

INFORMATION MEMORANDUM



published by ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság

for the offering of the bond designated as ALTEO NKP/2031, to be issued by ALTEO as Issuer

Distributor and Paying Agent: Erste Bank Hungary Zrt.

September 28, 2020

This information memorandum (hereinafter: “**Information Memorandum**”) was prepared in relation to the offering of the bonds to be issued by ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: H-1131 Budapest, Babér u. 1–5.; company registration number: 01-10-045985; hereinafter: “**Issuer**”).

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1 PERSONS RESPONSIBLE

With the exception of the content of the statement in Annex no. 8 (for which responsibility is assumed by Erste Bank Hungary Zrt. as the Distributor, represented by Kinga Oravecz and Mihály Geiszbühl), legal responsibility for all information, and the lack of any information, in this Information Memorandum, will be borne by the Issuer (ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: 1131 Budapest, Babér u. 1-5.; company registration number: Cg. 01-10-045985), i.e. no other person is responsible for any information, or the lack of any information, in this Information Memorandum.

In accordance with the above, the undersigned representatives of the Issuer declare, on behalf of the Issuer, that, to the best of their knowledge, this Information Memorandum contains truthful data and statements, and it is not withholding any fact or information that bears significance with regard to the assessment of the Bonds or of the Issuer's situation.

Dated: Budapest, September 28, 2020

**ALTEO Energiaszolgáltató Nyilvánosan
Működő Részvénytársaság**

**ALTEO Energiaszolgáltató Nyilvánosan
Működő Részvénytársaság**

Name: Attila László Chikán
Position: CEO

Name: Domonkos Kovács
Position: Deputy CEO,
M&A and Capital Markets

2 AUDITORS

2.1 The Company's auditor

Currently, the auditor of the Company is BDO Magyarország Könyvvizsgáló Korlátolt Felelősségű Társaság (registered office: 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.

The mandate of the auditor is from April 30, 2020 to the date of the adoption of the general assembly decision approving the financial statements of the business year ending on December 31, 2022 but to May 31, 2023 the latest.

BDO Magyarország Könyvvizsgáló Korlátolt Felelősségű Társaság and Péter Krisztián Kékesi are members of the Chamber of Hungarian Auditors.

2.2 Auditor responsible for the historical financial information

With regard to the business year 2019, the mandate of Deloitte Könyvvizsgáló és Tanácsadó Korlátolt Felelősségű Társaság and auditor personally responsible for auditing the Company Dr. Attila Hruby was from April 26, 2019 to the date of the adoption of the general assembly decision approving the financial statements of the business year ending on December 31, 2019 but to May 31, 2020 the latest.

3 RISK FACTORS

In the course of the preparation of this Information Memorandum, the Company considered and assessed the specific risk factors associated with the ALTEO Group and the securities issued by the Company as well as the potential risks involved in making an informed investment decision, based on the probability of the occurrence of such risks and the anticipated extent of their negative impact. This Information Memorandum only contains 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.

3.1 Macroeconomic and legal system related risk factors

3.1.1 Risks stemming from the legal system

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

Risk level: high.

3.1.2 Risks related to the spread of COVID-19

The direct personnel of ALTEO Group and the health of the workforce of its subcontractors and suppliers involved in each ongoing project may be affected by the COVID-19 virus and the measures taken or to be taken during the pandemic. Illnesses can have a negative impact on the economy of Hungary, the ALTEO Group’s work processes, the timing of ongoing projects and the spread of the virus 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 Management 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.

Risk level: high

3.1.3 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.

Risk level: medium.

3.1.4 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.

Risk level: medium.

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

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

Risk level: low.

3.2 Risks Specific to the Market and the Industry

3.2.1 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.

Risk level: high.

3.2.2 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 HEA, ministries and municipal governments). These prices, set out in legal regulations or set by an authority, furthermore, any modifications in the material scope of official price regulation may have a significant impact on the profitability and competitiveness of the Company, as well as its various Subsidiaries.

Risk level: high.

3.2.3 Pricing and accessibility of the electricity system markets for balancing reserve capacity and energy

In addition to the development of the price margin between electricity and heat energy, the financial position of gas-fired power plants is significantly influenced by the pricing and accessibility of the electricity markets for balancing reserve capacity and energy. If, for any reason, access to these markets becomes limited with respect to production units within the sphere of business interests of 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.

Risk level: high.

3.2.4 Government grants

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

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

In recent years, the 'KÁT' (i.e. mandatory electricity off-take) system has undergone changes that also affected the operating model. 'METÁR' (i.e. the support system for renewables), which embodies a comprehensive recast of the KÁT regime, became effective on 1 January 2017 (some of its elements on 21 October 2017). Changes in state subsidy regimes, and especially in the KÁT and METÁR regulations, or a possible cancellation of applicable grants may have a significant impact on the operation, profitability, market position and competitiveness of the Company. Hungarian legal regulations aimed at transposing the RED2 Directive have not yet been created, so whatever potential impact those might have on the Company's sales revenue and profitability is as yet unknown.

Risk level: high.

3.2.5 CO₂ emission market, CO₂ quota allocation system and CO₂ quota prices

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

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

Risk level: medium.

3.2.6 Changes in technology

Technological innovations can significantly improve the efficiency of the energy industry, especially in the area of renewable energy generation. Technological development can not only reshape the technologies the ALTEO Group uses, but, in some 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.

Risk level: medium.

3.2.7 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. That notwithstanding, the ALTEO Group's competitive position has improved significantly with the acquisition and integration of the Sinergy Group, due to the substantial professional experience and background it represents in terms of the preparation, implementation, as well as the operation and maintenance of power-engineering projects.

Risk level: medium.

3.2.8 Funding risk

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

A large part of the ALTEO Group's loans come with variable interest rates and are tied to certain reference interest rates, such as BUBOR or EURIBOR. An unfavorable change in the interest rates could have an adverse effect on the profitability of the ALTEO Group. The ALTEO Group enters into interest rate swap (IRS) transactions to mitigate its interest rate exposure. Such transactions are concluded on a discretionary basis, after the due consideration of the respective economic environment and facility-related terms and conditions. These transactions allow for reducing risk, however, 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.

Risk level: low.

3.2.9 Foreign exchange rate changes

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

Risk level: low.

3.2.10 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.

Risk level: medium.

3.2.11 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.

Risk level: medium.

3.2.12 Environmental legislation

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

Risk level: medium.

3.3 Risks specific to the ALTEO Group

3.3.1 Risks arising from operating the Control Center

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

Risk level: high.

3.3.2 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. Risks of this type could be present primarily in the case of ALTEO-Therm, which has district heating generation activities too.

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

Risk level: high.

3.3.3 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 generation, the Company relies on meteorological forecasts to estimate the quantity of energy to be generated. If the weather is not as predicted, the amount of energy produced may change as compared to the plans, which may cause a loss for the ALTEO Group.

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

Risk level: high.

3.3.4 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, as per the present Information Memorandum, the Company is preparing several project implementations. In addition to the Company's intention, these project implementations depend on a number of other external factors. It cannot be guaranteed that these projects will be actually implemented, or will be implemented in accordance with the present Information Memorandum, furthermore, the implementation of other future projects may precede or substitute projects known as at the date of the present Information Memorandum.

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

Risk level: medium.

3.3.5 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.

Risk level: medium.

3.3.6 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.

Risk level: medium.

3.3.7 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.

Risk level: medium.

3.3.8 Energy trade risks

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

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

In order to provide flexible services to meet consumer needs, the Company does not provide hedging for the full contracted amount, hence, open positions remain, and their closing takes place primarily on the cash (spot) market. Prices on the spot markets cannot be planned in

advance, any unfavorable developments for the Company may have adverse effects on the profitability of the ALTEO Group.

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

Risk level: medium.

3.3.9 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:

- (a) costs of general and unexpected maintenance or renewals;
- (b) unplanned outage or shutdown due to malfunction of the equipment;
- (c) natural disasters (fire, flood, earthquake, storm and other natural disasters);
- (d) change in operative parameters;
- (e) change in operating costs;
- (f) eventual errors during operations; and
- (g) 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 insured—either as the injured party or the responsible party—may be obliged to bear the damage.

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

Risk level: medium.

3.3.10 Fuel risk

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

For ALTEO Group’s power plants burning hydrocarbons, the key types of fuel (primarily natural gas) are procured from third-party suppliers. The natural gas transport agreements made by the ALTEO Group are in line with the practices used by the entire industry. Despite that, there is no guarantee that the fuel required for fueling the power plants will always be available, and it is especially difficult to plan with fuel supply in the case of external events. The natural gas transport agreements made by the ALTEO Group are also in line with the practices used by the entire industry and these may include an offtake (a.k.a. “*take-or-pay*”) obligation, for the respective period, with a certain tolerance band. In the event of a significant

drop in natural gas consumption, incurrence of a major penalty by the ALTEO Group due to gas not taken over cannot be completely ruled out, and such an occurrence would have an adverse impact on the profitability of the Company.

Risk level: medium.

3.3.11 Renewing and/or refinancing outstanding debts

In addition to loans granted by financial institutions, the ALTEO Group in part uses bonds to fund its financing needs. On the date of this Information Memorandum, the ALTEO Group holds a bond portfolio with a face value of HUF 13,093.63 million.

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

Risk level: medium.

3.3.12 Information technology systems

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

Risk level: medium.

3.3.13 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.

Risk level: medium.

3.3.14 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.

Risk level: medium.

3.3.15 Client 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 late, 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.

The 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.

Risk level: medium.

3.3.16 The risk of key managers and/or employees leaving the Company

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

Risk level: medium.

3.3.17 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.

Risk level: medium.

3.3.18 Regulatory risk

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

Risk level: low.

3.3.19 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.

Risk level: low.

3.3.20 The risk of not fulfilling the obligations associated with operating its own balancing group

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

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

Risk level: low.

3.3.21 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 Subsidiaries holding the heat power plants of Kazincbarcika, Ózd and Tiszaújváros and the local municipalities, the municipalities are entitled to buy those heat power plants upon the expiry of such contracts, at the value specified in the accounting records. The Tiszaújváros contract has been extended until 2035, and negotiations for extension are ongoing with the other district heat suppliers. If these contracts are not extended, the Kazincbarcika contract expires in 2022, the Ózd contract in 2020.

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

On the basis of a heat supply and capacity utilization contract concluded between BC-Therm and BorsodChem Zrt, BorsodChem Zrt is obliged to purchase from Sinergy the BC-Therm business share, at carrying amount, upon expiry of the contract (subject to the agreement between the parties, expected for December 31, 2021).

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

Risk level: low.

3.3.22 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.

Risk level: low.

3.3.23 The risk of being categorized as a de facto group of companies

The ALTEO Group includes several Subsidiaries. In the case of the 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 the 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 the ALTEO Group to enter into a subordination agreement and to initiate the registration of the company group with the Court of Registration, or categorize the 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.

Risk level: low.

3.3.24 Taxation

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

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

Risk level: low.

3.3.25 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.

Risk level: low.

3.3.26 Risk of bankruptcy and liquidation proceedings

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

Risk level: low.

3.3.27 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. However, beginning with the financial year of 2010, the Company prepares a consolidated report according to the IFRS standards. Furthermore, since 2017, the Company has been obliged to prepare even its individual report in line with the IFRS standards. Due to differences in the rules of preparation and compilation, certain items and results of the reports prepared in line with HAS may be different from those prepared according to the IFRS; however, such differences are not quantifiable, and any false conclusions drawn from such differences may result in an incorrect perception of the past performance of the Company.

Risk level: low.

3.3.28 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.

Risk level: low.

3.4 Risks related to Bonds or investments in Bonds

3.4.1 Bonds are regarded as extremely risky

The number of Bonds to be issued and the balance sheet total in excess of the equity capital as indicated in the last audited report of the Issuer are more than twice the equity of the Issuer. Therefore, the issuance of Bonds and their listing on a regulated market are considered extremely risky to Investors pursuant to the Capital Markets Act.

The ratio of (i) the equity capital of the Issuer indicated in its last audited consolidated annual report for 2019 to (ii) the sum of the number of Bonds to be issued and the amount of balance sheet total in excess of the equity capital as indicated in the last audited consolidated annual report of the Issuer for 2019, rounded to one decimal, is 0.3.

Risk level: high.

3.4.2 Shifting of market yields

The market rates of the Bonds are dependent on various factors. The unfavorable evolution of market rates may incur a risk for the Investor, as the rate of the Bonds will fall if there is a general increase in the market yields. Thus, if the Investor does not hold the Bonds until maturity, it is possible that he will realize a loss in such a case. The rate of zero-coupon (discount) bonds reacts to market-driven yield changes more sensitively than fixed interest bonds with an identical maturity.

Risk level: high.

3.4.3 The Bonds are not secured by assets

The Bonds are not secured by assets, this is why the Investor may lose the invested value fully or partly in the case of the Issuer's potential insolvency.

Risk level: high.

3.4.4 Lack of liquidity and secondary markets

The market of Hungarian corporate bonds, especially the OTC market, is characterized by the lack of liquidity, this is why the liquidity risk of the Bonds is much higher than that of the government securities. This means that the Investor may only be able to sell his Bond with an exchange loss before the Bond matures.

Risk level: high.

3.4.5 Shifting of market yields

The market rates of the Bonds are dependent on various factors. The unfavorable evolution of market rates may incur a risk for the Investor, as the rate of the Bonds will fall if there is a general increase in the market yields. Thus, if the Investor does not hold the Bonds until maturity, it is possible that he will realize a loss in such a case. The rate of zero-coupon (discount) bonds reacts to market-driven yield changes more sensitively than fixed interest bonds with an identical maturity.

Risk level: high.

3.4.6 Changes in legislation

The Hungarian law effective at any time has governing effect for the Bonds. In accordance with this, it cannot be excluded that, after closing this Information Memorandum, a legislative change that may affect the Bonds will happen.

Risk level: medium.

3.4.7 Regulation of investments in Bonds

Some Investors may pursue their investment activities in line with specific laws and other requirements, and these activities of theirs are controlled and supervised by the relevant authorities. The Investor should consult his own legal adviser and he should make sure that the investments in the Bonds are in compliance with the laws and other requirements related to the activities in question.

Risk level: medium.

3.4.8 Changes in the rules on taxation

The laws on the taxation of the income generated by the Bonds effective at the time of this Information Memorandum may change in the future; in the event of unfavorable tax conditions, the net income from Bonds falls short of the one anticipated at the time when this Memorandum was published.

Risk level: medium.

3.4.9 Foreign exchange risks

If the Investor represents his investments in a foreign currency that is different from the currency of the Bonds, he may even book an exchange loss. This is explained by that, if the currency in which the Investor represents his investments is appreciated against the currency of the Bond, the yield that can be realized on the Bonds in the Investor's currency will decrease, and so will the value of the principal amount of the Bonds expressed in the Investor's currency, and the market value of the Bonds expressed in the Investor's currency will also go down.

Risk level: medium.

3.4.10 Lack of assets securitization

The protection provided by the National Deposit Insurance Fund (or another insurer like the Investor Protection Fund) does not extend to Bonds, this is why no third party warranty may be expected in the case of a potential default of the Issuer with regard to the Bonds.

Risk level: medium.

3.5 Risk management processes of the Issuer

Within the scope of the Issuer'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.

The Issuer's controlling system is centralized, covers all Subsidiaries of the Issuer and is supervised by the Head of Controlling. In respect of the various subsidiaries of the Company Group, the controlling activity monitors and tracks progress against targets, on the basis of the expectations of individual plans annually updated by the Board of Directors. The controlling organization continuously monitors and tracks the changes and risk factors against the plans, and draws up a report on them for management each month. Jointly with the management, the CEO determines the necessary steps in line with the objectives set by the Board of Directors.

The organizational units specializing in energy trading act in accordance with their own risk management policies. The Issuer's Company Group places particular emphasis on mitigating its market risks. The objective of risk management is at all times to establish economically sustainable operation through the mitigation of the effects of market uncertainties on company profit, and to ensure stable and predictable cash-flow. Market risks resulting from the volatility of natural gas and electricity prices is typically mitigated through natural gas and electricity hedging transactions. The Company's market risk management is essentially divided into three segments – market-priced heat energy production and sales, regulated-price heat energy production and sales, and cogenerated heat and electricity production – and two time horizons – short-medium term (the unit price of heat energy sales can be accurately defined) and medium term (the unit price of heat energy sales cannot be accurately defined). Market exposures are mitigated through the hedging of basic products synchronous with the Company's physical market exposures with derivative instruments quoted on various financial and physical markets. The forum for managing the above-mentioned risks is the Risk Management Committee, whose members are the Chief Executive Officer, the Deputy CEO for production and risk management and the CEO.

The Issuer has a Standing Compliance Committee, which works based on an annual program and monitors, through the compliance department, the compliance of the Issuer with legislation and its internal policies; furthermore, identifies and manages any risks relating to human security, IT security or arising from other operations.

4 GENERAL INTRODUCTION OF THE COMPANY

4.1 Company information of the Issuer

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 place of registration	Hungary
The Company's legal entity identifier (LEI)	529900PHL3J3ZRBC2J44
Company registration number	Cg. 01-10-045985
The Company's date of registration	April 28, 2008
The Company's legal form	public limited company
Law governing the Company's operation	Hungarian
The Company's web address	www.alteo.hu (no information published on the web site (except for information incorporated by reference via a link) constitutes a part of this Information Memorandum or has been verified and approved by the competent authority)
The Company's beneficial owner	Ultimate Private Individual Shareholder

4.2 Corporate structure, organizational structure

4.2.1 Brief introduction of the company group and its major subsidiaries

A detailed description of the Issuer's subsidiaries is attached as Annex no. 1 to this Information Memorandum. Significant Subsidiaries are listed below:

ALTEO Energiakereskedő: the Issuer's subsidiary engaged in electricity and natural gas trading.

ALTEO-Therm: the Issuer's subsidiary engaged in district heat and electricity generation, created on January 1, 2020 through the merger of Győri Erőmű, Soproni Erőmű, Zugló-Therm, Ózdi Erőmű, Kazinc-Therm, Tisza-Therm and ALTEO-Agria. Its activities are described in detail in Section 5.4.1 of this Information Memorandum.

EURO GREEN ENERGY: the Subsidiary that owns the Bőny wind farm.

Tisza-WTP: owner of a high-capacity water treatment plant established on a site of MOL Petrochemicals Co. Ltd., producing desalinated water for technology purposes for MOL Petrochemicals Co. Ltd.

Sinergy Energiakereskedő: as a Control Center combining the ALTEO Group's various power generation capacities, it provides ancillary services to MAVIR.

Monsolar: owner of the Monor solar power plant, to be established on October 1, 2020 (date of legal succession) through the merger of the former Monsolar and IT Solar.

SUNTEO: the subsidiary that owns the Péberény and Nagykőrös solar power plants, to be established on October 1, 2020 (date of legal succession) through the merger of the former SUNTEO, Péberény, F.SZ. ENERGIA and True Energy.

4.2.2 Organigram

The Issuer's organigram is attached as Annex no. 2 to this Information Memorandum.

4.3 Brief description of significant patents, licenses, industrial, commercial or financial contracts and production procedures

The Company holds no registered patent or license, and uses no production procedure to be described.

Significant financial contracts are shown in the table below. These are the contracts/bonds that are long-term, rather than short-term working capital facilities or guarantee agreements.

Name	Financing party	Frequency of repayments	Amounts paid	DNEM	Nominal liabilities 12/31/2019	DNEM	Maturity date
ALTEO Nyrt NKP 2029		end of maturity; interest payment: annually	8,818,284,700	HUF	8,600,000,000	HUF	10/28/2029
ALTEO Nyrt "2022/II" bond		end of maturity	1,505,904,664	HUF	1,693,630,000	HUF	06/07/2022
ALTEO Nyrt "2022/I" bond		end of maturity	498,525,950	HUF	650,000,000	HUF	1/10/2022
ALTEO Nyrt "2020/I" bond		end of maturity	2,146,103,279	HUF	2,150,000,000	HUF	9/30/2020
e-WIND Kft. (HUF)	MTB	quarterly	542,830,000	HUF	301,058,656	HUF	11/30/2026
Soproni Erőmű Kft	K&H	quarterly	500,000,000	HUF	407,029,500	HUF	9/30/2025
Monsolar Kft	MKB	six-monthly	656,574,565	HUF	621,477,589	HUF	6/30/2033
IT Solar Kft.	MKB	six-monthly	656,574,565	HUF	628,846,158	HUF	6/30/2033
Péberény Kft	K&H	quarterly	2,147,328,133	HUF	2,108,759,469	HUF	9/30/2034
Domaszék Kft.	OTP	quarterly	601,000,000	HUF	574,500,596	HUF	6/30/2033
F.SZ. Energia Kft	K&H	quarterly	1,449,748,288	HUF	1,433,861,011	HUF	9/30/2034
TrueEnergy Kft.	K&H	quarterly	1,459,872,376	HUF	1,443,894,970	HUF	9/30/2034

Significant contracts concluded in the scope of the general business activity are described in Section 5 of this Information Memorandum.

4.4 Headcount of personnel at end of the reporting period presented in the information document

At the time of the publication of its report on the first half of 2020, the Issuer employed 269 persons.

5 PRESENTATION OF THE COMPANY'S BUSINESS ACTIVITY

5.1 The operation of the Company

Information regarding the operation of the Issuer is presented in this chapter.

5.2 Description of the Issuer's main scopes of activity/products and/or services

This chapter contains information on the business activities that the Company and the Subsidiaries actually pursue.

In its business policy, the ALTEO Group uses the expression renewable energy to denote all energy generated from renewable energy sources or waste, and, accordingly, it likewise does so in this Information Memorandum.

5.3 The Company's Key Areas of Operation

ALTEO Group's activities can be grouped into five key segments:

- (a) Market-based energy generation (sold outside the KÁT regime)
 - (i) Heat energy generation
 - (ii) Electricity generation
 - (iii) Delivering ancillary services (Control Center)
- (b) Renewables-based electricity production sold under the subsidized regime
- (c) Energy trading
 - (i) electricity trading
 - (ii) Natural gas trading
 - (iii) Balancing-group services
- (d) Energy and power engineering services
 - (i) Operation and maintenance of power plants and power engineering installations
 - (ii) Energy and power engineering services
 - (iii) Other services
- (e) Waste management
- (f) Other – Central costs
- (g) E-mobility – considering that the Issuer has not in effect commenced such activity, and preparatory works are currently ongoing in this regard, this Information Memorandum does not give a detailed description of this activity.

The Issuer's core activities as specified in the Articles of Association: engineering activities and related technical consultancy.

5.4 Presentation of the Issuer's key markets, including total turnover by scope of activity and in a geographical breakdown

The Company would like to point out that Chapter 8 of this Information Memorandum ("Financial Information") and this Chapter contain certain figures reflecting different accounting methodologies, which is why certain figures in this Chapter and Chapter 8 of this Information Memorandum ("Financial Information") do not correspond fully to one another. The analysis of the business activity is focused on the EBITDA value.

This Section includes a separate inset highlighting the year 2019 audited and the H1 2020 non-audited profit and loss data of the ALTEO Group broken down by the various segments indicated above.

Currently the ALTEO Group engages in business operations exclusively in Hungary; consequently, all figures relate to the relevant geographical market of Hungary.

Executive Profit and Loss Statement Broken down by Segments

The following profit and loss statement provides a summary illustration of the financial details for the Company's segments. In preparing these accounts, the Company made the following assumptions and took the steps below:

- (1) In the report, revenues and expenditure was assigned to the ALTEO Group segments.
- (2) The Company did not split central costs (typically including salaries, rent and expert fees), and these appear on the Other segment lines.
- (3) The report presents each segment as profit centers, i.e. both revenue and expenditure is carried at the respective actual values appearing in the given segment. Intra-segment transactions were eliminated from the figures below, but inter-segment items that remained within the ALTEO Group were not. Items that were eliminated among segments appear on specific lines in the Elimination segment.

ALTEO GROUP EXECUTIVE STATEMENT – FINANCIAL STATEMENTS (IFRS)

ALTEO GROUP MANAGEMENT STATEMENT - FINANCIAL STATEMENT BY ACTIVITIES							
H1 2020	Energy production (Outside of the subsidized)	Electricity production (within the subsidized)	Energy services	Energy trading	Other	Items eliminated due to consolidation	Total
<i>data in HUF million (negative value)</i>							
Sales revenue	7 529	1 825	5 133	5 652	221	(4 197)	16 164
Material-type expenditures	(5 337)	(303)	(3 561)	(5 533)	(266)	4 064	(10 937)
Personnel expenditures	(86)	-	(1 163)	(49)	(389)	130	(1 557)
Other revenues and							
Other expenditure	(590)	24	5	26	(0)	3	(532)
EBITDA*	1 516	1 546	414	96	(435)	(0)	3 137

5.4.1 Market-based energy production (sold outside the subsidized regime)

In the scope of their operations, the Subsidiaries generate electricity and heat energy using primary energy sources, typically natural gas. The Subsidiaries feed the electricity they generate to the nationwide power grid or the consumer grid, and use direct pipelines to deliver the heat they produce to their partners, typically district heating utilities or industrial consumers. Sinergy Energiakereskedő acts as a Control Center combining the ALTEO Group's various power generation capacities to provide ancillary services to MAVIR (see the last subheading in this section for details).

The Subsidiaries sell the electricity they feed to the grid to electricity traders, MAVIR or their own consumers. Sales are realized on the basis of direct commercial agreements, in the framework of the organized electricity market (HUPX) or on MAVIR's ancillary services market. Electricity generated to the consumer grid is sold directly to consumers, based on commercial agreements.

Some of the heat generated is sold by the Subsidiaries, as district heat production licensees, to district heating utilities. The Subsidiaries sell the rest of the heat they produce directly to industrial and commercial consumers on the basis of long-term agreements.

The ALTEO Group's various power plants (Győr power plant, Sopron power plant, Kazincbarcika power plant, Tiszaújváros heat power plant, Zugló power plant) participate in the EU-ETS allowance trading scheme and also receive emission unit allocations. As part of its power generation activity, the ALTEO Group purchases allowances in a quantity required for the operation of the power plants, and sells the same if it turns out to have any surplus.

ALTEO-Therm power plants:

Győr Power Plant

The ALTEO Group purchased the Győr Power Plant from E.ON Hungária Zrt. at the end of 2009. The power plant's current capacity is 9.133MW of electricity, generated with state-of-the-art gas engines, and 24MW of thermal power. The expansion of the power plant is under way: three additional gas engines will be installed and commissioned in Q3-Q4 2020. Thereafter, the electricity generation capacity of the plant will be 17.867 MW. The power plant is operated by ALTEO's team of specialists. The power plant engages in industrial heat supply for plants in the vicinity, and district heating generation for the local district heating utility. Audi Hungária Motor Kft. is the biggest of the Győr Power Plant's customers, and the thermal capacity provision and heat supply agreement concluded with it will be effective until 30 June 2021. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's ancillary services market with the help of the Control Center.

Kazincbarcika heat power plant

The Kazincbarcika heating power plant cogenerates heat and electric power, and was implemented as a greenfield investment project with three gas engines and three hot water boilers installed. The power plant is owned and operated by ALTEO-Therm, which sells heat solely to the local district heating utility at the price according to the Price Decree, based on an agreement subject to a 20-year term, to expire in 2022. Negotiations on its renewal are under way. Upon the expiry of the agreement, the town's district heating utility will have the right to purchase the assets of the heating power plant at their net book value. The heat power plant's installed electricity generation capacity is 9.6MW, its installed thermal capacity is 58.2MW. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's ancillary services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

Ózd Power Plant

The Ózd heating power plant cogenerates thermal and electric power, and sells heat to the local district heating utility at the price according to the Price Decree in the scope of an agreement subject to a 15-year term, which is to expire at the end of 2020. Negotiations between the parties on the renewal of the agreement are under way. Upon the expiry of the agreement, the town's district heating utility will have the right to purchase the Ózd Power Plant's assets at their book value net of taxes. The power plant's installed electricity generation capacity is 4.8MW, its installed thermal capacity is 4.8MW. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's ancillary services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

Sopron Power Plant

The ALTEO Group purchased the Sopron Power Plant from E.ON Hungária Zrt. at the end of 2009. The generation array currently comprises three steam boilers, one hot water boiler and a gas engine. The power plant's current capacity is 6MW of electricity and 38MW of thermal power. The boilers can be operated with both gas and fuel oil. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's ancillary services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

The power plant currently supplies heat to neighboring plants and the local district heating utility. Sopron Power Plant entered into an agreement to expire on 31 December 2025 with its largest customer, HEINEKEN Hungária Sörgyárak Zrt. in 2017, securing a stable thermal power market until 2025.

In Year 2017, the ALTEO Group began the comprehensive conversion and retrofit of the power plant by installing a state-of-the-art new steam boiler with 10MW of output. During Year 2018, the ALTEO Group completed an additional significant energy efficiency and modernization project at the Sopron Power Plant. Overhaul work included the steam and hot water distribution systems, the water treatment facility, as well as the electric and control engineering systems.

Tiszaújváros heat power plant

The Tiszaújváros heat power plant cogenerates thermal and electric power, and sells heat to the local district heating utility at the price under the Price Decree, based on an agreement subject to a 20-year term, slated to expire in 2035. Upon the expiry of the agreement, the town's district heating utility will have the right to purchase the assets at their net book value. The power plant's installed electricity generation capacity is 9.448MW, its installed thermal capacity is 42.8MW. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's ancillary services market with the help of the Control Center. The power plant is operated by ALTEO's team of specialists.

Agria Park small-scale power plant

Established in the Agria Park shopping center in the town of Eger, this small-scale cogeneration power plant runs a gas engine with an electrical and thermal capacity of 1MW and 1.3MW respectively, and serves to meet a part of the electricity demand during the shopping center's business hours, and on the other hand, covers some of the shopping center's hot water and heating energy demand during the winter. The power plant is operated by ALTEO's specialists.

Zugló Gas-Engine Block Power Plant

The tender announced by FŐTÁV Zrt. in 2003 for the expansion of its Budapest, Fűredi utca heat power plant with a gas engine block thermal power plant was awarded to the consortium comprising FŐGÁZ Zrt. and Sinergy. The Zugló power plant will continue supplying FŐTÁV Zrt. with heat until May 31, 2030. The block thermal power plant currently provides heat energy to the district heating utility subject to the fees specified in the Price Decree. The power plant sells the electricity it generates, along with its electric power capacity, on the electricity market and MAVIR's ancillary services market with the help of the Control Center.

Electricity storage facility (ALTEO-Therm)

In August 2018, normal operations commenced at the battery power storage facility constructed using grant funds awarded to Sinergy for its tender application titled “System-level integration and innovative application model for an electricity storage architecture”—which it submitted in the scope of the “Supporting R&D&I Activities of Companies—CORPORATE RDI_16” program announced by NRDI—whose total cost came to HUF 1.1 billion overall, with the Company awarded support of HUF 500 million. In addition to participating in frequency regulation for the electricity system, the purpose of the energy storage facility—innovative in both design and implementation with a focus on 21st century technical solutions—is to promote the market-based integration of renewable energy sources, particularly weather-dependent wind and solar power plants.

Pápakovácsi, Ács and Jánossomorja Wind Farms (WINDEO)

ALTEO acquired WINDEO, which owns and operates the Ács and Pápakovácsi wind farms, from Raiffeisen Energiaszolgáltató Kft. in May 2012. The wind farms have a capacity of 2MW each, and sold generated electric power to MAVIR under the KÁT regime until September 2017 and April 2018, as by then, they each reached their total authorized generation volumes. The wind farms were then successfully integrated with the Control Center and are now generating electricity for the free market. Therefore, revenues and expenditure from these wind farms are recognized in this segment since the expiry of the mandatory off-take under KÁT. The wind farms are maintained by ALTEO and the Hungarian subsidiary of the wind turbine manufacturer, VESTAS Hungary Kft.

ALTEO acquired VENTEO, which owns and operates the Jánossomorja wind farm, from Raiffeisen Energiaszolgáltató Kft. in May 2012. VENTEO became a part of WINDEO through merger by acquisition, effective as of October 1, 2018. The wind farm has a nominal capacity of 1.8MW, and sold generated electric power to MAVIR under the KÁT regime until March 2017, as it reached its total authorized generation volume that month. The wind farm was then successfully integrated with the Control Center and are now generating electricity for the free market. Therefore, revenues and expenditure from this wind farm are recognized in this segment since the expiry of the mandatory off-take under KÁT. The wind farm is maintained by ALTEO and the Hungarian subsidiary of the wind farm OEM, VESTAS Hungary Kft.

Gibárt hydropower plant (Sinergy)

Sinergy leases the assets of the hydropower plant operating on the Hernád River from ÉMÁSZ Nyrt. Sinergy used to sell electric power generated through the hydropower plant’s operation to MAVIR under the KÁT regime until August 2018, as it reached its total authorized generation volume that month. Subsequently, the hydropower plant was successfully integrated with the Control Center, and generated electricity for the free market; however, in August 2019 the Issuer started the capacity enhancement project at the Gibárt hydropower plant. As a result of the HUF 1.1 billion investment, the technical delivery of the power plant with enhanced performance is scheduled for Q4 2020. After the project, the hydropower plant, in view of its Green Premium eligibility within the METÁR system, will resume its production in the Subsidized segment. After the completion of the project, the installed electricity generation capacity of the Gibárt hydropower plant will be 0.98 MW. The power plant is operated by ALTEO’s own specialists.

Control Center (Sinergy Energiakereskedő)

The ALTEO Group's electricity generation portfolio is made up of small-scale power plants, which it has organized into a system operations unit, referred to as a Control Center, for the sake of efficient interoperability. This harmonized operation makes it possible for our small-scale power plants to be combined under standard control as a stand-alone entity, and work as a major generator. Among others, this affords the opportunity for the electricity generation capacities of the ALTEO Group that do not sell in the scope of the KÁT regime to appear on the system-level, i.e. ancillary services market.

Sinergy Energiakereskedő began its operation in 2014 as a Control Center, combining production from and the capacities of power plants belonging to the Sinergy Group, to sell the same on the electricity market and the ancillary services market. The Zugló, Kazincbarcika, Tiszaújváros and Ózd Power Plants joined the Control Center in 2014, with the Győr and Sopron Power Plants following suit in 2015.

In part, the Control Center operates as a commercial, and in part as a generation regulator, controlling electricity generation at the power plants, disposing of the power plants' electricity generation capacities and orchestrating the sale of electricity generated by the power plants, as well as that of any available power generation capacities the power plants may have, on the electricity market and the ancillary services market.

As part of its commercial operations, the Control Center plays an active role on the wholesale electricity market, moreover, it concludes hedging transactions that comply with the Company's risk management expectations.

Market-based energy production (outside the subsidized regime)

This segment has two core revenue streams. One is electricity generated by gas engines, while the other is heat energy produced by gas engines and boilers. In the case of electric power, the segment takes quite a significant share of sale and purchase within the ALTEO Group, as can be seen in the summary profit and loss statement appearing in Section 5.3. The Energy Storage Unit and the Control Center also belong to this segment, since they primarily facilitate selling the electricity that the power plant portfolio generates, and their stand-alone commercial activity is but marginal.

On the output side, the gas engines produce heat and electricity at the same time. Materials-related expenditure includes costs that can be unequivocally mapped to natural gas used, furthermore to operations, maintenance and generation, while Other expenditure includes CO₂-related expenditure.

HEAT AND ELECTRICITY GENERATION (outside the subsidized regime) SEGMENT—Executive financial statement

Heat and electricity production (market rate, outside of the subsidized system)

	H1 2020	H1 2019	Change HUF million	Change %
<i>data in million HUF</i>	non-audited	non-audited	over previous year	over previous year
Sales revenue	7 529	6 574	955	15%
Material-type expenditures	(5 337)	(5 044)	(293)	6%
Personnel expenditures	(86)	(58)	(28)	48%
Other revenues and Other expenditures	(590)	(340)	(250)	(74%)
EBITDA*	1 516	1 132	384	34%

Electricity generation by own facilities increased by 10%. The total quantity of the balancing reserve capacity sold in the aFRR (formerly called secondary) market exceeded the value of the base period by 7%. In the first half of 2020, balancing reserve capacity sold at a higher average price in the Ancillary Services markets contributed significantly to the profits of the segment, while the balancing reserve capacity exceeded the value in the base period by 7%.

5.4.2 Renewables-based energy production sold under the subsidized regime¹

Currently, electricity production recognized in this segment comprises exclusively renewable energy assets (solar, wind, hydro, landfill gas) used for production within the “KÁT” balancing group. In the scope of this activity, Subsidiaries generate electricity using renewable primary energy in their owned power plants, which they feed to the nationwide electricity grid. The Subsidiaries sell the electricity that is fed to the grid under the KÁT regime, to the KÁT balancing group operated by MAVIR, subject to a subsidized purchase price.

The ALTEO Group’s renewable energy portfolio includes weather-dependent wind farms, solar and hydropower plants and non-weather-dependent small-scale power plants that utilize renewable gas alike.

Wind Power

The ALTEO Group purchased the following small-scale power plants utilizing wind energy in an already operational state: three power plants in May 2012, one in February 2013 and one in May 2019.

Pápakovácsi, Ács and Jánossomorja Wind Farms (WINDEO)

ALTEO acquired WINDEO, which owns and operates the Ács and Pápakovácsi wind farms, from Raiffeisen Energiaszolgáltató Kft. in May 2012. The wind farms have a capacity of 2MW each, and sold generated electric power to MAVIR under the KÁT regime until September 2017 and April 2018, as by then, they each reached their total authorized generation volumes. The wind farms were then successfully integrated with the Control Center, and are now generating electricity for the free market. The wind farms are maintained by ALTEO and the Hungarian subsidiary of the wind turbine manufacturer, VESTAS Hungary Kft.

ALTEO acquired VENDEO, which owns and operates the Jánossomorja wind farm, from Raiffeisen Energiaszolgáltató Kft. in May 2012. VENDEO became a part of WINDEO through merger by acquisition, effective as of October 1, 2018. The wind farm has a nominal capacity of 1.8MW, and sold generated electric power to MAVIR under the KÁT regime until March 2017, as it reached its total authorized generation volume that month. The wind farm was then successfully integrated with the Control Center, and is now generating electricity for the free market. The wind farm is maintained by ALTEO and the Hungarian subsidiary of the wind farm OEM, VESTAS Hungary Kft.

¹ Formerly known as the “KÁT” regime. The name was altered due to a change in the regulation of the KÁT regime, which is explained in detail in Section 5.6 of this Information Memorandum.

Törökszentmiklós wind farm (e-Wind)

ALTEO acquired e-Wind, which owns and operates the Törökszentmiklós wind farm, in February 2013. The wind farm has a nominal capacity of 1.5MW, and sells generated electric power to MAVIR under the KÁT regime, and will do so until 30 June 2022 at the latest or until the total authorized generation volume is reached. On 10 May 2016, e-Wind applied for the extension of its KÁT License until 30 June 2022, because generation was suspended due to maintenance work at the power plant.

Bőny wind farm (EURO GREEN ENERGY)

ALTEO acquired EURO GREEN ENERGY, which owns and operates the Bőny wind farm, in May 2019. The wind farm has a nominal capacity of 25 MW, and sells the generated electric power to MAVIR under the KÁT regime, and will do so until January 31, 2023 at the latest or until the total authorized generation volume is reached.

Hydro Power

Felsődobosza hydropower plant (Sinergy)

The relevant energy-generation assets and installations of this hydropower plant operating on the Hernád River (including, among others, turbines and transformers) are owned by Sinergy, while Sinergy leases the property and the power plant's sections classified as other water structures from ÉMÁSZ Nyrt. Sinergy sells electricity generated through the operation of the hydropower plant to MAVIR under the KÁT regime, and will do so until 31 July 2022 at the latest or until the total generation volume authorized under KÁT is reached. The installed electricity generation capacity of the Felsődobosza hydropower plant is 0.948MW. The power plant is operated by ALTEO's own specialists.

Gibárt hydropower plant (Sinergy)

Sinergy leases the assets of the hydropower plant operating on the Hernád River from ÉMÁSZ Nyrt. Sinergy used to sell electric power generated through the hydropower plant's operation to MAVIR under the KÁT regime until August 2018, as it reached its total authorized generation volume that month. After that, the hydropower plant generated for the free market. Sinergy shut down the Gibárt hydropower plant in August 2019 to implement a HUF 1.1 billion investment project designed to extend its lifetime and increase its efficiency. One of the key elements of the investment is the replacement of the turbines with state-of-the-art high-efficiency turbines that provide higher water yield and have a capacity of 5.75 GWh/year, representing a 70% increase in performance. After the completion of the project, the installed electricity generation capacity of the Gibárt hydropower plant will be 0.98MW. The power plant will be operated by ALTEO's own specialists. The technical delivery of the power plant is scheduled for Q4 2020.

Landfill Gas

Debrecen small-scale power plant (ALTSOLAR)

The ALTEO Group purchased this small-scale power plant in an already operational state in March 2010. The small-scale power plant has an installed electricity generation capacity of 639kW, and generates power from landfill gas produced at the waste disposal compound in Debrecen. The small-scale power plant sells generated electric power to MAVIR under the KÁT regime, and will do so until December 2019 at the latest or until the total authorized generation volume is reached, after which it will continue to produce for the free market.

Debrecen small-scale power plant (ALTSOLAR)

This small-scale power plant was built by the ALTEO Group, and it began production in August 2018. The small-scale power plant has an installed electricity generation capacity of 499kW, and generates power from landfill gas produced at the waste disposal compound in Debrecen. The small-scale power plant sells generated electric power to MAVIR under the KÁT regime, and will do so until 30 June 2022 at the latest or until the total authorized generation volume is reached, after which it will continue to produce for the free market.

Solar Power

Domaszék solar power plant (Domaszék)

The ALTEO Group acquired the solar power plant in Domaszék, which was already operational at the time, in December 2017. The solar power plant sells electricity generated through its operation to MAVIR under the KÁT regime, and will do so until September 2042 at the latest or until the total generation volume authorized under KÁT is reached. The Domaszék solar power plant's installed electricity generation capacity is close to 2MW. The power plant is operated by ALTEO's own specialists.

Monor solar power plant (Monsolar)

The ALTEO Group implemented this solar power plant in the scope of its own construction project, and it began generation in December 2018. The solar power plant sells electricity generated through its operation to MAVIR under the KÁT regime, and will do so until December 2043 at the latest or until the total generation volume authorized under KÁT is reached. The solar power plant's installed electricity generation capacity is close to 4MW. The power plant is operated by ALTEO's own specialists.

Balatonberény solar power plant (SUNTEO)

The construction works of this solar power plant were performed by the ALTEO Group itself, and it began generation in July 2019. The solar power plant will sell the electricity it generates to MAVIR under the KÁT regime for a period of 25 years from the start of its commercial operation or until the total generation volume authorized under KÁT is reached. The solar power plant's installed electricity generation capacity is close to 6.9 MW. The power plant is operated by ALTEO's own specialists.

Nagykőrös solar power plant (SUNTEO)

The construction works of this solar power plant were performed by the ALTEO Group itself, and it began generation in July 2019. The solar power plant will sell the electricity it generates to MAVIR under the KÁT regime for a period of 25 years from the start of its commercial operation or until the total generation volume authorized under KÁT is reached. As a unique feature, instead of the fixed support structure typically used for solar power plants, it operates with a single-axle solar tracking system, through which it is able to use the energy of solar irradiance more efficiently, and thereby produce approximately 15% more electricity than traditionally installed solar power plants. The solar power plant's installed electricity generation capacity is close to 6.9 MW. The power plant is operated by ALTEO's own specialists.

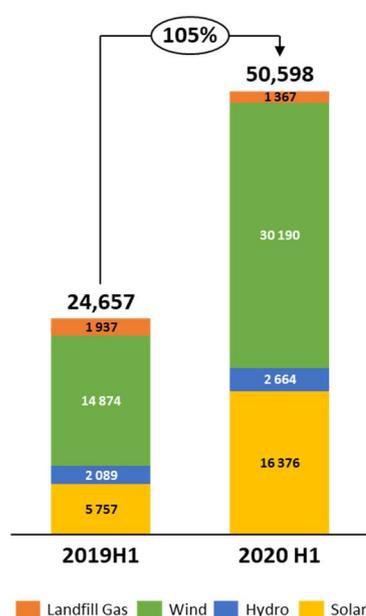
Electricity production sold under the subsidized regime (KÁT)

Electric power sold to MAVIR is the only revenue stream in this segment. Materials-related expenditure includes operation and maintenance costs.

ELECTRICITY GENERATION (SUBSIDIZED) SEGMENT—Executive financial statement

Electricity production (within the subsidized system)				
	H1 2020	H1 2019	Change HUF million	Change %
<i>data in million HUF</i>	non-audited	non-audited	over previous year	over previous year
Sales revenue	1 825	891	934	105%
Material-type expenditures	(303)	(211)	(92)	44%
Personnel expenditures	-	-	-	0%
Other revenues and Other expenditures	24	20	4	23%
EBITDA*	1 546	700	846	121%

ELECTRICITY GENERATION (SUBSIDIZED) SEGMENT—Physical indicators and specific revenue statement



The increase in electricity sales was caused by a combination of the commencement of electricity generation by the new solar power facilities and the purchase of the wind farm operated by EURO GREEN ENERGY.

5.4.3 Energy Trading

Electricity trade and balancing group services (ALTEO Energiakereskedő)

The ALTEO Group started its activities through the Company as an electricity trader and balancing group manager, on the day of January 1, 2009. During 2009 and 2010, it built up a stable, well-predictable consumer portfolio, consisting primarily of office buildings, shopping centers, industrial parks, as well as small- and medium-sized businesses (SME). By 2011, it held contracts with prime customers with a country-wide network, and at the same time, it managed to increase the number of SME customers, defined as the target market. Within the scope of the Company's electricity trading activity, electricity is sold exclusively on the free market. The Company's portfolio also includes users eligible for the provision of universal service on the free market, furthermore, since February 2012, the Company is entitled to supply retail consumers as well, but it does not deal with the supply of these consumers in detail.

Under the contract for the transfer of business line concluded by the Company and ALTEO Energiakereskedő in November 2017, the Company successfully transferred its electricity trading operations - including in particular the related user portfolio and wholesale contracts - to ALTEO Energiakereskedő with January 1, 2018 as the reporting date.

As a criterion for performing the above activity, ALTEO Energiakereskedő obtained an operating license from HEA, under Resolution no. 5416/2017, for trading in electricity and so, from the day of January 1, 2018, this activity is performed by ALTEO Energiakereskedő.

The main activity of ALTEO Energiakereskedő is to deal with direct sales to users, without the intermediation of another electricity trading company. ALTEO Energiakereskedő pursues to promote setting favorable prices tailored to consumption locations and consumer habits by providing targeted advice on energy efficiency. Its goal is flexible, in order to meet the different needs of the users, mainly based on one-year contractual and settlement schemes.

ALTEO Energiakereskedő does not deal with speculative trading, but due to the varying size of customer needs timewise, the company keeps a certain level of open positions. However, ALTEO Energiakereskedő strives to cover the demand generated by new contracts and new needs from the buyers. For that purpose, ALTEO Energiakereskedő concludes commercial agreements based on commercial, standardized samples (typically EFET), on the one hand, and it also buys electricity thru intermediaries, on the energy exchanges in Hungary (HUPX), in Leipzig (EEX), Prague (PXE) and Vienna (EXAA), on the other. ALTEO Energiakereskedő sells any superfluous electricity via wholesalers.

Natural gas trading (ALTEO Energiakereskedő)

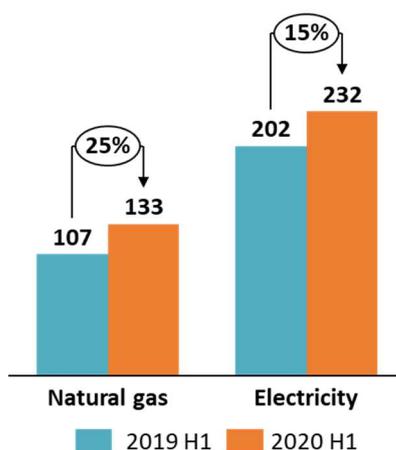
ALTEO Energiakereskedő started its retail activities aimed at serving the users with natural gas, in the gas year beginning on October 1, 2016.

ENERGY RETAIL – Executive financial statement

Retail energy trade				
	H1 2020	H1 2019	Change HUF million	Change %
<i>data in million HUF</i>	non-audited	non-audited	over previous year	over previous year
Sales revenue	5 652	4 725	927	20%
Material-type expenditures	(5 533)	(4 464)	(1 069)	24%
Personnel expenditures	(49)	(36)	(13)	36%
Other revenues and Other expenditures	26	11	15	144%
EBITDA*	96	236	(140)	(59%)

The COVID-19 pandemic had a significant impact on the figures of the segment. Electricity sales increased but their volume fell below the budgeted level; consequently, the surplus energy already purchased had to be sold at a low price on the spot electricity market, where prices were lower than cost. As a result, the segment produced less profit than in the previous year but still closed the half-year in the black.

ELECTRICITY AND NATURAL GAS RETAIL – Physical indicators statement



Changes in the amounts of natural gas and electricity sold in 2019 H1 and 2020 H1 (GWh)

5.4.4 Energy and power engineering services

(a) Operation and maintenance of power plants and power engineering installations

ALTEO carries out operation and maintenance tasks (*O&M*) for certain energy facilities owned by third parties and of certain power plants owned by the ALTEO Group under long-term contracts, providing qualified staff and the materials and tools required for operation and maintenance. As part of the operation activities, ALTEO carries out daily operation and business process tasks including the provision of fuel supply, preparation of production schedules, fulfilling regulatory reporting obligations, ensuring that all conditions for the operation and the safety of supply are met, and repair works requiring simpler jobs are done. Within the framework of maintenance activities ALTEO carries out the interventions typically required based on the number of hours operated, the replacement of parts as necessary, carrying out renewal jobs and repairing extraordinary malfunctions.

At present, ALTEO carries out the operating and maintenance tasks of the TVK power plant, the BorsodChem power plant, the BC-Therm boiler, the Water Preparation Plant built by Tisza-WTP, the biogas plant of Nagykőrös, the Nagykőrös and Sormás solar power plants as well as the heating power plants, hydropower plants and solar power plants in its ownership.

Facilities related to O&M tasks:

BorsodChem power plant

The BorsodChem power plant is owned by BC-Erőmű Kft. and it provides most of the energy needs of BorsodChem Zrt's industrial steam requirements and most of its electricity needs. Within the ALTEO Group, Sinergy participated in the development and implementation of that investment project and at present ALTEO carries out the operation and maintenance of the power plant, in the framework of a long-term contract.

TVK Power Plant

The TVK power plant is in the ownership of TVK Power Plant (a subsidiary of MOL Petrochemicals Co. Ltd.). The power plant established in 2001 with the participation of Sinergy, a member of the ALTEO Group, satisfies the entire steam demand of MOL Petrochemicals Co. Ltd.'s technology, it satisfies its entire steam demand, supplies its heating system and meets a significant part of its electricity demand. In addition, it provides steam for MOL Nyrt's Tiszai Refinery plant. Sinergy participated in the implementation of that investment, as a technical and financial expert, and the ALTEO Group currently conducts the operation and maintenance of the power plant with its own staff on a long-term contract.

Nagykőrös Biogas power plant

Sinergy, a company belonging to the ALTEO Group concluded a long-term, 14-year operation and maintenance contract with Energigas Kft. on December 12, 2015, for the purposes of carrying out operation and maintenance tasks related to the 2 MW electricity generation capacity biogas power plant owned by it. Simultaneously with the conclusion of the operation and maintenance contract, the Company also acquired a 1% share in Energigas Kft. The power plant is now operated by ALTEO's team of specialists.

The solar power plants at Nagykőrös and Sormás

On February 22, 2019 ALTEO concluded a long-term agreement, for a period of 10 years, with the owner of the solar power plants located in Nagykőrös and Sormás, with an electric capacity of 1.5 MW each, for the operation, maintenance, repair and facility management of the solar power plants.

Own facilities

A significant portion of the power plants in the ownership of the ALTEO Group the operation and partial maintenance works are carried out by ALTEO, on the basis of long-term contracts. The facilities involved are as follows: Győr power plant, Kazincbarcika power plant, Ózd power plant, Tiszaújváros power plant, Sopron power plant, Felsődobsza and Gibárt hydropower plant, Zugló power plant, Tisza-WTP water treatment plant, as well as the Monor, Nagykőrös, Balatonberény and Domaszék solar power plants.

Other

The maintenance organization of the Energy Production Division also carries out maintenance jobs, in addition to works to be done in power plants owned by the ALTEO Group, typically for other power plant companies. Notably, a multiple-year maintenance contract was concluded with Budapesti Erőmű Zrt. in 2015 under which the Company carries out the regular maintenance and repair of the engineering, electric and control systems of the Kelenföld, Kispest and Újpest power plants of Budapesti Erőmű Zrt. The contract was extended for another two years in January 2019, the expiry date is January 15, 2021. Priority partners of the Company also include Petrolszolg Karbantartó és Szolgáltató Kft. (Maintenance and Service) belonging to the MOL Group, and from 2017, the Company (Sinergy until October 1, 2018) provides maintenance works of rotary machines at the industrial site of MOL in Százhalombatta and Tiszaújváros, as well as LEGO Manufacturing Kft., with a factory in Nyíregyháza where regular maintenance and repair works are carried out on cooling towers, on the basis of individual assignments.

(b) Energy and power engineering services

The ALTEO Group also offers its customers engineering, project development and project management services, as well as main contractor construction services related to energy investments and developments, under individual orders and contracts.

(c) Waste management services

The Company intends to have an active presence in complex waste management through Eco-First. The first step towards that goal was developing a waste management strategy and purchasing a 66% business share

in Eco-First. Its services mainly include waste collection from supermarkets as well as complex sustainability services in waste management. The Target Company provides professional services to several large enterprises and is also involved in the development of new, complex activities, aligned with the needs of the waste management market.

(d) Other services

In some cases, possibly related to other activities, the Subsidiaries implement energy assets for their customers and make these available to their customers in the framework of long-term contracts qualified as leases under the IFRS classification. After the expiry of this contractual period, the customer has the possibility to buy these assets. In each case, the operation and maintenance of the assets are performed by specialists of ALTEO, on the basis of a long-term contract.

Tisza-WTP

Tisza-WTP created in an area owned by MOL Petrochemicals Co. Ltd., a high-capacity water treatment plant, producing desalinated water for technology purposes for MOL Petrochemicals Co. Ltd. ALTEO supplies the total quantity of desalinated water for MOL Petrochemicals Co. Ltd. under a long-term contract. Due to the capacity increase investment implemented in 2018, the water treatment plant will be able to cover the increasing needs of the chemical company also in the future. The facility is operated and maintained by the ALTEO Group with its own staff. On the basis of a purchase option contract between MOL Petrochemicals Co. Ltd. and ALTEO, on the Tisza-WTP business share, MOL Petrochemicals Co. Ltd. is entitled to purchase, until the day of June 30, 2027 at the latest, the Tisza-WTP business share at a price calculated according to the methodology specified in the contract.

BC-Therm boiler (BC-Therm)

BC-Therm built a large-capacity boiler plant (110t/h) on the site of BorsodChem Zrt, servicing exclusively the steam demand of BorsodChem Zrt. The boiler plant is operated and maintained by ALTEO. On the basis of a heat supply and capacity utilization contract concluded between BC-Therm and BorsodChem Zrt, BorsodChem Zrt is obliged to purchase from ALTEO the BC-Therm business share, at book value, upon expiry of the contract (expected by December 31, 2021).

ALTE-A

ALTE-A implemented a portion of the medium-voltage system of Hegyvidék Shopping Center (transformer and medium-voltage distributor) and leases it to VPR Nonus Kft, the operator of the shopping center. The assets are operated and maintained by ALTEO.

Energy business and power engineering services

In this segment we show the revenues and expenses related to the operation and maintenance tasks (*O&M*) for certain energy facilities owned by third parties and of certain power plants owned by the ALTEO Group, and we also show here the revenues (interests) due, based on leased assets. In the consolidation procedure, the revenues and expenses of the ALTEO Group from the power plants in its ownership are eliminated. This is the segment where

revenues and expenses of third parties and from within the ALTEO Group, related to engineering, project development and project management services, as well as main contractor construction services and implementation services related to energy investments and developments are presented. In the consolidation procedure, the Revenues and Expenses of implementation services within the ALTEO Group are eliminated. The expenditures of the Company's waste management business are also included here, but given it has been established recently, it has no substantial impact on the segment's profit as yet.

ENERGY BUSINESS AND SERVICES – Executive financial statement

Energy and power engineering services

	H1 2020	H1 2019	Change HUF million	Change %
<i>data in million HUF</i>	non-audited	non-audited	over previous year	over previous year
Sales revenue	5 133	5 375	(242)	(5%)
Material-type expenditures	(3 561)	(3 257)	(305)	9%
Personnel expenditures	(1 163)	(949)	(213)	22%
Other revenues and Other expenditures	5	(46)	51	111%
EBITDA*	414	1 122	(708)	(63%)

In 2020, capacity enhancements represented a major part in the work of the Project Development Division. In 2020, the Project Development Division undertook development tasks within the group, for the Energy Production segment, in the value of HUF 2 billion. The implementation of the project is under way. In line with the principle of prudence, the profit of the project is presented with zero margin in this report. The profits from self-implemented projects are eliminated during consolidation. Removed EBITDA on self-implemented projects was HUF 718 million in the first half of 2019 and HUF 0 in 2020. The EBITDA increase of the segment from outside the group amounted to HUF 10 million.

5.4.5 Other segments

Other segments

We present among revenues the management and accounting fees paid by the Subsidiaries, to be eliminated in the consolidation procedure. Among material expenses, the most important items are rental fees, assignments of third-party experts and advisors, as well as IT costs.

OTHER SEGMENT – Executive financial statement

Other segments

	H1 2020	H1 2019	Change HUF million	Change %
<i>data in million HUF</i>	non-audited	non-audited	over previous year	over previous year
Sales revenue	221	201	20	10%
Material-type expenditures	(266)	(213)	(53)	25%
Personnel expenditures	(389)	(335)	(54)	16%
Other revenues and Other expenditures	(0)	(1)	1	71%
EBITDA*	(435)	(349)	(86)	(25%)

5.5 Broad-scale presentation of the Issuer's markets

This section of the Prospectus was compiled based on public market data and information, primarily from the MAVIR, HEA and the Committee websites, as well as by using the Company's own estimates.

5.6 Renewables-based electricity production sold under the subsidized regime

The role of renewable sources of energy in the energy mix

The utilization of renewable sources of energy is gaining ever increasing significance due to the growing environmental consciousness of society, the narrowing of the traditional energy sources, as well as the endeavors at ensuring a safe energy supply.

The support systems available in some countries largely contribute to the increasing use of renewable energy sources. However, the speedy development of technologies relying on renewable energy, along with the ever more expensive traditional energy carriers have led to a situation in which the renewable sources of energy are competitive with the traditional energy sources in some areas, and this tendency is likely to continue.

Objectives regarding renewable EU energy sources

One of the key elements of the EU's climate and energy policy is to increase the proportion of renewable energy sources. The goal of RED (Renewable Energy Directive) adopted in April 2009 is to ensure that 20% of the total energy consumption should come from renewable sources of energy in the member states of the EU by 2020.

In 2018, the European Union drafted new power engineering legal regulations under the title "Clean Energy for All Europeans", which already reckons with a minimum 32% rate of renewable energy sources on the EU level by 2030, and not with the earlier 27% rate accepted in 2014. Furthermore, the EU partially adopted the law package in late 2018, and as a part of this, the Member States, including Hungary, will have to transpose the RED2 Directive into their respective national laws by June 30, 2021. Some of the key objectives of this directive include creating an investment environment which is reliable in the long term, and to accelerate the licensing procedures of the renewable energy projects; boosting competition in the renewable energy sector and promoting market integration; speeding up the introduction of the generation of renewable energy in the heating/cooling sector; and promoting innovative, novel solutions.

Hungary's strategy on renewable energy

According to RED, Hungary has to increase the rate of its energy coming from renewable sources within its gross energy consumption from the 4.3% in 2005 to 13% by 2020.

The National Action Plan (NAP) drafted by the Hungarian government based on RED in December 2010 set the achievement of 14.65% by 2020, which exceeds the mandatory minimum target. In NAP, it is stated that the increased utilization of renewable energy sources is of major significance and the development of green economy is one of the breakout points for the Hungarian economy.

The National Assembly approved the National Energy Strategy 2030 for Hungary on October 3, 2011, the key elements of which include, among others, the increase of renewable and low CO₂ emission energy production, as well as waste utilization for power engineering purposes.

In 2017, 16.4% of the electric energy produced in Hungary was generated by coal and oil power plants, 19.4% was produced by natural gas power plants, 51.6% was provided by the Paks nuclear power plant, 8.2% by power plants fueled by renewable energy sources, 1.6% by waste, while 2.8% by some other sources of energy. The number and capacity of power plants operated by using renewable sources of energy are rather low in Hungary, as compared to the EU average.

In 2018, the Hungarian Government set it as a goal that it would elaborate a new National Energy Strategy by September 1, 2019, in harmony with the National Climate Change Strategy (NÉS-2) for the period between 2018 and 2030 and giving an outlook for the period until 2050 as well, and Hungary's international commitments, with special regard to the program entitled EU Clean Energy for All Europeans and the Paris Agreement. At the same time, the Government approved Hungary's commitment to a utilization rate of 20% regarding renewable sources of energy towards the European Commission by 2030.

Despite the fact that in 2010, the proportion of renewable energy in the generation of energy was in harmony with the rate that Hungary committed to at the time of its joining the European Union (EU), and the minimum member state commitment under RED was also fulfilled, this rate will definitely have to be increased significantly for the realization of the new policy and strategy goals and commitments.

In Hungary, the state provides support for the generation of electricity by using renewable energy sources and waste through two systems that work simultaneously in a transitional period: (i) in the KÁT system, those producers who obtained eligibility prior to January 1, 2017, or those who have already submitted such an application, may take part, and (ii) the METÁR system, in which those power plants which applied for support after January 1, 2017, or those which take part in the tendering procedure and use renewable sources of energy, may participate.

The KÁT regime

Originally, the KÁT regime was built on the mandatory offtake of electricity generated from a renewable source of energy or waste; however, since April 1, 2016, the entire amount of electricity subject to mandatory offtake has been sold through HUPX. Thus, those entities responsible for the balancing group who are obliged for the offtake do not actually accept any electricity any more but they contribute to supporting renewable electricity generation in the form of the so-called KÁT premium (KÁT instrument). The KÁT producers conclude a contract on their balancing group membership with MAVIR, the entity that accepts KÁT energy also sells the MAVIR and KÁT amounts through HUPX, and the allocation of the payment of the KÁT instruments by the balancing group owners is also performed by MAVIR.

It was possible to apply for participation in the KÁT system before January 1, 2017 the latest, and applications that were received after this date may only receive government grant from the METÁR system. In late 2016, i.e. directly before the METÁR system started operating, a high number of KÁT participation applications were submitted to HEA, mostly for solar panel power plants.

The entitled parties may transfer from the KÁT regime to the METÁR system at any time, however, from there, they cannot return to the KÁT system.

METÁR:

The concept of the re-regulation of the KÁT system was published by the Ministry of National Development in September 2011, under the name of "mandatory offtake system for heat and electricity produced from renewable and alternative energy sources". It was only in March 2016 that the concept developed into a specific proposed regulation, then after administrative coordination, the fundamental statutory framework of METÁR (the METÁR Amendment and the METÁR Decree) was announced in June 2016. According to the new METÁR Amendment, METÁR took effect on January 1, 2017, and as a result of the statutory changes in October and November 2017, it was extended and modified according to the new METÁR Decree. METÁR as a government grant system was approved by the European Commission on July 11, 2017 and it was also established by the latter that it was compatible with the internal market on the basis of the Commission Guidelines on the State Aids for Power Engineering.

After METÁR had taken effect, the newly established producers of renewable electricity can only receive government grants in the frameworks of METÁR. METÁR does not affect the KÁT eligibility that was obtained before its taking effect, so the KÁT system will work until the last effective contract runs out. Pursuant to the relevant provision of the METÁR Decree, the KÁT producers are eligible according to their choice, or if a KÁT producer wishes to sell electricity on a producer's basis as well, then they will be obliged to transfer to the METÁR system, from which it is not possible to return to the KÁT regime.

METÁR has introduced several types of grants, depending on the size and technology of the power plant:

- (i) METÁR-KÁT: under 0.5 MW: Newly built power plant units with an electric capacity below 0.5 MW (except for wind energy) and demonstration projects that are also granted investment aid² may apply for the (mandatory) offtake of the electricity that they produce in practically the same way as under the KÁT regime.
- (ii) Green Premium I under 1 MW: HEA may be requested to define the period of the grant, without a specific tendering procedure, in the case of newly built power plant units with an electric capacity under 1 MW (except for wind energy), and demonstration projects;³
- (iii) Green Premium II with a capacity of 1 MW and higher: it is only possible to win grants in the framework of a tendering procedure for the electricity produced in the following types of power plant units: (i) a power plant with a minimum electric capacity of 1 MW, or (ii) wind turbine, furthermore, (iii) a power plant unit already running, one which has undergone major modernization or development. The volumes that are distributable through the tender are stipulated by a ministerial decree on the frame conditions of operating METÁR, in an annual breakdown, for five-year intervals, which volumes will be revised each year. The first METÁR tender was invited in 2019, the second in 2020.
- (iv) Brown Premium: it is those already working power plant units that may be eligible for the brown premium which use biomass or biogas, where eligibility is defined for 5 years by HEA, at the request of the producer.

The highest extent of annual grant distributable in the framework of the above forms of METÁR aids is regulated by a ministerial decree.

5.7 Market-based energy production (sold outside the subsidized regime)

In line with the endeavor to reduce CO₂ emission and increase energy efficiency, the small power plants that are close to the consumers, that work with high efficiency, and are cogenerated, i.e. produce both electricity and heat are gaining increasing significance within energy production. The environmental advantage of cogenerated energy production lies in that it is capable of transforming primary energy into electricity and heat at the same time more efficiently than if the same amount of energy were generated by distinct electricity and heat production equipment. Placement near the consumer, on the other hand, allows the considerable reduction of transportation losses. Through this, cogenerated small power plants make a significant contribution to the reduction of CO₂ and the increase of energy efficiency.

In harmony with this, the support to be provided to high efficiency energy cogeneration is mentioned as one of the key goals of the Energy Efficiency Directive, among others.

² Pursuant to the METÁR Act, those projects will qualify as demonstration projects which are the first to introduce a technology in the European Union, and which represent a major innovation that exceeds the current state of technology.

³ Pursuant to the modified New METÁR Decree, no application may be submitted for the grant type Green Premium I that can be provided without a tendering procedure with effect from May 1, 2019.

The Energy Efficiency Directive obliges the EU member states to perform the comprehensive assessment of the feasibility potentials of high efficiency energy cogeneration and efficient district heating / district cooling, which assessment has to be updated every five years, at the request of the Commission. The Energy Efficiency Directive encourages the EU member states to pursue local and regional policies that reckon with the potentials in the application of the systems using high efficiency energy cogeneration.

Hungary supported the spreading of cogenerated power plants that produce both electricity and heat through the KÁT mechanism until June 30, 2011. It was due to this favorable regulation that the number and proportion of cogeneration small power plants grew dynamically in the national energy production until mid-2011. The majority of cogenerated small power plants were located relatively close to the users of district heat, at the sites of the district heat producers and other users of district heat.

Unsubsidized small cogeneration power plants are also often competitive against large power plants using traditional fuel, primarily in cases where flexible energy generation is required, and also, when they are linked at the Control Center, in the market of ancillary services. The operation of the Control Center is described in more detail in Section 5.7.3 of this Information Memorandum.

In parallel with the increase in the number of power plants relying on weather-dependent renewable sources of energy, there seems to be a growing demand for flexible energy generation and energy storage solutions that can be operated efficiently. In this field, the ALTEO Group has valuable assets, knowledge and experience thanks to its gas engines and Control Center.

The EU regulatory package called Clean Energy for All Europeans will also affect the electricity generation sector. The package aims to introduce a novel type of electricity market model, which, among other changes, restricts the producer's grants provided through capacity mechanisms and removes the grants provided to power plants with an emission value of 550g CO₂ per kWh or higher, promotes the active involvement of consumers and users in production, as well as the market competition in electricity and cross-border trading in such a way that it will promote energy safety, create new jobs, and encourage investments. The law package entitled Clean Energy for All Europeans was partially approved and announced in late 2018 (at the same time, defining the transposition deadlines for the member states, depending on the individual laws, for 2020-21), and partially it is still going through the legislative process.

5.7.1 Heat energy generation and district heat generation

Heat energy producers supply heat to industrial users in the framework of individual heat supply agreements. In this case, the price of the heat provided and the price formulas are the subject of agreements between the parties.

The district heat producers sell the heat energy, which they generate in boilers and to an increasing extent, in cogenerated heat and electricity producing equipment (gas engines), to the district heat suppliers at an established price. The district heat suppliers, on the other hand, supply the heat energy obtained in such a way or produced by themselves at established prices as well, to the users entitled to receive household and district heat supply. The prices of district heat are defined by the minister in charge of energy affairs, in a decree, based on a proposal from HEA. From January 1, 2013, the highest price of district heat supply was defined in a value 10% lower than the service fee applied on November 1, 2012.

Some district heat suppliers are eligible for a grant of district heat supply with effect from October 1, 2011 based on the Grant Decree, with regard to the amount of district heat and cogenerated heat supply provided to household consumers, and some other separately treated institutions are also eligible for a grant in district heat supply, with regard to the

amount of the heat produced by cogeneration for the performance of their public duties. The district heat supply grant is paid to the debit of the transformation fee of the cogenerated production structure, which was included in the Electricity Act by Act LIX of 2011.

Natural gas (75-80%) plays a key role in the fuel utilization of district heat supply.

According to the data provided by HEA, the number of settlements supplied with district heat is nearly one hundred, while the number of affected households exceeds six hundred and fifty thousand. It can be observed that with the increase in the number of users, there are more and more consumer substations as well, due to the expansion of the markets and the regular modernization efforts.

In recent years a drop could be observed in heat demand at consumers already having heat supply in place, which can on the one hand be put down to the regular building modernization efforts, while on the other hand, to the significant increase in the energy consciousness of the users.

5.7.2 Electricity production sold outside the subsidized regime

On the sales aspects of the electricity production market, see Section 5.8.1 below on wholesale electricity markets.

The majority of the power plants of the ALTEO Group which do not sell electricity through the subsidized regime are natural gas-fueled gas engine power plants, and this is why the changes in the market rate of natural gas, which depends on the price formulae defined in the individual natural gas purchase agreements, exert a significant effect on the competitiveness of such power plants.

5.7.3 Control Center and ancillary services

MAVIR, as a system controller, commits reserve production capacities with a view to the settlement and regulation of the momentary difference between the production and consumption of electricity and utilizes them as needed. For the capacities required for satisfying the regulatory needs, MAVIR invites tenders from time to time, where the producers, individually or - in particular producers with lower capacity - jointly make bids through a control center, appearing as a so-called control center. A control center is a production organization concept for the generation of electricity in which small power plants form a system management unit; this allows them to operate as a large producer which can be treated as an independent entity.

MAVIR pays a capacity fee for availability and an energy fee for the actually used negative or positive balancing electricity to the power plants involved in the regulation as well as to the Control Center.

The coverage of the costs of the electricity used by MAVIR for regulatory purposes is partly provided by the system utilization fees, partly by the fee of the balancing energy collected from the balancing groups led by the traders, furthermore, by the regulatory surcharge fees that sanction the changes in the producers' schedules.

MAVIR is in a monopolistic position on the customer's side, the tendering is a public bid that takes place according to the procedural rules established by HEA, contracts are concluded and settlement takes place under transparent rules, using sample contracts approved by HEA.

5.8 Electricity trading

In harmony with the directives of the European Union, the market of electricity trading, including the sale of the electricity producers' own output, is fully free-market in Hungary, and from January 1, 2008, practically every domestic user can freely choose their own electricity trader. The EU regulatory package called Clean Energy for All Europeans is expected to supplement and modify the rules of electricity trading as well, with a view to promoting electricity market competition and cross-border trading; however, the respective EU laws have only been partially adopted and announced, and some are still going through the legislative process.

In 2019, according to the records on the HEA website, 165 companies had a Hungarian electricity trading license. Some of these are not active, or are only active on the wholesale market, and on the retail market, only 10-15 licensees perform actual activities.

The Company has a diversified producer's portfolio. This vertical integration provides a possibility for the ALTEO Group to optimize the trading portfolio. The Company is active in the wholesale and retail market segments.

5.8.1 Electricity generation and wholesale trade

The electricity producers of the ALTEO Group sell the electricity they generate under individual contracts, either directly to the users, or to the Control Center.

On the electricity wholesale market, the Company has both long- and short-term electricity sales contracts with international and Hungarian partners, concluded on the basis of framework agreements.

In addition, the Company has the opportunity to buy and sell on Hungarian and international exchanges. The Hungarian power exchange (HUPX) started its operation with day-ahead products in July 2010, besides which, from July 2011, it also became possible to trade in monthly, quarterly and annual string and peak time long-term products. The HUPX intraday market was launched on March 9, 2016. With the extended product structure, the Company's wholesale opportunities increased further. The transparency and liquidity of wholesale markets may be increased by the fact that since 2012, there has been a market coupling of the Czech, Slovakian and Hungarian day-ahead electricity markets. Romania also joined the coupled electricity market in 2013, and the preparation for extending this coupling to the Polish market also began. Such a demonstration of market integration is a great stride forward in developing an internal European electricity market.

The REMIT Regulation and the related Hungarian laws may increase the transparency of electricity wholesale, by this also strengthening the integrity of the energy markets in the EU. However, the REMIT Regulation and the related Hungarian laws put a considerable administrative burden on the Company, furthermore, the yet immature Hungarian practices may carry risks.

5.8.2 Retail

Some of the electricity users are eligible for universal services and they can enter the competitive market or use universal services, according to their own choice. Those users who are not eligible for universal services may only buy electricity in the competitive market, including the organized markets.

Within the scope of the Company's electricity retail activity, electricity is sold exclusively on the free market. The Company's portfolio also includes non-household users eligible for

the provision of universal services on the free market; furthermore, since February 2012, the Company is entitled to supply retail consumers in the free market as well, but it does not deal with the supply of these consumers in detail.

The market is characterized by total supply-based frame agreements entered into with the users, in the context of which only the contracted merchant is entitled to supply the users in the contract period.

Even though the number of conscious consumers increased as a result of the market opening and the competition among traders, good market opportunities still exist for the users with little experience in merchant services, still undiscovered by traders with less market knowledge. As a result of the economic crisis, a significant temporary drop in consumption demand and increasing competition among traders were observed from 2009 onwards.

5.8.3 Balancing group services

The aging of the Hungarian power plants, as well as the anticipated rise of electricity consumption in the long run justify that besides the large developments, the smaller natural gas-based energy production units and those that are removed from the KÁT regime after the mandatory setoff expires should not drop out of the market only because they do not receive the KÁT grants any longer. A possible way to integrate small capacity production units that are in this situation is for them to join a professionally operated balancing group with a reasonably sophisticated portfolio of producer and consumer capacities and with good wholesale relations, or to take unified action in the market as a Control Center through a Control Center mentioned in Section 5.7.3 above.

A balancing group service does not involve the same level of integration as provided by a Control Center; the owner of the balancing group providing the service takes the electricity produced by the individual producers for its own balancing group and sells it in an optimized form in line with the current market needs. One of the advantages of this scheme is that the service makes it easier for the small producers otherwise unable to enter the market as independent sellers to enter the market, furthermore, it allows them to sell the electricity that they have produced as a product.

Both of the above solutions may be favorable for the power plants with gas engines and those which are removed from the system of mandatory offset and which produce renewable energy. In Hungary, the capacity of the small power plants potentially affected by the balancing group schemes can be estimated at several hundred megawatts.

5.9 Natural gas retail activities

ALTEO Energiakereskedő started its retail activities aimed at serving the users with natural gas, in the gas year beginning on October 1, 2016.

In harmony with the directives of the European Union, similarly to the market of electricity trading, the market of natural gas trading is fully liberalized in Hungary, and every domestic user can freely choose their own natural gas trader.

In August 2020, according to the records on the HEA website, 45 companies were in possession of a Hungarian natural gas trading license (excluding the restricted license holders in natural gas) but it is only a small part of these companies that are genuinely active in the retail segment.

ALTEO Energiakereskedő is primarily planning to build and then extend its natural gas retail activities by relying on its electricity trading clients.

5.10 Trading in emission units

In order to help the member states fulfill their commitments undertaken in the Kyoto Protocol of the UN Framework Convention on Climate Change (UNFCCC), the EU, or then the European Community established the Community emissions trading system for greenhouse gas emission units (ETS) by the ETS Directive in 2003. ETS is built on the obligation of the individual facilities to deliver an annual amount of emission units corresponding to their greenhouse gas emissions to the member state in which they operate and thus, trading in the unused units becomes possible (cap and trade principle).

In order to promote the appropriate operation of ETS, from June 20, 2012, each EU member state introduced a uniform EU emission unit turnover system.

In the current, third trading period (2013-2020), emitters—subject to certain exceptions—are and will be able to acquire emission allowances solely at auctions or through secondary commercial channels. The Greenhouse Gas Act, in line with the ETS Directive, only allows a narrow scope of exceptions. District heating and high-efficiency energy cogeneration are provided free of charge allocation with regard to the heat production or cooling services provided for satisfying demands and in an economically justified way. Furthermore, some electricity producers are provided derogation allocation at an established rate to an extent defined in a specific government decree.

In the period between 2013 and 2020, specific power plants in the ALTEO Group (BC-Therm and ALTEO-Therm) are going to be allocated, free of charge, an emission unit allowance that will decrease every year, based on the preliminary national implementing measure published by the Ministry of National Development and approved by the European Commission.

5.11 Operation and maintenance of power plants and power engineering installations

The operation and maintenance of power plants and power engineering installations require special expertise and an appropriately qualified and experienced labor force. For reasons of economies of scale, supply and operational security, power plants with a size exceeding that of small power plants (those with a nominal capacity over 50 MW) typically use their own employees for the operational tasks. The maintenance tasks related to the key equipment are often performed by the manufacturer or the specialist company accredited by the manufacturer.

However, there is an increasing need for the clients to use comprehensive operational and maintenance services from a company that can understand and coordinate the ever more sophisticated power engineering systems in the most efficient possible way, even in such a way that already the planning and establishment phases are completed by the future operating and maintenance company. Such a complex solution may help the clients in reducing their energy demands, and thus, in achieving their respective energy efficiency goals, and ultimately, to the improvement of their competitiveness.

5.12 Energy and power engineering services

The objective of the Energy Efficiency Directive was to update the EU legal framework for energy efficiency, opening a wider space for the solutions and developments supporting a more efficient utilization of energy. The Energy Efficiency Directive mentions it as one of its key goals that the achievement of its objective concerning the reduction of the consumption of primary energy set by the Council of Europe for 2020 be encouraged. One of the tools of realizing this objective is to perform the comprehensive assessment of the feasibility potentials of high efficiency energy cogeneration and efficient district heating / district cooling, which assessment has to be updated every five years, at the request of the Commission. Furthermore, the Energy Efficiency Directive encourages the EU member states to pursue local and regional policies that reckon with the potentials in the application of the systems using high efficiency energy cogeneration.

The provisions of the Energy Efficiency Directive had to be transposed into the individual legal systems of the members states by June 5, 2014. In Hungary, the transposing law is the Energy Efficiency Act, which, in harmony with the Energy Efficiency Directive, encourages energy consciousness, and in order to realize this goal, it introduced, among others, the system of mandatory power engineering audits. Pursuant to the Energy Efficiency Act, large companies are obliged to conduct a power engineering audit every four years, from which obligation they can be exempted if they run an energy management system certified by an accredited certification body in line with the EN ISO 50001 standard.

Among others, making power engineering audits mandatory, the increasing prices of energy, as well as the rising climate consciousness of society encourage consumers to be energy conscious and use services and realize developments that promote the efficient use of energy, which allows the development of the energy business and engineering services sector.

Besides the energy efficiency developments, those that aim to ensure the energy supply of the new or expanding industrial facilities also offer substantial business potentials for the energy business and engineering services sector.

The ALTEO Group, by relying on the energy sector knowledge and experience of its expert staff, is able to satisfy the changing and novel needs of energy users.

5.13 The Issuer's competitive position

Currently the Issuer is present on the broadly interpreted energy market only in Hungary considering that its complex services cover almost the entire spectrum of user needs. As explained in detail in this Information Memorandum, the ALTEO Group can cover any need from energy implementation and engineering activities (VFPD) through O&M services to power plants, electricity production, retail and wholesale trade of electricity and of natural gas, ancillary services (Control Center) to quasi-aggregator activities.

The Issuer strives to provide to its customers more than one successive or interrelated service at the same time or consecutively, for instance, by running a power station constructed for a client after its delivery, providing the necessary raw materials, or integrating its production in the Control Center.

In the opinion of the Issuer, similarly versatile service profiles are currently offered in Hungary by MVM, EON, ELMŰ-ÉMÁSZ and the MET group, and perhaps by ALPIQ. Comparison is difficult as none of the aforementioned competitors correspond entirely to their peers, each having its unique profile to determine its competitive position or some activity that is not shared by others (e.g. distribution, universal service provision or, in the case of MVM, electricity generation relying on nuclear energy, etc.). Still, the Issuer considers those entities to be its

competitors in terms of complex services provided to customers. With regard to their market share, these companies are ahead of the Issuer; however, this does not discourage the Company from pursuing its strategic goal of becoming “the largest among the small”.

It should be noted that the Issuer does not provide electricity or natural gas to retail users and does not take part in the operation of the energy infrastructure (electricity networks and distribution, operation of natural gas infrastructure), and thus it is not present in those markets.

In the separate markets of certain services within the range of complex services, the Issuer competes with other providers, some of which are active only in a single market. The table below shows the companies, in a breakdown by revenue, that the Issuer competes with in those markets, competitors with close to identical profiles to the Issuer indicated in bold.

Revenue in HUF million	2019	2018
MVM Partner Zrt.	673,065	606,448
Magyar Földgázkereskedő Zrt. (MVM Group)	665,400	744,188
MET Magyarország Zrt.	441,889	545,100
E.On Energiakereskedelmi Kft. (E.ON Group)	419,858	376,804
Uniper Hungary Kft.	241,377	250,600
ELMŰ-ÉMÁSZ Kft. (part of E.ON Group)	196,047	174,789
PPD Hungária Kft.	97,971	11,641
CEZ Magyarország Kft.	77,789	61,952
E2 Hungary Kft. (MET Group)	68,231	57,358
CYEB Energiakereskedő Kft.	50,807	30,644
Veolia Magyarország Zrt.	28,118	27,828
ALTEO Group	25,573	18,686
ALPIQ Csepel Kft.	19,392	30,504
Iberdrola Renovables Kft.	12,546	9,912
Pannon Hőerőmű Zrt.	9,344	8,378
NKM Nemzeti Közművek Zrt. (MVM Group)	8,770	6,466
E.On Energiatermelő Kft. (E.ON Group)	7,912	7,441
Pannergy Group	5,647	4,679
EMoGá Kft.	5,148	3,518
Wartsila Hungary Kft.	4,080	3,996
JAS Kereskedelmi Kft.	1,424	2,422
NRG Agent Kft.	1,055	795
ESS group	937	1,078
VPP Energy Zrt.	520	2,459
Vértesi Erőmű Zrt.	246	323

5.14 Presentation of and cooperation with strategic partners

The Issuer, in the course of its commercial activities, does not cooperate with any strategic partners.

5.15 Brief summary of the business strategy of the Issuer

Based on market trends, due to the spread of renewable energy production, the Company reckons with growing demand for regulatory (balancing) capabilities, an EU-level balancing energy market because of the CEP, and increased demand for decentralized industrial energy services optimized for the individual needs of customers, and adjusts its strategy accordingly.

The Issuer intends to manage the external effects and opportunities of the energy market relying on its existing resources, expertise and corporate culture, and, not veering from its sustainable growth path, it wishes to become a major energy company in Hungary: in a market dominated by companies with long histories and large asset bases, and a degree of state ownership, it wants to be “the largest among the small”.

In the forthcoming years, the ALTEO Group will mostly serve large corporations in its service, operation and maintenance (O&M) areas and intends to work on the B2B market. In the area of energy production, it wishes to become a major player in renewable-based energy production and on the balancing energy market either through its own development projects or by acquisitions. In its energy trading, the Company strives for organic growth, mainly by supplying to users in the SME sector. New opportunities include waste management as well as e-mobility, where the Company intends to obtain a market position, with minor capital expenditure, which allows for the fast expansion of these areas if appropriate returns are achieved.

The Issuer is committed to environmentally responsible operation; consequently, it makes its decisions regarding the implementation of its strategy in view of the considerations of sustainability.

On November 25, 2019 the Issuer published its detailed strategy for the 2020-2024 period, which is available at its disclosure points.

https://www.bet.hu/newkibdata/128326790/ALTEO_Vallalati_strategia_20191125_final.pdf

6 ASSESSMENT OF THE COMPANY'S MANAGEMENT REGARDING THE FINANCIAL POSITION OF THE COMPANY IN THE PAST YEAR AND ITS OPERATING PROFIT

6.1 Presentation of the factors that had a material effect on the profit from commercial activities

In the context of the strategy for 2020-2024, presented in the fall of 2019, the expansion of the capacity of the Control Center has begun, and in the first phase of a more than HUF 2 billion investment program, gas engines with additional total capacity of 9 MW were put into operation at the beginning of May 2020 at ALTEO-Therm's Tiszaújváros and Győr sites. In the next stage of the development, an additional 3 gas engines with a total electrical capacity of 9 MW will be installed, resulting in a 33% expansion in ALTEO's gas engine energy production capacities by the end of the program and transforming the control center into one of the largest in the country.

In the scope of the investment program, the reconstruction of the Gibárt hydropower plant, more than 100 years old, is in the implementation phase, expected to be completed in the second half of 2020, expanding the portfolio of the power plants of the ALTEO Group participating in subsidized electricity production.

The Company – as buyer – concluded a business share purchase contract with EIH Termelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-9023 Győr, Körkemence utca 8. II. em. 36.; company registration number: 08-09-014038) – as seller – for the transfer of a business share representing the entire issued capital (HUF 1,153,000,000) of Pannon Szélerőmű Kft. 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 the Company once the conditions detailed in the contract have been met, which is expected for Q4 2020.

Pannon Szélerőmű Kft. owns and operates a wind farm near Bábolna consisting of 7 wind turbines and providing an electrical capacity of 15 MW. The electricity produced at this wind farm is sold through the mandatory offtake system (KÁT); the KÁT eligibility expires on July 31, 2025.

6.2 Sales revenue

The ALTEO Group's Revenue amounted to HUF 16.2 billion, an increase of 33%, or HUF 4 billion, relative to the first half of 2019. The revenue growth was attributable to several proposed investment projects, as follows:

- Revenues from the Energy Retail segment and the Heat and Electricity Generation segment increased significantly, resulting mainly from market acquisition; this was, to some extent, offset by the aforementioned COVID-19 effect. The ALTEO Group's segment-based profit was supported by the success of the cogeneration facilities on the structured electricity market. The unit of the gas engine capacity enhancement project delivered in the first half of the year and generating income in the reporting period (9 MW capacity enhancement at the Tiszaújváros and Győr sites) contributed substantially to the economic stability of the segments.
- EURO GREEN ENERGY (Böny wind farm) acquired in the first half of 2019 was consolidated in the first 6 months of 2020; in the comparative period the capacity of the wind farm was consolidated as from April 1, 2019.
- The solar power plants delivered in the second half of 2019 improved the revenues of the ALTEO Group in 2020 with their entire output in the first half-year.

6.3 Expenses related to operation

Material-type expenses increased by 30% year-on-year, at a rate below the 33% growth of revenues. The increase of the market share of the ALTEO Group on the electricity market was promoted, from 2019 on, by the Bőny wind farm as well as the newly established solar power plants; these generation facilities tend to require particularly low material-type expenses. In the trade segment, the increase of revenue is coupled with a significant COGS growth, while revenue increase on the structured electricity market is not driven by material-type expenses.

The 21% (HUF 0.3 billion) growth of personnel expenses is directly related to the expansion of the ALTEO Group, that is, to headcount growth; in addition, the higher figure was also attributable to costs relating to development and restructuring.

Depreciation and amortization rose by 44% i.e. HUF 0.4 billion. Relating to the significant enhancement of production capacities, both depreciation and amortization increased. The capacity enhancement of HUF 11.6 billion implemented in 2019 consisted of the following elements:

- The HUF 7.8 billion worth of assets acquired in the context of the Bőny wind farm appeared in the depreciation figures of the ALTEO Group from April 2019.
- The Balatonberény and Nagykörös solar power plants were delivered in June-July 2019, at the value of HUF 3.8 billion; they were depreciated in the entire first half of 2020.

The balance of other income and expenses, net was HUF 0.2 billion lower as compared to the figures of the first half of 2019. The growth of other expenses in 2020 was attributable to the temporary negative effect (due to the rules of accounting settlement) of the closure of CO₂ quota-related positions and their recontracting with substantially more favorable terms.

6.4 Operating profit/loss, EBITDA

The ALTEO Group's operating profit in the first half of 2020 amounted to HUF 1.8 billion, its EBITDA stood at HUF 3.1 billion.

6.5 Finance income

The change of the EUR exchange rate played a dominant role in the HUF 49 million increase of net financial income. Pursuant to the revaluation rules, at the end of the reporting period the ALTEO Group discloses its assets and liabilities carried in a currency other than the presentation currency at a value calculated using the exchange rate effective on the last day of the reporting period. For the first half of 2020, such revaluation resulted in a positive revaluation difference. The aggregate revaluation surplus of the euro-denominated cash, receivables and liabilities of the ALTEO Group offset the interest expenditures arising from the increased loan portfolio in the first half of 2020.

6.6 Profit after taxes

The ALTEO Group's profit after taxes in the first half of 2020 amounted to HUF 1.06 billion on the consolidated level. The H1 2020 profit after taxes of the ALTEO Group was 120% higher than in the comparative period of 2019.

6.7 Non-current assets

The components of the change in non-current assets in H1 2020 reflect the achievement of the growth plans of the ALTEO Group:

- The ALTEO Group continued the capacity enhancement investment program started in the previous year; as the first step, 3 gas engines with a total capacity of 9 MW in aggregate were put into operation at ALTEO's Tiszaújváros and Győr sites.
- The reconstruction of the Gibárt hydropower plant is nearing completion, scheduled to end in the second half of the year.
- In April 2019 13 wind turbines were added to the ALTEO Group's assets at the Bőny wind farm.
- CO₂ emission allowances are transferred in April each year, in line with the statutory time limit.

6.8 Current assets

Current assets amounted to HUF 12 billion at the last day of H1 2020, a decline of 7% relative to the end-2019 level and an increase of 32% relative to H1 2019. The fluctuation of current assets from period to period represents only a slight modification of 3-5% in their composition.

Within current assets, both trade receivables and other receivables, accrued income and deferred charges stood at HUF 3 billion. Within the statement of financial position of the ALTEO Group, these items represent a constant 7-9%; with tight cash-flow management, the Group keeps its working capital in equilibrium against the background of growth. There are minor shifts of HUF 0.3-0.4 billion, a natural result of seasonal fluctuations (changes due to the seasonal character of the production of heating power plants and solar power plants, increase in stock due to the seasonality and expansion of retail trade, reduction of receivables from construction and installation works invoiced to third parties).

The closing balance of deposits and financial collaterals was HUF 0.8 billion in the first half of 2020. This line of the statement of financial position shows the deposits granted (bank balances serving as collateral for bank loans, deposits for transactions cleared or settled with delivery). In the first six months of 2020, the portfolio of such items decreased.

The line Other financial assets from the valuation of forward transactions stood at HUF 0.8 billion at the end of H1 2020. The HUF 0.7 billion increase was due to changes in the composition and magnitude of hedging derivatives outstanding at the reporting date within the period and changes resulting from the valuation of transactions outstanding at the reporting date.

6.9 Liabilities

The equity of the ALTEO Group increased by HUF 1.8 billion in H1 2020.

In H1 2020 ALTEO Group's long-term liabilities increased by HUF 0.25 billion, or 1%, year-on-year, and stood at HUF 22 billion at the end of the period.

- With regard to loans, the Company, following consultation with its credit institutions, in part made use of the moratorium on debt servicing offered by legislation in the context of the COVID-19 pandemic. The increase in the balance of short- and long-term loans resulted from the altered terms of the loans relating to the moratorium.
- The amount of provisions changed by HUF 47 million due to the establishment of the provision for the asset retirement obligation.

- Deferred tax liabilities increased by HUF 56 million as a result of the mechanism introduced to offset the income tax effect of different depreciation rates and other items of taxation and accounting between years.
- The obligation recognized under other long-term liabilities in the amount of HUF 351 million is the present value of the conditional purchase price related to the acquisition of the Zugló heat power plant. The increase resulted from the update of estimates.
- Finance lease liabilities rose by HUF 22 billion, to HUF 939 million. The liabilities relating to rights of use as regulated in IFRS 16 are presented in this line. The liabilities relating to the right of lease of the land belonging to the 13 wind turbines of the Bőny wind farm, acquired last year, 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.

Short-term liabilities decreased by a total of HUF 1.8 billion relative to the comparative period.

- Short-term loans and borrowings stood at HUF 0.46 billion at the end of the period, and decreased by HUF 101 million in the reporting period due to the moratorium on repayment and interest payment introduced as a COVID-19 related measure (reclassification between the long- and short-term loan categories was modified in the reporting period due to the moratorium).
- Bond payables due within a year amounted to HUF 2.4 billion, representing interest and principal payments due within a year.
- The cumulative amount of trade payables and other short-term liabilities and accruals decreased by HUF 1.7 billion in comparison to the previous year. The decrease in trade payables was the combined effect of the seasonal character of heating power plants, the lower gas bills due to declining gas prices, as well as the financial settlement in the subject year of high-volume maintenance and repair bills relating to the end of the previous year.
- Other financial liabilities from the valuation of forward transactions closed with HUF 0.97 billion.

6.10 Cash Flow

The cash assets of the ALTEO Group show an aggregate effect of cash use of HUF 0.9 billion in the first six months of 2020. The commercial activities of the ALTEO Group generated a cash increase of HUF 2.1 billion. HUF 3 billion of cash was used in the course of the investment projects of the ALTEO Group.

6.11 Information concerning the Issuer's existing, ongoing and proposed capital projects and investments

(i) Investments

In line with the new strategy adopted in the fall of 2019, the Company strives to expand the supply side on the domestic balancing energy market. As the first step, in May 2020, 3 gas engines with a total capacity of 9 MWe were put into operation at ALTEO's Tiszaújváros and Győr sites. In the next stage of the development at the ALTEO Group, 3 additional gas engines with a total electrical capacity of 9 MW will be installed, resulting in a 33% expansion in ALTEO's gas engine energy production capacities by the end of the program and transforming the control center into one of the largest in the country.

Sinergy shut down the Gibárt hydropower plant in August 2019 to implement a HUF 1.1 billion investment project designed to extend its lifetime and increase its efficiency. One of the key elements of the investment is the replacement of the turbines with state-of-the-art high-efficiency turbines that provide higher water yield and have a capacity of 5.75 GWh/year, representing a 70% increase in performance. After the completion of the project, the installed electricity generation capacity of the Gibárt hydropower plant will be 0.98 MW. The power plant will be operated by ALTEO's own specialists. The technical delivery of the power plant is scheduled for Q4 2020.

(ii) Acquisition

On May 18, 2020 the Issuer acquired sole ownership of Tisza BioTerm, in which it had previously held a 60% stake.

The Company – as buyer – concluded a business share purchase contract with EIH Termelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-9023 Győr, Körkemence utca 8. II. em. 36.; company registration number: 08-09-014038) – as seller – for the transfer of a business share representing the entire issued capital (HUF 1,153,000,000) of Pannon Szélerőmű Kft. 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 the Company once the conditions detailed in the contract have been met, which is expected for Q4 2020.

Pannon Szélerőmű Kft. owns and operates a wind farm near Bábolna consisting of 7 wind turbines and providing an electrical capacity of 15 MW. The electricity produced at this wind farm is sold through the mandatory offtake system (KÁT); the KÁT eligibility expires on July 31, 2025.

(iii) High-volume or long-term trade and business agreements

The Company concluded a services contract with a value of over one billion Hungarian forints with TVK-ERŐMŰ Termelő és Szolgáltató Korlátolt Felelősségű Társaság (registered office: H-3580 Tiszaújváros, Gyári út TVK-Ipartelep; company registration number: Cg. 05-09-007873) to carry out the implementation works to extend the service life of the main and auxiliary equipment as part of the reconstruction of the MOL Petrochemicals Co. Ltd. power plant located in the Industrial Park, and to coordinate the activities of the other contractors involved in the reconstruction project. Implementation works are under way on the various systems; their completion and delivery to the customer is scheduled for Q1 2021.

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

The Company and TVK-ERŐMŰ owned by MOL Petrochemicals Co. Ltd. concluded an O&M contract for the long-term operation and maintenance of TVK-Erőmű on September 23, 2019. This new contract was necessitated by the expiry of the O&M contract signed by the parties on July 26, 2004 and subsequently amended several times. Under the contract, the Company will provide the production plants of MOL Petrochemicals Co. Ltd. with industrial steam, heating hot water and power supply services until December 31, 2027.

6.12 Presentation of capital resources in the short and long term (equity, level, term and type of borrowings, EU and government grants)

The Issuer uses both equity and debt to optimize its operations and maximize shareholder value. The ALTEO Group pays attention to ensure that it creates value for its shareholders and thus it uses the least possible volume of equity due to the high return required, while it also strives to curb its indebtedness so that extreme levels of borrowings do not endanger the functioning of the ALTEO Group. In addition, the Issuer strives to have the majority of its loans in the long-term category. On June 30, 2020 the Issuer had equity of HUF 7.587 billion, long-term loans, bonds and leases of HUF 19.9 billion in aggregate, and short-term loans, bonds and leases of HUF 2.86 billion.

Government grants

The surplus revenue from the electricity sales of the Issuer's Subsidiaries engaging in electricity production and belonging to the subsidized KÁT or METÁR regimes qualifies a government grant; such surplus results from the use of guaranteed tariffs in excess of the current market price.

The ALTEO Group was awarded a HUF 500 million grant by the National Research, Development and Innovation Office in 2018. The grant allowed the implementation of a research and development project which explored energy storage as well as its combination with the more predictable use of weather-dependent energy sources. The electricity storage facility of the ALTEO Group, described above, was created as a result.

The Ministry of Finance Deputy State Secretariat for the Implementation of Economic Development Programmes awarded ALTEO 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. At present, no amounts have been drawn down from the grant yet.

6.13 Issue of securities

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

In connection with this, on October 24, 2019, the Company placed on the market in a successful bond auction 172 pieces of registered bonds, HUF 50,000,000 face value each, with a fixed coupon rate, maturity of 10 years, designated as ALTEO NKP/2029, with a total face value of HUF 8.6 billion. The bonds were admitted to the regulated market on January 24, 2020.

6.14 Early repayment

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

6.15 Other material events

Sinergy implemented the energy center that provides primary energy for the MOM Park building complex (MOM Park shopping mall, offices and condominiums) in the scope of its own investment project. Sinergy provided for MOM Park's full cooling, heating and electricity supply in the scope of an energy supply agreement effective until December 31, 2019. MOM Park Shopping Mall's owner, OTP Ingatlanbefektetési Alap, held a right to purchase the energy center owned by Sinergy, and it exercised such right. Therefore, as of January 1, 2020, Sinergy Kft. stopped supplying energy for MOM Park's building complex, office buildings and residential buildings, and the ownership of the assets of the energy center was transferred to OTP Real Estate Investment Fund.

In accordance with its announcement made on September 22, 2020, in the future the Company wishes to provide scheduling and production management services to its partners commercially, on a larger scale; such services will be performed by Sinergy Energiakereskedő, the Company's subsidiary. The ALTEO Group, owing to its own Control Center consisting of power stations it owns or operates and an electricity storage facility, as well as its AI based solutions, has all the assets and competences that have made it a key actor on the Hungarian market and may allow it to become one of the most significant aggregators in the country. Relying on that experience, Sinergy Energiakereskedő offers a simple arrangement and provides services, for a fixed fee, to KÁT-eligible weather-dependent electricity producers as well as those that are no longer eligible, and to power stations performing test runs and to producers with premium authorization (METÁR). Sinergy Energiakereskedő also offers other related management and administrative services (such as regulatory reporting, system operator's administration).

7 OWNERS, EXECUTIVES, EMPLOYEES

7.1 Name and position of the members of administrative, management and supervisory bodies (management, Management Board, BoD, SB, Audit Committee, other relevant committees or bodies, if any) as well as of key employees; their brief introduction, any proceedings implemented against them in the past 3 years regarding their professional activities and the outcome thereof

7.1.1 Board of Directors

Name	Position	Start of membership in the Board of Directors	Termination of membership in the Board of Directors
Attila László Chikán	Member of the Board of Directors, CEO	March 19, 2008	April 30, 2025
Domonkos Kovács	Member of the board of directors	May 1, 2011	April 30, 2025
Zsolt Müllner	Member of the board of directors	January 27, 2015	April 30, 2025
Gyula Zoltán Mező	Chairman of the Board of Directors	November 10, 2015	April 30, 2025
Ferenc Karvalits	Member of the board of directors	April 19, 2016	April 30, 2025

Attila László Chikán, has been the CEO since the foundation of the Company in 2008. Prior to that, he worked as a financial and investment analyst, holding different positions. He received his degrees from the University of Economics of Budapest (now Corvinus University of Budapest) and the College of Foreign Trade (now a part of Budapest Business School). The CEO, who is active in issues on sustainability, is the president of the Business Council for Sustainable Development of Hungary and has also been the chairman of the Supervisory Board of AutoWallis Nyrt. since December 2018.

Domonkos Kovács has more than 20 years of experience in investment analysis, acquisition and capital markets. He graduated from the Faculty of Finance of the University of Economics of Budapest (now Corvinus University of Budapest) in 1993. After graduation he worked for 7 years in the Corporate Finance Department of CAIB Értékpapír Rt. where he was involved in many IPO and acquisition advisory projects. From 1997, he was the Director of the Corporate Finance Department at CAIB. He was the Investment Analysis Director of the Majority Owner from 2000 and then became Head of Controlling of the Majority Owner's group 2005. He was Director for Valuation & Modelling at the Financial Advisory Department of Deloitte Zrt. between April 2008 and March 2011. From March 2011 he was the Investment Director of the Company and an executive officer also responsible for the project management of the capital market transactions of the Company. On February 19, 2018 he became the Deputy CEO of the Company performing the duties of the capital market and M&A Director of the Company in that position.

Zsolt Müllner graduated at the Budapest University of Economics as an economist. He joined the Wallis Group as head of the BMW Import Guards in 1994. Then he worked as the CEO of the Vehicle Trade Division of the Wallis Group for five years. He is a Member of the Board of Directors of Wallis Asset Management Zrt. and became the CEO of the holding Centre of the Wallis Group in 2007 and has served in that position since then. He held the Director's position in the Company from its foundation to July 17, 2009 and became a Member of the Board of Directors again on January 27, 2015. Among the Members of the Majority Owner's Group at the moment he is the Managing Director of MILTON Holding Kft., a Member of the Board of Directors of MILTON Finanszírozási Zrt., VENTURIO Zrt., PERION Zrt., WING Zrt., WINGHOLDING Zrt. and Graboplast Zrt. and the Chairman of the Board of Directors of AutoWallis Nyrt.

Apart from the position held at the Company, **Gyula Zoltán Mező** is at present a Member of the Board of Directors of Graboplast Zrt. and FoxPost Zrt., Managing Director of WALLIS Portfólió Kft., DAYTON-Invest Kft., DAKRON-Invest Kft. and 1995 MELA Kft., Manager of WALLIS ASSET MANAGEMENT Zrt. and a Member and Managing Director of XTC Kft. Over the past 10 years he has served as Finance Director of WALLIS ASSET MANAGEMENT Zrt. and over the past 5 years held the functions of the Asset Management Director of VENTURIO Kockázati Tőkealap-kezelő Zrt. and PERION Kockázati Tőkealap-kezelő Zrt. Previously, he had served as Finance Director at Citibank for eight years. He has a diploma in electrical engineering and engineering economics.

Ferenc Karvalits became a banker in 1990. from 1996 he was the Head of the Banking Department of the Central Bank of Hungary and moving on to hold the positions of Managing Director and a Member of the Board between 1998 and 2001. After that, he became Deputy CEO at Wallis Zrt. until 2002. Between 2002 and 2005, he was a Member of the Board of Directors there, while holding the position of co-CEO at CIB Bank. In April 2005, he became a Member of the Board of Directors of FHB Bank and then Chairman of the Bank in September. Between 2007 and 2013 he was the Deputy Governor of the Central Bank of Hungary and the Member of the Monetary Council. From 2013 he took part in the activities of Venturio Kockázati Tőkealap-kezelő Zrt and then of PERION Kockázati Tőkealap-kezelő Zrt. as advisor. At the moment he is Member of the Board of Directors of both companies. At the moment he is a Member of the Board of Directors of Bubbles International Zrt. and MAVEN SEVEN Solutions Zrt.

The business contact details of the Members of the Board of Directors are the same as the contact details of the Company.

7.1.2 Supervisory Board

Name	Position	Start of membership in the Supervisory Board	Termination of membership in the Supervisory Board
István Bakács	Chairman of the Supervisory Board	August 31, 2010	April 30, 2025
Dr. János Lukács	Member of the Supervisory Board	August 31, 2010	April 30, 2025
Dr. István Borbíró	Member of the Supervisory Board	August 31, 2010	April 30, 2025
Péter Jancsó	Member of the Supervisory Board	August 31, 2010	April 30, 2025
Attila Gyula Sütő	Member of the Supervisory Board, delegated by the Works Council	April 30, 2020	April 30, 2025

István Bakács, chairman of the Company's Supervisory Board. Currently advisor to the President-CEO of MVM Zrt. Senior manager of ACCENTURE Kft. between 2011 and 2014. Previously he was a Member of the Board of Directors of E.ON Hungária Zrt., entitled to use the title of Deputy CEO, between 2001-2010. In this position, he was responsible for the management of the energy production, trading and sales areas. From 1994, he was Director for Development at Magyar Villamos Művek Zrt., and a member of that company's Board of Directors entitled to use the title of CEO between 1998 and 2000. He was chairman of the Board of Directors of Paksi Atomerőmű Rt. between 1992-1994, and of Tiszai Erőmű Rt. between 1994-1996. He held various executive positions at Paksi Atomerőmű and Erőmű Beruházási Vállalat from 1977 to 1989. He has a qualification in Engineering and Physics, having earned his degree at the Moscow University of Energy Technology in 1974. István Bakács has held various management positions in a number of companies attached to the E.ON Group over the past ten years. He was a member of MVM Zrt.'s Board of Directors between 2015-2018. Currently, he is a member of the Board of Directors of ELEKTROSOL GLOBAL Zrt., a shareholder and managing director of CADENZIA Kft. He is the chair of EURELECTRIC's Hungarian Division and a member of the Board of Directors of EURELECTRIC (Brussels). He has been carrying out professional and social activities as chairman of the Hungarian Scientific Society of Energy Management since 2001.

Prof. Dr. János Lukács, CSc in Economics, Director of the Institute of Finance, Accounting and Business Law of Corvinus University of Budapest, Head of the Department of Financial Accounting. He received his economist/teaching degree from the legal successor of this institution in 1983. He is a certified auditor and tax advisor. Chairman of the Chamber of Hungarian Auditors. Mr. Lukács is chairman of the Supervisory Board of Széchenyi Kockázati Tőkealap-kezelő Zrt. and of Student Szolgáltató Diákszövetkezet, and a member of the Supervisory Board of Városi Alapkezelő Zrt. He chaired MOL Nyrt.'s Supervisory Board between 1999 and 2002.

Dr. István Borbíró is an attorney-at-law, and has been a member of Jutasi és Társai Ügyvédi Iroda since 1993. He earned his degree at the Faculty of Law of ELTE University

in 1983, where he also taught at the department of public administration law. He has remarkable knowledge and experience in business law authorization procedures related to project development.

Péter Jancsó has been President-CEO of Graboplast Zrt. ever since the setting up of the joint stock company, and is a member of the Board of Directors of majority shareholder WAM Zrt. and GRABO-HOLDING Zrt. He also holds a participation in and is a managing director of PZP Invest Kft. He is a shareholder in Club Carat Kft. Beforehand, he was a member of the Board of Directors of Wallis Zrt. between 2003-2010, chairman of the Board of Directors of Masterfil between 1990-1995, a member of the Supervisory Board of ÁPV Rt. between 1995-1998, chairman of the Board of Directors of Rába Nyrt. between 1998-2005, and chairman of the Chamber of Industry of Győr-Moson-Sopron County between 1998-2002. In addition, he serves and served on various social and advisory bodies. He has earned several awards in recognition of his achievements. He graduated from the Budapest University of Technology.

Attila Sütő graduated as a BSc from the Chemical Industry Automation College of the Technical University of Heavy Industries, after which he earned another degree as a Maintenance Planning Production Engineer at the Dunaújváros Faculty of Western Hungary University and currently he is a graduate student at the Technical University of Budapest. He began his professional career at the legal predecessor of MOL Nyrt where he had worked for 18 years of which five years in Ukraine. He joined the Company on May 1, 2015 as an HSE engineer. Mr. Sütő was elected to ALTEO Nyrt.'s Works Council during the 2019 elections where he was elected chairman and became member of the Company's Supervisory Board as the representative of employees in April 2020.

The business contact details of the Supervisory Board members are the same as the Company's contact details.

7.1.3 Top management

Name	Position	Start of top management position	End of top management position
Attila László Chikán	Member of the Board of Directors, CEO	March 19, 2008	Indefinite
Domonkos Kovács	Deputy CEO for M&A and Capital Markets, member of the Board of Directors	May 1, 2011	Indefinite
Péter Luczay	Deputy CEO for production and risk management	March 8, 2017	Indefinite
Viktor Varga	Deputy CEO for energy production and energy supply	January 1, 2018	Indefinite
Zoltán Bodnár	CFO	February 19, 2018	Indefinite

The curricula vitae of Attila László Chikán and Domonkos Kovács can be found in Section 7.1.1 above.

Péter Luczay is the Deputy CEO of the Company responsible for production and risk management. He is not a shareholder or executive officer in any company other than the Company and the Subsidiaries. He received his MSc in Engineering and MA in Engineering Economics from the University of Miskolc and his MBA from the Budapest University of Technology and Economics. He also holds qualifications as a Project Management Professional (PMP)® and in D.P.H. and Risk Management (The Oxford Princeton Programme). He gained fifteen years of experience in business development and designing, building and operating energy systems while working for various companies and pursuing activities involving several countries.

Viktor Varga is the Company’s Director for Energy Production. In addition to his positions held with the Company and the Subsidiaries, he is a shareholder and managing director of SUNSET Ingatlan Kft. He started his career in the chemical industry, after which he amassed considerable experience in the fields of commissioning, operation and maintenance of power plants. He earned his technical degree at the Electric Engineering Faculty of Kandó Kálmán Technical College, his MBA at the Budapest University of Technology and Economics, and his degree as energy management specialist at Corvinus University.

Zoltán Bodnár has been working for the ALTEO Group since February 2018, as the head of the business and finance area, in the position of Deputy CEO for Finance. In addition to his position held with the Company, he is the unlimited partner and partner authorized for business management of FRADEK Oktató és Szolgáltató Betéti Társaság. He has widespread experience gained in an international corporate setting. He has been a member of UPC’s management team since 2009, having filled top finance management positions in Hungary between 2009 and 2014, and then at the company’s Warsaw headquarters from 2014, and has worked in similar management positions for companies such as AstraZeneca Kereskedelmi és Szolgáltató Korlátolt Felelősségű Társaság, Diageo and Dréher Sörgyárak.

The business contact details of members of the top management are the same as the Company’s contact details.

7.1.4 Audit Committee

Name	Position	Start date of Audit Committee membership	End date of Audit Committee membership
István Bakács	Chair of the Audit Committee	August 31, 2010	April 30, 2025
Dr. János Lukács	Audit Committee member	August 31, 2010	April 30, 2025
Dr. István Borbíró	Audit Committee member	August 31, 2010	April 30, 2025

In the past 3 years no proceedings were initiated against members of the administrative, management or supervisory bodies or key employees with regard to their professional activities.

7.2 Parties holding a capital share or voting right

The Majority Shareholder owns 63.88% of the Company's shares, and controls the Company by virtue of this controlling interest. Current and former Board members, Supervisory Board members and executive employees hold an additional 5.46% of Shares. The fact that most Supervisory Board and all Audit Committee members are independent is intended to counterbalance the Majority Shareholder's control.

Ownership structure	Ownership ratio based on the Shares
Majority Shareholder	63.88%
Free float	32.25%
Own shares	3.87%
Total:	100.00%

To the Company's knowledge, only the Majority Shareholder holds a stake reaching or exceeding 5% in the Company.

WALLIS PORTFOLIÓ Korlátolt Felelősségű Társaság (registered office: H-1055 Budapest, Honvéd u. 20.; company registration number: Cg. 01-09-925865), fully owned by the Ultimate Private Individual Shareholder, is the majority shareholder of the Majority Shareholder.

7.3 Different voting rights

The Company has issued no shares entitling the holder to different voting rights.

8 FINANCIAL INFORMATION

The audited separate financial report for 2019 (including the business report and other attachments), and the related Auditor's Report is attached to this Information Memorandum as Annex no. 3, and the consolidated annual financial report for 2019 and the related Auditor's Report, as Annex no. 4.

The Issuer's report on the first half of 2020 is attached as Annex no. 5 to this Information Memorandum.

9 ONGOING JUDICIAL, ARBITRATION OR OTHER REGULATORY (E.G. TAX-RELATED) PROCEEDINGS INVOLVING A VALUE IN EXCESS OF 10% OF EQUITY

There are no such proceedings in progress.

10 RELEVANT AGREEMENTS

The Company has no knowledge of any substantial contract concluded outside the scope of the general business activity on which basis any member of the ALTEO Group would have a liability or an entitlement according to which this fact might have an impact from the point of view of the Company's ability to perform its obligations in respect of the Bonds towards the Investors.

11 INFORMATION ON THE ISSUE

11.1 Reasons for the offer and the use of the proceeds

The Issuer will use the funds raised for general corporate financing purposes, in particular to fund investments into energy projects as well as to achieve its growth objectives.

11.2 The planned financial cover for obligations based on the bond

The planned financial cover for the payment obligations based on the Bond is provided by the permanent free cash flow generated by the Issuer and available at all times.

12 INFORMATION CONCERNING THE SECURITIES (“BOND TERMS”)

12.1 Features of the Bonds

In order to enhance the liquidity of the corporate bond market, on July 1, 2019 the Central Bank of Hungary launched the BGS; under the scheme, it purchases a specific portion of the bonds of non-financial corporations with high ratings.

The bonds are issued in the framework of the BGS; as a result, Bonds and Bond Terms are structured in accordance with the BGS terms published by the Central Bank of Hungary.

12.2 Authorization

The Board of Directors of the Issuer decided on the issue of the Bonds in its resolution no. 2//2020. (IX.24.).

12.3 Purpose of the Bonds’ issue, use of revenues

In this Information Memorandum, the Issuer undertakes to use the funds raised through the issue in accordance with and for the purposes set out in the properly approved business plan required for the issue and made available to the Rating Agency, as described in the Rating Report specified below, for which it must assume liability.

By participating in the BGS, the Issuer undertakes to promptly make available any information, including information relating to the final beneficiary or beneficiaries of the Issuer, that is relevant for assessing whether compliance with the requirements on the prohibition of monetary financing and the provisions of the BGS Prospectus would be ensured in the event of the purchase of the Issuer’s specific security by the Central Bank of Hungary. Furthermore, the Issuer undertakes to disclose such information to any investor to which it communicates a public offer regarding the security concerned.

In other respects, the purpose of the issue of the Bonds is described in Section 11.1 of this Information Memorandum.

12.4 Basic information on the Bonds

Designation of the series:	ALTEO NKP/2031
Announced quantity:	HUF 3,800,000,000
Proposed total face value:	HUF 3,800,000,000
Defined currency:	The Bonds are denominated in HUF.
Minimum gross placement price	79.7166%
Face value:	HUF 50,000,000
Number of bonds:	76 bonds
Date of Placement:	October 6, 2020
Start date of interest calculation:	October 8, 2020
Settlement Day:	October 8, 2020

Value Date:	October 8, 2020
Maturity date:	October 8, 2031
Maturity:	11 years
Basis of interest calculation:	Fixed interest
Interest rate:	2.45 percent per year, to be paid subsequently on an annual basis
Basis of redemption/repayment:	Redemption at depreciated face value
Type of Placement:	Offer to the public of securities without the obligation to publish a Prospectus, in an auction procedure

12.5 Name of the Bond, securities identification number of the securities series

Name: ALTEO NKP/2031 Bond
 ISIN identifier: HU0000360003

12.6 Laws underlying the issuance of Bonds

Laws underlying the issuance of Bonds include, among others, the following:

- a) Act V of 2013 on the Civil Code;
- b) Act CXX of 2001 on Capital Markets;
- c) Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC;
- d) Government Decree no. 285/2001 (XII.26.) on bonds
- e) Government Decree no. 284/2001. (XII.26.) on the method of generation and transfer of dematerialized securities and the relevant safety requirements, and on the requirements regarding the opening and management of securities account, central securities account and account for customers.

12.7 Type of Bonds

Pursuant to Section 12/B (1) of the Capital Markets Act, the Bonds are transferable, registered debt instruments. According to Section 12/B (1) of the Capital Markets Act, the Issuer (debtor) of a Bond agrees to pay or render, the predetermined interest or other commissions for the amount specified there, any other services it agreed to provide, as well as the amount of money specified there to the current holder or beneficiary of the Bond (creditor) at the specified time and in the specified manner. According to the Bond Decree, there is no statute of limitations for bond claims against the Issuer. All Bonds consist of securities representing identical rights and obligations.

The Bonds will not entitle any party to acquire any security or other financial asset by means of conversion or the exercise of the right represented by them.

12.8 Method of Bond generation and registration

The Bonds are issued in a dematerialized form. Pursuant to Section 6(5) of the Capital Markets Act, with the exception of the shares of private limited companies, no certificate may be printed subsequently for dematerialized securities, nor in connection with securities that were dematerialized.

Name and address of registering organization: KELER Központi Értéktár Zártkörűen Működő Részvénytársaság (registered office: H-1074 Budapest, Rákóczi út 70-72.; company registration number: Cg. 01-10-042346); tax number: 10873151-2-44; hereinafter: “**KELER**”).

The records maintained by KELER serve as the authentic register regarding the identification of the securities account managers (hereinafter: “**Securities Account Manager**”) on whose securities accounts maintained by KELER Bonds are debited, as well as regarding the amount of Bonds credited on securities accounts maintained by the various Securities Account Managers.

In compliance with Section 7(2) and Section 9(1) of the Capital Markets Act, the Issuer issues and deposits with KELER a document that is not treated as a financial instrument (hereinafter: “**Document**”) containing the terms and particulars of the Bond. The Document remains in deposit at KELER or, if applicable, its legal successor until such time when all the claims of the Bondholders arising from the Bond are satisfied. A draft of the Document (proposed text of the Bond) is attached as Annex no. 6 to this Information Memorandum.

If, in compliance with these Bond Terms, the Issuer cancels any Bond before its Maturity Date (as defined below), the Document is cancelled and a new document (hereinafter: “**New Document**”) containing the particulars of the outstanding Bonds is issued and deposited with KELER so that the change in the number of outstanding Bonds due to such cancellation can be tracked.

12.9 Type of the Bonds

The Bonds represent direct, unconditional, non-subordinated and unsecured obligations of the Issuer.

The Bonds all have the same seniority, and rank at least equally with any other direct, unsecured, non-subordinated bond obligations the Issuer may have at any given time (*pari passu*), except for any obligations with a higher priority based on statutory requirements.

12.10 Ratings of the Bonds

The Bonds were awarded a “BBB-” rating by Scope Ratings GmbH (registered office: Lennéstraße 5., 10785 Berlin, Germany; hereinafter: “**Rating Agency**”), which rating was published on July 29, 2020 (hereinafter: “**Review Report**”) and on August 25, 2020 (hereinafter: “**Rating Report**”). The identity of the Rating Agency may change during the term of the Bonds, in compliance with the requirements imposed by the BGS.

The rating of the Bonds is reviewed by the Rating Agency annually during their term. The review of the credit rating of the Bonds and of the Issuer, together with the relevant rating reports, is published on the websites of the Central Bank of Hungary and the Rating Agency, to which the Issuer gives its consent. In this context, the Issuer undertakes to provide the Rating Agency in due time with all relevant documents and information necessary for the annual review of the credit rating, and to cooperate with such agency in every respect during the rating process.

For the purpose of potential participation in the BGS, Scope Ratings GmbH performed the rating of the Issuer in 2019. In accordance with the credit rating report issued on August 7, 2019, the rating of the Issuer was: BB+/Stable. Ratings of Bonds to be issued under the BGS:

BBB-. The Rating Agency reviewed such ratings based on the current proposed Issue, and confirmed them in its report published on August 25, 2020. In the long-term credit rating scale, considered to be the most authoritative one, bonds with a rating of at least BBB- belong to the so-called investment grade category. A BBB (BBB+, BBB, BBB-) rating implies good creditworthiness, where the risk of financial loss is currently low, and the issuer will be able to meet its payment obligations with sufficient certainty, but may be affected by adverse business or economic conditions to a greater extent than in higher rating categories. According to the report of the credit rating agency, the Issuer's increasing cash flow in the subsidized energy production segment, its quasi-local monopoly position in heat generation, the comfortable level of the interest coverage ratio and its integrated energy strategy all support the credit rating, while the geographical concentration of energy production equipment and the financial risk profile have been considered as negative factors; but a gradual improvement in the financial risk profile is anticipated for the next 3 years. The credit rating agency assigned a stable outlook to the rating. During the winding-up process, the rating of the Bonds provides an above-average yield according to the credit rating agency, so the Bonds receive a rating one level higher than the corporate credit rating.

12.11 Total value of the Issue, i.e., total face value of the Bonds

The amount offered is not more than HUF 3,800,000,000, i.e., Three billion eight hundred million forints.

12.12 Denomination schedule, currency

Face value of the Bonds (Face Value): HUF 50,000,000, i.e., fifty million forints
The Bonds are issued in Hungarian forints.

12.13 The number of the Bonds

The Bonds are placed on the market in 1 (one) series consisting of 76 (seventy-six) items at maximum, with the proviso that the final number of the Bonds to be issued may change in accordance with the total amount of the Issue.

12.14 Type of placing on the market

The Bonds are issued in Hungary, by means of an offer of securities to the public as set out in Article 2(d) of Regulation (EU) 2017/1129 of the European Parliament and of the Council (hereinafter: **Prospectus Regulation**), in a competitive auction procedure, which, pursuant to the Prospectus Regulation, is exempted from the obligation of the preparation and publication of a Prospectus. Sale by auction with a non-public order book is effected through the auction module forming part of the MMTS1 system operated by the BSE; the details of the auction procedure are set out in the BSE Auction Rules and in Chapter 14 (**Auction procedure and allocation**).

12.15 Place and date of the placement, issuance and creation of the Bonds

Date of Placement: October 6, 2020 (Auction date)

Value Date of the Issue: October 8, 2020 (settlement day)

Place of the issue: Budapest

Date of the issue: Value Date of the Issue

12.16 Law applicable to placement and the Bonds

The placement, the Bonds, their validity, effectiveness and the interpretation of the Bond Terms are governed by Hungarian law (including the Prospectus Regulation and other legal acts adopted by the institutions and bodies of the European Union that are directly applicable in Hungary).

In the event of any controversy, legal dispute or interpretation issue arising from or in connection with the Bonds, their placement, or any document generated in the course of their placement, the ordinary Hungarian courts will have jurisdiction in accordance with the applicable rules on material jurisdiction and territorial jurisdiction.

12.17 Issue price

The Bonds may be distributed at Face Value, below par or above par. The minimum placement price of the Bonds, that is, the minimum limit of bids submitted at the Auction, is set out in Chapter 14 (*Auction procedure and allocation*).

12.18 The Bonds' term and maturity

Maturity date: October 8, 2031

The term of the Bonds is 11 (eleven) years, starting on the Value Date of the Issue and ending on the Maturity Date.

12.19 Type of interest, terms of interest payment

The Bonds have a fixed interest rate.

12.20 Interest rate

Each Bond has an annual fixed interest rate of 2.45% (two point four five percent) (hereinafter: **Coupon**), paid in retrospect on the Interest Payment Dates. The Bond pays no interest for the Maturity Date.

Interest Calculation Start Date: October 8, 2020

12.21 Interest Payment Dates

For each Bond, the first interest payment date is October 8, 2021, and each subsequent interest payment date during the term of the Bonds is the 8th day of October in the calendar year concerned with the proviso that the last interest payment date is identical with the Maturity Date (October 8, 2031) (hereinafter: "**Interest Payment Date**").

12.22 Interest Period

The period starting on the Interest Calculation Start Date (including that day) and ending on the first Interest Payment Date (not including that day), as well as any subsequent period starting on the Interest Payment Date (including that day) and ending on the following Interest Payment Date (not including that day), provided that the last Interest Payment Date is the Maturity Date.

12.23 Amount of the interest payable

Interests are calculated by the Paying Agent.

Each Bond pays interest, at the Coupon rate annually, on its Amortized Face Value, from the Value Date of the Issue as the Interest Calculation Start Date (including that day). The “**Amortized Face Value**” means the Face Value less the aggregate amount of the Amortization Amounts paid by the Issuer before the Interest Payment Date concerned.

The interest on the Bonds is calculated for the Interest Period, with the exception of repurchase prior to maturity as defined in Section 12.32 of the Information Memorandum (Covenants – Extraordinary Repurchase Events), that is, for the calculation of interest payable for a single Bond for the entire year, the Amortized Face Value of the Bond is multiplied by the Coupon.

In the event of repurchase prior to maturity specified in Section 12.32 of the Information Memorandum (Covenants – Extraordinary Repurchase Events), if the (accrued) interest is to be calculated for a period shorter than one year, by derogation from the aforesaid, the interest is calculated by first multiplying the Amortized Face Value by the Coupon, then by the applicable Interest base.

“**Interest base**”: Actual/Actual (ISMA), that is, if the accrued interest needs to be calculated for a period shorter than one year, the number of days elapsed since the latest Interest Payment Date is divided by 365 (or 366, if the Interest Period concerned contains February 29), and the quotient is the value of the interest base. Any amount calculated using the Interest base must be rounded up from the half (not including the half).

Accordingly, the fixed interest amounts payable on the various Interest Payment Dates, taking into account the Disbursement Day, are as follows:

October 8, 2021: HUF 1,225,000 / 1 Bond

October 8, 2022: HUF 1,225,000 / 1 Bond

October 8, 2023: HUF 1,225,000 / 1 Bond

October 8, 2024: HUF 1,225,000 / 1 Bond

October 8, 2025: HUF 1,225,000 / 1 Bond

October 8, 2026: HUF 1,225,000 / 1 Bond

October 8, 2027: HUF 1,225,000 / 1 Bond

October 8, 2028: HUF 1,102,500 / 1 Bond

October 8, 2029: HUF 980,000 / 1 Bond

October 8, 2030: HUF 857,500 / 1 Bond

October 8, 2031: HUF 735,000 / 1 Bond

12.24 Interest payment in the event of late payment

The Bonds will not pay an interest starting from their Maturity Date or the Extraordinary Repurchase Date, unless the Bondholder provides sufficient evidence that the Issuer unlawfully delays or refuses payment of the principal or the interest. In that case, the interest on the relevant principal or interest is further accumulated at the default interest rate (hereinafter: “**Default Interest**”) specified in the provisions of the Civil Code until the Issuer has paid the total amount due for the relevant Bond.

12.25 Next Working Day rule

If any Interest Payment Day does not fall on a Working Day, then the interest payable on the Interest Payment Date concerned falls due and is payable on the first Working Day following such Interest Payment Day (hereinafter: “**Next Working Day Rule**”). The Bondholder is not entitled to any additional interest or any other payment for such deferred payment.

12.26 Rounding rule

In the course of calculations relating to the Bonds, any percentage resulting from the calculation is rounded, where necessary, to the fourth decimal point of the percentage point (rounded up from 5, not including 0.00005%) and any forint amount due and payable is rounded to the nearest unit (rounded up from the half, except in the case of half a forint, which is rounded down and is to be considered 0 forint). In this case, “unit” means 1 (one) forint.

12.27 Repayment of the Bonds – Redemption, Repurchase

12.28 Scheduled amortization during the term of Bonds and redemption at maturity

The Bonds are amortizing (and within that, non-straight-line) bonds.

Unless previously repurchased or cancelled, each Bond is amortized as follows:

- a) HUF 5,000,000 per Bond is due and payable as **Amortization Amount** on October 8 2027, October 8, 2028, October 8, 2029 and October 8, 2030; and
- b) HUF 30,000,000 per Bond is due and payable as the final amortization amount (**Redemption Amount at Maturity Date**) on October 8, 2031, which is also the last Interest Payment Date and the Maturity Date.

Without prejudice to the above, the payment of any Amortization Amount and of the Redemption Amount at Maturity Date is governed by the provisions of Section 12.35 Bond Terms (Payments), in particular, but not exclusively, the paragraph following the Disbursement Day subtitle.

12.29 Other redemption

Bonds may not be redeemed in instances other than redemption at maturity.

12.30 Repurchase

Without a separate agreement with the Bondholder, a Bond can be unilaterally repurchased prior to the Maturity Date only in the cases specified in Section 12.32 of this Information Memorandum (Covenants – Extraordinary Repurchase Events), subject to the conditions specified therein. In such cases the Issuer withdraws the Bonds repurchased by itself – that is, the entire series – and has them cancelled.

Over and above the provisions of the above paragraph, the Issuer may, based on an agreement with the Bondholder, purchase Bonds, at the price specified in the agreement, in the open market or otherwise. In such cases the Issuer may, at its discretion, keep, re-sell or cancel the Bonds repurchased by itself.

In the event of repurchasing part of the securities series prior to the Maturity Date, the Issuer agrees to repurchase Bonds from the Central Bank of Hungary at least in the same proportion as the Central Bank of Hungary holds securities from the securities concerned from that series at the time of repurchase.

In the case outlined in the two paragraphs above, that is, if the repurchase is not effected pursuant to Section 12.32 (Covenants – Extraordinary Repurchase Events) of this Information Memorandum, the repurchase price may be determined in agreement with the Bondholder(s) involved.

12.31 Cancellation

Each Bond redeemed by the Issuer is cancelled (withdrawn, deleted) in accordance with the effective policies and procedures of KELER. Bonds cancelled in this manner may not be re-issued or re-sold.

12.32 Covenants – Extraordinary Repurchase Events

If any of the following events occur (hereinafter: “**Extraordinary Repurchase Events**”, or any one of them: “**Extraordinary Repurchase Event**”):

a) Violation of the *pari passu* principle:

The Bonds represent direct, unconditional, non-subordinated and unsecured obligations of the Issuer. The Bonds all have identical priority, as well as the same priority as any other unsecured, non-subordinated bond obligations the Issuer may have at any given time (except for any obligations with a higher priority based on statutory requirements). Any violation of this obligation must be remedied by the Issuer within 6 months. If this 6-month period lapses without remedy, the Issuer must redeem the Bonds, after such lapse, within 5 (five) Working Days at the Repurchase Price Before Maturity.

(b) Violation of the negative pledge principle:

Furthermore, the Issuer agrees not to issue collateralized bonds which would have a higher priority than Bond claims until its liabilities arising from the bonds have been fully settled. Any violation of this obligation must be remedied by the Issuer within 6 months. If this 6-month period lapses without remedy, the Issuer must redeem the Bonds, after such lapse, within 5 (five) Working Days at the Repurchase Price Before Maturity.

c) Non-payment, cross default:

In the event of any default by the Issuer exceeding 90 days from the due date with respect to any of its bonds (including the Bonds), the Issuer must, within 5 (five) Working Days of the expiry of this 90-day time limit, redeem the Bonds at the Repurchase Price Before Maturity.

d) Downgrading of external credit rating:

If the rating of Bonds falls below B+, but it is still at least B-, and the Bonds are not upgraded to B+ over the next 2 years, within 5 (five) Working Days after the expiry of this 2-year period, the Issuer must redeem the Bonds at the Repurchase Price Before Maturity. If the rating of Bonds is downgraded to CCC or lower, the Issuer must redeem the Bonds at the Repurchase Price Before Maturity within 5 (five) Working Days of the publication of the rating.

If any of the events mentioned in the above points (a)-(d) of Section 12.32 occur, the Issuer must promptly inform Bondholders to that effect. Furthermore, if any of the events mentioned in the above points (a)-(d) of Section 12.32 occur, the Issuer must repurchase the Bonds within 5 (five) Working Days of expiry of the time limit applicable to the event concerned as specified in the relevant point (which is 6 months in case of the violation of the *pari passu* or negative pledge principle, 90 days in case of non-payment or cross default, and 2 years in case of the downgrading of external credit rating) at the Repurchase Price Before Maturity, without applying any penalty interest. The Issuer must pay the Repurchase Price Before Maturity by wire transfer, in Forint. The Issuer must notify Bondholders about the exact time of the repurchase of the Bonds (hereinafter: **Extraordinary Redemption Date**), simultaneously with the notification of the repurchase event before maturity. In the event of the late payment of the Repurchase Price Before Maturity, the Issuer is obliged to pay default interest at the (statutory) rate specified in the Civil Code. Each Bond repurchased by the Issuer pursuant to this section is cancelled (withdrawn, deleted) in accordance with the effective policies and procedures of KELER. Bonds cancelled in this manner may not be re-issued or re-sold.

12.33 Interpretation

For the purposes of the Bond Terms set out in this Section 12:

Collateral: pledge (mortgage), security deposit or any other agreement or understanding which has the purpose of offering as security, or encumbering, the Issuer's assets, other property owned by the Issuer or any right held by the Issuer.

Repurchase Price Before Maturity: with regard to a Bond, its face value minus any principal amount paid with respect to the Bond concerned (Amortization Amount), plus all outstanding interest and Default Interest and the time-proportionate interest accrued since the latest Interest Payment Date (that is, in the period from the latest Interest Payment Date and the day of payment of the Repurchase Price Before Maturity, excluding such day of payment). The calculation of the accrued time-proportionate interest is governed by the provisions of the section *Type of interest, terms of interest payment*.

12.34 Payments

12.35 Method of payment

Principal and interest payments relating to the Bonds are made to the Bondholders by the Paying Agent, on behalf of the Issuer, by wire transfer, in accordance with the provisions of the Paying Agent Contract.

Payments are always subject to the financial, tax and other laws and regulations in force at the location of payment, particularly the policies and regulations of KELER and, following the registration of the Bonds in XBond, of XBond.

Principal and interest payments regarding the Bond are made by wire transfer through the Paying Agent, in accordance with the effective policies and regulations of KELER and with the provisions of the Paying Agent Contract, **taking into consideration** the relevant fiscal regulations, to Securities Account Managers on whose securities accounts maintained by KELER Bonds had been credited at the close of business on the Reporting Date (as defined below) specified in the effective policy of KELER applicable to the due date concerned. Pursuant to the effective policies and regulations of KELER, the Reporting Date is the day that precedes the relevant Disbursement Day by two (2) Working Days (hereinafter: “**Reporting Date**”). Payments are to be made exclusively to persons who qualify as Bondholders on the Reporting Date.

With respect to the Bonds, payments made in line with the Bond Terms are considered to be appropriate payments made to the Bondholders, and the Issuer as well as the Paying Agent is released from any obligation associated with the amounts paid in that way.

In the event that the repayment of Bonds (or any part thereof) becomes due according to the Bond Terms, or the Bonds have matured but have not yet been fully paid to the Bond holders, then Bondholders are entitled, by making reference to the securities account in which the Bonds are held, to take action before the competent court against the Issuer, unless, within seven days of the relevant due date, the amount due for the Bonds is fully paid to the Bondholders in accordance with the Bond Terms.

12.36 Payment Day (due date)

With respect to any Bond, the date on which any principal or interest payment becomes due or (in the event the payment is withheld or declined in violation of the applicable regulations) on which the outstanding amount is fully paid.

12.37 Settlement Day

The date specified for the settlement of the proceeds from placement and any associated fees and costs.

12.38 Disbursement Day

If the day of any payment to be made in respect of the Bond is not a Disbursement Day (as defined below), the Bondholder is not entitled to the payment concerned until the subsequent Disbursement Day, or to any additional interest or other payment with regard to such delay. For the sake of clarity, the payments to be made in respect of the Bonds are governed by the Next Working Day Rule.

For the purposes of the Bond Terms:

Disbursement Day is the day

(i) that is a Working Day; and

(ii) on which KELER performs cash and securities transfers.

Working Day means any day on which commercial banks (including the Paying Agent) are open for general business in Budapest.

12.39 Stock exchange registration

The Issuer undertakes to ensure that the Bonds are registered in the XBond multilateral trading system operated by the Budapest Stock Exchange within 180 (one hundred and eighty) days of the Issue Date, and that the Issuer will keep the Bonds in circulation in the Xbond system until the Maturity Date.

With this exception, the Bonds will not be traded on any regulated or equivalent market.

12.40 Collateral

Not applicable. The Bonds represent unsecured obligations of the Issuer.

12.41 Taxation

Any principal and interest payments by or on behalf of the Issuer relating to the Bonds are made in compliance with the applicable financial or tax laws. If any charge or tax is to be deducted in respect of the principal or interest payments, the Issuer or the Paying Agent will meet the withholding requirement, and thus the Bondholders will receive the net sum of principal or interest payments. Neither the Issuer, nor the Distributor or the Paying Agent is liable for any additional payment to compensate Bondholders for such charges or deductions. In compliance with the applicable laws, neither the issuer, nor the Distributor or the Paying Agent has any liability towards Bondholders for any fee, cost, loss or expenditure related to principal or interest payments.

12.42 Paying Agent

With regard to the Bonds, the Issuer and ERSTE BANK HUNGARY Zártkörűen Működő Részvénytársaság (registered office: 1138 Budapest, Népfürdő utca 24-26.; company registration number: Cg.01-10-041054; tax number: 10197879-4-44; hereinafter: “**Paying Agent**”) as paying agent concluded a paying bank agreement (which may be modified and/or amended and/or replaced from time to time; hereinafter: “**Paying Agent Contract**”). Pursuant to the Paying Agent Contract, the Paying Agent undertakes to perform the principal and interest payment services specified in the Paying Agent Contract.

The Issuer is entitled to modify or terminate the mandate of the Paying Agent and/or employ a different paying agent, provided that a paying agent is employed in Hungary at all times relating to the Bonds.

The Paying Agent is entitled to terminate the Paying Agent Contract without cause or for cause.

Acting under the Paying Agent Contract, the Paying Agent may act exclusively as an agent of the Issuer and may not assume any obligation or agent or commission agent services to or for the benefit of the Bondholders.

12.43 Market making

To ensure compliance with the terms of the BGS, with regard to the Bonds, the Issuer and ERSTE BANK HUNGARY Zártkörűen Működő Részvénytársaság (registered office: 1138 Budapest, Népfürdő utca 24-26.; company registration number: Cg.01-10-041054; tax number: 10197879-4-44; hereinafter: “**Market Maker**”) concluded a market maker agreement (which may be modified and/or amended and/or replaced from time to time; hereinafter: “**Market Maker Contract**”). In the framework of the mandatory market making by ERSTE BANK HUNGARY Zrt. and in line with the provisions of the BGS and of the BSE, from the commencement of the trading of the Bonds on XBond to the end of the maturity of the Bond,

- a) on each trading day, the market maker makes two-way bids (simultaneous bid and offer) on their own account, to be maintained for at least 15 minutes,
- b) the face value of the bid will be at least HUF 50,000,000 on both the buy- and sell-sides (that is, it is for at least 1 Bond),
- c) the difference between the bid and ask yields on the second trading day following the quotation date will not exceed 200 basis points.

The Issuer has the right to modify or terminate the mandate of the Market Maker and/or to appoint an additional or different market maker, with the proviso that a market maker must be available for the Bonds in Hungary at all times.

The Market Maker is entitled to terminate the Market Maker Contract without cause or for cause.

12.44 Description of rights related to the Bonds (including any limitations of rights and procedures for their exercise), description of limitations to the free transferability of the Bonds, highlighting the limitations of sale applicable to majority shareholders and the company

Pursuant to Section 12/B(1) of the Capital Markets Act, the Issuer (debtor) of a Bond agrees to pay or render, respectively, the predetermined interest or other commissions for the principal amount specified there, any other services it agreed to provide, as well as the principal amount specified there, to the current holder of the Bond at the specified time and in the specified manner. Pursuant to the Bond Decree, there is no statute of limitations for bond claims against the Issuer unless provided otherwise in Hungarian law.

Bondholders have the following rights to the Bonds, with the conditions set out in the applicable laws:

- (a) they may claim from the Issuer the face value specified in the Bond plus the predetermined interest and other commissions, as well as the payment of other monetary benefits, if any, offered by the Issuer, in line with the terms set out in the Bond Terms;
- (b) they may familiarize themselves with the contents of this Information Memorandum before the acquisition of the Bond;
- (c) they may hold the Bond, during its term, (i) in a securities account as specified in the relevant legislation and (ii) provide it as a collateral or dispose of it unless that is precluded by legislation;
- (d) they may receive regular and extraordinary disclosures from the Issuer as specified in the Capital Markets Act and, following registration of the Bonds in the XBond multilateral trading system, in the Business Code of XBond and the applicable legislation; and
- (e) they may exercise any other rights specified in the Capital Markets Act or other applicable legislation.

12.45 Title

Pursuant to Section 6:566(6) of the Civil Code and Section 138(2) of the Capital Markets Act, for any Bond, reference to ‘Bondholder’ or ‘Bondholders’ is to be interpreted, unless there is evidence to the contrary, as the person or persons on whose securities account the Bonds are registered (hereinafter: “**Bondholder**”).

Unless a competent court or a legislative provision provides otherwise, any Bondholder who demonstrates his entitlement as required above is deemed to be the beneficiary of the Bond and is to be treated as such, and is entitled to any payment related to the Bond even if the Bond has already matured.

The Issuer acknowledges and abides by the KELER Rules and accepts ownership (deposit) certificates issued by KELER as depository or pursuant to the certificate issued by KELER as proof of title to the securities. Pursuant to Section 6(5) of the Capital Markets Act, Bondholders may not request the conversion of the Bonds into Bonds in certificate form.

12.46 Transferability

The Bonds may be transferred only in accordance with the applicable policies and rules of KELER by debiting the securities account of the seller and crediting the securities account of the buyer.

The Issuer may not limit the transfer of the Bonds except as provided in these Bond Terms.

The current policies and rules of KELER may, with regard to the transfer of the Bonds between the relevant securities accounts of the Securities Account Managers, specify restriction or periods that are applicable to and mandatory for Bondholders.

Bonds may only be purchased by Hungarian private individuals, legal entities or institutional investors, as well as by foreign individuals, legal entities, organizations and institutional investors in Hungary in accordance with the currently applicable legislation and the terms and conditions relating to the Bonds.

The Bonds are issued in Hungary. The placement and sale of Bonds may be subject to statutory limitations in certain legal systems.

In respect of the Bonds, no rights of replacement, conversion or pre-emption may be exercised.

12.47 Notifications, method of providing information to Bondholders

The Issuer/Distributor sends a signed version of this Information Memorandum to the Investors specified in Chapter 14 (Auction procedure and allocation) at least 7 (seven) days prior to the date of the Auction by email.

After the issue but before the registration of the Bonds in the XBond multilateral trading system, any communication regarding the Bonds is deemed to have been effectively made if it has been sent by the Issuer to the email address specified by the Bondholder and/or the Issuer disclosed the notification or information on its website (www.alteo.hu).

So-called other notices about Bonds addressed to Bondholders, not considered to be publications related to placement, are regarded as validly made if published at the places of disclosure specified in this section.

The Issuer discloses its notices regarding regulated information on its website www.alteo.hu, on the website of the BSE <http://bet.hu> and on the <https://kozvetelektel.mnb.hu/>

(<https://kozzetetelek.hu> website operated by the Central Bank of Hungary; furthermore, if specifically required by relevant legislation, the notices of the Issuer are also published in the Company Gazette.

Besides the above, the Issuer also sends all the information that is subject to regular and extraordinary information obligation to the editorial office of a communication medium with a website, 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.

In the event of circumstances that prevent or may hinder the proper discharge of the Issuer's payment obligations under the Bonds or other commitments during the term of the Bonds, the Issuer must immediately, but no later than within 3 (three) Working Days of becoming aware of the same, notify the Bondholders directly and simultaneously in writing about the delay, the reasons why it arose, the measures taken or intended to be taken to remedy the situation and to prevent similar situations, and the expected duration of the remedial action.

Notifications or representations from Bondholders must be made in writing, duly signed and in Hungarian and, unless provided otherwise, they are to be delivered to the Issuer by way of registered mail or personal delivery to the current registered office of the Issuer; the Certificate of Ownership issued by KELER or the relevant Securities Account Manager, demonstrating at least the title of the Bondholder, must be attached to such notifications or representations (hereinafter: "**Certificate of Ownership**"). If required to reply, the Issuer must send its reply letter to the address indicated in the notice sent by the Bondholder or, if no such address is indicated, to an address known to it, provided that the Issuer will not be liable for any consequences of a failure to provide an address or the correct address.

12.48 Representation of Bond holders during the term of Bonds

The Bond holder may act in person or through a representative (ad-hoc or permanent power of attorney), unless excluded by law or otherwise. Any investor/Bondholder who is not a natural person is represented by natural persons defined by law and/or a contract made according to its legal form, in the manner and to the extent specified by law or the contract.

The Issuer will not designate an organization representing Bondholders and will not establish rules for such representation.

13 OTHER KEY INFORMATION

The Issuer is not aware of any other key information.

14 AUCTION PROCEDURE AND ALLOCATION

In Section 5(1)5 of the Capital Markets Act, auction is defined as a method of placement where the Issuer provides an opportunity for making offers subject to the conditions specified by it, and where the counter-offers received compete according to specific criteria.

The Issuer sells the Bonds by way of an offer to the public of securities without the obligation to publish a Prospectus, in an auction with a non-public order book organized by the Distributor (hereinafter: “**Auction**”) through the so-called auction module, a part of the MMTS1 Trading System operated by the BSE (hereinafter: “**Auction Trading System**”), as described in this Chapter.

The contents of this Chapter are in line with the provisions of Resolution No. 45/2020 of the Executive Officer of the Budapest Stock Exchange Ltd. issued on February 25, 2020 on the trading rules regarding the auction board in the MMTS1 Trading System effective as of February 26, 2020 (hereinafter: “**BSE Auction Rules**”).

Considering that the Auction Trading System may be used only by members of the Exchange and persons with access to the Auction Trading System, the offer for the sale of the Bonds to be sold is made, on behalf of the Issuer, by the Distributor’s contributor that is a member of the stock exchange, i.e. Erste Befektetési Zrt. (registered office: 1138 Budapest, Népfürdő utca 24-26. 8. em.; company registration number: Cg.01-10-041373; tax number: 10361966-4-44) as a bidder at the auction (hereinafter, any reference to the Distributor includes such contributor as well).

At the Auction, auction counter-offers may be made on behalf of potential Investors only by the Distributor with the proviso that the Central Bank of Hungary as Investor is entitled to make its auction counter-offer directly through the Auction Trading System during the Auction (October 6, 2020, 10:00:00-10:59:59).

14.1 Terms of the Auction

Distributor:	ERSTE BANK HUNGARY Zrt.
Date of the Auction:	10:00:00-10:59:59, October 6, 2020 (only the competitive phase)
Place of the auction:	MMTS1 Trading System
Auctioneer:	Erste Befektetési Zrt.
Announced quantity (at face value):	HUF 3,800,000,000 The Issuer reserves the right to depart, in light of the offers received in the auction, from the advertised volume in the downward direction or to declare the auction to have been unsuccessful. In the case of an unsuccessful auction all offers are rejected.
Upper limit (at face value):	HUF 3,800,000,000, i.e. the Issuer will not accept any excess offers
Lower Limit (at face value):	HUF 1,000,000,000 If the aggregate amount of auction offers does not reach the Lower Limit, the Issuer may declare the Auction to be unsuccessful, i.e., all the counter-offers are rejected.
Minimum Placement Price:	79.7166%

Minimum amount of auction bids:	HUF 50,000,000 (1 Bond)
Lot size:	1 Bond
Tick size:	0.0001% (price)
Order book:	Non-public
The highest total face value and number of all auction bids submitted by an Investor:	HUF 1,900,000,000 (38 Bonds) Up to 50% of the offered Bonds can be owned by the same Investor after the Auction.
Trade-matching algorithm:	Multiple-price, that is, for every auction counter-offer, the transactions are concluded at the price included in the auction counter-offer or at the price they are deemed to have.
Method and date of allocation:	BGS proportionate allocation, October 6, 2020
The place and date of the announcement of the allocation:	October 6, 2020, 14:00 official BSE website
Settlement:	DVP

14.2 Scope of Investors (planned scope of bond investors)

In the auction, the Central Bank of Hungary as well as those qualified investors may make auction counter-offers to which the signed Information Memorandum had been sent by email at least 7 (seven) days prior to the Auction date. Thus, during the initial offering, the Central Bank of Hungary as well as the qualified investors listed in Annex 7 to the Information Memorandum (List of invited investors) (hereinafter: **“Investors”**) may purchase Bonds. The Issuer has no controlling interest in the Investors.

The Issuer acknowledges that, in a primary market, the Central Bank of Hungary will submit a bid only if the organizer of the issue has made a prior written announcement to the Central Bank of Hungary stating that at least 10 qualified investors (including the Central Bank of Hungary), in which the Issuer has no controlling interest, have been invited to the auction. Qualified investor means a qualified investor as defined in Article 2(e) of the Prospectus Regulation. The relevant statement of the Distributor acting as the organizer of the issue is attached as Annex no. 7 to this Information Memorandum (Distributor’s Statement).

In addition, the Issuer also notes that the Central Bank of Hungary purchases securities on the primary or secondary markets only if the Issuer refrains from any transaction or combination of transactions or arrangements (in this point collectively: **“Transaction”**) which, in itself or in combination, may be capable of raising funds, by means of bond issue under the BGS, from a member of a company group or the owner, or a close relative of the owner, of a company belonging to a company group in which the Issuer is a member. In this Information Memorandum the Issuer expressly undertakes to refrain from Transactions and to provide, at the request of the Central Bank of Hungary, information on an ad-hoc basis for the purpose of verifying compliance with that condition.

The Issuer is aware that the Central Bank of Hungary buys no security in the issue of which any natural or legal person is involved in any way who/that had been involved in the implementation of a Transaction. The Central Bank of Hungary suspends for a specific period, or terminates definitively the participation in the Bond Funding for Growth Scheme of a company or investment service provider or an institution within the scope of partners of the Central Bank of Hungary that have a stake in the implementation of the Transaction if it is established that they are in any way affected in the implementation of the Transaction.

14.3 The submission of auction counter-offers

Auction counter-offers can be made at a price equal to or higher than the Minimum Placement Price, taking into account the specified Tick size. The actual minimum price (the lowest price that allows for the completion of the auction transaction) will be determined by the Issuer after the end of the competitive phase, in light of the auction counter-offers.

With the exception of the Central Bank of Hungary, Investors may make their counter-offers to the Distributor via the chat system Instant Bloomberg between 10:00 a.m. and 10:45 a.m. on October 6, 2020 (hereinafter: “**Bid Collection Period**”).

The Distributor records a counter-offer through the Auction Trading System if the auction counter-offer made by the Investor contains at least the following data:

- The name or ISIN code of the Bond;
- Indication of quantity: The number or total face value of the Bond(s);
- Price offered as counter-offer (expressed in percentage terms, to four decimal points).

The auction counter-offers submitted can be freely withdrawn or amended during the Bid Collection Period.

An Investor may submit several auction counter-offers at different prices. In this case, the auction counter-offers made with different prices will constitute separate auction counter-offers, and offers submitted with the same price but at different times will also constitute separate counter-offers.

After the end of the Bid Collection Period the auction counter-offers submitted by Investors offering such will constitute mandatory and irrevocable obligations for the Investor to purchase the Bonds stated in the auction counter-offer, with the terms specified in the auction counter-offer and in the Information Memorandum. By submitting an auction counter-offer, the Investor accepts that his auction counter-offer may be accepted in part (for part of the volume).

By participating in the Auction, the Investor acknowledges that the Issuer is entitled to gain access to the contents of the counter-offers given by the Investor to the Distributor (in particular, information regarding volume and proposed price).

All time limits relating to the Auction board are governed by the system clock of the MMTS1 Trading System.

14.4 Evaluation of the Auction, allocation

The submitted valid auction counter-offers are aggregated by the MMTS1 Trading System on the day of the Auction, and the Issuer makes a decision whether to accept them. Taking the prices of the counter-offers submitted into consideration, the Issuer is not required to make an auction order – through the Auctioneer – for the quantity announced in advance, even if the total amount of the counter-offers exceeds the lower limit.

The Issuer may declare the Auction unsuccessful under the conditions specified in the BSE Auction Rules and in the Information Memorandum (including the rules set out in this Chapter).

The auction counter-offers are accepted under the so-called BGS proportionate allocation (algorithm) rules set out in the BSE Auction Rules, which ensure that as a result of the Auction, any single Investor may not obtain more than 50% of the Bonds to be issued.

The matching of the auction counter-offers submitted in accordance with the BSE Auction Rules and the provisions of Section 14.3 of the Information Memorandum (Submission of auction counter-offers) (creation of transactions) ends at 14:00 on October 6, 2020 at the latest, in a descending order of prices. Auction counter-offers are matched in accordance with the provisions of Annex 4 to the BSE Auction Rules (BGS Allocation Algorithm).

14.5 Notification and publication of the auction results

The Distributor will inform the Investors about the acceptance or rejection of their counter-offers (or in the event of partial acceptance, about the accepted part of the auction counter-offer) on the day of the Auction via the Instant Bloomberg chat window or by email.

In accordance with Section 21(1c) of the Capital Markets Act, and also in consideration of Section 48(4) of the same, the Issuer notifies the Central Bank of Hungary as supervisor about the placement of the Bonds within five (5) working days of the end of the auction.

14.6 Financial performance, settlement

The transactions will be settled by KELER according to the DVP principle on day T+2, by the close of the client item in VIBER. During the execution of a DVP transaction defined in the effective regulations of KELER, the Bonds acquired by the Investor are credited to the security account of the Investor, while the financial consideration is debited to the customer account specified by the Investor, in such a manner that crediting and debiting take place at the same time.

To ensure the DVP settlement,

(a) the amount corresponding to the purchase price of the Bonds (the current value) must be available at the latest by 12:00 noon on October 8, 2020 on the securities account of the Investor (including the Central Bank of Hungary) or the designated account of the Investor's securities account manager managed by KELER, and

(b) the Investor's account manager must submit a "recipient" side DVP transaction order with cover via KELER's KID system by 12:00 noon on October 8, 2020.

Transactions will be matched and settled taking into account the amount of the price tolerance determined by KELER, always in consideration for the purchase price specified in the order of the party in the position of buyer (Investor). In the event that the amount specified in the auction counter-offer exceeds the amount available on the client account of the Investor, the Distributor accepts the counter-offer to the extent of the available amount.

Settlement, i.e. the crediting of the Bonds to the securities account specified by the Investor, occurs on October 8, 2020.

15 DOCUMENTS TO BE VIEWED

Documents to be viewed:

The following electronic documents (or their copies) can be viewed on the Company's website, www.alteo.hu (no information published on the website (except for information incorporated by reference via a link) constitutes a part of this Information Memorandum or has been verified and approved by the competent authority):

- (a) [the Company's Articles of Association;](#)
- (b) [the Rules of Procedure of the Board of Directors;](#)
- (c) [the Rules of Procedure of the Supervisory Board;](#)
- (d) [the Rules of Procedure of the Audit Committee;](#)

Documents incorporated by reference (available at the <https://alteo.hu/befektetoknek/az-alteo-nyrt-kozlemenyei/> or in the Annexes to this Information Memorandum):

- (a) [The Company's audited, IFRS-based consolidated report for the 2019 financial year;](#)
- (b) [Unaudited report prepared by the Company for H1 2020](#)
- (c) https://alteo.hu/wp-content/uploads/2019/11/ALTEO_Vallalati_strategia.pdf

16 DEFINITIONS

The terms used with capital initials in this Information Memorandum but not separately defined in the text will have the meaning set out below.

Accounting Act	Act C of 2000 on Accounting;
ALTE-A	ALTE-A Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-901186);
ALTE-GO	ALTE-GO Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-998498);
ALTEO Energiakereskedő	ALTEO Energiakereskedő Zártkörűen Működő Részvénytársaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-10-047253);
ALTEO Group	the Issuer and the Subsidiaries together;
ALTEO-Agria	ALTEO-Agria Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-904433), which was merged into Győri Erőmű, now ALTEO-Therm, as of January 1, 2020;
ALTEO-Depónia	ALTEO-Depónia Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-906261);
ALTEO-Therm	formerly Győri Erőmű Kft, ALTEO-Therm Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-10-047253); as of January 1, 2020 ALTEO-Agria, Kazinc-Therm, Ózdi Erőmű, Soproni Erőmű, Tisza-Therm and Zugló-Therm were merged into the company;
ALTSOLAR	ALTSOLAR Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-997686), which was merged into ALTEO-Depónia as of October 1, 2018;
Articles of Association	the Articles of Association of the Company effective as of May 21, 2020, in a consolidated structure with amendments;
Audit Committee	the Issuer's Audit Committee;
Audit Committee Procedure	procedures of the Issuer's Audit Committee effective from March 24, 2017;
Bankruptcy Act	Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings;
BC-Therm	BC-Therm Energiatermelő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-887812);

BGS	The Bond Funding for Growth Scheme launched by the Central Bank of Hungary, the details of which are available on the website of the Central Bank of Hungary;
Board of Directors	the Issuer's Board of Directors;
Board Procedures	rules of procedure of the Issuer's Board of Directors effective from June 25, 2020;
Bond Decree	Government Decree no. 285/2001 (XII. 26.) (or any other piece of legislation amending or replacing it);
Bonds	registered dematerialized securities embodying the Issuer's liability (credit relationship) with a face value of HUF 50,000,000 to be issued in the framework of the Placement, designated as ALTEO NKP/2031;
BSE or Budapest Stock Exchange	Budapesti Értéktőzsde Zártkörűen Működő Részvénytársaság (registered office: H-1054 Budapest, Szabadság tér 7., Platina torony, I. épület, IV. emelet; company registration number: Cg. 01-10-044764);
Capital Markets Act	Act CXX of 2001 on Capital Markets;
Central Bank of Hungary	the Central Bank of Hungary (Magyar Nemzeti Bank);
Civil Code	Act V of 2013 on the Civil Code;
CIVIS	CIVIS-BIOGÁZ Szolgáltató Korlátolt Felelősségű Társaság, formerly owned fully owned by ALTEO-Depónia (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-938515), which was merged into ALTEO-Depónia as of October 1, 2018;
Clean Energy For All Europeans	revision of the EU's energy policy framework, which entails eight pieces of legislation and/or draft legislation including the RED2 Directive (see: https://ec.europa.eu/energy/en/topics/energy-strategy-and-energy-union/clean-energy-all-europeans);
Commission Guidelines on State Aid for Energy	Guidelines of the European Commission 2014/C 200/01 on State aid for environmental protection and energy 2014-2020;
Control Center	Sinergy Energiakereskedő's activity, in the framework of which it organizes certain electricity generator units of the ALTEO Group in a system operation unit;
Distributor	Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.);
Domaszék	Domaszék 2MW Naperőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-278226);

DVP	(Delivery versus Payment) A transaction defined in the effective regulations of KELER, whereby a specific security is debited to the security account in exchange for the crediting of the financial consideration to a cash account, in such a manner that the crediting and the debiting take place at the same time.
ECO-FIRST	ECO-FIRST Hulladék Kereskedelmi Korlátolt Felelősségű Társaság, owned 66% by the Issuer (registered office: H-1131 Budapest, Babér u. 1-5.; company registration number: Cg. 01-09-344380);
EFET	European Federation of Energy Traders;
Electricity Act	Act LXXXVI of 2007 on Electricity;
Energy Efficiency Act	Act LVII of 2015 on Energy Efficiency;
Energy Efficiency Directive	Directive 2012/27/EU of the European Parliament and of the Council of 25 October 2012 on energy efficiency, amending Directives 2009/125/EC and 2010/30/EU and repealing Directives 2004/8/EC and 2006/32/EC;
ETS	The European Union's trading system for emission units (<i>EU Emissions Trading Scheme</i>);
ETS Directive	Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC;
EU ETS	The European Union's trading system for emission permits (European Union Emissions Trading Scheme);
EURO GREEN ENERGY	EURO GREEN ENERGY Fejlesztő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-921340);
European Commission	the European Commission, the executive body of the European Union;
e-Wind	e-Wind Szélenergetikai Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-733622);
F.SZ ENERGIA	F.SZ ENERGIA Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-328112), which is to be merged into SUNTEO as of October 1, 2020 (date of legal succession);
Government Decree implementing the Electricity Act	Government Decree no. 273/2007 (X. 19.) on the implementation of the Electricity Act;

Greenhouse Gas Act	Act XV of 2005 on the Trading in Emission Allowances of Greenhouse Gases;
HAS	the Hungarian Accounting Standards;
HEA	The Magyar Energetikai és Közmű- Szabályozási Hivatal (Hungarian Energy and Public Utility Regulatory Authority, former name: Hungarian Energy Office);
HFSA	the Hungarian Financial Supervisory Authority;
HIDROGÁZ	HIDROGÁZ Energiatermelő Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-863661);
HUF or forint	the Hungarian forint, the legal tender of Hungary;
HUPX	the organized Hungarian electricity market operated by HUPX Zrt.;
IFRS	International Financial Reporting Standards;
Investor	the person who is a qualified investor and who actually purchases the Bonds;
Issuer or Company	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-10-045985);
IT-Solar	IT-Solar Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-291869), which is to be merged into Monsolar as of October 1, 2020 (date of legal succession);
KÁT	electric power offtake system based on the provisions of the Electricity Act, the Government Decree implementing the Electricity Act and Government Decree no. 389/2007 (XII.23.) on the mandatory reception and reception price of electricity produced from renewable energy sources or waste and cogenerated electricity (repealed in the meantime);
Kazinc-BioEnergy	Kazinc-BioEnergy Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-996064);
Kazinc-Therm	Kazinc-Therm Fűtőerőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-3700 Kazincbarcika, Erőmű utca 3.; company registration number: Cg. 05-09-009234), which was merged into Győri Erőmű, now ALTEO-Therm, as of January 1, 2020;
KELER	KELER Központi Értéktár Zártkörűen Működő Részvénytársaság (registered office: H-1074 Budapest, Rákóczi út 70-72.; company registration number: Cg. 01-10-042346);

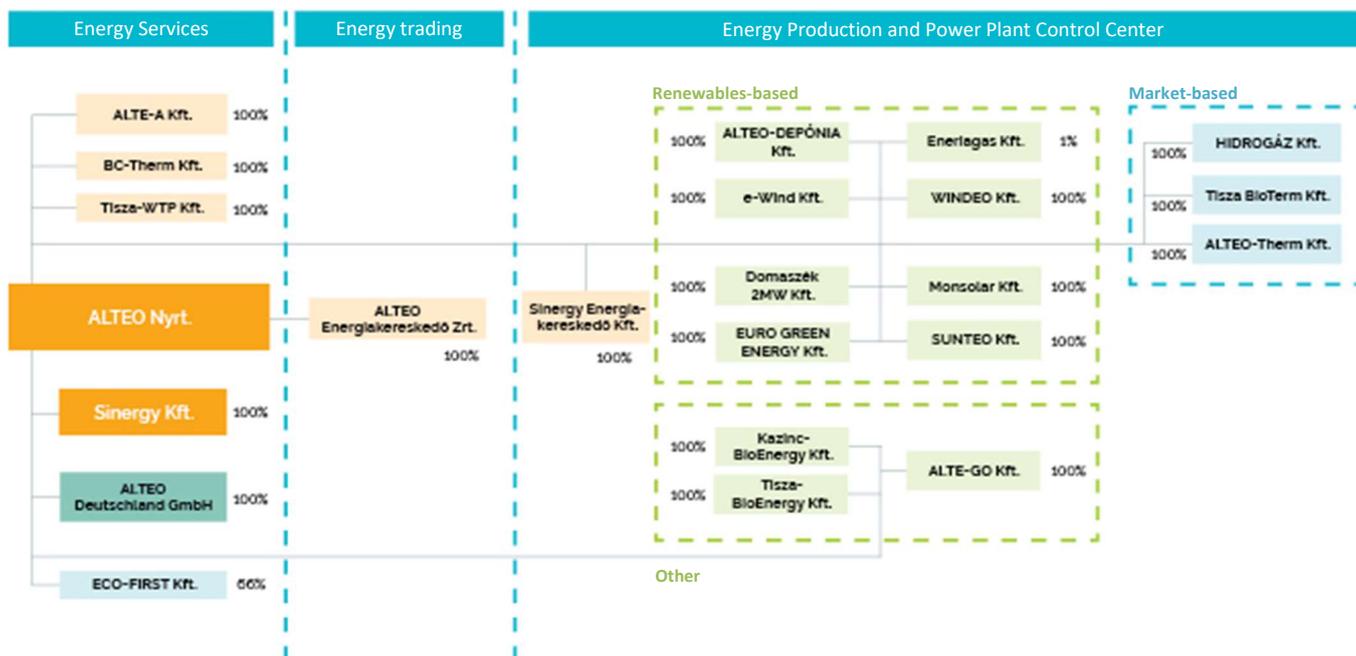
Majority Shareholder	WALLIS ASSET MANAGEMENT Zártkörűen Működő Részvénytársaság (registered office: 1055 Budapest, Honvéd u. 20.; company registration number: Cg. 01-10-046529);
Management Profit and Loss Statement	statements produced for the company management that are not strictly in keeping with the statements produced in conformity with IFRS/Hungarian Accounting Act;
MAVIR	a MAVIR Magyar Villamosenergia-ipari Átviteli Rendszerirányító Zártkörűen Működő Részvénytársaság (registered office: H-1031 Budapest, Anikó utca 4.; company registration number: Cg. 01-10-044470);
METÁR	obligatory system of taking over heat energy and electricity generated out of renewable and alternative sources;
METÁR Amendment	Act LXXXVI of 2007 on Electricity, and Act LXXXII of 2016 amending Act XXIX of 2011 Amending Legislation on Energy;
METÁR Decree	Government Decree no. 165/2016 (VI. 23.) on the subsidies for the obligatory dispatch and premium type purchase of electricity generated from renewable sources;
Monsolar	Monsolar Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-291864), into which IT-Solar is to merge as of October 1, 2020 (date of legal succession);
National Action Plan	Hungary's action plan for the utilization of renewable energy on the development of the consumption of renewable sources up to 2020, Ministry of National Development, December 2010;
National Climate Change Strategy	Hungary's second National Climate Change Strategy for 2018 to 2030 offering an outlook up to 2050, adopted by the Parliament in Parliament Decision no. 23/2018 (X. 31.) OGY;
New METÁR Decree	Government Decree no. 299/2017 (X. 17.) on the subsidies for the obligatory dispatch and premium type purchase of electricity generated from renewable sources;
NTCA	the National Tax and Customs Authority;
Ózd Power Plant	Ózdi Erőmű Távhőtermelő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Company (registered office: H-3700 Kazincbarcika, Erőmű u. 3.; company registration number: Cg. 05-09-012217), which was merged into Győri Erőmű, now ALTEO-Therm, as of January 1, 2020;
Paris Agreement	the international agreement adopted in the framework of the 21st conference of conference of the States Parties to the United Nations Framework Convention on Climate Change held in Paris between November 30 and December 11, 2015, ratified by the European Union on October 5, 2016;

Paying Agent	Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.);
Péberény	Péberény Ingatlanhasznosító Korlátolt Felelősségű Társaság, fully owned by the Company (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-190766), which is to be merged into SUNTEO as of October 1, 2020 (date of legal succession);
Placement	Public offering exempted from the obligation of publication of a prospectus, under an auction procedure
Price Decree	Decree of the Minister of National Development no. 50/2011 (XI. 30.) NFM determining the price of distance heating sold to distance heating suppliers, and the fee for distance heating supply for household users and institutions handled separately;
Recent METÁR Amendment	Government Decree no. 393/2016 (XII. 5.) amending certain Government Decrees on energy efficiency and operating subsidies for electricity generated out of renewable sources;
RED Directive	Directive 2009/28/EC of the European Parliament and of the Council of April 23, 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC;
RED2 Directive	Directive (EU) 2018/2001 of the European Parliament and of the Council of December 11, 2018 on the promotion of the use of energy from renewable sources;
REMIT Regulation	Regulation (EU) No 1227/2011 of the European Parliament and of the Council of October 25, 2011 on wholesale energy market integrity and transparency;
Retail SMP Decision	Decision no. 114/2009 of the HEA dated in April 2009, imposing obligations on licensees identified as having significant market power based on the market analysis conducted in electricity retail markets;
Shareholder Group	the aggregate of business companies controlled directly or indirectly, via another company, by the Ultimate Private Individual Shareholder, whether independently or jointly, in which respect control will mean exercising more than 50% of voting rights in the main bodies of the business companies, and the right to appoint the majority of executive officers and members of the Supervisory Board;
Shares or Share	all or any of the series 'A' registered dematerialized ordinary shares issued by the Issuer at any time, each with a face value of HUF 12.5;
Sinergy	Sinergy Energiaszolgáltató, Beruházó és Tanácsadó Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-680396);

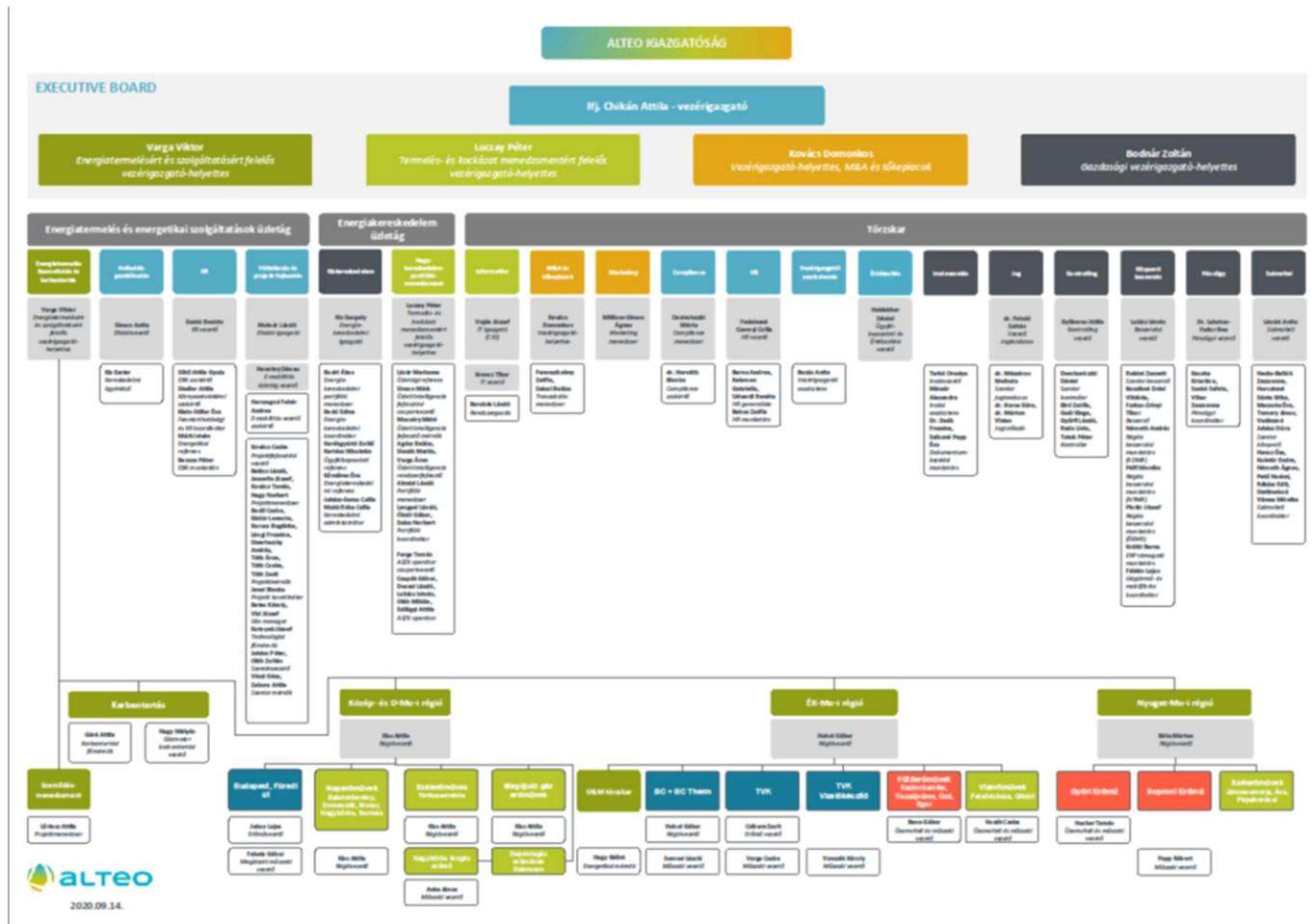
Sinergy Energiakereskedő	Sinergy Energiakereskedő Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-178667);
Sopron Power Plant	Soproni Erőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: 9400 Sopron, Somfalvi u. 3.; company registration number: Cg. 08-09-019412), which was merged into Győri Erőmű, now ALTEO-Therm, as of January 1, 2020;
Subsidiaries or Subsidiary	all or any of the following companies owned by the Company: <ul style="list-style-type: none"> (i) ALTE-A; (ii) ALTEO-Depónia; (iii) ALTEO Energiakereskedő; (iv) ALTEO-GO; (v) ALTEO-Therm; (vi) BC-Therm; (vii) Domaszék; (viii) ECO-FIRST; (ix) EURO GREEN ENERGY; (x) e-Wind; (xi) HIDROGÁZ; (xii) Kazinc-BioEnergy; (xiii) Monsolar; (xiv) Sinergy; (xv) Sinergy Energiakereskedő; (xvi) SUNTEO; (xvii) Tisza-BioEnergy; (xviii) Tisza BioTerm; (xix) Tisza-WTP; and (xx) WINDEO;
Subsidy Decree	Decree of the Minister of National Development no. 51/2011 (IX. 30.) NFM on distance heating service subsidies;
SUNTEO	SUNTEO Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-997687), into which F.SZ. ENERGIA, True Energy and Péberény is to be merged as of October 1, 2020 (date of legal succession);
Supervisory Board	the Issuer's Supervisory Board;
Supervisory Board Procedures	procedures of the Issuer's Supervisory Board effective from March 26, 2010;
Tisza BioTerm	Tisza-BioTerm Korlátolt Felelősségű Társaság, 60% of which is owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-965041);
Tisza-BioEnergy	Tisza-BioEnergy Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-996062);

Tisza-Therm	Tisza-Therm Fűtőerőmű Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-3580 Tiszaújváros, Tisza út 1/D.; company registration number: Cg. 05-09-009230), which was merged into Győri Erőmű, now ALTEO-Therm, as of January 1, 2020;
Tisza-WTP	Tisza-WTP Vízelőkészítő és Szolgáltató Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-3580 Tiszaújváros, Ipartelep 2069/3.; company registration number: Cg. 05-09-009864);
True Energy	True Energy Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-328856), which is to be merged into SUNTEO as of October 1, 2020 (date of legal succession);
Ultimate Private Individual Shareholder	Tibor Veres;
VENTEO	VENTEO Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-897425), which was merged into WINDEO as of October 1, 2018;
WINDEO	WINDEO Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-899444);
Zugló-Therm	Zugló-Therm Korlátolt Felelősségű Társaság, fully owned by the Issuer (registered office: H-1131 Budapest, Babér utca 1-5.; company registration number: Cg. 01-09-717404), which was merged into Győri Erőmű, now ALTEO-Therm, as of January 1, 2020.

Annex 1 Subsidiaries of the Issuer



Annex 2 Organigram of the Issuer



Annex 3

The audited separate financial report for 2019 (including the business report and other attachments), and the related Auditor's Report

Annex 4
The consolidated annual financial report for 2019 and the related Auditor's Report

Annex 5
The Issuer's report on the first half of 2020

Annex 6 Sample text of the Bond

Document on the dematerialized bond

1. Data on the issuer:

Full name:	ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság
Short name:	ALTEO Nyrt.
Address:	Hungary, H-1131 Budapest, Babér u. 1-5.
Company registration number:	Cg. 01-10-045985
Tax number:	14292615-2-41
Amount of share capital:	HUF 242,328,425
Data of the Document's signatory:	
the name of the first signatory:	Attila László Chikán
basis for the right of representation (position)	Member of the board of directors
name of the second signatory	Domonkos Kovács
basis for the right of representation (position)	Member of the board of directors

2. Data related to the tranche:

Date of the decision on the issue of a tranche:	XX
Decision on the issue of a tranche	Resolution .../2020 (IX.....) of the Board of Directors
Tranche number:	1
Face value items in the tranche:	76
Total face value of the tranche:	HUF 3,800,000,000
Value date related to the tranche:	October 8, 2020
Total issues to date, face value items	[*]

3. Data on the series as a whole:

Designation of the series:	ALTEO NKP/2031
Letter and code of the series:	ALTNKP/31
ISIN identifier:	HU0000360003
Type of series:	registered
Face value and currency:	HUF 50,000,000
Face value items in series, total	76 bonds
Total face value of the series:	HUF 3,800,000,000
Place of the issue:	Hungary
Location of Placement:	Hungary
Method of Placement:	Public
Date of the Issue (the value date of the first issue):	October 8, 2020
Maturity date:	October 8, 2031
Bond term:	11 years
Interest-bearing:	Fixed
Interest rate in %:	2,45
Interest payment dates:	10/08/2021; 10/08/2022; 10/08/2023; 10/08/2024; 10/08/2025; 10/08/2026; 10/08/2027; 10/08/2028; 10/08/2029; 10/08/2030; 10/08/2031;

Terms of interest payment: Fixed interest bonds pay an interest based on their Amortized Face Value during the Interest Period at an annual rate equal to the Interest Rate expressed in percentage. The Interest Amount calculated based on the Interest Rate is payable subsequently, on the Interest Payment Day.

Interest Period: The period starting on the Interest Calculation Start Date (including that day) and ending on the first Interest Payment Date (not including that day), as well as any subsequent period starting on the Interest Payment Date (including that day) and ending on the following Interest Payment Date (not including that day), provided that the last Interest Payment Date is the Maturity Date.

Interest base: Actual/Actual (ISMA), that is, if the accrued interest needs to be calculated for a period shorter than one year, the number of days elapsed since the latest Interest Payment Date is divided by 365 (or 366, if the Interest Period concerned contains February 29), and the quotient is the value of the interest base.

Any amount calculated using the Interest base must be rounded up from the half (not including the half).

Working Day Rule: If any Interest Payment Day does not fall on a Working Day, then, pursuant to the Rules of the Next Working Day Rule, the Interest must be paid on the first Working Day following such Interest Payment Day. The Bond holder is not liable to pay any additional interest or any other payment for such deferred payment

Working Day:

Any day on which commercial banks (including the Paying Agent) are open for general business in Budapest and on which KELER performs cash and securities transfers.

Determination of the Fixed Interest Amount

Interests are calculated by the Paying Agent.

Each Bond pays interest, at the Coupon rate annually, on its Amortized Face Value, from the Value Date of the Issue as the Interest Calculation Start Date (including that day). The “Amortized Face Value” means the Face Value less the aggregate amount of the Amortization Amounts paid by the Issuer before the Interest Payment Date concerned.

The interest on the Bonds is calculated for the Interest Period, with the exception of repurchase prior to maturity as defined in Section 12.32 of the Information Memorandum (Covenants – Extraordinary Repurchase Events), that is, for the calculation of interest payable for a single Bond for the entire year, the Amortized Face Value of the Bond is multiplied by the Coupon.

In the event of repurchase prior to maturity specified in Section 12.32 of the Information Memorandum (Covenants – Extraordinary Repurchase Events), if the (accrued) interest is to be calculated for a period shorter than one year, by derogation from the aforesaid, the interest is calculated by first multiplying the Amortized Face Value by the Coupon, then by the applicable Interest base.

The due date of the Fixed Interest Amount and its payment date

The fixed interest amounts payable on the various Interest Payment Dates, taking into account the Disbursement Day.

10/08/2021 HUF 1,225,000 / 1 Bond

10/08/2022 HUF 1,225,000 / 1 Bond

10/08/2023 HUF 1,225,000 / 1 Bond

10/08/2024 HUF 1,225,000 / 1 Bond

10/08/2025 HUF 1,225,000 / 1 Bond

10/08/2026 HUF 1,225,000 / 1 Bond

10/08/2027 HUF 1,225,000 / 1 Bond

10/08/2028 HUF 1,102,500 / 1 Bond

10/08/2029 HUF 980.000 / 1 Bond

10/08/2030 HUF 857.500 / 1 Bond

10/08/2031 HUF 735.000 / 1 Bond

Redemption (repayment) possible during the term

Yes

Redemption (repayment) date(s) and related principal values:

10/8/2027 45,000,000; 10/08/2028: 40,000,000; 10/08/2029: 35,000,000; 10/08/2030: 30,000,000

Terms of redemption (repayment):

The Bonds are amortizing (and within that, non-straight-line) bonds:

October 8, 2027: HUF 5,000,000 / 1 Bond

October 8, 2028: HUF 5,000,000 / 1 Bond

October 8, 2029: HUF 5,000,000 / 1 Bond

October 8, 2030: HUF 5,000,000 / 1 Bond

October 8, 2031: HUF 30,000,000 / 1 Bond

The redemption due is paid to the Bondholder qualifying as a Bondholder on the reporting date of a given maturity.

Description of transfer arrangement related to the series:

There are no transfer limitations regarding the series.

Commitments ensuring the repayment of the bond amount and the payment of interests:

The planned financial cover for the payment obligations based on the Bond is provided by the permanent free cash flow generated by the Issuer and available at all times.

Purpose of the Bond's issue:

The Issuer will use the funds raised to fund investments into energy projects, to optimize the cost of capital as well as for corporate financing purposes.

4. Further information to be indicated by the Issuer on the deed:

Paying Agent:

Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.);

Extraordinary Repurchase Events:

The Bonds represent direct, unconditional, non-subordinated and unsecured obligations of the Issuer. The Bonds all have identical priority, as well as the same priority as any other unsecured, non-subordinated bond obligations the Issuer may have at any given time (except for any obligations with a higher priority based on statutory requirements). Any violation of this obligation must be remedied by the Issuer within 6 months. If this 6-month period lapses without remedy, the Issuer must redeem the Bonds, after such lapse, within 5 (five) Working Days at the Repurchase Price Before Maturity (*pari passu*).

Furthermore, the Issuer agrees not to issue collateralized bonds which would have a higher priority than Bond claims until its liabilities arising from the bonds have been fully settled. Any violation of this obligation must be remedied by the Issuer within 6 months. If this 6-month period lapses without remedy, the Issuer must redeem the Bonds, after such lapse, within five (5) Working Days at the Repurchase Price Before Maturity (negative pledge).

In the event of any default by the Issuer exceeding 90 days from the due date with respect to any of its bonds (including the ALTEO NKP/2031 Bonds), the Issuer must, within 5 (five) Working Days after the expiry of this 90-day time limit, redeem the Bonds at the Repurchase Price Before Maturity (non-payment and cross default).

If the rating of Bonds falls below B+, but it is still at least B-, and the Bonds are not upgraded to B+ over the next 2 years, the Issuer must redeem the Bonds at the Repurchase Price Before Maturity within 5 (five) Working Days after the expiry of this 2-year period. If the rating of Bonds is downgraded to CCC or lower, the Issuer must redeem the Bonds at the Repurchase Price Before Maturity within 5 (five) Working Days of the publication of the rating (downgrading of external credit rating).

Repurchase Price Before Maturity

With regard to a Bond, its face value minus any principal amount paid with respect to the Bond concerned (Amortization Amount), plus all outstanding interest and Default Interest and the time-proportionate interest accrued since the latest Interest Payment Date (that is, in the period from the latest Interest Payment Date and the day of payment of the Repurchase Price Before Maturity, excluding such day of payment).

The present Deed does not qualify as a security.

Place where the Deed is produced: Budapest

Date when the Deed was produced: [October 8], 2020

on behalf of ALTEO Nyrt.

Attila László Chikán
Member of the Board of Directors

Domonkos Kovács
Member of the Board of Directors

Annex 7
List of invited Qualified Investors

The Issuer undertakes that, promptly after the issue, it will request shareholder identification regarding Bondholders from KELER for a cutoff date previously agreed with the Central Bank of Hungary.

Annex 8
The Distributor's statement

Erste Bank Hungary Zrt. (registered office: H-1138 Budapest, Népfürdő u. 24-26.; company registration number: Cg. 01-10-041054), as the investment service provider acting as the organizer of the Issue on behalf of ALTEO Energiaszolgáltató Nyilvánosan Működő Részvénytársaság (registered office: H-1131 Budapest, Babér u. 1-5.; company registration number: Cg. 01-10-045985; hereinafter: the “**Issuer**”) in connection with the public offering, without the obligation to publish a prospectus, of the bonds designated as ALTEO NKP/2031 (hereinafter: the “**Bonds**”) to be issued within the Bond Funding for Growth Scheme of the Central Bank of Hungary (hereinafter: the “**Central Bank of Hungary**”) agrees to ensure that at least 10 qualified investors will be invited to the auction organized for the purpose of the distribution of the Bonds – including the Central Bank of Hungary – in which the Issuer does not have a controlling interest. Qualified investor means a qualified investor as defined in Article 2(e) of Regulation (EU) 2017/1129 of the European Parliament and of the Council.

Dated: Budapest, September 28, 2020

Erste Bank Hungary Zrt.

Erste Bank Hungary Zrt.

Name: Mihály Geiszbühl
Position: Director, Money and Capital Markets
Directorate

Name: Kinga Oravecz
Position: Head of Department, Department of
Capital Market Operations