



ALTEO GROUP

INTEGRATED REPORT

2019





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INTRODUCTION



1

Letter from the CEO

"Since our establishment in 2008, our company, the energy market and our environment have all undergone many changes, yet one thought remains constant: our greatest value is our workforce."



DEAR READER,

2019 marked the end of an era in the life for our company, and I am proud to say that thanks to our persistent development efforts, ALTEO has become one of the key players in the Hungarian energy sector – one that takes sustainability into consideration throughout its day-to-day operation, and at the same time, leverages emerging energy-related business opportunities, providing innovative solutions to today's energy-oriented challenges. This is our second integrated report, which conveys two messages to me: first, that ALTEO is on the right track, and second, that we are continuously strengthening our position amongst enterprises focusing on sustainable approaches.

Our company has always favored a solution-oriented attitude, where decisions are made with a view to the three pillars of sustainability: the environment, our society and financial aspects. This conceptual foundation has been the driving force of ALTEO's activities since its establishment in 2008, and I am pleased to report that we had many achievements last year. All of these accomplishments contribute to a more aware, more sustainable and thereby more livable world.

In 2019, our company closed its three-year investment period announced in 2016. In the framework of this cycle, we achieved investment and development volumes exceeding HUF 20 billion (mainly focusing on renewable energy sources), significantly exceeding our promise made to our investors regarding the magnitude of the investments. As a result of this three-year development period, our renewable power plant portfolio expanded to 54 MW thanks to the acquisition of the Bőny wind farm and the Domaszék solar power plant, as well as the delivery of the Monor, Nagykörös and Balatonberény solar power plants; now making up more than 50 percent of our total power plant capacities. This also contributed to us being able to increase our revenues by 37 percent in 2019. It is also important to note that with the high-efficiency natural gas-fired cogeneration power plants constituting the remainder of our portfolio, we are also able to provide the level of flexibility that empowers us to immediately meet all consumer needs.

In addition to expanding our renewable power plant capacity, maintaining the plants we already own was also a key goal for our company. This was one of the reasons why we started the renovation of the Gibárt hydropower plant in 2019. Moreover, our growing portfolio is not the only thing strengthening ALTEO's market position: our continuously expanding core activities also play a key role in this. 2019 was an outstanding year in this regard as well: with the establishment of our Waste Management Division under the banner of circular economy, we showed the world that we can turn other people's waste into something valuable for our clients. But let us not forget about how remarkable last year was in the field of energy storage, one of the most important current challenges, as well: after a successful pilot operation phase, we delivered our battery electricity storage facility in Zugló, the result of our first RDI project.

In 2019, we were more active on the capital market than ever before: during the spring, ALTEO successfully completed a private placement worth HUF 2 billion, and in June, in line with growth targets, our company issued additional bonds with a total face value of HUF 1.7 billion. Moreover, we fully leveraged the opportunities of the Bond Funding for Growth Scheme launched by the Central Bank of Hungary: by issuing long-term bonds worth HUF 8.6 billion, we were able to refinance some of our short-term project loans (HUF 6.3 billion, as of today). We would like to keep using the majority of the funds raised to develop sustainable solutions and to acquire or even build power plants running on renewable energy sources to ensure that we will be able to provide sustainable and innovative services to our clients in the future as well.

In addition to expanding our company, we also focused on maintaining a sustainable and transparent operation and liaising with stakeholders. This was one of the reasons why we created and disclosed our strategy for the period between 2020 and 2024. This strategy clearly outlines the main points we would like to pay particular attention to in the next years. Our first supplier forum and our regular client satisfaction surveys were also major

milestones for 2019. In addition to the above, I believe it is important to emphasize that our sustainability-oriented approach is also deeply rooted in the internal operation of our company: this is clearly showcased by our second carbon-neutral Christmas dinner that we held in December 2019.

Moreover, we continuously strive to give our employees reasons to be proud to have ALTEO as their employer. One of our key efforts to ensure this is the support provided to our workers in establishing a proper work-life balance, but we are also working on providing other fundamental benefits by equipping our sites with the highest quality health and safety equipment available and by organizing first-aid trainings to help them learn how to use these tools. The latter measure contributed to an uplifting piece of news: 2019 was an accident-free year.

Unfortunately, we must also acknowledge the healthcare and economic crisis brought on by the COVID-19 pandemic, which affects ALTEO's operation as well. The management of ALTEO has made it its first priority to create, as far as possible, the necessary conditions for maximum operational safety during the crisis. Our top priority is to protect the health of our employees and maintain the operational safety of our activities. For this purpose, we transformed the way we work on all fields by fully utilizing innovative telecommunications solutions available today to minimize personal contact.

To maintain safe operation, it is also essential to maintain financial security. ALTEO closed the year 2019 with a cash balance exceeding HUF 4.8 billion. The majority of the business activities underlying the Company's profitability are currently unaffected by or less exposed to the decline in global macroeconomic demand compared to other sectors. Based on this, I personally believe that thanks to the successful management over the past years, ALTEO has the financial immunity to cope with the challenges posed by the pandemic.

The steps aimed at reinforcing work and operational safety and financial security are not only about the crisis. We believe that we have a broad range of assets and reassuringly strong resilience to deal with any, hopefully short-term, negative consequences resulting from the pandemic and be one of the most powerful actors capable of strong and intense growth in the energy and waste management markets during the period of recovery.

The crisis does not deter us from our goal of making sustainability a crucial part of our employees' everyday lives. In order to be able to credibly operate under its banner, sustainability-oriented approach must be solidified on all organizational levels. Since our establishment in 2008, our company, the energy market and our environment have all undergone many changes, yet one thought remains constant: our greatest value is our workforce. We will not stray from our path; we will continue to build our company in the coming years, and we will work to make ALTEO a company that delivers the most innovative solutions in the service of a more livable world.



Attila Chikán Jr.
CEO of ALTEO Group



Highlights 2019



Waste Management Division launch



Acquisition of the Böny wind farm consisting of 13 wind turbines

Commencement of the Gibárt hydropower plant renovation works



Achievement of the 20 MW milestone in installed solar power capacity via the delivery of our solar power plant projects



Completion of our Group's first Integrated Report



Installation of an EV charging station in Tiszaújváros

Delivery of our RDI project – a unique industrial energy storage system



1 year accident-free*
(* No work accident resulting in lost work days)



Successful extension of several long-term key contracts



37% increase in the consolidated revenues of our Group

Carbon-neutral Christmas dinner



Launch of our Sales Department in order to provide complex services to our clients



Establishment of the Works Council



Contribution to other parties' solar power plant-related goals in the framework of general contracting

Placement of semi automatic AEDs on our sites



110% increase in consolidated EBITDA



Completion of a private placement with significant oversubscription



Successful participation in the Bond Funding for Growth Scheme of the Central Bank of Hungary

Successful credit rating where ALTEO achieved a BB+/Stable/S-3 rating



Ratings of the bonds: BBB-, which is four rating levels higher than the minimum required by the Central Bank of Hungary



Global energy market trends have changed in recent years: decarbonization has become a priority, decentralization in energy production continued and 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 54 MW comes from power plants using renewable energy sources and 50 MW from natural gas power plants.

ALTEO's consolidated EBITDA showed a 110% increase in 2019, meaning that its total value rose to nearly HUF 3,780,000,000. This increase mainly results from the dynamic growth of the Energy Production and Retail segments and the acquisition of the Bóny wind farm, but the rest of the segments also saw a double-digit increase in the company's EBITDA. It is worth emphasizing that the company achieved this exceptional result in spite of the fact that many investments were constructed or acquired during the year, so their profit-generating capacities appear only partially in the financial statements. As compared to the previous year, consolidated revenues also showed a significant, 37% increase, growing to a total of HUF 25,573,000,000. In the case of this figure as well, all segments made a considerable contribution to the increase in revenues, especially the Retail, Energy Services and KÁT segments, which all performed extraordinarily.

The year 2019 was 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. As another key achievement during the period, the renewable power plant portfolio of ALTEO expanded to a total of 54 MW; in this, the acquisition of the Bóny wind farm with a capacity of 25 MW as well as the completion of solar power plant projects (at Monor, Nagykőrös and Balatonberény) played 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 March, ALTEO implemented a HUF 2 billion private placement in order to leverage investment opportunities, and in June, the company issued additional bonds with a total face value of HUF 1.7 billion to refinance expiring bonds and to use the funds raised to finance energy project investments and for general corporate financing purposes. Eventually, under the Bond Funding for Growth Scheme of the Central Bank of Hungary a bond issue of HUF 8.6 billion was also implemented in October. Through this, ALTEO could significantly increase the maturity of its debt portfolio, which is now more in line with the pay-back period typical in the energy sector.



Tracking our commitments

OUR COMMITMENTS	KPI	UNIT RESPONSIBLE	DEADLINE	CURRENT STATUS
Increasing the volume of electricity generated from renewable sources	2016: 43 000 MWh 2020: 65 000 MWh	CEO's office: Attila Chikán	12.31.2020.	We came close to achieving twice as much as the set goal one year before the deadline. In 2019, we produced nearly 117,000 MWh of energy from renewable sources.
Increasing the volume of avoided emissions using renewables	Rate of avoided emissions (cumulated) 2016: 3.200 t CO ₂ e 2020: 50.000 t CO ₂ e	EPD: Varga Viktor	12.31.2020.	By 12/31/2019 (one year before the deadline), we successfully avoided CO ₂ e emissions of more than 77,000 t (cumulated).
Reducing the number of work accidents	Number of work accidents: 2016: 2 2020: 0	IMS: Beatrix Szabó	12.31.2020.	2019 was accident-free.
Assessing the impact of our operation	True Value survey 2016: 0 2020: 1	IMS: Beatrix Szabó	12.31.2020.	The development of a method of assessing the impact of our operation will soon commence.
Further training of employees	Introduction of e learning, expanding internal training courses	HR	12.31.2019.	An e-learning platform has been implemented at the group, and most internal trainings take place there, including the onboarding of new hires and refresher courses. Internal knowledge-sharing is thereby more broadly available, moreover, we have more options to conduct thorough trainings on internal policies and procedures and to assess the trainees' acquired knowledge.
Raising awareness of and promoting corporate social responsibility within and outside of the company	Launch of our comprehensive Sustainability Program	IMS	12.31.2020.	Following the formulation of a recommendation, a decision was made to implement the sustainability program, which is currently underway.
Enhancing the HR portfolio by increasing commitment, long-term retention and stabilization of employees	Introduction of a recognition system and reducing staff turnover	Executive Board + HR	12.31.2020.	Measures taken to ensure the successful operation of existing systems (recognition system, mentoring program, etc.). A comparison of 2018 and 2019 data already shows a reduced level of employee turnover.

As the table illustrates, we managed to realize (and even exceed the scope of) many commitments before the deadline (some objectives were even completed one year in advance). For this reason, we made the following new commitments in 2019:

STRATEGIC COMMITMENTS AND OBJECTIVES	UNIT RESPONSIBLE	DEADLINE
We will implement further investment projects worth up to HUF 20 billion in the next 5 years	Executive Board	12.31.2024.
Improving the Control Center's capacities and flexibility	Executive Board	12.31.2020.
Exploration of new market opportunities in order to strengthen our strategic position	Executive Board	12.31.2021.

About the Integrated Report

This document is the second integrated (financial and sustainability) report of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (hereinafter referred to as: ALTEO Nyrt. or ALTEO) and its consolidated subsidiaries (hereinafter jointly referred to as: ALTEO Group or Group).

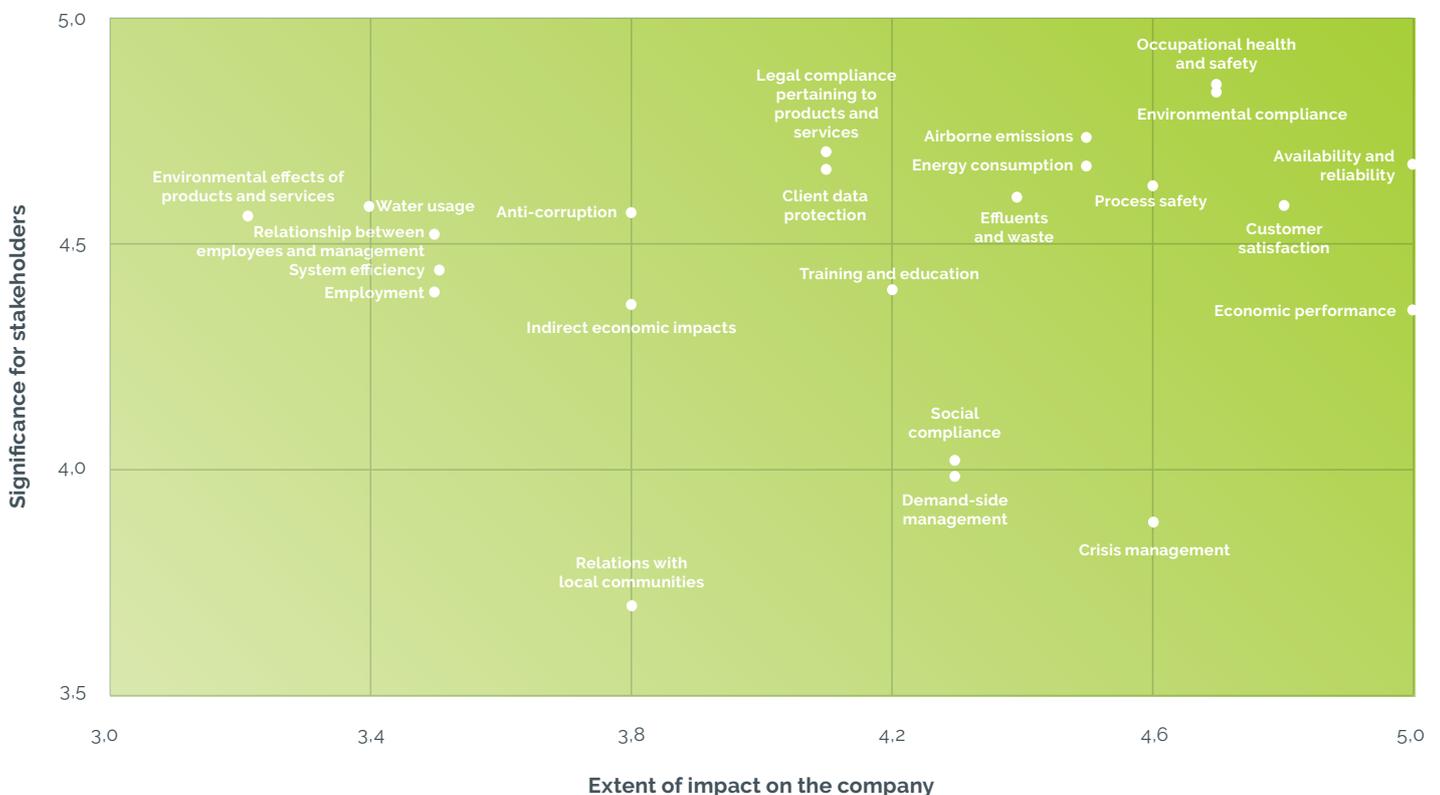
In addition to presenting consolidated financial data, this report also proves our commitment to sustainability and transparency, with the added purpose of also presenting the company's annual activities, financial and non-financial results and plans to all stakeholders.

The report presents key events and results for the period between January 1 and December 31, 2019, along with the economic, environmental and social impacts thereof.

The sustainability performance of the Group is presented in accordance with the Global Reporting Initiative (GRI) Standards framework.

Materiality assessment

Since there were no changes in the Group's business model or operating environment that would influence the applicability of the results of the materiality assessment carried out in January 2016, the content of this Integrated Report was determined based on that assessment. During the previous materiality assessment, we defined the key stakeholder groups of ALTEO Group, and identified the most important topics and aspects for these stakeholders and our company¹. We defined the boundaries of material topics according to the degree of control that ALTEO Group has over each aspect, hence the report covers all topics where the Group is the decision-maker or implementer.



Our data supply focuses on ALTEO Group's 2016–2019 period, in order to better show year-long trends and ensure the comparability of data.

Considering the transparency and relevance of the Report, we aim to minimize the scope of general and company information that were already published previously. For the various topics, the relevant detailed descriptions can be found in the previous Sustainability Reports and Integrated Report, as well as on our website. We will be referring to these and other additional information in the footnotes (using the following formats: "SR 2016, page number", "SR 2017, page number" or "IR 2018, page number").

The audit and advisory company Deloitte Könyvvizsgáló és Tanácsadó Kft. was engaged to provide limited assurance² on this Integrated Report.

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

1. SR 2016, pages 9 and 10

2. For more details on certification with limited assurance please refer to: Deloitte Independent Assurance Report.



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

To the management of ALTEO Nyrt.

This report has been prepared in accordance with the terms of our contract dated 24th March 2020 in order to accomplish the independent external party examination of ALTEO Nyrt.'s Integrated Report 2019 document (hereinafter "Report") presenting the non-financial performance and sustainable operation of ALTEO Nyrt.

The responsibility of ALTEO Nyrt's management

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

The scope of the examination, its criteria and its limitations

The aim of this limited assurance engagement is to express a conclusion whether the selected information and data of the Report prepared for the year ended 31 December 2019 are prepared by the Management of ALTEO Nyrt. in line with the GRI criteria.

The limitations of our examination

The scope of our examination included solely the sustainable performance indicators stated in the Report.

During our examination we have not fully examined all the sustainability data and information stated in the Report. Our examination solely included the compliance of the data reporting procedure with GRI principles and the sample-based testing of the data sources for the selected indicators.

Our examination of numerical data included in the Report was limited to the sustainability indicators

- 102-8 – Information on employees and other workers,
- 305-7 – Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions,
- EU2 – Net energy output broken down by primary energy source and by regulatory regime,
- EU3 – Number of residential, industrial, institutional and commercial customer accounts,
- EU30 – Average plant availability factor by energy source and by regulatory regime,

together with the testing of the data sources. The examination of the other numerical data presented in the Report has not been performed.

We have not examined previous years' data and trends relating to performance indicators presented in the Report.

Our report has been prepared solely for the purpose described in the first section of this report.

Our responsibility

Our responsibility is to report on the selected data and information included in the Report of 2019. We prepared our report solely for the purpose of disclosing it in the documents of ALTEO Nyrt., and we do not accept any responsibility for any third party usage of the documents published as a result of this examination (for example the final examination report).

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" ("ISAE 3000"). This standard requires that we comply with the ethical requirements as well as plan and perform the assurance engagement to obtain limited assurance whether the selected information and data included in the Report of 2019 have been prepared, in all material respects, in accordance with the GRI criteria.

-1-

Deloitte Auditing and Consulting Ltd.

Summary of the work performed

The verification process, the examination and evaluation of the Report have been prepared according to the Electric Utilities and the Oil and Gas Sector Supplements of GRI Standard guideline.

Procedures performed:

1. Assessment of the GRI in accordance Core level
 - Examination of the completeness and appropriate application of indicators used in the Report.
 - Definitional examination of the use of GRI indicators stated in the Report.
 - The evaluation of the Report's compliance with GRI principles.
2. Data level assessment of five selected indicators, providing limited assurance
 - Examination of the proper collection of basic data, examination of on-site aggregation and conversion of basic data, examination of the adequacy of data provision.
 - Checking whether the data was generated according to the definition of the respective indicator
3. To confirm and to complete the statements above, we have conducted the following interviews at the selected departments connected to the verification of the Report of 2019: Integrated Management System, Energy retail, Energy trading and Control Center, Human Resources, as well as on-site interviews at: BC Power Plant and Steam Boiler, Kazincbarcika Power Plant, Monor solar power plant, Böny wind farm.

In engagements providing limited assurance, the evidence-gathering procedures are more limited than for a reasonable assurance engagement, therefore, less assurance is obtained, than in case of a reasonable assurance engagement.

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

Conclusion

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

Budapest, 16th April, 2020.

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

Deloitte Auditing and Consulting Ltd.

-2-

ABOUT OUR COMPANY



2

Company introduction

ALTEO -
With Energy in Mind

Our parent company, ALTEO Nyrt., was founded in 2008. As an energy provider and trading company, our business activity covers energy production based on renewable energy carriers and on natural gas, energy trading, as well as offering personalized energy services, development projects and maintenance services to corporate entities.

We provide our clients with reliable and high-efficiency energy supply based on the sustainable utilization of natural gas and renewable energy. As an energy trading company, our partners include both Hungarian small and medium-sized businesses and large corporations. Our optimum mix of tools and our Control Center enable us to serve the needs of our clients effectively.

ALTEO Nyrt. shares were floated on the Budapest Stock Exchange (BSE) in October 2010, and the BSE promoted these equities to the highest category, the Equities Prime Market, in September 2018.

Company data

COMPANY PROFILE

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

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

Owners (December 31, 2019):

Wallis Asset Management Zrt.
and its subsidiaries

63,88%

**Board of Directors, Supervisory Board
and Executive Board**

3,12%

Treasury shares

3,87%

Free float*

29,14%

Issued capital

(ALTEO Nyrt., December 31, 2019):

HUF 242 328 425

Revenue (December 31, 2019):

HUF 26,4 billion

Number of employees (December 31, 2019):

254 employees

* Outside of management



CHANGE IN THE OWNERSHIP OF ALTEO

With its Resolution No. 1/2019 (III. 12.), based on an authorization granted by Resolution No. 3/2015 (XI. 10.) of the General Meeting, ALTEO Nyrt.'s Board of Directors launched the process of increasing the share capital of ALTEO Nyrt., by adding new shares in a private placement. The issue price of the new shares was set at 670 (six hundred and seventy) Hungarian forints; oversubscription was accepted up to a total issue amount of HUF 1,999,999,580, and thus a total of 2,985,074 new shares were issued. The majority shareholder (WALLIS ASSET MANAGEMENT Zrt.) acquired 1,567,164 new shares through this private offering. The new shares were first traded at the BSE on April 5, 2019.

MILESTONES³

MARCH 19, 2008	Foundation of ALTEO Nyrt.
JANUARY 1, 2009.	Launch of electricity trading activities
JULY 2009	Acquisition of Hidrogáz Kft.
DECEMBER 31, 2009.	Acquisition of Győri Erőmű Kft. and Soproni Erőmű Kft.
SPRING 2010	Acquisition of landfill gas power plants in Nyiregyháza and Debrecen
SEPTEMBER 2010	Becoming a public limited company.
FEBRUARY 2012	Obtaining natural gas trading license
MAY 2012	Acquisition of 3 wind turbines (Ács, Pápakovácsi, Jánossomorja)
MAY 4, 2015	Acquisition of Sinergy Kft.
NOVEMBER 7, 2016	Initial public offering at the Budapest Stock Exchange
DECEMBER 2017	Acquisition of the first solar power plant in Domaszék
MARCH 2018	Acquisition of Zugló-Therm Energiaszolgáltató Kft.
SEPTEMBER 12, 2018.	ALTEO shares promoted from the Standard category to the Equities Prime Market
NOVEMBER 2018	Commencement of operations at ALTEO Group's first self-implemented solar power plant in Monor
JANUARY 2019	Waste Management Division launch 10-year renewal of the long-term contract on purchasing and selling thermal energy concluded with FŐTÁV
MARCH 2019	Completion of a private placement with significant oversubscription
MAY 2019	Acquisition of a wind farm in Bőny Installation of an EV charging station in Tiszaújváros
JUNE 2019	Completion of the first Integrated Report of ALTEOe
JULY 2019S	Commencement of the operation of two new self-implemented solar parks (Nagykőrös and Balatonberény)
AUGUST 2019	Commencement of the renovation of the Gibárt hydropower plant Awarding of the BBB-rating, which is even higher than what we expected and what was required for the participation in the Bond Funding for Growth Scheme of the Central Bank of Hungary.
SEPTEMBER 2019	Ceremonial handover of the industrial battery energy storage facility 8-year renewal of the long-term contract on the operation and maintenance of the TVK power plant
OCTOBER 2019.	Successful participation in the Bond Funding for Growth Scheme of the Central Bank of Hungary
NOVEMBER 2019	Presentation of the ALTEO Group's strategy for the period between 2020 and 2024

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

Group structure

Our operational structure reflects our diverse operational portfolio: all of our project, manufacturing and trading companies operate as a subsidiary of ALTEO Nyrt. to readily adapt to the constantly changing customer and consumer expectations and to utilize synergies in the organization more efficiently.

In the following, we will describe the ALTEO Group's structure broken down by activities performed within and outside of Hungary.

Activities within Hungary can be classified into three main categories:

1. ENERGY PRODUCTION:

Heat and electricity production

2. TRADING:

Electricity retail, gas retail, wholesale

3. ENERGY SERVICES:

Operation, maintenance, engineering services, construction, investment funding

The activities of the ALTEO Group have been grouped into five main segments, therefore, the results will also be aligned to this structure in the next chapters:

- Heat and electricity generation (market rate, outside the "Subsidized"⁴ system): energy production, heat energy production, electricity production, system services provision (Control Center);
- Electricity production – "Subsidized", formerly "KÁT" system: renewables-based electricity production;
- Energy trading: electricity trading, natural gas trading, balancing group services;
- Energy Services segment: operation and maintenance of power plants and power engineering installations, energy and power engineering services, other services, waste management;
- Other: non-segment activities and central administration.

ACTIVITIES PERFORMED OUTSIDE OF HUNGARY

In 2018, ALTEO Nyrt. set up its German subsidiary, ALTEO Deutschland GmbH, whose scope of activities include the development of energy production portfolio, as well as the provision of energy services to wholesale and retail customers.

Changes in the structure of the Group

IN 2019, THE GROUP MADE THE FOLLOWING MAIN ACQUISITIONS:

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

Changes in subsidiaries and associates

Acquisition of EURO GREEN ENERGY Kft. (Böny Wind Farm)

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

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

ACQUISITION OF ECO-FIRST KFT.

On June 24, 2019, ALTEO Nyrt. acquired ownership of a business share representing 66.67% of the HUF 3 million issued capital of ECO-FIRST Kft. This transaction is connected with the launch of the Waste Management Division announced in ALTEO Nyrt.'s communication published on January 10, 2019. ECO-FIRST Kft. was established in 2017 for the purpose of pursuing organic waste trading service operations to close a market gap. Its services mainly include waste collection from supermarkets as well as complex sustainability services in waste management. ECO-FIRST Kft. provides professional services to several large enterprises and is also involved in the development of new, complex activities, aligned with the needs of the waste management market.

KISÚJSZÁLLÁS AND TISZAFÖLDVÁR HYDROGAS PROJECT EXIT

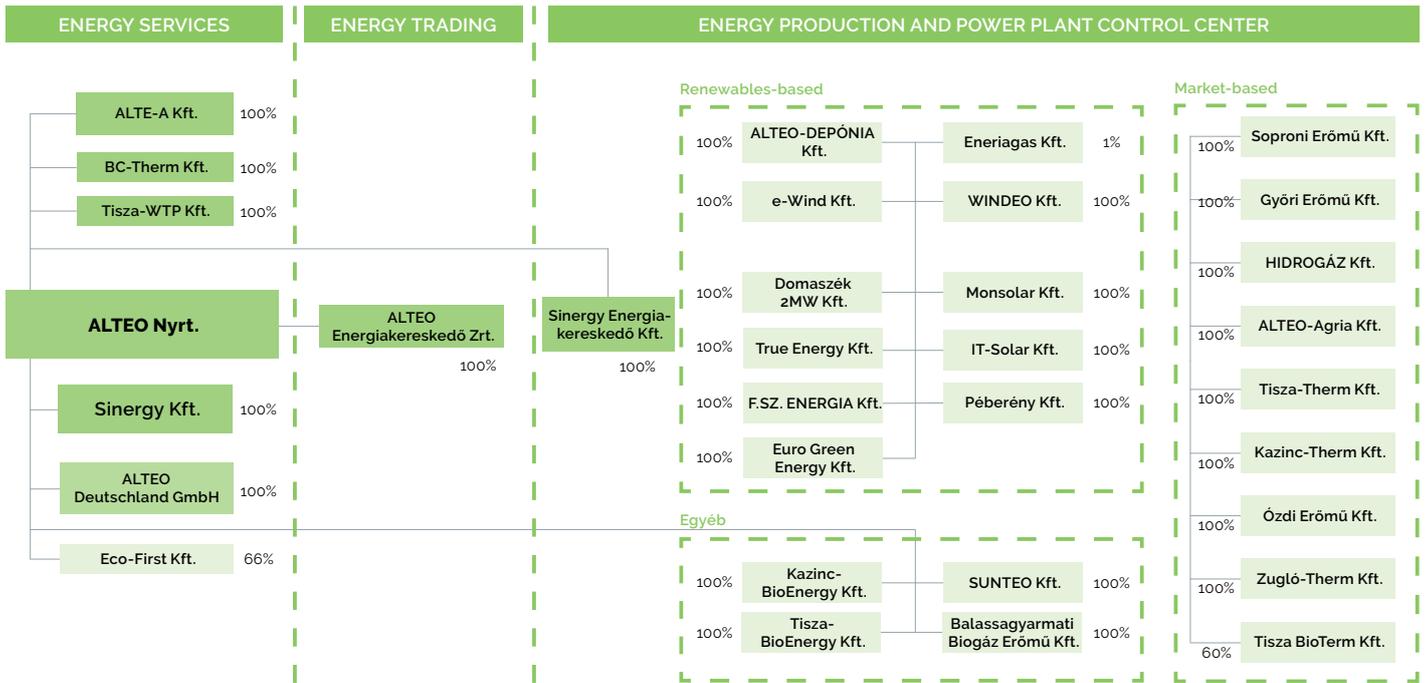
On July 3, 2019, in order to clean up its portfolio, ALTEO Nyrt. sold its business share representing 100% of the initial capital of ALTEO-Hidrogáz Kft. operating the Kisújszállás and the Tiszaföldvár power plants.

TRANSFORMATIONS

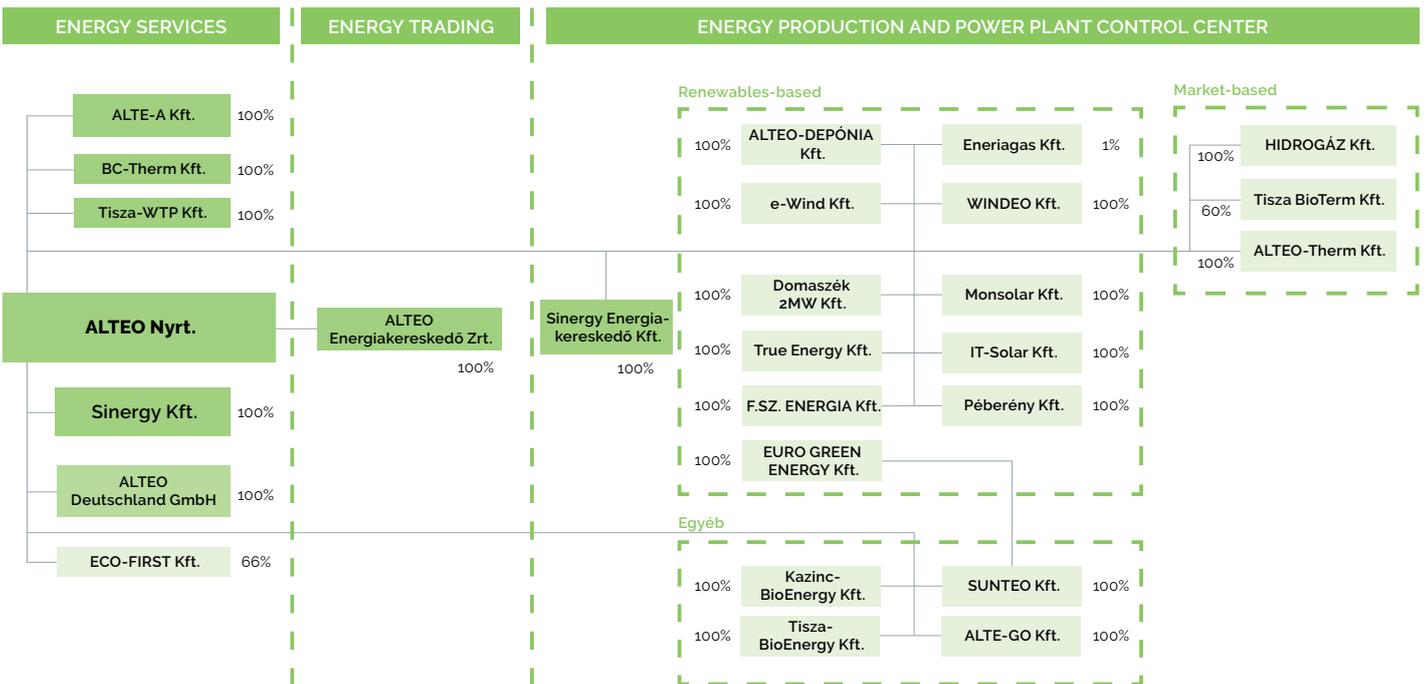
As part of the restructuring of the ALTEO Group's corporate structure presented at the extraordinary General Meeting held on November 8, 2017, ALTEO Nyrt. merged its district heating subsidiaries (under the name of ALTEO-Therm Kft.) with effect from January 1, 2020, set as succession day.

⁴ The "Subsidized", or formerly "KÁT" system refers to the electric power production of power plants producing for the KÁT ("mandatory offtake") system (utilizing renewable energy).

THE STRUCTURE OF ALTEO GROUP ON THE REPORTING DATE (DECEMBER 31, 2019)



THE STRUCTURE OF ALTEO GROUP AS AT JANUARY 1, 2020



Long-term trade and business agreements

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

ALTEO concluded a services contract with a value of over one billion Hungarian forints with TVK ERŐMŰ Termelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-3580 Tiszaújváros, Gyári út TVK-lpartelep; company registration number: 05-09-007873; hereinafter: "**TVK-ERŐMŰ**") to carry out the implementation works to extend the service life of the main and auxiliary equipment as part of the reconstruction of the MOL Petrochemicals Co. Ltd. power plant located in the Industrial Park, and to coordinate the activities of the other contractors involved in the reconstruction project. The implementation works for the specific systems will be carried out in 2020 with a final deadline set for December.

ALTEO and TVK-ERŐMŰ owned by MOL Petrochemicals Co. Ltd. concluded an O&M contract for the long-term operation and maintenance of TVK-Erőmű on September 23, 2019. This new contract was necessitated by the expiry of the O&M contract signed by the parties on July 26, 2004 and subsequently amended several times. Under the contract, ALTEO will provide the production plants of MOL Petrochemicals Co. Ltd. with industrial steam, heating hot water and power supply services until December 31, 2027.

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

FINANCING AGREEMENTS

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

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

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

Operation and business model⁵

ALTEO believes in sustainable operations, and this spirit is reflected not only in the Company's projects (e.g. the growing utilization rate of renewable sources of energy) but also in the fact that the Company's approach is able to have a positive impact on the attitudes of our business partners and investors.

ALTEO is a sustainable business. This offers a significant market potential to the Company as we are able to penetrate markets that contribute to the value of the Company and thus also to shareholder value.

Units based on the utilization of alternative and renewable energy sources as well as high-efficiency hydrocarbon fueled cogeneration systems are at the forefront of the establishment and development of our energy generating portfolio, while we are building a customer-focused and flexible energy trading business line.

In addition, we support the efficient energy management of our business partners to allow them to minimize the environmental impact and energy costs of their operations and to ensure the optimal utilization of efficient renewable energy sources.

Corporate strategy, mission, vision

Increasing sustainable energy production and coordinating it with intelligent and rational energy management is one of the major challenges of our age. Global issues are no longer remote and isolated tasks but are now interlinked and have become challenges directly facing us.

Harmonizing sustainability and profitability, innovation and the security of core operations is a challenge for all companies both in and outside the energy business. Around the world, new brands enter the spotlight with services connected in new ways.

Since 2008, ALTEO has based its steady growth on robust operations relying on fast and flexible yet value-added expansion. ALTEO is striving not only to keep pace with but rather to set the pace of change. Through its uniquely complex portfolio, the Company does not only provide its business partners with energy but also with actual business advantage. This type of operating model ensures a modern, world class solution offering a vision for innovation and human resources.

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

The communication can be downloaded from the following link:

https://bet.hu/newkibdata/128327441/ALTEO_V%C3%A1llalati_strat%C3%Aggia_hossz%C3%BA_final_en.pdf

STRATEGIC GOAL

The strategic goal of ALTEO Group is to become a definitive power engineering services provider that offers sustainable energy supply for its consumers as well as satisfactory returns for its shareholders through the optimized use of energy trading, decentralized energy generation and efficient energy management.

ALTEO Group observed the following three criteria in its past operations and the same three criteria will guide its future development and investments.

1. **Secure energy supply** is crucial for us to be perceived as a valued service provider.
2. **Energy efficiency** ensures that our services are provided economically and preferably with a low burden on the environment.
3. **Our climate awareness** underlines the responsibility we feel for future generations and goes beyond the mitigation of environmental nuisances.

The document presenting ALTEO Group's strategy for the 2020-2024 period is, also marked the end of the 2016-2019 investment period. The success of the latter is indicated by the fact that the volume of investment and development exceeded HUF 20 billion by the end of H1 2019 (as opposed to the budgeted HUF 15 billion amount).

The new strategy aims at the expansion of the current business activities as well as the revision of the focus areas in order to improve profitability. In addition, the aim of the corporate strategy is to help ALTEO strengthen its market position and penetrate into new markets, and to satisfy growing customer demands for decentralized, optimized and bespoke industrial energy services.

⁵ Information about the company structure and corporate governance presented in this Report reflects the status on December 31, 2019.

It is one of the Company's specific strategic objectives to implement further investment projects worth up to HUF 20 billion in the next 5 years. Furthermore, the Company's business objectives include a significant expansion of the large corporate services client portfolio. In addition, the development of the capacity and flexibility of the Company's Control Center created in 2013 will also play a key role, as it allows several smaller independent generation facilities to appear in the electricity and system services market combined as a single large power plant. Additionally, the Company intends to treat the further development of industrial energy services as a strategic priority, which may lead to the expansion of the large corporate client portfolio.

In order to strengthen its strategic position, ALTEO also intends to explore new market opportunities. For instance, the Company is assessing e-mobility options as well as the establishment of a comprehensive waste management system. Beside the key strategic directions, the use of renewable energy sources, the development of their production forecasting and RDI activities will also continue to play a central role going forward.

IMPACT INVESTMENT

From the beginning, ALTEO strives to be not only a financially profitable, but also environmentally and socially sustainable and responsible energy company. Throughout its operations, it is seeking solutions that can respond to the challenges of energy supply in a sustainable and also profitable manner.

The combination of these values created the concept of impact investment as an investment strategy. This is an extremely popular concept in western countries but still relatively new in Hungary, with ALTEO as a responsible company being one of the first representatives in the country.

The essence of impact investment is for a given investment to be also socially and environmentally sustainable, in addition to generating financial returns. It is important to emphasize that the three factors together make up this investment strategy, so in terms of its positive impact on the environment and society, it is not a donation: return is clearly one of the most important measures of investment also in this case. Besides, the Company itself is investing in projects that qualify as impact investment: ALTEO is an impact investor similarly to its own investors.

PROFESSIONAL PARTNERSHIPS, MEMBERSHIPS

In addition to tackling professional challenges, ALTEO Group is also looking for cooperation opportunities and initiatives that may offer a solution to the economic, social and environmental issues of the present day. Accordingly, we are members, active participants and supporters of the following Hungarian sustainability initiatives:

- Business Council for Sustainable Development in Hungary (BCSDH)
- Hungarian Business Leaders Forum (HBLF)
- Circular Economy Platform

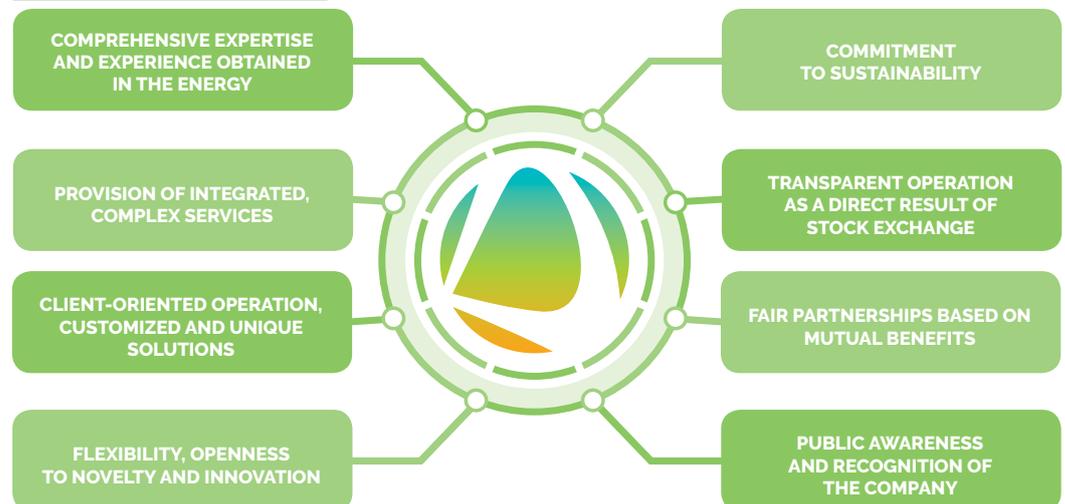
Furthermore, we are members of several professional groups and associations in order to support our professional and strategic goals. By sharing and expanding our knowledge through these memberships and by utilizing our networking capabilities, we can contribute to initiatives that help build a future that ALTEO Nyrt. envisions.

A few examples of our memberships and professional workshops supported by us in 2019:

HUNGARIAN COGENERATED ENERGY ASSOCIATION
 HUNGARIAN ENERGY TRADERS' ASSOCIATION - HETA
 REGIONAL CENTRE FOR ENERGY POLICY RESEARCH - RCEPR
 ORGANIZATION OF HUNGARIAN INDUSTRIAL MAINTAINERS - OHIM
 HUNGARIAN BUSINESS LEADERS FORUM
 ASSOCIATION OF HUNGARIAN DISTRICT HEATING ENTERPRISES
 HUNGARIAN WIND ENERGY INDUSTRY ASSOCIATION
 HUNGARIAN BIOGAS ASSOCIATION
 BUDAPEST CHAMBER OF COMMERCE AND INDUSTRY
 SOPRON CHAMBER OF COMMERCE AND INDUSTRY
 CHAMBER OF COMMERCE AND INDUSTRY FOR GYŐR-MOSON-SOPRON COUNTY
 HUNGARIAN CHAMBER OF ENGINEERS
 B.A.Z COUNTY CHAMBER OF ENGINEERS
 YPO BUDAPEST NONPROFIT KFT.
 CENTRAL EASTERN EUROPEAN GAS EXCHANGE (CEEGEX) – HUPX

- 1 WE SPECIALIZE IN EVOLUTION:**
We work for our clients' sustainable business advantages. The economy and society are constantly changing. Every day, new technologies and solutions shape our lives. Through its advanced energy systems, ALTEO helps its business partners to be on the winning side of changes in the world and in their immediate environment.
- 2 WE ADAPT TO DEVELOP:**
The winners of development and the changes it entails are the businesses that are able to adapt. One of our strengths is the ability to offer bespoke solutions to our clients' energy needs.
- 3 WE THINK AHEAD:**
Based on our past experience and the skills of our professionals, we are able to build energy systems that will also be sustainable in the future. One of ALTEO's unique features is the detection of formerly unknown links and the utilization of old things in new ways. With us, every bid is also an innovation.
- 4 WE SET AN EXAMPLE:**
The utilization of renewable energy sources and setting an example of this at the right place, time and proportion is part of our mission.
- 5 WE FOCUS ON WHAT IS RELEVANT:**
We are an agile Company relying on innovative solutions. This allows us to execute all tasks unpretentiously and as precisely and quickly as possible. This way we save time and create business advantages for our partners and investors alike.
- 6 WE ACT FLEXIBLY IN THE MARKET:**
Beside understanding and observing the rules, success also depends on expertise, rapid assessment of the situation and openness. These ensure the most suitable solution for any problem.
- 7 WE ARE SUSTAINABLE IN OUR OPERATIONS:**
As evolution specialists, we want to make a positive change to the world. ALTEO's expertise and services enable us to offer the best available options in the most sustainable way possible. Our staff, investors and partners all play important roles in ALTEO's life.

VALUES OF ALTEO GROUP





CODE OF ETHICS

ALTEO published its Code of Ethics on January 1, 2016, demonstrating its commitment to fair, compliant and transparent business operations. We regularly update the Code. In 2019, all our employees participated in mandatory training and passed the exam.

The Code of Ethics is a useful guide that offers help and protection to our employees and provides information to our partners about the standards of behavior represented and required by our Group.

The standards established in the Code impose more stringent requirements than the existing laws. It is our aim to guarantee our employees' fundamental rights as well as a working environment based on mutual trust, respect for others and respect for their dignity. We respect our employees' right to freedom of religion, freedom of assembly, right to rest, leisure and regular paid leave.

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

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

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

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

We respect our employees' right to political conviction and engagement. In turn, our employees must respect the ethical principles of the ALTEO Group when conducting their political activities and, in all cases, they can only carry out their activities as individuals, independently of the Group.

Through our ethics hotline, we provide the opportunity to report ethical issues, even anonymously, but under all circumstances protecting the whistleblower. In all cases, we will investigate the reports, draw lessons, provide the necessary information and support.

REPORTS ON ETHICS VIOLATIONS

In 2019, three reports were submitted to ALTEO Group about potential ethics violations.

1. An employee submitted an ethics violation report due to the leakage of inside information to an unauthorized third party. We interviewed several staff members during the investigation and, as a result of those interviews, we concluded that one of our professionals disclosed information to an unauthorized third party in good faith but without authorization, thus violating Section 5.2.3 of our Code of Ethics on our IP and other proprietary information. The whistleblower and the colleague concerned were informed about the outcome of the procedure.
2. Two reports were received regarding communication between staff members that was perceived as inappropriate and unethical by the whistleblowers.
 - In one of the cases, we did not identify any unethical conduct, yet we requested the colleagues concerned to mind their language and the style of their communication going forward.
 - In the other case, we established that with their conduct, the staff member – although unwillingly – violated Section 6.3.2 of the Code of Ethics, pursuant to which: "we expect all our employees to build their workplace relationships on the principles of cooperation, openness, trust, mutual respect, mutual recognition and support". We called on the colleague in question that in the future, as part of day-to-day communication with other colleagues, they should act in compliance with the principles set out in the Code of Ethics.



There were two changes in executive positions at the ALTEO Group in 2019. CFO Sándor Bodó left the Company as of August 30, 2019, while Deputy CEO András Papp left ALTEO Nyrt. as of August 31, 2019.

GENERAL MEETING⁶

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

BOARD OF DIRECTORS⁷

ALTEO Nyrt.'s supreme decision-making body is the Board of Directors, comprising five members. The members are ALTEO Nyrt.'s legal representatives. The Board of Directors coordinates and manages ALTEO Group, provides guidance and defines ALTEO Nyrt.'s business and development concept. The Board of Directors consists of at least three natural persons and elects its chairperson from among its members. The members of the Board of Directors are elected by the General Meeting for a definite term of up to five years.

MEMBERS OF THE BOARD OF DIRECTORS ARE CURRENTLY THE FOLLOWING:

- Gyula Zoltán Mező,
Chairman of the Board of Directors
 - Attila Chikán Jr.,
Member of the Board of Directors
 - Ferenc Karvalits,
Member of the Board of Directors
 - Domonkos Kovács,
Member of the Board of Directors
 - Zsolt Müllner,
Member of the Board of Directors
- András Papp resigned his position as a member of the Board of Directors on August 26, 2019.

SUPERVISORY BOARD⁸

ALTEO Group's operation is supervised by the Supervisory Board (SB). Its objective is to ensure the protection of the owners' interests as well as to supervise the management of ALTEO Nyrt. The current members of the SB – whose mandate expires on April 30, 2020 – were selected based on their expertise and industry knowledge:

- István Bakács, Chairman of the SB
- Dr István Borbíró, Member of the SB
- Péter Jancsó, Member of the SB
- Dr János Lukács, Member of the SB
- Noah M. Steinberg, Member of the SB

AUDIT COMMITTEE

The Audit Committee assists the Supervisory Board in overseeing the financial reporting system, in the selection of the statutory auditor and in cooperation with the statutory auditor. The Audit Committee has the right to request information from members of the Board of Directors or senior executives of the ALTEO Nyrt. The addressees are

required to provide written answers. The Audit Committee consists of three members, who are elected by the General Meeting from the independent members of the Supervisory Board. From April 2015 through April 30, 2020, István Bakács, Dr János Lukács and Dr István Borbíró were members of the Audit Committee.

EXECUTIVE BOARD⁹

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

At the management overview convened once annually by the CEO, the management reviews and assesses fulfillment of the above requirements and defines development opportunities for the future. During the overview, the management monitors, among others, fulfillment of the tasks outlined in the Quality, Energy and HSE objectives and programs and sets new tasks where necessary.

Its five members are ALTEO Nyrt.'s Chief Executive Officer, Chief Financial Officer, Deputy CEO (for M&A and Capital Markets), Director for Wholesale and Control Center Management and Energy Production Director, from time to time.

MEMBERS OF THE EXECUTIVE BOARD AS AT 12/31/2019:

- Attila Chikán Jr., CEO,
Member of the Board of Directors
- Zoltán Bodnár, Chief Financial Officer
- Domonkos Kovács,
Deputy CEO for M&A and Capital Markets
- Péter Luczay,
Director for Wholesale and Control Center Management
- Viktor Varga, Energy Production Director

AUDITOR

In accordance with current regulations, ALTEO Nyrt. is required to have a statutory auditor. In 2019 this role was delegated to Deloitte Könyvvizsgáló és Tanácsadó Kft.

6. <https://alteo.hu/az-alteo/szervezet/>

7. <https://alteo.hu/az-alteo/szervezet/igazgatosag/>

8. <https://alteo.hu/az-alteo/szervezet/felugyelo-bizottsag/>

9. <https://alteo.hu/az-alteo/szervezet/executive-board/>

Powers of senior executives

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

The Board of Directors is the managing organ of ALTEO Nyrt. that exercises its rights and duties as a body. The members of the Board of Directors are elected by the General Meeting for a definite term of up to five years. The members of the Supervisory Board and the Audit Committee are also elected by the General Meeting for a definite term of up to five years.

As a general rule, the amendment of the Articles of Association is within the competence of the General Meeting; however, in the context of decisions made pursuant to Section 13.5 of the Articles of Association, the Board of Directors has the powers to amend the Articles of Association in compliance with the relevant rules of the Civil Code. Without specific authorization from the General Meeting, the Board of Directors may not issue shares.

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

Code and other legislation and by ALTEO's Articles of Association to the competence of the General Meeting, including any amendment of the Articles of Association necessitated by the capital increase.

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

Risks and opportunities

The presentation of ALTEO Group's business environment and the detailed description of risk features as well as the analysis of market and industry risks are included in Chapter 38 of Annex 1 titled "Disclosure of Risks", presented as part of our IFRS consolidated financial statements (see page 149).



Operating in full compliance with the law is crucial for ALTEO Nyrt.

In compliance with the law, we revise our electricity and natural gas trade business codes in every six months and regularly update our retail contract templates in line with the business code amendments and the relevant practices. In addition, we periodically revise the contract templates used by the project development and the purchasing functions.

We monitor the Hungarian Official Gazette (Magyar Közlöny) on a daily basis and notify our staff of the new or amended laws if we notice any change affecting ALTEO Group's business or operation.

In 2019, within the framework of ALTEO Group's internal knowledge sharing project, we organized further training courses about topics affecting the Group's operations, the service contracts, the licensing practices of HEA as well as the licensing experiences of the Böny transaction. Attendance at these courses was mandatory for the staff of the project development function. New hires are consistently trained about the Company's anti-insider trading policy.

We only collect information about our competitors in a lawful manner, using only publicly available information in order to understand business, consumer, supplier and technological trends, legislative proposals, and the activities of our suppliers and competitors.

We pay particular attention not to enter into cartel agreements and not to coordinate our behavior with competitors either directly or indirectly by fixing prices, dividing the market or setting production and sales quotas. However, as our industries have significant impact on the natural environment and the development of local communities, we cooperate with our competitors to promote joint social and environmental responsibility.

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

	2017	2018	2019
Total financial value of major fines (thHUF)	The National Tax and Customs Administration of Hungary (NTCA) assessed tax arrears in the amount of HUF 3,889 thousand at Sinergy Kft. and further imposed a tax fine of HUF 198 thousand and default interest of HUF 57 thousand payable by the company.	The Hungarian Energy and Public Utility Regulatory Authority imposed a HUF 500 thousand fine on ALTEO Nyrt. for the late disclosure of the acquisition of a quota in Péberény Kft.	The Hungarian Energy and Public Utility Regulatory Authority imposed a HUF 2,000 thousand fine on Soproni Erömű Kft.
Number of non-cash sanctions	-	By its resolution dated November 5, 2018, the Central Bank of Hungary reprimanded ALTEO Nyrt. and imposed a HUF 150 thousand regulatory fine for late compliance with its obligation to provide information for September under Section 54(9) of the Capital Markets Act	-
Number of cases resolved through conflict management procedures	-	-	-

We have disclosed all fines imposed against the members of the Group in recent years. The Hungarian Energy and Public Utility Regulatory Authority conducted an ex officio audit of Soproni Erömű Kft. to assess the veracity of the data included in its district heat generation license (hereinafter the "**License**") and the company's compliance with the requirements included in and applicable to the License. As a result of the audit, the Hungarian Energy and Public Utility Regulatory Authority imposed a HUF 2,000,000 fine on Soproni Erömű Kft. for violation of the law.

PRESENTATION OF ONGOING LITIGATIONS: SINERGY ENERGIAKERESKEDŐ KFT.

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

production of the system" registered for VPP Magyarország Zrt. as holder under number E031332.

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

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

EVENTS AT ALTEO RELEVANT IN TERMS OF COMPANY LAW

With its resolution adopted in writing on January 18, 2019, ALTEO's Board of Directors updated the scope of ALTEO's **authorized signatories**. With its Resolution No. 1/2019 (III. 12.), based on an authorization granted by Resolution No. 3/2015 (XI. 10.) of the General Meeting, ALTEO's Board of Directors launched the process of increasing the share capital of ALTEO, by adding new shares (hereinafter: "**New Shares**") in a private placement (hereinafter: "**Private Placement**"). On the basis of the preliminary statements of commitment, the Board of Directors under Resolutions No. 1-2/2019 (III.21.) adopted decisions regarding the allocation of the shares: it excluded the shareholders' subscription rights and preferential rights for taking over the New Shares; taking account of the preliminary statements of commitment for the acceptance of the New Shares submitted during the Private Placement (book-building), the issue price of the New Shares was set at HUF 670 (i.e. six hundred and seventy forints); an oversubscription was accepted up to a total value of HUF 1,999,999,580 (one billion nine hundred ninety-nine million nine hundred ninety-nine thousand five hundred and eighty forints) for the issue, and so, the decision

was made to issue a total of 2,985,074 units of New Shares; the Board designated from among the investors who had submitted their preliminary statement of commitment according to Section 3:296 (3) of the Civil Code to qualify for participation in the Private Placement, and established the number of the New Shares available to them; furthermore, specified the details and deadline for the submission of the final statement of commitment and the payment of the capital contribution. With its Resolutions No. 3-4/2019 (III.21.), the Board of Directors also decided about an amendment in the Articles of Association, subject to the success of the capital increase. All investors that were designated by the Board of Directors to take over New Shares fulfilled their preliminary commitment and provided the full consideration for the total of 2,985,074 New Shares issued during the Private Placement in accordance with the requirements. By the same, **the transaction aimed at the issue of 2,985,074 units of shares was completed**, and all conditions were met for increasing the share capital of ALTEO, as registered in the company register, to HUF 242.328.425 (that is, two hundred forty-two million three hundred twenty-eight thousand four hundred and twenty-five forints) at face value. **The New Shares were first traded at the BSE on April 5, 2019.**



**AT THE ORDINARY GENERAL MEETING OF ALTEO HELD ON APRIL 26, 2019,
THE FOLLOWING RESOLUTIONS WERE ADOPTED:**

- a) The General Meeting **approved the statement of financial position** proposed by ALTEO's auditor regarding ALTEO's business year ending on December 31, 2018, along with the separate statement and business report prepared in line with the provisions of the Accounting Act applicable to entities preparing their annual report under the EU IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.
- b) The General Meeting adopted the statement of financial position proposed by ALTEO's auditor regarding ALTEO's business year ending on December 31, 2018 and the consolidated report prepared in accordance with the IFRS, the business report, as well as the relevant written **reports of the auditor, the Audit Committee and the Supervisory Board.**
- c) The General Meeting approved the **separate business report** of the Board of Directors for ALTEO's 2018 business year.
- d) The General Meeting approved the **consolidated business report** of the Board of Directors for ALTEO's 2018 business year.
- e) The General Meeting adopted the **corporate governance** report relating to ALTEO's 2018 operations with the proposed content.
- f) The General Meeting **decided to pay** HUF 250,068,416 **as dividend** from the free retained earnings (dividend base) supplemented by the profit after tax of ALTEO in the previous business year and the subsidiary dividends established after 2018, which corresponds to **HUF 16 gross** per share, excluding treasury shares held by ALTEO and shares issued on March 25, 2019 which, according to Section 3:298 (3) of the Civil Code, do not give entitlement to dividend. Furthermore, the General Meeting authorized the Board of Directors to adopt the resolutions specified in Article 18 of the Articles of Association and other decisions necessary in relation to the payment of dividend.
- g) The General Meeting has given the **discharge** to the members of the Board of Directors in accordance with Section 3:117 (1) of Act V of 2013 on the Civil Code of Hungary, with the conditions described therein.
- h) Based on the Audit Committee's proposal, the General Meeting appointed **Deloitte** Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság as the permanent auditor of ALTEO, the mandate of which is for the period from April 26, 2019 until the date of adoption of the General Meeting's resolution on the report for the business year ending on December 31, 2019 but **until May 31, 2020** at the latest. In line with the Audit Committee's proposal, the General Meeting appointed Dr Attila Hruby as the auditor personally responsible for the audit.
- i) The General Meeting has taken note of and accepted the information provided by the Board of Directors regarding **transactions involving own shares.**
- j) In acceptance of the grounds described in the Board of Directors' proposal, the General Meeting decided to extend the authorization given to the Board of Directors regarding the own share transactions for eighteen months calculated from April 26, 2019.
- k) The General Meeting repealed its Resolution No. 3/2015. (XI.10.) and, simultaneously, subject to the terms and conditions set forth in the proposal, authorized the Board of Directors of ALTEO to adopt a decision on the **increase of the share capital of ALTEO at its own discretion**, with at least four members of the Board of Directors voting in favor. Pursuant to the authorization, the Board of Directors may increase the share capital of ALTEO by up to HUF 150 million calculated at the face value of the shares issued by ALTEO, in aggregate (authorized share capital) in the five-year period starting on April 26, 2019.
- l) The General Meeting decided to change the **core activity** of ALTEO to "Engineering activities and related technical consultancy (TEÁOR 7112)".
- m) The General Meeting adopted ALTEO's **Articles of Association** in a consolidated structure with the amendments.

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

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

EVENTS AT ALTEO'S SUBSIDIARIES RELEVANT IN TERMS OF COMPANY LAW

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

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

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

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

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

OWN SECURITIES ISSUED BY ALTEO

ALTEO shares	19,386,274 pieces of ordinary shares of ALTEO, HUF 12.5 face value each, listed on the BSE in the "Premium" category; ISIN code: HU0000155726
Bonds	<p>ALTEO 2022/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 650,000,000, issue value: 76.6963% of the face value; not listed. ISIN code: HU0000357405</p> <p>ALTEO 2020/I: publicly traded bonds with a fixed coupon rate of 5.5% p.a., with a maturity of 3.5 years, total face value: HUF 2,150,000,000, issue value: 100% of the face value; listed on the BSE. ISIN code: HU0000357603</p> <p>ALTEO 2022/II: zero coupon bonds issued by private placement, with a maturity of 3 years, total face value: HUF 1,693,630,000, issue value: 88.9158% of the face value; listed on the BSE. ISIN code: HU0000359005</p> <p>ALTEO NKP/2029: registered bonds with a fixed coupon rate, issued by private placement, having a face value of HUF 50,000,000 and 10 years maturity, total face value: HUF 8,600,000,000, its average selling price at auction was 102.5382% of face value, average yield: 2.8546%, listed on the BSE. ISIN code: HU0000359252</p>

OUR OWN SHARE TRANSACTIONS

In 2019, ALTEO continued its employee share award program launched in 2018. In order to acquire the shares to be used for this program, we announced a share repurchase program (hereinafter: "Program") for 2018, the details of which were published by ALTEO on June 15, 2018. Eventually, the Board of Directors prolonged the Program until March 14, 2019. Under the Program, ALTEO Group acquired a total number of 14,818 shares by March 14, 2019. Mandated by ALTEO's Board of Directors, the CEO selected the employees to be recognized by ALTEO as part of the Program in December 2018. As a result, in January and February 2019 ALTEO granted 13,298 shares to the employees who have become eligible for them based on ALTEO's recognition plan and the CEO's decision. Subsequently, in January 2020 (through a transfer dated January 31, 2020), ALTEO distributed 1,878 shares to employees who were eligible under ALTEO's recognition plan.

ISSUE OF BONDS

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

MATURITY OF THE BONDS

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

ISSUE OF A BILL OF EXCHANGE

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

PARTICIPATION IN THE BOND FUNDING FOR GROWTH SCHEME OF THE CENTRAL BANK OF HUNGARY, CREDIT RATING

On August 7, 2019, ALTEO issued extraordinary information regarding its intention to participate in the Bond Funding for Growth Scheme announced by the Central Bank of Hungary. For that purpose, Scope Ratings GmbH performed the rating of ALTEO. ALTEO's rating: BB+/Stable/S-3. Ratings of the bonds which may be issued under the BGS: BBB-, which is four rating levels higher than the minimum required by the Central Bank of Hungary.

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



Compliance

COMPLIANCE RISK ANALYSIS (RISK MAP)

For the fifth year in a row, we have been conducting compliance risk assessments with the group's leaders in the following areas:

- business policy
- business management (risk - management and management - control)
- undue advantage and benefit, payments
- organizational membership and financial participation in another enterprise
- donation and sponsorship for a political organization
- regulation concerning employees (conflict of interest, ancillary activities)
- rules of conduct towards competitors
- rules of conduct towards suppliers and other business partners (consultant, expert, trustee, agent)
- control of interests and subsidiaries
- control of internal procedures

In 2019, we expanded the range of senior executives participating in the assessment by about a third, so the group's compliance fell to the 2017 level compared to the very favorable results of 2018. The Compliance entity organizes regular meetings for the new management team and provides ongoing support on all compliance issues.

CONFLICT OF INTEREST MANAGEMENT

In 2019, we reviewed the conflict of interest statements of the entire Group. Of the 229 employees, no conflict of interest was found in the case of 204, but the remaining 25 were found to be affected by a conflict of interest issue. Conflicts of interest were reported by 84 percent of employees, most of which we granted on certain conditions. Colleagues who failed to report were asked to comply with their reporting obligation. We have examined the conflict of interest statements of 43 new hires and found conflict of interest in 9% of them, which we granted on certain conditions.

We received a report regarding conflict of interest based on family relationship. During the investigation, we found that the conflict of interest existed, informed the managers concerned there of, and then asked the colleagues to make a new statement.

PHYSICAL SECURITY AND ASSET PROTECTION

We have begun to develop asset protection in line with industry practice for the power plants and sites operated by ALTEO Group.

Based on surveys and personal consultations, the development of security categories and the "Manual for Physical and Asset Protection Security" is in progress.

ANTI-CORRUPTION

The Company has demonstrated its commitment to fair, compliant and transparent business operation. In order to ensure this, it has established strict rules on conflicts of interests, based on the Code of Ethics. Granting and accepting undue advantages is prohibited, and small gifts and business invitations can be accepted only on certain conditions.

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

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

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

As in previous years, no proceedings were initiated in 2019 due to cases of corruption.

		2017	2018	2019
ALL CORRUPTION CASES		0	0	0
Cases where employees were dismissed or disciplined due to corruption	Cases in which there was corruption or bribery as evidenced by a court order or documents of a police report.	0	0	0
Cases where contracts with business partners were terminated or not renewed due to corruption	Cases in which there was corruption or bribery as evidenced by a court order or documents of a police report.	0	0	0
Public legal cases brought against the company or its employees		0	0	0

CLIENT DATA PROTECTION, INFORMATION SECURITY

As in previous years, in 2019 there was no misuse of customer data, as well as no data theft, leakage or data loss. In order to maintain this good result, internal training on the necessary data protection and processing regulations was held for areas and employees who process personal data in the course of their work. The inventory of business operations data assets was revised and, in line with the requirements of the GDPR, the data asset register was merged with the data evaluation, sensitivity and rights management register.

As in previous years, in 2019 there were no complaints about data security, processing or protection either from external parties or regulatory bodies, and there was no need for a conflict management procedure.

		2017	2018	2019
NUMBER OF CUSTOMER DATA MISUSES		0	0	0
Number of complaints received from external parties, the justification of which has been verified by the company	Customer complaints related to data security, processing or other data protection issues and supported by evidence from the customer	0	0	0
Number of complaints received from regulatory bodies	Complaints related to data security, processing or protection received from a national or international regulatory body	0	0	0
Number of cases resolved through conflict management procedures		0	0	0

In 2019, the improvement and development of the compliance of information security was a priority task, therefore the IT Security Policy was revised in line with the company's operations, mandatory training and examination of employees took place on the e-learning interface, the Access and Authorization Management Policy and the IT Risk Management Policy were issued, the successful Hunguard audit was managed, the new IT contracts were reviewed in accordance with the IT Security Policy, and the development of the Business Continuity Management (BCM) Policy has begun.

AUDITS

In 2019, we conducted 9 audits – 2 new and 7 reviews – in order to comply with legislation and internal rules, and to detect and eliminate risks, and for 2020, we defined 31 new tasks. During the follow-up of the compliance audits of 2017 and 2018, we established that the business operations completed a significant part, exceeding 60%, of the 52 tasks – e.g. updating internal policies, developing new policies, pre-qualifying business partners in all cases, improving project documentation, improving internal reporting and cooperation, etc. – assigned to them and the gaps are being filled.

We perform compliance audit of business partners in accordance with the Compliance Policy and the Pre-qualification of Suppliers procedure. In 2019, we performed the mandatory compliance audit of 11 firms, and we screened out 4 companies that were deemed to be risky.

Financial and accounting transparency

In order to ensure the transparency of financial and accounting information and reports, we want to provide our shareholders with complete and transparent information about our operations, we examine their proposals in all cases and pay attention to them. We strive for full compliance with the relevant stock exchange rules, our operation is accurately reflected in our reports and at our disclosure points accessible to everyone, such as the website of the Budapest Stock Exchange at www.bet.hu, the website operated by the Central Bank of Hungary at www.kozzetetelek.mnb.hu and through ALTEO Group's own website.

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

Taxation

Senior accountants participate comprehensively in an annual training program. We examine, analyze and interpret the annual and mid-year effects of tax changes in advance.

We provide tax knowledge to the accounting field through thematic trainings. We organize and finance classroom and online trainings both in a targeted and global fashion.

Tax compliance regarding wages is ensured by a commissioned payroll company. In order to assess uncertain tax positions, we consult with several tax advisors if necessary.

We also have a professional relationship with several accounting advisers from the field of IFRS and Hungarian accounting. In 2019, audits have not detected any major inaccuracies in this area.



Controlling activity

Besides planning, the role of controlling is to prepare monthly controlling reports and analyses. The latter provide an analysis of our company and the performance and relevant figures of our certain operations, therefore help identify any unusual events.

In 2019, significant progress was made in this area, the management report was prepared on time each month, and power plant managers were regularly informed of their costs in a detailed report. From 2020, the goal is also to provide information to the heads of support departments.

Integrated Management System (IMS) and Health, Safety and Environmental Protection (HSE¹⁰)

The Integrated Management System is a system integrated according to four international standards, by the introduction and operation of which ALTEO can achieve the highest possible standard in accordance with international requirements in its daily operation. With this we can ensure full compliance with the applicable laws and the expectations of stakeholders. During its operation so far, ALTEO has paid special attention to the avoidance of risks, so the introduction of the risk-based way of thinking observed in recently issued international standards was not unknown to us, therefore the transition to these was not an obstacle either. We are proud that since the introduction of our management systems, our external audits have been conducted without finding any non-compliance. After the transition to the new standards of ISO 9001 and ISO 14001, which started in 2017, we also set the goal of the transition to ISO 50001:2018 and ISO 45001:2018 by 2020.

Focusing on stakeholder expectations, of course, we also took into account and assessed external risks beyond our control while undertaking the risk assessment. In this way, we can ensure that the precautionary principle is implemented at all times during the operation of ALTEO Group. We devote special attention to developing the quality of our services, applying new, innovative technologies, creating a healthy and secure workplace environment, constantly increasing energy efficiency, the sparing use of natural resources, environment protection, improving our environmental performance, preserving our natural values, in addition, we are committed to social responsibility, thus contributing to sustainable development.

Our Integrated Management Policy is the fundamental document for our operating system, in which the company's management articulates its commitment to providing quality services, safe work environment, energy awareness, environmental protection and sustainability. This is available to anyone interested on ALTEO's website.

Our Integrated Management System (IMS) consists of 4 standards also in 2019:

- Quality Management - (ISO 9001:2015),
- Environmental Management - (ISO 14001:2015),
- Occupational Health and Safety Management - (OHSAS 18001:2007),
- Energy Management Systems (ISO 50001:2011).

Also in 2019, the successful audit of our Integrated Management System was completed by an independent external party (SGS Hungária Kft.), during which the ISO 9001:2015, ISO 14001:2015 and OHSAS 18001:2007 standards were revised, as well as the ISO 50001:2011 standard was renewed.

In accordance with the IMS rules, HSE site visits by the senior management, establishment and the IMS area took place at each site in 2019. This year we ensured our compliance with the standards by conducting 26 internal audits covering the operation of the IMS for all four standards at all of our sites and organizational units. During the audits, a total of 323 non-compliances and proposals were found and put forward, respectively.

13 HSE-type inspections were carried out by various authorities, and no objections were logged.

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

We are proud that in 2019 there was no work accident resulting in lost work days, and we became "1 year accident-free"¹¹ during the year. By the time of the publication of our report (March 29, 2020), we could already celebrate 2 years without a workplace injury.

We strive to achieve our goals along the entire value chain, so compliance with the IMS requirements is also an important selection criterion of our suppliers and business partners.

10. HSE = Abbreviation for Health, Safety and Environmental Protection.

11. Accident-free: there was no work accident resulting in lost work days

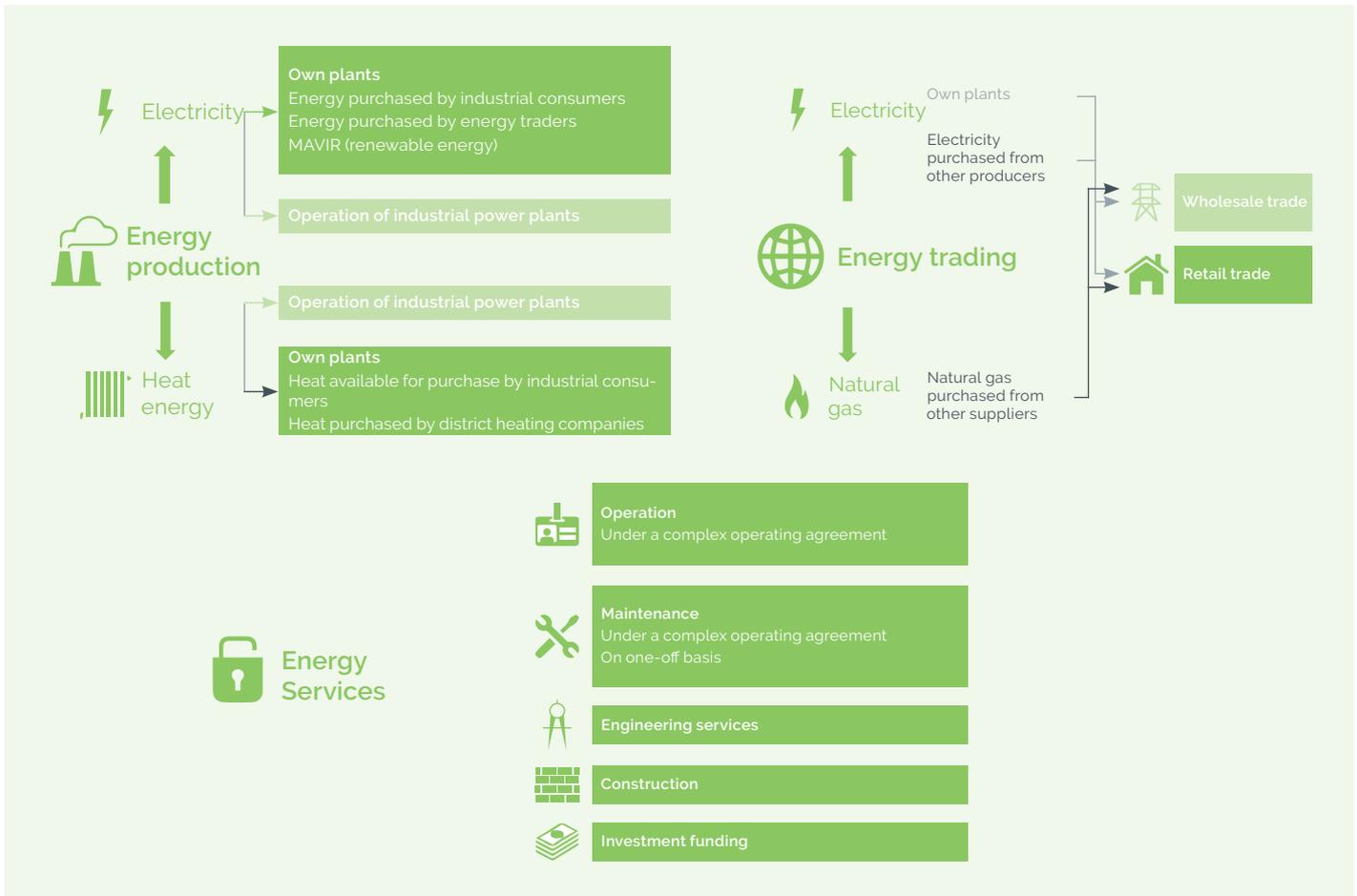
INTEGRATED MANAGEMENT SYSTEM



Products and Services

ALTEO Group products and services can be divided into five segments: energy production (divided into Subsidized and market segments), energy trading and energy services, as well as the other segment.

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



Our energy production portfolio

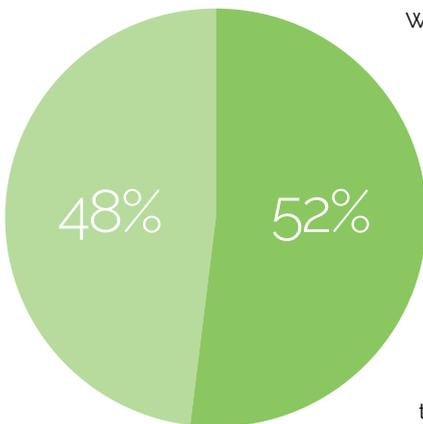
In the course of energy production we produce electricity and heat energy in particularly highly efficient power plants owned or operated by us. Considering their share in our energy production portfolio, renewable energy sources are growing in importance; our portfolio includes hydropower plants, solar power plants and wind turbines, as well as renewable gas power plants. In addition, we have several heating power plants, which generate electricity and heat energy for industrial plants and serve urban district heating systems. For more details about our heating power plants and the industrial power plants we operate, see our previous reports.

We continuously develop our power plant portfolio so that we meet our clients' demands without compromise.

Our Group currently owns and/or operates a total of 26 power plants, a significant portion of which use renewable sources of energy.

In accordance with the Sustainable Development Goals of the UN and the circular economy objectives of the European Union, ALTEO Group attributes special value to sustainability including the conservation of natural resources as one of its important elements. For this reason, our Group's energy production development projects are increasingly focusing on alternative, renewable energy sources, in addition to the high-efficiency use of natural gas. ALTEO Group already has great competence in utilizing renewable sources and producing energy from waste. Our portfolio includes the utilization of almost every type of renewable energy sources; more details in this regard can be found below. Our power plant portfolio includes 4 wind turbines (among them a wind farm of 13 wind turbines), 2 hydropower plants, 4 solar power plants, and also several alternative units using renewable gases.

RATIOS OF TOTAL INSTALLED ELECTRICAL CAPACITY OF ALTEO-OWNED POWER PLANTS



- Renewable power plants
- Cogeneration natural gas power plants

WIND TURBINES

In 2019, in addition to the existing 4 wind turbines, ALTEO Group's renewable energy portfolio was expanded by a 13-tower wind farm.

Bőny: In May 2019, ALTEO Nyrt. acquired (through the acquisition of EURO GREEN ENERGY Fejlesztő és Szolgáltató Kft.) a 13-tower wind farm in the Bőny area of Győr-Moson-Sopron County, with a total capacity of 25 MW. The company will sell the electricity generated by the Bőny wind farm within the framework of the mandatory offtake system (hereinafter: KÁT) until the expiry of its license.

ALTEO Group operates one more wind turbine in the KÁT system until June 30, 2022, located outside the municipality of **Törökszentmiklós**, 20 kilometers from Szolnok, in the heart of the Great Hungarian Plain. This is the ALTEO Group's only FUHLÄNDER MD 70/77 wind turbine with a tower height of 100 m and an electrical output of 1.5 MW.

Once the above are removed from the KÁT, ALTEO will still be able to operate the power plants efficiently, with stable EBITDA production, as part of its portfolio, with the assistance of its own Control Center. A good example of this is the three VESTAS wind turbines with a tower height of 105 m and an electrical output of 2 MW each that have been successfully integrated into the Control Center of ALTEO. The wind turbines are located in **Ács, Jánossomorja and Pápakovácsi**.

HYDROPOWER PLANTS

There are two hydropower plants in the ALTEO Group's renewable portfolio¹², both of them are diversion-type and located along the Hernád River.

The **Felsődobsza hydropower plant**, built in 1906 and put into operation in 1911, is located 84 kilometers away from the mouth of Hernád River. In 2012-13, the hydropower plant underwent a capacity-increasing reconstruction of HUF 900 million that almost doubled its installed capacity.

Our **Gibárt hydropower plant** was put into operation in 1903, along the Hernád River, 58 kilometers from the river mouth. After the successful modernization and capacity-increasing in Felsődobsza, renovation works of the Gibárt hydropower plant started on August 1, 2019. The power plant has not undergone any major renovation in the last 48 years, so reconstruction has become necessary to ensure long-term reliable operation. In addition to the fact that the technical condition of the plant's power generation equipment requires renovation in itself, the investment can significantly improve the efficiency of the utilization of available natural resources, while ensuring long-term plant capacity.

One of the main components of the investment is the replacement of previous turbines with highly efficient ones of 5.75 GWh/year, in line with today's technical standards, utilizing higher water discharge, meaning a 70% increase in performance compared to the previous ones. The protection of natural values and the preservation of the monument value of the hydropower plant is a top priority throughout the HUF 1.1 billion investment. See the chapter "Contracting and implementation" for more details.



¹² The hydropower plants are owned by Észak-magyarországi Áramszolgáltató Nyrt. (ÉMÁSZ Nyrt.). Based on the contracts concluded in 2004 (and amended several times since then) by EMÁSZ Nyrt. and Sinergy Kft. – the latter being a member of the ALTEO Group since May 2015 – the ALTEO Group is currently involved as a lessee and operator in the operation of the hydropower plants

SOLAR POWER PLANTS

The ALTEO Group already has four operational solar parks, with the self-implemented solar power plant in Balatonberény, completed in May 2019, and in Nagykőrös, completed in July 2019, in addition to those in Monor and Domaszék. The nominal capacity of our solar power plant projects – with the facilities delivered this year – is now close to 20 megawatts. The power plants were implemented as part of the HUF 20 billion investment program realized within the framework of the 2016-2019 strategy.

Nagykőrös: the solar power plant consists of 14 solar power units with a nominal capacity of 495 KW each. As a unique feature, instead of the fixed support structure typically used for solar power plants, it operates with a single-axis solar tracking system, through which it is able to use solar energy more efficiently and thus produce approximately 15 percent more electricity compared to conventionally installed solar power plants.



Balatonberény: the solar power plant was built on a 13.4-hectare industrial site and its capacity reaches 6.2 MW.



Monor: ALTEO's Monor solar power plants commenced their commercial operation at the end of November 2018. The facility, consisting of a total of 17,072 pieces of 285 W polycrystalline solar cells with a nominal capacity of 4 MW, is ALTEO's first self-implemented solar park which consists of eight solar power plant units of 499 KW each.

Domaszék: In December 2017, by purchasing Domaszék 2 MW Kft., ALTEO Group acquired that company's already functional solar power plant of a nearly 2 MW capacity in Domaszék, which was the first operating photovoltaic unit to be included in ALTEO Group's power plant portfolio. The power plant's four solar power units of 495 KW each were built in the periphery of Domaszék, near Szeged, in the summer of 2017.

In addition to the above listed own solar power plants, in 2019 we participated as main contractor in the construction of two other solar power plants in **Sormás** and **Nagykőrös**. After the successful implementations, our Group was commissioned to carry out their long-term operation and maintenance.

RENEWABLE GAS

Renewable gases represent a great potential for clean, efficient, secure and sustainable energy use, as they not only address growing energy demand, but may also contribute to the storage of other renewable energies, reduce greenhouse gases and improve the utilization of existing gas infrastructure, and may help balance out the changing performance of weather-dependent power generation technologies.

By using gases from renewable sources, power plants do not only generate electricity and produce gas, but also neutralize greenhouse gases equivalent to tens of thousands of tonnes of carbon dioxide every year. ALTEO Group had three own small power plants generating electricity from renewable gases (landfill gas, waste gases from thermal water) in 2019. We operated two small landfill gas power plants in **Debrecen**, and a small power plant fueled by thermal associated gas in **Kisújszállás**¹³. In addition to our own power plants, our group also operates a small biogas power plant in **Nagykőrös**.

Landfill gas

Landfill gas power plants are designed to collect and burn gases released at landfill sites that can be used for energy production, especially methane, which has a significant greenhouse effect, to generate heat and electricity at high efficiency. ALTEO has two landfill gas plants in Debrecen.

Both small power plants use and dispose of methane-rich landfill gas released during the decomposition of organic waste stored at the Debrecen Regional Landfill Site. One small power plant has a 625-kW installed electrical capacity and around 650 kW heating capacity and could sell the electricity it produced to MAVIR under the KÁT system until the end of 2019. The other one is a containerized, gas engine small power plant with a 499-kW installed electrical capacity and around 550 kW heating capacity and can produce under the KÁT system until mid-2022. After being removed from the Subsidized system, both will produce for the free market.

Biogas

ALTEO Group is operating the Nagykőrösi Biogas Plant since 1 January 2016. The biogas plant uses around 60,000 tonnes of agricultural and food industry waste, by-products and expired food per year. The two gas engines in operation in the biogas plant, with a total installed electrical capacity of 2 MW, are supplied with biogas with a 52-58% methane content by four fermenters. Operation includes the handling and feed-in of incoming feedstock, the monitoring and operation of the biogas technology as a whole, the operation of gas engines, low and high current systems and auxiliary systems, and ALTEO Nyrt. is also responsible for the maintenance of the complete technology.



¹³ Our thermal power plant fueled by thermal associated gas in Kisújszállás was sold in July 2019, therefore we do not provide more detailed information about this in this report. For additional information see our previous reports on the small power plant concerned.

Energy Trading

Our energy trading segment is divided into retail and wholesale trade departments selling energy primarily to small and medium-sized enterprises and large corporations, respectively.

The retail segment had one of the most successful years to date in 2019, both in terms of revenue and sales volume. Sales volume has been growing year by year since the launch of the business line, always keeping in mind the organic growth, so that the necessary processes and background systems are ready to serve the larger consumer base at the appropriate level.

The success of our business line is also due to the long-term approach – e.g. the transformation of our risk management. This is because the energy trading sector has undergone major transformations in recent years, to which, thanks to proper risk management and rapid response, we could always react in time and take advantage of the opportunities opened up to the extent possible. In recent years, many of our competitors have disappeared or retreated in the market, and it can be said that these players have disappeared from the very target market of ALTEO, which also contributed greatly to the reduction in competition and in turn helped us to the outstandingly successful results of 2019.

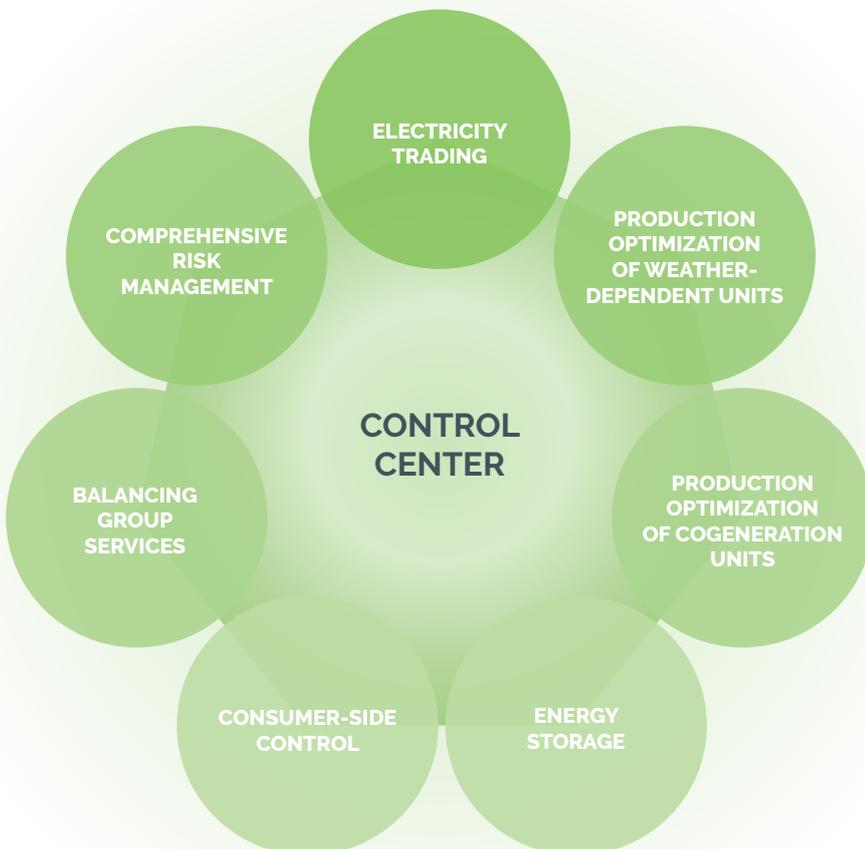
Thanks to the conscious building and considered operating model, it can be said that ALTEO's retail trade has become the number one service provider in the Hungarian SME market behind the "large" market players over the past decade. Our portfolio was already over 400 GWh in 2019. (We closed around 370 GWh in 2018). In the field of natural gas, growth is even faster in terms of both volume and revenue. In the process of conscious building, we reached the next step in 2019. In the field of natural gas trading, we have only been present in the distribution area so far, but from this year we also started to build our presence in the supply system. This is an important milestone, as it means the launch of ALTEO's natural gas wholesale in addition to retail consumer supply, with which we have several goals in the long run: on the one hand, we want to ensure our own supply in part or in full from our own resources in the future, and on the other hand, we can absorb knowledge that may help us in our daily work.

CONTROL CENTER¹⁴

The Control Center is a technical solution that allows multiple small, stand-alone power plants to enter the electricity and system services market as a single, large power plant, thereby implementing a highly efficient, flexible, economical energy production technology that meets the challenges and expectations of the 21st century.

The Control Center of ALTEO Group was established in late 2013, with an installed capacity of close to 40 MW. During its nearly six years of operation, the Control Center has continued to grow in terms of size, while the company has used the experience gained during its operation to create a much more balanced, profit-oriented and customer-focused commercial model that involves less operational and business risk and puts it on a sustainable path.

We use our many years of experience in balancing group services to create a flexible system that enables us to offer customized solutions to power plants and their operators. For optimal operation, we can propose solutions and provide tools for both the short and long run.

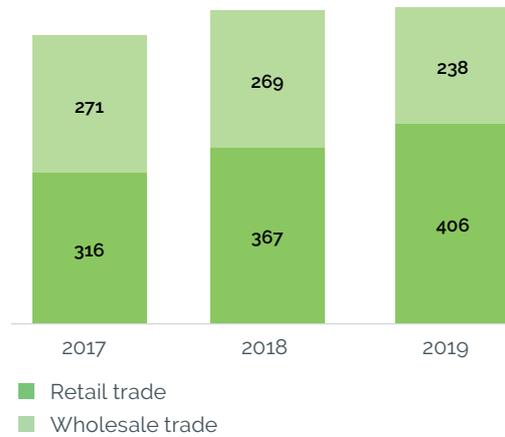


¹⁴ For more information on the Control Center, please visit: <https://alteo.hu/ezt-tesszuk/ho-es-villamosenergia-termeles/szabalyozo-kozpont/>

ELECTRICITY SOLD

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

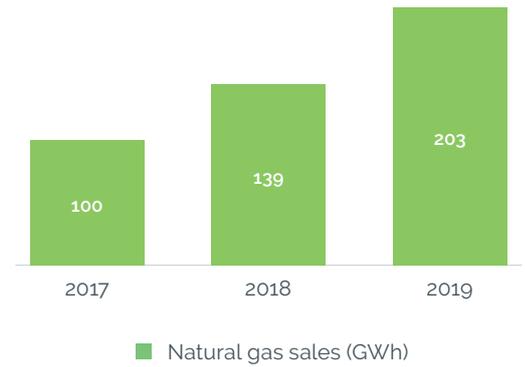
SCALE OF ELECTRICITY SALES OF ALTEO (GWH)



In 2019 we sold a total of 644 GWh of electricity. Of this, a smaller part i.e. 238 GWh was attributable to Wholesale trade, a slight decline relative to the 269 GWh of 2018. In contrast, Retail trade closed its third successful year in a row. The electricity sales of 367 GWh of 2018 increased to 406 GWh in 2019. This corresponds to a growth of nearly 10%.

NATURAL GAS SOLD

NATURAL GAS RETAIL SALES DATA (GWH)



The volume growth of natural gas sold exceeded even that of electricity, producing an increase of 46% last year. This area has also been on a dynamic growth path for years

Energy Services

ALTEO Group offers to its partners the financing, management, implementation and technical supervision of investments in the field of energy services as well as the improvement of existing energy systems and the operation and maintenance of technologies.

INVESTMENT FUNDING

The capital-intensive phase of investments and capital expenditures continued in 2019. The total joint investment size (own funds plus project loans) of the investment and capital expenditure projects begun in 2017 that for the most part have already been completed or are ongoing exceeds HUF 20 billion. ALTEO Group funds its investments through equity, bank loans and – if possible – grants. We typically use bank loans to fund projects; our staff has extensive experience in this field. In relation to new solar power plant projects, new bank financing phases were drawn down in 2019; furthermore, the wind farm was acquired partly from borrowing. As own investments, the implementation of the solar power plants in Balatonberény and Nagykörös was completed in 2019, then we also started renovation at Gibárt.

For the financing of investment projects, we are prepared to ensure financing completely independently or jointly with our partners.

CONTRACTING AND IMPLEMENTATION

In line with the objectives of the EU and of Hungary to increase the share of renewable energy sources, in 2019 ALTEO Group itself implemented two major solar park projects and started their commercial operation successfully. The solar power plant at Balatonberény has 6.2 megawatt capacity, while the solar power plant at Nagykörös consists of 14 solar power units with nominal capacity of 495 KW each. Together with the two new solar parks, the total capacity of the photovoltaic portfolio of ALTEO Group is close to 20 MW.

Furthermore, as main contractor ALTEO Nyrt. was the general contractor of a solar park consisting of 3 solar power plant units of 495 KW maximum capacity each at Sormás and a solar park consisting of 3 solar power plant units of 490 KW maximum capacity each at Nagykörös. Then, after the successful handover, we were also commissioned to operate and maintain the power plants in the long term.

RENOVATION OF THE GIBÁRT HYDROPOWER PLANT

Due to the expiry of the KÁT period, the electricity produced by the Gibárt hydropower plant must be brought to the free market, which renders the operation of the power plant no longer profitable. The running of the obsolete technology requires a large number of operators, and the cost of that exceeds the proceeds from selling the produced energy on the free market.

The METÁR permit creates a possibility for the long-term, sustainable operation of the more than 100-year-old Gibárt hydropower plant through renovating the engineering and electric systems of the entire plant. Under the METÁR permit the Gibárt hydropower plant has support (premium authorization) valid for a (maximum of) 19 years and 7 months.

By installing new, highly efficient water turbines which implement modern technologies and are capable of harnessing higher than the current water yields, and by replacing the entire engineering-electric-control system, the 2 new turbines and the generating sets replace the old technology while maintaining the original condition of the engine room, which is under protection as a historic monument. The technical equipment, which qualifies as industrial monuments, is displayed on the site of the plant and in a designated location at the town, to be viewed by visitors.

The capacity of the new turbines is **964 kWe** (current capacity: 588 kWe).



After the renovation, generators more than 100 years old will be displayed

The project was launched in August 2019 and is expected to take 1 year to complete.

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

In the tender of MOL Petrochemicals Co. Ltd., ALTEO Nyrt. was awarded the implementation of the Main and Auxiliary Equipment packages of the TVK power plant service life extension project, as well as the coordination of two other ongoing related packages. The purpose of the project is to extend the service life of the TVK power plant by 10 years.

In addition to our ongoing projects, we will face a number of new challenges in 2020. In the case of the **reconstruction of the waste incineration plant** of Sarpi Dorog Kft., ALTEO Nyrt. was awarded the job as main contractor for the replacement of the afterburner chamber and the efficiency-increasing upgrade of the heat recovery boiler. Construction and installation works will be completed by September 2020.

In May 2019 we delivered an electric car charger in the parking lot of the municipality of Tiszaújváros. The facility allows for the simultaneous charging of two cars, at a capacity of up to 22 kW per hour. The delivery was a milestone for the town, and it added the first charging station to our portfolio.

In Sopron we continued our projects to increase efficiency and operational stability that were launched in 2018, with the addition of the establishment of new energy measuring devices, which will allow for increased accuracy in identifying the location of potential losses; by taking the necessary actions we can further increase the efficiency of the plant.

In September a ceremony was held to open our industrial **energy storage system** implemented as an RDI project of our development, previously run as a pilot operation. The energy storage system of 6 MW capacity is linked to the ALTEO-owned Zugló heating power plant. The most important innovation by our engineers is a 'smart' system that allows the storage unit to be seamlessly integrated into ALTEO's Control Center as well as the Hungarian electricity system. The first R&D program of ALTEO was implemented from a budget of HUF 1.1 billion; the National Research, Development and Innovation Office supported the innovation with a grant of close to HUF 500 million.



OPERATION AND MAINTENANCE

ALTEO Group uses its staff to carry out the **operation and maintenance tasks (O&M)** associated with new or existing energy systems not only in its own power plants but also in two additional industrial power plants – the BC power plant and MOL Petrochemicals Co. Ltd. (and its subsidiary, TVK-Erőmű Kft.) – the biogas plant in Nagykőrös¹⁵ as well as two solar power plants – in Sormás and Nagykőrös) – offering guarantees for the required services. Our scope of activities covers the planning, organization, performance, management and monitoring of the work related to operation, as well as maintenance. Our primary goal – apart from full compliance with our contractual obligations – is to keep up our clients' satisfaction in the long run using our expertise, reliability and quality work, thus ensuring the continuous development of this area. Observing all the procedures and instructions set out in the Integrated Management System (IMS) is an essential prerequisite for that.

In May 2019 we started performing electric switching operations at Graboplast Zrt. in Győr. As this type of activity is a "scarce good" in the region, we sent our personnel with the appropriate basic skills for further training to ensure uninterrupted supply to future service providers. In this context we have already received several enquiries from potential as well as existing partners, where, as the first step, we performed maintenance work on the electric system in order to lay the ground for future procedures.

The feedback of our partners confirms that our 24-strong maintenance team has been working at uniform high professional standards for years, as also evidenced by the results of the annual customer satisfaction surveys. In 2019 the number of our partners did not increase significantly, however, the work of the maintenance team opened up new cooperation opportunities for other ALTEO services as well.

Our fields of specialization: general engineering-maintenance, rotary machine maintenance (gas engines, gas turbines, pumps), electric maintenance of medium-voltage equipment and systems, control engineering maintenance, various maintenance diagnostic tasks.

In 2019, in view of the increased wind turbine capacity resulting from the Bőny acquisition, we decided to set up a 3-person wind turbine maintenance team in the West Hungary region. This may contribute to increasing the availability of the turbines, to reducing cost levels and, as the maintenance workshop i.e. the center of the maintenance organization is located in the East Hungary region, the new team in West Hungary will be more efficient in taking care of local troubleshooting work.

¹⁵ ALTEO Nyrt. has a 1% share in Energiagas Kft., the owner of the Nagykőrös biogas power plant.

OUR ECONOMIC PERFORMANCE



3



Management summary on main financial income

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

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

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

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

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

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

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

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

Management summary of the operating profit or loss statement

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

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

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

The Group's **Revenues** increased by HUF 6.9 billion to HUF 25.6 billion, as compared to 2018, spread across several segments. Revenues from the **Energy Retail segment and the Heat and Electricity Generation** segment increased significantly, resulting mainly from market acquisition and successful pricing policies, as well

as from the success of the generation facilities on the structured electricity market, respectively. The acquisition of 100% of the initial capital of EURO GREEN ENERGY Kft. (which owns the 25 MW Bőny wind farm), consolidated by ALTEO from April 1, also played a role.

Revenue was reduced in the short term by ALTEO Group's project development unit focusing primarily on work related to ALTEO's solar power plant projects within the Group that year; these projects were delivered in stages in 2019. With these internal projects being implemented, less resources were allocated to the implementation of third-party projects.

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

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

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

1. In the first half of 2018, ALTEO Group successfully came to an agreement with one of its long-term service partners on a compensation, which earlier increased the other income line by HUF 0.3 billion in the base period.
2. The quota to be purchased for CO₂ emissions increased substantially with the acquisition of the Zugló power plant by the Group, as well as
3. there was significant rise in the quota price during the period.

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



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

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

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

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

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

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

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



Management summary on comprehensive income

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

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

The Group's heat sales agreements are concluded at a specific, officially regulated price level. The Group handles the uncertainties resulting from the price fluctuations in the expenses of gas, foreign exchange and CO₂ quota by using hedges, thus ensuring the margin at the given contractual price levels. Based on the structure of heat sales agreements, accounting rules only allow to present in the Comprehensive income the unrealized translation gains and losses on hedges concluded for the purpose of expenses of such agreements. The management intends to close hedges

simultaneously with the completion of the sales agreements, which is expected to have a neutral impact on profit.

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

- The Group entered into interest rate swaps on some of its outstanding project loans in line with its risk management policy. With interest rate swaps the Group aims to significantly reduce the interest rate risk on project loans.
- The Group adapts its gas and CO₂ purchases to its sales pricing system and concluded hedge transactions to manage currency price volatilities.
- The Group presents the tax effect of the hedges by applying a corporate tax effect of 9%.

Management summary of the consolidated statement of financial position

The Group's closing balance sheet total was HUF 37,575 million as at December 31, 2019. The balance sheet total was HUF 22,859 million as at December 31, 2018. In the Annual Report for 2019, for the statement of financial position analysis, we use as comparable data the balance sheet data as at December 31, 2018, reclassified and revalued in accordance with IFRS 16.

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION 2019

AS AN ADDITION TO THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION, FURTHER BREAKDOWNS AND DETAILS ARE AVAILABLE IN THE FINANCIAL STATEMENTS

	12/31/2019 HUF thousand	12/31/2018 HUF thousand	change %
Non-current assets	24 536 761	13 715 608	79%
Power plants and power generating properties, plants and equipment	17 711 707	10 715 944	65%
Other property, plant and equipment	73 105	38 108	92%
Net investment in lease	104 376	253 772	(59%)
Emission allowances	342 100	4 019	8 412%
Other intangible assets	3 492 357	868 526	302%
Operation contract assets	1 407 741	1 476 732	(5%)
Rights of use	924 768	-	
Deferred tax assets	286 856	139 756	105%
Long-term loans given	193 651	218 651	(11%)
Long-term share in associate	100	100	0%
Current assets and assets held for sale	13 037 746	9 143 490	43%
Inventories	233 165	213 144	9%
Trade receivables	2 919 836	3 319 584	(12%)
Part of lease investment due within the year	160 814	287 000	(44%)
Other financial assets	360 987	915 401	(61%)
Other receivables and accruals	4 396 596	1 654 961	166%
Income tax receivables	118 677	192 182	(38%)
Cash and cash equivalents	4 847 671	2 561 218	89%
TOTAL ASSETS	37 574 507	22 859 098	64%

(Negative values are denoted by parentheses.)	12/31/2019 HUF thousand	12/31/2018 HUF thousand	change %
	5 749 884	5 144 733	12%
Equity attributable to the shareholders of the Parent Company	5 753 810	5 151 573	12%
Issued capital	232 948	195 314	19%
Share premium	5 056 207	3 080 838	64%
Share-based payments reserve	68 398	92 690	(26%)
Retained earnings	2 303 282	2 267 980	2%
Transactions with owners	(192 534)	(186 408)	3%
Cash-flow hedge reserve	(1 713 432)	(299 103)	473%
Conversion reserve	(1 059)	262	(504%)
Non-controlling interest	(3 926)	(6 840)	(43%)

(Negative values are denoted by parentheses.)	12/31/2019 HUF thousand	12/31/2018 HUF thousand*	change %
Long-term liabilities	21 758 606	9 130 467	138%
Long-term loans and borrowings	7 883 845	5 263 185	50%
Debts on the issue of bonds	10 909 019	2 624 241	316%
Finance lease liabilities	917 122	286 298	220%
Deferred tax liabilities	599 716	277 543	116%
Provisions	568 680	251 739	126%
Deferred income	535 674	141 248	279%
Other long-term liabilities	344 550	286 213	20%
Short-term liabilities	10 066 017	8 583 898	17%
Short-term loans and borrowings	463 165	595 306	(22%)
Short-term bond payables	2 215 114	982 683	125%
Short-term finance lease liabilities	108 555	18 756	479%
Advances received	497 963	364 730	37%
Trade payables	1 963 934	2 419 613	(19%)
Other financial liabilities	1 104 369	602 533	83%
Other short-term liabilities and accruals	3 654 710	3 584 852	2%
Income tax liabilities	58 207	15 425	277%
TOTAL EQUITY AND LIABILITIES	37 574 507	22 859 098	64%

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

The ALTEO Group closed 2019 with a balance sheet total of HUF 37,575 million. Among the items increasing the Group's assets, the total stock of power plants and equipment played a significant role. In the subject period, fixed and intangible assets showed an increase of **over HUF 10 billion due to the combined effect** of projects and purchases.

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

- In connection with the purchase of the Bóny wind farm, an expansion of the asset inventory in an amount of HUF 7.6 billion.
- In connection with the construction of solar power plants (in Balatonberény, already completed, and in Nagykörös, under construction) HUF 3.8 billion.
- In the statement of financial position, the Group included the rights to use the assets, in accordance with changes in the IFRS 16 standard.
- The Group also proceeded with the efficiency-increasing programs started in the previous year for its heating power plants.

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

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

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

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

- in Q2, a **dividend of HUF 250 million** was paid;
- in Q2, benefits under the employee share ownership plan were provided;
- HUF 1,990 million in capital was raised by way of **private placement**;

- the effect of the income recognized in equity (mainly cash-flow hedge) was HUF 1,416 million;
- in line with its hedging strategy, the Group entered into hedges for the upcoming years in order to ensure its operation with an acceptable level of risk. As of the reporting date, the aggregated fair value of outstanding hedges was negative and the Group recognized it in its equity.
- the increase from the net **profit for the parent company** amounted to **HUF 271 million** in 2019.

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

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

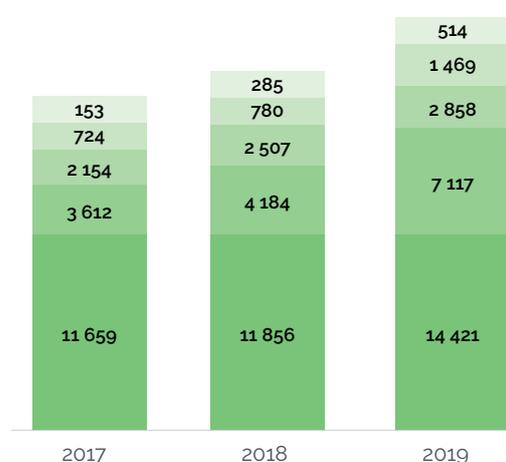
Economic and operating environment

In light of the three pillars of sustainability (economic, social, environmental) it is important to view our achievements and performance in a holistic context. Accordingly, in the chapter below we summarized our economic achievements in line with the requirements of the GRI Standards. However, as our integrated report also contains our consolidated IFRS financial statement (Annex 1) as well as the substantive parts of our annual report (Presentation of Financial Performance by Segment, Corporate Governance, Events Relevant under Company Law, Disclosure Policy), the detailed analyses of our economic performance are disclosed in those chapters.

PRODUCED AND DISTRIBUTED ECONOMIC VALUE

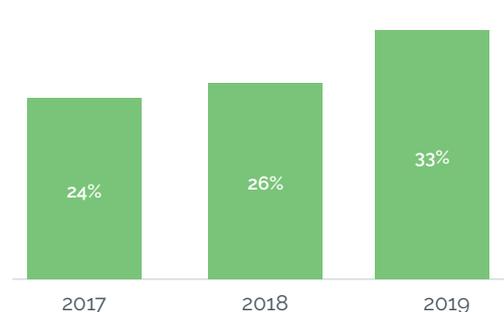
PRODUCED AND DISTRIBUTED ECONOMIC VALUE (HUF TH)	2017	2018	2019
Sales revenue	18,962,034	19,927,496	26,399,106
Distributed economic value	18,301,086	19,611,484	26,379,482
Operating costs	15,270,527	16,039,610	21,537,869
<i>Of which: cost of energy carriers used for production</i>	3,611,506	4,183,856	7,117,362
Employee wages and benefits	2,153,923	2,506,534	2,858,164
Payments to providers of capital	723,833	780,063	1,469,430
Payments to government	152,803	285,277	514,019
Retained economic value	-	-	-

CHANGES IN ALTEO'S DISTRIBUTED ECONOMIC VALUE SINCE 2017 (MILLION HUF)



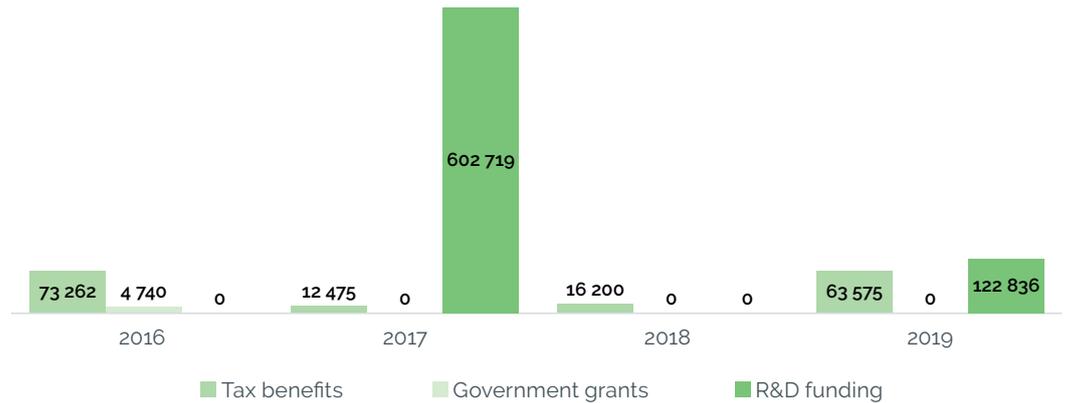
- Operating costs* (*other than energy carriers)
- Operating costs: costs of energy carriers
- Employee wages and benefits
- Payments to providers of capital
- Payments to government

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



SIGNIFICANT FINANCIAL ASSISTANCE RECEIVED FROM THE GOVERNMENT

GOVERNMENT INCENTIVES (THOUSAND HUF)



SIGNIFICANT INDIRECT ECONOMIC IMPACTS¹⁶

ALTEO Group is a major player in the Hungarian energy sector. We contribute to the growth of the Hungarian economy¹⁷ through our energy efficiency investments as well as the resulting lower energy costs. The taxes paid by ALTEO Group contributed more than half a billion HUF to the advancement of the country in 2019.

PROJECTS TO REDUCE ENVIRONMENTAL IMPACT

In 2019 ALTEO Group made significant progress in the use of renewable energy sources. In addition to its existing solar panel farms and wind turbines, two self-implemented projects were completed this year: the solar parks at Nagykőrös and Balatonberény commenced their operation. Also, in the area of Bóny a wind farm was acquired in 2019. Together with these and the existing projects, the total capacity of the renewable energy portfolio of ALTEO Group amounts to 54 MW.

The reconstruction of the Gibárt hydropower plant commenced in August 2019 also set out to extend the service life of our 100-year-old plant that uses renewable energy sources, and to increase its electricity production capacity in order to reinforce our renewable capacities. We have significant indirect influence in the supply chain also in the form of promoting job creation and economic development in the extremely poor region¹⁸.

REGIONAL EFFECTS

ALTEO Group has power plants in three regions of Hungary (Central and South Hungary, North-East Hungary and West Hungary), therefore our indirect economic influence is present mostly in these regions. Our sites not only provide safe and environmentally friendly energy and heat supply but also offer jobs to the inhabitants of those regions. We strive to cooperate with the management of the host towns, local schools and NGOs. Relationships with vocational schools and universities with a technical orientation are particularly important as labor supply has become a key consideration due to the age pyramid of power plant workers¹⁹.



16. To learn more about our management approach to our significant indirect economic impact, see: SR 2016, p. 55

17. In our report we do not aggregate the cost and emission reduction resulting from energy efficiency as that is a business secret of our partners.

18. In the case of Gibárt

19. To learn more, see the Chapter Local communities.

Presentation of financial performance by segment

ALTEO GROUP MANAGEMENT STATEMENT - FINANCIAL STATEMENT BY ACTIVITIES

31.12.2019.	Heat and electricity generation (market rate, outside the "Subsidized" system)	Electricity generation (within the "Subsidized" system)	Energy services	Energy trading	Other	Items eliminated due to consolidation	Total
data in HUF million							
Sales revenue	11 699	2 362	9 558	9 901	416	-8 363	25 573
Material-type expenditures	-9 539	-492	-5 748	-9 244	-563	7 374	(18 212)
Personnel expenditures	-159	0	-1 943	-79	-834	156	(2 858)
Other revenues and Other expenditures	-752	34	-54	6	-11	53	(724)
EBITDA*	1 249	1 904	1 813	585	-991	-780	3 779

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

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

This is the segment where we classify the heating power plants performing cogenerated heat and electricity generation and the Control Center, as well as the three wind turbines having already produced their KÁT volumes, and one hydropower plant. The Control Center plans and manages the Group's market-based renewable electricity production as well as the electricity production of cogeneration equipment in heating power plants. The Control Center also grants access to

the System Services market through the integration of the units managed. The profit that can be realized on the electricity production portfolio with the electricity production integrated through the Control Center, with the related electricity management functions, and with the sales of structured electricity products, greatly exceeds the levels that can be achieved by implementing conventional production strategies.

HEAT AND ELECTRICITY GENERATION (MARKET RATE, OUTSIDE THE "SUBSIDIZED" SYSTEM)

	31.12.2019.. audited	31.12.2018.. Comparison**	31.12.2018. audited	Change HUF million over previous year	Change % over previous year
data in HUF million					
Sales revenue	11 699	10 231	10 231	1 469	14%
Material-type expenditures	-9 539	-8 622	-8 697	-917	11%
Personnel expenditures	-159	-82	-30	-77	94%
Other revenues and Other expenditures	-752	-426	-426	-326	77%
EBITDA*	1 249	1 101	1 078	149	13%

* According to ALTEO's own calculations; non-IFRS category.

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

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

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

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

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

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

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

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

- the Control Center achieved higher margin on the balancing reserve market than in 2018.
- with the normal operation of electricity storage architecture, the sales revenue of the FCR (formerly called primary) regulatory capacity has appeared
- the increase in the CO₂-related expenditure recognized in the heat price set for 2019 and hedged by ALTEO did not result in any decrease in the margin
- with the consolidation of Zugló-Therm Kft., the margin previously realized by an external third party was channeled back into the Group from Q2 2018.

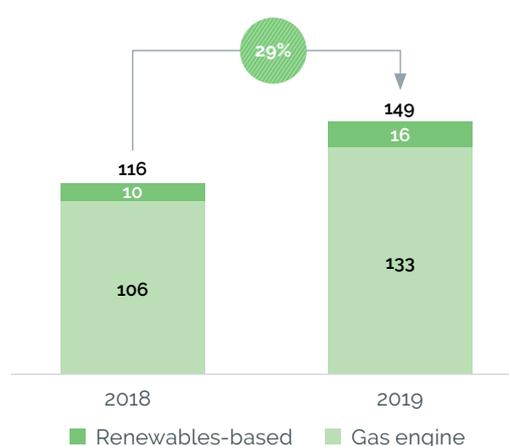
PRESENTATION OF THE MARKETS OF THE HEAT AND ELECTRICITY SEGMENT

THE IMPACT OF THE SALE OF STRUCTURED ELECTRICITY PRODUCTS ON THE SEGMENT'S PROFIT

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

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

SELF-GENERATED ELECTRICITY SOLD BY THE CONTROL CENTER (GWH) IN 2018 AND 2019



ELECTRICITY PRODUCTION CAPACITIES SOLD BY THE CONTROL CENTER IN 2018 AND 2019 (AFRR: GWH; FCR: GWH_{SYM})

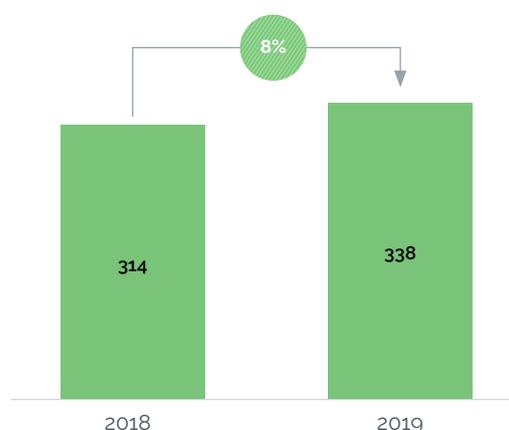


IMPACT OF HEAT ENERGY (DISTRICT HEATING) PRODUCTION AND SALE ON THE SEGMENT'S PROFIT

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

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

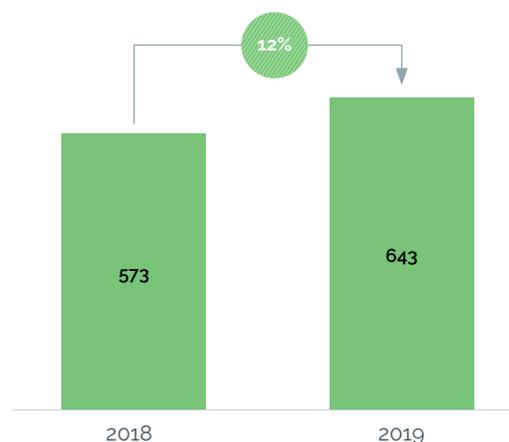
AMOUNT OF HEAT SOLD BY THE SEGMENT (GWH) IN 2018 AND 2019



CHANGES IN THE AMOUNT OF NATURAL GAS USED FOR ELECTRICITY AND HEAT ENERGY PRODUCTION

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

AMOUNT OF NATURAL GAS USED BY THE SEGMENT (GWH_{GCV}) IN 2018 AND 2019



Electricity production segment (in the "Subsidized"²⁰, formerly "KÁT", system)

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

ELECTRICITY GENERATION (WITHIN THE "SUBSIDIZED" SYSTEM)

	31.12.2019. audited	31.12.2018. Comparison**	31.12.2018. audited	Change HUF million over previous year	Change % over previous year
data in HUF million					
Sales revenue	2 362	627	627	1735	277%
Material-type expenditures	-492	-164	-164	-328	-199%
Personnel expenditures	0	-73	-73	73	100%
Other revenues and Other expenditures	34	43	43	-8	-20%
EBITDA*	1 904	433	433	1 471	340%

* According to ALTEO's own calculations; non-IFRS category.

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

²⁰ The designation of "Subsidized" energy market corresponds to the designation "KÁT" used earlier; in the present report, these two designations are used by ALTEO with the same content.

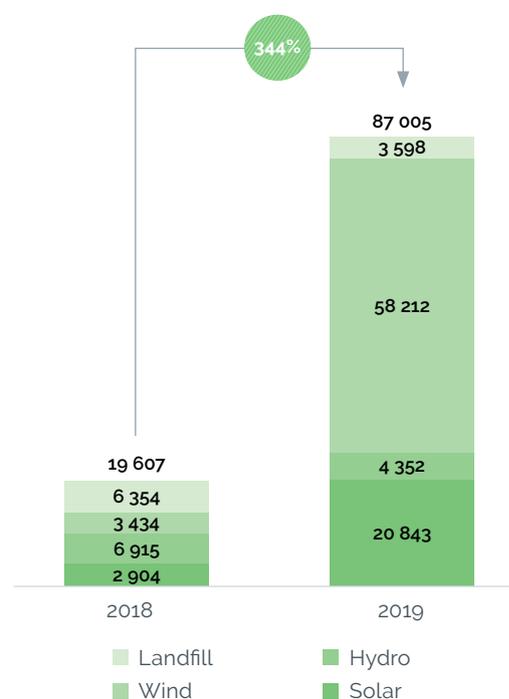
Revenue from the Group's **electricity production plants selling electricity within the Subsidized system** was HUF 1,735 million higher as compared to the same period in 2018. The main reason for higher revenue is the acquisition of EURO GREEN ENERGY Kft. The 13 wind turbines of the Bőny plant park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

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

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

In May 2019, due to the acquisition of EURO GREEN ENERGY Kft., the Group expanded its renewable production capacities (wind turbine) by additional 25 MW. The acquisition reflects the fact that the Group gives high priority to the expansion of renewable energy capacities, both in terms of profitability and environmental consciousness.

QUANTITIES SOLD IN H1 2018 AND H1 2019 AND THEIR DISTRIBUTION (MWH)



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

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

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





Energy Services segment

The Energy Services segment comprises power plant operation and maintenance (O&M) services provided both within the group and to third parties as well as construction activity, engineering activity and energy consultancy. The Group also offers its customers engineering, project development and project management services, as well as main contractor construction services related to energy investments and developments, under individual orders and contracts.

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

ENERGY AND POWER ENGINEERING SERVICES					
	31.12.2019.	31.12.2018.	31.12.2018.	Change	Change
	audited	Comparison**	audited	HUF million	%
				over previous	over previous
				year	year
data in HUF million					
Sales revenue	9 558	7 549	7 582	2 010	27%
Material-type expenditures	-5 748	-4 887	-4 926	-861	18%
Personnel expenditures	-1 943	-1 559	-1 611	-384	25%
Other revenues and Other expenditures	-54	213	213	-267	-126%
EBITDA*	1 813	1 316	1 257	498	38%

* According to ALTEO's own calculations; non-IFRS category.

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

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

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

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

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

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

Energy retail segment

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

RETAIL ENERGY TRADE					
	31.12.2019.	31.12.2018.	31.12.2018.	Change	Change
data in HUF million	audited	Comparison**	audited	HUF million over previous year	% over previous year
Sales revenue	9 901	6 943	6 943	2 958	43%
Material-type expenditures	-9 244	-6 626	-6 626	-2 618	40%
Personnel expenditures	-79	-53	-53	-25	48%
Other revenues and Other expenditures	6	18	18	-12	-69%
EBITDA*	585	283	283	302	107%

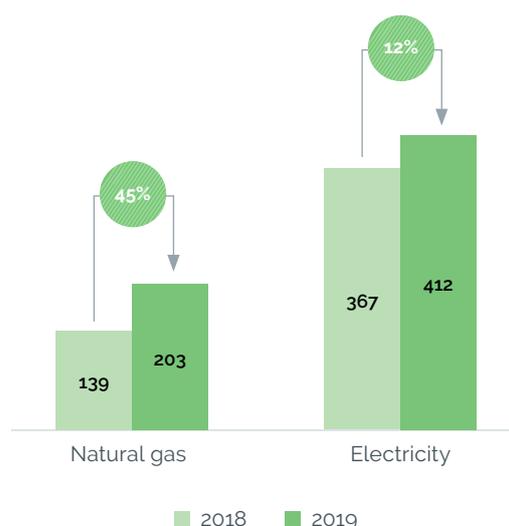
* According to ALTEO's own calculations; non-IFRS category.

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

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

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

CHANGES IN THE AMOUNTS OF NATURAL GAS AND ELECTRICITY SOLD IN 2018 AND 2019 (GWh)



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

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

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

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

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

Other segment

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

OTHER SEGMENT					
	31.12.2019.	31.12.2018.	31.12.2018.	Change	Change
data in HUF million	audited	Comparison**	audited	HUF million over previous year	% over previous year
Sales revenue	416	347	347	69	20%
Material-type expenditures	-563	-529	-545	-33	6%
Personnel expenditures	-834	-800	-800	-34	4%
Other revenues and Other expenditures	-11	-10	-10	0	-2%
EBITDA*	-991	-993	-1 009	2	0%

* According to ALTEO's own calculations; non-IFRS category.

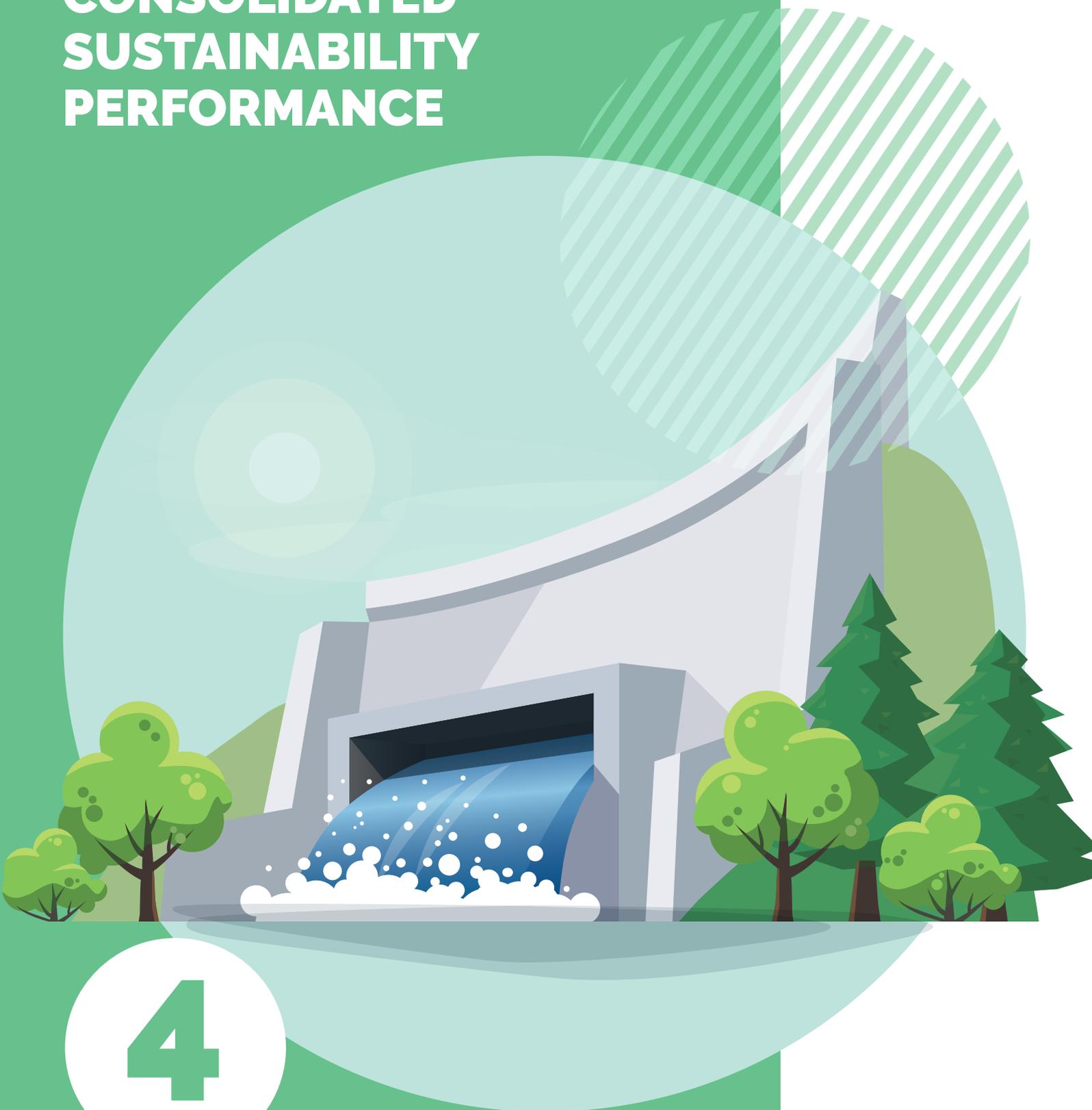
** Data in the comparison column illustrate what would have been the effects of changes in the IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis presents the differences calculated on the basis of the comparison column.

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

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



CONSOLIDATED SUSTAINABILITY PERFORMANCE



4

Demand for energy has been increasing year after year globally as well as in Hungary. To ensure the stability of the system, the electricity system needs to respond flexibly to this demand that grows steadily but appears at variable points in time. That is, in addition to the large power plants that are present in the Hungarian energy mix, there is also a need for generation units that can be started flexibly and are capable of in-feed or cut-off, to ensure that current demand is met. ALTEO Group intends to be a stable partner for the system operator in this so-called secondary or balancing reserve system with its high-efficiency cogeneration natural gas power plants. In addition, in line with the EU targets and the SDGs²¹, and setting a personal example, we can increase the ratio of renewable power plants in the entire Hungarian energy mix by continuously raising the ratio of renewable power plants in our portfolio.

Electricity production

In 2019, the installed electrical capacity at power plants owned by ALTEO Group increased significantly, from 66 MW to 104.7 MW, a growth of 66%. This growth was made possible by the expansion of renewable capacities, that is, the Bőny wind farm acquired during the year as well as the solar power plants at Nagykőrös and Balatonberény that we constructed and commissioned.

INSTALLED ELECTRICAL CAPACITY (MW)

	2017	2018	2019
POWER PLANTS OWNED BY ALTEO GROUP	62,6	66,0	104,0
Natural gas	50,2	50,2	50,2
Wind	7,1	7,1	32,1
Landfill gas / thermal associated gas	1,8	1,3	1,1
Hydro	1,4	1,4	1,4
Solar	2,0	6,0	19,1
POWER PLANTS NOT OWNED BY ALTEO GROUP	84,9	84,9	87,9
Natural gas	82,9	82,9	82,9
Biogas	2,0	2,0	2,0
Solar		-	3,0

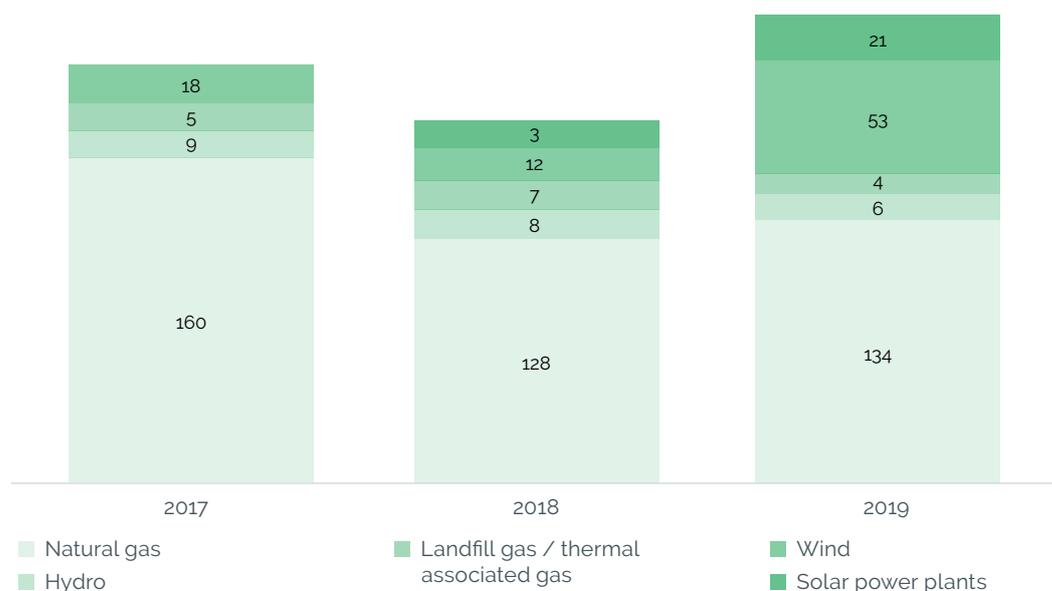
As the table reveals, the installed electrical capacity of power plants operated, but not owned, by ALTEO Group also increased, albeit only slightly. That is because in 2019, in addition to our own power plants, we also implemented two other solar power plants as main contractors, then, at the request of the customer, we took over the operation of these solar plants in Sormás and Nagykőrös.

In the case of power plants owned by ALTEO, the amount of electricity generated increased proportionately with the increase of our installed capacities in 2019. As a result of our acquisitions and capital projects, the volume of electricity produced from renewables rose particularly steeply when broken down by source. The Bőny wind farm boosted electricity production from wind to almost four and a half its former level, while our two new solar power plants increased solar energy volumes by more than seven times.

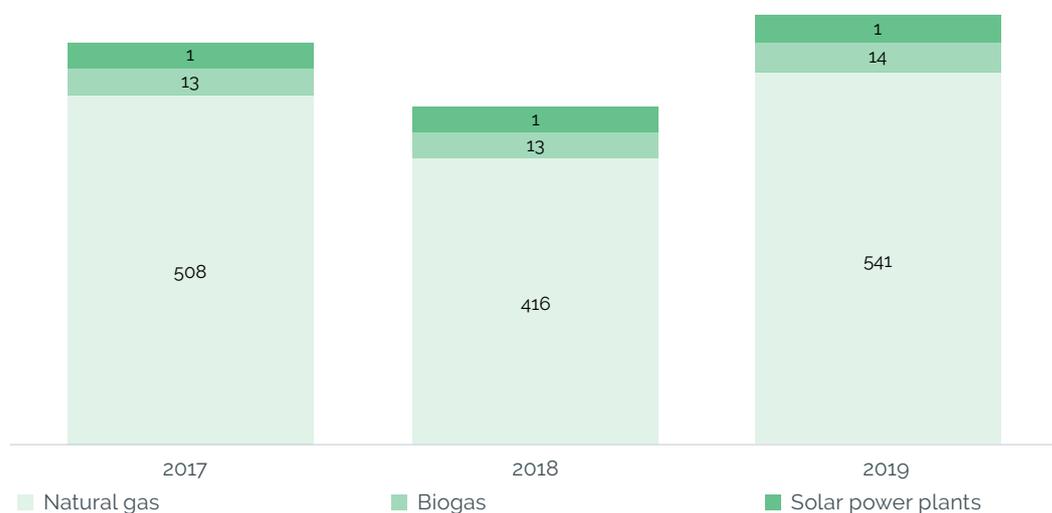
In the case of the power plants we operate, the rise is attributable to the increased demand from our customers. In this case, however, figures should be compared to the year 2017 equivalents as the decrease in 2018 was the consequence of a lengthy shutdown due to a major overhaul necessitated by the hours of service.

21. SDG:

ELECTRICITY GENERATED BY POWER PLANTS OWNED BY ALTEO (GWH)



ELECTRICITY GENERATED BY POWER PLANTS OPERATED BY ALTEO (GWH)



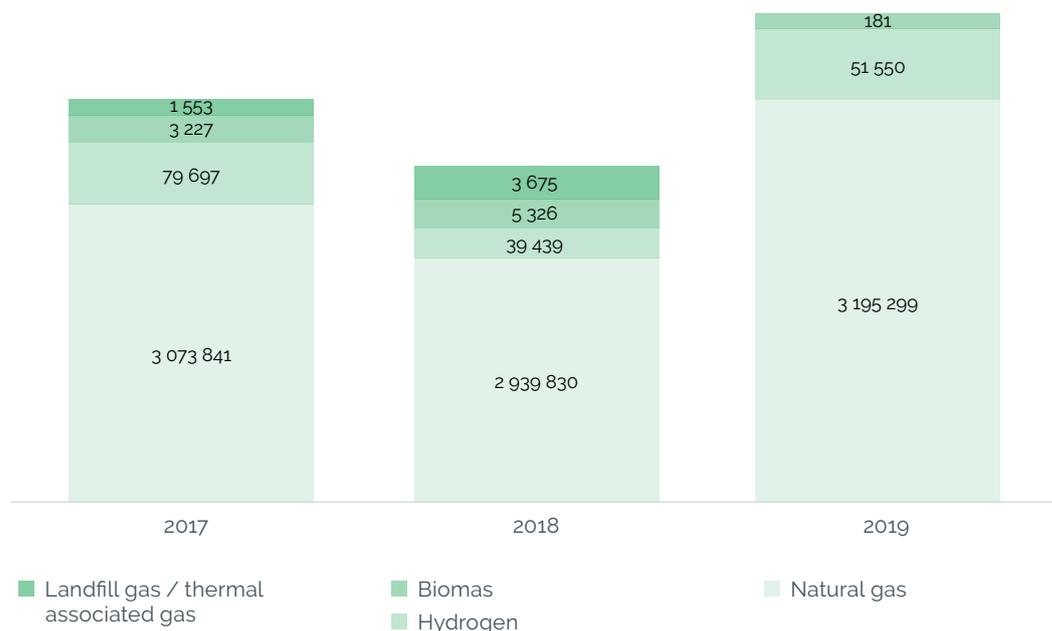
Heat energy production

INSTALLED HEAT CAPACITY (MW)

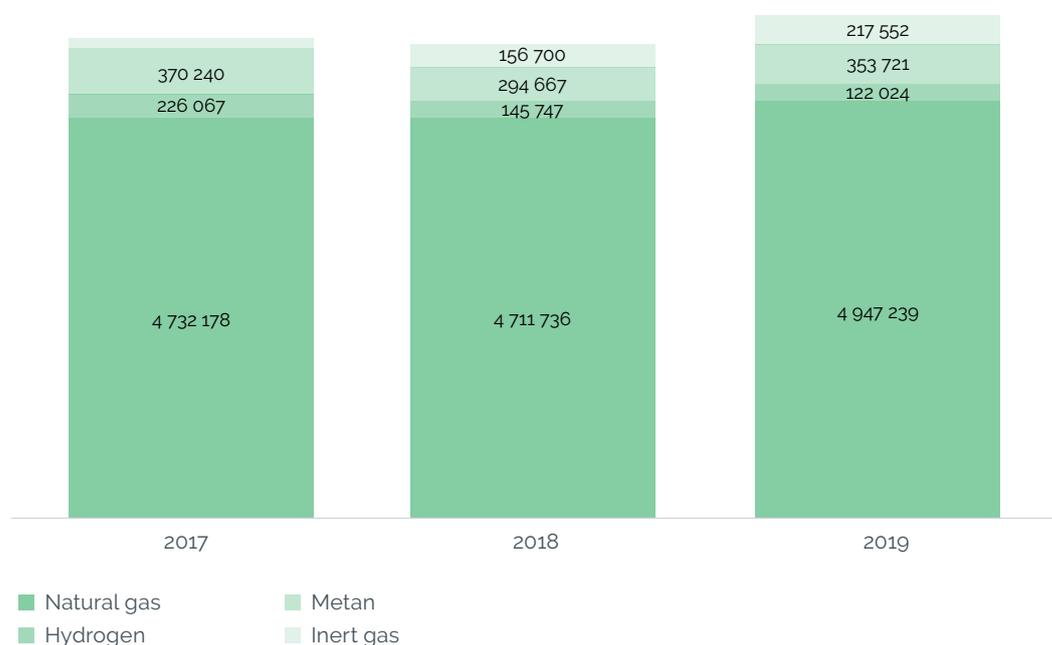
	2017	2018	2019
POWER PLANTS OWNED BY ALTEO GROUP	290,8	284,8	284,6
Natural gas	288,4	283,0	283,0
Hydrogen	90,1	90,1	90,1
Landfill gas / thermal associated gas	1,87	1,29	1,09
Biomass	0,6	0,6	0,6
POWER PLANTS NOT OWNED BY ALTEO GROUP	442,5	503,5	503,5
Natural gas	442,5	503,5	503,5
Hydrogen	58,0	58,0	58,0
Methane	58,0	58,0	58,0
Inert gas	-	61,0	61,0

As a result of the divestment of the small power plant at Kisújszállás owned by ALTEO Group, the installed heat capacity declined slightly, while it remained unchanged, year-on-year, in case of the power plants operated by the Group.

HEAT ENERGY GENERATED BY POWER PLANTS OWNED BY ALTEO BROKEN DOWN BY SOURCE (GJ)



HEAT ENERGY GENERATED BY POWER PLANTS OPERATED BY ALTEO (GJ)



The amount of heat energy generated in the power plants owned or operated by ALTEO Group depends to a large extent on the direct demand of the contracted partners; on the whole, this also increased in 2019. The breakdown of the heat energy generated by source shows that, in terms of its share, hydrogen, an alternative gas, increased by more than 30% while natural gas only rose by little more than 8%. In contrast, as our thermal associated gas plant at Kisújszállás was divested in July 2019, the volume of heat energy production from landfill gas/thermal associated gas decreased by approximately 35%.

Fuel use and system efficiency²²

In the power plants owned or operated by ALTEO Group, the main fuel used for operating these plants is natural gas but the volume of alternative²³ and renewable energy carriers also increased significantly relative to 2018.

We collect our energy consumption data from meter readings while our natural gas consumption data is based on invoices received from the local gas supplier or distributor.

USE OF PRIMARY ENERGY IN THE OWN POWER PLANTS OF ALTEO GROUP AND THE VOLUME OF ELECTRICITY AND HEAT ENERGY PRODUCED

PRIMARY ENERGY CONSUMPTION (GJ)	2017	2018	2019
Renewable (ALTEO-owned)	54,080	80,603	41,536
Non-renewable (ALTEO-owned)	3,919,087	3,609,525	3,881,334
Alternative (ALTEO-owned)	76,717	38,060	49,480
Renewable (Operated)	162,102	106,675	113,988
Non-renewable (Operated)	7,870,721	6,875,971	7,863,497
Alternative (Operated)	703,751	858,562	1,403,043

In 2019 our total primary energy use in our own power plants was up by 6.5% relative to the previous year. In this case, renewable primary energy use includes only uses from weather-independent renewable energy sources (biogas, landfill gas, thermal associated gas, biomass). In case of weather-dependent renewables we do not yet have measuring devices that could measure the exact amount of energy obtained from solar, wind or hydro sources.

The primary energy use of the power plants operated by us rose from 7,841 GJ in 2018 to 9,380 GJ by 2019; of this, non-renewables increased by 14%, alternative sources by 63% and renewables by 7%.



²² To learn more about system efficiency, see: SR 2016, page 60.

²³ In addition to natural gas and classic renewable energy sources, we also strive to make use of other alternatives to protect the environment. To this end, we use for heat energy production the "waste gases" of our clients such as methane, hydrogen or gases with high inert content, instead of their "flaring".



	2017	2018	2019
TOTAL ENERGY DEMAND (GJ)	12,882,831	11,664,070	13,459,022
Total primary energy consumption	12,786,457	11,569,396	13,352,879
Renewables-based	216,182	187,278	155,524
Non-renewable	11,789,808	10,485,496	11,744,831
Alternative (methane/hydrogen/inert gas)	780,468	896,622	1,452,523
Purchased energy	96,373	94,674	106,143
Electricity	80,689	77,832	84,997
Heating	656	1,008	1,039
Steam	15,029	15,834	20,107
Energy sold	11,097,541	10,298,515	11,530,063
Electricity	2,512,975	2,088,077	2,743,111
Heat energy	8,584,566	8,210,438	8,786,952
Total energy consumption within the organization	1,785,289	1,365,555	1,928,959

Although the total energy utilization of ALTEO increased last year, the most notable change occurred in the field of the utilization of alternative

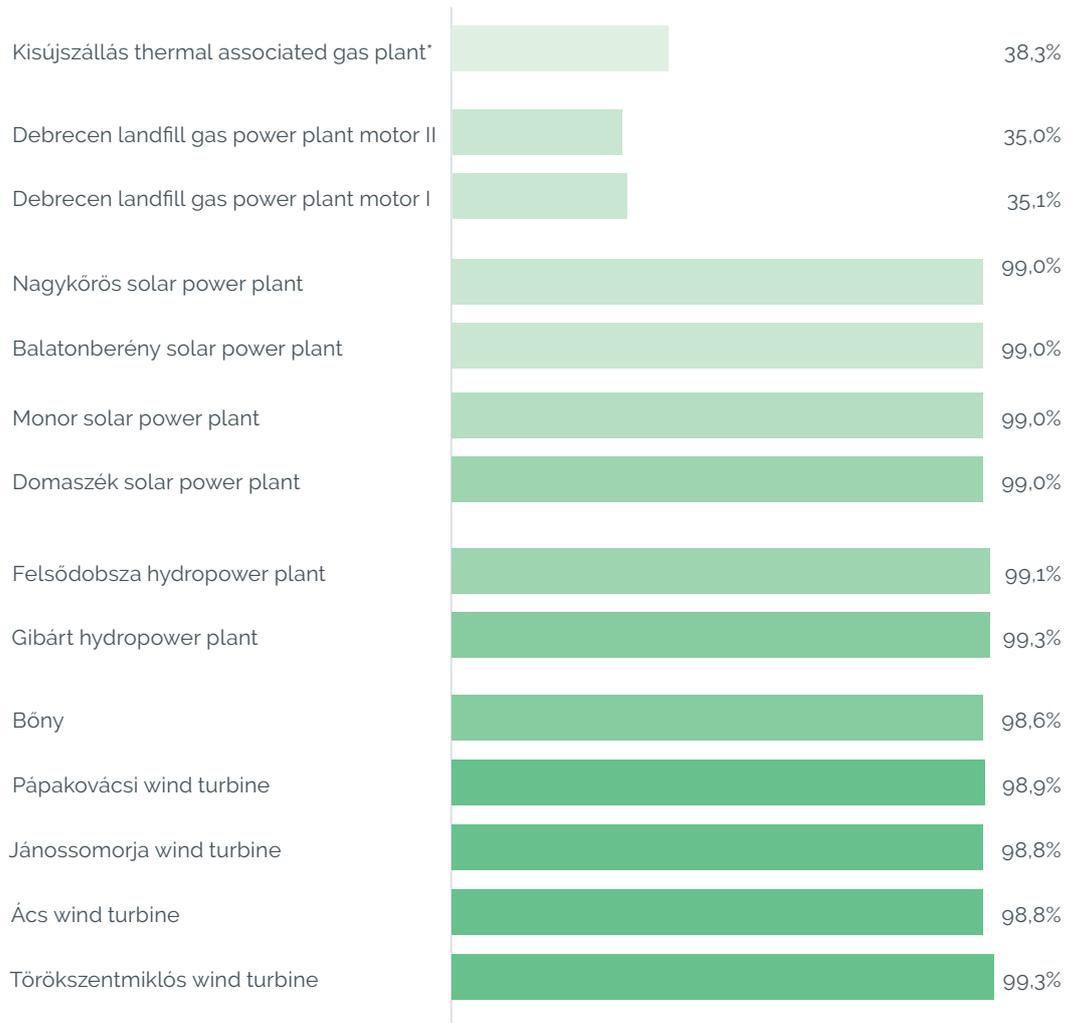
primary energy, in a favorable direction on the whole, as we were able to utilize for energy purposes much more gas which is waste for others.

EFFICIENCY

The system efficiency of our plants is of outstanding importance. The efficiency of the facilities is a good indicator for that. Efficiency shows the ratio of the available primary energy that is utilized; i.e., the higher the number, the greater the ratio of utilization of the energy carrier used. In

order to retain our competitiveness, the efficiency of our power plants is an indicator of priority importance for us. In our report we present the efficiency of our own sites broken down by power plant for both renewables-based plants and those using non-renewable primary energy sources.

EFFICIENCY OF POWER PLANTS OWNED BY ALTEO IN 2019



* divested during the year

In the field of renewables, in the case of wind turbines, solar and hydropower plants, efficiency was calculated, in accordance with the requirements of GRI, from electricity consumption and electricity produced, thus in these cases efficiency equals the efficiency of the electric transmission system.

Energy production based on non-renewable energy sources mostly involves cogeneration²⁴, therefore, the actual efficiency of the entire power plant is shown by the figures relevant for such. As the table reveals, there was only boiler heat generation in BC-Therm and MOM Park (since the shutdown of gas engines in 2018).



²⁴ Units simultaneously generating heat and electricity are referred to as cogeneration power plants. The benefits of energy production using that technology were explained in more detail in our previous reports.

2019				
Sites	Electricity cogeneration efficiency	Heat cogeneration efficiency	Total cogeneration efficiency	Efficiency of boiler heat generation
Győr	33.1%	21.0%	54.1%	91.8%
Sopron	41.1%	30.1%	71.2%	90.3%
Kazincbarcika	33.6%	43.0%	76.6%	97.0%
Ózd	39.8%	40.1%	80.0%	-
Tiszaújváros	33.2%	43.9%	77.1%	96.6%
Zugló	41.1%	39.8%	80.9%	-
Agria Park	36.4%	37.1%	73.4%	-
BC-Therm	-	-	-	97.0%
MOM Park	-	-	-	90.2%

AVAILABILITY²⁵

Providing reliable energy supply to our customers in a sustainable and cost-efficient manner is a fundamental pillar of our strategy. The quality of our services is shown by the high level of reliability and consistent high availability. In this case, based on the requirements of the GRI, availability shows the annual ratio of the time that the power plants were in a condition suitable for energy production, that is, ready for operation, with no 'planned maintenance' or 'unplanned maintenance' works ongoing. Our availability essentially shows the ratio of planned and unplanned outages in each power plant in a given year. Due to the currently available tools and our monitoring methods, however,

the data disclosed in this report may have some inconsistencies in relation to one another because of the different data collection regimes in the different types of power plants. For the year 2020 we have set the objective to standardize, as much as possible, those data collection methods so that we can disclose even more accurate data with more uniform methodological foundations.

For electricity production, we present the availability of our equipment, while for heat energy generation, we disclose the availability of heat supply in the quality and quantity specified in the contract.

AVERAGE AVAILABILITY RATE (ELECTRICITY)	2017	2018	2019
Average availability rate of all power plants	97%	91%	93%
Power plants owned by ALTEO Group			
Natural gas	96%	95%	96%
Heating power plants	96%	95%	96%
Industrial and commercial services	98%	100%	100%
Wind	95%	83%	82%
Landfill gas	97%	78%	72%
Hydro	99%	98%	100%
Solar power plants			100%
Power plants not owned by ALTEO Group			
Natural gas	99%	89%	96%
Biogas	97%	96%	97%
Solar Power			100%

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

In the field of electricity, our availability declined most in the case of landfill gas power plants in the previous period, due to the extra burden on energy producing equipment caused by the different composition of landfill gas. Even though this is a characteristic of these types of power plants, we are continuously seeking for ways of improvement. The slight decline seen in the case of heating power plants is attributable to higher

loads and the hectic operation caused by the Control Center. In the case of wind, this year was the first time that, following the acquisition of the Bóny wind farm, we examined the availability of wind turbines, relying on the principle adopted for gas engines and thus looking at individual electricity generation units rather than the entire site. This principle was also applied to solar power plants.

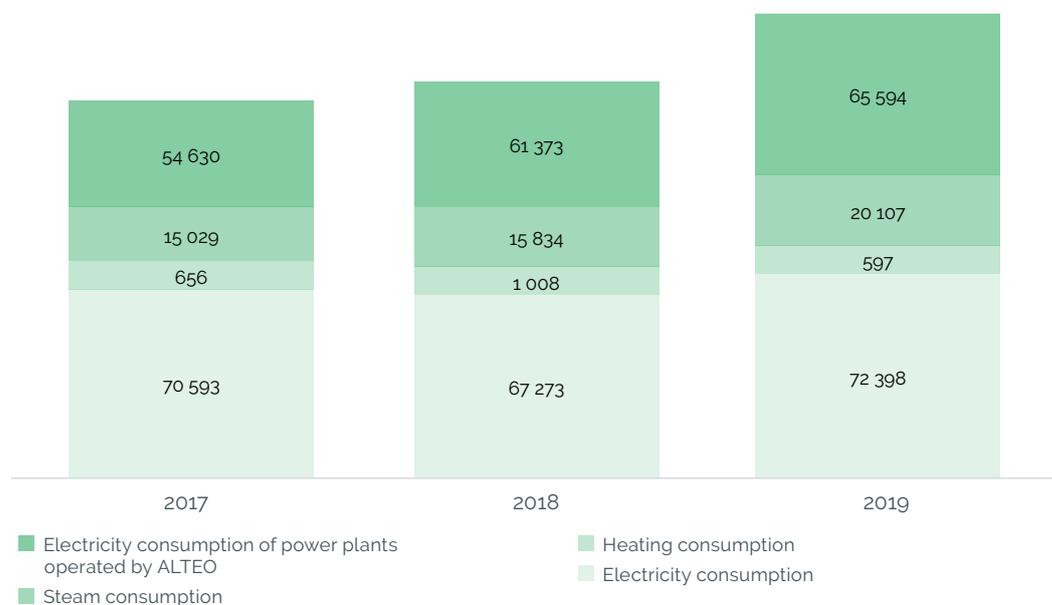
AVERAGE AVAILABILITY RATE (HEAT ENERGY)	2017	2018	2019
Average availability rate of all power plants	97%	97%	98%
Power plants owned by ALTEO Group			
Natural gas	97%	96%	99%
Heating power plants	97%	95%	99%
Industrial and commercial services	96%	96%	98%
Power plants not owned by ALTEO Group			
Natural gas	96%	97%	97%

In the case of heat energy, our consumers are district heat suppliers and large industrial consumers; consequently, our report contains the availability of heat supply to those customers. Planned and unplanned outages mean the instances where we would have been

unable to comply with contractual terms, i.e., we would have been unable to provide heat energy of sufficient quantity and quality to our customers. We are proud to report that we have been providing very high availability to our partners for years.

In-house consumption

IN-HOUSE CONSUMPTION (GJ)



We use electricity and heat energy to operate our sites. Steam consumption²⁶ (+27%) as well as the electricity consumption of the power plants owned by ALTEO Group (+7.6%) or operated by it (+6.9%) all increased relative to 2018, while

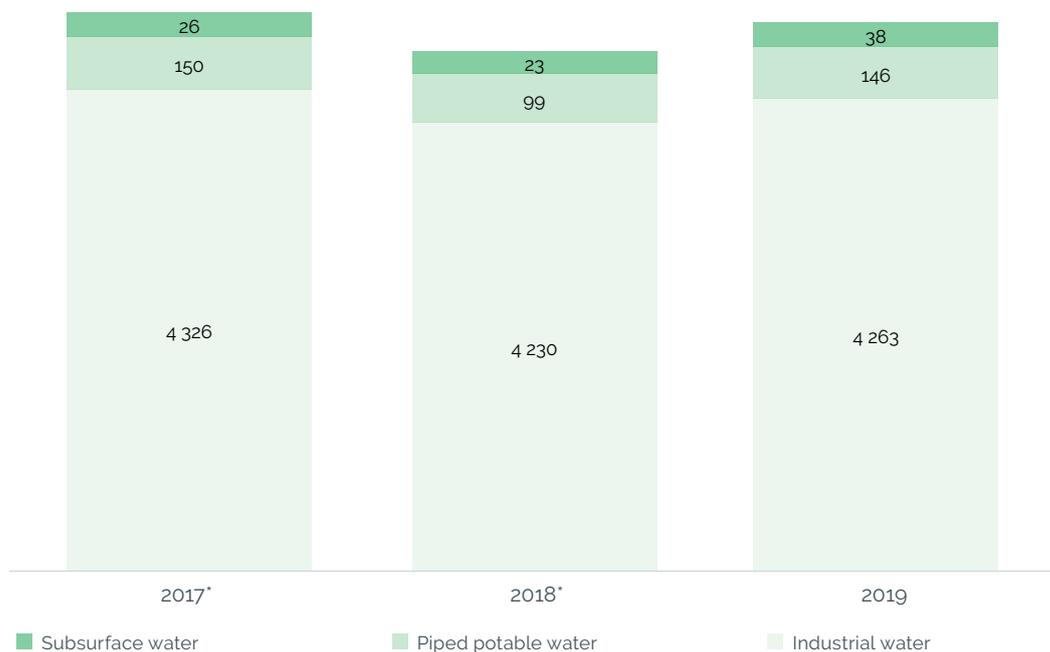
energy use for heating declined (-59%). The latter is attributable to the milder winter. However, the growth of the total in-house consumption is proportionate to the increase in staff numbers and expanding production.

26. We use steam only in our water treatment plant.

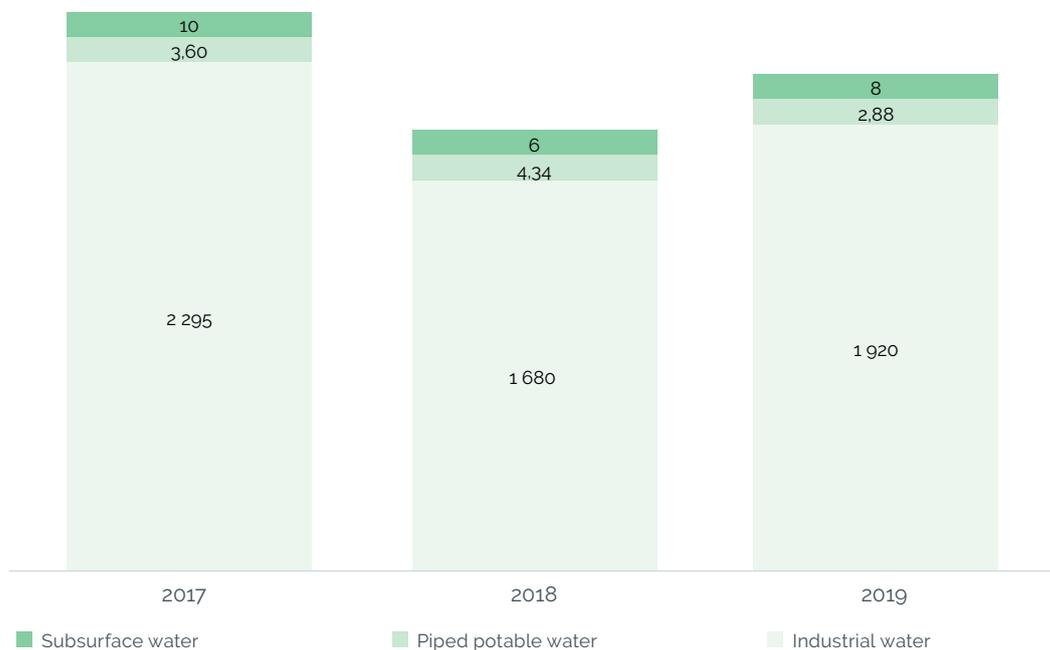
Water consumption²⁷

In operating our facilities, we use industrial water in the largest quantities, and smaller amounts of piped potable water and subsurface water, the consumption of which is tracked using meters.

WATER CONSUMPTION OF THE POWER PLANTS AND WATER TREATMENT FACILITY OWNED BY ALTEO (except hydropower plants) (thousand m³)



WATER CONSUMPTION OF POWER PLANTS OPERATED BY ALTEO (thousand m³)



27. SR 2016, pages 71 and 72

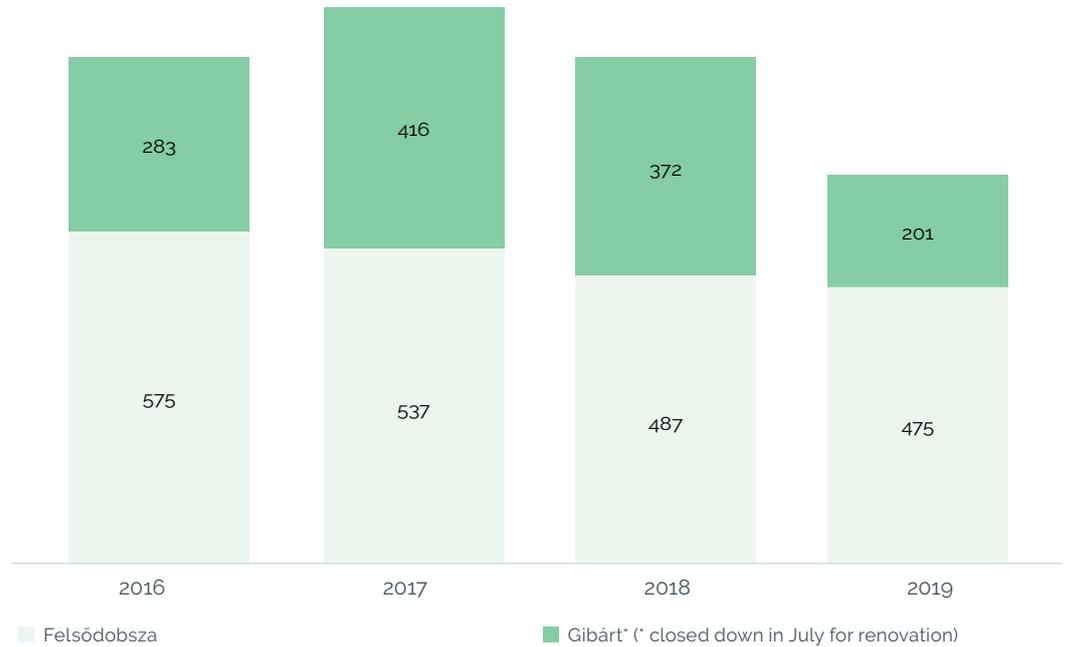
* Where ALTEO has ownership shares not exceeding 50% (such as in the Nagykőrös biogas power plant, where ALTEO has a share of 1% only), the power plant was moved to the "operated" category. This breakdown retroactively changes the 2017-2018 figures, too, in our illustrations.

The water consumption of sites owned by ALTEO Group increased in all three categories, but it is still below the 2017 levels. Water consumption increased most in case of piped potable water, due to the higher makeup water requirement of the Kazincbarcika heating power plant. The additional makeup water requirement was caused by pipe leaks in the old municipal district heating system, which is beyond the control of our Group. The amount of water used is related to the volume of heat energy production, which also increased relative to 2018.

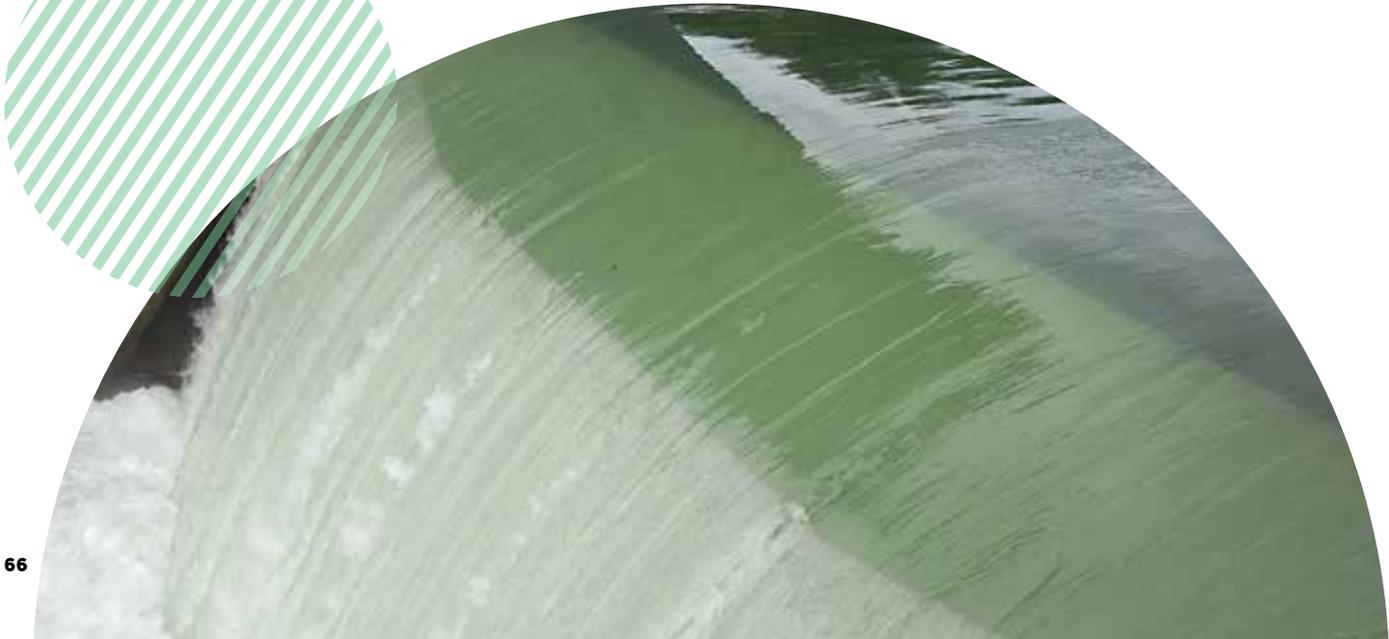
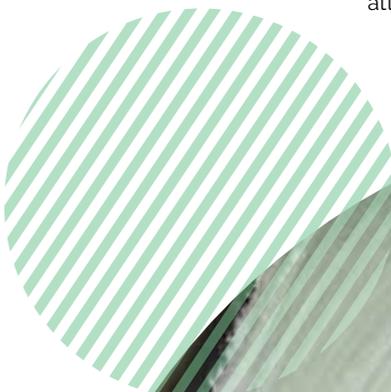
The largest water user in ALTEO Group was Tisza-WTP Vízelőkészítő, which produces the desalinated water necessary for MOL Petrolkémia. This entails the use of over 3.5 million m³ of industrial water per year. We continuously monitor the quality and quantity of our emitted wastewater in compliance with our self-check plan. During the operation of our water treatment plant, the permissible limits were not exceeded in 2019 either.

The water consumption of power plants operated by ALTEO increased as far as industrial water is concerned (+14%), but also remained below the 2017 level. In contrast, the consumption of piped water went down by almost 34% as a higher ratio of the water requirement of the technology in the biogas power plant at Nagykőrös could be covered from subsurface water sources.

ANNUAL WATER CONSUMPTION OF HYDROPOWER PLANTS (million m³)



The annual water consumption of both hydropower plants decreased: by 2.5% at the Felsődobbsza Hydropower Plant, and substantially at Gibárt, which is attributable to the complete closedown of the latter in July for planned reconstruction. As explained above, the two hydropower plants can be operated efficiently in conjunction, thus the slight decline at the Felsődobbsza hydropower plant is attributable to the closedown of the Gibárt hydropower plant.



Soil and water protection²⁸

GROUNDWATER

In the vicinity of fuel oil tanks there is one monitoring well at the BC Power Plant, and three at the TVK Power Plant and the Nagykőrös Biogas Plant each to monitor the qualitative parameters of groundwater. The purpose of the monitoring well system is to monitor any pollution resulting from the flow of groundwater. We have the quality parameters of groundwater examined by an accredited laboratory with the frequency prescribed by regulations. There was no malfunction in 2019 either that could have caused the pollution of soil, groundwater or surface waters.

WASTEWATER TREATMENT AND RAINWATER DRAINAGE

In the context of heat generation, wastewater is generated in our heating power plants located in urban environments. This wastewater is collected, cooled and prepared in a cooling tunnel, pumped into the urban rainwater sewage system and then contained in the final collector.

At the site of the BC Power Plant and TVK Power Plant, sewage is drained through the sewage conduits of BorsodChem Zrt. and MOL Petrochemicals, thus the final emitters in both cases are these chemical companies.

WATER PROTECTION

We use recirculated and reused water at three facilities: the Sopron Power Plant, the BC Power Plant and the Tisza-WTP Water Treatment Plant. Meters are used to track quantities at this location as well, and in 2019 we recirculated more than 690,000 liters of water in our own power plants. The ratio of water recirculated and reused by power plants owned by ALTEO (except for hydropower plants) increased in the previous 3 years; consequently, in 2019 we managed to cover 16% of the total water consumption in this manner.

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



28. SR 2016, page 73.

Emissions

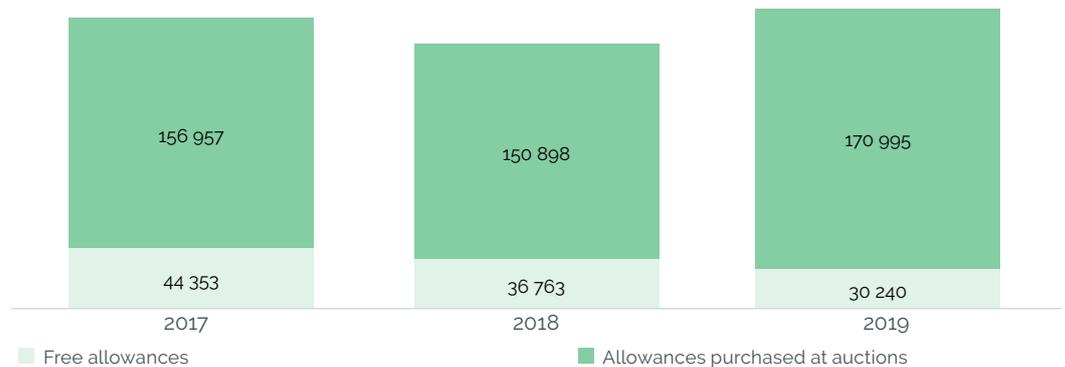
For ALTEO Group, sustainability means not only the raising of the prominence of energy from renewables in our energy production portfolio; we also make efforts to minimize our environmental load. An important part of this is our effort to reduce our GHG emissions. The highest quantity of GHG produced is carbon dioxide, which contributes to temperature rise when it gets into the atmosphere. The Kyoto Protocol set up the emissions trading scheme as an economic incentive to reduce carbon dioxide emissions. The point of this scheme is that the facilities concerned get specific emissions allowances (quotas) for free and deliver a verified certified report on their emissions each subsequent year. If their emissions exceed the allocated quotas, they need to purchase the difference from the carbon dioxide market.

The current (third) phase (2013-2020) of the EU Emissions Trading System (EU ETS) promotes an

annual emission reduction of 1.74% in the sectors concerned. From 2021, this target is expected to rise to 2.2%. The aim is to achieve a 21% reduction in the emissions of sectors involved in the EU ETS by 2020 as compared to 2005.²⁹

Within ALTEO Group, power plants with a thermal input exceeding 20 MW take part as separate entities in the EU ETS. Our district heating power plants have gradually received reduced levels of CO₂ allowances allocated free of charge in the recent trading period. Our biggest CO₂ emitter, the BC Therm industrial production unit, does not receive free allowances, therefore it has to purchase (at auction) allowances to cover its entire emissions. In 2019, freely allocated allowances covered around 15% of total emissions of power plants operated by ALTEO Group, making it necessary to purchase a large amount of CO₂ allowances at auctions.

TOTAL ALLOCATED AND PURCHASED CO₂ QUOTA OF ALTEO GROUP

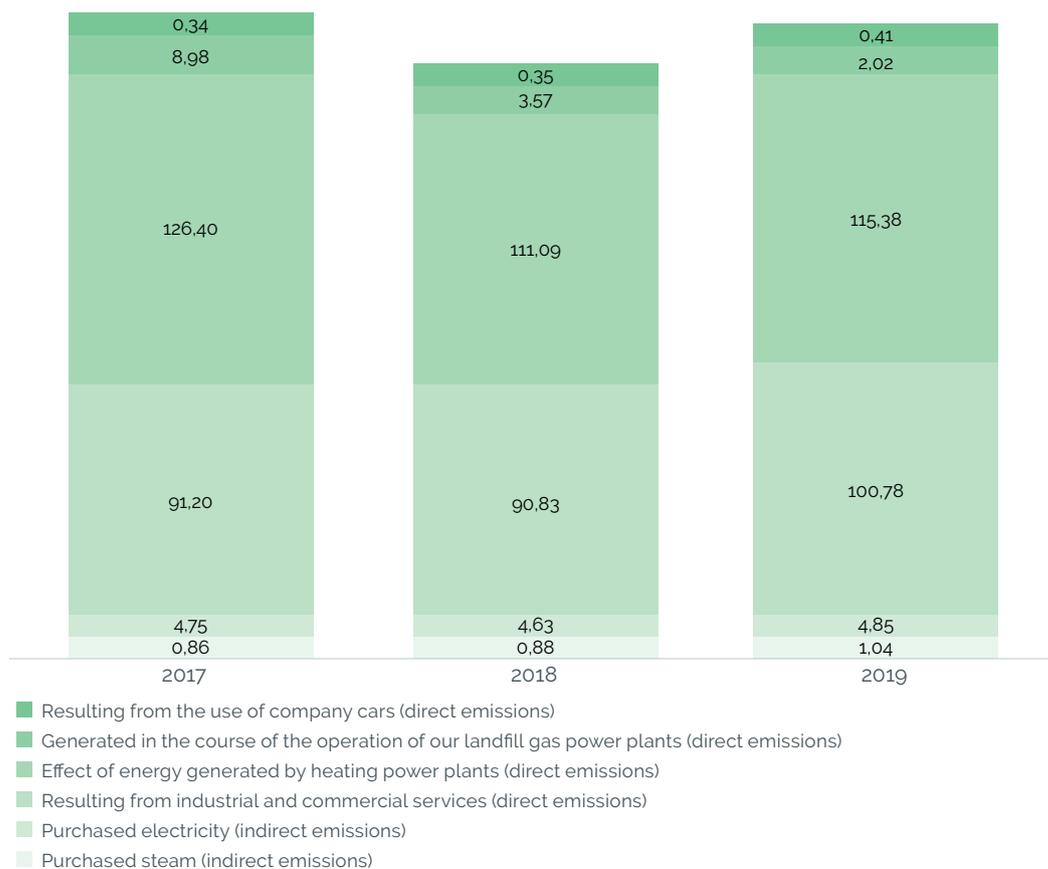


Our direct CO₂ emissions (in the GRI system: "Scope 1") are generated from fuel use in our energy production processes.



²⁹ https://ec.europa.eu/clima/sites/clima/files/ets/revision/docs/high_level_qa_en.pdf

TOTAL DIRECT AND INDIRECT CO₂ EMISSIONS OF ALTEO GROUP (thousand tonnes)



The total direct and indirect CO₂ emissions of ALTEO Group rose from 211.35 thousand tonnes in 2018 to 224.47 thousand tonnes in 2019. With the exception of direct emissions generated in the course of the operation of landfill gas power plants, a slight rise of emissions was seen in all categories.

SPECIFIC CO₂ EMISSION OF ALTEO = CO₂ EMISSION PER 1GJ OF ENERGY PRODUCED (kg/GJ)



In contrast, the specific CO₂ emission of power plants owned by ALTEO Group went down. As an energy producing company, besides total emissions, our most important indicator is emission intensity, i.e. the volume of emissions per unit of energy produced. While in 2018 ALTEO emitted a GHG equivalent to 58.68 kg of carbon dioxide for every GJ of energy,³⁰ the corresponding figure for 2019 was only 54.06 kg.

30. The indicator shows the ratio of total energy generated at power plants owned by ALTEO Group and total CO₂ emissions relating to the operation of ALTEO Group. Emissions figures were calculated using conversion factors. For indicators where they were available (e.g. petrol and diesel fuels, purchased steam), we used conversion factors from DEFRA (<https://www.gov.uk/government/collections/government-conversion-factors-for-company-reporting>). In cases where no internationally or legally acknowledged conversion factor was available, we applied factors calculated based on a 2017 publication on the Hungarian power system figures (https://www.mavir.hu/documents/10258/154394509/MEKH+MAVIR+VER+2017_hiadvany_vegleges_20181116.pdf/d345fdb8-7048-4af2-9a63-1d7415bb84c9). For the calculation methodology, we took CO₂ emissions of and electricity produced by large power plants as the basis for calculating the conversion factor for the electricity purchased. Due to updates in the publication issued in 2017, figures for 2016 have changed since last year's Report.

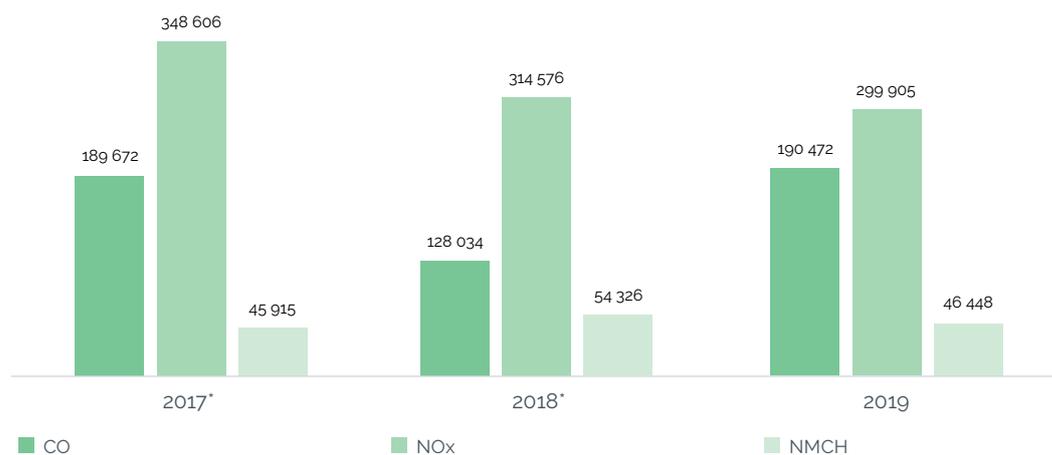
Air quality protection³¹

There are 42 point sources in operation at sites operated by the ALTEO Group. Flue gas from gas engines contains nitrogen oxides (NO_x), carbon monoxide (CO) and non-methane hydrocarbon (NMHC), while flue gas from hot boilers and steam boilers releases NO_x and CO into the air when natural gas is used as fuel. With authorization from the competent environmental authority, air pollutant emissions from only one of similar types of equipment (gas engines and boilers) shall be determined in the power plants of

Zugló-Therm Kft., Györi Erőmű Kft., Kazinc-Therm Kft., Ózdi Fűtőerőmű Kft. and Tisza-Therm Kft. by accredited testing; however, a different piece of equipment shall be selected on a rotational basis for each testing period.

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

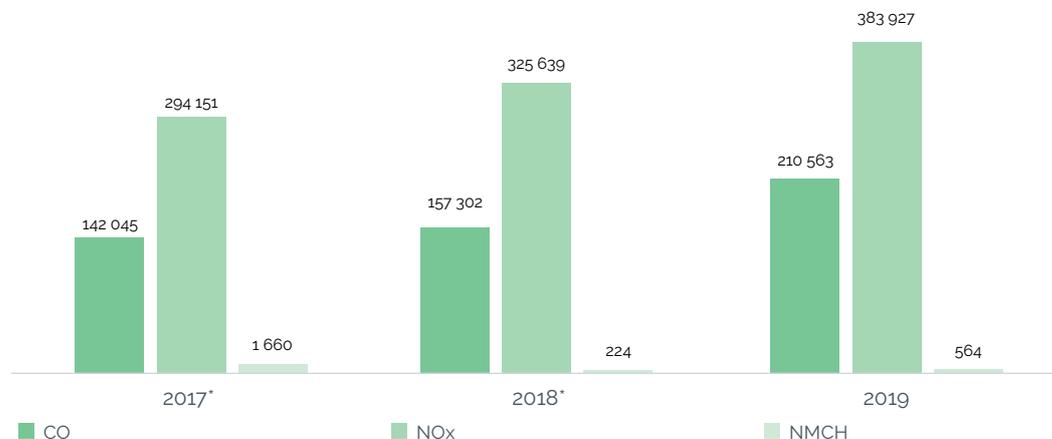
AIR POLLUTANT EMISSIONS OF POWER PLANTS OWNED BY ALTEO (kg)



The annual amount of emitted air pollutants depends on the concentrations measured in flue gas during sampling, the volume flow rate of the flue gas and the annual hours of service of the equipment. In 2019 the volume of carbon monoxide emitted by the power plants owned by ALTEO Group rose by more than 48% while the emissions of nitrogen oxides (NO_x, -4.6%) and non-methane hydrocarbon (NMHC, -14.5%) decreased. The total emissions of these

air pollutants increased, as did production. However, their ratio to total emissions depends to a large extent on the timing of measurement and on the load of the equipment at the time. To meet the often hectic electricity demand in the Control Center, the gas engines of our heating power plants are under a high load. This hectic character is also present in the volume and ratio of the various emitted pollutants.

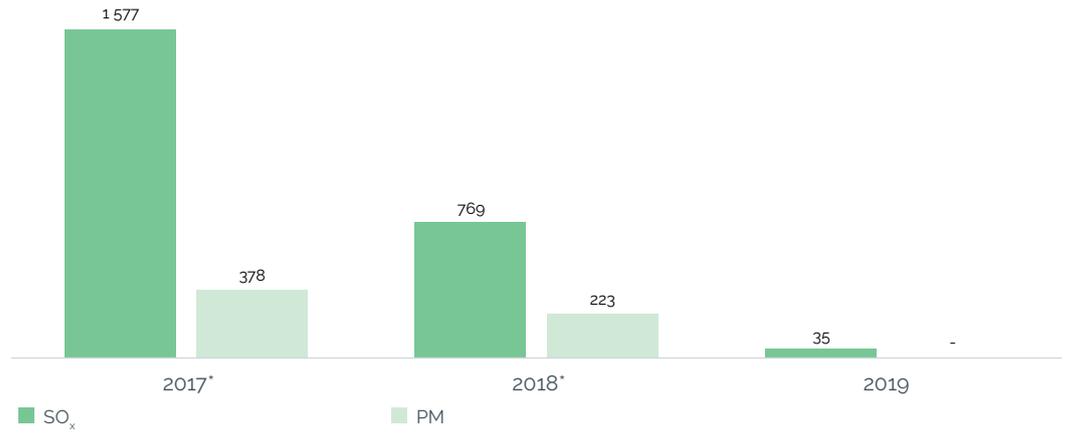
AIR POLLUTANT EMISSIONS OF POWER PLANTS OPERATED BY ALTEO (kg)



At the power plants operated by ALTEO Group, carbon monoxide (+33.8%), nitrogen oxide (+17.9%) and non-methane hydrocarbon emissions all showed an increase, the latter to two and a half times its prior level, in proportion to the growth in production.

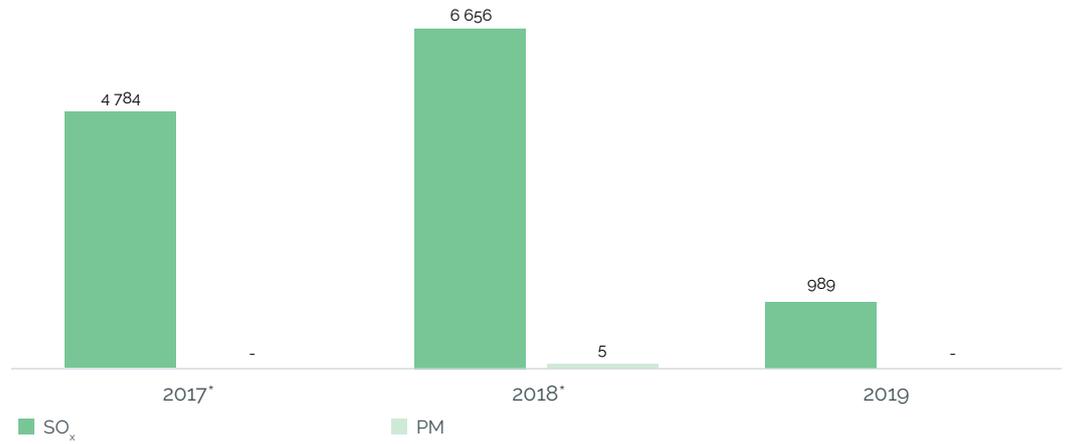
³¹ SR 2016, page 68

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



The sulfur dioxide and particulate matter emission of power plants owned by ALTEO has been decreasing year from year. In 2019 only 35 kg of sulfur dioxide and no particulate matter was released, which is partly attributable to the fact that no oil burning occurred in our power plants.

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



In the case of power plants operated by ALTEO, the sulfur dioxide emissions also decreased significantly and no particulate matter was released in 2019.

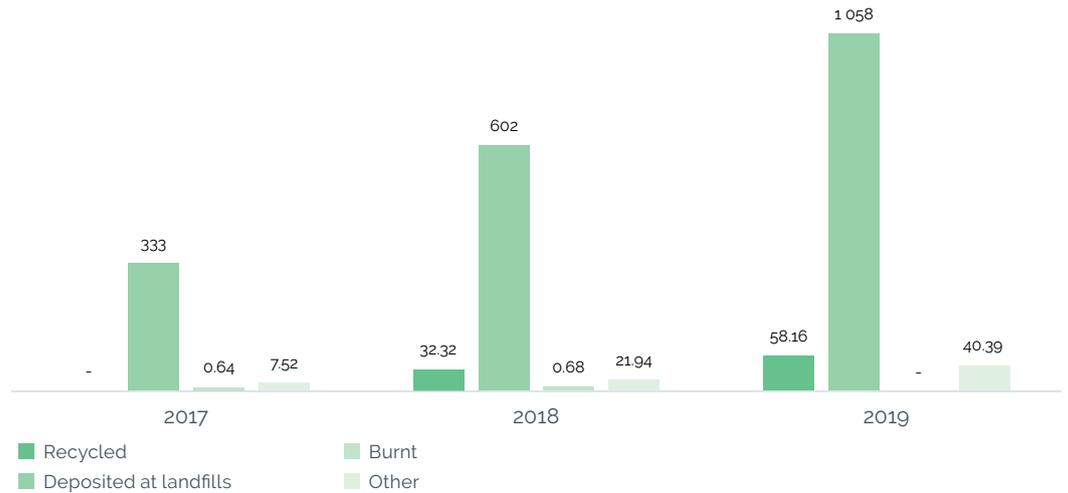


Waste management

As part of ALTEO Group's main and side activities (as a result of operational and maintenance works), non-recoverable waste and demolition waste are generated, which may be categorized as hazardous waste, industrial non-hazardous waste or municipal solid waste. We ensure the management (collection, transportation and disposal) of communal waste generated on our sites via an external subcontractor. The disposal method of the waste removed is in each case set out by the remover of said waste, pursuant to legal regulations and the principles set out in its permits.

At our sites, we store waste that have declaration obligations at workplace collection points. We document the quantity of collected waste in our waste register, which we also use to track wrapped and transported quantities. Regarding transported quantities, in case of hazardous waste delivery sheets are sources of detailed information, while for non-hazardous waste invoices provide accurate information. We also use this data to prepare our waste declarations. We classify our waste based on waste codes indicated on delivery notes.³²

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



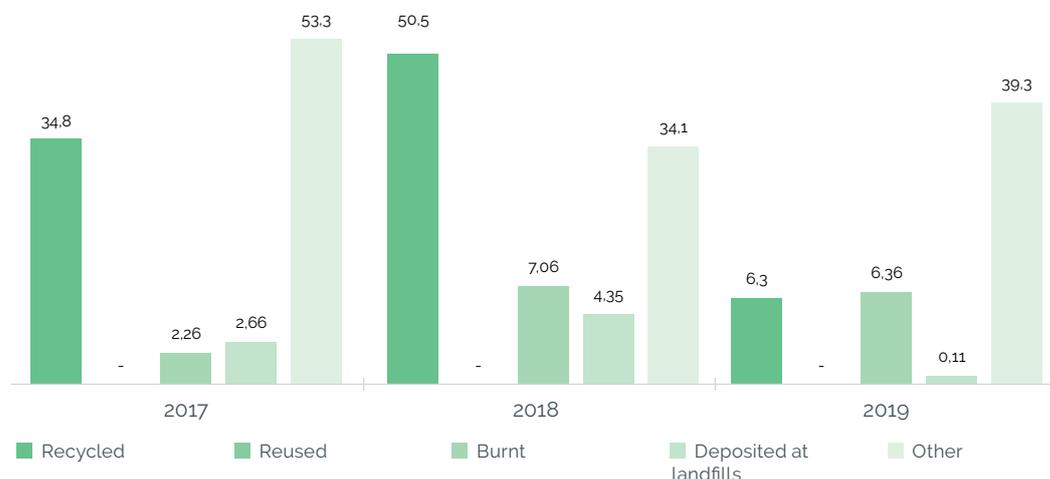
32. As the majority of waste generated on our sites has to be declared, we disclosed information in this Report based on this data. In the Report, we did not include the volume of municipal waste due to its negligible quantity, and the lack of accurate quantitative information.

In 2018 the non-hazardous waste generated by the operations of ALTEO amounted to 657 tonnes; the corresponding figure for 2019 rose to 1,157 tonnes. The significant increase is attributable to the higher volume of waste from supermarkets, expired and packaged waste arriving at the Nagykörös biogas plant of Energigas Kft. (which is

operated and maintained by ALTEO Group). Of this, waste unsuitable for use in the biogas plant (mostly contaminated packaging waste) is sent to landfill.

On a positive note, the volume of recycled materials rose from 32.32 tonnes to 58.16 tonnes, an increase of close to 80%.

HAZARDOUS WASTE GENERATED BY THE OPERATIONS OF ALTEO (tonnes)



In 2019 the volume of hazardous waste generated by the operations of ALTEO dropped significantly, from 96 tonnes in 2018 to 52 tonnes. The almost total elimination of hazardous waste going to landfill is particularly notable. In contrast, the volume of hazardous waste in the Other³³ category increased (+15%).

Our Biogas Plant in Nagykörös treats expired foodstuff waste, byproducts not suitable for consumption or processing, and animal manure, as well as agricultural products and byproducts. In 2019, this meant that over 45,600 tonnes of waste was processed and thereby did not end up in landfill.

WASTE MANAGEMENT DIVISION

The new Waste Management Division of ALTEO Nyrt. commenced its operation in January 2019. It was established to boost the commercial and utilization areas of waste management within the Group. The new activity opened up new opportunities for ALTEO Nyrt. in both complex waste trading and waste utilization.

The primary objective of the Division is to ensure that the Nagykörös Biogas Plant operates, from the aspect of waste management, in a regime that assures the most cost efficient and sustainable raw material structure possible. The electricity produced in the 2 MW biogas power plant at Nagykörös can cater for the electricity demand of 4,000 families annually, from raw materials of 60,000 tonnes, 90% of which is waste. There are few facilities in Hungary that can process packaged waste. We have such technology, which is a significant advantage because we

can process expired products coming from supermarkets; in addition, the byproducts of ethanol plants, byproducts of animal or plant origin can also be used as input in the facility. While previously the plant struggled to find raw materials, and when any new product showed up, we accepted it unconditionally because we had no overview of the market, in the second half of the year we appeared at an increasing number of locations as a division engaging in waste management. By now, we choose the materials we want to work with; we even get to trade materials that we are unable to use. In 2019 the objective was for the business line to take root; by now we have identified the synergies. Options of expansion for 2020: exploration of opportunities in complex waste management and implementation of the best practices of that field in the company and its partners.

³³ Wastes removed with codes of collection, pre-treatment and commercial treatment. We have no information of their fate.

OUR SOCIAL PERFORMANCE



5

Our stakeholders

In order to supply sufficiently balanced, diversified, environmentally friendly energy to our partners as required by our strategy, we strive to establish close partnerships with all parties concerned. This includes the Hungarian government; authorities, supervisory bodies; our shareholders; our suppliers and subcontractors as well as our customers, staff and the local communities that we directly or indirectly get in contact with through our sites.

Authorities, supervisory bodies

ALTEO Nyrt. performs its functions in compliance with the Hungarian legal requirements and in possession of the various regulatory authorizations, be it facilities management or the construction of new investment projects. These regulatory permits and authorization procedures impose occasionally one-off, but mostly continuous obligations (to take measures, supply data, investigate, etc.) on the Company. In order to perform such obligations smoothly and in compliance with legislative requirements, we need to establish cooperative partnership with

various authorities (e.g., Hungarian Energy and Public Utility Regulatory Authority, the Hungarian Trade Licensing Office, Environmental and Nature Protection Departments of Government Agencies, Disaster Management and water authorities, Occupational Safety Authority, etc.). Our objective is to maintain existing good industry relations, to provide mutual assistance, to engage in continuous dialogue, on a daily basis if appropriate, which facilitates the work of both parties and the enforcement of the interests of the industry.

Shareholders

The first initial private offering (IPO) of ALTEO Nyrt. took place in 2016; the Company's shares were promoted to the highest category, the Equities Prime Market, in 2018. Retaining the confidence of our shareholders is priority for our company.

ALTEO Nyrt. places special emphasis on continuous availability and communication with its shareholders. On the Investors tab at our website we made available, inter alia, communications relating to securities issuance,

releases required under company law as well as quarterly Investor Presentations; furthermore, all communications that are uploaded to the BSE website www.bet.hu or the Central Bank of Hungary site www.kozzetetelek.hu are published on our website. In addition, we regularly send our investor newsletter to our subscribers (subscription is also possible through the website). The person designated for investor relations is the Company's transaction manager, whose contact information is also disclosed on our website.



Suppliers and subcontractors³⁴

At the beginning of 2019, as proposed earlier, the centralization of procurement started. It is a major change both for ALTEO and Procurement that in 2019 two SAP modules were implemented that may assure an operating platform and record keeping optimized to ALTEO.

As one of the best examples of our centralized procurement, in 2019 the overwhelming majority of VPFD-related procurements were performed by Procurement. As a future organization development plan, we propose to introduce region-based procurement, expected to be implemented in 2020.

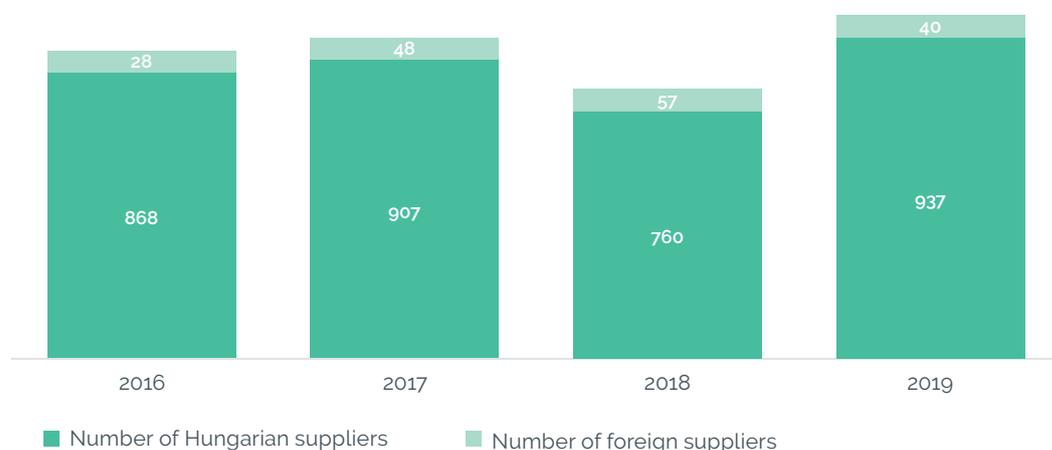
Our business partner control system serves to ensure that we only work with suppliers that

meet all our legal and business requirements. The pre-qualification procedure is an important component of this system.

There are currently 332 companies on the qualified supplier list, of which 46 companies were qualified in 2019, where 40 received an "adequate" rating, 4 companies were rated "fairly adequate" and 2 were rated "inadequate". In 2019, 11 companies fell into the pre-qualification category mandatorily subject to increased auditing in relation to tenders exceeding HUF 50 million and flat-rate tenders exceeding HUF 5 million. During the mandatory compliance audit of these firms, we screened out four companies that were deemed to be risky.

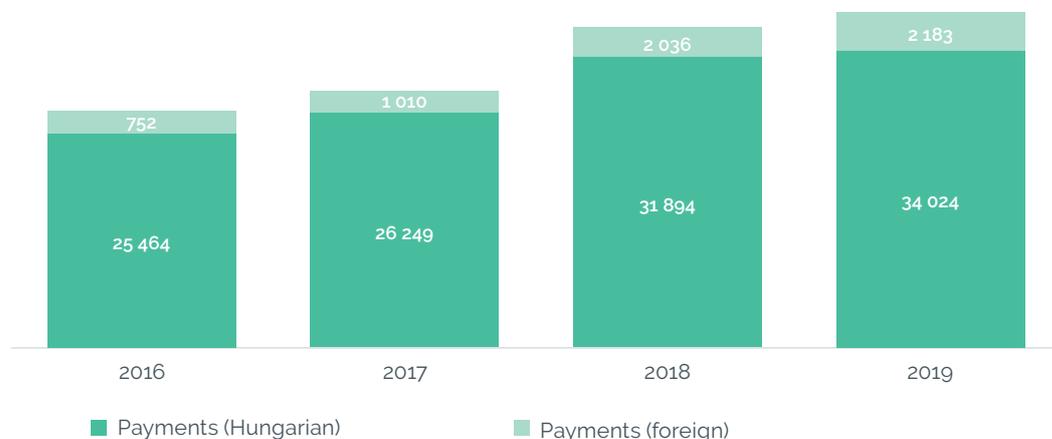
With the close supervision and professional support of our main suppliers' work, we promote the good performance of our subcontractors. In the interest of the work safety of our contracted partners and subcontractors, we have a strict work permit system in place.

NUMBER OF SUPPLIERS



The number of our suppliers increased considerably, by 19.5%, relative to 2018. We are particularly pleased that the number of our Hungarian suppliers rose from 760 to 937 (+23%), as we try to involve local entrepreneurs as much as possible, which helps the spillover of economic advantages from our regional operations in direct local environments.

PAYMENTS (MILLION HUF)



³⁴ More details on our relations with suppliers and subcontractors: SR 2016, pages 81 and 82.

SUPPLIER FORUM

To establish a tradition, on March 28, 2019 we organized our first Supplier Forum to engage our suppliers in mutual discussion and consultation. Close to 50 companies sent representatives to the event.

The event offered an excellent opportunity to suppliers with business relations with ALTEO Group to learn and understand our plans for the future and our vision. In addition, the event offered an ideal environment for professional discourse; consequently, participants had the opportunity to become familiar with ALTEO as well as other companies present.

In addition to launching the Supplier Forum, we would like to reward our best suppliers in future. Developing the system of requirements and conditions of the award scheme is in progress.

Our clients³⁵

In terms of our fundamental values, client-oriented operation, quality service and safe work are of utmost importance. Client feedback and client satisfaction surveys clearly show that one of the key virtues of ALTEO Group - beyond the provision of quality services - is that we strive

to satisfy client needs to the greatest extent possible. We are flexible, capable of continuous development and we have the ability to increase the range of our products and services with innovative and energy-efficient solutions.

KEY CLIENTS

	WING ZRT.
FŐTÁV – BUDAPESTI TÁVHŐSZOLGÁLTATÓ ZRT.	LEGO MANUFACTURING KFT.
BORSODCHEM ZRT.	BUDAPESTI ERŐMŰ ZRT.
MOL PETROCHEMICALS CO. LTD., MEMBER OF THE MOL GROUP	STRABAG-MML KFT.
AUDI HUNGARIA ZRT.	VEOLIA ENERGIA MAGYARORSZÁG KFT.
MAVIR ZRT.	PETROLSZOLG KFT.
ÓZDI TÁVHŐTERMELŐ ÉS SZOLGÁLTATÓ KFT.	ENERGIGAS KFT.
SIEMENS ZRT.	GRABOPLAST ZRT.
HEINEKEN HUNGÁRIA ZRT.	SUEZ WATER TECHNOLOGIES AND SOLUTIONS HUNGARY KFT.
TISZASZOLG 2004 KFT.	UNIPER HUNGARY KFT.
BARCIKA SZOLG KFT.	SZARVAS BIOGÁZÜZEM
NATIONAL UNIVERSITY OF PUBLIC SERVICE	A.K.S.D. KFT.
OTP REAL ESTATE INVESTMENT FUND MANAGEMENT	EAGLE BURGMANN
MADÁCH THEATER	SOPRON HOLDING ZRT.

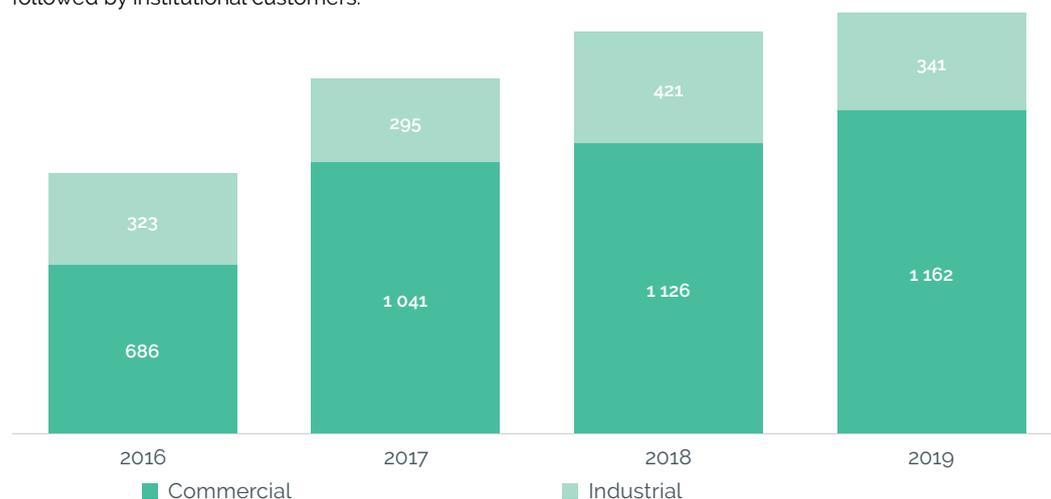
³⁵ More details on our clients: SR 2016, pages 79 and 80.

We carry out customer satisfaction surveys on an annual basis, and analyze and assess their results as part of management reviews. This is when all corrective and improving measures are also adopted, taken in the interest of maintaining high levels of customer satisfaction or raising of these levels even higher. As in last year, in 2019 we again conducted the survey by electronic means, and achieved raising the 75% response return ratio in 2018 to 85% in 2019 from clients in the energy production and service area. We also managed to increase the 82% satisfaction even further, to 86%. This is due to the fact that based on feedback from partners using our O&M, Maintenance and Project Development services, for the majority of aspects – rated on a scale of 1 to 6 – we were given average ratings close to or exceeding 5. We achieved results similar to last year for questions posed in the topics of liaising, information flow, expertise and know-how, while for the remaining topics, satisfaction also continued to increase, albeit at a slighter rate. Last year, we received lower scores in respect of

deadlines undertaken, for the management of which issue and for uncovering root causes we also launched internal client satisfaction surveys in certain areas. After strategy formation in 2019, we are looking to make this internal client satisfaction survey comprehensive in 2020. In addition, we also implemented organizational restructuring measures that we hope will lead to an increase in efficiency and eliminate the effects of the labor shortage that is increasingly prevalent in Hungary. We expect that these measures will help us better adhere to deadlines. We made significant progress in this particular area in 2019, and managed to raise the average rating of 4 to over 5. Moreover, in 2019 we also expanded the client satisfaction survey to our Retail partners, which was also completed successfully. Of our retail clients, close to 10% wanted to share their ALTEO-related experiences with us which, given the high number of clients, should be considered a highly positive ratio. Based on the returned questionnaires, general satisfaction among these partners was even higher, at close to 89%.

NUMBER OF RETAIL CLIENTS

In the framework of our retail activity, we primarily serve commercial clients, followed by institutional customers.



Among ALTEO Group's retail customers, we serve consumers with diverse scopes of activity (hospitals, universities, medicinal baths, etc.). Compared to last year, the ratio of commercial and institutional customers continued to shift towards commercial clients. The approximately 5% increase in the overall number of clients can also be traced back to the rise in the number of commercial partners.

NUMBER OF BUYERS, CLIENTS (EXCLUDING RETAIL)

In the framework of our energy production and service business, we provide partners with electricity, heat energy and desalinated water, but also perform engineering and maintenance activities. As such, beyond the above-detailed retail consumers, we also had 176 commercial and industrial, 16 state and municipal and 153 household consumers in 2019. In addition, we had a relationship with 8 wholesale clients in 2019 through the Control Center. We can also state that our clients are highly stable partners, and so the data reported herein have not changed significantly in recent years.

	Energy	O&M	VPFD	Other	Total
Household	143	0	0	10	153
Institutional	11	2	0	3	16
Commercial, industrial	76	21	4	75	176

Our employees

We pay priority attention to maintaining the loyalty and motivation of our employees. We aim to accomplish this objective through the sustainable operation and economic stability of ALTEO Group, a competitive benefit package and trainings that allow for professional advancement.

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

We consider sports a crucial element of a sustainable lifestyle, and encourage all employees to pursue sports by way of our support system for sports. The system allows staff members to request support for individual and team sports by way of applications. In 2019, the following sports activities aimed at healthy lifestyles were supported: running, folk dancing, dragon boating, rock climbing, bowling, swimming and sailing.

INTERNAL COMMUNICATION

We recognize that communication is important. Although our HR policy does not specify the minimum notification period to report major changes in the organizational operation, we place special emphasis on communication with our employees and we aim to provide information in a timely manner to ensure a good working relationship. In-person communication between employees and management is possible in many forms and on many occasions during the year:

- staff meetings,
- in-house email system: information on stock market announcements, any current and relevant events pertaining to the Group,
- corporate Newsletter,
- external HR consulting hours: where colleagues can ask questions, and share their comments and suggestions with our HR team visiting our sites,
- 'open door policy': colleagues can drop in on anyone at any time,
- onboarding process: supporting the integration of new colleagues,
- site visits: familiarization with other sites beyond employees' own direct place of work, and getting to know staff members working at such sites.

The spring of 2019 saw the establishment of the Works Council, providing additional opportunities to strengthen cooperation between employees and management.

The reason for the establishment of the Council was, on the one hand, justified by arising employee needs – as per which employees wanted to communicate their requests and wishes to management in an organized fashion –, and on the other hand, there was also a need by management of not having to communicate with employees individually, but instead having an organization in place that would summarize needs and demands, thereby allowing for a simpler and smoother

The health insurance we provide as a benefit also aims at preserving the well-being, health and fitness of employees. Despite the unfavorable amendments in taxation that also impact insurances, we renewed our corporate Company Care health insurance with an anniversary date of 7/1/2019. We expanded the basic screening package with a gynecological specialist examination (cytology, vaginal ultrasound, physical breast examination) for women, and a urologist specialist examination for men; and – as a new benefit element – we supplemented the Start package with the administration and cost reimbursement of the flu vaccination.

In 2019, ALTEO Group's traditional Family Day was held under the name ALTEO Festival on the banks of Lake Velence, with 350 colleagues and family members in attendance. Beyond entertainment, sports also played a central role, with families taking advantage of the opportunity to try dragon boating or sup on the lake.

negotiation process. At the same time, with the setting up of the Works Council ALTEO Nyrt. also fulfilled its statutory obligation.

The Works Council has 5 members, with the chairman elected by members from among themselves. Employees can forward their requests and needs to the Works Council via email, or anonymously through internal communication channels, or at face-to-face meetings. The Works Council only acts towards management in matters relating to the employment of staff members. In general, the Council furthers identical needs and requests that have been submitted in greater numbers.

In 2019, 7-8 matters were submitted to corporate management. In one way or another, these were all linked to salaries. A few examples:

- the rate of salary hike,
- restoring pension fund payments cut on account of the tax amendment to previous levels,
- having cafeteria increase in line with annual inflation,
- ensuring that benefits are not linked to the base wage, but to the gross amount of the base wage with the shift allowance added.

Company management was not against either of these proposals. It accepted the proposals relating to the wage hike, cafeteria and pension fund payments. It recommended further negotiations for the inclusion of the shift allowance, but deem it possible to integrate it into next year's budget. In addition, the Works Council also controls, monitors and provides opinions on internal regulations set out by company management relating to employer issues.

Overall, all parties involved rated the first – trial – year of the Works Council to be positive. It should be noted that on behalf of company management, it is the company's chief executive who negotiates with the Works Council, which reinforces the Council's prestige.

RECOGNITION SYSTEM

In January and February 2019, ALTEO Nyrt. granted 13,222 shares to the employees who have become eligible for these based on ALTEO Nyrt.'s recognition system and the CEO's decision.

The elements of the recognition system are as follows:

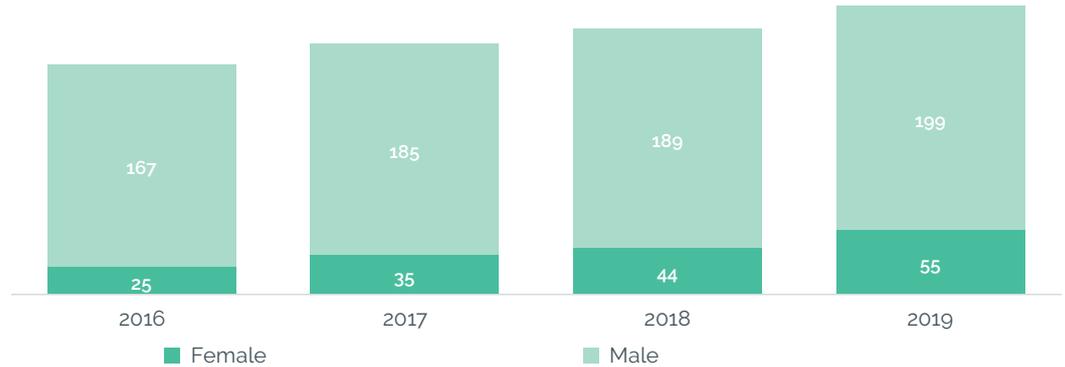
- *Role models*: this is granted to employees that produce outstanding performance in the fields of client orientation, expertise, task orientation, positive approach, sustainability and occupational safety. Colleagues nominate and write recommendations on one another.
- *Team of the Year Awards* in various categories
- *Lifetime Achievement Award*: for retiring colleagues
- *Innovation Awards*: handed out in the categories of technical and process innovation

The recognitions were given out to recipients at the Christmas dinner.

RATIO OF GENDERS

Given the unique features of the industry, the number of male employees employed by ALTEO Nyrt. is considerably higher.

RATIO OF FEMALE AND MALE EMPLOYEES



At the end of 2018, there were 44 women and 189 men working at the Group, 233 employees in total. In 2019, total staff numbers increased to 254 (+9%) by the end of the year. The ratio of men and women increased by 5% and 25%, respectively.

When monitoring the number of employees, our reports always examine year-end closing headcount and, for the sake of comparability, we always report employees in employment as

EMPLOYEE REFERRAL PROGRAM

As part of its workforce recruitment processes, ALTEO Group welcomes referrals from staff members, which can be made as part of the employee referral program launched on September 2, 2019. The referral system allows for the active inclusion of employees in the recruitment/selection process, meaning that new colleagues employees would like to work with and whose skills and reliability they are familiar with can be integrated into the organization.

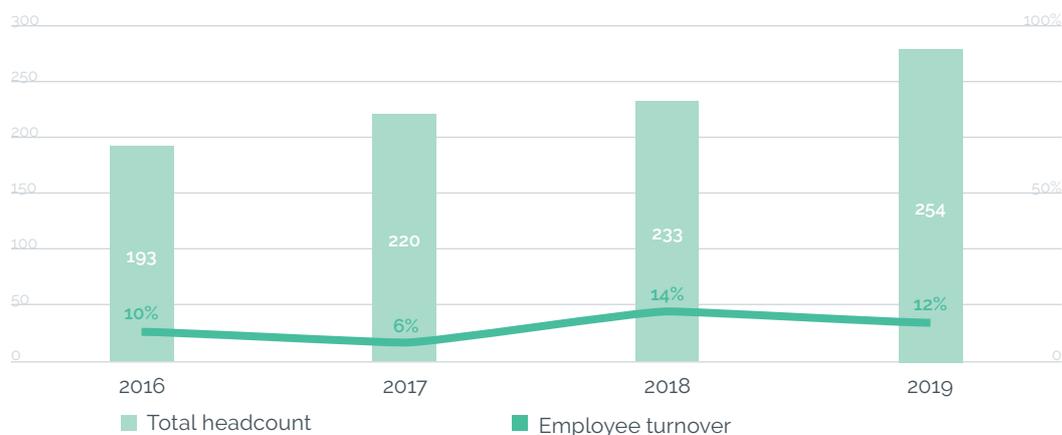
at December 31 of the given year. At present, we employ no temporary staff. When we have an ongoing large-scale project (e.g. implementation projects or major overhauls) that, given the nature or size of the work, we cannot implement using own staff only, we employ subcontractors to realize partial tasks. Subcontractors are involved in performance with their own employees, meaning that we have no accurate data on such employees and our reports do not cover them.



EMPLOYEE TURNOVER

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

OUR EMPLOYEES



Number of new hires	2015	2016	2017	2018	2019
Men	8	19	29	25	34
<30	2	4	9	7	7
30 to 50	3	13	16	11	21
50<	3	2	4	7	6
Women	7	7	11	20	18
<30	5	3	8	6	6
30 to 50	1	4	3	14	11
50<	1	0	0	0	1
Total	15	26	40	45	52

More than 60% of new male colleagues are between the ages of 30 and 50 (in other words, are persons with work experience), and the vast majority of our new female staff members (63.6%) also fall into the same age group. At the same time, we also place great emphasis on 'grooming' new career starter colleagues, which is reflected in the 25% ratio of new hires under the age of 30.

Number of staff members leaving	2015	2016	2017	2018	2019
Men	10	18	11	21	24
<30	1	1	0	2	4
30 to 50	3	6	5	12	14
50<	6	11	6	7	6
Women	5	1	2	11	7
<30	2	0	1	3	3
30 to 50	3	1	1	8	4
50<	0	0	0	0	-
Total	15	19	13	32	31

The number of employees leaving ALTEO dropped compared to 2018, which in terms of ratio was already not particularly high given industry figures. It fills us with special pride that we are able to provide our female colleagues with a stable background, a fact also reflected by their low migration ratio.

Employment contract	2015	2016	2017	2018	2019
Total	179	193	220	233	254
Full-time	179	188	211	224	244
Men	159	167	183	188	198
Women	20	21	28	36	46
Part-time	0	5	9	9	10
Men	0	0	2	1	1
Women	0	5	7	8	9

The vast majority of colleagues (96%) works for ALTEO Nyrt. in full time. We only have 10 part-time staff members, 1 man and 9 women.

Type of employment contract	2015	2016	2017	2018	2019
Total	179	193	220	233	254
Indefinite-term	179	188	217	231	252
Men	159	162	183	188	198
Women	20	26	34	43	54
Fixed-term	0	5	3	2	2
Men	0	5	2	1	1
Women	0	0	1	1	1

Based on employment contracts, only two persons had fixed-term contracts. This coincides with the 2018 value; one came to us for a fixed term to replace a colleague on maternity leave, while the other arrived for the duration of a specific project.

TRAINING AND EDUCATION

One of the key values and characteristics of ALTEO Group is all encompassing know-how and experience covering all walks of the energy sector. To ensure that we can offer high-quality, complex services to our partners in every case, we enable our employees to deepen their knowledge via regular training and further training courses. The objectives of the courses are the following: to improve the efficiency of our employees, to acquire critical qualifications for their work, and to update and complement their existing knowledge base. Our training portfolio also includes compulsory courses prescribed by law or by internal regulations, as well as internal knowledge sharing.³⁶

³⁶ Detailed information: SR 2016, p. 85

NEW PROGRAMS AND TRAINING COURSES

To be able to offer complex services to our clients, providing colleagues with specialized know-how – that might potentially be a 'rare commodity' in the given region – in the form of further training in some cases (for example in Győr) is essential.

We also defined an internal training plan in respect of the Western Hungary region for the ongoing enhancement of knowledge levels and for increasing efficiency, which allows us to continue to increase flexibility in the region.

Given that the age pyramid of colleagues working at power plants is high (meaning that many are set to retire in a few years), ensuring successors – by hiring qualified and committed young people – holds particular significance for ALTEO Nyrt.

To this end, we launched our **Internship Program** in multiple locations. The concept of the program successfully implemented in Tiszaújváros in 2018 is that we receive students of local vocational secondary schools for a summer internship, where the students can also apply for student work.

ALTEO Group's relationship with educational institutions is also tight in Győr. Collaborating with Széchenyi István University in the framework of project work, we are assisted by students in defining development potentials either uncovered or recommended as topics.

In addition, Form 7 of the Hunyadi János Evangelical Kindergarten and Primary School in Sopron visited the Sopron Power Plant, through which we wish to pique the interest of employees of the future in the profession.

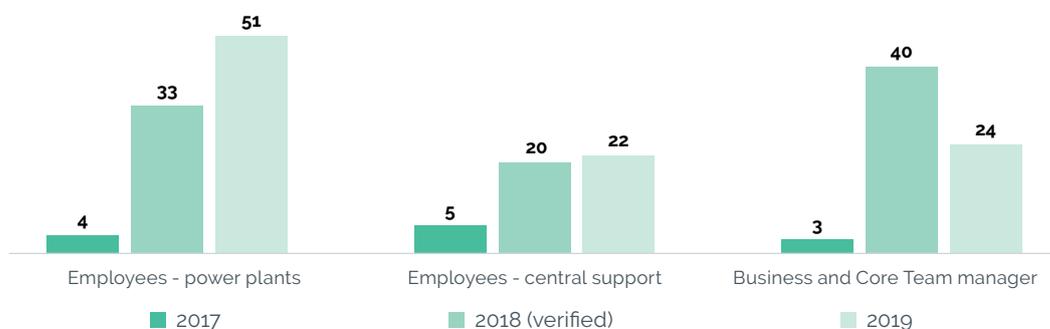
As an additional collaboration option, in the framework of a sponsorship agreement, our company acted as a sponsor at the TEDx event held in September 2019, with local small and medium-sized businesses in attendance who could end up as future partners.

Beyond the above, **ALTEO Academy** continued through 2019, as part of which 8 lectures were held. ALTEO Academy was set up for the purpose of internal knowledge-sharing and comprises a program series where lectures by colleagues are held in organized yet still informal fashion.

ALTEO Group's e-learning system, **ALTEO Tutor**, was also introduced in 2019 for internal use, serving to implement internal mandatory and other development-purpose training courses. We successfully integrated the e-learning system into day-to-day activities, thereby internal trainings, onboarding and recurring trainings are implemented in a resource-efficient fashion.

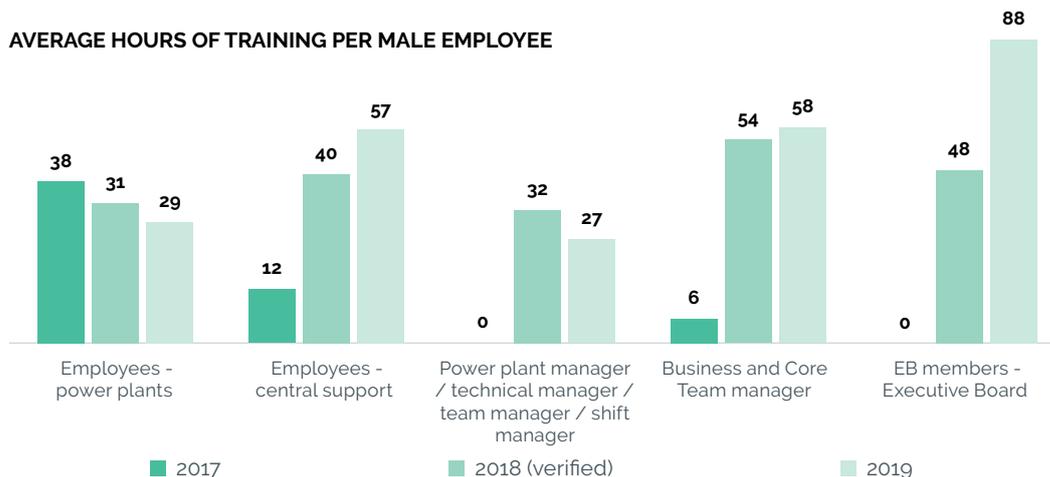
At the ALTEO Group level, training hours per person reached 35 in 2019, which is 3 hours (9%) more than in 2018.

AVERAGE HOURS OF TRAINING PER FEMALE EMPLOYEE



The training hours of female employees increased substantially (by 54.5%) for workers at power plants, but dropped by 40% among business and core team managers (through the removal of a manager training course) in 2019.

AVERAGE HOURS OF TRAINING PER MALE EMPLOYEE



In 2019, the training hours of male employees dropped among power plant workers and power plant managers, but increased for HQ staff, business and core team managers, EB members and upper management. The greatest increase was observed for the latter at 83.3%.

HEALTH AND SAFETY

Our Group considers safe working conditions and health protection a key priority as all of our blue-collar workers (122 persons) are considered to be at high risk of work-related diseases due to the jobs they do. It is a fundamental goal in our Integrated Management Policy to reduce HSE (Health, Safety, and Environment Protection) risks to a calculated and acceptable level, and to prevent work accidents, fire damage, and environment pollution. We manage health and safety as part of our Integrated Management System under the direction of the IMS manager; we apply predefined procedures and policies, and analyze the annual performance during a management review.³⁷ We communicate with stakeholder parties through dedicated channels set up for this purpose (for more details, see the previous chapter). Through the detailed and accurate surveying and management of risks, our aim is to prevent and minimize the probability of the occurrence of potential accidents as well as to mitigate the severity of expected consequences. In addition, in line with statutory provisions, we also have emergency strategies and plans in place, with stakeholders (as specified in legal regulations) also involved in their development. There have been no incidents impacting process safety in 2019 at any of our sites as part of which pollutants would have been released into the environment or where human lives would have been endangered.

Nothing confirms the outstanding work performed by the HSE more than the fact that we have ended our first work accident-free year in the spring of 2019. This means that we successfully fulfilled the commitment made in 2016, one year earlier than the deadline set in fact.

Defibrillator

In the interest of the health and safety of employees, our company procured 12 CardiAid AED defibrillators, to be put into operation at sites that have permanent operator staff. Defibrillators are now available to protect employees at the following sites:

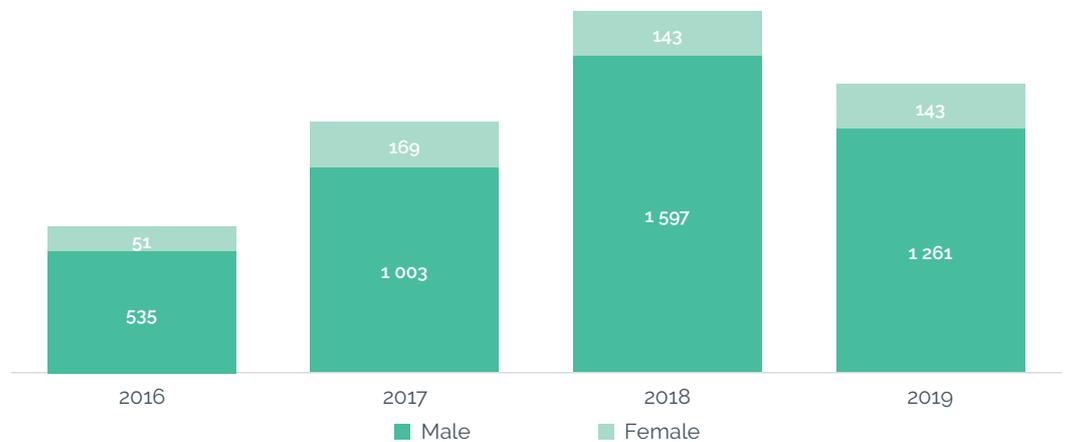
- Budapest
- Zugló power plant
- Nagykovács power plant
- TVK power plant
- Water treatment plant
- Maintenance workshop
- Tiszaújváros heating power plant
- Kazincbarcika heating power plant
- BC power plant
- Felsődobsza hydropower plant
- Sopron power plant
- Győr power plant.

The automatic defibrillator is the only solution that can save lives in the event of sudden cardiac death. The device allows for the prevention of the majority of fatalities, using an electrical current to stop the heart's abnormal activity, offering a chance to save a life. The automatic defibrillator is suitable for safe use even by those unskilled in resuscitation, but several colleagues at each of our sites have completed first aid examinations, meaning that they are trained first-aiders. Although employees have already become familiar with the operation of the defibrillator as part of an earlier training, after installation each employee also takes part in a training on defibrillator use.

Occupational safety is of priority importance for our company, one of the pillars of which is enhancing first-aid provision. To this end, we organize first-aid trainings for employees each year, which is always greeted with great enthusiasm and interest.

DAYS OF ABSENCE AND WORK ACCIDENTS³⁸

DAYS OF ABSENCE



³⁷ To learn more about our fire safety, disaster management and process safety measures and policies, see: SR 2016, page 75.

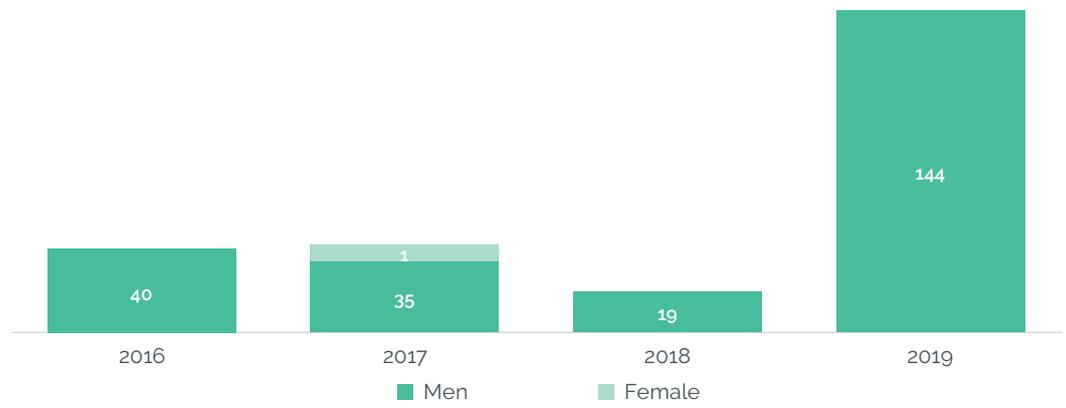
³⁸ The total number of working hours was calculated on the basis of the statistical headcount at the end of the year and does not track changes resulting from staff turnover.

In respect of male employees, the number of absentee days dropped in 2019, but remained the same (143 days) for female employees. This means that we have managed to reduce the 1,740 days recorded in 2018 to 1,404, which represents a drop of 20.3% over the course of 1 year. The 1,404 days is shared among 87 employees, which is only 34% of the total workforce. In respect of absence due to illness, the number of absentee days dropped compared to 2018. In 2019, we had 8 mothers staying at home with small children: 4 of them for the duration of the year, 1 person for 11 months, 1 person for 10 months, 1 person for 7 months and another for 3 months.

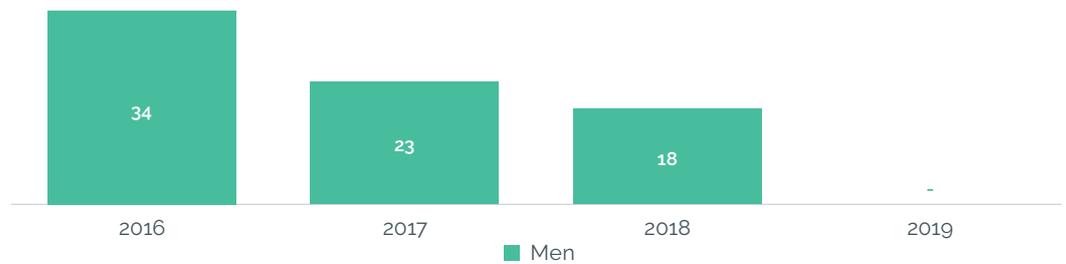
WORK SAFETY

We pay particular attention to ensuring our employees' safety and accident-free work. To do so, we have established internal work safety rules stricter than comparable legal regulations. The basis of work safety at each site is a focus on the workplace, chemical and psycho-social risk assessments that are carried out every three years. Based on these assessments, we set out annual goals and programs. We regularly organize HSE courses and annually HSE visits with the aim of raising our employees' awareness of how to avoid accidents. The greatest praise of the work performed by colleagues in HSE is that there were no work accidents at all in 2019.

NUMBER OF NEAR-MISS ACCIDENTS



NUMBER OF WORK DAYS LOST AS A RESULT OF WORK ACCIDENTS



Reporting near-miss accidents gives us important feedback about the areas and situations where the risk of accidents exists. We are making efforts to minimize and eliminate them. For these efforts to be successful, it is essential that near-miss accidents are reported to IMS. To facilitate this, reports can now be made with just a few clicks through the extRIM system. By 2019, employees have recognized the importance of reporting near-miss accidents, and the number of such reports has increased substantially (seven-and-a-half fold).

Input	2015	2016	2017	2018	2019
GRI ratios					
Work days total	254	255	249	250	250
Days at work total	45466	48960	54780	58250	63500
Total employees	179	192	220	233	254
Injury Rate (IR)*	0,013%	0,004%	0,005%	0,002%	0,000%
Occupational Disease Rate (ODR)*	0%	0%	0%	0%	0%
Lost Days Rate (LDR)*	0,11%	0,07%	0,04%	0,03%	0,00%
Absence Rate (AR) - men	1,089%	1,257%	2,177%	3,380%	2,535%
Absence Rate (AR) - women	1,206%	0,764%	1,939%	1,300%	1,040%

* No women were affected; all data refer to male employees and accordingly there is no gender-based breakdown

Local communities

ALTEO Group's impact on local communities is primarily of an economic nature and applies equally to all our regions, through which we provide jobs for the local population and entrepreneurs (for more information see the chapter Indirect economic impacts). We also stimulate regional infrastructure development and support the work of local organizations through sponsorship.³⁹ We strive to maintain good relationships with the municipalities where our sites are located, and we also pay special attention to cooperating with local educational institutions, partly for the purpose of finding and grooming the next generation of our employees, and partly to actively take part in shaping the attitude and world view of future generations – in respect of renewable energy and energy efficiency, for example.

In addition, as a responsible company, we aim to minimize our impact that arises in the form of negative externalities. We intend to achieve this by setting higher internal quality standards than required by the authorities and regularly verify compliance.

In the Western Hungary region, the power plants in both Győr and Sopron cooperate with local educational institutions. The aim of the plant visit by primary schoolers was to familiarize them with the profession and to make it appealing; while through collaboration with **Széchenyi István University** in the framework of a project work, we were assisted by students in defining development potentials either uncovered or recommended as topics.

In the North-East Hungary region – given the difficulties of finding expert succession –, two years ago we concluded a cooperation agreement with the **Brassai Sámuel Secondary School and Vocational secondary School of Tiszaújváros**, which represents freely usable targeted support for the school, which in exchange transfers students to us for summer internships.

We are not necessarily looking for straight-A students, but rather pupils that have ambition for the job. In the framework of summer internship, students can become familiar with the basics of the profession working side-by-side with experienced colleagues. This yielded the result that following the summer internship, 2 students requested to continue to work on as student workers in the control engineering area of the Kazincbarcika Heating power plant. They returned again in 2019 and are now attending technical secondary school. After completion, we will be contacting them with a job offer. We extended this good practice to the vocational school in Kazincbarcika operated by **Ózdi SZC Surányi Endre Secondary School, Vocational Secondary School and Dormitory**. The school's management reacted extremely positively and was open to our initiative. We are still at the beginning of this cooperation, but we hope to 'sign on' additional students in 2-3 years.

Among natural resources, preserving the state and condition of waters takes on priority importance as life cannot exist without water. 80% of the drinking water supply of Budapest is provided by the so called Northern water base under Szentendre-sziget (Szentendre Island). Szigetmonostor, located on the island, has been home to the **ECO Island** event for 5 years, raising the awareness of school students in the region regarding the importance of protecting waters. ALTEO Nyrt. is committed to environmental education and preserving natural resources, which is why it has been supporting ECO Island for the second year running.

39. More information on our management approach: SR 2016, p. 85

Corporate social responsibility (CSR)

CORPORATE TAX AND OTHER SUPPORT

In line with corporate tax regulations, ALTEO Nyrt. helped various organizations and foundations with over HUF 70 million of support in total in 2019. When choosing beneficiaries, considerations included their location (they operate in the vicinity of our sites) and their involvement in the Company's life as a result of their activities in some shape or form. In addition, at the corporate level, ALTEO Group provided over HUF 80 million in the form of other support to organizations in 2019.

As a domestic representative of impact investment, we strive to be not only a financially profitable, but also environmentally and socially sustainable and responsible company. We consider encouraging the behavior of new generations to pursue principles of sustainability to be of the utmost importance. In 2019, we made a decision to break with the tradition of gifting partners – as is usual at companies – and revise our approach: our company offers the amount that was to be spent on Christmas presents for business partners on a considerably more useful goal, namely supporting the generation of the future.

NIGHT OF POWER PLANTS

The first Night of Power Plants was held on October 11, 2019, in the context of which anyone interested could gain access to various electricity and heating power plants in Hungary. They had the opportunity to see the power plants from the inside, while experts presented the operation of the plants in an easy-to-understand fashion, using an experience-based approach. ALTEO opened up two power plants for visits during the Night of Power Plants. In the case of the Zugló Power Plant, visitors not only became familiar with the operation and equipment of the plant, but also with the unique industrial energy



storage unit, which contributes to the flexibility of the domestic electricity system and to the efficient utilization of weather-dependent solar plants and wind turbines. At the Tiszaújváros Heating power plant – which provides 5,600 homes in the city with district heating and hot water – experts explained how gas engines work and what hot water boilers are capable of. Hundreds of visitors took part in the event and explored the Tiszaújváros Heating power plant, a facility otherwise not open to the public. Visitors included primary schools, secondary school groups, but there were also some groups that went to all power plants in the region open for visits.

Given the great interest, ALTEO Group is already looking forward to being part of next year's Night of Power Plants.

YOUR FUTURE IS IN YOUR HANDS!

UNICEF Hungary launched its YOUR FUTURE IS IN YOUR HANDS! program for the second time this year, providing an opportunity for Hungarian young people between the ages of 14 and 24 to actively shape their own future. The initiative is primarily aimed at involving in common thinking youth at a disadvantage in terms of employment, as part of which they themselves identify the social issues that impact and occupy them, after which they formulate creative local solutions to resolve these. They are assisted in this process by experts and mentors, to help them find the tools to realize their ideas.

Participation in the program was available by way of open application, and successful applicants can start giving shape to their thoughts in the framework of a nationwide social innovation workshop, which also involves a Budapest-based training course of several days. UNICEF provides financial and professional support for the detailed elaboration as well as the implementation of the most promising initiatives, and in the summer of 2020 the best local projects will be submitted to an international panel, which may grant additional financial support or mentor assistance.

The support provided by our company finances the participation of two Hungarian teams in the international competition, allowing for the teams to use the support to prepare their application for the international contest, and the translation of this application into English to be forwarded to international judges.

SUPPORTING HEALTHCARE INSTITUTIONS

At the end of the summer of 2019, in response to a request from the Foundation of Szent János Hospital, we made a donation to ensure the renovation of hospital rooms in the Premature Birth Department of the hospital's Children's Ward, making sure children and their parents receive care in a nicer and cleaner environment.

CARBON-NEUTRAL CHRISTMAS

Our company's first carbon footprint neutralization initiative (launched at the end of 2018,) was concluded in May 2019, as part of which we planted a total of 28 fruit trees in the yards of various educational institutions. The goal of planting trees was to neutralize the volume of carbon dioxide emitted during our Christmas event. This involved planting as many trees that are able to absorb the volume of carbon dioxide emitted. At ALTEO's Christmas events in both 2018 and 2019, the GreenDependent Association calculated the Christmas event's carbon footprint, by taking the following into account:

- Number of participants, duration of the event;
- Travels by participants;
- Food, drinks and serving;
- Publications and other printed matter, as well as the volume of energy and paper used during organization;
- The energy used at the event (lighting, sound, laptops, etc.).

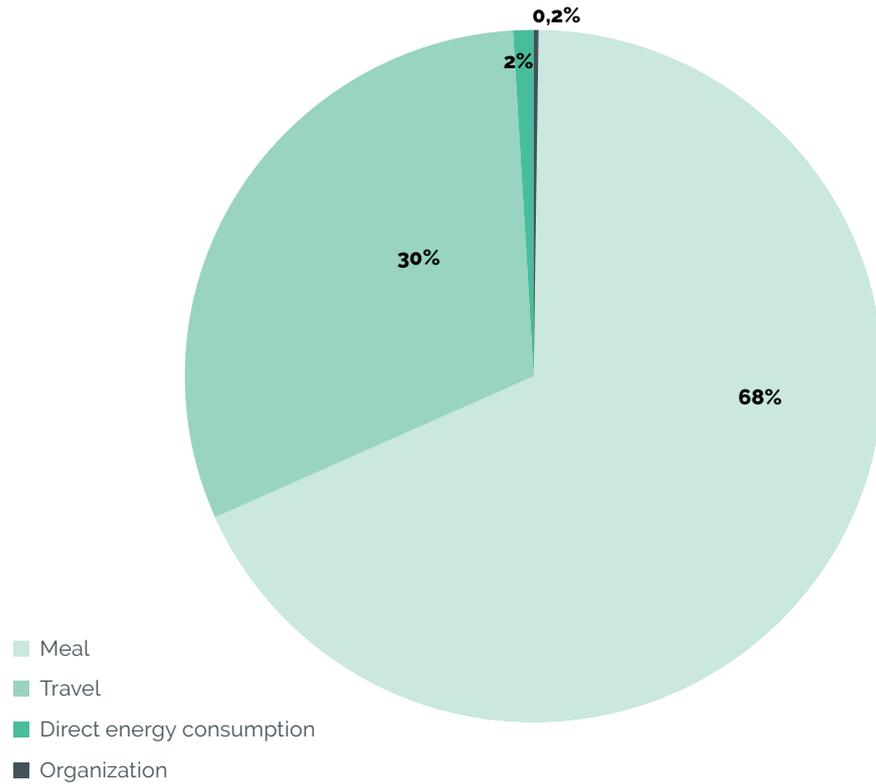
The 2018 Christmas event generated 3,18 tonnes of emitted carbon dioxide in total, which can be neutralized by planting 28 indigenous fruit trees, that will be able to absorb the volume of the carbon dioxide emitted at the event over approximately 20 years. The trees were planted in the spring of 2019, with cooperation from the Iskolakertekért Foundation, in the yards of the following educational institutions: Wesley János Family Nursery, Kindergarten, Primary School, Secondary School, Vocational Secondary School and Dormitory – Abaújkér (8 trees planted); Legyesbényei Primary School – Legyesbénye (8 trees planted); Görgy Artúr Primary School and Elementary Art School – Onga (8 trees planted), and the Forrás Christian Kindergarten, Primary School, Vocational Secondary School and Elementary Art School – Tard (4 trees planted).



Following on from last year's good practice, in 2019 we again decided to attempt to make our Christmas dinner – one of the largest and most important Group-level events – carbon neutral, which based on calculations by the GreenDependent Association incurred carbon dioxide emissions of 3.37 tonnes in total.

The components of the carbon footprint are summarized in the diagram below:

THE CARBON FOOTPRINT OF ALTEO'S CHRISTMAS EVENT



The 3.37-tonne carbon footprint of ALTEO's 2019 Christmas event can be offset by planting 28 indigenous fruit trees, that will be able to absorb the emitted carbon dioxide over an approximately 20-year compensation period. It is very important to plant trees professionally, taking life cycles and needs into consideration, to ensure that our good intentions make sense and yield benefits for many decades. The fruit trees neutralizing the 2019 event will be planted in the spring of 2020 with the help of GreenDependent, with trees procured from "Tündé kert" in Pórszombat (Zala County).

Beyond neutralization, planting trees is important because:

- it provides an educational and common gardening opportunity for students in schools;
- it yields tasty fruit and, as such, a local food production opportunity for owners;
- contributes to preserving biological diversity and regional variety.



EVENTS AFTER THE REPORTING DATE



6

Transformations, changes of ALTEO-Therm Kft.

As part of the restructuring of the ALTEO Group's corporate structure presented at the extraordinary General Meeting held on November 8, 2017, the Company merged its district heating subsidiaries with effect from January 1, 2020, set as succession day. The details of the transaction are contained in the "Events at ALTEO's subsidiaries relevant in terms of company law" chapter of this Integrated Report.

NKP/2029 capital market listing

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

ALTEO 2020/I bond transaction

On January 28, 2020, ALTEO Nyrt. 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.

ALTEO ordinary shares transaction

As a continuation of its employee share ownership plan launched in 2018, on January 31, 2020, ALTEO Nyrt. transferred 1,878 shares to employees who became eligible based on the Company's recognition system. In order to acquire the shares to be used for this program, ALTEO announced a share repurchase program for 2018 and published the details on June 15, 2018.

ANNEX 1.

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

1.

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The financial statements consist of 68. 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 AUDITORS' REPORT

To the Shareholders of ALTEO Nyrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ALTEO Nyrt. and its subsidiaries (the „Group”) for the year 2019 which comprise the consolidated statement of financial position as at December 31, 2019 – which shows a total assets of thHUF 37.574.507 –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of thHUF 273.631 –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS”), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Independent auditor's opinion

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Key Audit Matters

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

Key audit matter	Related audit procedures
Impairment of assets	
<p>(See Sections VI./9. of the Notes to the Consolidated Financial Statements for the details)</p> <p>The Group's Financial Statements includes property plant and equipment in amount of thHUF 17,711,707.</p> <p>The management investigated the existence of any trigger event and in case of such event, prepared an impairment test.</p> <p>To determine the carrying value of the assets, the Group used the discounted cash-flow model. This model requires significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth, exchange rates etc.</p> <p>Based on the significance of the above described circumstances the valuation of assets was identified as a key audit matter.</p>	<p>Our procedures in relation to management's impairment assessment included:</p> <ul style="list-style-type: none">- Examined the trigger events in case of the cash generating units,- Assessing the valuation methodology,- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and,- Analyzing the future projected cash flows used in the model to determine whether they are reasonable and supportable given the expected future performance of the assets,- Comparing the projected cash flows and growth rates, against historical performance to evaluate the accuracy of management's projections. <p>We also evaluated the appropriate application of the relevant accounting standards and disclosures.</p>

Other Information

Other information comprises the information included in the consolidated business (annual) report of the Group for 2019, which we obtained prior to the date of this auditor's report, and the integrated report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") and other regulations. Our opinion on the consolidated financial statements provided in the section of our report entitled "*Opinion*" does not apply to the other information.

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

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

In our opinion, the consolidated business report of the Group for 2019 corresponds to the consolidated financial statements of the Group for 2018 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

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

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

When we read the sections of the annual report which had not yet been made available to us at the date of this report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

Independent auditor's opinion

Page 4 of 5

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Alteo Nyrt. by the General Meeting of Shareholders on April 26, 2019 and our uninterrupted engagement has lasted for four years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Alteo Nyrt. which we issued on March 26, 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Budapest, March 26, 2020

The original Hungarian version has been signed.

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

dr. Hruby Attila
Statutory registered auditor
Registration number: 007118



I. NUMERIC REPORTS OF THE FINANCIAL STATEMENTS

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

Comprehensive income

<i>(Negative values are denoted by parentheses.)</i>	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

<i>(Negative values are denoted by parentheses.)</i>	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
Reclassification of other comprehensive income from cash flow hedges into profit/loss	24.	(1 304 930)	(856 132)
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

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.	4 396 596	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

<i>(Negative values are denoted by parentheses.)</i>	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

<i>data in HUF thousand</i>	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.	(2 268 382)	(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)		505 902	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		2 286 453	(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

<i>Data in HUF thousand</i>	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
2018.01.01	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)
2018.12.31	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
2019.12.31	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 17 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 (g) 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.

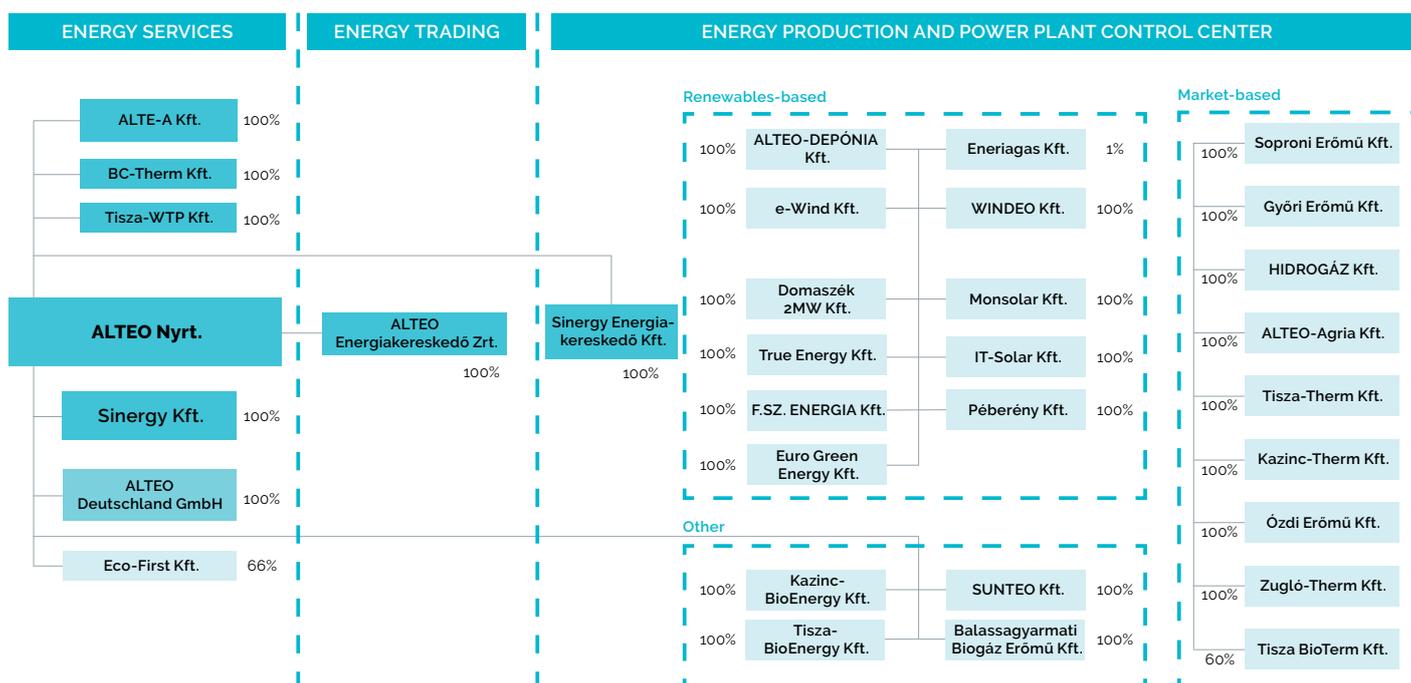
SUBSIDIARIES OF THE GROUP

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 Eco-First Kft. is 60% and 66%, respectively, with the proviso that control over these companies is

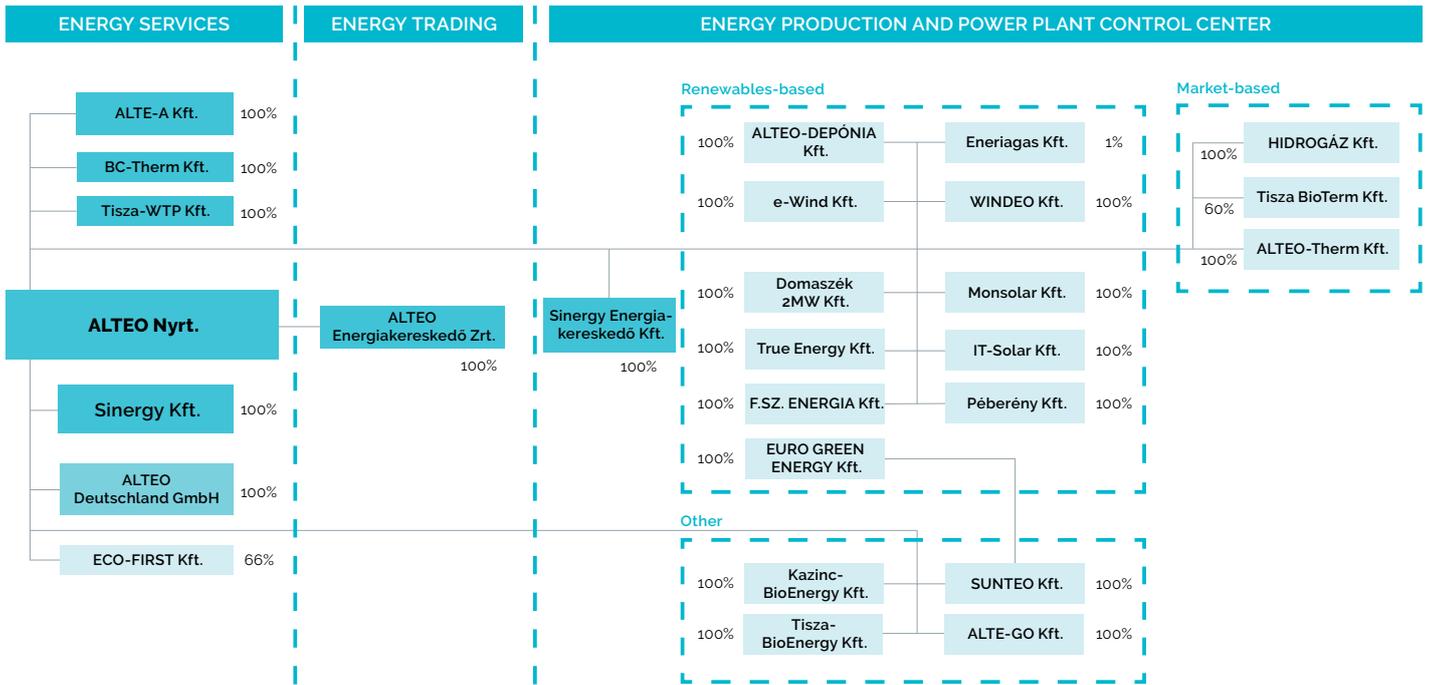
exercised by the group. The laws of Hungary are to be applied to the subsidiaries of the Group, with the exception of ALTEO Deutschland GmbH. The subsidiaries – with the exception of ALTEO Deutschland GmbH – pay tax in accordance with the Hungarian regulations.

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		Amount of the equity (HAS)	Amount of sales revenue (HAS)
					2018.12.31	2019.12.31	2019.12.31	2019.12.31
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	-

Name of companies in Group	Registered office	Activity	Ownership acquisition date	Legal title	Rate of influence		Amount of the equity (HAS)	Amount of sales revenue (HAS)
					2018.12.31	2019.12.31	2019.12.31	2019.12.31
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 Energia-szolgáltató 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 Györi Erőmű Kft.:

- ALTEO-Agraria Korlátolt Felelősségű Társaság
- Kazinc-Therm Fűtőerőmű Korlátolt Felelősségű Társaság
- Ózdi Erőmű Táv hőtermelő 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 Györi 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 (Subsidiized 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 of 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 operatio

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, Tiszá-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 Györi 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;
- CO₂ 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 CO₂ 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 (Felsőöbbsza, Gibárt)
- solar power plants (Domaszék, Monor, Balatonberény, Nagykörös)

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 them 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 personnel 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
<i>Explanation:</i>		
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)
Györi 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)	15,02	32,72
Diluted value of net earnings per share (HUF/share)	14,41	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
Nagykörös – 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).

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.

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.

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.

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.

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.

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.

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 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 Györi 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
			(1 530 956)
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	31.12.2019.	31.12.2018.
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 receivables	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 cost	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 cost	(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 cost	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 cost	(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, CO₂ 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
01.10.2018.1	Merger by absorption - own shares	(3 757)	12,5	(37)	
During 2018n	Share purchase	(3 040)	12,5	(39)	
31.12.2018.	Closing balance	15 624 379	12,5		195 314
30.01.2019.	Transfer of employee share ownership program	13 222	12,5	152	
16.03.2019.	Private placement	2 985 074	12,5	37 313	
06.12.,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 deducted 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)
<i>of which, derivative position recognized against OCI</i>	<i>(1 882 892)</i>	<i>(328 685)</i>
<i>of which, deferred tax recognized against OCI</i>	<i>169 460</i>	<i>29 582</i>
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
<i>of which long term</i>	<i>10 909 018</i>	<i>2 624 241</i>
<i>of which short term</i>	<i>2 215 114</i>	<i>982 683</i>

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
<i>Of which, instalments due within a year</i>	<i>463 165</i>	<i>602 167</i>
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, Bóny 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.
Bóny 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 of-

ices, 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 payment per annum	8 818 284 700	HUF	8 600 000 000	HUF	2029.10.28
ALTEO Nyrt "2022/II" bond		end of maturity	1 505 904 664	HUF	1 693 630 000	HUF	2022.06.07
ALTEO Nyrt "2022/I" bond		end of maturity	498 525 950	HUF	650 000 000	HUF	2022.01.10
ALTEO Nyrt "2020/I" bond		end of maturity	2 146 103 279	HUF	2 150 000 000	HUF	2020.09.30
e-WIND Kft. (HUF)	MTB	quarterly	542 830 000	HUF	301 058 656	HUF	2026.11.30
Soproni Erőmű Kft.	K&H	quarterly	500 000 000	HUF	407 029 500	HUF	2025.09.30
Monsolar Kft.	MKB	six-monthly	656 574 565	HUF	621 477 589	HUF	2033.06.30
IT-Solar Kft.	MKB	six-monthly	656 574 565	HUF	628 846 158	HUF	2033.06.30
Péberény Kft.	K&H	quarterly	2 147 328 133	HUF	2 108 759 469	HUF	2034.09.30
Domaszék Kft.	OTP	quarterly	601 000 000	HUF	574 500 596	HUF	2033.06.30
F.SZ. Energia Kft	K&H	quarterly	1 449 748 288	HUF	1 433 861 011	HUF	2034.09.30
True Energy Kft.	K&H	quarterly	1 459 872 376	HUF	1 443 894 970	HUF	2034.09.30

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 FINANCIERS:

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

Megnevezés	31.12.2019.	31.12.2018.
Támogatott eszközökkel kapcsolatos halasztott bevétel	535 674	141 248
EUA CO2 kvóta	-	-
	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	<p>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:</p> <ul style="list-style-type: none"> - 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
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 CO₂ emission not covered by quota, given that its liability is covered by a hedge transaction.

Name	31.12.2018.	Release	Creation	12.31.2019.
For onerous contracts	134 311			134 311
Provisions for asset retirement obligation	96 707	1 910	315 031	413 648
Other	20 721			20 721
	251 739	1 910	315 031	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	-	143 979	276 155
Commissions	17 000	12 000	-	29 000
Benefits	3 690	-	5 412	9 102
Reimbursements	9 559	-	9 734	19 293
Total	162 425	12 000	159 125	334 150

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 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.

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

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

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

Risk level: medium.

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 Financial Statements.

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 Financial Statements, 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 Financial Statements; furthermore, the implementation of other future projects may precede or substitute projects known as at the date of the present Financial Statements.

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, in-currence 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 Financial Statements, 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 Petrochem-

icals 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.

Type of client	Risk management
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.
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 CO₂ risk

The price changes in electricity, gas and CO₂ 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 CO₂ 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 CO₂ 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
Nagykörös 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	2019.12.31	2018.12.31
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.:



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



Zoltán Bodnár
*Chief Financial
Officer*

GRI indicator	Description	Chapter	Page
102-1	Name of the organization	ALTEO - With Energy in Mind	13
102-2	The activity of ALTEO Group	ALTEO - With Energy in Mind	13
102-3	The registered office of the headquarters of ALTEO Group	ALTEO - With Energy in Mind	13
102-4	Number of countries where ALTEO Group operates and names of countries where the Group has major plants or that are particularly relevant to sustainability issues presented in this report.	ALTEO - With Energy in Mind	15
102-5	Ownership and legal form	ALTEO - With Energy in Mind	13
102-6	Markets served	ALTEO - With Energy in Mind Our energy production portfolio	13, 32
102-7	Scale of the organization	Company introduction; Products and Services; Consolidated Statement of Financial Position; Energy Trading; Energy Services; Energy Production;	15-17, 32, 45, 36, 37., 57-58
102-8	Information on employees and other workers	Our employees	79
102-9	Supply chain	Our stakeholders	75
102-10	Significant change in the size, structure or ownership of the organization during the reporting period	Highlights 2019	7
102-11	Application of the precautionary principle within the organization	Integrated Management System (IMS) and HSE	31
102-12	Charters, principles or other initiatives containing economic, environmental or social standards developed by external organizations of which the organization is a member or supporter	Corporate strategy, mission, vision <i>More: 2016 Sustainability Report, pages 87 and 88.</i>	18
102-13	Most important membership in associations	Corporate strategy, mission, vision <i>More: 2016 Sustainability Report, pages 87 and 88.</i>	18
102-14	Statement from senior decision-maker	Letter from the CEO	5
102-16	Values, principles, standards and norms of behavior	Corporate values, culture, ethics	20
102-18	Governance structure	Corporate governance	22
102-40	Stakeholders engaged by the organization	About the integrated report; Local communities <i>More: ALTEO Sustainability Report 2016, page 78.</i>	10, 86
102-41	Collective bargaining agreements	As in previous years, ALTEO did not apply a collective bargaining agreement in 2019.	n.a.
102-42	Identifying and selecting stakeholders, engagement, key topics	About the integrated report	10
102-43		Our clients <i>More: ALTEO Sustainability Report 2016, page 78.</i>	77
102-44		Integrated Management System (IMS) and HSE	31
102-45	Entities included in the consolidated financial statements	Structure of ALTEO Group; Annex 1	110
102-46	Process for defining the content and scope of the report	About the integrated report	10
102-47	Material topics within and outside the organization	About the integrated report	10
102-48	Reason for and explanation of the impact of restatement of information included in previous reports	About the integrated report	10
102-49	Significant changes in the form and topics of the report compared to the previous reporting period	About the integrated report	10
102-50	Reporting period	About the integrated report	10
102-51	Date of most recent report	We published our Sustainability Report for 2018 on June 12, 2019.	n.a.
102-52	Reporting cycle	About the integrated report	10
102-53	Availability	About the integrated report	10

GRI indicator	Description	Chapter	Page
102-54	Reporting in accordance with the GRI Standards and GRI content index.	About the integrated report	10
102-55	This report has been prepared in accordance with the GRI Standards: Core option.	GRI index	160
102-56	Assurance	Assurance	11
103-201	Economy	Economic and operating environment <i>More: Sustainability Report 2016, page 48.</i>	47
Environment			
201-1	Direct economic value generated and distributed	Produced and distributed economic value	47
201-2	Financial implications and other risks and opportunities concerning the organization's activities due to climate change	Risks and opportunities; Integrated Management System (IMS) and HSE; <i>More: Sustainability Report 2016, page 51.</i>	23, 31
201-4	Significant financial assistance received from the government	Significant financial assistance received from the government	48
103-203	Economy	Economic and operating environment <i>More: Sustainability Report 2016, page 55.</i>	47
203-2	Significant indirect economic impacts	Significant indirect economic impacts Local communities	48, 86
103-205	Anti-corruption	Prevention of corruption <i>More: Sustainability Report 2016, page 35.</i>	29
205-3	Confirmed incidents of corruption and actions taken	Prevention of corruption	29
103-302	Environment	Integrated Management System (IMS) and HSE; Energy production	31, 65
302-1	Energy consumption within the organization	Energy production	57
103-303	Hydro	Integrated Management System (IMS) and HSE; Water consumption	31, 65
303-1	Water consumption by source	Water consumption	65
303-3	Rate of the total amount of water recirculated and reused	Soil and water protection	67
103-305	Environment	Integrated Management System (IMS) and HSE; Emissions and Air quality protection	31, 68
305-4	GHG emissions intensity	Emissions	68
305-7	Emission of air pollutants by type and quantity	Air quality protection	70
103-306	Effluents and waste	Integrated Management System (IMS) and HSE; Soil and water protection; Waste management	31, 67, 72
306-2	Waste by amount, type and disposal method	Waste management	72
103-307	Environmental compliance	Integrated Management System (IMS) and HSE	31
307-1	Amount of major environmental sanctions, number of cases of non-compliance with environmental laws and regulations and non-financial consequences	No environmental protection fines or other non-monetary sanctions were imposed on ALTEO Group in 2019 either. <i>More: Integrated Management System (IMS) and HSE</i>	31
Social			
103-401	Employment	Our employees <i>More: Sustainability Report 2016, page 82.</i>	96
401-1	Global employee turnover	Our employees	99
103-402	Labor/Management relations	Our employees <i>More: Sustainability Report 2016, page 83.</i>	96
402-1	Minimum notification period to report major changes in the organizational operation and whether it is specified in the collective bargaining agreement	Our employees	96
103-403	Occupational health and safety	Integrated Management System (IMS) and HSE; Health and safety	39, 103
403-2	Number of injuries, occupational diseases, days lost, the absence rate and the number of fatal workplace accidents per region	Health and safety	103

GRI indicator	Description	Chapter	Page
403-3	Employees with high incidence or high risk of diseases related to their occupation	Health and safety	84
103-404	Training and education	Training and education <i>More: Sustainability Report 2016, page 85</i>	82
404-1	Average hours of training per year per employee	Training and education	82
103-413	Local communities	Local communities <i>More: Sustainability Report 2016, page 85.</i>	86
413-1	Operations with local community engagement, impact assessments, and development programs, their nature, level and effectiveness	Local communities	86
103-416	Client health and safety	<i>More: Sustainability Report 2016, page 81.</i>	n.a.
416-2	Client health and safety	As in previous years, in 2019 there was no instance of us causing any safety or health risk to our partners or clients by not complying with legal or other obligations. <i>More: Sustainability Report 2016, page 81.</i>	n.a.
103-418	Client data protection	Client data protection, information security, <i>More: Sustainability Report 2016, page 36</i>	30
418-1	Protection of personal data, number of complaints	Client data protection, information security	30
103-419	Legal compliance	Ensuring compliance; Integrated Management System (IMS) and HSE	24, 31
419-1	Compliance with laws and regulations in the social and economic area	Corporate values, culture, ethics; Ensuring compliance; Our stakeholders;	20, 24, 75
EU1	Installed capacity broken down by primary energy source and control system	Energy production	57
EU2	Energy output broken down by primary energy source and control system	Energy production	57
EU3	Number of residential, industrial, institutional and commercial client accounts	Our clients	77
EU5	Allocated CO ₂ e emissions allowances broken down by carbon trading framework	Emissions	68
G4-DMA	Availability and reliability	Availability <i>More: Sustainability Report 2016 page 53.</i>	63
EU10	Planned capacity against projected electricity demand over the long term	Our energy production portfolio Energy services	32
G4-DMA	Demand-side management programs including residential, commercial, institutional and industrial programs	Products and services Energy trading <i>More: Sustainability Report 2016, page 55.</i>	32, 36
G4-DMA	System efficiency	Availability <i>More: Sustainability Report 2016, page 60.</i>	n.a.
EU11	Average production efficiency of thermal power plants broken down by primary energy source	Fuel use and system efficiency	60
G4-DMA	Crisis management	Health and safety As in previous years, in 2019 there was no emergency situation, fire or fatal incident, or any event causing lost days or deaths to our subcontractors or third parties at our sites. <i>More: Sustainability Report 2016, page 75.</i>	84
EU30	Average power plant availability by energy source	Availability	63
G4-DMA	Process safety	Work safety <i>More: Sustainability Report 2016, page 75.</i>	85
OG13	Number of process safety incidents per business activity	Days of absence and work accidents	84