Consolidated Financial Statements

ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság

for the business year ended on December 31, 2020
in accordance with the International Financial Reporting Standards as adopted by the EU

Independent Auditor's Report

ALTEO Consolidated Financial Statements

Management Report and Analysis

Issue date of Independent Auditor's Report:

26th March, 2021

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

19th April, 2021

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Independent Auditor's Report

to the Shareholders of ALTEO Nyrt.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ALTEO Nyrt. and its subsidiaries (the „Group”) for the year 2020 which comprise the consolidated statement of financial position as at December 31, 2020 (which shows a total assets of **HUF 44 884 360 thousands**) and the related consolidated statement of recognized income, consolidated statement of other comprehensive income (which shows a net profit for the year of **HUF 2 704 833 thousands**), consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and consolidated notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of ALTEO Nyrt. and its subsidiaries as at December 31, 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS”), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for the opinion

We conducted our audit in accordance with Hungarian National Standards on Auditing (“HNSA”) and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements” section of our report.

We are independent of the Group in accordance with the applicable laws of Hungary, with the Hungarian Chamber of Auditors’ Rules on ethics and professional conduct of auditors and on disciplinary process and, as well as with respect to issues not covered by these Rules, with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code) and we also comply with further ethical requirements set out in these.

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

Other issues

The Group’s consolidated financial statements for 2019 were audited by an other auditor, who issued an unqualified audit opinion in the auditor’s report dated on 26 March 2020.

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Key Audit Matters

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

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Impairment of assets Refer to Notes IV.9. in the consolidated financial statements	
In the consolidated financial statements the Group presents property plant and equipment in a value of Thousand HUF 25,435,923. As required by the applicable accounting standards, the Group conducts regular (at least annual) impairment tests to assess whether there is any impairment indicator regarding the certain cash generating units. In course of the impairment test, the Group has applied discounted cash-flow method to determine the carrying value of the assets. The valuation is dependent on certain assumptions, which bear uncertainty, thus the value of cash generating units may change in parallel with the change of influencing factors.	Our audit procedures regarding the impairment test of assets were as follows: We have checked the valuations relating to certain significant cash generating units by critically challenging the reasonableness and validity of the calculation method and the key assumptions used by the management. We have assessed the accuracy and relevance of input data used and the reasonableness of assumptions by involving own valuation expert and using our own industry knowledge and experience as well as checked the accuracy of the computations by recalculating them. We have checked the appropriateness of future cash flows estimated by the management regarding cash generating units by critically challenging the reasonableness and validity of the calculation method and the key assumptions used. In course of our audit we have analysed the future projected cash flows used in the model to determine whether they are reasonable and supportable for estimating expected future performance of the cash generating unit. We have compared the projected cash flows and growth rates to historical performance to evaluate the accuracy of management's projections. We have checked the appropriate compliance with relevant financial reporting standards, accounting records and disclosures. Based on our procedures we have not identified material misstatements.

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Key Audit Matter	*How our audit addressed the Key Audit Matter*
Revenue recognition Refer to Notes IV.1. in the consolidated financial statements	
Revenue is an important measure used to evaluate the performance of the Group. As a consequence, it needs to be ensured that the revenue in the consolidated financial statements is real, accurate and refers to the current year. Revenue from sales transactions is recognized as of the performance date based on the terms of the delivery contracts. In case of energy industry projects the Group applies percentage of completion method for the recognition of revenues. In this case the recorded revenues correspond to the actual stage of completion; the presented profit or loss is in line with the actual percentage of completion.	Our audit work supporting the revenue recognition included the following substantive audit procedures. Existence and accuracy of sales revenue have been tested on a sample basis and the items selected have been reconciled to turnover confirmation letters as well as source documents (invoice, contract, certificate of performance). We have tested regarding the last revenue invoices before and the first ones after the balance sheet date of 31 December 2020 whether they were recorded in the correct period (accuracy of prepaid or deferred income). Also, we have tested the credit notes issued after the above balance sheet date in order to ensure that they did not refer to sales revenue recognized in the financial year of 2020. With regards to the energy industry project contracts we have reviewed the accuracy and existence of the revenue recognition based on the stage of completion accounting. We have tested manual journal entries regarding revenues in order to identify unusual items outside of the normal course of business and reviewed the audit evidences supporting the items selected. We have applied analytical review procedures as well for analysing sales turnover. We have checked the appropriate compliance with relevant financial reporting standards, accounting records and disclosures. Based on our procedures we have not identified material misstatements.

Other information

Other information comprises the information included in the consolidated business report of the Group for 2020, which we obtained prior to the date of this auditor's report, and the integrated report, which is expected to be made available to us after that date. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the provisions of the Accounting Act and other relevant regulations. Our opinion on the consolidated financial statements expressed in the "Opinion" section of our independent auditor's report does not cover the other information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If based on our work performed we conclude that the other information is materially misstated we are required to report this fact and the nature of the misstatement.

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

In our opinion, the consolidated business report of ALTEO Nyrt. and its subsidiaries for 2020 corresponds to the consolidated financial statements of ALTEO Nyrt. and its subsidiaries for 2020 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h)) and Section 95/C (2) a)-e) of the Accounting Act has been provided. As there is no other regulation prescribing further requirements for the Group's consolidated business report, we do not express an opinion in this respect.

We are not aware of any other material inconsistency or material misstatement in the consolidated business report therefore we have nothing to report in this respect.

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

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

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

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

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

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

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

As part of an audit in accordance with HNSAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis in the preparation of the consolidated financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of ALTEO Nyrt. by the General Meeting of Shareholders on 30 April 2020 and our engagement has been lasting since our appointment without interruption.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of ALTEO Nyrt., which we issued on 26 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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Provision of Non-audit Services

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

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

Budapest, 26 March 2021

BDO Hungary Audit Ltd.
1103 Budapest, Kőér utca 2/A
Registration number: 002387

András Schillinger
Director

Péter Kékesi
Certified Auditor
Chamber registration No.:
007128

This is the translation of the original Hungarian statutory report. In case of any discrepancies, the original Hungarian version prevails.

ALTEO Nyrt.
Consolidated company

Annual Report
for the Fiscal Year 2020

Parts of the report:

ALTEO Nyrt. Financial statements

Independent auditor’s report

Management report, analysis, annual accounts

Audit closed on: 3/26/2021

Consolidated Financial Statements

of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság and its consolidated subsidiaries

for the fiscal year ended
on December 31, 2020,
in accordance with
the International Financial Reporting Standards
as adopted by the EU

Table of Contents

The financial statements consist of 111 pages.

Table of Contents

Explanation of the abbreviations used in the financial statements:

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

Abbreviation	Explanation
METÁR	Mandatory offtake system for heat and electricity produced from ***renewable and alternative energy sources***
O&M	Operation and Maintenance contract
PM	Ministry of Finances
SB	Supervisory Board

I Numeric reports of the financial statements

Consolidated statement of income

and consolidated statement of other comprehensive income 2020.

I.1 Comprehensive income

Comprehensive Income (Negative values are denoted by parentheses)	Note	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months	
Revenues	**1.**	**32 981 301**	**25 573 350**	
Material expenses	2.	(23 072 429)	(18 284 265)	*
Personnel expenses	3.	(3 770 040)	(3 078 261)	*
Depreciation and amortization	9.	(2 858 523)	(2 045 752)	
Other revenues, expenses, net	4.	(1 228 018)	(804 281)	
Capitalized own production	5.	512 226	292 494	*
Operating profit or loss		**2 564 517**	**1 653 285**	
Finance income	6.	*479 576*	*271 602*	
Financial expenses	6.	*(1 569 892)*	*(1 215 422)*	
Net finance income	6.	(1 090 316)	(943 820)	
Profit or loss before taxes		**1 474 201**	**709 465**	
Income tax expenditures	7.	(883 660)	(435 834)	
Net profit or loss		**590 541**	**273 631**	
from which the owners of the Parent Company are entitled to:	20.	*586 663*	*270 717*	
Of which the minority interest is entitled to:	20.	3 878	2 914	
Base value of earnings per share (HUF/share)	34.	**31,48**	**15,02**	
Diluted value of earnings per share (HUF/share)	34.	**30,26**	**14,41**	
EBITDA		**5 512 091**	**3 779 180**	

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

I.2 Other comprehensive income

Other comprehensive income (Negative values are denoted by parentheses)	Note	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months
Other comprehensive income (after income tax)		**2 114 292**	**(1 415 650)**
Effect of cash flow hedges on other comprehensive income	*20.*	3 234 593	(109 399)
Reclassification into profit or loss due to the closing of cash flow hedge	*20.*	(1 121 360)	(1 304 930)
Conversion reserve	*20.*	1 059	(1 321)
From which the owners of the Parent Company are entitled to:		2 114 292	(1 415 650)
From which the non-controlling interest is entitled to:		-	-
Comprehensive income		**2 704 833**	**(1 142 019)**

The notes constitute an integral part of the financial statements.

The references in Notes refer to Chapters IV through V of the financial statements.

Consolidated statement of financial position
for December 31, 2020

I.3 Statement of financial position - Assets

Statement of financial position - Assets (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand	
Non-current assets		**31 065 255**	**24 194 661**	
Power plants and power generating properties, plants and equipment	9.	25 435 923	17 711 707	
Other property, plant and equipment	9.	87 369	73 105	
Other intangible assets	9.	3 037 269	3 492 357	
Operation contract assets	9.	1 212 987	1 407 741	
Rights of use	9.	1 063 615	924 768	
Long-term lease assets	10.	-	104 376	
Deferred tax assets	7.	132 811	286 856	
Long-term loans given	11.	95 181	193 651	
Long-term participation in associate	12.	100	100	
Current assets and assets held for sale		**13 819 105**	**13 379 846**	
Inventories	13.	442 622	233 165	
Trade receivables	14.	3 263 224	2 919 836	
Short-term lease assets	10.	128 949	160 814	
Emission allowances	15.	843 488	342 100	*
Other financial assets	16.	1 697 162	360 987	
Other receivables and accruals	17.	3 895 803	4 396 596	
Income tax receivables	7.	92 812	118 677	
Cash and cash equivalents	18.	3 455 045	4 847 671	
TOTAL ASSETS		**44 884 360**	**37 574 507**	

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

The notes constitute an integral part of the financial statements.

The references in Notes refer to Chapters IV through V of the financial statements.

statement of financial position continued on the next page

Consolidated statement of financial position
for December 31, 2020

I.4 Statement of financial position - Equity and liabilities

Statement of financial position - Liabilities (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand	
Equity		**8 547 657**	**5 749 884**	
Equity attributable to the shareholders of the Parent Company		**8 539 892**	**5 753 810**	
Issued capital	20.	232 972	232 948	
Share premium	20.	5 185 343	5 056 207	
Transactions with owners	20.	(223 259)	(192 534)	
Share-based payments reserve	20.	62 819	68 398	
Hedge reserve	20.	399 801	(1 713 432)	
Conversion reserve	20.	-	(1 059)	
Retained earnings	20.	2 882 216	2 303 282	
Non-controlling interest	20.	7 765	(3 926)	
Long-term liabilities		**27 905 833**	**21 758 606**	
Debts on the issue of bonds	21.	14 889 000	10 909 019	
Long-term loans and borrowings	22.	8 411 397	7 056 264	*
Finance lease liabilities	23.	1 047 406	917 122	
Deferred tax liabilities	7.	866 550	599 716	
Provisions	24.	850 493	568 680	
Deferred income	25.	436 864	535 674	
Other long-term liabilities	26.	1 404 123	1 172 131	*
Short-term liabilities		**8 430 870**	**10 066 017**	
Short-term bond payables	21.	-	2 215 114	
Short-term loans and borrowings	22.	929 693	463 165	
Short-term finance lease liabilities	23.	154 912	108 555	
Advances received	27.	46 500	497 963	
Trade payables	28.	2 308 413	1 963 934	
Other financial liabilities	29.	189 130	1 104 369	
Other short-term liabilities and accruals	30.	4 522 992	3 654 710	
Income tax liabilities	7.	279 230	58 207	
TOTAL EQUITY and LIABILITIES		**44 884 360**	**37 574 507**	

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

The notes constitute an integral part of the financial statements.

The references in Notes refer to Chapters IV through V of the financial statements.

I.5 Consolidated Statement of Cash Flows 2020.

Cash flow (Negative values are denoted by parentheses)	Note	12/31/2020 HUF thousand	12/31/2019 HUF thousand	
Profit or loss before taxes		**1 474 201**	**709 465**	
(Interest income) and interest expenses, net	6.	953 839	736 667	
Depreciation	9.	2 858 523	2 045 752	
Recognition of impairment	4.	599 777	14 653	
Scrapping of production and other machinery	4.	89 051	(79 375)	
Provisions recognized (released)	24.	37 000	-	
Provisions for asset retirement obligations recognized and (released) - IAS 16	24.	(0)	316 941	
Changes in deferred income	25.	(98 810)	394 426	
Exchange rate effect of other comprehensive income	20.	2 277 463	(1 415 650)	
Share-based payment cost	20.	101 292	1 650	
Changes in deferred taxes	7.	191 786	175 073	
Income taxes	7.	(883 660)	(435 834)	
Net cash-flow of business activity without change in current assets		***7 600 462***	***2 463 768***	
Change in inventories	13.	(230 218)	(20 021)	
Changes in emission allowances	15.	(501 388)	-	*
Change in trade receivables, other receivables, accrued income and deferred charges	14.	(94 583)	(2 268 382)	
Change in other financial assets	16.	(1 336 175)	554 414	
Change in trade payables, other liabilities, accrued expenses and deferred income	28.	347 875	158 797	
Advances received (final settlement -)	27.	(451 463)	133 233	
Cash flow from business activities (use of funds)		**5 334 510**	**1 021 809**	
Interests received on deposits and investments	6.	15 446	20 228	
Purchase of production and other machinery, and intangible assets	9.	(5 631 151)	(10 061 723)	
Investment in acquiring businesses (net of cash)	32.	(2 134 892)	(2 753 103)	
Revenue from the sale of production and other machinery, and intangible assets	9.	339	-	
Change in lease assets	10.	136 241	-	*
Long-term loans or deposits given - lending	12.	(47 991)	25 000	
Long-term loans or deposits given - repayment	12.	-	275 582	
Cash flow of investment activities (cash outflow)		**(7 553 441)**	**(12 494 016)**	
Interest paid on bonds and loans	21.,6.	(692 486)	(515 906)	*
Long-term loans and borrowings, financial liabilities Assumption and prepayment of long-term loans and borrowings, financial liabilities, lease liabilities	22.	(271 700)	3 267 479	
Bonds repaid	21.	(2 150 000)	(1 013 026)	
Bonds issued	21.	3 904 709	10 289 246	
Capital increase, purchase of own shares	20.	129 160	1 987 061	
Other transactions with owners	20.	(30 725)	(6 126)	
Dividend payment	20.	-	(250 068)	
Cash flow from financing activities		**780 391**	**13 758 660**	
Changes in cash and cash equivalents		**(1 438 540)**	**2 286 453**	
Opening cash and cash equivalents		**4 847 671**	**2 561 218**	
Cash exchange gains/losses		*45 914*	-	
Closing cash and cash equivalents		**3 455 045**	**4 847 671**	

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

The notes constitute an integral part of the financial statements.

The references in Notes refer to Chapters IV through V of the financial statements.

Consolidated Statements of Changes in Equity
for the period ended on December 31, 2020

Data in HUF thousand	Issued capital	Share premium	Share-based payments reserve	Retained earnings	Transactions with owners	Hedge reserve	Conversion reserve	Equity attributable to the shareholders of the Parent Company	Non-controlling interest	Total equity
1.1.2019	**195 314**	**3 080 838**	**92 690**	**2 267 980**	**(186 408)**	**(297 782)**	**(1 059)**	**5 151 573**	**(6 840)**	**5 144 733**
Implementation of employee share award program through shares	166	8 784	(8 950)					-		-
Purchase of own shares	(114)				(6 127)			(6 241)		(6 241)
Private placement	37 313	1 954 303						1 991 616		1 991 616
Dividend payment				(250 068)	1			(250 067)		(250 067)
Employee Share Ownership Program implementation	269	9 944	(2 338)					7 875		7 875
Employee Share Ownership Program lapse		2 338	(14 654)	14 653				2 337		2 337
Comprehensive income				270 717		(1 415 650)		(1 144 933)	2 914	(1 142 019)
Recognition of share benefits against profit or loss			1 650					1 650		1 650
12.31.2019	**232 948**	**5 056 207**	**68 398**	**2 303 282**	**(192 534)**	**(1 713 432)**	**(1 059)**	**5 753 810**	**(3 926)**	**5 749 884**
Implementation of employee share award program through shares	24	1 626	(1 650)					-		-
Purchase of own shares	(452)				(30 725)			(31 177)		(31 177)
Private placement								-		-
Dividend payment								-		-
Employee Share Ownership Program implementation	452	20 639	(3 929)					17 162		17 162
Employee Share Ownership Program lapse								-		-
Acquisition of the non-controlling interest of Tisza-Bioterm Kft.				(7 813)				(7 813)	7 813	-
Recognition of share benefits against profit or loss		106 871						106 871		106 871
Transfer of rounding differences of prior years				84			(84)	-		-
Comprehensive income				586 663		2 113 233	1 143	2 701 039	3 878	2 704 917
12.31.2020	**232 972**	**5 185 343**	**62 819**	**2 882 216**	**(223 259)**	**399 801**	**-**	**8 539 892**	**7 765**	**8 547 657**

The notes constitute an integral part of the financial statements.

Negative values are denoted by parentheses.

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

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

II.1 Statement of IFRS compliance

The management declares that the consolidated financial statements for the year 2020 were prepared in accordance with the International Financial Reporting Standards as adopted by the EU, based on the management's best knowledge, providing a true and reliable picture of the assets, liabilities, financial situation of the Group as an issuer, as well as of its profit and loss. Furthermore, the management declares that its consolidated financial statements for the year 2020 provide a true and fair view of the situation, development and performance of the issuer, outlining main risks and uncertainties. The management made this declaration in full awareness of its responsibility.

II.2 The activity of ALTEO Group

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

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

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

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

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

In line with the 2020-2024 strategy presented in the fall of 2019, the implementation of the planned investment programs, the uncovering of potential investment and capital expenditure opportunities, restructuring serving as basis for other points of the strategy, as well as the implementation of required processes all commenced in 2020. In this context, the capacity expansion of the power plant portfolio controlled by the ALTEO Control Center was implemented, with gas engines with a total electrical capacity of 18 MW installed in May and later in December within the framework of a nearly HUF 3 billion investment program. As a result, ALTEO increased its gas engine energy production capacity by one-third, transforming the control center into one of the largest in the country. In support of the control capacity and in order to maintain the existing district heating services, the district heating contract in Ózd was renewed for another 10 years in December.

The Waste Management business established in 2019, showed a dynamic growth. Additionally, in line with the approved strategy, ALTEO has launched its Electromobility business in the summer and its Renewable Production Management (RPM) business, offering commercial and production management services to typically weather-dependent electricity producers relying on renewable energy sources, in the fall.

In September, Scope Ratings confirmed the previous (BBB-) rating of ALTEO's bonds. ALTEO Group successfully participated in the second round of the **Bond Funding for Growth Scheme** (**"BGS 2"** or "**Bond Funding for Growth Scheme 2"**) launched by the Central Bank of Hungary. The bond issuance took place on October 6, with a total value of HUF 3.8 billion.

On October 15, ALTEO acquired 100% ownership of a 15 MW_e wind farm in the Bábolna region, thereby further expanding the scope of its renewable power plants, which at the same time is also its most crisis-resistant asset portfolio.

The over 100-year-old Gibárt Hydropower Plant has been renovated by ALTEO's Enterprise business and the renovation of the Sarpi Dorog Waste Incineration Plant was completed as well.

II.3 ALTEO Group

II.3.1 Group members, group structure

The Group consists of ALTEO Nyrt. (Parent Company) and the subsidiaries. The Group includes all entities which are directly or indirectly controlled by the Parent Company. In the Group, control is exercised based on ownership interest.

The Group's Parent Company is ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság, a company established (on April 28, 2008) under Hungarian law (governing law). As of September 6, 2010 the company was listed on the Budapest Stock Exchange.

The publicly issued shares of the Company are registered at the Budapest Stock Exchange; the closing exchange rate of the shares on the last trading day of 2020 (on December 30) was HUF 930, the annual trading volume in 2020 amounting to 2,094,315 shares in the value of HUF 1,688 million.

Registered office and center of operations of ALTEO Nyrt.: H-1131 Budapest, Babér utca 1-5

Registered core activity of the Parent Company: Engineering activities and related technical consultancy (Hungarian NACE 7112).

The majority shareholder of ALTEO Nyrt. is Wallis Asset Management Zártkörűen Működő Részvénytársaság (H-1055 Budapest, Honvéd utca 20, company registration number: 01-10-046529).

The Group's ultimate Parent Company was WALLIS PORTFOLIÓ Korlátolt Felelősségű Társaság (H-1055 Budapest, Honvéd utca 20, company registration number: 01-09-925865) as at December 31, 2020. The shareholders of this entity are all private individuals.

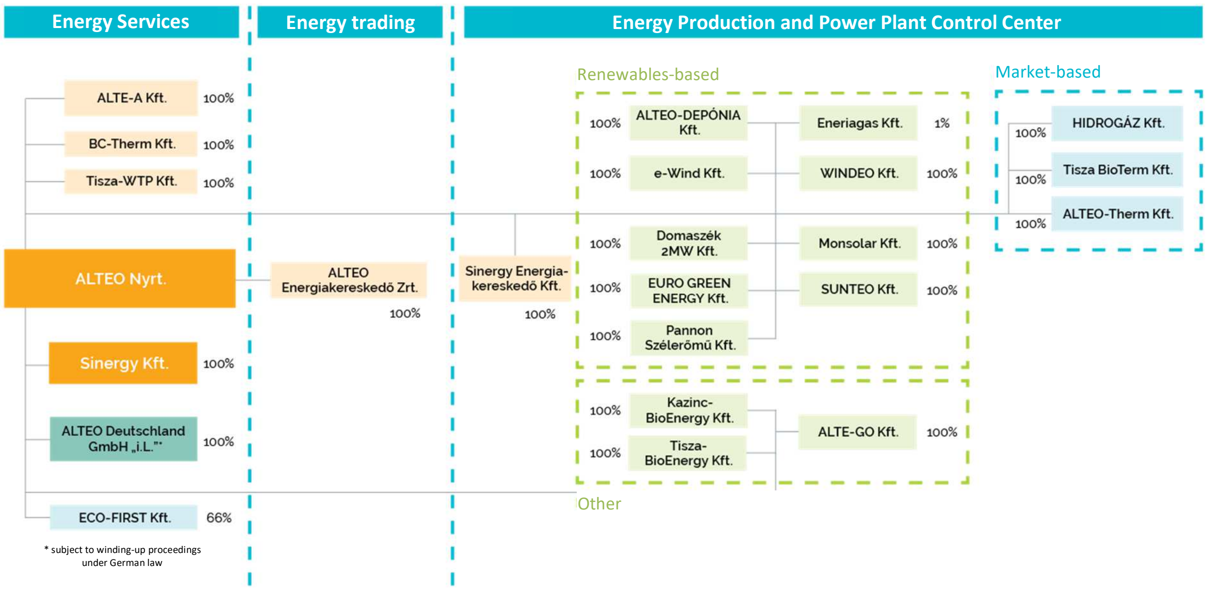
Ownership structure of the Parent Company (ALTEO Nyrt.) based on the share register as at December 31, 2020:

Present shareholders of the Company based on the share register on 12/31/2020	Face value (HUF thousand)		Ownership ratio (%)	
	2020	2019	2020	2019
Wallis Asset Management Zrt. and its subsidiaries	154 789	154 789	63,88%	63,88%
Members of the Board of Directors, the Supervisory Board and the Executive Board*	7 716	7 553	3,18%	3,12%
Own shares**	9 357	9 380	3,86%	3,87%
Free float	70 467	70 606	29,08%	29,13%
TOTAL	**232 972**	**232 948**	**100,00%**	**100,00%**

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

** Excluded from the face value in circulation

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



ALTEO Nyrt. Consolidated Annual Report and Management Report for 2020 Data in HUF thousand

Name of companies in Group	Note	Registered office	Activity	Ownership acquisition date	Legal title	Rate of influence 12.31.2020	Rate of influence 12.31.2019	Amount of equity (HAS) 12.31.2020	Amount of revenue (HAS) 12.31.2020
ALTEO Energiaszolgáltató Nyrt.		**H-1130 Budapest, Babér u. 1-5.**	**Engineering service**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
ALTE-A Kft.		H-1131 Budapest, Babér u. 1-5.	property management	2011.08.02	Founding	100%	100%	11 221	28 463
ALTEO Energiakereskedő Zrt.		H-1131 Budapest, Babér u. 1-5.	electricity and gas trade	2011.12.05	Founding	100%	100%	193 613	13 082 762
ALTEO-DEPÓNIA Kft.		H-1131 Budapest, Babér u. 1-5.	electricity production	2008.10.01	Founding	100%	100%	(8 989)	111 091
ALTEO Deutschland GmbH	1	Marie-Curie-Str. 5, D-53359 Rheinbach	heat energy production, electricity production,	2018.04.18	Founding	100%	100%	(77 404)	-
Alteo-Go Kft.		H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	100%	(16 069)	650
BC-Therm Kft.	2	H-1131 Budapest, Babér u. 1-5.	electricity production	2015.05.04	Purchase	100%	100%	129 244	5 850 685
Domaszék 2MW Naperőmű Kft.		H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2017.12.04	Purchase	100%	100%	42 477	95 252
e-WIND Kft.		H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2013.02.11	Purchase	100%	100%	13 718	9 197
ECO First Kft.	6	H-1131 Budapest, Babér u. 1-5.	Treatment and disposal of non-hazardous waste	2019.06.25	Purchase	67%	67%	31 161	440 499
Euro Green Energy Kft.		H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2019.05.28	Purchase	100%	100%	2 981 110	1 999 128
ALTEO-THERM Kft.	3	H-9027 Győr, Kandó Kálmán u. 11-13.	heat energy production, electricity production	2009.12.31	Purchase	ger by absorp	100%	3 345 752	7 827 803
legal predecessors (dissolved as of 12/31/2019):									
Zugló-Therm Energiaszolgáltató Kft.	3	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2015.05.04	Purchase	ger by absorp	100%		
Kazinc-Therm Fűtőerőmű Kft.	3	H-3700 Kazincbarcika, Gorkij u 1.	heat energy production, electricity production	2015.05.04	Purchase	ger by absorp	100%		
Soproni Erőmű Kft.	3	H-9400 Sopron, Somfalvi utca 3.	energy production	2009.12.31	Purchase	ger by absorp	100%		
ALTEO-AGRIA Kft.	3	H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2008.08.27	Founding	ger by absorp	100%		
Tisza-Therm Fűtőerőmű Kft.	3	H-3580 Tiszaújváros, Tisza út 1/D	heat energy production, electricity production	2015.05.04	Purchase	ger by absorp	100%		
Ózdi Erőmű Távhőtermelő és Szolg. K	3	H-3700 Kazincbarcika, Gorkij u 1.	heat energy production, electricity production	2015.05.04	Purchase	ger by absorp	100%		
HIDROGÁZ Kft.		H-1131 Budapest, Babér u. 1-5.	heat energy production	2009.07.13	Purchase	100%	100%	2 103	369
Kazinc-BioEnergy Kft.		H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%	2 490	-
Monsolar Kft.		H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.11.06	Purchase	100%	100%	70 609	114 795
legal predecessor (dissolved as of 9/30/2020):									
IT-Solar Kft.	4	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2017.11.06	Purchase	ger by absorp	100%		
Pannon Szélerőmű Kft.		H-1131 Budapest, Babér u. 1-5.	electricity production (wind turbine)	2020.10.14	Purchase	100%	N/A	2 141 424	1 027 959
Sinergy Energiakereskedő Kft.		H-1131 Budapest, Babér u. 1-5.	energy production	2015.05.04	Purchase	100%	100%	193 558	10 055 459
Sinergy Kft.		H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%	435 195	206 504
SUNTEO Kft.		H-1131 Budapest, Babér u. 1-5.	heat energy production	2013.01.30	Founding	100%	100%	271 590	59 487
legal predecessors (dissolved as of 9/30/2020):									
Péberény Ingatlanhasznosító Kft.	5	H-1131 Budapest, Babér u. 1-5.	electricity trading	2018.03.13	Purchase	ger by absorp	100%		
F.SZ. ENERGIA Kft.	5	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.07.20	Purchase	ger by absorp	100%		
True Energy Kft.	5	H-1131 Budapest, Babér u. 1-5.	electricity production (solar power plant)	2018.07.20	Purchase	ger by absorp	100%		
Tisza BioTerm Kft.	7	H-1131 Budapest, Babér u. 1-5.	heat energy production	2015.05.04	Purchase	100%	60%	(19 719)	-
Tisza-BioEnergy Kft.		H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2015.05.04	Purchase	100%	100%	3 015	-
Tisza-WTP Kft.	2	H-3580 Tiszaújváros, Ipartelep 2069/3.	water treatment, desalinated water production	2015.05.04	Purchase	100%	100%	101 735	1 369 508
WINDEO Kft.		H-1131 Budapest, Babér u. 1-5.	heat energy production, electricity production	2012.05.24	Purchase	100%	100%	335 887	241 492

**The figures are being audited; there may be immaterial differences in figures disclosed subsequently.*

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2020 Data in HUF thousand

1	Subsidiary constituted under German law, subject to winding-up proceedings
2	100% share; undertakings presented as lease assets
3	The companies dissolved as of 12/31/2019 (legal predecessors) merged into their legal successor formerly called Győri Erőmű Kft., now ALTEO THERM Kft.
4	The legal predecessor company dissolved as of 9/30/2020 merged into Monsolar Kft., the legal successor.
5	The companies dissolved as of 9/30/2020 (legal predecessors) merged into their legal successor Sunteo Kft.
6	The Group has a 66.67% share in Eco-First Kft., thus the share of the group in the net assets of Eco-First Kft. is 66.67%, with that, however, the Group exercises control over this company.
7	After the acquisition of a 40% share, Tisza BioTerm Kft. is a fully consolidated company.

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

The subsidiaries of the Group are also included in the consolidation of other companies.

year	Member company	Consolidating entity
2020	BC THERM Kft.	BorsodChem Zrt. 100% share
2020	Tisza WTP Kft.	Mol Petrolkémia Zrt 100% share

II.3.2 Acquisitions and divestments

year	Member company	Change in shares
2020	Pannon Szélerőmű Kft.	Acquisition of 100% share
2020	Tisza-BioTerm Kft.	Acquisition of 40% share
2019	Euro Green Energy Kft.	Acquisition of 100% share
2019	ECO First Kft.	Acquisition of 66.67% quota
2019	ALTEO Hidrogáz Kft.	Divestment of 100% quota

II.3.3 Transformations

9/30/2020 – “Sunny mergers”

As the next step in the process to streamline the corporate structure of ALTEO Nyrt. as announced at the extraordinary General Meeting of November 8, 2017, the Company decided on the merger by absorption of its subsidiaries operating photovoltaic power plants. In the course of the merger

- IT-Solar Kft. merged into Monsolar Kft.
- the following companies were merged into Sunteo Kft.:
    - Péberény Ingatlanhasznosító Kft.
    - True Energy Kft.
    - F.SZ. Energia Kft.

The mergers by absorption were concluded on September 30, 2020.

<u>12/31/2019 – "Mergers of gas engine and heating power plants"</u>

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

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

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

II.4 The basis for preparation of the financial statements

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

The financial statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) developed by the International Accounting Standards Board (IASB). The IFRSs were adopted by the Group as endorsed by the European Union. Where an IFRS does not provide detailed guidelines for certain rules but the Accounting Act has such rules, the provisions of the Accounting Act shall be applied. Beside the above, the Group prepared the financial statements considering the provisions of Decree No. 24/2008 (VIII. 15.) of the Minister of Finance on the detailed regulations on information obligation in connection with the securities trade on the stock exchange.

These financial statements contain information for a comparable period. The comparable data included in the report were prepared based on the same principles as the ones applied to the data of the reporting period.

The companies consolidated in the Group – with the exception of ALTEO Deutschland GmbH – pay tax in accordance with the Hungarian regulations. ALTEO Deutschland GmbH is a company established under German law.

II.4.1 Going concern requirement

The management of the Parent Company is not aware of any information or data which would imply that the Group intends to terminate or significantly reduce its operations in the foreseeable future (within one year from the reporting date).

II.4.2 Preparation, approval and publication of the financial statements

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

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

II.4.3 The Group's places of disclosure

- www.alteo.hu
- www.kozzetetelek.mnb.hu
- e-beszamolo.im.gov.hu
- www.bet.hu

The persons authorized to jointly sign the consolidated annual report:

- **Attila László Chikán** (H-1144 Budapest, Gvadányi utca 15. 8. ép. B. lház. fszt. 2.), member of the Board of Directors, CEO
- **Zoltán Bodnár** (H-2045 Törökbálint, Honfoglalás utca 12.) Deputy CFO.

The person commissioned to control and lead the auditing tasks in accordance with Section 88 (9) of Act C of 2000:

- **Anita Magdolna Lénárt (registration number: 186427)**.

II.5 Significant accounting policies

II.5.1 Presentation of the financial statements

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

- consolidated statement of income
- consolidated statement of financial position

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

- consolidated statement of other comprehensive income

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

- consolidated statement of changes in equity;
- consolidated statement of cash flows;
- notes to the consolidated financial statements.
- **Management report**
  In the context of the financial statements but as a separate document, the Group prepares its ***Management Report*** in accordance with the disclosure requirements relating to publicly traded securities.

II.5.2 Currency, accuracy and period of the presentation of the financial statements

- The reporting period and the fiscal year of the Group is identical with the calendar year.
- The reporting date of the report is December 31.
- The functional currency of the reporting Group is the Hungarian forint.
- The presentation currency of the report is the Hungarian forint.
- Indicated as: HUF; the figures displayed are in thousand HUF unless otherwise indicated.
- The foreign currency relevant to the Group is the Euro. Foreign exchange rates:

Currency	12.31.2020	2020 average	12.31.2019	2019 average
euro (EUR)	365,13	351,17	330,52	325,35

II.5.3 Decisions regarding presentation

II.5.3.1 Changes in comparative data

The previous IFRS consolidated financial statement of the Group was drawn up for the fiscal year of 2019. The consolidated financial statements contain one set of comparative data, except when the figures for a period had to be restated or when the accounting policies had to be amended. In such cases, the opening figures of the statement of financial position for the comparative period are also presented.

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

<u>The purpose of presenting the reclassifications in the detailed notes lines:</u>

In the details of the report (Chapters IV and V), the classifications or designations of the comparative period are the same as in the current period; as a result, there may be differences in the detailed lines relative to prior disclosures due to the purpose of transparent presentation.

<u>The purpose of presenting the reclassifications in the comprehensive income lines:</u>

The purpose of reclassification with a view to presentation is to highlight the capitalized value of own production in the Comprehensive income lines. Before the change in presentation, these were recognized in the main lines of comprehensive income, in the presentation categories of material type and personnel expenses.

data in HUF thousand

Comprehensive Income (Negative values are denoted by parentheses)	Note	12/31/2019 restated value	Reclassification	Value disclosed as of 12/31/2019
Revenues	**1.**	**25 573 350**	**-**	**25 573 350**
Material expenses	2.	(18 284 265)	(72 397)	(18 211 868)
Personnel expenses	3.	(3 078 261)	(220 097)	(2 858 164)
Depreciation and amortization	9.	(2 045 752)	-	(2 045 752)
Other revenues, expenses, net	4.	(804 281)	-	(804 281)
Capitalized own production	5.	292 494	292 494	-
Operating profit or loss		**1 653 285**	**-**	**1 653 285**
Finance income	*6.*	*271 602*	-	*271 602*
Financial expenses	*6.*	*(1 215 422)*	-	*(1 215 422)*
Net finance income	6.	(943 820)	-	(943 820)
Profit or loss before taxes		**709 465**	**-**	**709 465**
Income tax expenditures	7.	(435 834)	-	(435 834)
Net profit or loss		**273 631**	**-**	**273 631**
from which the owners of the Parent Company are entitled to:	*20.*	*267 259*	-	*267 259*
Of which the minority interest is entitled to:	20.	6 372	-	6 372

The notes constitute an integral part of the financial statements.

The references in Notes refer to Chapters IV through V of the financial statements.

The purpose of presenting the reclassifications in the balance sheet lines

- renaming of the asset line Net investments in leases as Long-term lease assets
- reclassification of Emission allowances from Non-current assets to Current assets and assets held for sale, at the value of HUF 342,100 thousand
- reclassification of Liabilities related to interest rate swaps from Long-term loans and borrowings to the balance sheet line Other long-term liabilities, at the value of HUF 827,581 thousand

data in HUF thousand

Statement of financial position - Assets (Negative values are denoted by parentheses.)	Note	Restated value for the year ending on 12/31/2019	Reclassification	Value disclosed as of 12/31/2019
Non-current assets		**24 536 761**	**-**	**24 536 761**
Power plants and power generating properties, plants and equipment	9.	17 711 707	-	17 711 707
Other property, plant and equipment	9.	73 105	-	73 105
Net investment in lease	10.	-	(104 376)	104 376
Emission allowances	15.	-	(342 100)	342 100
Other intangible assets	9.	3 492 357	-	3 492 357
Operation contract assets	9.	1 407 741	-	1 407 741
Rights of use	9.	924 768	-	924 768
Long-term lease assets	10.	104 376	104 376	-
Deferred tax assets	7.	286 856	-	286 856
Long-term loans given	11.	193 651	-	193 651
Long-term participation in associate	12.	100	-	100
Current assets and assets held for sale		**13 037 746**	**-**	**13 037 746**
Inventories	13.	233 165	-	233 165
Trade receivables	14.	2 919 836	-	2 919 836
Short-term lease assets	10.	160 814	-	160 814
Emission allowances	15.	342 100	342 100	
Other financial assets	16.	360 987	-	360 987
Other receivables and accruals	17.	4 396 596	-	4 396 596
Income tax receivables	7.	118 677	-	118 677
Cash and cash equivalents	18.	4 847 671	-	4 847 671
TOTAL ASSETS		**37 574 507**	**-**	**37 574 507**

Statement of financial position - Liabilities (Negative values are denoted by parentheses.)	Note	Restated value for the year ending on 12/31/2019	Reclassification	Value disclosed as of 12/31/2019
Equity		**5 749 884**	**-**	**5 749 884**
Equity attributable to the shareholders of the Parent Company		**5 753 810**	**-**	**5 753 810**
Issued capital	20.	232 948	-	232 948
Share premium	20.	5 056 207	-	5 056 207
Transactions with owners	20.	(192 534)	-	(192 534)
Share-based payments reserve	20.	68 398	-	68 398
Cash flow hedge reserve	20.	(1 713 432)	-	(1 713 432)
Conversion reserve	20.	(1 059)	-	(1 059)
Retained earnings	20.	2 303 282	-	2 303 282
Non-controlling interest	20.	(3 926)	-	(3 926)
Long-term liabilities		**21 758 606**	**-**	**21 758 606**
Debts on the issue of bonds	21.	10 909 019	-	10 909 019
Long-term loans and borrowings	22.	7 056 264	(827 581)	7 883 845
Finance lease liabilities	23.	917 122	-	917 122
Deferred tax liabilities	7.	599 716	-	599 716
Provisions	24.	568 680	-	568 680
Deferred income	25.	535 674	-	535 674
Other long-term liabilities	26.	1 172 131	827 581	344 550
Short-term liabilities		**10 066 017**	**-**	**10 066 017**
Short-term bond payables	21.	2 215 114	-	2 215 114
Short-term loans and borrowings	22.	463 165	-	463 165
Short-term finance lease liabilities	23.	108 555	-	108 555
Advances received	27.	497 963	-	497 963
Trade payables	28.	1 963 934	-	1 963 934
Other financial liabilities	29.	1 104 369	-	1 104 369
Other short-term liabilities and accruals	30.	3 654 710	-	3 654 710
Income tax liabilities	7.	58 207	-	58 207
TOTAL EQUITY and LIABILITIES		**37 574 507**	**-**	**37 574 507**

II.5.3.2 Determining the structure of the Group

(i) Subsidiaries

Starting from 2014, consolidation has been performed by the Group in accordance with the provisions of IFRS 10. Before preparing financial statements for each period, the Group verifies whether

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

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

The Group's ability to control means (after the effective date of IFRS 10) that it is able to direct the subsidiary (has power over it), it has exposure, or rights, to variable returns, and is able to determine the use of such variable returns. Rights existing as at December 31, 2020 that were exercisable at that time or convertible to voting rights and provided substantial rights (i.e. actually provided control and there were no limitations which could restrict the exercise of such rights) were considered by the Group for the purpose of determining the extent of such control.

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

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

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

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

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

The reporting date of the subsidiaries' financial statements was the same as the Parent Company's reporting date, and the accounting policies adopted by the subsidiaries were identical to the Parent Company's accounting policies. The accounting policies of the entities which have recently joined the Group have been harmonized with the Group's accounting policies and accounting policies have been developed in connection with the newly introduced activities and accounting events.

(ii) Associates

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

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

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

In the statement of financial position, balances with entities of the Group are not eliminated, but the part of the profit recognized by associates that has an effect on the comprehensive income and is attributable to the Group, need to be eliminated proportionally. Goodwill arising on the acquisition of these investments will not be recognized separately, but will be included in the value of the share.

II.5.3.3 Definition of segments

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

(i) Activity based segments

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

Description of segment	Segment activity
Energy trading	Electric power and gas retail activities
"Subsidized" electricity production – (formerly "KÁT")	Electric power production of power plants producing for the subsidized KÁT or METÁR system (utilizing renewable energy).
Market-based Heat and electricity generation	Market-based heat and electricity generation, including the portfolio performance of the Control Center.
Energy services	Operation, maintenance of energy generating assets and construction-installation activity.
Other	Other non-segment activities and central administration.

The principle of identifying segments is the formation of segment units by differences in risks and business models.

These activities are monitored by the strategic and operational decision-makers. The content and name of the single segments is continuously tracked by the management of the Group and is also clarified by the management of the Group as necessary. Since the management does not review the assignment of assets and resources to specific segments, the segment level breakdown of assets and resources is not published.

(ii) Geographic segments

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

II.5.4 Principles for performing consolidation

II.5.4.1 Treatment of business combinations

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

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

The consideration includes the following:

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

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

Determining the acquired net assets

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

II.5.4.2 Goodwill

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

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

Measurement period

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

Impairment of goodwill

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

II.5.4.3 Treatment of non-controlling interests (NCI)

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

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

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

II.5.4.4 Changes in the structure of the Group (in respect of existing shares)

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

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

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

- if control is not obtained even after the increase in its share, then the Group continues to account for its share in the relevant entity as a financial instrument or associate;

- if control is obtained as a result of the increase in share through the transaction in question, then the Group applies the rules if IFRS 3 to this step, consolidates the assets and liabilities of the relevant entity and recognizes goodwill or negative goodwill according to the provisions of the standard;
- if a share is increased in such a way that the entity associated with the share was already controlled by the Group before the increase, then the Group reduces the amount of non-controlling interests and the difference between this reduction and the compensation received is recognized directly in equity as a transaction of owners; no profit or loss is recognized with respect to these transactions and the value of goodwill (negative goodwill) remains unchanged.

II.5.5 Transactions with owners

No profit or loss or other comprehensive income may be realized with respect to transactions with shareholders of the Parent Company in which the other counterparty is the Group. This rule is applicable to transactions where ***the parties involved in the transaction acted in their capacity as members or determined the terms of the transaction with a view to their capacity as members.*** Such items are accounted for directly in equity as dividend payment or additional capital contribution (designated as a transaction with owners).
Besides the above the Group recognizes the difference between the value of the share recognized among non-controlling interests and the value of the capital increase in the case of ownership share obtained through contribution among the Transactions with owners.

II.5.6 Dividends

At its annual General Meeting, the Parent Company may decide on the payment of dividends. Dividend is paid only on the Company's registered, dematerialized ordinary "A" series shares with a face value of HUF 12.5, recorded with the identifier HU0000155726ISIN – excluding the treasury shares held by the Group, as well as other shares that do not entitle their holders to dividends pursuant to Section 3:298(3) of the Civil Code.

II.5.7 Accounting policies relating to the statement of profit or loss

II.5.7.1 Revenues

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

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

Items collected on behalf of other entities and to be recharged later, and excluded from revenues

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

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

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

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

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

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

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

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

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

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

II.5.7.2 Expenses related to operation

Non-finance expenses are to be classified as follows:

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

II.5.7.3 Changes in the inventory of assets produced by the Company

The Group develops industrial equipment and facilities, which are presented as assets produced by the Company.

II.5.7.4 Changes in the inventory of stocks produced by the Company

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

II.5.7.5 Other revenues

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

II.5.7.6 GHG emission allowance / revenue from sales of CO_2 quota

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

II.5.7.7 Finance income and expenses

The Group accounted for its finance income and expenses in accordance with provisions of IFRS 9.

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

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II.5.7.8 Taxes

The following are recognized as income tax:

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

II.5.7.9 Offsetting

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

II.5.7.10 Use of the EBITDA in the ALTEO Group

To facilitate the assessment of profit or loss, the Group management discloses the EBITDA figure with the content defined by the Group. The method of EBITDA calculation is presented below:

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

where

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

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

<u>Income taxes</u>: income taxes in the net profit or loss (current and deferred taxes alike) are neutralized by the Group when calculating the indicator.

<u>Depreciation and amortization:</u> the depreciation, amortization of assets belonging under IAS 16, IAS 40 and IAS 38 and assets recognized at the Group as assets and given to operating lease or concession is eliminated when calculating the indicator (they are "given back"). The non-systematic decrease of

such assets (typically: impairment) is adjusted by the Group retroactively, similar to depreciation and amortization. (We do not adjust the impairment of other assets, e.g. financial instruments when calculating the indicator.)

II.5.7.11 EPS - earnings per share the shareholders are entitled to

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

II.5.8 Accounting policies relating to the statement of financial position and the recognition and measurement of assets and liabilities

II.5.8.1 Property, plant and equipment

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

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

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

The Group estimates the ARO using a percentage coefficient between 0% and 10%. The Group used a discount rate of 8.57% for discounting in 2020.

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

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

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

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

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

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

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

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

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

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

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

*For the presentation of Fixed assets, see Chapter IV.9 **Fixed assets and intangible assets** below.*

II.5.8.2 Intangible assets

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

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

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

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

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

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

II.5.8.3 KÁT (IFRIC 12 concession asset)

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

Accounting for concession assets according to the IFRIC 12 standard: The Contracts for district heat production, investment and Long-term heat supply with the entity under service obligation as of the inclusion in consolidation of the heating power plants of the Group in Kazincbarcika, Tiszaújváros, Ózd and Budapest Füredi utca are presented in accordance with the IFRIC 12 standard. At the time of purchase, no value was allocated to concession assets in the course of allocating purchase price. Accounting for revenues is performed based on the “Intangible assets” model according to the standard. The Group decided on recognition in view of the expiry of the Long-term Heat Supply Contracts, which expiry is regularly verified at the time the statement of financial position is prepared. If a contract is extended, that event increases the value of the investments made by the Group and of the concession agreement. Amortization of the concession contract is time proportionate, in accordance with the duration of the contract.

II.5.8.4 Leases (IFRS 16)

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

The IFRS 16 “Leases” standard entered into force on January 1, 2019. The Group applies the recognition exceptions provided by IFRS 16 for short-term leases and low value assets (below USD 5,000). No right-of-use asset and associated liability are recognized for leases where the indefinite duration and the related contractual termination conditions, or the absence of a fixed fee element, do not permit such a determination.

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

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

For contracts with a term of more than 12 months and high value, the initial cost of the right-of-use asset is determined by the Group at the discounted present value of payments due for the remaining lease term. For establishing the market interest rate the Company used the statistics published by the Central Bank of Hungary.

Leases and agreements that qualify as leases

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

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

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

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

Where the Group acts as a lessor, it

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

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

Policy on borrowing costs

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

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

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

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

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

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

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

II.5.8.5 Accounting for government grants

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

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

Grants may be accounted for if

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

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

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

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

II.5.8.6 Assets held for sale and discontinuing operations

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

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

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

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

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

II.5.8.7 Inventories

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

II.5.8.8 GHG emission allowance

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

The Group records values maintained for satisfying the return obligation among short-term assets. The values to be returned within one year and received without consideration are shown at cost by the Company.

If the Company holds emission assets for trading purposes or for investment purposes, the Group subjects them to an impairment test at the reporting date. Emission units are tested by the Group for impairment at the end of each calendar year.

Emission allowances are traded on a regulated market. The Group does not participate in market trading actively with its assets received without consideration; nevertheless, it obtains any additional quota required from the market.

II.5.8.9 Accounting for impairment losses other than financial instruments and identifying CGUs

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

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

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

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

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

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

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

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

II.5.8.10 Provisions

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

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

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

The following items are typically included in provisions:

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

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

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

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

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

No provisions may be recognized for:

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

II.5.8.11 Employee benefits

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

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

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

The Group operates the prescribed contribution retirement benefit plan only as required by legislation or undertaken voluntarily, and the contribution is calculated on the basis of salaries paid; therefore, such contribution is accounted for at the same time as salaries.

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

II.5.8.12 Financial instruments

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

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

II.5.8.13 Financial assets

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

Financial assets are classified by the Group as follows:

- Debt
- Equity instrument
- Derivative

In the case of debt instruments:

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

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

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

Equity instruments include the following items:

- Shares in other companies

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

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

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

Financial liabilities must be classified into the following groups:

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

<u>Other financial liabilities:</u> All other financial liabilities are classified into this category. Typical items include:

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

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

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

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

(i) Items not resulting in interest expense or interest income

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

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

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

(ii) Items resulting in interest expense or interest income

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

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

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

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

II.5.8.14 Expected impairment (ECL) model

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

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

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

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

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

- Electricity and gas retail
- Heat supply

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

In the current year the Company reviewed the rates to be used in the model and determined the ECL based on publicly available databases. These items are presented in detail in Section IV.18.

II.5.8.15 Hedge accounting

The Group has adopted the hedge accounting provisions of IFRS 9.

(i) Hedge transactions

In the case of cash flow hedge transactions, in accordance with IFRS 9, the difference in fair value, as of the reporting date, arising on hedge instruments satisfying hedging objectives is recognized in other comprehensive income, in the Equity hedge reserve line. The concerned part of the cash-flow hedge reserve is recognized in the statement of profit or loss when the hedged cash flow (e.g. interest) occurs or when the hedge fails to meet the hedging objective of the Group.

To qualify for hedge accounting, the relevant transaction must be formally designated and it must be assessed whether the hedge is effective. Effectiveness exists only when and as long as the aggregate effect of the hedge instrument and changes in the hedged item is within the range set by the Group.

II.5.8.16 Share-based payments

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

Upon the management's decision, the Group grants Shares to employees who have become entitled to these on the basis of the Group's recognition system. Such amounts granted as a reward are recognized in profit or loss on the date when the reward can be exercised. The benefit is to be distributed in the form of shares on a later date. The conversion of the amount of the benefit into shares takes place on the date of the grant of the shares based on the market value of the shares.

II.5.8.17 Current income tax expense and deferred taxes

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

II.5.9 General accounting policies relating to cash flows

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

II.5.9.1 Foreign currencies

Transactions denominated in foreign currencies

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

The points to consider are as follows:
- which is the currency in which the majority of the entity's income is derived;
- which is the currency in which the entity's costs are incurred;
- which is the main financing currency.

The above considerations are listed in order of importance.

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

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

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

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

III.1 Critical accounting assumptions and estimates

Changes in accounting estimates is done by assessing the modification of the carrying amount of an asset or liability or the amount of the periodical use of the asset, performed based on the evaluation of the present situation of the assets and liabilities and the related expected future profits and commitments. Changes in accounting estimates are caused by new information or new developments, so, accordingly, these do not qualify as corrections. The changes in accounting estimates affect the report in the course of the preparation of which the future estimate was made (with no retroactive effect).

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

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)

The useful lives and residual values of fixed assets and the related decommissioning liability can be determined using estimates. Due to the high value of fixed assets, even slight changes in such estimates can have a considerable effect. The fair value of assets acquired in the course of business combinations is determined on a discounted cash flow basis, which requires several complex assumptions. Subsequent changes in estimated amounts can have a direct impact on profit or loss.

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

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

The following significant items are determined using estimates.

Allocating the purchase price to assets in the case of acquisitions. The estimate concerning the distribution of the purchase price may change during the year of the measurement period if any new information arises.

The useful life of Power Plant equipment was determined considering the present market and regulatory environment. Possible negative changes in these factors may lead to impairment.

The present market and regulatory environment was also considered when determining the provision for the asset retirement obligation.

Revenues and profit or loss recognized in connection with the construction-installation projects were determined based on the present circumstances.

- The recovery of deferred tax assets recognized was accounted for based on the present market environment and tax legal regulations. Changes in any of these factors may modify actual recovery.
- Estimates concerning the creation of provisions (e.g.: methodology of calculation, indicators for determining provisions)
- Estimates concerning the evaluation of inventories and receivables The management's judgement in calculating the impairment of trade receivables is a critical decision which directly impacts profit or loss.

Estimates concerning fair value

In the case of an obligation arising from a conditional purchase price, the management estimates applied influence the size of the obligation.

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

Changes or observations giving rise to the review of accounting estimates:

- Changes in legal regulations,
- Changes in the economic environment,
- Changes in the operation or procedures of the companies.

The interest rate used for discounting could not be determined using actual market data; consequently, alternative methods had to be employed.

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

The Group's profit or loss is heavily dependent on the global market price of energy carriers and indirectly on the exchange rates of the USD and the Euro in which the price of such commodities is denominated. The natural gas purchases of power plants are denominated in a currency other than the functional currency. The Group enters into forward contracts in order to hedge foreign exchange exposures. Similarly, the Group enters into hedge transactions to protect itself from changes in the price of energy carriers themselves.

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

Power plant units of the ALTEO Group:

- heating power plants (ALTEO-Therm Kft.),
- wind turbines (WINDEO Kft., e-Wind Kft., EGE Kft.),
- hydropower plants (Sinergy Kft.)
- solar power plants (Domaszék 2MW Naperőmű Kft., Monsolar Kft., Sunteo Kft.)

The energy production of power plants relying on renewable energy sources depends on the weather, therefore, changes in certain elements of the weather (sunshine, wind force, temperature, water yield) can also have a significant impact on the efficiency of the units in question.

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

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

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

The Group presents in detail the risks relating to its operation in Notes No III.3 and III.4.

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III.2 Changes in accounting policies, potential impact of IFRSs and IFRICs not yet effective as at the reporting date of the financial statements and earlier application

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

New accounting policies as of 1 January 2020

The following standards and interpretations (and their respective amendments) became effective during the 2020 fiscal year

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

New and amended standards - to be applied for the business years starting on January 1, 2020 or thereafter:	IASB publication	Effective date	EU endorsement	ALTEO Group
Amendments to the 'Framework for the Preparation and Presentation of Financial Statements' (issued on March 29, 2018, effective for the business years starting on January 1, 2020 or thereafter, the amendments have been endorsed by the EU).	2018.03.29	2020.01.01	2019.11.29	none
Definition of Business - Amendment to IFRS 3 (issued on October 22, 2018, effective for acquisitions implemented in the business years starting on January 1, 2020 or thereafter, the amendments have been endorsed by the EU).	2018.10.22	2020.01.01	2020.04.21	none
Definition of Material - Amendment to IAS 1 and IAS 8 (issued on October 31, 2018, effective for the business years starting on January 1, 2020 or thereafter, the amendments have been endorsed by the EU).	2018.10.31	2020.01.01	2019.11.29	The Company has retained the concept of "material" as previously applied. No change relative to former practices
Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7 (issued on September 26, 2019, effective for the business years starting on January 1, 2020 or thereafter, the amendments have been endorsed by the EU).	2019.09.26	2020.01.01	2020.01.15	none
Covid-19-Related Rent Concessions - Amendment to IFRS 16 Leases (issued on May 28, 2020, effective for the business years starting on January 1, 2020 or thereafter, the amendment has been endorsed by the EU). The extension of the time period provides additional relief.	2020.05.28	2020.06.01	2020.10.09	none

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

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

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

Application for subsequent business years:	IASB publication	Effective date	EU endorsement	ALTEO Group
Reference to the 'Framework for the Preparation and Presentation of Financial Statements' - Amendment to IFRS 3 Business Combinations (issued on May 14, 2020, effective for the business years starting on January 1, 2022 or thereafter, the amendments have been endorsed by the EU).	2020.05.14	2022.01.01	H2/2021	there will be no effect
Proceeds before Intended Use - Amendment to IAS 16 (issued on May 14, 2020, effective for the business years starting on January 1, 2022 or thereafter, the amendments have been endorsed by the EU)	2020.05.14	2022.01.01	H2/2021	there will be no effect
Onerous Contracts: Cost of Fulfilling a Contract - Amendments to IAS 37 (issued on May 14, 2020, effective for the business years starting on January 1, 2022 or thereafter, the amendments have been endorsed by the EU)	2020.05.14	2022.01.01	H2/2021	there will be no effect
Annual Improvements to IFRS Standards - 2018–2020 (issued on May 14, 2020, the amendments have been endorsed by the EU).	2020.05.14	2022.01.01	H2/2021	there will be no effect
Extension of the Temporary Exemption from Applying IFRS 9 - Amendment to IFRS 4 (issued on June 25, 2020, effective for business years starting on January 1, 2021 or thereafter, the amendments have been endorsed by the EU).	2020.06.25	2021.01.01	2020.12.16	there will be no effect
Interest Rate Benchmark Reform, Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on August 27, 2020, effective for the business years starting on January 1, 2021 or thereafter, the amendments have been endorsed by the EU).	2020.08.27	2021.01.01	2021.01.13	there will be no effect

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

Application for subsequent business years:	IASB publication	Effective date	EU endorsement	ALTEO Group
IFRS 17 Insurance Contracts (issued on May 18, 2017, not yet endorsed by the EU)	2017.05.18	2023.01.01	-	there will be no effect
Classification of Liabilities as Current or Non-current - Amendment to IAS 1 (issued on January 23, 2020, effective for the business years starting on January 1, 2023 or thereafter, the amendments have not been endorsed by the EU).	2020.01.23	2023.01.01	-	there will be no effect

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

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

III.3 Risk matrix

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

Risk categories:

A/ Macroeconomic and legal system related risk factors
B/ Risks specific to the market and the industry
C/ Risks specific to the ALTEO Group

Risk ratings (table):

type	number	Risk	2020	2019	change
A	1	Risks stemming from the legal system	high	high	none
A	2	Macroeconomic factors	medium	medium	none
A	3	Taxation	medium	medium	none
A	4	Risks related to the United Kingdom leaving the European Union (Brexit)	low	low	none
B	5	Energy market regulation	high	high	none
B	6	Regulated prices	high	high	none
B	7	Electricity balancing reserve capacity system risks	high	high	none
B	8	Government grants	high	high	none
B	9	CO_2 emission market, CO_2 quota allocation system and CO_2 quota prices	medium	medium	none

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type	number	Risk	2020	2019	change
B	10	Changes in technology	medium	medium	none
B	11	Competitive situation	medium	medium	none
B	12	Funding risk	medium	medium	none
B	13	Foreign exchange rate changes	low	low	none
B	14	Impact of international market developments on domestic trade	medium	medium	none
B	15	Risk of changing natural gas, electricity and heat energy price margins	medium	medium	none
B	16	Environmental legislation	medium	medium	none
B	17	Risks related to the spread of COVID-19	high	high	none
C	18	Risks arising from operating the Control Center	high	high	none
C	19	Political risks	medium	high	yes
C	20	Dependence on weather	high	high	yes
C	21	Risks of growth	medium	medium	none
C	22	Risks stemming from acquisitions, buying out projects and companies	medium	medium	none
C	23	Risks related to power plant project development and green-field investment	medium	medium	none
C	24	Large-scale, customized projects	medium	medium	none
C	25	Energy trade risks	medium	medium	none
C	26	Operating risks	medium	medium	none
C	27	Fuel risk	medium	medium	none
C	28	Renewing and/or refinancing outstanding debts	medium	medium	none
C	29	Information technology systems	medium	medium	none
C	30	Wholesale partner risks	medium	medium	none
		continued from the previous page:			
C	31	Dependence on third-party suppliers	medium	medium	none
C	32	Buyer risk	medium	medium	none
C	33	The risk of key managers and/or employees leaving the Company	medium	medium	none
C	34	The risk of introducing and using new power plant technologies	medium	medium	none
C	35	Regulatory risk	low	low	none
C	36	Key licenses and qualifications	low	low	none

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continued from the previous page:

type	number	Risk	2020	2019	change
C	37	The risk of not fulfilling the obligations associated with operating its own balancing group	low	low	none
C	38	Options to purchase certain means of production	low	low	none
C	39	Business relationships associated with the Owners' Group	low	low	none
C	40	The risk of being categorized as a de facto group of companies	low	low	none
C	41	Taxation	low	low	none
C	42	Environmental risks	low	low	none
C	43	Risk of bankruptcy and liquidation proceedings	low	low	none
C	44	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)	low	low	yes
C	45	The risk of entering new geographical markets	low	low	none

Type of changes:

Change in classification on the value scale: Item 19

Updating and clarification of text and wording in Items 20 and 44

The quantitative effects of risks are presented in Section III.4.6.

Macroeconomic and legal system related risk factors

III.3.1.1 Risks stemming from the legal system

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

III.3.1.2 Macroeconomic factors

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

III.3.1.3 Taxation

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

III.3.1.4 Risks related to the United Kingdom leaving the European Union (Brexit)

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

Risks Specific to the Market and the Industry

III.3.1.5 Energy market regulation

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

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

III.3.1.6 Regulated prices

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

III.3.1.7 Electricity balancing reserve capacity system risks

In addition to the development of the price margin between electricity and heat energy, the financial position of gas-fired power plants is significantly influenced by the pricing and accessibility of the electricity markets for balancing reserve capacity and energy. If, for any reason, access to these markets becomes limited with respect to production units within the sphere of business interests of the ALTEO Group, including a drop in service volumes attributable to a substantial fall in market prices, this may have an adverse impact on the business activity and profitability of the ALTEO Group. Considering that the ALTEO Group is present on the balancing energy market(s) as a service provider as well as a buyer of services, price changes in such market(s) may have a significant effect on the capacity of the Company to generate finance income.

III.3.1.8 Government grants

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

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

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

III.3.1.9 CO_2 emission market, CO_2 quota allocation system and CO_2 quota prices

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

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

III.3.1.10 Changes in technology

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

III.3.1.11 Competitive situation

There are multiple companies both in Europe and Hungary that have significant positions and experience, as well as advanced technologies, major capacities and financial strength—among them state or municipal government owned and controlled ones—that compete on the ALTEO Group's various markets or may start competing with the ALTEO Group in the future. Should it become more intensive in the future, competition may necessitate unforeseen improvements and investments, furthermore, might also have a negative effect on the price of the ALTEO Group's services or increase the Group's costs, which may have an adverse effect on the ALTEO Group's bottom line, as measured on a consolidated basis. The ALTEO Group has demonstrated to possess substantial professional experience and background in the preparation and implementation of energy investments and in the operation of such facilities.

III.3.1.12 Funding risk

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

A large part of the ALTEO Group’s loans come with variable interest rates and are tied to certain reference interest rates, such as BUBOR or EURIBOR. An unfavorable change in the interest rates could have an adverse effect on the profitability of the ALTEO Group. The ALTEO Group enters into interest rate swap (IRS) transactions to mitigate its interest rate exposure. Such transactions are concluded after due consideration of the respective economic environment, and facility-related terms and conditions. These transactions allow for reducing risk, however, the ALTEO Group is not able to completely eliminate negative risks stemming from variable interest rates.

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

III.3.1.13 Foreign exchange rate changes

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

III.3.1.14 Impact of international market developments on domestic trade

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

III.3.1.15 Risk of changing natural gas, electricity and heat energy price margins

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

III.3.1.16 Environmental legislation

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

III.3.1.17 Risks related to the spread of COVID-19

To the best of its knowledge, ALTEO Group does not have any direct customers or suppliers for its revenue-generating activities or services who are domiciled in countries that are under quarantine due to the COVID-19 virus as of the date of publication of this Management Report. However, COVID-19 may affect those markets where ALTEO Group is also active, and so it may have an indirect impact on

ALTEO Group's operations and profitability. The management of ALTEO Group is not in a position to assess the risks from the potential outcomes of COVID-19 in the entire supply chain or the risks indirectly affecting the Company.

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

Risks specific to the ALTEO Group

III.3.1.18 Risks arising from operating the Control Center

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

III.3.1.19 Political risks

The ALTEO Group provides some of its services to institutions which are owned by municipalities or are under the influence of municipalities or certain statutory corporations. Furthermore, the agreements made with such institutions have a major effect on the operation of certain members and projects of the ALTEO Group. The considerations governing the motivation of bodies having influence over such institutions may differ from the considerations of a rational, profit-oriented market player, which is a risk in terms of contract performance. Such risks arise primarily relating to the district heating generation activities of Alteo Therm at its sites in Sopron, Kazincbarcika, Tiszaújváros and Zugló.

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

III.3.1.20 Dependence on weather

Part of the ALTEO Group's energy production capacities (e.g. wind turbines, solar power plants, hydropower plants) and the energy demand of certain buyers (e.g. heat demands) depend on the weather, therefore, changes in weather may significantly affect the profitability of the ALTEO Group.

In the case of weather-dependent energy production, no major change can be expected in the average annual output, but within a year and between years, differences may occur. In the case of a weather-dependent change in energy demand, even longer-term trends of changes may develop (such as milder winters).

In the case of weather-dependent energy production, the Company relies on meteorological forecasts to estimate (schedule) the quantity of electricity that can potentially be generated. If the weather is not as predicted, there will be changes in the amount of electricity produced as compared to the plans (Day-Ahead or Intra-Day schedules), which may cause a significant loss for the ALTEO Group. See also *Electricity balancing reserve capacity system risks.*

The weather affects the ability to perform heat supply contracts that have no heat volume commitment, given the heat purchase obligations. The actual weather, as compared to the forecasted trend, has an effect on the profitability of the Group. The actual value of heat transfer may in reality be different from the planned level; as a consequence, the fair value of the hedging transactions obtained in accordance with the hedging policy of the Group in respect of such products may need to be reclassified into profit or loss.

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

III.3.1.21 Risks of growth

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

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

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

III.3.1.22 Risks stemming from acquisitions, buying out projects and companies

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

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

III.3.1.23 Risks related to power plant project development and green-field investment

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

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

III.3.1.24 Large-scale, customized projects

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

III.3.1.25 Energy trade risks

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

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

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

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

III.3.1.26 Operating risks

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

- costs of general and unexpected maintenance or renewals;
- unplanned outage or shutdown due to malfunction of the equipment;
- natural disasters (fire, flood, earthquake, storm and other natural disasters);
- change in operative parameters;
- change in operating costs;
- eventual errors during operations; and
- dependence on third-party operators.

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

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

III.3.1.27 Fuel risk

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

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

III.3.1.28 Renewing and/or refinancing outstanding debts

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

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

III.3.1.29 Information technology systems

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

III.3.1.30 Wholesale partner risks

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

III.3.1.31 Dependence on third-party suppliers

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

III.3.1.32 Buyer risk

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

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

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

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

III.3.1.33 The risk of key managers and/or employees leaving the Company

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

III.3.1.34 The risk of introducing and using new power plant technologies

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

III.3.1.35 Regulatory risk

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

III.3.1.36 Key licenses and qualifications

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

III.3.1.37 The risk of not fulfilling the obligations associated with operating its own balancing group

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

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

III.3.1.38 Options to purchase certain means of production

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

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

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

On the basis of a heat supply and capacity utilization contract concluded between BC-Therm and BorsodChem Zrt., BorsodChem Zrt. is obliged to purchase the BC-Therm business share.

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

III.3.1.39 Business relationships associated with the Owners' Group

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

III.3.1.40 The risk of being categorized as a de facto group of companies

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

III.3.1.41 Taxation

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

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

III.3.1.42 Environmental risks

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

III.3.1.43 Risk of bankruptcy and liquidation proceedings

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

III.3.1.44 Any discrepancies between the data in the consolidated and IFRS reports and the data in the reports prepared in line with the Hungarian Accounting Standards (HAS)

The Company and its Subsidiaries prepare individual reports in line with HAS for each financial year. Beginning with the fiscal year of 2010, the Company prepares a consolidated financial statement according to the IFRS standards in addition to the separate HAS report. Since 2017, the Company has prepared its separate financial statement in line with the IFRS standards as well. The reports of subsidiaries and of the Company prepared to the HAS requirements are different from the consolidated financial statement prepared in accordance with the IFRS's in terms of the valuation and presentation principles. Due to the differences in the accounting systems, the information content of the simple aggregation of the separate HAS financial statements and that of the consolidated IFRS financial statement are independent and separate.

III.3.1.45 The risk of entering new geographical markets

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

III.4 Financial risks and their management

Over and above the listing of risks in Section III.3, in this section the Group presents its risks related to financial asset and receivables, the way they are managed, and it analyzes its risk management objectives in the current period.

III.4.1 Recovery risk and its management

The Group has classified its clients into the following risk categories:

Assessed risk categories managed collectively	Group Risk characteristics of the category, risk management procedures
Retail trade in natural gas and electricity	In establishing a customer portfolio, diversification by industry and company size reduces risk. Before establishing trade relations, our partners undergo a customer rating, which is reviewed annually. We monitor our receivables on a daily basis. In the event of default, the act regulating the electricity sector allows, as the last resort, partners to be excluded from consumption.
District heating	Customers are typically municipality-owned heat suppliers; they are monitored continuously.
Business and project development	Customers are subjected to a pre-qualification assessment; non-payment related risk is managed by requiring financial performance guarantees (bank guarantee, security deposit).
Large corporate clients (energy services)	Customers possess the critical infrastructure of the Hungarian corporate sector; they are mostly listed companies operating in a transparent manner. Customers are monitored continuously.
Wholesale trade in electricity	The settlement of sales through the power exchange is assured by the regulations of the exchange. Trading partners (may) use performance guarantees vis-à-vis each other.
System Operator (MAVIR Zrt.) – KÁT	The risk rating of the system operator is the same as that of Hungary. All the generators in Hungary that sell in the KÁT system are required to be members solely of this balancing group; the consideration for their production is covered by the fee component allocated to non-retail users as specified in Section 13/A of the Electricity Act. The system has been operating for over one decade without any financial problems.
System Operator (MAVIR Zrt.) – ancillary services	With regard to the collection of the consideration payable for those services, see the comments on KÁT above.
Lease receivables	The value of the receivables is guaranteed by the title of the assets concerned.

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In 2020, the restrictions on business operation and on the working of sectors due to the COVID-19 pandemic resulted in an increased client risk; as a result, the Group identified an increasing risk value.

Increased risk factors have been taken into account and have been quantified in the course of the review of the ECL model. During the current year, it was not necessary to draw down bank guarantees or any other collateral pledged by clients.

The details of the Group's receivables and the expected losses relating to such receivables are presented in Sections IV.14; IV.17 and IV.19.

III.4.2 Liquidity risk and its management

The Group makes liquidity plans, in which it examines liquidity positions and, having analyzed the plans, ensures in advance, in due time, that sufficient liquidity is maintained.

- The Group has a cash pool system settled through banks, available to its members, which is successful in managing cash use and demand within the Group at different times and in different amounts.
- Furthermore, the Group has shared bank liquidity facilities, the availability of which assures sufficient and flexible liquidity options for the Group.
- The 10-year bonds issued in 2019 changed the composition of the sources of the liquid cash assets available to the Group; the shift of liabilities towards long term has considerably improved short- and medium-term liquidity.

The future cash flows of the borrowings and bonds, and also the credit terms are explained in detail in Sections IV.21, IV.22 and IV.36.

III.4.3 Interest rate risk and its management

The Group is financed through fixed-interest bonds and variable-interest project loans.

- To fix the interest rates of project loans, the Group has entered into interest rate swaps, in which it agrees to exchange the variable cash flows, for a predefined period, to fixed cash flows with respect to the principal amount. The effects of these swaps are considered to be cash flow hedges.
- The Group regards hedging transactions to be efficient as they were concluded with the lending bank, adjusted to the terms of the loans in question.

III.4.4 Risk arising from changes in energy product prices and its management

Due to its scope of activities, the Group is considerably exposed to the variations in the prices of energy carriers, but such risk is managed by appropriate pricing and by hedging transactions.

Risk to be managed (hedged transaction)	Hedge transaction	Objective
Volume and price components of retail electricity sales	Forward electricity purchase contract at the time of contracting with consumers	At least 95% hedging for the volume of the retail electricity product

Volume and price components of the gas and CO_2 necessary for the production of district heating subject to regulated price	Entering into forward gas and CO_2 hedging transactions when the HEPURA district heating rate is established	Maximum hedging for the gas and CO_2 price specified in the decree of the district heating price regulator, as well as for the necessary volumes
Market-priced heat generation	Use of price formulas to reflect the inputs necessary for the heat generated (gas, CO_2) as well as other features of production	Profitable heat generation through optimizing the co-generation of electricity
Volume and price components of the gas and CO_2 necessary for the production of market-based and system-controlled electrical energy	Appropriate mapping of energy carrier prices effective at the time of tenders, conclusion of gas and CO_2 hedging transactions	Profitable electricity generation to optimize the combined capacity of the power plants of the Group

III.4.5 Foreign exchange risk and its management

Foreign exchange risk arises at Group where the liabilities and financial collection contracts of the Group are in different currencies. The Group has no significant hidden foreign exchange risks (embedded derivatives) regarding its activities.

Risk to be managed	Hedge transaction	Objective
Change in the exchange rate of electricity purchase and sale in the retail trade	Hedging of the net foreign exchange position (EUR) through forward contracts (mostly to buy)	Attaining at least 95% level of hedging for the net foreign exchange position
Change of the components of district heat production (gas, CO_2) relative to the regulated (fixed) exchange rate	Foreign exchange forward transactions to hedge the EUR consideration for energy carriers required for heat production	Total hedging of the FX exposure of the regulated heat price

III.4.6 Description of hedge relationships - objectives and procedures relevant for hedges and hedging policy

IFRS 9 provides for the terms of hedge accounting, and the Group complies with the requirements set out in IFRS 9: the Group keeps a register of the hedged items and hedging instruments, the hedging relationships have been identified, the hedging relationships exist and are effective.

- *With respect to the volume and price risk of energy products and the CO_2 quota,* the Group has set up plans and risk management models regarding the various business segments. These models calculate the type and value of the necessary hedge transactions in accordance with the contracts and plans in effect. Hedge transactions are concluded on that basis.

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- In the case of district heating, due to the non-obligatory volume purchase, the Group continuously assesses the relationship of hedged items and hedging instruments relating to the production of heat. The volume to be hedged is based on historic data of several years as well as on consumption forecasts. In the current period, the relationship was effective, with no relationships discontinued.
- In the case of FX risk, the Group covers the foreign exchange risk of its future purchases to be settled in a foreign currency in the next 12 months by concluding hedging transactions. The maturity date of the hedging transactions is as close to the date of expected payment as possible.
- The Group regards interest rate hedging (IRS) transactions to be efficient as they were concluded with the lending bank, adjusted to the terms of the loans in question.

The Group adjusted CO_2 quota transactions settled with delivery to utilization in their timing, or overhedged them. The overhedging was used towards purchasing CO_2 quotas. The value of the CO_2 quota is recognized as an Inventory item.

The Group evaluated its existing hedging positions; the balances of the various types as of reporting date are shown in the table below:

Exposure	Interest rate- BUBOR	Foreign exchange rate - EUR/HUF	Price - electricity	Foreign exchange rate - price of gas	CO_2 quota price	Total	Effect of deferred taxes
Nature of the risks being hedged	Increase in the BUBOR rate	EUR/HUF rate increase	Rate of electricity increase/decrease	Rate of gas increase	Increase in quota prices		
Description of the hedging activity	Transactions to fix the interest rates	Future purchases	Purchase or sale of products in the future	Purchasing products in the future	Future purchases		
Description of the financial instruments designated as hedging instruments	Interest rate swap derivative	Forward deals	Bilateral transactions with partners	Asian swap deals, options	Forward deals		
OCI on 12/31/2019	**(827 582)**	**59 932**	**42 521**	**(1 143 975)**	**(13 787)**	**(1 882 891)**	**169 460**
De-recognition against net profit or loss	**178 085**	**(59 932)**	**(43 651)**	**1 143 975**	**13 787**	**1 232 264**	**(110 904)**
De-recognition due to revaluation	**649 497**	**-**	**1 130**	**-**	**-**	**650 627**	**(58 556)**
Revaluation of CF hedge positions	**(698 411)**	**82 758**	**180 687**	**792 401**	**81 906**	**439 341**	**(39 541)**
OCI on 12/31/2020	**(698 411)**	**82 758**	**180 687**	**792 401**	**81 906**	**439 341**	**(39 541)**

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

IV.1 Sales revenue

Revenues	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months	
Electricity production	12 415 089	7 232 718	
Electric power trade	7 595 012	6 824 659	
Heat sales	4 708 397	5 188 594	
Operation and maintenance (O&M)	3 227 435	2 428 532	
Gas trade	2 717 494	2 079 830	
Energy industry service fees and projects	1 789 231	1 594 262	
Waste management	440 261	119 528	*
Operating lease income	25 874	25 654	*
Finance lease income	18 358	38 599	*
Trade commission revenues	23 863	11 598	*
Other revenues	20 287	29 376	*
Total	**32 981 301**	**25 573 350**	

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

Revenue contains returns attributable to the Group's core activity.

Activities of the Group:

Production activity: In the course of production, the Group produces the energy sold through its own power plants (electricity and heat energy).

Operation and maintenance (O&M): The Group carries out operation and maintenance activities related to power plants and energy generating equipment.

Commercial activity: Purchase and resale of gas and electricity to consumers and trading partners. The commercial segment purchases energy from the production units and other production partners of the Group.

Control Center: It performs scheduling activities for energy production units.

Implementation of energy industry projects: For energy industry project activities, revenue is presented by stage of completion.

Waste management: the revenue of the waste management activity launched in 2019 is presented here.

Operating lease income: The Group gives certain parts of its properties at the sites of Alteo-Therm Kft. in Sopron and Győr to operating lease (based on lease agreements). The Group does not keep any separate assets for leasing purposes; however, it leases some of its own assets. The Group does not sublease its leased assets.

Finance lease income: The lease interest rate in contracts classified as long-term leases in accordance with the rules of IFRS16 is presented here.

Other revenues: accounting services provided to third parties and revenues that are not classifiable in other activities are recognized as other revenues. In 2019, the revenue from waste management was classified here.

Other activities in the business period requiring special principles of presentation:

- In the current year the Group had no discontinuing operations.
- The Group did not have interest, royalty or dividend, which should be presented as revenue.
- Turnover items not recognized in the revenue:
- The Group leaves out taxes, fees recovered on behalf of the state or some other party from its revenues and recognizes them as items decreasing expenses (consolidates revenues and expenses). For an itemized list, see Section II.5.7.1 Revenues

IV.2 Material expenses

Material expenses	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months
Energy carrier - electricity	(9 816 751)	(6 883 765)
Energy carrier - gas	(7 082 976)	(7 230 330)
Material and service needs of maintenance and projects	(4 052 174)	(2 418 308)
Expert services (counselling, auditing, IT)	(464 250)	(417 010)
Waste management services	(344 664)	(77 979) *
Agent’s commission	(311 964)	(346 198)
Bank expenses, insurance	(227 260)	(188 169)
Rent (office, machinery, vehicles, data cables, IT)	(204 748)	(180 654)
HSE, ISO, environmental protection	(148 520)	(115 527) *
Other fuels and water	(125 981)	(131 424)
Administration and office costs	(101 398)	(113 794) *
Other	(81 987)	(70 716)
Marketing	(69 569)	(74 165)
Fees paid to authorities, duties	(40 187)	(36 226)
Total	**(23 072 429)**	**(18 284 265)**

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

IV.3 Personnel expenses

Personnel expenses	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months
Wages	(2 813 246)	(2 326 279)
Other personnel expenses	(291 144)	(269 489) *
IFRS 2 remuneration	(106 871)	-
Share-based benefit expenses	(7 297)	(1 650)
Contributions	(551 482)	(480 843)
Total	**(3 770 040)**	**(3 078 261)**

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

The personal expenses line contains the wages, other disbursements of the group and the related benefit expenses.

In connection with the internal projects, the wage costs allocated to these have been activated. '* For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.

The profit effects on the shares granted to the employees as benefit are also recognized as part of the personnel expenses. For related presentations see the section on Share-based benefits on page 88 .

Average statistical headcount	2020	2019
ALTEO Nyrt.	260	231

IV.4 Other revenues, expenses, net

Other revenues, expenses, net	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months
Subsidies and grants received	101 621	91 282
Fines, compensation, default interest received	21 512	79 833
Sale of fixed and intangible assets	339	80 589
Scrapping of fixed and intangible assets	(89 051)	(1 214)
Income from (expenses of) loss events	55 945	-
Provisions released (recognized)	(37 000)	1 725
CO2 expenses	(960 621)	(735 498)
Parafiscal contributions, fees, payment obligations	(55 400)	(78 035)
Impairment of inventories and receivables	(248 446)	(196 119)
Fines, compensation, default interest paid	(28 917)	(37 430)
Grants, released receivables	(19 297)	(10 672)
Other settlements	31 297	1 258
Total	**(1 228 018)**	**(804 281)**

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- It contains the time-proportionate amount of KEOP (Environment and Energy Operational Program) grants received from the grants awarded for the establishment of the assets. (Energy storage renovation in Füredi u. in Felsődobsza)
- The most significant items among the items in the Fines, compensation, default interest received line were penalties, contract termination penalties received for non-performance of the schedule keeping obligation related to electricity production and trade.
- Parafiscal items: These contain mainly deductions imposed by local municipalities (vehicle tax, building tax, line tax and duties), as well as environmental burden fees and environmental product fees.
- Detailed description of the information concerning the preparation and release of provisions is in Note IIV.24.
- Other items include income and expenses not categorized elsewhere, such as settlements on partner and tax current accounts, rounding differences, levies not classified as income tax and derecognition of time-barred liabilities.

IV.5 Capitalized own production

Capitalized own production	Year ending on 12/31/2020	Year ending on 12/31/2019	
Capitalized production from material expenses	231 078	72 397	*
Capitalized production from personnel expenses	281 148	220 097	*
Total	**512 226**	**292 494**	*

** For adjustments to the lines indicated relative to the comparative period, see Section II.5.3.1 Changes in comparative data on page 19.*

Personnel and other material expenses directly related to the investments made within the group are recognized in capitalized own performances.

IV.6 Finance expenses, net

Within finance income and expenses, the main element in exchange differences was the unrealized exchange loss at year-end. Exchange differences incurred on the foreign currency transactions of the Group.

Impairment of the loan provided to Energigas Kft. (third party), impairment of the revaluation of the long-term lease of BC-Therm Kft., and further interest rate adjustments for the previous period are recognized in other financial settlements.

Net finance income	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months
Finance income	479 576	271 602
Received/receivable interest	30 430	20 228
Exchange rate gains	420 257	251 163
Other finance income	28 889	211
Financial expenses	(1 569 892)	(1 215 422)
Interests paid/payable	(984 268)	(778 994)
Exchange rate losses	(381 652)	(243 225)
Other financial expenses	(203 972)	(193 203)
Net finance income	(1 090 316)	(943 820)
Net interest expenses	(953 838)	(758 766)
Net exchange rate profit or loss	38 605	7 938
Other financial settlements	(175 083)	(192 992)
Total	**(1 090 316)**	**(943 820)**

IV.7 Taxes

IV.7.1 Taxes in the profit or loss - types of tax expenses

The Group’s members pay tax under Hungarian tax law, with the exception of the German subsidiary. Taxes presented as tax expense:

Taxes	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Local business tax expenditure	(417 966)	(301 451)
Innovation contribution expenditure	(64 223)	(46 233)
Corporate tax expenses	(160 410)	(127 593)
Special tax of energy producers	(49 275)	(42 859)
Deferred tax expenses	(191 786)	82 302
Total	**(883 660)**	**(435 834)**

IV.7.2 Taxes in the profit or loss - income tax calculations

Elaboration of the tax base	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
IFRS profit or loss before taxes	1 474 201	709 465
Effect of differences	394 305	116 884
HAS profit or loss before taxes	1 868 506	826 349
Increasing items	3 161 201	2 566 263
Total provisions recognized	121 254	58 713
Planned and extraordinary depreciation charge recognized in the tax year pursuant to the Accounting Act	2 703 063	2 104 454
Costs and expenses not related to business activity	129	1 819
Fines established in final decisions or obligations arising from legal consequences, recognized as expenses	223	926
Amount of impairment recognized regarding receivables	110 264	180 142
Receivables released (except to the benefit of a private	20 184	3 554
Difference of expenses and income recognized regarding the impairment of shares in controlled foreign companies, foreign exchange loss or de-recognition	0	7 815
Difference of expenses and income recognized regarding the impairment notified shares, foreign exchange loss or de-recognition	0	38 075
Other	206 084	14 200
years, 2020 being the last)		156 566
Decreasing items	3 278 840	2 550 510
Amount written off from the loss carried forward (negative tax base) from previous years	1 438 085	737 512
provisions	60 173	25 875
Depreciation recognized in accordance with the tax	1 516 762	944 528
Allocated reserves within retained earnings, but not more than 50% of profit before taxation or HUF 500 million per tax year (development reserve)	0	156 351
Dividends, shares received and recognized as income	258 560	683 996
Impairment reversed regarding receivables in the tax year, irrecoverable portion of the cost of receivables	439	2 248
Cost of renovation of listed and protected historic structure increasing the value of the asset at the taxpayer that carries the fixed asset on its books	4 821	0
Negative tax base of the Group	-326 237	-284 096
Tax base	1 750 867	842 103
Tax (9%)	186 939	101 358
Benefit (reducing taxes)	(11 368)	(43 554)
Difference due to group corporate tax	0	(1 482)
Tax pursuant to the Corporate Tax Act	(175 571)	(56 322)
Support for sports and arts entitling to tax benefit	-	(70 455)
Amendment of corporate tax for previous years	15 161	(816)
Effect of corporate tax on profit or loss	(160 410)	(127 593)
Recognition of deferred tax assets (tax gain)	132 811	286 856
De-recognition of deferred tax assets (tax loss)	(286 856)	(139 756)
Recognition of deferred tax liability (tax loss)	(866 550)	(599 716)
De-recognition of deferred tax liability (tax gain)	599 716	277 543
Deferred taxes in other comprehensive income (tax gain)	39 541	(169 460)
Deferred taxes in other comprehensive income (tax gain)	169 460	29 582
Acquired deferred tax liability	20 092	397 253
Effect of deferred taxes on profit or loss	(191 786)	82 302
Local business tax expenditure	(417 966)	(301 451)
Innovation contribution expenditure	(64 223)	(46 233)
Special tax of energy producers	(49 275)	(42 859)
Effect of income taxes on profit or loss	(883 660)	(435 834)

IV.7.3 Income taxes in the statement of financial position

Income tax **receivables** in the statement of financial position:

Income taxes in the statement of financial position	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Corporate tax overpayment	22 798	51 673
Innovation contribution overpayment	7 898	-
Local business tax overpayment	62 116	67 004
Income tax receivables	**92 812**	**118 677**

Income tax **liabilities** in the statement of financial position:

Income taxes in the statement of financial position	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Corporate tax liability	93 051	34 598
Innovation contribution liability	40 031	17 205
Energy suppliers' income tax liability	23 509	14 837
Local business tax liability	122 639	(8 433)
Income tax liabilities	**279 230**	**58 207**

IV.7.4 Taxation information

IV.7.4.1 Presentation of Tax Group members

As of 1/1/2019, the following companies formed a Corporate Tax Group.

Composition of corporate tax group, 12/31/2020
Head of group:
Sinergy Energiakereskedő Kft.
Members:
Alte-A Kft.
Alteo Energiakereskedő Zrt.
ALTEO-Therm Kft. (legal predecessor: Győri Erőmű Kft.)
Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Kft.
Windeo Kft.

The former members of the Tax Group were: Alteo-Agria Kft., Soproni Erőmű Kft., Kazinc-Therm Kft., Tisza-Therm Kft., Ózdi Erőmű Kft. and Zugló-Therm Kft., which merged into Alteo-Therm Kft. on 1/1/2020.

IV.7.4.2 List of tax audits

The tax authorities carried out the following audits concerning the Group:

Taxable entity	Type of 2020 review, form of tax, period
Alteo-Therm Kft.	Comprehensive tax review - 2017-2018 (closed)
Alteo-Therm Kft.	Compliance review – VAT – June 2020 (closed)
Alteo-Therm Kft.	Compliance review – VAT – September 2020 (closed)
Alteo-Therm Kft.	Compliance review – Energy tax – September 2020 (closed)
Domaszék 2MW Kft.	Compliance review – VAT – April-September 2020 (closed)
Tisza WTP Kft.	Compliance review – VAT – 7/1/2018-12/31/2019 (closed)
Alteo Energiakereskedő Zrt.	Call for declaration regarding the audit of Szőke Pékség Kft. - January-April 2020

IV.8 Deferred taxes

Deferred tax assets and liabilities were calculated by the Group for each taxpayer. The change in deferred taxes was recognized by the Group in the statement of profit or loss.

Deferred tax changes	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Deferred tax asset		
opening assets	286 856	139 756
increase	-	147 100
decrease	(154 045)	-
	132 811	286 856
Deferred tax liability		
opening liability	599 716	277 543
acquired	20 092	
increase	246 742	322 173
decrease	-	-
	866 550	599 716
Deferred taxes in other comprehensive income		
opening assets	(169 460)	(29 582)
increase		(139 878)
decrease	209 001	-
	39 541	(169 460)

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Elaboration of deferred taxes	Year ending on 12/31/2020 HUF thousa				Year ending on 12/31/2019 HUF thousar			
	Tax value	Accounting value	Deferred tax asset base	Deferred tax liability base	Tax value	Accounting value	Deferred tax base	Deferred tax liability base
Power plants and power generating properties, plants and equipment	20 474 221	25 435 923	1 701 984	(6 663 686)	13 019 026	17 711 707	-	(4 692 681)
Other property, plant and equipment	24 488	87 369	291	(63 172)	474 845	73 105	401 740	-
Other intangible assets	547 883	3 037 269	-	(2 489 386)	(888 666)	3 492 357	0	(4 381 023)
Operation contract assets	-	1 212 987	-	(1 212 987)	1 407 741	1 407 741	-	
Rights of use	228 883	1 063 615	-	(834 732)	131 874	924 768	-	(792 894)
Long-term lease assets	-	-	-	-	103 770	104 376	-	(606)
Deferred tax assets	132 811	132 811	-	-	286 856	286 856	-	-
Long-term loans given	256 624	95 181	161 443	-	193 651	193 651	-	-
Long-term participation in associate	100	100	-	-	100	100	-	-
assets held for sale	-	-	-	-	-	-	-	-
Inventories	442 622	442 622	-	-	233 165	233 165	-	-
Trade receivables	3 539 435	3 263 224	276 211	-	3 018 214	2 919 836	98 378	-
Short-term lease assets	129 244	128 949	295	-	160 814	160 814	-	-
Emission allowances	843 488	843 488	-		342 100	342 100	-	-
Other financial assets	370 278	1 697 162	1 326 884		360 987	360 987	-	-
Other receivables and accruals	3 756 003	3 895 803	(139 800)	-	4 584 897	4 396 596	188 301	-
Income tax receivables	92 812	92 812	-	-	118 677	118 677	-	-
Cash and cash equivalents	3 455 045	3 455 045	-	-	4 847 671	4 847 671	-	-
Losses carried forward	296 911		296 911	-	3 708 202	-	3 708 202	-
Issued capital	232 972	232 972	-	-	232 948	232 948	-	-
Share premium	5 185 343	5 185 343	-	-	5 056 207	5 056 207	-	-
Share-based payments reserve	62 819	62 819	-	-	68 398	68 398	-	-
Retained earnings	2 882 216	2 882 216	-	-	2 303 282	2 303 282	-	-
Transactions with owners	(223 259)	(223 259)	-	-	(192 534)	(192 534)	-	-
Hedge reserve	399 801	399 801	-	-	-	(1 882 892)	-	(1 882 892)
Conversion reserve	-	-	-	-	(1 059)	(1 059)	-	
Allocated reserves	716 709	-		(716 709)	429 362	-		(429 362)
Non-controlling interest	7 765	7 765	-		(3 926)	(3 926)	-	-
Long-term loans and borrowings	8 481 667	8 411 397		(70 270)	7 988 546	7 883 845	-	(104 701)
Debts on the issue of bonds	14 889 000	14 889 000	-		10 909 019	10 909 019	-	-
Finance lease liabilities	235 858	1 047 406	811 548	-	25 678	917 122	891 444	-
Deferred tax liabilities	866 550	866 550	-		599 716	599 716	-	-
Provisions	-	850 493	850 493	-	-	568 680	568 680	-
Deferred income	436 864	436 864	-	-	535 674	535 674	-	-
Other long-term liabilities	705 712	1 404 123	0	(698 411)	1 172 131	1 172 131	-	-
Short-term liabilities	8 430 871	8 430 870	(1)	-	10 066 017	10 066 017	-	-
Short-term loans and borrowings	929 693	929 693	-	-	463 165	463 165	-	-
Short-term bond payables	-	-	-	-	2 215 114	2 215 114	-	-
Short-term finance lease liabilities	-	154 912	154 912	-	108 555	108 555	-	-
Advances received	46 500	46 500	-	-	497 963	497 963	-	-
Trade payables	2 652 842	2 308 413	(344 429)	-	1 963 934	1 963 934	-	-
Other financial liabilities	-	189 130	-	(189 130)	1 104 369	1 104 369	-	-
Other short-term liabilities and accruals	4 178 564	4 522 992	344 428	-	3 654 710	3 654 710	-	-
Income tax liabilities	279 230	279 230	-	-	58 207	58 207	-	-
-		-	(0)			-	(0)	
		-				-		
Deferred tax position of balance sheet items			5 441 170	(12 938 483)			5 856 745	(12 284 159)
Differences not qualifying as returning			10 214	(705)			2 741 789	
Net deferred tax position of consolidation units			1 915 021	(9 628 333)			3 187 289	(8 546 405)
Of which part of the comprehensive income:			439 342	-				(1 882 892)
Deferred tax assets (9%)	9%		172 352		9%		286 856	
Of which: part of the comprehensive income:	9%		39 541		9%		-	
Deferred tax liability (9%)	9%			866 550	9%			769 176
Of which: part of the comprehensive income:	9%				9%			169 460

IV.9 Fixed assets and intangible assets

IV.9.1 Table on the movement of assets

Cost of assets	Power plants and power generating properties, plants and equipment	Other property, plant and equipment	Emission allowances	Other intangible assets	Operation contract assets	Rights of use	Total
January 1, 2019	**13 129 846**	**110 826**	**4 019**	**1 073 964**	**1 964 693**	**289 822**	**16 573 170**
Acquisition/put to use	8 310 424	54 335	1 014 333	3 261 862	150 773	757 398	13 549 125
Scrapping/sale	(187 697)	(10 895)	(676 252)	(25 687)	(236 536)	-	(1 137 067)
Reclassification	-	-	-	-	-	-	-
December 31, 2019	**21 252 573**	**154 266**	**342 100**	**4 310 139**	**1 878 930**	**1 047 220**	**28 985 228**
Adjustment for 2019	106 520	(373)	-	-	-	-	106 147
Acquisition/put to use	4 944 567	72 295	-	495 808	2 368	305 252	5 820 290
Increase through acquisition	7 101 461	-	-	1 000	-	-	7 102 461
Sale	-	(1 027)	-	-	-	-	(1 027)
Scrapping	(335 993)	(35 475)	-	(32 114)	-	(52 780)	(456 362)
Reclassification to inventories	-	-	(342 100)	-	-	-	(342 100)
December 31, 2020	**33 069 128**	**189 686**	**-**	**4 774 833**	**1 881 298**	**1 299 692**	**41 214 637**

Accumulated depreciation and amortization of assets	Power plants and power generating properties, plants and equipment	Other property, plant and equipment	Emission allowances	Other intangible assets	Operation contract assets	Rights of use	Total
January 1, 2019	**(2 604 035)**	**(72 718)**	**-**	**(205 438)**	**(487 961)**	**(5 991)**	**(3 376 143)**
Derecognition due to scrapping/sale	168 860	5 704	-	25 687	236 536	-	436 787
Derecognition due to reclassification	(7 613)	7 613	-	-	-	-	-
Impairment	(48 342)	-	-	-	-	-	(48 342)
Depreciation and amortization	(1 049 736)	(21 760)	-	(638 031)	(219 764)	(116 461)	(2 045 752)
December 31, 2019	**(3 540 866)**	**(81 161)**	**-**	**(817 782)**	**(471 189)**	**(122 452)**	**(5 033 450)**
Adjustment for 2019	-	-		-	-	(1 950)	(1 950)
De-recognition, sale	-	309	-	-	-	-	309
De-recognition, scrapping	266 914	32 094	-	24 400	-	43 903	367 311
Increase through acquisition	(2 850 171)	-	-	(1 000)	-	-	(2 851 171)
Depreciation and amortization	(1 509 082)	(53 559)	-	(943 182)	(197 122)	(155 578)	(2 858 523)
December 31, 2020	**(7 633 205)**	**(102 317)**	**-**	**(1 737 564)**	**(668 311)**	**(236 077)**	**(10 377 474)**

Net value of assets	Power plants and power generating properties, plants and equipment	Other property, plant and equipment	Emission allowances	Other intangible assets	Operation contract assets	Rights of use	Total
12.31.2018	10 525 811	38 108	4 019	868 526	1 476 732	283 831	13 197 027
12.31.2019	17 711 707	73 105	342 100	3 492 357	1 407 741	924 768	23 951 778
12.31.2020	25 435 923	87 369	-	3 037 269	1 212 987	1 063 615	30 837 163

IV.9.2 Valuation of assets:

- For the accounting policy on the valuation of assets, see Sections II.5.8.1 to II.5.8.3 in Chapter Accounting policies relating to the statement of financial position and the recognition and measurement of assets and liabilities.
- Intangible assets include no assets with indefinite lifecycles. The Group does not possess assets regarding which it would employ the revaluation model.
- Discounts applied to decommissioning reserve (2020: 8.57%; 2019: 8.57%).
- The management of the Group performs the necessary tests for CGUs as at each reporting date to determine whether the recognized value can be considered recoverable. In the current year, the tests performed showed the Group’s assets to be recoverable so it is not necessary to recognize impairment.
- The Group drew up an inventory of fixed assets, on the basis of which scrap value was accounted for.

IV.9.3 Depreciation and amortization in the current period

Depreciation and amortization	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months
Recognized depreciation, amortization	(2 858 523)	(2 045 752)

IV.9.4 Asset types

IV.9.4.1 Power plants and power generating properties, plants and equipment

Power plants and power generating properties, plants and equipment	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Power plant properties	3 690 082	3 304 153
Energy generation equipment:		
Gas engine, heat cogeneration	4 121 003	1 567 942
Energy storage block	739 911	834 374
Solar panel farm	5 130 934	5 336 532
Wind turbine	8 689 154	4 838 097
Hydropower Plant	760 733	199 655
Auxiliary systems	1 925 636	1 523 325
Control engineering assets	378 470	107 629
Total	**25 435 923**	**17 711 707**

The Group created the above assets using its own capacity as main contractor, engineering, maintenance, business, legal and economic advisor. The table above excludes the increase in intangible assets related to the investments (KÁT, R&D, Concession).

The contractual assets as per IFRS 15 recognized among intangible assets are presented in detail in Section IV.11.

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

IV.9.4.2 Other PPE

In the asset class, the Group records its office and IT equipment.

IV.9.4.3 Other intangible assets

Carrying amount of other intangible assets	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
R&D intellectual property	332 880	353 097
Purchased software	202 385	184 660
Trade license	8 084	8 784
License, connection charge	45 382	46 674
KÁT instrument	2 116 334	2 723 750
Other legal instrument (Bábolna)	107 202	0
Contractual asset (IFRS15)	165 051	174 775
Internally developed control software	59 951	617
Total	**3 037 269**	**3 492 357**

IV.9.4.4 Operation contracts (IFRIC 12 concessions)

Carrying amount of operation contracts	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Tisza-WTP operation contract	73 629	84 675
BC Power Plant operation contract	1 597	11 309
BC Therm operation contract	2 542	18 005
Kazincbarcika heating power plant operation (IFRIC12)	30 277	73 499
Tiszaújváros heating power plant operation (IFRIC12)	71 594	77 101
Füredi út Heating Power Plant operation (IFRIC12)	1 033 348	1 143 152
Total	**1 212 987**	**1 407 741**

IV.9.4.5 Rights of use (IFRS 16)

Carrying amount of rights of use	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Land lease Windeo Kft.	10 198	11 125
Land lease EGE Kft.	161 152	173 318
Land lease Pannon Szélerőmű Kft.	97 476	0
Ground rent Zugló Power Plant	399 355	430 204
Lease of power plant asset Felsődobsza/Gibárt	166 362	0
Vehicle rental Alteo Nyrt.	229 072	131 874
Total	**1 063 615**	**746 521**

- There is no right of use where the Group would sublease the underlying asset.
- Rights of use are written off in a straight-line manner over the term of the contract granting the right.
- The Group does not keep any separate assets for leasing purposes. Rent income is presented in Section IV.1.
- Lease liability is presented in Sections IV.10 and IV.23.

IV.9.5 Investments

The Group performed the following priority power plant investments:

Investments	Value (in HUF thousand)
Gas engine installation (capacity expansion)	2 904 548
Hydropower plant reconstruction Gibárt	1 074 086
Overhaul and renovation of gas engines in heating power plants	403 419
Control engineering development at the Füredi u. plant	218 539

IV.9.6 Capitalization of borrowing costs

The Group used an investment loan to renovate the Gibárt hydropower plant. Borrowing costs in the amount of HUF 15,209 thousand were capitalized as part of the investment.

IV.9.7 Environmental effects statement

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

IV.9.8 Assets as borrowing collaterals

For power plants financed using borrowings, a lien is attached to the assets and the capital contribution of the entity owning the asset under the loan contract. For a full asset hedging presentation, see Section IV.22.2.

IV.10 Lease assets

IV.10.1 Finance lease

The Group presents the contract of BC Therm Kft. and Tisza-WTP Kft. concluded with customers as a finance lease.

IV.10.1.1 Presentation of finance lease activities, considered terms and results of evaluations performed on specific contracts:

- no other, unidentified future conditions may be linked to guaranteed residual values
- there are no contingent fees
- the lessee has a call option on the assets
- the asset meets special customer needs and is not available to entities other than the buyer
- during the period of use, the contract is terminated with the transfer of title in the asset, which happens by exercising the option

IV.10.1.2 Lease asset values

Among lease assets, the lease value of BC-Therm Kft. is presented.

With regard to Tisza WTP Kft., the Group is entitled to no further lease income (from 2020); consequently, the value of the lease receivable is zero.

Lease assets	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Amounts due within a year	129 244	160 814
Amounts due between 1 and 5 years	-	104 982
Amounts due in more than 5 years	-	-
ECL recognized	(295)	(606)
Total	**128 949**	**265 190**
Unearned interests	-	13 597
Total lease revenue	**128 949**	**278 787**

The items relating to the ECL impairment applied to financial assets are presented in detail in Section IV.19.

IV.10.2 Operating leases

The Group gives certain parts of the properties of the sites in Győr and Sopron to operating lease. These items form part of the Group revenue. The Group keeps no separate assets for leasing purposes; however, it leases some of its own assets under such arrangement.

IV.11 Loans given

Long-term loans given	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Loans given	161 444	148 498
Clearing house deposit	73 026	26 521
Employee loan	23 037	21 000
Recognized impairment of loans given	(161 444)	-
Recognized ECL for long-term loans	(882)	(2 368)
Total	**95 181**	**193 651**

- None of the loans given is measured at fair value.
- Clearing house deposits are KELER deposits related to the power exchange presence of Sinergy Energiakereskedő Kft.
- Employee loan see Section IV.36 (related parties) interest: Central bank base rate + 5%, term: 5 years, no capital repayment due to moratorium
- The ECL impairment is presented in Section II.5.8.14 Expected impairment (ECL) model on page 43.

IV.12 Long-term participation in affiliated companies

Long-term participation in associate	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Energigas Kft. share	100	100
Total	**100**	**100**

Long-term participation is represented by the 1% share in Energigas Kft. (HUF 100 thousand). The fair value of the asset is identical to its initial recognition cost, so this value change was not recognized in connection with this investment.

IV.13 Inventories

Inventories	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Projects	28 988	34 097
Spare parts, operating materials	405 768	191 537
Fuels	7 866	7 531
Total	**442 622**	**233 165**

Inventory types:

- *Project inventories:* Inventories related to projects are the value of materials and services not received by the buyer on the reporting date.
- *Spare parts, operating materials:* These include the stock of spare parts relating to the maintenance of power plant equipment and, inter alia, work clothing, empties and auxiliary materials.
- *Fuels:* Inventories include the fuels (fuel oil) used by power plants.

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

IV.14 Trade receivables

The trade receivables of the Group are the reporting date balances of the items of energy production and energy services, trade and project development contracts recognized by the buyers but not yet financially settled.

Trade receivables	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Gross value of trade receivables	3 539 434	3 018 214
Impairment	(276 210)	(98 378)
Total	**3 263 224**	**2 919 836**

Trade impairment losses	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Opening balance	98 378	25 207
Impairment recognized	177 832	73 171
Closing balance	**276 210**	**98 378**

- The impairment of receivables and write-offs are accounted for in other expenses.
- Buyers are qualified on a case by case basis.
- A significant part of trade receivables is unsecured because they are not covered by deposits, bank guarantees, etc.
- The Group has guarantees from buyers of construction projects. No guarantees had to be enforced during the presentation periods.
- The maximum credit risk is equal to the carrying amount of trade receivables.
- The items relating to the ECL impairment applied to financial assets are presented in detail in Section IV.19.

The largest buyers of the Group are:

In 2019	In 2020
MAVIR Zrt.	MAVIR Zrt.
Barcika Szolg Vagyonkezelő és Szolgáltató Kft.	ALPIQ Energy SE
ALPIQ Energy SE	TVK-Erőmű Kft.
TVK-Erőmű Kft.	Barcika Szolg Vagyonkezelő és Szolgáltató Kft
NEO Property Services Zrt.	Lego Manufacturing Kft.

Presentation of trade receivables as per due dates (2020):

Trade receivables	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Not overdue	2 907 357	1 803 457
Past due trade receivables:		
1 to 30 days	446 493	862 734
31 to 60 days	92 365	69 527
61 to 90 days	17 144	73 242
91 to 180 days	54 746	79 398
180 to 365 days	9 620	-
over 365 days	11 709	29 039
Total	**3 539 434**	**2 917 397**

IV.15 Emission allowances

Emission allowances	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Emission allowances CO2 quota	843 488	342 100
Total	**843 488**	**342 100**

Emission allowances	Stock movements	Quantity (of shares)	Value HUF thousand
12.31.2019	**Closing balance**	**45 579**	**342 100**
2020	Quota taken over without charge	23 951	203 123
2020	Purchased quota	162 000	1 035 331
2020	Quota returned without charge	(103 072)	(737 066)
12.31.2020	**Closing balance**	**128 458**	**843 488**

IV.16 Other financial assets

Other financial assets	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Derivative transactions	1 326 883	49 049
Separate bank accounts	370 279	311 938
Total	**1 697 162**	**360 987**

The receivable balance of derivative transactions includes the non-realized profit balance of hedging transactions (electricity forward, EUR/HUF FX forward, CO_2 forward) at the end of the year.

The aggregate values for derivative transactions and the valuation procedure for the transactions are set out in subsection III.4 Financial risks and their management.

Separate bank accounts contain cash, the use of which is limited in time or is conditional. This essentially means funds earmarked for debt service. These assets are not treated as cash or cash equivalents in the financial statements. The funds in the separate bank accounts involve variable interest credits.

IV.17 Other receivables and accruals

Other receivables and accruals	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Accrued revenues	2 495 480	2 493 334
Accrued expenses	656 449	125 155
Deposits, sec. deposits	98 820	948 786
Advances paid (related to projects)	27 537	551 217
Projects - Receivables due from customers	44 516	2 962
Receivables from employees	1 068	2 824
Other receivables	622 412	291 940
ECL impairment	(50 479)	(19 622)
Total	**3 895 803**	**4 396 596**

- The deposits are necessary deposits because of the presence of Sinergy Energiakereskedő Kft. at the power exchange.
- Advances given are related to the construction-installation projects in progress. In relation to construction-installation contracts.
- The amount due from the clients of the projects is presented in detail in Section IV.31 Accounting for project development contracts under IFRS15.
- Other receivables include certain tax assets and the KÁT cash receivable due from MAVIR.

Other receivables are not past due, or are not considered doubtful by the management. The items relating to the ECL impairment applied to financial assets are presented in detail in Section IV.19 Application of the expected credit loss model (ECL) to financial assets.

IV.18 Cash and cash equivalents

Financial assets	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Cash in hand	-	14
Bank accounts – HUF	2 442 471	4 396 412
Bank accounts – foreign currency	1 012 574	451 245
Total	**3 455 045**	**4 847 671**

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Cash only includes the balances of items which can be converted to cash and used three months from acquiring. The interest rate on current account balances is about 0%, considering the extremely low interest environment.
The statement of cash flows contains the detailed causes of the changes in financial assets.

IV.19 Application of the expected credit loss model (ECL) to financial assets

The management of the Group has performed the risk analysis of its financial assets (ECL modeling).

Risks of financial assets are presented in Section III.4. Taking into account the risks presented, financial assets are classified into the following categories:

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

Impairment recognized for the financial assets of the Group are presented in the ECL amount column:

Application of the expected loss model to financial assets	External credit rating	Internal credit rating	ECL%	Gross value	ECL amount	Net amount
BC-Therm Lease - (Wanhua Chemical)	BBB+ (Fitch)	Performing	0,23%	129 244	(295)	128 949
Customers - with large corporate background	N/A	Performing	2,42%	551 056	(13 379)	537 677
Customers - public sector	N/A	Performing	2,42%	1 104 199	(26 677)	1 077 522
Customers - retail energy trade	N/A	Performing	4,83%	1 191 623	(58 518)	1 133 105
Customers - energy production	N/A	Performing	0,06%	381 904	(2 307)	379 597
Customer - scheduling service	N/A	Performing	1,21%	10 963	(132)	10 831
Customer - project development	N/A	Performing	2,28%	2 648	(6)	2 642
Customer - other	N/A	Performing	1,21%	38 584	(2 722)	35 862
Long-term loan Third party	N/A	Performing	1,21%	96 063	(1 160)	94 903
Customer - waste management	N/A	Performing	2,42%	83 449	(2 016)	81 433
Long-term loan Third party	N/A	non-performing	100,00%	161 444	(161 444)	-
Customer - Energigas	N/A	non-performing	100,00%	127 306	(127 306)	-
Customer - MOM	N/A	non-performing	100,00%	25 442	(25 442)	-
Customer - retail energy trade, legal proceedings in process	N/A	non-performing	100,00%	12 955	(12 955)	-
Customer - employees	N/A	non-performing	100,00%	94	(75)	19
Customer - impairment recognized in previous years	N/A	non-performing	100,00%	4 675	(4 675)	-
Other debtors - deposits	N/A	non-performing	100,00%	50 200	(50 200)	-

In current year’s valuation, the management of the Group uses the data available in public databases to determine ECL rates. In the opinion of the Group’s management, the overall credit risk in the market of the partners and segments did not change in the recent period. As a result of the effects of the COVID pandemic, the Group retained the ratings of its receivables or raised them to a higher risk level.

IV.20 Equity

IV.20.1 Issued capital and own shares

Issued capital	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**232 948**	**195 314**
Implementation of employee share award program through shares	24	166
Purchase of own shares	(452)	(114)
Private placement	-	37 313
Employee Share Ownership Program implementation	452	269
closing	**232 972**	**232 948**

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

Share transactions in the current period:

Date	Event	Number of shares	Average price (HUF/share)	Share-based payments reserve	Balance of share-based payment reserve, HUF thousand
12.31.2018	**Closing balance**	**776 821**	**119,3**		**92 690**
1.30.2019	Transfer of employee share ownership program	(13 222)		(2 338)	
6.12.2019	Excercise of ESOP option	(21 500)		(14 654)	
During 2019	Purchase of own shares	8 325		(8 950)	
12.31.2019	**Closing balance**	**750 424**			**66 748**
1.31.2020	Transfer of employee share ownership program	(1 878)		(1 650)	
9.11.2020	Excercise of ESOP option	(24 000)		(2 610)	
9.21.2020	Purchase of own shares	24 000		-	
12.16.2020	Excercise of ESOP option	(12 128)		(1 319)	
12.16.2020	Purchase of own shares	12 128		-	
12.31.2020	**Closing balance**	**748 546**			**61 169**

Shares traded:

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

IV.20.2 Share premium

Share premium	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**5 056 207**	**3 080 838**
Implementation of employee share award program through shares	1 626	8 784
Private placement	-	1 954 303
Employee Share Ownership Program implementation	20 639	9 944
Employee Share Ownership Program lapse	-	2 338
Recognition of share benefits against profit or loss	106 871	-
closing	**5 185 343**	**5 056 207**

IV.20.3 Transactions with owners

Transactions with owners	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**(192 534)**	**(186 408)**
Implementation of employee share award program through shares	-	-
Purchase of own shares	(30 725)	(6 127)
Private placement	-	-
Dividend payment	-	1
closing	**(223 259)**	**(192 534)**

In the owner transactions of the current year, the portion of the 32,128 repurchased own shares in excess of the issued capital was recognized.

IV.20.4 Share-based payments reserve, share-based benefits

Share-based payments reserve	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**68 398**	**92 690**
Implementation of employee share award program through shares	(1 650)	(8 950)
Employee Share Ownership Program implementation	(3 929)	(2 338)
Employee Share Ownership Program lapse	-	(14 654)
Recognition of share benefits against profit or loss	-	1 650
closing	**62 819**	**68 398**

IV.20.5 Hedge reserve

The fair value of future transactions existing on the reporting date is presented by the Group based on hedging combinations and achieved hedging objectives in other comprehensive income and equity.

Cash flow hedge reserve	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**(1 713 432)**	**(297 782)**
Comprehensive income	2 113 233	(1 415 650)
closing	**399 801**	**(1 713 432)**

The hedge reserve has the following movement in its balance:

Name	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Opening	**(1 713 432)**	**(299 103)**
Remeasurement in other comprehensive income	3 234 593	(109 399)
Reclassification to the statement on profit or loss	(1 121 360)	(1 304 930)
Total	**399 801**	**(1 713 432)**
of which, derivative position recognized against OCI	*439 342*	*(1 882 892)*
of which, deferred tax recognized against OCI	*(39 541)*	*169 460*
Reclassification to income tax	110 904	139 878
Reclassification to financial expenses	(118 153)	(22 098)
Reclassification to other expenses	(13 787)	-
Reclassification to material expenses	(1 100 324)	(1 422 710)
Reclassification to the statement on profit or loss	**(1 121 360)**	**(1 304 930)**

- Items reclassified in connection with the cash flow hedge reserve were recognized in the comprehensive income.

IV.20.6 Conversion reserve

Conversion reserve	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**(1 059)**	**(1 059)**
Transfer of rounding differences of prior years	(84)	
Comprehensive income	1 143	-
closing	**-**	**(1 059)**

The Group calculated the conversion reserve as the value of exchange differences on the reporting date calculated on the basis of the capital value of its German subsidiary or derecognized it due to the initiation of the termination of the investment.

IV.20.7 Retained earnings

Retained earnings	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**2 303 282**	**2 267 980**
Dividend payment	-	(250 068)
Employee Share Ownership Program lapse	-	14 653
Acquisition of the non-controlling interest of Tisza-Bioterm Kft.	(7 813)	-
Transfer of rounding differences of prior years	84	-
Comprehensive income	586 663	270 717
closing	**2 882 216**	**2 303 282**

The retained earnings show the part of the profit from the profit of the Group after taxes attributable to the ownership stake of ALTEO Nyrt.

IV.20.8 Non-controlling interest

Profit or loss attributable to non-controlling interests	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months
Profit or loss of ECO First Kft. in the current period	11 634	11 434
Alteo Nyrt. Participation %	67%	67%
Attributable to ALTEO Nyrt. Participation	7 756	7 661
Attributable to non-controlling interests	3 878	3 773
Profit or loss of Tisza BioTerm Kft. in the current period	(18 473)	(2 148)
Alteo Nyrt. Participation %	100%	60%
Attributable to ALTEO Nyrt. Participation	(18 473)	(1 289)
Attributable to non-controlling interests	-	(859)
Transfer due to purchase of share	7 813	-
From which the owners of the Parent Company are entitled to:	**(10 717)**	**6 372**
Of which the minority interest is entitled to:	**3 878**	**2 914**

Non-controlling interest	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening	**(3 926)**	**(6 840)**
Acquisition of the non-controlling interest of Tisza-Bioi	7 813	
Comprehensive income	3 878	2 914
closing	**7 765**	**(3 926)**

In 2020, the Group acquired a 40% minority interest in Tisza-Bioterm Kft. from GDHS Kft.

IV.21 Debts on the issue of bonds

For the purpose of uniform presentation, the detailed terms of the bonds are listed in the notes entitled Terms of borrowings in Section IV.36.

Nominal liabilities also show interest accrued on bonds.

Debts on the issue of bonds	Interest terms	Issue value HUF thousand	Face value	Currency	Maturity date	Nominal liabilities 12/31/2020 (HUF thousand)	Nominal liabilities 12/31/2019 (HUF thousand)
ALTEO Nyrt. NKP1 2029	Interest payment p	8 818 285	8 600 000	HUF	10.28.2029	8 600 000	8 600 000
ALTEO Nyrt. "2022/II" bond	end of maturity	1 505 905	1 693 630	HUF	6.7.2022	1 594 617	1 528 790
ALTEO Nyrt. "2022/I" bond	end of maturity	498 526	650 000	HUF	1.10.2022	615 361	583 334
ALTEO Nyrt. "2020/I" bond	end of maturity	2 146 103	2 150 000	HUF	9.30.2020	-	2 150 000
Alteo Nyrt. NKP1 2031	Interest payment p	3 912 499	3 800 000	HUF	10.8.2031	3 800 000	-

Bond cash flow	2 020	2 021	2 022	2 023	2 024	2 025	up to 2030	after 2030
ALTEO Nyrt. NKP1 2029	270 900	270 900	270 900	270 900	270 900	270 900	9 683 600	-
ALTEO Nyrt. "2022/II" bond	-	-	1 693 630	-	-	-	-	-
ALTEO Nyrt. "2020/I" bond	2 246 800	-	-	-	-	-	-	-
ALTEO Nyrt. "2022/I" bond	-	-	650 000	-	-	-	-	-
Alteo Nyrt. NKP1 2031	-	93 100	93 100	93 100	93 100	93 100	465 500	3 893 100

Bonds	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening principal and interest	13 124 132	3 606 925
ALTEO Nyrt. NKP1 2029	8 840 811	-
ALTEO Nyrt. 2019/I bond	-	886 148
ALTEO Nyrt. "2022/II" bond	1 528 790	
ALTEO Nyrt. “2022/I” bond	583 334	553 055
ALTEO Nyrt. “2020/I” bond	2 171 197	2 167 722
Alteo Nyrt. NKP1 2031	-	-
Issues in the current period:	3 904 710	10 289 666
ALTEO Nyrt. NKP1 2029	-	8 796 896
ALTEO Nyrt. 2019/I bond	-	-
ALTEO Nyrt. "2022/II" bond	-	1 492 770
ALTEO Nyrt. “2022/I” bond	-	-
ALTEO Nyrt. “2020/I” bond	-	-
Alteo Nyrt. NKP1 2031	3 904 710	-
Interest recognized in the current period	446 519	249 077
ALTEO Nyrt. NKP1 2029	254 038	43 916
ALTEO Nyrt. 2019/I bond	-	38 852
ALTEO Nyrt. "2022/II" bond	65 827	36 020
ALTEO Nyrt. “2022/I” bond	32 027	30 279
ALTEO Nyrt. “2020/I” bond	75 337	100 010
Alteo Nyrt. NKP1 2031	19 290	-
Principal and interest payments in the current period	(2 517 435)	(1 021 535)
ALTEO Nyrt. NKP1 2029	(270 900)	-
ALTEO Nyrt. 2019/I bond	-	(925 000)
ALTEO Nyrt. "2022/II" bond	-	-
ALTEO Nyrt. “2022/I” bond	-	-
ALTEO Nyrt. “2020/I” bond	(2 246 535)	(96 535)
Alteo Nyrt. NKP1 2031	-	-
Closing principal and interest	**14 957 926**	**13 124 133**
Reclassification into short-term liabilities	**68 926**	
Debts on the issue of bonds	14 889 000	10 909 019
Short-term bond payables	-	2 215 114
	14 889 000	**13 124 133**

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

In the current year, the Company capitalized borrowing costs in the amount of 7,790 on the issued bonds (legal, organizer and distributor fees).

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

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

ALTEO 2020/I On March 30, 2017 the parent company within the Group issued bonds by private placement under the designation "ALTEO 2020/I" in a total amount of HUF 2,150,000,000, that is, two billion one hundred and fifty million Hungarian forints. On September 29, 2020, at the maturity of the bond, the face value of HUF 2,150,000,000 + HUF 96,535,000 in interest was repaid.

ALTEO NKP1/2031A On October 8, 2020, the parent company within the Group issued bonds designated as "ALTEO NKP1/2031" with a total face value of HUF 3.8 billion. The average issue value of the bonds was 102.9605% of the face value. The bonds have a fixed rate coupon of 2.45% and the maturity is 11 years.

IV.22 Borrowings

IV.22.1 Long-term borrowings and their collaterals

The terms of the borrowings and loans are presented in the table in Note IV.36.

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

Credits (in HUF)	Financing party	Frequency of repayments	Amounts paid (HUF thousand)	Maturity date	Liabilities to banks (HUF thousand) 12/31/2020	Capitalized lending cost 2020	Liability disclosed in the statement of financial position (HUF thousand) 12/31/2020	Liability (HUF thousand) 12/31/2019
Principal and interest liabilities								
e-WIND Kft.	MTB	quarterly	542 830	12.31.2027	308 529	(5 317)	303 212	301 059
Alteo-Therm Kft. (legal predecessor: Soproni Erőmű Kft.)	K&H	quarterly	500 000	9.30.2026	387 411	(10 096)	377 315	407 030
Monsolar Kft.	MKB	six-monthly	656 575	3.31.2034	631 462	(5 498)	625 964	621 478
Monsolar Kft. (legal predecessor: IT-Solar Kft.)	MKB	six-monthly	656 575	3.31.2034	631 462	(5 530)	625 932	628 846
Domaszék Kft.	OTP	quarterly	601 000	6.30.2034	575 300	(12 440)	562 860	574 501
Sunteo Kft (legal predecessor: Péberény Kft.)	K&H	quarterly	2 147 328	6.30.2035	2 070 963	(16 420)	2 054 543	2 108 759
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	K&H	quarterly	1 449 748	9.30.2035	1 400 664	-	1 400 664	1 433 861
Sunteo Kft. (legal predecessor: True Energy Kft.)	K&H	quarterly	1 459 872	9.30.2035	1 410 509	-	1 410 509	1 443 895
Sinergy Kft.	K&H	quarterly	744 000	6.30.2034	735 072	(14 968)	720 104	-
Pannon Szélerőmű Kft.	OTP Bank Zrt.	quarterly	2 439 000	9.15.2023	1 259 987	-	1 259 987	-
Liabilities to banks in the statement of financial position					**9 411 359**	**(70 269)**	**9 341 090**	**7 519 429**
Long-term loans and borrowings							**8 411 397**	**7 056 264**
Short-term loans and borrowings							**929 693**	**463 165**

- Borrowings are measured at amortized cost. The fair value of the items above does not materially differ from their amortized cost.
- A borrowing is classified as non-current in the financial statements only if at the end of the year the Group had a unilateral right not to repay the amount before the next reporting date. The instalments for the next year are included in current liabilities.
- The Group took advantage of the Repayment Moratorium provided for in Act LVIII of 2020.

- Repayments due in 2021 were reclassified to short-term borrowings and loans in the amount of HUF 929,693 thousand.
- In the current year the Company capitalized the following charges relating to new borrowing:

Name	12/31/2020
Gibárt hydropower plant - project loan, banking, legal and consulting fees	15 209

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

IV.22.2 Borrowing cash flow

Borrowing cash flow	2020	2021	2022	2023	2024	2025	up to 2030
e-WIND Kft.	-	19 089	36 530	39 862	43 442	47 291	122 315
Alteo-Therm Kft. (legal predecessor: Soproni Erőmű Kft.)	33 206	69 109	71 915	74 835	77 873	68 528	25 151
Monsolar Kft.	-	35 361	37 086	39 077	41 001	43 124	251 112
Monsolar Kft. (legal predecessor: IT-Solar Kft.)	-	35 361	37 086	39 077	41 001	43 124	251 112
Domaszék Kft.	-	28 000	33 000	35 500	37 500	39 500	231 000
Sunteo Kft (legal predecessor: Péberény Kft.)	51 400	112 486	119 408	126 331	129 359	134 767	762 743
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	33 197	72 052	76 692	81 186	85 680	89 884	508 427
Sunteo Kft. (legal predecessor: True Energy Kft.)	33 386	72 556	77 227	81 753	86 278	90 512	511 977
Sinergy Kft.	8 928	36 902	39 134	41 366	44 045	46 574	278 330
Pannon Szélerőmű Kft.	100 974	448 776	452 191	359 020	-	-	-

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

All borrowings are recognized in the statement of financial position at amortized cost.

The following overdraft facilities are available to Group members:

Overdraft facility 12/31/2020	Bank	Amount HUF thousand	Utilization rate, HUF thousand
Alteo Energiakereskedő Zrt.	OTP	800 000	393 708
Alteo Energiaszolgáltató Nyrt.	ERSTE	3 000 000	-
ALTEO-Therm Kft.	K&H	100 000	2 962

IV.23 Finance lease liabilities

The Group recognizes its obligations arising from long-term leases of land, area and assets under leases.

The following table represents the leasing conditions:

Leases	Leasing partner	type	Exposure 12/31/2020 (HUF thousand)	Exposure 12/31/2019 (HUF thousand)	Currency	Maturity date
Sinergy Kft.	ÉMÁSZ	Lease of power	258 314	269 306	HUF	12.31.2035
Alteo Nyrt.	Lease Plan	vehicles	235 858	134 233	HUF	individual
Alteo THERM Kft. (legal predecessor: Zugló Therm Kft.)	Főtáv	land lease	410 349	434 791	HUF	5.31.2030
Euro Green Energy Kft.	Multiple partners	land lease	189 036	175 951	EUR	3.31.2035
Windeo Kft.	Multiple partners	land lease	10 896	11 396	EUR	10.31.2032
Pannon Szélerőmű Kft.	Multiple partners	land lease	97 865	-	HUF	7.31.2035
Total			**1 202 318**	**1 025 677**		
of which:						
Amounts due within a year			154 912	108 555		
Amounts due between 2 and 5 years			437 800	329 972		
Amounts due in more than 5 years			609 606	587 150		

Finance lease liabilities	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Long-term liabilities relating to rights of use (over 5 years)	609 606	587 150
Long-term liabilities relating to rights of use (1-5 years)	437 800	329 972
	1 047 406	**917 122**
Instalments due within a year	154 912	108 555
Total	**1 202 318**	**1 025 677**

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

The Group uses the benefits of presentation options as per IFRS 16. Accordingly, it recognizes the following items as lease payments: the lease of the headquarter offices with regard to the short duration of the lease, car leases maturing within one year and the lease of certain IT equipment of small value. The lease of these assets is recognized directly in the statement of financial position of the period in question among the material expenses.

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

IV.24 Provisions

The provision recognized for the existing onerous contracts of the Group (non-terminable, causes losses) and for elements of similar nature is recognized among provisions with a significant value.

Provisions	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
opening balance	**568 680**	**251 739**
of which:		
Onerous contracts	134 311	134 311
Regarding asset decommissioning	413 648	20 721
Greenhouse gas quota	20 721	96 707
Provisions released	**-**	**(1 910)**
Provisions recognized	**281 813**	**315 031**
closing balance	**850 493**	**568 680**
of which:	**850 493**	**568 680**
Onerous contracts	192 031	134 311
Regarding asset decommissioning	658 462	413 648
Greenhouse gas quota	-	20 721

Presentation of provisions for the current period:

Provisions by the reason for creation	in 2020
ARO interest (IFRS)	36 330
Asset recorded through acquisition	159 849
Asset recorded through investment	48 634
Future costs	37 000
Total	281 813

IV.25 Deferred income

Deferred income	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Deferred income related to subsidized assets	436 864	535 674

The amount of grant for the RDI Energy Storage project was recognized in deferred income, the main terms and conditions of which are as follows:

	RDI
Purpose of the grant	Systemic integration and innovative application model of an electricity storage architecture
Conditions of the grant	The grant is tied to the performance and presentation of technical R&D work. In addition, a number of indicators need to be met also during the maintenance period: the creation of one newly developed product, technology, service or prototype the preparation of one know-how Business exploitability: the revenues from the outcome of the RDI project reach 30% (HUF 300 million) of the grant amount in two consecutive years combined during the maintenance period Export revenues: the average of export revenues in two consecutive years during the maintenance period is HUF 109 million One appearance at a domestic and an international forum (RENEXPO and the international energy trade fair, ENERGOexpo, were indicated in the grant application, however, this may be modified) 2 publications
Grant period	5 years starting from July 2019

IV.26 Other long-term liabilities

Other long-therm liabilities	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Contingent liability of investments in Activities (Zugló)	705 712	344 550
Interest rate swap	698 411	827 581
Total	**1 404 123**	**1 172 131**

IV.27 Advances received

Advances received	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Advances received	46 500	497 963
Total	**46 500**	**497 963**

In accordance with its contractual practice, the Group stipulates the payment of an advance in the general contracts, which is presented in the line of advances received.

IV.28 Trade payables

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

Trade payables	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Past due trade payables	98 721	163 957
due within 30 days	1 952 046	1 758 639
due in 31-60 days	32 220	9 785
due in 61-90 days	48 443	-
due in 91-120 days	-	-
due in 120-365 days	91 351	245
due in more than 365 days	85 632	31 308
Total	**2 308 413**	**1 963 934**

The largest suppliers of the Group are:

Major suppliers	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
MVM Partner Zrt.	5 497 825	1 875 400
MET Magyarország Kft.	4 054 217	4 041 162
E.On Energiakereskedelmi Kft., legal successor E.On Energiamegoldások Kft.	3 205 794	3 005 561
PPD Hungária Energiakereskedő Kft.	2 503 274	2 091 794
NKM Földgázszolgáltató Zrt., legal successor MVM Next Energiakereskedő Zrt.	1 699 997	1 232 243

IV.29 Other financial liabilities

Other financial liabilities	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Liabilities arising from derivative transactions	189 130	1 104 369
Total	**189 130**	**1 104 369**

Year-end market value of derivatives due to hedge transactions, the contents of which are explained in Notes IV.40 and III.4 Financial risks and their management.

IV.30 Other short-term liabilities and accruals

Other short-term liabilities and accruals	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Cost accruals	3 180 531	2 792 218
Income accruals	135 701	75 558
Projects - amounts due to customer	257 007	16 421
Other tax liabilities	581 739	585 415
Accrued interest payable	-	-
Income settlement	127 348	109 008
Other short-term liabilities	240 666	76 090
Total	**4 522 992**	**3 654 710**

Other short-term liabilities include non-interest-bearing items.

IV.31 Accounting for project development contracts under IFRS15

Name	12/31/2020	12/31/2019	Recognized current year sales revenue total	Sales revenue adjustment against statement of financial position	Invoiced sales revenue
Dorog Waste Incineration Plant	-	2 962	929 344	(2 962)	932 906
Alfa Energy Solar Power Plant	-	(4 978)	4 978	4 978	-
MPK Project	(257 007)	(1 443)	675 591	(255 564)	931 154
EISBERG Project	-	(10 000)	42 594	10 000	32 594
Maintenance project	44 516	-	44 516	44 516	-
Projects - Receivables due from customers	**44 516**				
Projects - amounts due to customer	**(257 007)**				

- The Group recognized contractual assets and liabilities opened in the previous year against the revenues of the current year.
- The amounts due from the customer are included in the line Other receivables and accruals (presented in Section IV.17), while the amounts due to the customer are included in the line Other short-term liabilities and accruals (presented in Section IV.29).

IV.32 Presentations on acquisitions of companies

Name	Euro Green Energy Kft.	ECO First Kft.	Pannon Szélerőmű Kft	Tisza BioTerm Kft.
Start date of control/Date of acquisition of share	2019.04.05	2019.06.25	2020.09.14	2020.05.18
share (%)	100%	66,67%	100%	40%
	HUF thousand	HUF thousand	HUF thousand	HUF thousand
Consideration paid	**2 750 103**	**3 000**	**2 405 890**	**1 000**
Non-current assets	**6 384 557**	**423**	**4 251 290**	**-**
Long-term receivables	-	-	-	-
Short-term receivables	**221 624**	**10 260**	**138 338**	**283**
Financial assets	**705 905**	**9 240**	**271 998**	**35**
Provisions	**(249 292)**		**(159 849)**	**-**
Long-term liabilities	**(5 094 751)**	**-**	**(2 281 318)**	**-**
Short-term liabilities	**(131 496)**	**(15 873)**	**(17 720)**	**(7 614)**
Total:	**1 836 547**	**4 051**	**2 202 739**	**(7 297)**
Contractual assets identified in acquisition	1 202 578	-	223 243	-
Deferred tax liability (9%)	(289 022)	-	(20 092)	-
	2 750 103	4 051	2 405 890	(7 297)
Revenue in the period following the acquisition	1 376 237	119 528	254 452	650
Earnings in the period following the acquisition	108 184	11 434	85 538	(1 847)

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

Other disclosures

IV.33 EBITDA

The Group discloses its EBITDA indicator. The process of the calculation is in the accounting policies summary. The detailed analysis of EBITDA is included in the Management Report for the period.

Elaboration of EBITDA:

Name	12.31.2020	12.31.2019
Form the statement of profit or loss:		
Operating profit or loss	2 564 517	1 653 285
Depreciation and amortization	2 858 523	2 045 752
Other revenues, expenses, net - Zugló-Therm fv. Year	-	31 801
Other revenues, expenses, net - Recognized impairment of fixed assets	89 051	48 342
EBITDA	**5 512 091**	**3 779 180**

IV.34 Calculation of earnings per share (EPS)

Calculation of earnings per share (EPS)	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand
Number of shares for EPS	18 636 921	18 027 438
Number of shares for diluted EPS	19 386 274	18 781 081
Profit or loss attributable to controlled interests	586 663	270 717
Base value of net earnings per share (HUF/share)	31,48	15,02
Diluted value of net earnings per share (HUF/share)	30,26	14,41

IV.35 Presentation of share-based and equity settled benefit schemes

Chart of changes in share program	Option I/ 2017	Option II/ 2020	Option I/ 2017
	2020	2020	2019
PCS.			
Outstanding at the beginning of the period	613 772	-	770 025
Granted during the current period	-	106 871	
Vested	-	-	-
Exercised during the current period	(36 128)	-	(21 500)
Expired during the current period	-	-	-
Forfeited during the current period	-	-	(134 753)
Outstanding at the end of the current period	577 644	106 871	613 772
of which:			
Available for exercise at the end of the current period	577 644	-	613 772
Value (HUF thousand)			
Outstanding at the beginning of the period	66 748	-	83 740
Granted during the current period	-	106 871	
Vested	-	-	
Exercised during the current period	(3 929)	-	(2 338)
Expired during the current period	-	-	
Forfeited during the current period	-	-	(14 654)
Outstanding at the end of the current period	62 819	106 871	66 748
of which:			
Available for exercise at the end of the current period	62 819	-	66 748

Periods		Option I/ 2017	Option II/ 2020
Vesting:			
	start	**5.1.2016**	**1.1.2020**
	end	**8.28.2017**	**12.31.2022**
	Days of service:	485	1 096
	of which: days in an annual breakdown:		
	2016	*244*	
	2017	*240*	-
	2018	-	-
	2019	-	-
	2020	-	*365*
	2021	-	*365*
	2022	-	*365*
Exercise of rights of beneficiary:			
	start	**8.28.2017**	**4.30.2023**
	end	**11.21.2021**	**6.30.2023**
Grant date		**12.14.2016**	**1.1.2020**
Valuation date:		12.31.2017 at the grant date	12.31.2020 at the grant date
Valuation for presentation		fair value	fair value
Recognition in the statement of financial position		Capital reserve	Capital reserve

ALTEO Nyrt. developed an equity settled share-based incentive scheme for ALTEO employees (ESOP program) subject to the following conditions:

		Option I/ 2017	Option II/ 2020
Theoretical share number (maximum as per invitation)		*770 024*	*645 200*
results of valuation:			
valuation no.		770 024	355 917
fair value of share HUF		108,75	900,84
total fair value of program valuation on reporting date, HUF thousand		83 740	320 624
service recognized on the closing date of the current period 2020 %		100%	33,33%
Recognized service value: HUF thousand, of which:		83 740	106 871
	2016	42 296	
	2017	41 444	
	2020	-	106 871

<u>ESOP Program I (2017)</u>

The settlement of the fair value of the options was completed in 2017. The fair value of the option program was recognized as personnel expense in the profit or loss statement of previous periods. The entire scheme is equity settled; therefore, no revaluation will be required in the forthcoming periods. **The value of the options cannot be remeasured at a later time. *ALTEO Nyrt. does not provide cash benefits with respect to this scheme.***

Under the option program, the options – 96,253 in total – vested in August 2017. The price of the options as of the time of distribution was uniformly HUF 3,800/share, apportioned by splitting the shares in 1:8 proportions. By splitting the shares the number of share options changed proportionately (770,024 options). 21,500 shares were called under the scheme during 2019.

Call options will expire on November 7, 2021. Neither the beneficiaries nor the ESOP organization may sell their shares below the 2016 IPO issue price (HUF 579/share, having regard to the division by eight).

ESOP Program II (2020)

Certain executive employees of the Company receive share-based benefits as of December 21, 2020 (the date of grant): the detailed rules of the so-called Employee Share Ownership Program ("ESOP") are set forth in the Company's Remuneration Policy for 2020, published and effective on December 21, 2020.

https://alteo.hu/wp-content/uploads/2020/12/ALTEO_2020_evi_MRP_Jav_Pol_20201221_en.pdf

https://www.bet.hu/site/newkib/en/2020.12./Communication_on_remuneration_policy_for_2020_of_the_Employee_Share_Ownership_Program_set_up_by_ALTEO__128507473

The ESOP applies to the 9 executive Employees specified in the 2020 Remuneration Policy. The Employee is eligible to acquire the Available Shares if their legal relationship making them eligible to participate in the Remuneration Policy for 2020 is in place with the Company on the day of publication of the Company's consolidated financial statement for 2022.

The subject of the ESOP is a maximum of 645,200 Available Shares which may be distributed – provided the below criteria are met – after the closing of the 2022 fiscal year of the Company (following the adoption of the consolidated financial statement). The Available Shares are acquired by the Employee without consideration. The Employee may choose whether they wish to receive the Available Shares as securities or whether they wish to receive the consideration thereof in cash.

The Employees may acquire the following ratios (specified as a %) of the full volume of Available Shares, provided that certain performance conditions also presented below are met in full:

1. ALTEO Share Price: in the period between January 1, 2022 and December 31, 2022, the volume-weighted average trading price on the BSE reaches HUF 1,178. (15% weight, partial performance is not possible)
2. Turnover: The aggregate turnover of ALTEO Shares as traded on the BSE in the period between January 1, 2022 and December 31, 2022 exceeds HUF 2,479 million and the volume-weighted average trading price in the same period is at least HUF 950. (15% weight, partial performance is not possible)
3. The audited profit after taxation filtered from ESOP effect per share reaches or exceeds HUF 54.7 in 2022. (25% weight, partial performance is possible)

4. The audited EBITDA filtered from ESOP effect per share reaches or exceeds HUF 320 in 2022. (45% weight, partial performance is possible)
5. Excluding criterion: the rating of the bonds of ALTEO Nyrt. at Scope – or an alternative credit rating agency – drops below B+. In the event of the occurrence of the excluding criterion, 0 (zero) Available Shares may be distributed, regardless of whether criteria 1-4 are fulfilled.

The vesting period of ESOP is January 1, 2020 – December 31, 2022, that is 3 years, with the emphasis on meeting 2022 target figures. Given that the above conditions may be met by December 31, 2022, the date of vesting is that date.

The ESOP Organization is entitled to withhold a ratio of Available Shares whose market value at the time of provision provides coverage for the fulfillment of tax and contribution payment obligations borne by the Employee.

Early exercise of the option is not possible. No option was exercised before the reporting date.

Principles of presentation

Considering that ESOP is a transaction related to services received from employees, the fair value of which cannot be measured reliably, their fair value was determined based on the fair value of the equity instrument provided.

Not applying the provisions of the Remuneration Policy for 2020, the beneficiary Employees irrevocably waived their right of choice retroactively to 12/21/2020 and according to such waiver they intend to acquire the shares that may be acquired in the form of securities. Consequently, the accounting treatment of ESOP is governed by the rules for share-based payment transactions where the terms of the arrangement are no longer affected by the choice and the method of settlement under which the ***equity component of a*** complex financial ***instrument*** needs to be accounted for.

- In view of this, the ESOP as a whole was accounted for as an equity instrument.

Calculation principles for fair valuation

As of the reporting date, the fair value of ESOP is equal to the time-vested part of the fair value of a share multiplied by the number of shares expected to be acquired (i.e. the fair value of the total liability).

- The starting point of the current fair value of the shares is the market price, i.e. the closing price observed on the Budapest Stock Exchange and valid as at the date of the relevant valuation.
- The market price is reduced by the present value of the dividends expected to be paid during the vesting period (2021-2022) as the Employees will not be entitled to them prior to fulfillment of the criteria. The expected amount of the dividend payment is based on the dividend paid in the past.

The number of benefits expected to be vested has been determined on the basis of the best estimate available, using statistical analyzes and simulations based on historical data for the financial indicators underlying the performance conditions (see vesting criteria).

Employee rewards	2020	2019
PCS.		
Opening liabilities in the statement of financial position	1 878	13 222
Exercised by transfer	(1 878)	(13 222)
Awarded as benefit		1 878
Closing	-	1 878
Value (HUF thousand)		
Opening liabilities in the statement of financial position	1 650	8 950
Exercised by transfer	(1 650)	(8 950)
Awarded as benefit	-	1 650
Closing	-	1 650

The Company recognizes expenses when they are provided by the employee during the vesting period, that is, between the beginning of the scheme (January 1, 2020) and the date of vesting (December 31,

2022). The value of the liability on the reporting date is the time-vested part of the total liability, i.e. one third.

Employee reward program

In the employee program, the Group distributes shares to the employees who have become entitled to these on the basis of the recognition system applied at the Group. In connection with the shares granted, the shares will be transferred in January following the anniversary of the current period.

IV.36 Terms of borrowings, interest rate swaps

Name	Financing party	Frequency of repayments	Amounts paid	DNEM	Nominal liabilities 12/31/2020	Maturity date
ALTEO Nyrt. NKP1 2031		Interest payment per annum	3 912 499 250	HUF	3 800 000 000	10.8.2031
ALTEO Nyrt. NKP 2029		Interest payment per annum	8 818 284 700	HUF	8 600 000 000	10.28.2029
ALTEO Nyrt. "2022/II" bond		End of maturity	1 505 904 664	HUF	1 693 630 000	6.7.2022
ALTEO Nyrt. “2022/I” bond		end of maturity	498 525 950	HUF	650 000 000	1.10.2022
e-WIND Kft. (HUF)	MTB	quarterly	542 830 000	HUF	308 529 354	12.31.2027
ALTEO-Therm Kft.	K&H	quarterly	500 000 000	HUF	387 410 994	9.30.2026
Monsolar Kft.	MKB	six-monthly	656 574 565	HUF	631 462 253	3.31.2034
Monsolar Kft. (IT-Solar)	MKB	six-monthly	656 574 565	HUF	631 462 253	3.31.2034
Domaszék Kft.	OTP	quarterly	601 000 000	HUF	575 300 000	6.30.2034
Pannon Szélerőmű Kft.	OTP	quarterly	2 439 000 000	HUF	1 259 987 400	9.15.2023
Sunteo Kft. (Péberény)	K&H	quarterly	2 147 328 133	HUF	2 070 962 874	6.30.2035
Sunteo Kft. (F.SZ. Energia)	K&H	quarterly	1 449 748 288	HUF	1 400 663 716	9.30.2035
Sunteo Kft. (True Energy)	K&H	quarterly	1 459 872 376	HUF	1 410 509 345	9.30.2035
Sinergy Kft.	K&H	quarterly	744 000 000	HUF	735 072 000	6.30.2034

IRS transactions	Financing party	Main currency	Amount	Interests received	Trade day	Effective date	Maturity date
Sunteo Kft. (legal predecessor: True Energy Kft.)	K&H	HUF	1 301 870 335	3,35%	11.6.2018	12.31.2019	12.31.2027
Sunteo Kft. (legal predecessor: True Energy Kft.)	K&H	HUF	144 652 259	2,40%	1.7.2019	12.31.2019	12.31.2027
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	K&H	HUF	1 294 526 451	3,35%	11.6.2018	12.31.2019	12.31.2027
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	K&H	HUF	143 836 272	2,40%	1.7.2019	12.31.2019	12.31.2027
Sunteo Kft. (legal predecessor: Péberény Kft.)	K&H	HUF	1 932 260 400	3,10%	9.27.2018	9.30.2019	6.30.2027
Sunteo Kft. (legal predecessor: Péberény Kft.)	K&H	HUF	214 695 600	2,30%	1.7.2019	9.30.2019	6.30.2027
Alteo-Therm Kft. (legal predecessor: Soproni Erőmű Kft.)	K&H	HUF	484 437 782	1,90%	12.11.2018	1.2.2019	9.30.2025
Alteo Nyrt. (on behalf of e-Wind Kft.)	OTP	HUF	498 233 527	1,55%	6.30.2016	6.30.2021	6.30.2021
Domaszék 2MW Erőmű Kft.	OTP	HUF	594 400 000	2,25%	6.30.2016	12.31.2028	12.29.2028
Monsolar Kft.	MKB	HUF	658 935 108	3,05%	8.23.2018	6.28.2019	6.30.2028
Monsolar Kft. (legal predecessor IT Solar Kft.)	MKB	HUF	658 935 108	3,05%	8.23.2018	6.28.2019	6.30.2028
Sinergy Kft.	K&H	HUF	744 000 000	1,50%	12.16.2020	12.18.2020	12.31.2030

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2020 Data in HUF thousand

IV.37 Segments

12.31.2020	Energy production (outside the subsidized system)	Electricity production (within the subsidized system)	Energy services	Energy trading	Other	Items eliminated due to consolidation	Total
Revenue	**14 179 346**	**3 584 994**	**10 746 657**	**11 997 630**	**455 003**	**(7 982 329)**	**32 981 301**
Material expenses	(9 965 849)	(669 376)	(7 808 750)	(11 616 010)	(614 626)	7 602 181	(23 072 430)
Personnel expenses	(268 810)	(50)	(2 445 579)	(100 728)	(954 876)	4	(3 770 040)
Other revenues and Other expe	(1 072 075)	39 092	(94 563)	4 709	(7 594)	(8 536)	(1 138 967)
Capitalized value of own produ	60 413	-	43 138	-	19 659	389 016	512 226
EBITDA*	**2 933 025**	**2 954 660**	**440 902**	**285 602**	**(1 102 434)**	**336**	**5 512 091**

12.31.2019	Energy production (outside the subsidized system)	Electricity production (within the subsidized system)	Energy services	Energy trading	Other	Items eliminated due to consolidation	Total
Revenue	**11 699 308**	**2 361 563**	**9 558 211**	**9 901 433**	**416 065**	**(8 363 230)**	**25 573 350**
Material expenses	(9 538 745)	(492 325)	(5 818 039)	(9 243 950)	(560 206)	7 373 666	(18 279 600)
Personnel expenses	(184 537)	-	(2 127 792)	(78 573)	(848 322)	156 299	(3 082 926)
Other revenues and Other expe	(752 268)	34 406	(52 790)	5 613	(10 552)	51 454	(724 138)
Capitalized value of own produ	25 310	-	255 156	-	12 028	-	292 494
EBITDA*	**1 249 068**	**1 903 644**	**1 814 745**	**584 523**	**(990 987)**	**(781 812)**	**3 779 181**

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

IV.38 Related party disclosures

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

For the presentation of the Board of Directors and the Supervisory Board, see the Business Report.

Executive Board

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

Members: Attila Chikán Jr., Domonkos Kovács, Zoltán Bodnár, Péter Luczay, Viktor Varga

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2020 Data in HUF thousand

Remuneration paid to related parties (executive officers):

2020	Board of Directors	Supervisory Board	Executive Board non-BoD members	Total
Wages	75 864	-	113 300	189 164
Commissions	15 000	11 800	-	26 800
Benefits	5 434	-	8 586	14 020
Reimbursements	7 047	-	10 505	17 552
IFRS2 benefits	24 539	-	27 122	51 661
Total	**127 884**	**11 800**	**159 513**	**299 197**

The Group has no doubtful receivables due from related parties; the detailed presentation of the ECL model applied to related party receivables is included in Section IV.19.

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

Name	Category	thousand HUF
NEO Property Services Zrt.	Customer	99 463
Tisza-WTP Vízelőkészítő és Szolgált	Customer	97 315
GRABOPLAST PADLÓGYÁRTÓ ZRT.	Customer	51 839
Praktiker Kft.	Customer	36 558
BC-Therm Energiatermelő	Customer	29 018
Executive employee	Loans given	23 037
Magnum Hungária Invest Kft.	Customer	16 272
WIPEUROPA INGATLANFEJLESZTŐ KFT.	Customer	14 397
MANHATTAN DEVELOPMENT GLOBAL KFT.	Customer	5 225
NEO Property Services Zrt.	Supplier	1 168
SH-FEJLESZTŐ KFT.	Customer	1 116
SH-ÜZEMELTETŐ KFT.	Customer	308

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2020 Data in HUF thousand

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

Name	Category	2020
NEO Property Services Zrt.	Revenue	983 334
Tisza WTP Kft.	Revenue	613 646
PRAKTIKER KFT.	Revenue	396 379
Energigas Kft.	Revenue	336 627
GRABOPLAST PADLÓGYÁRTÓ ZRT.	Revenue	308 188
BC-Therm Kft.	Revenue	176 407
MAGNUM HUNGÁRIA INVEST KFT.	Revenue	143 423
WIPEUROPA INGATLANFEJLESZTŐ KFT.	Revenue	112 114
MANHATTAN DEVELOPMENT GLOBAL KFT.	Revenue	43 361
Wallis Asset Management Kft.	Services used	24 125
WALLIS MOTOR PEST KFT.	Revenue	21 117
BC-Therm Kft. (recognized as lease)	Revenue	18 358
Wallis Autókölcsönző Kft.	Services used	14 771

According to the judgement of the management of the Group, transactions with related parties are transactions concluded under market terms, with market based pricing.

IV.39 Contingent liabilities, guarantees

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

For certain products (electricity, gas), the suppliers of the energy trading division require guarantees as part of the normal course of business. In 2020, such guarantees were provided by OTP Bank Nyrt. and ERSTE Bank Hungary Zrt., the banks used for funding the retail and wholesale trading business.

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

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

The following bank guarantees existed as at the reporting date.

	12.31.2020	12.31.2019
HUF bank guarantee	HUF 1,801,420 thousand	HUF 1,413,819 thousand
EUR bank guarantee	EUR 5,616,008	EUR 1,622,622

Within the Group, Alteo Nyrt. provided the following guarantee with respect to the loans of E-Wind Kft. with general purposes: HUF 46,279 thousand guarantee (general).

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

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2020 Data in HUF thousand

The details of contacts with other banks that have no value in the financial statements are described in Note IV.22.2 attached to these financial statements.

IV.39.1 Economic relations subject to legal proceedings

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

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

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

IV.40 Fair value measurement disclosures

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

The fair value of derivative transactions is HUF 1,326,883 thousand (previous year: HUF 49,050 thousand). These qualify as expert estimates built-up from observable inputs, therefore they are on Level 2 of the fair value hierarchy.

Name	12.31.2020	12.31.2019
Derivative assets (in hedge relationship)	1 326 883	49 050
Assets held for sale	-	-
Assets evaluated at fair value through profit and loss (FVTPL)	**1 326 883**	**49 050**
Liabilities from loan IRS Derivatives (for hedge)	698 411	827 582
Liabilities from derivatives (for hedge)	189 130	1 104 369
Liabilities evaluated at fair value through profit and loss (FVTPL)	**887 541**	**1 931 951**

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

The content of FVTPL financial instruments is as follows.

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

V Other information

V.1 Disclosure of interests in other entities

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

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

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

V.2 Events after the reporting date

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

January 31, 2021 The parent company of the Group began the transfer of 3,837 shares to the employees who have become eligible for them based on the recognition plan of the Company.

March 3, 2021 On this day, the Company as buyer and BorsodChem Zártkörűen Működő Részvénytársaság (registered office: H-3700 Kazincbarcika, Bolyai tér 1.; company registration number: 05-10-000054; hereinafter: “BorsodChem”) as buyer concluded a business share purchase contract (hereinafter: “Contract”) for the transfer of the ownership of a business share representing the entire issued capital of BC-Therm Energiatermelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-1131 Budapest, Babér utca 1-5; company registration number: 01-09-887812; hereinafter: “BC-Therm”) in the amount of HUF 98,000,000.

V.3 The auditor, the audit fee and non-audit services

The Accounting Act requires the Group to prepare consolidated financial statements, which, in accordance with Section 155 (2) of that Act, is to be mandatorily reviewed by the auditor. The chosen auditor of the Company is **BDO Magyarország Könyvvizsgáló Kft**. (chamber registration number: 002387), the person responsible for auditing is **Péter Kékesi**, chamber membership number: 007128.

The fee for auditing the unconsolidated financial statements and the IFRS consolidated financial statements is HUF 8,400,000 + VAT.

In the fiscal year 2020, the Company and its subsidiaries used non-audit services for a total of HUF 0 provided by **BDO Magyarország Könyvvizsgáló Kft**., as the auditor engaged to perform the audit of the annual financial statement of the Company, and other companies within the network of the auditor with prior written consent from the Company's Audit Committee in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

V.4 Approval of the disclosure of the financial statements

On March 26, 2021, the Board of Directors of the Group's parent company approved the disclosure of the financial statements in its current form.

Budapest, March 26, 2021

On behalf of ALTEO Nyrt.:

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

Annual Report of ALTEO Nyrt. and its subsidiaries for the 2020 financial year

Disclosure: March 26, 2021

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ALTEO Group’s Annual Report for 2020

Introduction

Pursuant to Act V of 2013 on the Civil Code (hereinafter: “**Civil Code**”), Act CXX of 2001 on the Capital Market, the Regulation of the Budapest Stock Exchange Ltd. on Regulations on Listing and Continued Trading (hereinafter: “**Regulation**”), Decree No. 24/2008 (VIII.15.) of the Minister of Finance (hereinafter: “**MF Decree**”), and Act C of 2000 on Accounting, ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (hereinafter: “**Company**” or “**ALTEO**”) has prepared and **hereby discloses *“The Management Report and Analysis” on the consolidated annual profit and the consolidated Annual Financial Statements for the Fiscal Year 2020*** (hereinafter collectively: “**Annual Report**”; the Company and the Presentation of consolidated entities according to the financial statements in Section 2.3 Presentation of consolidated entities according to the financial statements of this Report hereinafter: “**Subsidiaries**”; the Subsidiaries and the Company hereinafter collectively: “**Group**” or “**ALTEO Group**”). In view of the above, the Annual Report constitutes also a business report under Act C of 2000 on Accounting.

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

The data presented in the Company’s consolidated Annual Report and consolidated Annual Financial Statements for 2020 were verified by an independent auditor.

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

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

1 The Management's report and analysis of business activities for 2020

1.1 Management summary on main finance income for 2020

2020 presented humanity as a whole with an unexpected challenge: the global pandemic fundamentally impacted and changed our lives. In its response to the pandemic challenge, ALTEO focused on ensuring its ability to maintain the continuity of work and production. We achieved this primarily by protecting our employees as well as establishing and implementing the highest possible standards for work safety by fully taking pandemic regulations into account. As a Hungarian group company active in electricity and heat energy production, energy services and energy trading, ALTEO had some strengths it could draw on that help it in facing the hardships of the pandemic.

With our well-diversified portfolio, ALTEO's profitability was just moderately exposed to the economic downturn caused by the epidemic; while the decline mostly affected our retail divisions, our weather-dependent renewable power plant portfolio as well as our natural gas power plants controlled by our control center and our renewable power plants that are no longer subject to the state subsidy regime exceeded our expectations even during the pandemic, providing the majority of our profitability. Our consolidated profit figures show a two-digit increase in all relevant profit lines for 2020.

In the middle of the epidemic, in addition to a well-diversified activity and asset portfolio, ALTEO's robust financial position, active presence in the capital market and human resources at the Company delivering high professional added value also facilitated our economic resilience. ALTEO has been listed on the Budapest Stock Exchange since 2010. Over the last ten years, we had a public offering, raised our capital twice through private placement to institutional investors and completed a number of public and private bond issuances. ALTEO did not let 2020 go by without a capital market transaction either: after our success in 2019, we once again participated in the Bond Funding for Growth Scheme launched by the Central Bank of Hungary, raising over HUF 3.8 billion in long-term funding from the capital market in 2020. This further strengthened our balance sheet structure and provided funds to implement our growth strategy. We are also proud of the fact that ALTEO's bond rating was not changed by the international rating agency despite another bond issuance and our bonds continue to have one of the highest ratings among Hungarian corporate bonds.

Our investment activity was unaffected by the epidemic thanks in no small part to the effective pandemic safety measures implemented, and the aforementioned financial strength and stock market presence. In line with our strategy, we expanded our renewables power plant portfolio by 15 MW_e through the acquisition of a wind farm and also successfully implemented another 18 MW_e capacity expansion for our portfolio of natural gas power plants controlled by our control center. From a profitability improvement point of view, these transactions did not represent full year worth output in 2020; however, in 2021, we will be able to build on these capacities throughout the year. We intend to continue our investment program set out in our strategic plan in 2021. We also laid the foundation for this in 2020: we completed the reconstruction and modernization of our Gibárt hydropower plant, which also resulted in capacity expansion.

As a result of the above, we look forward to 2021 with increased strength and confidence. ALTEO continues to work on implementing its announced strategy, and our 2020 figures confirm that we are on the right track. We believe that this enables us to enjoy the trust and support of our shareholders and bondholders, which is a key priority of ALTEO's business efforts. Environmental and social sustainability continues to have a crucial role in our strategy. We want to set up our business management so that it complies with and follows the ESG principles (Environmental, Social and Corporate Governance) and thus we can be among the leading ESG-focused companies.

We hope that the world will overcome the pandemic in 2021, and we can return to our normal lives. We believe that, post-pandemic, ALTEO will remain one of the strong and successful companies that take responsibility for the world.

1.2 Management summary on finance income for 2020

In line with the 2020-2024 strategy presented in the fall of 2019, the implementation of the planned investment programs, the uncovering of potential investment and capital expenditure opportunities, restructuring serving as basis for other points of the strategy, as well as the implementation of required processes have all commenced. In this context, the capacity expansion of the power plant portfolio controlled by the ALTEO Control Center was implemented, with gas engines of a total electrical capacity of 18 MW installed in May and later in December within the framework of a nearly HUF 3 billion investment program. As a result, ALTEO increased its gas engine energy production capacity by one-third, transforming the control center into one of the largest in the country. In support of the control capacity and in order to maintain the existing district heating services, the district heating contract in Ózd was renewed for another 10 years in December.

The Waste Management business established in 2019, showed a dynamic growth. Additionally, in line with the approved strategy, Alteo has launched its electromobility (hereinafter "electromobility" or "e-mobility") business in the summer and its Renewable Production Management (RPM) business, offering commercial and production management services to typically weather-dependent electricity producers relying on renewable energy sources, in the fall.

In September, Scope Ratings confirmed the previous (BBB-) rating of ALTEO's bonds. ALTEO Group successfully participated in the second round of the **Bond Funding for Growth Scheme** (hereinafter: **"BGS 2"** or "**Bond Funding for Growth Scheme 2"**) launched by the Central Bank of Hungary. The bond issuance took place on October 6, with a total value of HUF 3.8 billion.

On October 15, ALTEO acquired 100% ownership of a 15 MW_e wind farm in the Bábolna region, thereby further expanding the scope of its renewable power plants, which at the same time is also its most crisis-resistant asset portfolio.

The over 100-year-old Gibárt Hydropower Plant has been renovated by ALTEO's Enterprise business and the renovation of the Sarpi Dorog Waste Incineration Plant was completed as well.

In 2020, both the revenue and EBITDA profit of the Group increased significantly. Revenue grew by 29%, while EBITDA increased by 46%. The growth achieved not only reflects the success in investment and acquisition activities, but **also an outstanding performance of the existing portfolio**. **In addition to the significant increase in EBITDA, Net Profit grew by 116%.**

The HUF 7 billion expansion in assets and liabilities presented in the Group's Consolidated Balance Sheet, was realized mainly in the non-current and long-term assets category. The considerable increase in the Group's balance sheet total of 19% reflects the realization of investment programs.

The outstanding performance of the Control Center controlled **Heat and Electricity Generation segment** on the electricity regulation market also contributed to the increase. The growth in the **Subsidized Energy Production** segment resulted from a combination of acquisitions and investments completed in 2019 and 2020, while the **Market Production** segment saw growth as a result of the outstanding performance in the Ancillary Services market and, in part, the 2020 investment program.

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

1.2.1 Management summary of the operating profit or loss statement

The comparative analysis of the Group's financial data for 2020 and 2019 as presented below. The comparability of the Group's profit with the previous period's data is limited, due to the acquisitions completed and the profit generation ability of the investments put into operation in 2020.

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

Comprehensive Income (Negative values are denoted by parentheses)	Note	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months	change HUF thousand 12 months
Revenues	**1.**	**32 981 301**	**25 573 350**	**7 407 951**
Material expenses	2.	(23 072 429)	(18 284 265)	(4 788 164)
Personnel expenses	3.	(3 770 040)	(3 078 261)	(691 779)
Depreciation and amortization	9.	(2 858 523)	(2 045 752)	(812 771)
Other revenues, expenses, net	4.	(1 228 018)	(804 281)	(423 737)
Capitalized own production	5.	512 226	292 494	219 732
Operating profit or loss		**2 564 517**	**1 653 285**	**911 232**
Finance income	6.	*479 576*	*271 602*	*207 974*
Financial expenses	6.	*(1 569 892)*	*(1 215 422)*	*(354 470)*
Net finance income	6.	(1 090 316)	(943 820)	(146 496)
Profit or loss before taxes		**1 474 201**	**709 465**	**764 736**
Income tax expenditures	7.	(883 660)	(435 834)	(447 826)
Net profit or loss		**590 541**	**273 631**	**316 910**
from which the owners of the Parent Company are entitled to:	20.	*586 663*	*270 717*	*315 946*
Of which the minority interest is entitled to:	20.	3 878	2 914	964
Base value of earnings per share (HUF/share)	34.	**31,48**	**15,18**	**16,30**
Diluted value of earnings per share (HUF/share)	34.	**30,26**	**14,57**	**15,69**
EBITDA		**5 512 091**	**3 779 180**	**1 732 911**

The Notes in the table refer to sections in Chapters IV and V of the ALTEO Group's 2020 IFRS accounts.

The Group's **Revenues** increased by HUF 7.4 billion to HUF 33 billion, as compared to 2019, spread across several segments. **Revenues from the Energy Retail segment and the Heat and Electricity Generation segment increased** significantly. The aforementioned effect was complemented by the annualized impact of the acquisition of a 25 MW_e wind farm in Bőny and the solar power plants in Nagykőrös and Balatonberény, both commissioned in 2019, along with the impact of the acquisition of the Bábolna wind turbine with an installed capacity of 15 MW_e in 2020, to be consolidated by the Company from October 1. Even the Energy Retail segment which was hit the hardest by the epidemic caused crisis, managed to increase its revenue.

Compared to revenues, **Material expenses** increased at a lower rate. The primary reason for this is that no significant additional direct costs are associated with the additional revenues raised in the structured electricity market, and the material costs of the acquired wind farms and commissioned solar power plants are low compared to their revenues. This effect is mitigated by the fact that, due to the crisis, the retail segment only managed to sell its positions with lower margins as compared to 2019.

The increase in **Personnel expenses** is mainly the result of accounting for the management share scheme included in the new remuneration policy published on 12/21/2020 as well as wage hikes.

The increase in costs in the line **Depreciation and amortization** was primarily caused by a substantial rise in the asset base resulting from capital expenditures and acquisitions realized.

The balance of **Other revenues, expenses, net** dropped by HUF 0.4 billion as compared to 2019. The change comes from three factors:

(1) The quota to be purchased by the Group for CO_2 emissions has increased substantially in line with outstanding performance of the Heat and Electricity Generation segment, and
(2) there was significant rise in the quota price during the period.

Owing to the above events, in 2020, the ALTEO Group was able to recognize a very significant operating profit increase compared to the base period: it earned an **Operating profit** of HUF 2.6 billion, which is a 55% increase, with an **EBITDA** of HUF 5.5 billion, which is a 46% growth compared to the base period.

The decline in **Net financial income** was caused by the increase in interest expenditure on the loan portfolio that grew as a result of intense investment activity, and euro positions being in the positive due to a higher exchange rate, partially offset by a provision for a loan granted by the Group.

Income tax expenses increased in parallel to the Group's profits.

In 2020, the **after-tax profit, i.e. net profit of the Group** was HUF 591 million representing a decrease of 116% over the comparative period.

1.2.2 Management summary on comprehensive income

Other comprehensive income (Negative values are denoted by parentheses)	Note	12/31/2020 HUF thousand 12 months	12/31/2019 HUF thousand 12 months	change % HUF thousand 12 months
Other comprehensive income (after income tax)		**2 114 292**	**(1 415 650)**	**3 529 942**
Effect of cash flow hedges on other comprehensive income	*20.*	3 234 593	(109 399)	3 343 992
Reclassification into profit or loss due to the closing of cash flow hedge	*20.*	(1 121 360)	(1 304 930)	183 570
Conversion reserve	*20.*	1 059	(1 321)	2 380
From which the owners of the Parent Company are entitled to:		2 114 292	(1 415 650)	3 529 942
From which the non-controlling interest is entitled to:		-	-	-
Comprehensive income		**2 704 833**	**(1 142 019)**	**3 846 852**

The Group recognized the **cumulative effects** (including deferred tax) **of the end-of-period revaluation of hedges** in other comprehensive income. As at December 31, 2020, the cumulative effect of the various hedges was a **change consisting in unrealized profit** in the value of HUF 1.4 billion.

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

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

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

1.3 Management summary on the performance of the segments

ALTEO GROUP MANAGEMENT STATEMENT - FINANCIAL STATEMENT BY ACTIVITIES							
12.31.2020 *data in HUF million*	Energy production (outside the subsidized system)	Electricity production (within the subsidized system)	Energy services	Energy trading	Other	Items eliminated due to consolidation	Total
Revenue	**14 179**	**3 585**	**10 747**	**11 998**	**455**	**(7 982)**	**32 981**
Material expenses	(9 966)	(669)	(7 795)	(11 616)	(595)	7 800	(22 841)
Personnel expenses	(208)	-	(2 416)	(101)	(955)	191	(3 489)
Other revenues and Other expenses	(1 072)	39	(95)	5	(8)	(9)	(1 139)
EBITDA*	**2 933**	**2 955**	**442**	**286**	**(1 103)**	**(1)**	**5 512**

** For the definition and calculation of EBITDA, see Section IV.33 Financial reports.*

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

This segment includes heating power plants performing combined heat and electricity generation, the Control Center and the wind turbines that are no longer subsidized (being excluded from KÁT, having produced their subsidized volumes). The Control Center is responsible for planning and managing the Group's market-based renewable electricity production, the electricity production by cogeneration equipment in heating power plants and the production by external partners connected to the Control Center. The Control Center also grants access to the Ancillary 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 production and sale of structured electricity products, greatly exceeds the levels that can be achieved by implementing conventional production strategies.

Since fall 2020, in addition to managing its own renewables-based electricity production portfolio, the ALTEO Group has provided comprehensive commercial and production management services to power plants operating on a market basis or in subsidized systems (KÁT, METÁR).

Heat and electricity production (market rate, outside the KÁT regime)					
data in HUF million	12.31.2020 non-audited	12.31.2019 Comparison	12.31.2019 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**14 179**	**11 699**	**11 699**	**2 480**	**21%**
Capitalized value of own production	60	20	-	41	207%
Material-type expenditures	(9 966)	(9 539)	(9 539)	(427)	4%
Personnel expenditures	(269)	(159)	(159)	(90)	50%
Other revenues and Other expenditures	(1 072)	(752)	(752)	(320)	43%
EBITDA*	**2 933**	**1 249**	**1 249**	**1 684**	**135%**

** For the definition and calculation of EBITDA, see Section IV.33 Financial reports.*

In 2020, the segment's revenue exceeded that of 2019 by 21%.

Production capacities in the segment were substantially expanded in 2020. This was the result of 6 gas engines that were commissioned in the current year under the Group's own gas engine investment program as well as more external partners being integrated into the Control Center. Renewable capacities in the segment that were previously integrated into the Control Center provided stable output.

In Q3 2020 ALTEO launched a smart, comprehensive and risk-free scheduling service to provide partners with a solution to the challenges faced by renewable energy producers. Revenues and profits from the new activity met expectations.

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 incurred by division responsible for the operation and maintenance of the power plant portfolio.

In 2020, the segment sold heat energy not only to district heating suppliers, but also to customers like AUDI, Heineken Hungária, Agria Park, etc.

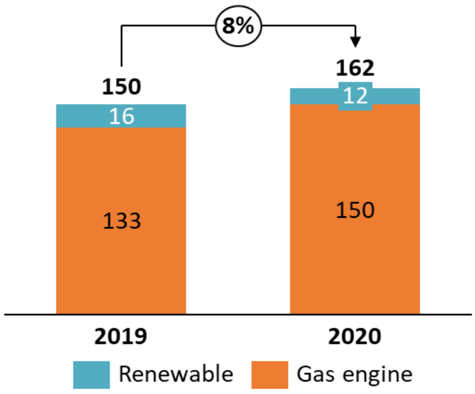
The segment's EBITDA for 2020 was HUF 2,933 million, a 135% increase over the figure in the previous period, primarily attributable to the following factors:

- The Control Center's margin on the balancing reserve market was outstanding in Q2 2020, while Q3 and Q4 2020 figures were also substantially higher year-on-year.
- This outstanding performance was a result of a combination of multiple factors, including both external and internal factors. Maintenance at major industry producers could not be performed as planned, probably due to COVID-19, while the demand side of the electricity market showed greater volatility. Presumably, it was partially due to these reasons that the capacity market exceeded expectations. One of the internal factors was that the gas engine capacity expansion investment project implemented in the current year resulted in an increase in the flexible electricity production capacity available to the Control Center to offer.
- The sales revenue of the FCR (formerly called primary) regulatory capacity produced by the electricity storage architecture also saw an increase compared to the previous period.
- Thanks to the hedging policy applied, the heat sales activity subject to price regulation still has no dominant negative impact on the segment's profitability.

1.3.1.1 Presentation of the markets of the heat and electricity segment

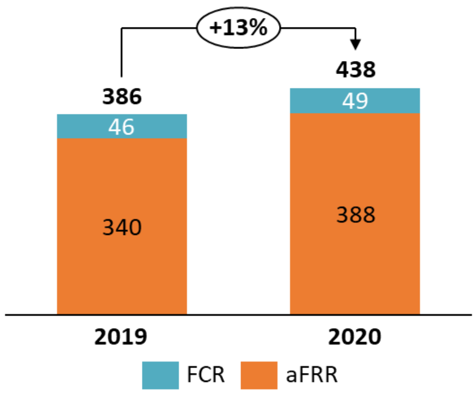
The impact of the sale of structured electricity products on the segment's profit

The **8% growth in own electricity generation** is primarily attributable to the additional volume of electricity produced with the total of 6 gas engines commissioned at two sites in 2020. The renewables production volume is highly exposed to weather conditions which were poor for production purposes compared to the previous year.



Self-generated electricity sold by the Control Center (GWh) in 2019 and 2020

Throughout 2020, balancing reserve capacity sold at a higher price in the Ancillary Services markets contributed significantly to the profits of the segment. The total quantity of the balancing reserve capacity sold in the aFRR (formerly called secondary) market exceeded the value of the base period by 13%.

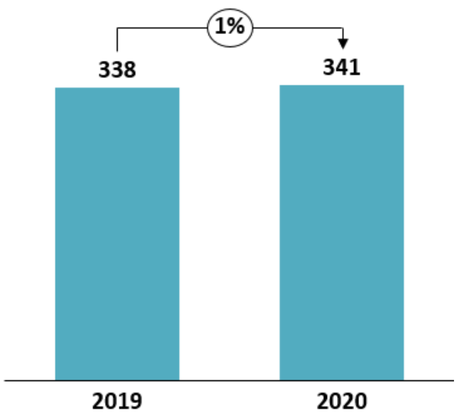


Electricity production capacities sold by the control center in 2019 and 2020 (aFRR: GWh; FCR: GWh_{sym})

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

The economic performance of the district heating subsegment under review was at a comparable level to that of the previous period.

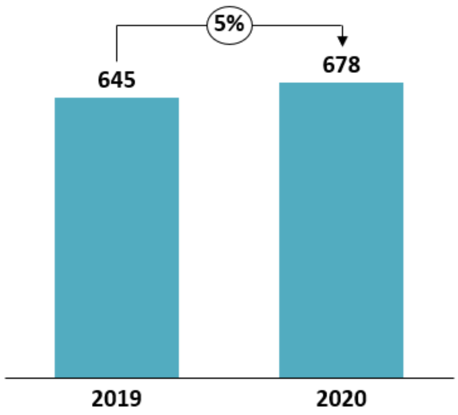
The **volume of heat energy produced by the segment increased by 1%** during the period. The 5% decrease in revenues realized from heat sales is due to the slightly higher heat production volume and the lower feed-in tariff set by the authorities. According to the hedging policy of the Group, the resources necessary for the production are hedged, thus ensuring low volatility of the subsegment margin.



Amount of heat sold by the segment (GWh) in 2019 and 2020

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

The amount of natural gas used by the segment **increased by 5%**, in accordance with the production output.



Amount of natural gas used by the segment (GWh_{GCV}) in 2019 and 2020

1.3.2 Electricity generation (within the "Subsidized"[1] system) segment

Electricity production recognized in this segment comprises renewable assets (solar, wind, hydro, landfill gas) used for production within the "KÁT" balancing group and under the METÁR subsidy regime. It is mainly made up of production by weather-dependent (wind, hydro, solar) power plants.

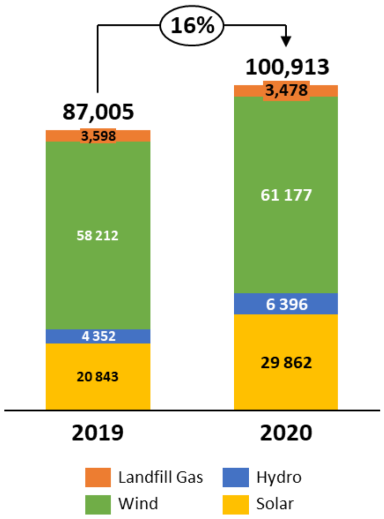
Electricity production (under the KÁT regime)					
data in HUF million	12.31.2020 non-audited	12.31.2019 Comparison	12.31.2019 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**3 585**	**2 362**	**2 362**	**1 223**	**52%**
Capitalized value of own production	-	-	-	-	0%
Material-type expenditures	(669)	(492)	(492)	(177)	36%
Personnel expenditures	(0)	-	-	(0)	0%
Other revenues and Other expenditures	39	34	34	5	14%
EBITDA*	**2 955**	**1 904**	**1 904**	**1 051**	**55%**

** For the definition and calculation of EBITDA, see Section IV.33 Financial reports.*

Revenue from the Group's **electricity production plants selling electricity within the subsidized system** was HUF 1,223 million higher than in 2019. A significant proportion of this increase in revenue is a result of the production by **EURO GREEN ENERGY Kft**., contributing to the segment's profits from April 2019. Revenue in 2020 was further increased by the acquisition of **Pannon Szélerőmű**, with its production included in the profits from October 2020. In addition, the **solar power plants in Balatonberény and Nagykőrös** completed in June and July 2019 were producing throughout 2020, significant boosting the segment's revenue. Besides the hydropower plant in Felsődobsza performing at record levels, the reconstructed and modernized **Gibárt hydropower plant** was restarted in October 2020, subsidized under the METÁR regime, selling the electricity it produces to Sinergy Energiakereskedő Kft.

[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.

Thanks to the high EBITDA rates in this segment, the EBITDA output of the segment increased by HUF 2,955 million in 2020. **As a consequence of the segment's cost structure, a significant portion of the increase in the revenue of the segment appears in the EBITDA.**



Quantities produced and their breakdown for 2019 and 2020 (MWh)

Following the capacity increase in 2019, the Group further expanded its renewable production (wind turbine) capacities by acquiring Pannon Szélerőmű Kft. in 2020. 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.

By integrating Pannon Szélerőmű into the portfolio, the Group increased its renewable production capacity by 15 MW_e in 2020. After the restart of the Gibárt hydropower plant, the total output of the power plants producing in the subsidized system reached 65 MW_e.

In 2020, breakdowns at the Törökszentmiklós power plant of e-Wind Kft. resulted in longer interruptions in production, with the pandemic situation making it even harder to perform repairs. Maintenance was completed by 2021, allowing the power plant to resume production from January.

On December 31, 2019, the period for a 0.64 MW landfill gas engine at Alteo-Depónia Kft. to produce under the subsidy regime expired; the most cost-efficient way to utilize and restart this project is currently being examined.

1.3.3 Energy Services segment

The Energy Services segment comprises power plant operation and maintenance (O&M) services provided both within the Group and to third parties as well as construction activity, engineering activity and energy consultancy, and also includes the Waste Management business launched in 2019 and the E-mobility business established in 2020.

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.

Third-party O&M services provided by this business are used by important industry players in the Hungarian industry (e.g. MOL Petrolkémia, BorsodChem, Budapest Power Plant, Heineken, AUDI, Gönyű Power Plant), where our core activity is to operate the critical infrastructure of these clients, ensuring close to 100% availability. We provide long-term services to our customers, and our contracts cover the complete range of the operational and maintenance tasks.

Our Internal O&M activity involves the operation, troubleshooting and maintenance of the facilities in our power plant portfolio to ensure high availability.

Energy and power engineering services					
data in HUF million	12.31.2020 non-audited	12.31.2019 Comparison	12.31.2019 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**10 747**	**9 558**	**9 558**	**1 188**	**12%**
Capitalized value of own production	43	-	-	(123)	(74%)
Material-type expenditures	(7 809)	(5 748)	(5 748)	(2 061)	36%
Personnel expenditures	(2 446)	(2 109)	(1 943)	(337)	16%
Other revenues and Other expenditures	(95)	(53)	(53)	(42)	79%
EBITDA*	**441**	**1 815**	**1 815**	**(1 374)**	**(76%)**

** For the definition and calculation of EBITDA, see Section IV.33 Financial reports.*

In 2019, the ALTEO Group's EBITDA for internal solar power plant construction projects undertaken for its own benefit stood at HUF 781 million. From 2020 on, profit or loss from internal construction projects are not recognized in this segment. This year, the EBITDA for the segment was HUF 441 million, corresponding to a decrease of HUF 593 million compared to 2019 with a view to the above adjustment.

A substantial part of the Project Development division's resources was dedicated to investment projects implemented in this segment (corresponding to own construction from a company perspective), with its consolidated EBITDA equaling to zero. Furthermore, in 2020, partially due to COVID-19, the number of investment projects implemented for external partners fell, reducing profitability.

In 2019, ALTEO realized a revenue of HUF 120 million from power plant operation and maintenance (O&M) services provided to third parties. This one-off effect was no longer present in 2020.

In Maintenance, profit from third-party jobs greatly exceeded those in 2019.

E-mobility

In 2020, the ALTEO Group launched its new business, E-mobility (also called Electromobility), to provide charging services for electric vehicles. This business, being newly established, did not generate any revenues this year; only costs were incurred as foreseen in the 2020 plans.

Waste management

On June 24, 2019, ALTEO Nyrt. became the majority shareholder of ECO-FIRST Kft. by acquiring a 66% stake. The performance of the business dynamically improved throughout 2020, as expected.

1.3.4 Energy retail segment

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

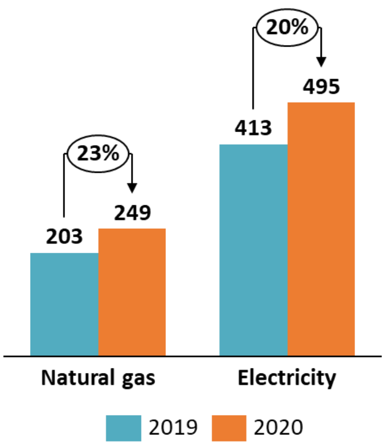
Retail energy trade					
data in HUF million	12.31.2020 non-audited	12.31.2019 Comparison	12.31.2019 audited	Change HUF million over previous year	Change % over previous year
Sales revenue	**11 998**	**9 901**	**9 901**	**2 096**	**21%**
Capitalized value of own production	-	-	-	-	0%
Material-type expenditures	(11 616)	(9 244)	(9 244)	(2 372)	26%
Personnel expenditures	(101)	(79)	(79)	(22)	28%
Other revenues and Other expenditures	5	6	6	(1)	(16%)
EBITDA*	**286**	**585**	**585**	**(299)**	**51%**

** For the definition and calculation of EBITDA, see Section IV.33 Financial reports.*

The current **COVID pandemic** had a strong impact primarily on retail energy trade. On account of the drop in consumption by customers due to the pandemic, pre-purchased electricity could only be sold on the prompt market with lower margins as compared to the previous year.

In 2020, the segment's revenues exceeded the performance of 2019 by 21%.

The portfolio expansion significantly boosted revenues, driving growth in both the electricity trading and the gas trade businesses.



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

The volume of electricity sold increased to 495 GWh (+20%), primarily as a result of sales made to LEGO MANUFACTURING Kft.

The amount of natural gas sold increased to 249 GWh (+23%), mainly due to the optimization of distribution system capacities and further portfolio expansion.

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

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

Owing to lower consumption due to the COVID-19 epidemic, penalties were collected from certain customers as a result of their failure to comply with contractual terms and conditions. At the same time, provisions for potentially non-paying customers were established more cautiously than in previous years due to the epidemic and the volatile economic situation.

An overall increase was realized in the volume and revenue of both natural gas and electricity sale transactions; however, total margins realized in the segment decreased owing to the electricity subsegment being hit the hardest by COVID. The reason for the decline in electricity margins was that shutdowns due to COVID caused a reduction in demand, forcing the unsold volume purchased in advance under our hedging policy to be sold on the prompt market at much lower prices. In contrast, there was a slight increase in gas margins, primarily due to fixed system usage fees.

The segment continues to show a profit, but its EBITDA increased by a total of HUF 299 million compared to the end of 2019.

1.3.5 Other segment

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

Other segments					
data in HUF million	**12.31.2020 non-audited**	**12.31.2019 Comparison**	**12.31.2019 audited**	**Change HUF million over previous year**	**Change % over previous year**
Sales revenue	**455**	**416**	**416**	**39**	**9%**
Capitalized value of own production	20	27	-	(8)	(28%)
Material-type expenditures	(615)	(563)	(563)	(52)	9%
Personnel expenditures	(955)	(861)	(834)	(94)	11%
Other revenues and Other expenditures	(8)	(11)	(11)	3	25%
EBITDA*	**(1 103)**	**(991)**	**(991)**	**(112)**	**(11%)**

** For the definition and calculation of EBITDA, see Section IV.33 Financial reports.*

The revenue realized by the Group's Other segment in 2020 changed mainly in line with the growth in the Group as a result of its expansion.

The profit or loss of the Group's Other segment is determined by revenues from management fees collected from Subsidiaries, costs of human resources performing administrative and other support functions, and other material costs necessary to perform functions. Personnel expenses in the segment were HUF 94 million higher compared to the previous year, mainly due to the Management Incentive Scheme published on 12/21/2020 as well as wage hikes and staff increases related to the increase in company size.

1.4 Management summary of the consolidated statement of financial position

The Group's balance sheet total shows a year-on-year increase of 19% (HUF 7.3 billion) from 2019 to 2020. Significant changes in the balance sheet structure are attributable to the following events:

Non-current assets increased by 28% (HUF 6.9 billion), with the change stemming from the following:

- ALTEO acquired 100% ownership of a 15 MW_e wind farm in the Bábolna region, thereby further expanding the scope of its renewable power plants, which at the same time is also its most crisis-resistant asset portfolio.
- Capacity expansion of the ALTEO Control Center was implemented under a HUF 3 billion investment program to install gas engines with a total electrical capacity of 18 MW_e.
- After the reconstruction of the over 100-year-old Gibárt Hydropower Plant by ALTEO's Enterprise business, the power plant was put into operation.

Current assets increased by 6% (HUF 0.4 billion), with the change stemming from the following:

- There was a significant change in other financial assets and cash as part of the change in **short-term assets**. The Company used the cash to purchase non-current assets and repay bonds that matured in September 2020.
- **Other financial assets** include HUF 0.2 billion in cash temporarily held until a bank guarantee was obtained. Furthermore, compared to the end of 2019, the balance of outstanding foreign currency derivatives at the end of 2020 shows receivables with a balance of HUF 1.3 billion (2019: HUF 0.05 billion) which is the reverse of the 2019 value in terms of both its amount and type;
- **Cash** closed with HUF 3.5 billion. The Group plans to use the cash for investments and capital expenditures. Changes in cash balance are presented on an item-by-item basis in the consolidated Cash Flow statement that forms part of the financial statements.

Long-term liabilities increased by 84% (HUF 6.1 billion), with the change stemming from:

- Scope Ratings has confirmed the previous (BBB-) rating of ALTEO's bonds and then, on October 6, ALTEO implemented a successfully completed a bond issuance under the Bond Funding for Growth Scheme of the Central Bank of Hungary, amounting to HUF 3.8 billion.
- With the acquisition of a wind farm in 2020, an asset financing loan (worth HUF 1.3 billion on the reporting date) taken out previously (prior to acquisition) by this farm was added to the Company's loan portfolio.
- Loans used to finance the reconstruction of the Gibárt hydropower plant are recognized as new credit worth HUF 0.7 billion on the reporting date.

Short-term liabilities decreased by 22% (HUF 1.6 billion), with the change stemming from:

- The bonds payable balance sheet line was reduced by HUF 2.15 billion, the value of the bonds issued by the Company that matured in September 2020 and were repaid in full.
- With the expansion of the Group's loan portfolio (acquired companies and new loans), short-term loans showed an increase along with loans payable within a year.
- Advances received were used.
- Trade payables were higher due to the growth of the Group; furthermore, FX-based trade items are different due to exchange rate changes.
- The values and signs of outstanding derivatives on the closing date at the end of the year typically showed receivables, with lesser liabilities amounting to HUF 0.2 billion (2019: HUF 1.1 billion).

Consolidated statement of financial position 2020

Statement of financial position - Assets (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand	change %	diff. Value	diff./ ratio to statement of financial position total
Non-current assets		**31 065 255**	**24 194 661**	***28%***	**6 870 594**	***94%***
Power plants and power generating properties, plants and equipment	9.	25 435 923	17 711 707	*44%*	7 724 216	*106%*
Other property, plant and equipment	9.	87 369	73 105	*20%*	14 264	*0%*
Other intangible assets	9.	3 037 269	3 492 357	*(13%)*	(455 088)	*(6%)*
Operation contract assets	9.	1 212 987	1 407 741	*(14%)*	(194 754)	*(3%)*
Rights of use	9.	1 063 615	924 768	*15%*	138 847	*2%*
Long-term lease assets	10.	-	104 376	*(100%)*	(104 376)	*(1%)*
Deferred tax assets	7.	132 811	286 856	*(54%)*	(154 045)	*(2%)*
Long-term loans given	11.	95 181	193 651	*(51%)*	(98 470)	*(1%)*
Long-term participation in associate	12.	100	100	*0%*	-	*0%*
Current assets and assets held for sale		**13 819 105**	**13 379 846**	***3%***	**439 259**	***6%***
Inventories	13.	442 622	233 165	*90%*	209 457	*3%*
Trade receivables	14.	3 263 224	2 919 836	*12%*	343 388	*5%*
Short-term lease assets	10.	128 949	160 814	*(20%)*	(31 865)	*(0%)*
Emission allowances	15.	843 488	342 100	*147%*	501 388	*7%*
Other financial assets	16.	1 697 162	360 987	*370%*	1 336 175	*18%*
Other receivables and accruals	17.	3 895 803	4 396 596	*(11%)*	(500 793)	*(7%)*
Income tax receivables	7.	92 812	118 677	*(22%)*	(25 865)	*(0%)*
Cash and cash equivalents	18.	3 455 045	4 847 671	*(29%)*	(1 392 626)	*(19%)*
TOTAL ASSETS		**44 884 360**	**37 574 507**	***19%***	**7 309 853**	***100%***

The Notes in the table refer to sections in Chapters IV and V of the ALTEO Group's 2020 IFRS accounts.

Statement of financial position - Liabilities (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2020 HUF thousand	Year ending on 12/31/2019 HUF thousand	change %	diff. Value	diff./ ratio to statement of financial position total
Equity		**8 547 657**	**5 749 884**	***49%***	**2 797 773**	***38%***
Equity attributable to the shareholders of the Parent Company		**8 539 892**	**5 753 810**	***48%***	**2 786 082**	***38%***
Issued capital	20.	232 972	232 948	*0%*	24	*0%*
Share premium	20.	5 185 343	5 056 207	*3%*	129 136	*2%*
Transactions with owners	20.	(223 259)	(192 534)	*16%*	(30 725)	*(0%)*
Share-based payments reserve	20.	62 819	68 398	*(8%)*	(5 579)	*(0%)*
Hedge reserve	20.	399 801	(1 713 432)	*(123%)*	2 113 233	*29%*
Conversion reserve	20.	-	(1 059)	*(100%)*	1 059	*0%*
Retained earnings	20.	2 882 216	2 303 282	*25%*	578 934	*8%*
Non-controlling interest	20.	7 765	(3 926)	*(298%)*	11 691	*0%*
Long-term liabilities		**27 905 833**	**21 758 606**	***28%***	**6 147 227**	***84%***
Debts on the issue of bonds	21.	14 889 000	10 909 019	*36%*	3 979 981	*54%*
Long-term loans and borrowings	22.	8 411 397	7 056 264	*19%*	1 355 133	*19%*
Finance lease liabilities	23.	1 047 406	917 122	*14%*	130 284	*2%*
Deferred tax liabilities	7.	866 550	599 716	*44%*	266 834	*4%*
Provisions	24.	850 493	568 680	*50%*	281 813	*4%*
Deferred income	25.	436 864	535 674	*(18%)*	(98 810)	*(1%)*
Other long-term liabilities	26.	1 404 123	1 172 131	*20%*	231 992	*3%*
Short-term liabilities		**8 430 870**	**10 066 017**	***(16%)***	**(1 635 147)**	***(22%)***
Short-term bond payables	21.	-	2 215 114	*(100%)*	(2 215 114)	*(30%)*
Short-term loans and borrowings	22.	929 693	463 165	*101%*	466 528	*6%*
Short-term finance lease liabilities	23.	154 912	108 555	*43%*	46 357	*1%*
Advances received	27.	46 500	497 963	*(91%)*	(451 463)	*(6%)*
Trade payables	28.	2 308 413	1 963 934	*18%*	344 479	*5%*
Other financial liabilities	29.	189 130	1 104 369	*(83%)*	(915 239)	*(13%)*
Other short-term liabilities and accruals	30.	4 522 992	3 654 710	*24%*	868 282	*12%*
Income tax liabilities	7.	279 230	58 207	*380%*	221 023	*3%*
TOTAL EQUITY and LIABILITIES		**44 884 360**	**37 574 507**	***19%***	**7 309 853**	***100%***

The Notes in the table refer to sections in Chapters IV and V of the ALTEO Group's 2020 IFRS accounts.

2 Annexes

2.1 The Company's details

The Company's name	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
The Company's abbreviated name	ALTEO Nyrt.
The Company's registered office	H-1131 Budapest, Babér u. 1-5.
The Company's telephone number	+36 1 236-8050
The Company's central electronic mailing address	info@alteo.hu
The Company's web address:	www.alteo.hu
The Company's place of registration, date of registration and company registration number	Budapest April 28, 2008 Cg.01-10-045985
The Company's tax number	14292615-2-41
The Company's EU VAT number	HU14292615
The Company's statistical code	14292615-7112-114-01.
Term of the Company's operation	indefinite
The Company's legal form	public limited company
Governing law	Hungarian
The Company's share capital	HUF 242,328,425
Date of the effective Articles of Association	May 21, 2020
The Company's core activity	Engineering activities and related technical consultancy
Fiscal year	same as the calendar year

Place of publication of notices	The Company discloses its notices regarding regulated information on its website www.alteo.hu, on the website of the BSE www.bet.hu and on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Company are also published in the Company Gazette.
ISIN code of the Shares	HU0000155726
Stock exchange listing	19,386,274 shares of the Company have been listed on the BSE in the "Premium" category.
Other securities	Bonds ALTEO 2022/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 650,000,000, issue value: 76.6963% of the face value; not listed. ISIN code: HU0000357405 ALTEO 2022/II: zero coupon bonds issued by private placement, with a maturity of 3 years, total face value: HUF 1,693,630,000, issue value: 88.9158% of the face value; listed on the BSE. ISIN code: HU0000359005 ALTEO NKP/2029: registered bonds with a fixed coupon rate, issued by private placement, having a face value of HUF 50,000,000 and 10 years maturity, total face value: HUF 8,600,000,000, its average selling price at auction was 102.5382% of face value, average yield: 2.8546%, listed on the BSE. ISIN code: HU0000359252 ALTEO2031: registered bonds with a fixed coupon rate, issued by public offering, having a face value of HUF 50,000,000 and a maturity of 11 years, total face value: HUF 3,800,000,000, its average selling price at auction was 102.9605% of face value, average yield: 2.1178%, listed on the BSE. ISIN code: HU000036003

The Company's Board of Directors	Attila László Chikán, Member of the Board of Directors entitled to hold the title of CEO Domonkos Kovács, Member of the Board of Directors, Deputy CEO, M&A and Capital Markets Gyula Zoltán Mező, Chairman of the Board of Directors Zsolt Müllner, Member of the Board of Directors Ferenc Karvalits, Member of the Board of Directors
The Company's Supervisory Board	István Zsigmond Bakács, Chairman of the Supervisory Board Dr István Borbíró, Member of the Supervisory Board Péter Jancsó, Member of the Supervisory Board Dr János Lukács, Member of the Supervisory Board Attila Gyula, Member of the Supervisory Board
The Company's Audit Committee	István Zsigmond Bakács, Chairman of the Audit Committee Dr István Borbíró, Member of the Audit Committee Dr János Lukács, Member of the Audit Committee
The Company's Auditor	Currently, the auditor of the Company is BDO Magyarország Könyvvizsgáló Korlátolt Felelősségű Társaság (registered office: H-1103 Budapest, Kőér utca 2/A. C. ép., company registration number: 01-09-867785, registration number with the Chamber of Hungarian Auditors: 002387). The auditor personally responsible for auditing the Company is Péter Krisztián Kékesi, registration number: 007128. The mandate of the auditor is from April 30, 2020 to the date of the adoption of the General Meeting's resolution approving the financial statements of the fiscal year ending on December 31, 2022 but to May 31, 2023 the latest.
Shareholder of the Company with a share exceeding 5%	WALLIS ASSET MANAGEMENT Zrt.

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

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

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

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

2.2.2 Limitation of voting rights related to the shares

Pursuant to Section 9.8 of the Articles of Association of the Company, a shareholder or holder of voting rights (hereinafter, for the purposes of this section: "**shareholder**") is required, when notifying a change in their voting rights as defined in Article 61 of Act CXX of 2001 on the Capital Market ("**Capital Market Act**"), to submit a written declaration to the Board of Directors concerning the composition of the shareholder group and the nature of the relationship between the members of such shareholder group, taking into account Section 61(5) and (9) of the Capital Market Act. Such notification obligation applies to shareholders only if there has been a change in the shareholder group since the publication of the previous notice. In the event of failure to provide notification or full notification regarding the composition of the shareholder group as required in the previous sentence, or where the acquisition of control is subject to a regulatory approval or acknowledgement, which the shareholder had failed to obtain, or if there is reason to assume that the shareholder has deceived the Board of Directors concerning the composition of the shareholder group, the voting right of the shareholder will be suspended by the decision of the Board of Directors at any time even after its entry into the share register, and may not be exercised until the above requirement has been fully satisfied. Furthermore, at the request of the Board of Directors, shareholders are required to promptly make a statement specifying who the ultimate beneficial owner with respect to the shares owned, or the beneficial owner of the shareholder is. If the shareholder fails to act upon such request or if there is reason to assume that the shareholder has deceived the Board of Directors, the voting right of the shareholder is suspended and may not be exercised until the above requirements have been fully satisfied. For the purposes of this section, "shareholder group" means, with respect to a particular shareholder, such shareholder and the persons specified in Section 61(5) and (9) of the Capital Market Act, whose voting rights related to their share must be regarded as the voting rights of the shareholder concerned. For the purposes of this Article, "beneficial owner" means the person specified in Section 3(38) of Act LIII of 2017 on the Prevention and Combating of Money Laundering and Terrorist Financing.

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

2.2.3 Presentation of investors with a significant share

The majority shareholder of ALTEO is WALLIS ASSET MANAGEMENT Zártkörűen Működő Részvénytársaság (registered office: H-1055 Budapest, Honvéd utca 20, company registration number: 01-10-046529). The Group's ultimate parent company as at 31 December 2020 was WALLIS PORTFOLIÓ Korlátolt Felelősségű Társaság (registered office: H-1055 Budapest, Honvéd utca 20, company registration number: 01-09-925865). The shareholders of this entity are all private individuals.

Ownership structure of the parent company (ALTEO Nyrt.) based on the share register as at December 31, 2020.

Present shareholders of the Company based on the share register on 12/31/2020	Face value (HUF thousand)		Ownership ratio (%)	
	2020	2019	2020	2019
Wallis Asset Management Zrt. and its subsidiaries	154 789	154 789	63,88%	63,88%
Members of the Board of Directors, the Supervisory Board and the Executive Board*	7 716	7 553	3,18%	3,12%
Own shares**	9 357	9 380	3,86%	3,87%
Free float	70 467	70 606	29,08%	29,13%
TOTAL	**232 972**	**232 948**	**100,00%**	**100,00%**

* Including the property of direct relatives and controlled companies as well
** Excluded from the face value in circulation

The publicly issued shares of the Company are registered at the Budapest Stock Exchange; the closing exchange rate of the shares on the last trading day of 2019 (on December 30) was HUF 930, which is 10% higher than the same value in the last year (HUF 844). The annual turnover was HUF 1.688 billion.

2.2.4 Powers of senior executives

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

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

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

Without specific authorization from the General Meeting, the Board of Directors may not make any decision on issuing shares.

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

Acting within the competence of the General Meeting, the Board of Directors adopted Resolution No. 12/2020. (IV.30.) to provide the Board of Directors with an authorization for a period of 18 (eighteen) months starting on April 30, 2020, to adopt resolutions on the acquisition by the Company of the ownership of shares of all types and classes and of any face value, issued by the Company – supported by at least three quarters of the votes that can be cast by the members of the Board of Directors – and to enter into and perform such transactions for and on behalf of the Company, or to engage a third party for the conclusion of such transactions. The number of shares that can be acquired based on the authorization is equal to a number of shares with a total face value of no more than twenty-five per cent of the share capital, and the total face value of own shares owned by the Company may not exceed this rate at any time. The own shares can be acquired for or without consideration, on the stock market and through public offering or – unless the possibility is excluded by the law – in over-the-counter trading. In the event of acquiring own shares for consideration, the lowest amount of the consideration payable for a share should be HUF 1 (one forint), and the highest amount should be HUF 1,500 (one thousand five hundred forints). The authorization hereof shall also cover share purchases by the Company's subsidiaries in such a way that the Company may authorize or order the management of any subsidiary of the Company by means of resolutions of the members or shareholders (resolutions adopted by the members' meeting or the general meeting) to acquire the shares issued by the Company according to a resolution adopted by the Board of Directors under the above authorization. The authorization of the General Meeting will expire on October 30, 2021; the Board of Directors has initiated its extension by an additional eighteen months.

2.3 Presentation of consolidated entities according to the financial statements

Subsidiaries mean the following companies:

Name of Subsidiary, 12/31/2020 (for information on changes, see footnote numbers)	Activity	Rate of influence		
		12/31/2020	6/30/2020	12/31/2019
ALTE-A Kft.	property management	100%	100%	100%
ALTEO Deutschland GmbH, being wound up	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-Depónia Kft.	electricity production	100%	100%	100%
ALTE-GO Kft.	electricity production	100%	100%	100%
ALTEO-Therm Kft.	electricity production, heat energy production	100%	100%	100%
BC-Therm Kft.	steam supply, air conditioning, heat energy production	100%	100%	100%
Domaszék 2MW Kft.	electricity production (solar power plant)	100%	100%	100%
ECO-FIRST Kft.	treatment and disposal of non-hazardous waste	66.67%	66.67%	66.67%
EURO GREEN ENERGY Kft.	electricity production (wind turbine)	100%	100%	100%
e-Wind Kft.	electricity production (wind turbine)	100%	100%	100%
F.SZ. ENERGIA Kft. (1)	electricity production (solar power plant)	100%	100%	100%
HIDROGÁZ Kft	electricity production, hydrogas utilization	100%	100%	100%
IT-Solar Kft. (3)	electricity production (solar power plant)	100%	100%	100%
Kazinc-BioEnergy Kft	steam supply, air conditioning	100%	100%	100%
Monsolar Kft	electricity production (solar power plant)	100%	100%	100%
Pannon Szélerőmű Kft	electricity production (wind turbine)	100%	na	na
Péberény Kft. (1)	electricity production (solar power plant)	100%	100%	100%
Sinergy Energiakereskedő Kft.	electricity trading	100%	100%	100%
Sinergy Kft.	steam supply, air conditioning, electricity production	100%	100%	100%
SUNTEO Kft. (2)	electricity trading, electricity production	100%	100%	100%
Tisza BioTerm Kft. (4)	steam supply, air conditioning	100%	100%	60%
Tisza-BioEnergy Kft.	steam supply, air conditioning	100%	100%	100%
Tisza-WTP Kft.	water collection, treatment and supply	100%	100%	100%
True Energy Kft. (1)	electricity production (solar power plant)	100%	100%	100%
WINDEO Kft.	electricity production (wind turbine)	100%	100%	100%

(1) Dissolved by succession as of September 30, 2020 (date of legal succession: October 1, 2020). Details of the event with company law relevance are described in the footnote to SUNTEO Kft. and Section 2.5.2 of this Annual Report.

(2) On September 30, 2020, (i) F.SZ. ENERGIA Kft., (ii) Péberény Kft., (iii) True Energy Kft. merged into SUNTEO Kft. as general legal successor (date of legal succession: October 1, 2020). Details of the event with company law relevance are described in Section 2.5.2 of this Annual Report.

(3) Dissolved by succession as of September 30, 2020 (date of legal succession: October 1, 2020), merged into Monsolar Kft. as general legal successor. Details of the event with company law relevance are described in Section 2.5.2 of this Annual Report.
(4) 100% owned by the Company as of May 18, 2020.
(5) Owned by the Company as of October 15, 2020.

2.4 Changes in the structure of the Group

In 2020, the Group made the following key acquisitions:

- Acquisition of 100% of the issued capital of ***Pannon Szélerőmű Kft.***
- Acquisition of 40% of the issued capital of ***Tisza BioTerm Kft.***
- Direct acquisition of the share of ***EURO GREEN ENERGY Kft.***

Changes in subsidiaries and associated companies

Acquisition of Pannon Szélerőmű Kft. (Bábolna wind farm)

ALTEO Nyrt. as buyer concluded a business share purchase contract with EIH Termelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-9023 Győr, Körkemence utca 8. II. em. 36.; company registration number: 08-09-014038) as seller for the transfer of a business share representing the entire issued capital (HUF 1,153,000,000) of Pannon Szélerőmű Kft. With the so-called closing conditions specified in the business share purchase contract fulfilled, the ownership of Pannon Szélerőmű Kft's business share was transferred to the Company as of October 15, 2020. However, in view of the small power plant consolidated permit of Pannon Szélerőmű Kft., and in line with Section 93(1) and Section 95(3) of the Electricity Act, the Company only exercises some of its membership rights with regard to Pannon Szélerőmű Kft. in possession of HEPURA's resolution taking note of the acquisition of control ex post, as of November 24, 2020.

Pannon Szélerőmű Kft. owns and operates a wind farm near Bábolna consisting of 7 wind turbines and providing an electrical capacity of 15 MW. The electricity produced at this wind farm is sold through the mandatory offtake system (KÁT); the KÁT eligibility expires on July 31, 2025.

Acquisition of Tisza BioTerm Kft.

On May 18, 2020, ALTEO Nyrt. became the 100% sole owner of Tisza BioTerm Kft., where it previously held a 60% stake.

Direct acquisition of the share of EURO GREEN ENERGY Kft.

In H1 2020, the Company acquired the 100% indirect share in its so-called sub-subsidiary, EURO GREEN ENERGY Kft. As a result of the transaction, the subsidiary passed into the direct ownership of the Company.

2.5 Presentation of significant results and events of the Company and its Subsidiaries between January 1, 2020 and the date of disclosure of this Annual Report, as well as future prospects

With respect to the 2020 fiscal year, it is worth highlighting the changes and events that occurred during the period in relation to the following companies within the Group.

2.5.1 Events at the Company relevant in terms of company law

Due to the COVID-19 pandemic, the Company's Board of Directors adopted resolutions on matters within the competence of the General Meeting throughout 2020. Shareholders did not call for the General Meeting to be convened in order to subsequently approve the resolutions adopted by the Board of Directors within the competence of the General Meeting within the limitation period set in Government Decree No. 102/2020 (IV. 10.) on deviating provisions for the operation of partnerships and corporations in a state of danger applicable to the Board of Directors acting within this competence; therefore, such resolutions are considered adopted. These resolutions include the following:

a) The Board of Directors **approved the statement of financial position** proposed by the Company's auditor regarding the Company's fiscal year ending on December 31, 2019, along with the separate financial statement, the business (annual) report and the report of the Board of Directors 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 Board of Directors **approved** the statement of financial position proposed by the Company's auditor regarding the Company's fiscal year ending on December 31, 2019 and the **consolidated financial statement**, the business (annual) report and the report of the Board of Directors 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 Board of Directors **adopted** the **corporate governance report** relating to the Company's 2019 operations with the proposed content.

d) The Board of Directors resolved **not to pay dividends** from the Company's available retained earnings, in order to alleviate the potential economic effects of the epidemic related to the COVID-19 virus.

e) The Board of Directors 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.

f) The Board of Directors **re-elected the current members to the Supervisory Board** with the exception of Noah M. Steinberg (i.e. István Zsigmond Bakács, Péter Jancsó, dr. István Borbíró and Dr. János Lukács) and elected Attila Gyula Sütő as the delegate of ALTEO Nyrt.'s Works Council for the period from April 30, 2020 to April 30, 2025. Furthermore, the Board of Directors elected István Zsigmond Bakács as Chairman of the Supervisory Board.

g) The Board of Directors **re-elected the current members to the Audit Committee** (i.e. István Zsigmond Bakács, dr. István Borbíró and Dr. János Lukács) and elected István Zsigmond Bakács as the Chairman of the Audit Committee.

h) The Board of Directors **re-elected the current members of the Board of Directors** (i.e. Attila László Chikán, Gyula Zoltán Mező, Domonkos Kovács, Zsolt Müllner and Ferenc Karvalits) for the period from April 30, 2020 to April 30, 2025.

i) In line with the content of the submission and the recommendation from the Audit Committee, the Board of Directors appointed **BDO Magyarország Könyvvizsgáló Korlátolt Felelősségű Társaság** (registered office: H-1103 Budapest, Kőér utca 2/A. C. ép.; company registration number: 01-09-867785; registration number with the Chamber of Hungarian Auditors: 002387) **as the Company's permanent auditor** starting from April 30, 2020 and ending with the date of the adoption of the General Meeting's resolution on the report, prepared in accordance with the Accounting Act, for the fiscal year ending on December 31, 2022, but no later than May 31, 2023, for a total remuneration of HUF 33,450,000 + VAT for a three-year period. The person personally responsible for auditing is Péter Krisztián Kékesi.

j) The Board of Directors **adopted the remuneration policy** for the Company.

k) The Board of Directors has taken note of and accepted the information provided by the Board of Directors regarding **own share transactions.**

l) The Board of Directors **decided** to extend the **authorization** given to the Board of Directors regarding **own share transactions** for eighteen months from April 30, 2020.

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

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

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

Name of subsidiary:	Amount of dividend:
ALTE-A Kft.	HUF 8,560,000
BC-Therm Kft.	HUF 42,762,000
EURO GREEN ENERGY Kft.	HUF 250,000,000

As of March 26, 2020, 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 2019, has taken note of the auditor's report and, furthermore, in case of the following Subsidiaries, the Company decided to pay dividend.

On April 30, 2020, the Company, as the sole member of the Subsidiaries, and, in the case of Tisza BioTerm Kft., the members' meeting, appointed the Subsidiaries' auditor (BDO Magyarország Könyvvizsgáló Kft. and UNIKONTO Kft.).

On April 30, 2020, the Company adopted a decision on the reduction of the initial capital of **BC-Therm Kft**. from HUF 181 million to HUF 98 million, with a view to disinvestment.

On December 31, 2019, the ALTEO Group's **district heating subsidiaries merged** as follows: ALTEO-Agria Kft., Kazinc-Therm Kft., Ózdi Erőmű Kft., Tisza-Therm Kft., Soproni Erőmű Kft. and Zugló-Therm Kft. merged into Győri Erőmű Kft. as general legal successor pursuant to Section 3:44 of the Civil Code (date of legal succession: January 1, 2020). As of January 1, 2020, Győri Erőmű Kft. operates under the name ALTEO-Therm Hő- és Villamosenergia-termelő Korlátolt Felelősségű Társaság.

On September 30, 2020, **certain subsidiaries operating photovoltaic power plants** of the ALTEO Group merged by absorption as follows: (i) F.SZ. ENERGIA Kft., True Energy Kft. and Péberény Kft. merged into SUNTEO Kft.; (ii) IT-Solar Kft. merged into Monsolar Kft. (date of legal succession: October 1, 2020).

The Company decided on the **voluntary winding-up of ALTEO Deutschland GmbH**, its subsidiary in Germany. Proceedings are currently ongoing, with voluntary winding up requiring about a year from its launch to complete.

2.5.3 Own securities issued by the Company

2.5.3.1 Cancellation of bill of exchange

The bill of exchange issued by the Company in the amount of HUF 700 million in relation to the transaction for the acquisition of the business share in EURO GREEN ENERGY Kft. was cancelled the by Company in January 2020 as the instalment of the purchase price secured by the bill of exchange had been paid in accordance with the contract.

2.5.3.2 NKP/2029 capital market listing

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

2.5.3.3 ALTEO 2020/I bond transaction

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

2.5.3.4 Annual review of the credit rating

Scope Ratings GmbH carried out the annual review of the credit rating of the Company's bonds issued as part of the Bond Funding for Growth Scheme, as a result of which last year's credit rating was maintained, in other words bond rating was confirmed at BBB-.

2.5.3.5 Participation in the MNB Bond Scheme

On August 19, 2020 the Company issued a special notice regarding its intention to issue bonds once again under the Bond Funding for Growth Scheme launched by the Central Bank of Hungary. The purpose of the bond issue is to finance the strategy aimed at accomplishing a HUF 20 billion investment volume (as announced last year) through a preferential interest bond in the interest of the optimization of cost of capital. In its communication, the Company described the size of the issuance and other conditions related to the planned issuance.

In connection with this, on October 6, 2020, the Company placed on the market in a successful bond auction registered bonds, with HUF 50,000,000 face value each, a fixed coupon rate, maturity of 11 years, designated as ALTEO2031, with a total face value of HUF 3.8 billion.

2.5.3.6 Credit rating

Scope Ratings GmbH carried out the credit rating of the Company's bonds issued under the Bond Funding for Growth Scheme in fall 2020, expecting the issuance of bonds worth up to HUF 3-4 billion in total; the resulting rating was BBB-, four grades above the minimum required by the Central Bank of Hungary.

2.5.3.7 Maturity of the bonds

The bonds designated as ALTEO 2020/I (ISIN code: HU0000357603), issued by the Company in a total amount of HUF 2,150,000,000, that is, two billion one hundred and fifty million forints on March 30, 2017, matured on September 30, 2020. The Company fulfilled all of its financial obligations towards bondholders.

2.5.4 Publication of an Integrated Report

The Company published its Integrated Report for 2019 on May 13, 2020.

2.5.5 Personal changes in senior management

Based on the appointment made by CEO Attila László Chikán, as of July 8, 2020, former Energy Production Director Viktor Varga continues as Deputy CEO for Energy Production and Services, while former Director for Wholesale and Control Center Management Péter Luczay serves as Deputy CEO for Production and Risk Management, both responsible for the operation of their respective areas in these positions from this date on.

2.5.6 Performance enhancing investment of the Gibárt Hydropower Plant

In August 2019, the Company commenced its performance enhancing investment of the Gibárt Hydropower Plant. As a result of the HUF 1.1 billion investment, the technical delivery of the power plant with enhanced performance took place in December 2020.

2.5.7 Gas engine capacity expansion

In line with the new strategy adopted in the fall of 2019, the Company aims to expand the supply side of the domestic balancing energy market. In this context, as the first step, in May 2020, 3 gas engines with a total capacity of 9 MW_e were put into operation at ALTEO's Tiszaújváros and Győr sites. In the next stage of the project, 3 additional gas engines with a total electrical capacity of 9 MW were installed, resulting in a 33% expansion in ALTEO's gas engine energy production capacities by the end of the program and transforming the control center into one of the largest in the country.

2.5.8 Commercial and production management services (RPM)

In its communication published on September 22, 2020, the Company announced its future intentions to provide scheduling and production management services to its partners commercially, on a larger scale; such services will be performed by Sinergy Energiakereskedő Kft., the Company's subsidiary. As part of this service, Sinergy Energiakereskedő Kft. provides commercial and production management services, for a fixed fee, to KÁT/METÁR-eligible or free-market weather-dependent electricity producers and to power plants in test run phase. Furthermore, Sinergy Energiakereskedő Kft. also offers other related management and administrative services (such as regulatory reporting, system operator's administration).

2.5.9 Launch of a new division 2020

In October 2020, the ALTEO Group launched its E-mobility division, set up as its subsidiary, ALTE-GO Kft. The purpose of founding this new division is to further strengthen ALTEO's presence in the waste energy market and taking a position, in line with the Company's strategy, in e-mobility, building on the other interests (real estate, car/mobility companies) of the majority shareholder group (Wallis's) which operated according to business models that include leveraging opportunities presented by e-mobility services.

2.5.10 Own share transactions

Under the Company's employee share award program, the Company distributed 1,878 ALTEO ordinary shares in January 2020 (through a transfer dated January 31, 2020) and 3,837 ALTEO ordinary shares in January 2021 (through a transfer dated January 29, 2021) to employees who were eligible under the Company's recognition plan.

On September 21, 2020, the Company repurchased 24,000 ALTEO ordinary shares, purchased under Section 2.5.11, from the ALTEO ESOP Organization at a purchase price of HUF 826 per share.

Subsequently, on December 16, 2020, the Company repurchased 12,128 ALTEO ordinary shares, purchased under Section 2.5.11, from the ALTEO ESOP Organization at a purchase price of HUF 936 per share.

2.5.11 Exercise of ESOP option rights

On September 21, 2020, ALTEO's Employee Share Ownership Program Organization (hereinafter: **"ALTEO ESOP Organization"**), described in the Company's communication dated March 14, 2017, exercised its option right in accordance with the terms and conditions of its Remuneration Policy published on the same day in respect of 24,000 ALTEO ordinary shares (ISIN: HU0000155726) at a purchase price of HUF 475 per share.

On December 16, 2020, the ALTEO ESOP Organization exercised its option right in accordance with the terms and conditions of its Remuneration Policy in respect of 12,128 ALTEO ordinary shares at a purchase price of HUF 475 per share.

2.5.12 ALTEO ESOP Organization Remuneration Policy

On December 21, 2020, the founder of the ALTEO ESOP Organization adopted the 2020 Remuneration Policy.

2.5.13 Long-term trade and business agreements

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

ALTEO-Therm Kft., operated by ALTEO as a sole member, and Ózdi Távhőtermelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-3600 Ózd, Zrínyi út 3.; company registration number: Cg. 05-09-004801; tax number: 11387891-2-05; hereinafter: "**Ózdi Távhő**") renewed their long-term heat supply contract signed on May 18, 2005, in effect until December 31, 2020, as well as other contracts related thereto. Pursuant to the newly signed contracts, in accordance with the terms and conditions therein, ALTEO-Therm Kft. will supply Ózdi Távhő with heat until December 31, 2030.

Financing agreements

Members of the ALTEO Group **did not conclude any new financing agreements** with Hungarian financial institutions to finance their activities in 2020. The details of existing financing agreements and financing agreements amended in 2020 due to specific circumstances (including, for example, the merger of certain subsidiaries operating photovoltaic power plants) are included in the Annual Report.

With regard to the acquisition of Pannon Szélerőmű Kft., the financing agreement previously concluded by Pannon Szélerőmű Kft., along with the related collateral agreements, are recognized for Pannon Szélerőmű Kft. and the ALTEO Group:

Company	Designation of the collateral
Pannon Szélerőmű Kft.	mortgage on a business share, mortgage on movable property, lien on receivables, surety and lien on bank accounts

2.5.14 Use of non-audit services

In 2020, the ALTEO Group did not use any audit services provided by BDO Magyarország Könyvvizsgáló Kft.

2.5.15 Presentation of ongoing litigations

Sinergy Energiakereskedő Kft.

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

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

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

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

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

2.6.1 Own share transactions

Under the Company's employee share award program, the Company distributed 3,837 ALTEO ordinary shares in January 2021 (through a transfer dated January 29, 2021) to employees who were eligible under the Company's recognition plan.

2.6.2 Sale of business share

On March 3, 2021, the Company as seller and BorsodChem Zártkörűen Működő Részvénytársaság (registered office: H-3700 Kazincbarcika, Bolyai tér 1.; company registration number: 05-10-000054; hereinafter: "**BorsodChem**") as buyer concluded a business share sale and purchase contract for the transfer of the ownership of a business share representing the entire issued capital of BC-Therm Energiatermelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-1131 Budapest, Babér utca 1-5; company registration number: 01-09-887812) in the amount of HUF 98,000,000.

By signing the sale and purchase contract, the parties discharged their obligations arising from the long-term heat supply and capacity utilization contract they had previously concluded, where BorsodChem undertook to purchase the business share in BC-Therm Kft. by the date set out therein.

The ownership of the business share representing 100% of the issued capital of BC-Therm Kft. will only be transferred to the new owner, BorsodChem, upon compliance with the so-called closing conditions specified in the purchase contract.

The concluded sale and purchase contract is without prejudice to the operation and maintenance activities pursued by the Company at BorsodChem's site; ALTEO will continue to operate and maintain the boiler plant.

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

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

The Prospectus is available at the following link:

https://www.bet.hu/newkibdata/128509243/2020%20Information%20memorandum%20XBond_final_20201201_published_en.pdf

Risks – changes in the description or assessment of risks

The description and assessment of risks are included in Section III.2 Risks of the Financial Statements.

2.7.1 The following items concerning risks changed:

Risk categories:
A/ Macroeconomic and legal system related risk factors
B/ Risks specific to the market and the industry
C/ Risks specific to the ALTEO Group

Risk ratings (table):

type	number	Risk	2020	2019	change
C	19	Political risks	medium	high	yes
C	20	Dependence on weather	high	high	yes
C	44	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)	low	low	yes

Type of changes:

Change in classification on the value scale: Item 19
Updating and clarification of text and wording in Items 20 and 44
The description and assessment of risks are included in Section III.2 Risks of the Financial Statements.

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

2.8.1 Environmental guidelines

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

Our Integrated Management System, which includes the standards ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems, ISO 45001:2018 Health & Safety Management System and ISO 50001:2018 Energy Management Systems, has been extended to apply to the entire ALTEO Group. The Integrated Management Policy (publicly available at https://alteo.hu/wp-content/uploads/2020/11/alteo_integralt_politika.pdf) is the fundamental document for this system, in which the company's management commits itself to providing quality services, safe work environment, energy efficiency, environmental protection and sustainability.

In 2020, we ensured our compliance with the standards by conducting 36 internal audits covering the operation of the Integrated Management System in compliance with all four standards at all of our sites and organizational units.

In 2020, 4 HSE-type inspections were carried out by various authorities, and no objections were logged.

A separate document, the Integrated Report 2020, will describe our environmental policies and the associated results in detail.

2.8.2 Respect for human rights, ethics

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

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

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

Fundamental rights in practice

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

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

We take individual preferences into account when setting working hours and work procedures, and provide solutions to any issues that may arise. We adapt to new challenges and have introduced flexible working arrangements.

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

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

Salaries and fringe benefits are reviewed on a yearly basis; and, upon the proposals of the Works Council, the management has introduced changes on several issues.

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

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

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

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

2.8.3 Policies applied in connection with the fight against corruption

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

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

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

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

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

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

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

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

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

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

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

2019 RISKS MAP – Corruption index

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

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

2.8.4 Employment policy

The employment policy of the ALTEO Group continues to focus on the retention, motivation and development of existing employees and, at the same time, on the selection and integration of new ones. We create an effective teamwork culture: we consider developing an innovative corporate culture and establishing standards of behavior key strategic objectives.

The Group believes that the loyalty and motivation of their employees are founded on the stable workplace, good working conditions, complex tasks and competitive wages provided by the Group. The physical safety of our employees always comes first; we focus on their long-term commitment, assess their wellbeing through different measurements and forums, and make efforts to maintain a partner like relationship with the Works Council.

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

At the end of 2020, the closing workforce headcount was 278, which is 24 more than in 2019; there were 9 part-time and 269 full-time employees. The number of employees with indefinite term contracts and fixed-term contracts was 277 and 1, respectively. In 2020, 78% of the staff members were men and 21% were women. This gender ratio is basically defined by the nature of the energy sector, as most of the staff deal with the operation of power plants. At the same time, the Company aims to increase the proportion of women, which shows an improving trend year after year.

ALTEO Nyrt. is considered an attractive workplace, as evidenced not only by the number of new entrants, but also by the rate of staff turnover that remains unchanged at 12%.

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

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

3 Statements of the issuer

3.1 Corporate governance statement

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

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

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

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

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

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

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

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

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

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

The ALTEO Group launched its compliance program in 2015.

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

The Company declares that its ***consolidated Financial Statements and Business Report for the year 2020*** were prepared in accordance with the International Financial Reporting Standards as adopted by the EU, based on the Company's best knowledge, providing a true and fair view of the assets, liabilities, financial situation, profit and loss of the Company as an issuer and the companies involved in the consolidation.

The Company also declares that its ***consolidated Annual Report for the year 2020*** provides a true and fair view of the situation, development and performance of the issuer and the companies involved in the consolidation, outlining the risks and uncertainties likely to arise in the remainder of the fiscal year.

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

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

Budapest, March 26, 2021

On behalf of ALTEO Nyrt.:

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