# Half-Year Report of ALTEO Nyrt. and its Subsidiaries for the First Half of 2019

**Disclosure: September 2, 2019**

# Table of Contents

ALTEO Group's Report for the First Half of 2019

Introduction

Pursuant to Act CXX of 2001 on the Capital Market, the Regulations of the Budapest Stock Exchange on Listing and Continued Trading (hereinafter: "**Regulation**"), and Decree No. 24/2008 (VIII.15.) PM 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 consolidated profit for the first half of the 2019 financial year, as well as its consolidated Interim Financial Statements for the first half of the 2019 financial year*** (hereinafter, jointly, "**Semi-Annual Report**"; the Company and the undertakings specified in Annex 3, point 3.2 of the Semi-Annual Report, included in the consolidation, hereinafter **"Subsidiaries"**; the Subsidiaries and the Company hereinafter jointly referred to as "**Group**" or "**ALTEO Group**").

Based on Annex 2 to the MF Decree and the requirements set forth in Act C of 2000 on Accounting, the consolidated Semi-Annual Report and the consolidated Interim Financial Statements of the Company were prepared in accordance with the International Financial Reporting Standards published in the Official Journal of the European Union.

The data presented in the Company's consolidated Semi-Annual Report for the first half of 2019 and in the consolidated Interim Financial Statements were not verified by an independent auditor.

**First-half report for 2019 of ALTEO Nyrt and its subsidiaries**

# 1 The Management's report and analysis regarding H1 2019

## 1.1 Management report on main finance income

Using the substantial funds from the successful public offering implemented in Q4 2016 and the profits generated by its operation, ALTEO Group launched an **investment program ensuring** continuous and sufficient **returns.** By now, the Group has has almost completely implemented this investment program. We expect the delivery of further two solar power plants, to be implemented in the program's framework by the end of 2019.

In addition to the investment program, the Group identified further opportunities for growth. The **acquisition** of the **Bőny wind farm made a 25MW expansion of the renewable energy capacity possible.** For the purchase of the Bőny wind farm, this year the Group needed to (i) complete a private placement of shares and (ii) obtain further bank funding.

**In the first half of 2019, both the Group's revenues and the net profit after taxes significantly increased.** The 38% increase in revenues was coupled with a 37% increase in taxed profits. This growth not only reflects the success in investment and acquisition activities, but **also an outstanding performance of the existing portfolio**.

Looking at the consolidated financial statements of the Group, the HUF 10 billion expansion in assets and liabilities comprises mainly the invested and long term items. The substantial 45% increase in the balance sheet total of the Group reflects the implementation of the capital investments.

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

In the **Subsidized (KÁT) energy production** and **market production** segments, growth is the result of the investment program, together with an optimal utilization of the existing capacities. The works related to an internal project in the **Energy Services** segment are practically accomplished, the segment obtained significant know-how from the projects already implemented and this knowledge will also be used by a third party in the future.

### 1.2 Management summary of the operating profit or loss statement

Below, we present a table of the Group's financial data for the first half of 2019 with the comparable data of the corresponding period of 2018. Comparison of the Group's half-year results with the previous period is limited, due to the acquisitions completed and the profit generation ability of the investments put into operation in 2019.

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

**Consolidated statement of profit or loss**

| *data in HUF million* | **H1 2019 non-audited** | **H1 2018 non-audited*** | **Change HUF million over previous year** | **Change % over previous year** |
|---|---|---|---|---|
| **Revenues** | **12,141** | **8,814** | **3,328** | **38%** |
| Material-type expenditures | (8,407) | (6,751) | (1,657) | 25% |
| Personnel expenditures | (1,291) | (1,245) | (46) | 4% |
| Depreciation and amortization | (908) | (336) | (572) | 170% |
| Other revenues, expenditures, net | (321) | 119 | (440) | (369%) |
| Impairment loss | (80) | (22) | (58) | N/A |
| **Operating profit or loss** | **1,134** | **579** | **555** | **96%** |
| Net finance income | (361) | (26) | (335) | 1,290% |
| **Profit or loss before taxes** | **773** | **553** | **220** | **40%** |
| Income tax expenditure | (290) | (201) | (89) | 44% |
| **Net income** | **483** | **352** | **131** | **37%** |
| *Of which, to owners of parent company* | 483 | 352 | 131 | 37% |
| *Of which, to minority interest* | - | (1) | 1 | (100%) |
| **Base EPS (HUF/share)** | **28.10** | **22.51** | **5.60** | **25%** |
| **Diluted EPS (HUF/share)** | **26.89** | **21.45** | **5.44** | **25%** |
| **EBITDA** | **2,123** | **936** | **1,187** | **127%** |

** Data for the previous period do not contain changes in the IFRS 16 standard but do contain a correction which has no implications for the profits. These effects are quantified in point 2.1.5.3.1 of the present document.*

The Group's **Revenues** increased by HUF 3.3 billion to HUF 12.1 billion as compared to the first half of 2018, and this applies to several segments. A substantial **increase** took place in the **Energy Retail Trade segment, as well as in the Thermal and Electricity production segment** where, in the first case, this was due primarily to market acquisitions and a successful pricing policy, and in the second case, to the successful operation of the production facilities on the structured electricity market. In addition to the effect mentioned above, the Company bought 100% of the initial capital of EURO Green Energy Kft., which is consolidated as of April 1st . ALTEO's project development unit's revenues declined, because they were primarily focusing on internal works, related to ALTEO's solar power plant projects. These projects will either be completed in stages in 2019 or are already delivered. With these internal projects being implemented, less resources were allocated to the implementation of third-party projects.

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

The increase in **Personnel expenses** is not significant.

In the **Depreciation and amortization** line, the increase in costs was due to the substantially higher PPE, as a result of the investments and acquisitions completed.

***Zugló Therm Kft*** is a business consolidated since the second quarter of 2018, therefore, in 2019, its depreciation accounted for the whole half-year appears in the Group's depreciation.

In connection with the ***Bőny wind farm***, the acquired asset base was already included in the depreciation figures of the Group from the second quarter of 2019.

The ***Monor solar power plant*** was put in operation in December 2018 and depreciation accounted for it in the first half of 2019.

The balance of **Other income and expenses, net** decreased by HUF 0.4 billion as compared to H1 2018. The change comes from two factors:

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

There was an increase in the price of the carbon dioxide quota paid on the basis of gas consumption over the comparative period, while the amount of quota allocated to producers free of charge decreased significantly.

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

The reason for the drop of HUF 335 million in **Net financial income** was primarily due to interest expenses related to financing the investment program, furthermore, a positive effect came from the revaluation of the exchange rates in 2018 which increased the financial income.

In the first half of 2019, ALTEO Group **realized a pre-tax profit of HUF 773 million**. **On this line, in 2019 the Group achieved a 40% increase above the comparative period of 2018.**

The income tax expense increased together with the Group's profits, and exceeded the values presented in the same period of the previous year by HUF 89 million.

In the first half of 2019, **the Group's after-tax result, that is, Net Profit** was HUF 483 million, representing an increase of 37% over the comparative period.

### *1.2.1 Management summary on overall income*

**Consolidated comprehensive income statement**

| *data in HUF million* | **H1 2019** **non-audited** | **H1 2018** **non-audited** | **Change HUF million over previous year** | **Change % over previous year** |
|---|---|---|---|---|
| **Net income** | **483** | **352** | **131** | **37%** |
| Other comprehensive income (after income tax) | (1,061) | (116) | (945) | 815% |
| **Comprehensive income** | **(578)** | **236** | **(814)** | **(345%)** |
| *Of which, to owners of parent company* | (578) | 237 | (815) | (344%) |
| *Of which, to minority shareholders* | - | (1) | 1 | (100%) |

The Group recognized the **cumulative effect** (including deferred tax) of the **end-of-period revaluation of these hedges** in other comprehensive income. The aggregated effect of the different hedge transactions was a **change in unrealized losses** to the value of HUF 1,061 million as at June 30, 2019. The cumulative final value of the hedge transactions was HUF 578 million in the Comprehensive income category, presented as a loss.

For the developments in consolidated **Comprehensive income**, the most important impact came from the revaluation of the open positions in hedge transactions as at June 30. Heat trading agreements of the Group are concluded at a specified, regulated price level. The Group handles the uncertainties resulting from the price fluctuations in the expenses of gas, currency and the $CO_2$ quota by using hedge transactions, in order to ensure the margin at the given contractual price levels. Based on the structure of heat contracts, accounting rules only allow to present in the Comprehensive income the unrealized translation gains and losses on hedge transactions concluded for the purpose of expenses of such contracts. The management intends to close hedge transactions simultaneously with the completion of the sales agreements, which is expected to have a neutral impact on profit.

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

- The Group engaged in interest rate swaps on some of its outstanding project loans, in line with its risk management policy. The aim of the Group is to obtain a considerable reduction in the interest rate risk on project loans.
- The Group adapts its gas and $CO_2$ purchases to its sales pricing system and concluded hedge transactions to manage currency price volatilities.
- In the presentation of the tax effect of the hedge transactions, a tax effect of 9% is applied.

## 1.3 Management summary on the performance of the segments

**ALTEO GROUP MANAGEMENT STATEMENT - FINANCIAL STATEMENT BY ACTIVITIES**

| H1 2019<br>*data in million HUF* | Heat and electricity production (market rate, outside the KÁT system) | Electricity production (within the KÁT system) | Energy services | Energy trading | Other | Items filtered out due to consolidation | Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | **6,574** | **891** | **5,375** | **4,725** | **201** | **(5,624)** | **12,141** |
| Material-type expenditures | (5,044) | (211) | (3,257) | (4,464) | (213) | 4,781 | (8,407) |
| Personnel expenditures | (58) | - | (949) | (36) | (335) | 89 | (1,291) |
| Other revenues and Other expenses | (340) | 20 | (46) | 11 | (1) | 36 | (321) |
| **EBITDA*** | **1,132** | **700** | **1,122** | **236** | **(349)** | **(718)** | **2,123** |

** In the opinion of the Company's management, for the measurement of the Group's efficiency, EBITDA is the most appropriate tool (excluding financial items, tax payments, depreciation and non-systematic decrease – typically impairment). Therefore, impairment and local business taxes and innovation contributions – if any – have been removed from the Other income and Other expenses lines that are used to provide a more detailed elaboration of the EBITDA in the above table.*

### *1.3.1 Heat and electricity generation segment (market-based, outside the KÁT (feed in tariff) regime)*

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

**Heat and electricity production (market rate, outside the KÁT system)**

| *data in HUF million* | H1 2019<br>non-audited | H1 2018<br>non-audited* | H1 2018<br>non-audited | Change HUF million over previous year | Change % over previous year |
|---|---|---|---|---|---|
| **Revenue** | **6,574** | **4,934** | **4,934** | **1,639** | **33%** |
| Material-type expenditures | (5,044) | (4,242) | (4,275) | (802) | 19% |
| Personnel expenditures | (58) | (24) | (6) | (34) | 143% |
| Other revenues and Other expenses | (340) | (167) | (167) | (173) | (104%) |
| **EBITDA*** | **1,132** | **502** | **487** | **630** | **125%** |

** Data in the comparative column illustrate what would have been the effects of changes in IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis demonstrates the deviations calculated on the basis of the comparative column. A detailed presentation of the differences is provided in point 2.1.5.4 of the report.*

**In the first half of 2019, the segment's revenues exceeded the performance of the first half of 2018 by 33%.**

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

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

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

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

In the subject period the Group's first electricity storage facility was realized, with a total cost of HUF 1.1 billion. The Company was awarded a HUF 500 million grant by the National Research, Development and Innovation Office to finance the project. The grant allowed the implementation of a research and development project which explores energy storage, as well as its combination with the more predictable use of weather-dependent energy sources. This development is integral to the activities carried out in the segment. Within the project, the most important element is the energy storage unit, completed and delivered for operation at the end of August 2018. The technical closing and settlement of the project is expected in the second half of 2019.

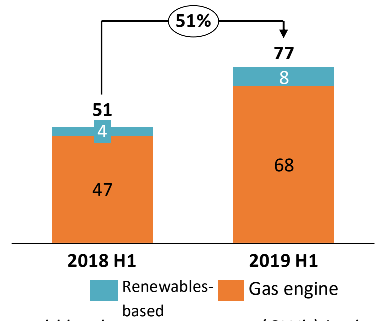
**The EBITDA value of the segment was HUF 1,132 million in the first half of 2019.** The **EBITDA increased by 125%**, mainly due to the following factors:

- the Control Center achieved considerably higher margin on the balancing reserve market than in the same period in 2018;
- with the operation of the electricity storage architecture, the sales revenue of the FCR regulation capacity (formerly called primary capacity) has appeared
- the increase in the $CO_2$ cost recognized in the heat rate established for the year 2019 and covered by ALTEO did not result in a margin decline
- With the consolidation of Zugló-Therm Kft., the margin previously realized by an external third-party was channeled back into the Group from the second quarter of 2018.

#### 1.3.1.1 Presentation of the markets of the heat and electricity segment

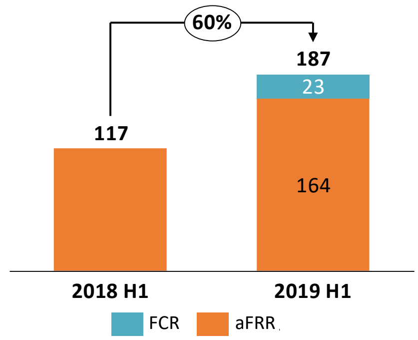
**The impact of the sale of structured electricity products on the segment's profit**

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




*Electricity sold by the control center (GWh) in the first half of 2018 and in the first half of 2019*

In the first half of 2019, the balancing reserve capacity, sold at higher prices in the System Services markets, strongly contributed to the profits of the segment. The total quantity of the balancing reserve capacity sold in the aFRR market (under the name of secondary market earlier) exceeded the value of the base period by 40%.

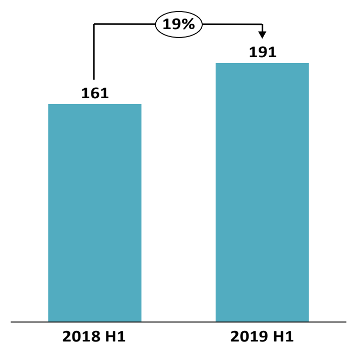



*Electricity-producing capacities sold by the control center in the first half of 2018 and the first half of 2019 (aFRR: GWh; FCR: $GWh_{sym}$)*

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

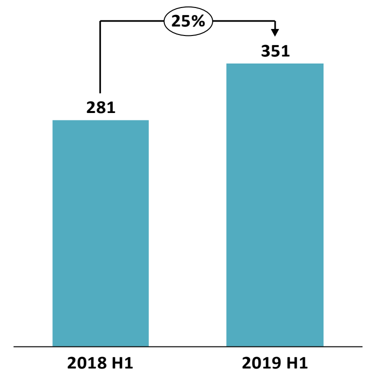
The economic performance of the district heating subsegment under review shows a year-on-year improvement.

The **volume of heat energy** produced by the segment **increased by 19%** in the period, primarily as a result of the heat production of Zugló-Therm Kft. The 40% increase in the revenues realized from heat sales is a result of the higher heat production volume and the higher feed-in tariff set by the authorities. According to the hedging policy of the Group, the gas volume necessary for the production is hedged, thus ensuring low volatility of the subsegment margin.




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

**The amount of natural gas used** by the segment **increased by 25%**, in accordance with the production output. A portion of the growth is attributable to Zugló-Therm Kft. being included in the existing gas consumption of the Group related to heat and electricity production, as mentioned earlier.




*Amount of natural gas used by the segment (GWh$_{GCV}$) in the first half of 2018 and the first half of 2019*

### *1.3.2 Electricity production segment ("Subsidized",[1] indicated earlier with the designation "KÁT" regime)*

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

**Electricity production segment (within the KÁT system)**

| *data in HUF million* | H1 2019 non-audited | H1 2018 non-audited* | H1 2018 non-audited | Change HUF million over previous year | Change % over previous year |
|---|---|---|---|---|---|
| **Revenue** | **891** | **381** | **381** | **511** | **134%** |
| Material-type expenditures | (211) | (86) | (86) | (125) | 145% |
| Personnel expenditures | - | (51) | (51) | 51 | (100%) |
| Other revenues and Other expenses | 20 | 27 | 28 | (8) | (28%) |
| **EBITDA*** | **700** | **270** | **271** | **429** | **159%** |

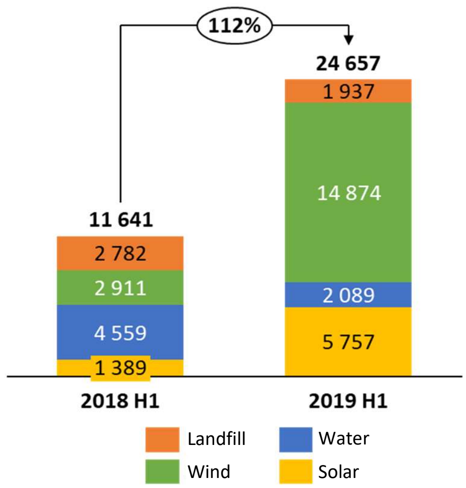
** Data in the comparative column illustrate what would have been the effects of changes in IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis demonstrates the deviations calculated on the basis of the comparative column. A detailed presentation of the differences is provided in point 2.1.5.4 of the report.*

Revenue from the Group's **electricity production plants selling electricity within the Subsidized system** was HUF 511 million higher as compared to the same period in 2018. The main reason for higher revenues is the acquisition of Euro Green Energy Kft. The 13 wind turbines of the Bőny plant park are presented in the profits of the segment from the end of April, resulting in an increase of HUF 528 million in this period. On top of that, production started ***in the solar power plant of Monor and another one completed in Balatonberény,*** which significantly contributed to the increase in the segment's revenues. Revenues produced by the newly launched power plants compensated for the fall out of the wind turbines' and the Gibárt hydropower plant's performance.

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

The EBITDA output of the segment, thanks to the high EBITDA rates in this segment, increased by HUF 429 million by 2019. **As a consequence of the segment's cost structure, a significant portion of the increase in the revenue of the segment is recognized in EBITDA.**

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




*Quantities sold in the first half of 2018 and the first half of 2019 and their distribution (MWh)*

Subsequent to the implementation of the ongoing ***Nagykőrös solar power plant representing a nominal capacity of 7 MW, and the Balatonberény solar power plant*** put into operation, further significant growth can be expected. In order to clean up its portfolio, the Group sold EXIM-INVEST BIOGÁZ Kft, the operator of its biogas power plant in Nyíregyháza, on August 15, 2018, which was removed from the subsidized KÁT system with effect of June 30, 2018.

### *1.3.3 Energy Services segment*

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

Services provided by this business line are used by important industry players in Hungarian industry (e.g. MOL Petrolkémia, BorsodChem, Budapest Power Plant, Heineken). The activities performed at our clients represent critical operational tasks for their infrastructure. Services provided by us to our clients are of long-term character and our contracts cover the complete range of the operation and maintenance tasks.

## Energy Services

| data in HUF million | H1 2019 non-audited | H1 2018 non-audited* | H1 2018 non-audited | Change HUF million over previous year | Change % over previous year |
|---|---|---|---|---|---|
| **Revenue** | **5,375** | **1,825** | **2,305** | **3,550** | **194%** |
| Material-type expenditures | (3,257) | (699) | (1,163) | (2,557) | 366% |
| Personnel expenditures | (949) | (775) | (708) | (174) | 22% |
| Other revenues and Other expenses | (46) | 243 | 243 | (289) | -119% |
| **EBITDA*** | **1,122** | **594** | **677** | **529** | **89%** |

** Data in the comparative column illustrate what would have been the effects of changes in IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis demonstrates the deviations calculated on the basis of the comparative column. A detailed presentation of the differences is provided in point 2.1.5.4 of the report.*

**The revenues of the Energy Services segment amount to HUF 5,375 million and the material expenses represent HUF 3,257 million, a multiple of the same period in the previous year.**

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

This year, the segment realized an EBITDA value of HUF 1,122 million, exceeding by 89% the figure for the same period in 2018. An important portion of the EBITDA presented in connection with the segment was realized by investments made in connection with our own power plants. Within the Energy Services segment, the profit realized on our own investments is displayed, but it is eliminated at the consolidation level. At the same time, these investments contribute to the realization of return on a given investment in the long term, given that the investment's profit content is realized internally and not externally by a third party.

On the lines of Other revenue and Other expenditures, settlements with partners are shown (termination of contracts, profits from the sale of fixed assets etc.). In 2019, no settlement with major value took place.

### *1.3.4 Segment of retail energy trade*

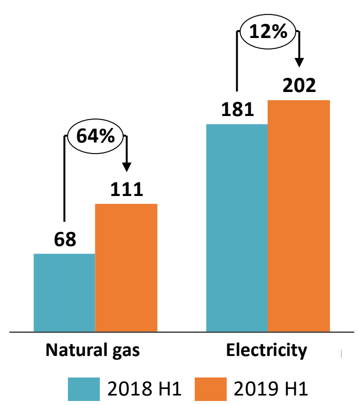
The Group's energy trading activity involves selling electricity and natural gas **in the free market**. Our electricity retail and natural gas retail activities do not include any sales activities under universal service.

## Retail energy trade

| data in HUF million | H1 2019 non-audited | H1 2018 non-audited* | H1 2018 non-audited | Change HUF million over previous year | Change % over previous year |
|---|---|---|---|---|---|
| **Revenue** | **4,725** | **3,261** | **3,261** | **1,464** | **45%** |
| Material-type expenditures | (4,464) | (3,194) | (3,194) | (1,270) | 40% |
| Personnel expenditures | (36) | (22) | (22) | (14) | 62% |
| Other revenues and Other expenses | 11 | 14 | 14 | (4) | (26%) |
| **EBITDA*** | **236** | **60** | **60** | **176** | **295%** |

** Data in the comparative column illustrate what would have been the effects of changes in IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis demonstrates the deviations calculated on the basis of the comparative column. A detailed presentation of the differences is provided in point 2.1.5.4 of the report.*

**The segment's sales revenue for H1 2019 increased substantially, by HUF 1,464 million,** compared to the same period in 2018. This revenue increase is largely attributable to the growth of the electricity trading business (HUF 958 million); however, the revenue from the gas trading activity rose as compared to last year (HUF 506 million).




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

The amount of the electricity sold increased from 181 GWh to 202 GWh (+12%), and the sales price (in line with the market and seasonal trends) grew by 19%.

The amount of natural gas sold increased from 68 GWh to 111 GWh (+64%), mainly as a result of acquiring several new industrial consumers and the portfolio expansion following the first gas year. The average sales price substantially increased here as well, by more than 22%.

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

For the operation of the segment, the changes in the personnel and other costs are negligible in a comparison with their value.

**Within the segment, an increase was realized in both natural gas and electricity sales, both in revenues therefrom and their margin.** The segment's EBITDA increased by HUF 176 million on the whole over to the first half of 2018.

### *1.3.5 Other segment*

The other segment is the place where administration and consulting activities are presented, where revenues typically are provided to the Group. The other segment presents the scope of activities which, fully or in part, cannot be directly attributed to any of the business lines.

**Other segment**

| *data in HUF million* | **H1 2019** **non-audited** | **H1 2018** **Comparison** | **H1 2018** **non-audited** | **Change HUF million over previous year** | **Change % over previous year** |
|---|---|---|---|---|---|
| **Revenue** | **201** | **167** | **167** | **33** | **20%** |
| Material-type expenditures | (213) | (227) | (246) | 13 | (6%) |
| Personnel expenditures | (335) | (395) | (480) | 59 | (15%) |
| Other revenues and Other expenses | (1) | 1 | 1 | (2) | (231%) |
| **EBITDA*** | **(349)** | **(453)** | **(558)** | **104** | **23%** |

** Data in the comparative column illustrate what would have been the effects of changes in IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis demonstrates the deviations calculated on the basis of the comparative column. A detailed presentation of the differences is provided in point 2.1.5.4 of the report.*

**The revenue generated by the Group's Other segment (HUF 201 million) in the first half of 2019 was in line with the growth in the Group, primarily as a result of its expansion.**

The profit or loss of the Group's Other segment is determined by revenues from management fees collected from subsidiaries, costs of human resources performing administrative and other support functions, and other material costs necessary to perform functions. The costs of the comparative period include the preparatory works for investment activities. The personnel-type expenditures for the segment were HUF 59 million lower, mainly due to the effect of one-off expenditures related to the transformation of the management structure and other structural transformations last year. In the year 2019, the operation of the Other segment was balanced, no further changes occurred.

### 1.4 Management summary on the consolidated statement of financial position

**The Group's closing balance sheet total was HUF 33,211 million as at June 30, 2019. The balance sheet total was HUF 22,952 million as at December 31, 2018.** In the first-half report for 2019, for the statement of financial position analysis, we use the comparable reclassified and revalued balance sheet values, as at December 31, 2018, under IFRS 16.

**The events listed below had a significant impact on the growth of the balance sheet total, representing an increase of 45%:**

- Acquisition of Euro Green Energy Kft (Bőny wind farm), taking out an acquisition loan
- Implementation of the power plant investment program
- Implementation of a private placement

*As an addition to the Consolidated Statement of Financial Position, further breakdowns and details are available in the financial statements, see point 2.1.1.*

**Consolidated balance sheet**

| data in HUF million | 06/30/2019 non-audited | 12/31/2018 comparison* | 12/31/2018 audited | Change HUF million | Change % |
|---|---|---|---|---|---|
| **Non-current assets** | **24,087** | **13,809** | **13,716** | **10,278** | **75%** |
| **Current assets** | **9,124** | **9,143** | **9,143** | **(19)** | **(0%)** |
| *of which, financial assets* | *2,333* | *2,561* | *2,561* | *(228)* | *(9%)* |
| **TOTAL ASSETS** | **33,211** | **22,952** | **22,859** | **10,259** | **45%** |
| | | | | - | |
| **Equity** | **6,310** | **5,145** | **5,145** | **1,165** | **23%** |
| **Long-term liabilities** | **19,876** | **9,192** | **9,130** | **10,684** | **117%** |
| *of which credit, loans, bonds, leasing* | *18,308* | *8,227* | *8,165* | *10,081* | *123%* |
| **Short-term liabilities** | **7,025** | **8,615** | **8,584** | **(1,590)** | **(19%)** |
| *of which credit, loans, bonds, leasing* | *1,775* | *1,628* | *1,597* | *147* | *9%* |
| **SHAREHOLDERS' EQUITY and LIABILITIES TOTAL** | **33,211** | **22,952** | **22,859** | **10,259** | **45%** |

** The comparative column contains the adjusted value* ***due to changes in the application of the IFRS 16 standard****, the details are shown in point 2.1.5.3.1.*

The balance sheet total of the ALTEO Group was HUF 33,211 million at the end of H1 2019. Within the composition of items increasing the assets of the Group the stock of operating power plants and equipment played a dominant role in the first six months of 2019. In the subject period, fixed and intangible assets showed an increase of **over HUF 11.3 billion due to the combined effect** of projects and purchases.

**The 75% increase** in means of production in the first half of 2019 results from the following items:

- The purchase of the Bőny wind farm made an expansion of HUF 7.6 billion in the PPE
- In connection with the implementation of the completed solar power plant of Balatonberény and the ongoing construction of the solar power plant in Nagykőrös, HUF 3.8 billion
- The Group specified the asset-related rights in its statement of financial position, taking account of the change in the IFRS 16 standard
- The Group also continued the efficiency improvement program launched last year for its heat power plants.

The volume of **current assets** (HUF 9,124 million) was identical to the closing value for the year 2018.

The **financial assets** decreased by HUF 228 million in the first half of 2019. The Group placed its cash and cash equivalents into investments, investment activities and dividends. Changes in cash balance are presented in detail in the Consolidated Cash Flow Statement, see point *2.1.3*.

The increase **in the equity of the Group in H1 2019** was HUF 1,165 million. Changes in equity attributable to equity elements are shown in the assets' analysis, in point *0*.

The Group's **long-term liabilities** increased by HUF 10,684 million. This is largely attributable to the increase in long-term loans taken in connection with the financing of intensive investment activities and the successful issue of bonds during the first half of the year. In the framework of this latter, investors supported not only the refinancing of our maturing bonds, but also ensured additional funds for further growth opportunities.

**Short-term liabilities** decreased by a total amount of HUF 1,590 million over the comparative period. One of the components of the decrease is that the volume of the trade payables in the comparative period was attributable to project developments. After settling accounts with project suppliers, the trade payables closed at a lower level a the end of the subject period. A second component of the decrease was the buyback of bonds issued by the company, on July 7, 2019. Bonds maturing in July 2019 but repurchased as a result of a successful bond issue were deducted from short-term liabilities in the Group's statement of financial position of the first half of 2019, given that the maturity of the new bonds exceeds one year.

**ALTEO Nyrt.**

**Consolidated Financial Statements for the reporting date of the interim consolidated financial statements prepared under the International Reporting Standards as at June 30, 2019**

# 2 Interim Consolidated Financial Statements

### *2.1.1 Statement on the interim consolidated cash flows*

**Consolidated statement of profit or loss**

| *data in HUF million* | H1 2019<br>non-audited | H1 2018<br>non-audited* | Change HUF million over previous year | Change % over previous year |
|---|---|---|---|---|
| **Revenues** | **12,141** | **8,814** | **3,328** | **38%** |
| Material-type expenditures | (8,407) | (6,751) | (1,657) | 25% |
| Personnel expenditures | (1,291) | (1,245) | (46) | 4% |
| Depreciation and amortization | (908) | (336) | (572) | 170% |
| Other revenues, expenditures, net | (321) | 119 | (440) | (369%) |
| Impairment loss | (80) | (22) | (58) | N/A |
| **Operating profit or loss** | **1,134** | **579** | **555** | **96%** |
| Net finance income | (361) | (26) | (335) | 1,290% |
| **Profit or loss before taxes** | **773** | **553** | **220** | **40%** |
| Income tax expenditure | (290) | (201) | (89) | 44% |
| **Net income** | **483** | **352** | **131** | **37%** |
| *Of which, to owners of parent company* | 483 | 352 | 131 | 37% |
| *Of which, to minority interest* | - | (1) | 1 | (100%) |
| **Base EPS (HUF/share)** | **28.10** | **22.51** | **5.60** | **25%** |
| **Diluted EPS (HUF/share)** | **26.89** | **21.45** | **5.44** | **25%** |
| **EBITDA** | **2,123** | **936** | **1,187** | **127%** |

** Data for the previous period do not contain changes in the IFRS 16 standard but do contain a correction which has no implications for the profits. These effects are quantified in point 2.1.5.3.1 of the present document.*

### *2.1.2 Statement on the interim financial situation*

**A comprehensive analysis of the consolidated statement of financial position was presented in point 1.4. In this point, the breakdown of the main lines and the respective management valuations are presented.**

**Consolidated balance sheet**

| *data in million HUF* | 06/30/2019 non-audited | 12/31/2018 audited | Change HUF million | Change % |
|---|---|---|---|---|
| **Non-current assets** | **24,088** | **13,716** | **10,372** | **76%** |
| *Power plants and power generating properties, plants and equipment* | 16,693 | 10,716 | 5,977 | 56% |
| *Other property, plant and equipment* | 43 | 38 | 5 | 13 |
| *Lease assets* | 254 | 254 | - | 0% |
| *Emission allowance* | 17 | 4 | 13 | 325% |
| *Other intangible assets* | 4,642 | 868 | 3,774 | 435% |
| *Value of operation contract assets and concessions* | 1,429 | 1,477 | (48) | (3%) |
| *Rights of use (Lease assets)* | 630 | - | 630 | n/a |
| *Deferred tax assets* | 180 | 140 | 40 | 29% |
| *Long-term loans and deposits given* | 200 | 219 | (19) | (9%) |
| *Long-term share in an associate* | - | - | - | n/a |
| **Current assets and assets held for sale** | **9,123** | **9,143** | **(20)** | **(0%)** |
| *Inventories* | 298 | 213 | 77 | 40% |
| *Accounts receivable* | 2,501 | 3,320 | (819) | (25%) |
| *Lease assets - short-term* | 312 | 286 | 26 | 9% |
| *Other financial assets* | 315 | 661 | (346) | (52%) |
| *Other receivables and accruals* | 2,159 | 1,310 | 849 | 65% |
| *Income tax receivables* | 145 | 192 | (47) | (24%) |
| *Cash and cash equivalents* | 2,332 | 2,561 | (229) | (9%) |
| *Deposits, financial collaterals** | 1,056 | 600 | 456 | 76% |
| *Assets held for sale* | 5 | - | 5 | n/a |
| **TOTAL ASSETS** | **33,211** | **22,859** | **10,352** | **45%** |
| **Equity** | **6,310** | **5,145** | **1,165** | **23%** |
| *Issued capital* | 233 | 195 | 38 | 19% |
| *Capital reserve* | 5,043 | 3,081 | 1,962 | 64% |
| *Share-based payment reserve* | 93 | 93 | - | 0% |
| *Retained earnings* | 2,501 | 2,268 | 233 | 10% |
| *Transactions with owners* | (193) | (186) | (7) | 4% |
| *Cash-flow hedge reserve* | (1,360) | (299) | (1,061) | 355% |
| *Conversion reserve* | - | - | - | n/a |
| *Non-controlling interest* | (7) | (7) | - | 0% |
| **Long-term liabilities** | **19,876** | **9,130** | **10,746** | **118%** |
| *Long-term loans* | 13,278 | 5,263 | 8,015 | 152% |
| *Debentures* | 4,197 | 2,624 | 1,573 | 60% |
| *Finance lease liabilities* | 833 | 286 | 547 | 191% |
| *Deferred tax liabilities* | 590 | 278 | 312 | 112% |
| *Provisions* | 532 | 252 | 280 | 111% |
| *Deferred income* | 115 | 141 | (26) | (18%) |
| *Other long-term liabilities* | 331 | 286 | 45 | 16% |
| **Short-term liabilities** | **7,025** | **8,584** | **(1,559)** | **(18%)** |
| *Short-term loans* | 1,678 | 614 | 1,064 | 173% |
| *Short-term bonds* | 97 | 983 | (886) | (90%) |
| *Advances received* | 356 | 365 | (9) | (2%) |
| *Trade payables* | 564 | 2,420 | (1,856) | (77%) |
| *Other financial liabilities* | 478 | 602 | (124) | (21%) |
| *Other short-term liabilities and accruals* | 3,695 | 3,585 | 110 | 3% |
| *Income tax liabilities* | 157 | 15 | 142 | 947% |
| **TOTAL EQUITY and LIABILITIES** | **33,211** | **22,859** | **10,352** | **45%** |

The volume of **current assets** (HUF 9,124 million) was identical to the closing value for the year 2018.

**Other financial assets** (HUF 315 million) decreased by HUF 346 million, primarily due to changes in the composition and magnitude of hedging derivatives outstanding at the reporting date within the period and changes resulting from the valuation of transactions outstanding at the reporting date. The detailed impact of hedges is shown at the presentation of comprehensive income, see *in point 1.2.1*.

The joint stock of **trade receivables** (HUF 2,501 million) and **other receivables** plus **accruals** (HUF 2,159 million) increased by HUF 30 million. The increase came from the joint effect of the following changes:

- increase due to the consolidation of the Bőny wind farm
- changes due to the seasonality of production in heat power plants and solar power plants
- increase in assets due to the seasonality and expansion of retail trade.
- receivables invoiced to external partners in connection with construction and installation

The line of **Deposits and financial collaterals** (HUF 1,056 million) highlights some of the items receivable from the lines of other financial assets and other receivables, as well as accruals. The items displayed on a separate line include deposits made relating to derivative positions or collateral bank balances behind bank loans, over which the Group has no control as at the reporting date. The total value of such items increased by HUF 456 million.

The Group’s **long-term liabilities** (HUF 19,876 million) increased by HUF 10,745 million as compared to December 31, 2018. The amount of the long-term debentures (HUF 4,197 million) increased due to the successful refinancing program. Debentures due within a year (HUF 97 million) represent interest and principal payments due within a year.

- The amount of the **provisions** changed by HUF 280 million due to the creation of asset retirement obligatons. A dominant item in the increase is related to assets put into operation and acquired in the period.
- There was a considerable increase of HUF 8,015 million in **long-term loans**. In addition to the loans taken out for solar power plants, the Group also used loans in part to finance the Bőny wind farm it has purchased.
- **Deferred tax liabilities** increased by HUF 312 million as a result of the mechanism introduced to offset the income tax effect of different depreciation rates and other items of taxation and accounting between years. A major portion of the increase in the subject year’s liabilities is related to the assets involved in the acquisition.
- The obligation recognized under **other long-term liabilities** in the amount of HUF 330 million is the present value of the so-called “conditional purchase price” related to the acquisition of the Zugló heating plant. The increase is a consequence of an updating of the estimates (because of an extension of the heat supplier contract).
- The **finance lease liabilities** increased by HUF 484 million. The main reason for growth includes the obligations related to the area rental in connection with the wind turbines of the Bőny wind farm, as well as obligations connected with the renewal of the running rights regarding the area belonging to the Zugló heating plant and their inclusion into the statement of financial position in line with the new IFRS 16 standard.

**Short-term liabilities** (HUF 7,025 million) decreased by HUF 1,558 million over the comparative period, owing to the factors below:

- **Short-term loans** (HUF 1,678 million) increased by HUF 1,064 million in the subject period. The large-size increase comes from the instalments payable during the year for the loans taken out for the solar projects and for the purchase of the Bőny wind farm acquired in Q2.
- The cumulative amount of **trade payables** and **other short-term liabilities and accruals** decreased by HUF 1,745 million in comparison to the previous year. The reason for the

decrease is the consolidation of some new acquisitions, furthermore, the combined effect of an increase due to the expansion of retail trade and the decrease due to the seasonality of the heat power plants.

- The amount of **advances received** decreased by HUF 9 million to HUF 356 million, as compared to the previous year.

### *2.1.3 Statement on the interim consolidated cash flows*

## for the 6 months ended on June 30, 2019 (first half of the year)

| Consolidated Cash-Flow Statement | | |
|---|---|---|
| *data in million HUF* | **06/30/2019 non-audited** | **12/31/2018 audited** |
| **Profit or loss before taxes** | **773** | **806** |
| Net result of (interest income) and interest expenses | 319 | 317 |
| Depreciation | 908 | 730 |
| Impairment losses (other than net current assets) | 80 | 33 |
| (Profit), loss on the sale of fixed assets and on the quotas returned | 300 | 1 |
| Provisions recognized and (released) | - | (87) |
| Provisions for asset retirement obligations recognized and (released) - (IAS 16) | 280 | 12 |
| Changes in deferred income | (27) | (80) |
| Unrealized translation gains and losses – other than net current assets | (570) | (6) |
| Costs of share-based payments | - | 9 |
| Changes in deferred tax | 273 | 47 |
| Interest paid | (214) | (237) |
| Income tax paid | (290) | (229) |
| ***Net cash flow from operating activities, excluding current assets*** | ***1,832*** | ***1,316*** |
| Change in inventories | (85) | 90 |
| Change in trade receivables, other receivables, accrued income and deferred charges | 35 | (28) |
| Change in deposits, financial collaterals | (457) | (159) |
| Change in other financial assets | (44) | (4) |
| Change in trade payables, other liabilities, accrued expenses and deferred income | (2,303) | 2,234 |
| Change in advances received from customers | (9) | (275) |
| **Cash flows in operating activities (use of cash)** | **(1,031)** | **3,127** |
| Interests received on deposits and investments | 8 | 8 |
| Purchase of fixed and intangible assets | (9,598) | (6,422) |
| Investment in acquiring businesses (net of cash) | (1,344) | (451) |
| Proceeds from derecognizing fixed assets | - | 1 |
| Long-term loans given - disbursement | - | (23) |
| Long-term loans given - repayment | 18 | - |
| **Investment activities (cash flow for investments)** | **(11,616)** | **(6,886)** |
| Long-term loans received | 9,370 | 3,743 |
| Bonds repaid | (925) | - |
| Bonds issued | 1,544 | - |
| Capital increase | 2,000 | - |
| Other transactions with owners | (6) | (4) |
| Dividend payment | (250) | (250) |
| **Cash flows in financing activities** | **12,432** | **3,488** |
| **Changes in cash and cash equivalents** | **(215)** | **(271)** |
| Opening cash and cash equivalents | **2,561** | **2,826** |
| Cash exchange gains/losses | *(14)* | *6* |
| **Closing cash and cash equivalents** | **2,332** | **2,561** |

### *2.1.4 Interim statement on the changes in the consolidated equity*

**for the 6 months ended on June 30, 2019 (first half of the year)**

| data in thousand HUF | Issued capital | Share premium | Share-based payment reserve | Retained earnings | Transactions with the shareholders in connection with treasury shares | Cash-flow hedge reserve | Conversion reserve | *Equity attributable to the shareholders of the Parent Company* | Non-controlling interest | *TOTAL EQUITY* |
|---|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2018** | **195,315** | **3,080,838** | **92,690** | **2,267,979** | **(186,407)** | **(299,103)** | **262** | ***5,151,574*** | **(6,841)** | ***5,144,734*** |
| Dividends paid | | | | **(250,058)** | | | | **(250,058)** | | **(250,058)** |
| Capital increase (private placement) | **37,313** | **1,952,202** | | | | | | **1,989,515** | | **1,989,515** |
| Treasury share transactions | **154** | **9,943** | | | **(6,123)** | | | **3,974** | | **3,974** |
| Share-based benefit | | | | | | | | - | | - |
| Comprehensive income | - | - | - | 483,577 | | (1,061,381) | 69 | **(577,735)** | (267) | **(578,002)** |
| **June 30, 2019** | **232,782** | **5,042,983** | **92,690** | **2,501,498** | **(192,530)** | **(1,360,484)** | **331** | ***6,317,270*** | **(7,108)** | ***6,310,163*** |

| data in thousand HUF | Issued capital | Share premium | Share-based payment reserve | Retained earnings | Transactions with the shareholders in connection with treasury shares | Cash-flow hedge reserve | Conversion reserve | *Equity attributable to the shareholders of the Parent Company* | Non-controlling interest | *TOTAL EQUITY* |
|---|---|---|---|---|---|---|---|---|---|---|
| **December 31, 2017** | **195,390** | **3,080,838** | **83,740** | **2,006,861** | **(182,424)** | **(39,209)** | | ***5,145,196*** | **(25,702)** | ***5,119,494*** |
| Dividends paid | | | | (250,098) | | | | **(250,098)** | | **(250,098)** |
| Comprehensive income | - | - | - | 351,816 | | (116,011) | 165 | **235,970** | (929) | **235,041** |
| **June 30, 2018** | **195,315** | **3,080,838** | **92,690** | **2,108,579** | **(182,424)** | **(155,220)** | **165** | ***5,131,068*** | **(26,631)** | ***5,104,437*** |

As opposed to the other tables, this table **is presented in thousand forints**, taking account of the presentability of the small items within the capital structure.

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

- the **increase from the net profits** of the parent company amounted to HUF **483** million for the first half of 2019,
- HUF 1,990 million in capital was raised by way of private **placement**
- the effect of the income recognized in the equity (mainly cash-flow hedge) was HUF 1,061 million
- in the second quarter of the year, a **dividend of HUF 250 million** was paid,

In line with its hedging strategy, the Group engaged in hedges for the upcoming years in order to ensure its operation with an acceptable level of risk. As of the reporting date, the aggregated fair value of outstanding hedges was negative and the Group recognized it in its equity. As compared to the previous period, this decreased the equity by HUF 1,061 million.

### 2.1.5 *Other financial information*

#### 2.1.5.1 Segment information

In connection with segment-related information we present a detailed description, analysis and comparison of the segments in point 1.3 of the Management Report.

**ALTEO GROUP MANAGEMENT STATEMENT - FINANCIAL STATEMENT BY ACTIVITIES**

| **H1 2019**<br>*data in million HUF* | **Heat and electricity production (market rate, outside the KÁT system)** | **Electricity production segment (within the KÁT system)** | **Energy services** | **Energy trading** | **Other** | **Items filtered out due to consolidation** | **Total** |
|---|---|---|---|---|---|---|---|
| **Revenue** | **6,574** | **891** | **5,375** | **4,725** | **201** | **(5,624)** | **12,141** |
| Material-type expenditures | (5,044) | (211) | (3,257) | (4,464) | (213) | 4,781 | (8,407) |
| Personnel expenditures | (58) | - | (949) | (36) | (335) | 89 | (1,291) |
| Other revenues and Other expenses | (340) | 20 | (46) | 11 | (1) | 36 | (321) |
| **EBITDA*** | **1,132** | **700** | **1,122** | **236** | **(349)** | **(718)** | **2,123** |

**ALTEO GROUP MANAGEMENT STATEMENT - FINANCIAL STATEMENT BY ACTIVITIES**

| **H1 2018 for comparison**<br>*data in million HUF* | **Heat and electricity production (market rate, outside the KÁT system)** | **Electricity production segment (within the KÁT system)** | **Energy services** | **Energy trading** | **Other** | **Items filtered out due to consolidation** | **Total** |
|---|---|---|---|---|---|---|---|
| **Revenue** | **4,934** | **381** | **1,825** | **3,261** | **167** | **(1,755)** | **8,814** |
| Material-type expenditures | (4,242) | (86) | (699) | (3,194) | (227) | 1,745 | (6,702) |
| Personnel expenditures | (24) | (51) | (775) | (22) | (395) | 22 | (1,245) |
| Other revenues and Other expenses | (167) | 27 | 243 | 14 | 1 | (0) | 119 |
| **EBITDA*** | **502** | **270** | **594** | **60** | **(453)** | **12** | **985** |

** Data in the comparative column illustrate what would have been the effects of changes in IFRS 16 standard and inter-segment reclassifications on the value of the EBITDA in the previous period. This analysis demonstrates the deviations calculated on the basis of the comparative column. A detailed presentation of the differences is provided in point 2.1.5.4 of the report.*

The presentation of the distribution among segments reflects the Group's management approach regarding the valuation of the different areas. Accordingly, a significant portion of the personnel expenses appears in the performance of the individual segments in the form of inter-segment services.

The decrease in wage costs, appearing as a result of filtering out due to consolidation, shows the total of such activated internal performances where the Energy Services segment provides construction and installation services for another segment.

#### 2.1.5.2 Basis for the preparation of the financial statements

These interim financial statements have been prepared in accordance with the *IAS 34 Interim Financial Reporting standard* and therefore do not contain all of the information presented in the financial statements prepared for the year end according to the IAS 1 Presentation of Financial Statements standard. These interim financial statements should be read in conjunction with the financial statements for the business year ended 31 December 2018 (hereinafter "the complete financial statements").

The management of the Group issues the declarations relating to the Interim Financial Statements, required under Decree No. 24/2008 (VIII.15.) PM of the Minister of Finance on the detailed rules for the disclosure of information on publicly traded securities, in this Semi-Annual Report.

#### 2.1.5.3 Accounting policies and changing standards

*Changes in the Group's accounting policy*

With the exception of the listed items, the Group’s accounting policies applied earlier did not change since the financial statements for the last full financial year.

The Group used the option of not repeating in its interim financial statements the information presented outside the interim financial statements in any document that was disclosed with them, but only makes explicit reference to them when it is omitted. [IAS 34.10A].

*Changes in regulations*

The accounting policy used for the preparation of interim consolidated financial statements is consistent with those used for the preparation of the Group's financial statements for the year ended 31 December 2018, except for the following new and revised IFRSs.

The following new or revised IFRSs have been issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Standards Interpretations Committee (IFRIC), effective from 1 January 2019:

- IFRS 16 Leases
- Amendments to IFRS 9 Financial Instruments - modification due to advance with a negative value
- IAS 19 Employee Benefits - program modification, modification due to restriction or settlement of a benefit
- IAS 28 Investments in Associates - amendments due to long-term investments in associates
- IFRIC 23 Uncertainty over Income Tax Treatments
- Annual Improvements to IFRSs, 2015-2017

The following IFRSs have been issued but are not yet effective:

- Amendment to IFRS 3 Business Combinations (effective for business years beginning on or after 1 January 2020, amendment not yet approved by the EU)
- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective for business years beginning on or after 1 January 2020, amendment not yet approved by the EU)
- IFRS 17 Insurance Contracts (effective for business years beginning on or after 1 January 2021)

Among the above new standards or amendments, IFRS 16 Leases has a significant impact on the consolidated profit or loss, financial position and disclosure obligations of the Group. The impact of the first application of IFRS 16 Leases and the revised accounting policy has been presented.

#### 2.1.5.3.1 Effects of the introduction of IFRS 16

IFRS 16 "Leases" (effective for reporting periods beginning on or after 1 January 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 the case of contracts in progress (car, office and other leases), the Group has made reclassifications in its opening balances.

The application of the standard has affected the Group's assets and liabilities through the reclassification of contracts in progress at the date of opening for the subject year as follows. The Group used the statistics published by the MNB when calculating the market interest rate, and used them to calculate the opening values.

The following table summarizes the effects of applying IFRS16 on 1 January 2019:

| Name / thousand HUF | According to IAS17 | According to IFRS16 |
|---|---|---|
| Asset (opening value) | - | 93,698 |
| Liability (opening value) | - | 93,698 |
| Services used (H1 2018) | 51,442 | - |

The application of IFRS16 is presented in this document in accordance with the requirements of the standard and the needs of users based on the following principles.

- The presentation of the statement of financial position includes the originally disclosed audited data and the comparative data
- The effect of applying the standard retrospectively is not included in the full income statement because interest and depreciation effects cannot be reliably estimated retrospectively.
- The prior year column of the cash flow statement does not include any modification made due to a change in the standard

- The segment EBITDA calculations take into account comparable data because they can be clearly presented

#### 2.1.5.4 Changes in classification made for the comparative period

The Group's management is committed to presenting each business line as widely as possible. Accordingly, the classification of each activity segment is reviewed annually.

The revenue presented as part of the Energy Services segment as a part of the 2018 closing has been revised and, as a result of this revision, the annualized value is presented in the 2018 data on a net basis. The items are presented in 2019 according to their assessment at year end and therefore, for the sake of comparability, we have also harmonized the first half of 2018 data for consistency of presentation.

The table below shows how the reclassification of HUF 463 million between sectors during the comparative period has changed as a result of the reclassifications, and how their **effect is neutral on a consolidated basis.**

**Modifications due to changes in segment classification affecting the prior period**

| **H1 2018 for comparison**<br>*data in million HUF* | **Heat and electricity production (market rate, outside the KÁT system)** | **Electricity production segment (within the KÁT system)** | **Energy services** | **Energy trading** | **Other** | **Items filtered out due to consolidation** | **Total** |
|---|---|---|---|---|---|---|---|
| **Revenue** | **0** | **-** | **(479)** | **-** | **-** | **16** | **(463)** |
| Material-type expenditures | 7 | (0) | 448 | - | 11 | (4) | 463 |
| Personnel expenditures | (18) | (0) | (67) | - | 86 | (0) | 0 |
| Other revenues and Other expenses | - | (0) | - | - | - | 0 | 0 |
| **EBITDA*** | **(10)** | **(1)** | **(98)** | **-** | **97** | **12** | 0 |

#### 2.1.5.5 The uncertainty arising from management's estimates

The management of the Company uses estimates in a number of areas when preparing the financial statements. In all cases, these accounting estimates reflect the best and latest available management knowledge.

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

- estimates concerning the depreciation of the fixed assets (e.g.: useful life),
- estimates concerning the creation of provisions (e.g.: methodology of calculation, indicators for determining provisions),
- estimates concerning the evaluation of inventories and receivables,
- estimates concerning fair value,
- estimates for construction and installation projects (investment contracts)
- determining the fair value of a contingent 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.

A change in an accounting estimate is a change in the carrying amount of an asset or liability or the amount of an asset's use over the period, based on an assessment of the current position of the asset and liability and any related future gain or liability. Changes in accounting estimates are caused by new information or new developments in each material situation and therefore do not qualify as error corrections. It is not necessary to change the modification of the data of the comparative period if the accounting estimates change.

#### 2.1.5.6 Presentation of financial statements in interim financial statements, seasonality

The Group presents the figures of the financial statements (except for changes in the income statement) in the same structure as in the full financial statements at year end. It does not condense the numerical part of the financial statements. Among the notes, it prepares the segment report in the same structure as in the complete financial statements. Other notes are only disclosed when the Group determines that they are required by a material event or the IAS 34 Interim Financial Reporting.

IAS 34 requires the entity to draw attention to the fact that its activities are seasonal. Considering the nature of its operations, the Group faces seasonality in its profit and loss and cash flow items, which is an important consideration in the interpretation of the financial information for the period.

Seasonality is a major concern of the Group: a significant part of the Group's heat power plants revenue is generated during the heating season (Q1 and Q4). The Group’s wind and solar power plants producing renewable energy also show seasonality, with higher output in the first and fourth quarters for wind turbines and in the second and third quarters for solar plants. The construction and installation activities of the Group's Corporate Business Unit are project-based, so comparability between periods is limited by the differing volumes and types of orders in progress during the given periods.

#### 2.1.5.7 Impact of construction and installation contracts

During the business year, the Group started new solar power plant construction projects.

The project revenues are recognized by the Group in accordance with IFRS 15. The Group records its construction contract costs separately on a project-by-project basis and recognizes, in proportion to the degree of completion and planned (expected) benefits, revenue over the amount due from the Customer. The Group has not yet realized any revenue or profit under the relevant contracts in the first half of 2019. It has invoiced the Buyer with the amount due to the Customer.

# 3 Annexes

## 3.1 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 | **14292615-3514-114-01** |
| 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 | **May 13, 2019** |
| The Company's core operations | **Engineering activities and related technical consultancy** |
| Business year | **same as the calendar year** |

| | |
|---|---|
| Place of publication of notices | **The Company discloses its notices regarding regulated information on its website www.alteo.hu, on the website of the BSE www.bet.hu and on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Company are also published in the Company Gazette.** |
| ISIN code of the Shares | **HU0000155726** |
| Stock exchange listing | **19,386,274 shares of the Company have been listed on the BSE in the “Premium” category.** |
| Other securities | **Bonds**<br><br>**ALTEO 2022/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 650,000,000, issue value: 76.6963% of the face value; not listed. ISIN code: HU0000357405**<br><br>**ALTEO 2020/I: publicly traded bonds with a fixed coupon rate of 5.5% p.a., with a maturity of 3.5 years, total face value: HUF 2,150,000,000, issue value: 100% of the face value; listed on the BSE. ISIN code: HU0000357603**<br><br>**ALTEO 2022/II: zero coupon bonds issued by private placement, with a maturity of 3 years, total face value: HUF 1,693,630,000, issue value: 88.9158% of the face value; not yet listed, but the company undertook to apply for the admission of the bonds at BSE within no more than 90 days from the credit of the bonds. ISIN code: HU0000359005** |
| The Company’s Board of Directors | **Attila László Chikán, Member of the Board of Directors entitled to hold the title of CEO**<br><br>**Domonkos Kovács, Member of the Board of Directors, Deputy CEO, M&A and Capital Markets**<br><br>**Gyula Zoltán Mező, Chairman of the Board of Directors**<br><br>**Zsolt Müllner, Member of the Board of Directors**<br><br>**Ferenc Karvalits, Member of the Board of Directors** |

| | |
|---|---|
| The Company's Supervisory Board | **István Bakács, Chairman of the Supervisory Board**<br>**Dr István Borbíró, Member of the Supervisory Board**<br>**Péter Jancsó, Member of the Supervisory Board**<br>**Dr János Lukács, Member of the Supervisory Board**<br>**Noah M. Steinberg, Member of the Supervisory Board** |
| The Company's Audit Committee | **István Bakács, Chairman of the Audit Committee**<br>**Dr István Borbíró, Member of the Audit Committee**<br>**Dr János Lukács, Member of the Audit Committee** |
| The Company's Auditor | **Currently, the auditor of the Company is Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered office: H-1068 Budapest, Dózsa György út 84/C.; company registration number: 01-09-071057). The auditor's term of office is from April 24, 2019 until the date of the General Meeting adopting the annual report for the business year ended December 31, 2019, but not later than May 31, 2020. The auditor personally responsible for auditing the Company is dr. Attila Hruby.** |
| Shareholder of the Company with a share exceeding 5% | **WALLIS ASSET MANAGEMENT Zrt.** |

### 3.2 Presentation of the consolidated companies in accordance with the reports

Subsidiaries mean the following companies (with the extent of influence)

| Name of subsidiary | Activity | Extent of influence | | |
|---|---|---|---|---|
| | | 06/30/2019 | 12/31/2018 | 06/30/2018 |
| 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. | heat energy production, electricity production | 100% | 100% | 100% |
| ALTEO-DEPÓNIA Kft. | property management | 100% | 100% | 100% |
| ALTEO-HIDROGÁZ Kft.[2] | heat energy production, electricity production | 100% | 100% | 100% |
| Balassagyarmati Biogáz Erőmű Kft. | heat energy production, electricity production, waste utilization | 100% | 100% | 100% |
| BC-Therm Kft. | heat energy production | 100% | 100% | 100% |
| Domaszék 2MW Kft. | electricity production | 100% | 100% | 100% |
| ECO-FIRST Kft.[3] | management and disposal of non-hazardous waste | 66.67% | N/A | N/A |
| EURO GREEN ENERGY Kft.[4] | electricity production | 100% | N/A | N/A |
| e-Wind Kft. | energy production (wind power plant) | 100% | 100% | 100% |
| F.SZ. ENERGIA Kft. | electricity production (solar power plant) | 100% | 100% | N/A |
| Győri Erőmű Kft. | heat energy production, electricity production | 100% | 100% | 100% |
| HIDROGÁZ Kft. | energy production, hydrogas utilization | 100% | 100% | 100% |
| IT-Solar Kft. | electricity production | 100% | 100% | 100% |
| Kazinc-BioEnergy Kft. | heat energy production | 100% | 100% | 100% |
| Kazinc-Therm Fűtőerőmű Kft. | heat energy production, electricity production | 100% | 100% | 100% |
| Monsolar Kft. | electricity production (solar power plant) | 100% | 100% | 100% |
| Ózdi Erőmű Kft. | heat energy production, electricity production | 100% | 100% | 100% |
| Péberény Ingatlanhasznosító Kft. | electricity production | 100% | 100% | 100% |
| Sinergy Energiakereskedő Kft. | electricity trading | 100% | 100% | 100% |
| Sinergy Kft. | power plant operation and maintenance, engineering services, implementation, energy production | 100% | 100% | 100% |
| Soproni Erőmű Kft. | heat energy production, electricity production | 100% | 100% | 100% |
| SUNTEO Kft. | energy production | 100% | 100% | 100% |
| Tisza BioTerm Kft. | heat energy production | 60% | 60% | 60% |
| Tisza-BioEnergy Kft. | heat energy production | 100% | 100% | 100% |
| Tisza-Therm Fűtőerőmű Kft. | heat energy production, electricity production | 100% | 100% | 100% |
| Tisza-WTP Kft. | salt-free and demineralized water production | 100% | 100% | 100% |
| True Energy Kft. | electricity production (solar power plant) | 100% | 100% | N/A |
| WINDEO Kft. | energy production (wind power plant) | 100% | 100% | 100% |
| Zugló-Therm Energiaszolgáltató Kft. | heat energy production, electricity production | 100% | 100% | 100% |

[2] ALTEO-Hidrogáz Kft. ceased to be a subsidiary of the ALTEO Group as of July 3, 2019.

[3] ECO-FIRST Kft. became part of the ALTEO consolidated Group on June 25, 2019.

[4] EURO GREEN ENERGY Kft. became part of the ALTEO consolidated Group on April 4, 2019. The Company's influence is indirect through SUNTEO Kft.; the asset value of May 30, 2019 was used as the (start of the) consolidation date.

## 3.3 Changes in Group structure

In the first half of 2019, the Group made the following acquisitions:

- On April 4, 2019, it acquired control of Euro Green Energy Korlátolt Felelősségű Társaság by acquiring a 100% stake in the company.
- On June 20, 2019, it acquired control of ECO First Korlátolt Felelősségű Társaság by acquiring a 66% stake in the company.

### *3.3.1 Changes in subsidiaries and associates*

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

The Company's consolidated company, SUNTEO Kft., as buyer, has entered into a sale and purchase agreement 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 the HUF 8.1 million business share representing the total registered capital of EURO GREEN ENERGY Kft. to SUNTEO Kft. Signing the business share purchase contract represents the first step of the transaction. On **May 28, 2019, the ownership of the business share of EURO GREEN ENERGY Kft. was transferred to SUNTEO,** with the fulfilment of the conditions detailed in the business share sale and purchase agreement.
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. (Bőny wind farm)

On June 24, 2019, the Company acquired the ownership of a business share, representing 66.67% of the HUF 3 million registered capital of ECO-FIRST Kft. **The transaction is connected with the launch of the** Waste Management Division **announced by the Company on January 10, 2019.** ECO-FIRST Ltd. was established in 2017 to carry out organic waste trading services which constituted a niche market. In 2018, it achieved a pre-tax profit of HUF 10 million with revenues of HUF 56 million. Its services mainly include store waste collection and waste management complex sustainability services. ECO-FIRST Kft. provides professional services to a number of large companies and contributes to the development of new complex directions along the demands of the modern waste management market.

Kisújszállás and Tiszaföldvár Hydrogen Project Exit

Following the reporting date, on July 3, 2019, the Company sold, for portfolio cleaning purposes, 100% of the share capital of ALTEO-Hidrogáz Kft., which operates the Kisújszállás and Tiszaföldvár power plants.

#### 3.3.1.1 Presentation of consolidation procedures

The newly acquired subsidiaries are consolidated by the Group (using the full consolidation method). IFRS 3 requires the acquirer to determine, in the case of business combination, the fair value of the assets and liabilities acquired (net assets) at the date of acquisition of control. The Group has made this estimate in relation to the Companies and presents the data in this financial statement at its best estimate. Goodwill / negative goodwill was not recognized in the consolidation of subsidiaries.
The Group approximated the acquisition valuations as at March 31 and June 30, 2019, for technical reasons.
Assets and liabilities should be recorded and derecognized before the end of the so-called measurement period. The end of the measurement period is 12 months after the legal acquisition (April 4 and June 20, 2020).
During the period, the Group may, based on new or adjusted basis, retrospectively (effective retrospectively to the date of the original acquisition):

- change the value of the acquired assets and liabilities;
- take on new assets and liabilities;
- cancel acquired assets or liabilities;
- change their classification;
- or as a result, change the value of the associated goodwill / negative goodwill,

if any evidence emerges that alters the acquisition value and existence of the acquired net assets compared to the original assessment.
Therefore, please note that although the Group has made every effort to ensure that the ex-ante valuations are consistent with the final values, the data currently published may change during the measurement period and the effect of this change may also be significant.

#### 3.3.1.2 Limitations of comparability of the data in the report

The Group has made the following acquisitions since the comparative period of the first half of 2018:

| Name of subsidiary | Activity | Acquisition date |
|---|---|---|
| F.SZ. ENERGIA Kft. | Energy production (solar power plant), project in planning phase | 07/20/2018 |
| True Energy Kft. | Energy production (solar power plant), project in planning phase | 07/20/2018 |
| Euro Green Energy Kft. | Power generation (wind turbine), in operation | 04/04/2019 |
| Eco First Kft. | Waste management | 06/20/2019 |

As a result of the acquisitions, the data for the subject period (both in terms of assets and profit) include acquisition data, whereas the comparative data contain them only in part. As a result, there is only limited comparability between the comparative data and the data of the subject period.

## 3.4 Significant business events decided before or occurred after the date of the interim financial statements

### *3.4.2 Events at the Company relevant in terms of company law in the period between January 1, 2019 and the date of publication of this Semi-Annual Report*

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 decided to launch the process of increasing the share capital of the Company, by adding new shares (hereinafter: "**New Shares**") in a private placement (hereinafter: "**Private Placement**"). On the basis of the preliminary statements of commitment, the Board of Directors under Resolutions No. 1-2/2019 (III. 21.) made decisions regarding the allocation of the shares: it excluded the shareholders' subscription rights and any preferential rights for the New Shares; taking account of the preliminary statements of commitment for the acceptance of the New Shares submitted during the sale (book-building), the issue price of the New Shares was set at HUF 670.00 (that is, 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; that is, 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 for the submission of the final statement of commitment, as well as the deadline for 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 contribution. Each of the investors designated by the Board of Directors to receive the New Shares complied with their obligation undertaken and paid the total consideration for the 2,985,074 units of New Shares issued in the course of the Private Placement as required. 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 December 31, 2018, along with the individual 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 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 **individual business report** of the Board of Directors for the Company's 2018 business year.

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

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

f) The General Meeting **decided to pay** HUF 250,068,416 as **dividend** from the free retained earnings (basis for dividend) supplemented by the profit after taxation of the Company in the previous business year and the subsidiary dividends established after 2018, which corresponds to **HUF 16 gross** per share, disregarding the shares held by the Company and the shares issued on March 25, 2019, which, according to Section 3:298 (3) of the Civil Code, do not entitle their holders to any 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' submission, 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, authorized the Board of Directors, under the terms and conditions presented in the proposal, 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 million, calculated at the face value of the shares issued by the Company, in aggregate (authorized share capital) over a 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.

*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.*

Events at the Company's Subsidiaries relevant in terms of company law in the period between January 1, 2019 and the date of publication of this Semi-Annual Report

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

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

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

On May 21, 2019, the Company adopted a decision on the reduction of the initial capital of ***Tisza-WTP Kft*** from HUF 95,265,000 to HUF 3 million, and on the reduction of the initial capital of ***BC-Therm Kft*** from HUF 304 million to HUF 181 million with a view to divestiture. The proceedings at the Court of Registration are still in progress at the date of publication of the H1 Report.

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

### *3.4.3 Securities issued by the Company*

#### 3.4.3.1 Bond issue

The Company issued 169,363 zero coupon, dematerialized registered Bonds of HUF 10,000 face value under the designation ALTEO 2022/II on June 7, 2019, in the form of a private placement. A portion of the funds raised by the Company from the issue of the Bonds were used for the repurchase of the "ALTEO 2019/I" bonds (ISIN identifier HU0000355144) maturing in 2019, on the day of the private placement of the Bonds. In addition, the Company will use the funds raised partially for the purpose of financing investments into energy projects, as well as general corporate financing purposes. In the course of private placement, the Company undertook to initiate the listing of the bonds on the Budapest Stock Exchange within 90 days of the crediting of the bonds.

#### 3.4.3.2 Maturity of the Bonds

The "ALTEO 2019/I" bonds matured on July 18, 2019, and the Company had no other obligation to the bondholders with respect to the repurchase described in the paragraph above.

#### 3.4.3.3 Issue of a bill of exchange

In relation to the transaction aimed at acquiring the business share of EURO GREEN ENERGY Kft, SUNTEO Kft – under an arrangement favorable for the Company – pays part of the purchase price through deferred payment, which does not affect the transfer of EURO GREEN ENERGY Kft's business share to SUNTEO Kft. To secure this payment, the Company issued a bill of exchange of HUF 700 million to Raiffeisen Energiaszolgató Kft. as beneficiary, which was delivered to it at the same time as the closing of the transaction on May 28, 2019.

#### 3.4.3.4 Participation in MNB Bond Scheme, credit rating

The Company intends to issue bonds under the Bond Funding for Growth Scheme (hereinafter: "Scheme") announced by the National Bank of Hungary ("MNB").

Participation in the Scheme is subject to the bonds to be issued receiving at least B+ rating from a credit rating agency registered with the European Securities and Markets Authority (ESMA). ***At the request of the MNB, Scope Ratings GmbH carried out the rating****,* calculating with bond issue in up to HUF 9.3 billion, which resulted in a ***rating of BBB for the bonds to be issued*****,** four grades better than the minimum required by the MNB.

### *3.4.4 Implementation of investment projects*

The ALTEO Group has also built its self-implemented solar power plants of Balatonberény and Nagykőrös, as well as the solar power plant of Monor. The solar power plants sell electricity generated through their operation for MAVIR under the KÁT regime (in the case of the Balatonberény 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 plant, until June 30, 2044 at the latest 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 Péberény **solar power plants** and 7 MW for the Nagykőrös solar power plants. The trial operation of the solar power plants has been successfully completed and commercial operation has begun.

### *3.4.5 Launch of a new division 2019*

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

### *3.4.6 Personal changes in senior management*

Sándor Bodó CFO and Deputy CEO András Papp left the company on August 31, 2019. András Papp also resigned from the Board of Directors.

#### *3.4.7 Publication of an Integrated Report*

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

### 3.5 Events of major importance at the Group subsidiaries

*Considering the period from the beginning of 2019 to the disclosure date of this Semi-Annual Report, the changes and events which occurred in said period related to the following Group member companies should be highlighted. With regard to the Company and each Subsidiary, this Semi-Annual Report covers only major changes which occurred in 2019 until the date of publication of this Semi-Annual Report.*

#### *3.5.1 Long-term trade and business agreements*

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

#### *3.5.2 Financing agreements*

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

| Company | Designation of the collateral | Date of contract conclusion |
|---|---|---|
| EURO GREEN ENERGY | 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 | 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 |

## 3.6 Major risks facing the Company’s company group, and the relevant changes and uncertainties

## 3.7 Risks specific to the markets of the ALTEO Group and the industry

- **Macroeconomic factors:** Certain negative developments in the macroeconomic environment may have adverse effects on the profitability of specific ALTEO Group activities.
- **Risks stemming from the legal system:** The relative disorganization of the legal system (e.g. frequently changing legal regulations) 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.
- **Energy market legislation:** The operation and the profitability of ALTEO Group greatly depend on the energy market regulations ratified in Hungary and in the European Union, and on the application of such regulations. In 2018 and 2019, the European Union adopted new energy-related legal regulations under the title “Clean Energy For All Europeans”.
- **Environmental legislation:** Any unfavorable changes in the environmental legislation affecting the ALTEO Group may generate surplus costs or additional investment requirements for the company.
- **Regulated prices:** Prices that are set out in legal regulations or set by an authority and their changes may have a significant impact on the profitability and competitiveness of ALTEO Group.
- **$CO_2$ emission allocation system and $CO_2$ prices:** Based on the national implementing measure, a decreasing number of emission units are allocated to specific power plants of ALTEO Group free of charge every year in the period between 2013 and 2020.
  Changes in the allocation system, the allocation rules or the price of the emission allowances could have a considerable impact on the operating costs and economic results of the ALTEO Group.
- **Government grants:** The operation and profitability of ALTEO Group may depend on the volume of and the 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. Changes in the government grant schemes and especially in the KÁT and METÁR regulations, or the termination of the relevant grants may have a significant impact on the operation, profitability, market position and competitiveness of the Group.
- **Taxation:** The current tax, contribution and levy payment regulations applicable to ALTEO Group may change in the future, which would increase the tax burdens of ALTEO Group.
- **Technological innovations:** Technological innovations can significantly improve the efficiency of the energy industry, especially in the area of renewable energy production. If ALTEO Group has no appropriate experience with or cannot access the solutions and technologies that take over the lead, that may lead to a loss of market share and a decrease in the Group’s revenues and profitability.
- **Competitive situation:** Several companies with considerable market positions and substantial experience in Europe and in Hungary, as well as advanced technologies, major capacities and financial standing are competing in certain markets of ALTEO Group or may enter the competition in the future. This may necessitate unforeseen developments and investments, and it can also have an adverse effect on the prices of ALTEO Group or increase the Group’s costs.
- **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 accessing and repaying funding more difficult, and may delay the latter or even render it outright impossible.

A large part of ALTEO Group's loans come with variable interest rates and are tied to certain reference interest rates, such as BUBOR or EURIBOR. An unfavorable change in the interest rates could have an adverse effect on the profitability of the ALTEO Group.

Some of ALTEO Group's loans were drawn down in a foreign currency or against a multi-currency facility. An unfavorable change in FX rates could have an adverse effect on the repayment instalments and the interests payable relating to specific loans and, consequently, could have a negative impact on the profitability of ALTEO Group too.

- **Impact of international market developments on domestic trade:** Market prices formed on foreign commodity exchanges have a major influence on Hungarian energy prices. New developments in economic processes and changes in supply-demand relations may have a negative effect on ALTEO Group's profitability under certain circumstances.
- **Risk of changing natural gas, electric energy and heat price margins:** If this margin dropped, it would have an adverse effect on the business and profitability of ALTEO Group.
- **Risks related to the United Kingdom leaving the European Union (Brexit):** ALTEO Group does not have any direct customers or suppliers in the United Kingdom for its revenue-generating activities or services that affect its operation. However, Brexit may affect those markets where ALTEO Group is also active, and so it may have an indirect impact on ALTEO Group's operations and profitability. The management of ALTEO Group is not in a position to assess the risks from the potential outcomes of Brexit in the entire supply chain, or the risks indirectly affecting the Company.

### 3.8 Presentation of the risks specific to ALTEO Group:

- **Risks of growth:** ALTEO Group is planning to expand further both in terms of business activities and geographical areas. There is no guarantee that the company strategy will be successful and the company will be able to manage this growth efficiently and successfully.
- **Risks stemming from acquisitions, buying out projects and 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 Group.
- **Risks related to power plant project development and green-field investment:** Although ALTEO Group draws up careful technical, legal and profitability plans when preparing for project implementation, there is always a possibility that the authorization of specific projects becomes unreasonably long or impossible. During implementation phases, ALTEO Group strives to contract main and subcontractors that offer appropriate guarantees and references, but even so, the possibility of disputes arising between the parties cannot be excluded in these phases.
- **Risk of entering new geographical markets:** 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 Group.
- **Large-scale, customized projects:** In line with the characteristics of the industry, a significant share of ALTEO Group's revenues comes from large-scale, customized projects. Consequently,

completing or not implementing just a few projects may already make a big difference in terms of the company group's future revenues and profitability.

- **Dependence on third-party suppliers:** If, for any reason, manufacturers or suppliers fail to deliver the equipment ordered by ALTEO Group at the right time, for the right price and in the right quality, delays may occur in the implementation of investments and additional costs may arise.
- **Buyer risk:** A significant share of ALTEO Group's revenues comes from a small number of buyers making large purchases. Consequently, winning or losing a client contract may already make a big difference in terms of the company group's future revenues and profitability. Even fixed-term contracts offer no guarantee against their termination before the end of their specified term due to some unexpected or exceptional event.
- **Energy trade risks:** Changes in the demand on electric energy and natural gas markets may have a profound influence on the revenues, profitability and strategic expansion plans of ALTEO Group.
- **Wholesale partner risks:** If the partner in a wholesale sales 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 group.
- **Operating risks:** The economic performance of ALTEO Group depends on the proper operation of its projects, which may be influenced by several factors.
- **Fuel risk:** The possibility that the price of the fuels procured by ALTEO Group will increase in the future cannot be excluded, which can have a negative effect on the Group's profitability. The natural gas transport agreements made by ALTEO Group are in line with the practices used by the entire industry. Despite that, there is no guarantee that the fuel required for fueling the power plants will always be available, and it is especially difficult to plan with fuel supply in the case of external events.
- **Key licenses and qualifications:** If the certificates, qualifications and licenses required for ALTEO Group to carry out its business activities are revoked or not extended, the business of ALTEO Group would be profoundly limited. Therefore, this could have a significant negative impact on the Group's profitability.
- **Authority risk:** ALTEO Group does everything that can reasonably be expected of it to ensure the compliance of its operation with the requirements set out in legal regulations or specified by the authorities. Nevertheless, the possibility that future inspections by the authorities will make statements leading to substantial expenses, or that the determining authorities will impose certain sanctions on the company group cannot be excluded.
- **The risk of not fulfilling the obligations associated with operating its own balancing group:** ALTEO Group 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, the company group 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.
- **Risks arising from the operation of the Control Center:** The profit-generating ability of the Control Center is highly dependent on the prevailing market prices for electricity System Services, in particular: FCR, aFRR, mFRR balancing regulatory capacity and unit energy prices. Failure of the Control Center to successfully operate in these markets (market access restrictions, low sales volumes, low sales prices), it could significantly affect the profitability of energy production activities of the ALTEO Group.
- **Options to purchase certain means of production:** Third parties have options to purchase certain means of production of ALTEO Group. If the relevant contracts are not amended or new service contracts are not signed, these assets will not contribute to the Company's revenues and profits

after the time when they are sold. Apart from that, ALTEO Group may suffer losses from such sale transactions.

- **The risk of key managers and/or employees leaving the Company:** The performance and success of ALTEO Group greatly depends on the experience and availability of its managers and key employees. If managers or key employees left the Company, that may have a negative impact on ALTEO Group's operation and profitability.
- **Renewing and/or refinancing outstanding debts:** In addition to loans granted by financial institutions, ALTEO Group uses in part bonds - issued by ALTEO either to a closed, limited group of buyers or to be publicly traded - to fund its financing needs. Negative changes in the business prospects of ALTEO Group, in the general financing environment, in the interest environment or in the general capital market atmosphere may have a negative effect on the future funding of the Company Group's operation and financial position.
- **Business relationships associated with the Owners' Group:** There are several business relationships between ALTEO Group and the owners' group, which it forms a part of. The termination of these buyer, financing and supplier relationships may have a negative effect on the profitability of ALTEO Group and limit its options to access funding in the future.
- **The risk of being categorized as an actual company group:** It cannot be excluded that based on the request of a legal entity with an interest of legal nature, the court will oblige the member companies of ALTEO Group to enter into a subordination agreement and to initiate the registration of the company group with the Court of Registration, or categorize ALTEO Group as an actual company group even in the lack of a court registration. In a situation like that, if a subsidiary was liquidated, the company group 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.
- **Taxation:** ALTEO Group does everything that can reasonably be expected of it to ensure that its operation is in compliance with the regulations, but it cannot be excluded that a future tax audit will result in substantial expenses in the form of a tax liability payable by ALTEO Nyrt. or its subsidiaries.
- **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):** Since 2017, ALTEO Nyrt. has been obliged to prepare even its HAS-based individual report in line with the IFRS standards. Certain data elements and results of this may, however, be different from those used in IFRS.
- **The risk of introducing and using new power plant technologies:** Although ALTEO Group implements only proven technologies holding a number of references, if the performance of a given technology is lower than previously projected, it may cause a loss to ALTEO Group.
- **Dependence on weather:** Part of ALTEO Group's energy production capacities (e.g. the wind turbines) and the energy demand of certain buyers (e.g. heat demands) depend on the weather, therefore, changes in the weather may significantly impact the profitability of ALTEO Group.
- **Information technology systems:** The improper operation or security of ALTEO Group's information technology (IT) systems may have adverse consequences for the business and profitability of the Group.
- **Environmental risks:** Members of the ALTEO Group have the necessary environmental licenses and policies in place, and their expert staff do their job with special care as required by the nature of this business. But there could be extraordinary events which may entail invoking the environmental remediation obligation of the affected company or imposing a fine, or may lead to enforcing claims against the affected company.

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

### 3.9 Ongoing litigation

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 Energiakereskedő Kft. are presented in detail in an announcement published on February 14, 2018, at the official disclosure points of the Company – on March 14, 2018, Sinergy Energiakereskedő Kft. requested the Hungarian Intellectual Property Office to establish that the six control procedures in total it uses in the course of operating the control center is not in violation of the patent “Decentralized energy production system, control tool and procedure, controlling the energy production of the system” registered for VPP Magyarország Zrt. as holder under number E031332.

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

The Group has not identified any situation affecting the statement of financial position in this case.

### 3.10 Authorization for the disclosure of the interim financial statements

This interim financial report was discussed and authorized for disclosure by the Group's management on September 2, 2019.

## 4 Statements of the issuer

The Company declares that ***its consolidated Interim Financial Statements for H1 2019*** and the Semi-Annual Report 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 as well as of the profit and loss of the Company as an issuer and of its consolidated subsidiaries.

The Company also declares that **its consolidated Interim Financial Statements for H1 2019** provides a fair view of the situation, development and performance of the issuer and the enterprises included in the consolidation, outlining the risks and uncertainties likely to arise in the rest of the financial year.

The Company declares that the data in this Semi-Annual Report have not been audited by an independent auditor.

Budapest, September 02, 2019

On behalf of ALTEO Nyrt.:

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

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