PannErgy
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PannErgy Nyrt. and its Subsidiaries IFRS Consolidated Financial Statements and Annual Report 2016

With the Independent Auditor's Report

This announcement is published in Hungarian and English languages. In case of any contradiction between these two versions, the Hungarian version shall prevail.

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INDEPENDENT AUDITOR'S REPORT
Report on the Audit of the Consolidated Financial Statements

To the Shareholders of PannErgy Nyrt.

Opinion

We have audited the consolidated financial statements of PannErgy Nyrt. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2016,in which the total assets and liabilities are THUF 25,255,201 and the yearly comprehensive income is – THUF 150,999 loss and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of (the Group) as at December 31, 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group within the meaning of *indicate relevant ethical requirements or applicable law or regulation* and have fulfilled our other responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate .to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements. Key audit matters are selected from the matters communicated with but are not intended to represent all matters that were discussed with them. Our audit procedures relating to these matters were designed in the context of our audit of the consolidated financial statements as a whole. Our opinion on the consolidated financial statements is not modified with respect to any of the key audit matters described below, and we do not express an opinion on these individual matters.

Other Information on Business and Management's report

We have audited the consolidated business and management's report of 31 December 2016.

Management is responsible for the preparation of the business and management's report according to the IFRS in connection with the consolidated financial statements.

In connection with the audit of the business report performed by us, our responsibility is to read through the business report and to consider whether it materially contradicts the annual report or our knowledge obtained during the audit, or whether otherwise it seems to include a material misstatement.

In our opinion, the 2016 consolidated business and management's report of the Group was prepared in accordance with the consolidated financial statements.
Additionally, based on our knowledge obtained on the Company and its environment, we have to report whether we became aware of any material misstatements in the business and management's report which can be considered as material and, if yes, what the nature of that misstatement is. In this regard, we have nothing to report.

Responsibilities of Management and Those Charged with Governance or other appropriate terms for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. [*Those charged with governance*] are responsible for overseeing the Group's financial reporting process.

During the preparation of the annual report, management is responsible for assessing the Group's ability to continue its operations and, in line with the given situation, for disclosing the information related to the continued operations, and management is also responsible for applying accounting that is based on the going concern principle in the annual report, except for the case when management intends to discontinue the Group or its business activity, or when they are no other realistic opportunities apart from these.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the planning and performance of the audit. We also:

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

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

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

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

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements.

We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We are required to communicate with [*those charged with governance*] regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
We are also required to provide [*those charged with governance*] with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Budapest, 2017. március 23.
Union-Audit Kft.
Bejegyz.szám:001927

Pisták Istvánné	Kovácsné Révai Mónika
Bejegyzett könyvvizsgáló	Kamarai tag könyvvizsgáló
Bejegyz. szám: 004073	Bejegyz. szám:007211

PannErgy Nyrt. and its Subsidiaries

IFRS Consolidated Financial Statements

31 December 2016

Budapest, 23 March 2017

Dénes Gyimóthy
Representative of the Board of Directors

This announcement is published in Hungarian and English languages. In case of any contradiction between these two versions, the Hungarian version shall prevail.

CONSOLIDATED INCOME STATEMENT

	Note	2016	2015
		THUF	**THUF**
Sales revenues	5	4,529,069	2,726,364
Cost of sales		-3,665,914	-2,044,219
Gross profit		**863,155**	**682,145**
Gross profit ratio %		**19.1%**	**25.0%**
Gross cash flows		**2,019,176**	**1,306,175**
Gross cash flows ratio %		**44.6%**	**47.9%**
Administrative and general costs	6	-683,740	-1,180,000
Other income	9	662,725	2,372,207
Other expenses	8	-561,644	-1,501,421
Operating profit/loss		**280,496**	**372,931**
Operating profit ratio %		**6.2%**	**13.7%**
EBITDA		**1,715,345**	**1,614,002**
EBITDA ratio %		**37.9%**	**59.2%**
Result of financial transactions	10-12	-411,293	-156,400
Profit/loss before taxation		**-130,797**	**216,531**
Income tax	30	-27,732	-182,797
After-tax profit/loss from continued operations		**-158,529**	**33,734**
Net profit/loss for the year		**-150,999**	**78,171**
From the after-tax profit/loss for the year:			
To the equity holders of the parent company		**-150,999**	**78,171**
To the minority (external) holders	25	**-7,530**	**-44,437**
Other comprehensive income		-	-
Total comprehensive income for the period		**-150,999**	**78,171**
Earnings per ordinary share (HUF)			
Basic	31	-8.47	4.28
Diluted	31	-8.47	4.28

CONSOLIDATED BALANCE SHEET

	Note	31 Dec 2016	31 Dec 2015
		THUF	THUF
Intangible assets	13	892,487	1,130,397
Goodwill	13	-	-
Property, plant and equipment	14	20,430,287	20,354,391
Investment properties	14	280,873	294,053
Permanent investments	15	22,935	22,935
Investments available for sale	15	250,000	250,000
Receivables related to finance leases	17	-	-
Deferred tax assets	30	386,210	434,888
Long-term receivables	16	14,929	19,071
Total non-current assets		**22,277,721**	**22,505,735**
Inventories	18	148,379	312,113
Trade debtors	19	1,671,245	1,028,907
Other receivables	20	381,183	1,322,376
Income taxes paid in advance	30	40,153	28,284
Securities	21	20	500,737
Cash	32	736,500	1,120,625
Total current assets		**2,977,480**	**4,313,042**
TOTAL ASSETS		**25,255,201**	**26,818,777**
Subscribed capital	22	421,093	421,093
Reserves	24	11,536,794	11,593,899
After-tax profit/loss for the current year	24	-150,999	78,171
Reserve due to repurchased treasury shares	23	-3,101,545	-3,009,223
Minority interest	25	183,372	247,609
Total shareholders' equity		**8,888,715**	**9,331,549**
Total long-term loans, leases	26	8,858,265	9,142,588
Other long-term, deferred income	26	4,564,927	4,871,410
Provisions	28	56,236	13,745
Total long-term liabilities		**13,479,428**	**14,027,743**
Trade creditors	33	1,170,467	1,696,361
Short-term loans	27	142,377	857
Short-term portion of long-term loans	27	955,415	783,895
Other long-term, deferred income	26	280,771	238,300
Income taxes payable	30	-	20,723
Deferred tax liabilities	30	-	36,500
Other current liabilities	29	338,028	682,849
Total current liabilities		**2,887,058**	**3,459,485**
TOTAL EQUITY AND LIABILITIES		**25,255,201**	**26,818,777**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016	2015
	THUF	THUF
Retained profit/loss for the subject period	**-150,999**	**78,171**
Other comprehensive income		
Exchange rate difference from the conversion of the accounts of foreign subsidiaries into HUF	-	-
Exchange rate difference from the conversion of the accounts of associates and joint ventures into HUF	-	-
Available-for-sale financial assets with deferred tax	-	-
Cash flow hedging transactions with deferred tax	-	-
Share in the comprehensive income of associates	-	-
Other comprehensive income for the period with tax implications	-	-
Total comprehensive income for the period	**-150,999**	**78,171**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Description	Subscribed capital	Reserves	Repurchased treasury shares	Share of external members	Equity
	THUF	THUF	THUF	THUF	THUF
Balance as of 31 December 2014	**421,093**	**11,554,560**	**-3,009,223**	**292,352**	**9,258,782**
Profit / loss for the year 2015	-	78,171	-	-44,437	33,734
Changes to the share of external members	-	-	-	-306	-306
Exchange difference from the consolidation	-	-	-	-	-
Share option program	-	39,339	-	-	39,339
Repurchased treasury shares	-	-	-	-	-
Decrease in treasury shares	-	-	-	-	-
Premium of shares purchased by minority	-	-	-	-	-
Balance as of 31 December 2015	**421,093**	**11,672,070**	**-3,009,223**	**247,609**	**9,331,549**
Profit / loss for the year 2016	-	-150,999	-	-7,530	-158,529
Changes to the share of external members	-	-	-	-56,707	-56,707
Exchange difference from the consolidation	-	-	-	-	-
Share option program	-	-39,339	-	-	-39,339
Repurchased treasury shares	-	-	-233,866	-	-233,866
Decrease in treasury shares	-	-95,937	141,544	-	45,607
Premium of shares purchased by minority	-	-	-	-	-
Balance as of 31 December 2016	**421,093**	**11,385,795**	**-3,101,545**	**183,372**	**8,888,715**

CONSOLIDATED CASH FLOW STATEMENT

	Note	2016	2015
Cash flows from operating activities		**THUF**	**THUF**
Profit/loss before taxation		**130,797**	**216,531**
Adjustments in respect of the pre-tax profit or loss and the cash flows from business activities			
Depreciation of property, plant and equipment and intangible assets	13-14	1,196,412	1,241,071
Impact of deferred taxes	30	12,178	89,176
Income tax expense	30	-27,732	-182,797
Exchange rate loss/gain on loans	10-12	-56.635	-101,893
Extraordinary depreciation of property, plant and equipment and goodwill	14	238,437	1,113,983
Impairment and deficit in inventories	18	2,656	-
Expenses related to completed project	8	50.000	-
Release/allocation of provisions	28	-	-1,462
Interest payable/received	10-12	412,193	202,055
Profit/loss from the sales of property, plant and equipment	9	-36,865	1,737,756
Share option program expense	34	43,653	39,339
Changes to minority shareholdings	25	-56,707	-306
Changes to working capital elements			
Increase/decrease in inventories	18	89,377	680,570
Income tax paid	30	23,296	45,432
Increase/decrease in receivables		298,856	1,303,259
Increase/decrease in liabilities		-870,715	-272,039
Interest rate received	9	2,522	6,311
Interest rate paid	8	-414,715	-208,366
Net cash from/used for operating activities		**775,414**	**-173,410**
Cash flows from investing activities			
Purchase of investments in non-public companies	15	-	-250,000
Increase/decrease in existing investments	15	-156,925	-
Sales of investments	15	1,265	-
Purchase of property, plant and equipment and intangible assets	13-14	-1,319,738	8,898,582
Sales of property, plant and equipment and intangible assets	13-14	102,930	3,252,533
Other long-term and current deferred income	26	-264,012	1,760,986
Decrease in long-term receivables	16	4,142	-17,571
Cash from investment activities		**-1,632,338**	**4,152,634**

Financing activities			
Increase/decrease in long-term loans	26	-340,958	5,350,835
Decrease/increase in short-term loans	27	313,040	239,331
Difference from consolidation, other reserve changes	23	92,322	-
Purchase/sales of treasury shares	23	-92,322	-
Capital increase in minority shareholdings, premium	25	-	-
Increase/decrease in the securities portfolio	21	500,717	-500,725
Cash used for financing activities		**472,799**	**5,089,441**
Net decrease/increase in cash and cash equivalents		**-384,125**	**763,397**
Cash and cash equivalents as of 1 January		**1,120,625**	**357,228**
Cash and cash equivalents as of 31 December		**736,500**	**1,120,625**

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1. GENERAL INFORMATION AND NATURE OF THE ACTIVITY

PannErgy Nyrt. (hereinafter: “PannErgy Nyrt.”, “PannErgy” or the “Company”), as the legal successor of PannonPlast Nyrt., has a history of almost one hundred years. On 31 May 1991, the Company was transformed into a company limited by shares, according to Act XII of 1989 on the transformation of business organisations. In 2007, PannErgy set it as a goal to generate a significant amount of thermal and electric energy by utilising the well-known Hungarian geothermal resources, thus creating value for the population and institutions of Hungary as well as the shareholders of PannErgy. In line with this shift in strategy, having replaced the former plastic manufacturing activity, the Company’s main activity has been the use of renewable, geothermal energy resources since 2007. As of 31 December 2016, PannErgy Nyrt.’s subsidiaries operate projects utilising geothermal resources, among others, in Miskolc, Győr, Szentlőrinc and Berekfürdő.

The subsidiaries are listed in Note 37.

The address of the Company’s registered office: Hungary, 1117 Budapest, Budafoki út 56.

2. COMPILATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the PannErgy Group composed of PannErgy Nyrt. and its consolidated subsidiaries (hereinafter: “PannErgy Group” or the “Group”) were prepared according to the International Financial Reporting Standards (hereinafter: the “IFRS”) adopted by the European Union. The consolidated financial statements also comply with the requirements of *Act C of 2000 on Accounting* regarding consolidated financial statements, which apply to the IFRS rules adopted by the EU.

The consolidated financial statements were compiled on a cost basis except for certain financial instruments that are included in the balance sheet at fair value. Pannergy Nyrt. rounded up the values of the consolidated financial statements to thousand Hungarian forints, the exceptions are indicated in the statements separately.

The accounting and other records of PannErgy Group’s members are maintained according to the currently valid Hungarian laws and the legal regulations on accounting. The members of the PannErgy Group modify the annual reports compiled according to the Hungarian rules on accounting in order to comply with the IFRS.
Act CLXXVIII of 2015 issued on 26 November 2015 modifies the Act on Accounting. It requires subscribed companies on any of the regulated markets of the European Economic Area (“EEA”) to apply the IFRS for separate reporting purposes from the business years starting after 1 January 2017. Thus, all companies subscribing shares or bonds within the EEA shall prepare separate IFRS financial statements (apart from the consolidated financial statements). Based on this, PannErgy Nyrt. as the parent company will compile its separate financial statements according to the IFRS from 1 January 2017; the preparations required for the switch to the IFRS and the pertaining reporting to the authorities all took place in the current year.

The consolidated financial statements of the PannErgy Group present the Group's consolidated financial situation and the result of its activity and cash transactions as well as the changes in equity.

3. SUMMARY OF THE SIGNIFICANT ELEMENTS OF THE ACCOUNTING POLICY

3.1. General description

The most important accounting policies applied during the compilation of the consolidated financial statements are described below. PannErgy Group applied the accounting principles described and detailed herein for all the presented business years consistently, any modifications, changes of such principles compared to the former business years are indicated separately.

3.2. Principles of consolidation

The consolidated financial statements include the assets and liabilities as well as the income and expenses of all the subsidiaries of the PannErgy Group where the Company has a majority holding. Inter-company transactions and balances have been eliminated through the consolidation.
Minority (external) holdings in the net assets of the consolidated subsidiaries (except for goodwill) are separated within PannErgy Group's equity. Minority holdings include the value of these shares at the date of acquisition, the date of the original business combination, and the value of the changes to the minority holdings after the acquisition. Losses in excess of the minority share in the subsidiary, which can be connected to the minority holding, are charged to the Group's share, except when the minority (external) shareholder has an obligation and an opportunity to make further investments to cover the losses.

3.3. Application of new and modified reporting standards in the subject year

There are no such new or modified standards effective from 1 January 2016 that PannErgy Group applied for the first time in the financial year starting on 1 January 2016 for the compilation of the consolidated financial statements and that would be relevant for the purposes of the consolidated financial statements of the subject year.

New standards and interpretations not yet applied

The following new standards and interpretation modifications either entered into force after 1 January 2016 or were accepted by the European Union after 1 January 2016, but PannErgy Group has either not applied these during the compilation of the consolidated financial statements, or where they have been applied, they did not make a significant impact on PannErgy Group's annual statements.

<u>IFRS 9 Financial instruments</u>

Commission Regulation (EU) No. 2016/2067 adopted *IFRS 9* on 22 November 2016. The standard will be effective for business years beginning on or after 1 January 2018, its early application is allowed. The standard focusing on the recognition, measurement and classification of financial assets and financial liabilities was published in July 2014, replacing the relevant portions of *IAS 39*. *IFRS 9* requires the classification and measurement of financial assets into categories of amortised cost and fair value, and this should be performed upon the initial recognition. Investments in equity instruments are measured

at fair value through profit or loss. The requirements of the standard regarding the accounting for changes in fair value or credit loss-type impairment are not applied by the Company.
The assessment of the total impact of *IFRS 9* on the Company is in progress. It did not affect the contents of these consolidated financial statements.

IFRS 15 Revenue from contracts with customers

Commission Regulation (EU) No. 2016/1905 adopted *IFRS 15* on 22 November 2016. *IFRS 15* will be effective for business years beginning on or after 1 January 2018, its early application is allowed. *IFRS 15* focuses on the recognition of revenues and implements new accounting principles regarding the amount, timing and presentation of sales revenues and cash flows arising from customer contracts in the financial statements. According to the standard, a sales revenue can be recognised when the control of goods or services is transferred to the customer i.e. the customer is able to direct the use of the goods and is entitled to the benefits from the goods or services. The standard replaces *IAS 18 Revenue* and *IAS 11 Construction contracts*.
The assessment of the total impact of *IFRS 15* on the Company is in progress. It did not affect the contents of these consolidated financial statements.

IFRS 16 Leases

The IASB issued the new leasing standard on 13 January 2016. It will be effective from 1 January 2019. The requirements of the new standard include significant changes regarding lease contracts, as in the case of the accounting method they pay special attention to the fact that lease contracts represent important financing solutions which enable economic associations to use fixed assets without assuming significant initial cash outflows. According to the current leasing standard, the lessee can account for these agreements outside the balance sheet (in the case of operating leases) or include them in the case of a finance lease in the balance sheet. The new standard requires the lessee to mandatorily recognise nearly all lease contracts in the balance sheet which will appropriately reflect the rights for the use of the asset throughout a certain period of time and to recognise the commitment for the payment of the related lease fee. In the case of lessors, the accounting by and large remains unchanged.
The assessment of the total impact of *IFRS 16* on the Company is in progress. It did not affect the contents of these consolidated financial statements.

There are no other IFRS's or IFRIC interpretations that have not entered into force yet and that are expected to make a significant impact on the Company.

3.4. Functional currency

Functional currency is the currency defined in *IAS 21 The effects of changes in foreign exchange rates* i.e. the currency of the primary economic environment in which the entity operates, which may differ from the presentation currency.
The functional currency of the Company is the Hungarian forint which is the currency of the primary operational environment. The Company does not pursue economic activities in an environment based on which the use of a functional currency other than the Hungarian forint would be justified. Accordingly, the impact of the changes in conversion rates is not explained in the consolidated financial statements.

3.5. Conversion of foreign currencies, FX transactions and balances

In the case of transactions or revaluations, FX transactions were converted into HUF at the exchange rate valid on the date of measurement. The exchange rate gains and losses from the year-end revaluation of financial assets and liabilities derived from such transactions or recorded in foreign currencies will be recognised in the income statement. Exchange rate gains and losses are presented in the “Income from financial activities” or “Expenses of financial activities” rows of the income statement.

3.6. Measuring at fair value

The Company applies measuring at fair value in the case of available-for-sale financial assets.
They measure non-current assets held for sale at the lower of the assets’ book value or the fair value less costs to sell.
The Company books other assets and liabilities at cost in light of the specific evaluation and accounting requirements of the individual IFRSs.
If the Company detects impairment at a non-financial asset, they will be measured at the lower of their book value or recoverable amount.
Initially, the Company has to measure financial assets or liabilities at fair value including, when the financial asset or liability is not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. During this evaluation, the Company will only apply fair value measurement within assets to those available-for-sale financial assets which are not derivative financial assets, which cannot be classified into other categories of financial instruments, and which can be clearly classified into the available-for-sale category based on the goal of the acquisition. The Company recognises the changes to fair value in other comprehensive income.

3.7. Intangible assets

Based on the definition of assets as per the conceptual framework principles of financial reporting and *IAS 38 Intangible assets*, the Company recognises those resources that are controlled by it as a result of past events as intangible assets from which future economic benefits are expected to flow to the Company, whose cost can be measured reliably, which are from identifiable sources (they are based on contractual or other rights, or they can be separated), and which, in terms of physical appearance, are non-existent, non-monetary assets.

Intangible assets are carried at cost in the consolidated balance sheet (except for goodwill) since due to the special nature of these assets, the notion of an active market cannot be interpreted. This cost will be reduced by accumulated amortisation or potential impairment, charged in line with the asset’s useful life.

Among intangible assets, the Company accounts for software used for its operations and rights representing material value. The software are basically developed by external third parties, the Company itself does not perform any software development activities.
Purchased software are capitalised at cost calculated based on the costs related to the acquisition and installation. The cost is written off over an estimated useful life of 3-5 years, according to the nature of the software.

Trademarks, licences, purchased know-how have definite useful lives and are recognised at cost less accumulated amortisation. The cost of trademarks and licences are amortised with the straight-line method over an estimated useful life of 15-20 years.

A given intangible asset may be included in the Company's financial statements at zero value as of the end of its useful life, so it should be derecognised, yet it can happen that the Company is still using it due to the changes in the basic assumptions of the estimate for the asset's useful life. In order to avoid this situation, the Company re-estimates both useful life and depreciation annually, at each reporting date. If the asset's useful life is modified after the re-estimate, the difference between the amortisation charged until the reporting date and the amortisation as per the recalculated useful life will be charged to the profit or loss.

3.8. *Impairment of non-financial assets*

The Company does not charge any amortisation to intangible assets with an indefinite useful life or not yet suitable for use but tests them annually for impairment.

Assets, which are charged with amortisation, will also be tested for impairment in each case when events or changed circumstances imply that the book value will not be fully recovered.
If the Company sees signs based on which there is a chance that the realisable value of tangible and intangible assets may fall below the book value, impairment will be tested. If the realisable value falls below the book value, impairment has to be charged to the profit/loss in respect of the assets treated at cost. The realisable value is the higher of an asset's value in use and its market value. The market value is the amount that can be received for an asset in a transaction between unrelated parties, while the value in use is the net present value of the cash flows derived from the continuous use of the asset and its sales at the end of its useful life. The assets related to PannErgy Group's geothermal projects, which cannot be interpreted individually only at the level of the geothermal system as a whole, do not have an active market under *IAS 36*, thus, for lack of a market value, their realisable value is the net present value of the cash flows derived from their continuous use.

The realisable value is determined individually for each asset, or if it is not possible, for each income-generating unit. The PannErgy Group checks at each reporting date whether the reasons for the formerly charged impairment still prevail. Any formerly charged impairment can only be reversed if there was a change in the circumstances taken into account during the establishment of the last impairment. Impairment can be reversed but the book value of the asset cannot exceed its recoverable value or its book value less depreciation which would have occurred, had no impairment been accounted for.

3.9. *Research and development*

During the review of the recognition of self-manufactured intangible assets, the Company divides the process of the asset generation into research and development phases. If within the framework of the project aimed at the self-reliant manufacturing of the intangible asset, the Company cannot distinguish between the research and the development phases, the expense incurred in relation to the project will be treated as if it had been incurred during the research phase exclusively. Intangible assets derived from research (or the research phase of an internal project) cannot be recognised, thus expenses incurred in relation to the research will be expensed by the Company when they arise.

Intangible assets derived from development or the development phase of an internal project are recognised under non-current assets if the Company can prove the following:

- the technical feasibility of the production of the intangible asset so that it would be suitable for use or sales;
- the intention of the unit to complete, use or sell the intangible asset;
- the capability of the unit to use or sell the intangible asset;
- the way in which the intangible asset will generate future economic benefits;
- amongst other things, the unit must prove the existence of the product derived from the intangible asset or the market of the intangible asset or, if it is used internally, the usefulness of the intangible asset;
- the availability of the proper technical, financial or other resources that are needed for the completion of the development or the use or sales of the intangible asset;
- the capability of the unit to measure the expense that can be attributed to the asset during the development of the intangible asset in a reliable way.

In its books, the Company carries the know-how related to geological and geophysical developments (selection of target regions), surface MT and gravity surveys (specification of the precise point of drilling) and the drilling permits and test drillings at cost. The value of these decreases with the commensurate recharging of the successfully implemented geothermal project to the companies generating thermal energy.

3.10. Property, plant and equipment

In the consolidated balance sheet of the PannErgy Group, the category of building-type tangible assets includes thermal centers, buildings functioning as thermal consumer connection points, geothermal grid systems with the nature of other structures and production and injection thermal wells. Additionally, the Company has office buildings not related to its core activity and industrial facilities (industrial halls) suitable for production.

In respect of the rating of property, plant and equipment, the Company clearly separates non-current assets intended/held for sale, investment properties, and normal properties, plant and equipment not falling into these special rating categories.

3.10.1. Investment properties

Based on *IAS 40 Investment property*, land, buildings (parts of buildings), structures qualify as properties. The Company treats and carries all properties held for rental to others or speculating on a value increase, which are not held for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business, as investment properties.

The Company carries the properties (land, buildings, structures) it owns, which were acquired in the period related to the plastic manufacturing core activity that preceded PannErgy's group-level strategic profile switch and which are located and registered at the sites in the 21st district of Budapest and in Debrecen, as investment properties under assets since the Company utilises these properties not related – neither directly, nor indirectly – to PannErgy Group's core activity, geothermal heat generation and sales, for rental to others. Based on the existing current contractual background, it is probable that the future economic benefits related to the investment properties will flow to the Company and that the cost of the investment properties can be measured reliably.

All of the investment properties owned by the Company are purchased investment properties where the cost includes the acquisition price and the expense attributable and related to the property purchase.

The Company evaluates investment properties based on the cost method required in *IAS 16*. Cost serves as the basis for charging depreciation according to the asset's useful life and for the accounting for impairment in the case of any signs of impairment. The disclosure of fair value is necessary regardless of the selection of the cost method.

Investment properties are included in the IFRS consolidated financial statements in a separate balance sheet row. Upon the sales of such types of properties or upon withdrawal from final use, the investment property is derecognised from the IFRS financial statements in line with the fact that no future benefits are expected. Upon the derecognition, the difference between the book value and the net sales revenue has to be recognised either with net accounting or as a revenue under sales revenues or as an expense in sales costs in the income statement.

3.10.2. Non-current assets held for sale

The Company will classify a non-current asset as one held for sale if the asset's book value will be recovered during its sales and not during its continuous usage. According to the requirements of *IFRS 5*, the asset has to be in a condition based on which it can be declared that it is ready for the sales and the probability of the sales has to be high. The Company rates the probability of sales as high and thus it considers the following as basic conditions for recording the asset as one held for sale:

- if the Company's main body/management is verifiably committed to the plan of the sales and the plan for the finding of a specific buyer is verified based on the commitment;
- if after the documented commitment, the Company pursues an active marketing activity at a realistic price that is in line with the asset's value for the purposes of sales over as a short period of time as possible and under as favourable conditions as possible;
- if it is not probable that significant changes will be made to the sales plan, or it is not likely to be withdrawn;
- if based on the plans, the sales transaction is expected within a year after the date of classification. In certain cases it may occur that the sales transaction will be extended to a period longer than one year. That is the case when events or circumstances that are beyond the

Company's control delay the completion of the sales transaction and there is sufficient evidence to prove that the entity is still committed to the asset's sales plan.

If, based on the above, the Company classifies an asset as a non-current asset held for sale, it will stop the asset's depreciation as of the moment of the reclassification. Based on the evaluation as of the classification, revaluation takes place at the lower of the asset's book value or fair value less costs to sell. This principle applies to later evaluations also.

In its IFRS financial statements, the Company recognises its non-current assets classified as held for sale separately from the rest of the assets. The Company presents the amounts of accumulated revenues or expenses charged against other comprehensive income, which are related to the reclassification or later evaluations, separately.

3.10.3. Tangible assets under IAS 16 Property, plant and equipment

The Company treats all long-term assets, which do not fall into the categories of investment properties or non-current assets held for sale, in line with the requirements of *IAS 16 Property, plant and equipment.* These are such long-term, materialised assets (used over more than one business period) which, as a result of past events, are resources under the control of the Company, through which the Company is expected to realise future economic benefits, whose cost can be measured reliably and which are used by the Company for production or the provision of services, or for rental to others, or for administrative purposes.

Property, plant and equipment are recognised at historical cost less depreciation. The cost of property, plant and equipment depends on the method of production and expensing. In the case of individual acquisitions, the cost of purchase is the cost itself, in the case of an acquisition through a business combination, it is the fair value, while in the case of self-manufactured assets, it is the expense that arose in the development phase.

Historical cost includes the costs directly related to the acquisition of the items. After initial capitalisation, subsequent costs will only be recognised as assets increasing the asset's book value or as separate assets if the Company is likely to receive from the future economic benefits that flow from the item and the cost of the item can be measured reliably. The book value of the replaced components of the assets will be derecognised. Costs incurred after the installation of the tangible asset such as costs of maintenance and repair are charged to the profit or loss in the period when they were incurred.

In the case of tangible assets evaluated with the cost method, the depreciation and the residual value are defined based on cost and useful life, and based on this, the cost less the residual value is depreciated over the useful life which will be recognised in the IFRS income statement for the current year. The Company takes into account the amount realised at the end of the asset's useful life, after the deduction of the expected costs of disposal, as the residual value.

In the case of each tangible asset, residual value and useful life (thus, the applied depreciation rate) have to be reviewed, or if necessary, re-estimated, every year.

A given tangible asset may be included in the Company's financial statements at zero value as of the end of its useful life, so it should be derecognised, yet it can happen that the Company is still using it due to the changes in the basic assumptions of the estimate for the asset's useful life. In order to avoid this situation, the Company re-estimates both useful life and depreciation annually, at each reporting date. If the asset's useful life is modified after the re-estimate, the difference between the depreciation charged until the reporting date and the depreciation as per the recalculated useful life will be charged to the profit or loss and booked in the year of the change.

PannErgy Group does not account for any depreciation for land. The depreciation of property, plant and equipment is calculated with the straight-line method where the cost or revalued amount of the assets is reduced to the residual value over the following estimated useful lives of the assets:

Properties (including those of the geothermal projects)	20-75 years
Production machinery (including those of the geothermal projects)	3-25 years
Other equipment	2-8 years
Vehicles	5 years

The book value of an asset is immediately depreciated to the recoverable amount if the book value exceeds the estimated recoverable amount.
Tangible assets acquired within the framework of a finance lease are depreciated over their expected useful life, similar to the Company's own tangible assets but only in the case if there is reasonable assurance that the ownership right is transferred at the end of the term.
The profit or loss generated or incurred upon the sales of the assets, which will be determined based on the book value and the sales price, are recognised under other expenses and income.
The Company does not charge any amortisation to tangible assets with an indefinite useful life or not yet suitable for use but tests them annually for impairment. Tangible assets, which are charged with depreciation, will also be tested for impairment in each case when events or changed circumstances imply that it is not certain that the book value will be fully recovered.
If the recoverable amount falls below the book value, impairment has to be charged to the profit or loss in respect of the assets treated at cost. The recoverable amount is the higher of an asset's value in use and its fair value less costs to sell. The fair value less costs to sell is the amount that can be received for an asset in a transaction between unrelated parties, less the costs of disposal, while the value in use is the net present value of the cash flows derived from the continuous use of the asset and its sales at the end of its useful life. The recoverable amount is determined individually for each asset, or if it is not possible, for each cash-generating unit.
The Company checks at each reporting date whether the reasons for the formerly charged impairment still prevail. Any formerly charged impairment can only be reversed if there was a change in the circumstances taken into account during the establishment of the last impairment. Impairment can be reversed to the extent that the book value of the asset cannot exceed its recoverable amount or, if it is lower, its book value less depreciation which would have occurred, if no impairment had been accounted for.

3.10.4. Projects, geothermal projects

In the financial statements, the value of tangible assets includes the values of projects. These are the current costs of the geothermal, energy and other types of projects that are in progress; depreciation is accounted for after the capitalisation of the project.
During the implementation of geothermal projects, typically after a preparatory, design and permission phase, a production well is established (with a pump, a filter and a degasser) followed by an injection well that transfers the produced geothermal fluid back into the soil layer, a thermal center containing a heat exchanger and the control panel of the whole system, the consumer connection points and a grid system connecting the above elements of the complete geothermal system.

The requirements of *IAS 11 Construction contracts* are taken into account by the PannErgy Group in the case of projects affecting several reporting periods, the contractual schedules are established in a way that is in harmony with the arising of the costs of implementation and the invoicing schedule.

3.11. Investments

Out of the methods defined for the evaluation of investments in *IAS 27*, the Company applies the cost method to all of its shares.

Impairment testing at specified intervals is an important element of the evaluation of shares, the Company performs impairment tests on its shares according to the requirements of *IAS 36* when compiling its IFRS financial statements. If there are signs of impairment in the case of a given share, its recoverable amount has to be defined. The recoverable amount is the higher of value in use (typically the value determined with the discounted cash flow method based on the Company's detailed future financial plans) and fair value less costs of disposal (if it can be determined exactly based on the market benchmark information). If the recoverable amount is lower than the asset's cost, impairment has to be accounted for which will be presented under other expenses in the income statement for the current year.

Impairment has to be accounted for shares according to the above if the book value is expected to exceed the recoverable amount as of the reporting date of the IFRS financial statements.

The Company will define it as an indication of impairment if it becomes aware of the subsidiary's financial difficulties, the termination of the customer contracts serving as a basis for the subsidiary's income-generating capability, the restructuring of the subsidiary that is disadvantageous for the Company, the transformation of the external financing structure that is disadvantageous for the subsidiary or any threats of bankruptcy.

3.12. Goodwill

The Company carries as goodwill the intangible assets which are related to the purchase of an asset in a way where the goodwill was paid for because of the expectation of future economic benefits from the purchased asset and which cannot be identified individually i.e. they cannot be tied clearly or directly to any of the existing tangible and intangible assets affected by the asset purchase. The cost of the goodwill is the amount by which the amount paid for the business combination exceeds the portion of the fair value of identifiable assets, liabilities and contingent liabilities allocated to the Company as the acquirer. Goodwill has to be tested for impairment annually during which the value of the goodwill is divided among those cash-generating units of the Group which are expected to utilise the synergy that is derived from the combination.

3.13. Inventories

The dominant majority of the inventories recognised in the consolidated financial statements is composed of goods related to the implementation of geothermal projects (e.g. casing) as well as work in progress and semi-finished goods and sustenance material-type inventories planned to be used in the operational phase of the geothermal projects. Inventories are recognised at the lower of cost or net realisable value.

The cost of inventories include the costs of purchase, the costs of conversion and the costs that are necessary for bringing the inventories to their present location and condition. Warehousing costs,

advertising and marketing costs and costs to sell cannot form part of cost. Costs of purchase are costs that arose at the acquirer of the inventory for the purposes of acquiring the inventory. At the Company, the costs of purchase include the consideration paid for the inventory, import duties, non-refundable taxes, costs of delivery and administration, and all other payments that are related to the acquisition of the given inventory directly. The discounts received reduce the costs of purchase. The Company defines the selling price expected under normal business circumstances as the net realisable value, less any costs of completion and the costs to sell arising until the sales transaction. Net realisable value has to be re-estimated at each reporting date and the write-off has to be determined again every year. If there is a change in the net realisable value of the inventory, based on which the formerly charged inventory impairment has to be reversed, it can be performed at the Company but only up to the extent of the formerly charged impairment. Write-offs and reversals have to be recognised under other expenses. The inventory write-off (reversal) has to be charged in the period when it was established.
Out of the evaluation methods listed for inventories in *IAS 2 Inventories*, the Company applies the weighted average cost formula.
Due to its operation as a holding, the Company can book rechargeable services recognised as goods at cost under inventories provided that the possibility of recharging without loss is verified.

3.14. Financial instruments

Loans given, loans received, purchased debt securities, issued debt securities, shares in other companies, trade receivables, trade payables, forward and swap transactions qualify as financial instruments in the Company's IFRS consolidated financial statements.
Financial instruments (including compound financial instruments) will become an asset, a liability or an equity element based on the real content of the underlying contractual obligations. Initially, the Company measures these assets at fair value. The fair value of the financial instrument is the price that the Company would receive upon the sales of the asset or would pay upon the transfer of the liability, assuming normal market player relationships and a transaction concluded in the ordinary course of business as at the date of measurement. Fair value may be defined based on exact market prices or, for lack of them, with measurement models. When selecting and developing the models, a model that is in line with the characteristics of the instrument should be applied and the general principles of fair value determination have to be taken into account.

3.14.1. Initial recognition at fair value

Initially, on the date of the transaction i.e. on the date when the Company undertakes an obligation to purchase or sell the asset, the Company recognises all financial instruments at fair value based on *IAS 39*. This value includes transaction costs that are directly related to the acquisition or issuance of the financial instrument. Financial assets at fair value through profit or loss are initially recognised at fair value, while transaction costs are accounted for in the income statement.
Classification as a financial instrument is defined by the purpose of the acquisition of the financial assets, the characteristics of the financial instruments and the definition of financial instrument categories in *IAS 39*. The Company defines the classification of financial assets upon initial recognition. For the purposes of subsequent recognition, financial instruments can be divided into the following categories:

3.14.2. Available-for-sale financial assets

The Company carries financial assets designated as available for sale or not put into other categories as available-for-sale (AFS) financial assets. Fair value is the basis of the measurement of available-for-sale financial assets, the Company recognises the changes to fair value in other comprehensive income. The Company only applies the effective interest method for financial instruments listed here if they are debt instruments. The impairment rules relevant for financial instruments shall be applicable to available-for-sale financial assets.
The Company primarily includes purchased debt securities and shares in other companies in available-for-sale financial assets. Available-for-sale financial assets include shares of 50% or less, or shares not consolidated for other reasons.

3.14.3. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. Loans and receivables include purchased and debt securities along with trade receivables depending on their nature, and loans given. The Company carries loans under current assets except for those whose maturity exceeds one year after the balance sheet date. The latter are included in non-current assets.

In its IFRS consolidated financial statements, the Company initially presents the value of loans and receivables at fair value, then at amortised cost, with the effective interest method. By recording these at amortised cost, the Company ensures that initial premia, discounts and transaction costs related to the financial instrument and fees for certain financial services modify the instrument's initial cost (fair value), and then they are defined during the expected term with the effective interest method, while the difference between nominal interest and effective interest will adjust the instrument's book value. The Company defines the effective interest rate upon the initial recognition of the instrument without future lending losses. The effective interest rate defined this way can only be modified in the case of instruments with floating rates. If no individual costs, fees arose in connection with the financial instrument initially, the effective interest rate will tally with the transactional interest rate.
The change in fair value has to be presented in the notes to the consolidated financial statements. In the case of financial instruments of loan and receivables nature, the Company applies the impairment rules.

Trade receivables include the amounts due from customers for goods sold or services provided during the ordinary course of business. If the amounts are expected to be received within a year, they will be classified into current assets, while in other cases, they will be recognised under non-current assets in line with the maturity.

The commitment fees for the credit line are recognised as transaction costs (thus, they have to be taken into account upon the calculation of the amortised cost and effective interest rate of the loan) if it is likely that the given portion of the available loan will be drawn down. In this case, the fee already paid will be accrued until the drawdown. As opposed to this, if it is not likely that the given portion of the loan will be drawn down, the fee will be charged to the profit or loss of the current year, during the commitment period of the credit line.
General and individual borrowing costs will be capitalised if they are directly related to the acquisition, construction or production of a qualifying asset where a significant amount of time is required for the

asset to be usable or marketable according to the planned goal. Such borrowing costs will increase the cost of the given asset until it becomes usable or marketable according to the planned goal. Revenues from the temporary investment of individual loans not yet used in connection with the qualifying asset will be deducted from the borrowing costs eligible for capitalisation.
All other borrowing costs will be recognised in the profit or loss in the period in which they are incurred.

3.14.4. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Company has the positive intention and ability to hold to maturity, are carried as held-to-maturity (HTM) financial instruments. These are typically purchased debt securities. In its IFRS consolidated financial statements, the Company presents the value of held-to-maturity financial assets at amortised cost. The change in fair value has to be presented in the notes only. In the case of financial instruments of held-to-maturity financial assets nature, the Company applies the effective interest method and the impairment rules.

3.14.5. Financial instruments at fair value through profit or loss

The Company carries held-for-trading financial assets or financial liabilities, derivative products (if it is not a hedge transaction in an effective cash flow hedge) as well as financial assets and financial liabilities designated upon initial recognition as at fair value through profit or loss as financial instruments at fair value through profit or loss (FVTPL).
Receivables related to forward or swap transactions are recognised as financial assets at fair value through profit or loss, while liabilities related to similar transactions are carried as financial liabilities at fair value through profit or loss.

3.14.6. Other financial liabilities

All other financial liabilities not carried at fair value through profit or loss are recorded under other financial liabilities. In its IFRS financial statements, the Company presents the value of other financial liabilities at amortised cost. The change in fair value has to be presented in the notes to the consolidated financial statements. In the case of financial instruments of other financial liabilities nature, the Company applies the effective interest method.
Interest, dividends, profits and losses related to the financial instruments listed under liabilities will be recognised under expenses on financial transactions in the income statement as they are generated or incurred. In the case of compound financial instruments, first the liability component is evaluated and the equity component will be defined at the residual value.
Trade payables include the amounts payable for goods and services received from suppliers during the ordinary course of business. Trade payables are classified into current liabilities if their settlement is due within a year. In other cases, they are presented under long-term liabilities. Initially, trade payables are recognised at fair value, while later they are measured at amortised cost defined with the effective interest method.

3.14.7. Netting of financial instruments

Financial assets and liabilities are netted mandatorily and recognised in the balance sheet as a net amount if the net settlement of the recognised amounts is legally permitted and the Company intends to settle the amounts net, or intends to both realise the asset and settle the liability.

3.14.8. Impairment of financial assets

At the end of each reporting period, the Company checks whether there is an objective evidence for the impairment of a financial asset or a group of financial assets. There is impairment in the case of a financial asset or a group of financial assets and the related expense is booked only if there is an objective evidence for impairment as a result of the events occurring after the initial recognition of the asset, and these events causing losses make an impact on the estimated future cash flows of the financial asset or the group of financial assets and the value of this impact can be estimated reliably. It may be an indication of impairment if customers or a group of customers face serious financial difficulties, pay interest rates or the principal instalments late or do not perform at all, are likely to become insolvent or are before other financial restructuring and the observable data indicate that the estimated future cash flows will decrease measurably, e.g. economic circumstances significantly affecting the probability of insolvency change.

In the category of loans and receivables, the Company defines the amount of the loss as the difference between the asset's book value and the present value of the estimated future cash flows (without future lending losses not arisen yet) discounted with the original effective interest rate of the financial asset. The asset's book value will be decreased and the amount of the loss will be recognised in the income statement, under expenses on financial transactions in the case of loans, and under other expenses in the case of receivables. In the case of loans with variable interest rates or held-to-maturity investments, the discount rate used for defining impairment loss is the current effective interest rate of the asset. For practical reasons, the Company can define the impairment based on the fair value of the instrument determined based on its observable market price.

If, in a subsequent period, the amount of the impairment decreases and this decrease can be connected objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed in the income statement, under income from financial transactions in the case of loans and under other revenues in the case of receivables.

3.15. Cash and cash equivalents

In the Company's IFRS consolidated balance sheet and cash flow statement, cash and cash equivalents represent the cash available at the Company's forint and foreign currency cash desks on the reporting date, the freely usable bank account balances available on the electronic accounts managed at financial institutions, the bank account balances with limited use held on separate accounts at financial institutions, the balances available on fixed deposit accounts at the financial institutions and sight deposits. Negative balances of current accounts managed at financial institutions (i.e. overdraft facilities) appear in the IFRS consolidated balance sheet and cash flow statement under current liabilities among short-term loans.

3.16. Equity, subscribed capital

The equity in the Company's IFRS balance sheet is the difference between the balance sheet total and equity and liabilities.

Equity is the IFRS equity plus the received supplementary payment recognised as a liability as per the IFRS, less the paid supplementary payment recognised as an asset under IFRS, plus the amount from the cash to be placed into the capital reserve based on the legal regulations and the assets received recognised as deferred income, less the amount of the receivables recognised against owners because of the capital increase qualifying as an equity instrument.

The subscribed capital under IFRS is the subscribed capital defined in the deed of foundation if it qualifies as an equity instrument. The Company's form under corporate law is a company limited by shares; the PannErgy ordinary shares listed on the Budapest Stock Exchange are booked as subscribed capital under IFRS. Incremental costs directly attributable to the issuance of new ordinary shares are reported as an item decreasing the equity.

Capital reserve is the sum of all elements of equity which do not meet the definition of subscribed capital, subscribed capital not yet paid, profit reserve, evaluation reserve, after-tax profit or tied-up reserve under IFRS.

Profit reserve is the accumulated after-tax profit of former years recognised in the IFRS financial statements and not yet distributed to the shareholders, including amounts charged to accumulated profit under IFRS which cannot contain other comprehensive income defined in *IAS 1 Presentation of financial statements*, except for the reclassification modifications. The amount generated this way has to be reduced with the amount of paid supplementary payments recognised as assets under IFRS and the amount of unused development reserve less the pertaining deferred tax calculated based on *IAS 12 Income taxes*.

Valuation reserve includes accumulated other comprehensive income and other comprehensive income for the current year indicated in the statement of comprehensive income defined in *IAS 1 Presentation of financial statements*.

After-tax profit is the aggregate amount of the after-tax net profit presented for continued and discontinued operations and included in the profit or loss section of the statement of comprehensive income defined in *IAS 1 Presentation of financial statements* or in the separate income statement.

Tied-up reserve is the amount of received supplementary payments recognised as liabilities under IFRS and the amount of unused development reserve less the pertaining deferred tax calculated based on *IAS 12 Income taxes*.

3.17. Repurchased treasury shares

Repurchased treasury shares can be bought by the Company on the stock exchange or the OTC market, in line with the current authorisation of the general assembly, and are recognised in the IFRS financial statements separately, as items that decrease the equity.

The result of the sale of the repurchased treasury shares is charged directly to equity, under reserves allocated due to repurchased treasury shares.

The above ensures that neither profit, nor loss will be recognised in respect of treasury shares in the Company's profit or loss if there is any change in treasury shares (purchase, sales, issuance or cancellation).

3.18. Earnings per share

To determine the earnings per share, the Company used the ratio of the profit or loss for the period and the average number of shares for the period less repurchased treasury shares. Upon the determination of diluted earnings per share all diluting factors must be taken into consideration. Diluted number of shares means the number of the Company's issued shares plus warrants (options issued by the Company), management options and convertible bonds, with the inherent number of shares. Owing to the aforementioned correction, the diluted earnings per share takes into consideration the predictable dilution of the number of shares that is based on documents, thus it decreases the extent of the shareholder assets falling onto one share.

3.19. Current and deferred income tax

Based on the requirements of *IAS 12 Deferred taxes*, income taxes comprise current and deferred taxes. The corporate tax expense included in the consolidated financial statements is the amount of the current corporate tax liability and the deferred tax expense. Accordingly, in the IFRS consolidated financial statements of the Company, the extent of the corporate tax payable annually is based on the tax payment liability defined based on the laws of Hungary, which will be adjusted by the amount of the deferred tax expense.
Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period. Income taxes include all local and foreign taxes that are based on the taxable profit. The Company measures current tax liabilities (tax assets) for the current period and the former periods to the extent expected to be payable to the tax authority (or expected to be reimbursed by the tax authority) using the tax rates and tax regulations that were legislated by the end of the reporting period. Current tax (asset/liability) tallies with the tax payable/deductible. Actual payable/deductible taxes may differ from the amounts recognised under current taxes. These modifications reflect the changes in estimated payable/deductible taxes. Unless there is an indication that the modification is derived from an error, these current tax changes should be treated as changes in accounting estimates. These modifications are recognised under tax expenses/revenues in the period when the modification occurs. Current tax is recognised in profit or loss or other comprehensive income (equity) depending on where the underlying transaction/event is recognised.

According to the relevant tax regulations, the Company shall pay local business tax and innovation contribution which makes a significant impact on the Company’s profit or loss. Based on the interpretation of the definition of taxable profit as per *IAS 12*, the Company does not treat the taxes payable as local business tax and innovation contribution as income taxes but rather as operating expenses, recognising them under other expenses.

The Company recognises income taxes payable/recoverable in respect of future periods, whose recoverability is ensured and which arose in connection with past transactions and events, according to the requirements of *IAS 12*. The tax base of an asset is the amount attributed to that asset for tax purposes, which is deductible upon the recovery of the asset’s carrying amount. If the economic benefits are not taxable, the tax base of the asset is equal to its carrying amount.
The tax base of a liability is the amount attributed to that liability for tax purposes i.e. the liability’s carrying amount less any amount deducted later for the purposes of taxes. The tax base of deferred income is its carrying amount less future non-taxable income. Based on *IAS 12*, a temporary difference is the difference between the carrying amount and the tax base which is either taxable or deductible after recovery/settlement. If the temporary difference is taxable, it is a deferred tax liability, while if it is deductible, it is a deferred tax asset.
Deductible temporary differences, unused tax losses and unused tax credits may be the sources of the deferred tax assets. Future taxable profit and taxable temporary differences may be the sources of the recovery of deferred tax.
Deferred tax shall be fully recognised in the case of a deferred tax liability. As opposed to this, in the case of deferred tax assets, recognition is only possible if a future taxable profit against which the

deductible temporary differences can be used is available. Deferred tax is recognised where the underlying transaction or event (i.e. item) is recognised.

Offsetting deferred tax assets and deferred tax liabilities against each other is mandatory if the Company has an enforceable right to offset the current tax assets and liabilities and if the income taxes apply to the same tax authority.

Based on the above, deferred taxes are generated if there is a time difference between the booking of an item for accounting and tax purposes. Deferred tax assets and liabilities are determined using the tax rates for the taxable income of the years when the differences derived from the time differences are expected to reverse. Deferred tax liabilities and assets reflect the tax implications of assets and liabilities as of the balance sheet date, as determined by the Company. Deferred tax assets can only be included in the balance sheet if it is probable that during its future activities, the Company will generate a profit that will form part of the tax base, against which the deferred tax asset will be offset. As of the balance sheet date, the Company will take into consideration its non-recovered deferred tax assets and liabilities and will check the recovery of these with a discounted cash flow calculation relevant for its future profits.

3.20. Provisioning

The Company recognises liabilities of uncertain timing or amounts as provisions if:

- the related obligation arose from past events;
- they exist as of the balance sheet date;
- they are legal or constructive obligations;
- their settlement is expected to result in an outflow of resources embodying economic benefits;
- the extent of the obligation can be estimated reliably.

The Company recognises a contingent liability if:

- there is an obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company;
- there is an obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

Existence as of the balance sheet date and connection to past events are important aspects, no provision can be allocated for costs that arise in the interest of future operations.
A past event gives rise to a constructive obligation at the Company if there is no other realistic alternative but to settle it. In the case of a legal obligation it assumes that the obligation is derived from a contract, a legal regulation or other legal transactions. A constructive obligation is an obligation that derives from the Company's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and as a result, it has created a valid expectation on the part of those other parties that it will discharge those responsibilities. In order to decide whether the settlement of the event, obligation forming the potential basis of a provision may induce the outflow of resources embodying economic benefits, the Company examines the probability of occurrence. The Company considers the event where the probability of occurrence is higher than that of non-occurrence (i.e. it

exceeds 50%) as probable. If it is not likely that the event occurs, the Company carries the given obligation as a contingent liability and discloses it as such in its financial statements but does not recognise it in the balance sheet.

Provisions are recognised by the Company in the amount necessary to settle all the related obligations. This amount is the best estimate of all of the necessary expenses made based on the information available as of the balance sheet date taking into account all risks and uncertainties which may arise in connection with the obligation.
If the time value of money influences the amount that is related to the settlement of the related obligation significantly, the provisions are recognised to the extent of the present value of the expenses necessary to settle the obligation. Through the discounting method that indicates the passing of time, the balance sheet value of the provision increases each year with the impact of the discounting and the increase is charged to the current profit or loss as an interest expense under other expenses.

The expense necessary for the settlement of the provision, or a portion of it, may be reimbursed. Taking this into light, the recovery may only be recognised if it is virtually certain that reimbursement will be received if the Company settles the obligation affected by the provision. The reimbursement received may not exceed the amount of the provision. The reimbursement shall be treated as a separate asset. In the income statement, the expense related to the provision may be presented net of the amount recognised for the reimbursement.

The Company can operate a share option program based on the Board's authorisation. In the program announced for a period of several years, if the stock exchange price of PannErgy shares reaches a specified level, the beneficiary of the share option program will be entitled to purchase a specified number of shares at a specified option price, or he/she can redeem them in cash during which the difference between the option price and the stock exchange (market) price setting in the case of the opening of certain conditions defined in the share option program will be settled for him/her by the Company.
The Company recognises the share option program as a provision, based on the current market price and volatility of PannErgy shares and the probability of reaching the share price levels defined in the share option program, depending on the result of an evaluation performed with the Black-Scholes formula.

3.21. Share option program

Depending on the share option program mentioned in chapter 3.20, the Company may have share-based payments that comply with the requirements of *IFRS 2 Share-based payments.* In this case, if share-based payments are made in equity instruments, the costs that arose in connection with the payments will be charged to equity, while in the case of settlement in cash, to financial liabilities under expenses on financial transactions. If the choice regarding the method of settlement is given for the Company, then when an obligation arises for settlement in cash upon the conclusion of the contract, it should be treated as a transaction to be settled in cash. If no obligation arises for settlement in cash upon the conclusion of the contract, it should be treated as a transaction to be settled in equity instruments. If the choice is given for the other party (typically, the employee of the Company), then a compound financial instrument will be issued by the Company which should be separated into a part to be settled

in equity instruments and another part to be settled in cash, and it should be recognised in the income statement and the balance sheet accordingly.
Share-based payments typically provided for employees will not generate an obligation for the Company immediately but the right to claim the benefits will become effective if the vesting and potential non-vesting conditions are fulfilled during a specified period (the so-called vesting period). The vesting period is usually a period of several years, accordingly, the expected costs have to be charged over the vesting period on a pro rata temporis basis.
Share-based payments can be defined through a direct or an indirect method. In the case of the direct method, the amount of the share-based payment will be defined based on the fair value of the product or service acquired/used by the Company. When the indirect method is applied, the fair value of the equity instrument may serve as a basis for the amount of the payment. In the case of share-based payments settled in equity instruments, the fair value of the equity instrument valid as of the date when the share-based payment is provided is used for the whole vesting period, while the changes in fair value are charged to the equity. In the case of share-based payments settled in cash, the fair value of the equity instrument valid as of the date when the share-based payment is provided is remeasured at each reporting date, while the changes in fair value are charged to profit or loss.
The costs of share-based payments are always charged to the profit or loss of the company that was the employer of the employees entitled to the benefits. The Company can conclude contracts for share-based payments with partners who are not employed by the Company. In this case, the principles of recognition and measurement will always be identical with those applied in the case of share-based employee benefits.

3.22. Accounting for sales revenues

Based on the framework principles relevant for the preparation and presentation of the financial statements, revenue is the growth of economic benefits during the reporting period resulting from either the inflow or increase of assets or the decrease of liabilities, which will result in a rise in the equity for reasons other than increases relating to contributions from equity participants. Based on *IAS 18 Revenue*, sales revenue is the revenue derived from the entity's ordinary course of business. At the Company, the following activities may generate sales revenues in connection with its ordinary course of business:

- Sales of goods;
- Provision of services;
- Use of the entity's assets by others generating royalty fees.

It is a common characteristic of all the above sales revenue types that the inflow of future economic benefits is probable, the revenue can be measured reliably, the costs (that arose and are expected) can be identified and measured reliably.
Based on *IAS 18 Revenue*, the consideration received or due should be measured at fair value, taking all commercial and quantity-based discounts approved by the entity and decreasing the sales revenue into account. The fair value does not include the related taxes. In the case of deferred payment beyond the normal payment deadline, the sales revenue has to be measured at net present value. Based on the principle of matching, revenues and costs have to be connected to the period when they arise economically.

IFRS 15 Revenue from contracts with customers shall be applicable to business years starting on or after 1 January 2018. The new revenue standard has brought changes in several areas compared to *IAS 18*. Revenue is recognised with a five-step model:

- Identification of a contract with a customer
- Identification of performance obligations
- Determination of the transaction price
- Allocation of the transaction price
- Recognition of revenue

IFRS 15 provides increased guidance regarding the distinction of goods or services; a good or a service can be considered as distinct if it generates benefits on its own or when it is not separable from other items. Measurement at fair value is cancelled, the consideration is determined as the amount to which the Company expects to be entitled. When defining the transaction price, the Company has to calculate with the impact of the changing consideration. In addition, if the revenue has a significant financing component, the effects of the time value of money also have to be taken into account.

The “risk and reward”-based revenue recognition model is also cancelled. Revenue will be recognised when the customer obtains control of the service/asset. Control is transferred pro rata temporis if the conditions are fulfilled, or at a point of time if the conditions are not satisfied.

Earlier application of *IFRS 15* is permitted but, taking several aspects into account, the Company does not apply the new revenue standard earlier, only from 1 January 2018, in line with the mandatory requirement.

The Company does not recognise the sales of a property, plant and equipment item and other revenues which were not realised during its ordinary course of business as sales revenues.

3.23. Interest income and dividend income

The Company may realise interest income after the loans granted in connection with the operation and management of the holding, or dividend income after its shareholder investments. The Company qualifies such interest and dividend income as income not derived from the ordinary course of business, does not treat these as sales revenues but recognises them under revenues from financial transactions.

Interest income is recognised with the effective interest method. As for the impairment of loans and receivables, the Company reduces the book value to the recoverable amount which is the present value of the estimated future cash flows discounted with the instrument’s original effective interest rate. Subsequently, the difference derived from the reversal of the discount appears as an interest income. Interest income from impaired loans and receivables will be recognised with the application of the effective interest rate used for the calculation of impairment, computed to the net value of the financial asset.

Dividend income is recognised when the Company becomes entitled to dividends.

3.24. Lease transactions

According to the requirements of *IAS 17 Leases,* the Company considers all agreements whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A lease can be classified as either an operating or a finance lease based on evaluating whether the risks and rewards are substantially transferred to the lessee.

The Company considers the agreements where at least two of the following conditions are satisfied as finance leases:

- the lease transfers ownership by the end of the lease term;
- the lessee has the option to purchase the asset at a favourable price and it is likely, at the inception of the lease, that the option will be exercised;
- the lease term is for the major part of the economic life of the leased asset;
- the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of a specialised nature.

In its IFRS consolidated financial statements, the Company carries leased assets as leased property, plant and equipment, in line with its records of property, plant and equipment, under liabilities, where the liabilities equal the present value of the minimum lease liabilities payable based on the contract. Depreciation is charged to an asset recognised as described above based on the estimate of residual value and useful life or the lease term, and financing interests payable in relation to the lease financing will be accounted for as financial expenses in the Company's income statement.
The Company as the lessee will initially recognise finance leases as assets and liabilities at amounts equal to the fair value or, if lower, the present value of the minimum lease payments.
When charging depreciation, the shorter of the lease term and the leased asset's useful life has to be selected as the basis of the depreciation, except when it is sufficiently certain that the lessee will obtain ownership by the end of the lease term.
The Company accounts for the financing charges, interests payable by the end of the term with the effective interest method, using the interest rate implicit in the lease.
The Company may only have lease payables but no lease receivables.

The Company treats sale and leaseback transactions in line with the leases. A sale and leaseback transaction includes the selling of a given asset and its leaseback for financing reasons. The lease payment and the selling price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease (operating or finance) involved. If the leaseback is a finance lease, any excess of sales proceeds over the carrying amount shall not be immediately recognised as income by a seller-lessee. Instead, it shall be deferred and amortised over the lease term. The reason for the amortisation is that in the case of a finance leaseback, the lessor provides finance to the lessee, thus it is not appropriate to treat the excess of sales proceeds over the carrying amount as income.

If the fair value is lower than the asset's carrying amount, no loss equalling the difference between the carrying amount and the fair value can be charged. While losses from loss-making sales have to be charged immediately in one amount in the case of an operating lease, the loss cannot be recognised in a finance lease. But it has to be reviewed whether there was an impairment, in which case the carrying amount has to be reduced to the recoverable amount in line with *IAS 36*.

3.25. Distribution of dividends

Dividends distributable to the shareholders of the Company are recognised in the financial statements as liabilities in the period when the owners approved the dividend. Distributable dividend is accounted for as a direct fall in equity.

3.26. Government grants

Government grants are booked at fair value if it is reasonably certain that the Company receives the grant since it will satisfy the pertaining conditions.
Based on the income approach, the Company accounts for grants as income in the periods when the pertaining expenses arose, according to the principle of matching. The only exception is if the grant is based on subsequent accounting i.e. the goal of the grant is to compensate for the expenses and losses incurred, or immediate future financial support given without any related costs. The Company will account for these grants as income when they become receivable.
The Company recognises government grants related to the acquisition of an asset as deferred income and charges the grants to the profit or loss in equal portions over the useful life of the asset.
A government grant that becomes repayable shall be accounted for as a revision to an accounting estimate.

3.27. Comparative information

Data for the base and the subject years were measured in the consolidated financial statements with the same method except for the reclassifications in the base data which are explained in Note 39. In order for the Company's IFRS consolidated financial statements to comply with *IAS 1*, they always include a comparative period.
The Company uses the term "comparative period" for the subject period of the financial statements prepared for the business year preceding the business year related to the given financial statements.
These comparisons have to be disclosed in sufficient detail so that the users of the financial statements would be able to interpret the modifications affecting the balance sheet and the income statement.

3.28. Segment reporting

In line with the provisions of *IFRS 8 Operating segments,* the Company presents its separate operating segments in its consolidated financial statements. The purpose of presenting the operating segments is to provide sufficient information for the users of the financial statements for the better understanding of the Company's past performance, for the surveying of the risks and recovery related to the Company's operation, and in order to provide as much detailed information as possible for business decisions if the Company performs several business activities.
The Company as a public company limited by shares whose issued shares or debt securities are traded publicly on the Budapest Stock Exchange shall present the financial data of its operating segments.
An operating segment means those separable components within the Company which engage in distinct business activities from which the Company is able to earn revenues while simultaneously it also incurs expenses. It is also a condition that the performance of the operating segments should be continually evaluated by the leading decision-makers based on the available information and they should satisfy the following quantitative thresholds:

- Its sales revenue is 10 per cent or more of the combined revenue of all operating segments.
- Its operating profit or loss is 10 per cent or more of the combined profit or loss of all operating segments.
- Its assets are 10 per cent or more of the combined assets of all operating segments.

For its 2016 IFRS consolidated financial statements, the Company reviewed its compliance with *IFRS 8 Operating segments* and its obligation regarding the presentation of the segments. During the review of the definition of operating segments, it was established that the Company has one identifiable segment i.e. Energy, while based on the requirements of IFRS 8, particularly, the management approaches to segments and the criteria for the presentation of operating segments, the Company will not identify as a segment the area defined in the year before the current year as Property Management, which means the property utilisation activity related to investment properties.

The breakdown of the data of the consolidated financial statements by segment is in Note 38.

4. MATERIAL/CRITICAL ACCOUNTING ASSUMPTIONS AND ESTIMATES DURING THE APPLICATION OF THE ACCOUNTING POLICY

According to the requirements of the IFRS, the preparation of the Company's IFRS consolidated financial statements requires the application of estimates and assumptions which will affect the amounts included in the consolidated financial statements. The Company continually evaluates estimates and judgments based on past experience and other factors such as expectations related to future events considered as reasonable under the given circumstances.
The Company applies the requirements of *IAS 8 Accounting policies, changes in accounting estimates and errors* and *IAS 10 Events after the balance sheet date* appropriately to the material errors of former periods, the modification of accounting estimates and the treatment of events after the balance sheet date.

4.1. Events after the balance sheet date

In respect of the events between the balance sheet date and the date of the financial statements' approval, the Company reviews whether the event in question confirms the circumstances that prevailed on the balance sheet date and if yes, the financial statements have to be modified. If the event implies circumstances that arose after the balance sheet date, only a disclosure is necessary but only in material cases.

4.2. Material error

During the preparation of the consolidated financial statements, an error may arise from the mathematical errors made when applying the accounting policy, the ignorance of facts or incorrect interpretation. As a major principle, the Company believes that if it is possible and not impracticable technically, material errors from former periods have to be corrected retrospectively in the first financial statements or annual report after the detection of the error which were approved for disclosure. Impracticable for the Company means that it cannot be applied even if the Company does everything reasonably expected of it for the purposes of application.
The Company defines a material error as follows: the omissions or misstatements of items are material if separately or aggregately they are able to affect the users' decisions made based on the financial statements. Materiality depends on the judgment of the extent and nature of omissions or misstatements under the given circumstances. In the case of the judgement, the extent and nature of the given item or a combination of the two are the decisive factors, as a general principle, the Company defines errors exceeding 1 percent of the balance sheet total of the IFRS consolidated balance sheet as material.

4.3. Critical accounting estimates and assumptions

During the application of the IFRS accounting policy, the Company applied certain estimates and assumptions. Although the resultant accounting estimates are based on the Company's best knowledge of the current events, by definition, they rarely show the final results, the actual figures may deviate from them. Estimates and assumptions that may significantly modify the balance sheet value of assets and liabilities will be presented in the following financial year, as shown below. These assumptions are explained in detail in the related notes but the most important ones apply to the following:

- Tax allowances in the future or the realisation of a future profit that forms an appropriate tax base against which the deferred tax assets can be applied;
- The outcome of certain contingent liabilities;
- Determination of the fair value of financial instruments;
- Determination of the useful life of tangible assets;
- Determination of the impairment of tangible assets and goodwill;
- Determination of the value of provisions.

The methodology of accounting estimates may change, the change of accounting estimates is defined by the Company as the case when the carrying amount of an asset or liability or the amount of the asset's periodic use has to be modified. Accounting estimates are changed based on the evaluation of the assets' and liabilities' current situation and the assessment of the expected related future benefits and obligations. The changes in accounting estimates are caused by new information or new developments, thus, accordingly, these will not qualify as an error correction.

5. Sales revenues

5.1. *Breakdown of sales revenues by core activity*

	2016 THUF	2015 THUF
Energy	4,056,470	2,185,903
Property management *	472,599	540,461
Total	**4,529,069**	**2,726,364**

*Defined as the Asset Management segment in the base period, it is not an independent segment in the current period (see chapter 38 Segments).

5.2. *Breakdown of sales revenues by geographical location*

	2016 THUF	2015 THUF
Domestic sales revenues	4,527,490	2,722,379
Sales revenues within the EU	1,579	3,985
Sales revenues outside the EU	-	-
Total	**4,529,069**	**2,726,364**

5.3. *Breakdown of sales revenues by activity or service*

	2016 THUF	2015 THUF
Heat sales	3,632,526	2,110,301
Electricity sales	449,898	30,079
Mediated services recharged	419,572	579,040
Product sales (casing, other)	15,345	-
Rent for buildings and tangible assets	11,727	6,944
Total	**4,529,069**	**2,726,364**

5.4. Breakdown of non-current assets related to sales revenues by geographical segment

	2016 THUF	2015 THUF
Assets used in domestic production	21,603,647	21,778,841
Assets used in production within the EU	-	-
Assets used in production outside the EU	-	-
Total	**21,603,647**	**21,778,841**

5.5. Information on major customers in connection with sales revenues

The Company has three customers from whom minimum 10% of the Company's total sales revenues comes:

	2016	Compared to total 2016 sales revenues	2015	Compared to total 2015 sales revenues
Total sales revenues from significant customers	**3,492,824**	**77.12%**	**1,963,995**	**72.04%**
Sales revenues	**4,529,069**	**100.00%**	**2,289,891**	**100.00%**

6. ADMINISTRATIVE AND GENERAL COSTS (INDIRECT COSTS)

	2016 THUF	2015 THUF
Indirect personnel-type costs	170,844	127,476
Office and operating costs	148,114	257,420
Expert fees, bookkeeping, audit fees	138,948	99,745
Public and stock exchange costs and costs related to social responsibility	132,237	31,545
Indirect depreciation (property, plant and equipment)	40,389	617,041
Bank charges	23,876	28,439
Other fees payable to authorities, duties	18,688	5,307
Insurance premia	10,644	13,027
Total	**683,740**	**1,180,000**

Compared to the previous year, the PannErgy Group decreased costs in several areas of indirect operating costs, while in some areas there was a rise. When making a comparison with the previous year, it is important to note that an indirect depreciation of THUF 617,041 was accounted for as a one-off item in 2015 in respect of one of the Company's tender projects, and having eliminated the one-off effect of this, indirect costs rose by 21% compared to the THUF 562,959 of the previous year.

If we analyse the reasons for this, the largest cost increase is under indirect personnel-type expenses, totalling THUF 43,342, which is a 34% rise compared to the previous period. There was a significant staff cut at the PannErgy Group in the current period, the average statistical number of staff fell from 40 to 33 persons. The positive effects of this measure showed up in the second half of 2016, indirect personnel-type costs totalled THUF 69,637 after THUF 101,181 in the first half of 2016. The actual number of staff at the end of the current period was 21 at the PannErgy Group, which means 16 people less compared to the total number of 37 as of the end of the previous year. The significant decrease is in line with the fact that after an intensive investment period, the Company reduced the number of its staff in the current period in order to enable the efficient management of the already operating projects. The processes which are positive from the perspective of cost cutting were not fully reflected in the current year in the consolidated financial statements when compared to the base period. The reason for this primarily is that in the base period, a significant portion of personnel-type expenses was allocated to and capitalisable on projects in connection with the project works that were in progress, while in the subject period, for lack of new projects, it appeared as an indirect personnel-type expense in full. For the summary of salary-type payments see Note 7.

In addition to personnel-type expenses, expert and consultant fees rose significantly i.e. by 39% compared to the same period of the previous year. This growth was caused by the arising of legal, financial consultant and expert costs which are closely related to the preparation of the transactions in the refinancing of the Győr project and the sales of company shares in the current period (primarily the purchase of the ONP Holdings SE share). In the current period, one-off expert costs arose in respect of the two significant transactions in an amount of THUF 32,983.

The biggest change arose under office and operating costs where during the rationalisation of operating costs the Company managed to cut costs by 42%. Out of these, the most significant is the cost saving achieved during the renegotiation of the lease contract of the office building being the registered office and the significant decrease of the costs of vehicles rented by the Company.

The Company’s public and stock exchange costs and the costs related to its activities derived from social responsibility rose compared to the base period because the PannErgy Group continues to consider it important from the perspective of social responsibility to support the sports life of the cities and their environs which serve as the sites of the operating projects or other social initiatives, thus to support the end users of geothermal energy, and the extent of this support may increase with the rise of business intensity.

7. NUMBER OF STAFF AND WAGE COSTS

	2016	2015
Average statistical number of staff	33	40
Wage costs (THUF)	119,678	285,391
Other personnel-type payments (THUF)	14,730	32,118
Wage costs (THUF)	36,436	82,991
Total	**170,844**	**400,500**

The average number of staff was 33 at the PannErgy Group in 2016 which shows an 18% decline compared to the average statistical number of staff in 2015 (40 persons). The reason for the decrease is that the Company, focusing on the operation of the existing projects, decreased the number of staff significantly in the subject period. On 31 December 2016, the actual number of staff at the PannErgy Group was 21, the difference between the average statistical number of staff and the actual number of staff is derived from part-time employment among the individual member firms.

In 2016, the PannErgy Group paid voluntary pension fund contributions of THUF 1,271 after 11 employees, while the same item totalled THUF 1,694 in the consolidated financial statements for 2015 in relation to 13 employees. The amounts paid into the voluntary pension funds are determined by the employees through the standard fringe benefits system that is available for all employees of the PannErgy Group, bearing in mind the limitations defined by the Group.

8. Other expenses

	2016 THUF	2015 THUF
Extraordinary scrapping, impairment of property, plant and equipment and intangible assets	238,437	1,113,983
Local taxes, duties, fines	163,886	160,600
Expenses related to completed project (impairment write-off, recultivation)	89,568	-
Fines, penalties, default interest and damages paid	12,602	90,853
Subsidisation of spectacular team sports recognised as tax allowance under the Act on Corporate and Dividend Tax	5,000	62,015
Impairment and deficit in inventories	2,656	-
Costs related to damages	2,517	4,214
Subsidies granted to offset costs	1,350	15,927
Duties, contributions	114	48
Other	45,514	53,781
Total	**561,644**	**1,501,421**

Within other expenses of THUF 561,644 it can be noted that the Company accounted for extraordinary impairment, write-off of THUF 238,437 as a one-off item in the subject period in connection with intangible assets and property, plant and equipment related to geothermal heat generation, utilisation. Additionally, an expense of THUF 89,568 arose in connection with the closure and write-off of the Gödöllő Geothermal Project which includes all the costs of the whole recultivation process. It is also defined by the Company as a one-off item.

In the environment of its operating projects, the PannErgy Group subsidised spectacular team sports associations within the framework of social responsibility in an amount of THUF 5,000. Based on the legal regulations, at the individual PannErgy companies this subsidy counts as a recognised cost that arose in the interest of the business and it can be taken into account as tax allowance in the case of the individual corporate taxes calculated from the profit decreased this way.

9. Other income

	2016 THUF	2015 THUF
Subsidy received for development purposes	412,377	587,528
Forgiven lump sum of collection costs, default interest	126,098	-
Profit from the sales of property, plant and equipment	36,865	1,737,756
Fines, compensation received	15,575	15,275
Income related to loss events	8,580	2,740
Use of provision	-	1,462
Subsequent discounts received	5,000	-
Other	58,230	27,446
Total	**662,725**	**2,372,207**

Within other income of THUF 662,725, the value of subsidies received is the highest. It fell by 30% compared to the previous period.

The amount related to lump sums of collection cost and default interest represents a significant extent. In line with the changes in legal regulations in the subject year, the Company accounted for other revenues of THUF 126,098 by reversing lump sum of collection costs and default interest liabilities charged as other expenses, as required by the legal regulations in the former years.

The Company realised a profit of THUF 36,865 on the sales of property, plant and equipment. In the future, these would not be related to geothermal heat generation and utilisation, which represent the core activity, thus they do not affect the future operation of the activity of the Energy segment. Other types of income in the current year were mainly derived from subsequent settlements related to geothermal projects implemented in the previous year.

10. Income from financial operations

	2016 THUF	2015 THUF
FX gains on FX loans, borrowings	90,872	131,346
Reversal related to a share option program	12,583	-
FX gains related to receivables	10,811	61,592
Profit from derivative transactions	10,549	-
FX gains related to liabilities	4,611	33,461
Interest and interest-type income	2,522	6,311
Exchange rate gain on the sale of ownership stakes	2,484	-
FX gains of negotiable securities	2,274	710
FX gains related to FX accounts	288	3,922
Other financial income	450	1,772
Total	**137,443**	**239,114**

The income from financial transactions included a financial income of THUF 12,583 from the difference between the evaluation of the Company's share option program from the previous year and the actual financial expenses of the current year derived from the fulfilment of the program.
The exchange rate gain of THUF 10,549 on derivative transactions was generated on forward FX transactions which were concluded by the Company in line with the PannErgy Group's trade payables that arose in foreign exchanges (but not as a cash flow hedge transaction).
The FX gain of negotiable securities of THUF 2.274 was realised on a portfolio of money market instrument nature, which was recognised during the year under negotiable securities; the achieved FX gain reflects the "low risk – low return" investment principle.

11. EXPENSES ON FINANCIAL TRANSACTIONS

	2016 THUF	2015 THUF
Interest and interest-type expenses	414,715	208,366
Share option program expense	56,236	39,339
FX loss on FX loans, borrowings	31,513	25,912
FX loss related to receivables	30,565	28,859
FX loss related to liabilities	11,833	87,811
FX loss related to FX accounts	3,012	4,480
Loss on derivative transactions	644	-
Exchange rate loss on the sale of ownership stakes	218	-
Other financial expenses	-	747
Total	**548,736**	**395,514**

The significant growth in interest paid and interest-type expenses was related to the financing of the Győr Geothermal Project which was financed by Magyar Export-Import Bank Zrt. (Eximbank) in the first half of 2016, and then by CIB Bank Zrt. in the second half of 2016, after the refinancing that ensured significantly more advantageous interest rate conditions. It shows the positive effect of refinancing well, that while in the first half of 2016, the Company had interest paid and interest-type expenses of THUF 273,120, the value of such expenses fell significantly in the second half of 2016, it totalled THUF 141,595. Within interest paid and interest-type expenses, THUF 7,305 was related to interest swap transactions where the PannErgy Group swapped its floating rate loans for fixed interests in the accounting periods of the current year.
In the subject year, the Company charged financial expenses of THUF 56,236 in connection with the Management Share Option Program of 2016-2019.
The exchange rate loss of THUF 644 on derivative transactions was generated on forward FX transactions which were concluded by the Company in line with the PannErgy Group's trade payables that arose in foreign exchanges (but not as a cash flow hedge transaction).

12. Other information related to financial transactions

	2016	2015
HUF/EUR exchange rate as of 31 December of the previous year	313.32	314.89
HUF/EUR exchange rate as of 31 December of the subject year	311.02	313.32
HUF/EUR exchange rate difference	-2.30	-1.57

The profit realised on year-end FX revaluations was THUF 96,046 which was mainly related to euro-based project loans.

13. Intangible assets

Gross value

Data in THUF

	Goodwill	Know-how	Rights and concessions	Purchased software	Total
1 January 2015	-	1,289,352	334,822	44,108	1,668,282
Purchase	-	-	208	14,395	14,603
Sales	-	-	-	-	-
Impairment, scrapping	-	310,021	-	-	310,021
Reclassification	-	-132,300	131,069	25,940	24,709
31 December 2015	-	847,031	466,099	84,443	1,397,573
Purchase	343,075	-	-	898	343,973
Sales	-	-	-	-	-
Impairment, scrapping	-	-167,951	-223	-403	-168,577
Reclassification	-343,075	304,392	-304,392	-49,518	-392,593
31 December 2016	-	983,472	161,484	35,420	1,180,376

Accumulated depreciation

	Goodwill	Know-how	Rights and concessions	Purchased software	Total
1 January 2015	-	157,550	91,601	44,108	293,259
Increase	-	23,609	104,419	5,338	133,366
Sales	-	-	-	-	-
Impairment, scrapping		115,464	-	-	115,464
Reclassification	-	-	1	-43,986	-43,985
31 December 2015	-	65,695	196,021	5,460	267,176
Increase	-	74,301	2,142	1,605	78,048
Sales	-	-	-	-	-
Impairment, scrapping	-	-	-	-	-
Reclassification	-	62,437	-134,984	15,212	-57,335
31 December 2016	-	202,433	63,179	22,277	287,889
Net value					
1 January 2016	-	781,336	270,078	78,983	1,130,397
31 December 2016		781,039	98,305	13,143	892,487

For the purposes of standard accounting treatment at group level, there were reclassifications under certain intangible assets in the subject year between the various categories of intangible assets (know-how, rights and concessions, purchased software) after individual evaluations.

The Group included a significant development item in intangible assets, it is related to the geothermal explorations. It is justified to include this intangible asset of high value in the annual report since specific future benefits attributable to the given asset can be connected to them. The future cash flows derived from the utilisation of the developments included in the balance sheet can be quantified based on the year-end calculations prepared with the best estimate of the Group’s management. After discounting, these cash flows were compared to the book values and based on this, impairment of THUF 155,926 was accounted for in the subject period.

14. PROPERTY, PLANT AND EQUIPMENT

Gross value

Data in THUF

	Properties *	Machinery and vehicles	Project	Total
1 January 2015	8,632,598	6,344,304	2,176,941	17,153,843
Purchase	-	-	8,883,979	8,883,979
Capitalisation	7,728,636	1,769,671	-9,498,307	-
Sales	-572,461	-1,665,528	-1,518,334	-2,756,323
Reclassification, scrapping, impairment	-113	-49,115	-154,831	-1,004,059
31 December 2015	15,788,660	6,399,332	89,448	22,277,440
Purchase	-	-	966,091	966,091
Capitalisation	78,678	897,087	-975,765	-
Sales	37,405	65,525	-	102,930
Reclassification, scrapping, impairment	312,125	22,499	-49,985	284,639
31 December 2016	16,142,058	7,253,393	29,789	23,425,240

Accumulated depreciation

	Properties *	Machinery and vehicles	Project	Total
1 January 2015	310,363	1,468,413	-	1,778,776
Increase	191,549	916,156	-	1,107,705
Sales	-29,715	-1,211,831	-	-1,241,546
Reclassification, scrapping, impairment	-	-15,939	-	15,939
31 December 2015	472,197	1,156,799	-	1,628,996
Increase	463,412	654,951	-	1,118,363
Sales	-306	-18,778	-	-19,084
Reclassification, scrapping, impairment	-3,901	-10,294		-14,195
31 December 2016	931,402	1,782,676	-	2,714,080
Net value 1 January 2016	15,316,463	5,242,533	89,448	20,648,444
Net value 31 December 2016	15,210,656	5,470,717	29,789	20,711,160

* The above Properties category includes the values of Investment properties which is included in a separate row in the balance sheet.

A minority holding of THUF 156,925 was derecognised in connection with the 4.61% PEGE share purchased from ONP Holdings SE for THUF 500,000; and a goodwill of THUF 343,075 was distributed to the property, plant and equipment of the Miskolc, Győr and Szentlőrinc projects pertaining to the PEGE business lines.

Certain properties and machinery serve as collateral for the outstanding investment loans. In relation to this, the following important right limitations, pledges are valid for property, plant and equipment on 31 December 2016:

PannErgy company	Financier	Amount of collateral charged to tangible assets	Tangible assets as collaterals
Kuala Kft.	Sberbank Magyarország Zrt.	THUF 1,336,805	Limited security lien on assets (for all properties and movables)
Miskolci Geotermia Zrt.	Sberbank Magyarország Zrt.	THUF 2,258,889	Limited security lien on assets (for all properties and movables)
Arrabona Geotermia Kft.	CIB Bank Zrt.	EUR 27,402,334	Joint limited security lien on assets (for all properties and movables)
DD Energy Kft.			
Szentlőrinc Geotermia Zrt.	Széchenyi Kereskedelmi Bank Zrt.	THUF 540,000	Limited security lien on assets (for all properties and movables)
Berekfürdő Energia Kft.	Unicredit Leasing Hungary Zrt.	EUR 617,502	Pledge on the assets of the geothermal project

No tangible assets have been revalued in the subject period.

14.1. Year-end evaluation of tangible assets with a high value

Due to the special nature of geothermal projects, the PannErgy Group has assets of high value in several of its subsidiaries (production and injection wells, properties, heat centers, network systems, other assets). The cash-generating capability of these can only be interpreted in light of all the tangible assets related to the given project due to the nature of the project. To support this, the individual projects are organised into separate economic entities, a given group of assets is only used on one specific market.
On 31 December 2016, the impairment test was performed at all PannErgy member firms where the majority of the assets of the companies are tangible assets used in or directly related to production, regardless of any indication of impairment. The PannErgy Group interpreted it as a sign of impairment

that losses were generated in the previous years and the subject year, which might be the sign of the fact that the economic performance of the assets is weaker than the level required upon the installation. Due to the special nature of the geothermal activity, instead of market comparison, cost-based evaluation and the residual goodwill method, income-generating capability based measurement was applied at the year-end measurement and impairment testing of assets of high value. During the method, the PannErgy Group's future benefits that may derive from the ownership of assets of high value were quantified and the present value of these quantified benefits as future cash flows was estimated. The income-generating capability was defined as an advantage i.e. the present value of the cash flows indicated based on the detailed model relevant for the following years was calculated. The value calculated this way during the impairment test was compared as the recoverable amount to the aggregate book value of tangible and intangible assets as of 31 December 2016.

The model used for the calculation of the recoverable amount contains the following:
- the estimated planned extent of the future cash flows from the assets for the individual companies defined as cash-generating units,
- the amounts and timely performance of these future cash flows,
- the time value of money,
- other factors that are based on industrial features.

Based on the performed impairment tests and in line with the requirements of *IAS 36*, the assets of the Group are recorded at a value not exceeding their recoverable amount i.e. their book value exceeds the amount recoverable through the use or sale of the asset, no impairment was accounted for.

15. INVESTMENTS

	2016 THUF	2015 THUF
Geo-Wendung Zrt.	250,000	250,000
Pannunion Service GmbH.	22,935	22,935
Total	**272,935**	**272,935**

PannErgy Group recognises the book value of unconsolidated companies acquired as investments in rows "Permanent investments" and "Investments available for sale". There were two such shares in the subject period. Investments available for sale include a 40% direct (24% indirect share) share in Geo-Wendung Zrt. worth THUF 250,000. PannErgy Group qualified this investment as an investment available for sale based on the fact that 40% of CSRG Energia Zrt., the subsidiary holding Geo-Wendung Zrt. shares was sold in the subject period. CSRG Energia Zrt.'s only asset element is the share package of Geo-Wendung Zrt., thus the investment is sold partially indirectly, this is the reason for the rating of the investment as available for sale.

Permanent investments include the Pannunion Service GmbH investment of THUF 22,935. PannErgy Group's share in this company is 91%. PannErgy Nyrt. does not consolidate Pannunion Service GmbH because of the cost-benefit principle, and it would not make a material impact on the consolidated financial statements.

16. LONG-TERM RECEIVABLES

	2016 THUF	2015 THUF
Other receivables	14,929	19,071

As of 31 December 2016, the PannErgy Group had long-term receivables of THUF 14,929 in the consolidated financial statements. It is related to the property sales of PannErgy Nyrt. performed in 2015, during which they agreed with the customer in a long-term payment schedule (more than 1 year) for one portion of the sales price.

17. RECEIVABLES FROM LEASE TRANSACTIONS

In the subject period and in the base period, the PannErgy Group did not have any lease receivables.

18. INVENTORIES

	2016 THUF	2015 THUF
Materials	3,710	-
Work in progress and semi-finished goods	-	-
Finished products	-	-
Goods	144,669	312,113
Impairment of inventories	-	-
Total	**148,379**	**312,113**

A large portion of the inventories recognised in the 2016 and 2015 consolidated financial statements is composed of goods which are goods used during the implementation of the geothermal projects (e.g. casings), and the Company also has sustenance materials as of the balance sheet date of the consolidated financial statements. The charging of impairment is not justified due to the usability of inventories based on a technical evaluation. Based on this, no impairment was accounted for in the subject period.

19. TRADE RECEIVABLES

	2016 THUF	2015 THUF
Trade receivables	1,671,245	1,028,907
Impairment allocated for and reversal of doubtful receivables	-	-
Total	**1,671,245**	**1,028,907**

The member firms of the PannErgy Group sell their products to a concentrated, small number of customers, generally based on a long-term contractual background. Based on the stable nature of customer relations, impairment of trade receivables is not typical at the PannErgy Group, thus no impairment was allocated for doubtful receivables in 2016.
Trade receivables do not bear interests and generally have 30-day terms.

The increase in trade receivables which significantly exceeded the base period was mainly caused by the current monthly trade receivables generated by the Győr Geothermal Project and outstanding towards Győr-Szol Győri Hőszolgáltató Zrt. and Audi Hungaria Motor Kft. (from 1 January 2017: Audi Hungaria Zrt.). These did not show up in the base period to this extent.

20. OTHER RECEIVABLES

	2016 THUF	2015 THUF
Other tax receivables	188,877	240,899
Items of the next period	99,354	553,957
Advance payments	71,226	21,126
Other loans granted	21,143	470,000
Receivables related to derivative transactions	519	-
Receivables from employees	64	256
Security deposit	-	2,951
Security deposit because of litigations	-	22,701
Other	-	10,486
Total	**381,183**	**1,322,376**

Out of the amount of the items of the following period, THUF 5,107 is related to the sales revenue, THUF 94,247 to costs. As for the details of other tax receivables, VAT receivables were the most significant totalling THUF 157,246, while business tax receivables amounted to THUF 26,863. Other advances given are related to projects.

21. SECURITIES (AVAILABLE-FOR-SALE FINANCIAL ASSETS)

	2016 THUF	2015 THUF
Securities held to maturity	20	500,737

The value of securities significantly decreased compared to the previous year in the consolidated financial statements. The reason for this is that after the completion of the Győr project, the PannErgy Group placed THUF 500,000 at an investment fund in 2015, in line with its cash flow plans and investment policy. These securities were sold in the subject period according to the Company's strategic plans and cash flow processes.
The Company held stock exchange securities measured at fair value as of 31 December 2016.

22. SUBSCRIBED CAPITAL

	2016 THUF	2015 THUF
Subscribed capital	421,093	421,093

On 31 December 2015, the subscribed capital totalled THUF 421,093, which did not change in 2016, either. The subscribed capital was recognised in the financial statements according to the full issuance, while the number of shares was presented without the repurchased treasury shares.
The subscribed capital consists of 21,054,655 voting shares with a nominal value of HUF 20 each. Out of these, 3,228,438 shares were held by the Company and its consolidated member firms as of 31 December 2016, which represents a 16.3% growth compared to the previous period.
The Budapest Stock Exchange Ltd. modified the data of the product list as of 21 November 2007 in respect of Pannonplast Műanyagipari Nyrt.'s ordinary shares with the ISIN code HU0000073440:

ISIN number	Old data: HU0000073440	New data: HU0000089867
Nominal value of the security:	HUF 100	HUF 20
Number of listed securities (shares)	4,210,931	21,054,655

With an effect of 12 October 2007, the Court of Registration registered the resolutions of the general meeting held on 31 August 2007 on the stock-split procedure in respect of the nominal value of the shares issued by the Company which does not affect the extent of the subscribed capital. The last stock exchange trading day of the shares with a nominal value of HUF 100 was 20 November 2007.

23. Repurchased treasury shares

	2016	2015
Repurchased treasury shares (pc.)	3,228,438	2,775,377
Nominal value (THUF)	64,569	55,508
Cost (THUF)	3,101,545	3,009,223

On 31 December 2016, the Company had 3,228,438 PannErgy Nyrt. treasury shares which exceeds the number of shares as of 31 December 2015 by 453,061 shares. Within this change, treasury shares rose by 588,061, while treasury shares fell by 135,000. The fall in treasury shares by 135,000 in the current period was related to the management share option program.

The rise in treasury shares was in line with the general assembly’s resolution No. 19/2016 (IV. 28.) passed on 28 April 2016, according to which PannErgy Nyrt. launched a treasury share repurchase program from May 2016. The first month of the program was May 2016, and the last one is April 2017. Within the framework of the program, PannErgy Nyrt. buys PannErgy shares through the Budapest Stock Exchange each month in an amount of minimum HUF 20 million, maximum HUF 300 million, with the limiting requirement that during the scheduled share repurchase program, the purchase price of the shares cannot exceed HUF 500 by share. On 2 September 2016, PannErgy Nyrt. informed the players of the capital market that as part of the treasury share repurchase program disclosed and presented in detail on 22 July 2016, the Company aimed at buying 3,000 ordinary shares per trading day, and decreased this figure to 2,300 shares from 2 September 2016.

As for treasury share transactions, public disclosures provide more information.

24. Reserves

Reserves are as follows in PannErgy Group’s consolidated financial statements:

	2016 THUF	2015 THUF
Capital reserve	10,515,993	10,515,993
Retained earnings	1,967,453	1,928,622
Other reserves	-946,652	-850,716
Total	**11,536,794**	**11,593,899**

The capital reserve can be connected to two past events: the subscribed capital decrease performed when the company was transformed into a company limited by shares and the FX gains derived from share issuance. The amount recorded as capital reserve did not change between 2015 and 2016.
The amount under profit reserve contains PannErgy Group’s accumulated profit from the previous years less the dividend paid to the owners. The approval of dividend distribution was not proposed in 2015 and 2016.

In other reserves the Company recognises the exchange rate differences derived from the consolidation of foreign subsidiaries sold in 2011 and the exchange rate losses derived from the sale of treasury shares. The aggregate amount of the reserve for repurchased treasury shares and general reserves is indicated in a separate row of PannErgy Group's consolidated balance sheet. The methods of accounting and presentation are in line with the requirements of *IAS 32 Financial instruments: presentation* and *IAS 33 Earnings per share.*

The "Repurchased treasury shares" column in the consolidated statement of changes in equity shows the carrying amount, cost of the current treasury shares and their movements, while the amount in the "Treasury shares sold" row of the "Reserves" column includes the exchange rate difference pertaining to the sale (as accounted for compared to the book value). No profit/loss arises in the case of a treasury share purchase, thus no value is indicated in reserves within equity.

25. MINORITY INTEREST

	2016 THUF	2015 THUF
Balance as of 1 January	247,609	292,352
Minority shareholding in newly formed subsidiary	-	-
Current year profit or loss of subsidiaries attributable to minority shareholders (subsidiary, external)	-7,530	-44,437
Decrease/increase in minority shareholding due to the sales/purchase of subsidiary shares	-56,707	-306
Balance as of 31 December	**183,372**	**247,609**

25.1. PEGE share purchased from ONP Holdings SE

On 9 November 2009, PannErgy Nyrt. (PannErgy) and ONP Holdings SE (ONP) signed a syndicated contract, and in line with the provisions of this contract, the capital of PannErgy Geotermikus Erőművek Zrt. ("PEGE") was increased in several phases. As a result of the capital increase that took place in several phases, the share of ONP Holdings SE in PEGE reached 6.91%.

In the current period, ONP Holdings SE contacted the Company with the intention to sell its ownership share in PEGE on 19 May 2016, the offering price in the sales proposal was HUF 750 million. The Board of PannErgy Nyrt. convened an extraordinary general assembly in connection with the approval of the sales proposal. As for the asset value represented by PEGE, KPMG Tanácsadó Kft. prepared a detailed evaluation. This evaluation defined a total enterprise value (EV) between HUF 22,201 million and HUF 28,191 million. With the evaluation of the PEGE business lines, the Company's Board recommended for the general assembly to deduct the following from the total enterprise value's price range:

- a PEGE Group-level loan portfolio of net HUF 7.996 billion, in connection with bank loans;
- a loan portfolio of HUF 7.570 billion that PEGE Group owes to PannErgy Nyrt.;
- a value correction of HUF 0.250 billion because of the 90% and 99.2% PEGE share of the Miskolc business line and the Szentlőrinc business line, respectively (as opposed to the 100% that was taken into account).

Based on the above, the purchase price value (capitalisation) of the PEGE business lines was between HUF 6.4 and HUF 12.4 billion (projected onto PEGE's 100% share). PEGE's purchase price value (capitalisation) projected onto 6.91% was between HUF 441.1 and 855 million based on the above.
According to general assembly resolution No. 3/2016 (VII. 19.) of the Company's extraordinary general assembly, PannErgy Nyrt. could purchase the 6.91% PEGE share held by ONP Holdings SE with the condition that the purchase price can fall into the range between HUF 441.1 million and HUF 855 million. After the resolution of the general assembly, negotiations were held between the Company and ONP Holdings SE and the parties concluded a share sales contract on 2 August 2016, according to which ONP Holdings SE's 6.91% share in PEGE would be purchased by PannErgy Nyrt. for a total purchase price of HUF 750 million. The transaction was fulfilled in two stages, in the first one two thirds of the share was purchased by 3 August 2016 besides the financial settlement of a purchase price of HUF 500 million, while the second part will be due by 30 April 2017.
The syndicated contract of the parties was terminated with the payment of the first instalment. As a result of the transaction, PannErgy Nyrt.'s share in PEGE rose to 97.7% on 31 December 2016.

After the closure of the transaction on 30 April 2017, PannErgy Nyrt.'s share in PEGE will rise to 100%.

25.2. Other movements in the subject year affecting minority holdings

In October 2015, with an investment of THUF 250,000, CSRG Energia Zrt. acquired a 40% share in Geo-Wendung Zrt. that is committed to the utilisation of the Miskolc geothermal secondary heat. CSRG Energia Zrt. participated in the capitalisation of Geo-Wendung Zrt. as a professional investor parallel to increasing the capital of a domestic venture capital fund. Since there is no control or direction, the PannErgy Group does not consolidate the share acquired in Geo-Wendung Zrt.

Based on the sales contract concluded in March 2016, the Company sold 40% of its share in CSRG Energia Zrt. for a purchase price of THUF 100,000 to an investor group as the buyer, which is committed to the utilisation of secondary heat energy. The purchase price of THUF 100,000 is in line with the share's carrying amount. In connection with the transaction, the Company's minority share included in its consolidated financial statements rose by THUF 100,218.
Based on the aforementioned sales contract, the buyer undertook to acquire the 60% share remaining in CSRG Energia Zrt. with the payment of a purchase price of THUF 150,000 by 31 December 2016. Since it did not fulfill this undertaking, PannErgy Geotermikus Erőművek Zrt. will take the necessary steps to close the transaction as soon as possible.

In 2016, the minority share in the profit/loss of the subsidiaries was THUF -7,530.

26. LONG-TERM LIABILITIES

	2016 THUF	2015 THUF
Long-term loans, borrowings, leases	**9,813,680**	**9,926,483**
- EUR-based loan secured with collateral	*6,864,247*	*8,086,686*
- HUF-based loan secured with collateral	*2,872,678*	*1,708,326*

- Finance lease payables	*65,555*	*109,071*
- HUF-based loan not covered with collateral	*11,200*	*22,400*
- Short-term portion reclassified into short-term loans	-955,415	-783,895
Total long-term loans, leases	**8,858,265**	**9,142,588**

The fall in long-term loans is the effect of the repayment of loans in the subject year.

26.1. Weighted average interest rate of long-term loans

The basis of the interest rate for EUR loans is the 3-month EURIBOR at all the affected project companies, regardless of the financing financial institution. In light of this and the contractual interest surcharge, the weighted average interest rate of EUR-based loans secured by collateral was 2.49% as of 31 December 2016 as opposed to the 6.23% in 2015. It reflects the positive impact of the refinancing in the current year. The weighted average interest rate of HUF-based loans secured by collateral was 2.93% in 2015 and 3.06% in 2015. This fall was due to the change of the interest rate environment in favour of the Company. The weighted average interest rate of HUF-based loans not secured by collateral did not change compared to the previous year, it is still 3.00%. The weighted average interest rate of finance lease payables was 6.91% on 31 December 2016.

26.2. Maturity dates of long-term loans

Out of the THUF 8,858,265 under long-term liabilities, THUF 4,803,566 expires between 1-5 years, while THUF 4,054,699 will expire after more than 5 years.

26.3. Lease payables included in long-term loans

2016

Description	**EUR**	**THUF**	**Maturity**	**Book value in THUF**
Production machinery	210,775.60	65,555	04.01.2021	129,901

2015

Description	**EUR**	**THUF**	**Maturity**	**Book value in THUF**
Vehicles	66,140	20,710	03.12.2018	60,799
Production machinery	210,967	66,058	04.01.2021	144,461

26.4. Other long-term, deferred income

	2016 THUF	**2015 THUF**
Other long-term, deferred income	4,845,698	5,109,710
Short-term portion of long-term revenues	-280,771	-238,300
Total other long-term, deferred income	**4,564,927**	**4,871,410**

In connection with the Company's energy projects, other long-term deferred income includes the long-term portion of non-refundable subsidies won for the projects through tenders, while the short-term portion is included in current liabilities. The latter is charged to other income in the income statement as a result of the reversal of the assets affected by the tender which was commensurate with the amortisation.

Long-term deferred income includes the long-term portion of the non-refundable subsidies won for the geothermal projects through a tender at the level of the PannErgy Group, while in the individual balance sheets they are under deferrals carried forward. The short-term portion is under current liabilities.

26.5. Data of subsidies related to deferred income

Data in million HUF

Member firm	Project ID	Accountable project cost	Subsidy received	Subsidy drawn down	Subsidy – deferred income (liability)
Szentlőrinc Geotermia Zrt.	KEOP-4.2.0/B-09-2009-0026	883	442	427	373
Berekfürdő Energia Kft.	KEOP 4.4.0/A/09-2009-0009	250	125	125	78
DoverDrill Mélyfúró Kft.	GOP-1.3.1-11/A-2011-0192	232	104	104	76
Miskolci Geotermia Zrt.	KEOP 4.7.0-2010-0001	632	316	314	281
Miskolci Geotermia Zrt.	KEOP 4.2.0/B-11-2011-0007	2,856	1,000	1,000	876
Miskolci Geotermia Zrt.	GOP-1.2.1/B-12-2012-0005	323	162	148	102
Kuala Kft.	KEOP 4.7.0/11-2011-0003	619	309	309	289
Kuala Kft.	KEOP-4.10.0/B-12-2013-0012	2,836	1,000	1,000	901
DD Energy Kft.	KEOP-4.10/B-12-2013-0010	3,997	1,000	1,000	939
Arrabona Geotermia Kft.	KEOP-4.10/B-12-2013-0011	3,509	1,000	992	931
PannErgy Geotermikus Erőművek Zrt.	PIAC_13-1-2013-0006	889	442	442	-
Total subsidies in the balance sheet on 31 December 2016:					**4,846**

The nature of all the above projects is project implementation, while the project goal is geothermal energy utilisation in the case of the KEOP tenders, and asset acquisition or system development in the case of GOP tenders. The subsidy received in connection with the PIAC_13 tender was fully accounted for as a revenue in connection with the sale of the know-how developed in relation to the subsidy and the depreciation of the assets acquired by the closing of the project in connection with the development. As of 31 December 2016, the PannErgy Group had no liabilities in connection with subsidy advances received.

27. Short-term loans

	2016 THUF	2015 THUF
Short-term bank loans	-	-
Short-term portion of long-term loans	955,415	783,895
Overdraft facilities	-	-
Other short-term loans	142,377	857
Total	**1,097,792**	**784,752**

Short-term loans include a liability related to a lease contract for a group of property, plant and equipment, where the short-term portion is as follows:

Description	EUR	THUF	Maturity
Production machinery	46,305	14,402	04.01.2021

27.1. Short-term portion of other long-term, deferred income

	2016 THUF	2015 THUF
Short-term portion of other long-term, deferred income	280,771	238,300
Total	**280,771**	**238,300**

The portion of the subsidies won for the geothermal projects through tenders, which should be used within a year. It is recognised under other income in the income statement, in proportion to the amortisation of intangible assets and property, plant and equipment affected by the tender directly.

28. Provisions

	2016 THUF	2015 THUF
Opening balance as of 1 January	13,745	15,207
Provisioning	56,236	-
Release of provisions	-13,745	-1,462
Closing balance as of 31 December	56,236	13,745

PannErgy Group allocated the provision existing as of 1 January 2016 to cover liabilities expected to arise from litigations, and it was released in 2016 with the closure of the litigation. The provision allocation in the current period is related to the evaluation of the management share option program of 2017-2019.

In its consolidated balance sheet for the subject year and the previous year, PannErgy Group did not include any provisions for environmental or recultivation-type obligations.

The Company does not allocate a coverage for costs related to staff cuts, the pension of the employees and it does not have such a liability in addition to the contributions paid into the state pension fund.

29. OTHER CURRENT LIABILITIES

	2016 THUF	2015 THUF
Tax and contribution liabilities	189,764	254,961
Items of the next period	120,681	240,114
Wages and social contribution	7,887	1,516
Liability related to derivative transactions	5,063	-
Lump sum of collection cost, required default interest	-	126,993
Liability related to printed shares	-	4,419
Other	14,633	54,846
Total other current liabilities	**338,028**	**682,849**

The items of the following period representing the most significant value include interest liabilities of THUF 27,941, income of THUF 77,299, while THUF 15,441 is derived from the expenses related to the next period. VAT payment liabilities totalling THUF 165,061 and the mine annuity payment obligation of project companies generating geothermal heat totalling THUF 21,907 are the most significant items in tax and contribution liabilities.

30. TAXATION, INCOME TAX

30.1. Income tax for the subject year

	2016 THUF	2015 THUF
Tax liability for the current year	15,554	93,621
Impact of deferred taxes	12,178	89,176
Total	**27,732**	**182,797**

The group-level corporate tax payment liability of the subject year was defined based on the taxable profit of the individual companies established based on the Hungarian rules. The applied corporate tax rate was 10% in both 2016 and 2015 for all member firms of the PannErgy Group. They did not reach the tax base necessary for the application of the 19% corporate tax rate.

In line with its accounting policy, the Company does not recognise the local business tax payable to municipalities and the innovation contribution that is built on its local business tax base under income taxes but under other expenses.

30.2. Deferred tax assets

During the measurement of deferred tax assets and liabilities, the deferred tax asset recognised under assets is defined as follows:

	2016 THUF	2015 THUF
Return due to deferred losses	210,191	176,014
Difference between accounting and tax depreciation	-	190
Depreciation difference of property, plant and equipment derived from consolidation	214,827	255,511
Provisioning	-	3,173
Deferred tax assets	425,018	434,888
Deferred tax liabilities	-38,808	36,500
Deferred tax to be accounted for (net)	**386,210**	**398,388**
Deferred tax accounted for in previous year	398,388	524,064
Accounted/reversal of deferred tax	-12,178	-89,176
Deferred tax assets on 31 December	**386,210**	**434,888**

The deferred tax asset of THUF 386,210 recognised under non-current assets includes the 9% corporate tax implication based on the tax range required from 1 January 2017 in the changes to the legal regulation, in respect of the unused tax losses of the subsidiaries of the PannErgy Group and the IFRS deferred tax modifying items. The deferred tax asset calculation is based on the checked deferred tax recovery of the subsidiaries in question, which represents a deferred tax asset of THUF 425,018. It is further decreased by the deferred tax liability related to the development reserves by THUF 38,808. Since these arise towards the same tax authority, they are netted in line with the IFRS requirements, thus the consolidated financial statements include a deferred tax asset of THUF 386,210. In the year preceding the subject year, the amount of the deferred tax liability of THUF 36,500 was indicated as a separate balance sheet item, there was no aggregation.

30.3. Calculation of effective income tax

The difference between the expected income tax calculated as a product of the separate pre-tax profits/losses included in the income statements of the companies of the PannErgy Group and the valid income tax rates applicable to the Companies and the actual corporate income tax recognised in the income statement is explained as follows:

	2016 THUF	2015 THUF
Pre-tax profit/loss (separate companies)	**-283,292**	**600,974**
Tax calculated based on the valid tax rates (10%),	18,437	155,613
Impact of different tax rates (profit minimum tax)	7,178	8,781
Impact of tax rate change		
Tax effect of non-deductible expenses	23,538	34,815
Tax-free revenues	-	-
Tax allowances	-16,294	-44,319
Deferred tax asset allocated in the subject year for a formerly unrecognised tax loss	-17,305	-61,583
Write-off of a deferred tax asset formerly allocated for tax losses	12,178	89,176
Negative corporate tax base in the subject year for which no deferred tax asset was allocated	-	-
Change in unrecognised temporary differences	-	-
Tax effect of the modifications of previous years	-	314
Income tax (according to the income statement)	**27,732**	**182,797**

31. EARNINGS PER SHARE

	2016	2015
After-tax profit (THUF)	-150,999	78,171
Weighted average of issued shares less the number of treasury shares during the year (number of shares)	17,826,217	18,277,278
Earnings/loss per share (HUF)	**-8.47**	**4.28**
Diluted earnings/loss per share (HUF)	**-8.47**	**4.28**

There is no difference between the profit/loss per share and the diluted profit/loss per share because the diluted number of shares tallies with the basic number of shares, it did not have to be expanded because of options, management options and convertible bonds.

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows as of 31 December 2016 at the PannErgy Group:

	2016 THUF	2015 THUF
Bank account and cash at hand	263,230	172,945
Separated, blocked cash	473,270	588,798
Fixed deposits	-	358,882
Overdraft facility	-	-
Cash and cash equivalents	**736,500**	**1,120,625**

Separated, blocked cash represent amounts held on current accounts at financial institutions where the precondition for use is the consent of the funding financial institution.

33. FINANCIAL INSTRUMENTS

PannErgy Group's financial instruments by category:

	2016 THUF	2015 THUF
Financial assets	**2,378,811**	**3,172,310**
Available-for-sale (AFS) financial assets	***272,955***	***773,672***
Investments available for sale	250,000	250,000
Permanent investments	22,935	22,935
Securities	20	500,737
Loans and receivables (LAR)	***2,092,062***	***2,379,567***
Loans given	21,143	470,000
Trade receivables	1,671,245	1,028,907
Other short-term receivables	399,674	880,660
Held-to-maturity (HTM) financial assets	***14,929***	***19,071***
Long-term financial receivables	14,929	19,071
Financial instruments at fair value through profit or loss (FVTPL)	**519**	**-**
Derivative transactions	519	-
Financial liabilities	**11,464,552**	**12,363,773**
Other financial liabilities	***11,459,489***	***12,363,773***
Trade payables	1,170,467	1,696,361
Long-term loans	8,858,265	9,142,588
Short-term loans	1,097,792	784,752
Other financial liabilities	332,965	740,072

Financial liabilities at fair value through profit or loss (FVTPL)	***5,063***	**-**
Derivative transactions – liabilities	5,063	-

The Company primarily includes purchased debt securities and shares in other companies in available-for-sale financial assets. Available-for-sale financial assets include shares of 50% or less, or shares not consolidated for other reasons. Out of the investments available for sale, the most significant is PannErgy Group's 40% share acquired in Geo-Wendung Zrt. for THUF 250,000.

Loans and receivables include purchased and debt securities along with trade receivables depending on their nature, and loans given. The Company carries loans under current assets. In its IFRS consolidated financial statements, the Company initially presents the value of loans and receivables at fair value, then at amortised cost, with the effective interest method.

Non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Company has the positive intention and ability to hold to maturity, are carried as held-to-maturity (HTM) financial instruments. The receivables from the purchase price arrears related to the property sales in 2015 are included in held-to-maturity financial instruments. It will mean long-term scheduled payments for the Company, the receivables will have a “held-to-maturity” status.

Receivables related to forward or swap transactions are recognised as financial assets at fair value through profit or loss, while liabilities related to similar transactions are carried as financial liabilities at fair value through profit or loss.

All other financial liabilities not carried at fair value through profit or loss are recorded under other financial liabilities; these are typically trade payables, loans and borrowings, other current liabilities. Initially, trade payables are recognised at fair value, while later they are measured at amortised cost defined with the effective interest method.

34. SHARE-BASED PAYMENTS

With the general assembly’s resolution No. 17/2016 (IV. 28.), the Company closed its share option program for the years 2013-2016 and it had expenses of THUF 29,203 in connection with this, THUF 26,756 was related to financial redemption and THUF 2,447 was the exchange rate difference on redemption with shares in the second half of 2016.
The annual general meeting held on 28 April 2016 approved a new management share option program for 2016-2019. Its full details beyond those below are available on the Company’s website.

Major terms and conditions of the share option program:
The entitled persons can receive conditional call options for 900,000 shares from the Company when the relevant option contracts are concluded. The options are American-type options and can be exercised by 30 April 2019. The options will open at several stages when certain stock exchange share prices are achieved:
The option price equals the average stock exchange price of the 60 trading days preceding the opening of the option (1 May 2016) weighted with turnover i.e. HUF 349 per share.

- If the stock exchange price exceeds the fixed option price of HUF 349 per share by 15% in the period of the option program i.e. it reaches an exchange rate of HUF 402, the call option will open for 300,000 shares.
- If the stock exchange price exceeds the fixed option price of HUF 349 per share by 30% in the period of the option program i.e. it reaches an exchange rate of HUF 454, the call option will open for additional 300,000 shares i.e. for 600,000 shares in total.
- If the stock exchange price exceeds the fixed option price of HUF 349 per share by 45% in the indicated period i.e. it reaches an exchange rate of HUF 506, the call option will open for additional 300,000 shares which will mean 900,000 shares, the total quantity of the share option program.

Evaluation of the share option program:

When defining the fair value of the share option program, all the three opening stages were taken into account. According to the market conditions taken into account during the evaluation, having applied the Black-Scholes formula (closing share price as of 31 December 2016: HUF 448 per share, volatility (12 months): 22.3%, risk-free interest rate: 2.0%), the fair value of the options totals THUF 56,236 in respect of the 900,000 shares that fulfill the market condition for the option provision.

35. Off balance sheet liabilities and commitments

35.1. Contractual and project liabilities

The amount of the implemented projects totalled THUF 1,318,839 in 2016 and THUF 8,898,582 in the year preceding the subject year. The overwhelming majority of the projects in the subject year was related to the capacity expansion of the Győr Geothermal Project.

On 31 December 2016, the Company only has a contractual project commitment based on the concession contract signed for the territory of Győr, in an amount of THUF 812,000. The Minister of National Development as the minister responsible for mining issued an open tender in respect of Hungary's specified closed areas for the research, exploitation and utilisation of geothermal energy within the framework of a concession contract, based on Act CXVI of 2011 on National Assets, Act XVI of 1991 on Concession and Act XLVIII of 1993 on Mining. The winner of the concession tender issued for the area of Győr was PannErgy Geotermikus Erőművek Zrt., a subsidiary of PannErgy Nyrt. In line with the above, PannErgy Geotermikus Erőművek Zrt. signed a concession contract with the State of Hungary for a specified term of 35 years (which can be prolonged by 17 and a half years once) for the research, exploitation and utilisation of geothermal energy in the area of Győr. PannErgy Geotermikus Erőművek Zrt. and the concession company to be established later will examine the area's geothermal endowments 2,500 meters below the surface within the limits of the rights obtained through the concession contract, and later will define the project opportunities.

35.2. Commitments related to asset management transactions

In these asset management transactions (sales of shares and other assets), the Company undertakes reasonable guarantees to ensure the economic content of the transaction. According to its best knowledge, the management of the Company does not believe that as a result of the guarantees undertaken any significant fulfilment liabilities would arise.

35.3. Other contingent liabilities

35.3.1. Limitation of rights to and pledging of assets in connection with financial institution funding

Various types of collaterals (pledge, guarantee) were provided for the financing financial institutions in connection with the external funding contract concluded by the member firms of the PannErgy Group, in amounts of THUF 2,872,678 and EUR 22,281 thousand. The outstanding principal of the funding contracts decreases continually due to the instalments paid in the meantime, thus the amount of the related contingent commitments is below the presented contractual values.

35.3.2. Contingent commitments related to tenders

Based on Government Decree No. 358/2014 (XII. 29.) and the related legal regulations, in the case of the subsidies received from the European Regional Development Fund, the European Social Fund and the Cohesion Fund, from 1 January 2015, a beneficiary is not obliged to provide collaterals if it has at least one closed full business year and is included in the database of taxpayers without outstanding public debts. Based on this, apart from one exception, PannErgy Group will be exempt from the provision of such collaterals. PannErgy Geotermikus Erőművek Zrt. established a guarantee for a tender in an amount of THUF 442,000 in connection with the tender subsidy for the PIAC_13 market-oriented research and development activity.

35.3.3. Other contingent commitments (joint and several guarantees)

PannErgy Geotermikus Erőművek Zrt. has a joint and several guarantee in connection with the Miskolc Geothermal Project towards one of the heat receiving customers for commitments derived from potential future loss events, up to HUF 100 million in the case of Miskolci Geotermia Zrt. and without any value limit for Kuala Kft.

PannErgy Geotermikus Erőművek Zrt. assumed a joint and several guarantee towards the customer in connection with the sale of the injection well in 2015 and the sale of the contractual rights of the injection service for the payment of the expected revenues of the injection service and the reimbursement of missed revenues if the quantity of the injection service does not reach the quantities assumed in the contract during the ordinary course of business.

35.3.4. Operating leases

The following table shows the amount of the aggregate lease liability payable as a minimum in the future based on the non-cancellable operating leases by maturity:

	2016 THUF	**2015 THUF**
Within 1 year	18,616	4,428
Over 1 year but within 5 years	53,441	77,129
Over 5 years	-	-
Total	72,057	81,556

The fall in operating lease payables is related to the sales of other equipment, machinery and vehicles affected by operating lease financing in the subject year.

36. MANAGEMENT OF FINANCIAL RISK

36.1. Factors of financial risks

Through its activities, PannErgy Group is exposed to the following financial risks: market risk including exchange rate risk, price risk, fair value interest risk, cash flow interest risk, lending risk and liquidity risk.

36.2. Market risk

36.2.1. Exchange rate risk

The Company pursues activities in foreign currencies. It has contractual customers for whom it issues invoices in EUR based on the relevant agreements. On the side of equity and liabilities, it also has EUR-based liabilities. These are basically EUR-based long-term project loans used for the implementation of the geothermal projects. Additionally, billing and invoicing is based on the euro with several of the Company’s foreign and domestic suppliers. These assets and liabilities affected by foreign currencies have inherent risks derived from the changes of FX rates including that of the euro. PannErgy Group tries to decrease such risk to the greatest extent possible so that the aforementioned EUR-based revenues could cover the loan liabilities arising in EUR as much as possible.
The Company concluded several FX forward transactions in 2016 with which it secured the exchange rate loss risk generated at the financial settlement of future trade payables arising in foreign currencies. These transactions were not cash flow hedges, the profits and losses generated on these transactions in the subject year were recognised in the consolidated financial statements under financial income or financial expenses. The information related to the evaluation of unclosed transactions existing as of the balance sheet date of the consolidated financial statements is included under other receivables and other current liabilities.

Taking into account PannErgy Group’s FX receivables and liabilities and assuming a 10% increase/decrease in the exchange rate of the Hungarian forint that serves as the functional currency valid on 31 December 2016, we summarised the increasing/decreasing impact of these on the profit or loss in the following table:

Description	EUR		USD	
	2016	**2015**	**2016**	**2015**
Impact on the profit or loss in THUF	764,081	841,009	-	-

Breakdown of EUR-based items (effect in THUF):

	2016 10% exchange rate change		2015 10% exchange rate change	
	EUR	Impact on profit/loss	EUR	Impact on profit/loss
Long-term receivables	-	-	-	-
Short-term receivables	1,359,709	42,290	139,543	4,369
Trade payables	926,354	28,811	708,231	25,724
Other liabilities	-	-	-	-
FX loan portfolio	22,280,888	692,980	26,176,993	819,654
Total		**764,081**		**841,009**

36.2.2. Price risk

The Company does not bear any price risks in connection with stock exchange commodities or financial instruments. Although in terms of its nature it is a regulatory risk, it is relevant here that at the companies generating and selling geothermal heat in the PannErgy Group, the sales price of a dominant portion of the heat energy sold is subject to establishment by the authorities, and it is regularly and annually reviewed and even modified by the competent price establishing organisation, the Hungarian Energy and Public Utility Regulatory Authority (HEA). Through the future sales prices it may influence the profitability of the PannErgy Group.

36.2.3. Cash flow and fair value interest risk

The interest risk of the PannErgy Group is primarily derived from long-term project loans. Due to loans with variable interest rates, the Company is exposed to a cash flow interest risk which is only partially offset by financial assets with variable interest rates. Due to the loans with fixed interest rates, the Company is exposed to fair value interest risks.
The Company's long-term FX loan portfolio as of the end of 2016 totalled THUF 6,929,802 while HUF loans amounted to THUF 2,872,678. As opposed to this, FX loans totalled THUF 7,594,147 and HUF loans THUF 1,548,441 at the end of 2015. The interest rates of the FX loans are typically based on the 3-month EURIBOR, while the interest rates of HUF loans include 3-month BUBOR-based loans and loans drawn within the framework of the Funding for Growth Scheme of the National Bank of Hungary with a 2.5% interest rate.

PannErgy Group analyses its interest risk exposure dynamically. During the course of this, it continually simulates various financial models in light of the possibility of refinancing, the renewal of existing positions and alternative funds. The Company calculates the impact of the defined interest rate movements on the profit/loss based on these scenarios. In the individual models, the Company takes into account identical interest rate movements in respect of each currency. The models will be developed for liabilities representing the major interest-bearing positions.

In order to decrease interest rate risks, in respect of the project loans of the Győr Geothermal Project totalling nearly HUF 7 billion, the Company swapped the interest bases of its floating rate loans with 3-month EURIBOR and 3-month BUBOR for fixed interest rates for the whole remaining term of the loans (approximately 7 years) through interest rate swaps (IRS), utilising the currently extremely favourable interest rate environment.
The interest rates fixed a result of the transactions will not change even if market rates increase in the future, thus they do not bear such risk. The average weighted fixed credit interest rate of the Győr Geothermal Project is 2.55% now. 80% of the loans are in EUR, while the remaining portion of the loans was denominated in HUF in order to mitigate PannErgy's group-level FX exposure. The profit or loss of the interest rate swaps will be presented under income from financial transactions or expenses on financial transactions in the subject period.

Having reviewed the Company's interest rate sensitivity, the 1% growth in interest rates would make a surplus-like impact of THUF 98,025 at the end of 2016, as opposed to the extra cost-type impact of THUF 99,273 at the end of 2015 on the Group's profit or loss, assuming that the capital does not change compared to the reporting date of the current period and the base period. In the case of a 1% decrease in interest rates, the impact is just the reverse.

36.3. Lending risk

Lending risk is the risk of financial loss derived from the situation when the Company's customer does not fulfill any of its contractual obligations. It primarily means the risk derived from the potential default of customers. It should be noted that the Company sells its products to a small number of clients which represents low diversification.
Lending risk is managed at group level. The task of the member firms of PannErgy Group is to manage and analyse the lending risk that arises in connection with their new clients prior to offering the payment and delivery conditions that are in line with the ordinary course of business.
At PannErgy Group, lending risk is derived from lending exposures to customers, derived from cash and cash equivalents, deposits made at financial institutions and sales in the Energy and Asset Management segments, including outstanding receivables and the transactions for which the company assumed a commitment. In the case of financial institutions, only partners rated as “A” by independent credit rating agencies can be accepted.
When rating customers, the Company does not involve an independent credit rating agency directly, the customer's creditworthiness and credit line are determined by the Finance and Treasury team of PannErgy Group in light of the customer's financial situation, financial data, past experiences and other factors. The Company regularly monitors the usage of the credit lines. Customers always pay for their purchases by bank transfer. There were no overdrafts during the reporting period and according to the management, no loss is expected from non-performance by these parties.

Trade debtors (receivables) are evaluated at year-end and measures are taken in the case of each customer separately. Trade receivables broken down by maturity are as follows:

data in THUF

	Total	Within deadline	Within 1-90 days	Within 91-180 days	Within 181-360 days	Beyond 360 days
PannErgy Group	1,671,245	1,651,647	19,598	-	-	-
Total	**1,671,245**	**1,651,647**	**19,598**	**-**		**-**

“Due within the deadline” means trade receivables whose payment deadline indicated on the invoice or in the payment agreement has not expired yet as of the balance sheet date. In the case of items beyond the deadline, the category of “within 1-90 days” includes receivables that already expired and are due between 1-90 days and the same principle applies to the next ageing categories. The deadline means the payment deadline indicated on the invoice in each case, it will be compared to the reporting date and the individual customer or liability will be put into the maturity category that is in line with the number of days equalling the difference.

The cash of the PannErgy Group as of 31.12.2016 was as follows in respect of lending risk broken down by maturity:

31.12.2016 Data in THUF

Conditions	**Weighted average interest rate**	**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 yrs**	**Total**
Non interest-bearing or sight	-	736,500	-	-	-	-	736,500
Variable interest	-	-	-	-	-	-	-
Fixed interest	-	-	-	-	-	-	-
Total		**736,500**	**-**	**-**	**-**	**-**	**736,500**

31.12.2015 Data in THUF

Conditions	**Weighted average interest rate**	**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 yrs**	**Total**
Non interest-bearing or sight	-	761,836	-	-	-	-	761,836
Variable interest	1%	278,789	-	-	-	-	278,789
Fixed interest	1%	80,000	-	-	-	-	80,000
Total		**1,120,625**	**-**	**-**	**-**	**-**	**1,120,625**

36.4. Liquidity risk

Liquidity risk is the risk that the Company cannot perform its financial liabilities on the due dates. The goal of liquidity management is to ensure sufficient resources for the settlement of liabilities when they become due. The Company's approach to liquidity management is to provide sufficient liquidity for the fulfilment of its obligations on the due dates under both normal and tensed circumstances without incurring unacceptable losses or risking the reputation of the Company. Appropriate liquidity is ensured by adjusting the term of the funds to the project's life cycle. Cash flows are forecasted by the Finance and Treasury team of PannErgy Group and in addition to this, they monitor the rolling forecasts for the fulfilment of the Group's liquidity requirements in order to ensure the appropriate cash necessary for the operation, while they always maintain sufficient space for movement in respect of the non-drawn credit lines so that the Company would not be in overdraft or could fulfill the debt service ratios undertaken towards financial institutions. These cash flow forecasts that are built on the financial settlement of trade payables, loan repayment and the planning of contractual and other revenues take into account the financial plans of PannErgy Group, compliance with the indicators recorded in the contract and the external regulatory or legal requirements.

Breakdown of financial liabilities by due dates:

31.12.2016 Data in THUF

	Value	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 3-5 years	Over 5 years
Non-derivative financial liability						
Loans	9,956,057	721,360	366,433	999,458	3,804,108	4,054,699
Trade creditors	1,170,467	930,167	735	25,475	214,090	-
Other financial liabilities	332,965	332,965	-	-	-	-
Derivative financial liabilities						
Forward transactions	5,063	5,063	-	-	-	-

The above table shows the amortised cost of the Group's financial liabilities according to their potential earliest maturity.
In addition to trade payables, other current liabilities are included in the cash flow forecasts with maturities that are in line with their nature: taxes and contributions, liabilities related to income accounting are settled within 30 days, while other types of liabilities are settled financially on the dates included in the underlying contract or documentation but within 1 year at the latest.

36.5. Capital management

The Company's goal with the changing of the capital structure is to maintain its continuous operability in order to provide benefits for its shareholders and other groups of interest and to maintain an optimal capital structure in order to decrease the cost of capital. The Company makes a decision on the amount of the dividend distributed to shareholders or any capital repayment to the owners in the interest of maintaining or adjusting the capital structure, and it can make a decision on the issuance of new shares or the sales of assets also in connection with the capital structure. The management confirms that the Company complies with the relevant regulatory capital requirements. During the evaluation of this, the Company monitors the requirements of Act V of 2013 on the Civil Code. The following table shows the equity along with its ratio to the subscribed capital. The equity is positive and exceeds the subscribed capital significantly in both the subject period and in the previous year.

	2016 THUF	**2015 THUF**
Subscribed capital	421,093	421,093
Total shareholders' equity	8,888,715	9,331,549
Equity/Subscribed capital	**21.11**	**22.16**

36.6. Offsetting financial assets and financial liabilities

In the case of financial assets and liabilities subject to a mandatory offsetting agreement or any similar agreement, the agreements concluded by and between the Company and another party enable the offsetting of the given financial assets and liabilities only when both parties choose net accounting. No such agreement and decision was concluded or made at PannErgy Group, and for lack of this, the accounting for financial assets and liabilities is based on gross amounts.

36.7. Regulatory risk

As for the general regulatory risk types, it should be noted that the sales price of a dominant portion of the thermal energy sold by certain project companies involved in heat generation and heat sales is subject to establishment by the authorities, and it is regularly reviewed and even modified by the competent price establishing organisation, which limits the Company's profitability. Thus, there is a significant uncertainty in respect of the future sales prices.

36.8. Regulatory risk

The extraction of geothermal energy bears unforeseeable risks as a result of the unpredictable availability of the geothermal energy resources and the tolerance of the equipment managing these resources towards the non-ordinary operating environment.

37. Shares

37.1. The Company's consolidated subsidiaries

The Company's consolidated subsidiaries and the relevant shareholdings are as follows:

	Ordinary share (MHUF)	Ownership share (%)	Voting power (%)	Degree of consolidation
PMM Zrt.	100.00	100.00	100.00	100.00
Kuala Kft.	3.00	90.00	90.00	87.93
PannErgy Geotermikus Erőművek Zrt.	1,972.70	97.70	97.70	97.70
CSRG Energia Zrt. (formerly: Csurgói Geotermia Zrt.)	7.50	60.00	60.00	58.62
TT Geotermia Zrt.	5.00	100.00	100.00	97.70
Szentlőrinc Geotermia Zrt.	5.00	99.80	99.80	97.50
Miskolci Geotermia Zrt.	5.00	90.00	90.00	87.93
Berekfürdő Energia Kft.	24.10	100.00	100.00	97.70
DoverDrill Mélyfúró Kft.	86.00	100.00	100.00	97.70
DD Energy Kft.	3.10	100.00	100.00	97.70
Arrabona Geotermia Kft.	3.10	100.00	100.00	97.70

The ratio of ownership rights and voting rights show the ratio of the direct ownership and voting rights of PannErgy Nyrt. and PannErgy Geotermikus Erőművek Zrt. in the subsidiaries. The difference between the ratio of consolidation and the ownership ratio is derived in light of the minority shares (2.3%) in PannErgy Geotermikus Erőművek Zrt., the ratio of consolidation shows the indirect ownership ratio.

37.2. Movements in the subject year affecting investments and shares

In October 2015, CSRG Energia Zrt. acquired a 40% share worth THUF 250,000 in Geo-Wendung Zrt. that is committed to the utilisation of secondary heat. CSRG Energia Zrt. participates in the capitalisation of Geo-Wendung Zrt. as a professional investor parallel to increasing the capital of a domestic venture capital fund. Since there is no control or direction, the PannErgy Group does not consolidate the share acquired in Geo-Wendung Zrt.

In May 2016, the PannErgy Group sold its 100% share in PannTerm Kft. for a purchase price of THUF 1,000. A profit of THUF 2,484 was generated on the transaction. Also in the subject period, based on the sales contract concluded in March 2016, PannErgy Geotermikus Erőművek Zrt. sold 40% of its share in CSRG Energia Zrt. for a purchase price of THUF 100,000 which is in line with the share's carrying amount. Based on the aforementioned sales contract, the investor group committed to the utilisation of secondary thermal energy as the buyer undertook to acquire the 60% share remaining in CSRG Energia Zrt. with the payment of a purchase price of THUF 150,000 by 31 December 2016. Since they did not fulfill this undertaking, PannErgy Geotermikus Erőművek Zrt. will take the necessary steps to close the transaction as soon as possible.

38. SEGMENT REPORTING

38.1. Definition of segments, their review in the current year

In line with the IFRS, the Company has to present operating segments. Based on this, in the year prior to the current year, the PannErgy Group presented two operating segments in its consolidated financial statements: the Energy and the Asset Management segments. The Energy operating segment includes the Company's core activity i.e. geothermal heat generation and sales and the related projects and other activities. In the year preceding the current year, the PannErgy Group, as the legal successor of Pannonplast Nyrt., defined the utilisation of the industrial facilities and the pertaining office buildings located in the 21st district of Budapest (Csepel) and in Debrecen and formerly used for plastic manufacturing by Pannonplast Nyrt. as the Asset Management operating segment. This property utilisation primarily meant the recharging of electricity and other public utility fees and, to a lesser extent, the collection of office rents, along with the costs of the management and governance of the group as a financial holding and stock exchange issuer.

For its 2016 IFRS consolidated financial statements, the Company reviewed again its compliance with *IFRS 8 Operating segments* and its obligation regarding the presentation of the segments. The review was supported by an external professional consultant. **During the review of the definition of operating segments, it was established that the PannErgy Group has one identifiable segment i.e. Energy, while based on the requirements of IFRS 8, particularly, the management approaches to segments and the criteria for the presentation of operating segments, the Company will not identify as a segment the area defined in the year before the current year as Property Management.**
It is in line with the supplementary information included in the Company's financial statements for the previous year, according to which in addition to the Energy segment, the asset management activity specified as a segment in the former financial statements did not form a fully independent component even then, rather it could be considered as an integrated supplementary function.

38.2. Presentation of operating segments, laying the foundation for the review

The principle of *IFRS 8 Operating segments* is that entities shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. [IFRS8.1] The standard shall apply to a parent company's consolidated financial statements and to the separate or individual financial statements of an entity whose debt or equity instruments are traded in a public market [IFRS8.2]. Consequently, PannErgy Nyrt. shall present operating segments.

Presentation of operating segments in practice through the following five steps:

- Identification of the chief operating decision-makers;
- Identification of operating segments;
- Aggregation of operating segments;
- Definition of presentable segments;
- Disclosure of segment information.

During the review of the segment definition, the PannErgy Group examined the potential operating segments through the above five steps. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and

expenses relating to transactions with other components of the same entity); whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance based on various criteria.
Based on the Company’s consolidated financial statements it can be established that the Energy operating segment is clearly identifiable at the PannErgy Group. The Company’s management approach in respect of the PannErgy Group’s operation is that, in line with investor expectations, it should focus on the efficient operation of the Energy segment with all of its resources. The utilisation of the properties owned by the Company forms an insignificant part of its operations from all aspects, based on the management approach, it cannot be considered as an operating segment.

38.3. Examination of the threshold related to the review of segments

The segment presented as the Asset Management operating segment in the year preceding the current year is not a central element of the PannErgy Group’s strategy development, the evaluation of the performance of the aforementioned property utilisation is negligible in the work of the Company’s operative management and chief bodies. The information on the utilisation of the properties is not highlighted in the related internal controlling reporting system since these transactions have permanent revenues (recharged public utility fees and rents) and costs (public utility fees), the majority of the activity is composed of “transit items”.
Based on the PannErgy Group’s management approach and the criteria for the presentation of operating segments, only one operating segment can be identified at the Company i.e. the Energy segment, thus, the review of the criteria for presentable segments is not relevant but nevertheless, the Company reviewed the fulfilment of these thresholds.

As for its sales revenues, the ones related to the utilisation of the properties located in the 21st district of Budapest (Csepel) and in Debrecen totalled THUF 472,599 in 2016, which represents a 10.43% ratio compared to the PannErgy Group’s sales revenue for the subject year. Since a significant portion of this sales revenue is a transit item i.e. it is related to the recharging of the public utility fees (primarily electricity) related to the properties. The profit content of the recharging of the public utility fees related to property utilisation, which made up THUF 27,474 in the business year, provides a more precise picture of the ratio (i.e. 0.61%) of property utilisation within the PannErgy Group’s sales revenues. The revenues from rents totalled THUF 7,885 in connection with the property utilisation activity, which represents only 0.17% of the PannErgy Group’s sales revenues in the current year.
Based on the above it can be established that the Company does not reach the quantitative thresholds defined in IFRS 8 for segments, due to the future expansion of the Energy segment, it can be declared that it will not reach them in the future, either.

In summary of the above, only one operating segment can be identified at the Company (Energy) as opposed to the two segments identified in the year preceding the subject year. Consequently, the Company has to comply with the disclosure requirements of the entity as a whole. The Company meets these requirements by presenting the information in points 5.1-5.5 and 38.3 of the consolidated financial statements on its products and services, geographical areas and major customers.
In the case of the Company it means that the data of the Energy segment for the current year and the base year are identical with the financial information relevant for the entity as a whole and these have been appropriately presented in these consolidated financial statements.

39. EXPLANATION OF RECLASSIFICATIONS COMPARED TO THE ACCOUNTS FOR THE BASE PERIOD

PannErgy Group included all of its properties under property, plant and equipment in its 2015 consolidated financial statements. From 1 January 2016, the Company carries the properties (land, buildings, structures) it owns, which were acquired in the period related to the plastic manufacturing core activity that preceded PannErgy's group-level strategic profile switch and which are located and registered at the sites in Csepel and Debrecen, as investment properties under assets since the Company utilises these properties not related – neither directly, nor indirectly – to PannErgy Group's core activity, geothermal heat generation and sales, for rental to others. Based on the existing current contractual background, it is probable that the future economic benefits related to the investment properties will flow to the Company and that the cost of the investment properties can be measured reliably.

Effects of the reclassification in the base period in connection with the reclassification in the current year:

	2015 Original data THUF	2015 Modified data THUF
Balance Sheet		
Property, plant and equipment	20,648,444	20,354,391
Investment properties	-	294,053
Total modification/data breakdown	**20,648,444**	**20,648,444**

40. TRANSACTIONS WITH RELATED PARTIES

In the case of all the consolidated subsidiaries of PannErgy Nyrt. (see Note 37.1), the effect of intra-group settlements and transactions was eliminated during the consolidation.

40.1. Transactions with the members of the Company's management

The management of the Group has an ownership relation with a company that provides continuous business advisory-type services to PannErgy Nyrt. and the 2016 value of these services was THUF 34,339.

40.2. Transactions with related parties

In the case of transactions concluded with the following related but non-consolidated parties, the following items showed up in the consolidated financial statements in 2016:

Elimination of income statement items:	**2016 THUF**	**2015 THUF**
Sale to related but unconsolidated party	-	-
Acquisition from related but unconsolidated party	47,926	56,017
- *Of which: from related but unconsolidated subsidiary*	*13,587*	*31,083*
- *Of which: from companies in ownership relationship with the Group's management*	*34,339*	*24,934*
Receivables from related but unconsolidated party	-	-
Liabilities to related but unconsolidated party	35,387	37,438
- *Of which: to related but unconsolidated subsidiary*	*30,348*	*34,770*
- *Of which: to companies in ownership relationship with the Group's management*	*5,039*	*2,668*

The items of the above table connected to related but unconsolidated subsidiaries are connected to Pannunion Service GmbH, the German subsidiary of PannErgy Group from whom the PannErgy Group received various services in the specified period.

40.3. Loans to related parties

PannErgy Group did not give any loans to related parties in 2016 and 2015, neither to management, nor to non-consolidated related parties.

40.4. Development of intra-group, consolidated/eliminated turnover and portfolios

Elimination of income statement items:	**2016 THUF**	**2015 THUF**
Sales revenues	1,697,654	9,837,891
Direct cost of sales	1,563,698	9,048,609
Indirect cost of sales	116,161	158,359
Other income	694,475	1,533,539
Other expenses	709,954	2,303,603
Financial profit/loss	-	21,679

Elimination of balance sheet items:	**2016 THUF**	**2015 THUF**
Property, plant and equipment	2,362,378	1,001,107
Inventories	-	230
Items of the following period under other receivables	1,363,292	1,360,075
Long-term receivables	-	3,867,477
Other receivables	10,511,061	13,896,604
Long-term loans given	6,479,228	7,203,432
Items of the following period under other liabilities	1,363,292	1,160,871
Short-term loans	-	-
Other short-term liabilities	9,073,068	10,759,853

40.5. The management's compensation

The payments to key members of management, the Board and the employees who participate in the Company's and the significant subsidiaries' strategic decision-making were as follows according to the compensation categories included in *IAS 24 Related party disclosures* (the table contains the amounts paid in the given year):

	2016 THUF	2015 THUF
Short-term employee benefits	15,478	17,115
Long-term benefits	-	-
Termination payments	-	-
Share-based payments	-	-
Total	**15,478**	**17,115**

41. EVENTS AFTER THE CONSOLIDATED BALANCE SHEET DATE

The table includes the events that occurred after the consolidated balance sheet date. Based on the references, the whole information is available at the Company's official publication sites.

Date	Type of news	Subject-matter, brief contents
15 March 2017	Extraordinary information	Treasury share transactions
10 March 2017	Extraordinary information	Treasury share transactions
9 March 2017	Extraordinary information	Invitation to the General Meeting
8 March 2017	Extraordinary information	Treasury share transactions
6 March 2017	Extraordinary information	Treasury share transactions
2 March 2017	Extraordinary information	Treasury share transactions
28 February 2017	Extraordinary information	Treasury share transactions
28 February 2017	Other information	Number of voting rights at PannErgy Plc
24 February 2017	Extraordinary information	Treasury share transactions
23 February 2017	Extraordinary information	Treasury share transactions
20 February 2017	Extraordinary information	Treasury share transactions
17 February 2017	Extraordinary information	PannErgy Concession Ltd has been formed
16 February 2017	Extraordinary information	Treasury share transactions
14 February 2017	Extraordinary information	Treasury share transactions
10 February 2017	Extraordinary information	Treasury share transactions
8 February 2017	Extraordinary information	Treasury share transactions
7 February 2017	Other information	Even greener future for Audi's heat
6 February 2017	Extraordinary information	Treasury share transactions
6 February 2017	Extraordinary information	PannErgy Plc's subsidiary has signed a concession agreement for the area of Győr
2 February 2017	Extraordinary information	Treasury share transactions
31 January 2017	Other information	Information relating to the performance of CSRG Energy Ltd's sales contract
31 January 2017	Other information	Number of voting rights at PannErgy Plc
31 January 2017	Extraordinary information	Treasury share transactions
27 January 2017	Extraordinary information	Treasury share transactions
25 January 2017	Extraordinary information	Treasury share transactions
23 January 2017	Extraordinary information	Treasury share transactions
19 January 2017	Extraordinary information	Treasury share transactions
17 January 2017	Extraordinary information	Treasury share transactions
16 January 2017	Extraordinary information	Quarterly Production Report
13 January 2017	Extraordinary information	Treasury share transactions
11 January 2017	Extraordinary information	Treasury share transactions
10 January 2017	Extraordinary information	Treasury share transactions
5 January 2017	Extraordinary information	Treasury share transactions
3 January 2017	Extraordinary information	Treasury share transactions
1 January 2017	Other information	Number of voting rights at PannErgy Plc

42. DATE OF APPROVAL FOR DISCLOSURE

The Company's Board approved the financial statements on 21 March 2017 and authorised their disclosure.

Dénes Gyimóthy
Representative of the Board of Directors

PannErgy Plc
Business and Management Report, 2016

Based on the consolidated financial statements prepared in conformance of the International Financial Reporting Standards

Budapest, 23 March 2017

Dénes Gyimóthy
representing the Board of Directors

This announcement is published in Hungarian and English languages. In case of any contradiction between these two versions, the Hungarian version shall prevail.

1. EXECUTIVE SUMMARY

In 2016, PannErgy Group realized considerable growth in consolidated heat production, gross margin and gross cash flow, owing to which – after screening out certain non-recurrent items – it reached an EBIDTA level over HUF 1800 million, which PannErgy Group targeted for the business year of 2016 based on the successful operation of the geothermal business line. This goal was aligned with the estimated EBIDTA for the business line, presented in the abstract of the business line evaluation report prepare by KPMG Consulting Ltd and published by the Company on 30 May 2016 for the year of 2016 (HUF 1821.4 million).

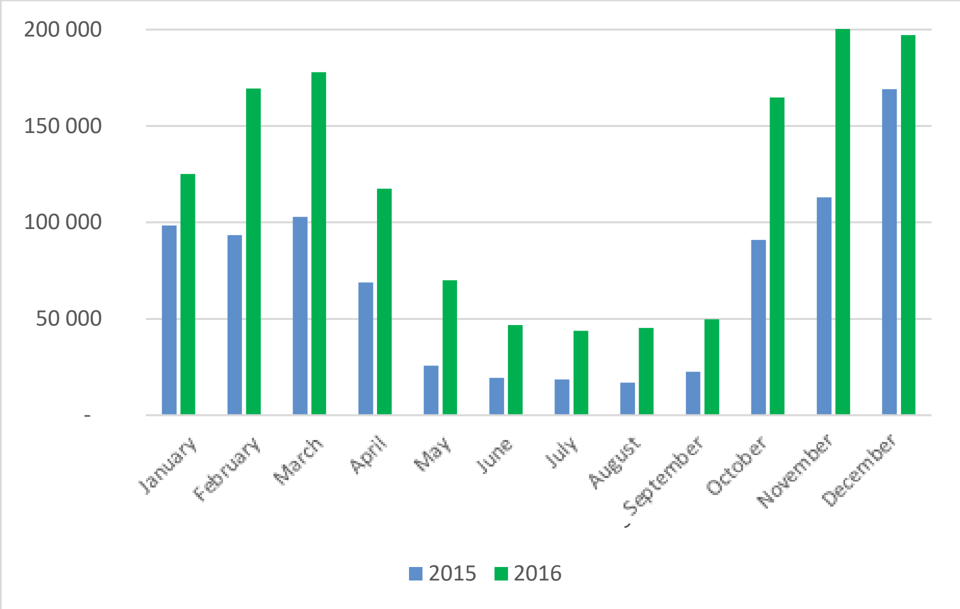
Changes in the consolidated gross margin, cash flow and EBITDA

In 2016, PannErgy Group could increase its sales revenues significantly, by 66% due to the first full year of the commercial operation of the Geothermal Project of Győr.
The gross margin rose by 27% to THUF 863,155, whereas the gross cash flow increased by 55% to THUF 2,019,176 after the previous year. The Company's operating profit amounted to THUF 280,496 and after modification with the non-recurrent items of the year under review (detailed in Chapter 3) the adjusted operating profit was THUF 605,598 meaning a 13% operating profit rate.
The Company's EBIDTA in the period under review was THUF 1,715,345, whereas the adjusted EBIDTA of the period after adjustment with the non-recurrent items came to be THUF 1,802,010, representing a 40% EBIDTA margin. This meant outstanding improvement in comparison with the base period, when after screening our the effects of the selling of large-value assets the EBIDTA of geothermal heat generation and sales comprising the EBIDTA of the business line was THUF 616,900 resulting in a 29% EBITDA rate.
The THUF 1,802,010 value of the adjusted EBIDTA in the period under review was in line with the EBIDTA level that was specified in the independent consultant's material that was prepared in relation to the acquisition of the ONP Holdings SE (see above), and forecast for 2016 (THUF 1,821,400).

Considerable increase in heat generation

Having accomplished its objectives, PannErgy Group closed a determining year towards the realization of its geothermal energy production and utilization strategy. Generating green heat since May 2013, the Geothermal System of Miskolc and two smaller geothermal systems (Szentlőrinc and Berekfürdő) made considerable achievements in 2016 alongside the Geothermal System of Győr completing its first full year of commercial operations, and satisfied all the demands of the heat-receiving partners. At the end of the period discussed herein, the aggregated and evaluated operating results confirmed that it was a successful strategic move by the Company to decide on shifting the focus of operations to the operation of its geothermal projects, thereby optimizing complex operating processes where the systems utilizing geothermal heat energy can supply energy at high efficiency and operating safety with reliance on district heat services established for the use of conventional energy carriers. In 2016, the Company successfully implemented its development investment program in relation to the already operated geothermal systems, and as a result the earlier competences could be considerably broadened – now in possession of the knowledge of the uniqueness of the well system in Győr, including the unforeseen chemical and physical reactions –, and executed all the capacity-expanding developments that resulted in reaching the 960 m3/h maximum thermal water yield capacity of the Geothermal System of Győr.

Consolidated heat volume sold by PannErgy Group in 2016 (GJ):



The graph shows the heat quantities sold in the Miskolc, Győr, Szentlőrinc and Berekfürdő projects in a monthly breakdown.

Creation of more favourable conditions of funding

During the period under review, the Company took important steps in reviewing the conditions of funding in connection with its projects and their renewal for more favourable terms. Its two subsidiaries involved in the implementation of the Geothermal Project of Győr, which was already in operation and therefore represented a smaller risk profile, executed a refinancing loan agreement with CIB Bank Ltd. This refinancing scheme partly owing to the changed risk profile represented approximately 4% interest rate (i.e. 400 base points) advantage in comparison with the former interest conditions, and its positive effects with substantially decreasing financial expenditures surfaced from the second half of 2016.
To further mitigate interest risks, in view of nearly the entire amount, approximately HUF 10 billion amount of the investment loans taken out for the Geothermal Project of Győr and Miskolc the Company succeeded in replacing its variable interest rates for fixed interest rates for the entire term of the still remaining tenors by means of interest rate swap transactions, with reliance on the current, extremely low interest environment.

Cost rationalization measures in the period under review

The Company made a major move for the rationalization of operating costs in the period under review, primarily in personal expenditures, as well as office and operating costs. The average employee headcount of PannErgy Group in 2016 was 33 persons, which meant 18% reduction after the previous period. The amount of personal expenditures recognized among indirect costs dropped from THUF 101,181 in the first half of 2016 to THUF 69,663 in the second half of 2016.

Office and operating costs similarly underwent considerable changes, as the Company could achieve 42% cost reduction during the rationalization of operating costs, with the major item being the cost saving realized on the lease contract for the smaller office space accommodating the registered seat, as well as the significant decrease of the Company's costs for car rentals.

Acquisition of the minority shareholding

During the period under review, on 19 May 2016 ONP Holdings SE contacted the Company with the intention to sell its minority shareholding in PEGE, with the offer price specified in the selling proposal being HUF 750 million. At the time of the selling offer, PannErgy Plc's share was 93.09%. With respect to the selling offer, PannErgy Plc's Board of Directors summoned an extraordinary General Meeting, and to its draft resolution – among other documents – the abstract of the business line evaluation prepared by KPMG Consulting Ltd as an independent consultant was attached to support the evaluation of the offer pertaining to the acquisition of ONP Holdings SE's share with additional information. With respect to this information, according to Resolution no. 3/2016 (July 19) of the extraordinary General Meeting, PannErgy Plc could acquire ONP Holding SE's 6.91% participation in PEGE with the additional condition that the purchase price should fall in the range of HUF 441.1 million and HUF 855 million.
After the resolution of the General Meeting, negotiations between PannErgy and ONP were conducted, and on 2 August 2016 the Parties entered into a share transfer agreement under which PannErgy Plc purchased ONP Holding SE's 6.91% participation in PEGE Ltd in consideration of a purchase price of HUF 750 million Hungarian Forints in total. The transaction was consummated in two installments, wherein the first installment covered the acquisition of two-thirds of the participation until 3 August 2016 against a purchaser price of HUF 500 million, whereas the second installment was set to be closed until 30 April 2017.
Upon transacting the first installment, the syndicate agreement between the parties was terminated. As a result of the transaction, PannErgy Plc's participation in PEGE increased to 97.7%.

Screening of portfolio elements

In the period under review, the Company was focusing on the efficient operation of the geothermal projects, and concurrently made important decisions on the rationalization of its portfolio elements. In this context, a decision was adopted on the ultimate discontinuation of the Geothermal Project of Gödöllő; during the period contemplated herein the recultivation works associated with the close-up were fully executed, the project was written off and derecognized. Furthermore, the Company entered into agreements for the selling of its 100% participation and business shares in two of its subsidiaries, CSRG Energy Ltd and PannTerm Ltd, respectively. PannTerm Ltd was sold in May 2016, whereas the period under review witnessed the selling of a 40% stake in CSRG Energy Ltd. For the selling of the remaining 60%, a deadline expiring on 31 December 2016, but it was not met, and therefore the Company is taking the necessary measures to close the transaction as soon as possible.

Acquisition of treasury shares

As of December 31 2016, the Company held 3,228,438 treasury shares belonging to PannErgy Plc, exceeding the treasury shareholding on 31 December 2015 by 453,061 shares; at the end of the period under review, the treasury share portfolio was 15.33% of tall the issued shares.
The material increase in the number of treasury shares during the period under review was in line with Resolution 19/2016 (Apr 28) of the Company's General Meeting, under which from May 2016 PannErgy Plc launched a treasury share repurchasing program. The first month of the program shall be May 2016, whereas its last month is April 2017. In the framework of the program, PannErgy Plc should purchase PannErgy shares via the Budapest Stock Exchange in an amount of at least HUF 20 million in each month, and maximally for an aggregate amount of HUF 300 million in total with the additional, restrictive condition that in the course of the scheduled share repurchasing program the individual purchase price of the shares may not exceed HUF 500. On 2 September 2016, PannErgy Plc advised the actors of the

capital markets that as part of the treasury share repurchasing program disclosed publicly and described in details on 22 July 2016 the Company had targeted the buy-back of 300 ordinary shares a trading day, which was decreased to 2,300 shares from 2 September 2016.

Concession agreement

In PannErgy Group's life, a major success was that in February 2017 after the balance sheet date PEGE Ltd signed a concession agreement with the Hungarian state for a definite term of 35 years for the exploration and extractions, as well as utilization of geothermal energy in the surroundings of Győr. This new opportunity for exploration may be helpful in expanding geothermal energy production in the future, as well as utilizing the existing infrastructure and endowments optimally.

Publication of management reports

In conformance to the changes in capital market regulations in 2016, following the report in relation to the first half of 2016 the Company did not publish interim management reports, but to maintain transparency since the third quarter of 2016 quarterly production reports have been published in relation to the performance of its geothermal projects.

2. PannErgy Group's profit in 2016, key indicators of profitability and business operations

In the history of PannErgy Group, 2016 was a business year of outstanding importance, because by this period the entire project portfolio had been put into normal operation. To present operations with reliance on appropriate information, it is important to state the volumes that have been screened with respect to the main non-recurrent items in the case of the key indicators of profitability. Accordingly, the table below shows so-called adjusted profit categories next to the profit figures recognized in the consolidated financial statements for 2016.

To identify non-recurrent items, the Company followed the principle that only those expenditures and income-type items were taken into consideration whose emergence could be evidently associated with the period under review, and therefore they are not expected to occur in the upcoming periods. This chapter lists the non-recurrent items that are associated with the period under review:

Key profit figures (data in HUF thousand)	Year 2016	Year 2015
Sales revenues	**4,529,069**	**2,726,364**
Direct costs of sales	-3,665,914	-2,044,219
Gross margin	**863,155**	**682,145**
Gross cash flow	**2,019,176**	**1,306,175**
Indirect costs of sales	-683,740	-1,180,000
Other incomes	662,725	2,372,207
Other expenditures	-561,644	-1,501,421
of this: effects of the non-recurrent items	*-325,102*	
Operating profit (EBIT)	**280,496**	**372,931**
Adjusted operating profit (after the screening of the non-recurrent items)	*605,598*	
EBITDA	1,715,345	1,614,002
Adjusted EBITDA (after the screening of the non-recurrent items)	*1,802,010*	
Financial profit	-411,293	-156,400
Profit before taxes	**-130,797**	**216,531**
Adjusted profit before taxes (after the screening of the non-recurrent items)	*194,305*	
Net profit of the period	**-150,999**	**78,171**
Adjusted net profit of the period (after the screening of the non-recurrent items)	*174,103*	
Return on equity, % (ROE)	-1.70%	0.84%
Return on sales, % (ROS)	-3.33%	2.87%
Earnings per share (EPS) HUF	**-8.47**	**4.28**

For the non-recurrent items presented in the table and screened from the individual profit categories, the Company took the following elements into consideration in the period under review:

data in HUF th

Non-recurrent item	Increasing effect of the non-recurrent item on EBIT	Increasing effect of the non-recurrent item on EBIDTA
Extraordinary depreciation of intangible assets and tangible assets associated with geothermal energy production, utilization, in the period under review	238,437	*
Close-up of Gödöllő (impairment loss, recultivation)	89,568	89,568
Expenditures that are connected with the investment projects capitalized in the previous year, but cannot be capitalized for the given projects any longer	45,513	45,513
Non-recurrent costs relating to the technical assessment, review and inspection, etc. of the geothermal systems	34,725	34,725
Costs of legal, financial counseling	32,983	32,983
Damages associated with litigations	9,974	9,974
Write-back of flat-rate collection costs stated as expenditures in the previous years and default interests as a result of changes in the relevant legal regulations	-126,098	-126,098
Total	325,102	86,665

* Already included in the EBIDTA stated in the consolidated financial statement.

Detailed description of the Company's business operations in 2016:

PannErgy Group realized THUF 4,529,069 consolidated sales revenues in 2016, which was 66% over the previous year's value of THUF 2,726,364 owing to the fact that in addition to the Miskolc system the system in Győr was operations throughout the entire period. 80% of the THUF 4,529,069 sales revenues, i.e. THUF 3,632,526 was realized on heat sales, whereas most of the remaining revenues came from mediated and re-invoiced services.

Launched in November 2015, the Geothermal Project of Győr contributed to the PannErgy Group's economic performance with THUF 1,721,689 sales revenues in the period under review, from which sales by Arrabona Geothermal Ltd to Győr-Szol Ltd accounted for THUF 866,073, whereas sales by DD Energy Ltd to Audi Hungaria Motor Ltd meant THUF 855,616. In the framework of the Geothermal Project of Miskolc sales to the heat-receiving partners amounted to THUF 1,835,983 in the period under review, from which revenues on sales to MIHŐ Miskolc Heat District Distribution Ltd made up THUF 1,771,135.

The Company's two smaller-volume projects in Berekfürdő and Szentlőrinc performed similarly to the previous period with respect to sales revenues, meaning that in Szentlőrinc sales revenues of THUF 72,558 were realized, whereas in Berekfürdő sales revenues on heat tariffs and electric power sales amounted to THUF 29,235.

In relation to the management of the real-estate properties owned by the Company in Csepel and Debrecen, sales revenues were made in a volume that was similar to that stated in the previous year, i.e. THUF 472,599. However, the majority of these revenues were proceeds from the re-invoicing of electric power consumption by the tenants and the costs of other "mediated services", whereas only a small proportion belonged to rents. The profit of re-invoiced services amounted to THUF 27,474 in the period under review, while rents made up an amount of THUF 7,885, based on which it can be clearly stated that the net revenues associated with the management of the above-mentioned real-estate properties and the connected profit were negligible in comparison with geothermal heat generation and sales representing the core activities.

Three customers went over 10% of the total amount of the PannErgy Group’s consolidated sales revenues, making up a combined 86% percent of all the sales.

In the second half of the year, the level of direct costs increased from THUF 2,044,219 in the previous year by 79%, to THUF 3,665,914. The reason underlying this rise was on the one hand increasing variable costs connected with the higher level of heat sales, and on the other hand the larger direct depreciation value of the already capitalized geothermal investments and the recognition of a part of the reinjection costs of Miskolc beyond the scope of consolidation. From among the costs associated with the maintenance and operation of geothermal systems, a THUF 34,725 direct cost item was incurred as a non-recurrent cost element in relation to the technical review and inspection of the geothermal system of Győr.

Consequently, the Group's gross margin was calculated as THUF 863,155 in the period under review, which indicated a level 27% higher than the THUF 682,145 figure for the previous year. Direct depreciation belonging to the direct costs of sales considerably increased with the startup of the Geothermal Project of Győr, and its value became THUF 1,156,022.

With a similar rate to the one in the previous year (45%), gross cash flow increased by 55% to THUF 2,019,176.

Under the heading of operating costs, PannErgy Group could achieve cost reductions in a number of areas, while in some other areas costs were on the rise.

The largest cost cut could be seen in personal expenditures, where as a result of the significant headcount reduction (see Chapter 10: Information relating to headcount) personal expenditures saw a decrease from THUF 400,500 in the base period to THUF 170,844. Within indirect costs, the associated positive effects were not fully reflected in the comparison with the base period, because in the base period some of the personal expenditures were allocated to and re-capitalized in grant-funded projects.

Expert and counseling fees increased significantly, by 39% in comparison with the same period of the previous year. This rise was caused by the costs of legal, as well as financial and expert expenses associated with the preparation of the refinancing of the Győr project, as well as the selling and acquisition of corporate participations in the period under review; non-recurrent expert costs were incurred in a total amount of THUF 33,983 in the period contemplated herein, with respect to the two major transactions.

Office and operating costs similarly underwent considerable changes, as the Company could achieve 42% cost reduction during the rationalization of operating costs, with the major item being the cost saving realized on the lease contract for the smaller office space accommodating the registered seat, as well as the significant decrease of the Company's costs for car rentals.

Costs connected with the public and stock-exchange presence of the Company, as well as its social contributions increased after the base period, in consequence of the fact that PannErgy Group continued to attribute importance to sponsoring sports and other social initiatives in the cities that served as the sites of its operating projects and their surroundings, such as the provision of support to the ultimate consumers of geothermal energy; in parallel to the more intensified business operations the costs of supports also rose.

The balance of other incomes and expenditures was THUF 101,081 in the period under review, which remained well under the THUF 870,786 figure of the base period, because the base period saw the income-increasing effects of large-value tangible asset sales (drilling equipment, reinjection well) as non-recurrent items.

Within the HUF T662,725 value of other incomes in the year under review, a major volume was represented by the amount associated with flat-rate collection costs and default interests. In line with the changes in the relevant legal regulations in the year under review, the Company accounted for THUF 126,098 other incomes as a non-recurrent item because of the write-back of the flat-rate collection costs and default interests that had been recognized in the previous years as other expenditures on a statutory basis.

Within the THUF 561,644 value of other expenditures in the year under review, the extraordinary impairment loss recognized in an amount of THUF 238,437 as a non-recurrent item could be highlighted in connection with the Company's operations in the year under review, and in particular with respect to the intangible and tangible assets connected with the production, utilization of geothermal heat. Besides, expenditures in an amount of THUF 89,568 were incurred in connection with the write-off, termination of the Geothermal Project of Gödöllő, including all the costs of the entire process of recultivation, which was also defined by the Company as a non-recurrent item.

In relation to the investment projects capitalized in the previous year, THUF 45,514 other expenditures were incurred and - since cannot be capitalized for the given projects any longer - charged on the year under review as a non-recurrent item.

The operating profit (EBIT) was THUF 280,496 in the period under review, and its T**HUF 605,598 value after adjustment with the above-mentioned non-recurrent items** this volume substantially exceeded the HUF 372,931,000 operating profit level stated for the base period.

The business cash flow (EBITDA) brought about cash inflow in an amount of THUF 1,715,345, or after **adjustment with the above-mentioned non-recurrent items its value the actual value was THUF 1,802,010 cash inflow**, which was THUF 188,008 better than the THUF 1,614,002 EBITDA value of the previous year. In the period under review, direct and indirect depreciation was stated in an aggregate amount of THUF 1,196,412, and in addition the EBIDTA calculation recognized an effect from a THUF 238,437 item of extraordinary depreciation in the year under review for the intangible and tangible assets connected with the operating geothermal project as a non-recurrent item.

The **financial profit amounted to THUF 411,293 loss in the period under review**, which was by THUF 254,893 less favourable than the THUF -156,400 result of financial operations in 2015. It was caused by the higher level of the paid interest expenditures, because interest expenditures of the investment-related loans were paid in 2016 in an amount of THUF 414,715 after the THUF 208,366 value in the base period. The considerable increase of interest expenditures in the year under review was associated with the funding of the Geothermal Project of Győr, financed by Magyar Export-Import Bank Ltd (Eximbank) in the first half of 2016, while from the second half of the year CIB Bank Ltd, offering more favourable interest conditions, was involved.
The positive effects of refinancing are clearly reflected by the fact that while in the first half of 2016 the Company incurred THUF 273,120 with interests and interest type expenditures, for the second half of 2016 such kinds of financial expenditures dropped to a value of THUF 141,595.

Based on the foregoing, **PannErgy Group's profit before taxes in the year under review was THUF -130,797,000**, which remained under the HUF T216,531 level of profit before taxes in the previous year. The Company stated THUF 27,732 for tax payment obligation, including the write-off of deferred tax liabilities raised in relation to negative tax bases in an amount of THUF 12,178, based on the discounted deferred tax refunds of the subsidiaries concerned.

The Company's consolidated net profit in the period under review was THUF –150,999 loss, which came to be THUF 229,170 under the THUF 78,171 profit stated for the same period of the previous year, **and at the same time the adjusted net profit in for the period under review with respect to the above-mentioned non-recurrent items resulted in a net profit of THUF 174,103.**

Key figures of property standing (data in HUF thousand)	Year 2016	Year 2015
Fixed assets	**22,277,721**	**22,505,735**
Total current assets	2,977,480	4,313,042
Of this, liquid assets	736,500	1,120,625
Total assets	**25,255,201**	**26,818,777**
Equity capital in total	**8,888,715**	**9,331,549**

During the period under review, the value of fixed assets decreased by 1%. In this context, the value of intangible assets decreased by 11% in comparison with the previous period, which was a result of the partial write-off of the intangible assets connected with geothermal explorations. The overall volume of tangible assets increased just slightly, by THUF 75,896, while the effects of the capacity-expansion investments in the year under review were compensated by depreciation in the year under review.

Deferred tax receivables in an amount of THUF 386,210 were recognized among assets by the Company, and thus their value decreased by 11%, i.e. THUF 48,678 after the base period, in view of PannErgy Group's calculations pertaining to discounted deferred tax refunds.

The volume of current assets decreased by 31% in comparison with the corresponding value of the previous year. Within current assets, the increase in accounts receivable was primarily caused by the current monthly trade receivables generated by the Geothermal Project of Győr in relation to Győr-Szol Győr Heat Distribution Ltd and Audi Hungaria Motor Ltd, as these receivables did not occur in any similar volume in the base period.
Inventories decreased in relation to the capitalization of the Geothermal Project of Győr.

After the previous year, the value of securities considerably dropped in the consolidated financial statements; it was caused by the fact that after the completion of the investment in Győr – in line with its cash flow plans and investment policy – PannErgy Group deposited an amount of THUF 500,000 in an investment fund in 2015. These securities were sold during 2016.

Within current assets, the volume of liquid assets similarly decreased, at the end of the period the Company held liquid assets in a total amount of THUF 736,500. This drop was primarily the consequence of the treasury share repurchasing program in the year under review and the transaction for the acquisition of ONP Holdings SE's minority share in PEGE.

The Company witnessed 5% decrease from the base value of its equity capital, which resulted from the combination of the negative operating profit in the year under review, the increasing value of repurchased treasury shares and the decrease in minority shareholding.

The amount of equity capital per share (calculated from the number of shares less treasury shares) moderated to HUF 499 from the HUF 510 base value.

The volume of long-term loans decreased considerable after the previous year, to THUF 8,858,265, which reflects the effects of repayments in the period under review. The heading of other long-term, deferred incomes presents the long-term tranches of the non-repayable grants awarded to the geothermal projects in grant application schemes. In this respect, an amount of THUF 4,564,927, is stated in the Company's balance sheet, which represents 6% decrease in comparison with the previous year as a result of the write-backs in the year under review.

Within short-term liabilities, the balance of trade payables was THUF 1,170,467, which was 31% smaller than in the base period. The reason for the decrease roots back in the base period when a higher base value had been recognized because of the intensive investment activities relating to the Geothermal Project of Győr. Together with the short-term installments of long-term loans, the overall value of short-term loans was THUF 1,097,792 at the end of the period under review, bringing about 40% growth after the base period. Other short-term liabilities amounted to HUF 338,028,000 as of the end of the period under review, which represented 50% increase after the previous period, with the underlying reasons being the decreasing amount of tax and social contribution payables, as well as the reduction of the corresponding items of the upcoming period.

Key indicators	Year 2016	Year 2015
Profitability indicators		
Return on assets, % (ROA)	-0.60	0.29
Return on equity, % (ROE)	-1.70	0.84
Return on sales, % (ROS)	-3.33	2.87
Property indicators		
Ratio of fixed assets, %	88.21	83.92
Ratio of equity capital, %	35.20	34.79
Rate of indebtedness, %	184.13	187
Financial indicators		
Liquidity ratio	103.13	124.67
Acid test ratio	97.99	115.65
Earnings per share (EPS) HUF	**-8.47**	**4.28**

As a result of its loss made in the year under review due to the above-mentioned non-recurrent items, the profitability indicators of PannErgy Group deteriorated in comparison with the previous period. After the completion of the investment phase of the Geothermal Project of Győr, the indicators of the property standing reflects a higher ratio of fixed assets with a decreasing indebtedness rate. Changes in the financial indicators were principally influenced by the treasury share repurchasing program and the acquisition of the minority share in PEGE. At the end of the period, the Company held liquid assets in an amount of THUF 736,500.

3. General information on the Company

3.1. PannErgy Group's core activities

PannErgy Plc ("Company" or "PannErgy") is an entity listed at the Budapest Stock Exchange, included in the BUX basket, and is a premium share issuer; its core activities involve the energy-oriented utilization, extraction and selling of one of Europe's most significant thermal water endowments, and in particular renewable geothermal energy. In association with its geothermal energy-related operations, the Company performs production activities in Miskolc, Győr, Szentlőrinc and Berekfürdő.
As of 31 December 2016, PannErgy Group had 33 employees.
PannErgy Plc is registered in Hungary, under the address of H–1117 Budapest, Budafoki út 56.

The Company operates a holding company structure. The detailed description and data of the subsidiaries are provided in Chapter 6.

3.2. Authority-regulated district heating sales tariffs

Some of the project companies of PannErgy Group have district heat production licenses, and in this context they pursue heat-selling operations in an environment regulated by the Hungarian Energy and Public Utility Regulatory Office (MEKH) . In consequence, the heat sold by PannErgy Group to district heat supply companies is subject to the authority-regulated tariffs announced by the Minister for National Development in the form of the Decree of the Ministry for National Development for a period of one year from 1 October each year until 30 September the following year. The heat selling tariff in effect from 1 October 2016 for the Geothermal Project of Miskolc is 2400 HUF/GJ in the case of Miskolc Geothermal Ltd and Kuala Ltd, which means that the two companies charge any heat sold to MIHŐ Miskolc Heat Distribution Ltd at this authority-regulated tariff. In connection with the Geothermal Project of Győr, sales to Arrabona Geothermal Ltd and Győr-Szol Győr Public Services and Assets Management Ltd are transacted at the authority-regulated district heat tariff of 2,650 HUF/GJ, whereas Szentlőrinc Geothermal Ltd can sell heat to Szentlőrinc Public Utility Nonprofit Ltd at the authority-set tariff of 3654 HUF/GJ.

3.3. Heat sales to industrial and non-municipal partners

In order to diversify its heat-selling operations, PannErgy Group is in continuous quest for opportunities to extend the scope of geothermal heat sales to industrial partners in addition to the agreements made with heat supplier partners, in the form of either primary, or secondary heat utilization. The Company's major industrial consumers, heat-receiving partners are Audi Hungaria Motor Ltd (Audi Hungaria Ltd since 1 January 2017) for the Geothermal Project of Győr, Takata Safety Systems Hungary Ltd for the Geothermal Project of Miskolc, as well as Geo-Wendung Ltd, a partner involved in secondary heat utilization also for the Geothermal Project of Miskolc. Furthermore, in connection with the Geothermal Project of Berekfürdő and the Geothermal Project of Miskolc there several small-volume industrial partners having entered into heat consumption contracts with PannErgy Group, which continues to be committed to achieve a broader reach to industrial consumers.

3.4. Utilization of real-estate properties

Beyond geothermal heat generation and sales (Energy) representing its core activities, the Company owns industrial real-estate properties, offices in the area of Budapest, District XXI (Csepel) and Debrecen from the times before the "PannonPlast to PannErgy" shift in its strategy. The Company uses some of these real-estate properties by way of lease-out, while on the other hand the profit realized on these lease operations is negligible in comparison with the sales revenues, profit originating from the energy-related core operations. For this reason and the approach of the Company's management, the consolidated financial statements for 2016 do not distinguish real-estate property utilization activities in particular any longer, but the associated main information continues to be included in the relevant parts of the consolidated financial statements.

In line with the foregoing, the Company does not perform active asset management operations, but mobilizes all its resources in the field of Energy.

4. Accomplishment of PannErgy's main objectives for 2016 and risks

4.1. Geothermal Project of Győr (DD Energy Ltd, Arrabona Geothermal Ltd)

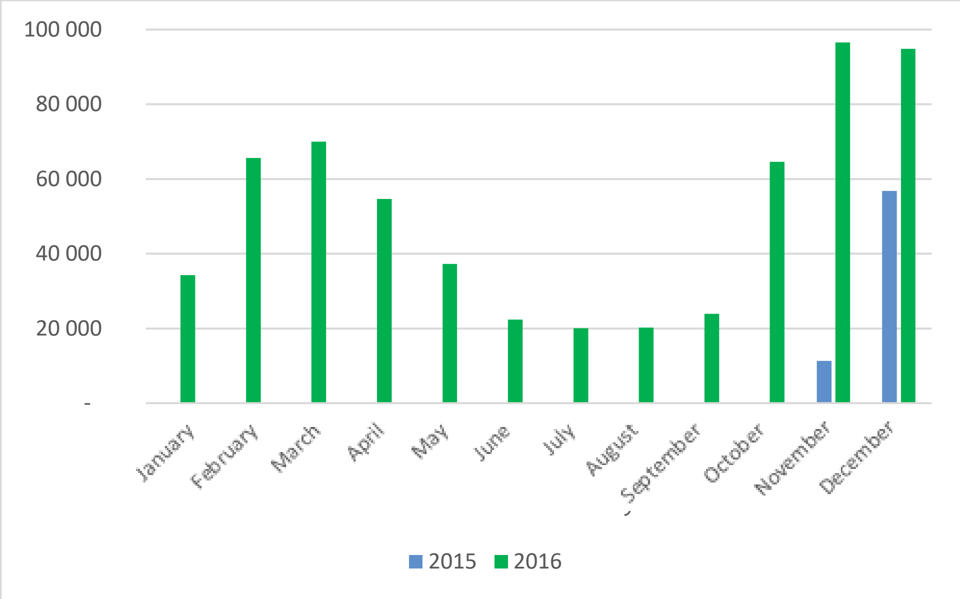
On 24 November 2015, the implemented Geothermal Project of Győr was launched, which includes two production and two reinjection wells, Heating Center of Bőny, and geothermal heat supply system of almost 17 km. The total cost of the investment is HUF 10.2 billion. Presently, 24 thousand apartments and almost a thousand other fee payer's heating system is supplied by geothermal energy, moreover Győr factory units of AUDI intends to cover at least 60% of its heating energy from geothermal energy provided by the Company's Heating Center of Bőny.

The short-term goals related to the Geothermal Project of Győr includes an attempt to make the free capacities of the Geothermal system of Győr, as well as its saving-related advantages available for the Company's new partners as well. The Geothermal Project of Győr has facilitated the establishment of such a complex, expandable service system that is able to satisfy further industrial and agricultural needs in addition to households.

In terms of operation, it can be concluded that the first half year of the period under review – following the operating test of November 2015 – was characterized by physical and chemical instrumental tests and analyses, conducted continuously on the geothermal fluids entering and crossing the system, as well as by settings made in order to facilitate optimal operation. To become familiarized with the geothermal reservoir, wells and the entire geothermal system, the physical parameters are continuously measured and recorded. The results of the water tests conducted with ongoing operation in the period discussed herein imply that the physical and chemical features of the geothermal fluids of production wells have undergone significant changes in comparison to previous plans, and this deviation required intervention in the Geothermal System of Győr, along with the shutdowns needed for the implementation of the necessary technical modifications. As a result of the initial interventions, the volume of heat sales in the first half year of the period under review lagged behind the planned volume (284,156 GJ). Following the preparative works executed in the summer of 2016, a high-performance deep well submersible pump system developed specifically for geothermal systems was successfully incorporated in the BON-PE-02 production well. The pump was incorporated at 1,089 meters depth, for which a new, reinforced well head had been designed and manufactured. Total weight of the equipment including the production pipe is 83.5 tons. The operating trial and test of the pump was conducted under appropriate operating safety, which was followed by the modification of the control program of the entire geothermal system. The two production wells managed to achieve the target capacity of 960 m^3/h. In November, owing to the development on the one hand, and to the beneficial weather conditions on the other hand, the Győr system produced outstanding daily and monthly heat sales figures, reaching up to 3,431 GJ and 96,565 GJ values on a daily and monthly basis, respectively. The outstanding performance was significantly promoted by the ever increasing heat consumption of Audi Hungary Ltd.

The heat sales of the Geothermal System of Győr totaled up to 320,226 GJ in the second half of 2016, while the overall total sale of the same year was 604,382 GJ.

The quantities of heat sold in Győr during the period under review were as follows (GJ):



4.2. Geothermal Project of Miskolc (Miskolc Geothermal Ltd, Kuala Ltd)

The Company has taken several measures to increase the capacity of the geothermal system. From among the maintenance works performed on the system, the renovation of the heat exchanger of C/2 heating center of the University of Miskolc in the first half year of 2016, and the maintenance of wells Mályi 1 and Mályi 2 performed within the framework of preparatory works for the heating season are worth highlighting. Following the comprehensive summer maintenance operations, the heating season started in the early days of October 2016. At the beginning of the heating season, following the summer maintenance works, filter cleaning activities proved to be necessary on the thermal water side several times. During its continuous production operations, the Company relies on the registered values of the parameters of the production wells – pressure, temperature, yield – to evaluate the hydrodynamical properties in order to track the behaviour of the reservoir. Through programming and developments implemented in the summer season, an increased proportion of the heat demand of district heating is supplied from geothermal heating energy.

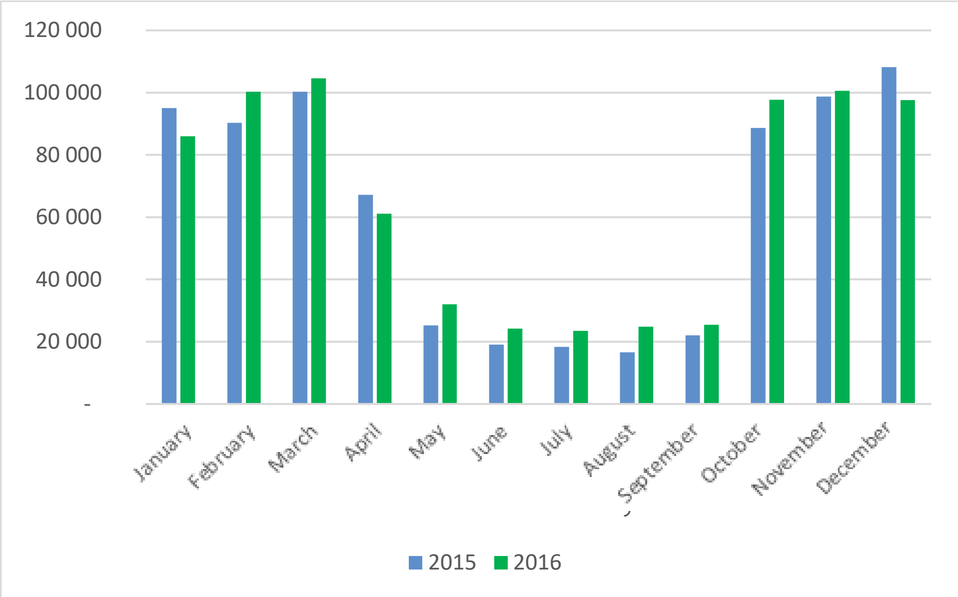
In October 2016 (since the startup of operations in 2013), the system reached 2,000,000 GJ heat sales, thereby reducing CO_2 emission with nearly 123,000 tons, meaning that the consumption of more than 69.2 million m^3 natural gas was replaced with green energy in Miskolc. As a result of the above, and the beneficial weather conditions, in November, the system realized an outstanding 100,606 GJ monthly volume of heat sales, whereas the peak of the daily heat sold was brought up to 3,686 GJ. The most optimum heat sales can be realized if the outdoor temperature is between 2–7 °C, as the temperature of water returning from the consumers remains relatively low in within this temperature range, which significantly promotes the optimum utilization of the heat content of the geothermal water.

Since the period discussed herein, the Geothermal System of Miskolc has been able to supply Geo-Wendung Ltd with secondary, “waste” heat, as its geothermal district heating system supplying the agricultural and industrial zone surrounding Kistokaj was completed in November 2015.

The development of the infrastructure in the Industrial Park of Miskolc is under way, the Company has conducted consultations with the designers with a focus on the design of roads and other engineering structures so that companies moving to the site just subsequently could be provided with green heat as soon as possible.

The Geothermal System of Miskolc achieved 3.7% sales increase in the year of 2016 following heat sales in 2015 with an annual 777,992 GJ quantity of heat sold.

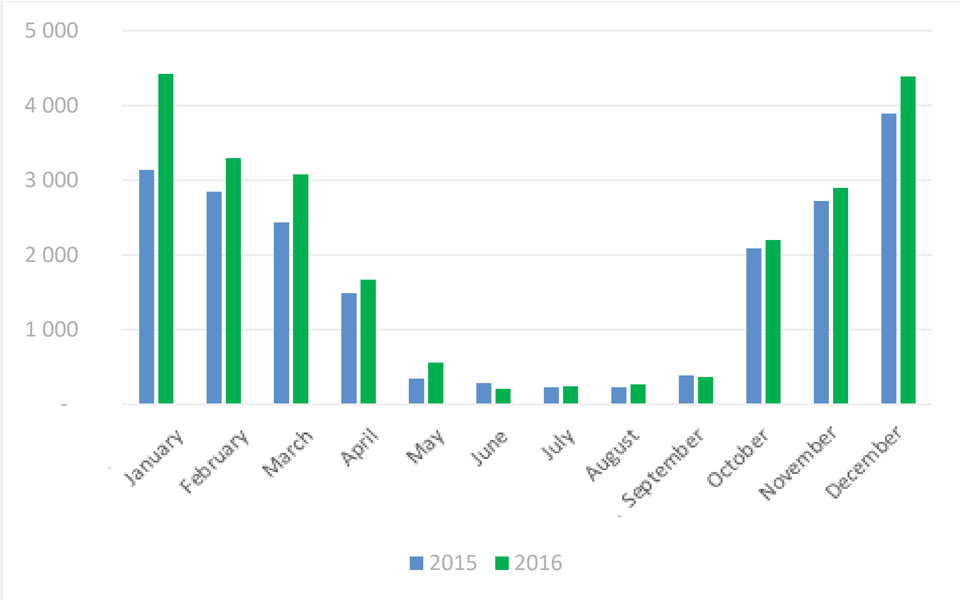
The quantities of heat sold in Miskolc during the period under review were as follows (GJ):



4.3. *Geothermal heating facility of Szentlőrinc (Szentlőrinc Geothermal Ltd)*

The geothermal heating facility of Szentlőrinc mostly operated in line with the plans, with a couple of days of stoppage for a control engineering failure at the beginning of December. The sales of the Geothermal System of Szentlőrinc was 23,608 GJ in 2016, which indicates an increase of approximately 17.4% compared to that of the previous year.

The quantities of heat sold in Szentlőrinc during the period under review were as follows (GJ):



4.4. *Geothermal methane utilization facility of Berekfürdő (Berekfürdő Energy Ltd)*

In 2016, the Company implemented changes in relation to the operating safety of the gas engines. In the previous summer period, compensatory energy and maintenance costs were higher due to the unexpected stoppage of gas engines as a result of the increasingly hotter weather. The loading of the gas engines was decreased by 3–5 percent in 2016, resulting in a significant drop in the number of unexpected stoppages. Consequently, maintenance and compensatory energy costs became more favorable too.

In 2016, electricity production generated 2,322,391 kWh power with 2,178,590 kWh being the sold quantity in the geothermal facility of Berekfürdő. In 2016, the gas-engine small power plant sold 2,308 GJ heat power by utilizing the accompanying gas extracted from the thermal water.

4.5. *Project closed in the year under review (Gödöllő)*

In the period under review, the Company looked into another utilization option of the Geothermal Project of Gödöllő, proposing the implementation of a new technical concept without the need for the availability of thermal water. The new concept would have facilitated power generation with a significantly lower capacity than the original, consequently the calculations related to the economic returns did not support this way of implementation of the project. In line with the above, the Company decided to close the Geothermal Project of Gödöllő, and accordingly, the area concerned was recultivated.

5. Overview of the core activity: Energy

As the legal successor of Pannonplast, PannErgy Plc has committed itself to the implementation of its long-term strategy structured in relation with the utilization of renewable energy.
On 31 May 1991, the Company transformed into a company limited by shares, in line with Act XII of 1989 on the Transformation of Economic Organizations. In 2007, PannErgy envisaged a particular scheme, i.e. to generate considerable volumes of heat and electric power with the exploitation of the long-known Hungarian geothermal resources, thereby creating value for the population and institutions of Hungary, as well as PannErgy's shareholders. In spite of the temporary downturns, the growth of demands for energy seems to be unstoppable in the long run, while the volume of both domestic and global sources is limited. The expert-like and effective geothermal energy production results in the exploitation of a huge pool of energy resources that have just minimally utilized so far, while being one of the most environmentally friendly and cleanest ways of power generation. Today, the European Union does not only welcome these new forms of energy production, but also tries to orient the member states, including Hungary, by establishing strict programs and targets. PannErgy Group has forged various cooperation agreements with dozens of local governments – primarily to penetrate the heat market – of which, later, only those were selected as project targets which could meet the complex set of selection criteria.

Along the specified strategy, from the perspective of its geothermal developments, the Company managed to achieve its first result in 2010, as a consequence of which the live startup of heat generation and energy sales were launched in Szentlőrinc as of 1 January 2011. Another of the Company's facilities, which started to operate as a result of the second project, is located in Berekfürdő. In addition to heat, it generates electric power as well by utilizing methane gas dissolved in the geothermal water. The Berekfürdő facility was included in the Company's profile by way of acquisition.

Three years ago, in May 2013, the Central-Europe's largest geothermal power plant was started in Miskolc under PannErgy's investment. The Geothermal Project of Miskolc has been recognized with GeoPower Market's international prize "Best Heating Project 2013". By September 2014, PannErgy Group had implemented the second phase of the Geothermal Project of Miskolc, and the system launched the heat energy supply of the Downtown and University heat districts in Miskolc – in addition to the heat district of Avas.

In addition to the primary heat consumer, i.e. the district heating system of Miskolc City, the capacity of the geothermal system allows the supply of the environmentally friendly geothermal heat to further consumers (Miskolc Agricultural Ltd., Takata Safety Systems Hungary Ltd, Geo-Wendung Ltd).

PannErgy Group started the implementation of its second largest investment, Geothermal Project of Győr in the Kisalföld region at the beginning of 2014. The Geothermal Project of Győr with a total cost of HUF 10.2 billion was ceremoniously launched on 24 November 2014. Under PannErgy Group's long-term heat supply agreement with Győr-Szol Ltd, district heat supplier, 24,266 apartments and 1046 other fee payer's heating system is supplied by geothermal energy, moreover at least 60% of the heating energy of Győr factory units of AUDI will be covered from geothermal energy provided by the Company's Heating Center of Bőny. The annual volume of heat transmitted in the completed Geothermal System of Győr is potentially 1,100–1,200 terajoules.

6. PANNERGY GROUP'S SUBSIDIARIES

From among the two subsidiaries of the parent company, PannErgy Plc, PMM Ltd is responsible for the effective implementation of geothermal projects as a general contractor, whereas PannErgy Geothermal Power Plants Ltd is the professional leader of the Group, and this latter company owns the participations in the individual project companies. PannErgy Group's Hungarian subsidiaries are involved in business operations typically in Hungary.

6.1. PannErgy Group's subsidiaries, the respective participations and rates of consolidation

PannErgy subsidiaries	Capital net worth (HUF M)	Property share (%)	Voting rights (%)	Rate of consolidation
PMM Ltd	100.00	100.00	100.00	100.00
Kuala Ltd	3.00	90.00	90.00	87.93
PannErgy Geothermal Power Plants Ltd	1 972.70	97.70	97.70	97.70
CSRG Energy Ltd	7.50	60.00	60.00	58.62
TT Geothermal Ltd	5.00	100.00	100.00	97.70
Szentlőrinc Geothermal Ltd	5.00	99.80	99.80	92.50
Miskolci Geothermal Ltd	5.00	90.00	90.00	87.93
Berekfürdő Energy Ltd	24.10	100.00	100.00	97.70
DoverDrill Ltd	86.00	100.00	100.00	97.70
DD Energy Ltd	3.10	100.00	100.00	97.70
Arrabona Geothermal Ltd	3.10	100.00	100.00	97.70
Geo-Wendung Ltd	625.00	40.00	40.00	0.00
Pannunion Service GmbH	25.00	91.00	91.00	0.00

6.2. Main data of PannErgy's consolidated subsidiaries for 2016, based on the individual statements

PannErgy subsidiaries	Equity	Subscribed capital	Sales revenues	Business profit	Profit after taxes	Headcount
PannErgy Plc	12,864,923	421,093	587,667	-135,235	41,941	3
PannErgy Geothermal Power Plants Ltd	2,425,079	1,972,682	108,062	-233,420	-181,088	14
Miskolci Geothermal Ltd	7,584	5,000	1,269,721	169,615	207	4
Szentlőrinc Geothermal Ltd	21,790	5,000	88,367	38,195	16,688	2
TT-Geothermal Ltd	-24,345	5,000	0	-18,992	-19,187	0
CSRG Energy Ltd	250,013	7,500	0	-633	-3,959	0
PMM Trading Ltd	726,834	100,000	551,893	-190,304	-101,215	1
Kuala Ltd	65,935	3,000	1,105,475	94,396	17,090	1
Berekfürdő Energy Ltd	-14,858	24,100	29,235	-1,679	-7,293	0
DoverDrill Ltd	829,497	86,000	336,323	-34,267	-17,548	6
DD Energy Ltd	893,300	3,100	1,091,485	71,534	-142,742	1
Arrabona Geothermal Ltd	648,706	3,100	1,058,495	278,784	129,721	1

7. The Company's ownership structure, senior officers

7.1. The Company's ownership structure, shareholdings and voting rights

Description of the shareholders	Share capital in total = Introduced series					
	01.0.12016			31.12.2016		
	%	%	shares	%	%	shares
Domestic institutions	24.74	28.50	5,209,323	23.63	27.90	4,973,616
Foreign institutions	18.10	20.84	3,810,432	20.53	24.25	4,322,237
Domestic private persons	34.69	39.96	7,304,475	31.75	37.50	6,684,428
Foreign private persons	0.39	0.45	82,050	0.20	0.24	42,938
Employees, senior officers	0.94	1.08	197,253	0.60	0.71	127,253
Own holding	13.18	-	2,775,377	15.33	-	3,228,438
Owner belonging to the central budget	7.96	9.17	1,675,745	7.96	9.40	1,675,745
International Development Institutions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	**100.00**	**100.00**	**21,054,655**	**100.00**	**100.00**	**21,054,655**

7.2. Owners of the Company with shares over 5%

Name	Investor classification		Number (shares)	Shareholding (%)	Voting rights (%)
Benji Invest Ltd	Domestic	Institutional	2,424,010	11.51	13.59
National Assets Management Ltd	Domestic	Budgetary	1,675,745	7.96	9.40
ONP Holdings SE	Foreign	Institutional	1,359,103	6.46	7.62

7.3. Changes in the number of treasury shares held by Company in the year under review

Changes in the number of treasury shares held by PannErgy Group in the year under review:

	01.01.2016	30.06.2016	31.12.2016
At company level	1,840,174	1,962,135	2,293,235
Subsidiaries *	935,203	935,203	935,203
Total	2,775,377	2,897,338	3,228,438

* PannErgy shares held by PMM Ltd, the Company's 100% subsidiary.

7.4. Senior officers of the Company

The senior officers of the Company comprise the members of the Board of Directors. Data of the members of the Board of Directors, as well as their respective shareholdings on 31 December 2016:

Name	Position	Starting date of the appointment	End/termination of the appointment	Shareholding (pcs)
Balázs Bokorovics	Member, Chairman	31.08.2007	indefinite term	-
Dénes Gyimóthy	Member, Vice-Chairman, Acting CEO	31.08.2007	indefinite term	-
Gábor Briglovics	Member	31.08.2007	indefinite term	13,600
Katalin Gyimóthy	Member	28.04.2016	indefinite term	-
Lilla Martonfalvay	Member	28.04.2016	indefinite term	100,000
Csaba Major	Member	30.04.2013	indefinite term	-
Attila Juhász	Member	31.08.2007	indefinite term	-
István Töröcskei	Member	31.08.2007	indefinite term	-
Shareholding (shares) in total				113,600

The Company does not have (strategic) employees influencing operations.

PannErgy Group's consolidated annual statements prepared in conformance to the international financial reporting standards and the annual report are signed by Dénes Gyimóthy, acting chief executive officer.

8. PannErgy Group's strategy

Dependence on fossil energies can be moderated and in some cases eliminated by utilizing other, alternative energy resources, such as geothermal heat. One of the most significant, still minimally exploited treasures in the Carpathian Basin, and specifically Hungary, is a network of geothermal resources lying under the ground, the utilization of which would make heat and even electric power readily available in an environmentally friendly manner. The growth of demands for energy seems to be unstoppable, while the volume of both domestic and global, conventional sources is limited.

The expert-like and effective geothermal energy production results in the exploitation of a huge pool of resources that have just minimally utilized so far, while being one of the cleanest and most environmentally friendly ways of power generation. Today, the European Union does not only welcome these new forms of energy production, but also tries to orient the member states, including Hungary, by establishing strict programs and targets.

PannErgy Group's strategy is centered around its aspiration to become the dominant business operator for geothermal heat utilization in the region, maintain this position, and at the same deliver environmentally friendly supplies at high operating safety, without geopolitical risks. PannErgy Group is committed to the energy-related exploitation of one of Europe's largest active geothermal water resource. Geothermal heat can serve households and industrial users in the long run, and with PannErgy's environmentally sparing investments considerable reduction in energy expenses can be achieved.

Upon the commissioning of the Győr project opened in the autumn of 2015, PannErgy revaluated its investments and project-based operations so far. This revaluation move had been partly commenced with portfolio screening and the transformation operations in the last quarter of 2015, and then was carried on in 2016. The Company assessed its funding and investment options, as well as demands in the heat supply market, and found that there was strong demand for well-organized energy producers featuring massive competences and offering geothermal energy capacities.

The European Union directive pertaining to the EU members states sets a target where annually new energy savings corresponding to 1.4 percent of the ultimate energy consumption of the member states should be realized in the period until 2020 for reasons of competitiveness and supply safety. In comparison with the currently effective requirements, it poses more stringent expectations, as for the entire European Union the prescribed rate of savings has been increased to 20 percent instead of the earlier 9 percent target. In Hungary, the volume of energy from geothermal sources is to reach 12,000 terajoules by 2020. With its projects already in operation, PannErgy Group is planning to approach 15% soon.

PannErgy has not just become a company showing the broadest competence and experience in implementing geothermal investments, but at the same time has emerged as one of the largest groups involved in the generation and utilization of geothermal energy in recent times.

Among short-term future goals, the expansion of production capacities in both the Geothermal System of Győr and Geothermal System of Miskolc is handled as a priority alongside the further optimization of the system and the resulting maximization of the volume of sold heat.

The Company also wishes to make its still unutilized capacities and the associated saving benefits to new partners. Industrial utilization calls for such particular expertise and experience in project management that – in the Company's opinion – in the field of the use of geothermal energy is accessible only to PannErgy Group in Hungary at the highest level.

9. Environmental protection

The Company handles the high-standard management of environmental protection as a priority. In the field of geothermal energy, they work to introduce and broadly spread one of the most environmentally friendly way of energy production in Hungary.

The subsidiaries with geothermal operations undertake the impact assessments required by the relevant environmental regulations, as well as the performance of the necessary studies and compliance with the relevant legal regulations.

In line with the energy politics of Hungary and the European Union, the Company's objective is to enforce environmental aspects in economic development. The underlying condition is the utilization of renewable energies at the largest possible scale, the shaping of a harmonic relationship between society and nature, indirectly having a positive influence on the source structure of domestic energy carriers by facilitating progress from the direction of renewables. In parallel, considering both economic and technical aspects, the Company shoulders responsibility for the continuous improvement of the environmentally friendly characteristics of the project locations, as well as the environmentally friendly exploitation of natural resources. Research and development are part of PannErgy Group's environmental policy. PannErgy Group is fully committed to the continuous improvement of environmental and energy performance, compliance with sustainability as an attitude. The Company has a strong focus on the social impacts of its activities, and has the goal to arrive fully responsible and sustainable operations.

10. HEADCOUNT INFORMATION

PannErgy Group's average statistical headcount data in the year under review were:

Own headcount	31.12.2016	31.12.2015	Change
PannErgy Plc	3	6	-3
Associated companies	30	34	-4
Total	**33**	**40**	**-7**

The average employee headcount of PannErgy Group in 2016 was 33 persons, which meant 18% reduction in comparison with the 40-strong average statistical headcount in 2015. The reason for this reduction was the Company's move to rationalize the headcount substantially by focusing on the operation of the existing projects. As of 31 December 2016, the actual employee headcount of PannErgy Group was 21 people, and the difference between the average statistical headcount and the actual headcount of employees originated from part-time employments at the individual Group entities.

11. DIVIDEND PAYMENT, ACQUISITION OF TREASURY SHARES

The Company realized loss after taxes in 2016 , and therefore the Board of Directors has not proposed dividend payment to the General Meeting.

As of December 31 2016, the Company held 3,228,438 treasury shares belonging to PannErgy Plc, exceeding the treasury shareholding on 31 December 2015 by 453,061 shares. The underlying changes comprised an increase of 588,061 treasury shares held alongside a decrease of 135,000 treasury shares. This latter decrease of 135,000 treasury shares was associated with the managerial share option program.

The increase in the number of treasury shares during the period under review was in line with Resolution 19/2016 (Apr 28) of the Company's General Meeting, under which from May 2016 PannErgy Plc launched a treasury share repurchasing program. The first month of the program shall be May 2016, whereas its last month is April 2017. In the framework of the program, PannErgy Plc should purchase PannErgy shares via the Budapest Stock Exchange in an amount of at least HUF 20 million in each month, and maximally for HUF 300 million in total with the additional, restrictive condition that in the course of the scheduled share repurchasing program the individual purchase price of the shares may not exceed HUF 500. On 2 September 2016, PannErgy Plc advised the actors of the capital markets that as part of the treasury share repurchasing program disclosed publicly and described in details on 22 July 2016 the Company had targeted the buy-back of 300 ordinary shares a trading day, which was decreased to 2300 shares from 2 September 2016.

With respect to the treasury share transactions, detailed information is available in the Company's public disclosures.

12. MAJOR RISKS OF THE COMPANY, ASSOCIATED UNCERTAINTIES

A particular feature of geothermal developments is the presence of remarkably high geological risks, which the Group aspires to mitigate by obtaining and integrating the broadest possible range of geological and other professional, scientific information.

The effects of the risks and the form of their management are explained in Note no. 36: Financial risks of the consolidated financial statements for 2016. The key risks that PannErgy Group faces are summed up below.

Exchange risk

From among the Company's transactions concluded in foreign currencies, Euro-denominated transactions have the largest share. As for liabilities, the Company is exposed to foreign exchange risks due to the investment loans outstanding in foreign currencies, as well as cash flow risks arising from the changes of interest rates, which can be mitigated by the partially EUR-based incomes of the Geothermal Project of Győr.
The share price risk is to be considered in view of the marketability of repurchased treasury shares and the value of the managerial share option program.

Interest risk

The source of interest risk is the exposure originating from the changes in the interest levels of the interest-bearing assets held by the Company and the interest level of loans taken out.

Credit risk

Credit risk is the risk of financial losses arising from the potential non-performance of any contracted obligation by the customer or partner. From the perspective of the Company, it primarily means the risk associated with the non-payment of customers. It is to be noted that the Company performs sales for a concentrated group of a small number of customers, which means a low level of diversification.

Liquidity risk

Liquidity risk represents the risk that the Company becomes unable to fulfill its financial obligations in a timely manner. The purpose of liquidity management is that sufficient resources should be provided for the fulfillment of liabilities upon their respective due dates. The Company's approach to liquidity management is that as far as it is possible there should always be adequate liquidity provided for the fulfillment of liabilities at their due dates under both ordinary and stressed circumstances without suffering unacceptable losses or putting the Company's reputation at risk. The Company can raise adequate liquidity by shaping the terms of funding sources in alignment with the lifecycle of the project.

Regulatory risk

From among the general types of regulatory risks, a factor to be specifically highlighted in relation to the Company is that the selling price of a determining part of the heat energy sold by the Group is subject to official price setting, and thus is regularly reviewed by the competent price setting organization, which can potentially modify or limit the Company's profitability. Consequently, considerable uncertainties arise with respect to the future selling prices.

Technological risk

The exploitation of geothermal energy carries unforeseeable risks as a result of both the incalculable availability of the geothermal energy carrier medium and the potential tolerance of equipment involved in the management of this medium to the unusual operating environment.

Application of financial instruments

The Company can opt for derivative transactions – either for stock-exchange futures treasury share transactions, or in relation to transactions for other financial and capital market instruments (or even capital gearing) – in order to hedge PannErgy Group's foreign currency risks, interest risks and other exposures, as well as to realize exchange gains. In 2016, the Company consummated interest swap transactions in connection with its FX-based investment loans and FX-rate futures agreements for its FX-based procurements that are detailed in Note *3.13. Financial instruments*, *10. Financial incomes*, *11. Financing expenditures, 36.2.3. Cash flow and real-value interest risks*.

13. PUBLICITY

At its website (www.pannergy.com), among others the Company makes regular and extraordinary disclosures. At the websites associated with its projects (www.miskolci-geotermia.hu, www.gyori-geotermia.hu, www.szentlorinc-geotermia.hu), PannErgy Group publishes professional information connected with the implementation of the projects. The publications, public information disclosed by PannErgy Plc can substantially assist the comprehension and evaluation of the Company's operation and economic situation, and therefore they are important amendments to the information shown in this report.

14. MAIN EVENTS AFTER THE BALANCE SHEET DATE

The table provides links to the events concerned. Based on the given references, comprehensive information is available at the Company's official places of publication.

15. EVENTS AFTER THE CONSOLIDATED BALANCE SHEET DATE

The table provides links to the events taking place after the consolidated balance sheet date. Based on the given references, comprehensive information is available at the Company's official places of publication.

Date	Type of news	Subject-matter, brief contents
15 March 2017	Extraordinary information	Treasury share transactions
10 March 2017	Extraordinary information	Treasury share transactions
9 March 2017	Extraordinary information	Invitation to the General Meeting
8 March 2017	Extraordinary information	Treasury share transactions
6 March 2017	Extraordinary information	Treasury share transactions
2 March 2017	Extraordinary information	Treasury share transactions
28 February 2017	Extraordinary information	Treasury share transactions
28 February 2017	Other information	Number of voting rights at PannErgy Plc
24 February 2017	Extraordinary information	Treasury share transactions
23 February 2017	Extraordinary information	Treasury share transactions
20 February 2017	Extraordinary information	Treasury share transactions
17 February 2017	Extraordinary information	PannErgy Concession Ltd has been formed
16 February 2017	Extraordinary information	Treasury share transactions
14 February 2017	Extraordinary information	Treasury share transactions
10 February 2017	Extraordinary information	Treasury share transactions
8 February 2017	Extraordinary information	Treasury share transactions
7 February 2017	Other information	Even greener future for Audi's heat
6 February 2017	Extraordinary information	Treasury share transactions
6 February 2017	Extraordinary information	PannErgy Plc's subsidiary has signed a concession agreement for the area of Győr
2 February 2017	Extraordinary information	Treasury share transactions
31 January 2017	Other information	Information relating to the performance of CSRG Energy Ltd's sales contract
31 January 2017	Other information	Number of voting rights at PannErgy Plc
31 January 2017	Extraordinary information	Treasury share transactions
27 January 2017	Extraordinary information	Treasury share transactions
25 January 2017	Extraordinary information	Treasury share transactions
23 January 2017	Extraordinary information	Treasury share transactions
19 January 2017	Extraordinary information	Treasury share transactions
17 January 2017	Extraordinary information	Treasury share transactions
16 January 2017	Extraordinary information	Quarterly Production Report
13 January 2017	Extraordinary information	Treasury share transactions
11 January 2017	Extraordinary information	Treasury share transactions
10 January 2017	Extraordinary information	Treasury share transactions
5 January 2017	Extraordinary information	Treasury share transactions
3 January 2017	Extraordinary information	Treasury share transactions
1 January 2017	Other information	Number of voting rights at PannErgy Plc

16. Date of the permitted release for disclosure

The financial statements were approved by the Company's Board of Directors and permitted for disclosure on 21 March 2017.

Dénes Gyimóthy
representing the Board of Directors

PannErgy Plc
Declaration of the Issuer
2016

Based on Section 2.4 and 3.4 of Appendix 1 to Decree 24/2008 (Aug 15) of the Ministry of Finance

Budapest, 23 March 2017

Dénes Gyimóthy
representing the Board of Directors

This announcement is published in Hungarian and English languages. In case of any contradiction between these two versions, the Hungarian version shall prevail.

DECLARATION

In association with PannErgy Group's consolidated financial statements for 2016 prepared in conformance to IFRS, as well as the business and management report, pursuant to the statutory requirements set forth in Section 2.4 and 3.4 of Appendix 1 to Decree 24/2008 (July 15) of the Ministry of Finance, I, the undersigned Dénes Gyimóthy, Acting Chief Executive Officer hereby declare in representation of the Board of Directors that

- prepared on the basis of the applicable accounting requirements and to the best of our knowledge, and also published at the time of the publication of the consolidated financial statements for 2016 prepared in conformance to IFRS, as well as the business and management report, PannErgy Plc's individual annual report offers a realistic and reliable view of the assets, liabilities, financial standing, as well as profits and losses of PannErgy Plc as a public issuer of securities, and;

- the business report associated with the annual report offers a reliable view of the situation, development and performance of PannErgy Plc as a public issuer of securities, and discloses the key risks and uncertainties;

- prepared on the basis of the applicable accounting requirements and to the best of our knowledge, the consolidated financial statements for 2016 prepared in conformance to IFRS with respect to PannErgy Plc (consolidated annual report) offers a realistic and reliable view of the assets, liabilities, financial standings, as well as profits and losses of PannErgy Plc as a public issuer of securities and the business entities involved in the scope of consolidation, and;

- the business and management report associated with the consolidated financial statements for 2016 prepared in conformance to IFRS (consolidated management report) offers a reliable view of the situation, development and performance of PannErgy Plc as a public issuer of securities and the business entities involved in the scope of consolidation, and discloses the key risks and uncertainties.

Dénes Gyimóthy
representing the Board of Directors