Consolidated Financial Statements

ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság

for the business year ended on December 31, 2021
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:
25th March, 2022

Approval date of the General Meeting:
19th April, 2022

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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") in the ALTEO_konszolidált_2021_EN[1] digital file for the year 2021 which comprise the consolidated statement of financial position as at December 31, 2021 (which shows a total assets of **HUF 60 760 748 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 10 764 080 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, 2021 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.

[1] the digital identification of above filename.xhtml consolidated financial statements with SHA 256 HASH algorithm: 2237546d96c20a9bcad5bf8042f52aa4543685ea3527422100f561acb8e27402

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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***
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.	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 on a sample basis the 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 2021. 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.

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Other issues

Management is responsible for the presentation of the financial statements in a form complying with the requirements prescribed in the Article 3 of the Commission Delegated Regulation (EU) 2019/815 (17 December 2018) ("ESEF Regulation"). Our audit has referred to the human-readable layer of the digital file, identified electronically in our report, containing the financial statements. The scope of our audit has not referred to the audit of, and thus we do not express an opinion on whether the digitalized information has been prepared, in all material respects, in accordance with the requirements of the ESEF Regulation.

Other information

Other information comprises the information included in the consolidated business report and in the integrated report of the Group for 2021. 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 and the integrated report of ALTEO Nyrt. and its subsidiaries for 2021 corresponds to the consolidated financial statements of ALTEO Nyrt. and its subsidiaries for 2021 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 content 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 and in the integrated report therefore we have nothing to report in this respect.

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.

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- 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.

- 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:

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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 for two years 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 25 March 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to the ALTEO Nyrt. and its controlled undertakings and which have not been disclosed in the consolidated 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, 25 March 2022

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.
a consolidated company

Annual Report for the Fiscal Year 2021

Parts of the report:

ALTEO Nyrt. Financial statements

Independent auditor’s report

Management report, analysis, annual report

Audit closed on: 3/25/2022

Consolidated Financial Statements

of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság and its consolidated subsidiaries

for the fiscal year ended on December 31, 2021

in accordance with the International Financial Reporting Standards as adopted by the EU

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Explanation of the abbreviations used in the financial statements:

Abbreviation	Explanation
ARO	Recultivation under IAS16
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
CGU	Cash-generating Unit
Company	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
EKR	Energy efficiency obligation schemes under Section 12/A of Act LVII of 2015 (Energy Efficiency Act)
Electricity Act	Act LXXXVI of 2007 – on Electricity
EPS	Earnings per Share
ESOP	Employee Share Ownership Program
EUA	Allocated CO_2 emission rights
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);
HUDEX	Hungarian Derivative Energy Exchange. HUDEX was founded by HUPX Zrt. in order to comply with the new legal provision that the derivatives of gas and electricity traded on the HUPX and CEEGEX futures platforms are to be considered as financial assets.
HUPX	Electricity market organized by the power exchange - a trading system facilitating regional electricity trade operated by the organized electric power licensee (HUPX Zrt)
IFRIC/SIC	Interpretations of the International Financial Reporting Standards
IFRS	International Financial Reporting Standards

KÁT	Electric power offtake system based on the provisions of the Electricity Act, the Government Decree implementing the Electricity Act and Government Decree no. 389/2007 (XII.23.) on the mandatory offtake and feed-in tariff of electricity produced from renewable energy sources or waste and cogenerated electricity
KELER	Központi Értéktár Zártkörűen Működő Részvénytársaság (Central Treasury Private Limited Company)
MAVIR	Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zártkörűen Működő Részvénytársaság
METÁR	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 in 2021

1. Comprehensive income

Comprehensive income (Negative values are denoted by parentheses)	Note	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Revenues	**1.**	**44 249 448**	**32 981 301**
Material expenses	2.	(25 624 444)	(23 072 429)
Personnel expenses	3.	(4 192 237)	(3 770 040)
Depreciation and amortization	9.	(3 936 669)	(2 858 523)
Other revenues, expenses, net	4.	(1 795 605)	(1 228 018)
Capitalized own production	5.	242 826	512 226
Operating profit or loss		**8 943 319**	**2 564 517**
Finance income	6.	*384 928*	*479 576*
Financial expenses	6.	*(2 255 979)*	*(1 569 892)*
Net finance income	6.	(1 871 051)	(1 090 316)
Profit or loss before taxes		**7 072 268**	**1 474 201**
Income tax expenditures	7.	(1 214 818)	(883 660)
Net profit or loss		**5 857 450**	**590 541**
from which the owners of the Parent Company are entitled to:	20.	*5 855 184*	*586 663*
Of which the minority interest is entitled to:	20.	2 266	3 878
Base value of earnings per share (HUF/share)	34.	**309,96**	**31,48**
Diluted value of earnings per share (HUF/share)	34.	**302,03**	**30,26**
EBITDA	33.	**12 879 988**	**5 512 091**

2. Other comprehensive income

Other comprehensive income (Negative values are denoted by parentheses)	Note	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Other comprehensive income (after income tax)		**4 906 630**	**2 114 292**
Effect of cash flow hedges on other comprehensive income	*20.*	5 605 251	3 234 593
Reclassification into profit or loss due to the closing of cash flow hedge	*20.*	(698 621)	(1 121 360)
Conversion reserve	*20.*	-	1 059
From which the owners of the Parent Company are entitled to:		4 906 630	2 114 292
From which the non-controlling interest is entitled to:		-	-
Comprehensive income		**10 764 080**	**2 704 833**

The notes constitute an integral part of the financial statements.

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

Consolidated statement of financial position
for December 31, 2021

3. Statement of financial position - Assets

Statement of financial position - Assets (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Non-current assets		**31 370 772**	**31 065 255**
Property, plant and equipment*	9.	25 738 088	25 523 292
Other intangible assets	9.	2 516 820	3 037 269
Operation contract assets	9.	1 052 216	1 212 987
Rights of use	9.	1 766 502	1 063 615
Deferred tax assets	8.	71 395	132 811
Long-term deposits or loans given	11.	225 651	95 181
Long-term participation in associate	12.	100	100
Current assets and assets held for sale		**29 389 976**	**13 819 105**
Inventories	13.	1 076 779	442 622
Trade receivables	14.	4 425 345	3 263 224
Short-term lease assets	10.	-	128 949
Emission allowances	15.	2 395 525	843 488
Other financial assets*	16.	8 627 136	1 795 982
Other receivables and accruals	17.	9 155 718	3 796 983
Income tax receivables	7.	30 220	92 812
Cash and cash equivalents	18.	3 679 253	3 455 045
TOTAL ASSETS		**60 760 748**	**44 884 360**

' For adjustments to the lines indicated relative to the comparative period, see Section II.5.31 Changes in comparative data on page 23.*

The notes constitute an integral part of the financial statements.
The references in the Notes refer to Chapters IV-V of the financial statements

statement of financial position continued on the next page

Consolidated statement of financial position for December 31, 2021

4. Statement of financial position - Equity and liabilities

Statement of financial position - Liabilities (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Equity		**19 009 318**	**8 547 657**
Equity attributable to the shareholders of the Parent Company		**18 999 287**	**8 539 892**
Issued capital	20.	242 235	232 972
Reserves*	20.	5 375 369	4 962 084
Share-based payments reserve	20.	(206 875)	62 819
Hedge reserve	20.	5 306 431	399 801
Retained earnings	20.	8 282 127	2 882 216
Non-controlling interest	20.	10 031	7 765
Long-term liabilities		**24 490 928**	**27 905 833**
Debts on the issue of bonds	21.	12 658 274	14 889 000
Long-term loans and borrowings	22.	6 583 098	8 411 397
Finance lease liabilities	23.	1 687 704	1 047 406
Deferred tax liabilities	8.	1 487 761	866 550
Provisions	24.	944 136	850 493
Deferred income	25.	593 865	436 864
Other long-term liabilities	26.	536 090	1 404 123
Short-term liabilities		**17 260 502**	**8 430 870**
Short-term bond payables	21.	2 312 138	-
Short-term loans and borrowings	22.	419 778	929 693
Short-term finance lease liabilities	23.	237 744	154 912
Advances received	27.	8 989	46 500
Trade payables	28.	4 546 498	2 308 413
Other financial liabilities	29.	-	189 130
Other short-term liabilities and accruals	30.	9 328 196	4 522 992
Income tax liabilities	7.	407 159	279 230
TOTAL EQUITY and LIABILITIES		**60 760 748**	**44 884 360**

' For adjustments to the lines indicated relative to the comparative period, see Section II.5.31 Changes in comparative data on page 23.*

The notes constitute an integral part of the financial statements.
The references in the Notes refer to Chapters IV-V of the financial statements

Consolidated statement of cash flows for 2021

5. Consolidated Statement of Cash Flows

Cash flow (Negative values are denoted by parentheses)	Note	12/31/2021 HUF thousand	12/31/2020 HUF thousand
Profit or loss before taxes		**7 072 268**	**1 474 201**
(Interest income) and interest expenses, net	6.	971 977	953 839
Depreciation	9.	3 936 669	2 858 523
Recognition of impairment in profit or loss	4.	132 601	599 777
Scrapping of production and other machinery	4.	12 612	89 051
Provisions recognized (released)	24.	93 643	37 000
Provisions for asset retirement obligations recognized and (released) - IAS 16	24.	(54 180)	-
Deferred income increase (decrease)	25.	157 001	(98 810)
Effect of other comprehensive income	20.	4 682 760	2 277 463
Share-based payment cost	20.	261 275	101 292
Changes in deferred taxes	8.	197 356	191 786
Effect of income taxes on profit or loss	7.	(1 214 818)	(883 660)
Net cash-flow of business activity without change in current assets		***16 249 164***	***7 600 462***
		-	
Change in inventories	13.	(634 157)	(230 218)
Changes in emission allowances	15.	(1 552 037)	(501 388)
Change in trade receivables, other receivables, accrued income and deferred charges	14.	(6 597 459)	(94 583)
Change in other financial assets	16.	(6 831 154)	(1 336 175)
Change in trade payables, other liabilities, accrued expenses and deferred income	28.	6 784 178	347 875
Advances received (final settlement -)	27.	(37 511)	(451 463)
Cash flow from business activities (use of funds)		**7 381 024**	**5 334 510**
Interests received on deposits and investments	6.	41 355	15 446
Purchase of production and other machinery, and intangible assets	9.	(3 534 766)	(5 631 151)
Investment in acquiring businesses (net of cash)	32.	-	(2 134 892)
Revenue from the sale of production and other machinery, and intangible assets	9.	8 870	339
Change in lease assets	10.	128 949	136 241
Long-term loans or deposits given - lending	11.	(131 395)	(47 991)
Long-term loans or deposits given - repayment	11.	-	-
Cash flow of investment activities (cash outflow)		**(3 486 987)**	**(7 662 008)**
Interest paid on bonds and loans	21.,6.	(770 035)	(692 486)
Long-term loans and borrowings, financial liabilities			
Assumption and prepayment of long-term loans and borrowings, financial liabilities, lease liabilities	22.	(2 361 869)	(271 700)
Bonds repaid	21.	-	(2 150 000)
Bonds issued	21.	-	3 904 709
Capital increase, purchase of own shares	20.	-	129 160
Changes in ESOP cash and cash equivalents and other transactions with owners	20.	(93 382)	(30 725)
Dividend payment	20.	(455 275)	-
Cash flow from financing activities		**(3 680 561)**	**888 958**
Changes in cash and cash equivalents		**213 476**	**(1 438 540)**
Opening cash and cash equivalents		**3 455 045**	**4 847 671**
Cash exchange gains/losses		*10 732*	*45 914*
Closing cash and cash equivalents		**3 679 253**	**3 455 045**

The notes constitute an integral part of the financial statements.

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

Consolidated Statements of Changes in Equity
for the period ended on December 31, 2021

Data in HUF thousand	Issued capital	Reserves*	Share-based payments reserve	Retained earnings	Hedge reserve	Conversion reserve	Equity attributable to the shareholders of the Parent Company	Non-controlling interest	Total equity
01/01/2020	**232 948**	**4 863 673**	**68 398**	**2 303 282**	**(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		84
Comprehensive income				586 663	2 113 233	1 059	2 700 955	3 878	2 704 833
12/31/2020	**232 972**	**4 962 084**	**62 819**	**2 882 216**	**399 801**	**-**	**8 539 892**	**7 765**	**8 547 657**
Implementation of employee share award program through shares	48	4 252					4 300		4 300
Purchase of own shares	(3 118)	(290 601)					(293 719)		(293 719)
Dividend payment				(455 275)			(455 275)		(455 275)
Employee Share Ownership Program implementation	7 221	267 160					274 381		274 381
Employee Share Ownership Program option value		62 819	(62 819)				-		-
Own shares transferred to ESOP	5 112	(5 112)	-				-		-
Cash transferred to ESOP		(100 000)					(100 000)		(100 000)
Non-controlled ESOP participation		575 020	(575 020)				-		-
Receivable from ESOP		6 618					6 618		6 618
Recognition of share benefits against profit or loss			261 274				261 274		261 274
Transfer between capital element		(106 871)	106 871				-		-
Aggregate amount of rounding difference				2			2		2
Comprehensive income				5 855 184	4 906 630		10 761 814	2 266	10 764 080
12/31/2021	**242 235**	**5 375 369**	**(206 875)**	**8 282 127**	**5 306 431**	**-**	**18 999 287**	**10 031**	**19 009 318**

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 2021 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 2021 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, has become an acknowledged 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 concern 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 in energy management, 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.

Its 2021 results confirmed ALTEO’s strategy and the successful investments of the past period. ALTEO's profitability was only moderately affected by the COVID epidemic compared to other more procyclical sectors due to the risk management measures taken by the company and the fact that the negative impact of the epidemic was far outweighed by the excellent results achieved with other activities.

The outstanding performance of the virtual power plant in charge of heat and electricity generation has been positively impacted by the 18MW expansion of the power plant portfolio's gas engine capacity in 2020. In 2021 prices in the global market increased significantly, which also affected the Group's profitability. The Retail segment closed with an outstanding, record profit, reflecting the impact of rising global prices.

ALTEO also renewed key contracts with several important partners. On October 21, 2021, the Kazincbarcika heat supply contract, a relevant heat sales element of ALTEO's energy production business was renewed until September 30, 2031. On January 4, 2022, the operation and maintenance contract with one of our key operating partners, BC Power Plant, owned by BorsodChem Zrt., was renewed for another 15 years.

On December 7, 2021, the Group was awarded a grant of more than HUF 400 million for a new R&D project that is a good example of ALTEO's innovation efforts. The aim of the project is to develop a highly automated, AI based energy IT system that is capable of making autonomous production and commercial decisions, and controlling and optimizing "smart" power plant electricity production.

In July 2021, Scope ratings reaffirmed the previous rating (BBB-) of Alteo's bonds, and on January 10, 2022, the bond package "ALTEO 2022/I" was repaid by the Group to the bondholders.

The above results, although partly a one-off event, are good feedback to ALTEO's management and demonstrate that the strategy presented earlier and revised in early 2022 is working. Environmental and social sustainability continues to have a crucial role in our strategy.

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 quoted on the Budapest Stock Exchange; the closing rate of the shares on the last trading day of 2021 (on December 30) was HUF 2180, the annual trading volume in 2021 amounting to 2,872,838 shares in the value of HUF 3931 million.

Registered office and center of operations of ALTEO Nyrt.: H-1033 Budapest, Kórház utca 6-12.

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

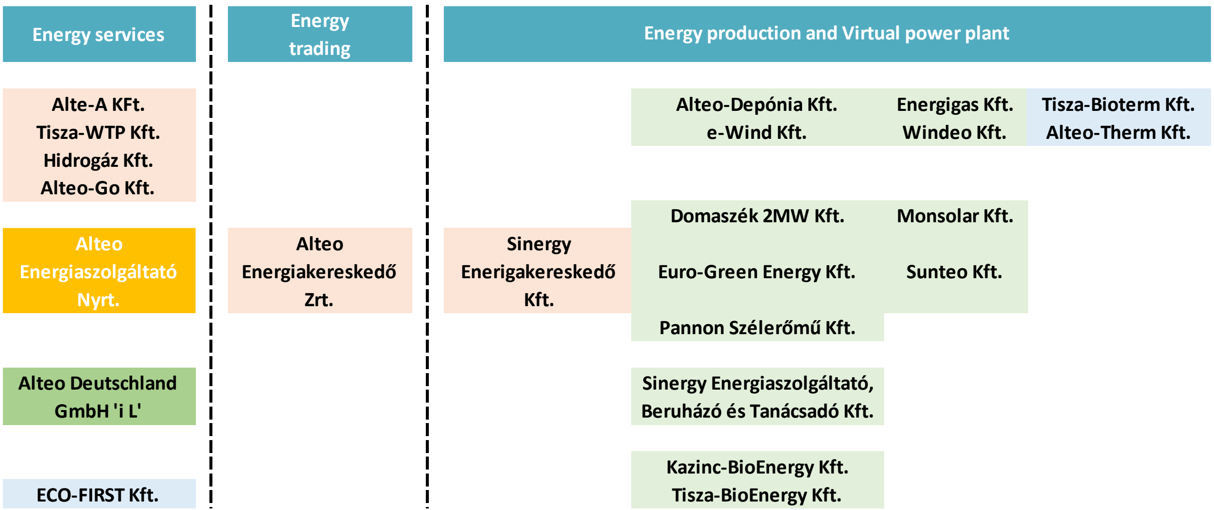
The majority shareholder of ALTEO Nyrt. is Wallis Asset Management Zártkörűen Működő Részvénytársaság (H-1055 Budapest, Honvéd utca 20, company registration number: 01-10-046529).

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, 2021. 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, 2021:

Present shareholders of the Company based on the share register on 12/31/2021	Face value (HUF thousand)		Ownership ratio (%)	
	2021	2020	2021	2020
Wallis Asset Management Zrt. and its subsidiaries	153 436	154 789	63,32%	63,88%
Members of the Board of Directors, the Supervisory Board	11 544	7 716	4,76%	3,18%
Own shares	94	9 357	0,04%	3,86%
ESOP	5 967	-	2,46%	-
Free float	71 288	70 467	29,42%	29,08%
TOTAL	**242 329**	**242 329**	**100,00%**	**100,00%**

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



ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

Name of companies in Group	Note	Registered office	Activity	Ownership acquisition date	Legal title	Rate of influence		Amount of equity (HAS)	Amount of revenue (HAS)
						12/31/2021	12/31/2020	12/31/2021	12/31/2021
ALTEO Energiaszolgáltató Nyrt.		**H-1033 Budapest, Kórház utca 6-12.**	**Engineering service**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
ALTE-A Kft.		H-1033 Budapest, Kórház utca 6-12.	property management	08/02/2011	Founding	100%	100%	11 974	30 323
ALTEO Energiakereskedő Zrt.		H-1033 Budapest, Kórház utca 6-12.	electricity and gas trade	12/05/2011	Founding	100%	100%	286 136	17 561 505
ALTEO-DEPÓNIA Kft.		H-1033 Budapest, Kórház utca 6-12.	electricity production	10/01/2008	Founding	100%	100%	29 722	189 213
ALTEO Deutschland GmbH	1	Marie-Curie-Str. 5, D-53359 Rheinbach	heat energy production, electricity production	04/18/2018	Founding	N/A	100%	N/A	N/A
Alteo-Go Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production	05/04/2015	Purchase	100%	100%	4 057	52 042
BC-Therm Kft.	3	H-1033 Budapest, Kórház utca 6-12.	electricity production	05/04/2015	Purchase	N/A	100%	N/A	N/A
Domaszék 2MW Naperőmű Kft.		H-1033 Budapest, Kórház utca 6-12.	electricity production (wind turbine)	12/04/2017	Purchase	100%	100%	39 702	101 814
e-WIND Kft.		H-1033 Budapest, Kórház utca 6-12.	electricity production (wind turbine)	02/11/2013	Purchase	100%	100%	(110 988)	70 271
ECO First Kft.	4	H-1033 Budapest, Kórház utca 6-12.	Treatment and disposal of non-hazardous waste	06/25/2019	Purchase	66,67%	66,67%	37 258	233 099
Euro Green Energy Kft.		H-1033 Budapest, Kórház utca 6-12.	electricity production (wind turbine)	05/28/2019	Purchase	100%	100%	2 671 138	2 245 909
ALTEO-THERM Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production, electricity production	12/31/2009	Purchase	100%	100%	3 403 046	20 121 780
HIDROGÁZ Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production	07/13/2009	Purchase	100%	100%	11 898	499
Kazinc-BioEnergy Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production, electricity production	05/04/2015	Purchase	100%	100%	1 866	-
Monsolar Kft.		H-1033 Budapest, Kórház utca 6-12.	electricity production (solar power plant)	11/06/2017	Purchase	100%	100%	50 062	218 724
Pannon Szélerőmű Kft.		H-1033 Budapest, Kórház utca 6-12.	electricity production (wind turbine)	10/14/2020	Purchase	100%	N/A	2 282 272	1 058 912
Sinergy Energiakereskedő Kft.		H-1033 Budapest, Kórház utca 6-12.	energy production	05/04/2015	Purchase	100%	100%	294 502	19 144 050
Sinergy Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production, electricity production	05/04/2015	Purchase	100%	100%	475 451	427 652
SUNTEO Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production	01/30/2013	Founding	100%	100%	206 571	685 074
Tisza BioTerm Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production	05/04/2015	Purchase	100%	60%	(939)	-
Tisza-BioEnergy Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production, electricity production	05/04/2015	Purchase	100%	100%	2 415	-
Tisza-WTP Kft.	2	H-3580 Tiszaújváros, Ipartelep 2069/3.	water treatment, desalinated water production	05/04/2015	Purchase	100%	100%	101 735	1 454 062
WINDEO Kft.		H-1033 Budapest, Kórház utca 6-12.	heat energy production, electricity production	05/24/2012	Purchase	100%	100%	216 057	247 610

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

1	Subsidiary registered under German law, closed in 2021 through voluntary winding-up
2	100% share; undertakings presented as lease assets
3	100% of the subsidiarity quota sold on May 31, 2021
4	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.

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
2021	Tisza WTP Kft.	Mol Petrolkémia Zrt., 100% shares

II.3.2 Acquisitions and divestments

year	Member company	Change in participations
2020	Pannon Szélerőmű Kft.	Acquisition of 100% participation
2020	Tisza-BioTerm Kft.	Acquisition of 40% participation
2021	BC-Therm 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.

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.

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.4.1 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.4.2 The Group's places of disclosure

- www.alteo.hu
- e-beszamolo.im.gov.hu
- www.kozzetetelek.mnb.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	12/31/2021	2021 average	12/31/2020	2020 average
euro (EUR)	369,00	358,53	365,13	351,17

II.5.3 Decisions regarding presentation

1. Changes in comparative data

The previous IFRS consolidated financial statement of the Group was drawn up for the fiscal year of 2020. The consolidated financial statements contain one set of comparative data, except when the figures for a period had to be restated or when the accounting policies had to be amended. In such cases, the opening figures of the statement of financial position for the comparative period are also presented.

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

The purpose of presenting the reclassifications in the detailed notes lines:

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.

The purpose of presenting the reclassifications in the balance sheet lines

- power plant and power generating properties, plants and equipment and Other machinery, plant and equipment are presented under the headings Property, plant and equipment
- Deposits and security deposits in the amount of HUF 98,820 thousand were reclassified from Other receivables and accruals to Other financial assets
- Share premium and Transactions with owners are presented under the heading Reserves

data in HUF thousand

Statement of financial position - Assets (Negative values are denoted by parentheses.)	Restated value for the year ending on 12/31/2020	Reclassification	Year ending on 12/31/2020 HUF thousand
Non-current assets	**31 065 255**	**-**	**31 065 255**
Property, plant and equipment	25 523 292	87 369	25 435 923
Other property, plant and equipment	-	(87 369)	87 369
Other intangible assets	3 037 269	-	3 037 269
Operation contract assets	1 212 987	-	1 212 987
Rights of use	1 063 615	-	1 063 615
Deferred tax assets	132 811	-	132 811
Long-term loans given	95 181	-	95 181
Long-term participation in associate	100	-	100
Current assets and assets held for sale	**13 819 105**	**-**	**13 819 105**
Inventories	442 622	-	442 622
Trade receivables	3 263 224	-	3 263 224
Short-term lease assets	128 949	-	128 949
Emission allowances	843 488		843 488
Other financial assets	1 894 802	98 820	1 795 982
Other receivables and accruals	3 698 163	(98 820)	3 796 983
Income tax receivables	92 812	-	92 812
Cash and cash equivalents	3 455 045	-	3 455 045
TOTAL ASSETS	**44 884 360**	**-**	**44 884 360**

data in HUF thousand

Statement of financial position - Liabilities (Negative values are denoted by parentheses.)	Restated value for the year ending on 12/31/2020	Reclassification	Year ending on 12/31/2020 HUF thousand
Equity	**8 547 657**	**-**	**8 547 657**
Equity attributable to the shareholders of the Parent Company	**8 539 892**	**-**	**8 539 892**
Issued capital	232 972	-	232 972
Reserves	5 408 602	223 259	5 185 343
Transactions with owners	-	223 259	(223 259)
Share-based payments reserve	62 819	-	62 819
Cash flow hedge reserve	399 801	-	399 801
Conversion reserve	-	-	-
Retained earnings	2 882 216	-	2 882 216
Non-controlling interest	7 765	-	7 765
Long-term liabilities	**27 905 833**	**-**	**27 905 833**
Debts on the issue of bonds	14 889 000	-	14 889 000
Long-term loans and borrowings	8 411 397	-	8 411 397
Finance lease liabilities	1 047 406	-	1 047 406
Deferred tax liabilities	866 550	-	866 550
Provisions	850 493	-	850 493
Deferred income	436 864	-	436 864
Other long-term liabilities	1 404 123	-	1 404 123
Short-term liabilities	**8 430 870**	**-**	**8 430 870**
Short-term bond payables	-	-	-
Short-term loans and borrowings	929 693	-	929 693
Short-term finance lease liabilities	154 912	-	154 912
Advances received	46 500	-	46 500
Trade payables	2 308 413	-	2 308 413
Other financial liabilities	189 130	-	189 130
Other short-term liabilities and accruals	4 522 992	-	4 522 992
Income tax liabilities	279 230	-	279 230
TOTAL EQUITY and LIABILITIES	**44 884 360**	**-**	**44 884 360**

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, 2021 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 current 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.

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 expectations.

(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 Virtual Power Plant.
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

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.

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 current year. Note IV.32 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.

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.

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

1. Revenues

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

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. IFRS 15 describes two methods for timing the recognition of revenue: revenue accounted for at a given time and during a given period. The IFRS 15 standard also creates theoretical rules concerning what happens with the costs in connection with acquiring and providing - not recognized elsewhere - the contract. The standard does not contain revenue recognition rules for the financial instruments; those will be settled in IFRS 9.

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

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

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 Resolution No. 2/2016. (XII. 16.) of the General Meeting of the Hungarian Hydrocarbon Stockpiling Association 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 different from the billing period, therefore, the realization of the revenues is not different 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**.

2. Expenses related to operation

In line with the presentation principles of the total cost method, non-finance expenses are to be classified as follows:

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

If a specific transaction belongs to the scope of a specific IFRS, then its recognition takes place in accordance with that standard

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.

4. Changes in the inventory of stocks produced by the Company

Expenditure allocated to the production of industrial equipment and facilities developed by the Group for third parties is presented as inventories until their delivery. From the perspective of heat and electricity produced by the Group, storage does not apply.

5. Other revenues and expenses

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 financial 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.

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.

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 rate method and are classified as financial 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.

8. Income taxes

The following are recognized as income tax:

- corporate tax (Act LXXXI of 1996 on Corporate Tax and Dividend Tax)
- income tax on energy suppliers (Act LXVII 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)

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).

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:

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

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

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

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

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 2021.

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 current 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. As the result of the review, HUF 322 million in extraordinary depreciation was recognized.

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 below IV.9 **Fixed assets and intangible assets** *below.*

2. Other 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 depreciation period may not be longer (though it may be shorter) than this period. By default, the term of the contract is accepted as the useful life.

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

The Group has identified the acquired KÁT eligibility of the acquired KÁT permit holders as an asset The Group amortizes KÁT permits in proportion to production until the expiry of the KÁT permit. 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). KÁT permits connected to projects developed internally cannot be recognized with values.

3. Operation Contract Assets

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.

4. Rights of use, 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.

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).

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”).

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.

8. Emission allowances

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.

Rights related to the energy efficiency obligation scheme

According to the provisions of Act LVII of 2015 on Energy Efficiency (Energy Efficiency Act), starting from 1 January 2021, electricity traders are required to introduce programs that result in energy savings for end-users. The party subject to the obligation may fulfil its energy saving obligation either through energy efficiency investments or energy efficiency improvement measures in its own sector of activity or in another sector outside its own sector of activity, as well as through certified energy savings by other obligated parties, energy efficiency service providers that are not obligated parties or other third parties.

The volume (GJ) of the energy saved by another obligor is recognized by the Group in Inventories at cost.

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.

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 statement 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, provisions 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.

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.

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.

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

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 recognized at cost and the follow-up valuation is performed at fair value against profit. The Group performs the necessary annual 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

Derivatives include:

derivative transactions. If the hedge accounting rules are met, they are recognized in Other comprehensive income on the basis of fair value.

Financial liabilities must be classified into the following groups:

Financial liabilities measured at fair value through profit or loss: derivatives and forward contracts acquired for trading purposes are included by the Group in this category. The Group does not typically engage in such transactions. If hedge accounting rules are applied, the valuation of interest rate swaps and forward foreign exchange contracts is recognized in Other comprehensive income.

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

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

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

With regard to the financial asset and liability instruments, the Group classifies instruments as part of the initial valuation. The Group measures its financial asset and liability instruments at amortized cost. Transaction costs are capitalized by the Group.

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), 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).

14. Expected impairment (ECL) model

IFRS 9 introduced the expected impairment model. The basis of determination is the expected impairment, as opposed to the objective, incurred (already happened) impairment. The expected impairment model brings the time of recognizing (occurrence) of impairments closer. The accepted model includes the simplified method that allows it for the entity to apply rules other than the complex ones in connection with certain financial assets (e.g.: trade receivables and similar instruments).

The 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 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.

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.

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.

17. Current income tax expense and deferred taxes

The actual income tax for the current 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.

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. Pannon Szélerőmű 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.

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 January 1, 2021

The following standards and interpretations (and their respective amendments) became effective during the 2021 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 financial years starting on January 1, 2021 or thereafter:	IASB publication	Effective date	EU endorsement	ALTEO Group
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).	06/25/2020	01/01/2021	12/16/2020	none
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).	08/27/2020	01/01/2021	01/13/2021	none
Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to IFRS 16 issued on March 31, 2021, effective as of April 1, 2021 and for financial years beginning on or after that date, endorsed by the EU).	03/31/2021	04/01/2021	08/30/2021	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
IFRS 17 Insurance Contracts (issued on May 18, 2017, endorsed by the EU)	05/18/2017	01/01/2023	11/19/2021	there will be no effect
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).	05/14/2020	01/01/2022	06/28/2021	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)	05/14/2020	01/01/2022	06/28/2021	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)	05/14/2020	01/01/2022	06/28/2021	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).	05/14/2020	01/01/2022	H2/2021	there will be no effect

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
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).	01/23/2020	01/01/2023	–	there will be no effect
Disclosure of material accounting policy information amending IAS 1 and IAS 8, and IFRS Practice Statement 2 (issued: not yet endorsed by the EU)		01/01/2023	–	there will be no effect
Definition of accounting estimates amending IAS 8 (issued:...., not yet endorsed by the EU)		01/01/2023	–	there will be no effect
Amendment of IAS 12 Income Taxes (issued: not yet endorsed by the EU)		01/01/2023	–	there will be no effect

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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 risks

type	number	Risk	2021	2020	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/ Risks specific to the market and the industry

type	number	Risk	2021	2020	change
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
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	medium	low	yes
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

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

C/ Risks specific to the ALTEO Group:

type	number	Risk	2021	2020	change
C	18	Risks arising from operating the Virtual Power Plant	high	high	none
C	19	Political risks	high	medium	yes
C	20	Dependence on weather	high	high	none
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
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	Authority risk	low	low	none
C	36	Key licenses and qualifications	low	low	none
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	none
C	45	The risk of entering new geographical markets	low	low	none

Type of changes:

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

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

A. Macroeconomic and legal system related risk factors

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.

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.

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.

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

The risk is not considered relevant to the Company's operations. Further description and further monitoring of the risk has been discontinued.

B. Risks specific to the market and the industry

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.

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.

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.

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, in December 2018, the EU adopted the RED2 Directive and Member States, including Hungary, had 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.

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

The fourth EU ETS trading period (2021–2030) began on 1 January 2021. During this period, in addition to emission allowances received free of charge, emitters can acquire emission allowances solely at auctions or through secondary commercial channels. In the period between 2021 and 2030, 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 National Implementing Measure published by the Ministry for Innovation and Technology and approved by the European Commission. A significant change compared to the third trading period is that in trading period IV, the free allocation available for a given year is largely determined by the level of activity of installations to be certified each year, as well as its changes. In the event of a 15% change in the activity level compared to the base period, the predetermined quota levels will need to be adjusted and approved by the European Commission. This is to ensure that the allocation better reflects the real activity of the facilities. Changes in the legal environmental and allocation system rules to achieve the climate policy targets, and the increase in price of the emission allowances can have a considerable impact on the operating costs and economic results of the ALTEO Group.

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.

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.

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 bank loans come with variable interest rates and are linked to 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.

13. Foreign exchange rate changes

The part of ALTEO Group's sales revenue generated in HUF and, on the expenditure side, not covered with FX-revenue, to be settled in FX or subject to foreign exchange rates, the Group may incur gain or loss, due to the changes in HUF and FX prices, To manage foreign exchange exposures, the Group operates a forecasting system using foreign exchange cash flow modelling, on the basis of which it manages the assessed and evaluated risks by means of market transactions.

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.

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.

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.

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.

C. Risks specific to the ALTEO Group

18. Risks arising from operating the Virtual Power Plant

The income generating capacity of the ALTEO Virtual Power Plant and related production units within the sphere of business interests of the ALTEO Group is highly dependent on the availability and pricing of balancing reserve capacity and energy markets in the electricity system. If, for any reason, access to these markets becomes limited with respect to the Virtual Power Plant, 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.

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.

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.

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.

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.

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.

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.

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 or gains to the ALTEO Group.

The Company covers 100% of the annual consumer demand, but due to natural seasonality, open positions remain, which are mainly closed on the spot market. Prices on the spot markets cannot be planned in advance, any change in them may have unfavorable/favorable effect on the profitability of the ALTEO Group.

Natural gas and electricity volumes are mainly contracted through low-risk wholesale partners and, to a lesser extent, through exchanges. Trading is continuous, and therefore the prices of products change on a daily basis, given that the trading in exchange-traded products is continuous. 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 on the basis of a risk management procedure adopted by the Board of Directors; an eventual mistaken transaction may have a significant negative effect on the profitability of the ALTEO Group.

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.

27. Fuel risks

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 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.

28. Renewing and/or refinancing outstanding debts

In addition to loans from financial institutions, the ALTEO Group uses in part bonds - issued by ALTEO either in a private or public offering - to fund its financing needs.

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.

29. Information technology systems

The activity of the ALTEO Group (in particular, the supervision of the power plants) depends on how information technology systems operate. 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.

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.

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.

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.

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. Managers or key employees leaving the Company or their absence may have a negative impact on the ALTEO Group’s operation and profitability.

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.

35. Risks arising from authorities' opinions and findings

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 (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 Company.

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.

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.

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.

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.

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.

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.

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.

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. The National Tax and Customs Administration of Hungary (abbreviation in Hungarian: NAV) performed a comprehensive tax audit at the Company for the year 2018. 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.

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.

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, the term of payment is extended until 00:00 a.m. on the second business 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.

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. As of 2017, the Company has prepared its separate financial statement in line with the IFRS standards. Valuation and presentation principles applied in the reports of subsidiaries and of the Company prepared according to the HAS requirements are different from those applied in the consolidated financial statement. 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.

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 and 2020 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 and IV.22.

The maturity dates of the Group's financial instruments are the following:

	less than 1 year	within 2-5 years	longer than 5 year
Assets:			
Long-term deposits or loans given	-	225 651	-
Trade receivables	4 425 345	-	-
Other financial assets	8 627 136	-	-
Other receivables and accruals	9 155 718	-	-
Liabilities:			
Bond payable	2 312 138	-	12 658 274
Loans and borrowings	419 778	1 906 519	4 676 579
Finance lease liabilities	237 744	751 441	936 263
Advances received	8 989	-	-
Trade payables	4 546 498	-	-
Other long-term liabilities	-	320 000	216 090
Other short-term liabilities and accruals	9 328 196	-	-
Income tax liabilities	407 159	-	-

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 the gas necessary for the production of district heating subject to regulated price	Entering into forward gas hedging transactions when the HEPURA district heating rate is established	Maximum hedging for the gas price specified in the decree regulating the district heating price, 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) as well as other features of production	Sustainable heat generation through optimizing the co-generation of electricity

III.4.5 Foreign exchange risk and its management

The Group's exposure to foreign exchange risk arises when the income from and expenses of transactions are denominated 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)	The target is 95%
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,* 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.
- 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.

III.4.7 Managing capital

By transforming its capital structure, the Group intends to retain its capacity to operate continuously in order to provide profit for its shareholders and maintain an optimal capital structure for the sake of reducing the cost of capital. In order to preserve or adjust capital structure, the Board of Directors proposes to the General Meeting the amount of dividends to be paid to shareholders, and acting within its authorization received from the General Meeting, it decides, in connection with the capital structure or at its discretion, on capital increase and issuing new shares, or submits a proposal to that effect to the General Meeting.

The Group complies with the statutory capital requirements applicable to it. In performing a review of that, the Group observes the requirements of Act V of 2013 on the Civil Code (of Hungary). The table below shows equity and its ratio relative to issued capital:

	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Issued capital	242 235	232 972
Equity	19 009 318	8 547 657
Issued capital/ Equity ratio	78,47	36,69

IV. NOTES TO THE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

IV.1 Sales revenue

Revenues	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Electricity production	23 324 047	12 415 089
Electric power trade	7 304 142	7 595 012
Heat sales	5 850 254	4 708 397
Operation and maintenance (O&M)	2 853 248	3 227 435
Gas trade	3 892 114	2 717 494
Energy industry service fees and projects	631 399	1 789 231
Waste management	232 917	440 261
E-mobility service	51 967	-
Other revenues	47 058	20 287
Trade commission revenues	37 075	23 863
Operating lease income	25 085	25 874
Finance lease income	142	18 358
Total	**44 249 448**	**32 981 301**

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).

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

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

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

Virtual Power Plant: Full management of scheduling services, HEPURA and MAVIR data reporting and administration, and real-time production monitoring activities for our contracted partners' power generation units.

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

E-mobility service: operation of licensed charging equipment and e-mobility services for residential and corporate customers

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 have any separate dedicated 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.

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.5.71 above

IV.2 Material expenses

Material expenses	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Energy carrier - electricity	(10 094 979)	(9 816 751)
Energy carrier - gas	(10 683 258)	(7 082 976)
Material and service needs of maintenance and projects	(2 380 998)	(4 052 174)
Expert services (counselling, auditing, IT)	(633 639)	(464 250)
Waste management services	(178 417)	(344 664)
Agent's commission	(573 071)	(311 964)
Bank expenses, insurance	(271 792)	(227 260)
Rent (office, machinery, vehicles, data cables, IT)	(133 293)	(204 748)
HSE, ISO, environmental protection	(162 441)	(148 520)
Other fuels and water	(129 604)	(125 981)
Administration and office costs	(100 641)	(101 398)
Other	(126 421)	(81 987)
Marketing	(107 125)	(69 569)
Fees paid to authorities, duties	(41 258)	(40 187)
Cost of E-mobility service	(7 507)	-
Total	**(25 624 444)**	**(23 072 429)**

IV.3 Personnel expenses

The personnel expenses line contains the wages, other disbursements of the Group and the related benefit expenses.

Personnel expenses	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Wages	(2 960 051)	(2 813 246)
Other personnel expenses	(417 830)	(291 144)
IFRS 2 remuneration	(261 274)	(106 871)
Share-based benefit expenses	(2 460)	(7 297)
Contributions	(550 622)	(551 482)
Total	**(4 192 237)**	**(3 770 040)**

Share-based payment expenses: The profit effects on the shares granted to the employees as benefit are also recognized as part of the personnel expenses. For more details on related presentations see Section IV.35.

Average statistical headcount	2021	2020
ALTEO Nyrt.	270	260

IV.4 Other revenues, expenses, net

Profit or loss from other revenues and expenses	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Other expenses:		
CO2 expenses	(1 275 960)	(960 621)
Fines, compensation, default interest paid	(414 747)	(28 917)
Impairment of inventories and receivables	(119 856)	(248 446)
METÁR overcompensation	(56 446)	-
EKR quota expense	(53 516)	-
Parafiscal contributions, fees, payment obligations	(52 534)	(55 400)
Provisions released (recognized)	(39 791)	(37 000)
Scrapping of fixed and intangible assets	(12 612)	(89 051)
Grants, released receivables	(9 639)	(19 297)
Sale of fixed and intangible assets	(557)	339
Other revenues:		
Income from (expenses of) loss events	141 216	55 945
Subsidies and grants received	68 696	101 621
Fines, compensation, default interest received	24 118	21 512
Other settlements	6 023	31 297
Total	**(1 795 605)**	**(1 228 018)**

- CO_2 expenditure includes the current year's expenditure on CO_2 emission allowances related to electricity production.
- METÁR overcompensation includes the amounts claimed by the MAVIR Group under the rules of the support system.

- The amount of the obligation for the year 2021 for the Group under the Energy Efficiency Obligation Scheme has been recognized as an EKR quota expense
- 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 recognition and release of provisions is in Note IV.24.
- It contains the pro rata temporis amount of 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 energy production and trade.
- 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	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Capitalized production from material expenses	6 175	231 078
Capitalized production from personnel expenses	236 651	281 148
Total	**242 826**	**512 226**

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

IV.6 Finance income, expenditures, 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.

The impairment of the loan granted to Energigas Kft. (third party) and the amount of damages paid by the Group for terminated electricity trading contracts were recognized in other financial accounts.

Net finance income	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Finance income	384 928	479 576
Received/receivable interest	53 175	30 430
Exchange rate gains	331 546	420 257
Other finance income	207	28 889
Financial expenses	(2 255 979)	(1 569 892)
Interests paid/payable	(1 025 152)	(984 268)
Indemnification for terminated contract	(1 005 894)	-
Exchange rate losses	(212 188)	(381 652)
Other financial expenses	(12 745)	(203 972)
Net finance income	(1 871 051)	(1 090 316)
Net interest expenses	(971 977)	(953 838)
Net exchange rate profit or loss	119 358	38 605
Other financial settlements	(1 018 432)	(175 083)
Total	**(1 871 051)**	**(1 090 316)**

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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Local business tax expenditure	(604 793)	(417 966)
Innovation contribution expenditure	(94 514)	(64 223)
Corporate tax expenses	(214 997)	(160 410)
Special tax of energy producers	(103 158)	(49 275)
Deferred tax expenses	(197 356)	(191 786)
Total	**(1 214 818)**	**(883 660)**

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

Elaboration of the tax base	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
IFRS profit or loss before taxes	7 072 268	1 474 201
Effect of differences	1 553 962	394 305
HAS profit or loss before taxes	8 626 230	1 868 506
Increasing items	4 996 511	3 161 201
Total provisions recognized	23 193	121 254
Planned and extraordinary depreciation charge recognized in the tax year pursuant to the Accounting Act	2 863 451	2 703 063
Costs and expenses not related to business activity	-	129
Fines established in final decisions or obligations arising from legal consequences, recognized as expenses	2 938	223
Amount of impairment recognized regarding receivables	142 351	110 264
Receivables released (except to the benefit of a private	60 518	20 184
Other	84 074	206 084
Amount of Share based payment to employees for equity instruments recognized against profit or loss before taxes, and the specified sum of the ESOP organization relating to equity instruments	1 819 986	-
Decreasing items	11 205 556	2 952 603
Amount written off from the loss carried forward (negative tax base) from previous years	1 586 487	1 438 085
Provision recognized in the tax year due to the use of provisions	37 000	60 173
Depreciation recognized in accordance with the tax legislation	1 950 990	1 516 762
Allocated reserves within retained earnings, but not more than 50% of profit before taxation or HUF 500 million per tax year (development reserve)	3 150 000	-
Dividends, shares received and recognized as income	1 930 000	258 560
Impairment reversed regarding receivables in the tax year, irrecoverable portion of the cost of receivables	34 079	439
Other	313	-
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
Amount of Share based payment to employees for equity instruments recognized against profit or loss before taxes, and the specified sum of the ESOP organization relating to equity instruments	2 540 369	-
Negative tax base of the Group	(23 682)	(326 237)
Tax base	2 417 185	2 077 104
Tax (9%)	217 547	186 939
Benefit (reducing taxes)	(11 368)	(11 368)
Difference due to group corporate tax	(2 160)	-
Tax pursuant to the Corporate Tax Act	(204 019)	(175 571)
Support for sports and arts entitling to tax benefit	-	-
Amendment of corporate tax for previous years	(10 979)	15 161
Effect of corporate tax on profit or loss	(214 997)	(160 410)
Deferred tax due to changes in the statement of financial position:		
Recognition of deferred tax assets (tax gain)	71 395	132 811
De-recognition of deferred tax assets (tax loss)	(132 811)	(286 856)
Recognition of deferred tax liability (tax loss)	(1 487 761)	(866 550)
De-recognition of deferred tax liability (tax gain)	866 550	599 716
Deferred taxes recognized in Other comprehensive income:		
Deferred taxes recognized in Other comprehensive income	524 812	39 541
Deferred taxes derecognized in Other comprehensive income	(39 541)	169 460
Acquired deferred tax liability	-	20 092
Effect of deferred taxes on profit or loss	(197 356)	(191 786)
Local business tax expenditure	(604 793)	(417 966)
Innovation contribution expenditure	(94 514)	(64 223)
Special tax of energy producers	(103 158)	(49 275)
Effect of income taxes on profit or loss	(1 214 818)	(883 660)

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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Corporate tax overpayment	1 365	22 798
Innovation contribution overpayment	6 307	7 898
Local business tax overpayment	22 548	62 116
Income tax receivables	**30 220**	**92 812**

Income tax liabilities in the statement of financial position:

Income taxes in the statement of financial position	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Corporate tax liability	108 971	93 051
Innovation contribution liability	51 438	40 031
Energy suppliers' income tax liability	59 193	23 509
Local business tax liability	187 557	122 639
Income tax liabilities	**407 159**	**279 230**

IV.7.4 Taxation information

Presentation of Tax Group members

As of January 1, 2019, the following companies formed a Corporate Tax Group, to which further companies joined as of January 1, 2022.

12/31/2021	As of 1/1/2022
Head of group:	**Head of group:**
Sinergy Energiakereskedő Kft.	Sinergy Energiakereskedő Kft.
Members:	**Members:**
Alte-A Kft.	Alte-A Kft.
Alteo Energiakereskedő Zrt.	Alteo-Go Kft.
ALTEO-Therm Kft. (legal predecessor: Győri Erőmű Kft.)	Alteo Energiakereskedő Zrt.
Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Kft.	ALTEO-Depónia Kft.
Windeo Kft.	ALTEO-Therm Kft. (legal predecessor: Győri Erőmű Kft.)
	Domaszék 2MW Kft.
	Euro-Green Energy Kft.
	E-Wind Kft.
	Hidrogáz Kft.
	Kazinc-BioEnergy Kft.
	Monsolar Kft.
	Pannon Szélerőmű Kft.
	Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Kft.
	SUNTEO Kft.
	Tisza-BioEnergy Kft.
	Tisza-BioTerm Kft.
	Windeo Kft.

List of tax audits

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

Taxable entity	Type of 2021 review, tax type, period
Alteo Energiakereskedő Zrt.	Compliance review – VAT – 2018 07-09. month (closed)
Alteo Nyrt.	Comprehensive tax review – 2018 (closed)
Alteo Nyrt.	Compliance review - Personal Income Tax (closed)
Alteo-Therm Kft.	Compliance review – Energy tax – November 2020 (closed)
Sinergy Energiakereskedő Kft.	Comprehensive tax review – 2017 (in progress)
Sinergy Energiakereskedő Kft.	Compliance review – VAT – November 2021 (closed)
Sinergy Energiakereskedő Kft.	Compliance review – VAT – December 2020 (closed)
Sinergy Energiakereskedő Kft.	Compliance review – VAT – January to March 2021 (closed)
Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Kft.	Comprehensive tax review – 2018 (in progress)
Tisza WTP Kft.	Compliance review – VAT – 1/1/2020-8/31/2020 (closed)

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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Deferred tax asset		
opening assets	132 811	286 856
increase	71 395	(154 045)
decrease	(132 811)	-
	71 395	132 811
Deferred tax liability		
opening liability	866 550	599 716
acquired	-	20 092
increase	1 487 761	246 742
decrease	(866 550)	-
	1 487 761	866 550
Deferred taxes in other comprehensive income		
opening assets	39 541	(169 460)
increase	-	209 001
decrease	485 271	-
	524 812	39 541

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Elaboration of deferred taxes	Year ending on 12/31/2021 HUF thousa				Year ending on 12/31/2020 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
Property, plant and equipment	20 598 006	25 738 088	-	(5 140 082)	20 498 709	25 523 292	1 702 275	(6 726 858)
Other intangible assets	691 801	2 516 820	-	(1 825 019)	547 883	3 037 269	-	(2 489 386)
Operation contract assets	-	1 052 216	-	(1 052 216)	-	1 212 987	-	(1 212 987)
Rights of use	1 006 221	1 766 502	-	(760 281)	228 883	1 063 615	-	(834 732)
Deferred tax assets	71 395	71 395	-	-	132 811	132 811	-	-
Long-term deposits or loans given	47 551	225 651	178 100	-	256 624	95 181	161 443	-
Long-term participation in associate	100	100	-	-	100	100	-	-
Assets held for sale	-	-	-	-	-	-	-	-
Inventories	1 076 779	1 076 779	-	-	442 622	442 622	-	-
Trade receivables	4 064 680	4 425 345	360 665	-	3 539 435	3 263 224	276 211	-
Short-term lease assets	-	-	-	-	129 244	128 949	295	-
Emission allowances	2 336 075	2 336 075	-	-	843 488	843 488	-	
EKR rights	59 450	59 450	-	-		-	-	
Other financial assets	2 795 893	8 627 136		(5 831 243)	370 278	1 697 162	1 326 884	
Other receivables and accruals	9 097 176	9 155 718	58 542	-	3 756 003	3 895 803	(139 801)	-
Income tax receivables	30 220	30 220	-	-	92 812	92 812	-	-
Cash and cash equivalents	3 679 253	3 679 253	-	-	3 455 045	3 455 045	-	-
Losses carried forward	-	-	-	-	296 911	-	296 911	-
Issued capital	242 235	242 235	-	-	232 972	232 972	-	-
Share premium	5 889 229	5 889 229	-	-	5 185 343	5 185 343	-	-
Share-based payments reserve	(688 513)	(688 513)	-	-	62 819	62 819	-	-
Retained earnings	8 281 398	8 281 398	-	-	2 882 216	2 882 216	-	-
Transactions with owners	(32 222)	(32 222)	-	-	(223 259)	(223 259)	-	-
Hedge reserve	5 306 431	5 306 431	-	-	399 801	399 801	-	-
Conversion reserve	-	-	-	-	-	-	-	-
Allocated reserves	3 592 318	-		(3 592 318)	716 709	-	-	(716 709)
Non-controlling interest	10 031	10 031	-		7 765	7 765	-	-
Long-term loans and borrowings	6 629 712	6 583 098		(46 614)	8 481 667	8 411 397	-	(70 270)
Debts on the issue of bonds	12 658 274	12 658 274	-		14 889 000	14 889 000	-	
Finance lease liabilities	785 542	1 687 704	902 162	-	235 858	1 047 406	811 548	-
Deferred tax liabilities	1 487 761	1 487 761	-		866 550	866 550	-	
Provisions	-	944 136	944 136	-	-	850 493	850 493	-
Deferred income	593 865	593 865	-		436 864	436 864	-	-
Other long-term liabilities	705 712	536 090	-	-	705 712	1 404 123	-	(698 411)
Short-term liabilities	17 259 460	17 261 231	1 171	-	8 430 871	8 430 870	-	-
Short-term loans and borrowings	419 778	419 778	-	-	929 693	929 693	-	-
Short-term bond payables	2 312 138	2 312 138	-	-	-	-	-	-
Short-term finance lease liabilities	237 744	237 744	-	-	-	154 912	154 912	-
Advances received	8 989	8 989	-	-	46 500	46 500	-	-
Trade payables	4 546 498	4 546 498	-	-	2 308 413	2 308 413	-	-
Other financial liabilities	-	-	-	-	-	189 130	-	(189 130)
Other short-term liabilities and accruals	9 211 696	9 328 196	116 500	-	4 178 564	4 522 992	-	-
Income tax liabilities	407 246	407 888	642	-	279 230	279 230	-	-
-		-	(0)			-	(0)	
		-				-		

Deferred tax position of balance sheet items			2 565 518	(18 247 773)			5 441 171	(12 938 483)
Differences not qualifying as returning			-	-			10 214	
Net deferred tax position of consolidation units			793 281	16 530 674			1 915 021	(9 628 333)
Of which part of the comprehensive income:				5 831 243			439 342	-

Deferred tax assets (9%)	9%		71 395		9%		172 352	
Of which: part of the comprehensive income:	9%		-		9%		39 541	
Deferred tax liability (9%)	9%			(1 487 761)	9%			866 550
Of which: part of the comprehensive income:	9%			524 812	9%			-

IV.9 Fixed assets and intangible assets

IV.9.1 Table on the movement of assets

Cost of assets	Property, plant and equipment*	Emission allowances	Other intangible assets	Operation contract assets	Rights of use	Total
January 1, 2020	**21 406 839**	**342 100**	**4 310 139**	**1 878 930**	**1 047 220**	**28 985 228**
Adjustment for 2019	106 147	-	-	-	-	106 147
Acquisition/put to use	5 016 862	-	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	(371 468)	-	(32 114)	-	(52 780)	(456 362)
Reclassification to inventories	-	(342 100)	-	-		(342 100)
December 31, 2020	**33 258 814**	**-**	**4 774 833**	**1 881 298**	**1 299 692**	**41 214 637**
Acquisition/put to use	2 631 923	-	634 370	-	919 007	4 185 300
Sale	(16 082)	-	-	-	-	(16 082)
Scrapping	(9 765)	-	-	-	(29 603)	(39 368)
December 31, 2021	**35 864 890**	**-**	**5 409 203**	**1 881 298**	**2 189 096**	**45 344 487**

Accumulated depreciation and amortization of assets	Property, plant and equipment*	Emission allowances	Other intangible assets	Operation contract assets	Rights of use	Total
January 1, 2020	**(3 622 027)**	**-**	**(817 782)**	**(471 189)**	**(122 452)**	**(5 033 450)**
Adjustment for 2019	-		-	-	(1 950)	(1 950)
De-recognition, sale	309	-	-	-	-	309
De-recognition, scrapping	299 008		24 400	-	43 903	367 311
Increase through acquisition	(2 850 171)	-	(1 000)	-	-	(2 851 171)
Depreciation and amortization	(1 562 641)	-	(943 182)	(197 122)	(155 578)	(2 858 523)
December 31, 2020	**(7 735 522)**	**-**	**(1 737 564)**	**(668 311)**	**(236 077)**	**(10 377 474)**
De-recognition, sale	7 124	-	-	-	-	7 124
De-recognition, scrapping	7 066		-	-	29 092	36 158
Depreciation and amortization	(2 405 470)	-	(1 154 819)	(160 771)	(215 609)	(3 936 669)
December 31, 2021	**(10 126 802)**	**-**	**(2 892 383)**	**(829 082)**	**(422 594)**	**(14 270 861)**

Net value of assets	Property, plant and equipment*	Emission allowances	Other intangible assets	Operation contract assets	Rights of use	Total
31/12/2019	**17 784 812**	**342 100**	**3 492 357**	**1 407 741**	**924 768**	**23 951 778**
31/12/2020	**25 523 292**	**-**	**3 037 269**	**1 212 987**	**1 063 615**	**30 837 163**
31/12/2021	**25 738 088**	**-**	**2 516 820**	**1 052 216**	**1 766 502**	**31 073 626**

IV.9.2 Valuation of assets

- For the accounting policy on the valuation of assets, see Sections II.5.81 and II.5.83 in 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 (2021: 8.57%; 2020: 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.

IV.9.3 Depreciation and amortization in the current period

Depreciation and amortization	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Recognized depreciation, amortization	(3 936 669)	(2 858 523)

IV.9.4 Asset types

Property, plant and equipment

Property, plant and equipment	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Power plant properties	3 510 227	3 690 082
Energy generation equipment:		
Gas engine, heat cogeneration	4 255 642	4 121 003
Energy storage block	1 612 278	739 911
Solar panel farm	4 875 333	5 130 934
Wind turbine	7 949 233	8 689 154
Hydropower Plant	693 971	760 733
Auxiliary systems	1 874 118	1 925 636
E-charger	35 268	-
Control engineering assets	534 507	378 470
Other assets	397 511	87 369
Total	**25 738 088**	**25 523 292**

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 during an in-year review, the Group recognized an impairment loss for part of its wind farm based on updated discounted cash flow models.

In the Other assets item, the Group recognizes its office and IT equipment.

Other intangible assets

Carrying amount of other intangible assets	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
R&D intellectual property	354 426	332 880
Purchased software	325 050	202 385
Trade license	7 384	8 084
License, connection charge	648	45 382
KÁT instrument	1 178 579	2 116 334
Other legal instrument	411 765	107 202
Contractual asset (IFRS15)	155 327	165 051
Internally developed control software	83 641	59 951
Total	**2 516 820**	**3 037 269**

Operation contracts (IFRIC 12 concessions)

Carrying amount of operation contracts	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Tisza-WTP operation contract	62 583	73 629
BC Power Plant operation contract	-	1 597
BC Therm operation contract	-	2 542
Kazincbarcika Heating Power Plant operation (IFRIC12)	-	30 277
Tiszaújváros Heating Power Plant operation (IFRIC12)	66 086	71 594
Füredi út Heating Power Plant operation (IFRIC12)	923 547	1 033 348
Total	**1 052 216**	**1 212 987**

Rights of use (IFRS 16 presentation, the Group as Lessee)

Carrying amount of rights of use	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Land lease Windeo Kft.	9 271	10 198
Land lease EGE Kft.	148 987	161 152
Land lease Pannon Szélerőmű Kft.	90 791	97 476
Ground rent Zugló Power Plant	356 758	399 355
Lease of power plant asset Felsődobsza/Gibárt	154 474	166 362
Iroda bérlet Alteo Nyrt.	775 035	-
Vehicle rental Alteo Nyrt.	231 186	229 072
Total	**1 766 502**	**1 063 615**

- 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.
- The 1532.29 m^2 of office space rented in the Globe 3 Office Building is recognized under rights of use in IFRS 16. The office lease has a term of 5+5 years with a gross value of HUF 808,720 thousand in the Company's books.
- Lease liability is presented in Sections IV.10 and IV.23.

IV.9.5 Construction of assets in the current period

The Group performed the following priority power plant investments:

Investments	Value (in HUF thousand)
Energy storage block Kazincbarcika	982 438
Overhaul and renovation of gas engines in heating power plants	436 880
Office renovation works Globe3	294 334
Control engineering development at the Füredi u. power plant	46 115

IV.9.6 Capitalization of borrowing costs

In 2021, the Group did not take out any loans for which additional costs were capitalized.

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 (Group as Lessor)

The Group presents the contract of BC Therm Kft. (up to 31.05.2021) and Tisza-WTP Kft. concluded with customers as a finance lease.

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

Lease asset values

In 2020, among lease assets, the lease value of BC-Therm Kft. was presented. Our outstanding lease receivable in connection with BC-Therm Kft. was settled in 2021. The Group sold its 100% stake in the subsidiary.

With regard to Tisza WTP Kft., the Group is entitled to no lease income; the value of the lease receivable is zero.

Lease assets	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Amounts due within a year	-	129 244
Amounts due between 1 and 5 years	-	-
Amounts due in more than 5 years	-	-
ECL recognized	-	(295)
Total	**-**	**128 949**
Unearned interests	-	-
Total lease revenue	**-**	**128 949**

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; i.e. it leases exclusively some of its own assets under such arrangement. See Section IV.1.

IV.11 Loans given

Long-term deposits or loans given	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Loans given	174 188	161 444
Clearing house deposit	215 283	73 026
Employee loan	14 280	23 037
Recognized impairment of loans given	(161 444)	(161 444)
Recognized ECL for long-term loans	(16 656)	(882)
Total	**225 651**	**95 181**

- None of the <u>loans given</u> is measured at fair value.
- <u>Clearing house deposits</u> are KELER deposits related to the power exchange presence of Sinergy Energiakereskedő Kft. and Alteo Energiakereskedő Zrt.
- <u>Employee loan</u> see Section IV.36 (related parties) interest: Central bank base rate + 5%, term: 5 years, capital repayment was made
- <u>The ECL impairment</u> is presented in Section IV.19.

IV.12 Long-term participation in affiliated companies

Long-term participation in associate	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Projects	519 527	28 988
Spare parts, operating materials	533 618	405 768
Fuels	23 634	7 866
Total	**1 076 779**	**442 622**

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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Gross value of trade receivable	4 786 010	3 539 434
Impairment	(360 665)	(276 210)
Total	**4 425 345**	**3 263 224**

Trade impairment losses	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Opening balance	276 210	98 378
Impairment recognized	84 455	177 832
Closing balance	**360 665**	**276 210**

- 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 2021	In 2020
MAVIR Zrt.	MAVIR Zrt.
Lego Manufacturing Kft.	ALPIQ Energy SE
ALPIQ Energy SE	TVK-Erőmű Kft.
Barcika Szolg Vagyonkezelő és Szolgáltató Kft.	Barcika Szolg Vagyonkezelő és Szolgáltató Kft.
TVK-Erőmű Kft.	Lego Manufacturing Kft.

Presentation of trade receivables as per due dates (2021):

Trade receivables	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Not overdue:		
1 to 30 days	3 058 627	2 155 352
31 to 60 days	830 492	575 594
61 to 90 days	774 378	176 411
Past due trade receivables:		
1 to 30 days	74 811	446 493
31 to 60 days	36 201	92 365
61 to 90 days	617	17 144
91 to 180 days	752	54 746
180 to 365 days	277	9 620
over 365 days	9 854	11 709
Total	**4 786 009**	**3 539 434**

IV.15 Emission allowances

Emission allowances	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Emission allowances CO2 quota	2 336 075	843 488
EKR quota	59 450	-
Total	**2 395 525**	**843 488**

CO2 quota	Quantity (of shares)	Value HUF thousand
12/31/2020	**128 458**	**843 488**
Quota taken over without charge	14 832	372 912
Purchased quota	118 800	1 864 209
Quota returned without charge	(110 607)	(744 534)
12/31/2021	**151 483**	**2 336 075**

EKR quota	Quantity (GJ)	Value HUF thousand
12/31/2020	-	-
Purchased quota	2 569	59 450
12/31/2021	**2 569**	**59 450**

IV.16 Other financial assets

Other financial assets	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Derivative transactions	5 831 243	1 326 883
Deposits, sec. deposits	1 872 525	-
Separate bank accounts	923 368	370 279
Total	**8 627 136**	**1 697 162**

The receivable balance of derivative transactions includes the non-realized profit balance of hedging transactions (EUR/HUF FX forward, interest rate swaps, gas 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 IV.20.4

Deposits and security deposits are financial assets pledged as collateral for gas forward transactions and electricity trading transactions with the Group's trading partners.

Separate bank accounts contain cash, the use of which is limited in time or is conditional. These are financial assets set aside for debt servicing, on the one hand, and financial assets set aside in a bank account to cover future gas purchase transactions, on the other. These assets are not treated as cash or cash equivalents in the financial statements. The financial assets in the separate bank accounts involve variable interest credits.

IV.17 Other receivables and accruals

Other receivables and accruals	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Accrued revenues	6 463 569	2 495 480
Accrued expenses	196 021	656 449
Advances paid (related to projects)	52 271	27 537
Projects - Receivables due from customers	-	44 516
Receivables from employees	4 592	1 068
Other receivables	2 489 744	622 412
ECL impairment	(50 479)	(50 479)
Total	**9 155 718**	**3 796 983**

- Deposits and security deposits* were reclassified to Other financial assets in 2021.
- Advances given are related to the construction-installation projects in progress.
- 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 and VAT reclaims at the end of the period.

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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Bank accounts – HUF	1 534 732	2 442 471
Bank accounts – foreign currency	2 144 521	1 012 574
Total	**3 679 253**	**3 455 045**

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 by classification category (and not by balance sheet) are presented in the ECL amount column:

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

Application of the expected loss model to financial assets	External credit rating	Internal credit rating	ECL%	Gross value	ECL amount	Net amount
Customers - with large corporate background	N/A	Performing	3,41%	915 054	(31 185)	883 869
Customers - public sector	N/A	Performing	3,41%	1 089 779	(37 140)	1 052 639
Customers - retail energy trade	N/A	Performing	6,81%	2 430 569	(165 559)	2 265 010
Customers - energy production	N/A	Performing	1,70%	-	-	-
Customer - scheduling service	N/A	Performing	1,70%	59 746	(1 018)	58 728
Customer - project development	N/A	Performing	0,02%	15 323	(35)	15 288
Customer - other	N/A	Performing	1,70%	73 785	(2 642)	71 143
Long-term loan Third party	N/A	Performing	1,70%	21 582	(7 545)	14 037
Customer - waste management	N/A	Performing	3,41%	25 177	(852)	24 325
Deposits, security deposits given	N/A	Performing	1,70%	2 120 131	(36 138)	2 083 993
Advances given	N/A	Performing	1,70%	51 260	(873)	50 387
Customer - employees	N/A	non-performing	1,70%	5	-	5
Long-term loan Third party	N/A	non-performing	100,00%	166 886	(166 886)	-
Customer - Energigas	N/A	non-performing	100,00%	100 875	(100 875)	-
Customer - MOM	N/A	non-performing	100,00%	3 388	(3 388)	-
Customer - retail energy trade, legal proceedings in process	N/A	non-performing	100,00%	17 219	(17 219)	-
Customer - recognized impairment of revaluations	N/A	non-performing	100,00%	-	(752)	(752)
Other receivables	N/A	non-performing	100,00%	25 200	(25 200)	-

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 showed a 0 to 2.5% change in the recent period. As a result of COVID and the impact of the extraordinary increase in energy prices on the solvency of customers, the Group has maintained the classification of its receivables or assigned them to a riskier level.

IV.20 Equity

IV.20.1 Issued capital and own shares

Issued capital	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening	**232 972**	**232 948**
Implementation of employee share award program thr	48	24
Purchase of own shares	(3 118)	(452)
Employee Share Ownership Program implementation	7 221	452
Own shares transferred to ESOP	5 112	-
closing	**242 235**	**232 972**

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.

Date	Event	Number of shares
12/31/2019	**Closing balance**	**750 424**
01/31/2020	Transfer of employee share ownership program	(1 878)
09/11/2020	Excercise of ESOP option	(24 000)
09/21/2020	Purchase of own shares	24 000
12/16/2020	Excercise of ESOP option	(12 128)
12/16/2020	Purchase of own shares	12 128
12/31/2020	**Closing balance**	**748 546**
01/29/2021	Transfer of employee share ownership program	(3 837)
04/13/2021	Excercise of ESOP option	(577 644)
04/13/2021	Purchase of own shares	249 422
12/21/2021	Share transfer to ESOP	(409 000)
12/31/2021	**Closing balance**	**7 487**

Shares traded:

- On December 31, 2021, the Group held 7,487 own shares.
- The Company reports its registered capital less the value of the redeemed own shares in the Issued capital line.
- 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 Reserves

Reserves*	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening	**4 962 084**	**4 863 673**
Implementation of employee share award program through shares	4 252	1 626
Purchase of own shares	(290 601)	(30 725)
Employee Share Ownership Program implementation	267 160	20 639
Employee Share Ownership Program option value	62 819	-
Own shares transferred to ESOP	(5 112)	-
Cash transferred to ESOP	(100 000)	-
Non-controlled ESOP participation	575 020	-
Receivable from ESOP	6 618	-
Transfer between capital element	(106 871)	106 871
closing	**5 375 369**	**4 962 084**

The settlement of the Employee Share Ownership Plan is the settlement of the capital (HUF 62,819 thousand) of the Option I/2017 plan settlements upon the settlement of the Option Plan. The option plan was settled by the transfer of HUF 267,160 thousand of shares at cost.

In addition to the 249,422 own shares repurchased in excess of issued capital, the ownership transactions in the current year included the transfer of equity (409,000 own shares) and cash (HUF 100,000 thousand) to Alteo ESOP Organization for an amount of HUF 575,020 thousand. The part of the cash transferred for the purchase of shares not used for the intended purpose at the reporting date is HUF 6,618 thousand.

HUF 106,871 thousand was reclassified to share-based payments.

IV.20.3 Share-based payments reserve, share-based benefits

Share-based payments reserve	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening	**62 819**	**68 398**
Implementation of employee share award program through shares	-	(1 650)
Employee Share Ownership Program option value	(62 819)	-
Non-controlled ESOP participation	(575 020)	-
Receivable from ESOP	-	(3 929)
Recognition of share benefits against profit or loss	261 274	-
Transfer between capital element	106 871	-
closing	**(206 875)**	**62 819**

Out of the Reserves line, HUF 106,871 thousand was reclassified to share-based payments.

The ESOP programs are described in more detail in IV.35 and IV.20.2.

IV.20.4 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.

Hedge reserve	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening	**399 801**	**(1 713 432)**
Hedge reserve	4 906 630	2 113 233
closing	**5 306 431**	**399 801**

The hedge reserve has the following movement in its balance:

Name	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Opening	**399 801**	**(1 713 432)**
Remeasurement in other comprehensive income	3 991 645	3 234 593
Transactions turned ineffective	-	-
Reclassification to the statement on profit or loss	914 985	(1 121 360)
Total	**5 306 431**	**399 801**
of which, derivative position recognized against OCI	*5 831 243*	*439 342*
of which, deferred tax recognized against OCI	*(524 812)*	*(39 541)*
Reclassification to income tax	(90 493)	110 904
Reclassification to financial expenses	(49 516)	(118 153)
Reclassification to other expenses	-	(13 787)
Reclassification to material expenses	792 401	(1 100 324)
Reclassification to the statement on profit or loss	**698 621**	**(1 121 360)**

- The amounts recognized in Other comprehensive income reflect the fair value of open transactions on the reporting date.
- The profitability of the transactions closed during the current period has been maintained.
- Profitable transactions recorded at opening value and closed during the current period have been reclassified to comprehensive income.

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 12/31/2020	**(698 411)**	**82 758**	**180 687**	**792 401**	**81 906**	**439 341**	**(39 541)**
De-recognition against net profit or loss	**107 444**	**(82 758)**	**-**	**(792 401)**	**-**	**(767 715)**	**69 094**
De-recognition due to revaluation	**590 967**	**-**	**(180 687)**	**-**	**(81 906)**	**328 374**	**(29 554)**
Revaluation of CF hedge positions	**514 592**	**136 486**	**-**	**5 180 165**	**-**	**5 831 243**	**(524 812)**
OCI on 12/31/2021	**514 592**	**136 486**	**-**	**5 180 165**	**-**	**5 831 243**	**(524 812)**

IV.20.5 Conversion reserve

The Group has not recognized any conversion reserve.

IV.20.6 Retained earnings

Retained earnings	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening	**2 882 216**	**2 303 282**
Dividend payment	(455 275)	-
Acquisition of the non-controlling interest of Tisza-Bioterm Kft.	-	(7 813)
Aggregate amount of rounding difference	2	84
Comprehensive income	5 855 184	586 663
closing	**8 282 127**	**2 882 216**

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.20.7 Non-controlling interest

Profit or loss attributable to non-controlling interests	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Profit or loss of ECO First Kft. in the current period	6 797	11 634
Alteo Nyrt. Participation %	66,67%	66,67%
Attributable to ALTEO Nyrt. Participation	4 531	7 756
Attributable to non-controlling interests	2 266	3 878
From which the owners of the Parent Company are entitled to:	**4 531**	**7 756**
Of which the minority interest is entitled to:	**2 266**	**3 878**

Non-controlling interest	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening	**7 765**	**(3 926)**
Profit or loss of Eco First Kft. in the current period attributable to non-controlling interests	2 266	3 878
Acquisition of the non-controlling interest of Tisza-Bioterm Kft.	-	7 813
closing	**10 031**	**7 765**

In 2020, the Group acquired a 40% minority interest in Tisza-Bioterm Kft. from GDHS Kft.; in 2021, 100% of the profit of that company was accounted for as a parent company interest.

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 include interest accrued on bonds, as well as principal.

Debts on the issue of bonds	Interest terms	Issue value HUF thousand	Face value	Currency	Maturity date	Nominal liabilities 12/31/2021 (HUF thousand)	Nominal liabilities 12/31/2020 (HUF thousand)
ALTEO Nyrt. NKP1 2029	Interest payment per annum	8 818 285	8 600 000	HUF	2029.10.28	8 600 000	8 600 000
ALTEO Nyrt. "2022/II" bond	end of maturity	1 505 905	1 693 630	HUF	2022.06.07	1 663 087	1 594 617
ALTEO Nyrt. “2022/I” bond	end of maturity	498 526	650 000	HUF	2022.01.10	649 051	615 361
Alteo Nyrt. NKP1 2031	Interest payment per annum	3 912 499	3 800 000	HUF	2031.10.08	3 800 000	3 800 000

Bond cash flow	2021	2022	2023	2024	2025	2026	up to 2031
ALTEO Nyrt. NKP1 2029	(270 900)	(270 900)	(270 900)	(270 900)	(270 900)	(270 900)	(9 412 700)
ALTEO Nyrt. "2022/II" bond	-	(1 693 630)	-	-	-	-	-
ALTEO Nyrt. “2022/I” bond	-	(650 000)	-	-	-	-	-
Alteo Nyrt. NKP1 2031	(93 100)	(93 100)	(93 100)	(93 100)	(93 100)	(93 100)	(4 265 500)

Bonds	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening principal and interest	14 889 000	13 124 132
ALTEO Nyrt. NKP1 2029	8 776 449	8 840 811
ALTEO Nyrt. "2022/II" bond	1 594 617	1 528 790
ALTEO Nyrt. “2022/I” bond	615 361	583 334
ALTEO Nyrt. “2020/I” bond	-	2 171 197
Alteo Nyrt. NKP1 2031	3 902 573	-
Issues in the current period:	-	3 904 710
Alteo Nyrt. NKP1 2031	-	3 904 710
Interest recognized in the current period	439 476	446 519
ALTEO Nyrt. NKP1 2029	252 844	254 038
ALTEO Nyrt. "2022/II" bond	68 470	65 827
ALTEO Nyrt. “2022/I” bond	33 690	32 027
ALTEO Nyrt. “2020/I” bond	-	75 337
Alteo Nyrt. NKP1 2031	84 472	19 290
Principal and interest payments in the current period	(364 000)	(2 517 435)
ALTEO Nyrt. NKP1 2029	(270 900)	(270 900)
ALTEO Nyrt. “2020/I” bond	-	(2 246 535)
Alteo Nyrt. NKP1 2031	(93 100)	-
Closing principal and interest	**14 964 476**	**14 957 926**
Recognized interest rate change of short-term liabilities	**(5 936)**	**68 926**
Debts on the issue of bonds	12 658 274	14 889 000
Short-term bond payables	2 312 138	-
	14 970 412	**14 889 000**

ALTEO NKP/2029 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 HUF 7,790 thousand 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. The total nominal value of the bond was repaid on January 10, 2022.

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 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 loans and their collaterals

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

Loans and borrowings used to finance the Group:

Credits (in HUF)	Financing party	Frequency of repayments	Amounts paid (HUF thousand)	Maturity date	Liabilities to banks (HUF thousand) 12/31/2021	Capitalized lending cost 2020	Liability disclosed in the statement of financial position (HUF thousand) 12/31/2021	Liability disclosed in the statement of financial position (HUF thousand) 12/31/2020
Principal and interest liabilities								
e-WIND Kft.	MTB	quarterly	542 830	2027.12.31	-	-	-	303 212
Alteo-Therm Kft. (legal predecessor: Soproni Erőmű Kft.)	K&H	quarterly	500 000	2026.09.30	-	-	-	377 315
Monsolar Kft.	MKB	six-monthly	656 575	2034.03.31	596 419	(4 855)	591 564	625 964
Monsolar Kft. (legal predecessor: IT-Solar Kft.)	MKB	six-monthly	656 575	2034.03.31	596 419	(4 884)	591 535	625 932
Domaszék Kft.	OTP	quarterly	601 000	2034.06.30	533 800	(10 848)	522 952	562 860
Sunteo Kft. (legal predecessor: Péberény Kft.)	K&H	quarterly	2 147 328	2035.06.30	1 958 563	(12 682)	1 945 881	2 054 543
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	K&H	quarterly	1 449 748	2035.09.30	1 328 341	-	1 328 341	1 400 664
Sunteo Kft. (legal predecessor: True Energy Kft.)	K&H	quarterly	1 459 872	2035.09.30	1 337 777	-	1 337 777	1 410 509
Sinergy Kft.	K&H	quarterly	744 000	2034.06.30	698 170	(13 344)	684 826	720 104
Pannon Szélerőmű Kft.	OTP	quarterly	2 439 000	2023.09.15	-	-	-	1 259 987
Liabilities to banks in the statement of financial position					**7 049 489**	**(46 613)**	**7 002 876**	**9 341 090**
Long-term loans and borrowings							**6 583 098**	**8 411 397**
Short-term loans and borrowings							**419 778**	**929 693**

- 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.
- Monsolar Kft. took advantage of the Repayment Moratorium provided for in Act LVIII of 2020 again in 2021.
- Repayments due in 2022 were reclassified to short-term borrowings and loans in the amount of HUF 419,778 thousand.
- In the current year, Pannon Szélerőmű Kft., E-Wind Kft. and Alteo-Therm Kft. repaid their loans in the amount of HUF 1,259,987, 308,529 and 387,410 respectively.

The Group has provided the following collaterals to meet its credit obligations:

Company	Designation of the collateral
ALTEO Energiakereskedő Zrt.	a lien on claim, surety and lien on bank accounts
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
Sunteo 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
Sinergy 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	2021	2022	2023	2024	2025	2026	up to 2031
-							
Monsolar Kft.	(35 361)	(37 086)	(39 077)	(41 001)	(43 124)	(45 313)	(263 983)
Monsolar Kft. (legal predecessor: IT-Solar Kft.)	(35 361)	(37 086)	(39 077)	(41 001)	(43 124)	(45 313)	(263 983)
Domaszék Kft.	(41 500)	(33 000)	(35 500)	(37 500)	(39 500)	(41 500)	(243 000)
Sunteo Kft. (legal predecessor: Péberény Kft.)	(112 486)	(119 408)	(126 331)	(129 359)	(134 767)	(140 391)	(794 542)
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	(72 052)	(76 692)	(81 186)	(85 680)	(89 884)	(93 654)	(529 013)
Sunteo Kft. (legal predecessor: True Energy Kft.)	(72 556)	(77 227)	(81 753)	(86 278)	(90 512)	(94 308)	(532 707)
Sinergy Kft.	(36 902)	(39 134)	(41 366)	(44 045)	(46 574)	(49 401)	(294 922)

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.

In order to optimize the interest burden on the loans, the Group has entered into interest rate swaps with the following terms.

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%	11/06/2018	12/31/2019	12/31/2027
Sunteo Kft. (legal predecessor: True Energy Kft.)	K&H	HUF	144 652 259	2,40%	01/07/2019	12/31/2019	12/31/2027
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	K&H	HUF	1 294 526 451	3,35%	11/06/2018	12/31/2019	12/31/2027
Sunteo Kft. (legal predecessor: FSZ Energia Kft.)	K&H	HUF	143 836 272	2,40%	01/07/2019	12/31/2019	12/31/2027
Sunteo Kft. (legal predecessor: Péberény Kft.)	K&H	HUF	1 932 260 400	3,10%	09/27/2018	09/30/2019	06/30/2027
Sunteo Kft. (legal predecessor: Péberény Kft.)	K&H	HUF	214 695 600	2,30%	01/07/2019	09/30/2019	06/30/2027
Domaszék 2MW Erőmű Kft.	OTP	HUF	594 400 000	2,25%	06/30/2016	12/31/2028	12/29/2028
Monsolar Kft.	MKB	HUF	658 935 108	3,05%	08/23/2018	06/28/2019	06/30/2028
Monsolar Kft. (legal predecessor IT Solar Kft.)	MKB	HUF	658 935 108	3,05%	08/23/2018	06/28/2019	06/30/2028
Sinergy Kft.	K&H	HUF	744 000 000	1,50%	12/16/2020	12/18/2020	12/31/2030

The following overdraft facilities are available to Group members:

Overdraft facility 12/31/2021	Bank	Amount HUF thousand	Utilization rate, HUF thousand
Alteo Energiakereskedő Zrt.*	OTP	1 000 000	363 000
Alteo Energiaszolgáltató Nyrt.	ERSTE (Cash Pool)	2 000 000	-

*The increase of the credit line of Alteo Energiakereskedő Zrt. entered into force on October 27, 2021.

IV.23 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 12/31/2021 (HUF thousand)	Exposure 12/31/2020 (HUF thousand)	Currency	Maturity date
Sinergy Kft.	ÉMÁSZ	lease of power plant asset	246 726	258 314	HUF	12/31/2035
Alteo Nyrt.	Lease Plan	vehicles	248 251	235 858	HUF	individual
Alteo Nyrt.	HSP 612 Kft.	Office space rent	775 035	-	HUF	06/30/2031
Alteo Therm Kft. (legal predecessor: Zugló Therm Kft.)	Főtáv	land lease	372 323	410 349	HUF	05/31/2030
Euro Green Energy Kft.	Multiple partners	land lease	180 371	189 036	EUR	03/31/2035
Windeo Kft.	Multiple partners	land lease	10 156	10 896	EUR	10/31/2032
Pannon Szélerőmű Kft.	Multiple partners	land lease	92 586	97 865	HUF	07/31/2035
Total			**1 925 448**	**1 202 318**		
of which:						
Amounts due within a year			237 744	154 912		
Amounts due between 2 and 5 years			751 441	329 972		
Amounts due in more than 5 years			936 263	609 606		

None of the lease arrangements include contingent lease payments. The ownership of leased cars, land, property 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: 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 IV.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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
opening balance	**850 493**	**568 680**
of which:		
Onerous contracts	192 031	134 311
Regarding asset decommissioning	658 462	413 648
Greenhouse gas quota	-	20 721
Provisions released	**(37 000)**	**-**
Provisions recognized	**130 643**	**281 813**
closing balance	**944 136**	**850 493**
of which:	**944 136**	**850 493**
Onerous contracts	231 822	192 031
Regarding asset decommissioning	712 314	658 462
Greenhouse gas quota	-	-

Presentation of provisions for the current period:

Provisions recognized and released	in 2021
ARO interest (IFRS)	54 180
ARO settlement against financial expenses	(328)
Provisions for onerous contracts	74 091
Future costs	2 700
Total	130 643
Provisions released to offset costs	37 000
Total	37 000

IV.25 Deferred income

Deferred income	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Deferred income related to subsidized assets	593 865	436 864
Total	**593 865**	**436 864**

The not yet recognized part of grants received was stated as deferred income, the main terms and conditions of which are as follows:

	RDI 1
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 2 publications
Grant period	5 years starting from July 2019
	RDI 2
Purpose of the grant	Integration into the electricity system of storage facilities with battery cells of various parameters
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: 1 subsidized undertaking for the manufacture of the new product In the 2 financial years following implementation, the amount of R&D expenditures amounts to 30% of grants as evidenced in the corporate tax returns
Grant period	End of 2027
	RDI 3
Purpose of the grant	Development of real-time autonomous energy information and production management
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: 1 new product developed involvement of 3 enterprises in development publication of the project achievements on domestic forums on 3 occasions 3 publications 1 publication resulting from private-public cooperation 3 undertakings making use of the project achievements 9 researchers/developers and 2 other employed project participants 1 additional agreement with universities or research institutes
Grant period	End of 2027

IV.26 Other long-term liabilities

Other long-term liabilities	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Conditional purchase price liabilities	294 408	705 712
Contractual support obligation	225 165	-
Interest payment obligation during the loan moratorium	16 517	-
Interest rate swaps liabilities	-	698 411
Total	**536 090**	**1 404 123**

IV.27 Advances received

Advances received	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Advances received	8 989	46 500
Total	**8 989**	**46 500**

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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Past due trade payables		
past due for 1-30 days	144 309	81 686
past due for 31-60 days	1 958	3 157
past due for 61-90 days	1 453	1 084
past due for 91-120 days	-	-
past due for 121-365 days	766	-
past due for more than 365 days	7 220	12 794
Trade payables not yet due		
due within 30 days	4 289 949	1 952 046
due in 31-60 days	5 499	32 220
due in 61-90 days	12 018	48 443
due in 91-120 days	14 064	-
due in 121-365 days	56 652	91 351
due in more than 365 days	12 610	85 632
Total	**4 546 498**	**2 308 413**

The largest suppliers of the Group are:

Major suppliers	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
MET Magyarország Kft.	10 123 696	4 054 217
MVM Partner Zrt.	8 291 716	5 497 825
NKM Földgázszolgáltató Zrt., legal successor MVM Next Energiakereskedő Zrt.	4 290 082	1 699 997
E.On Energiakereskedelmi Kft., legal successor E.On Energiamegoldások Kft.	3 921 688	3 205 794
PPD Hungária Energiakereskedő Kft.	3 270 216	2 503 274

IV.29 Other financial liabilities

Other financial liabilities	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Liabilities arising from derivative transactions	-	189 130
Total	**-**	**189 130**

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 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Cost accruals	8 408 276	3 180 531
Income accruals	112 173	135 701
Projects - amounts due to customer	70 000	257 007
Other tax liabilities	426 039	581 739
Accrued interest payable	-	-
Income settlement	146 051	127 348
Other short-term liabilities	165 657	240 666
Total	**9 328 196**	**4 522 992**

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

IV.31 Accounting for project development contracts under IFRS15

Name	12/31/2021	12/31/2020	Recognized current year sales revenue total	Sales revenue adjustment against statement of financial position	Invoiced sales revenue
MPK Project	(70 000)	(257 007)	263 748	187 007	76 741
Maintenance project	-	44 516	7 876	(44 516)	52 392
Projects - Receivables due from customers	-				
Projects - amounts due to customer	**(70 000)**				

- 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 balance sheet line Other short-term liabilities and accruals (presented in Section IV.29).

IV.32 Presentations on acquisitions of companies

Name	Pannon Szélerőmű Kft.	Tisza BioTerm Kft.
Start date of control/Date of acquisition of share	2020.09.14	2020.05.18
share (%)	100%	40%
	HUF thousand	HUF thousand
Consideration paid	**2 405 890**	**1 000**
Non-current assets	**4 251 290**	-
Long-term receivables	-	-
Short-term receivables	**138 338**	**283**
Financial assets	**271 998**	**35**
Provisions	**(159 849)**	-
Long-term liabilities	**(2 281 318)**	-
Short-term liabilities	**(17 720)**	**(7 614)**
Total:	**2 202 739**	**(7 297)**
Contractual assets identified in acquisition	223 243	-
Deferred tax liability (9%)	(20 092)	-
	2 405 890	(7 297)
Revenue in the period following the acquisition	247 610	650
Earnings in the period following the acquisition	200 641	(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.

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:

Elaboration of EBITDA	12/31/2021 HUF thousand 12 months	12/31/2020 HUF thousand 12 months
Operating profit	8 943 319	2 564 517
Recognized depreciation, amortization	3 936 669	2 858 523
Recognized impairment of fixed assets	-	89 051
EBITDA	**12 879 988**	**5 512 091**

IV.34 Calculation of earnings per share (EPS)

Calculation of earnings per share (EPS)	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand
Number of shares for EPS	18 890 107	18 636 921
Number of shares for diluted EPS	19 386 274	19 386 274
Profit or loss attributable to controlled interests	5 855 184	586 663
Base value of net earnings per share (HUF/share)	309,96	31,48
Diluted value of net earnings per share (HUF/share)	302,03	30,26

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

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*	*612 940*
results of valuation:		
valuation no.	770 024	612 940
fair value of share HUF	108,75	900,93
total fair value of program valuation on reporting date, HUF thousand	83 740	552 216
service recognized on the closing date of the current period 2021 %	100%	66,67%
Recognized service value: HUF thousand, of which:	83 740	368 145
2016	42 296	
2017	41 444	
2020	-	106 871
2021	-	261 274

Chart of changes in share program	Option I/ 2017	Option II/ 2020	Option I/ 2017	Option II/ 2020
	2021	2021	2020	2020
PCS.				
Outstanding at the beginning of the period	577 644	355 917	613 772	-
Granted during the current period	-	-	-	-
Vested	-	257 023	-	355 917
Exercised during the current period	(577 644)	-	(36 128)	-
Expired during the current period	-	-	-	-
Forfeited during the current period	-	-	-	-
Outstanding at the end of the current period	-	612 940	577 644	355 917
of which:				
Available for exercise at the end of the current period	-	-	577 644	-
Value (HUF thousand)				
Outstanding at the beginning of the period	62 819	106 871	66 748	
Granted during the current period	-			106 871
Vested	-	261 274		
Exercised during the current period	(62 819)	-	(3 929)	-
Expired during the current period	-	-		
Forfeited during the current period	-	-	-	-
Outstanding at the end of the current period	-	368 145	62 819	106 871
of which:				
Available for exercise at the end of the current period	-	-	62 819	-

ESOP Program I (2017)

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.pdf

https://www.bet.hu/site/newkib/hu/2020.12./Tajekoztatas_az_ALTEO_MRP_Szervezet_2020._evi_Javadalmazasi_Politikajarol__128504486

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 grant date.
- 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 analyzes and simulations for the financial indicators underlying the performance conditions (see vesting criteria).

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. two thirds.

<u>Employee reward program</u>

Employee rewards	2021	2020
PCS.		
Opening liabilities in the statement of fi	3 837	1 878
Exercised by transfer	- 3 837	- 1 878
Awarded as benefit	1 267	3 837
Closing	1 267	3 837
Value (HUF thousand)		
Opening liabilities in the statement of fi	4 300	1 650
Exercised by transfer	- 4 300	- 1 650
Awarded as benefit	2 550	4 300
Closing	2 550	4 300

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 Financial liabilities and conditions

In the notes on each instrument, we present the interest rate conditions associated with the instrument.

Highly probable forecasted gas purchases in 2022 worth HUF 5,180,165 thousand, foreign exchange forward transactions in 2022 worth HUF 136,486 thousand, interest rate swaps in 2022 and beyond worth HUF 514,592 thousand.

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

IV.37 Segments

12/31/2021	Energy production (outside the subsidized system)	Electricity production (within the subsidized system)	Energy services	Energy trading	Other	Items eliminated due to consolidation	Total
Revenue	**24 284 975**	**5 006 568**	**3 305 469**	**16 369 622**	**216**	**(4 717 402)**	**44 249 448**
Material expenses	(12 802 207)	(665 126)	(1 379 316)	(14 690 037)	(805 037)	4 717 279	(25 624 444)
Personnel expenses	(880 228)	(187 552)	(1 413 190)	(113 630)	(1 597 637)	-	(4 192 237)
Other revenues and Other expenses	(1 645 710)	(36 851)	47 988	(154 358)	(6 674)	-	(1 795 605)
Capitalized value of own production	84 733	-	135 431	-	22 662	-	242 826
EBITDA*	**9 041 563**	**4 117 039**	**696 382**	**1 411 597**	**(2 386 470)**	**(123)**	**12 879 988**

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 expenses	(1 072 075)	39 092	(94 563)	4 709	(7 594)	(8 536)	(1 138 967)
Capitalized value of own production	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**

The Business (Annual) Report presents the performance of the individual segments in detail.
'*Details in Section IV.33.

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, Anita Simon

Remuneration paid to related parties (executive officers):

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

2021	Wages, commissions, benefits	Reimbursement of costs	IFRS2 benefits
Board of Directors	99 641	10 430	34 837
Supervisory Board	23 620	1 516	-
Executive Board non-BoD members	190 436	19 967	43 087
Total	**313 697**	**31 913**	**77 924**

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

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

Name	Category	thousand HUF
NEO Property Services Zrt.	Customer	125 258
Energigas Kft.	Customer	114 988
Praktiker Kft.	Customer	56 655
Tisza-WTP Vízelőkészítő és Szolgált	Customer	35 814
Executive employee	Loans given	21 582
WIPEUROPA INGATLANFEJLESZTŐ KFT.	Customer	19 354
Wallis Asset Management Kft.	Supplier	7 863
MANHATTAN DEVELOPMENT GLOBAL KFT.	Customer	5 688
Magnum Hungária Invest Kft.	Customer	2 784
SH-FEJLESZTŐ KFT.	Customer	1 637
GRABOPLAST PADLÓGYÁRTÓ ZRT.	Customer	1 310
Wallis Autómegosztó Kft	Customer	1 085
NEO Property Services Zrt.	Supplier	902
SH-ÜZEMELTETŐ KFT.	Customer	308

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

Name	Category	thousand HUF
NEO Property Services Zrt.	Revenue	1 023 834
Tisza WTP Kft.	Revenue	649 823
Energigas Kft.	Revenue	436 680
PRAKTIKER KFT.	Revenue	328 999
GRABOPLAST PADLÓGYÁRTÓ ZRT.	Revenue	150 934
WIPEUROPA INGATLANFEJLESZTŐ KFT.	Revenue	122 946
HPS612 Kft.	Services used	74 553
MANHATTAN DEVELOPMENT GLOBAL KFT.	Revenue	50 282
Wallis Autókölcsönző Kft.	Services used	26 063
Energigas Kft.	Services used	21 289
WALLIS MOTOR PEST KFT.	Revenue	20 663
Wallis Asset Management Kft.	Services used	18 961
SH Fejlesztő Kft	Revenue	17 956

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 2021, 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.

Guarantee limit 12/31/2021	Bank	Amount HUF thousand	Utilization rate, HUF thousand
Alteo Energiakereskedő Zrt.	OTP	4 000 000	2 756 000
Alteo Energiaszolgáltató Nyrt.	ERSTE (Cash Pool)	4 750 000	4 097 000

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

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

ALTEO Nyrt. Consolidated Annual Report and Management Report for 2021 Data in HUF thousand

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 virtual power plant 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 5,831,243 thousand (previous year: HUF 1,326,883 thousand). These qualify as expert estimates built-up from observable inputs, therefore they are on Level 2 of the fair value hierarchy.

Name	12/31/2021	12/31/2020
Derivative assets (in hedge relationship)	5 316 651	1 326 883
Obligations from loan IRS Derivatives (for hedge)	514 592	-
Assets evaluated at fair value through profit and loss (FVTPL)	**5 831 243**	**1 326 883**
Liabilities from loan IRS Derivatives (for hedge)	-	698 411
Liabilities from derivatives (for hedge)	-	189 130
Liabilities evaluated at fair value through profit and loss (FVTPL)	**-**	**887 541**

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.

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 Significant events after the reporting date

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

January 4, 2022: Alteo Nyrt. and BC-Erőmű Kft. (registered office: 3700 Kazincbarcika, Bolyai tér 1.; company registration number: Cg. 05-09-007481; tax number: 11795346-4-05) signed a long-term operation and maintenance contract for the operation and maintenance of the power plant and steam boiler owned by BC-Erőmű Kft. until December 31, 2036.

January 10, 2022: The 'ALTEO 2022/I' bonds were repaid at maturity and therefore terminated on the maturity date, i.e. on January 10, 2022, and the Company has no other obligations to the bondholders, in view of the repayment.

January 2022: The Group has published its new five-year strategy for 2022-2026 for information purposes. The company strategy is available at the following link:

https://www.bet.hu/newkibdata/128662993/ALTEO_PPT_VallalatiStrategia2022_2026_final.pdf

February 4, 2022: The parent company of the Group began the transfer of 1,267 shares to the employees who have become eligible for them based on the Company's recognition plan.

February 2022: the Group received an ESG certification, for more information on this certification see https://www.bet.hu/site/newkib/hu/2022.02./ALTEO_megszerezte_elso_ESG_minositeset_2022.02.02_128668992

February 23, 2022: At the Best of BSE awards ceremony, Alteo was named the Issuer of the Year with the highest share price increase in the premium category, and also won the Responsibility, Sustainability, Corporate Governance Award and the Issuer Transparency Midcap Award.

The impact of the global political events (Russia-Ukraine conflict, COVID 19) was taken into consideration in Section III.3

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 2021, 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 25, 2022, the Board of Directors of the Group's parent company approved the disclosure of the financial statements in its current form.

Budapest, March 25, 2022

On behalf of ALTEO Nyrt.:

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

Zoltán Bodnár
CFO

Annual Report of ALTEO Nyrt.
and its subsidiaries

for the financial year 2021

Disclosure: March 25, 2022

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ALTEO Group's Annual Report for 2021

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 the Rules of 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 publishes "The Management Report and Analysis" on the consolidated annual profit and the consolidated Annual Financial Statements for the Fiscal Year 2021*** (hereinafter collectively: "**Annual Report**"; the Company and the Presentation of consolidated entities according to the financial statements 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 2021 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 2021

1.1 Executive summary on events yielding significant results over the period

Its 2021 results confirmed ALTEO’s strategy and the successful investments of the past period. ALTEO’s profitability was only moderately affected by the COVID epidemic compared to other more procyclical sectors due to the risk management measures taken by the Company and the fact that the negative impact of the epidemic was far outweighed by the excellent results achieved with other activities.

In 2021, both the revenue and net after-tax profit of the Group increased significantly. A 34% revenue growth was accompanied by a 892% growth in after-tax profit. Consolidated EBITDA increased by 134% year-on-year, primarily (i) on account of the remarkable profitability of the virtual power plant controlling heat and electricity generation, which was positively supported by the expansion of the power plant portfolio’s gas engine capacities in 2020 with an additional 18 MW and the price increase in the global market, (ii) within the subsidized electricity generation segment, the surplus profits of the 15 MW wind farm acquired by the Group in October 2020 and the reconstructed Gibárt Hydropower Plant helped the increase of the EBITDA, and (iii) the outstanding, record profits of the Energy Retail segment (which was hit the hardest by the pandemic) which were also impacted by the rise of global market prices.

In November 2021, a new 5 MW capacity energy storage unit was commissioned at the Kazincbarcika Heating Power Plant, thereby further increasing the Group’s total capacity. This project was, in part, implemented using a non-refundable grant.

ALTEO was also able to renew key contracts with several important partners. On October 21, 2021, the Kazincbarcika heat supply contract, an important heat sales element of ALTEO's energy production business was renewed until September 30, 2031. On January 4, 2022, the existing contract for operation and maintenance services with one of its key operating partners, BC Power Plant, owned by BorsodChem Zrt., was renewed for another 15 years.

On December 7, 2021, the Group was awarded an investment development grant of more than HUF 400 million to realize its innovation efforts. The aim of the project is to develop a highly automated, AI based energy IT system that is capable of making autonomous production and commercial decisions, and controlling and optimizing “smart” power plant electricity production.

In July 2021, Scope ratings reaffirmed the previous rating (BBB-) of Alteo's bonds, and on January 10, 2022, the bond package "ALTEO 2022/I" (HUF 650 million) was repaid by the Group.

The Group was presented with the Green Frog Award for the Best Sustainability Report by Deloitte Hungary.

Executive summary of the operating profit or loss statement

The result of 2021, although partly a one-off event, is a good feedback to ALTEO's management that the strategy presented earlier and revised in early 2022 is working. Environmental and social sustainability continues to have a crucial role in our strategy.

The comparative analysis of the ALTEO Group's financial data for 2021 and 2020 is presented below.

Consolidated Statement of profit or loss				
data in HUF million	**12/31/2021 HUF million audited**	**12/31/2020 HUF million audited**	**Change HUF million compared to the previous year**	**Change % compared to the previous year**
Revenues	**44 249**	**32 981**	**11 268**	***34%***
Capitalized own production	243	512	(269)	*53%*
Material expenses	(25 624)	(23 072)	(2 552)	*11%*
Personnel expenses	(4 192)	(3 770)	(422)	*11%*
Depreciation and amortization	(3 937)	(2 859)	(1 078)	*38%*
Other revenues, expenses, net	(1 796)	(1 228)	(568)	*46%*
Impairment loss	-	-	n/a	*N/A*
Operating profit or loss	**8 943**	**2 565**	**6 379**	***249%***
Net financial income	(1 871)	(1 090)	(781)	*72%*
Profit or loss before taxes	**7 072**	**1 474**	**5 598**	***380%***
Income tax expenses	(1 215)	(884)	(331)	*37%*
Net profit or loss	**5 857**	**591**	**5 267**	***892%***
from which the owners of the Parent Company are entitled to:	*5 855*	*587*	*5 268*	*898%*
Of which the minority interest is entitled to:	2	4	(2)	*(42%)*
Base EPS (HUF/share)	**309,96**	**31,48**	**270,66**	***860%***
Diluted EPS (HUF/share)	**302,03**	**30,26**	**271,76**	***898%***
EBITDA*	**12 880**	**5 512**	**7 368**	***134%***

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

The Group’s **revenues** increased by **34%, i.e. HUF 11.3 billion, to HUF 44.2 billion**, as compared to 2020. Revenue growth was driven by multiple factors:

- Revenue from the **Heat and Electricity Generation segment rose** significantly, primarily due to the excellent performance by heat and electricity cogeneration plants in the electricity market, heat and electricity cogeneration, **actively leveraging a volatile market** throughout 2021 that was markedly different than in the past and presumably will not persist in the long term. Management stability in the segment was strongly supported by the unit that was put into operation last year as part of the gas engine capacity expansion projects and generated revenue over the reporting period (18MW capacity expansion at the Tiszaújváros and Győr sites).
- Revenues from **the Energy Retail segment increased** significantly. In addition to the growth in energy prices compared to 2020 (apparent in both the revenue and material expenses lines), effective response to further lockdowns due to Covid early in the year and the resulting market anomalies also contributed to the segment’s revenue outperforming the lower baseline resulting from the pandemic.
- Acquired in October 2020, Pannon Szélerőmű Kft. (Bábolna wind farm) was not owned by the Group over the entirety of the comparative period; as such its performance is consolidated from October 1, 2020.
- **In the Energy Services segment**, the drop in revenue is mainly attributable to the focus of the project development team being shifted to internal projects.

The particularly high revenue growth of 34% was accompanied by an 11% increase in **material expenses**. The relationship between revenue and material expenses was affected by the following management effects:

- The revenue growth in the structured electricity market did not involve a significant increase in material expenses.
- The commercial segment is characterized by revenue growth being accompanied by a significant increase in COGS, the level of which, however, is below that of the revenue growth.
- The wind farm acquired by the Group through the aforementioned acquisition typically operates with low material expenses.
- The drop in the revenue of energy services entails a significant decrease in material expenses, offsetting the COGS increase in the commercial segment.

The 11%, i.e. HUF 0.4 billion, increase in **personnel expenses** is directly linked to the expansion of the Group and the effect of the management incentive program revealed in late 2020 is also recognized here.

Depreciation and amortization was up by 38%, i.e. HUF 1.1 billion, mainly as a result of a significant increase of HUF 10.9 billion in production capacities throughout 2020, comprised of the following:

- The HUF 7.1 billion asset portfolio acquired in relation to the **Bábolna wind farm** appeared in the Group's depreciation as of October 2020.
- The HUF 2.7 billion **investment project to increase the capacity of gas engines** at the Tiszaújváros and Győr sites was handed over in two phases starting in July and November 2020.
- The HUF 1.1 billion **renovation of the Gibárt hydropower plant** was completed and handed over in October 2020.

The balance of **other revenues, expenses, net** shows a HUF 0.6 billion increase, reflecting the amount, and increased unit price, of the quota that had to be purchased for the increased CO_2 emissions as a result of additional gas consumption.

The ALTEO Group generated an operating profit of HUF 8.9 billion and an EBITDA of HUF 12.9 billion in 2021.

Hedge expenses, resulting from a physical delivery transaction being terminated prematurely, had a dominant role in the HUF 781 million decrease in **net finance income**.

The ALTEO Group realized a HUF 7.1 billion profit before taxes in 2021. The ALTEO Group's profit before taxes in 2021 exceeded its profit before taxes in 2020 by 380%.

Income tax expenses increased in parallel to the Group's profits. Income tax expenses exceeded expenses in the comparative period by HUF 331 million.

In 2021, the **after-tax profit, i.e. net profit, of the Group was HUF 5.9 billion**, representing an increase of 892% over the comparative period.

1.2 Management summary on comprehensive income

Consolidated Comprehensive Statement of Profit or Loss

	12/31/2021 HUF million audited	12/31/2020 HUF million audited	Change HUF million compared to the previous year	Change % compared to the previous year
Net profit or loss	**5 857**	**591**	**5 267**	***892%***
Other comprehensive income (after taxes on profits)	**4 907**	**2 114**	**2 792**	***132%***
Comprehensive income	**10 764**	**2 705**	**8 059**	***298%***
from which the owners of the Parent Company are entitled to:	10 762	2 701	8 061	*298%*
Of which the minority interest is entitled to:	2	4	(2)	*(71%)*

The Group recognized the **cumulative effects** (including deferred tax) **of the end-of-period revaluation of hedges** in other comprehensive income. The aggregate profit of the revaluation of transactions as at the reporting date, recognized in the profits for the period, was an **unrealized change of HUF 4,907 million.** Transactions are recognized, depending on comprehensive income or transaction profit nature, against the balance sheet items of other financial assets or other financial expenses.

Changes in the consolidated **comprehensive income** was most affected by forward contracts, including the revaluation of open hedging positions to manage price changes for natural gas assets in kind involved in regulated heat energy sales for December 31. The majority of the Group's annual heat sales agreements are concluded at a fixed and regulated price level, the effect of which, however, cannot be included in other comprehensive income in accordance with the IFRS rules due to the impossibility of predicting the sales volume. The management estimates that fluctuations in the price of assets in kind required for regulated heat energy sales are eliminated through hedges by the Group under normal market conditions.

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

- The Group adapts its gas purchases to its regulated heat energy sales pricing system and concluded forward contracts to manage currency price volatilities.
- The Group entered into interest rate swaps on some of its outstanding project loans in line with its risk management policy. The Group intends to manage the interest rate risk on project loans with interest rate swaps.
- The Group presents the tax effect of the forward contracts shown in the comprehensive income by applying a corporate tax effect of 9%.

1.3 Management summary on the performance of the segments

In relation to segment information, we present the detailed description, analysis and comparison of the segments in question.

ALTEO GROUP MANAGEMENT STATEMENT – FINANCIAL STATEMENT BY ACTIVITIES								
12/31/2021 *data in HUF million*	Energy production (outside the subsidized system)	Electricity production (within the subsidized system)	Energy services	Energy Trading	Other	Administration costs	Items eliminated due to consolidation	Total
Revenue	**24 285**	**5 007**	**3 305**	**16 370**	**-**	**-**	**(4 717)**	**44 249**
Capitalized value of own production	85	-	135	-	-	23	-	243
Material expenses	(12 802)	(665)	(1 379)	(14 690)	(261)	(545)	4 717	(25 624)
Personnel expenses	(880)	(188)	(1 413)	(114)	(699)	(899)	-	(4 192)
Other revenues and Other expenses	(1 646)	(37)	48	(154)	4	(10)	-	(1 796)
EBITDA*	**9 042**	**4 117**	**696**	**1 412**	**(956)**	**(1 431)**	**-**	**12 880**

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

Starting from 2021, the presentation of ALTEO segments has changed in the interest of better interpretability for investors and an improved presentation of segment profitability.

The following structural changes were implemented in the presentation of the segments:

- Intra-group, inter-segment construction works were eliminated on both the revenue and cost side.
- Activities related to the operation of power plants owned by ALTEO were shown directly in the segment presenting profit/loss generated by the power plant.
- In the previous reporting structure, internal production in the "Other" segment was presented in the revenue line. The new structure shows the profit or loss of the segments by allocating expenses. Those indirect expenses previously shown in the "Other" segment that are closely linked to ALTEO's operations, have been reclassified as administrative costs and then allocated to productive segments.
- Amounts net of administration costs allocated to segments are shown as EBITDA. Through the allocation procedure, we assigned indirect administrative costs (called administrative costs in the tables) to segments, followed by the presentation of **EBITDA II.**
- "Administration costs" are also presented in segment-specific tables as assigned to segments.

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

This segment includes combined heat and electricity generation (cogeneration), the Virtual Power Plant and wind turbines that are no longer subsidized (being excluded from KÁT, having produced their subsidized volumes). The Virtual Power Plant is responsible for planning and managing the Group's market-based renewable electricity generation, the electricity generation by cogeneration equipment in heating power plants and the production by external partners connected to the Virtual Power Plant. The Virtual Power Plant 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 Virtual Power Plant, 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 generation (market rate, outside the KÁT regime)					
data in HUF million	12/31/2021 audited	12/31/2020 comparison**	12/31/2020 audited	Change HUF million compared to the previous year	Change % compared to the previous year
Revenue	**24 285**	**14 138**	**14 179**	**10 147**	**72%**
Capitalized own production	85	71	60	14	20%
Material expenses	(12 802)	(8 868)	(9 966)	(3 934)	44%
Personnel expenses	(880)	(803)	(269)	(77)	10%
Other revenues and Other expenses	(1 646)	(1 072)	(1 072)	(574)	54%
EBITDA*	**9 042**	**3 465**	**2 933**	**5 577**	**161%**
Allocated administrative expenses	(474)	(437)	-	(36)	8%
EBITDA II*	**8 568**	**3 028**	**2 933**	**5 540**	**183%**

* *For the definition of EBITDA see the "Consolidated statement of profit or loss" report.*

The **revenue** of the segment was 72% up compared to the base period.

The current year's significant revenue growth is attributable to the appreciation in the market value of electricity generation capacities expanded as a result of investment projects implemented in the base year, a significant hike in capacity and regulatory prices, a higher heat demand and increasing heat feed-in tariffs, as well as the dynamic growth in revenues for the Scheduling business that was only observed to a limited extent in the base period.

Under the gas engine investment program, flexible own electricity generation capacities have been expanded from the second half of 2020, resulting in a considerable increase in the profit margin achievable on the market in the current year. In 2021, the expansion continued with the Group's **second electricity storage facility** put into operation in Q4, boosting ALTEO's electricity storage capacity to 11MW/9MWh by the end of the period. Renewable capacities in the segment that were previously integrated into the Virtual Power Plant 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. The Group's market share in the current year grew significantly, with the revenue and profit generated by the new business reaching the upper third of the target range.

Material expenses in the segment 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 the division responsible for the operation and maintenance of the power plant portfolio.

In 2021, the segment sold heat energy not only to district heating suppliers but also to industrial customers, including Heineken Hungária. On the basis of these contracts, the company continued to provide a stable and predictable performance.

The segment's EBITDA II for 2021 was HUF 8.6 billion, a 183% increase over the previous period, primarily attributable to the following factors:

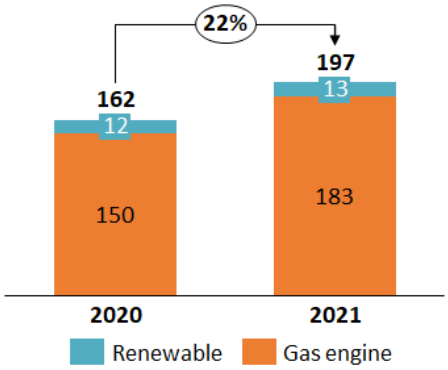
- For the entire year of 2021, the Virtual Power Plant realized significantly higher margins, relative to the prior period, as a result of the change in the behavior of actors in the balancing reserve capacity market and under volatile market conditions.
- This result arose from the aggregate effect of several external and internal factors. The availability of major industry producers, the increasing ratio of weather-dependent capacities and, simultaneously, the higher volatility of the demand-supply side of the electricity market leads to the appreciation of flexible electricity production capacities.
- The intensive capacity expansion projects over the previous period, and the development and upgrading of the Virtual Power Plant was met with positive feedback from the market.
- The sales revenue of the FCR (formerly called primary) regulatory capacity produced by the electricity storage architecture saw an increase of 21%.
- The Scheduling business makes an increasingly positive contribution to the segment's performance.
- The losses incurred on the heat production and sales activities subject to price regulation have become marginal as compared to dominant operations.

Presentation of the markets of the heat and electricity segment

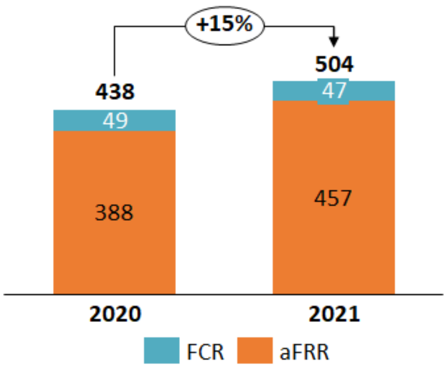
The quantitative impact of structured electricity product sales on the segment's profit

The **22% increase in electricity production is** primarily **attributable** to the additional electricity produced as a result of capacity expansion projects.

The renewable energy production volume is highly exposed to weather conditions, which were about the same as in the previous year for the purposes of generation.



Self-generated electricity sold by the Virtual Power Plant (GWh) in 2020 and 2021

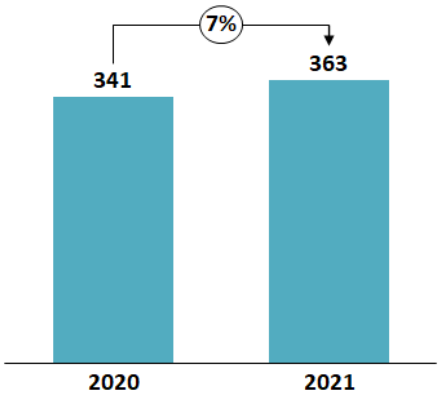


Electricity production capacities sold by the Virtual Power Plant in 2020 and 2021 (aFRR: GWh; FCR: GWh_{sym})

The balancing reserve capacity sold by the Virtual Power Plant saw an increase in terms of both quantity and unit price, which had a fundamental effect on the profit growth of the segment.

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

The **volume of heat energy** sold by the segment **increased by 7%** over the period. The 24% increase in revenues generated from heat sales is attributable to weather conditions and increased heat demand in 2021 as well as higher feed-in tariffs set by authorities. As a result of the hedging policy applied by the Group, the costs to cover the estimated resource needs for retail heat sales are fixed, ensuring low volatility for hedging in this subsegment.

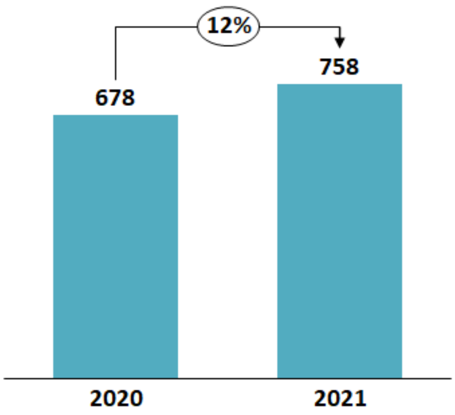


Amount of heat sold by the segment (GWh) in 2020 and 2021

As a result of the hedging policy applied by the Group, the costs to cover the estimated resource needs for retail heat sales to final consumers are fixed. Fixing the costs ensures low volatility for hedging in the subsegment.

Changes in the amount of natural gas used for electricity and heat energy production

The amount of natural gas used by the segment **increased by 12%**, in line with the growth of both heat and electricity production.



Amount of natural gas used by the segment (GWh_{GCV}) in 2020 and 2021

1.3.2 Electricity generation (within the "Subsidized"[1] system) segment

Electricity generation 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 (within the subsidized system)

data in HUF million	12/31/2021 audited	12/31/2020 comparison**	12/31/2020 audited	Change HUF million compared to the previous year	Change % compared to the previous year
Revenue	**5 007**	**3 596**	**3 585**	**1 410**	**39%**
Capitalized own production	-	-	-	-	n.a.
Material expenses	(665)	(535)	(669)	(130)	24%
Personnel expenses	(188)	(131)	-	(56)	43%
Other revenues and Other expenses	(37)	45	39	(82)	(182%)
EBITDA*	**4 117**	**2 974**	**2 955**	**1 142**	**38%**
Allocated administrative expenses	(93)	(89)	-	(4)	5%
EBITDA II*	**4 024**	**2 886**	**2 955**	**1 138**	**39%**

** 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** rose by HUF 1,4 billion. A significant portion of this revenue growth is a result of the production by Pannon Szélerőmű Kft., owned by the ALTEO Group since October 1, 2020, over the entire year of 2021, which, by itself, boosted the segment's revenue by HUF 805 million. Furthermore, the technical issues affecting wind turbines in 2020 were resolved, resulting in a significant increase in the revenue produced by the wind farms in both Bőny and Törökszentmiklós.

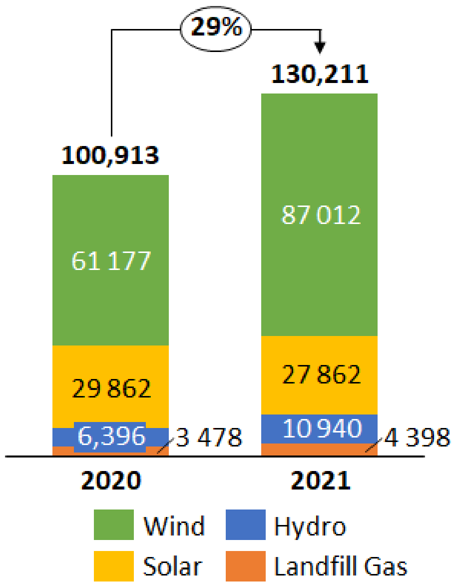
Profit was further boosted by a full year's production at the Gibárt hydropower plant, put into operation in October, 2020, sold through "METÁR".

The key difference between the two systems, "KÁT" and "METÁR", is that while fixed electricity feed-in tariffs are set for producers by MAVIR, as Buyer, under the KÁT purchase system, power plants selling under the METÁR system sell the electricity they produce to any buyer on the free market at free-market prices. Under METÁR system, after free-market sales, MAVIR makes price adjustments with a view to the difference between the contractual METÁR price and the price considered as market price as laid down by law in order to pay the corresponding amount to or collect such amount from producers (collectively: "price supplement"). From September 2021, market prices were higher than the contractual METÁR price for the Gibárt power plant; therefore, the Gibárt production unit

[1] The name "Subsidized" energy market corresponds to the term "KÁT" used earlier; in this report, these two names are used by the Company interchangeably.

recognized the cash flow to MAVIR as price supplement. The effect of the price supplement in 2021 amounts to HUF 61 million and is included other expenses.

Thanks to high EBITDA rates in this segment, the **EBITDA II output of the segment** rose to **HUF 4 billion in 2021**. As a consequence of the segment's cost structure, a significant portion of the increase in the revenue of the segment is reflected in EBITDA II.



Quantities sold and their breakdown for 2020 and 2021 (MWh)

Sold volume in 2021 was up by 29% compared to 2020, mainly as a result of the now full year's production by Pannon Szélerőmű, purchased in Q4 of the previous year, as part of the ALTEO Group's portfolio and the production by the Gibárt hydropower plant.

In 2021, a number of major technical issues were resolved, including the repair of the inverter malfunctions that affected the Balatonberény solar power plant since it was commissioned, causing loss of revenue in 2020/2021. The issue was addressed with the involvement, and at the expense, of the manufacturer. Since the second half of September, the power plant has produced the expected output.

The composition of the segment reflects the fact that the Group gives high priority to having a renewable energy portfolio, both in terms of profitability and environmental consciousness.

1.3.3 Energy Services segment

The Energy Services segment comprises power plant operation and maintenance (O&M) services provided to third parties as well as construction, engineering services 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 general 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 players in the Hungarian industry (e.g. MOL Petrolkémia, BorsodChem, Heineken, AUDI, Gönyű Power Plant, LEGO, FŐTÁV), 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.

Energy services					
data in HUF million	12/31/2021 audited	12/31/2020 comparison**	12/31/2020 audited	Change HUF million compared to the previous year	Change % compared to the previous year
Revenue	**3 305**	**5 353**	**10 747**	**(2 047)**	**(38%)**
Capitalized own production	135	33	43	103	312%
Material expenses	(1 379)	(3 264)	(7 809)	1 885	(58%)
Personnel expenses	(1 413)	(1 269)	(2 446)	(144)	11%
Other revenues and Other expenses	48	(117)	(95)	165	(141%)
EBITDA*	**696**	**736**	**441**	**(39)**	**(5%)**
Allocated administrative expenses	(731)	(653)	-	(78)	12%
EBITDA II*	**(35)**	**83**	**441**	**(118)**	**(142%)**

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

In 2021, the segment realized a negative EBITDA II of HUF 35 million. The negative value is due to the launch and ramping-up of newly introduced business lines involving higher allocated administrative costs, relatively significant compared to their profit generation capacity. ALTEO's management continues to consider the long-term value-creation of the new business lines to be ensured. The segment's revenue dropped by HUF 2 billion as a result of the higher share of external investment projects implemented in 2020 and the work performed for third parties last year by the Project Development Division.

Project development

A substantial part of the Project Development division's resources was dedicated to development projects considered own-account construction from the Group's perspective, i.e. own-account investment to **support the Group's growth objectives**. The extension of the lifespan of the **TVK Power Plant, which was launched in 2020,** was completed in 2021 **to the utmost satisfaction of the client.** The Covid situation continues to hinder the launch of investment projects for external partners, but negotiations are actively ongoing with a number of partners.

In 2021, due to the periodical nature of major jobs, **power plant operation and maintenance (O&M) services provided to third parties** entailed lower costs compared to the previous year, with unchanged technical standards and high satisfaction levels of clients. In January, 2022, the contract for the operation of the BC Power Plant was renewed for another 15 years, ensuring a stable, predictable coverage for the business.

Maintenance business

For the Maintenance business, 2021 went according to plan. Besides individual profit in 2020, revenues in 2021 also reflect a stable return on operations. The 2022 objectives for the business seem increasingly promising as the effects of Covid wane. A sign pointing toward this is that the business concluded contracts with a number of existing partners and new clients at the end of 2021.

E-mobility

Launched in 2020, this business is still finding the market niche corresponding to the state of the industry, and is still in the pre-growth phase. The mobility business was particularly affected by Covid-related restrictions; however, experts used the temporary inactivity in the business to develop the concept and products. This temporary period of inactivity allowed for the implementation of pilot projects. Charging points were installed at Praktiker stores, Wallis Motor dealerships and a number of office buildings (WING Infopark, Liget Center) in 2021 within the framework of these pilot projects. Chargers of ALTE Go Kft. are also available in parking lots of the Hunguest Hotel chain. There are ongoing negotiations with market actors in vehicle distribution and building construction industry to ensure the availability of a high number of charging points. The e-mobility business is the business line of the future and an investment for the present, being a key priority in ALTEO's strategy.

Waste management

Due to downward waste trends, this business underperformed in 2021 compared to 2020. Owing to the slow recovery in the HORECA sector after Covid, the market for liquid raw material base also shifted, while the evolution of prices on the feed market resulted in changing market conditions.

In the packaged waste segment, the second half of 2021 saw a successful push towards the market of inorganic waste from retail chains, an increase in volume and new partners gained, promising growth for the business in 2022.

1.3.4 Energy retail segment

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

Retail energy trade					
data in HUF million	12/31/2021 audited	12/31/2020 comparison**	12/31/2020 audited	Change HUF million compared to the previous year	Change % compared to the previous year
Revenue	**16 370**	**11 998**	**11 998**	**4 372**	**36%**
Capitalized own production	-	-	-	-	n.a.
Material expenses	(14 690)	(11 602)	(11 616)	(3 088)	27%
Personnel expenses	(114)	(101)	(101)	(13)	13%
Other revenues and Other expenses	(154)	5	5	(159)	(3 378%)
EBITDA*	**1 412**	**299**	**286**	**1 112**	**371%**
Allocated administrative expenses	(133)	(131)	-	(2)	2%
EBITDA II*	**1 278**	**169**	**286**	**1 110**	**659%**

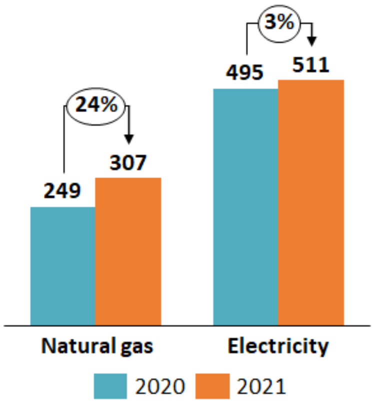
** For the definition and calculation of EBITDA, see Section IV.33 Financial reports.*

Covid-related restrictions had a substantial negative impact on the profits of the segment in 2020, resulting in a low base figure. In 2021, due to the expansion of the customer base and the reopening, the segment has grown significantly compared to the base period. Thanks to new trends in the market, which was previously hedged at a lower unit price, the volume of electricity not used by the various consumers resulted in a selling position in the spot market, which contributed to the segment's outstanding result as a one-off profit-increasing item. Despite changing consumer trends, the volume of electricity sold was higher than in the previous year as a result of our expanding portfolio. The gas trade business also increased over the base period as a result of the volatility of the weather, a reduction in the number of competitors and the expansion of our portfolio.

<u>Presentation of components with an impact on sales revenue</u>

The segment's revenue in the first half of 2021 increased by HUF 4.4 billion over the same period in 2020. This revenue increase is attributable, in part, to increasing energy prices in the global market and, in part, to the growth of the electricity trading business (HUF 3.2 million), while the revenue from the gas trading activity also saw a significant growth of HUF 1.2 billion as compared to last year. **Within the segment, an overall increase was realized in the volume and revenue of both natural gas and electricity sale transactions.** The segment's EBITDA was up by a total of HUF 1.1 billion compared to 2020.

The **volume of natural gas sold** increased from 249 GWh to 307 GWh **(+24%)**, which is mainly the result of the unusually unpredictable weather and also the entry of several new industrial consumers and the portfolio expansion after the previous gas year.



Changes in the amounts of natural gas and electricity sold in 2020 and 2021 (GWh)

As a result of the current situation in the global market, the average gas sales price is nearly 16% higher than in the previous year.

The **volume of electricity sold** increased from 495 GWh to 511 GWh **(+3%)**, and the average sales price (in line with the existing situation in the market) grew by 30%.

Material expenses represent the biggest cost item in this segment. We present the natural gas and electricity procured and resold here. Nearly a third of the electricity was purchased from ALTEO's Heat and electricity generation segment presented above (from the operator of the Virtual Power Plant, 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).

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

On January 1, 2021, the EKR system was launched through the amendment of Act LVII of 2015, requiring energy suppliers to achieve energy savings in proportion to the amount of energy they sell to end-users. Items related to this system are among the underlying reasons for the increase in other expenses.

Provisions for potentially non-paying customers were established more cautiously than in previous years due to the epidemic and the volatile economic and market situation.

1.3.5 Other segment

Activities involving costs incurred in ensuring ALTEO's long-term, transparent and successful operation are shown in the "Other" segment. These include expenses of activities necessary for the purposes of administration, participation in capital markets, publicity and leveraging future growth potential.

Other segments	12/31/2021	12/31/2020	12/31/2020	Change HUF million	Change %
data in HUF million	audited	comparison**	audited	compared to the previous year	compared to the previous year
Revenue	**-**	**-**	**455**	**-**	**n.a.**
Capitalized own production	-	20	20	(20)	(100%)
Material expenses	(261)	(183)	(615)	(78)	42%
Personnel expenses	(699)	(484)	(955)	(215)	44%
Other revenues and Other expenses	4	(1)	(8)	-	(782%)
EBITDA*	**(956)**	**(648)**	**(1 103)**	**(308)**	**47%**

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

The profit or loss of the Group's "Other" segment is determined by the expenses related to the human resources necessary to perform the aforementioned functions and other material expenses.

Material expenses were up by HUF 78 million over the previous year, primarily as a result of an increase in consultancy fees related to the optimization of internal processes.

Personnel expenses in the segment were HUF 215 million higher compared to the previous year, mainly due to recognition in line with the management compensation system published in December 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 35% (HUF 15.9 billion) from 2020 to 2021.

Consolidated Statement of Financial Position 2021 (assets)

Statement of financial position - Assets (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand	change %	diff. Value
Non-current assets		**31 370 772**	**31 065 255**	***1%***	**305 517**
Property, plant and equipment*	9.	25 738 088	25 523 292	*1%*	214 796
Other intangible assets	9.	2 516 820	3 037 269	*(17%)*	(520 449)
Operation contract assets	9.	1 052 216	1 212 987	*(13%)*	(160 771)
Rights of use	9.	1 766 502	1 063 615	*66%*	702 887
Deferred tax assets	8.	71 395	132 811	*(46%)*	(61 416)
Long-term deposits or loans given	11.	225 651	95 181	*137%*	130 470
Long-term participation in associate	12.	100	100	*0%*	-
Current assets and assets held for sale		**29 389 976**	**13 819 105**	***113%*** ***#ZÉRÓOSZTÓ!***	**15 570 871** -
Inventories	13.	1 076 779	442 622	*143%*	634 157
Trade receivables	14.	4 425 345	3 263 224	*36%*	1 162 121
Short-term lease assets	10.	-	128 949	*(100%)*	(128 949)
Emission allowances	15.	2 395 525	843 488	*184%*	1 552 037
Other financial assets*	16.	8 627 136	1 795 982	*380%*	6 831 154
Other receivables and accruals	17.	9 155 718	3 796 983	*141%*	5 358 735
Income tax receivables	7.	30 220	92 812	*(67%)*	(62 592)
Cash and cash equivalents	18.	3 679 253	3 455 045	*6%*	224 208
TOTAL ASSETS		**60 760 748**	**44 884 360**	***35%***	**15 876 388**

Note references *in the table refer to sections in* ***Chapters IV and V*** *of the ALTEO Group's 2021 IFRS statements.*

** Consolidations in the "Property, plant and equipment" and "Other financial assets" lines compared to the statements published in the previous period, see ALTEO Group's 2021 IFRS statements, Section II.5.3.1.*

Consolidated Statement of Financial Position 2021 (liabilities)

Statement of financial position - Liabilities (Negative values are denoted by parentheses.)	Note	Year ending on 12/31/2021 HUF thousand	Year ending on 12/31/2020 HUF thousand	change %	diff. Value
Equity		**19 009 318**	**8 547 657**	***122%***	**10 461 661**
Equity attributable to the shareholders of the Parent Company		**18 999 287**	**8 539 892**	***122%***	**10 459 395**
Issued capital	20.	242 235	232 972	*4%*	9 263
Reserves*	20.	5 375 369	4 962 084	*8%*	413 285
Share-based payments reserve	20.	(206 875)	62 819	*(429%)*	(269 694)
Hedge reserve	20.	5 306 431	399 801	*1 227%*	4 906 630
Retained earnings	20.	8 282 127	2 882 216	*187%*	5 399 911
Non-controlling interest	20.	10 031	7 765	*29%*	2 266
Long-term liabilities		**24 490 928**	**27 905 833**	***(12%)***	**(3 414 905)**
Debts on the issue of bonds	21.	12 658 274	14 889 000	*(15%)*	(2 230 726)
Long-term loans and borrowings	22.	6 583 098	8 411 397	*(22%)*	(1 828 299)
Finance lease liabilities	23.	1 687 704	1 047 406	*61%*	640 298
Deferred tax liabilities	8.	1 487 761	866 550	*72%*	621 211
Provisions	24.	944 136	850 493	*11%*	93 643
Deferred income	25.	593 865	436 864	*36%*	157 001
Other long-term liabilities	26.	536 090	1 404 123	*(62%)*	(868 033)
Short-term liabilities		**17 260 502**	**8 430 870**	***105%***	**8 829 632**
Short-term bond payables	21.	2 312 138	-	*N/A*	2 312 138
Short-term loans and borrowings	22.	419 778	929 693	*(55%)*	(509 915)
Short-term finance lease liabilities	23.	237 744	154 912	*53%*	82 832
Advances received	27.	8 989	46 500	*(81%)*	(37 511)
Trade payables	28.	4 546 498	2 308 413	*97%*	2 238 085
Other financial liabilities	29.	-	189 130	*(100%)*	(189 130)
Other short-term liabilities and accruals	30.	9 328 196	4 522 992	*106%*	4 805 204
Income tax liabilities	7.	407 159	279 230	*46%*	127 929
TOTAL EQUITY and LIABILITIES		**60 760 748**	**44 884 360**	***35%***	**15 876 388**

***Note references** in the table refer to sections in **Chapters IV and V** of the ALTEO Group's 2021 IFRS statements. * Consolidations in the "Reserves" line compared to the statements published in the previous period, see ALTEO Group's 2021 IFRS statements, Section II.5.3.1.*

Significant changes in the structure of the statement of financial position are attributable to the following events:

<u>Non-current assets increased by 1% (HUF 0.3 billion), with the change stemming from the following:</u>

- In July, 2021, ALTEO moved to a new office building (address: H-1033 Budapest, Kórház u. 6-12.). Offices are set up in a rented property (with the right of use recognized as an asset), while the materials, equipment and work used to fit out and furnish the office space are shown as fixed assets in the statement of financial position of the Group.

- In Q4 2021, the development project for the recycling of car batteries under the KFI2 program in Kazincbarcika was completed. The project generated HUF 1 billion new asset value and provides 5MWh storage capacity.

<u>Current assets increased by 113% (HUF 15.6 billion), with the change stemming from the following:</u>

- A HUF 6.9 billion increase in **other financial assets**, of which HUF 4.5 billion is attributable to a change in the fair value of hedging transactions. The change in the situation in the global market for energy products had a significant impact on the level of deposits and security deposits. The value of deposits and security deposits on the reporting date showed an increase in excess of HUF 1.5 billion.
- The increase in the value of emission allowances followed sales growth. The Group made sure to obtain and keep available the carbon dioxide emission allowances required to comply with its obligations arising from gas consumption.
- Trade receivables, and accrued income and deferred charges are in line with changes in the volume of revenue between 2021 and 2020. Higher prices give rise to higher outstanding debt. The price hike in the global market resulted in a HUF 7.9 billion increase compared to the debt stock at the end of the previous year.

<u>Equity increased by 122% (HUF 10.4 billion), with the change stemming from the following:</u>

In 2021, the Group's equity saw a growth of HUF 10.5 billion, of which HUF 5.8 billion is net profit and HUF 4.9 billion corresponds to a change in the fair value of hedging transactions. Earnings per share in 2021 equaled to HUF 309.

<u>Long-term liabilities decreased by 12% (HUF 3.4 billion), with the change stemming from:</u>

- With regard to **loans**, the Group decided not to make use of the moratorium in 2021. The asset-financing loan related to the acquisition of a wind farm in 2020, worth **HUF 0.9 billion**, **was repaid prior to maturity**. **Early repayment**, amounting to HUF 0.6 billion, was also made on investment loans.
- **Debts on the issue of bonds** decreased by HUF 2.2 billion to HUF 12.7 billion due to the reclassification of short-term bond payables.
- **Finance lease liabilities** increased by HUF 640 million to HUF 1.7 billion. A lease liability is recognized by recording the 10-year lease on the head office. The opening balance includes liabilities relating to the right of lease of the land belonging to the 13 wind turbines of the Bőny wind farm, as well as the new liabilities arising from the renewal of the right of use of the land

belonging to the Zugló heat power plant, and liabilities relating to the rights of use of other leased property and vehicles.

- **Deferred tax liabilities** increased by HUF 621 million. A tax liability is recorded due to the development reserve generated in 2021.
- The HUF 0.9 billion decrease in other long-term liabilities is attributable to the revaluation of interest rate swaps.

Short-term liabilities increased by 105% (HUF 8.8 billion), with the change stemming from:

- **Short-term bond payables** amounted to HUF 2.3 billion, including the interest and principal payments due within a year, **reclassified from long-term bond liabilities**.
- As a result of the repayment of Investment and asset-financing loans prior to maturity, short-term credit liabilities were reduced by HUF 0.5 billion.
- Advances received were used.
- The Group's Trade payables, and accrued expenses and deferred income are in line with the price hike in the global market, resulting in an increase of HUF 7 billion.
- Owing to a higher profit, Income tax liabilities rose by HUF 0.1 billion.

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 name in English	ALTEO Energy Services Public Limited Company
The Company's abbreviated name in English	ALTEO Plc.
The Company's registered office	H-1033 Budapest, Kórház utca 6-12.
The Company's telephone number	+36 1 236 8050
The Company's central electronic mailing address	info@alteo.hu
The Company's web address:	www.alteo.hu
The Company's place of registration,	Budapest
date of registration and	April 28, 2008
company registration number	Cg.01-10-045985
The Company's tax number:	14292615-2-41
The Company's EU VAT number:	HU14292615
The Company's statistical code:	14292615-7112-114-01.
Term of the Company's operation	indefinite
The Company's legal form	public limited company

Governing law	Hungarian
The Company's share capital	HUF 242,328,425
Date of the effective Articles of Association	November 9, 2021
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 publishes its notices regarding regulated information on its website www.investors.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 the applicable law, 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. It was repaid on January 10, 2022 and subsequently cancelled. 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

ALTEO NKP/2031: 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 the 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 Sütő, 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 Section, "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 District 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 ultimate parent company of the Group as at December 31, 2021 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, 2021.

Present shareholders of the Company based on the share register on 12/31/2021	Face value (HUF thousand)		Ownership ratio (%)	
	2021	2020	2021	2020
Wallis Asset Management Zrt. and its subsidiaries	153 436	154 789	63,32%	63,88%
Members of the Board of Directors, the Supervisory Board	11 544	7 716	4,76%	3,18%
Own shares	94	9 357	0,04%	3,86%
ESOP	5 967	-	2,46%	-
Free float	71 288	70 467	29,42%	29,08%
TOTAL	**242 329**	**242 329**	**100,00%**	**100,00%**

The publicly issued shares of the Company are listed on the Budapest Stock Exchange; the closing exchange rate of the shares on the last trading day of 2021 (on December 30) was HUF 2180, which is 134.4% higher than the same value in the last year (HUF 930). Annual turnover was HUF 3.930 billion, 133% higher than in 2020.

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 the Company and the Civil Code. The Articles of Association of the Company are available on the Company's website and other display points (www.investors.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. 8/2021. (IV.19.) to provide the Board of Directors with an authorization for a period of 18 (eighteen) months starting on April 19, 2021, to adopt resolutions on the acquisition by the Company 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 Hungarian forint), and the highest amount should be HUF 2,500 (two thousand five hundred Hungarian forint). The authorization hereof shall also cover share purchases by the Company's subsidiaries in such a way that the Company may authorize 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 19, 2022; 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, 12/31/2021 (for information on changes, see footnote numbers)	Nature* of the revenue-generating activity during the current period	Rate of influence		
		12/31/2021	06/30/2021	12/31/2020
ALTE-A Kft.	property management	100%	100%	100%
ALTEO Deutschland GmbH, being wound up	no revenue earned	100%	100%	100%
ALTEO Energiakereskedő Zrt.	trade in natural gas and electricity	100%	100%	100%
ALTEO-Depónia Kft.	electricity production	100%	100%	100%
ALTE-GO Kft.	E-mobility service	100%	100%	100%
ALTEO-Therm Kft.	electricity production, heat energy production	100%	100%	100%
BC-Therm Kft.[2]	steam supply, air conditioning, heat energy production production	n/a	n/a	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%
HIDROGÁZ Kft.	no revenue earned	100%	100%	100%
Kazinc-BioEnergy Kft.	no revenue earned	100%	100%	100%
Monsolar Kft.	electricity production (solar power plant)	100%	100%	100%
Pannon Szélerőmű Kft.	electricity production (wind turbine)	100%	100%	100%
Sinergy Energiakereskedő Kft.	electricity trading	100%	100%	100%
Sinergy Kft.	electricity production (hydropower plant)	100%	100%	100%
SUNTEO Kft.	electricity production (solar power plant)	100%	100%	100%
Tisza BioTerm Kft.	no revenue earned	100%	100%	100%
Tisza-BioEnergy Kft.	no revenue earned	100%	100%	100%
Tisza-WTP Kft.	water collection, treatment and supply	100%	100%	100%
WINDEO Kft.	electricity production (wind turbine)	100%	100%	100%

- Not identical to the main activity of the Companies, which can be found in the certificate of incorporation

2.4 Changes in the structure of the Group

Sale of business share

On March 3, 2021, ALTEO 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 to transfer the ownership of a business share representing the entire issued capital of BC-Therm Kft. fully owned by ALTEO. With the fulfillment of the closing conditions stipulated in the sale and purchase contract, the ownership of the business share in BC-Therm Kft. was transferred to BorsodChem on May 31, 2021. By

[2] As of May 31, 2021 BC-Therm Kft. is no longer a part of the Group. See the details of the transaction in Section 2.4.

executing 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 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.

2.5 Presentation of significant results and events of the Company and the Subsidiaries between January 1, 2021 and the date of disclosure of this Annual Report, as well as future prospects

With respect to the fiscal year 2021, 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 pandemic, it was again the Company's Board of Directors that adopted resolutions on matters within the competence of the General Meeting throughout 2021, in accordance with the provisions of Government Decree No. 502/2020. (XI. 16.) on the re-enactment of deviating provisions for the operation of partnerships and corporations in a state of danger. These resolutions include the following:

a) The Board of Directors **approved the statement of financial position** proposed for acceptance by the Company's auditor regarding the Company's fiscal year ending on December 31, 2020, along with the separate financial statement (comprehensive income: HUF 266,918 thousand, total assets: HUF 27,632,775 thousand), 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 consolidated statement of financial position proposed for acceptance by the Company's auditor for the Company's fiscal year ending on December 31, 2020, along with its **consolidated financial statement** (comprehensive income: HUF 2,704,833 thousand and total assets: HUF 44,884,360 thousand) and the business (annual) report prepared in accordance with the IFRSs, the report of the Board of Directors, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.

c) The Board of Directors **approved** the **corporate governance report** relating to the Company's 2020 operations with the proposed content.

d) The Board of Directors resolved to **pay dividends** from the free retained earnings supplemented with the Company's profit after taxation in the previous fiscal year, calculated according to Section 39(3a) of Act C of 2000 on Accounting, and the subsidiary dividends established for 2020, which corresponds to HUF 24 gross per share (excluding own shares owned by the Company). Furthermore, the Board of Directors authorizes the Board of Directors to adopt the resolutions specified in Article 18 of the Articles of Association, and any other decisions necessary in relation to the payment of dividends with due regard to the laws in effect.

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 consented to the extension of the scope of the **Remuneration Policy** for 2020 of the ALTEO ESOP Organization to BoD Members Domonkos Kovács and Attila László Chikán; furthermore, it adopted the amendment of the Remuneration Policy for the extension thereof to the new Deputy CEOs as per the proposal.

g) The Board of Directors acknowledged and **approved the information provided on own share transactions** in accordance with the proposals, as well as the additional information on the transaction to be accounted for on April 13, 2021.

h) The Board of Directors decided to extend the **authorization given to the Board of Directors** regarding **own share transactions** for another eighteen months from April 19, 2021 as per the conditions set forth in the proposal.

i) The General Meeting **adopted** the Company's **Articles of Association** in a consolidated structure with the amendments.

Based on the resolution of the Board of Directors of the Company adopted within the competence of the General Meeting concerning the payment of dividend, the Board of Directors of the Company specified May 20, 2021 as the **starting date of dividend payment**, and published the conditions of dividend payment through the Company's official disclosure points on May 3, 2021.

Based on the decision of the Board of Directors, the Company **moved its registered office** to H-1033 Budapest, Kórház utca 6-12 on June 15, 2021, and also ceased its operations at H-1131 Budapest, Babér utca 1-5 as of the same date.

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

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

The Company decided to **move the registered office** of the Subsidiaries listed in its notice published on May 27, 2021 to H-1033 Budapest Kórház utca 6-12 on June 15, 2021, and the subsidiaries also ceased their operations at H-1131 Budapest Babér utca 1-5 as of the same date.

On March 16, 2022, ALTEO approved the annual report of the Subsidiaries for 2021, has taken note of the auditor's report and, furthermore, in case of the following Subsidiaries, the Company decided to pay dividends.

Name of subsidiary:	Amount of dividend:
Domaszék 2MW Kft.	HUF 30,000,000
EURO GREEN ENERGY Kft.	HUF 1,300,000,000
Monsolar Kft.	HUF 32,000,000
Pannon Szélerőmű Kft.	HUF 1,100,000,000
SUNTEO Kft.	HUF 40,000,000

2.5.3 Own securities issued by the Company

2.5.3.1 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-. The credit rating agency also confirmed both the BB+/Stable issuer credit rating of the Company and its S-3 short-term debt rating.

2.5.4 Publication of an Integrated Report

The Company published its Integrated Report for 2020 on May 6, 2021.

2.5.5 Personal changes in senior management

Anita Simon, former Head of the Waste Management Division, will continue as ALTEO's Deputy CEO for Sustainability and Circular Economy with effect from June 1, 2021, following her appointment by CEO Attila László Chikán. As of that day, Anita Simon is also in charge of ALTEO's newly established Sustainability and Circular Economy area in addition to the Waste Management Division. Furthermore, also from June 1, 2021, Péter Luczay, who had held the position of Deputy CEO for Production and Risk Management, will continue as Deputy CEO for Production Management and Business Development.

2.5.6 GINOP

Construction work for ALTEO's research project "Integration of storage installation built using different parameter battery cells into the electricity system" was completed in line with the original plans. The Company has been awarded EU support in the form of a non-refundable grant amounting to HUF 227.84 million and a refundable loan amounting to HUF 249.68 million for the implementation of the project in the framework of the Economic Development and Innovation Operational Program (GINOP). The 5MW/5MWh electricity storage facility implemented at the Kazincbarcika Heating Power Plant was officially handed over on November 3, 2021, with the grant and subsidized loan related to the project currently being drawn down.

2.5.7 Strategic cooperation

ALTEO and AutoWallis Nyrt. have concluded a strategic cooperation agreement to coordinate their e-mobility-related services in the future. The agreement is based on the shared commitment of the two companies to sustainable and transparent operation and to transition to green economy. The agreement also covers the sales of innovative energy solutions related to the charging of electric vehicles.

2.5.8 New RDI project

ALTEO and the Alfréd Rényi Institute of Mathematics have submitted a grant application as a consortium in response to tender notice code number 2020-1.1.2-PIACI KFI, titled "Support for Market-driven Research/Development and Innovation Projects", which was announced by the Hungarian National Research, Development and Innovation Office. The Ministry of Innovation and Technology has found the grant application titled "Development of a Real-time Autonomous Power Engineering Information and Generation Management System", ID 2020-1.1.2-PIACI-KFI-2021-00229, worthy of support. The amount of non-reimbursable aid comes to HUF 401,021,730 out of the nearly HUF 1 billion total cost of the project.

2.5.9 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.

As the founder of the ALTEO Employee Share Ownership Program Organization (hereinafter: "**ALTEO ESOP Organization**"), ALTEO transferred 409,000 ALTEO ordinary shares to the ALTEO ESOP

Organization in order to ensure that the objectives identified in the ALTEO ESOP Organization's 2020 Remuneration Policy adopted on December 21, 2020 are achieved.

2.5.10 Exercise of option rights of the ALTEO ESOP Organization

On March 31, 2021, the ALTEO ESOP Organization exercised its option right in respect of 577,644 ALTEO ordinary shares (ISIN: HU0000155726) at a price of HUF 475 per share. Thereafter, the ALTEO ESOP Organization, making use of the repurchase offer of the Company published on March 29, 2021, sold, on the same date, to the Company 249,422 shares at a price equal to 92% of the stock market closing price of March 30, 2021, i.e., HUF 1,178 per share. The transactions were settled on April 13, 2021.

This repurchase transaction described above was designed, on the one hand, to facilitate the cashing in on shares by the ALTEO ESOP Organization by creating increased demand and, on the other, to create coverage for shares distributable under the 2020 Remuneration Policy by maintaining ALTEO's portfolio of own shares.

2.5.11 Long-term trade and business agreements

ALTEO-Therm Kft. with ALTEO being its sole member, Barcika Szolg Vagyonkezelő és Szolgáltató Korlátolt Felelősségű Társaság and the Municipality of Kazincbarcika agreed with regard to the contract for district heat production, investment and long-term heat supply concluded on September 11, 2001, in effect until September 15, 2022, and other relevant contracts that, in order to continue their mutually beneficial long-term cooperation, they would conclude another long-term contract for heat supply for a term of 10 years following the expiry of their previous contract, and proceeded to sign this contract today. Pursuant to the newly signed contract, in accordance with the terms and conditions therein, ALTEO-Therm Kft. will supply Barcika Szolg Kft. with heat until September 30, 2032.

Financing agreements

Members of the ALTEO Group **did not conclude any new financing agreements** with any Hungarian financial institutions to finance their activities in 2021. The details of existing financing agreements and financing agreements amended in 2021 due to specific circumstances (including, for example, budget increase) are included in the Annual Report.
In the fall of 2021, the ALTEO Group repaid three of its project loans with the shortest remaining terms until maturity, including the early repayment of bank loans taken out by ALTEO-Therm Kft., e-Wind Kft. and Pannon Szélerőmű Kft., with the related bank collateral removed.

2.5.12 Use of non-audit services

In 2021, the ALTEO Group did not use any audit services provided by BDO Magyarország Könyvvizsgáló Kft.

2.5.13 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. 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 virtual power plantare 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 alleged infringement claimed 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 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 publishing date of the Annual Report:*

2.6.1 Own share transactions

Under the Company's employee share award program, the Company distributed 1,267 ALTEO ordinary shares in February 2022 (through a transfer dated February 4, 2022) to employees who were eligible under the Company's recognition plan.

2.6.2 Long-term trade and business agreements

ALTEO and BC-ERŐMŰ Kft. (registered office: H-3700 Kazincbarcika, Bolyai tér 1.; company registration number: Cg. 05-09-007481; tax number: 11795346-4-05) agreed with regard to the operation and maintenance contract they concluded on September 29, 1999 and amended several times that, in order to continue their mutually beneficial long-term cooperation, they would conclude another long-term operation and maintenance contract for a term of 15 years following the expiry of their previous contract, and proceeded to **sign this contract on January 4, 2022**. The new contract secures energy supply for one of the major industrial companies in Hungary, BorsodChem Zártkörűen Működő Részvénytársaság (registered office: H-3700 Kazincbarcika, Bolyai tér 1.; company registration number: Cg.05-10-000054), reinforcing ALTEO's leadership in the B2B energy service sector. Pursuant to the newly signed contract, in accordance with the terms and conditions therein, ALTEO will operate and maintain the power plant and steam boiler owned by BC-Erőmű Kft. until December 31, 2036.

2.6.3 Company strategy

A new five-year strategy for 2022-2026 has been published by ALTEO for information purposes. The fundamental goals and areas remain the same, but the Company has set itself much more ambitious milestones than before. The company strategy is available at the following link:

https://www.bet.hu/newkibdata/128662993/ALTEO_PPT_VallalatiStrategia2022_2026_final.pdf

2.6.4 Bonds repaid

On January 10, 2017 the Company issued a zero coupon bond with a total face value of HUF 650,000,000 (ISIN identifier: HU0000357405, name: ALTEO 2022/I).

The Company's 'ALTEO 2022/I' bonds were repaid at maturity and therefore ceased to exist on the maturity date, **i.e. on January 10, 2022**, and the Company had no other obligations to the bondholders, in view of the repayment.

2.6.5 Share purchase by the ALTEO ESOP Organization

Based on its transactions announced on January 25, 2022, the ALTEO ESOP Organization has purchased 135,700 ALTEO ordinary shares from DAYTON-Invest Kft. (registered office: H-1055 Budapest, Honvéd utca 20; company registration number: 01-09-927201) and WALLIS ASSET MANAGEMENT Zrt. (registered office: H-1055 Budapest, Honvéd utca 20; company registration number: 01-10-046529) and, so now it is in possession of all the required shares, which can be distributed to eligible shareholders upon fulfillment of the criteria set out in the ALTEO ESOP Organization's Remuneration Policy for 2020.

2.6.6 ESG certification

In February 2022, ALTEO became the first company in the Hungarian electricity sector to obtain an independent, international ESG certificate. More information on ESG certification is available at the following link:

https://www.bet.hu/site/newkib/hu/2022.02./ALTEO_megszerezte_elso_ESG_minositeset_2022.02.02_128668992

2.6.7 Best of BSE

ALTEO was successful in three categories based on its 2021 performance at the Best of BSE Awards, one of the most prestigious events of the Budapest Stock Exchange. ALTEO shared the title of Issuer of the Year with the highest share price increase in the premium category, and also won the Responsibility, Sustainability, Corporate Governance Award and the Issuer Transparency Midcap Award.

2.6.8 Merger of subsidiaries

As the next step in the process to streamline the corporate structure of the ALTEO Group as announced at the extraordinary General Meeting of November 8, 2017, the Company decided on the merger by absorption of its subsidiaries listed below. The merger involves the absorption of the following companies also under the Company's direct and exclusive control into EURO GREEN ENERGY Kft., operating with the Company as its only member:

- WINDEO Kft.;
- e-Wind Kft.;
- HIDROGÁZ Kft.;
- Kazinc-BioEnergy Kft.;
- Tisza-BioEnergy Kft.;
- Tisza BioTerm Kft.

The Company schedules the mergers by absorption for June 30, 2022, and therefore the legal effects associated with the mergers will apply as of July 1, 2022.

2.7 *The business environment of ALTEO, classification of risks according to their characteristics*

The description and assessment of risks are included in Section III.2 Risks of the Financial Statements. Changes in risks are presented in 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 fiscal year 2016, 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/fenntarthatosag/fenntarthatosagi-jelentesek/. As our Integrated Report contains the details of the Company's data, policies, objectives in connection with environmental protection and sustainable business operations, this business report, based on the contents of the Integrated Report, provides only a summary of environmental policies and results.

Our Integrated Management System, which includes the standards ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems, 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 2021, we ensured our compliance with the standards by conducting 44 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 2021, 10 HSE-type inspections were carried out by various authorities, which resulted in 4 logged inspections. The inspections did not result in any compulsory orders or fines being imposed by the authorities.

Since the residual fuel stock stored at the Győr Power Plant can no longer be used in power plant technology and thus poses a significant environmental threat and fire hazard, the entire stock thereof was removed from the site in 2021. The removal of the residual fuel oil stock involved the sale of nearly 137 tons of fuel oil and the disposal of 90 tons of hazardous waste.

A separate document, the Integrated Report 2021, 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.

The ALTEO Group has established a Compliance Management System (hereinafter: "CMS"). The CMS is designed to ensure compliance with laws, internal rules and the Group's Code of Ethics in respect of the entire Group.

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

It is a useful guide which offers help and protection to our employees and provides information to our partners about the standards of behavior endorsed and expected by our Group.

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

In 2021, in line with ESG considerations and due to the two-year review, we amended the Code of Ethics, with an increased focus on our commitment to basic human rights, meeting our sustainability objectives and action against corruption and fraud. We have added to our core values: respect for human rights, transparency, fair market practices, respect for others and integrity.

The Company is committed to respecting human rights. Respect for human rights includes, among others: non-discrimination, freedom of thought, conscience and religion, freedom of expression, respect for private and family life.

2.8.3 Fundamental rights in practice

The CMS fundamentally provides a supportive, preventive and control function to prevent damage and abuse and minimize risk across the entire operation of the Company.

2.8.4 Policies applied in connection with the fight against corruption

The CMS fundamentally provides a supportive, preventive and control function to prevent damage and abuse and minimize risk across the entire operation of the Company.

We firmly reject all forms of corruption and bribery, which are regarded as particularly serious ethical violations in the context of government officials, suppliers and business partners. We apply zero tolerance to all cases involving bribery or corruption.

We conduct our procurement procedures transparently and in accordance with our internal rules.

We assess potential suppliers on the basis of a pre-qualification process (also taking financial and legal aspects into consideration). We do not enter into a business relationship with any supplier that does not meet the Company's requirements. We expect our business partners to know, accept and comply with our Code of Ethics.

We operate a whistleblowing hotline for reporting corruption and fraud, but reports can also be made via email or over the phone. We also provide whistleblowers with the possibility of anonymity.

In all cases of suspected corruption or fraud, we conduct an investigation in accordance with our internal rules of procedures. The ALTEO Group firmly stands up for the principle that all forms of retaliation or discrimination are unacceptable against whistleblowers who report suspected corruption or fraud, even if a bona fide report does not result in the identification of any illegal or inappropriate acts.

In 2021, no cases of suspected corruption came to the Company's knowledge.

Conflict of interest

The ALTEO Group is particularly dedicated to the detection and prevention of economic conflicts of interest, therefore all new entrants must make a conflict-of-interest statement. In 2021, we reviewed the employee conflict-of-interest statements of the entire Group. According to the review, there were no employees who did not report their relationship with companies, other employment, etc.

RISK MAP – Corruption index

In 2021, now for the seventh consecutive year, the ALTEO Group has prepared a compliance risk map using a questionnaire to measure the Group-level risk index in finances, accounting, human resources, corporate management and publicity in order to eliminate the potential for corruption, fraud and abuse.

An extended group of managers (28) completed the questionnaire this year. In order to fill the gaps identified by the questionnaire, the Ethics, Compliance and Control entity organizes regular meetings and provides ongoing support to the business areas on all compliance issues.

2.8.5 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. Every year, we provide our employees with a cafeteria allowance, and we offer a wide variety of benefits within the framework thereof, in accordance with the relevant laws.

At the end of 2021, the closing workforce headcount was 286, which is 8 more than in 2020; there were 7 part-time and 279 full-time employees. The number of employees with indefinite term contracts was 286. In 2020, 77% of the staff members were men and 23% 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 at 11%.

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 2021*** 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 2021*** 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 25, 2022

On behalf of ALTEO Nyrt.:

Attila László Chikán
Member of the Board of Directors, CEO

Zoltán Bodnár
CFO