
Government Decree implementing the Electricity Act	Government Decree no. 273/2007 (X. 19.) on the implementation of the Electricity Act;
Greenhouse Gas Act	Act XV of 2005 on the Trading in Emission Allowances of Greenhouse Gases;
Grid SMP Resolution	Resolution no. 727/2008 of the HEA dated June 30, 2008, identifying licensees with significant market powers in the markets of capacities and energy purchased in order to provide system level services, and imposing obligations on them;
Győr Power Plant	Győri Erőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-9027 Győr, Kandó Kálmán utca 11-13.; company registration number: Cg. 08-09-019413);
HAS	the Hungarian Accounting Standards;
HEA	the Hungarian Energy and Public Utility Regulatory Authority (formerly known as: Hungarian Energy Office);
HFSA	the Hungarian Financial Supervisory Authority;
HIDROGÁZ	HIDROGÁZ Energiatermelő Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-863661);
HUF or forint	the Hungarian forint, the legal tender of Hungary;
HUPX	the organized Hungarian electricity market operated by HUPX Zrt.;
IFRS	International Financial Reporting Standards;
Implementing Decree for the Gas Supply Act	Government Decree no. 19/2009 (I. 30.) on the implementation of the Gas Supply Act;
Investment Firms Act	Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities;
Investor	the person who actually purchases the Bonds;

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Issuer or Company	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-10-045985);
IT-Solar	IT-Solar Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-291869);
KÁT	the electricity taking-over system based on the rules set out in the Electricity Act, the Government Decree implementing the Electricity Act and Government Decree no. 389/2007 (XII. 23.) on the obligatory dispatch and purchase of electricity generated from waste or from renewable energy sources and co-generated electricity;
KÁT Decree	Government Decree no. 389/2007 (XII. 23.) on the obligatory dispatch and purchase of electricity generated from waste or from renewable energy sources and co-generated electricity (repealed with effect from 1 February, 2014);
Kazinc-BioEnergy	Kazinc-BioEnergy Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-996064);
Kazinc-Therm	Kazinc-Therm Fűtőerőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-3700 Kazincbarcika, Erőmű utca 3.; company registration number: Cg. 05-09-009234);
KELER	KELER Központi Értéktár Zártkörűen Működő Részvénytársaság (registered office: H-1074 Budapest, Rákóczi út 70-72.; company registration number: Cg. 01-10-042346);
Majority Shareholder	WALLIS ASSET MANAGEMENT Zártkörűen Működő Részvénytársaság (registered office: 1055 Budapest, Honvéd u. 20.; company registration number: Cg. 01-10-046529);
Management Profit and Loss Statement	statements produced for the company management that are not strictly in keeping with the statements produced in conformity with IFRS/Hungarian Accounting Act;
MAVIR	a MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zártkörűen Működő Részvénytársaság (registered office: H-1031 Budapest, Anikó utca 4.; company registration number: Cg. 01-10-044470);
METÁR	obligatory system of taking over thermal energy and electricity generated out of renewable and alternative sources;
METÁR Amendment	Act LXXXVI of 2007 on Electricity, and Act LXXXII of 2016 amending Act XXIX of 2011 Amending Legislation on Energy;
METÁR Decree	Government Decree no. 165/2016 (VI. 23.) on the subsidies for the obligatory dispatch and premium type purchase of electricity generated from renewable sources;

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Monsolar	Monsolar Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-291864);
National Action Plan	Hungary's action plan for the utilization of renewable energy on the development of the consumption of renewable sources up to 2020, Ministry of National Development, December 2010;
National Climate Change Strategy	Hungary's second National Climate Change Strategy for 2018 to 2030 offering an outlook up to 2050, adopted by the Parliament in Parliament Decision no. 23/2018 (X. 31.) OGY;
Natural Gas Retail SMP Resolution	Resolution no. 358/2010 of the HEA dated May 28, 2010, on a market analysis and investigation of significant market power in the markets of natural gas retail trade and identifying licensees with significant market powers based on the market analysis conducted, and imposing obligations on them;
Natural Gas Wholesale SMP Resolution	Resolution no. 112/2010 of the HEA dated March 1, 2010, on a market analysis and investigation of significant market power in the natural gas wholesale market;
New KÁT Allocation Decree	Decree of the Minister of National Development no. 63/2016 (XII. 28.) NFM laying down the detailed rules for determining the extent and payment of liquid assets required for financing the operating subsidy for energy generated out of renewable resources and waste;
New METÁR Decree	Government Decree no. 299/2017 (X. 17.) on the subsidies for the obligatory dispatch and premium type purchase of electricity generated from renewable sources;
NTCA	the National Tax and Customs Authority;
Old KÁT Allocation Decree	Decree no. 63/2013 (X. 29.) NFM on the method of distribution of electricity subject to obligatory dispatch by the transmission system operator and of determining the prices that may be applied in distribution;
Ózd Power Plant	Ózdi Erőmű Távhőtermelő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Company (registered office: H-3700 Kazincbarcika, Erőmű u. 3.; company registration number: Cg. 05-09-012217);
Paris Agreement	the international agreement adopted in the framework of the 21st conference of conference of the States Parties to the United Nations Framework Convention on Climate Change held in Paris between November 30 and December 11, 2015, ratified by the European Union on October 5, 2016;
Paying Agent	Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.);

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Péberény	Péberény Ingatlanhasznosító Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-190766);
Personal Income Tax Act	Act CXVII of 1995 on Personal Income Tax;
Price Decree	Decree of the Minister of National Development no. 50/2011 (XI. 30.) NFM determining the price of distance heating sold to distance heating suppliers, and the fee for distance heating supply for household users and institutions handled separately;
Private Offering	sale of the Bonds in the framework of a private offering procedure under the Capital Markets Act.
Recent METÁR Amendment	Government Decree no. 393/2016 (XII. 5.) amending certain Government Decrees on energy efficiency and operating subsidies for electricity generated out of renewable sources;
RED Directive	Directive 2009/28/EC of the European Parliament and of the Council of April 23, 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC;
RED2 Directive	Directive (EU) 2018/2001 of the European Parliament and of the Council of December 11, 2018 on the promotion of the use of energy from renewable sources;
REMIT Regulation	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency;
Retail SMP Decision	Decision no. 114/2009 of the HEA dated in April 2009, imposing obligations on licensees identified as having significant market power based on the market analysis conducted in electricity retail markets;
Shareholder Group	the aggregate of business companies controlled directly or indirectly, via another company, by the Ultimate Private Individual Shareholder, whether independently or jointly, in which respect control will mean exercising more than 50% of voting rights in the main bodies of the business companies, and the right to appoint the majority of executive officers and members of the Supervisory Board;
Shares or Share	all or any of the series 'A' registered dematerialized ordinary shares issued by the Issuer at any time, each with a face value of HUF 12.5 (both in the ALTEO and the ALTEO/NODIV series);
Sinergy	Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-680396);

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Sinergy Energiakereskedő Sinergy Energiakereskedő Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-178667);

Sinergy Group Sinergy and the following Subsidiaries directly owned by Sinergy up until October 1, 2018 together:

- (i) Balassagyarmati Biogáz;
- (ii) BC-Therm;
- (iii) Kazinc-BioEnergy;
- (iv) Kazinc-Therm;
- (v) Ózdi Erőmű;
- (vi) Sinergy Energiakereskedő;
- (vii) Tisza-BioEnergy;
- (viii) Tisza BioTerm;
- (ix) Tisza-Therm;
- (x) Tisza-WTP; and
- (xi) Zugló-Therm;

Sopron Power Plant Soproni Erőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: 9400 Sopron, Somfalvi u. 3.; company registration number: Cg. 08-09-019412);

Statutes the Statutes of the Company dated May 13, 2019, in a consolidated structure with amendments;

Subsidiaries or Subsidiary all or any of the following companies owned by the Company:

- (i) ALTE-A;
- (ii) ALTEO-Agria;
- (iii) ALTEO-Depónia;
- (iv) ALTEO Energiakereskedő;
- (v) Balassagyarmati Biogáz;
- (vi) BC-Therm;
- (vii) Domaszék;
- (viii) ECO-FIRST;
- (ix) EURO GREEN ENERGY;
- (x) e-Wind;
- (xi) F.SZ. ENERGIA;
- (xii) Győri Erőmű;
- (xiii) HIDROGÁZ;
- (xiv) IT-Solar;
- (xv) Kazinc-BioEnergy;
- (xvi) Kazinc-Therm;
- (xvii) Monsolar;
- (xviii) Ózdi Erőmű;
- (xix) Péberény;
- (xx) Sinergy;
- (xxi) Sinergy Energiakereskedő;
- (xxii) Soproni Erőmű;
- (xxiii) SUNTEO;
- (xxiv) Tisza-BioEnergy;
- (xxv) Tisza BioTerm;
- (xxvi) Tisza-Therm;
- (xxvii) Tisza-WTP;
- (xxviii) True Energy;
- (xxix) WINDEO; and
- (xxx) Zugló-Therm;

Subsidy Decree Decree of the Minister of National Development no. 51/2011 (IX. 30.) NFM on distance heating service subsidies;

SUNTEO SUNTEO Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-997687);

Supervisory Board the Issuer's Supervisory Board;

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Supervisory Board Procedures	procedures of the Issuer's Supervisory Board effective from March 26, 2010;
Tisza BioTerm	Tisza-BioTerm Korlátolt Felelősségű Társaság, 60% of which is owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-965041);
Tisza-BioEnergy	Tisza-BioEnergy Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-996062);
Tisza-Therm	Tisza-Therm Fűtőerőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-3580 Tiszaújváros, Tisza út 1/D.; company registration number: Cg. 05-09-009230);
Tisza-WTP	Tisza-WTP Vízelőkészítő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-3580 Tiszaújváros, Ipartelep 2069/3.; company registration number: Cg. 05-09-009864);
True Energy	True Energy Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-328856);
Ultimate Private Individual Shareholder	Tibor Veres;
VAT	value added tax in conformity with Act CXXXVII of 2007 on Value Added Tax;
VENTEO	VENTEO Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-897425), which was merged into WINDEO as of October 1, 2018;
Wholesale SMP Resolution	Decision no. 747/2011 of the HEA dated in October 14, 2011, imposing obligations on licensees having significant market power based on the market analysis conducted in electricity wholesale markets;
WINDEO	WINDEO Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-899444);
Zugló-Therm	Zugló-Therm Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-717404);

Annex 1
Sample of the text of the Bond

Document on the dematerialized bond

1. Data on the issuer:

Full name:	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
Short name:	ALTEO Nyrt.
Address:	Hungary, H-1131 Budapest, Babér u. 1-5.
Company registration number:	Cg. 01-10-045985
Tax number:	14292615-2-41
Amount of share capital:	HUF 242,328,425
Data of the Document's signatory:	
the name of the first signatory:	Attila László Chikán
basis for the right of representation (position)	Member of the board of directors
name of the second signatory	Domonkos Kovács
basis for the right of representation (position)	Member of the board of directors

2. Data related to the tranche:

Date of the decision on the issue of a tranche:	October 16, 2019
Decision on the issue of a tranche	Resolution 1/2019 (X.16.) of the Board of Directors
Tranche number:	1
Face value items in the tranche:	[*]
Total face value of the tranche:	[*] HUF
Value date related to the tranche:	October 28, 2019
Total issues to date, face value items	[*]

3. Data on the series as a whole:

Designation of the series:	ALTEO NKP/2029
Letter and code of the series:	ALTNKP/29
ISIN identifier:	HU0000359252
Type of series:	registered
Face value and currency:	HUF 50,000,000
Face value items in series, total	[*] number
Total face value of the series:	[*] HUF
Place of the issue:	Hungary
Placing on the market:	Hungary
Method of placing on the market	private
Date of the Issue (the value date of the first issue):	October 28, 2019
Maturity date:	October 28, 2029
Bond term:	10 years
Interest-bearing:	Fixed
Interest rate in %:	3.15
Interest payment dates:	10/28/2020; 10/28/2021; 10/28/2022; 10/28/2023; 10/28/2024; 10/28/2025; 10/28/2026; 10/28/2027; 10/28/2028; 10/28/2029.
Terms of interest payment:	Fixed Interest Bonds pay an interest based on their face value during the Interest Payment Period at an annual rate equal to the Interest Rate expressed in percentage. The Interest Amount calculated based on the Interest Rate is payable subsequently, on the Interest Payment Day. Interest payment period: The Interest Payment Period is the period starting on the Interest Calculation Start Date (including that day) and ending on the first Interest Payment Date (not including that day), as well as any subsequent period starting on the Interest Payment Date (including that day) and ending on the following Interest Payment Date (not including that day), provided that the last Interest Payment Date is the Expiration Date. Interest base: Actual/Actual (ISMA) The actual number of days of the Interest Payment Period divided by the product of (1) the number of days of the Interest Base Determination Period and (2) the number of Interest Base Determination Days within a calendar year

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Interest Base Determination Period: The Interest Base Determination Period means each period starting on the Interest Base Determination Day (including that day) and ending on the following Interest Base Determination Day (not including that day).

Working Day Rule: If any Interest Payment Day does not fall on a Working Day, then, pursuant to the Rules of the Next Working Day Rule, the Interest must be paid on the first Working Day following such Interest Payment Day. The Bond holder is not liable to pay any additional interest or any other payment for such deferred payment Working Day:

Any day on which commercial banks, money and foreign exchange markets make payments and settlements in Budapest, and on which KELER is open.

Determination of the Fixed Interest Amount

The Paying Agent will calculate the amount of interest (hereinafter: "Fixed Interest Amount") that is payable on Fixed Interest Bonds for the relevant Interest Payment Period. Each Fixed Interest Amount is calculated by applying the Interest Rate to each face value, and the resulting value is multiplied by the Interest Base, and then the result is aggregated for each securities account holder and rounded to a whole HUF number value according to the general rounding rules. Any resulting value must be rounded up from the half (not including the half).

The due date of the Fixed Interest Amount and its payment date The Fixed Interest Amount is due on the Interest Payment Date(s), subject to the Working Day Rule.

10/28/2020 HUF 1,575,000 / 1 Bond
10/28/2021 HUF 1,575,000 / 1 Bond
10/28/2022 HUF 1,575,000 / 1 Bond
10/28/2023 HUF 1,575,000 / 1 Bond
10/28/2024 HUF 1,575,000 / 1 Bond
10/28/2025 HUF 1,575,000 / 1 Bond
10/28/2026 HUF 1,575,000 / 1 Bond
10/28/2027 HUF 1,575,000 / 1 Bond
10/28/2028 HUF 1,575,000 / 1 Bond
10/28/2029 HUF 1,575,000 / 1 Bond

Redemption (repayment) possible during the term

No

Terms of redemption (repayment):

The principal is payable at face value, in a lump sum, on the day of the maturity of the bond, i.e. on October 28, 2029. The payment of the principal will be made on the due date or, if it falls on a day that is not a banking Working Day, on the following banking Working Day, to the bank account specified by the investor or the respective bond holder. Bond payments are made to the Bond holders by the Paying Agent by wire transfer. The payments must be made to the securities account holders having a portfolio of the given Bonds, in accordance with the applicable policies and regulations of KELER. The beneficiary of the payment is the person in whose securities account the Bond is held on the reporting date specified in the applicable policy of KELER. With respect to the Bonds, payments made in line with the Bond terms are considered to be appropriate payments made to the Bond holders, and the Issuer is released from any obligation associated with the amounts paid in that way. There are no transfer limitations regarding the series.

Description of transfer arrangement related to the series:

For carrying out the obligations based on the bond, the Issuer assumes liability and provides a guarantee with all its assets and future profits.

Commitments ensuring the repayment of the bond amount and the payment of interests:

The primary purpose of the issue of the Bonds is the refinancing of the Issuer's existing bank loans and its bonds with a maturity ending in 2020 (90% of the proceeds from the Bonds is expected to be used for this purpose). In addition, the Issuer will use the funds raised in part to fund investments into energy projects, as well as for corporate financing purposes (10% of the proceeds from the Bonds is expected to be used for this purpose).

Purpose of the Bond's issue:

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4. Further information to be indicated by the Issuer on the deed:

Paying Agent:	Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.);
Redemption in the event of the violation of an obligation:	<p>The Bonds represent direct, unconditional, non-subordinated and unsecured obligations of the Issuer. The Bonds all have identical priority, as well as the same priority as any other unsecured, non-subordinated bond obligations the Issuer may have at any given time (except for any obligations with a higher priority based on statutory requirements). Any violation of this obligation must be remedied by the Issuer within 6 months. After the expiry of this 6-month period, the Issuer must redeem the Bonds at their face value plus any accrued interests not yet paid (<i>pari passu</i>).</p> <p>Furthermore, the Issuer agrees not to issue collateralized bonds which would have a higher priority than Bond claims until its liabilities arising from the bonds have been fully settled. Any violation of this obligation must be remedied by the Issuer within 6 months. After the expiry of this 6-month period, the Issuer must redeem the Bonds at their face value plus any accrued interests not yet paid (<i>negative pledge</i>).</p> <p>In the event of any default by the Issuer exceeding 90 days from the due date with respect to any of its Bonds, the Issuer must promptly redeem the Bonds at their face value plus any accrued interests not yet paid (<i>cross default</i>) upon expiry of this 90-month period.</p> <p>If the rating of Bonds falls below B+, but it is still at least B-, and the Bonds are not upgraded to B+ over the next 2 years, after the expiry of this 2-year period, the Issuer must redeem the Bonds at their face value plus accrued interests not yet paid. If the rating of Bonds is downgraded to CCC or lower, the Issuer must redeem the Bonds at their face value plus accrued interests not yet paid (<i>downgrading of external credit rating</i>).</p>

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The present Deed does not qualify as a security.

Place where the Deed is produced: Budapest

Date when the Deed was produced: [October 28], 2019

on behalf of ALTEO Nyrt.

Attila László Chikán
Member of the Board of Directors

Domonkos Kovács
Member of the Board of Directors

This Information Memorandum was prepared in relation to the private offering of the bonds to be issued by ALTEO Nyrt.

Annex 2
The Distributor's statement

Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.; company registration number: Cg. 01-10-041054), as the investment service provider acting as the organizer on behalf of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: H-1131 Budapest, Babér u. 1-5.; company registration number: Cg. 01-10-045985; hereinafter: the “**Issuer**”) in connection with the private offering of the bonds designated as ALTEO NKP/2029 (hereinafter: the “**Bonds**”) to be issued within the Bond Funding for Growth Scheme of the Central Bank of Hungary (hereinafter: the “**Central Bank of Hungary**”) agrees to ensure that at least 5 qualified investors will be invited to the auction organized for the purpose of selling the Bonds—including the Central Bank of Hungary—in which the Issuer does not have a controlling interest.

Dated: Budapest, October 16, 2019

Erste Bank Hungary Zrt.

Erste Bank Hungary Zrt.

Name: Mihály Geiszbühl
Position: Director, Money and Capital Markets
Directorate

Name: Kinga Oravecz
Position: Head of Department, Department of
Capital Market Operations