ALTEO Nyrt.

Management (Business) Report

on Business Activities in 2018

for the individual statement

April 5, 2019

Pursuant to Act CXX of 2001 on the Capital Market, the Regulation of the Budapest Stock Exchange Ltd. on Regulations on Listing and Continued Trading (hereinafter: "**Regulation**"), and Decree No. 24/2008 (VIII.15.) of the Minister of Finance (hereinafter: "**MF Decree**"), ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (hereinafter: "**Company**") has prepared and hereby discloses the BoD report on the report for the 2018 financial year as well as the individual statement for the 2018 financial year included in Chapter III of this document (hereinafter collectively: "**Management Report**"). The individual statement of the Company has been prepared in conformity with the IFRS rules as required by Act C of 2000 on Accounting.

The information disclosed in the Company's individual statement for its 2018 financial year has been audited by an independent auditor.

I. The Company's details

The Company's name	**ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság**
The Company's abbreviated name	**ALTEO Nyrt.**
The Company's registered office	**H-1131 Budapest, Babér u. 1-5.**
The Company's telephone number	**+36 1 236-8050**
The Company's central electronic mailing address	**info@alteo.hu**
The Company's web address:	**www.alteo.hu**
The Company's place of registration	**Budapest**
Date of registration	**April 28, 2008**
Company registration number	**Cg.01-10-045985**
The Company's tax number	**14292615-2-41**
The Company's EU VAT number	**HU14292615**
The Company's statistical code	**14292615-3514-114-01**
Term of the Company's operation	**indefinite**
The Company's legal form	**public limited company**
Governing law	**Hungarian**

The Company's issued capital	**HUF 242,328,425**[1]
Date of the effective Articles of Association	**March 25, 2019**
The Company's core operations	**Electricity trading**
Business year	**same as the calendar year**
Place of publication of notices	**The Company discloses its notices regarding regulated information on its website www.alteo.hu, on the website of the BSE www.bet.hu and on the www.kozzetetelek.mnb.hu website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Company are also published in the Company Gazette.**
ISIN code of the Shares	**HU0000155726** **HU0000166608**[2]
Stock exchange listing	**19,386,274**[3] **shares of the Company have been listed on the BSE in the "Premium" category.**
Other securities	**ALTEO 2019/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 925,000,000, issue value: 69.6421% of the face value; not listed. ISIN code: HU0000355144** **ALTEO 2022/I: zero coupon bonds issued by private placement, with a maturity of 5 years, total face value: HUF 650,000,000, issue value: 76.6963% of the face value; not listed. ISIN code: HU0000357405** **ALTEO 2020/I: publicly traded bonds with a fixed coupon rate of 5.5% p.a., with a maturity of 3.5 years, total face value: HUF 2,150,000,000, issue value: 100% of the face value; listed on the BSE. ISIN code: HU0000357603**

[1] As of the date of publication of this Management Report

[2] ISIN code of the shares involved in the share capital increase, by adding new shares, in a private placement as described in Section III.1.1. of this Management Report. The New Shares confer the same rights as the Company's previously issued shares; they are only differentiated for technical reasons, since the holders of the New Shares will only be entitled to dividends from the 2019 fiscal year. The use of separate ISIN codes is temporary; once the difference in entitlement to dividends ceases to exist, the New Shares will be assigned the same ISIN identifiers as the previously issued shares.

[3] As of the date of publication of this Management Report.

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
	András Papp, Member of the Board of Directors, Deputy CEO
The Company’s Supervisory Board	**István 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
	Noah M. Steinberg, Member of the Supervisory Board
The Company’s Auditor	**Currently, the auditor of the Company is Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság (registered office: H-1068 Budapest, Dózsa György út 84/C.; company registration number: 01-09-071057). The mandate of the auditor is for the period from April 20, 2018 until the date of adoption of the General Meeting’s resolution on the report for the business year ending on December 31, 2018 or until May 31, 2019, whichever occurs earlier. The auditor personally responsible for auditing the Company is dr. Attila Hruby.**
Shareholder of the Company with a share exceeding 5%	**WALLIS ASSET MANAGEMENT Zrt.**

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

a. 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.

b. Limitation of voting rights related to the shares

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

c. Presentation of investors with a significant share

The majority shareholder of the Company is Wallis Asset Management Zártkörűen Működő Részvénytársaság (H-1055 Budapest, Honvéd utca 20, company registry number: 01-10-046529). The Company's ultimate parent company as at December 31, 2017 was WALLIS PORTFOLIÓ Korlátolt

Felelősségű Társaság (H-1055 Budapest, Honvéd utca 20, company registry number: 01-09-925865). The shareholders of this entity are all private individuals. Ownership structure of ALTEO Nyrt. based on the share register as at December 31, 2018.

Present shareholders of the Company based on the share register on 12/31/2018	Face value (in thousand HUF)		Ownership ratio (%)	
	2018	2017	2018	2017
Wallis Asset Management Zrt. and its subsidiaries	135,200	135,200	65.95%	65.95%
Members of the Board of Directors, the Supervisory Board and the Executive Board*	11,981	15,113	5.84%	7.37%
Own shares**	9,663	9,626	4.71%	4.70%
Free float	48,171	45,076	23.50%	21.98%
TOTAL	**195,352**	**195,389**	**100.00%**	**100.00%**

* Including the property of direct relatives and controlled companies as well
** Excluded from the face value in circulation

Voting rights of Wallis Asset Management Zrt. and its subsidiaries as at December 31, 2018: 65.95% (December 31, 2017: 65.95%).

d. Powers of senior executives

The rules governing the appointment and removal of senior executives and the amendment of the Articles of Association are laid down in the Articles of Association of ALTEO Nyrt., available on the Company’s website (www.alteo.hu).

The Board of Directors is the main decision-making body of the Company. 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, who are independent of the Company, 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 the specific authorization from the General Meeting, senior officials may not issue shares.

In its Resolution No. 3/2015. (XI.10.) the General Meeting of the Company authorized the Board of Directors to make a decision on the increase of the share capital of the Company at its own discretion, with at least four members of the Board of Directors voting in favor. Pursuant to such authorization, the Board of Directors may increase the share capital of the Company by up to HUF 110,000,000, calculated at the face value of the shares issued by the Company, in aggregate (authorized share capital) over a five-year period starting on November 10, 2015. The authorization covers all cases and means of share capital increase (as specified 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 making of decisions relating to the share capital increase otherwise delegated by the Civil Code and other legislation and by the Articles of Association to the competence of the General Meeting, including any amendment of the Articles of Association necessitated by the capital increase.

In its resolution No 12/2018. (IV.20.), the General Meeting authorized the Board of Directors, for a period of eighteen months starting on April 24, 2018, to adopt resolutions concerning the acquisition by the Company of the ownership of shares of any type or face value issued by the Company – supported by at least three quarters of the votes that can be cast by the members of the Board of Directors – and to enter into and perform such transactions for and on behalf of the Company, or to engage a third party for the conclusion of such transactions. The number of shares that can be acquired pursuant to the authorization may not exceed the number of shares with a total face value of 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 Company's own shares can be acquired for or without consideration, on the stock market and through public offering, or – unless the possibility is excluded by the law – in over-the-counter trading. In the event of the acquisition of own shares for consideration, the minimum and maximum consideration payable for one share should be HUF 1 and HUF 1,500, respectively. The authorization is also extended to include share purchases by the Company's subsidiaries so as to enable the Company to authorize and instruct 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 24, 2019; the Board of Directors has initiated its extension by an additional eighteen months.

e. Establishments and branches

At the end of the reporting period the Company has the following branches:

- H-3700 Kazincbarcika, Gorkij utca 1.
- H-3580 Tiszaújváros, Tisza út 1/D
- H-3600 Ózd, Gyári út 1.
- H-9027 Győr, Kandó Kálmán utca 11-13.
- H-9400 Sopron, Somfalvi utca 3.
- H-6781 Domaszék, 0203/35., 0203/36., 0203/37., 0203/38.
- H-3854 Gibárt, Petőfi Sándor utca 16.
- H-3847 Felsődobsza, Deák Ferenc út 67.
- H-3700 Kazincbarcika, Bólyai tér 1.
- H-3580 Tiszaújváros, TVK Ipartelep Gyári út
- H-3580 Tiszaújváros, TVK Ipartelep utca 2069. hrsz.

- 8649 Balatonberény, külterület utca 028/1., 028/2., 028/3., 028/4., 028/5., 028/6., 028/7., 028/8., 028/9., 028/10., 028/11.
- 2200 Monor, külterület utca 0307/41., 0307/42., 0307/43., 0307/44., 0307/45., 0307/46., 0307/47., 0307/48., 0307/49.

III. Management Report of the Company for the 2018 financial year

1. Company law summary

1.1. Events at the Company relevant in terms of company law in the period between January 1, 2018 and the date of publication of this Management Report

At the ordinary general meeting of the Company held on April 20, 2018, the following resolutions were adopted:

a) The General Meeting approved the statement of financial position proposed by the Company's auditor regarding the Company's business year ending on December 31, 2017, along with the individual statement and business report prepared in line with the provisions of the Accounting Act applicable to entities preparing their annual report under the EU IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.

b) The General Meeting adopted the statement of financial position proposed by the Company's auditor regarding the Company's business year ending on December 31, 2017 and the consolidated report prepared in accordance with the IFRS, as well as the relevant written reports of the auditor, the Audit Committee and the Supervisory Board.

c) The General Meeting approved the individual business report of the Board of Directors for the Company's 2017 business year.

d) The General Meeting approved the consolidated business report of the Board of Directors for the Company's 2017 business year.

e) The General Meeting adopted the corporate governance report relating to the Company's 2017 operations with the proposed content.

f) The General Meeting decided to pay HUF 250,098,816 as dividend from the free retained earnings (dividend fund) supplemented by the profit after taxes of the Company in the previous business year and the subsidiary dividends established after 2017. Furthermore, the General Meeting authorized the Board of Directors to adopt the resolutions specified in Article 18 of the Articles of Association and other decisions necessary in relation to the payment of dividend.

g) The General Meeting has given the discharge to the members of the Board of Directors in accordance with Section 3:117 (1) of Act V of 2013 on the Civil Code of Hungary, with the conditions described therein.

h) Based on the Audit Committee’s proposal, the General Meeting appointed Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság as the permanent auditor of the Company, the mandate of which is for the period from April 20, 2018 until the date of adoption of the General Meeting’s resolution on the report for the business year ending on December 31, 2018 but until May 31, 2019 at the latest. In line with the Audit Committee’s proposal, the General Meeting appointed Dr Attila Hruby as the auditor personally responsible for the audit.

i) The General Meeting has taken note of and accepted the information provided by the Board of Directors regarding transactions involving own shares.

j) In acceptance of the grounds described in the Board of Directors’ submission, the General Meeting decided to extend the authorization given to the Board of Directors regarding the own share transactions for eighteen months calculated from April 24, 2018.

k) The General Meeting has given its consent to the assets and activities demerging from Sinergy Kft. to merge into the Company with effect from September 30, 2018 (the legal effects of merger set in on October 1, 2018) and, at the same time, by granting the submission with the proposed content, approved the appointment of UNIKONTO Számvitelkutatási Kft. (H-1092 Budapest, Fővám tér 8. III/317.3, Hungary; tax number: 10491252-2-43) as the auditing company and Dr Csaba Adorján as the auditor personally responsible to act as the auditors checking the draft statement of assets and liabilities as well as draft property inventories in relation to the absorption-type demerger as regards both the Company and Sinergy Kft. Furthermore, the General Meeting approved the transformation plan along with the Deed of Absorption-type Demerger constituting a part thereof, decided that the Company’s statement of financial position for 2017 can be used as the Company’s pre-merger draft statement of assets and liabilities and draft property inventories, and approved the Company’s post-merger (opening) draft statement of assets and liabilities and draft property inventories as at September 30, 2018. Furthermore, the General Meeting authorized the Company’s Board of Directors to pass the member’s resolutions regarding the absorption-type demerger of Sinergy Kft. on behalf of the Company, and to sign the Deed of Absorption-type Demerger in the Company’s name.

l) The General Meeting adopted the Company’s Articles of Association in a consolidated structure with the amendments.

Based on the resolution of the General Meeting of the Company concerning the payment of dividend, the Board of Directors of the Company specified May 28, 2018 as the starting date of dividend payment, and published the conditions of dividend payment through the Company’s official disclosure points on May 10, 2018.

With its resolutions adopted in writing on July 16, 2018, December 6, 2018 and January 18, 2019, as well as in its resolution adopted at its meeting on September 21, 2018, the Company's Board of Directors updated the scope of the Company's authorized signatories, along with the list of its establishments and branches, in view of the changes that have taken place in the meantime and that are detailed hereinbelow.

With its Resolution No. 1/2019 (III. 12.), based on an authorization granted by Resolution No. 3/2015 (XI. 10.) of the General Meeting, the Board of Directors of the Company launched the process of increasing the share capital of the Company, by adding new shares (hereinafter: "New Shares") in a private placement ("Private Placement"). On the basis of the preliminary statements of commitment, the Board under Resolution No. 1-2/2019 (III. 21.) made decisions regarding the allocation of the shares: it excluded the shareholders' subscription rights and any preferential rights for the New Shares; taking account of the preliminary statements of commitment for the acceptance of the New Shares submitted during the sale (book-building), the issue price of the New Shares was set at HUF 670.00 (that is, six hundred and seventy forints); an oversubscription was accepted up to a total value of HUF 1,999,999,580 (that is, one billion nine hundred ninety-nine million nine hundred ninety-nine thousand five hundred and eighty forints) for the issue, and so, the decision was made to issue a total of 2,985,074 units of New Shares; that is, the Board designated from among the investors who had submitted their preliminary statement of commitment according to Section 3:296 (3) of the Civil Code to qualify for participation in the Private Placement, and established the number of the New Shares available to them; furthermore, specified the details for the submission of the final statement of commitment, as well as the deadline for the payment of the capital contribution. With its Resolution No. 3-4/2019 (III. 21.), the Board also decided about an amendment in the Articles of Association, subject to the success of the capital contribution. Each of the investors designated by the Board of Directors to receive the New Shares complied with their obligation undertaken and paid the total consideration for the 2,985,074 units of New Shares issued in the course of the Private Placement as required. By the same, the transaction aimed at the issue of 2,985,074 units of shares was completed, and all conditions were met for increasing the share capital of the Company, as registered in the Company register, to HUF 242,328,425 (that is, two hundred forty-two million three hundred twenty-eight thousand four hundred and twenty-five forints) at face value. The New Shares will be first traded at the BSE on April 5, 2019.

Within the framework of the Company's corporate restructuring project, in line with the resolution of the General Meeting dated April 20, 2018 as well as the Company's resolutions on the mergers by absorption passed on June 26, 2018, the assets of Sinergy Kft. specified in its deed of absorption-type demerger (thus in particular the workforce and subsidiaries of Sinergy Kft., and the contracts and liabilities apart from those relating to MOM Park and the Gibárt and Felsődobsza hydropower plants) merged into the Company, CIVIS-BIOGÁZ Kft. and ALTSOLAR Kft. merged into ALTEO-Depónia Kft., while VENTEO Kft. merged into WINDEO Kft., all with effect from October 1, 2018 as the date of legal succession. Based on the above, ALTEO-Depónia Kft. became the sole subsidiary of the Company as regards the Debrecen landfill gas power plants, while WINDEO Kft. became the project company owning the wind power plants in Ács, Pápakovácsi and Jánossomorja. In view of the merger by absorption, the issued capital of ALTEO-Depónia Kft. was raised to HUF 7,000,000.

The Company as the sole member of the subsidiaries and, in the case of Tisza BioTerm Kft., the members' meeting adopted the annual report of the subsidiaries for 2018, has taken note of the auditor's report, and extended the auditor's mandate for another year April 3, 2019; furthermore, in case of the following subsidiaries, the Company decided to pay dividend:

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

2. Evaluation of the Company's activities in the 2018 year, key financial information

2.1. Summary of trends in the period

In 2018 ALTEO's primary focus was the investment of the substantial funds from the successful public offering implemented in Q4 2016 and the profits generated by its operation in a manner that provides continuous and sufficient returns in line with the 2016-2018 strategy, as well as the optimized operation of its existing portfolio and the laying of the groundwork for future growth.

On March 13, 2018 the Company acquired a 100% share in Péberény Kft., facilitating the construction of a solar power plant with 6.9 MW nominal capacity on the outskirts of Balatonberény. The construction of the plant started in the second half of 2018, and is expected to be completed in Q2 2019.

On July 20, 2018, the Company purchased a 100% business share in True Energy Kft. and F.SZ. ENERGIA Kft, facilitating the construction of a solar power plant with a 7 MW nominal capacity on the outskirts of Nagykőrös. The construction of the plant started in the second half of 2018, and is expected to be completed in Q2 2019.

On October 1, 2018 the assets and activities demerging from Sinergy Kft. were merged into the Company.

The development of an innovative application model of a battery energy storage unit is in progress, for which Sinergy Kft., the legal predecessor of the Company, received a grant of close to HUF 500 million in a tender of the National Research, Development and Innovation Office. Following the receipt of the required permits for the energy storage unit, on August 23, 2018 the accreditation procedure necessary for participation in the primary control system was also successfully concluded. The grant enabled the Company to implement a research and development project with an aggregate budget of nearly HUF 1.1 billion to explore energy storage as well as its combination with the more predictable use of weather-dependent energy sources.

On the whole, the management of the Company is of the opinion that in light of the aforementioned projects and investments as well as the projects of the previous year, ALTEO is well on its way to realizing, by the end of the Q2 2019, the investment target of HUF 10-15 billion set in November 2016. As a result of its substantial investments completed or started last year and this year in various fields of sustainable energy production, energy storage and energy services involving capacity expansion and, to a lesser extent, modernization, by the end of the first half of 2019 the Group will have implemented development projects in excess of HUF 12 billion.

2.2. Statement of profit or loss

The Company's 2018 performance is shown in the following statement of profit or loss:

data in thousand HUF	Year ending on 12/31/2018	Year ending on 12/31/2017
Revenues	**4,503,172**	**1,415,023**
Material expenses	(2,751,362)	(429,439)
Personnel expenses	(1,310,012)	(646,128)
Depreciation write-offs and amortization	(58,669)	(24,387)
Other income and expenses, net	(23,946)	188,141*
Operating profit or loss	**359,183**	**503,210***
Finance income	1,162,437	2,140,835
Financial expenses	(699,328)	(658,881)
Net finance income	463,109	1,481,954
Profit or loss before taxes	**822,292**	**1,985,164***
Income tax expense	(244,954)	153,151*
Net profit or loss from continuing activities	**577,338**	**2,138,315**
Profit or loss from discontinued activities	0	(148,925)
Net profit or loss	**577,338**	**1,989,390**
EBITDA	417,852	378,692
Other comprehensive income (after income tax)	(10,340)	(125,049)
Comprehensive income	**407,512**	**1,864,340**

* From the subject year, the Company changed the presentation method of the local business tax and the innovation contribution. Instead of presenting these two items as other expenses as in previous years, these will be presented as income tax, in accordance with the statements of the main market players.

The **revenue** of the Company from remaining activities has increased substantially compared to the previous year. It is mainly caused by the continuous transformation in progress since the purchase of Sinergy Kft. in 2015. The revenue includes operation and control services provided by the Company for entities within and outside the ALTEO Group (meaning ALTEO Nyrt. and its subsidiaries collectively), as well as income from operations obtained as legal successor by way of the merger. The structure of the revenue changed compared to the corresponding period of the previous year, limiting comparability.

Material expenses include items attributable to the Company's core activity.

The material expenses grew at a different rate than revenues. Though the causes of the significant growth are the same as those of the change in revenues, the different cost structure of the changing activities only allows for limited comparability with the figures of the previous period in this regard as well. These expenses in this line mostly include operation, development and control services provided by ALTEO Nyrt. as well as the costs of own central control.

Wage and contribution expenses increased (by 102%) compared to 2017. Wage expenses incurred in the subject year can only be allocated to continuing activities. The average workforce of the Company in the 2018 business year was 98 persons (41 persons in 2017). This significant expansion is the result of the merger by absorption. The Company as the legal successor retained the employees of the absorbed subsidiary. The increase in personnel expenses was caused by a combination of the expansion of the workforce and thereby the increase of the wage bill, and the lower contribution rates. In 2018 the Company acquired own shares as part of its share repurchase program. Of these shares, shares to the value of HUF 8,950 thousand (i.e. 13,298 shares) were distributed to the employees, who were entitled to these on the basis of the Company's recognition system. In connection with the shares granted, the transfer of the shares started on January 25, 2019.

Depreciation and amortization also increased significantly in comparison to the previous year. The main reason for that is the time-proportionate depreciation of assets acquired by the Company through merger by absorption as of October 1st, 2018.

Items recognized on the **other income and expenses** line incurred in the subject year and the comparative period may only be allocated to continuing activities. Other income considerably declined in comparison to the previous year as the Company earned a one-off revenue of HUF 233 million from the sale of its electricity retail business in 2017.

As a result of the favorable interest environment, interests paid increased only minimally year-on-year, despite the fact that the Company had a higher annual average bond portfolio in 2017 than in the previous year, due to the effects of the bond exchange program.

2.3. Statement of financial position

	12/31/2018	12/31/2017
Non-current assets	**7,222,322**	**5,449,618**
Current assets and assets held for sale	**6,404,535**	**3,578,522**
TOTAL ASSETS	**13,626,857**	**9,028,140**

Equity	**6,229,388**	**4,161,173**
Long-term liabilities	**2,956,466**	**3,488,807**
Short-term liabilities	**4,441,003**	**1,378,160**

TOTAL EQUITY and LIABILITIES	**13,626,857**	**9,028,140**

As a result of the merger, both the assets and the liabilities of the Company underwent a significant change. The comparability of the figures of the subject year and of previous periods is limited.

The **non-current assets** of the Company increased by 33% year-on-year. The growth was attributable mainly to the increase of the stock of fixed assets and share as a result of the merger by absorption, as well as the rise in the intercompany loans as a result of the investments and acquisitions that took place in the subject year.

In the subject year the Company acquired three new subsidiaries for a total value of HUF 629 million. A total of HUF 497 million of impairment was recognized in connection with existing subsidiaries.

The substantial (79%) increase in current assets was caused primary by the increase of trade receivables and other receivables. Trade receivables increased as a result of the change in the structure of activities.

The 50% increase in equity was attributable mainly to the effect of the merger on equity and to the comprehensive income for the subject year.

The substantial decrease of long-term liabilities by 15% can be put down to the reclassification of the bond maturing in 2019 to the short-term category. The significant, 222% growth of short-term liabilities is attributable in part to the reclassification of the bond as well as the increase in trade payables caused by the structural change and the growth of related accruals.

3. *Events and changes affecting the Company's position*

With regard to the Company, this Management Report covers only major changes which occurred in 2018.

i) The Company's transactions, and information on existing shares in subsidiaries

Acquisition of Péberény Kft.

The Company – as buyer – concluded a business share purchase contract for the transfer of the ownership of a business share representing the entire issued capital of Péberény Ingatlanhasznosító Korlátolt Felelősségű Társaság (registered office: 1016 Budapest, Hegyalja út 7-13.; company registration number: 01-09-190766; hereinafter: "**Péberény Kft.**"), in the amount of HUF 100,000,000, to the Company.

With the so-called closing conditions specified in the business share purchase contract fulfilled, the ownership of Péberény Kft's business share was transferred to the Company on March 13, 2018.

Through Péberény Kft., the Company is implementing a small solar plant project with a nominal capacity of 6.9 MW on the outskirts of Balatonberény, on the 12.4 ha industrial property owned by Péberény Kft. Péberény Kft. has obtained all necessary permits for the construction of the solar power plant. The solar power plant is expected to start commercial operation in the first half of 2019. Afterwards, the produced electricity will be sold through the KÁT system for 25 years in accordance with the license issued by the Hungarian Energy and Public Utility Regulatory Authority (hereinafter: "**HEA**").

Acquisition of the project companies of the Nagykőrös solar power plant project

On July 20, 2018, the Company purchased a 100% business share in True Energy Kft. and F.SZ. ENERGIA Kft. Through these companies, the Company is implementing a small solar power plant project on the outskirts of Nagykőrös, with a total capacity of nearly 7 MW produced by 14 (7 for each company) solar panels, each with a nominal electrical capacity of 495 kW. The companies have obtained all necessary permits for the implementation of the solar power plant project. The solar power plants are expected to start commercial operation in the first half of 2019. Afterwards, the produced electricity will be sold through the KÁT system for 25 years based on the license issued by HEA.

Exiting from the Nyíregyháza landfill gas project

In order to clean up its portfolio, the Company sold EXIM-INVEST BIOGÁZ Kft., the operator of its biogas power plant in Nyíregyháza, on August 15, 2018, which was removed from the state-supported KÁT system with effect from June 30, 2018.

Investment in Germany

On April 17, 2018 the Company announced its decision to found a new limited liability company under the name ALTEO Deutschland GmbH with a registered office in Germany, which will be fully owned by the Company and have an issued capital of EUR 25,000 (twenty five thousand euros). ALTEO Deutschland GmbH was founded to enable the Company to start its business operation also in Germany, with an initial focus on identifying potential clients.

ii) Personal changes in the senior management

On February 19, 2018, there were changes in the senior management of the Company. On this day, Zoltán Bodnár joined the company's management team as Chief Financial Officer, and is now responsible for the financial, controlling and accounting operation of the entire company group and the areas of IT and office management.

At the same time as the arrival of the new CFO, ALTEO Group's former M&A and Capital Markets Director Domonkos Kovács was also appointed to the position of Deputy CEO and will also be responsible for the operation of these areas in the future.

Controlling Director András Kósa left the Company on May 11, 2018, and Péter Kaderják – in light of his appointment to undersecretary – resigned his seat on the Board of Directors on July 3, 2018.

iii) Changes in the Company's disclosure policy

In view the fact that, according to the amendments of Act CXX of 2001 on the Capital Market and the related legal regulations, companies listed on the stock exchange are no longer required to prepare interim management reports, and no such reporting obligation is required by the Rules of Listing and Continued Trading of Budapest Stock Exchange Ltd. either, the Company’s Board of Directors passed a resolution on March 31, 2017 on discontinuing its practice of preparing and publishing interim management reports on a quarterly basis. At the same time, the Company switched to publishing interim reports on a semi-annual basis and also introduced flash reports as a new reporting and investor information item designed to evaluate the Company’s performance in the second half of the relevant year and in the entire year, to be published by the last day of February of the year following the subject year. Under the analyst program launched by the Budapest Stock Exchange to provide analyses and market making services to Hungarian small- and mid-caps listed on the stock exchange, the Company agreed to resume publishing its financial information on a quarterly basis, necessitating the review of its disclosure policy described above.

In view of the above, in February 2018, the Company’s Board of Directors passed a resolution on preparing and publishing presentations for investors on the first and third quarters of each business year with sufficient detail to enable comparison against year-on-year data and against the figures included in annual and semi-annual reports, and to enable investors to gain insight into events, changes and tendencies that occurred in the relevant period. In addition, the Company continues to prepare and publish flash reports – along with semi-annual interim reports – as set out in its communication dated March 31, 2017.

Furthermore, the Company’s Board of Directors also decided – in accordance with the rules of the Budapest Stock Exchange related to premium category shares – that following 2018 it would publish the Company’s corporate events calendar with the schedule for all major corporate events and announcements by no later than January 1 of each business year. Though this obligation only applies to issuers assigned by the Budapest Stock Exchange to the Premium Category, the Company, categorized as a Standard Category issuer (at the time of making the decision), voluntarily undertook to comply with this obligation.

iv) The share repurchase program of 2018

In the 10th year of the Company’s existence, it launched its employee share award program with a view to establishing a tradition. The aim of the share award program is to recognize outstanding performance and loyalty of employees by awarding shares. The CEO of the Company is authorized to designate the award recipients and beneficiaries in various categories, based on recommendations by management.

The Company’s Board of Directors would like to maintain the share award program in the long term, therefore, for the coming years, it has allocated a maximum of 10,000 Company-owned shares per year for this purpose. The new share award program does not impact the executive remuneration program announced as part of ALTEO's Employee Share Ownership Plan (ESOP) announced by the Company in its communication dated March 14, 2017.

In order to acquire the shares to be used for the above-described employee share award program, the Company announced a share repurchase program (hereinafter: "**Program**") for 2018, and published its details on June 15, 2018. Eventually, the Company's Board of Directors prolonged the Program until March 14, 2019. Under the Program, ALTEO Group acquired a total number of 14,818 shares by March 14, 2019. Mandated by the Company's Board of Directors, the CEO selected the employees to be recognized by the Company as part of the Program in December 2018. As a result, in January and February 2019 the Company granted 13,298 shares to the employees who have become eligible for them based on the Company's recognition system and the CEO's decision.

v) Category switch

At the Company's request and based on Resolution No. 265/2018 of the Budapest Stock Exchange CEO, the equities of the Company were promoted to the Equities Prime Market, effective from September 12, 2018.

vi) The status of the Company's corporate restructuring

In relation to the absorption-type demerger operation between Sinergy Kft. and the Company decided by the Company's General Meeting of April 20, 2018, the Company has obtained the approval of HEA with respect to every licensee subsidiary. In view of this as well as the resolutions on the mergers by absorption passed on June 26, 2018, the assets of Sinergy Kft. specified in its deed of absorption-type demerger (thus in particular the workforce and subsidiaries of Sinergy Kft., and the contracts and liabilities apart from those relating to MOM Park and the Gibárt and Felsődobsza hydropower plants) merged into the Company, CIVIS-BIOGÁZ Kft. and ALTSOLAR Kft. merged into ALTEO-Depónia Kft., while VENTEO Kft. merged into WINDEO Kft., all with effect from October 1, 2018 as the date of legal succession. Based on the above, ALTEO-Depónia Kft. became the sole subsidiary of the Company as regards the Debrecen landfill gas power plants, while WINDEO Kft. became the project company owning the wind power plants in Ács, Pápakovácsi and Jánossomorja.

vii) R&D&I funding

As part of the merger, two R&D&I programs in progress were transferred from Sinergy Kft. to the Company by way of legal succession.

The battery storage facility constructed using grant funds awarded to Sinergy Kft. for its tender application titled "System level integration and an innovative application model of an electricity storage architecture" and submitted for the "Supporting R&D&I activities of companies – CORPORATE R&D&I_16" (Vállalatok K+F+I tevékenységének támogatása – VÁLLALATI KFI_16") program announced by the NRDI Office started its pilot operation in August 2018.

The Ministry of Finance Deputy State Secretariat for the Implementation of Economic Development Programmes awarded Sinergy Kft. with a non-reimbursable grant in the amount of nearly HUF 228 million and a reimbursable grant (loan) in an amount of nearly HUF 250 million for the grant application submitted by the company in response to the call for tender “Business RDI combined with loan” (Vállalatok K+F+I tevékenységének támogatása kombinált hiteltermék keretében) (code number: EDIOP-2.1.2-8.1.4-16). 50 percent of the grant amount becomes available as advance money following the conclusion of the grant agreement and the relevant loan agreement. The remaining funds can be drawn down in ex-post financing. If the above requirements are met, the Company can start a new R&D project aimed at integrating the power storage facility equipped with battery cells of different specifications into the electrical power system.

4. *Major risks facing the Company, and the relevant changes and uncertainties*

1. Risks specific to the market and the industry:

Macroeconomic factors: Certain negative developments in the macroeconomic environment may have adverse effects on the profitability of specific ALTEO Group activities.

Risks stemming from the legal system: The relative disorganization of the legal system (e.g. frequently changing legal regulations) can make it difficult for the company to perform its tasks in a manner fully compliant with legal regulations, and this can expose the company to arbitration, litigious, non-litigious and other risks of legal nature that affect its profitability.

Energy market legislation: The operation and the profitability of ALTEO Group greatly depend on the energy market regulations ratified in Hungary and in the European Union, and on the application of such regulations. In 2018, the European Union drafted new energy-related legal regulations under the title “Clean Energy For All Europeans”, some of which have already been adopted and published, while some other are still in the legislative process.

Environmental legislation: Any unfavorable changes in the environmental legislation affecting the ALTEO Group may generate surplus costs or additional investment requirements for the company.

Regulated prices: Prices that are set out in legal regulations or set by an authority and their changes may have a significant impact on the profitability and competitiveness of ALTEO Group.

CO_2 emission allocation system and CO_2 prices: Based on the national implementing measure, a decreasing number of emission units are allocated to specific power plants of ALTEO Group free of charge every year in the period between 2013 and 2020.

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

Government grants: The operation and profitability of ALTEO Group may depend on the volume of and the future changes in government grants. The Commission Guidelines on State Aid for Environmental Protection and Energy set up a new framework of EU requirements to be met by any government grant provided to the energy sector and to be applied in Hungary too. Furthermore, the EU adopted the RED2 Directive in December 2018, and the Member States, including Hungary, will have to transpose it by June 30, 2021. Changes in the government grant schemes and especially in the KÁT and METÁR regulations, or the termination of the relevant grants may have a significant impact on the operation, profitability, market position and competitiveness of the Group.

Taxation: The current tax, contribution and levy payment regulations applicable to ALTEO Group may change in the future, which would increase the tax burdens of ALTEO Group.

Technological innovations: Technological innovations can significantly improve the efficiency of the energy industry, especially in the area of renewable energy production. If ALTEO Group has no appropriate experience with or cannot access the solutions and technologies that take over the lead, that may lead to a loss of market share and a decrease in the Group's revenues and profitability.

Competitive situation: Several companies with considerable market positions and substantial experience in Europe and in Hungary, as well as advanced technologies, major capacities and financial standing are competing in certain markets of ALTEO Group or may enter the competition in the future. This may necessitate unforeseen developments and investments, and it can also have an adverse effect on the prices of ALTEO Group or increase the Group's costs.

Funding risk: Preparing for and implementing investments and developments in the energy segment are capital-intensive processes requiring substantial funding. Changes in certain factors (including the general economic environment, credit markets, bank interest rates and foreign exchange [FX] rates) may increase the costs of funding, make accessing and repaying funding more difficult, and may delay the latter or even render it outright impossible.

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

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

Impact of international market developments on domestic trade: Market prices formed on foreign commodity exchanges have a major influence on Hungarian energy prices. New developments in economic processes and changes in supply-demand relations may have a negative effect on ALTEO Group's profitability under certain circumstances.

Risk of changing natural gas, electric energy and heat price margins: If this margin dropped, it would have an adverse effect on the business and profitability of ALTEO Group.

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

2. Risks specific to ALTEO Group:

Risks of growth: ALTEO Group is planning to expand further both in terms of business activities and geographical areas. There is no guarantee that the company strategy will be successful and the company will be able to manage this growth efficiently and successfully.

Risks stemming from acquisitions, buying out projects and companies: Although acquisition targets always undergo detailed screening before the transaction, we cannot exclude the possibility of such financial, legal or technical events occurring in relation to an acquired project or company that may have an adverse effect on the business and profitability of ALTEO Group.

Risks related to power plant project development and green-field investment: Although ALTEO Group draws up careful technical, legal and profitability plans when preparing for project implementation, there is always a possibility that the authorization of specific projects becomes unreasonably long or impossible. During implementation phases, ALTEO Group strives to contract main and subcontractors that offer appropriate guarantees and references, but even so, the possibility of disputes arising between the parties cannot be excluded in these phases.

Risk of entering new geographical markets: any unfavorable changes in the macroeconomic, business, regulatory and/or legal environment of the target countries may have an adverse effect on the financial performance of the projects obtained through acquisition or implemented through green-field investments and consequently, on the profitability of ALTEO Group.

Large-scale, customized projects: In line with the characteristics of the industry, a significant share of ALTEO Group’s revenues comes from large-scale, customized projects. Consequently, completing or not implementing just a few projects may already make a big difference in terms of the company group’s future revenues and profitability.

Dependence on third-party suppliers: If, for any reason, manufacturers or suppliers fail to deliver the equipment ordered by ALTEO Group at the right time, for the right price and in the right quality, delays may occur in the implementation of investments and additional costs may arise.

Buyer risk: A significant share of ALTEO Group’s revenues comes from a small number of buyers making large purchases. Consequently, winning or losing a client contract may already make a big difference in terms of the company group’s future revenues and profitability. Even fixed-term contracts offer no guarantee against their termination before the end of their specified term due to some unexpected or exceptional event.

Energy trade risks: Changes in the demand on electric energy and natural gas markets may have a profound influence on the revenues, profitability and strategic expansion plans of ALTEO Group.

Wholesale partner risks: If the partner in a wholesale sales transaction does not deliver or accept the contracted amount of energy, or cannot pay for the energy delivered, such failed transactions may lead to short- or long-term losses for the company group.

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

Fuel risk: The possibility that the price of the fuels procured by ALTEO Group will increase in the future cannot be excluded, which can have a negative effect on the Group’s profitability. The natural gas transport agreements made by ALTEO Group are in line with the practices used by the entire industry.

Despite that, there is no guarantee that the fuel required for fueling the power plants will always be available, and it is especially difficult to plan with fuel supply in the case of external events.

Key licenses and qualifications: If the certificates, qualifications and licenses required for ALTEO Group to carry out its business activities are revoked or not extended, the business of ALTEO Group would be profoundly limited. Therefore, this could have a significant negative impact on the Group's profitability.

Authority risk: ALTEO Group does everything that can reasonably be expected of it to ensure the compliance of its operation with the requirements set out in legal regulations or specified by the authorities. Nevertheless, the possibility that future inspections by the authorities will make statements leading to substantial expenses, or that the determining authorities will impose certain sanctions on the company group cannot be excluded.

The risk of not fulfilling the obligations associated with operating its own balancing group: ALTEO Group itself has all licenses, financial securities, assets and resources required for operating the balancing group, but in the case of a malfunctioning or a shortage, the company group may not be able to perform its duties as the entity responsible for the balancing group, therefore, it would have to bear all relevant damages and fines.

Risks arising from operating the Control Center: The revenues of the Control Center greatly depend on the success rate of the bids it submits to the calls to bid MAVIR periodically announces for the provision of system services. If the Control Center is disqualified from bidding or cannot win such bids due to a change in the regulatory environment, that might have a significant influence the profitability of ALTEO Group's energy production business line.

Options to purchase certain means of production: Third parties have options to purchase certain means of production of ALTEO Group. If the relevant contracts are not amended or new service contracts are not signed, these assets will not contribute to the Company's revenues and profits after the time when they are sold. Apart from that, ALTEO Group may suffer losses from such sale transactions.

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

Renewing and/or refinancing outstanding debts: In addition to loans granted by financial institutions, ALTEO Group uses in part bonds – issued by ALTEO either to a closed, limited group of buyers or to be publicly traded – to fund its financing needs. Negative changes in the business prospects of ALTEO Group, in the general financing environment, in the interest environment or in the general capital market atmosphere may have a negative effect on the future funding of the Company Group's operation and financial position.

Business relationships associated with the Owners' Group: There are several business relationships between ALTEO Group and the owners' group, which it forms a part of. The termination of these buyer, financing and supplier relationships may have a negative effect on the profitability of ALTEO Group and limit its options to access funding in the future.

The risk of being categorized as an actual company group: It cannot be excluded that based on the request of a legal entity with an interest of legal nature, the court will oblige the member companies of ALTEO Group to enter into a subordination agreement and to initiate the registration of the company group with the Court of Registration, or categorize ALTEO Group as an actual company group even in the lack of a court registration. In a situation like that, if a subsidiary was liquidated, the company group would be obligated to honor its debt repayment obligations toward the creditors, except if it can prove that the insolvency was not the consequence of the company group's integrated business policy.

Taxation: ALTEO Group does everything that can reasonably be expected of it to ensure that its operation is in compliance with the regulations, but it cannot be excluded that a future tax audit will result in substantial expenses in the form of a tax liability payable by ALTEO Nyrt. or its subsidiaries.

Any discrepancies between the data in the consolidated and IFRS reports and the data in the reports prepared in line with the Hungarian Accounting Standards (HAS): Since 2017, ALTEO Nyrt. has been obliged to prepare even its HAS-based individual report in line with the IFRS standards. Certain data elements and results of this may, however, be different from those used in IFRS.

The risk of introducing and using new power plant technologies: Although ALTEO Group implements only proven technologies holding a number of references, if the performance of a given technology is lower than previously projected, it may cause a loss to ALTEO Group.

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

Information technology systems: The improper operation or security of ALTEO Group's information technology (IT) systems may have adverse consequences for the business and profitability of the Group.

Environmental risks: Members of the ALTEO Group have the necessary environmental licenses and policies in place, and their expert staff do their job with special care as required by the nature of this business. But there could be extraordinary events which may entail invoking the environmental remediation obligation of the affected company or imposing a fine, or may lead to enforcing claims against the affected company.

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

5. ***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 (the events with company law relevance occurring after the reporting date, including in particular the private placement and the decisions about the dividend, are described in Section 1, Chapter III of this Management Report, and are therefore not covered again in this chapter).

Zugló-Therm Energiaszolgáltató Korlátolt Felelősségű Társaság operated by ALTEO as a sole member and Budapesti Távhőszolgáltató Zártkörűen Működő Részvénytársaság (FŐTÁV) extended their long-term contract signed on May 21, 2004, in effect until May 31, 2020 on purchasing and selling thermal energy, as well as other contracts related thereto. Pursuant to the newly signed contracts – in accordance with the terms and conditions therein – ZuglóTherm will provide FŐTÁV with thermal energy until the day of May 31, 2030.

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

ALTEO, in the framework of its share repurchase program for the year 2018, announced on June 15, 2018 and extended as published on November 28, 2018, purchased a total of 8,021 ordinary shares of ALTEO (ISIN: HU0000155726) on the Budapest Stock Exchange in 2019. Mandated by the Company's Board of Directors, the CEO selected the employees to be recognized by the Company as part of the Program in December 2018. As a result, in January and February 2019 the Company granted 13,298 shares to the employees who have become eligible for them based on the Company's recognition system and the CEO's decision.

The Company's consolidated enterprise, SUNTEO Kft. - as buyer - concluded a business share purchase contract with Raiffeisen Energiaszolgáltató Korlátolt Felelősségű Társaság (registered office: H-1158 Budapest, Késmárk utca 11-13.; company registration number: 01-09-876219) - as seller - for the transfer of the ownership of a business share representing the entire issued capital (HUF 8,100,000) of EURO GREEN ENERGY Fejlesztő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-1158 Budapest, Késmárk utca 11-13; company registration number: 01-09-921340; hereinafter: "Target Company") to the Company.

Signing the business share purchase contract represents the first step of the transaction. The ownership of the Target Company's business share will be transferred to SUNTEO Kft. once the conditions detailed in the contract have been met.

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

6. Non-financial statements

1. Employment policy followed by the contractor

Following the line established in previous years, the employment policy of ALTEO Nyrt. and 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.

The Company believes that the loyalty and motivation of their employees are founded on the stable workplace, good working conditions, complex tasks and competitive wages provided by the Company. Maintaining the employees' commitment and motivation is of key importance for the Company. This is a goal it wishes to accomplish with stability, complex responsibilities as well as competitive benefit/allowance packages which were expanded to include additional components in 2018.

The closing workforce headcount at the end of the year was 233, which is 13 more than in 2017. The number of part-time colleagues (9) has not changed, while the number of those with full-time employment contracts is 224. The number of employees with indefinite term contracts and fixed-term contracts was 231 and 2, respectively. In 2018, 81% of the staff members were men and 19% 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 is most feasible in the head office.

The rate of fluctuation grew to 14% in 2018 from 6% in 2017, primarily as a result of elderly colleagues retiring from our power plants.

The Company consciously looks to increase the proportion of the young generation within the organization, since the management of the Company believe 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.

Developing our managers and employees, as well as educating a new generation of highly skilled experts are key factors in ALTEO Nyrt's Human Resources strategy. As a result, the following new programs and training courses were launched or relaunched in 2018.

Launched in 2018, the two-year program involves 9 young graduate employees who were selected by a dedicated committee based on their entries (a precondition of application) and recommendation by their managers. The training course aims to identify and develop talents within the organization, motivate them, and help retain their skills and knowledge. The course consists of competency-based training sessions (assertiveness, communication, informal mentoring by senior executives) and project work (individual and group). The program consists of general competence development (e.g. time management) in year one and managerial competence development (e.g. delegation) in year two. Although they are only halfway through the program, the Company intends to keep it going, considering the feedback received (e.g. the employees involved in the program face an increased workload).

The groundwork for dual training was laid at one of the Company's locations. The primary purpose is to find and educate the next generation of our employees, hence the program offers an opportunity for talented students with secondary education to gain professional experience.

In 2018, ALTEO Group worked with a vocational secondary school in Tiszaújváros for the first time. As part of that program, ALTEO Group received 4-5 students for summer internship and some of them also stayed for student work. In the Company's experience, the program was well-liked among both the youth and the Company's older employees. Therefore, next year, the Company wants to improve on it and supplement it with a mentoring program to train older employees in educating a new generation. As staff turnover is very low at ALTEO Group's sites outside Budapest, the Company can only hire new people for the positions of those who retire.

Seeing the success of the internship program in Tiszaújváros, ALTEO Group wants to establish cooperation with local vocational secondary schools also in Sopron.

ALTEO Academy, a series of events for internal knowledge sharing in an organized form, but in an informal setting, continued in 2018 as well. The Executive Program, a one-year program to strengthen key managerial competences in a modular system, also continued.

An e-learning framework (TOTARA LMS) will soon be implemented too. It aims to provide a resource-efficient way to provide in-house education and training courses within ALTEO Group.

2. Environmental guidelines

For the second time, the Company published its Sustainability Report in 2018, detailing the Company's information, guidelines and objectives related to environmental protection and sustainable business operations. This business report includes an overview of the environmental guidelines based on the content of the Sustainability Report.

We expanded the operation to the entire ALTEO Group within the framework of an Integrated Management System (IMS) which includes the standards ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems, OHSAS 18001:2007 Health & Safety Management System and ISO 50001:2011 Energy Management Systems. The Integrated Management Policy is the fundamental document for this system, in which the company's management commits itself to providing quality services, safe work environment, energy efficiency, environmental protection and sustainability.

In 2018, we ensured our compliance with the standards by conducting 23 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 line with the IMS, 27 HSE-type inspections were carried out at all sites by various authorities, which resulted in 4 logged inspections; however, no fines were imposed.

A separate document, the Integrated Report 2018, will describe environmental guidelines and the associated results in detail.

3. Fight against corruption

The Company published its Code of Ethics on January 1, 2016, demonstrating its commitment to fair, compliant and transparent business operation. Due to the changes that have occurred since the publication of its first edition, the Code was reviewed and updated in the second half of 2018.

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

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

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

Since 2016, the Company Group has prepared and published its annual Compliance Report each year (as part of the integrated report for 2017-2018).

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

In this context, in 2018, ALTEO Group issued 7 new policies and 2 new procedures and also amended 7 procedures to take into account changes in the business environment.

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

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

2018 RISKS MAP – corruption index

In 2018, all managers completed the questionnaire that covered the assessment of the compliance risks of HR, Procurement, Management, Finance and Publicity. Based on the assessments by all managers, the compliance result of ALTEO Group was 81%, which is a 13% improvement as compared to the previous year.

- Procurement scored 20% higher in 2018 than in 2017.
- The assessment of HR (Human Resources) improved by 15%, that of Publicity by 13% and Governance by 11%.
- Finance ranked last, despite a 5% improvement of its assessment as compared to the previous year.

In 2018, no cases of potential corruption came to the Company's knowledge. As per ALTEO Group's Compliance Policy and Code of Ethics, any form of corruption is considered as a serious ethical violation. To learn more about ALTEO Group's approach to eliminating corruption, please refer to ALTEO Group's Sustainability Report 2018.

4. Corporate governance statement

The Company 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 Company's main decision-making body that governs the Company and monitors its day-to-day operation on the basis of existing legislation, the Company's Articles of Association and the resolutions passed by the General Meeting and the Supervisory Board.

Members of the Board of Directors, its Chair and the member entitled to hold the title of CEO ("CEO") are elected by the General Meeting for a term of up to five years. The Company 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 six 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 Company'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 Company'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 Company's Articles of Association and the rules of procedure of Board of Directors. During the day-to-day operations of the Company, 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 Company by management, the members of which are responsible for functions within their scope of responsibility.

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

The Audit Committee verifies the Company'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 Company'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 directly to the CEO.

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.

Due to the changes at the ALTEO Group in 2015, resulting in considerable growth and a more complex business operations than before, the time came in the second half of the year to develop a compliance program for the Company Group.

7. Non-audit services provided by the auditor

In the fiscal year 2018, the Company and its subsidiaries used non-audit services provided by Deloitte Kft., as the auditor engaged to perform the audit of the annual financial statement of the Company, and other companies within the network of the auditor with prior written consent from the Company's Audit Committee in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council. The total fee for these services amounts to 51% of the audit fee set for Deloitte Kft. for 2018. These services (other assurance service, tax advisory) were used with prior consent from the Company's Audit Committee in each case. The auditor itself has also verified that the provision of these services does not compromise independence.

8. ***Statements of the Company as an issuer***

The Company hereby declares that its individual Management Report applicable exclusively to the Company for the fiscal year 2018 was prepared in accordance with existing and applicable accounting standards and to the best of the Company's skills and knowledge, provides a true and fair view of the assets, liabilities and financial situation of the Company as well as of its profit and loss.

The Company also declares that its individual Management Report applicable exclusively to the Company for the fiscal year 2018 provides a true and fair view of the situation, development and performance of the issuer, outlining the risks and uncertainties likely to arise in the fiscal year.

Furthermore, the Company declares that the information in this Management Report was audited by an auditor.

Budapest, April 5, 2019

On behalf of ALTEO Nyrt.:

Attila László Chikán
Member of the Board of Directors entitled to hold the title of CEO

Domonkos Kovács
Member of the Board of Directors
M&A and Capital Markets Director