

Separate Financial Statements

ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság

for the business year ended on December 31, 2019
in accordance with the International Financial Reporting
Standards as adopted by the EU



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Management Report and Analysis pages: 105-142

Issue date of Independent Auditor's Report:

26th March, 2020

Approval date of the Board of Directors within the competence of the General Meeting:

30th April, 2020

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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
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

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The financial statements consist of 103 pages.

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ALTEO Nyrt,

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ALTEO Nyrt. (the „Company”) for the year 2019 which comprise the statement of financial position as at December 31, 2019 – which shows a total assets of thHUF 25,009,821 –, and the related statement of recognized income, statement of comprehensive income – which shows a net profit for the year of thHUF 174,563 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019 and of its financial performance and its 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 financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (the „Accounting Act”) relevant to the entities preparing 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 Financial Statements*" section of our report.

We are independent of the Company 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.

Key Audit Matters

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

Key audit matters	Related audit procedures
Valuation of long-term participations in subsidiaries	
<p>(Details are to be found in Note V/10 Shares in subsidiaries and associates.)</p> <p>The Company recognised thHUF 2,853,383 as long-term shares in associated parties.</p> <p>The management performed impairment test on the ownership shares in business entities to identify potential signs of impairment, and if so, to consider whether impairment should be recognised.</p> <p>The impairment test performed on long-term shares in associated parties was based on the discounted cash flow model, which model requires certain assumptions and professional valuation from the part of the management (e.g. discount rates, growth rates, exchange rates).</p> <p>Accordingly, the valuation of long-term shares in associated parties was considered to be a key audit matter.</p>	<p>In the course of our audit procedures involving the valuation test of long-term shares in associated parties, we focused on examining the appropriateness of the assumptions used by management. We performed the following procedures:</p> <ul style="list-style-type: none">- reviewed whether the model applied by management was in line with the Accounting Act,- validated the discount and growth rates used for the assumptions,- analysed the assumptions used in the model to see if they were reasonable and supportable for the future performance of the given investment,- compared expected cash-flows and growth rates with the facts to test the accuracy of management forecasts. <p>We also examined whether the accounting standards were applied properly and whether the accounting statements and disclosures were accurate.</p>

Other Information

Other information comprises the information included in the business (annual) report of the Company 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 financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditor's report entitled "*Opinion*" does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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 business report also include reviewing the business report to assess whether the business report was prepared in accordance with the relevant provisions of the Accounting Act and other regulations, if any, including the assessment whether the business report complies with the requirements of Section 95/B. (2) e) and f) of the Accounting Act, and to express an opinion on the above and on whether the business report is consistent with the financial statements. 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 business report.

In our opinion, the business report of the Company for 2019 corresponds to the financial statements of the Company for 2019 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 Company is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Company 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the 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 financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the 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 Company'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 Company'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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 Company'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 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 Company by the General Meeting of Shareholders on March 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 financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, 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 Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the business report.

The engagement partner(s) 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

ALTEO Nyrt. separate (not consolidated)

Income statement and statement of other comprehensive income

(Negative values are denoted by parentheses.)

	Note	2019 12 months data in HUF thousand	2018 12 months data in HUF thousand
Sales revenues	1.	10 103 159	4 503 172
Material expenses	2.	(6 148 709)	(2 751 362)
Personnel expenses	3.	(2 993 207)	(1 310 012)
Depreciation and amortization	4.	(232 565)	(58 669)
Other revenues, expenses, net	5.	(204 057)	(23 946)
		524 621	359 183
<i>Income from financial transactions</i>	6.	278 314	1 162 437
<i>Expenses from financial transactions</i>	6.	(456 012)	(699 328)
Profit or loss on financial transactions (-)	6.	(177 698)	463 109
Profit or loss before taxes		346 923	822 292
Income taxes	7.	(172 360)	(244 954)
Net profit or loss		174 563	577 338
EBITDA		757 186	417 852

Other comprehensive income

*data in thousand HUF
(Negative values are denoted by parentheses.)*

	Note	2019 12 months	2018 12 months
Other comprehensive income (after income tax)	20.	-	(10 340)
<i>Other comprehensive income from cash flow hedges</i>	20.	-	-
<i>Other comprehensive income from cash flow hedges</i>		-	(10 340)
<i>Reclassification of other comprehensive income from cash flow hedges into profit/loss</i>	20.		
Comprehensive income		174 563	566 998

ALTEO Nyrt.
Separate statement of financial position
for December 31, 2019

Assets

(Negative values are denoted by parentheses.)

	Note	12/31/2019 HUF thousand	12/31/2018 HUF thousand
Non-current assets		17 375 644	7 222 322
Property, plant and equipment	8.	994 897	991 422
Property, plant and equipment	8.	55 422	18 970
Other intangible assets	8.	153 545	86 207
R&D	8.	353 097	243 563
Rights of use	8.	131 874	-
Deferred tax assets	11.	-	-
Long-term loans given	9.	12 728 952	2 773 196
Lease assets - due in more than 1 year	12.	104 376	218 591
Long-term share in subsidiary	10.	2 853 383	2 890 273
Long-term share in associate	10.	100	100
Current assets and assets held for sale		7 634 177	6 404 535
Inventories	13.	251 222	146 950
Trade receivables	14.	3 315 563	2 470 141
Other financial assets	15.	-	22 049
Part of lease asset liabilities due within the year	12.	131 926	277 968
Other short-term receivables and accruals	16.	1 599 126	2 129 216
Cash and cash equivalents	18.	2 336 340	1 344 530
Income tax receivables	16.	-	13 681
TOTAL ASSETS		25 009 821	13 626 857

Equity and liabilities data on the next page!

ALTEO Nyrt.
Separate statement of financial position

Equity and liabilities

(Negative values are denoted by parentheses.)

	Note	12/31/2019 HUF thousand	12/31/2018 HUF thousand
Equity		8 151 120	6 229 388
Issued capital	19.	232 948	195 314
Share premium	19.	5 092 255	3 116 887
Retained earnings	19	3 123 766	3 184 617
Share-based payments reserve	22.	68 398	92 690
Transactions with owners	20.	(366 247)	(360 120)
Cash-flow hedge reserve	21.	-	-
Long-term liabilities		11 842 230	2 956 466
Long-term loans and borrowings	26.	2 500	5 700
Debts on the issue of bonds	25.	10 909 019	2 624 241
Deferred tax liabilities	11.	44 414	24 812
Provisions	24.	15 500	15 500
Deferred income	28.	446 310	-
Lease liabilities - long	27.	79 937	-
Other long-term liabilities	26.	344 550	286 213
Short-term liabilities		5 016 471	4 441 003
Short-term loans and borrowings	26.	-	-
Short-term bond payables	25.	2 215 114	982 683
Advances received	31.	497 963	364 730
Trade payables	30.	372 736	1 087 126
Lease liabilities - short	27.	54 296	-
Other short-term liabilities and accruals	31.	1 874 679	2 006 464
Income tax liabilities	31.	1 683	-
TOTAL EQUITY and LIABILITIES		25 009 821	13 626 857

Separate Statement 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	Cash-flow hedge reserve	Total equity
01.01.2018	195 390	3 116 887	1 110 952	83 740	(356 136)	10 340	4 161 173
Dividend payment			(250 099)				(250 099)
Comprehensive income in the period			577 338			(10 340)	566 998
Share-based benefits				8 950			8 950
Merger by absorption	(37)		1 746 426		(2 008)		1 744 381
Purchase of own shares	(38)				(1 975)		(2 013)
31.12.2018	195 314	3 116 887	3 184 617	92 690	(360 120)	-	6 229 388
Implementation of employee share ownership program (2018 benefits)	166	8 784		(8 950)			-
Private placement	37 313	1 954 303					1 991 616
Share purchase	(114)				(6 127)		(6 241)
Dividend payment			(250 068)				(250 068)
Employee Share Ownership Program implementation	269	9 944					10 213
Employee Share Ownership Program lapse		2 338	14 654	(16 992)			-
Share-based benefits				1 650			1 650
Comprehensive income in the period			174 563				174 563
31.12.2019	232 948	5 092 255	3 123 766	68 398	(366 247)	-	8 151 121

For registration purposes at the registry court, the amount of the Company's issued capital is established in section 23, and the share movements are presented in section 19.

Separate Statement of Cash Flows

	Note	12/31/2019 HUF thousand	12/31/2018 HUF thousand
Profit or loss before taxes		346 923	822 292
Interest income and expenses (net)	6.	90 921	89 796
Depreciation	4.	232 565	58 669
Impairment losses (other than net current assets)	17.	128 921	500 590
Provisions recognized and released	24.	-	15 500
Changes in deferred income	28.	446 310	-
Non-realized translation gains and losses - other than net current assets		(1)	2 694
Share-based payment cost	22.	(24 292)	8 950
Changes in deferred tax	11.	19 602	-
Profit or loss on derecognizing fixed assets	5.	558	-
Interest paid	6.	(282 952)	(97 535)
Net cash-flow of business activity without change in current assets		958 554	1 400 956
Change in inventories	13.	(104 272)	(145 950)
Change in trade receivables, other receivables, accrued income and deferred charges	14.	(301 651)	(1 711 569)
Change in other financial assets	15.	282 306	318 921
Change in trade payables, other liabilities, accrued expenses and deferred income	30.	(786 154)	1 790 288
Change in advances received	31.	133 233	364 730
Change in net current assets		(776 538)	616 420
Operating cash flow before taxes		182 016	2 017 376
Income tax paid	7.	(172 360)	(73 862)
Cash generated / (used) in operating activity		9 656	1 943 514
Interests received on deposits and investments	6.	192 031	113 523
Purchase of fixed and intangible assets	8.	(581 796)	(1 299 523)
Investment in acquiring businesses (net of cash)	10.	(9 000)	(370 953)
Proceeds from derecognizing fixed assets		1	-
Long-term loans given - disbursement	9.	(15 466 605)	(801 300)
Long-term loans given - repayment	9.	5 442 473	-
Cash generated / (used) in investment activities		(10 422 896)	(2 358 253)
Long term loans borrowed and bonds issued	26.	10 661 668	(69 961)
Long term loans and bonds repaid	25.	(1 013 426)	-
Capital increase	19.	2 013 003	-
Effect of the merger by absorption on capital	19.	-	1 746 426
Other transactions with owners	20.	(6 127)	(4 060)
Dividend payment	19.	(250 068)	(250 099)
Cash generated / (used) in financing activities		11 405 049	1 422 306
Changes in cash and cash equivalents		991 810	1 007 567
Opening cash and cash equivalents	18.	1 344 530	339 657
Cash exchange gains/losses		1	(2 694)
Closing cash and cash equivalents	18.	2 336 340	1 344 530

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

1. Statement of IFRS compliance

ALTEO Energiaszolgáltató Nyrt. (the “Company”) declares that its separate 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 Company’s best knowledge, providing a true and fair view of the assets, liabilities, financial situation of the Company as an issuer, as well as of its profit and loss. Furthermore, the Company declares that its separate 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.

2. Introduction to ALTEO Nyrt.

ALTEO Nyrt. is a Hungarian-owned energy service and trading company with a modern outlook. The scope of our business activity covers renewable and natural gas energy production, energy trade and bespoke energy services and development for companies. We provide our customers with a reliable and environmentally responsible energy supply based on the sustainable use of renewable energy.

As an energy trader, our partners include small and medium-sized Hungarian enterprises as well as large corporations. Our optimum mix of assets and our Control Center enable us to serve the needs of our customers effectively. ALTEO is a dynamically developing company, and we are always on the lookout for new opportunities for investment and growth and we work continuously to ensure that we provide our customers and partners with the most innovative range of services of the highest quality in an effort to achieve a continuous increase in shareholder value. The shares of the company, admitted to the Budapest Stock Exchange in 2010, have been 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.

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 constantly 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 generate 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.

3. Basic information of ALTEO Nyrt.

The Company was founded on April 28, 2008 as a private limited company for an indefinite period of time. The legal form was changed to public limited company as of September 6, 2010 and the company was listed on the Budapest Stock Exchange.

Basic information of ALTEO Nyrt.	
The Company's name	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
The Company's abbreviated name	ALTEO Nyrt.
Registered office and center of operations of the Company	H-1131 Budapest, Babér u. 1-5.
The Company's telephone number	+36 1 236-8050
The Company's central electronic mailing address	info@alteo.hu
The Company's web address:	www.alteo.hu
The Company's place of registration	Budapest
Date of registration	April 28, 2008
Company registration number	Cg.01-10-045985
The Company's tax number	14292615-2-41
The Company's EU VAT number	HU14292615
The Company's statistical code	14292615-7112-114-01
Term of the Company's operation	indefinite
The Company's legal form	public limited company
Registered core activity of the Company	Engineering activities and related technical consultancy (Hungarian NACE 7112'08)
Governing law	Hungarian
The Company's share capital	HUF 242,328,425
Date of the effective Articles of Association	September 2, 2019

Ownership structure of the Company

The majority shareholder of the Company is Wallis Asset Management Zártkörűen Működő Részvénytársaság (H-1055 Budapest, Honvéd utca 20, company registry number: 01-10-046529). The Company's ultimate parent company as at December 31, 2019 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 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.

Scopes of consolidation

The Company's parent company involving it in consolidation is WALLIS PORTFOLIÓ Kft.

ALTEO Nyrt., as parent company, is obligated to prepare a consolidated annual report and a consolidated business report. In accordance with Section 10 (2) of the effective Act C of 2000 on Accounting, the Company complies with its consolidation obligation by publishing a report and a management report compiled in accordance with the IFRSs.

4. The basis for preparation of the financial statements

These financial statements present the financial position, performance and financial situation of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság. The Company first published separate financial statements prepared under IFRS for its 2017 business year.

These Financial Statements were prepared in accordance with Act C of 2000 on Accounting ("Accounting Act") as currently in force. In accordance with the Accounting Act's rules for the preparation of IFRS financial statements, the International Financial Reporting Standard ("IFRS") established by the International Accounting Standards Board ("IASB"), as endorsed by the European Union, applies. 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 Company prepared the financial statements considering the provisions of Decree no. 24/2008 (VIII.15.) of the Minister of Finance on the detailed regulations on information obligation in connection with the securities trade on the stock exchange.

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

Going concern requirement

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

Critical accounting assumptions and estimates

The Company 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 Company's CEO acting on behalf of the Board of Directors ensures that the Company's financial statements and the related Separate Business (Management) Report are prepared. The Board of Directors publishes the finished financial statements and the Separate Business (Management) Report and submits them to the General Meeting after having them reviewed by the Supervisory Board.

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

The Company'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 (<http://bet.hu>), and
- on its own website (www.alteo.hu).

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

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

5. Significant accounting policies

Presentation of the separate financial statements

The separate financial statements of ALTEO Nyrt. comprise the following (parts):

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

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

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

Currency of presentation of the financial statements

The 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 Company 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

Significant decisions regarding presentation

The financial statements cover a period of one calendar year. The reporting date of the financial statements for each year is the last day of the calendar year, i.e. December 31. The Company prepares and publishes separate financial statements annually. No interim separate financial statements are prepared.

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

The Company discloses operating segment information in the notes to the financial statements. Operating segments are determined in accordance with the strategic requirements of the management.

The Company's management established the following segments:

Name of segment	Description of segment
Operation Business	Operation and maintenance of power plants
Ventures and Power Plant Construction Business	Construction-installation activities
Other	Other non-segment activities and central administration.

The activity of the Company is limited to Hungary only, the management did not consider it necessary to establish regional segments for the area of the country.

Accounting policies related to the separate statement of profit or loss

Revenues

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

Name	Content of item
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 Company and no practical risk arises on the part of the Company in connection with this, then reselling is done in an “agency structure” and the item is no part of the revenue.
Value added tax	Value added tax within the meaning of Act CXXVII of 2007.

In connection with the customer contracts, the Company applies 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 (or are recognized as being transferred) to the buyer at the same time, the Company realizes of the revenue – allocates it to contractual elements or periods – according to the underlying economic content.

The following contracts or contractual elements are included in this category:

- general construction-installation contracts
- overhaul component in operation and maintenance 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.

The Company performs individual assessments and investigations of its buyers' contracts. 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. The Company found that its contracts do not contain such an element.

Contractual assets

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 Company presents any proceeds from leases strictly related to its activities as revenues.

Expenses related to operation

Non-finance expenses are to be classified as follows:

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

Other income and expenses

Other income recognized by the Company 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 Company in the statement of profit or loss and other comprehensive income as net figures.

Finance income and expenses

The Company accounts for its finance income and expenses according to the IFRS 9 regulation.

The IFRS 9 introduced 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).

The IFRS 9 regulates 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) are relaxed.

Dividend income and interest income are recognized as finance income. Interest income shall be accounted for on a pro rata temporis basis. Dividend income must 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 Company in finance income. The Company 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).

In 2019, the Company ceased to be subject to income tax on energy suppliers.

Offsetting

In addition to the requirements under IFRS, the impact of a transaction is recognized in the Company'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).

Discontinued activities

According to the provisions of the standard, the Company 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.

The performance of the electricity retail business line, presented as a discontinuing activity in 2017, is no longer separately presented for 2018 and 2019. Currently a negligible volume of transactions took place in electricity retail exclusively in relation to amendments resulting from previous periods that have not yet lapsed under the Electricity Act. The Company's trade license was not renewed in 2018, therefore the statement of financial position and the statement of profit or loss are not broken down to licensed activities for the current year.

Application and concept of EBITDA

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

The indicator is calculated as follows:

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

For discontinuing activities, if any, the net profit or loss containing the profit or loss of that activity must be modified by the following items.

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

Taxes: income taxes in the net profit or loss (current and deferred tax alike) are neutralized by the Company 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 Company 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 Company retroactively, similar to depreciation and amortization. We do not adjust the impairment of other assets, financial instruments (e.g. trade receivables, inventories) when calculating the indicator. However, the amount of any adjustments recognized in respect of the measurement of certain liabilities (e.g. amortization, revaluation of a deferred purchase price) is adjusted.

EPS - earnings per share the shareholders are entitled to

When calculating earnings per share, the Company presents them in the consolidated statements based on the net profit or loss concerning the ALTEO Group. In accordance with the provisions of the IAS 33 standard, the separate IFRS statement does not contain EPS data.

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 Company as property, plant and equipment. 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 Company has at least a constructive obligation for the retirement. No provisions are made for ARO if the estimated expense of deconstruction is not significant, that is, it remains under HUF 500,000. Assets that belong together are 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 Company estimates the ARO using a percentage coefficient between 0% and 10%. The Company used a discount rate of 8.57% for discounting in 2019. For the present PPE inventory, no ARO need to be recognized.

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 Company 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.

The Company measures the fixed assets subsequent to initial recognition using the cost model (initial value reduced by accumulated depreciation and accumulated impairment losses).

The base of depreciation is the initial cost 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.

The Company calculates depreciation for each component on the basis of the depreciable value and uses the straight-line depreciation method.

The following depreciation rates are used for assets:

Asset group	Extent of depreciation
Land	non-depreciable
Buildings	1–5%
Power plant equipment	1–20%
Non-production machinery	14–33%
Office equipment	14–50%

The useful life of each component must be reviewed, and it must be determined 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.

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 Company as a component of the given asset and the Company examines whether the asset's useful life is aligned with the next (expected) occurrence of such projects.

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

Intangible assets

The initial recognition cost 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 immediately when there is an indication of impairment.

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, straight-line 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.

R&D

Between July 1, 2017 and June 30, 2019, co-funded by the National Research Development and Innovation Fund, the Company successfully produced an R&D know-how asset as a result of its R&D activity in connection with the integration of small heat and electricity cogeneration plants and weather-dependent electricity generators, electricity-based heat generation units and a battery electricity storage facility belonging to the existing control center. In the opinion of the Company's management, the research activity aimed at generating other intangible assets meets the IAS 38 recognition criteria and the know-how created as a result of the activity can generate revenue. Costs incurred in the course of the development project are recognized among intangible assets.

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 Company 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, the existing comparative data of ALTEO must be used when determining the market interest rate when establishing the value of the right of use and the obligation. 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)	-	81.646
Liability (opening value)	-	81.646
Services used (in 2018)	46,350	-

The Company 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 Company as a lessor, the application of the new standard did not imply a change. The Company 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.

Borrowing costs

In accordance with the provisions of IAS 23, borrowing costs are capitalized by the Company if it uses the loan to finance 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) can be considered as a qualifying asset as follows:

- 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 Company or third parties).

The classification is independent of the value of the asset.

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 Company, 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.

Government grants

As a general rule, grants are recognized by the Company as income. Income is distributed over the periods for which it is granted. 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 (e.g. asset-related grant), it is recognized as other income.

In the case of asset-related grants, the revenue recognition period is during which the subsidized asset is used.

Grants may be accounted for if

- it is essentially certain that the Company 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 Company 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

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 Company 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 Company 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 Company 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.

Inventories

Inventories are stated in the financial statements at the lower of their cost or net realizable value. The Company 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 Company 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, 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.

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 in the distant future), 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:

- onerous contracts
- 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 Company 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 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 Company provides predominantly short-term employee benefits to its employees. These are recognized by the Company 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 company affected (constructive obligation).

The Company 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 Company operates in a legal environment in which employees are entitled to paid leave. If 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.

Financial assets

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

Financial assets are classified by the Company as follows:

- a) debt
- b) equity instrument
- c) derivative

a) In the case of debt instruments:

Loans and receivables (assets evaluated at amortized initial recognition costs): 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 Company typically records the following items in this category:

- loans given
- trade receivables
- advances received
- other receivables

The purpose of holding these assets is to collect contractual cash flows, that is, these assets are held by the Company 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 Company has no assets with massive multiplicity or assets with similar characteristics in the case of which the portfolio method could be applied.

b) Capital instruments include only assets that represent a shareholding and do not fall within the scope of the standards regulating group accounts, that is, are not subsidiaries, joint organizations or associates.

c) Derivatives include all instruments whose value is a function of a change in an underlying variable; their initial investment need is negligible and their settlement takes place in the future. In the case of the Company, these are typically derivative transactions, except where the rules on hedge accounting provide otherwise. If the Company 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: derivative transactions and forward contracts acquired for trading purposes are included by the Company in this category. Typically, the Company 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 Company and no repayment obligation is attached thereto are classified by the Company as equity instruments.

At initial recognition, all financial instruments are measured by the Company at fair value. Transaction costs are capitalized unless the instrument is classified as FVTPL. In this case the transaction cost is expensed.

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 Company 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 Company 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 Company as the effective interest rate.

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

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

Application of the ECL model

The expected credit loss model (ECL) was applied with the introduction of the standard in the previous year. The management of the Company updated its estimates for the model in the current year. The applied rates were redefined by taking account of the risks associated with that business line. The extent of the Company's impairments is low, due to the receivable management processes developed in the past years. In the case of the related transactions (including the majority shareholder, the WALLIS Group), previously there was no need to account for impairment. Details on the application of the ECL model are included in Note 17.

Hedge accounting

The Company 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.

Interest in other entities

The Company holds several investments in other entities that are consolidated or must be treated as associates. In the separate financial statements, these shall be valued by the Company at their initial recognition cost, reduced by accumulated impairment. Dividends received from a subsidiary are recognized by the Company in the profits.

Detailed information relating to subsidiaries are provided in the presentation of ALTEO. Although the Group acquired a 100% share in two of the entities listed above, the management arrived at the conclusion that these companies shall not be consolidated, but rather recognized as leases due to the special characteristics of the transaction. The Group act as a lessor with respect to these business entities. 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. In the case of these subsidiaries, 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.

For the Group, NCIs are recognized currently in the case of Tisza Bio Term Kft. and ECO First Kft. where the parent company has a stake of 60% and 66% respectively. The net assets (assets and liabilities) of the respective subsidiary 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.

The Group had no joint ventures on December 31, 2019 or December 31, 2018. The Group has to face no limitations concerning any of its entities belonging to its scope of consolidation that would influence access to net assets, the profit or the cash flow. The Group has no interests (both consolidated or not consolidated) in which control is not established through voting rights (e.g. on the basis of a management contract or senior management appointment). Furthermore, has no interests 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. The Company values its subsidiaries on the basis of the cost model.

Share-based payments

The Company motivates certain senior employees with share option benefits within the framework of an MRP organization. The internal value of the share options in question must be accounted for as expense under the vesting period in accordance with the provisions of the IFRS 2 standard against personnel expenses. Upon the management's decision, the Company distributes Shares to the employees who have become entitled to these on the basis of the Company's recognition system. The market value of the shares given as a reward must be accounted for as expense at the moment when they are granted, in accordance with the provisions of the IFRS 2 standard, against personnel expenses.

Current income tax expense and deferred taxes

The actual income tax expense for the current year is calculated by the Company in accordance with the applicable tax laws and is recognized in current liabilities (or current receivables, as the case may be). In addition, deferred taxes are also estimated 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. For local business tax and innovation contribution, deferred tax is only applicable in exceptional cases.

General accounting policies relating to the statement of cash flows

The Company'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.

Equity

The Company recognizes the following items in the statements as parts of the equity:

Name of capital element	Content of capital element
Issued capital	Number of issued shares times the face value. The face value of own shares bought back is deducted from the capital element
Share premium	The entirety of payments for the issued shares above their face value
Retained earnings	The amount of the cumulated profit or loss not paid as dividend (that is, the aggregate profit or loss)
Share-based payment reserve	Reserves established based on the IFRS 2 standard
Cash-flow hedge reserve	Reserves established in accordance with the provisions of the IFRS9 standard, based on the value of the non-realized cash-flow positions at the end of the period. Only the efficient part according to the documentation of the cash-flow hedge transactions can be recognized as part of the reserves.
Transactions with owners	value of transactions conducted with capital owners as such, presenting allocations for the owners (e.g. part of the shares bought back above face value) separately

In the notes the Company publishes information concerning the following shares with regards to all classes of the share capital:

- number of shares authorized for issuing;
- number of shares issued and fully paid, and the number of shares issued but not yet fully paid;
- face value of shares;
- checking the number of shares in circulation at the beginning and the end of the period;
- rights, priority rights and limitations assigned to the share class in question, including
- limitations concerning dividend payment and capital repayment;
- shares owned by the Company or its subsidiaries or associates;
- shares reserved to be issued under options and contracts concerning sale of shares, including terms and amounts.

The Company prepares the equity correlation table prescribed in Section 114/B of the Accounting Act. The equity correlation table contains the opening and closing data of the individual elements of equity according to the IFRSs and, deduced from that, the opening and closing data of the following equity elements:

Name of element	Content
Equity	amount of the equity according to the IFRSs, increased by the amount of the received additional monetary contribution recognized as liabilities according to the IFRSs, decreased by the amount of the paid additional monetary contributions recognized as assets according to the IFRSs, increased by the amount recognized as deferred income from the value of financial assets, assets received to be transferred into capital reserve according to legal regulations, decreased by the amount of the receivable recognized against shareholders due to capital increase qualifying as capital instrument.
Issued capital according to the IFRSs	the issued capital as determined by the articles of association if it qualifies as capital instrument.
Issued but yet unpaid capital	the amount not yet at the disposal of the business entity from the issued capital according to the IFRSs.
Capital reserve	the amount of all the elements of equity not belonging to the concepts of issued capital, the issued but unpaid capital, the retained earnings, the evaluation reserve, the profit after taxes or allocated reserve according to the IFRSs.
Retained earnings	accumulated profit after taxes recognized in the annual report according to the IFRSs not yet paid to the shareholders, including amount accounted for the benefit or against the accumulated profit or loss according to the IFRSs; it cannot contain other comprehensive income according to the standard IAS 1 Presentation of Financial Statements with the exception of reclassification modifications. Amounts generated this way must be decreased by the amount of the paid additional monetary contribution recognized as asset according to the IFRSs and the amount of the unused development reserve decreased by the related deferred tax calculated based on the standard IAS 12 Income Taxes.
Evaluation reserve	the cumulated amount of the other comprehensive income in the comprehensive income statements according to the standard IAS1 Presentation of Financial Statement also including the other comprehensive income in the current year.
Profit after taxes	the concept defined in Section 114/A (9) of the Accounting Act.
Allocated reserves	the amount of the received additional monetary contribution recognized as liability according to the IFRSs, increased by the amount of the unused development reserve decreased by the related deferred tax calculated based on the standard IAS 12 Income Taxes.

When preparing the final statement of assets and liabilities in the case of transformation, the Company settles negative capital elements from retained earnings during the settlement phase. However, these capital elements are only reclassified with a view to the final statement of assets and liabilities.

Transformation under company law

In the comparative period, certain assets of Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Kft., a subsidiary of the Company, were absorbed by the Company.

Assets and liabilities were recorded at carrying value by assessing related market values in connection with the necessary impairments. In addition, conversion between different accounting systems (IFRS and Chapter III of the Accounting Act) was also carried out. Effects of the conversion were recognized in equity. Integrated assets are listed in the absorption-type demerger document. The share in the subsidiary was derecognized in equity with consideration to the fair value of remaining operations.

Dividends

At the ordinary General Meeting of the Company held on April 26, 2019 the shareholders decided to pay HUF 250,068,416 as dividend. Dividend is paid only on the registered, dematerialized ordinary "A" series shares with a face value of HUF 12.5, recorded with the identifier HU0000155726ISIN – excluding the own shares held by the Company, 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.

Other accounting policies

Transactions denominated in foreign currencies

The Company determines its functional currency. The functional currency is the currency which reflects the operation of the entity in question the most accurately. The Company's functional currency is the Hungarian Forint (HUF).

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. Transactions in foreign currencies are translated into forint using the foreign exchange rate announced by the Central Bank of Hungary, effective on the day of performance. Incoming supplier and outgoing customer invoices where the exchange rate calculation according to the provisions concerning the determination of the tax base in forint, within the meaning of Act CXXVII of 2007 on the Value Added Tax shall be applied, are exceptions.

During the year the realized exchange rate gain/loss amounts are from the difference between the exchange rates effective on the day of performance and the day of financial performance; these amounts are recognized by the Company among other incomes, expenses of financial transactions.

The Company 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, the Company uses the exchange rate for the reporting date published by the Central Bank of Hungary.

Reporting requirements other than IFRS

The Company established the structure of its financial system (e.g. chart of accounts, analytics) beyond the provisions of the IFRS to a depth so that data not required by IFRS reporting but required by other fields of expertise can be retrieved (e.g. local business tax).

Significance, faults and fault effects

According to the rules of the IFRS an item qualifies as significant if omission or false presentation of the item can influence the decisions of users made based on the financial statements. Considering significance the Company uses the value limit of the fault with a significant amount as defined in Act C of 2000 on Accounting.

An item is always significant if the total amount (regardless of sign) of faults and fault effects increasing or decreasing profits, equity, discovered in the year of discovering the fault, in the course of the series of reviews - concerning the same year - exceeds 2 percent of the Company' statement of financial position total of the business year under review. If 2% of the statement of financial position total exceeds HUF 150 million, then the limit of significance is HUF 150 million. At the same time the management of the Company reserves the right to qualify an item of smaller amount significant, depending on the evaluation of the extent and nature of the omission or false presentation under the given circumstances. When evaluating an item the size and nature of the item in question or the combination of the two is the decisive factor.

With regards to their content, the faults can be omissions or false presentations in the financial statements of the entity for one or more previous periods, originating from not using or improper usage of reliable information. Such faults can be mathematical faults,

faults in the application of the accounting policy, disregarding or incorrect interpretation of facts and the effects of fraud.

Earlier periodical faults shall be corrected with retroactive re-establishment, except if the effects or cumulative effects of the fault concerning individual periods are impossible to determine. Impossibility occurs if the Company cannot correct a fault or cannot apply a new rule retroactively even after doing everything that can be reasonably expected for the right application. The causes of impossibility can be for example uncertainties of calculations due to the lack of available data.

Limited comparability

With regard to the subject year and the previous period, the comparability of the statement of financial position and the statement of profit or loss is limited due to the following reasons:

- In order to simplify the corporate structure, with effect from October 1, 2018, Sinergy Kft. merged into ALTEO Nyrt., in the framework of a spin-off merger and, by the same, each of the subsidiaries came under the direct influence of ALTEO Nyrt. Sinergy Kft. continues its operation, and the demerged assets and operations specified in the spin-off merger document continue to function under ALTEO Nyrt. As part of this company law development, all employees of Sinergy Kft. were transferred to ALTEO Nyrt., within the framework of employer succession.
- Capital raising in the framework of private placement due to investments
- Restructuring of group financing under the bond program

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

In preparing its financial statements, the Company 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 Company must review the accounting estimates of the following areas at least annually:

- estimates concerning the depreciation of the intangible assets (e.g.: useful life),
- 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,
- accounting for project revenues,
- estimates concerning R&D assets,
- 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.

Deferred tax assets were recorded due to considerable deferred losses and are expected to be recovered according to the Company'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.

Whether the assets and know-how created under the R&D project can be utilized is highly dependent on the market and regulatory environment.

Of the power plant units of certain subsidiaries of the Company, the energy production of

- wind turbines,
- heat power plants,
- hydroelectric power plants,
- solar power plants

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

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

In the case of certain subsidiaries of the Company, much of the capacities of power plants 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 operation and profitability of the Company and its subsidiaries depends on the government regulation of the market, especially on the taxation policy adopted by the state.

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

In 2019, the Company did not change its applied accounting policies. An exception to this is the application of accounting policies related to the adoption of new standards and previously not pursued activities.

The potential impact of revised IFRSs and IFRICs becoming effective after the reporting date on the Company's financial statements are described below in detail. The potential impact of ongoing amendments to IFRSs and IFRICs at the reporting date is not examined in detail as they do not have a significant impact on the financial statement and disregarding them will not affect the decisions of the users of the financial statements.

Amendment to previous year's financial information and significant decisions regarding presentation

Going forward, the management of the Group decided to recognize local business tax and innovation contribution under income tax, considering the feedback from investor analysts and to better align with the practices of major issuers at the Budapest Stock Exchange. For reasons of comparability, the Group prepared and presented a comparative consolidated statement of profit or loss and consolidated statement of financial position also for 2017. The change in accounting policy has no impact on the net profits.

The following standards and interpretations (and their respective amendments) become 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: The following changes become effective starting from 2019.

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. The Company's impact assessment related to the stocks at the end of 2018 was completed.

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).

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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 separate 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).

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

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

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

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

V. Notes

Notes to the separate statement of profit or loss

Allocation of the Company's statement of profit or loss to segments has been performed. Presentation of the profit by segments is included in Note 32.

The comparability of the statement of profit or loss with the previous period is limited. It is mainly caused by the continuous transformation in progress since the purchase of Sinergy Kft. in 2015. A milestone of this road was the spin-off merger with Sinergy Kft. on October 1, 2018. As part of this event relevant in terms of company law, the Company took over the majority of the subsidiary's activities and assets.

1. Revenue

On the Company's revenue line only items attributable to the Company's core activity are accounted for, not being revenues connected to discontinued activities.

The Company uses the amounts invoiced when recognizing revenue (with the exception of accruals and deferrals). Generally, the nature of the Company's services does not require other types of adjustments. In the case of the energy industry projects, the recognized revenue was determined taking account of the stage of completion. The Company leaves out taxes, fees recovered on behalf of the state or some other party from its revenues and recognizes them as items decreasing costs.

Lease income on subsidiaries recognized under leases according to IFRS16 rules are recognized as revenues. Apart from the energy storage unit, the Company does not keep any separate assets for leasing purposes, nor does it lease its own assets. The Company does not sublease its leased assets.

The Company did not have royalty or dividend which should have been presented as revenue; its revenue is only from domestic sales.

The breakdown of revenue by activities is as follows:

Sales revenues	2019 12 months data in HUF thousand	2018 12 months data in HUF thousand
Operation	4 723 820	2 257 611
Project development	5 135 948	2 076 885
Agency fees	-	22 639
Accounting fees	57 744	71 188
Income from lease	38 323	13 137
Operating lease	144 000	36 000
Other	3 325	25 712
	10 103 159	4 503 172

2. *Material expenses*

Material expenses	2019 12 months data in HUF thousand	2018 12 months data in HUF thousand
Operation, maintenance and project development	(5 297 886)	(2 154 885)
Expert fees (accounting, auditing, consultancy)	(309 059)	(217 201)
Rent /office, car, other devices, IT/	(212 707)	(207 853)
Marketing, education, further training costs	(99 412)	(86 132)
Fuel	(66 668)	(22 803)
Bank expenses, insurance	(61 704)	(20 462)
Office maintenance exp. /operation, telephone, materials/	(55 787)	(19 706)
Membership fees, duties	(5 053)	(7 794)
Other costs	(40 433)	(14 526)
	(6 148 709)	(2 751 362)

Material expenses include items attributable to the Company's core activity only, not being expenses connected to discontinued activities.

There was an increase in material expenses primarily due to the O&M, project management and maintenance activities added as a result of the merger. The increase in additional material costs was also caused by the expansion in the range of activities and the workforce. In 2019, the Company recognized HUF 7,786 thousand as cost of auditing.

The Company uses the benefits as per IFRS16 in force in the current year and recognizes the following items as lease payments: the central offices, the car leases maturing within one year and the lease of certain IT equipment of small value. The lease of these assets is recognized directly in the statement of financial position of the period in question among the material expenses.

Name	thousand HUF
Real estate rent	68 254
Vehicle rental	59 528
Site premises rent	34 321
Workwear rent	29 057
IT equipment rental fee	7 504
Rental fee of machinery, equipment	6 312
Rental fee of data lines	1 335
Other rental fees	6 397
	212 707

3. *Personnel expenses*

Personnel expenses	2019 12 months data in HUF thousand	2018 12 months data in HUF thousand
Wages	(2 210 599)	(958 780)
Other payments to personnel	(277 130)	(115 516)
Costs of share-based benefits	(1 650)	(8 950)
Contributions	(503 828)	(226 766)
	(2 993 207)	(1 310 012)

Wage and contribution expenses more than doubled in comparison to 2018. The significant expansion in the current year is the result of the merger by absorption of the previous year. The Company as the legal successor retained the employees of the absorbed subsidiary

who were employees for only a quarter in 2018, but for the whole year in 2019. Accordingly, the average workforce of the Company in the business year of 2019 increased to 231 persons (it was 98 persons in 2018).

The increase in personnel expenses was caused by the significant expansion of the workforce and the related wage bill.

ALTEO developed an equity settled share-based incentive scheme for some ALTEO employees in which these employees will become entitled to ALTEO Nyrt.'s shares within the framework of ESOP, 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. Disclosures concerning the MRP organization (remuneration policy, etc.) are available on the website of the Company among disclosures. Under the option program, the options were earned in August 2017. The options are presented in section 22.

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

4. Depreciation and amortization

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Recognized depreciation, amortization	232 565	58 669

This item also considerably increased in comparison to the previous year. The main reason for that is the full-year depreciation of assets acquired by the Company through merger by absorption as of October 1, 2018.

5. Other income and expenses, net

Other income and expenses incurred in the current year and the comparative period were as follows:

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Sale/disposal of fixed and intangible assets	(524)	(1 445)
Fines, compensation, default interest received	11 813	(4 599)
Impairment, receivable released	(163 623)	(29 324)
Taxes and other payment obligations	(51 117)	11 422
Revaluation of conditional purchase price	(31 801)	-
Other settlements	31 195	-
Total	(204 057)	(23 946)

Taxes among other items are not income taxes. These mainly contain deductions imposed by municipalities (vehicle tax), taxes to be credited to other expenses (environmental product tax) and other fees.

Other items include expenses and incomes that cannot be categorized, like support, partner and tax current account settlements, rounding differences. The effect of the revaluation recognized in the current year in relation to the conditional purchase price of Zugló Therm Kft. is also presented here.

6. Finance expenses, net

Finance income consists of the following items:

Name	Year ending on 12/31/2019	Year ending on 12/31/2018
Interests paid/payable	(282 952)	(202 319)
Received/receivable interest	192 031	112 523
Net interest expenses	(90 921)	(89 796)
Dividend received	21 000	1 012 000
Impairments	(59 435)	(496 788)
Foreign exchange difference	(53 711)	37 914
Other financial settlements	5 369	(221)
Total	(177 698)	463 109

Due to the favorable interest environment, paid interests decreased as compared to previous amounts.

The Company is entitled to dividend after its shares in its subsidiaries. In the case of the subsidiaries, the owner decided about the payment of 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

Within finance income and expenses, the main component in translation gains and losses was the exchange loss realized on items recognized in euros. The Company did not enter into cash flow hedges in 2019.

Recognized impairment of shares was determined based on the discounted cash-flow model considering the recoverable amount. The share traffic table in Note 10 contains the distribution of recognized impairment concerning certain subsidiaries.

7. Income tax expenses

The Company pays tax under Hungarian tax law. 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 corporate tax	30 442	3 424
Other income taxes (local business tax, innovation contribution, suppo	122 316	91 802
Deferred tax expense	19 602	149 728
Total	172 360	244 954

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

The tax authorities conducted the following audits at the Company in 2019:

- Follow-up audit of returns for all tax categories for 2017 (completed)

The amount of deferred taxes disclosed in the statement of financial position is included in Note 11.

The tax authority may review books and records at any time within the 6 years following the relevant tax year and may impose additional taxes or fines. The management of the company is not aware of any circumstances from which a significant obligation might originate burdening the Company under such a legal title.

The recognized tax expense can be related to the theoretical tax (which is the profit or loss before taxes times the effective tax rate):

Deduction	Year ending on 12/31/2019	Year ending on 12/31/2018
Profit or loss before taxes	346 923	822 292
Theoretical tax (9%)	31 223	74 006
<i>Explanation:</i>		
Current tax	30 442	3 424
Tax for discontinued activities	-	-
Timing differences (deferred tax)	19 602	149 728
Permanent differences and unrecognized tax assets	(18 821)	(79 146)
Amount of theoretical tax (corporate tax)	31 223	74 006

Permanent differences include, for example, the Company's significant dividend income, which is a factor decreasing the tax base, and all expenses not recognized by the Corporate Tax Act.

Notes related to the separate statement of financial position

8. Fixed assets and intangible assets

The changes in assets are detailed in the following table:

Gross value	Property, plant and equipment	Other PPE	Other intangible assets	R+D Assets	Rights of use	Total
01.01.2018	21 428	30 997	112 322	-	-	164 747
Acquisition/put to use	1 004 498	20 072	31 390	243 563	-	1 299 523
Disposal/sale	-	-	(8 515)	-	-	(8 515)
Reclassification	-	-	-	-	-	-
31.12.2018	1 025 926	51 069	135 197	243 563	-	1 455 755
Effects of IFRS16 application					81 646	81 646
01.01.2019	1 025 926	51 069	135 197	243 563	81 646	1 537 401
Acquisition/put to use	125 423	51 285	99 787	118 704	104 951	500 150
Disposal/sale	-	(9 432)	(959)	-	-	(10 391)
Reclassification	-	-	-	-	-	-
31.12.2019	1 151 349	92 922	234 025	362 267	186 597	2 027 160
Accumulated depreciation	Property, plant and equipment	Other PPE	Other intangible assets	R+D Assets	Rights of use	Total
01.01.2018	4 400	26 605	34 434	-	-	65 439
Derecognition due to disposal/sale	-	-	8 515	-	-	8 515
Derecognition due to reclassification	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Depreciation and amortization	30 104	5 494	23 071	-	-	58 669
31.12.2018	34 504	32 099	48 990	-	-	115 593
Derecognition due to disposal/sale	-	(8 874)	(959)	-	-	(9 833)
Derecognition due to reclassification	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Depreciation and amortization	121 948	14 275	32 449	9 170	54 723	232 565
31.12.2019	156 452	37 500	80 480	9 170	54 723	338 325
Accumulated depreciation	Property, plant and equipment	Other PPE	Other intangible assets	R+D Assets	Rights of use	Total
31.12.2018	991 422	18 970	86 207	243 563	-	1 340 162
31.12.2019	994 897	55 422	153 545	353 097	131 874	1 688 835

The depreciation of fixed assets is determined as explained in the accounting policy, in a straight-line manner.

The Company's management considers that the fixed assets acquired and intangible asset (the R&D asset) recorded under the R&D project for "Developing an innovative model for battery energy storage applications" acquired through succession as part of the last year's merger by absorption can be recognized and will deliver a return on investment as indicated by existing business plans. The R&D asset meets the IAS 38 criteria.

IFRS16 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.

There are no assets that might need to be removed at the end of their useful life and such removal would involve significant expenses. There is no asset to which the component approach needs to be applied.

As at December 31, 2019 the Company had no asset to be considered as a qualifying asset, so no borrowing costs had to be capitalized; and there is no asset that is subject to a lien under

a loan agreement. The Company does not possess assets which are expected to cause environmental damage that the Company would be required to neutralize.

Apart from the energy storage unit, the Company does not keep any separate assets for leasing purposes, nor does it lease its own assets.

The Company had no assets, either in the previous or in the current year, classified as assets held for sale.

The Company does not possess assets regarding which it would employ the revaluation model. The Company does not possess intangible assets with indefinite lifecycles.

The management of the Company 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.

9. Long-term loans given

In the subject year, long-term loans given were as follows:

Subsidiary	31.12.2018	Increase	Decrease	Impairment	31.12.2019	Transformation*	01.01.2020
Alteo Deutschland GmbH	48 292	20 084	-	(68 376)	-	-	-
ALTEO Energiakereskedő Zrt.	295 910	250 000	(295 910)	-	250 000	-	250 000
ALTEO-AGRIA Kft. (Absorbed)	27 500	19 500	-	-	47 000	(47 000)	-
ALTEO-DEPÓNIA Kft.	97 000	120 687	(2 000)	-	215 687	-	215 687
ALTEO-HIDROGÁZ Kft.	1 005	4 000	(5 005)	-	-	-	-
Domaszék Kft.	44 970	-	-	-	44 970	-	44 970
e-WIND Kft.	26 500	32 386	-	-	58 886	-	58 886
Euro-Green Energy Kft.	-	4 109 884	(246 098)	-	3 863 786	-	3 863 786
Energigas Kft.	133 905	8 674	-	-	142 579	-	142 579
F.SZ. Energia Kft.	74 800	435 702	(139 925)	-	370 577	-	370 577
GYŐRI ERŐMŰ Kft. (Absorbed by ALTEO Therm Kft.)	507 000	-	-	-	507 000	(487 500)	19 500
IT Solar Kft.	219 500	7 000	-	-	226 500	-	226 500
Monosolar Kft.	219 500	7 000	-	-	226 500	-	226 500
Péberény Kft.	380 000	29 300	-	-	409 300	-	409 300
Sinergy Energiakereskedő Kft.	-	1 250 000	-	-	1 250 000	-	1 250 000
SOPRONI ERŐMŰ Kft. (Absorbed)	563 103	-	-	-	563 103	(563 103)	-
SUNTEO Kft.	-	7 513 564	(4 494 000)	-	3 019 564	-	3 019 564
True Energy Kft.	110 022	389 470	(118 119)	-	381 373	-	381 373
WINDEO Kft.	-	1 136 871	(126 871)	-	1 010 000	-	1 010 000
Loans given - total principal	2 749 007	15 334 122	(5 427 928)	(68 376)	12 586 825	(1 097 603)	11 489 223
Interests on loans given to associates and affiliated comp.	24 189	110 482	-	-	134 671	(2 499)	132 172
Employer loans to employees	22 000	-	(1 000)	-	21 000	-	21 000
Application of the ECL model	-	-	(13 545)	-	(13 545)	-	(13 545)
Loans given total	2 773 196	15 444 604	- 5 442 473	- 68 376	12 728 951	- 1 100 102	11 628 850

Interests of loans given are determined individually, between 1 month of Bubor + 1.25% to 3%, and besides the assets of the subsidiaries, no specific security was determined. During the year, the Company adjusted the interest rates on its subsidiary loans to the interest rates of the underlying BGS bond.

According to the assessment of the management of the Company, the loans provided will be recovered, there is no need to recognize impairment.

The merger by absorption of the Company's district heat generation subsidiaries took place on the date of succession, i.e. January 1, 2020. Simultaneously with the merger of the subsidiaries, the Company implemented a capital increase in the legal successor ALTEO Therm Kft. The Transformation column in the table showing the movement of specific loans includes the effect of the transformation.

The items relating to the ECL impairment applied to financial assets are presented in detail in section 17. The loan provided to ALTEO Deutschland GmbH. was written off based on the individual decision of the management. The German subsidiary is still not in operation, so no cash flow can be expected from there.

10. Shares in subsidiaries and associates

The amounts of the shares of the Company in subsidiaries were as follows in the subject year:

Subsidiary	31.12.2018	Purchase	Additional monetary contribution/ Capital increase	Impairment/ Reversal	Sales	31.12.2019	Transformation	01.01.2020
ALTE-A Kft.	1 070	-	-	-	-	1 070	-	1 070
Alteo Deutschland GmbH	7 816	-	-	(7 816)	-	-	-	-
ALTEO Energiakereskedő Zrt.	48 094	-	-	-	-	48 094	-	48 094
ALTEO-AGRIA Kft.	54 011	-	-	-	-	54 011	(54 011)	-
ALTEO-DEPÓNIA Kft.	-	-	-	-	-	-	-	-
ALTEO-HIDROGÁZ Kft.	-	-	-	66 800	(66 800)	-	-	-
Domaszék Kft	180 660	-	6 000	-	-	186 660	-	186 660
e-WIND Kft.	33 836	-	-	(33 836)	-	-	-	-
Eco First Kft.	-	3 000	-	-	-	3 000	-	3 000
F.SZ. Energia Kft.	139 634	-	-	-	-	139 634	-	139 634
GYŐRI ERŐMŰ Kft.	153 186	-	-	-	-	153 186	3 855 133	4 008 319
HIDROGÁZ Kft.	-	-	-	-	-	-	-	-
IT Solar Kft.	23 051	-	-	-	-	23 051	-	23 051
Kazinc-Therm Kft.	86 000	-	-	-	-	86 000	-	86 000
Monosolar Kft.	23 051	-	-	-	-	23 051	-	23 051
Ózdi Erőmű Kft.	10 000	-	-	-	-	10 000	(10 000)	-
Péberény Kft.	357 726	-	-	-	-	357 726	-	357 726
Sinergy Energiakereskedő Kft	100 000	-	-	-	-	100 000	-	100 000
Sinergy Kft.	245 353	-	-	-	-	245 353	-	245 353
SOPRONI ERŐMŰ Kft.	454 261	-	-	-	-	454 261	(454 261)	-
SUNTEO Kft.	4 239	-	-	(4 239)	-	-	-	-
Tisza-Therm Kft.	100 000	-	-	-	-	100 000	(100 000)	-
True Energy Kft.	137 555	-	-	-	-	137 555	-	137 555
WINDEO Kft.	-	-	-	-	-	-	-	-
Zugló-Therm Kft.	730 730	-	-	-	-	730 730	(730 730)	-
Participating interests total	2 890 273	3 000	6 000	20 909	- 66 800	2 853 383	2 506 131	5 359 514

The subsidiaries of the Company, with two exceptions, are the companies of the Parent Company, directly or indirectly owned in 100% by the Parent Company. The Company has a 60% share in Tisza BioTerm Kft. and a 66% share in ECO First Kft., however, control is at the Company in connection with both companies. The laws of Hungary are applicable to subsidiaries of the Company, with the exception of ALTEO Deutschland GmbH.

The subsidiaries - with the exception of ALTEO Deutschland GmbH - pay tax in accordance with the Hungarian regulations.

The Company recognizes two of its subsidiaries not under shares, but rather as lease receivables in accordance with IFRS 16 (formerly IFRIC4) rules (see Note 12). Although the Company acquired a 100% share in these entities listed above, the management arrived at the conclusion that the Company did not obtain control over these entities. ALTEO acts as a lessor with respect to these business entities. For the same reason, these two entities are also recognized under leases instead of shares in separate financial statements.

The two entities concerned were:

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

In 2018, a share value of HUF 280,729 thousand was recognized as conditional purchase price under liabilities in relation to Zugló-Therm Kft. (see Note 26).

Concerning shares in subsidiaries, the Company performs the impairment test by every reporting date. If the expected recovery from subsidiaries does not reach the carrying value of the share, impairment is recognized. Concerning subsidiaries, the Company applied the DCF model with the discount rate according to the activity of the subsidiary in question (renewable/traditional energy production) and the date of the generated cash flows (5.0%-6.9%).

The Company has shares in Energigas Kft. in the amount of HUF 100,000.

The Company purchased 66% of ECO First Kft. and sold 100% of ALTEO Hidrogáz Kft. in the current year.

The merger by absorption of the Company's district heat generation subsidiaries took place on the date of succession, i.e. January 1, 2020. Simultaneously with the merger of the subsidiaries, the Company made a capital increase in the legal successor ALTEO Therm Kft. in a value of HUF 2,506 million. The Transformation column in the table showing the movement of shares includes the effect of the transformation.

The management of the Company performs the necessary tests for shares by every reporting date to determine whether the reported value is considered recoverable. For subsidiaries where the tests performed showed that the shares, fully or in part, were not recoverable, impairment was recognized (in the value of HUF 45.9 million) in the current year. The share of ALTEO Deutschland GmbH. was written off based on the individual decision of the management. The German subsidiary is still not in operation, so no cash flow can be expected from there.

11. Deferred tax assets and liabilities

When calculating deferred taxes, the Company 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 Company when recording each asset.

When computing taxes, the Company 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. The change in deferred taxes was recognized by the Company 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
Fixed and intangible assets	709 125	1 688 834	979 709
Impairments	-	(127 876)	(127 876)
Provisions	-	15 500	(15 500)
Development reserve	(37 861)	-	37 861
Losses carried forward	380 707	-	(380 707)
			(524 083)
Deductible temporary difference			
Taxable temporary difference			1 017 570
Deferred tax liability (9%)			44 414

The following differences were identified in 2018:

31.12.2018	Tax value	Accounting value	Difference
Fixed and intangible assets	214 916	1 340 162	1 125 246
Trade receivables	2 516 186	2 496 877	(19 309)
Development reserve	(190 568)	-	190 568
Advance on grant	(292 533)	(364 730)	(72 197)
TAO effect of IFRS transition (not yet taxed)	(156 566)	-	156 566
Losses carried forward	1 105 178	-	(1 105 178)
			1 196 684
Deductible temporary difference			
Taxable temporary difference			1 472 380
Deferred tax liability (9%)			24 812

Recognized tax expense may be related to the theoretical tax (profit or loss before taxes times the effective tax rate) in the following manner. Details under Note 7.

12. Receivables from lease assets

The Company recognizes the following subsidiaries as lease assets as per IFRS16 (formerly IFRIC4) rules:

- Tisza WTP Kft.
- BC-Therm Kft.

Both assets came under the ownership of the Company as part of the merger from Sinergy Kft. The Company has no influence over the operation (relevant activities and variable returns) of these subsidiaries. The Company has formal knowledge of business partners that are parties to the arrangement consolidating these entities in their own financial statements.

The Company did not identify unguaranteed residual values in any of the contracts. There are no contingent fees in the relevant 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 Company is no longer entitled to further leasing income in relation to Tisza WTP Kft., so the value of the leasing receivable is zero. 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	131 926	277 968
Amounts due between 1 and 5 years	104 982	218 591
Amounts due in more than 5 years	-	-
ECL	(606)	-
Total lease receivables	236 302	496 559
Unearned interests	23 581	60 945
Total lease revenue	259 883	557 504

The items relating to the ECL impairment applied to financial assets are presented in detail in section 17.

13. Inventories

Name	31.12.2019	31.12.2018
Parts	196 997	139 298
Project development inventories	54 225	7 652
Other	-	-
Total inventories	251 222	146 950

Inventories include parts purchased for the performance of O&M contracts in the amount of HUF 196,997 thousand (HUF 139,298 thousand in 2018) and various works related to project

development in the amount of HUF 54,225 thousand (HUF 7,552 thousand in 2018) to be recognized for a later period.

In the current year, the Company purchased inventories related to the O&M services of its subsidiaries for a total of HUF 27,018 thousand. This transaction allows for a more efficient use of inventories at Group level.

14. 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	3 404 088	2 489 457
Recognized impairment	(88 525)	(19 316)
Total inventories	3 315 563	2 470 141

The breakdown of impairment losses is as follows:

Trade impairment losses	31.12.2019	31.12.2018
Opening balance	19 316	15 514
Impairment recognized	69 209	3 802
Closing balance	88 525	19 316

The impairment of receivables and write-offs are recognized in other expenses. The expected credit loss model (ECL) has been applied in connection with the opening items for the subject year, relying on the following principles. In the case of the related transactions (including the majority shareholder, the WALLIS Group), previously there was no need to account for impairment. Accordingly, in terms of revenue, impairment is recognized at a low rate of 1.51%. Trade receivables, with the exception of construction projects, are unsecured (i.e. are not covered by deposits, bank guarantees, etc.). The items relating to the ECL impairment applied to financial assets are presented in detail in section 17. In relation to the revenues in 2019, an impairment of HUF 68,490 thousand was recognized.

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

2019.12.31	Not overdue	1-30 day	31-60 day	61-90 day	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cc	974 223	367 684	136 089	209 408	267 111	343 536	1 106 037	3 404 088
<i>of which third parties</i>	694 837	26 004	16 727	72 621	59 869	80 389	19 901	970 348
<i>of which related parties</i>	279 386	341 680	119 362	136 787	207 242	263 147	1 086 136	2 433 740
<i>ECL third party ratio</i>	1,51%	1,51%	1,51%	2,40%	3,60%	20,95%	100,00%	-
<i>ECL related party ratio</i>	1,51%	1,51%	1,51%	1,51%	1,51%	1,51%	1,51%	-
Impaired trade receivable at acquisition	(14 711)	(5 552)	(2 055)	(3 808)	(5 285)	(20 812)	(36 302)	(88 525)
Total trade receivables	959 512	729 816	270 123	415 008	528 937	666 260	2 175 773	5 745 430

The Company does not recognize impairment on overdue receivables from subsidiaries owned by the Company itself. These receivables were partially used as contribution in kind to ALTEO-Therm Kft. in the framework of the transformation on January 1, 2020.

Previous year's data (2018):

2018.12.31	Not overdue	1-30 day	31-60 day	61-90 day	91 to 180 days	180 to 365 days	over 365 days	Total
Trade receivable at initial recognition cc	553 776	311 097	317 774	195 478	52 356	422 001	636 975	2 489 457
Impaired trade receivable at acquisition cost							(19 316)	(19 316)
Total trade receivables	553 776	311 097	317 774	195 478	52 356	422 001	617 659	2 470 141

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

The Company's five largest customers:

In 2019	In 2018
F.SZ. ENERGIA Kft.	PÉBERÉNY KFT
True Energy Kft.	SINERGY ENERGIAKERESKEDŐ KFT
TVK-Erőmű Kft.	KAZINC-THERM KFT
Sinergy Energiakereskedő Kft	TISZA-THERM KFT
ALFA ENERGY KFT.	SINERGY ENERGIASZOLGÁLTATÓ KFT.

15. Other financial assets

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

Name	31.12.2019	31.12.2018
Held for trading financial assets	-	-
Derivative transactions	-	-
Employee loan	-	22 049
Total inventories	-	22 049

In 2018, the Company sold its financial instruments held for trading and did not purchase new instruments. In the previous year, home-purchase loans provided to employees, totalling HUF 22,049 thousand, were recognized on this line of the statement of financial position.

16. Other receivables and income tax receivables

The breakdown of other receivables is the following:

Name	31.12.2019	31.12.2018
Accrued revenue	705 964	1 246 082
Advances paid (related to projects)	491 408	75 368
Receivables from affiliated companies	314 515	302 695
Receivables due from the customer	27 408	440 049
Accrued expenses	16 382	6 078
Short-term loan, Tisza BioEnergy Kft.	-	7 324
Short-term loan, Kazinc BioEnergy Kft.	-	7 589
Other receivables	43 450	44 031
Total	1 599 126	2 129 216

Accrued incomes are connected to the operational contracts of the Company.

Other receivables include items to employees (advances given, etc.) and deposits.

Assets in a value of HUF 27,408 thousand relating to contracts for construction-installation services are recognized, presented in detail in section 41.

The items relating to the ECL impairment applied to financial assets are presented in detail in section 17.

17. Application of the expected loss model to financial assets

The management of the Company has performed the risk analysis of its financial assets. Risks of financial assets are presented in section 35. 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
Delinquent	Significant delay 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, direct evidence for risk of non-payment	Recognition of full lifetime expected credit loss

The Company reviewed its previous year's practice on related party receivables and, in the current year, recognizes impairment on related party receivables and performing outstanding external party receivables in accordance with the logic of the above table. For related party loans and receivables, in the case of ALTEO, the Company's management determined the rate of expected credit loss based on the BBB rating specified by Scope Rating for senior unsecured loans.

Name	External credit rating	Internal credit rating	ECL%	Gross value	ECL amount	Net amount
BC-Therm Lease - (Wanhua Chemical)	BBB+ (Fitch)	Performing	0,26%	236 908	(606)	236 302
Long-term loan IC	BBB- (Scope Ratings)	Performing	0,10%	11 642 394	(11 177)	11 631 217
Long-term loan Third party	N/A	Performing	1,21%	196 019	(2 368)	193 651
Trade receivables - related party	BBB- (Scope Ratings)	Performing	1,51%	2 433 740	(36 749)	2 396 991
Trade receivables - third party	N/A	Performing	1,51%	737 568	(11 137)	726 431
Trade receivables - third party	N/A	Delinquent	2.4%-19,77%	212 879	(20 737)	192 142
Trade receivables - third party	N/A	Non-performing	100,00%	19 901	(19 901)	-

In the opinion of the Company's management, the overall credit risk in the market of the partners and segments did not change in the recent period.

18. Cash and cash equivalents

Name	31.12.2019	31.12.2018
Bank accounts – HUF	1 883 888	845 549
Bank accounts – foreign currency	452 452	498 981
Other cash	-	-
Total	2 336 340	1 344 530

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 Company discontinued the use of foreign-currency and HUF petty cash in 2018.

The detailed reasons for changes in cash are included in the statement of cash flows.

The other category contains the discount treasury bills and money market fund shares with a maturity date closer than 3 months; these securities were sold in 2018.

19. Elements of equity

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	Merger by absorption - own shares	(3 757)	12,5	(37)	
During 2018	Share purchase	(3 040)	12,5	(39)	
31.12.2018	Closing balance	15 624 379	12,5		195 314
30.01.2019	Implementation of employee share ownership program (2018 benefits)	13 222	12,5	165	
16.03.2019	Private placement	2 985 074	12,5	37 313	
12.06.2019	Exercise of ESOP option	21 500	12,5	269	
During 2019	Share purchase	(8 325)	12,5	(113)	
31.12.2019	Closing balance	18 635 850	12,5		232 948

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.

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 Company 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.

In the share premium line, the premium of the purchase price paid for the share is shown (HUF 5,081,133 thousand), reduced by the capital-raising costs. Retained earnings contain the accumulated profit (HUF 3,120,201 thousand), 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.

The development of capital elements is illustrated in the Equity table.

20. Transactions with owners

This balance sheet line reflects the Company's treasury shares as at year end.

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

- ALTEO, in the framework of its share repurchase program for the year 2018 announced on June 15, 2018 and extended as published on November 28, 2018, purchased a total of 8,325 ordinary shares of ALTEO on the Budapest Stock Exchange in the current year.
- During the business year of 2015 the Company acquired its own shares in accordance with the effective regulations. As the consequence of involving its own shares, the Company decreased its equity as part of the IFRS transition by directly deducing the face value 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 Company was in connection with transactions with the owners.

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

21. Cash-flow hedge reserve

The accounting policy of the Company established hedge connection between certain transactions and certain derivatives. These hedges qualify as cash-flow hedges. The Company 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 Company in the net profit or loss at the closing of the transaction (or if the hedge connection is cancelled from any other reason). No such transaction took place in 2018.

22. 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 employees, under which these employees will become entitled to ALTEO Nyrt.'s shares within the framework of ESOP, 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 Company distributed shares to the value of HUF 1,650 thousand to the employees who were entitled to these on the basis of the Company's recognition plan. In connection with the shares granted, the transfer of the shares started on January 31, 2020.

23. Equity correlation table required as part of Section 114/B of the Accounting Act

The correlation table presents the impact of transactions that modify equity compared to the format required by the annual report according to the Accounting Act applied earlier.

31.12.2019	IFRS	Own shares	IFRS 2	Develop. reserve	Subject year profit or loss	Equity HAS
Total equity	8 151 120	375 627	-	-	-	8 526 747
Issued capital	232 948	9 380	-	-	-	242 328
Share premium / capital reserve	5 092 255	-	-	-	-	5 092 255
Retained earnings	3 123 766	(375 627)	68 398	(37 861)	(174 563)	2 604 113
Allocated reserves	-	375 627	-	37 861	-	413 488
Profit or loss after tax	-	-	-	-	174 563	174 563
Share-based payments	68 398	-	(68 398)	-	-	-
Transactions with owners	(366 247)	366 247	-	-	-	-

Content of the above differences:

- The face value of own shares repurchased decreases the amount of the issued capital according to the IFRS standards. As of the end of the period, the Company held 750,524 shares with a face value of HUF 12.5 each. This share inventory is the reason for the difference between the amount of issued capital from the value registered at the registry court.
- The non-realized market value of cash-flow hedge at the end of the year. Its contents are explained in Note 21.
- Share based payments reserve. Its contents are explained in Note 22.
- Unused development reserve. In 2017, the Company established development reserves in the amount of HUF 200,000 thousand, of which HUF 37,861 thousand was still available at the end of 2019.

31.12.2018	IFRS	Own shares	IFRS 2	Develop. reserve	Subject year profit or loss	Equity HAS
Total equity	6 229 388	369 821	-	-	-	6 599 209
Issued capital	195 314	9 701	-	-	-	205 015
Share premium / capital reserve	3 116 887	-	-	-	-	3 116 887
Retained earnings	3 184 617	(369 821)	92 690	(190 568)	(577 338)	2 139 580
Allocated reserves	-	369 821	-	190 568	-	560 389
Profit or loss after tax	-	-	-	-	577 338	577 338
Share-based payments	92 690	-	(92 690)	-	-	-
Transactions with owners	(360 120)	360 120	-	-	-	-

24. Provisions

Name	31.12.2019	31.12.2018
Opening balance	15 500	-
Provisions recognized	-	15 500
Provisions released	-	-
Closing balance	15 500	15 500

The Company recognized provisions in respect of the O&M contractual obligations of a subsidiary merged in the previous year. These contractual obligations still existed unchanged in the current year. In the opinion of the Company's management, the provisions will be released beyond one year.

25. 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>10 909 019</i>	<i>2 624 241</i>
<i>of which short term</i>	<i>2 215 114</i>	<i>982 683</i>

On January 10, 2017 the Company issued dematerialized zero coupon bonds with a maturity of 5 years by private placement under the designation "ALTEO 2022/I". The total face value of the issue is HUF 650,000,000, the issue value is 76.6963% of the face value.

On July 18, 2014 the Company 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 Company 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 Company 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 Company 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 Company 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.

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

For the purpose of uniform presentation, the detailed terms of the bonds are listed in Note 29 titled Terms of borrowings.

26. Long-term loans and borrowings and other long-term liabilities

The Company takes loans from the members of the Group, the distribution of which is as follows:

Name	31.12.2019	31.12.2018
Loan from Balassa-Bioenergy Kft.	2 500	2 500
Loan from Sunteo Kft.	-	3 200
	2 500	5 700
Instalments due within a year	-	-
	2 500	5 700

The terms of borrowings and loans are summarized in the table in Note 29 ("Terms of Borrowings"). A borrowing is classified as non-current in the financial statements only if at the end of the year the Company 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.

As part of the merger by absorption in 2018, a share value of HUF 280,729 thousand was recognized as conditional purchase price under other long-term liabilities in relation to the share in Zugló-Therm Kft. 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 cost.

27. Finance lease liabilities

The Company's leases mature as follows:

Name	31.12.2019	31.12.2018
Long-term liabilities relating to rights of use (over 5 years)	-	-
Long-term liabilities relating to rights of use (1-5 years)	79 937	-
	79 937	-
Instalments due within a year	54 296	-
Total	134 233	-

As a result of the application of IFRS 16, the Company added a balance sheet line for right-of-use assets and the related liabilities with an opening balance of 81,646 in 2019.

None of the lease arrangements include contingent lease payments. The ownership of leased cars is not transferred to the Company 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 Company uses the benefits as per IFRS16 in force in the current year and recognizes the following items as lease payments: the central offices, the car leases maturing within one year and the lease of certain IT equipment of small value. The lease of these assets is recognized directly in the statement of financial position of the period in question among the material expenses. These items are presented in detail in section 2.

Movements in rights of use in the current year are included in Note 8.

Name	31.12.2019	01.01.2019
Right-of-use asset	131 874	81 646
Right-of-use liability total	134 233	81 646
Recognized amortization	54 723	n/a
Recognized interest expense	4 959	n/a

28. Deferred income, other long-term liabilities

The deferred income balance sheet line contains the part of the grant received towards the RDI project not yet recognized through profit or loss (HUF 446,310 thousand).

The significant increase in the year 2019 occurred due to the yet unused government grant towards the RDI project.

The main requirements of funding are the following:

	RDI
Purpose of the grant	Systemic integration and innovative application model of an electricity storage architecture
Conditions of the grant	<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 from July 2019

29. Financial liabilities – conditions

Name	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	28.10.2029
ALTEO Nyrt "2022/II" bond	end of maturity	1 505 904 664	HUF	1 693 630 000	HUF	07.06.2022
ALTEO Nyrt "2022/I" bond	end of maturity	498 525 950	HUF	650 000 000	HUF	10.01.2022
ALTEO Nyrt "2020/I" bond	end of maturity	2 146 103 279	HUF	2 150 000 000	HUF	30.09.2020

The working capital loan facility available to ALTEO Nyrt. amounts to HUF 2,000,000 thousand. A mortgage on receivables and a surety and mortgage on bank accounts serve as security for the working capital loan facility. The loan facility was unused as of the reporting date.

According to the relevant loan contract, the repayment of the loan received from a subsidiary is due in 2034.

The planned cash flows from borrowings for the upcoming five years:

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	-	-

In the current year, the Company capitalized borrowing costs in the amount of 21,390 on the issued bonds (legal, organizer and distributor fees). The annual HUF 271 million cash outflow of the BGS 2029 bond comes from the technical amortization of the accrued interest and the issue above the face value.

30. 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 Company does not provide guarantees, with the exception of those routinely provided in the normal course of business.

The Company's five largest suppliers:

In 2019	In 2018
Hanwha Q CELLS GmbH	Sinergy Energiaszolgáltató Kft.
BIJÁSZ Ipari és Szolgáltató Kft.	Hanwa Q Cells GmbH
Szalontai Rendszerintegrátor Kft.	Electraplan Termelő Kft
Laterizi Gambettola s.r.l	Omexom Magyarország Kft.
Univill-Trade Kft.	Univill-Trade Kft.

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

The composition of the "other short-term liabilities and accruals" balance sheet line is as follows:

Name	31.12.2019	31.12.2018
Cost accruals	490 689	927 599
Income accruals	5 230	19 087
MAVIR financial assets	-	1
Amounts payable to customers	864 367	286 681
Income settlement	110 068	90 618
Other tax liabilities	391 911	230 030
Other STL	11 638	-
Other STL towards ALTEO Group members	775	452 448
	1 874 679	2 006 464

These liabilities do not bear interest.

Other tax liabilities consist of VAT, other local taxes and other payroll taxes and contributions. The above spreadsheet does not contain the effective income tax debt whose amount is HUF 7,941 thousand (previous year: HUF 0 thousand).

The “advances received” balance sheet line is related to project development work in progress (HUF 497,963 thousand). In the previous year, it contained the unsettled part of the advance received in the RDI project (HUF 364,730 thousand).

VI. Other disclosures

32. Operating segments

As the Company is listed on the stock exchange, it is required to disclose segment information. Strategic decisions concerning the Company'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.

The CODs determined the following segments in respect of 2019:

- operation,
- power plant construction,
- other.

No geographic segments were determined as the Company has no substantial foreign operations and its domestic business also cannot be clearly classified into regional units. Transfers between segments are not examined by the COD as they take place within the same Company and, accordingly, all revenue and cost items are from external parties. Currently, the Company's funding and financial activities cannot be linked to segments.

Since the COD does not review assets constantly, this financial statement does not present their breakdown.

The breakdown of the statement of profit or loss by segments:

2019	Construction	Operation	Other	Total
Sales revenues	5 080 394	4 547 045	475 720	10 103 159
Material expense	4 015 261	1 459 379	674 069	6 148 709
Personal expense	290 641	1 610 461	1 092 105	2 993 207
Depreciation, amortization	11 411	157 664	63 490	232 565
Other income and expense	51 098	40 518	112 441	204 057
Operating profit or loss	711 983	1 279 023	(1 466 385)	524 621

2018	Construction	Operation	Other	Total
Sales revenues	1 964 112	2 442 586	96 474	4 503 172
Material expense	1 714 811	428 794	607 757	2 751 362
Personal expense	83 418	394 734	831 860	1 310 012
Depreciation, amortization	220	5 804	52 645	58 669
Other income and expense	(29 648)	14 490	(8 788)	(23 946)
Operating profit or loss	136 015	1 627 744	(1 404 576)	359 183

33. Related party disclosures

A significant part of the revenue is from related parties. According to the judgement of the management of the Company, transactions with related parties are transactions concluded under market terms, with market based pricing.

The Company does not enter into supply contracts where the customer has the right to subsequently return the goods delivered or to withdraw from the services provided.

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 (until August 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 Company has no doubtful receivables due from related parties; the detailed presentation of the ECL model applied to related party receivables is included in section 17.

Notes to the separate financial statement of ALTEO Nyrt.

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

Amount / 12/31/2019	Loan given	Accrued income	Loan received	Supplier	Trade receivable
ALTEO Energiakereskedő Zrt.	250 000	440 367			
ALTEO-AGRIA Kft. (Absorbed)	47 000				
ALTEO-DEPÓNIA Kft.	215 687	216			
Balassagyarmati Biogáz Erőmű Kft			2 500		74
BC-Therm Kft.					239 670
Domaszék Kft	44 970				
Eco-First Hulladék Kereskedelmi					13 874
Euro-Green Energy Kft	3 863 786	5 771			
e-WIND Kft.	58 886	630			
F.SZ. Energia Kft.	370 577				
GRABOPLAST PADLÓGYÁRTÓ ZRT.					1 524
GYŐRI ERŐMŰ Kft. (Absorbed by ALTEO Therm Kft.)	507 000				61 443
IT Solar Kft.	226 500				4 255
Kazinc Therm Kft. (absorbed)				6 960	798 084
Kazinc-BioEnergy Kft.				4 974	
Monosolar Kft.	226 500				4 255
NEO PROPERTY SERVICES ZRT.				522	
Ózdi Erőmű Kft. (Absorbed)		15 765			187 360
Péberény Kft.	409 300				18 339
Sinergy Energiakereskedő Kft.	1 250 000	174 426			27 912
Sinergy Energiaszolgáltató Kft.					250 202
SOPRONI ERŐMŰ Kft. (Absorbed)	563 103	13 231			361 539
SUNTEO Kft.	3 019 564				25
Tisza Bioterm Kft.					8 660
Tisza Therm Kft. (Absorbed)				3 720	630 246
Tisza WTP Kft.					35 725
Tisza-BioEnergy Kfe.				5 319	
True Energy Kft.	381 373				
Executive employees	21 000				
Wallis Autókölcsonzó Kft				1 116	
WINDEO Kft.	1 010 000	1 198			
Zugló Therm Kft. (absorbed)		21 713		200	61 154
Total	12 465 246	673 318	2 500	22 810	2 704 340

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

2019	Sales revenue	Asset purchase	Services used	Interest income	Dividend income
ALTE A- Kft	1 380				21 000
ALTEO Energiakereskedő Zrt.	503 619				
ALTEO Hidrogáz Kft.	117				
ALTEO-AGRIA Kft. (Absorbed)	5 468			501	
ALTEO-DEPÓNIA Kft.	19 339				
Balassagyarmati Biogáz Erőmű Kft	234				
BC-Therm Kft.	164 861				
BC-Therm Kft. (recognized as lease)					62 324
Domaszék Kft	7 589			1 195	
Eco-First Hulladék Kereskedelmi	10 924				
Euro-Green Energy Kft	23 863			7 570	
e-WIND Kft.	11 398			877	
F.SZ. Energia Kft.	497 963			9 114	
GYŐRI ERŐMŰ Kft. (Absorbed by ALTEO Therm Kft.)	130 818	3 009	14 211	8 356	
Hidrogáz Kft	2 873				
IT Solar Kft.	56 916			7 102	
Kazinc Therm Kft. (absorbed)	345 525		6 960		
Kazinc-BioEnergy Kft.	234				
Monosolar Kft.	8 040			7 102	
Ózdi Erőmű Kft. (Absorbed)	120 569		309		
Péberény Kft.	796 531			10 073	
Sinergy Energiakereskedő Kft.	306 910			1 295	
Sinergy Energiaszolgáltató Kft.	406 140		49 097		
SOPRONI ERŐMŰ Kft. (Absorbed)	371 276	2 128	5 748	17 912	
SUNTEO Kft.	240			64 778	
Tisza Bioterm Kft.	291				
Tisza Therm Kft. (Absorbed)	207 793		3 720		
Tisza WTP Kft.	614 559				
Tisza WTP Kft. (recognized as lease)					28 790
Tisza-BioEnergy Kfe.	234				
True Energy Kft.	1 639 606			9 444	
Wallis Asset Management Kft.			46 108		
Wallis Autókölcsonzó Kft			10 828		
WINDEO Kft.	29 911			4 253	
Zugló Therm Kft. (absorbed)	402 682	21 881	3 373		
Grand total	6 687 902	27 018	140 354	149 573	112 114

34. Disclosure of risks and sensitivity analysis

The Company considered and assessed the specific risk factors associated with the ALTEO Group and the securities issued by the Company as well as the potential risks involved in making an informed investment decision, based on the probability of the occurrence of such risks and the anticipated extent of their negative impact. These Separate Financial Statements only contain the risk factors that were assessed as material by the Company. The Company provides the results of the materiality analysis using a qualitative scale, indicating a “low”, “medium” or “high” risk level next to each risk factor. The risk factors have been ordered within their respective categories based on their materiality.

a. Macroeconomic and legal system related risk factors

Risks stemming from the legal system

The legal system can be considered relatively underdeveloped in Hungary and in certain other strategic target countries where ALTEO operates. 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

ALTEO'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 ALTEO operations.

Risk level: medium.

Taxation

The current taxation, contribution and stamp duty regulations applicable to the ALTEO Group are subject to change in the future, meaning, in particular, that it is 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 ALTEO's tax liability. Applicable tax regulations are open to frequent and major changes, even with retroactive effect, which could impact ALTEO's sales revenue and profitability alike.

Risk level: medium.

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

ALTEO does not have any direct customers or suppliers in the United Kingdom for its revenue-generating activities or services that affect its operation. However, Brexit may affect those markets where ALTEO operates, thus it may have an indirect impact on ALTEO's operations and profitability. The management of ALTEO 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 ALTEO 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 ALTEO.

Risk level: high.

Regulated prices

The various affiliates of ALTEO engage in activities 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 ALTEO, 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 ALTEO.

Risk level: high.

Government grants

ALTEO'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 of ALTEO 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 ALTEO.

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 ALTEO uses, but, in some cases, might even completely eliminate their use. If ALTEO 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 ALTEO's market share and a decrease in its revenues and profitability. There is no way to guarantee that ALTEO 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 ALTEO'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 ALTEO's services or increase the Group's costs, which may have an adverse effect on ALTEO's bottom line, as measured on a consolidated basis. That notwithstanding, ALTEO'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 ALTEO'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 ALTEO. ALTEO 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, ALTEO 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'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 and natural gas purchase prices). As a consequence, any change in foreign exchange rates that is unfavorable for ALTEO might have a negative effect on the business activity and profitability of ALTEO.

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'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 ALTEO.

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.

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 ALTEO 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 ALTEO.

Risk level: high.

Political risks

ALTEO provides some of its services to institutions which are owned by municipalities or are under the influence of municipalities or certain statutory corporations. Furthermore, the agreements made with such institutions have a major effect on the operation of certain members and projects of ALTEO. 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 ALTEO and, overall, the profitability of ALTEO.

Risk level: high.

Dependence on weather

Part of ALTEO'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 ALTEO. 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 ALTEO.

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

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

ALTEO 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 ALTEO.

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's business plans, licensing and implementation of green-field energy investments plays an important role. Although ALTEO draws up careful technical, legal and profitability plans when preparing for project implementation, there is always a possibility that the authorization of specific projects becomes unreasonably long or impossible. During implementation phases, ALTEO 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 ALTEO'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'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'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 ALTEO.

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

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 ALTEO.

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 ALTEO performs its trading activities with great caution, a potential erroneous trade may have a significant negative effect on the profitability of ALTEO.

Risk level: medium.

Operating risks

The economic performance of ALTEO 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 ALTEO have in place “all risk” type property insurance policies for machinery breakdown and outage as well as for certain natural disasters. These provide cover for damages traceable to such causes and apply to liability insurance policies as well, where a cover is provided for third-party damages 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 insured—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 ALTEO.

Risk level: medium.

Fuel risk

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

For ALTEO’s hydrocarbon fuelled power plants, the key types of fuel (primarily natural gas) are procured from third-party suppliers. The natural gas transport agreements made by ALTEO are in line with industry best practices. Despite that, there is no guarantee that the fuel

required for fuelling 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 ALTEO are also in line with industry best practices and these may include an offtake (a.k.a. “take-or-pay”) obligation, for the respective period, with a certain tolerance band. In the event of a significant drop in natural gas consumption, incurrence of a major penalty by ALTEO 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, ALTEO uses in part bonds—issued by ALTEO either in a private or public offering—to fund its financing needs. As of the date of this Financial Statements, ALTEO holds a bond portfolio with a face value of HUF 13,093.63 million. Negative changes and risks in the business prospects of ALTEO, 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 ALTEO’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 ALTEO.

Risk level: medium.

Information technology systems

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

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

Risk level: medium.

Dependence on third-party suppliers

During the implementation of energy investments, ALTEO 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. ALTEO 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 ALTEO 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 ALTEO.

Risk level: medium.

Client risk

A significant share of ALTEO's revenues comes from a small number of clients 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 clients, ALTEO is exposed to non-payment risk. If an important client of ALTEO fails to pay or pays lately, that might cause a significant loss to ALTEO.

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

Risk level: medium.

The risk of introducing and using new power plant technologies

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

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 ALTEO's compliance with the relevant rules. ALTEO does everything that can reasonably be expected 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 assessments leading to substantial expenses to ALTEO 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 ALTEO cannot be excluded, which may have an adverse impact on the perception and profitability of the Company.

Risk level: low.

Key licenses and qualifications

For performing their activities, members of ALTEO 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 ALTEO would be profoundly limited. Therefore, this could have a significant negative impact on its 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 ALTEO. If the relevant contracts are not amended or new service contracts are not signed, these assets will not contribute to the Company's revenues and profits after the time when they are sold. Apart from that, the Company may suffer losses from such sale transactions. In its business plans, the Company anticipates the expiration of these contracts and the loss of ownership of the means of production; any contract renewals or the retention or more favorable sale of ownership will result in additional profits compared to the plans.

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

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

On the basis of a heat supply and capacity utilization contract concluded between BC-Therm and BorsodChem Zrt, BorsodChem Zrt is obliged to purchase from Sinergy the BC-Therm business share, at book value, upon expiry of the contract (expected by December 31, 2020). Under a long term contract concluded by Zugló-Therm and FŐTÁV Zrt. on purchasing and selling heat energy, as well as an agreement establishing a purchase option, concluded at the same time, upon expiry of that contract (expected by May 31, 2030) or in the case of termination by Zugló-Therm, FŐTÁV Zrt. is entitled to buy the gas engine block heat power plant established by Zugló-Therm for an amount of EUR 1, further to its decision adopted at its discretion. If FŐTÁV Zrt. fails to exercise their purchase option, and the parties are unable to reach an agreement on the future of the heat power plant, Zugló-Therm will be obliged to

demolish it at its own expense and restore the property used by it for this purpose to its original condition.

Risk level: low.

Business relationships associated with the Owners' Group

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

ALTEO includes several Subsidiaries. In the case of ALTEO, 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 does not qualify as a recognized company group. At the same time, it cannot be excluded that based on the request of an entity with an interest of legal nature, the court will oblige the member companies of ALTEO to enter into a control agreement and to initiate the registration of the company group with the Court of Registration, or categorize ALTEO Group as a *de facto* company group even in the lack of 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

ALTEO 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 ALTEO.

Risk level: low.

Environmental risks

During their activities ALTEO'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 ALTEO 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. ALTEO'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 ALTEO.

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 separate reports in accordance with Hungarian Accounting Standards (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 separate report in line with the IFRS standards. Due to differences in the rules of preparation and compilation,

certain items and results of the separate 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

ALTEO 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 ALTEO.

Risk level: low.

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

To the best of its knowledge, ALTEO 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 ALTEO operates, thus it may have an indirect impact on ALTEO Group's operations and profitability. The management of ALTEO Group is not in a position to assess the risks from the potential outcomes of the COVID-19 virus in the entire supply chain or the risks indirectly affecting the Company.

ALTEO'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 ALTEO'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 ALTEO's customers and users, and may result in a reduction in their energy needs and willingness to invest, which may adversely affect ALTEO's profit. The management of ALTEO 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 is constantly monitoring events related to the COVID-19 virus and, where appropriate, takes the necessary actions based on these.

Risk level: high.

35. Financial risks, their management and the sensitivity analysis

In addition to the risks listed in section 34, the Company focuses specifically on the following financial risks.

Credit (trade receivables) risk and its management

Each of the Company'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
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 Company 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.
ALTEO members	Thanks to the Group's centralized processes, the Company has a comprehensive understanding of the risks of its subsidiaries.
Lease receivables	The receivable is secured by the ownership rights of the Company's own subsidiary and its free cash balances provide additional collateral.

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

The Company is funded through fixed coupon bonds.

Foreign currency risk calculation and management

Foreign currency risk is the risk that the fair value of the Company's future cash flows will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates to the Company's operating activities (certain expenses are denominated in a foreign currency). ALTEO manages its foreign currency risk by hedging forecasted purchases that are expected to occur within the next 12-month period and that are settled by members through the cash pool system.

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 schedule of bonds and loans is included in section 29.

36. Contingent liabilities

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

In line with the course of business in the industry, the Company issued guarantees related to its activities in accordance with its contracts for construction & installation services and operation. The guarantees were provided by Erste Bank Zrt.

These guarantees expired or were renewed in accordance with the relevant contracts. The Company did not draw down on its bank guarantees either in the current year or in the previous period.

The following bank guarantees existed as at the reporting date.

Actual interest	31.12.2019	31.12.2018
HUF bank guarantee	HUF 1,573,140 thousand	HUF 848,576 thousand
Euro bank guarantee	EUR 702 thousand	EUR 1,912 thousand

Within the ALTEO Group, the Company provided the following guarantees with respect to the loans of E-Wind Kft. with general purposes – surety (general) for HUF 71,598 thousand.

The sureties disclosed in the previous period in relation to Windeo Kft's bank loan were cancelled simultaneously with the repayment of the loan.

We detailed the contacts towards other banks that have no value in the financial statements in Item 29 of the notes to these financial statements.

37. 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'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 Company 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 Company 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 Company 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 Company began the transfer of 1,878 shares to the employees who have become eligible for them based on the Company's recognition plan.

38. *Litigation and claims*

On the reporting date the Company has no significant instances of litigation that might influence the content of the statements.

39. *Other issues*

The Company'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.

40. Fair value measurement disclosures

The Company did not have any assets to be measured at fair value either in 2019 or in the previous year. The Company did not have any derivatives as of the reporting date or in the reference period.

41. Contractual assets and liabilities

The Company concluded several large value fixed price construction-installation contracts with its business partners during the current year. Revenue from the projects is recognized by the Company in accordance with the rules of the IFRS 15 standard. The Group registers its costs concerning the construction-installation contract separately, and recognizes revenue against the amount due from the Customer, proportionate to the occurrence of such costs, considering the level of completion and the planned (expected) profit. According to the management of the Company it is likely that the economic benefits of 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.

The overhaul of gas engines constitutes a significant component of the O&M contracts of subsidiaries. The Company treats this liability separately and discloses it as a contractual obligation.

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
Sopron Power Plant Project	19 051	195 690	93 361	(176 639)	270 000
Nagykőrös Solar Power Plant	5 395	244 359	2 920 741	(238 964)	3 159 705
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
Monor Solar Power Plant	-	(48 876)	48 876	48 876	-
Balatonberény Solar Power Plant	(125 009)	(40 075)	668 818	(84 934)	753 752
Gibárt Hydropower Plant	(67 361)	-	128 339	(67 361)	195 700
Subsidiary gas engine overhauls	(655 576)	(190 933)	-	(464 643)	464 643
Petroszolg Project	-	(6 797)	6 797	6 797	-
Contractual asset total	27 408	440 049			
Contractual liabilities total	(864 367)	(279 884)			

The Company has recognized the changes in outstanding contractual assets and liabilities in the previous year against the revenues of the current year. No pre-contractual (initial) costs were capitalized in the current year whose recovery needs to be assessed.

42. Disclosure of interests in other entities

The Company 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 Company has no associates, it does not participate in joint organizations. Apart from the subsidiaries disclosed as leases, the Company does not face any limitations concerning any of its entities that would influence access to net assets, the profit or the cash flow.

The Company 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 ALTEO qualify as or have shares in an investment entity.

43. Calculating EBITDA

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

Name	31.12.2019	31.12.2018
Profit from operations	556 422	359 183
Recognized depreciation, amortization	(232 565)	(58 669)
EBITDA	788 987	417 852

44. Licensee distribution based on the Electricity Act

The distribution of licensee and other assets and liabilities related to electricity trade throughout the current year and on the reporting date is not applicable as the electricity trade license of ALTEO Nyrt. expired in 2018 and was not renewed.

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

The Accounting Act requires the Company to prepare separate financial statements, which, in accordance with Section 155 (2) of that Act, are 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.

46. Approval of the disclosure of the financial statements

On March 26, 2020, the Board of Directors of the Company approved the disclosure of the financial statements in its current form. The Company declares that its separate Financial Statements for the year 2019 were prepared in accordance with the International Financial Reporting Standards as endorsed by the European Union, to the Company's best knowledge, providing a true and fair view of the assets, liabilities and financial situation of the Company as an issuer, as well as of its profit and loss. Furthermore, the Company declares that its separate 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.

Budapest, March 26, 2020

On behalf of ALTEO Nyrt.:

Attila László Chikán

Member of the Board of Directors
Chief Executive Officer

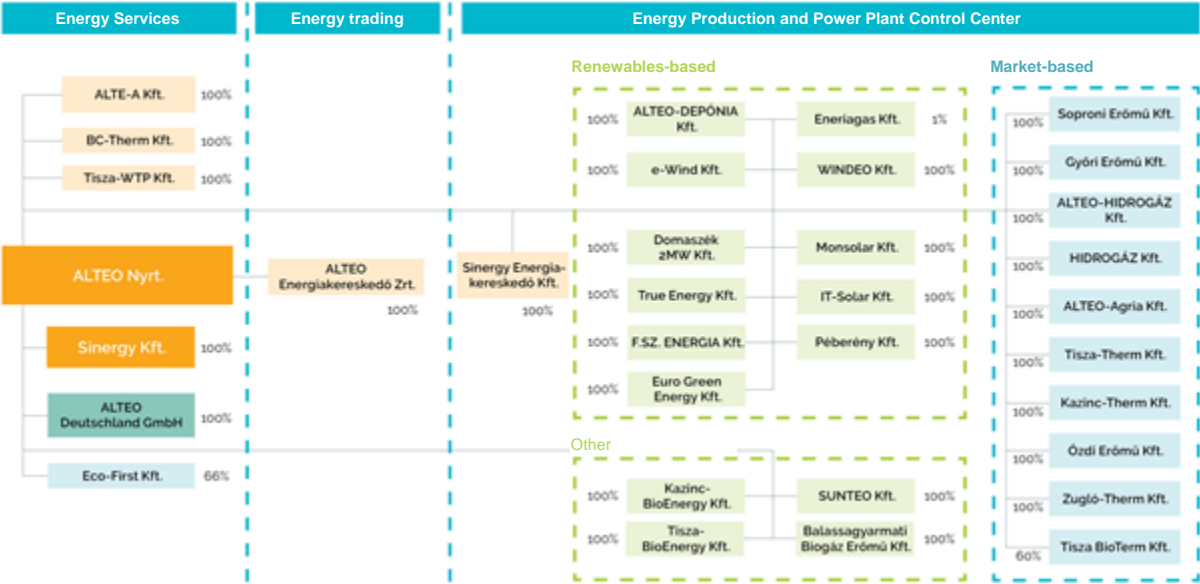
Zoltán Bodnár

Chief Financial Officer

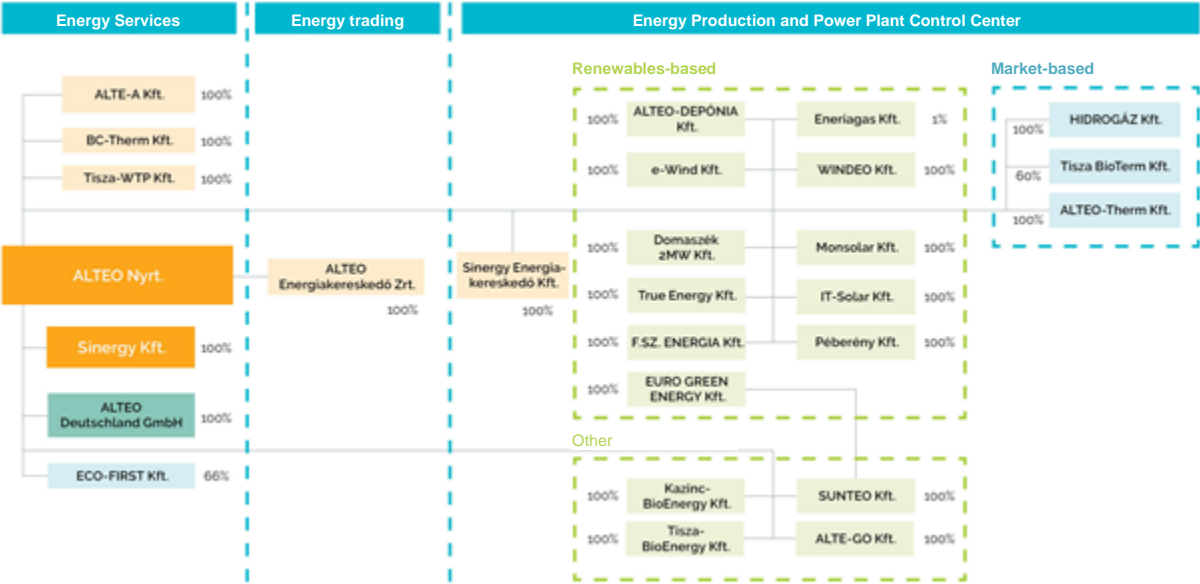
Schedule 1 – ALTEO’s members as of the reporting date

Name of companies in Group	Registered office	Activity	Ownership acquisition date	Legal title	Rate of influence	
					31.12.2018	31.12.2019
ALTEO Energiaszolgáltató Nyrt.	H-1130 Budapest, Babér u. 1-5.		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%
ALTEO Energiakereskedő Zrt.	H-1131 Budapest, Babér u. 1-5.	electricity and gas trade	2011.12.05	Founding	100%	100%
ALTEO-AGRIA Kft. **	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2008.08.27	Founding	100%	100%
ALTEO-DEPÓNIA Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production	2008.10.01	Founding	100%	100%
ALTEO Deutschland GmbH	Marie-Curie-Str. 5, D-53359 Rheinbach	development of energy production portfolio,	2018.04.18	Founding	100%	100%
Balassagyarmati Biogáz Erőmű Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production,	2015.05.04	Purchase	100%	100%
BC-Therm Kft.*	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	100%
Domaszék 2MW Naperőmű Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.12.04	Purchase	100%	100%
e-WIND Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2013.02.11	Purchase	100%	100%
ECO First Kft.	H-1131 Budapest, Babér u. 1-5.	Treatment and disposal of non-hazardous waste	2019.06.25	Purchase	0%	67%
Euro Green Energy Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2019.05.28	Purchase	0%	100%
F.SZ. ENERGIA Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.07.20	Purchase	100%	100%
IT-Solar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.11.06	Purchase	100%	100%
Győri Erőmű Kft.**	H-9027 Győr, Kandó Kálmán u. 11-13.	heat energy production, electricity production	2009.12.31	Purchase	100%	100%
HIDROGÁZ Kft.	H-1131 Budapest, Babér u. 1-5.	energy production, hydrogas utilization	2009.07.13	Purchase	100%	100%
Kazinc-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	100%
Kazinc-Therm Fűtőerőmű Kft. **	H-3700 Kazincbarcika, Gorkij u 1. sz.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%
Monsolar Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.11.06	Purchase	100%	100%
Ózdi Erőmű Távhőtermelő és Szolg. Kft.	H-3700 Kazincbarcika, Gorkij u 1.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%
Péberény Ingatlanhasznosító Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.03.13	Purchase	100%	100%
Sinergy Energiakereskedő Kft.	H-1131 Budapest, Babér u. 1-5.	electricity trading	2015.05.04	Purchase	100%	100%
Sinergy Kft.	H-1131 Budapest, Babér u. 1-5.	energy production	2015.05.04	Purchase	100%	100%
Soproni Erőmű Kft. **	H-9400 Sopron, Somfalvi utca 3.	heat energy production, electricity production	2009.12.31	Purchase	100%	100%
SUNTEO Kft.	H-1131 Budapest, Babér u. 1-5.	energy production	2013.01.30	Founding	100%	100%
Tisza BioTerm Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	60%	60%
Tisza-BioEnergy Kft.	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	100%
Tisza-Therm Fűtőerőmű Kft. **	H-3580 Tiszaújváros, Tisza út 1/D	heat energy production, electricity production	2015.05.04	Purchase	100%	100%
Tisza-WTP Kft.*	H-3580 Tiszaújváros, Ipartelep 2069/3.	salt-free and demineralized water production	2015.05.04	Purchase	100%	100%
True Energy Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.07.20	Purchase	100%	100%
WINDEO Kft.	H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2012.05.24	Purchase	100%	100%
Zuglói-Therm Energiaszolgáltató Kft.**	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%

Schedule 2 – ALTEO’s members as of the reporting date (chart)



ALTEO’s members as of January 1, 2020 (chart)



ALTEO Nyrtr.

**Annual Report
for the financial year 2019**



Disclosure: March 26, 2020

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ALTEO Nyrt. 2019 Annual Report

Introduction

Pursuant to Act CXX of 2001 on the Capital Market, the Regulation of the Budapest Stock Exchange Ltd. on Regulations on Listing and Continued Trading (hereinafter: “**Regulation**”), and Decree No. 24/2008 (VIII.15.) of the Minister of Finance (hereinafter: “**MF Decree**”), ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (hereinafter: “**Company**” or “**ALTEO**”) has prepared and **hereby discloses** “*The Management Report and Analysis*” on the annual profit and the financial statements for *the 2019 financial year* (hereinafter collectively: “**Annual Report**”).

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

The data presented in the Company’s Annual Report and Annual Financial Statements for 2019 have been verified by an independent auditor.

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

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

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

1.1. Management summary on main financial income

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

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

ALTEO Nyrt. 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.

1.1.1. Management summary of the operating profit or loss statement

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

In the opinion of the Company, 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).

<i>(Negative values are denoted by parentheses.)</i>	2019 12 months data in HUF thousand	2018 12 months data in HUF thousand
Sales revenues	10 103 159	4 503 172
Material expenses	(6 148 709)	(2 751 362)
Personnel expenses	(2 993 207)	(1 310 012)
Depreciation and amortization	(232 565)	(58 669)
Other revenues, expenses, net	(204 057)	(23 946)
	524 621	359 183
<i>Income from financial transactions</i>	278 314	1 162 437
<i>Expenses from financial transactions</i>	(456 012)	(699 328)
Profit or loss on financial transactions (-)	(177 698)	463 109
Profit or loss before taxes	346 923	822 292
Income taxes	(172 360)	(244 954)
Net profit or loss	174 563	577 338
EBITDA	757 186	417 852

The Company's **Revenues** increased by HUF 5.5 billion to HUF 10 billion, as compared to 2018. This year, the project development unit focused primarily on work related to ALTEO's solar power plant projects within the Group; 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.

Material expenses increased with the increase in revenue and the projects.

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

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

Owing to the above events, in 2019 ALTEO Nyrt. earned an after-tax profit of HUF 175 million, with an **EBITDA** of HUF 0.8 billion.

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.

1.1.2. Management summary of the statement of financial position

The Company's closing balance sheet total was HUF 25 billion as at December 31, 2019. The balance sheet total was HUF 13.6 billion 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 84%:

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

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

Cash closed with HUF 2.3 billion. The Company plans to use cash 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 Statement of Cash Flows that forms part of the financial statements.

The increase in the **equity of the Company in 2019** was 31%. Changes in equity elements are presented in the financial statements in the table presenting the movements of equity.

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 Company's **long-term liabilities** increased by HUF 8.8 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 0.5 billion over the comparative period. The increase mainly comes from the reclassified portfolio due to the maturity of the bond.

ALTEO Nyrt. Annual Report for 2019

ALTEO Nyrt. Statement of Financial Position 2019

(Negative values are denoted by parentheses.)

	12/31/2019 HUF thousand	12/31/2018 HUF thousand
Non-current assets	17 375 644	7 222 322
Property, plant and equipment	994 897	991 422
Property, plant and equipment	55 422	18 970
Other intangible assets	153 545	86 207
R&D	353 097	243 563
Rights of use	131 874	-
Deferred tax assets	-	-
Long-term loans given	12 728 952	2 773 196
Lease assets - due in more than 1 year	104 376	218 591
Long-term share in subsidiary	2 853 383	2 890 273
Long-term share in associate	100	100
Current assets and assets held for sale	7 634 177	6 404 535
Inventories	251 222	146 950
Trade receivables	3 315 563	2 470 141
Other financial assets	-	22 049
Part of lease asset liabilities due within the year	131 926	277 968
Other short-term receivables and accruals	1 599 126	2 129 216
Cash and cash equivalents	2 336 340	1 344 530
Income tax receivables	-	13 681
TOTAL ASSETS	25 009 821	13 626 857

(Negative values are denoted by parentheses.)

	12/31/2019 HUF thousand	12/31/2018 HUF thousand
Equity	8 151 120	6 229 388
Issued capital	232 948	195 314
Share premium	5 092 255	3 116 887
Retained earnings	3 123 766	3 184 617
Share-based payments reserve	68 398	92 690
Transactions with owners	(366 247)	(360 120)
Cash-flow hedge reserve	-	-
Long-term liabilities	11 842 230	2 956 466
Long-term loans and borrowings	2 500	5 700
Debts on the issue of bonds	10 909 019	2 624 241
Deferred tax liabilities	44 414	24 812
Provisions	15 500	15 500
Deferred income	446 310	-
Lease liabilities - long	79 937	-
Other long-term liabilities	344 550	286 213
Short-term liabilities	5 016 471	4 441 003
Short-term loans and borrowings	-	-
Short-term bond payables	2 215 114	982 683
Advances received	497 963	364 730
Trade payables	372 736	1 087 126
Lease liabilities - short	54 296	-
Other short-term liabilities and accruals	1 874 679	2 006 464
Income tax liabilities	1 683	-
TOTAL EQUITY and LIABILITIES	25 009 821	13 626 857

2 Annexes

2.1. The Company's details

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

Business year	same as the calendar year
Place of publication of notices	The Company discloses its notices regarding regulated information on its website www.alteo.hu , on the website of the BSE www.bet.hu and on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Company are also published in the Company Gazette.
ISIN code of the Shares	HU0000155726
Stock exchange listing	19,386,274 shares of the Company have been listed on the BSE in the “Premium” category.
Other securities	<p>Bonds</p> <p><u>ALTEO 2022/I</u>: 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><u>ALTEO 2020/I</u>: 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><u>ALTEO 2022/II</u>: 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><u>ALTEO NKP/2029</u>: registered bonds with a fixed coupon rate, issued by private placement, having a face value of HUF 50,000,000 and 10 years</p>

	<p>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>
The Company's Board of Directors	<p>Attila László Chikán, Member of the Board of Directors entitled to hold the title of CEO</p> <p>Domonkos Kovács, Member of the Board of Directors, Deputy CEO, M&A and Capital Markets</p> <p>Gyula Zoltán Mező, Chairman of the Board of Directors</p> <p>Zsolt Müllner, Member of the Board of Directors</p> <p>Ferenc Karvalits, Member of the Board of Directors</p>
The Company's Supervisory Board	<p>István Bakács, Chairman of the Supervisory Board</p> <p>Dr István Borbíró, Member of the Supervisory Board</p> <p>Péter Jancsó, Member of the Supervisory Board</p> <p>Dr János Lukács, Member of the Supervisory Board</p> <p>Noah M. Steinberg, Member of the Supervisory Board</p>
The Company's Audit Committee	<p>István Bakács, Chairman of the Audit Committee</p> <p>Dr István Borbíró, Member of the Audit Committee</p> <p>Dr János Lukács, Member of the Audit Committee</p>
The Company's Auditor	<p>Currently, the auditor of the Company is Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered office: H-1068 Budapest, Dózsa György út 84/C.; company registration number: 01-09-071057). The mandate of the auditor is for the period from April 24, 2019 until the date of adoption of the General Meeting's</p>

resolution on the report for the business year ending on December 31, 2019 or until May 31, 2020, whichever occurs earlier. The auditor personally responsible for auditing the Company is Dr. Attila Hruby.

Shareholder of the Company with a share exceeding 5% WALLIS ASSET MANAGEMENT Zrt.

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

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

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

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

2.2.2. Limitation of voting rights related to the shares

Pursuant to Section 9.8 of the Articles of Association of the Company, a shareholder or holder of voting rights (hereinafter, for the purposes of this section: “shareholder”) is required, when notifying a change in their voting rights as defined in Article 61 of Act CXX of 2001 on the Capital Market (“**Capital Market Act**”), to submit a written declaration to the Board of Directors concerning the composition of the shareholder group and the nature of the relationship between the members of such shareholder group, taking into account Section 61(5) and (9) of the Capital Market Act. Such notification obligation applies to shareholders only if there has been a change in the shareholder group since the publication of the previous notice. In the event of failure to provide notification or full notification regarding the composition of the shareholder group as required in the previous sentence, or where the acquisition of control is subject to a regulatory approval or acknowledgement, which the shareholder had failed to obtain, or if there is reason to assume that the shareholder has deceived the Board of Directors concerning the composition of the shareholder group, the voting right of the shareholder will be suspended by the decision of the Board of Directors at any time even after its entry into the share register, and may not be exercised until the above requirement has been fully satisfied. Furthermore, at the request of the Board of Directors, shareholders are required to promptly make a statement specifying who the ultimate beneficial owner with respect to the shares owned, or the beneficial owner of the shareholder is. If the shareholder fails to act upon such request or if there is reason to assume that the shareholder has deceived the Board of Directors, the voting right of the shareholder is suspended and may not be exercised until the above requirements have been fully satisfied. For the purposes of this section, “shareholder group” means, with respect to a particular shareholder, such shareholder and the persons specified in Section 61 (5) and (9) of the Capital Market Act, whose voting rights related to their share must be regarded as the voting rights of the shareholder concerned. For the purposes of this item, “beneficial owner” means the person specified in Section 3(r) of Act CXXXVI of 2007 on the prevention and combating of money laundering and the financing of terrorism.

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

2.2.3. Presentation of investors with a significant share

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

Ownership structure of 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 registered at 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.

2.2.4. Powers of senior executives

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

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

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

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

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

In its resolution No 12/2019. (IV.26.), the General Meeting authorizes the Board of Directors, for a period of eighteen months starting on April 26, 2019, to adopt resolutions concerning the acquisition by the Company of the ownership of shares of any type, class or face value issued by the Company – supported by at least three quarters of the votes that can be cast by the members of the Board of Directors – and to enter into and perform such transactions for and on behalf of the Company, or to engage a third party for the conclusion of such transactions. The number of shares acquired pursuant to this authorization may not be more than the number of shares with aggregate face value corresponding to twenty-five percent of the share capital at the time, and the aggregate face value of

treasury shares held by the Company may not exceed such level either. The Company's own shares can be acquired for or without consideration, on the stock market and through public offering, or – unless the possibility is excluded by the law – in over-the-counter trading. In the event of acquiring own shares for consideration, the minimum amount of consideration payable for one share may be HUF 1 (one forint) and the highest amount may be HUF 1,500 (one thousand five hundred forints). The authorization hereof shall also cover share purchases by the Company's subsidiaries in such a way that the Company may authorize or order the management of any subsidiary of the Company by means of resolutions of the members or shareholders (resolutions adopted by the members' meeting or the general meeting) to acquire the shares issued by the Company according to a resolution adopted by the Board of Directors under the above authorization. The authorization of the General Meeting will expire on October 26, 2020; the Board of Directors has initiated its extension by an additional eighteen months.

2.3. Investments in other undertakings

The subsidiaries of ALTEO Nyrt. (ALTEO Nyrt. and subsidiaries together: "ALTEO Group") are the following companies:

Name of Subsidiary 12/31/2019 (for information on changes, see numbered notes)	Activity	Extent of influence		
		12/31/2019	06/30/2019	12/31/2018
ALTE-A Kft.	property management	100%	100%	100%
ALTEO Deutschland GmbH	development of an energy production portfolio, as well as energy services for both wholesale and retail trade	100%	100%	100%
ALTEO Energiakereskedő Zrt.	natural gas trading	100%	100%	100%
ALTEO-Agria Kft (1)	electricity production, heat energy production	100%	100%	100%
ALTEO-Depónia Kft	electricity production	100%	100%	100%
ALTEO-Hidrogáz Kft (2)	electricity production, heat energy production	0%	100%	100%
Balassagyarmati Biogáz Erőmű Kft (3)	electricity production	100%	100%	100%
BC-Therm Kft.	steam supply, air conditioning, heat energy production	100%	100%	100%
Domaszék 2MW Kft	electricity production (solar power plant)	100%	100%	100%
ECO-FIRST Kft. (4)	treatment and disposal of non-hazardous waste	66.67%	66.67%	N/A
EURO GREEN ENERGY Kft (5)	electricity production (wind turbine)	100%	100%	N/A
e-Wind Kft	electricity production (wind turbine)	100%	100%	100%
F.SZ. ENERGIA Kft	electricity production (solar power plant)	100%	100%	100%
Győri Erőmű Kft (6)	electricity production, heat energy production	100%	100%	100%
HIDROGÁZ Kft	electricity production, hydrogas utilization	100%	100%	100%

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

- (1) Dissolved by succession as of January 1, 2020 (date of legal succession). Details of the event with company law relevance are described in the footnote to Győri Erőmű Kft. and Section 2.5.2 of this Annual Report.
- (2) ALTEO-Hidrogáz Kft. ceased to be a Subsidiary of ALTEO as of July 3, 2019.
- (3) As of January 7, 2020, it was renamed ALTE-GO Kft.
- (4) ECO-FIRST Kft. has been part of the ALTEO Group since June 24, 2019.
- (5) EURO GREEN ENERGY Kft. has been part of the ALTEO Group since May 28, 2019. The Company has indirect influence through SUNTEO Kft.
- (6) Successor to (i) ALTEO-Agria Kft., (ii) Kazinc-Therm Kft., (iii) Ózdi Erőmű Kft., (iv) Soproni Erőmű Kft., (v) Tisza-Therm Kft. and (vi) Zugló-Therm Kft. as of January 1, 2020 (date of legal succession). From that date the company was renamed ALTEO-Therm Kft. Details of the event with company law relevance are described in Section 2.5.2 of this Annual Report.

2.4. Changes in the subsidiaries of ALTEO Nyrt.

In 2019, the Company made the following main acquisitions:

- Acquisition of a business share representing 100% of the issued capital of **EURO GREEN ENERGY Kft.** (through SUNTEO Kft.)
- Acquisition of a business share representing 66.67% of the issued capital of **ECO-FIRST Kft.**

2.4.1. Changes in subsidiaries and associated companies

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

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

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

Acquisition of ECO-FIRST Kft.

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

Kisújszállás and Tiszaföldvár hydrogen project exit

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

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

With respect to the 2019 business year, it is worth highlighting the changes and events that occurred during the period in relation to the following companies in which the Company has an interest.

2.5.1. Events at the Company relevant in terms of company law

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

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

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

- a) The General Meeting **approved the statement of financial position** proposed by the Company's auditor regarding the Company's business year ending on December 31, 2018, along with the 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 the Company's auditor regarding the Company's business year ending on December 31, 2018 and the consolidated report and business report prepared in accordance with the IFRS, as well as the relevant written **reports of** the auditor, the **Audit Committee and the Supervisory Board**.
- c) The General Meeting approved the **separate business report** of the Board of Directors for the Company's 2018 business year.
- d) The General Meeting approved the **consolidated business report** of the Board of Directors for the Company's 2018 business year.
- e) The General Meeting adopted the **corporate governance** report relating to the Company's 2018 operations with the proposed content.
- f) The General Meeting **decided to pay** HUF 250,068,416 **as dividend** from the free retained earnings (dividend base) supplemented by the profit after tax of the Company 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 the Company 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 the Company, the mandate of which is for the period from April 26, 2019 until the date of adoption of the General Meeting's resolution on the report for the business year ending on December 31, 2019 but **until May 31, 2020** at the latest. In line with the Audit Committee's proposal, the General Meeting appointed Dr Attila Hruby as the auditor personally responsible for the audit.
- i) The General Meeting has taken note of and accepted the information provided by the Board of Directors regarding **transactions involving own shares**.
- j) In acceptance of the grounds described in the Board of Directors' proposal, the General Meeting decided to extend the authorization given to the Board of Directors regarding the own share transactions for eighteen months calculated from April 26, 2019.
- k) The General Meeting repealed its Resolution No. 3/2015. (XI.10.) and, simultaneously, subject to the terms and conditions set forth in the proposal, authorized the Board of Directors to adopt a decision on the **increase of the share capital of the Company at its own discretion**, with at least four members of the Board of Directors voting in favor. Pursuant to the authorization, the Board of Directors may increase the share capital of the Company by up to HUF 150 million calculated at the face value of the shares issued by the Company, in aggregate (authorized share capital) in the five-year period starting on April 26, 2019.
- l) The General Meeting decided to change the **core activity** of the Company to "Engineering activities and related technical consultancy (TEÁOR 7112)".
- m) The General Meeting adopted the Company's **Articles of Association** in a consolidated structure with the amendments.

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

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

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

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

The Company as the sole member of the Subsidiaries and, in the case of Tisza BioTerm Kft., the members' meeting adopted the annual report of the Subsidiaries for 2018, 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, the Company decided to pay dividend:

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

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

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

2.5.3. Own securities issued by the Company

2.5.3.1. Issue of bonds

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

to initiate the listing of the bonds on the Budapest Stock Exchange. As a result, on November 22, 2019, the Company listed the bonds on the Budapest Stock Exchange.

2.5.3.2. Maturity of the bonds

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

2.5.3.3. Issue of a bill of exchange

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

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

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

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

2.5.4. Implementation of investment projects

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

reached, and in the case of the Nagykőrös solar power plants, until June 30, 2044 or until the total generation volume authorized under KÁT is reached).

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

2.5.5. RDI Project

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

2.5.6. Launch of a new division 2019

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

2.5.7. Personal changes in senior management

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

2.5.8. Publication of an Integrated Report

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

2.5.9. Performance enhancing investment of the Gibárt Hydropower Plant

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

2.5.10. Disclosure of ALTEO's Strategic objectives

On *November 25, 2019*, the Company published a strategic presentation concerning ALTEO for the period between **2020 and 2024** as a separate document. 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://alteo.hu/wp-content/uploads/2019/11/ALTEO_Vallalati_strategia.pdf

2.5.11. Own share transactions

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

2.5.12. Change in ESOP option rights

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

2.5.13. Long-term trade and business agreements

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

The Company concluded a services contract with a value of over one billion Hungarian forints with TVK-ERŐMŰ Termelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-3580 Tiszaújváros, Gyári út TVK-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.

The Company 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, the Company will provide the production plants of MOL Petrochemicals Co. Ltd. with industrial steam, heating hot water and power supply services until December 31, 2027.

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

Financing agreements

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

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

2.5.14. Use of non-audit services

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

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

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

2.5.15. NKP/2029 capital market listing

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

2.5.16. ALTEO 2020/I bond transaction

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

2.5.17. ALTEO ordinary shares transaction

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

2.5.18. Transformations, changes of ALTEO-Therm Kft.

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

2.5.19. Significant assignments

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

2.5.20. Presentation of ongoing litigations

Sinergy Energiakereskedő Kft

With regard to the letter of VPP Magyarország Zrt. (registered office: H-1113 Budapest, Bocskai út 134-146. C. ép. 3. em.; company registration number: 01-10-048666), sent to Sinergy Energiakereskedő Kft. in 2018 – the content of which and the response to which by Sinergy Energiakereskedő Kft. are presented in detail in an announcement published on February 14, 2018, at the official disclosure points of the Company – on March 14, 2018, Sinergy Energiakereskedő Kft. requested the Hungarian Intellectual Property Office to establish that the six control procedures 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 the Company published on February 14, 2018. The proceedings are still ongoing at the time of publishing this document.

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

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

The Company's prospectus, published on December 31, 2019, available at the following link (hereinafter: "Prospectus") details and assesses the specific risk factors associated with ALTEO and the securities issued by the Company, as well as the potential risks involved in making an informed investment decision, based on the probability of occurrence of such risks and the anticipated extent of their negative impact. Therefore, this section only describes the risks that have changed since the Prospectus was published.

The Prospectus is available at the following link:

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

2.6.1. *The “Macroeconomic and legal system related risk factors” have been supplemented by the following section*

2.6.1.1. Risks related to the spread of COVID-19

To the best of its knowledge, ALTEO 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, COVID-19 may affect the markets where ALTEO is also active, and so it may have an indirect impact on ALTEO Group’s operations and profitability. The management of ALTEO is not in a position to assess the risks from the potential outcomes of COVID-19 in the entire supply chain or the risks indirectly affecting the Company.

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

Risk level: high

2.6.2. *Risks Specific to the Market and the Industry that underwent changes*

2.6.2.1. Funding risk

Preparing for and implementing investments and developments in the energy segment are capital-intensive processes requiring substantial funding. Changes in certain factors (including the general economic environment, credit markets, bank interest rates and foreign exchange [FX] rates) may increase the costs of funding, make the accessing and repayment of funding more difficult, cause delays in or even render these outright impossible, including for financing schemes already established at the date of this Annual Report.

A large part of ALTEO Subsidiaries’ loans come with variable interest rates and are tied to certain reference interest rates, such as BUBOR or EURIBOR. Any unfavorable change in interest rates could have an adverse effect on the profitability of ALTEO. ALTEO 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, ALTEO is not able to completely eliminate negative risks stemming from variable interest rates.

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

Risk level: medium.

2.6.2.2. Foreign exchange rate changes

A significant part of ALTEO'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 procurement price of natural gas). As a consequence, any change in foreign exchange rates that is unfavorable for ALTEO might have a negative effect on the business activity and profitability of ALTEO. ALTEO manages this exposure through hedging of the mentioned items, however, even so the resulting risks cannot be completely excluded.

Risk level: low.

2.7. Description of the policies applied in ALTEO, details of results by policy

2.7.1. Environmental guidelines

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

Our Integrated Management System, which includes the standards ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems, OHSAS 18001:2007

Health & Safety Management System and ISO 50001:2011 Energy Management Systems, has been extended to cover ALTEO as a whole. The Integrated Management Policy is the fundamental document for this system, in which the company's management commits itself to providing quality services, safe work environment, energy efficiency, environmental protection and sustainability.

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

In 2019, 13 HSE-type inspections were carried out by various authorities, and no objections were logged.

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

2.7.2. Respect for human rights, ethics

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

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

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

Fundamental rights in practice

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

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

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

We give high priority to the personal and professional development of our employees. For that purpose, we develop an annual training plan and provide opportunities to participate in courses, conferences and, 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, the management has introduced changes in several issues (e.g. reforming the cafeteria system, increasing salaries by a higher percentage).

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

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

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

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

2.7.3. Anti-corruption policies

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

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

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

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

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

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

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

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

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

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

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

2019 RISKS MAP – Corruption index

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

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

2.7.4. Employment policy

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

The Company believes that the loyalty and motivation of their employees are founded on the stable workplace, good working conditions, complex tasks and competitive wages provided by the Company. Maintaining the employees' commitment and motivation is of key importance for the Company. This is a goal it wishes to accomplish with stability, complex responsibilities as well as competitive benefit packages.

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

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

In 2019, 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 staff turnover, which dropped from last year's 14% to 12%.

The Company consciously seeks to increase the proportion of the young generation within the organization, since the management of the Company believe that ALTEO can provide professional development and great opportunities to them. This is essential for maintaining ALTEO's quality services and reliable work performance, as a constrictive age pyramid means that numerous colleagues with great expertise and work experience – many active in the energy sector for 30 years – are set to retire in the coming years, and the Company strives to recruit highly-trained and committed young members of staff to the positions that will be opening up down the line.

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

3 Statements of the issuer

3.1. Corporate governance statement

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

The Board of Directors is the managing body of ALTEO that governs the Company and monitors its day-to-day operation on the basis of existing legislation, the Articles of Association and the resolutions passed by the General Meeting, the Supervisory Board and the Audit Committee.

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

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

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

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

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

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

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

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

ALTEO launched its compliance program in 2015.

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

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

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

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

The Company declares that the **data of this Annual Report were audited by an independent auditor**. The independent auditor's report was published as part of the Consolidated Financial Statements.

Budapest, March 26, 2020

On behalf of ALTEO Nyrt.:

Attila László Chikán

Member of the Board of Directors, CEO

Zoltán Bodnár

CFO