Consolidated Financial Statements

of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság and its consolidated entities

for the business year ended on December 31, 2019
in accordance with the IFRSs
as adopted by the EU

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The financial statements consist of 108 pages.

Explanation of the abbreviations used in the financial statements:

Abbreviation	Explanation
AFS	Available for Sale (financial instrument)
ARO	Asset Retirement Obligation
BGS	Bond Funding for Growth Scheme – the bond program of the Central Bank of Hungary;
BoD	Board of Directors
BSE	Budapest Stock Exchange
BUBOR	Budapest Interbank Offered Rate
Capital Market Act	Act CXX of 2001 on the Capital Market;
CDO	Chief Decision Officer
CGU	Cash-generating Unit
Company	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization (typically: impairment)
Electricity Act	Act LXXXVI of 2007 on electricity;
EPS	Earnings per Share
ESOP	Employee Share Ownership Program
EUA	European Emission Allowances
FVTPL	Fair Value through Profit or Loss
Gas Supply Act	Act XL of 2008 on Natural Gas Supply
HEA	The Hungarian Energy and Public Utility Regulatory Authority (formerly known as: Hungarian Energy Office);
HTM	Financial instruments held to maturity
HUDEX	Hungarian Derivative Energy Exchange. HUDEX was founded by HUPX Zrt. in order to comply with the new legal provision that the derivatives of gas and electricity traded on the HUPX and CEEGEX futures platforms are to be considered as financial assets.
HUPX	Electricity market organized by the power exchange – a trading system facilitating regional electricity trade operated by the organized electric power licensee (HUPX Zrt);
IFRIC/SIC	Interpretations of the International Financial Reporting Standards
IFRS	International Financial Reporting Standards
KÁT	Electric power offtake system based on the provisions of the Electricity Act, the Government Decree implementing the Electricity Act and Government Decree no. 389/2007 (XII.23.) on the mandatory reception and reception price of electricity produced from renewable energy sources or waste and cogenerated electricity;
KELER	Központi Értéktár Zártkörűen Működő Részvénytársaság (Central Treasury Private Limited Company)
MAVIR	Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zártkörűen Működő Részvénytársaság
METÁR	obligatory system of taking over heat energy and electricity generated out of renewable and alternative sources;
O&M	Operation and Maintenance contract;
PM	Ministry of Finances
SB	Supervisory Board

Independent auditor's opinion

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Independent auditor's opinion

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I. Numeric reports of the financial statements

Consolidated statement of profit or loss
and consolidated statement of other comprehensive income

Comprehensive income

(Negative values are denoted by parentheses.)	Note	12/31/2019 HUF thousand 12 months	12/31/2018 HUF thousand 12 months
Sales revenues	**1.**	**25 573 350**	**18 685 767**
Material expenses	2.	(18 211 868)	(14 264 354)
Personnel expenses	3.	(2 858 164)	(2 506 534)
Depreciation and amortization	4.	(2 045 752)	(729 818)
Other revenues, expenses, net	5.	(804 281)	(146 835)
Operating profit or loss		**1 653 285**	**1 038 226**
Finance income	6.	*271 602*	*295 574*
Financial expenses	6.	*(1 215 423)*	*(527 907)*
Net financial income	6.	(943 820)	(232 333)
Profit or loss before taxes		**709 465**	**805 893**
Income tax expenses	7.	(435 834)	(275 814)
Net profit or loss		**273 631**	**530 079**
from which the owners of the Parent Company are entitled to:		*270 717*	*511 218*
from which the minority interest is entitled to:		2 914	18 861
Base value of EPS (HUF/share)	**8**	**15,02**	**32,72**
Diluted value of EPS (HUF/share)	**8**	**14,41**	**31,17**
EBITDA		**3 779 180**	**1 800 564**

Other comprehensive profit

(Negative values are denoted by parentheses.)	Note	12/31/2019 HUF thousand 12 months	12/31/2018 HUF thousand 12 months
Other comprehensive income (after income tax)		**(1 415 650)**	**(259 632)**
Other comprehensive income from cash flow hedges		*(109 399)*	*596 238*
Other comprehensive income from cash flow hedges		*(1 304 930)*	*(856 132)*
Reclassification of other comprehensive income from cash flow hedges into profit/loss	*24.*		
Conversion reserve	*24.*	*(1 321)*	*262*
from which the owners of the Parent Company are entitled to:		*(1 415 650)*	*(259 632)*
from which the non-controlling interest is entitled to:		-	-
Comprehensive income		**(1 142 019)**	**270 447**

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

Consolidated statement of financial position
for December 31, 2019

Statement of financial position – Assets

	Note	12/31/2019 HUF thousand	12/31/2018 HUF thousand
Non-current assets		**24 536 761**	**13 715 608**
Power plants and power generating properties, plants and equipment	9.	17 711 707	10 715 944
Other property, plant and equipment	9.	73 105	38 108
Net investment in lease	13.	104 376	253 772
Emission allowances	10.	342 100	4 019
Other intangible assets	9.	3 492 357	868 526
Operation contract assets	12.	1 407 741	1 476 732
Rights of use	9.	924 768	-
Deferred tax assets	14.	286 856	139 756
Long-term loans given	15.	193 651	218 651
Long-term share in associate	15.	100	100
Current assets and assets held for sale		**13 037 746**	**9 143 490**
Inventories	16.	233 165	213 144
Trade receivables	17.	2 919 836	3 319 584
Part of lease investment due within the year	13.	160 814	287 000
Other financial assets	18.	360 987	915 401
Other receivables and accruals	19.	4 453 370	1 654 961
Income tax receivables	19.	118 677	192 182
Cash and cash equivalents	21.	4 847 671	2 561 218
TOTAL ASSETS		**37 574 507**	**22 859 098**

Equity and liabilities data on the next page!

Consolidated statement of financial position
for December 31, 2019

Statement of financial position – Equity and liabilities

(Negative values are denoted by parentheses.)	Note	12/31/2019 HUF thousand	12/31/2018 HUF thousand
		5 749 884	**5 144 733**
Equity attributable to the shareholders of the Parent Company		**5 753 810**	**5 151 573**
Issued capital	22.	232 948	195 314
Share premium	22.	5 056 207	3 080 838
Share-based payments reserve	25.	68 398	92 690
Retained earnings	22.	2 303 282	2 267 980
Transactions with owners	23.	(192 534)	(186 408)
Cash-flow hedge reserve	24.	(1 713 432)	(299 103)
Conversion reserve	24.	(1 059)	262
Non-controlling interest	26.	(3 926)	(6 840)
Long-term liabilities		**21 758 606**	**9 130 467**
Long-term loans and borrowings	28.	7 883 845	5 263 185
Debts on the issue of bonds	27.	10 909 019	2 624 241
Finance lease liabilities	30.	917 122	286 298
Deferred tax liabilities	14.	599 716	277 543
Provisions	35.	568 680	251 739
Deferred income	34.	535 674	141 248
Other long-term liabilities	28.	344 550	286 213
Short-term liabilities		**10 066 017**	**8 583 898**
Short-term loans and borrowings	29.	463 165	595 306
Short-term bond payables	27.	2 215 114	982 683
Short-term finance lease liabilities	30.	108 555	18 756
Advances received	33.	497 963	364 730
Trade payables	32.	1 963 934	2 419 613
Other financial liabilities	33.	1 104 369	602 533
Other short-term liabilities and accruals	33.	3 654 710	3 584 852
Income tax liabilities	33.	58 207	15 425
TOTAL EQUITY and LIABILITIES		**37 574 507**	**22 859 098**

Consolidated Statement of Cash Flows

data in HUF thousand	*Note*	12/31/2019 HUF thousand	12/31/2018 HUF thousand
Profit or loss before taxes		**709 465**	**805 893**
(Interest income) and interest expenses, net	6.	736 667	316 905
Depreciation	4.	2 045 752	729 818
Impairment losses (other than net current assets)	5.	14 653	32 523
(Profit), loss on the sale of fixed assets and quota returns	5.	(79 375)	529
Provisions recognized and (released)	5.	-	(86 629)
Provisions for asset retirement obligations recognized and (released) - IAS 16	5.	316 941	12 278
Changes in deferred income	34.	394 426	(79 990)
Non-realized translation gains and losses - other than net current assets	6.	(1 415 650)	(6 227)
Share-based payment cost	3.	1 650	8 950
Changes in deferred tax	14.	175 073	46 854
Interest paid	6.	(515 906)	(236 557)
Income tax paid	7.	(435 834)	(228 960)
Net cash-flow of business activity without change in current assets		***1 947 861***	***1 315 387***
Change in inventories	16.	(20 021)	90 127
Change in trade receivables, other receivables, accrued income and deferred charges	17.	(2 325 156)	(74 864)
Change in deposits, financial collaterals	*15.*	-	(159 375)
Change in other financial assets	18.	554 414	(3 690)
Change in trade payables, other liabilities, accrued expenses and deferred income	32.	158 797	2 234 456
Change in advances received	33.	133 233	(274 871)
Cash flow from business activities (use of funds)		**449 128**	**3 127 171**
Interests received on deposits and investments	6.	20 228	8 254
Purchase of fixed and intangible assets	9.	(10 061 723)	(6 422 335)
Investment in acquiring businesses (net of cash)	11.	(2 753 103)	(450 903)
Proceeds from derecognizing fixed assets	5.	-	1 213
Long-term loans given - disbursement	15.	25 000	(22 571)
Long-term loans given - repayment	15.	275 582	-
Investment activity (reverse cash flow)		**(12 494 016)**	**(6 886 341)**
Long-term loans and borrowings received, repaid	29.	3 267 479	3 742 623
Bonds repaid	27.	(1 013 026)	-
Bonds issued	27.	10 289 246	-
Capital increase	22.	1 987 061	-
Other transactions with owners	23.	(6 126)	(4 059)
Dividend payment	22.	(250 068)	(250 099)
Cash flow from financing activities		**14 274 566**	**3 488 464**
Changes in cash and cash equivalents		**2 229 679**	**(270 707)**
Opening cash and cash equivalents		**2 561 218**	**2 825 698**
Cash exchange gains/losses			*6 227*
Closing cash and cash equivalents		**4 847 671**	**2 561 218**

Consolidated Statements of Changes in Equity
for the period ended on December 31, 2019

Data in HUF thousand	Issued capital	Share premium	Retained earnings	Share-based payment reserve	Transactions with owners	OCI reserves (CF, Transf.)	Equity attributable to the Parent Company	Minority share	Total equity
1.1.2018	**195 390**	**3 080 838**	**2 006 861**	**83 740**	**(182 424)**	**(39 209)**	**5 145 196**	**(25 701)**	**5 119 495**
Dividend payment			(250 099)				(250 099)		(250 099)
Comprehensive income			511 218			(259 632)	251 586	18 861	270 447
Share-based benefits				8 950			8 950		8 950
Share purchase	(76)				(3 984)		(4 060)		(4 060)
12.31.2018	**195 314**	**3 080 838**	**2 267 980**	**92 690**	**(186 408)**	**(298 841)**	**5 151 573**	**(6 840)**	**5 144 733**
Implementation of employee share ownership program (2018 benefits)	166	8 784		(8 950)			-		-
Share purchase	(114)				(6 127)		(6 241)		(6 241)
Private placement	37 313	1 954 303					1 991 616		1 991 616
Dividend payment			(250 068)		1		(250 067)		(250 067)
Employee Share Ownership Program implementation	269	9 944					10 213		10 213
Employee Share Ownership Program lapse		2 338	14 653	(16 992)			-		-
Comprehensive income			270 717			(1 415 650)	(1 144 933)	2 914	(1 142 019)
Share-based benefits				1 650			1 650		1 650
12.31.2019	**232 948**	**5 056 207**	**2 303 282**	**68 398**	**(192 534)**	**(1 714 491)**	**5 753 810**	**(3 926)**	**5 749 884**

Negative values are denoted by parentheses.

The amount of issued capital is different from the value registered at the registry court. Differences are presented in Note 23 to the Separate Financial Statements.

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

1. Statement of IFRS compliance

The management declares that the consolidated financial statements for the year 2019 were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, based on the management's best knowledge, providing a true and reliable picture of the assets, liabilities, financial situation of the Group as an issuer, as well as of its profit and loss. Furthermore, the management declares that its consolidated financial statements for the year 2019 provide a true and fair view of the situation, development and performance of the issuer, outlining main risks and uncertainties. The management made this declaration in full awareness of its responsibility.

2. Brief introduction to the activity of the ALTEO Group

By today, the ALTEO Group – founded in 2008 and having celebrated a decade of operations last year – has become a leading comprehensive energy service provider in Hungary. The shares of the company, having entered the Budapest Stock Exchange in 2010, are listed on the Equities Prime Market of the BSE since 2018, but ALTEO is a member of the Hungarian stock exchange through its corporate bonds as well.

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

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

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

Global energy market trends have changed in recent years: decarbonization has become a priority; decentralization in energy production continued; innovative technologies emerged in the energy sector as a result of digitalization. ALTEO not only intends to become a competitive market actor but also wishes to take the lead in the transformation of the energy market.

By the end of 2019, through investments and active acquisition, the Company increased its total plant capacity to 105 MW, of which 55 MW comes from power plants using renewable energy sources and 50 MW from natural gas power plants.

The year 2019 is outstanding for the Company, and not only because of its noteworthy financial income. By the end of last year the Company significantly exceeded its promise to investors made at the time of the share issue in 2016, i.e., investment in the order of magnitude of HUF 10–15 billion, as by end-2019 ALTEO achieved investment and development volumes exceeding HUF 20 billion. Furthermore, during the period the renewable power plant portfolio of ALTEO expanded to a total of 55 MW; in this, the acquisition of the Bőny Wind Farm with a capacity of 25 MW as well as the closure of solar power plant projects (at Monor, Nagykőrös and Balatonberény) play a significant part.

Global as well as Hungarian capital market trends clearly point to the rise of companies committed to sustainability. This tendency is also underscored by the presence of ALTEO at the stock exchange: in 2019 the Company concluded three oversubscribed transactions due to the heightened interest of institutional investors. In order to exploit investment opportunities, in March ALTEO completed a successful private placement worth HUF 2 billion, and it issued additional bonds in June with a total face value of HUF 1.7 billion, in part to refinance maturing bonds. Eventually, under the Bond Funding for Growth Scheme of the Central Bank of Hungary a bond issue of HUF 8.8 billion was also implemented. Through this, ALTEO could significantly increase the maturity of its debt portfolio, which is more in line with the payback period typical in the energy sector.

3. The basis for preparation of the financial statements

These financial statements present the financial position, performance and financial situation of the Parent Company ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság and its consolidated entities (collectively referred to as: the Group). The Group first published consolidated financial statements prepared under the IFRSs in 2010.

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) developed by the International Accounting Standards Board (IASB). The IFRSs were adopted by the Group as endorsed by the European Union. Where an IFRS does not provide detailed guidelines for certain rules but the Accounting Act has such rules, the provisions of the Accounting Act shall be applied.

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

These financial statements contain information for a comparable period and were prepared based on the same principles.

Going concern requirement

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

Critical accounting assumptions and estimates

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

Preparation, approval and publication of the financial statements

The Group's financial statements and the related business report are prepared and approved by the Parent Company's management acting on behalf of the Board of Directors. The Board of Directors publishes the finished financial statements and the business report and submits them to the general meeting after having it reviewed by the Supervisory Board.

The Group publishes its financial statements at its places of disclosure.

The Group's places of disclosure.

- On the electronic reporting portal operated by the Ministry of Justice (www.e-beszamolo.im.gov.hu),
- on the website operated by the Central Bank of Hungary www.kozzetetelek.mnb.hu,
- on the website of the Budapest Stock Exchange (www.bet.hu), and
- on its own website (www.alteo.hu).

The authorized signatories of the consolidated annual report are Attila László Chikán (H-1144 Budapest, Gvadányi utca 15. 8. ép. B. lház. fszt. 2.), member of the Board of Directors, CEO, and Zoltán Bodnár (H-2045 Törökbálint, Honfoglalás utca 12.) CFO.

The person commissioned to control and lead the auditing tasks in accordance with Section 88 (9) of Act C of 2000: Gergely Zoltán Lakatos (H-1094 Budapest, Viola u. 43, registration number: 164933).

4. ALTEO Group

Definition of "the Group"

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

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

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

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

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

Segment	Activities
Energy trading	Electric power and gas retail activities
Electricity production – “Subsidized”, formerly “KÁT”	Electric power production of power plants producing for the supported KÁT system (utilizing renewable energy).
Heat and electricity generation segment – market-based, outside the “Subsidized” regime	Market-based heat and electric power production, including the portfolio performance of the Control Center.
Energy services	Operation, maintenance of energy generating assets and construction-installation activity.
Other	Other non-segment activities and central administration.

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

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

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

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

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

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

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

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

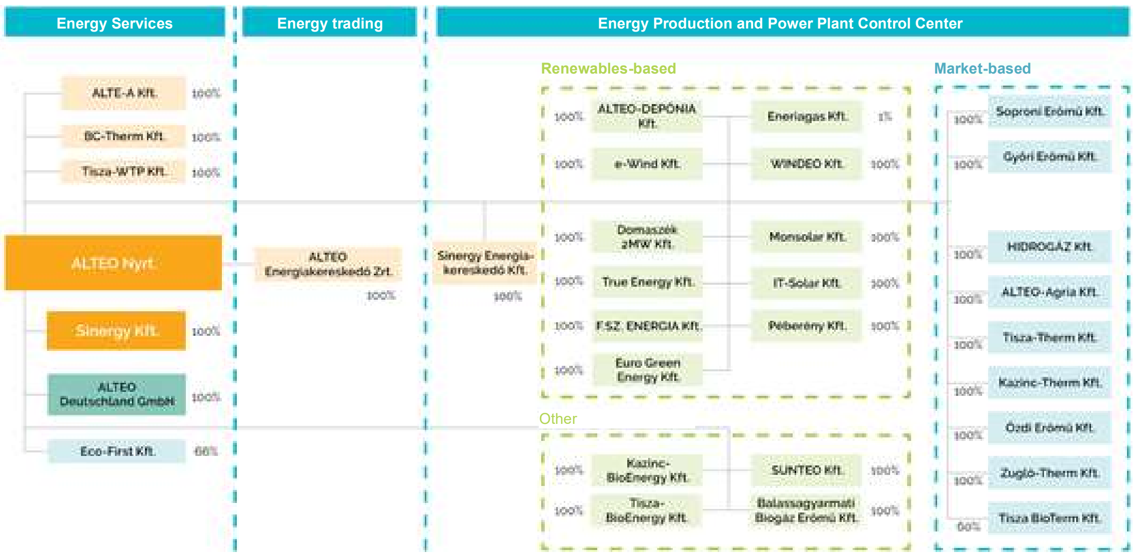
The publicly issued shares of the Company are listed on the Budapest Stock Exchange; the closing exchange rate of the shares on the last trading day of 2019 (on December 30) was HUF 844, which is 32% higher than the same value in the last year (HUF 640). In the course of the year 2,156,446 shares were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

Subsidiaries of the Group

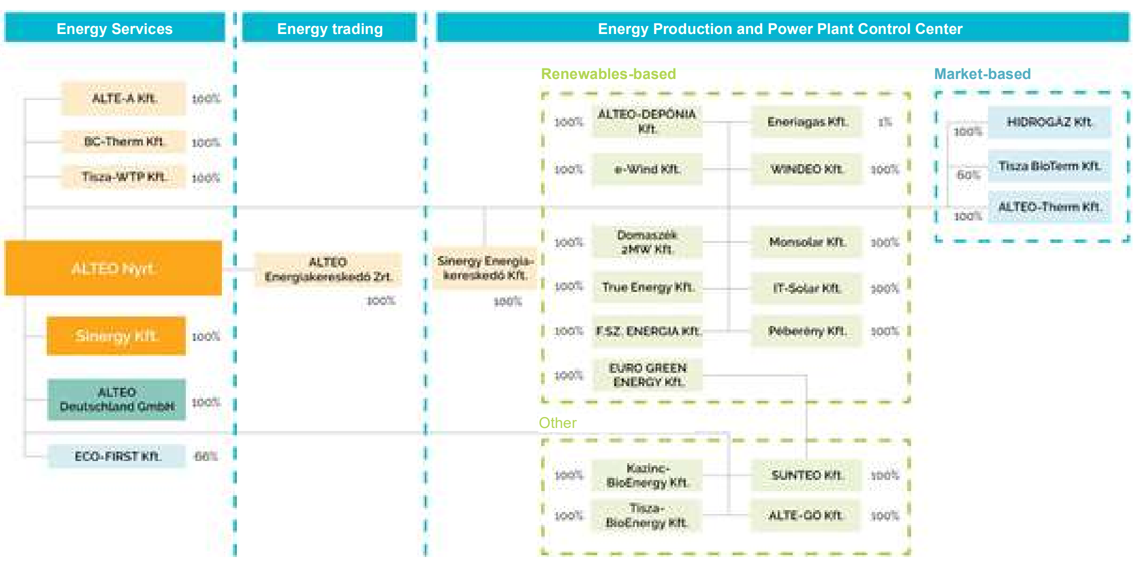
The Group consists of the Parent Company and the subsidiaries. The subsidiaries of the Group, with one exception, are the companies of the Parent Company, directly or indirectly owned in 100% by the Parent Company. Tisza BioTerm Kft. and Eco-First Kft., in which the Group has a 60% and 66% share, respectively, so the share of the group from the net assets of Tisza BioTerm Kft. and EcoFirst Kft. is 60% and 66%, respectively, with the proviso that control over these companies is exercised by the group. The laws of Hungary are to be applied to the subsidiaries of the Group, with the exception of ALTEO Deutschland Gmbh. The subsidiaries – with the exception of ALTEO Deutschland Gmbh – pay tax in accordance with the Hungarian regulations.

During the year 2019, several acquisitions were completed and, as a result, the portfolio of the ALTEO Group expanded with new project firms.

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



The structure of the ALTEO Group as at January 1, 2020 is as follows:



The subsidiaries of the Group, its associates on December 31, 2019, and the subsidiaries' and associates'

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

Name of companies in Group	Registered office	Activity	Ownership acquisition date	Legal title	Rate of influence 31.12.2018	Rate of influence 31.12.2019	Amount of the equity (HAS) 31.12.2019	Amount of sales revenue (HAS) 31.12.2019
ALTEO Energiaszolgáltató Nyrt.	H-1130 Budapest, Babér u. 1-5.	Engineering service	N/A	N/A	N/A	N/A	N/A	N/A
ALTE-A Kft.	H-1131 Budapest, Babér u. 1-5.	property management	2011.08.02	Founding	100%	100%	12 560	28 874
ALTEO Energiakereskedő Zrt.	H-1131 Budapest, Babér u. 1-5.	electricity and gas trade	2011.12.05	Founding	100%	100%	131 570	11 014 531
ALTEO-AGRIA Kft. **	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2008.08.27	Founding	100%	100%	135 523	52 779
ALTEO-DEPÓNIA Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	2008.10.01	Founding	100%	100%	17 098	118 576
ALTEO-HIDROGÁZ Kft.	H-1131 Budapest, Babér u. 1-5.	heat supply	2009.07.23	Founding	100%	0%	N/A	N/A
ALTEO Deutschland GmbH	Marie-Curie-Str. 5, D-53359 Rheinbach	development of energy production portfolio,	2018.04.18	Founding	100%	100%	N/A	N/A
Balassagyarmati Biogáz Erőmű Kft	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production,	2015.05.04	Purchase	100%	100%	2 754	-
BC-Therm Kft.*	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	100%	223 762	5 935 806
Domaszék 2MW Naperőmű Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.12.04	Purchase	100%	100%	21 763	89 183
e-WIND Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2013.02.11	Purchase	100%	100%	61 531	60 163
ECO First Kft.	H-1131 Budapest, Babér u. 1-5.	Treatment and disposal of non-hazardous waste	2019.06.25	Purchase	0%	67%	10 658	147 667
Euro Green Energy Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2019.05.28	Purchase	0%	100%	2 400 502	2 026 049
F.SZ. ENERGIA Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.07.20	Purchase	100%	100%	36 932	120 898
IT-Solar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.11.06	Purchase	100%	100%	25 101	103 806
Győri Erőmű Kft.**	H-9027 Győr, Kandó Kálmán u. 11-13.	heat energy production, electricity production	2009.12.31	Purchase	100%	100%	426 055	405 422
HIDROGÁZ Kft.	H-1131 Budapest, Babér u. 1-5.	energy production, hydrogas utilization	2009.07.13	Purchase	100%	100%	2 975	8 220
Kazinc-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	100%	3 620	-
Kazinc-Therm Fűtőerőmű Kft. **	H-3700 Kazincbarcika, Gorkij u 1.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%	77 283	1 838 806
Monsolar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.11.06	Purchase	100%	100%	25 711	104 161
Ózdi Erőmű Távhőtermelő és Szolg. Kft.	H-3700 Kazincbarcika, Gorkij u 1.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%	7 689	749 291
Péberény Ingatlanhasznosító Kft	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.03.13	Purchase	100%	100%	167 602	175 701
Sinergy Energiakereskedő Kft.	H-1131 Budapest, Babér u. 1-5.	electricity trading	2015.05.04	Purchase	100%	100%	169 433	5 364 902
Sinergy Kft.	H-1131 Budapest, Babér u. 1-5.	energy production	2015.05.04	Purchase	100%	100%	443 427	1 036 434
Soproni Erőmű Kft. **	H-9400 Sopron, Somfalvi utca 3.	heat energy production, electricity production	2009.12.31	Purchase	100%	100%	197 654	1 306 377
SUNTEO Kft.	H-1131 Budapest, Babér u. 1-5.	energy production	2013.01.30	Founding	100%	100%	- 181 451	-
Tisza BioTerm Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	60%	60%	- 18 567	-
Tisza-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	100%	3 620	-
Tisza-Therm Fűtőerőmű Kft. **	H-3580 Tiszaújváros, Tisza út 1/D	heat energy production, electricity production	2015.05.04	Purchase	100%	100%	- 29 282	1 245 680
Tisza-WTP Kft.*	3580 Tiszaújváros, Ipartelep 2069/3.	salt-free and demineralized water production	2015.05.04	Purchase	100%	100%	101 733	1 376 570
True Energy Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.07.20	Purchase	100%	100%	5 184	77 363
WINDEO Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2012.05.24	Purchase	100%	100%	341 418	230 663
Zugló-Therm Energiaszolgáltató Kft.**	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%	- 14 756	2 765 154

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

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

These entities do not qualify as subsidiaries for accounting purposes.

Besides the companies mentioned above, the other businesses qualify as subsidiaries. The Group had no joint ventures on December 31, 2019 or December 31, 2018.

Changes in the Group's structure

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

Member company	Explanation
Euro Green Energy Kft.	The Group purchased 100% of EGE Kft. in the current year
ECO First Kft.	The Group purchased 66% of ECO First Kft. in the current year
ALTEO Hidrogáz Kft.	The Group sold 100% of ALTEO Hidrogáz Kft. in the current year.

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

On December 19, 2019 the Company Court registered, with effect as of January 1 2020, the merger by absorption of the following subsidiaries into Győri Erőmű Kft.:

- ALTEO-Agria Korlátolt Felelősségű Társaság
- Kazinc-Therm Fűtőerőmű Korlátolt Felelősségű Társaság
- Ózdi Erőmű Távhőtermelő és Szolgáltató Korlátolt Felelősségű Társaság
- Soproni Erőmű Korlátolt Felelősségű Társaság
- Tisza-Therm Fűtőerőmű Korlátolt Felelősségű Társaság
- Zugló-Therm Energiaszolgáltató Korlátolt Felelősségű Társaság

As of the date of legal succession, the company name of the legal successor Győri Erőmű Kft. changes to ALTEO-Therm Hő- és Villamosenergia-termelő Korlátolt Felelősségű Társaság.

Currency and accuracy of the presentation of the financial statements

The Parent Company's functional currency is the Hungarian Forint. The financial statements were drawn up in HUF (presentation currency) and the figures displayed are in thousand HUF unless otherwise indicated.

The foreign currency relevant to the Group is the Euro. The exchange rate of the currency in the reporting period was as follows (currency unit per HUF according to the exchange rates of the Central Bank of Hungary):

Currency	12/31/2019	2019 average	12/31/2018	2018 average
euro (EUR)	330.52	325.35	321.51	318.85

5. Significant accounting policies

Presentation of the financial statements

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

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

The Group has decided to present the statement of profit or loss and other comprehensive income in separate statements.

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

In the context of the financial statements but as a separate document, the Group prepares its Management Report in accordance with the disclosure requirements relating to publicly traded securities.

Significant decisions regarding presentation

The Group prepared its previous IFRS consolidated financial statements for the business year of 2018 with comparative figures for 2017. The financial statements were prepared by the Group in view of the transparency and comparability requirements applicable to companies listed on the stock exchange.

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

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

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

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

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

- energy trading,
- Energy and power engineering services
- and energy production (Subsidized and Market-based) segments are emphasized.

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

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

Determining the structure of the Group

Subsidiaries

Starting from 2014, consolidation has been performed by the Group in accordance with the provisions of IFRS 10.

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

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

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

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

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

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

Control is not deemed to exist by the Group if the Parent Company has a share of over 50% in an entity but operates the assets of that entity at the specific direction and on behalf of someone else, or if the capacities of that entity are fully allocated by someone else. The net assets of such entities are treated by the Group as if such assets were leased to someone else (IFRS 16), which means that these entities are not consolidated.

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

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

The reporting date of the subsidiaries' financial statements was the same as the Parent Company's reporting date, and the accounting policies adopted by the subsidiaries were identical to the

Parent Company's accounting policies. The accounting policies of the entities which have recently joined the Group have been harmonized with the Group's accounting policies and accounting policies have been developed in connection with the newly introduced activities and accounting events.

Associates

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

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

Principles for performing consolidation

Treatment of business combinations

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

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

The consideration includes the following:

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

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

Determining the acquired net assets

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

Goodwill

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

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

Measurement period

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

Impairment of goodwill

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

Treatment of non-controlling interests (NCI)

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

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

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

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

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

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

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

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

- if control is not obtained even after the increase in its share, then the Group continues to account for its share in the relevant entity as a financial instrument or associate;
- if control is obtained as a result of the increase in share through the transaction in question, then the Group applies the rules if IFRS 3 to this step, consolidates the assets and liabilities of the relevant entity and recognizes goodwill or negative goodwill according to the provisions of the standard;
- if a share is increased in such a way that the entity associated with the share was already controlled by the Group before the increase, then the Group reduces the amount of non-

controlling interests and the difference between this reduction and the compensation received is recognized directly in equity as a transaction of owners; no profit or loss is recognized with respect to these transactions and the value of goodwill (negative goodwill) remains unchanged.

Transactions with owners

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

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

Dividends

At the ordinary general meeting of the Parent Company held on April 26, 2019 the shareholders decided to pay HUF 250,068,416 as dividend. Dividend is paid only on the Company's registered, dematerialized ordinary "A" series shares with a face value of HUF 12.5, recorded with the ISIN identifier HU0000155726 – excluding the treasury shares held by the Group, as well as the shares issued on March 25, 2019 pursuant to Section 3:298(3) of the Civil Code that do not entitle to dividend. The amount of the dividend is gross HUF 16 per share.

Accounting policies relating to the statement of profit or loss

Revenues

The Group accounted for its revenues in accordance with the rules of the IFRS 15.

The IFRS 15 established a unified model for revenues originating from contracts. With the help of the unified five step model the standard determines when and in what amount do revenues have to be recognized. This standard states explicit expectations for the situation when several elements are transferred to the customer at the same time. The IFRS 15 describes two methods for timing the recognition of revenue: revenue accounted for at a given time and during a given period. The IFRS 15 standard also creates theoretical rules concerning what happens with the costs in connection with acquiring and providing – not recognized elsewhere – the contract. The standard does not contain revenue recognition rules for the financial instruments; those will be settled in IFRS 9.

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

The Group does not recognize items collected on behalf of other entities to be recharged later as part of revenue because the Group has no control over these items. The Group identified the following as such items:

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

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

- General construction-installation contracts: In the case of general construction-installation contracts, revenues are accounted for depending on the stage of completion of the project in question. The determination of the stage of completion shall be performed proportionately to the ratio of any actually occurred costs to the total planned costs. If, in the case of the project as a whole, a loss may be expected, that expected loss must be accounted for immediately. All the estimates concerning the revenues accounted for must be prepared considering all the information that is available at that moment. If the amount of the planned (expected) profit changes in the course of a given project, then it involves the adjustment of the revenues accounted for. If a given project is expected to generate loss, then accounting for the loss in full becomes necessary in the earliest period when the related information becomes available the first time. Estimates concerning the revenues accounted for must be prepared considering all the information available at the time of publishing the report in question.
- The overhaul component of flat-rate operation and maintenance contracts (at present, this is relevant only in the intra-Group contract cases) For the appropriate operation of certain pieces of power plant equipment (e.g. gas turbines, gas engines etc.), overhaul repairs are required at predetermined intervals. If an operation and maintenance contract concluded with an external party contains such a periodical element, the proportion of the related revenue must be separated and shall be realized against the respective costs.
- Energy retail contracts' TAKE-OR-PAY component: Certain energy trade contracts may contain a provision determining that the consumer shall pay the contractual amount for the allocated reserve even if it was not consumed. If it can be safely assumed that the Group is entitled to such revenue and that revenue is realizable (enforceable), then that revenue must be settled. In the case of the Group, according to market experience, no such realizable revenue is available.

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

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

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

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

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

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

Expenses related to operation

Non-finance expenses are to be classified as follows:

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

Changes in the inventory of stocks produced by the Company

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

Other income

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

Income from the sale of quotas

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

Finance income and expenses

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

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

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

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

Income taxes

The following are recognized as income tax:

- corporate tax (Act LXXXI of 1996 on Corporate Tax and Dividend Tax)
- income tax on energy suppliers (Act LXVIII of 2008 on Enhancing the Competitiveness of District Heating Services)
- local business tax (Act C of 1990 on Local Taxes)
- innovation contribution (Act LXXVI of 2014 on Scientific Research, Development and Innovation)

Offsetting

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

Application and concept of EBITDA

Although the IFRS does not use the concept of EBITDA, the Group decided to use this often used indicator as well, considering that it is widely used in the industry and that, in the Group's opinion, recognizing this value is useful for users of the financial statements as it has information content.

To facilitate interpretation, the method of EBITDA calculation is presented below:

EBITDA =	Net profit or loss
	+ finance income
	+ taxes
	+ depreciation and amortization

where

The Group modifies the net profit or loss with the following items:

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

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

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

EPS – earnings per share the shareholders are entitled to

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

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

Property, plant and equipment

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

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

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

The Group estimates the ARO using a percentage coefficient between 0% and 10%. The Group used a discount rate of 8.57% for discounting in 2019.

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

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

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

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

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

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

Asset group	Extent of depreciation
Land	non-depreciable
Buildings	1–5%
Power plant equipment	1–14%
Non-production machinery	14–33%
Office equipment	14–50%

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

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

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

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

Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Leases

Leases are contractual arrangements where the owner of an asset transfers the right to use that asset in return for a series of payments.

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

The Group applies the recognition exceptions provided by IFRS 16 for short-term leases and low value assets (below USD 5,000). No right-of-use asset and associated liability are recognized for leases where the indefinite duration and the related contractual termination conditions, or the absence of a fixed fee element, do not permit such a determination.

The leasing component must be separated in the case of complex sales or supply contracts where one of the contractual elements meets the standard’s conditions.

For the initial recognition of a lease, in the case of establishment of the value of the right of use and the obligation, the existing comparative data of the ALTEO Group must be used when determining the market interest rate. If such data are not available, the statistics published by the Central Bank of Hungary shall be taken into account. The right-of-use asset is amortized taking into account the same useful life as the lease term.

The effects of the first application of IFRS 16, as at January 1, 2019:

Name	IAS 17	IFRS 16
Asset (opening value)	-	93,698
Liability (opening value)	-	93,698
Services used (in 2018)	46,350	-

The Group found that based on the rules of the standard, as at its effective date it is not required to check whether the contracts already in progress are leases; these must be classified based on the earlier (IAS 17) classification.

For the Group as a lessor, the application of the new standard did not imply a change. The Group had operating lease contracts on the first day of mandatory application of the standard. In connection with these leases, the Company exercised the exemptions for contracts with a term of less than 12 months and underlying assets of minor value and did not adjust their accounting. For contracts with a term of more than 12 months and high value, the initial cost of the right-of-use asset is determined at the discounted present value of payments due for the remaining lease term. For establishing the market interest rate the Company used the statistics published by the Central Bank of Hungary.

Leases and agreements that qualify as leases

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

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

In such situations, in accordance with the provisions of IFRS 16 (formerly: IAS 17 and IFRIC 4), the Group does not recognize the underlying asset as an own fixed asset, but instead the contract is treated as a lease (despite the legal form) where the Group acts as a lessor in such cases.

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

Where the Group acts as a lessor, it

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

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

Policy on borrowing costs

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

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

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

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

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

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

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

Accounting for government grants

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

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

Grants may be accounted for if

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

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

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

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

Assets held for sale and discontinuing operations

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

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

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

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

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

Associates

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

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

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

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

Inventories

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

Accounting for impairment losses other than financial instruments and identifying CGUs

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

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

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

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

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

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

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

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

Provisions

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

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

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

The following items are typically included in provisions:

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

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

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

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

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

No provisions may be recognized for:

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

Employee benefits

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

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

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

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

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

Financial instruments

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

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

Financial assets

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

Financial assets are classified by the Group as follows:

- Debt
- Equity instrument
- Derivative

In the case of debt instruments:

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

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

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

Equity instruments include the following items:

- Shares in other companies

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

In accordance with its investment policy, the Group does not purchase instruments acquired in order to earn short term profits.

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

Financial liabilities must be classified into the following groups:

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

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

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

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

With regard to the financial asset and liability instruments, the Group classifies instruments as part of the initial valuation. The Group measures its financial asset and liability instruments at amortized cost. The Group uses fair value measurement. Transaction costs are capitalized by the Group. Derivatives related to cash-flow hedges are exceptions to this rule.

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

Items not resulting in interest expense or interest income

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

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

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

Items resulting in interest expense or interest income

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

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

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

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

ECL model

The expected credit loss model (ECL) is applied in light of non-payment experienced. The extent of the impairments relating to electricity is low in the retail business line, due to the receivable management processes developed in the past years. The Group performed the segmentation of its revenues and studied the recovery of billings on this basis. In the case of the following areas, each billing was recovered in the past periods, there was no need for a recognition of specific impairment:

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

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

- Electricity and gas retail
- Heat supply

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

In the current year the Company reviewed the rates to be used in the model and determined the ECL based on publicly available databases. These items are presented in detail in section 20.

Hedge accounting

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

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

To qualify for hedge accounting, the relevant transaction must be formally designated and there must be evidence for hedge effectiveness (the aggregate impact of the change in the hedging instrument and the hedged item falls within a range of 80% to 125%). The details of hedge accounting are presented in sections 24 and 39.

Share-based payments

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

Upon the management’s decision, the Group distributes Shares to the employees who have become entitled to these on the basis of the Group’s recognition system. The market value of the shares given as a reward must be accounted for as expense at the moment when they are granted, in accordance with the provisions of the IFRS 2 standard, against personnel expenses. The details of share-based payments are presented in section 25.

Current income tax expense and deferred taxes

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

General accounting policies relating to cash flows

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

Foreign currencies

Transactions denominated in foreign currencies

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

The points to consider are as follows:

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

The above considerations are listed in order of importance.

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

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

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

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

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

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

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

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

The following might indicate the review of accounting estimates:

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

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

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

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

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

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

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

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

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

The Group's profit or loss is heavily dependent on the global market price of energy carriers and indirectly on the exchange rates of the USD and the Euro in which the price of such commodities is denominated. In 2019, purchases of natural gas for the power plants were typically made in foreign currencies (EUR), which allowed the Group to rely on a more favorable procurement source in terms of the energy carriers used for production, although this also increased the activity's foreign exchange exposure to some extent. The Group enters into forward contracts in order to hedge foreign exchange exposures. Similarly, the Group enters into hedge transactions to protect itself from changes in the price of energy carriers themselves.

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

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

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

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

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

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

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

The Group presents in detail the risks relating to its operation in Notes No 38 and 39.

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

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

New accounting policies

The following standards and interpretations (and their respective amendments) became effective during the 2019 business year

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

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

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

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

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

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

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

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

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

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

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

The implementation of these amendments, new standards and interpretations would not influence the unique financial statements of the Company in a significant manner.

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

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

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

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

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

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

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

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

The implementation of these amendments, new standards and interpretations would not influence the financial statements of the Group in a significant manner.

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

1. Revenue

Revenue	Year ending on 12/31/2019	Year ending on 12/31/2018
Electricity production	7 232 718	5 004 321
Electric power trade	6 824 659	4 861 091
Heat sales	5 188 594	4 433 441
Operation and maintenance (O&M)	2 428 532	2 365 764
Gas trade	2 079 830	1 095 968
Energy industry service fees and projects	1 594 262	595 635
Lease assets	38 599	73 401
Operating lease income	25 654	30 270
Other sales revenue	160 502	225 876
Total	**25 573 350**	**18 685 767**

Revenue contains returns attributable to the Group's core activity. In the current year the Group had no discontinuing operations.

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

Lease income on subsidiaries recognized under leases according to IFRS 16 rules are recognized as revenues. It is presented as part of other revenues that the Group gives certain parts of the properties of Győri Erőmű and Soproni Erőmű to operating lease (based on lease agreements). These items are recognized among other revenues. The Group does not keep any separate assets for leasing purposes; however, it leases some of its own assets. Revenues from assets leased in this way amounted to HUF 25,654 thousand (HUF 30,270 thousand). The Group does not sublease its leased assets.

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

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

The Group's revenue grew to HUF 25.6 billion relative to 2018 (an increase of HUF 6.9 billion), spread across several segments. Revenues from the Energy Retail segment and the Heat and Electricity

Generation segment increased significantly, resulting mainly from market acquisition and successful pricing policies, as well as from the success of the generation facilities on the structured electricity market, respectively. The acquisition of 100% of EURO Green Energy Kft.'s initial capital, 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.

2. *Material expenses*

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Energy carrier - electricity	6 883 765	6 186 585
Energy carrier - gas	7 230 330	5 025 586
Material and service needs of maintenance and projects	2 345 911	1 637 080
Expert services (counselling, auditing, IT)	417 010	323 568
Agent's commission	346 198	119 332
Bank expenses, insurance	188 169	143 269
Rent (office, machinery, vehicles, data cables, IT)	180 654	231 105
Administration and office costs	187 976	72 996
Other fuels and water	131 424	122 670
HSE, ISO, environmental protection	119 324	82 548
Marketing	74 165	85 320
Fees paid to authorities, duties	36 226	22 645
Other	70 716	211 650
Total	**18 211 868**	**14 264 354**

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 trade 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.

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

- Involving the Zugló heat power plant in the consolidation resulted in a partially transformed cost structure. In the previous year, only the figures of the last 9 months contain that performance.
- Due to the operational characteristics of the Control Center, the electricity obtained for reselling is not only connected to retail sales but to electricity production as well.
- Gas usage is also special because a part of it is used in the power plants and another portion is sold within the framework of gas trade.

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

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

3. Personnel expenses

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Wages	2 106 182	1 842 733
Other payments to personnel	269 489	235 723
Costs of share-based benefits	1 650	8 950
Contributions	480 843	419 128
Total	**2 858 164**	**2 506 534**

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

In the 10th year of the Parent Company's existence, it launched an employee share award program with a view to establishing a tradition. The aim of the share award program is to recognize outstanding performance and loyalty of employees by awarding shares. The burdens on the shares granted to the employees are also recognized as part of the wage expenses. Related presentations are in Note 25.

The average statistical workforce of the Group was 231 persons in 2019 and 221 persons in 2018.

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

4. Depreciation and amortization

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Recognized depreciation, amortization	2 045 752	729 818

The value of depreciation and amortization accounted for increased compared to the previous year. The growth comes from new capital expenditure and an increase in the asset base due to acquisitions as well as from the amortization of rights of use recognized pursuant to IFRS 16.

Rights of use and the related liabilities are presented in sections 9 and 30.

5. *Other income and expenses, net*

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Government grants	91 282	89 299
Fines, compensation, default interest received	79 833	312 476
Sale/disposal of fixed and intangible assets	79 375	(33 052)
Release/creation of the provision (except for CO2 quota)	1 725	(21 666)
CO2 expenses	(735 498)	(408 976)
Taxes and other payment obligations	(78 035)	(47 236)
Impairment of inventories and receivables	(196 119)	-
Fines, compensation, default interest paid	(37 430)	(16 612)
Grants, released receivables	(10 672)	(19 489)
Other settlements	1 258	(1 579)
Total	**(804 281)**	**(146 835)**

The balance of Other income and expenses, net dropped by HUF 0.6 billion as compared to 2018. The changes were attributable to three factors:

- In the first half of 2018 the ALTEO Group successfully agreed with one of its long-term service partners on a compensation, which added another HUF 0.3 billion to other revenues in the base period.
- The quota to be purchased for CO2 emissions increased substantially with the acquisition of the Zugló power plant, and the quota price also increased substantially during the period.

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

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

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

Detailed description of the information concerning the preparation and release of provisions is in Note 35.

Additional details about the government grants received can be found in Note 34.

6. *Finance expenses, net*

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Interests paid/payable	(778 994)	(345 639)
Received/receivable interest	20 228	22 950
Net interest expenses	**(758 766)**	**(322 689)**
Foreign exchange difference	7 938	79 143
Other financial settlements	(192 992)	11 213
Total	**(943 820)**	**(232 333)**

The drop in net financial income is attributable primarily to the interest payments on bank loans for investment projects. The majority of bonds issued in 2019 was used to refinance loans. Even though the interest rate of bonds is lower than that of the refinanced loans, the early repayment of loans entailed one-off expenditure of HUF 190 million during the year.

Interest expenses on bank loans increased as a result of the loan of Zugló-Therm included in the scope of consolidation and interests paid on loans for solar power plants that are already operational.

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

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

7. *Income tax expenses*

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

The breakdown of tax expenses is as follows:

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Actual local business tax	301 451	196 767
Actual Innovation contribution	46 233	16 834
Actual corporate tax	127 593	40 518
Special tax of energy producers	(82 302)	16 288
Deferred tax expenses	42 859	5 407
Total	**435 834**	**275 814**

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

Deduction	Year ending on 12/31/2019	Year ending on 12/31/2018
Profit or loss before taxes	709 465	805 893
Theoretical tax (9%)	63 852	72 530
Explanation:		
Current tax	301 451	196 767
Tax for discontinued activities	-	-
Timing differences (deferred tax)	42 859	5 407
Permanent differences and unrecognized tax assets	(280 458)	(129 644)
Amount of theoretical tax (corporate tax)	**63 852**	**72 530**

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

In 2019, the tax authorities carried out the following reviews concerning the Group:

Taxable entity	Type of 2019 review, form of tax, period
ALTEO Nyrt.	Comprehensive tax review – 2017 (closed)
BC Therm Kft.	Comprehensive tax review – 2018 (closed)
Sinergy Kft. – ALTEO Nyrt.	Absorption-type demerger – target review
Kazinc-Therm Kft.	Aimed at the performance of certain tax liabilities – VAT – May 2019 (closed)
Kazinc-Therm Kft.	Aimed at the performance of certain tax liabilities – Excise duty – October 2019 (closed)
Tisza-Therm Kft.	Aimed at the performance of certain tax liabilities – VAT – May 2019 (closed)
Tisza WTP Kft.	Aimed at the performance of certain tax liabilities – VAT – October 2018 (closed)
Győri Erőmű Kft.	Aimed at the performance of certain tax liabilities – VAT – December 2017 (closed)
Péberény Kft.	Aimed at the performance of certain tax liabilities – VAT – Q4 2018 (closed)
Soproni Erőmű Kft.	Aimed at the performance of certain tax liabilities – VAT – December 2017 (closed)
Sinergy Energiakereskedő Kft.	Aimed at the performance of certain tax liabilities – VAT – October-November 2018 (closed)
Zugló-Therm Kft.	Aimed at the performance of certain tax liabilities – Excise duty – July 2019 (closed)

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

During the year, some of the Group's subsidiaries made use of the legislative changes and set up a Corporate Tax group.

8. Calculation of earnings per share (EPS)

When calculating earnings per share, the net earnings are divided among the owners of the Parent Company. We presented the changes in the number of shares in note 22 on issued capital.

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Base value of net earnings per share (HUF/share)	14,78	32,72
Diluted value of net earnings per share (HUF/share)	14,18	31,17
Number of shares for EPS	18 027 438	15 624 379
Number of shares for diluted EPS	18 781 081	16 401 200

VI. Notes to the statement of financial position

9. Fixed assets and intangible assets

The changes in assets are detailed in the following table:

Gross value	Power plants and power generating properties, plants and equipment	Other PPE	Emission allowances	Other intangible assets	Value of operation contracts	Rights of use	Total
01.01.2018	**8 268 477**	**91 027**	**54 981**	**629 698**	**595 936**	**-**	**9 640 119**
Acquisition/put to use	5 396 141	19 799	474 378	517 399	1 368 757	-	7 776 474
Disposal/sale	(338 648)	-	(525 340)	(73 133)	-	-	(937 121)
Reclassification	-	-	-	-	-	-	-
31.12.2018	**13 325 970**	**110 826**	**4 019**	**1 073 964**	**1 964 693**	**-**	**16 479 472**
Effects of IFRS16 application	(196 124)	-	-	-	-	289 822	93 698
01.01.2019	**13 129 846**	**110 826**	**4 019**	**1 073 964**	**1 964 693**	**289 822**	**16 573 170**
Acquisition/put to use	8 310 424	54 335	1 014 333	3 261 862	150 773	757 398	13 549 125
Disposal/sale	(187 697)	(10 895)	(676 252)	(25 687)	(236 536)	-	(1 137 067)
Reclassification	-	-	-	-	-	-	-
31.12.2019	**21 252 573**	**154 266**	**342 100**	**4 310 139**	**1 878 930**	**1 047 220**	**28 985 228**

Accumulated depreciation	Power plants and power generating properties, plants and equipment	Other PPE	Emission allowances	Other intangible assets	Value of operation contracts	Rights of use	Total
01.01.2018	**2 417 965**	**57 319**	**-**	**209 077**	**312 297**	**-**	**2 996 658**
Derecognition due to disposal/sale	(299 846)	-	-	(72 839)	-	-	(372 685)
Derecognition due to reclassification	-	-	-	-	-	-	-
Impairment	20 522	1 830	-	-	-	-	22 352
Depreciation and amortization	471 385	13 569	-	69 200	175 664	-	729 818
31.12.2018	**2 610 026**	**72 718**	**-**	**205 438**	**487 961**	**-**	**3 376 143**
Effects of IFRS16 application	(5 991)	-	-	-	-	5 991	-
01.01.2019	**2 604 035**	**72 718**	**-**	**205 438**	**487 961**	**5 991**	**3 376 143**
Derecognition due to disposal/sale	(168 860)	(5 704)	-	(25 687)	(236 536)	-	(436 787)
Derecognition due to reclassification	7 613	(7 613)	-	-	-	-	-
Impairment	48 342	-	-	-	-	-	48 342
Depreciation and amortization	1 049 736	21 760	-	638 031	219 764	116 461	2 045 752
31.12.2019	**3 540 866**	**81 161**	**-**	**817 782**	**471 189**	**122 452**	**8 409 593**

Net amount	Power plants and power generating properties, plants and equipment	Other PPE	Emission allowances	Other intangible assets	Value of operation contracts	Rights of use	Total
31.12.2018	**10 715 944**	**38 108**	**4 019**	**868 526**	**1 476 732**	**-**	**13 103 329**
31.12.2019	**17 711 707**	**73 105**	**342 100**	**3 492 357**	**1 407 741**	**924 768**	**23 951 778**

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

There are assets that need to be removed at the end of their useful lives and such removal involves significant expenses. Such expenses are added by the Group to the initial amount at a discounted value. The discount rate applied was changed to 8.57% by the entity during the business year. Intangible assets include no assets with indefinite lifecycles.

On the reporting date the Group has no assets qualified as an asset held for sale. During the year, the Group classified as assets held for sale the methane power plant and the related asset group as Kisújszállás. In the course of the reclassification, impairment of HUF 48 million was recognized. The assets were sold on July 3, 2019.

The Group does not possess assets regarding which it would employ the revaluation model.

The Group had no assets in the previous period or in the current year that would have been classified as assets for sale.

IFRS 16 came into force on January 1, 2019, therefore, the opening balance had to be modified by the value of the rights of use. This change had no effect on the amount of equity. Rights of use comprise rights of use of land, power plant buildings and passenger cars. There is no right of use where the Group would sublease the underlying asset. The liabilities relating to right-of-use assets are presented in section 30. The Group does not keep any separate assets for leasing purposes. The Group gives certain parts of the properties of Győri Erőmű and Soproni Erőmű to operating lease (based on lease agreements). The rent income is presented in section 1.

For the Group, as at December 31, 2019 exclusively the investment into the Gibárt hydropower plant was regarded as qualifying assets, where borrowing costs had to be capitalized.

During the year, with the purchase of the Bőny Wind Farm, the stock of non-current assets increased by almost HUF 7.8 billion. Accordingly, the KÁT contract related to the farm is recognized among intangible assets, in the value of HUF 2.7 billion.

The Group adopts a strict component approach, i.e. all significant parts of an asset which have different useful lives are depreciated separately. For each asset, the value of high-value regular repair projects is indicated as a separate component increasing the value of the asset; these values correspond to the figures in the following table (i.e. these amounts were spent on overhauls).

Project	Quarter	Value of invested asset
Kazinc Therm Gas engine overhaul*	III.	HUF 111 million
Projects total		**HUF 111 million**

* The cost of overhaul works related to assets recognized as a concession right under IFRIC 12 increases the recognized value of the concession right.

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

For power plants financed using borrowings, a lien is attached to the assets of the entity owning the asset (including assets of the wind power and solar power project companies) under the loan contracts. The details of the liens promised are disclosed in detail in Note 31.

In the year 2019 the Group performed and commissioned the following significant investments:

Project	Quarter	Value of invested asset
Balatonberény – solar power plant	Q3	HUF 2,381 million
Nagykőrös – solar power plant	Q3	HUF 2,715 million
RDI intellectual property	Q3	HUF 225 million
Győr Power Plant – Gas engine renovation	Q2	HUF 43 million
Projects total		**HUF 5,354 million**

The Group created the above assets using its own capacity as main contractor. The table above only contains completed projects and excludes the increase in intangible assets related to the investments (KÁT, R&D, Concession).

It is the opinion of the management of the Group that intellectual property generated within the framework of the RDI projects constitute an asset meeting the criteria of the IAS 38 standard. The contractual assets as per IFRS 15 recognized among intangible assets are presented in detail in Note 40.

In addition to the completed investments listed above, in connection with the project underway for the Gibárt hydropower plant during the year, close to HUF 215 billion was invested. The Group expects to complete this project during the year 2020.

The management of the Group performs the necessary tests for CGUs as at each reporting date to determine whether the recognized value can be considered recoverable. In the current year, the tests performed showed the Group's assets to be recoverable so it is not necessary to recognize impairment.

10. Emission allowance

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

11. Goodwill, negative goodwill and acquisitions

a) Goodwill recognized in previous periods

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

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

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

- Euro Green Energy Kft. (100% share, 4/5/2019)
- ECO First Kft. (66% share, 6/25/2019)

The Group invested the sums received through the private placement implemented in the current year into the Euro Green Energy Kft. project company. The project company operates a wind farm, which feeds into the KÁT system.

The Group evaluated the net assets of the subsidiaries acquired in the business combination – for initial consolidation – for fair value. The Group settled the purchase price in cash and by a bill of exchange, no contingent consideration related to the acquisitions referred to was established as a portion of the purchase price.

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

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

Name	EGE	ECO First
Total amount of payment	2,750,103	3,000
Fair value of net assets on the day of acquisition	202.120	2,954
Purchase price allocated to KÁT value	2,656,215	n/a
Acquired deferred tax liability	108.232	-
Revenue in the period following the acquisition	1,376,237	119.528
Earnings in the period following the acquisition	108.184	11,434

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

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

12. Operation contracts, concessions

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

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

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

13. Net investment in lease

The Group does not consolidate two companies (BC Therm Kft., Tisza-WTP Kft.) since it came to the conclusion that they have no control over the relevant activities of these subsidiaries or over their variable returns. The full capacity of these entities is taken up by another entity and they make all relevant operational decisions. The Group came to the conclusion that this arrangement falls under the scope of IFRS 16 (formerly IFRIC 4); consequently, these investments have the legal form of lease.

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

With regard to Tisza WTP Kft., the Group is entitled to no further lease income; consequently, the lease receivable has zero value. O&M revenue relating to the subsidiary will be recognized also in the future, but it is realized and will be presented under another contract.

The progress of the lease in time is the following:

Project	31.12.2019	31.12.2018
Amounts due within a year	160 814	287 000
Amounts due between 1 and 5 years	104 982	253 772
Amounts due in more than 5 years	-	-
ECL recognized	(606)	-
Total lease receivables	**265 190**	**540 772**
Unearned interests	13 597	64 643
Total lease revenue	**278 787**	**605 415**

The Group gives certain parts of the properties of Győri Erőmű and Soproni Erőmű to operating lease (based on lease agreements). These items are recognized among other revenues. The Group keeps no separate assets for leasing purposes; however, it leases some of its own assets under such arrangement.

The items relating to the ECL impairment applied to financial assets are presented in detail in section 20.

14. Deferred tax assets and liabilities

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

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

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

The tax balances and temporary differences for 2019 are as follows:

31.12.2019	Tax value	Accounting value	Difference
Power plants and power generating properties, plants and equipment	13 019 026	17 711 707	(4 692 681)
Other property, plant and equipment	474 845	73 105	401 740
Other intangible assets and operation agreements	519 075	4 900 098	(4 381 023)
Rights of use	131 874	924 768	(792 894)
Lease assets	264 584	265 190	(606)
Trade receivables	3 018 214	2 919 836	98 378
Long-term bonds, loans and borrowings	18 897 565	18 792 864	104 701
Provisions	-	568 680	568 680
Derivative transactions (liability)	-	1 882 892	(1 882 892)
Finance lease liabilities	134 233	1 025 677	891 444
Allocated reserves	429 362	-	(429 362)
Other receivables and accruals	4 641 671	4 453 370	188 301
Tax assets not qualifying as returning	-	-	2 741 789
Losses carried forward	3 708 202	-	3 708 202
Deductible temporary difference			**3 187 289**
Taxable temporary difference			**6 663 512**
Deferred tax receivable (9%)			**286 856**
Deferred tax liability (9%)			**599 716**

The following differences were identified in 2018:

31.12.2018	Tax value	Accounting value	Difference
Power plants and power generating properties, plants and equipment	9 314 057	10 715 943	(1 401 886)
Other property, plant and equipment	35 727	38 108	(2 381)
Other intangible assets and operation agreements	136 990	2 345 258	(2 208 268)
Shares	(77 697)	100	(77 597)
Trade receivables	3 340 961	3 319 584	21 377
Long-term loans and borrowings	5 333 602	5 263 185	70 417
Provisions	-	251 739	251 739
Derivative transactions (liability)	-	328 685	(328 685)
Allocated reserves	(228 950)	-	(228 950)
Deferred tax liabilities of the IFRS transition	(156 566)	-	(156 566)
Tax assets not qualifying as returning	-	802	(801 853)
Losses carried forward	3 331 697	-	3 331 697
Deductible temporary difference			**1 552 844**
Taxable temporary difference			**(3 083 800)**
Deferred tax receivable (9%)			**139 756**
Deferred tax liability (9%)			**277 543**

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

Other long-term loans, deposits were as follows:

Name	31.12.2019	31.12.2018
Loans given	148 498	147 492
Clearing house deposit	26 521	49 110
Employee loan	21 000	22 049
ECL recognized	(2 368)	-
Total	**193 651**	**218 651**

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

None of the loans given is measured at fair value. The items relating to the ECL impairment applied to financial assets are presented in detail in section 20.

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

16. Inventories

The breakdown of inventories by type is as follows:

Name	12.31.2019	12.31.2018
Projects	34 097	-
Other materials	191 537	189 709
Fuels	7 531	23 435
Total inventories	**233 165**	**213 144**

Inventories include the fuels (fuel oil) and other materials used by the power plants and contain, amongst others, the stock of spare parts relating to the maintenance of power plant equipment and, *inter alia*, work clothing, empties and auxiliary materials.

The inventories relating to projects consist in the value of works performed with regard to projects not started before the end of the year.

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

17. Trade receivables

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

Name	31.12.2019	31.12.2018
Gross value of trade receivable	3 018 214	3 344 791
Recognized impairment	(98 378)	(25 207)
Total inventories	**2 919 836**	**3 319 584**

The breakdown of impairment losses is as follows:

Trade impairment losses	31.12.2019	31.12.2018
Opening balance	25 207	15 514
Impairment recognized	73 171	3 802
Closing balance	**98 378**	**25 207**

The impairment of receivables and write-offs are recognized in direct expenses. Buyers are qualified on a case by case basis. A significant part of trade receivables is unsecured because they are not covered by deposits, bank guarantees, etc. Exemptions are construction projects because in those cases the Group demands such guarantees. No such guarantees had to be drawn down in the current year or in the previous period.

The aging list of outstanding trade receivables is as follows (2019):

31.12.2019	Not overdue	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cc	1 803 457	862 734	69 527	73 242	79 398	100 817	29 039	3 018 214
ECL average applied ratio	0,67%	0,55%	0,50%	4,00%	8,80%	40,95%	100,00%	
Impaired trade receivable at acquisition	(12 129)	(4 736)	(345)	(2 930)	(6 990)	(42 209)	(29 039)	(98 378)
Total trade receivables								**2 919 836**

Previous year’s data (2018):

31.12.2018	Not overdue	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cc	2 485 559	614 962	71 080	32 115	116 173	2 102	22 800	3 344 791
ECL average applied ratio	0,02%	0,09%	0,60%	0,09%	0,06%	47,10%	100,00%	
Impaired trade receivable at acquisition	(550)	(345)	(434)	(28)	(68)	(972)	(22 800)	(25 207)
Total trade receivables								**3 319 584**

The Group is mostly present in industries where the payment risk is low or non-existent. On the basis of experiences in previous years, in electricity production, electricity wholesale and district heating production, there were no trade receivables to be impaired at all. In the context of construction projects, trade receivables are backed by bank guarantees.

The maximum credit risk is equal to the carrying value of trade receivables.

The Group’s five largest customers:

In 2019	In 2018
MAVIR Zrt.	MAVIR Zrt.
Barcika Szolg Vagyonkezelő és Szolgáltató Kft.	Barcika Szolg Vagyonkezelő és Szolgáltató Kft.
ALPIQ Energy SE	TVK-Erőmű Kft.
TVK-Erőmű Kft.	ALPIQ Energy SE
NEO Property Services Zrt.	TiszaSzolg 2004 Kft.

The items relating to the ECL impairment applied to financial assets are presented in detail in section 20.

18. Other financial assets

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

Name	31.12.2019	31.12.2018
Financial assets held for trading	-	-
Derivative transactions	49 049	254 438
Separate bank accounts	311 938	660 963
Total inventories	**360 987**	**915 401**

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

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

The receivable balance of derivative transactions includes the non-realized profit balance of hedging transactions (electricity forward, EUR/HUF FX forward, CO_2 forward) at the end of the year. Detailed comments concerning derivative transactions are in Note 24.

19. Other receivables and income tax receivables

The value of the actual income tax receivables (local business tax, Innovation Contribution, corporate tax and special tax) are not included in the table below. The amount of it is HUF 332,453 thousand (in 2018: HUF 192,182 thousand).

The breakdown of other receivables is the following:

Name	31.12.2019	31.12.2018
Accrued revenue	2 493 334	1 133 292
Accrued expenses	125 155	65 429
Deposits, sec. deposits	948 786	345 431
Advances paid (related to projects)	551 217	79 104
Receivables due from the customer	2 962	-
Receivables from employees	2 824	6 875
Other receivables	291 940	24 830
ECL impairment	(19 622)	-
Total	**4 396 596**	**1 654 961**

The large increase in the proportion of deposits is due to the value of the deposits necessary because of the presence of Sinergy Energiakereskedő Kft. at the electricity stock exchange. The increase in deposits changes in correlation with the changes in the value of the hedged items. Advances given are related to the construction-installation projects in progress. The amounts due from customers relating to construction-installation contracts are presented in detail in section 40.

Other receivables contain no items past due or assessed by the management as doubtful. The items relating to the ECL impairment applied to financial assets are presented in detail in section 20.

20. Application of the expected loss model to financial assets

The management of the Group has performed the risk analysis of its financial assets.

Risks of financial assets are presented in section 39. Taking into account the risk undertaken, financial assets are classified into the following categories:

Category	Definition	Application of ECL
Performing	The partner is trustworthy and non-payments did not occur in the past. All related items are considered performing.	Recognition of 12-month expected credit loss
Doubtful	Delay exceeding 60 and 365 days by an external partner but no direct evidence of risk of non-payment	Recognition of full lifetime expected credit loss
Non-performing	Item past due for 365+ days in the case of an external partner	Recognition of full lifetime expected credit loss

In the current year, the impairment recognized for the financial assets of the Group were as follows:

Name	External credit rating	Internal credit rating	ECL%	Gross value	ECL amount	Net amount
BC-Therm Lease - (Wanhua Chemical)	BBB+ (Fitch)	Performing	0,23%	265 796	(606)	265 190
Long-term loan Third party	N/A	Performing	1,21%	196 019	(2 368)	193 651
Customers - with large corporate background, within 365 days	N/A	Performing	0,41%	963 993	(3 952)	960 041
Accounts receivable - public sector, within 365 days	N/A	Performing	0,01%	1 024 420	(102)	1 024 318
Accounts receivable - other sector, within 90 days	N/A	Performing	1,51%	721 652	(10 897)	710 755
Accounts receivable - other sector, between 90 and 365 days	N/A	Delinquent	between 4% and 50%	279 110	(54 387)	224 723
Accounts Receivable - over 365 days	N/A	Non-performing	100,00%	29 039	(29 039)	-

In the current year, the management of the Group uses the data available in public databases to determine ECL rates. In the opinion of the Group's management, the overall credit risk in the market of the partners and segments did not change in the recent period.

21. Cash and cash equivalents

Name	31.12.2019	31.12.2018
Cash in hand	14	-
Bank accounts – HUF	4 396 412	1 532 186
Bank accounts – foreign currency	451 245	1 029 032
Total	**4 847 671**	**2 561 218**

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

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

22. Elements of equity

Issued capital includes the face value of the shares issued (in circulation). As of the reporting date, all issued shares are from one series (series A). The current face value is HUF 12.5 per share.

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

Date	Event	Number of shares	Face value (HUF/share)	Change of issued capital (HUF thousand)	Balance of issued capital (HUF thousand)
01.01.2018	**Opening balance**	**15 631 176**	**12,5**		**195 390**
10.1.2018	Merger by absorption - own shares	(3 757)	12,5	(37)	
2018 év során	Share purchase	(3 040)	12,5	(39)	
31.12.2018	**Closing balance**	**15 624 379**	**12,5**		**195 314**
1.30.2019	Transfer of employee share ownership progı	13 222	11,5	152	
3.16.2019	Private placement	2 985 074	12,5	37 313	
6.12.2019	Excercise of ESOP option	21 500	12,5	269	
During 2019	Share purchase	(8 325)	12,5	(100)	
31.12.2019	**Closing balance**	**18 635 850**	**12,5**		**232 948**

By 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 Parent of the Group launched the process of increasing the share capital of the Company by adding new shares in a private placement. The issue price of the new shares was set at HUF 670. A total of 2,985,074 New Shares were issued at an aggregate value of HUF 1,999,999,580. The New Shares were not eligible for dividend in respect of 2018 and, therefore, they were admitted to listing on the Budapest Stock Exchange on April 4, 2019 under the ALTEO/NODIV ticker as a separate share class. Following the payment of the dividend the New Shares were no longer different from the old ones thus there was no reason to maintain them as a separate share class. Accordingly, the share classes were merged on June 13, 2019.

Premium contains the amount of share premium paid, decreased by the cost of equity involvement. Retained earnings contain the accumulated profit, reduced by the amount of the dividend payments. In connection with the profit for the subject year, no dividend payment was made as yet.

There are no other agreements between owners or with other parties which would require the Company to issue new ordinary shares or repurchase existing ones. The Company's approved issued capital (the share capital registered with the registry court) is equal to the amount of the issued capital.

23. Transactions with owners

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

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

- ALTEO, in the framework of its share repurchase program announced on June 15, 2018 and extended as published on November 28, 2018, purchased a total of 8,325 ordinary shares of ALTEO on the Budapest Stock Exchange.
- During the business year of 2015 the Group acquired its own shares in accordance with the effective regulations. As the consequence of involving its own shares the Group decreased its equity so that the face value was directly deduced from the issued capital. The remaining difference was recognized in the separate element of equity, as transaction with the owners. This line presents that compared to the face value how much larger the amount that left the Group was in connection with transactions with the owners.
- Contribution of the share of non-controlling interests: The owners of Sinergy Kft, having 20%, added the business part of Sinergy Kft. in the Group, as the effect of which the issued capital of Alteo Nyrt. was increased by HUF 7,316 while the share premium was increased by HUF 344 million. In this settlement the Group deducted the actual market value of the newly issued shares from the stock exchange price effective on the day of the transaction.

Movements in the current year reflect the value of the 8,325 shares repurchased on the stock exchange in Q1.

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

The accounting policy of the Group established hedge connection between certain transactions and certain derivatives. These hedges qualify as cash-flow hedges. The Group recognizes profits and losses from the hedging item of the cash-flow hedge as other comprehensive income, and gathers such profits and losses in this equity component. The balance in the cash-flow hedge fund is reclassified by the Group in the net profit or loss at the closing of the transaction (or if the hedge connection is cancelled from any other reason). The management of the Group examined the relationship between the hedged items and the hedging transaction and deemed the transactions to be efficient. The details of hedged risks and the hedging techniques are presented in sections 39 and 39.

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

Exposure	Interest rate-BUBOR	Foreign exchange rate - EUR/HUF	Price - electricity	Foreign exchange rate - price of gas	CO_2 quota price
Nature of the risks being hedged	Increase in the BUBOR rate	EUR/HUF rate increase	Rate of electricity increase/decrease	Rate of gas increase	Increase in quota prices
Description of the hedging activity	Transactions to fix the rates	Future purchases	Purchase or sale of products in the future	Purchasing products in the future	Future purchases
Description of the financial instruments designated as hedging instruments	Interest rate swap derivative	Forward deals	Bilateral transactions with partners	Asian swap deals, options	Forward deals
OCI on 12/31/2018	**HUF 382,114 thousand (loss)**	**HUF 11,064 thousand (loss)**	**HUF 188,220 thousand (loss)**	**HUF 113,485 thousand (profit)**	**HUF 144,229 thousand (profit)**
OCI on 12/31/2019	**HUF 827,582 thousand (loss)**	**HUF 59,932 thousand (profit)**	**HUF 42,521 thousand (profit)**	**HUF 1,143,975 thousand (loss)**	**HUF 13,787 thousand (loss)**

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

Name	31.12.2019	31.12.2018
Opening	(299 103)	(39 209)
Remeasurement in other comprehensive income	(109 399)	596 238
Reclassification to the statement on profit or loss	(1 304 930)	(856 132)
Total	**(1 713 432)**	**(299 103)**
of which, derivative position recognized against OCI	*(1 882 892)*	*(328 685)*
of which, deferred tax recognized against OCI	*169 460*	*29 582*
Reclassification to income tax	139 878	12 679
Reclassification to finance expenses	(22 098)	(6 005)
Reclassification to other expenses	-	(52 245)
Reclassification to material expenses	(1 422 710)	(810 561)
Total - Reclassification to net profit	**(1 304 930)**	**(856 132)**

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

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

25. Share-based payment reserve

Name	31.12.2019	31.12.2018
Opening balance	92 690	83 740
Reclassification on account of share option exercise	(2 338)	-
Reclassification on account of share option discontinuation	(14 654)	-
Reclassification on account of transfer of employee bonus	(8 950)	-
Remeasurement in other comprehensive income	1 650	8 950
	68 398	**92 690**

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

Expenses concerning the entire option scheme were recognized as personnel expenses in the statement of profit or loss of previous periods. The entire scheme is equity settled; therefore, no revaluation will be required in the forthcoming periods.

Under the option program, the options – 96,253 in total – vested in August 2017. The price of the options as of the time of distribution was uniformly HUF 3,800/share, apportioned by splitting the shares in 1:8 proportions. By splitting the shares the number of share options changed proportionately (770,024 options). 21,500 shares were called under the scheme during 2019. Pursuant to the remuneration policy of ALTEO's ESOP Organization, call option holders did not exercise their option until the termination of their employment relationship and thus forfeited the option in respect of a total of 134,752 shares. The part of the reserve covering terminated and called options was reclassified into retained earnings. 613,772 options may be called within the framework of the scheme as of the reporting date. Call options will expire on November 7, 2021. Neither the beneficiaries nor the ESOP organization may sell their shares below the 2016 IPO issue price (HUF 579/share, having regard to the division by eight).

In the current year, the Group distributed shares to the value of HUF 1,650 thousand to the employees who were entitled to these on the basis of the Group's recognition plan. In connection with the shares granted, the transfer of the shares started on January 31, 2020.

26. Non-controlling interest

The non-controlling interest is due to the fact that the Group controls only 60% of Tisza BioTerm Kft. and 66% of ECO First Kft.

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

Dividend was not paid at Tisza BioTerm Kft. either in the current year or in the preceding year; since the acquisition, no dividend has been paid at ECO First Kft.

27. Debts on the issue of bonds

Name	31.12.2019	31.12.2018
Opening balance	3 606 924	3 507 828
Issue of bonds	10 289 665	-
Capitalized interest (with the method of effective interest rate)	240 969	195 632
Repayment	(1 013 426)	(96 536)
Closing balance	**13 124 132**	**3 606 924**
of which long term	*10 909 018*	*2 624 241*
of which short term	*2 215 114*	*982 683*

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

On March 30, 2017 the parent company of the Group issued bonds by private placement under the designation ALTEO 2020/I in a total amount of HUF 2,150,000,000, that is, two billion one hundred and fifty million forints.

On June 7, 2019 the Parent company of the Group issued dematerialized zero coupon bonds with a maturity of 3 years by private placement under the designation "ALTEO 2022/II". The total face value of the issue is HUF 1,693,630,000, the issue value is 88.9158% of the face value. The bonds were admitted to listing on the regulated market on November 22, 2019.

On October 24, 2019, the parent company of the Group issued bonds designated as "ALTEO NKP/2029" with a total face value of HUF 8.6 billion. The average issue value of the bonds was 102.5382% of the face value. The bonds have a fixed rate coupon of 3.15% and the maturity is 10 years. The bonds were admitted to listing on the regulated market on January 24, 2020.

For the purpose of uniform presentation, the detailed terms of the bonds are listed in Note 31 titled Terms of borrowings.

In the current year, the Company capitalized borrowing costs in the amount of 34,424 on the issued bonds (legal, organizer and distributor fees).

28. Long-term loans and borrowings, and other long-term liabilities

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

Name	31.12.2019	31.12.2018
Péberény Kft. (HUF)	2 108 759	1 170 562
WINDEO Kft. (Multicurrency - HUF) and predecessors	-	1 253 933
IT Solar Kft	628 846	619 404
Monsolar Kft.	621 478	619 404
Domaszék (HUF)	574 501	586 340
Soproni Erőmű Kft (HUF)	407 030	482 167
e-WIND Kft. (HUF)	301 059	389 435
ALTEO Depónia and its legal predecessors (HUF)	-	181 567
Zugló Therm Kft. (HUF)	-	175 416
F.SZ. Energia Kft (HUF)	1 433 861	-
True Energy Kft. (HUF)	1 443 895	-
Interest rate swap correction (wind power and solar project loans)	827 582	387 124
Total	**8 347 010**	**5 865 352**
Of which, instalments due within a year	*463 165*	*602 167*
Total long-term loans	**7 883 845**	**5 263 185**

In the subject year, in connection with the ongoing investment projects, the Group made use of large amount funding from banks. The terms of the borrowings and loans are summarized in the table in Note 31.

A borrowing is classified as non-current in the financial statements only if at the end of the year the Group had a unilateral right not to repay the amount before the next reporting date. The instalments for the next year are included in current liabilities.

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

The Group funded the loans of the solar power plants with interest swap transactions. The fair value of the interest swap transactions on the reporting date is recognized in the statements of financial position together with the related loan. In 2019 the loans of ALTEO Deponia, Bőny Wind Farm and Windeo Kft. were repaid early.

In the current year the Company capitalized the following charges relating to new borrowing:

Name	31.12.2019
Bőny Wind Farm - project loan, banking, legal and consulting fees	108 146

Other long-term liabilities contain the fair value of the conditional purchase price payment obligation that arose during the current year with regard to the Zugló heating plant. In the current year, in addition to the impact of the amortization, an adjustment was also recognized in relation to the purchase price because the condition related to the payment of the obligation was met. The above stated items are measured by the Company at amortized cost. The liability's amortized carrying value as of the reporting date was HUF 344,550 thousand (HUF 286,213 thousand). The fair value of the items above does not materially differ from their amortized initial recognition cost.

29. Short-term loans and borrowings

These borrowings are repayable within one year or upon request (i.e. have no fixed maturity).

Name	31.12.2019	31.12.2018
Part of long term loans due within the year	463 165	602 167
HUF payment account	-	(6 861)
	463 165	**595 306**

The main terms are listed in Note 31.

30. Finance lease liabilities

On December 23, 2011 the gas engine used for the energy production activity of ALTEO-Agria Kft. was refinanced as part of a leaseback transaction. The lease qualifies as a finance lease. Final repayment was made in connection with the lease during the year.

Besides this the building and the machinery in the Gibárt power plant and the building in the Felsődobsza power plant were acquired through a lease construction. In 2018 the Group extended the lease agreements of two power plants until the end of 2035. The increases in the obligation arising from the extensions are accounted for by the Group in the liabilities.

On the first day of 2019 the Group measured the right-of-use assets and related liabilities arising from the lease of cars and of wind turbine towers, as well as the right-of-use assets and liabilities obtained through the wind farm acquired on 4/1/2019. Lease liabilities were also recognized in connection with the land lease contract of the Zugló Power Plant concluded in January 2019.

The following table represents the timing of the lease:

Name	31.12.2019	31.12.2018
Long-term liabilities relating to rights of use (over 5 years)	587 150	221 628
Long-term liabilities relating to rights of use (1-5 years)	329 972	64 670
	917 122	**286 298**
Instalments due within a year	108 555	18 756
Total	**1 025 677**	**305 054**

None of the lease arrangements include contingent lease payments. The ownership of leased cars, land and power plants is not transferred to the Group upon maturity of the lease and there is no related call option in place either. None of the lease contracts contain an automatic extension option.

If the mileage is exceeded, settlement takes place at the end of the lease term. The variable fee component is calculated based on the number of excess kilometers. The variable fee components are not recognized either as part of the right-of-use asset or the lease liability.

The Group uses power plant capacities under short-term contracts. In the context of leases, the Group makes use of the exemption of short-term leases and does not present such items in the statement of financial position.

The Group uses the benefits as per IFRS 16 in force in the current year and recognizes the following items as lease payments: the central offices, the car leases maturing within one year and the lease of certain IT equipment of small value. The lease of these assets is recognized directly in the statement of financial position of the period in question among the material expenses.

Name	31.12.2019	01.01.2019
Right-of-use asset	924 768	283 831
Right-of-use liability total	1 025 677	305 054
Recognized amortization	116 461	n/a
Recognized interest expense	39 516	n/a

Movements in rights of use in the current year are included in Note 9.

31. Terms of borrowings

Name	Financing party	Frequency of repayments	Amounts paid	DNEM	Nominal liabilities 12.31.2019	DNEM	Maturity date
ALTEO Nyrt NKP 2029		Interest paymen	8 818 284 700	HUF	8 600 000 000	HUF	28.10.2029
ALTEO Nyrt "2022/II" bond		end of maturity	1 505 904 664	HUF	1 693 630 000	HUF	07.06.2022
ALTEO Nyrt “2022/I” bond		end of maturity	498 525 950	HUF	650 000 000	HUF	10.01.2022
ALTEO Nyrt “2020/I” bond		end of maturity	2 146 103 279	HUF	2 150 000 000	HUF	30.09.2020
e-WIND Kft. (HUF)	MTB	quarterly	542 830 000	HUF	301 058 656	HUF	30.11.2026
Soproni Erőmű Kft.	K&H	quarterly	500 000 000	HUF	407 029 500	HUF	30.09.2025
Monsolar Kft.	MKB	six-monthly	656 574 565	HUF	621 477 589	HUF	30.06.2033
IT-Solar Kft.	MKB	six-monthly	656 574 565	HUF	628 846 158	HUF	30.06.2033
Péberény Kft.	K&H	quarterly	2 147 328 133	HUF	2 108 759 469	HUF	30.09.2034
Domaszék Kft.	OTP	quarterly	601 000 000	HUF	574 500 596	HUF	30.06.2033
F.SZ. Energia Kft	K&H	quarterly	1 449 748 288	HUF	1 433 861 011	HUF	30.09.2034
True Energy Kft.	K&H	quarterly	1 459 872 376	HUF	1 443 894 970	HUF	30.09.2034

The ALTEO Group has variable rate borrowings and lease liabilities where the rate of interest is based on the BUBOR, with premiums between 1% and 5.5%.

All borrowings are recognized in the statement of financial position at amortized initial recognition cost. The working capital loan facility is available to ALTEO Zrt. up to HUF 350,000 thousand. Soproni Erőmű Kft. and ALTEO Nyrt, the parent company, both have working capital loan facilities, to the amount of HUF 100,000 thousand and HUF 2,000,000 thousand, respectively.

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

data in HUF thousand	2020	2021	2022	2023	2024
ALTEO Nyrt NKP 2029	270 900	270 900	270 900	270 900	270 900
ALTEO Nyrt "2022/II" bond	-	-	1 693 630	-	-
ALTEO Nyrt. “2020/I” bond	2 246 800	-	-	-	-
ALTEO Nyrt. “2022/I” bond	-	-	650 000	-	-
e-WIND Kft. (HUF)	50 081	46 385	39 012	41 871	44 980
Soproni Erőmű Kft.	75 581	76 693	77 879	79 178	80 596
Monsolar Kft.	45 817	46 908	47 931	49 220	50 442
IT-Solar Kft.	45 817	46 908	47 931	49 220	50 442
Péberény Kft.	151 441	158 411	162 718	167 025	167 438
Domaszék Kft.	41 210	41 483	45 731	47 479	48 727
F.SZ. Energia Kft	101 057	104 973	107 674	110 231	112 787
True Energy Kft.	102 140	106 085	108 807	111 384	113 961

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

Company	Designation of the collateral
ALTEO Energiakereskedő Zrt.*	a lien on claim, surety and lien on bank accounts
Soproni Erőmű Kft.	a lien attached to a business share, a mortgage on real properties, movable properties, a lien on property, a surety and lien on bank accounts, an assignment by way of security and pledges on certain receivables
Monsolar Kft.	mortgage on a business share, mortgage on real property, as well as prohibition of alienation and encumbrance, mortgage on movable property, mortgage on receivables, surety and mortgage on bank accounts
IT Solar Kft.	mortgage on a business share, mortgage on real property, as well as prohibition of alienation and encumbrance, mortgage on movable property, mortgage on receivables, surety and mortgage on bank accounts
Péberény Kft.	purchase option and mortgage on a business share, purchase option and mortgage on real property, as well as prohibition of alienation and encumbrance, purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts
Domaszék 2MW Kft.	mortgage on a business share, mortgage on real property, mortgage on movable property, lien on receivables, surety and lien on bank accounts
F.SZ. ENERGIA Kft.	purchase option and mortgage on a business share, purchase option and mortgage on movable property, a lien on receivables, surety and lien on bank accounts
True Energy Kft.	purchase option and mortgage on a business share, purchase option and mortgage on real property, as well as prohibition of alienation and encumbrance, purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts
ALTEO Depónia Kft.	purchase option and mortgage on movable property, lien on receivables, surety and lien on bank accounts
e-WIND Kft.	purchase option and mortgage on movable property and real property, lien on receivables, surety and lien on bank accounts

*The facility was not utilized on the reporting date

32. Trade payables

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

The five major suppliers of the Group were:

In 2019	In 2018
MET Magyarország Zrt.	MET Magyarország Zrt.
E.On Energiakereskedelmi Kft.	NKM Földgázszolgáltató Zrt.
PPD Hungária Energiakereskedő Kft.	E.On Energiakereskedelmi Kft.
MVM Partner Zrt..	MVM Partner Zrt.
NKM Földgázszolgáltató Zrt.	Hanwha Q CELLS GmbH

33. Other short-term liabilities and accruals, income tax liabilities and advances received

These liabilities do not bear interest.

The table below does not contain the effective income tax debt whose amount is HUF 58,207 thousand (previous year: HUF 15,425 thousand).

Name	31.12.2019	31.12.2018
Cost accruals	2 792 218	3 143 532
Income accruals	75 558	78 641
Projects - amounts due to customer	16 421	6 797
Other tax liabilities	585 415	256 690
Accrued interest payable	-	8 574
Income settlement	109 008	90 618
Other short-term liabilities	76 090	-
	3 654 710	**3 584 852**

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

Note 40 contains the presentations concerning the construction-installation contracts.

The amount of advances received is HUF 497,963 thousand (in the previous year: HUF 364,730 thousand). With regard to RDI projects, advances comprise parts of unsettled advance payments.

The HUF 1,104,369 thousand of financial liabilities (previous year: HUF 602,533 thousand) contain exclusively the year-end market value of derivatives relating to hedge transitions. Their contents are explained in Notes 45 and 24.

34. Deferred income

Name	31.12.2019	31.12.2018
Deferred income related to funded assets	535 674	141 248
EUA CO2 quota	-	-
	535 674	**141 248**

These items in long-term liabilities include deferred income from emission quotas received from the government free of charge; such income is included in the comprehensive statement of profit or loss in proportion to the rate at which the emission quotas are used up. Furthermore, returns on non-current assets which were received free of charge or were partly funded are recognized by the Group as deferred income. This item is not expected to impact cash flows, and its acquisition and use does not involve cash movement. The significant increase in the year 2019 occurred due to the yet unused government grant relating to the Felsődobsza hydropower plant and the RDI project. The grant period of the Felsődobsza hydropower plant ended in the current year and accounts were settled.

The main requirements of funding are the following:

	Felsődobsza	RDI
Purpose of the grant	Lowering GHG emissions through hydroplant enhancement	Systemic integration and innovative application model of an electricity storage architecture
Conditions of the grant	lowering greenhouse gas emission by 1,647.12 t/year and renewable energy carrier production increase by 1.762 GJ/year	The grant is tied to the performance and presentation of technical R&D work. In addition, a number of indicators need to be met also during the maintenance period: - the creation of one newly developed product, technology, service or prototype - the preparation of one know-how - Business exploitability: the revenues from the outcome of the RDI project reach 30% (HUF 300 million) of the grant amount in two consecutive years combined during the maintenance period - Export revenues: the average of export revenues in two consecutive years during the maintenance period is HUF 109 million - one appearance at a domestic and international forum each (RENEXPO and the international energy trade fair, ENERGOexpo, were indicated in the grant application, however, this may be modified) - 2 publications

	Felsődobsza	RDI
Grant period	5 years starting from August 2014	5 years starting from July 2019

Advance received for the awarded grants cannot be recognized in the deferred income line, it must be recognized among advances received.

35. Provisions

Name	31.12.2019	31.12.2018
Provisions for expected liabilities	155 032	155 032
Provisions for asset retirement obligation	96 707	413 648
	251 739	**568 680**

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

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

As at the reporting date, the Group has no positions in CO_2 emission not covered by quota, given that its liability is covered by a hedge transaction.

Name	31.12.2018	Release	Creation	31.12.2019
For onerous contracts	134 311			134 311
Provisions for asset retirement obligation	96 707	(1 910)	318 851	413 648
Other	20 721			20 721
	251 739	**(1 910)**	**318 851**	**568 680**

VII. Other disclosures

36. Operating segments

As the Group is listed on the stock exchange, it is required to disclose segment information. Strategic decisions concerning the Group's operation are made by members of the Board of Directors (CODs); therefore, when identifying segments for the purpose of preparing these financial statements, the management relied on the reports prepared for the CODs. Four segments were identified by the CODs: energy trading (Subsidized and Market-based), energy production and operation. The principle of identifying segments is the separate presentation of individual activities with different business models (risks, industry, etc.). No geographic segments were determined as the Group has no substantial foreign operations and its domestic business also cannot be clearly classified into regional units.

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

The information concerning the following segments relates to 2019.

2019	EnergyTrade	Energy production - KÁT	Energy production - Market	Operation	Not allocated to segments	Screening - Intra-group	Total
Revenues (external)	**8 921 600**	**2 360 870**	**10 305 097**	**3 978 851**	**6 932**	**-**	**25 573 350**
Revenues (intra-group)	**979 833**	**692**	**1 394 211**	**5 579 360**	**409 134**	**(8 363 230)**	**-**
Expenses	(9 306 682)	(2 356 863)	(11 179 932)	(7 960 276)	(1 660 525)	7 600 394	(24 863 885)
Profit or loss before taxes	**594 751**	**4 699**	**519 376**	**1 597 935**	**(1 244 459)**	**(762 836)**	**709 465**

Similar breakdown of comparative data (2018).

2018	EnergyTrade	Energy production - KÁT	Energy production - Market	Operation	Not allocated to segments	Screening - Intra-group	Total
Revenues (external)	**5 965 774**	**626 957**	**8 895 782**	**2 975 777**	**221 477**	**-**	**18 685 767**
Revenues (intra-group)	**977 715**	**-**	**1 334 809**	**4 605 910**	**125 487**	**(7 043 921)**	**-**
Expenses	(6 658 558)	(545 888)	(9 603 625)	(6 450 138)	(1 665 586)	7 043 921	(17 879 874)
Profit or loss before taxes	**284 931**	**81 069**	**626 966**	**1 131 549**	**(1 318 622)**	**-**	**805 893**

The Business (Annual) Report presents the performance of the individual segments in detail.

37. Related party disclosures

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

On behalf of the Board of Directors:

Attila László Chikán, Chief Executive Officer, member of the BoD

Domonkos Kovács, Director of Investments, member of the BoD

Ferenc Karvalits, member of the BoD, shareholder representative

Gyula Zoltán Mező, member of the BoD, shareholder representative, Chairman of the BoD

Zsolt Müllner, member of the BoD, shareholder representative

András Papp, General Deputy CEO, member of the BoD (up to 8/31/2019)

On behalf of the Supervisory Board:

István Zsigmond Bakács, Chairman of the SB

Dr István Borbíró

Péter Jancsó

Dr János Lukács

Noah M. Steinberg

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

On behalf of the EB:

Zoltán Bodnár, Chief Financial Officer

Sándor Bodó, Financial Director (until August 31, 2019)

Péter Luczay, Director for Wholesale and Control Center Management

Viktor Varga, Energy Production Director

The aforementioned members of the EB were all employed by the Company during the period referred to above.

Remuneration paid to related parties (executive officers):

2019	Board of Directors	Supervisory Board	Executive Board non-BoD members	Total
Wages	132 176	-	173 979	306 155
Commissions	17 000	12 600	-	29 600
Benefits	3 690	-	5 412	9 102
Reimbursements	9 559	-	9 734	19 293
Total	**162 425**	**12 600**	**189 125**	**364 150**

2018	Board of Directors	Supervisory Board	Executive Board non-BoD members	Total
Wages	89 669	-	125 051	214 720
Commissions	19 500	12 600	-	32 100
Benefits	4 583	-	5 819	10 402
Reimbursements	5 960	-	9 297	15 257
Total	**119 712**	**12 600**	**140 167**	**272 479**

The Group has no doubtful receivables due from related parties; the detailed presentation of the ECL model applied to related party receivables is included in section 20.

In the current year, the Group disclosed the following outstanding balances due from related parties in the financial statements:

Name	Category	thousand HUF
BC-Therm Energiatermelő	Customer	35 725
GRABOPLAST PADLÓGYÁRTÓ ZRT.	Customer	52 872
MANHATTAN DEVELOPMENT GLOBAL KFT.	Customer	5 012
NEO Property Services Zrt.	Supplier	522
NEO Property Services Zrt.	Customer	114 074
SH-FEJLESZTŐ KFT.	Customer	2 604
SH-ÜZEMELTETŐ KFT.	Customer	16
Tisza-WTP Vízelőkészítő és Szolgált	Customer	239 670
WALLIS MOTOR PEST KFT.	Customer	565
WIPEUROPA INGATLANFEJLESZTŐ KFT.	Customer	15 352
WPR ALFA KFT.	Customer	24 673
Executive employee	Loans given	21 000
Wallis Asset Management Kft	Capitalized on loan	31 200

In the current year, the Group recognized the following outstanding balances due from related parties in profit or loss:

Name	Category	2019
NEO Property Services Zrt.	Revenue	1 010 522
PRAKTIKER KFT.	Revenue	394 066
GRABOPLAST PADLÓGYÁRTÓ ZRT.	Revenue	224 180
WPR ALFA KFT.	Revenue	223 215
MAGNUM HUNGÁRIA INVEST KFT.	Revenue	154 126
WIPEUROPA INGATLANFEJLESZTŐ KFT.	Revenue	108 991
MANHATTAN DEVELOPMENT GLOBAL KFT.	Revenue	45 582
WALLIS MOTOR PEST KFT.	Revenue	20 311
BC-Therm Kft.	Revenue	164 861
BC-Therm Kft. (recognized as lease)	Revenue	62 324
Tisza WTP Kft.	Revenue	614 559
Tisza WTP Kft. (recognized as lease)	Revenue	28 790
WPR NUNUS Kft	Revenue	28 874
Wallis Asset Management Kft.	Services used	14 908
Wallis Autókölcsönző Kft	Services used	10 828

38. Disclosure of risks

The management of the Group considered 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 the occurrence of such risks and the anticipated extent of their negative impact. These Separate Financial Statements only contain the risk factors that were assessed as material by the Company. The Company provides the results of the materiality analysis using a qualitative scale, indicating a “low”, “medium” or “high” risk level next to each risk factor. The risk factors have been ordered within their respective categories based on their materiality.

a. Macroeconomic and legal system related risk factors

Risks stemming from the legal system

The legal system can be considered relatively underdeveloped in Hungary—where the ALTEO Group currently pursues its activities—and in the Company’s various strategic target countries. According to conventional wisdom throughout these countries, legal regulations change quite frequently, authority and court decisions are, on occasion, contradictory or inconsistent or difficult to construe. These circumstances can make it difficult for the Company to perform its tasks in a manner fully compliant with legal regulations, and this can expose the company to arbitration, litigious, non-litigious and other risks of legal nature that affect its profitability.

Risk level: high.

Macroeconomic factors

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

Risk level: medium.

Taxation

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

Risk level: medium.

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

The ALTEO Group does not have any direct customers or suppliers in the United Kingdom for its revenue-generating activities or services that affect its operation. However, Brexit may affect those markets where the ALTEO Group is also active, and so it may have an indirect impact on the ALTEO Group’s operations and profitability. The management of the ALTEO Group is not in a position to assess the risks from the potential outcomes of Brexit in the entire supply chain, or the risks indirectly affecting the Issuer.

Risk level: low.

b. Risks Specific to the Market and the Industry

Energy market regulation

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

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

Risk level: high.

Regulated prices

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

Risk level: high.

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

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

Risk level: high.

Government grants

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

The Commission Guidelines on State Aid for Environmental Protection and Energy set up a new framework of EU requirements to be met by any government grant provided to the energy sector and to be applied in Hungary too. Furthermore, the EU adopted the RED2 Directive in December 2018, and the Member States, including Hungary, will have to transpose it by June 30, 2021.

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

Risk level: high.

CO_2 emission market, CO_2 quota allocation system and CO_2 quota prices

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

Changes in the allocation system, the allocation rules or the price of the emission allowances could have a considerable impact on the operating costs and economic results of the ALTEO Group.

Risk level: medium.

Changes in technology

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

Risk level: medium.

Competitive situation

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

Risk level: medium.

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 Prospectus.

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.

Foreign exchange rate changes

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

Risk level: low.

Impact of international market developments on domestic trade

Market prices seen on foreign commodity exchanges have a major influence on energy prices in Hungary, even though those prices move, to a significant degree, on the basis of economic processes, as well as supply/demand conditions outside Hungary. New developments in economic processes and changes in supply-demand relations may have a negative effect on ALTEO Group's profitability under certain circumstances.

Risk level: medium.

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

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

Risk level: medium.

Environmental legislation

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

Risk level: medium.

Risks associated with the spreading of the COVID-19 virus:

To the best of its knowledge, the ALTEO Group does not have any direct customers or suppliers for its revenue-generating activities or services that affect its operation 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, the COVID-19 pandemic may affect the markets where the ALTEO Group operates, thus it may have an indirect impact on its operations and profitability. The management of ALTEO Group is not in a position to assess the risks from the potential outcomes of the COVID-19 pandemic in the entire supply chain or the risks indirectly affecting the Company.

The ALTEO Group's direct personnel, as well as 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. Potential illnesses can have a negative impact on the ALTEO Group's workflows, the scheduling of ongoing projects, and can have adverse labor market consequences. The state of danger introduced in Hungary may have a negative impact on the profitability and solvency of the ALTEO Group's customers and users, and may result in a reduction in their energy needs and willingness to invest, which may adversely affect the ALTEO Group's profit. The management of ALTEO Group has taken the necessary measures to manage the risks arising from the health protection of its employees, established a Pandemic Management Board and adopted a Pandemic Plan. The management of ALTEO Group is constantly monitoring events related to the COVID-19 virus and, where appropriate, takes the necessary actions based on these.

Risk level: high.

c. Risks specific to the ALTEO Group

Risks arising from operating the Control Center

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

Risk level: high.

Political risks

The ALTEO Group provides some of its services to institutions which are owned by municipalities or are under the influence of municipalities or certain statutory corporations. Furthermore, the agreements made with such institutions have a major effect on the operation of certain members and projects of the ALTEO Group. The considerations governing the motivation of bodies having influence over such institutions may differ from the considerations of a rational, profit-oriented market player, which is a risk in terms of contract performance. Risks of this type could be present primarily in the case of the Sopron Power Plant, Kazinc-Therm, Tisza-Therm, the Ózd Power Plant and Zugló-Therm, which have district heating generation activities too.

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

Risk level: high.

Dependence on weather

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

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

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

Risk level: high.

Risks of growth

The ALTEO Group is in the phase of business growth, coupled with the growth of employee staffing, the number and value of the facilities and tools. The ALTEO Group is planning to expand further both in terms of business activities and geographical areas. There is no guarantee that the Company strategy will be successful and the Company will be able to manage this growth efficiently and successfully.

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

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

Risk level: medium.

Risks stemming from acquisitions, buying out projects and companies

The ALTEO Group wishes to implement its business plans partially via acquisition of already existing energy projects and/or buying out companies. Although acquisition targets always undergo detailed screening before the transaction, we cannot exclude the possibility of such financial, legal or technical events occurring in relation to an acquired project or company that may have an adverse effect on the business and profitability of the ALTEO Group.

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

Risk level: medium.

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

In ALTEO Group's business plans, licensing and implementation of green-field energy investments plays an important role. Although the ALTEO Group draws up careful technical, legal and profitability plans when preparing for project implementation, there is always a possibility that the authorization of specific projects becomes unreasonably long or impossible. During implementation phases, the ALTEO Group strives to contract main and subcontractors that offer appropriate guarantees and references, but even so, the possibility of disputes arising between the parties cannot be excluded in these phases.

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

Risk level: medium.

Large-scale, customized projects

In line with the characteristics of the industry, a significant share of ALTEO Group's revenues comes from large-scale, customized projects. Consequently, completing or not implementing just a few projects may already make a big difference in terms of the Company's future revenues and profitability. These large-scale projects are frequently long-term (may take even several years), require a long-term allocation of significant resources and are, in several cases, implemented using subcontractors. An eventual failure of or loss on such large-scale investments may have a significant negative impact on ALTEO Group's profitability.

Risk level: medium.

Energy trade risks

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

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

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

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

Risk level: medium.

Operating risks

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

costs of general and unexpected maintenance or renewals;

unplanned outage or shutdown due to malfunction of the equipment;

natural disasters (fire, flood, earthquake, storm and other natural disasters);

change in operative parameters;

change in operating costs;

eventual errors during operations; and

dependence on third-party operators.

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

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

Risk level: medium.

Fuel risk

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

For ALTEO Group’s power plants burning hydrocarbons, the key types of fuel (primarily natural gas) are procured from third-party suppliers. The natural gas transport agreements made by the ALTEO Group are in line with the practices used by the entire industry. Despite that, there is no guarantee that the fuel required for fueling the power plants will always be available, and it is especially difficult to plan with fuel supply in the case of external events. The natural gas transport agreements made by the ALTEO Group are also in line with the practices used by the entire industry and these may include an offtake (a.k.a. “take-or-pay”) obligation, for the respective period, with a certain tolerance band. In the event of a significant drop in natural gas consumption, incurrence of a major penalty by the ALTEO Group due to gas not taken over cannot be completely ruled out, and such an occurrence would have an adverse impact on the profitability of the Company.

Risk level: medium.

Renewing and/or refinancing outstanding debts

In addition to loans granted by financial institutions, the ALTEO Group uses in part bonds—issued by ALTEO either in a private or public offering—to fund its financing needs. On the date of this Prospectus, the ALTEO Group holds a bond portfolio with a face value of HUF 13,093.63 million.

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

Risk level: medium.

Information technology systems

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

Risk level: medium.

Wholesale partner risks

If the partner in a wholesale transaction does not deliver or accept the contracted amount of energy, or cannot pay for the energy delivered, such failed transactions may lead to short- or long-term losses for the Company. Although the ALTEO Group exercises utmost care in selecting its partners, any failure by them to meet their obligations would have a negative impact on the profitability of the ALTEO Group.

Risk level: medium.

Dependence on third-party suppliers

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

Risk level: medium.

Client risk

A significant share of the ALTEO Group's revenues comes from a small number of buyers making large purchases. Consequently, winning or losing a client contract may already make a big difference in terms of the Company's future revenues and profitability.

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

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

ALTEO Group sells electricity and provides district heating services for certain public institution users. Upon request from such users, the relevant Subsidiary is obliged to provide an exemption from termination due to late payment (a moratorium), for a specified period, subject to the conditions laid down by law. Costs occurred due to the moratorium must be borne by the relevant Subsidiary.

Risk level: medium.

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

The performance and success of the ALTEO Group greatly depends on the experience and availability of its managers and key employees. If managers or key employees left the Company, that may have a negative impact on the ALTEO Group's operation and profitability.

Risk level: medium.

The risk of introducing and using new power plant technologies

In accordance with its business plans, the ALTEO Group may introduce into the portfolio certain technologies that were not included in their power plant portfolio until now. Although the ALTEO Group implements only proven technologies holding a number of references, if the performance of a given technology is lower than previously projected, it may cause a loss to the ALTEO Group.

Risk level: medium.

Authority risk

In addition to the tax authority, several other authorities (such as the Central Bank of Hungary and HEA) are entitled to check the proper functioning of the rules at the ALTEO Group. The ALTEO Group does everything that can reasonably be expected of it to ensure the compliance of its operation with the requirements set out in legal regulations or specified by the authorities. Nevertheless, the possibility that future inspections by the authorities will result in statements leading to substantial expenses for the ALTEO Group, or that the competent authorities will impose certain sanctions (such as penalty, suspension of operation or withdrawal of the license required for operation) against some companies of the ALTEO Group cannot be excluded, which may have an adverse impact on the perception and profitability of the ALTEO Group.

Risk level: low.

Key licenses and qualifications

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

Risk level: low.

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

As part of its electricity trading activity, ALTEO Energiakereskedő operates a balancing group of its own, an accounting organization with the membership of electricity users and electricity producers in contractual relationship with ALTEO Energiakereskedő, and performs its related tasks specified in legislation and in the electricity supply regulations. ALTEO Energiakereskedő itself has all licenses, financial securities, assets and resources required for operating the balancing group, but in the case of a malfunctioning or a shortage, ALTEO Energiakereskedő may not be able to perform its duties as the entity responsible for the balancing group, therefore, it would have to bear all relevant damages and fines.

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

Risk level: low.

Options to purchase certain means of production

Third parties have options to purchase certain means of production of the ALTEO Group. If the relevant contracts are not amended or new service contracts are not signed, these assets will not contribute to the Company's revenues and profits after the time when they are sold. Apart from that, the Company may suffer losses from such sale transactions. In its business plans, the Company anticipates the expiration of these contracts and the loss of ownership of the means of production; any contract renewals or the retention or more favorable sale of ownership will result in additional profits compared to the plans.

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

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

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

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

Risk level: low.

Business relationships associated with the Owners' Group

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

Risk level: low.

The risk of being categorized as a *de facto* group of companies

The ALTEO Group includes several Subsidiaries. In the case of ALTEO Group, in the absence of a uniform business policy or, in the case of certain Subsidiaries, the lack of other conditions, no control agreement was concluded and ALTEO Group does not qualify as a recognized company group. At the same time, it cannot be excluded that based on the request of a legal entity with an interest of legal nature, the court will oblige the member companies of ALTEO Group to enter into a subordination agreement and to initiate the registration of the company group with the Court of Registration, or categorize ALTEO Group as an actual company group even in the lack of a court registration. In a situation like that, if a subsidiary was liquidated, the Company would be obligated to honor its debt repayment obligations toward the creditors, except if it can prove that the insolvency was not the consequence of the company group's integrated business policy.

Risk level: low.

Taxation

The ALTEO Group does everything that can reasonably be expected of it to ensure that its operation is in compliance with the regulations, but it cannot be excluded that a future tax audit will result in substantial expenses in the form of a tax liability payable by the Company or its subsidiaries. NAV performed a comprehensive tax audit at the Company for the year 2017. The audit findings did not result in any noteworthy changes in the tax positions of the Company, and the Company met all obligations imposed on it on the basis of those findings.

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

Risk level: low.

Environmental risks

During their activities the ALTEO Group's companies use materials and apply technologies that could be harmful to the environment if used inappropriately, not complying with legislation or with the relevant permissions. Members of the ALTEO Group have the necessary environmental licenses and policies in place, and their expert staff do their job with special care as required by the nature of this business. But there could be extraordinary events which may entail invoking the environmental remediation obligation of the affected company or imposing a fine, or may lead to enforcing claims against the affected company. The ALTEO Group's insurance policies may not provide any cover or full cover for damages and costs resulting from such events, which may result in a loss for the ALTEO Group.

Risk level: low.

Risk of bankruptcy and liquidation proceedings

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

Risk level: low.

Any discrepancies between the data in the consolidated and IFRS reports and the data in the reports prepared in line with the Hungarian Accounting Standards (HAS)

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

Risk level: low.

The risk of entering new geographical markets

The ALTEO Group might implement acquisitions and green-field investments overseas as well, therefore, any unfavorable changes in the macroeconomic, business, regulatory and/or legal environment of the target countries may have an adverse effect on the financial performance of the projects obtained through acquisition or implemented through green-field investments and consequently, on the profitability of the ALTEO Group.

Risk level: low.

39. Financial risks, their management and the sensitivity analysis

In addition to the risks listed in Note 38, the Group focuses specifically on the following financial risks.

Credit (trade receivables) risk and its management

Each of the Group's segments provide services to a different client base and they have different default risks. The risks associated with the various types of clients are assessed and managed as follows:

Type of client	Risk management
Retail trade in natural gas and electricity	When designing the client portfolio, the appropriate diversification of exposures to various industries, company sizes etc. is monitored, and prior client qualification is performed based on the regulations applicable to the activity concerned. With regard to any non-paying users, the applicable sectoral legislation allows disconnection and the enforcement of claims in the event of switching to a new supplier, which provides powerful protection to the energy traders. The risk of particular consumers is reduced by the use of performance guarantees (bank guarantee, security deposit).
District heating	The collection of district heating revenues is ensured as customers are state-owned entities, they have natural monopolies in providing services in their respective supply zones and they purchase the product at regulated prices. Any deficit they may generate is offset by the central budget through district heat subsidies specified in legislation, to cover the producers' fees. HEA, the supervisory authority has the key function of ensuring the security of supply, which also applies to this area.
Business and project development	Assessment of the individual client risk, requesting bank guarantees and, optionally, advance payment prior to launching projects.
Large corporate clients (energy services)	The Group provides services to the critical infrastructures of large Hungarian companies of which several are listed and thoroughly analyzed, transparent entities. Key clients are monitored continuously.
Wholesale trade in electricity	The settlement of sales through the power exchange is assured by the strict regulations of the exchange. The only other type of sale may be to qualified wholesale partners; in this case, transactions are performed and settled through standardized agreements (EFET), where counterparties requirement performance guarantees from each other.
System operator (MAVIR Zrt.) – KÁT	The system operator is a monopolist with regard to the operation of the Hungarian electricity system; it is state-owned, manages infrastructure that is critical for the national economy and national security, and its risk rating is the same as that of Hungary. All the generators in Hungary that sell in the KÁT system are required to be members solely of this balancing group; the consideration for their production is covered by the fee component allocated to non-retail users as specified in Section 13/A of the Electricity Act. The system has been operating for over one decade without any financial problems.

Type of client	Risk management
System operator (MAVIR Zrt.) – system services	MAVIR also has a monopoly buyer position with regard to system services and the coverage for the consideration for services provided in this area is subject to the same conditions as the KÁT.
Lease receivables	The receivable is secured by the ownership rights of the Company's own subsidiary.

In Management's opinion, client risks have not changed significantly compared to the previous periods. During the current year, it was not necessary to draw down bank guarantees or any other collateral pledged by clients.

Interest rate risk calculation and management

After the fixing of exchange rates and the repayment of variable-rate loans, the interest rate risk described in previous periods is no longer relevant for the Group. Currently the Group is financed through fixed-interest bonds and fixed-interest loans. To fix interest rates, the Group has entered into interest rate swaps, in which it has agreed to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. The effects of these swaps are considered to be cash-flow hedges. Consequently, exposure to interest rates is not illustrated in the form of an interest rate sensitivity analysis below. These hedges relating to the interest rate risk are presented in more detail in section 24. The Group regards hedging transactions to be efficient as they were concluded with the lending bank, adjusted to the terms of the loans in question.

Foreign currency risk calculation and management

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

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

When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecast transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted up to the point of settlement of the resulting receivable or payable that is denominated in the foreign currency. The Group hedges its exposure to fluctuations on the translation into HUF (from EUR or USD) by using foreign currency swaps and forwards. As a result of hedges, the Group's foreign exchange exposure has been steadily declining in recent years. These hedges relating to the foreign currency risk are presented in more detail in section 24. The Group regards hedging transactions to be efficient as the FX transactions settled with delivery are adjusted to the related CF flows. If more than the necessary foreign currency is delivered under a hedge, the excess can be kept on EUR bank accounts awaiting further use.

Energy price and CO_2 risk

The price changes in electricity, gas and CO_2 quotas as presented in item 38 have a material effect on the profitability of the Group. The management of the group adopted dedicated risk management models for the various business segments (Market-based energy production, retail trade of energy). These models require the conclusion of the necessary hedging transactions in accordance with the contracts in effect and the legislative rules (HEA district heating price determination).

These hedges relating to risks stemming from changes in energy and CO_2 quota prices are presented in more detail in section 24. The Group regards hedges to be efficient as the quota transactions settled with delivery are adjusted to utilization in their timing. In the event of overhedging, the excess CO_2 quota can be held in stock for the subsequent period.

Liquidity risk

The 10-year bonds issued in the current year significantly contributed to the improvement of the liquid assets available to the Group. As of the reporting date, it was not necessary to use the available working capital loan facility for ensuring liquidity. The Group supports the liquidity requirements of its members through a cash-pool system.

The repayment of bonds and loans is included in section 31.

40. Contractual assets and liabilities

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

Name	31.12.2019	31.12.2018	Recognized current year sales revenue total	Sales revenue adjustment against statement of financial position	Invoiced sales revenue
Dorog Waste Incineration Plant	2 962	-	3 562	2 962	600
Alfa Energy Solar Power Plant	(4 978)	-	1 112 116	(4 978)	1 117 094
MPK Project	(1 443)	-	48 295	(1 443)	49 738
EISBERG Project	(10 000)	-	-	(10 000)	10 000
Petroszolg Project	-	(6 797)	6 797	6 797	
Contractual asset total	**2 962**	**-**			
Contractual liabilities total	**(16 421)**	**(6 797)**			

The Group recognized contractual assets and liabilities opened in the previous year against the revenues of the current year.

Among its intangible assets, the Group capitalized the following pre-contractual (initial) costs as contractual assets in the current year:

Name	Capitalized cost
Balatonberény solar power plant network development	100 008
Nagykőrös solar power plant network development	3 611

In the case of solar power plants, the establishment of the necessary connection to the network forms part of the project. These fixed assets must be made available to the network licensee free of charge. Such costs are capitalized by the Group as contractual assets.

The return on these assets is assured during the lifecycle of the project; no impairment needs to be recognized. The amortization of contractual assets is recognized during the lifecycle of the project. These contractual assets are presented among other intangible assets in section 9.

41. Contingent liabilities

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

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

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

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

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

The following bank guarantees existed as at the reporting date.

	12/31/2019	12/31/2018
HUF bank guarantee	HUF 1,413,819 thousand	HUF 1,540,486 thousand
Euro bank guarantee	EUR 1,622,622	EUR 3,366,000

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

- HUF 71,598 thousand surety (general purpose)

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

We detailed the contacts towards other banks that have no value in the financial statements in Note 31 in connection with these financial statements.

42. Significant events after the reporting date

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

As part of the transformation of ALTEO Group's corporate structure envisaged by the extraordinary General Meeting held on November 8, 2017, the merger of the Company's district heat generation subsidiaries took place on the date of succession, i.e. January 1, 2020.

In line with its corporate strategy, in January 2020, the Group entered into a contract for services worth in excess of HUF 700 million for the reconstruction of SARPI Dorog Kft.'s waste incineration plant as part of its service activities in support of sustainability. Under the contract, ALTEO is responsible for the replacement of the afterburner chamber and the efficiency-enhancing transformation of the heat recovery boiler. The construction and installation work will be completed by September 2020.

In January 2020, the parent company of the Group concluded a market maker contract in respect of its bonds designated as "ALTEO NKP/2029" (ISIN: HU0000359252) in line with the provisions of the terms and conditions of the Bond Funding for Growth Scheme launched by the Central Bank of Hungary. The bonds were admitted to listing on the regulated market on January 24, 2020.

On January 28, 2020, the parent company of the Group gave an order to repurchase 100,000 of its own bonds designated as ALTEO 2020/I (ISIN: HU0000357603) at a price corresponding to 103.5000% of the face value (i.e. HUF 10,350 each). No bonds were repurchased on the basis of the offer.

On January 31, 2020 the parent company of the Group began the transfer of 1,878 shares to the employees who have become eligible for them based on the Company's recognition plan.

43. Litigation and claims

Other than the (non-litigation) procedures for negative clearance mentioned in Note 44, the Group is involved in no other significant litigations and claims which might have an impact on the content of the statements.

44. Other issues

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

In its letter, VPP Magyarország Zrt. initiated negotiations to clarify the situation and envisaged filing a lawsuit should such negotiations remain unsuccessful.

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

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

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

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

45. Fair value measurement disclosures

Other than derivative transactions, on the reporting date the Group has no financial instruments that would be measured at fair value.

The fair value of derivative transactions is HUF 49,050 thousand (previous year: HUF 660,963 thousand). These qualify as fair value measurement built-up from observable inputs, therefore they are on Level 2 of the fair value hierarchy.

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

The content of FVTPL financial instruments is as follows.

Name	31.12.2019	31.12.2018
Derivative assets (in hedge relationship)	49 050	660 963
Assets held for sale	-	-
Assets evaluated at fair value through profit and loss (FVTPL)	**49 050**	**660 963**
Liabilities from loan IRS Derivatives (for hedge)	827 582	387 124
Liabilities from derivatives (for hedge)	1 104 369	305 704
Liabilities evaluated at fair value through profit and loss (FVTPL)	**1 931 951**	**692 828**

The changes of financial instruments vis-a-vis the cash flow hedge reserve are presented in section 24.

Almost all the financial instruments presented have maturities under one year.

46. Disclosure of interests in other entities

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

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

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

47. Calculating EBITDA

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

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

Name	31.12.2019	31.12.2018
Profit from operations	1 653 285	1 038 226
Recognized depreciation, amortization	2 045 752	729 818
Revaluation of the conditional purchase price at fair value	31 801	-
Recognized impairment of fixed assets	48 342	32 523
EBITDA	**3 779 180**	**1 800 567**

48. Dividends to the owners of the Group

Members of the Group decided to pay dividend during 2019 as follows:

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

The Parent Company recognized these items as revenue and in the course of consolidation the Group eliminated them or modified the amount of IFRS 16 lease receivables with them.

In 2020, after the reporting date, the members of the Group decided to pay dividend as follows. These dividends are not in the individual financial statements either, because those were generated after the reporting date.

Subsidiary	Amount of dividend
Alte-A Kft.	HUF 8,560 thousand
BC Therm Kft.	HUF 42,762 thousand
EGE Kft.	HUF 250,000 thousand

In 2019 payment and approval of dividend was performed for the owners of the Parent Company in the amount of HUF 250,068 thousand. The dividend approved by the general meeting of the Company is HUF 16/share, projected to 1 dividend share with a face value of HUF 12.5/share.

The current pandemic crisis is considered by the management of the Group to be of a completely new type, in essence, unprecedented, and thus entails a number of uncertainties both in terms of its excessive length and conduct. Therefore, the Board of Directors of ALTEO decided not to propose to the General Meeting to vote on dividend payment, which was otherwise customary in previous years. With this decision, we also want to create additional reserves to prepare for any unexpected events.

49. Estimates, uncertainties

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

The following significant items are determined using estimates.

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

50. The auditor, the audit fee and non-audit services

The Accounting Act requires the Group to prepare consolidated financial statements, which, in accordance with Section 155 (2) of that Act, is to be mandatorily reviewed by the auditor. The chosen auditor of the Nyrt. is Deloitte Könyvvizsgáló Kft. (chamber registration number: 000083), the person responsible for auditing is Dr Attila Hruby, chamber membership number: 007118.

The fee for auditing the unconsolidated financial statements and the IFRS consolidated financial statements is HUF 6,300 thousand + VAT.

In the fiscal year 2019, the Company and its subsidiaries used non-audit services provided by Deloitte Kft., as the auditor engaged to perform the audit of the annual financial statements 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 in the total value of HUF 7,400,000.

51. Approval of the disclosure of the financial statements

On March 26, 2020 the Board of Directors of the Group's Parent Company approved the disclosure of the financial statements in its current form.

Budapest, March 26, 2020

On behalf of ALTEO Nyrt.:

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Attila László Chikán	**Zoltán Bodnár**
Member of the Board of Directors	Chief Financial Officer
Chief Executive Officer	