Annual Report of ALTEO Nyrt. and its subsidiaries for the 2019 financial year

Disclosure: March 26, 2020

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ALTEO Group's Annual Report for 2019

Introduction

Pursuant to Act V of 2013 on the Civil Code (hereinafter: "**Civil Code**"), Act CXX of 2001 on the Capital Market, the Regulation of the Budapest Stock Exchange Ltd. on Regulations on Listing and Continued Trading (hereinafter: "**Regulation**"), Decree No. 24/2008 (VIII.15.) of the Minister of Finance (hereinafter: "**MF Decree**"), and Act C of 2000 on Accounting, ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (hereinafter: "**Company**" or "**ALTEO**") has prepared and **hereby discloses *"The Management Report and Analysis" on the consolidated annual profit and the consolidated Annual Financial Statements for the 2019 financial year*** (hereinafter collectively: "**Annual Report**"; the Company and the consolidated entities specified in section 3.2 of Annex 3 to this Report hereinafter: "**Subsidiaries**"; the Subsidiaries and the Company hereinafter collectively: "**Group**" or "**ALTEO Group**"). In view of the above, the Annual Report constitutes also a business report under Act C of 2000 on Accounting.

The consolidated Annual Report and the consolidated Annual Financial Statements of the Company have been prepared based on Annex 2 to the MF Decree, according to the requirements set forth in Act C of 2000 on Accounting, in accordance with the International Financial Reporting Standards published in the Official Journal of the European Union.

The data presented in the Company's consolidated Annual Report and consolidated Annual Financial Statements for 2019 were verified by an independent auditor.

ALTEO Group's Annual Report consists of the following documents, occasionally in separate documents, but disclosed at the same time as this Annual Report:

1. Annual report (statement of financial position and statement of profit or loss disclosed in a separate document);
2. Auditor's report, as part of the annual report;
3. Business report, included in this document;
4. Management report, included in this document;
5. Non-financial statements, included in this document;

1 The Management's report and analysis of business activities for 2019

1.1 Management summary on main financial income

Using substantial funds from the successful public offering implemented in Q4 2016 and the profits generated by its operation, ALTEO Group **launched an investment program**, in a manner that **promises** continuous and sufficient **returns**. This investment program has by now been implemented by the Group.

In addition to the investment program, the Group identified further growth opportunities. The **acquisition of the Bőny wind farm** made possible a **25MW expansion of the renewable energy capacity**. In terms of funding, for the purchase of the Bőny wind farm, the Company needed to successfully complete a private placement of shares in the subject year and to obtain bank funding.

ALTEO Group successfully participated in the **Bond Funding for Growth Scheme** (hereinafter: **"BGS"** or "**Bond Funding for Growth Scheme"**) launched by the Central Bank of Hungary, with the priority aim of refinancing some of its short-term project loans by issuing long-term bonds. Given their nature, it takes longer for energy investment projects to produce returns as they are highly capital intensive. The maturity structure of related financing has changed very favorably with BGS refinancing. The value of the bond issue was HUF 8.8 billion, of which HUF 6.3 billion in project loans have been repaid so far.

In 2019, both the Group's revenue and EBITDA profit increased significantly. Revenue growth of 37% was coupled with 110% EBITDA growth. The growth achieved not only reflects the success in investment and acquisition activities, but **also an outstanding performance of the existing portfolio**. **In addition to the dramatic increase in EBITDA, the Net Profit decreased by 48%.** This is mainly due to increased depreciation as a result of very significant investment activities and one-off financial items, where the latter are to a large extent related to the one-off costs of prepayments of project loans financed through BGS bond issue.

The HUF 10 billion expansion in assets and liabilities presented in the Group's consolidated statement of financial position, was realized mainly in the non-current and long-term assets category. The significant increase in the Group's balance sheet total of 45% reflects the realization of investment programs.

The Group's expansion was implemented across all segments. The increase in the **Energy retail** segment provides a good example for the opportunities in an organic growth of the portfolio.

The growth in the **Subsidized (KÁT) energy production** and **market production** segments is the result of both the investment program and the optimal utilization of existing capacities.

The works related to internal projects in the **Energy Services** segment are practically accomplished; the segment obtained significant know-how from the projects already implemented and this knowledge will also be used at third parties in the future.

1.1.1 Management summary of the operating profit or loss statement

Below we present the comparative analysis of the Group's financial data for 2019 and 2018. The comparability of the Group's profit with the previous period's data is limited, due to the acquisitions completed and the profit generation ability of the investments put into operation in the subject year.

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

(Negative values are denoted by parentheses.)	**12/31/2019 HUF thousand**	**12/31/2018 HUF thousand**	***change %***
	12 months	**12 months**	***12 months***
Sales revenues	**25 573 350**	**18 685 767**	***37%***
Material expenses	(18 211 868)	(14 264 354)	*28%*
Personnel expenses	(2 858 164)	(2 506 534)	*14%*
Depreciation and amortization	(2 045 752)	(729 818)	*180%*
Other revenues, expenses, net	(804 281)	(146 835)	*448%*
Operating profit or loss	**1 653 285**	**1 038 226**	***59%***
Finance income	*271 602*	*295 574*	*(8%)*
Financial expenses	*(1 215 423)*	*(527 907)*	*130%*
Net financial income	(943 820)	(232 333)	*306%*
Profit or loss before taxes	**709 465**	**805 893**	***(12%)***
Income tax expenses	(435 834)	(275 814)	*58%*
Net profit or loss	**273 631**	**530 079**	***(48%)***
from which the owners of the Parent Company are entitled to:	*270 717*	*511 218*	*(47%)*
from which the minority interest is entitled to:	2 914	18 861	*(85%)*
Base value of EPS (HUF/share)	**15,02**	**32,72**	***(54%)***
Diluted value of EPS (HUF/share)	**14,41**	**31,17**	***(54%)***
EBITDA	**3 779 180**	**1 800 564**	***110%***

The Group's **Revenues** increased by HUF 6.9 billion to HUF 25.6 billion, as compared to 2018, 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 the initial capital of EURO GREEN ENERGY Kft. (which owns the 25 MW Bőny wind farm), consolidated by the Company from April 1, also played a role. Revenue was reduced in the short term by ALTEO Group's project development unit focusing primarily on work related to ALTEO's solar power plant projects within the Group that year; these projects were delivered in stages in 2019. With these internal projects being implemented, less resources were allocated to the implementation of third-party projects.

Compared to revenues, **Material expenses** increased at a lower rate. The primary reason for this is that whilst the increase in the revenues of the Energy retail segment is coupled with a significant increase in COGS, no significant direct costs are associated to surplus revenues on the structured electricity market, and the costs of the wind farm acquired are low as compared to the revenues.

The increase in **Personnel expenses** is mainly due to one-off organizational restructurings and wage hikes.

In the line of **Depreciation and amortization**, the increase in costs was caused by a substantial rise in the asset base resulting from capital expenditures and acquisitions realized:

Zugló-Therm Kft. has been a consolidated company since Q2 2018, therefore, in 2019, its depreciation recognized for the whole year appears in the Group's depreciation.

Assets acquired in connection with the ***Bőny wind farm*** were already included in the Group's depreciation from Q2 2019.

The ***Monor solar power plant*** was put in operation in December 2018 and depreciation was recognized for it for the whole year of 2019; accounting of depreciation also began for the Balatonberény and Nagykőrös solar power plants, put in operation in the course of 2019.

The balance of **Other income and expenses, net** dropped by HUF 0.7 billion as compared to 2018. The change comes from three factors:

(1) In the first half of 2018, ALTEO Group successfully came to an agreement with one of its long-term service partners on a compensation, which earlier increased the other income line by HUF 0.3 billion in the base period.

(2) The quota to be purchased for CO_2 emissions has increased substantially with the acquisition of the Zugló power plant by the Group, as well as

(3) there was significant rise in the quota price during the period.

Owing to the above events, in 2019, the ALTEO Group was able to recognize a very significant Operating profit increase compared to the base period: it earned an **Operating profit** of HUF 1.7 billion, which is a 59% increase, with an **EBITDA** of HUF 3.8 billion, which is a 110% growth compared to the base period.

The deterioration of **Net financial income** is caused by interest booked on the loan portfolio increased as a result of intense investment activity and the prepayment fees arising from the utilization (primarily for refinancing) of the preferential interest bond package of HUF 8.8 billion issued in October 2019, and the one-off cost of HUF 190 million due to the write-off of expenses previously allocated to loans under the IFRS.

The income tax expense increased together with the Group's profits and exceeded the values recognized in the same period of the previous year by HUF 160 million.

In 2019, the **Group's after-tax profit, i.e. net profit** was HUF 274 million representing a decrease of 48% over the comparative period.

1.1.2 Management summary on comprehensive income

(Negative values are denoted by parentheses.)	**12/31/2019 HUF thousand**	**12/31/2018 HUF thousand**	***change %***
	12 months	**12 months**	***12 months***
Other comprehensive income (after income tax)	**(1 415 650)**	**(259 632)**	***445%***
Other comprehensive income from cash flow hedges	*(109 399)*	*596 238*	*(118%)*
Other comprehensive income from cash flow hedges	*(1 304 930)*	*(856 132)*	*52%*
Reclassification of other comprehensive income from cash flow hedges into profit/loss			
Conversion reserve	*(1 321)*	*262*	*(604%)*
from which the owners of the Parent Company are entitled to:	*(1 415 650)*	*(259 632)*	*445%*
from which the non-controlling interest is entitled to:	-	-	
Comprehensive income	**(1 142 019)**	**270 447**	***(522%)***

The Group recognized the **cumulative effects** (including deferred tax) **of the end-of-period revaluation of hedges** in other comprehensive income. As at December 31, 2019, the cumulative effect of the various hedges was a **change** consisting in **unrealized loss** in the value of HUF 1.4 billion.

The Group's heat sales agreements are concluded at a specific, officially regulated price level. The Group handles the uncertainties resulting from the price fluctuations in the expenses of gas, foreign exchange and CO_2 quota by using hedges, thus ensuring the margin at the given contractual price levels. Based on the structure of heat sales agreements, accounting rules only allow to present in the Comprehensive income the unrealized translation gains and losses on hedges concluded for the purpose of expenses of such agreements. The management intends to close hedges simultaneously with the completion of the sales agreements, which is expected to have a neutral impact on profit.

The business mechanism of hedges applied by the Group is as follows:

- The Group entered into interest rate swaps on some of its outstanding project loans in line with its risk management policy. With interest rate swaps the Group aims to significantly reduce the interest rate risk on project loans.
- The Group adapts its gas and CO_2 purchases to its sales pricing system and concluded hedge transactions to manage currency price volatilities.
- The Group presents the tax effect of the hedges by applying a corporate tax effect of 9%.

1.2 Management summary on the performance of the segments

ALTEO GROUP MANAGEMENT STATEMENT - FINANCIAL STATEMENT BY ACTIVITIES							
2019.12.31 *data in HUF million*	**Heat and electricity generation (market rate, outside the "Subsidized"**	**Electricity generation (within the "Subsidized" system)**	**Energy services**	**Energy trading**	**Other**	**Items eliminated due to consolidation**	**Total**
Sales revenue	**11 699**	**2 362**	**9 558**	**9 901**	**416**	**-8 363**	**25 573**
Material-type expenditures	-9 539	-492	-5 748	-9 244	-563	7 374	(18 212)
Personnel expenditures	-159	0	-1 943	-79	-834	156	(2 858)
Other revenues and Other expenditures	-752	34	-54	6	-11	53	(724)
EBITDA*	**1 249**	**1 904**	**1 813**	**585**	**-991**	**-780**	**3 779**

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

1.2.1 Heat and electricity generation segment (market-based, outside the "Subsidized" system)

This is the segment where we classify the heat power plants performing cogenerated heat and electricity generation and the Control Center, as well as the three wind turbines having already produced their KÁT volumes, and one hydropower plant. The Control Center plans and manages the Group's market-based renewable electricity production as well as the electricity production of cogeneration equipment in heat power plants. The Control Center also grants access to the System Services market through the integration of the units managed. The profit that can be realized on the electricity production portfolio with the electricity production integrated through the Control Center, with the related electricity management functions, and with the sales of structured electricity products, greatly exceeds the levels that can be achieved by implementing conventional production strategies.

Heat and electricity generation (market rate, outside the "Subsidized" system)					
data in HUF million	2019.12.31 audited	2018.12.31 Comparison*	2018.12.31 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**11 699**	**10 231**	**10 231**	**1 469**	**14%**
Material-type expenditures	-9 539	-8 622	-8 697	-917	11%
Personnel expenditures	-159	-82	-30	-77	94%
Other revenues and Other expenditures	-752	-426	-426	-326	77%
EBITDA*	**1 249**	**1 101**	**1 078**	**149**	**13%**

** According to the Company's own calculations, non-IFRS category.*

***Data in the comparison column illustrate what would have been the effects of changes in the IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis presents the differences calculated on the basis of the comparison column.*

In 2019, the segment's revenues exceeded the performance of 2018 by 14%.

The production units included in the segment expanded in several aspects. In accordance with the terms of segmentation, the performance of the wind farm and Gibárt hydroelectric power plant units removed from the "Subsidized" (formerly known as KÁT) segment is also included here. The Control Center managed to successfully integrate the wind turbines, therefore the Control Center is able to use them also in the System Services market, achieving a higher added value.

In addition to the reclassified means of production, from Q2 2018, the ALTEO Group owns 100% of Zugló-Therm Kft. (previously, its ownership share was 49%). The Group operates an 18 MW electric and 17 MW district heating plant, operating as part of the Control Center since its establishment.

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

In 2019, in addition to district heating suppliers the segment sold heat energy to customers like AUDI, Heineken, Agria Park, MOM Park etc. On the basis of these contracts, the company continued to provide a stable and predictable performance.

In the subject period, within an R&D project, the Group's first electricity storage facility was realized, with a total cost of HUF 1.1 billion. The Company was awarded a HUF 500 million grant by the National Research, Development and Innovation Office to finance the project. The main part of the project realized the integration of an energy storage unit into the electricity system through the Control Center, the success of which has greatly supported the dissemination of weather-dependent renewable energy. This development is integral to the activities carried out in the segment. At the end of August 2018, the energy storage unit was delivered and put into operation. Technical completion and settlement of the project took place in H2 2019.

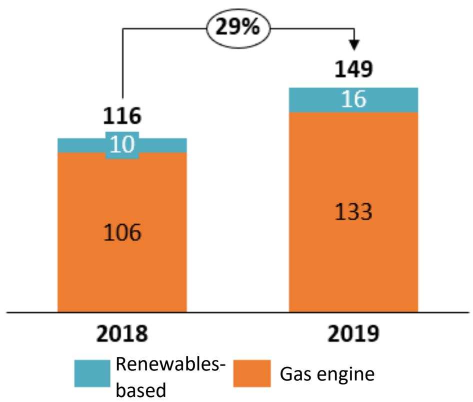
The EBITDA value of the segment was HUF 1,249 million in 2019. The EBITDA increased by 13%, mainly due to the following factors:

- the Control Center achieved higher margin on the balancing reserve market than in 2018.
- with the normal operation of electricity storage architecture, the sales revenue of the FCR (formerly called primary) regulatory capacity has appeared
- the increase in the CO_2-related expenditure recognized in the heat price set for 2019 and hedged by ALTEO did not result in any decrease in the margin
- with the consolidation of Zugló-Therm Kft., the margin previously realized by an external third party was channeled back into the Group from Q2 2018.

1.2.1.1 Presentation of the markets of the heat and electricity segment

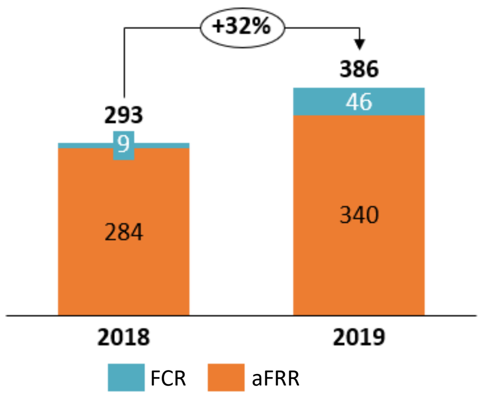
The impact of the sale of structured electricity products on the segment's profit

The main reason behind the increase in own **electricity production** is the volume produced by the gas engine assets of the acquired **Zugló-Therm Kft.**



Self-generated electricity sold by the control center (GWh) in 2018 and 2019

Throughout 2019, balancing reserve capacity sold at a higher average price in the System Services markets contributed significantly to the profits of the segment. The total quantity of the balancing reserve capacity sold in the aFRR (formerly called secondary) market exceeded the value of the base period by 20%.

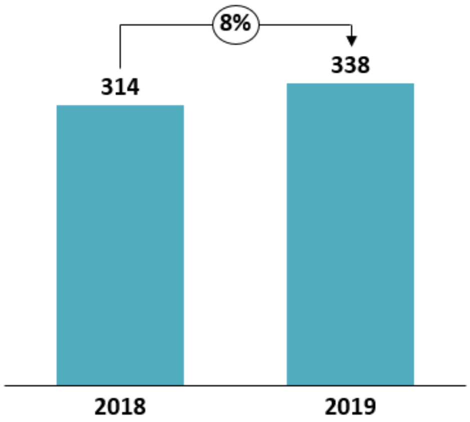


Electricity production capacities sold by the control center in 2018 and 2019 (aFRR: GWh; FCR: GWh_{sym})

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

The economic performance of the district heating subsegment under review has improved compared to the same period last year.

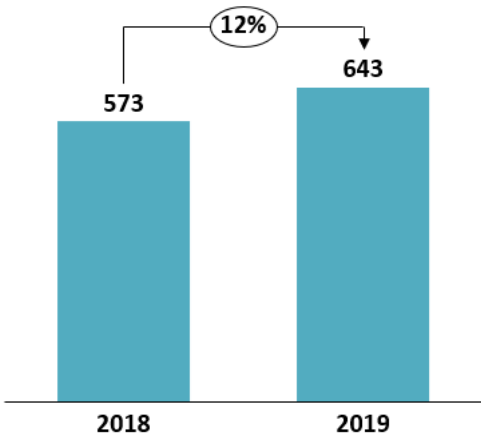
The **volume of heat energy produced by the segment increased by 8%** in the period, primarily as a result of the heat production of Zugló-Therm Kft. being included in the Group. The 17% increase in the revenues realized from heat sales is due to the higher heat production volume and the higher feed-in tariff set by the authorities. According to the hedging policy of the Group, the gas volume necessary for the production is hedged, thus ensuring low volatility of the subsegment margin.



Amount of heat sold by the segment (GWh) in 2018 and 2019

Changes in the amount of natural gas used for electricity and heat energy production

The amount of natural gas used by the segment **increased by 12%**, in accordance with the production output. A portion of the growth is attributable to the gas volume related to the heat and electricity production of Zugló-Therm Kft. having been moved to within the Group, as mentioned earlier.



Amount of natural gas used by the segment (GWh_{GCV}) in 2018 and 2019

1.2.2 Electricity production segment (in the "Subsidized"[1], formerly "KÁT", system)

Electricity production recognized in this segment comprises exclusively renewable energy assets (solar, wind, hydro, landfill gas) used for production within the "KÁT" balancing group. This business is not involved in energy sales to within the ALTEO Group. It is made up of production by weather-dependent (wind, hydro, solar) power plants.

Electricity generation (within the "Subsidized" system)

data in HUF million	2019.12.31 audited	2018.12.31 Comparison*	2018.12.31 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**2 362**	**627**	**627**	**1 735**	**277%**
Material-type expenditures	-492	-164	-164	-328	-199%
Personnel expenditures	0	-73	-73	73	100%
Other revenues and Other expenditures	34	43	43	-8	-20%
EBITDA*	**1 904**	**433**	**433**	**1 471**	**340%**

** According to the Company's own calculations, non-IFRS category.*

Revenue from the Group's **electricity production plants selling electricity within the Subsidized system** was HUF 1,735 million higher as compared to the same period in 2018. The main reason for higher revenue is the acquisition of EURO GREEN ENERGY Kft. The 13 wind turbines of the Bőny plant park are presented in the profit of the segment from April, resulting in an increase of HUF 1,376 million in this period. On top of that, production started in the ***Monor solar power plant*** put in operation at the end of last year, as well as in the ***Balatonberény and Nagykőrös solar power plants* put in operation this year**, which also significantly contributed to the increase in the segment's revenue. Revenue produced by the power plants newly put in operation compensated for the performance of the wind turbines removed from the segment and the Gibárt hydropower plant under reconstruction.

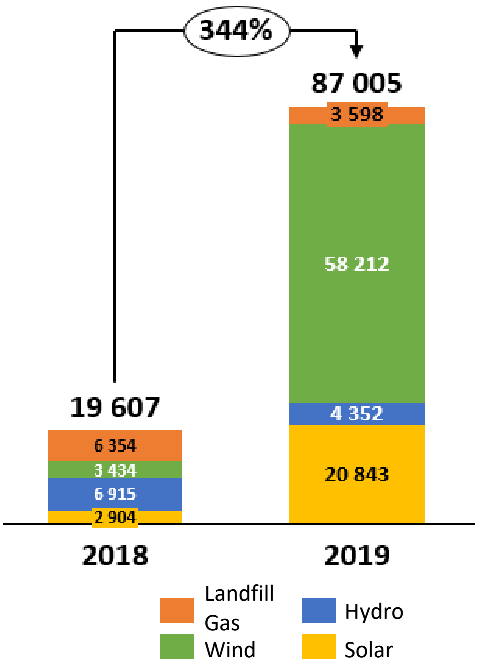
The change in the segment's personnel expenses is the result of a restructuring within the group that affects the segments. Expenses reported here in 2018 are recognized in the Energy Services segment.

Thanks to the high EBITDA rates in this segment, the EBITDA output of the segment increased by HUF 1,471 million by 2019. **As a consequence of the segment's cost structure, a significant portion of the increase in the revenue of the segment appears in the EBITDA.**

In May 2019, due to the acquisition of EURO GREEN ENERGY Kft., the Group expanded its renewable production capacities (wind turbine) by additional 25 MW. The acquisition reflects the fact that

[1] The designation of "Subsidized" energy market corresponds to the designation "KÁT" used earlier; in the present report, these two designations are used by the Company with the same content.

the Group gives high priority to the expansion of renewable energy capacities, both in terms of profitability and environmental consciousness.



Quantities sold in H1 2018 and H1 2019 and their distribution (MWh)

The implementation of the ***Nagykőrös solar power plant representing a nominal capacity of 7 MW and the Balatonberény solar power plant representing a nominal capacity of 6.9 MW,*** put into operation in 2019, further increased the Group's renewable energy production capacity.

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

The Gibárt hydropower plant, operated by Sinergy Energiaszolgáltató Kft., is under reconstruction since August 2019 and, with that completed, is expected to return to production in the Subsidized segment as of August 2020.

1.2.3 Energy Services segment

The Energy Services segment comprises power plant operation and maintenance (O&M) services provided both within the group and to third parties as well as construction activity, engineering activity and energy consultancy. The 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.

Services provided by this business line are used by important industry players in the Hungarian industry (e.g. MOL Petrolkémia, BorsodChem, Budapest Power Plant, Heineken), where our core activity is to operate the critical infrastructure of these clients. We provide long-term services to our customers, and our contracts cover the complete range of the operational and maintenance tasks.

Energy and power engineering services

data in HUF million	2019.12.31 audited	2018.12.31 Comparison*	2018.12.31 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**9 558**	**7 549**	**7 582**	**2 010**	**27%**
Material-type expenditures	-5 748	-4 887	-4 926	-861	18%
Personnel expenditures	-1 943	-1 559	-1 611	-384	25%
Other revenues and Other expenditures	-54	213	213	-267	-126%
EBITDA*	**1 813**	**1 316**	**1 257**	**498**	**38%**

** According to the Company's own calculations, non-IFRS category.*

***Data in the comparison column illustrate what would have been the effects of changes in the IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis presents the differences calculated on the basis of the comparison column.*

The revenue of the segment was 27% higher in 2019 than in 2018.

In 2018, the Project Development division concentrated on project development services for external parties. This year, our investments into solar power plants by the segment (self-implemented at the Group's level) represented a high volume, where the materials and the expert services used increased the expenses, but these were recovered in the segment's revenue.

This year, the segment realized an EBITDA value of HUF 1,813 million, exceeding by 38% the figure for the same period in 2018. An important portion of the EBITDA recognized in connection with the segment was realized by investments made in connection with our own power plants. The profit realized on our own investments is displayed in the Energy Services segment but is eliminated at the consolidation level. At the same time, these investments contribute to the realization of return on a given investment in the long term once production has started, because the profit content of implementation is realized other than at an external third party.

Personnel expenses increased due to restructuring within the group referred to in the "Subsidized" segment and increase in demands for resources related to increased services.

On the lines of Other Income and Other Expenses, settlements with partners are shown (closure of contracts, profits from the sale of fixed assets etc.). In 2019, no such settlement with outstanding value took place.

1.2.4 Energy retail segment

The Group's energy trading activity involves **selling** electricity and natural gas **on the free market**. Our electricity and natural gas retail activity does not include any sales activities under universal service.

Retail energy trade

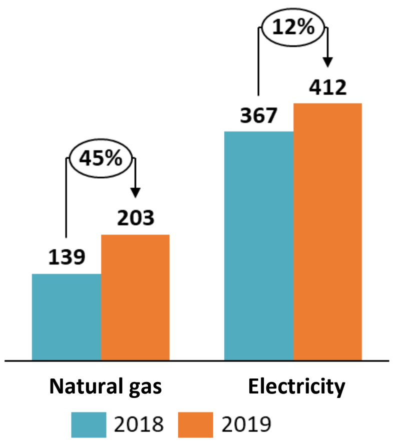
data in HUF million	2019.12.31 audited	2018.12.31 Comparison*	2018.12.31 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**9 901**	**6 943**	**6 943**	**2 958**	**43%**
Material-type expenditures	-9 244	-6 626	-6 626	-2 618	40%
Personnel expenditures	-79	-53	-53	-25	48%
Other revenues and Other expenditures	6	18	18	-12	-69%
EBITDA*	**585**	**283**	**283**	**302**	**107%**

** According to the Company's own calculations, non-IFRS category.*

***Data in the comparison column illustrate what would have been the effects of changes in the IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis presents the differences calculated on the basis of the comparison column.*

The revenue of the segment was 43% higher in 2019 than in 2018.

The growth of sales revenue was mainly the result of market acquisition by the electricity trade business line (HUF 2,057 million), but the gas trade business line also produced significant growth (HUF 901 million).



Changes in the amounts of natural gas and electricity sold in 2018 and 2019 (GWh)

The amount of the electricity sold increased to 412 GWh (+12%), and the average sales price (in line with the market and seasonal trends) grew by 21%.

The amount of natural gas sold increased to 203 GWh (+45%), mainly due to the optimization of distribution system capacities and further portfolio expansion. The average sales price substantially increased here as well (by 19%).

Material expenses represent the biggest cost item in this segment. We present the natural gas and electricity procured and resold here. Nearly a quarter of the electricity was acquired from ALTEO's Heat and electricity production segment presented above (from the operator of the Control Center, Sinergy Energiakereskedő Kft., that buys electricity products in part from own power plants and in part directly from the exchange as a member of HUPX, and resells them).

The operation of the segment requires the use of additional personnel and other costs, which changed insignificantly in comparison with their value.

Within the segment, an overall increase was realized in the volume of both natural gas and electricity sale transactions, as well as in their revenues and margins. The segment's EBITDA increased by a total of HUF 302 million compared to the end of 2018.

1.2.5 Other segment

The other segment is the place where administration and consulting activities are presented, which typically involve central services provided to the Group that, in part or in whole, cannot be directly attributed to any of the business lines.

Other segments					
data in HUF million	2019.12.31 audited	2018.12.31 Comparison*	2018.12.31 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**416**	**347**	**347**	**69**	**20%**
Material-type expenditures	-563	-529	-545	-34	6%
Personnel expenditures	-834	-800	-800	-34	4%
Other revenues and Other expenditures	-11	-10	-10	0	-2%
EBITDA*	**-991**	**-993**	**-1 009**	**2**	**0%**

** According to the Company's own calculations, non-IFRS category.*

***Data in the comparison column illustrate what would have been the effects of changes in the IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis presents the differences calculated on the basis of the comparison column.*

The revenue realized by the Group's Other segment in 2019 changed mainly in line with the growth in the Group as a result of its expansion.

The profit or loss of the Group's Other segment is determined by revenues from management fees collected from Subsidiaries, costs of human resources performing administrative and other support functions, and other material costs necessary to perform functions. The costs of the comparative period include the preparatory works for investment activities. Personnel expenses in the segment were HUF 34 million higher mainly due to the effect of wage hikes, staff number increases related to the increase in company size and one-off costs in conjunction with organizational restructuring.

1.3 Management summary of the consolidated statement of financial position

The Group's closing balance sheet total was HUF 37,361 million as at December 31, 2019. The balance sheet total was HUF 22,952 million as at December 31, 2018. In the Annual Report for 2019, for the statement of financial position analysis, we use as comparable data the balance sheet data as at December 31, 2018, reclassified and revalued in accordance with IFRS 16.

The events listed below had a significant impact on the growth of the balance sheet total, representing an increase of 64%:

- Acquisition of EURO GREEN ENERGY Kft. (Bőny wind farm)
- Implementation of the power plant investment program
- Implementation of a private placement
- Bond issue within the BGS bond funding.

Consolidated statement of financial position 2019

As an addition to the Consolidated statement of financial position, further breakdowns and details are available in the financial statements

	12/31/2019 HUF thousand	12/31/2018 HUF thousand	*change %*
Non-current assets	**24 536 761**	**13 715 608**	***79%***
Power plants and power generating properties, plants and equipment	17 711 707	10 715 944	*65%*
Other property, plant and equipment	73 105	38 108	*92%*
Net investment in lease	104 376	253 772	*(59%)*
Emission allowances	342 100	4 019	*8 412%*
Other intangible assets	3 492 357	868 526	*302%*
Operation contract assets	1 407 741	1 476 732	*(5%)*
Rights of use	924 768	-	
Deferred tax assets	286 856	139 756	*105%*
Long-term loans given	193 651	218 651	*(11%)*
Long-term share in associate	100	100	*0%*
Current assets and assets held for sale	**13 094 520**	**9 143 490**	***43%***
Inventories	233 165	213 144	*9%*
Trade receivables	2 919 836	3 319 584	*(12%)*
Part of lease investment due within the year	160 814	287 000	*(44%)*
Other financial assets	360 987	915 401	*(61%)*
Other receivables and accruals	4 453 370	1 654 961	*169%*
Income tax receivables	118 677	192 182	*(38%)*
Cash and cash equivalents	4 847 671	2 561 218	*89%*
TOTAL ASSETS	**37 631 281**	**22 859 098**	***65%***

(Negative values are denoted by parentheses.)	12/31/2019 HUF thousand	12/31/2018 HUF thousand	*change %*
	5 749 884	**5 144 733**	***12%***
Equity attributable to the shareholders of the Parent Company	**5 753 810**	**5 151 573**	***12%***
Issued capital	232 948	195 314	*19%*
Share premium	5 056 207	3 080 838	*64%*
Share-based payments reserve	68 398	92 690	*(26%)*
Retained earnings	2 303 282	2 267 980	*2%*
Transactions with owners	(192 534)	(186 408)	*3%*
Cash-flow hedge reserve	(1 713 432)	(299 103)	*473%*
Conversion reserve	(1 059)	262	*(504%)*
Non-controlling interest	(3 926)	(6 840)	*(43%)*
Long-term liabilities	**21 758 606**	**9 130 467**	***138%***
Long-term loans and borrowings	7 883 845	5 263 185	*50%*
Debts on the issue of bonds	10 909 019	2 624 241	*316%*
Finance lease liabilities	917 122	286 298	*220%*
Deferred tax liabilities	599 716	277 543	*116%*
Provisions	568 680	251 739	*126%*
Deferred income	535 674	141 248	*279%*
Other long-term liabilities	344 550	286 213	*20%*
Short-term liabilities	**10 122 791**	**8 583 898**	***18%***
Short-term loans and borrowings	463 165	595 306	*(22%)*
Short-term bond payables	2 215 114	982 683	*125%*
Short-term finance lease liabilities	108 555	18 756	*479%*
Advances received	497 963	364 730	*37%*
Trade payables	1 963 934	2 419 613	*(19%)*
Other financial liabilities	1 104 369	602 533	*83%*
Other short-term liabilities and accruals	3 711 484	3 584 852	*4%*
Income tax liabilities	58 207	15 425	*277%*
TOTAL EQUITY and LIABILITIES	**37 631 281**	**22 859 098**	***65%***

The comparison column contains the value adjusted for the impact of changes resulting from* ***the application of the IFRS16 standard**.*

The ALTEO Group closed 2019 with a balance sheet total of HUF 37,631 million. Among the items increasing the Group's assets, the total stock of power plants and equipment played a significant role. In the subject period, fixed and intangible assets showed an increase of **over HUF 10 billion due to the combined effect** of projects and purchases.

The **65% increase** in the means of production during 2019 resulted from the following items:

- In connection with the purchase of the Bőny wind farm, 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 Nagykőrös, under construction) HUF 3.8 billion.
- In the statement of financial position, the Group included the rights to use the assets, in accordance with changes in the IFRS 16 standard.
- The Group also proceeded with the efficiency-increasing programs started in the previous year for its heat power plants.

The volume of **current assets** closed with an increase of 43% compared to the end of 2018 due to an increase in other receivables.

Financial assets closed with HUF 4.8 billion. The Group plans to use liquid assets for investments and capital expenditures, repayment of bonds, as well as for the payment of dividends. Changes in cash balance are presented on an item-by-item basis in the consolidated Cash Flow statement that forms part of the financial statements.

The increase in the **equity of the Group in 2019** was 12%. Changes in equity elements are presented in the financial statements in the table presenting the movements of equity. The differences between the issued capital as per IFRS and the capital registered with the registry court are presented in Note 23 to the stand-alone financial statements.

The increase in equity came from the joint effect of the following changes:

- in Q2, a **dividend of HUF 250 million** was paid;
- in Q2, benefits under the employee share ownership plan were provided;
- HUF 1,990 million in capital was raised by way of **private placement**;
- the effect of the income recognized in equity (mainly cash-flow hedge) was HUF 1,416 million;
- in line with its hedging strategy, the Group entered into hedges for the upcoming years in order to ensure its operation with an acceptable level of risk. As of the reporting date, the aggregated fair value of outstanding hedges was negative and the Group recognized it in its equity.
- the increase from the net **profit for the parent company** amounted to **HUF 266 million** in 2019.

The Group’s **long-term liabilities** increased by HUF 12.6 billion. This is mainly the result of the successful issue of bonds in connection with the financing of intensive investment activities.

Short-term liabilities increased by a total of HUF 1.5 billion over the comparative period. The increase mainly comes from the reclassified portfolio due to the maturity of the bond.

2 Annexes

2.1 The Company's details

The Company's name	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
The Company's abbreviated name	ALTEO Nyrt.
The Company's registered office	H-1131 Budapest, Babér u. 1-5.
The Company's telephone number	+36 1 236-8050
The Company's central electronic mailing address	info@alteo.hu
The Company's web address:	www.alteo.hu
The Company's place of registration	Budapest
Date of registration	April 28, 2008
Company registration number	01-10-045985
The Company's tax number	14292615-2-41
The Company's EU VAT number	HU14292615
The Company's statistical code	14292615-7112-114-01
Term of the Company's operation	indefinite
The Company's legal form	public limited company
Governing law	Hungarian
The Company's share capital	HUF 242,328,425
Date of the effective Articles of Association	September 2, 2019
The Company's core activity	Engineering activities and related technical consultancy
Business year	same as the calendar year

Place of publication of notices	The Company discloses its notices regarding regulated information on its website www.alteo.hu, on the website of the BSE www.bet.hu and on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Company are also published in the Company Gazette.
ISIN code of the Shares	HU0000155726
Stock exchange listing	19,386,274 shares of the Company have been listed on the BSE in the "Premium" category.
Other securities	Bonds ALTEO 2022/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 650,000,000, issue value: 76.6963% of the face value; not listed. ISIN code: HU0000357405 ALTEO 2020/I: publicly traded bonds with a fixed coupon rate of 5.5% p.a., with a maturity of 3.5 years, total face value: HUF 2,150,000,000, issue value: 100% of the face value; listed on the BSE. ISIN code: HU0000357603 ALTEO 2022/II: zero coupon bonds issued by private placement, with a maturity of 3 years, total face value: HUF 1,693,630,000, issue value: 88.9158% of the face value; listed on the BSE. ISIN code: HU0000359005 ALTEO NKP/2029: registered bonds with a fixed coupon rate, issued by private placement, having a face value of HUF 50,000,000 and 10 years maturity, total face value: HUF 8,600,000,000, its average selling price at auction was 102.5382% of face value, average yield: 2.8546%, listed on the BSE. ISIN code: HU0000359252

The Company’s Board of Directors	Attila László Chikán, Member of the Board of Directors entitled to hold the title of CEO Domonkos Kovács, Member of the Board of Directors, Deputy CEO, M&A and Capital Markets Gyula Zoltán Mező, Chairman of the Board of Directors Zsolt Müllner, Member of the Board of Directors Ferenc Karvalits, Member of the Board of Directors
The Company’s Supervisory Board	István Bakács, Chairman of the Supervisory Board Dr. István Borbíró, Member of the Supervisory Board Péter Jancsó, Member of the Supervisory Board Dr. János Lukács, Member of the Supervisory Board Noah M. Steinberg, Member of the Supervisory Board
The Company’s Audit Committee	István Bakács, Chairman of the Audit Committee Dr István Borbíró, Member of the Audit Committee Dr János Lukács, Member of the Audit Committee
The Company’s Auditor	Currently, the auditor of the Company is Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered office: H-1068 Budapest, Dózsa György út 84/C.; company registration number: 01-09-071057). The auditor’s term of office is from April 24, 2019 until the date of adoption of the annual report by the General Meeting for the business year ended on December 31, 2019, but not later than May 31, 2020. The auditor personally responsible for auditing the Company is Dr. Attila Hruby.
Shareholder of the Company with a share exceeding 5%	WALLIS ASSET MANAGEMENT Zrt.

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

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

The Company is a company established under Hungarian law (governing law).

The Company was founded on April 28, 2008 as a private limited company for an indefinite period of time. The legal form was changed to public limited company as of September 6, 2010 and the Company was listed on the Budapest Stock Exchange. The ordinary shares issued belong to the same series and have the same rights. The rights related to the shares of the Company are set out in the Civil Code and in the Company's Articles of Association. The transferability of the shares is not restricted.

2.2.2 Limitation of voting rights related to the shares

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

For the purposes of this item, "beneficial owner" means the person specified in Section 3(r) of Act CXXXVI of 2007 on the prevention and combating of money laundering and the financing of terrorism.

Pursuant to Section 19 (7) of the Act XVIII of 2005 on Distance Heating, Section 95 (3) of the Act LXXXVI of 2007 on Electricity and Section 123 (7) of the Act XL of 2008 on Natural Gas Supply, in the case of an event relevant in terms of company law or acquisition specified in these laws, in the absence of the prior decision on approval or the acknowledgement of the Hungarian Energy and Public Utility Regulatory Authority (the specific form of consent is governed by the given law, depending on the event relevant in terms of company law, the range of acquisition, and the nature of the license), the acquiring party shall not exercise any right against the Company in respect of its interest therein, except for the right to dividend, and shall not be entered in the share register.

2.2.3 Presentation of investors with a significant share

The majority shareholder of ALTEO is WALLIS ASSET MANAGEMENT Zártkörűen Működő Részvénytársaság (registered office: H-1055 Budapest, Honvéd utca 20, company registration number: 01-10-046529). The Group's ultimate parent company as at 31 December 2018 was WALLIS PORTFOLIÓ Korlátolt Felelősségű Társaság (registered office: H-1055 Budapest, Honvéd utca 20, company registration number: 01-09-925865). The shareholders of this entity are all private individuals.

Ownership structure of the parent company (ALTEO Nyrt.) based on the share register as at December 31, 2019.

Present shareholders of the Company based on the share register on 12/31/2018	Face value (HUF thousand)		Ownership ratio (%)	
	2019	2018	2019	2018
Wallis Asset Management Zrt. and its subsidiaries	154 789	135 200	63,88%	65,95%
Members of the Board of Directors, the Supervisory Board and the Executive Board*	7 553	11 981	3,12%	5,84%
Own shares**	9 380	9 710	3,87%	4,71%
Free float	70 606	48 133	29,14%	23,50%
TOTAL	**232 948**	**195 314**	**100,00%**	**100,00%**

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

*** Excluded from the face value in circulation*

Voting rights of WALLIS ASSET MANAGEMENT Zrt. and its subsidiaries as at December 31, 2019: 63.88% (December 31, 2018: 65.95%).

The publicly issued shares of the Company are listed on the Budapest Stock Exchange; the closing price of the shares on the last trading day of 2019 (on December 30) was HUF 844, which is 32% higher than the closing price of last year (HUF 640). In the course of the year 2,156,446 shares were exchanged at the BSE.

2.2.4 Powers of senior executives

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

The Board of Directors is the main decision-making body of the Company which exercises its rights and duties as a body. The members of the Board of Directors are elected by the General Meeting for a definite term of up to five years. The members of the Supervisory Board and the Audit Committee are elected by the General Meeting for a definite term of up to five years.

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

Without specific authorization from the General Meeting, the Board of Directors may not issue shares.

The General Meeting of the Company by its Resolution No. 13/2019. (IV.26.) repealed its previous Resolution No. 3/2015. (XI.10.) on authorization and authorized the Board of Directors to make a decision on the increase of the share capital of the Company at its own discretion, with at least four members of the Board of Directors voting in favor. Pursuant to such authorization, the Board of Directors may increase the share capital of the Company by up to HUF 150,000,000, calculated at the face value of the shares issued by the Company, in aggregate (authorized share capital) in the five-year period starting on April 26, 2019. The authorization shall cover all cases and means of share capital increase set out in the Civil Code, as well as the restriction or exclusion of exercising preferential rights regarding subscription for and takeover of the shares, as well as the adopting of decisions relating to the share capital increase otherwise delegated by the Civil Code and other legislation and by Company's Articles of Association to the competence of the General Meeting, including any amendment of the Articles of Association necessitated by the capital increase.

In its resolution No 12/2019. (IV.26.), the General Meeting authorizes the Board of Directors, for a period of eighteen months starting on April 26, 2019, to adopt resolutions concerning the acquisition by the Company of the ownership of shares of any type, class or face value issued by the Company – supported by at least three quarters of the votes that can be cast by the members of the Board of Directors – and to enter into and perform such transactions for and on behalf of the Company, or to engage a third party for the conclusion of such transactions. The number of shares acquired pursuant to this authorization may not be more than the number of shares with aggregate face value corresponding to twenty-five percent of the share capital at the time, and the aggregate face value of own shares held by the Company may not exceed such level either. The Company's own shares can be acquired for or without consideration, on the stock market and through public offering, or – unless the possibility is excluded by the law – in over-the-counter trading. In the event of acquiring own shares for consideration, the minimum amount of consideration payable for one share may be HUF 1 (one forint) and the highest amount may be HUF 1,500 (one thousand five hundred forints). The authorization hereof shall also cover share purchases by the Company's subsidiaries in such a way that the Company may authorize or order the management of any subsidiary of the Company by means of resolutions of the members or shareholders (resolutions adopted by the members' meeting or the general meeting) to acquire the shares issued by the Company according to a resolution adopted by the Board of Directors under the above authorization. The authorization of the General Meeting will expire on October 26, 2020; the Board of Directors has initiated its extension by an additional eighteen months.

2.3 Presentation of consolidated entities according to the financial statements

Subsidiaries mean the following companies:

Name of subsidiary 12/31/2019 (for information on changes, see the numbered footnotes)	Activity	Extent of influence		
		12/31/2019	06/30/2019	12/31/2018
ALTE-A Kft.	property management	100%	100%	100%
ALTEO Deutschland GmbH	development of an energy production portfolio, as well as energy services for both wholesale and retail trade	100%	100%	100%
ALTEO Energiakereskedő Zrt.	natural gas trading	100%	100%	100%
ALTEO-Agria Kft. (1)	electricity production, heat energy production	100%	100%	100%
ALTEO-Depónia Kft.	electricity production	100%	100%	100%
ALTEO-Hidrogáz Kft. (2)	electricity production, heat energy production	0%	100%	100%
Balassagyarmati Biogáz Erőmű Kft. (3)	electricity production	100%	100%	100%
BC-Therm Kft.	steam supply, air conditioning, heat energy production	100%	100%	100%
Domaszék 2MW Kft.	electricity production (solar power plant)	100%	100%	100%
ECO-FIRST Kft. (4)	treatment and disposal of non-hazardous waste	66.67%	66.67%	N/A
EURO GREEN ENERGY Kft. (5)	electricity production (wind turbine)	100%	100%	N/A
e-Wind Kft.	electricity production (wind turbine)	100%	100%	100%
F.SZ. ENERGIA Kft.	electricity production (solar power plant)	100%	100%	100%

Győri Erőmű Kft. (6)	electricity production, heat energy production	100%	100%	100%
HIDROGÁZ Kft.	electricity production, hydrogas utilization	100%	100%	100%
IT-Solar Kft.	electricity production (solar power plant)	100%	100%	100%
Kazinc-BioEnergy Kft.	steam supply, air conditioning	100%	100%	100%
Kazinc-Therm Kft. (1)	electricity production, heat energy production	100%	100%	100%
Monsolar Kft.	electricity production (solar power plant)	100%	100%	100%
Ózdi Erőmű Kft. (1)	electricity production, heat energy production	100%	100%	100%
Péberény Kft.	electricity production (solar power plant)	100%	100%	100%
Sinergy Energiakereskedő Kft.	electricity trading	100%	100%	100%
Sinergy Kft.	steam supply, air conditioning, electricity production	100%	100%	100%
Soproni Erőmű Kft. (9)	electricity production, heat energy production	100%	100%	100%
SUNTEO Kft.	electricity trading, electricity production	100%	100%	100%
Tisza BioTerm Kft.	steam supply, air conditioning	60%	60%	60%
Tisza-BioEnergy Kft.	steam supply, air conditioning	100%	100%	100%
Tisza-Therm Kft. (1)	electricity production, heat energy production	100%	100%	100%
Tisza-WTP Kft.	water collection, treatment and supply	100%	100%	100%
True Energy Kft.	electricity production (solar power plant)	100%	100%	100%
WINDEO Kft.	electricity production (wind turbine)	100%	100%	100%
Zugló-Therm Kft. (1)	electricity production, heat energy production	100%	100%	100%

(1) As of January 1, 2020 (succession day), it was dissolved by succession. Details of the event relevant in terms of company law are included in the footnote to Győri Erőmű Kft. and section 2.5.2 of this Annual Report.
(2) ALTEO-Hidrogáz Kft. ceased to be a Subsidiary of the ALTEO Group as of July 3, 2019.
(3) As of January 7, 2020, its name is ALTE-GO Kft.
(4) ECO-FIRST Kft. has become part of the ALTEO Group since June 24, 2019.
(5) EURO GREEN ENERGY Kft. has become part of the ALTEO Group since May 28, 2019. The Company's influence is indirect through SUNTEO Kft.
(6) As of January 1, 2020 (succession day), it is the successor of (i) ALTEO-Agria Kft., (ii) Kazinc-Therm Kft., (iii) Ózdi Erőmű Kft., (iv) Soproni Erőmű Kft., (v) Tisza-Therm Kft. and (vi) Zugló-Therm Kft. From the same date the company was renamed to ALTEO-Therm Kft. Details of the event relevant in terms of company law are included in section 2.5.2 of this Annual Report.

2.4 Changes in the structure of the Group

In 2019, the Group made the following main acquisitions:

- Acquisition of 100% of the issued capital of ***EURO GREEN ENERGY Kft.***
- Acquisition of 66.67% of the issued capital of ***ECO-FIRST Kft.***

2.4.1 Changes in subsidiaries and associated companies

Acquisition of EURO GREEN ENERGY Kft. (Bőny wind farm)

The Company's consolidated company, SUNTEO Kft., as buyer, concluded a business share purchase contract with Raiffeisen Energiaszolgáltató Korlátolt Felelősségű Társaság (registered office: H-1158 Budapest, Késmárk utca 11-13.; company registration number: 01-09-876219) as seller, for the transfer of the ownership of a business share representing the entire issued capital (HUF 8.1 million) of EURO GREEN ENERGY Kft. to SUNTEO Kft. 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 purchase contract, the ownership rights of EURO GREEN ENERGY Kft. were conferred to SUNTEO Kft. on May 28, 2019. From April 1, 2019, ALTEO Nyrt. is entitled – indirectly – to exercise the economic controls.

EURO GREEN ENERGY Kft. owns and operates a wind farm near Bőny consisting of 13 wind turbines and providing an electrical capacity of 25 MW. The electricity produced at this wind farm is sold through the mandatory feed-in system (KÁT).

Acquisition of ECO-FIRST Kft.

On June 24, 2019 the Company acquired ownership of a business share representing 66.67% of the HUF 3 million issued capital of ECO-FIRST Kft. **This transaction** is connected with the launch of the Waste Management Division **announced in the Company communication published on January 10, 2019.** ECO-FIRST Kft. was established in 2017 for the purpose of pursuing organic waste trading service operations to close a market gap. Its services mainly include waste collection from supermarkets as well as complex sustainability services in waste management. ECO-FIRST Kft. 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.

Kisújszállás and Tiszaföldvár hydrogas project exit

On July 3, 2019, in order to clean up its portfolio, the Company sold its business share representing 100% of the initial capital of ALTEO-Hidrogáz Kft. operating the Kisújszállás and the Tiszaföldvár power plants.

2.5 Presentation of significant results and events of the Company and its Subsidiaries between January 1, 2019 and the date of disclosure of this Annual Report, as well as future prospects

With respect to the 2019 business year, it is worth highlighting the changes and events that occurred during the period in relation to the following companies within the Group.

2.5.1 Events at the Company relevant in terms of company law

With its resolution adopted in writing on January 18, 2019, the Company’s Board of Directors updated the scope of the Company’s **authorized signatories**.

With its Resolution No. 1/2019 (III.12.), based on an authorization granted by Resolution No. 3/2015 (XI.10.) of the General Meeting, the Board of Directors of the Company launched the process of increasing the share capital of the Company, by adding new shares (hereinafter: "**New Shares**") in a private placement (hereinafter: "**Private Placement**"). On the basis of the preliminary statements of commitment, the Board of Directors under Resolutions No. 1-2/2019 (III.21.) made decisions regarding the allocation of the shares: it excluded the shareholders' subscription rights and any preferential rights for the New Shares; taking account of the preliminary statements of commitment for the acceptance of the New Shares submitted during the sale (book-building), the issue price of the New Shares was set at HUF 670 (i.e. six hundred and seventy forints); an oversubscription was accepted up to a total value of HUF 1,999,999,580 (that is, one billion nine hundred ninety-nine million nine hundred ninety-nine thousand five hundred and eighty forints) for the issue, and so, the decision was made to issue a total of 2,985,074 units of New Shares; the Board designated from among the investors who had submitted their preliminary statement of commitment according to Section 3:296 (3) of the Civil Code to qualify for participation in the Private Placement, and established the number of the New Shares available to them; furthermore, specified the details and deadline for the submission of the final statement of commitment and the payment of the capital contribution. With its Resolutions No. 3-4/2019 (III.21.), the Board of Directors also decided about an amendment in the Articles of Association, subject to the success of the capital increase. All investors that were designated by the Board of Directors to take over New Shares fulfilled their preliminary commitment and provided the full consideration for the total of 2,985,074 New Shares issued during the Private Placement in accordance with the requirements. By the same, **the transaction aimed at the issue of 2,985,074 units of shares was completed**, and all conditions were met for increasing the share capital of the Company, as registered in the company register, to HUF 242,328,425 (that is, two hundred forty-two million three hundred twenty-eight thousand four hundred and twenty-five forints) at face value. **The New Shares were first traded at the BSE on April 5, 2019.**

At the ordinary General Meeting of the Company held on April 26, 2019, the following resolutions were adopted:

a) The General Meeting **approved the statement of financial position** proposed by the Company's auditor regarding the Company's business year ending on December 31, 2018, along with the stand-alone financial statement and business report prepared in line with the provisions of the Accounting Act applicable to entities preparing their annual report under the EU IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.

b) The General Meeting adopted the statement of financial position proposed by the Company's auditor regarding the Company's business year ending on December 31, 2018 and the consolidated report and the business report prepared in accordance with the IFRS, as well as the relevant written **reports of** the auditor, the **Audit Committee and the Supervisory Board**.

c) The General Meeting approved the **individual business report** of the Board of Directors for the Company's 2018 business year.

d) The General Meeting approved the **consolidated business report** of the Board of Directors for the Company's 2018 business year.

e) The General Meeting adopted the **corporate governance** report relating to the Company's 2018 operations with the proposed content.

f) The General Meeting **decided to pay** HUF 250,068,416 **as dividend** from the free retained earnings supplemented by the profit after taxation of the Company in the previous business year and the subsidiary dividends established after 2018 (dividend base), which corresponds to **HUF 16 gross** per share, disregarding the own shares held by the Company, and the shares issued on March 25, 2019, which, according to Section 3:298 (3) of the Civil Code, do not entitle to dividends. Furthermore, the General Meeting authorized the Board of Directors to adopt the resolutions specified in Article 18 of the Articles of Association and other decisions necessary in relation to the payment of dividend.

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

h) Based on the Audit Committee's proposal, the General Meeting appointed **Deloitte** Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság as the permanent auditor of the Company, the mandate of which is for the period from April 26, 2019 until the date of adoption of the General Meeting's resolution on the report for the business year ending on December 31, 2019 but **until May 31, 2020** at the latest. In line with the Audit Committee's proposal, the General Meeting appointed Dr Attila Hruby as the auditor personally responsible for the audit.

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

j) In acceptance of the grounds described in the Board of Directors' proposal, the General Meeting decided to extend the authorization given to the Board of Directors regarding the own share transactions for eighteen months calculated from April 26, 2019.

k) The General Meeting repealed its Resolution No. 3/2015. (XI.10.) and, simultaneously, subject to the terms and conditions set forth in the proposal, authorized the Board of Directors to adopt a decision on the **increase of the share capital of the Company at its own discretion**, with at least four members of the Board of Directors voting in favor. Pursuant to the authorization, the Board of Directors may increase the share capital of the Company by up to HUF 150 million calculated at the face value of the shares issued by the Company, in aggregate (authorized share capital) in the five-year period starting on April 26, 2019.

l) The General Meeting decided to change the **core activity** of the Company to “Engineering activities and related technical consultancy (TEÁOR 7112)”.

m) The General Meeting adopted the Company’s **Articles of Association** in a consolidated structure with the amendments.

With its resolution adopted in writing on May 10, 2019, the Company’s Board of Directors updated the scope of the Company’s **authorized signatories**.

Based on the resolution of the General Meeting of the Company concerning the payment of dividend, the Board of Directors of the Company specified May 30, 2019 as the starting date of dividend payment, and **published** the conditions of dividend payment **through the Company’s official disclosure points** on May 15, 2019.

2.5.2 Events at the Company’s Subsidiaries relevant in terms of company law

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

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

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

On May 21, 2019, the Company adopted a decision on the reduction of the initial capital of ***Tisza-WTP Kft.*** from HUF 95,265,000 to HUF 3 million, with a view to disinvestment, and on the reduction of the initial capital of ***BC-Therm Kft***. from HUF 304 million to HUF 181 million, with a view to disinvestment.

As part of its project to restructure and simplify its corporate structure, the Company ***decided*** on June 26, 2019 ***to merge its district heating companies***. Within the framework of the transformation ALTEO-Agria Kft., Kazinc-Therm Kft., Ózdi Erőmű Kft., Tisza-Therm Kft., Soproni Erőmű Kft. and Zugló-Therm Kft. merged into Győri Erőmű Kft. pursuant to Section 3:44 of the Civil Code on January 1, 2020 (date of legal succession). Győri Erőmű Kft. has become the general legal successor of the merging companies and continues its activities under the name ALTEO-Therm Hő- és Villamosenergia-termelő Korlátolt Felelősségű Társaság.

2.5.3 Own securities issued by the Company

2.5.3.1 Issue of bonds

The Company issued 169,363 zero coupon, dematerialized registered Bonds of HUF 10,000 face value under the designation ALTEO 2022/II on June 7, 2019, in the form of a private placement. A portion of the funds raised by the Company from the issue of the Bonds were used for the repurchase of the “ALTEO 2019/I” bonds (ISIN identifier HU0000355144) maturing in 2019, on the day of the private placement of the Bonds. In addition, the Company will use the funds raised partially for the purpose of financing investments into energy projects, as well as general corporate financing purposes. In the course of private placement, the Company undertook to initiate the listing of the bonds on the Budapest Stock Exchange. As a result, on November 22, 2019, the Company listed the bonds on the Budapest Stock Exchange.

2.5.3.2 Maturity of the bonds

The “ALTEO 2019/I” bonds were cancelled due to maturity on July 18, 2019 and, given the repurchase described in the section above, the Company had no other obligation to the bondholders.

2.5.3.3 Issue of a bill of exchange

In relation to the transaction aimed at acquiring the business share of EURO GREEN ENERGY, SUNTEO Kft. – under an arrangement favorable for the Company – paid part of the purchase price through deferred payment, which did not affect the transfer of EURO GREEN ENERGY’s business share to SUNTEO Kft. In order to ensure fulfillment of this payment, the Company issued a bill of exchange in a value of HUF 700 million and delivered it to Raiffeisen Energiaszolgáltató Kft. on May 28, 2019. On January 10, 2020, the Company issued extraordinary information that the purchase price portion secured by the bill of exchange was paid in accordance with the contract, as a result, the transaction was financially closed and the bill of exchange was discharged by the Company.

2.5.3.4 Participation in the Bond Funding for Growth Scheme of the Central Bank of Hungary, credit rating

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 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.

In connection with this, on October 24, 2019, the Company placed on the market in a successful bond auction 172 pieces of registered bonds, HUF 50,000,000 face value each, with a fixed coupon rate, maturity of 10 years, designated as ALTEO NKP/2029, with a total face value of HUF 8.6 billion.

2.5.4 Implementation of investment projects

The ALTEO Group also built its self-implemented Balatonberény and Nagykőrös solar power plants, besides the Monor solar power plants. The solar power plants sell electricity generated through their operation to MAVIR under the KÁT system (in the case of the Balatonberény solar power plants, until May 31, 2044 at the latest or until the total generation volume authorized under KÁT is reached, and in the case of the Nagykőrös solar power plants, until June 30, 2044 or until the total generation volume authorized under KÁT is reached).

The installed electric capacity of the **solar power plants** is **6.9 MW** for the Balatonberény solar power plants and **7 MW** for the Nagykőrös solar power plants. The trial operation of the solar power plants was successfully completed, and commercial operation has begun.

2.5.5 R+D+I Project

The Company’s **first R+D+I project** launched in November 2018, related to a battery electricity storage facility, was completed, whose total cost was HUF 1.1 billion, and for which HUF 500 million in support was awarded to the Company. The largest item within the program, the energy storage unit was completed and delivered at the end of August 2018 and has already commenced live operation, with technical completion and settlement taking place in H2 2019. The Company successfully integrated the energy storage capacity with the Control Center.

2.5.6 Launch of a new division 2019

In the year 2019, ALTEO Group launched its **Waste Management Division** within the Energy Production and Energy Services Business Line, which became the third profit center in addition to the Energy Production, Operation and Maintenance, and the Project Development divisions. The purpose of founding this new division was to further strengthen the Group's presence on the waste utilization market for energy purposes. This change had no effect on the other business line of ALTEO Group, the Energy Trading Business Line.

2.5.7 Personal changes in senior management

CFO Sándor Bodó left the Company as of August 30, 2019, Deputy CEO András Papp left the Company as of August 31, 2019. At the same time, András Papp also resigned from his function in the Board of Directors as of August 26, 2019.

2.5.8 Publication of an Integrated Report

The Company published its first Integrated Report on June 11, 2019.

2.5.9 Performance enhancing investment of the Gibárt Hydropower Plant

In August 2019, the Company commenced its performance enhancing investment of the Gibárt Hydropower Plant. As a result of the HUF 1.1 billion investment, the technical delivery of the power plant with enhanced performance is scheduled for the second half of 2020.

2.5.10 Disclosure of the Group's Strategic objectives

On *November 25, 2019*, the Company published its strategic presentation as a separate document concerning **ALTEO Group** for the period between **2020 and 2024.** At the time of disclosure of this report, the communication with regard to its content and objectives is still up to date, there was no change in it.

The communication can be downloaded from the following link:

https://alteo.hu/wp-content/uploads/2019/11/ALTEO_Vallalati_strategia.pdf

2.5.11 Own share transactions

In 2019, the Company continued its employee share award program launched in 2018. In order to acquire the shares to be used for this program, the Company announced a share repurchase program (hereinafter: "**Program**") for 2018 and published its details on June 15, 2018. Eventually, the Company's

Board of Directors prolonged the Program until March 14, 2019. Under the Program, ALTEO Group acquired a total number of 14,818 shares by March 14, 2019. Mandated by the Company's Board of Directors, the CEO selected the employees to be recognized by the Company as part of the Program in December 2018. As a result, in January and February 2019 the Company granted 13,298 shares to the employees who have become eligible for them based on the Company's recognition system and the CEO's decision. Subsequently, in January 2020 (through a transfer on January 31, 2020), the Company distributed 1,878 pieces of shares to the employees, who were entitled to these on the basis of the Company's recognition plan.

2.5.12 Change in ESOP option rights

On June 12, 2019, ALTEO's Employee Share Ownership Plan Organization (hereinafter: **"ALTEO ESOP Organization"**), described in the Company's communication dated March 14, 2017, exercised its option right in accordance with the terms and conditions of its Remuneration Policy published on the same day in respect of 21,500 pcs of ALTEO ordinary shares (ISIN: HU0000155726) at a purchase price per share of HUF 475.

2.5.13 Long-term trade and business agreements

Zugló-Therm Kft. and Budapesti Távhőszolgáltató Zártkörűen Működő Részvénytársaság (registered office: H-1116 Budapest, Kalotaszeg u. 31; company registration number: 01-10-042582; hereinafter: "**FŐTÁV**") extended their long-term contract signed on May 21, 2004, in effect until May 31, 2020 on purchasing and selling thermal energy, as well as other contracts related thereto. Pursuant to the newly signed contracts - in accordance with the terms and conditions therein - Zugló-Therm Kft. will provide FŐTÁV with thermal energy until the day of May 31, 2030.

The Company concluded a services contract with a value of over one billion Hungarian forints with TVK-ERŐMŰ Termelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-3580 Tiszaújváros, Gyári út TVK-Ipartelep; company registration number: 05-09-007873; hereinafter: "**TVK-ERŐMŰ**") 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.

The Company and TVK-ERŐMŰ owned by MOL Petrochemicals Co. Ltd. concluded a so-called 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.

In accordance with the provisions of the energy service contract for the power supply of MOM Park's building complex, office buildings and residential buildings concluded by and between Sinergy Kft. and OTP Real Estate Investment Fund on December 21, 2018 (the "Energy Service Contract"), OTP Real Estate Investment Fund exercised its call option under the Energy Service Contract over the assets of the energy center. Therefore, as of December 31, 2019, Sinergy Kft. stopped supplying energy for MOM Park's building complex, office buildings and residential buildings, and the ownership of the assets of the energy center was transferred to OTP Real Estate Investment Fund.

Financing agreements

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

Company	Designation of the collateral	Date of contract conclusion
EURO GREEN ENERG Kft.	pledge and call option on business share, mortgage on real estate and movables, joint and several mortgage identified by circumscription, mortgage on rights and receivables, security deposit and mortgage on receivables from a payment account, security deposit and pledge on bank accounts, assignment of certain receivables for collateral purposes, joint and several guarantee	May 28, 2019
SUNTEO Kft	mortgage and call option on business share, mortgage on receivables from a payment account, mortgage on movable assets identified by circumscription, mortgage on the payments from SUNTEO Kft. to ALTEO Nyrt. to secure the outstanding purchase instalments of EURO GREEN ENERGY Kft.	April 4, 2019
Sinergy Kft	pledge on business share, mortgage on movables, mortgage on movables identified by circumscription, mortgage on receivables, security deposit and mortgage on receivables from a payment account,	December 2, 2019
ALTEO Nyrt.	commitment by the owner towards the credit institution in respect of Sinergy Kft.	December 2, 2019

In November 2019, WINDEO Kft. repaid a loan with a principal of HUF 1.1 billion, SUNTEO Kft. repaid a loan with a principal of HUF 5.0 billion and various Subsidiaries of the Company repaid other, smaller project loans to lender banks in an amount of HUF 0.2 billion, thereby for the most part accomplishing the objective of refinancing part of the bank loans with long-term bonds, specified as one of the goals of the issue of the ALTEO NKP/2029 bonds.

2.5.14 Use of non-audit services

In the fiscal year 2019, the Company and its Subsidiaries used non-audit services for a total of HUF 7,400,000 provided by Deloitte Kft., as the auditor engaged to perform the audit of the annual financial statement of the Company, and other companies within the network of the auditor with prior written consent from the Company's Audit Committee in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

The following significant events occurred between the reporting date and the date of disclosure of the Annual Report:

Some of the events listed below have already been discussed in more detail in one of the above chapters, so they are mentioned in this section only in passing. However, even in these cases, the section of the Annual Report which describes the event in more detail is indicated.

2.5.15 NKP/2029 capital market listing

In January 2020, the Company, in respect of its ALTEO NKP/2029 (ISIN: HU0000359252) bond, concluded a market maker agreement in accordance with the terms and conditions of the Bond Funding for Growth Scheme launched by the Central Bank of Hungary. The bonds were admitted to the regulated market on January 24, 2020.

2.5.16 ALTEO 2020/I bond transaction

On January 28, 2020, the Company gave a buy order for the repurchase of 100,000 pcs of ALTEO 2020/I (ISIN: HU0000357603) self-issued bonds at the exchange rate corresponding to 103.5000% of the face value (i.e. HUF 10,350). No bond was repurchased under the offer.

2.5.17 ALTEO ordinary shares transaction

On January 31, 2020, the Company transferred 1,878 shares to the employees who have become eligible for them based on the Company's recognition system. Details of the program are included in section 2.5.11 of this Annual Report.

2.5.18 Transformations, changes of ALTEO-Therm Kft.

As part of the restructuring of the ALTEO Group's corporate structure presented at the extraordinary General Meeting held on November 8, 2017, the Company merged its district heating subsidiaries with effect from January 1, 2020, set as succession day. Details of the transaction are included in section 2.5.2 of this Annual Report.

2.5.19 Significant assignments

In January 2020, in accordance with its strategy, ALTEO Group as part of its sustainability support services, concluded a services contract for the reconstruction of the waste incineration plant of SARPI Dorog Kft., worth more than HUF 700 million. Under the contract, the Company is responsible for replacing the afterburner chamber and upgrading the heat recovery boiler to increase efficiency. Construction and installation works will be completed by September 2020.

2.5.20 Presentation of ongoing litigations

Sinergy Energiakereskedő Kft.

With regard to the letter of VPP Magyarország Zrt. (registered office: H-1113 Budapest, Bocskai út 134-146. C. ép. 3. em.; company registration number: 01-10-048666), sent to Sinergy Energiakereskedő Kft. in 2018 – the content of which and the response to which by Sinergy Energiakereskedő Kft. are presented in detail in an announcement published on February 14, 2018, at the official disclosure points of the Company – on March 14, 2018, Sinergy Energiakereskedő Kft. requested the Hungarian Intellectual Property Office to establish that the six control procedures in total it uses in the course of operating the control center is not in violation of the patent "Decentralized energy production system, control tool and procedure, controlling the energy production of the system" registered for VPP Magyarország Zrt. as holder under number E031332.

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

The Group has not identified any situation affecting its statement of financial position with respect to this case.

2.6 *The business environment of ALTEO, the classification of risks according to their characteristics*

*The Company's prospectus, published on December 31, 2019, available at the following link (hereinafter: "**Prospectus**") details and 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 occurrence of such risks and the anticipated extent of their negative impact. In view of all of this, only the risks that have changed since the Prospectus are described in this section.*

The Prospectus is available at the following link:

https://www.bet.hu/newkibdata/128341282/ALTEO_nkp2029_prospectus_20191231.pdf

2.6.1 The "Macroeconomic and legal system related risk factors" have been supplemented by the following section

2.6.1.1 Risks related to the spread of COVID-19:

To the best of its knowledge, ALTEO Group does not have any direct customers or suppliers for its revenue-generating activities or services who are domiciled in countries that are under quarantine due to the COVID-19 virus as of the date of publication of this Management Report. However, COVID-19 may affect those markets where ALTEO Group is also active, and so it may have an indirect impact on ALTEO Group's operations and profitability. The management of ALTEO Group is not in a position to assess the risks from the potential outcomes of COVID-19 in the entire supply chain or the risks indirectly affecting the Company.

The direct personnel of ALTEO Group and the workforce of its subcontractors and suppliers involved in each ongoing project may be affected by the spread of the COVID-19 virus and the measures taken or to be taken during the same. Illnesses can have a negative impact on ALTEO Group's work processes, the timing of ongoing projects and may also have detrimental effects on the labor market. The state of danger imposed in Hungary may have a negative impact on the profitability and liquidity on the clients and consumers of ALTEO Group and may also result in the decline of their demand for energy and willingness to invest, which may have a detrimental effect also on ALTEO Group's profit. ALTEO Group's management has taken the necessary measures to address the risks related to the protection of its employees' health and has set up a Pandemic Management Board and adopted a Pandemic Plan. ALTEO Group's management continuously monitors events related to the COVID-19 virus and, if necessary, takes the necessary steps based on these.

Risk level: high

2.6.2 Among the risks specific to the market and the industry the following sections have been modified

2.6.2.1 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 Annual Report.

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.

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

Risk level: medium.

2.6.2.2 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. ALTEO Group manages this exposure through hedging of the mentioned items, however, even so the resulting risks cannot be completely excluded.

Risk level: low.

2.7 Description of the policies applied in the ALTEO Group, detailing the results by policy

2.7.1 Environmental guidelines

The ALTEO Group prepared its Sustainability Report for the first time for its 2016 business year, detailing our non-financial, social and environmental policies and our annual performance. We ensure the relevance and transparency of our sustainability data by applying the GRI (Global Reporting Initiative) Standards methodology, the most recognized international guideline, in preparing our non-financial reports, and by having it certified every year by a third party. We prepare our report on our sustainability efforts every year, and we have published it since 2019 in the form of an Integrated Report. We make available our Sustainability Reports published so far to all interested parties on this website: https://alteo.hu/fenntarthatosag/fenntarthatosagi-jelentesek/. As our Integrated Report contains the details of the Company's data, policies, objectives in connection with environmental protection and sustainable business operations, this business report, based on the contents of the Integrated Report, provides only a summary of environmental policies and results.

Our Integrated Management System, which includes the standards ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems, OHSAS 18001:2007 Health & Safety Management System and ISO 50001:2011 Energy Management Systems, has been extended to cover the entire ALTEO Group. The Integrated Management Policy is the fundamental document for this system, in which the company's management commits itself to providing quality services, safe work environment, energy efficiency, environmental protection and sustainability.

In 2019, we ensured our compliance with the standards by conducting 26 internal audits covering the operation of the Integrated Management System in compliance with all four standards at all of our sites and organizational units.

In 2019, 13 HSE-type inspections were carried out at all sites by various authorities, but there were no logged objections in any of these.

A separate document, the Integrated Report 2019, will describe our environmental guidelines and the associated results in detail.

2.7.2 Respect for human rights, ethics

The purpose of this section is to describe the significant risks to human rights compliance that may result in adverse effects in the context of the Company's activities and how it manages those risks.

When formulating ALTEO Group's Code of Ethics, we wanted to create a useful guide that would offer help and protection to our employees and provide information to our partners about the standards of behavior represented and required by our Group.

The standards established in the ALTEO Group's Code of Ethics impose higher requirements on Group employees compared to existing laws.

Fundamental rights and the practice

We provide our employees with a working environment based on mutual trust, respect for others and respect for their dignity.

We respect our employees' right to freedom of religion, freedom of assembly, right to rest, leisure and regular paid leave.

We take individual preferences into account when setting working hours and work procedures, and provide solutions to any issues that may arise.

We give high priority to the personal and professional development of our employees. For that purpose, we develop an Annual training plan and provide opportunities to participate in courses, conferences, and with study contracts in adult education and university education.

We are committed to the principle of fair and compliant employment and remuneration.

Salaries and fringe benefits are reviewed on a yearly basis; and, upon the proposals of the Works Council, the management has introduced changes in several issues (e.g. reforming the cafeteria system, increasing salaries by a higher percentage).

We are humane in our layoffs, and we support our employees to the extent of our capabilities.

We base our relationship with and among our employees on the principles of human rights and tolerance. We are committed to prohibiting and preventing discrimination, and consider any form of discrimination or human rights violation to be a particularly serious ethical violation.

Through our ethics hotline, we provide the opportunity to report ethical issues, even anonymously, but in any case, by protecting the whistleblower. In all cases, we will investigate the reports, draw lessons, provide the necessary information and support. We publish ethical issues each year in the Integrated Report.

We respect our employees' right to political conviction and engagement. However, the ALTEO Group is politically neutral and does not engage in any political activities or support. Therefore, our employees must respect the ethical principles of the ALTEO Group when conducting their political activities and, in all cases, they can only carry out their activities as individuals, independently of the Group.

2.7.3 Policies applied in connection with the fight against corruption

The Company **published its Code of Ethics on January 1, 2016**, demonstrating its commitment to fair, compliant and transparent business operation. Due to the changes that have occurred since the publication of its first edition, the Code was reviewed and updated in the second half of 2018. **In 2019, all our employees participated in mandatory training** and passed the exam.

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

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

The Company employs a compliance officer and a compliance expert to monitor compliance of operations with the applicable legislation and fair business principles, following activities and jobs particularly exposed to corruption especially closely for the purpose of prevention. The compliance organization informs the Company's Compliance Committee and Supervisory Board about their activities and work plan and any issues identified.

Since 2016, the company group has prepared and published its annual Compliance Report each year (from 2017, as part of the integrated report).

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

The ALTEO Group pays special attention to the detection and prevention of economic conflicts of interest, and therefore, in 2019, the entire company group reviewed its employee conflict of interest statements, and new entrants' statements are also checked prior to entry.

The Compliance organization developed a general guide for easier understanding of the rules of conflict of interest, data processing, information security, ethics training, access to internal policies, camera monitoring and control, and sent it to all new entrants and all employees.

In this context, in 2019, ALTEO Group issued 2 new policies (Access and Authorization Policy, IT Risk Management Policy) related to Compliance, and also amended 2 policies (Information Security Policy, Compliance Policy) to reflect changes in the business environment.

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

In 2019, in addition to implementing the scheduled checks, implementation of the tasks assigned to business functions in the 2017 and 2018 compliance surveys were followed up.

2019 RISKS MAP - corruption index

In 2019, an extended group of managers (expanded from 13 to 21 persons) completed the questionnaire that covered the assessment of the compliance risks of HR, Procurement, Management, Finance and Publicity. According to the evaluation of the managers who filled in the questionnaire, the compliance of the company group decreased to the 2017 level compared to the high assessment of 2018. In order to fill the gaps identified by the questionnaire, the Compliance organization organizes regular meetings for the new management team, and provides ongoing support to the business areas on all compliance issues.

In 2019, no cases of potential corruption came to the Company's knowledge. As per ALTEO Group's Compliance Policy and Code of Ethics, any form of corruption is considered as a serious ethical violation. To learn more about ALTEO Group's approach to eliminating corruption, please refer to ALTEO Group's Sustainability Report 2019.

2.7.4 Employment policy

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

The Group believes that the loyalty and motivation of their employees are founded on the stable workplace, good working conditions, complex tasks and competitive wages provided by the Group. Maintaining the employees' commitment and motivation is of key importance for the Company.

This is a goal it wishes to accomplish with stability, complex responsibilities as well as competitive benefit packages.

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

The closing workforce headcount at the end of 2019 was 254, which is 21 more than in 2018, of which there are 10 part-time colleagues and 244 full-time employees. The number of employees with indefinite term contracts and fixed-term contracts was 252 and 2, respectively. In 2019, 78% of the staff members were men and 21% were women. This gender ratio is basically defined by the nature of the energy sector, as most of the staff deal with the operation of power plants. At the same time, the Company aims to increase the proportion of women, which was realized mainly in the central office last year.

In 2019, fluctuation was one of the biggest challenges the companies faced. ALTEO Nyrt. is considered an attractive workplace, as evidenced not only by the number of new entrants, but also by the rate of fluctuation, which dropped from last year’s 14% to 12%.

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

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

3 Statements of the issuer

3.1 Corporate governance statement

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

The Board of Directors is the main decision-making body of the Group's parent company that governs the Group and monitors its day-to-day operation on the basis of existing legislation, the Articles of Association and the resolutions passed by the General Meeting, as well as the Supervisory Board and the Audit Committee.

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

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

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

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

The Supervisory Board of the Group's parent company acts as a body under mandate from the General Meeting. Members of the Supervisory Board are required to act in person; agency is not allowed in the activities of this body. Members of the Supervisory Board may not be instructed in that capacity by their employer or shareholders of the Company. Members of the Supervisory Board are elected by the General Meeting for a definite term of up to five years. Members of the Supervisory Board can be removed at any time and may be reelected upon the expiry of their mandates. The General Meeting decides on the remuneration of members of the Supervisory Board. The Supervisory Board elects a chair from its membership and, as necessary, a vice chair. The Supervisory Board sets out its own rules of procedure which are then approved by the General Meeting. The Supervisory Board currently consists of five members, three of whom are independent individuals.

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

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

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

The ALTEO Group launched its compliance program in 2015.

3.2 The issuer's statement pursuant to point 3.4.1 of the Decree No. 24/2008 (VIII.15.) of the Minister of Finance

The Company declares that its ***consolidated Financial Statements and Business Report for the year 2019*** were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, based on the Company's best knowledge, providing a true and fair view of the assets, liabilities, financial situation, profit and loss of the Company as an issuer and the companies involved in the consolidation.

The Company also declares that its ***consolidated Annual Report for the year 2019*** provides a true and fair view of the situation, development and performance of the issuer and the companies involved in the consolidation, outlining the risks and uncertainties likely to arise in the remainder of the fiscal year.

3.3 Statement of the issuer on the independent audit of the report

The Company declares that the **data of this Annual Report were audited by an independent auditor**.

The independent auditor's report was published as part of the Consolidated Financial Statements.

Budapest, March 26, 2020

On behalf of ALTEO Nyrt.:

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Attila László Chikán	**Zoltán Bodnár**
Member of the Board of Directors, CEO	CFO

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