PannErgy Plc.

Parent Company's Financial Statement and Annual Report (prepared in accordance with International Financial Reporting Standard as adopted by the EU.) 2018.

including 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

(Free translation)

To the Shareholders of PannErgy Nyrt.

Opinion

We have audited the financial statements of PannErgy Nyrt. (the „Company") for the year 2018 which comprise the statement of financial position as at December 31, 2018 – which shows a total assets of thHUF 12,632,291 –, and the related statement of recognized income, statement of comprehensive income – which shows a net profit for the year of thHUF 164,867 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "The Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We are independent of the Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit matters	Related audit procedures
Revenue recognition	
(Details in sections 3.21 and 5 of the Notes to the consolidated financial statements) In 2018 the revenue of the Company is thHUF 648,443 and the revenue is a key performance indicator of the Company which may influence management to make sales contracts with non-ordinary, exceptional conditions and therefore we consider revenue recognition as a key audit matter.	Our audit procedures included: - considering the appropriateness of Company's revenue recognition accounting policies - we interviewed management, - we tested the design and operational effectiveness of Company's internal controls over sales cycle of the Company - we performed analytical reviews over revenue, VAT and trade accounts receivables - we gathered third party confirmations about revenue and receivables - we tested transactions post-balance sheet events

Other Information

Other information comprises the information included in the business report of the Company for 2018, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditors' report entitled *"Opinion"* does not apply to the other information.

Our responsibility in connection with our audit of the financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

In our opinion, the business report of the Company for 2018 corresponds to the financial statements of the Company for 2018 and the relevant provisions of the Accounting Act in all material respects.

The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

As the Company is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Company and its environment, we must report on whether we became aware of any material misstatements in the other information and, if so, on the nature of such material misstatements. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they 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 financial statements.

As part of an audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- ✓ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ✓ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- ✓ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✓ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ✓ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 27 April 2018 and our uninterrupted engagement has lasted since 28 April 2017.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the the Company, which we issued on 28 February 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

The engagement partner on the audit resulting in this independent auditor's report is the signatory of the report.

Budapest, 19 March 2019

Free translation Hungarian version is signed

Venilia Vellum Könyvvizsgáló és Adótanácsadó Kft.
Company registration no: 01-09-566797
Auditor registration no: 000340
IFRS qualification: IFRS000115
Issuer qualification: K000045
Address: 1026 Budapest, Szilágyi Erzsébet fasor 79.
Name of Authorized representative: Bukri Rózsa
on behalf of Venilia Vellum Ltd. and as a statutory registered auditor
Registration number of statutory registered auditor: 001130
IFRS qualification: IFRS000042
Issuer qualification: K000002

This is a translation of Hungarian original – in case of any differences the Hungarian original is prevails.

www.pannergy.com

PannErgy Plc.

Financial Statements for the year 2018

prepared in accordance with the International Financial Reporting Standard as adopted by the EU.

31 December 2018

Budapest, 19 March 2019

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STATEMENT OF PROFIT OR LOSS

	Note no.	2018.	2017.
		HUF Th	**HUF Th**
Revenue from sales	5	648,443	787,541
Direct costs of sales	7	-395,785	-544,635
Gross profit		**252,658**	**242,906**
Gross profit ratio %		**39.0 %**	**30.8 %**
Gross cash flow		**252,710**	**247,247**
Gross cash flow rate %		**39.0 %**	**31.4 %**
Indirect costs of sales	6	-150,875	-153,628
Other incomes	10	86,416	79,087
Other expenditures	9	-90,943	-30,282
Operating profit		**97,256**	**138,083**
Operating profit rate %		**15.0%**	**17.5 %**
EBITDA		**102,896**	**148,857**
EBITDA rate %		**15.9%**	**18.9 %**
Financial profit	11-12	79,073	-20,523
Profit before taxes		**176,329**	**117,560**
Income tax	31	-11,462	-43,132
Net profit for the year		**164,867**	**74,428**
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**164,867**	**74,428**
Earnings per ordinary share (HUF)			
Basic	32	8.52	4.00
Diluted	32	8.47	3.82

STATEMENT OF FINANCIAL POSITION

	Notes no.	31. Dec. 2018	31. Dec. 2017
		HUF Th	HUF Th
Other intangible assets	14	165	217
Tangible assets	15	49,873	1,343
Marketable properties	15	410,594	343,000
Long-term investments	16	4,658,662	4,627,883
Deferred tax asset	30	25,293	12,475
Long-term receivables	17	8,301	11,243
Total fixed assets		**5,152,888**	**4,996,161**
Trade receivables	20	59,652	135,028
Short-term loan receivables	42.3	7,079,493	6,660,581
Other receivables and current assets	22	295,851	129,104
Securities	23	25	200,027
Cash and cash equivalents	33	44,382	21,503
Total current assets		**7,479,403**	**7,146,243**
TOTAL ASSETS		**12,632,291**	**12,142,404**
Subscribed capital	24	421,093	421,093
Reserves without comprehensive income for the year	26	13,065,802	12,308,074
Comprehensive income for the year	32	164,867	74,428
Treasury shares	25	-1,294,235	-1,095,778
Total equity		**12,357,527**	**11,707,817**
Long-term loans, leases	27	18,736	-
Provisions	28	-	-
Total long-term liabilities		**18,736**	**-**
Trade payables	34	92,241	154,586
Short-term debt	29	100,000	48,362
Short-term part of long-term loans	29	11,462	-
Income tax paid	31	4,854	3,452
Other short-term liabilities	30	47,471	228,187
Total short-term liabilities		**256,028**	**434,587**
TOTAL LIABILITIES AND EQUITY		**12,632,291**	**12,142,404**

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR

	2018.	2017.
	HUF Th	**HUF Th**
Net profit for the year	**164,867**	**74,428**
Other general incomes		
Exchange difference from the HUF conversion of the reports of foreign subsidiaries	-	-
Exchange difference from the HUF conversion of affiliated companies & companies under common management	-	-
Marketable financial assets with deferred taxes	-	-
Cash flow hedging transactions with deferred taxes	-	-
Share from the comprehensive income of affiliated companies	-	-
Other comprehensive incomes in the period with tax implications	-	-
Total comprehensive income for the year / attributable to	**164,867**	**74,428**
Shareholders of the Company	**164,867**	**74,428**

STATEMENT OF CHANGES IN THE EQUITY

Description	Subscribed capital	Reserves	Treasury shares	Equity
Balance as of 31 December 2016	**421,093**	**12,459,178**	**-1,027,369**	**11,852,902**
Profit for 2017	-	-74,428	-	-74,428
Capital issue	-	-	-	-
Dividends	-	-	-	-
Other equity-related transactions	-	-151,103	-	-151,103
Treasury shares	-	-	-68,409	-68,409
Decrease in treasury shares	-	-	-	-
Balance as of 31 December 2017	**421,093**	**12,382,503**	**-1,095,778**	**11,707,817**
Profit for 2018	-	164,867	-	164,867
Capital issue	-	-	-	-
Dividends	-	-	-	-
Other equity-related transactions	-	-	-	-
Treasury shares	-	683,300	-198,457	484,843
Decrease in treasury shares	-	-	-	-
Balance as of 31 December 2018	**421,093**	**13,230,669**	**-1,294,235**	**12,357,527**

STATEMENT OF CASH-FLOWS

	Note no.	2018.	2017.
Cash-flows from operations		**HUF Th**	**HUF Th**
Profit before taxes		**176,329**	**117,560**
Adjustments in relation to the profit before taxes and the cash flow of business operations			
Amortization and depreciation of tangible and intangible assets	14,15	5,640	6,620
Effect of deferred taxes	31	-12,819	34,324
Income tax expenditures	31	-11,462	-43,132
Exchange gain/loss on credits	13	-	424
Impairment of tangible assets, goodwill	9,15	-	4,153
Changes in the real market values of properties	10,15	-69,057	-70,469
Interest payable/received	11,12	1,368	-229,265
Expenditures of the share option program	36	-	-209,046
Changes in working capital elements			
Income taxes paid	31	-	3,452
Increase/decrease of receivables	20,21	-24,930	341,056
Increase/decrease of payables	29,30, 34	-243,061	212,193
Increase/decrease of prepaid income taxes	22	1,402	2,284
Interests received	5,11	20	242,534
Interests paid	12	-1,388	-13,269
Total cash-flows from operations		**-177,958**	**399,419**
Cash-flows from investing activities			
Acquisition of investments in non-public company	16	-	-250,000
Increase/decrease of existing investments	16	-30,778	-
Acquisition of tangible and intangible assets	14,15	-54,120	-762
Sales of tangible and intangible assets	14,15	1,462	-
Loans to related parties	42.3.	-704,254	-86,385
Repayments of loans from related parties	42.3.	221,843	759,972
Borrowings from related parties	42.3	-	39,734
Repayments of borrowings to related parties	42.3	-	-626,963
Total cash-flows from investing activities		**-565,847**	**-164,404**
Cash-flows from financing activities			
Changes in Long-term loans	27	18,736	-
Changes in Short-term loans	29	63,100	-
Purchase / sales of treasury shares	25	484,845	68,410
Increase/decrease in securities	23	200,003	-200,007
Total cash-flows from financing activities		**766,684**	**-268,417**
Change in cash and cash equivalents		**22,879**	**-33,402**
Cash and cash equivalents at the beginning of the period		**21,503**	**54,905**
Cash and cash equivalents at the end of the period		**44,382**	**21,503**

Tartalomjegyzék

1. General background and description of the activities

As Pannonplast Plc's legal successor, PannErgy Plc (hereinafter referred to as PannErgy Plc, PannErgy or the Company) is a business entity looking back on a past of nearly a century. On 31 May 1991, the Company transformed into a public company limited by shares, in line with Act XII of 1989 on the

Transformation of Economic Organizations. In 2007, PannErgy set the goal 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 line with this change in its strategy, following 2007 its core activities encompassed the utilization of renewable, and in particular geothermal energy instead of the earlier manufacturing operations in the plastics industry. As of 31 December 2018, PannErgy Plc's subsidiaries operated projects for the utilization of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő.

The subsidiaries are listed in Note 39.

PannErgy Plc, as individual parent company has asset management as core business and holding control over PannErgy Group. Moreover, the Company focuses the efficient utilization of the industrial properties from the period before 2007 particularly on purpose to sale and before this sale on purpose to rent activity.

The Company is registered in Hungary, under the address of H–1117 Budapest, Budafoki út 56.

2. Basis of the compilation of the report

The accounting and other records for the entities belonging to PannErgy Plc. are managed in line with the Hungarian laws and accounting regulations in effect from time to time.

PannErgy Plc as a company listed in any regulated market of the European Economic Area ("EEA") has the statutory obligation to apply the EU IFRSs for individual reporting purposes from 1 January 2018. Within the meaning of this regulation, **since 1 January 2018 PannErgy Plc, as the individual company has compiled both its consolidated financial statements and individual, parent company financial statements in accordance with the requirements of the EU IFRSs.**

PannErgy Plc. as parent company's financial statements are prepared with reliance of the historic cost principle with the exception of financial instruments, certain financial assets, liabilities and assets held for sale, which are presented in the consolidated statement of financial position at their real values. PannErgy Plc states figures in the consolidated financial statements in Hungarian Forint currency, as rounded up to HUF Thousand, with exceptions specifically indicated.

PannErgy Plc. as parent company's financial statements present the company's financial situation and activities, the results of its cash flow and changes in the equity capital.

3. Summary of the key points of the accounting policies

3.1. *General principle*

The accounting policies used in the compilation of the financial statements are described below. PannErgy Group applied the accounting principles described and detailed herein consistently in relation to all the presented business years. At the same time with first adaptation of EU IFRSs with 1st January 2018, the Company presents basic data of the financial statement by EU IFRSs as well, it guarantees the direct comparison between the periods.

3.2. *Effect of the amended rules of the IFRS standards to be implemented as of 1 January 2018 and the introduction of new standards on the financial statements*

The Company first applied IFRS 9 Financial instruments and IFRS 15 Revenue from contracts with customers when compiling its financial statements for the financial year starting on 1 January 2018. This is the only standards that is adopted for the first time in the course of the preparation of the financial statements for the financial year starting on 1 January 2018 that has a relevant impact on such statements.

New and amended standards and interpretations entering into force in the current reporting period as published by the IASB and endorsed by the EU:

IFRS 9 "Financial instruments" – endorsed by the EU on 22 November 2016 (to be applied for reporting periods beginning on or after 1 January 2018).

IFRS 15 "Revenue from contracts with customers" and subsequent amendments – endorsed by the EU on 22 September 2016 (to be applied for reporting periods beginning on or after 1 January 2018),

Amendments of IFRS 2 "Share-based payment" – Classification and measurement of share-based payment transactions – endorsed by the EU on 26 February 2018 (to be applied for reporting periods beginning on or after 1 January 2018).
This standard has no relevant effect on the financial statements of the Company.

Amendment of IFRS 4 "Insurance contracts" – Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" – endorsed by the EU on 3 November 2017 (to be applied for reporting periods beginning on or after 1 January 2018 or from the first adoption of IFRS 9).
This standard has no relevant effect on the financial statements of the Company.

Amendment of IFRS 15 "Revenue from contracts with customers" – Comments on IFRS 15 "Revenue from contracts with customers" – endorsed by the EU on 31 October 2017 (to be applied for reporting periods beginning on or after 1 January 2018):
This modification of the standard has no relevant effect on the financial statements of the Company.

Amendment of IAS 40 "Investment property" – Reclassification of investment properties – endorsed by the EU on 14 March 2018 (to be applied for reporting periods beginning on or after 1 January 2018).
This modification of the standard has no relevant effect on the financial statements of the Company.

Amendment of IFRS 1 and IAS 28 – "Annual Improvements to IFRS Standards 2014–2016 Cycle" – As a result of the IFRS Improvement project, amendments to certain standards (IFRS 1, IFRS 12 and IAS 28) were adopted, primarily to eliminate inconsistencies and clarify explanations – endorsed by the EU on 7 February 2018 (in the case of IFRS 1 and IAS 28, the amendments must be applied for reporting periods beginning on or after 1 January 2018).
These modifications of the standards have no relevant effect on the financial statements of the Company.

IFRIC 22 interpretation "Foreign currency transactions and advance consideration" – endorsed by the EU on 28 March 2018 (to be applied for reporting periods beginning on or after 1 January 2018).
This IFRIC interpretation has no relevant effect on the financial statements of the Company.

New and amended standards and interpretations issued by the IASB, endorsed by the EU but not yet effective:

As of the date of approval of these financial statements, the following standards issued by the IASB and endorsed by the EU and amendments of existing standards and interpretations have been published but are not yet effective:

Amendment of IFRS 16 "Leases" – endorsed by the EU on 31 October 2017 (to be applied for reporting periods beginning on or after 1 January 2019).

This standard offers the option of earlier application; however, the Company did not make use of that option when compiling is financial statements for 2018. The standards will be first applied in the business year beginning on 1 January 2019, in conformity with the general application requirement.

The new standard set out major changes regarding lease contracts; special attention is paid in the mode of recognition of the fact that lease contracts represent an important financing arrangement as they allow business entities to use fixed assets without committing to a substantial initial outflow of cash. According to the effective lease standard, the lessee can recognize such agreements off the balance sheet (for operative leases) or present them in the statement of financial position (for finance leases). The new standard requires the lessee to disclose almost all lease agreements in the statement of financial position, which reflects its right to use the asset over a specific period of time as well as the commitment to pay the associated leasing fee. For lessors, the accounting treatment remains essentially unchanged.

The Company has assessed the full impact of IFRS 16; the standard had no effect on the contents of these financial statements.

Amendments of IFRS 9 Financial – Prepayment Features with Negative Compensation – endorsed by the EU on 22 Mach 2018 (to be applied for reporting periods beginning on or after 1 January 2019).
This modification of the standard has no relevant effect on the financial statements of the Company.

<u>Standards and interpretations issued by the IASB, but not endorsed by the EU:</u>

Currently the IFRS endorsed by the EU are not substantively different from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, the amendments of existing standards and new interpretations, which had not been endorsed by the EU as of the date of publication of the financial statements:

IFRS 14 "Regulatory Deferral Accounts" (to be applied for reporting periods beginning on or after 1 January 2016) – The European Commission adopted a decisions that it will not apply the endorsement process to the present interim standard and to wait for the final version of the standard instead.

IFRS 17 "Insurance contracts" (to be applied for reporting periods beginning on or after 1 January 2021).

Amendments of IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in associates and joint ventures" – sale or transfer of assets between the investor and its associates and joint ventures (the effective date has been postponed for an indefinite time while the research project arrives at a conclusion regarding the equity method).

IAS 19 "Employee benefits" – Plan Amendment, Curtailment or Settlement (to be applied for reporting periods beginning on or after 1 January 2019)

Amendments of IAS 28 "Investments in Associates" – Long-term interests in associates (to be applied for reporting periods beginning on or after 1 January 2019)

Amendments of certain standards – "Annual Improvements to IFRS Standards 2015–2017 Cycle" – As a result of the IFRS Improvement Project, amendments of certain standards (IFRS 3, IFRS 11, IAS 12 and IAS 23) have been adopted, primarily to eliminate inconsistencies and clarify explanations (to be applied for reporting periods beginning on or after 1 January 2019).

IFRIC 23 "Uncertainty over income tax treatments " – (to be applied for reporting periods beginning on or after 1 January 2019).

Amendments to references to the conceptual framework in IFRS standards (to be applied for reporting periods beginning on or after 1 January 2020)

The implementation of these amendments, new standards and interpretations would have no material affect on the financial statements of the Company.

3.3. *Functional currency*

The functional currency is the currency defined in the Standard IAS 21 The Effects of Changes in Foreign Exchange Rates, meaning that it is the currency of the primary economic environment where the business entity operates, and that may be different from the currency of presentation.
The functional currency of the Company is Hungarian Forint, which is the currency of the primary economic environment. The Company does not pursue business operations in any other environment that would justify the use of a functional currency other than Hungarian Forint. Accordingly, the effects of changes in the exchange rates are not discussed in the financial statements.

3.4. *Transactions on foreign currencies, conversions*

Foreign exchange transactions are converted into Hungarian Forint at the exchange rates that are in effect on the day of the transaction or – in the case of revaluation – valuation. The exchange gains and losses originating from the year-end revaluation of the financial assets and liabilities that come from these transactions and are recorded in foreign currencies are presented in the profit & loss account. The exchange gains and losses are shown in the "Financial incomes" or "Financial expenditures" line of the profit & loss account.

3.5. *Fair value measurement*

The Company applies fair value measurement to marketable financial assets and fixed assets held for sale (fixed assets held for the purpose of selling).

Beyond the foregoing, the Company accounts for its non-marketable assets and liabilities, as well as assets and liabilities not held for sale at their respective historic costs after depreciation, with proper respect to the specific characteristics of valuation and recognition under the associated IFRSs.

Initially, the Company is required to evaluate its financial assets or liabilities at their fair value, including – in case these financial assets or liabilities are not recognized at their fair values in the light of the profit or loss – the transaction costs that are directly attributed to the issuance or acquisition of the financial assets or liabilities concerned.

In the course of follow-up evaluation, the Company applies fair value measurement only to assets that are qualified to be fixed assets held for sale, marketable financial assets and derivative financial assets. The Company presents changes in the fair values in under other comprehensive incomes, i.e. among financial expenditures/incomes for financial assets and other expenditures/incomes for fixed assets held for sale.

3.6. *Intangible assets*

Based on the turnover of assets within the conceptual framework principles of financial reporting and the IAS 38 Intangible assets standard, the Company include those resources coming under the Company's control as a result of historic events in the group of intangible assets that are expected to generate economic profits for the Company in the future, and whose historic values can be reliably measured, that originate from identifiable sources (based on contracts or other rights, or that can be separated), while that are not monetary assets with respect to their physical appearance.

In the statement of financial position, intangible assets are recorded at cost by PannErgy Group because due to the special nature of these assets the active market cannot be interpreted. These costs are reduced by the accumulated depreciation stated in line with the respective useful lifetimes and any potential impairment losses.

Among the intangible assets of the Company, software used for operations and valuable rights can be found.

Softwares are essentially software applications developed by third parties, the Company is not involved in own software development activities.
Purchased computer software programs are capitalized at their historic costs calculated with respect to the costs incurred with their purchasing and commissioning. These historic costs are depreciated over their useful lifetimes of 3–5 years, as appropriate for the type of the software in question.

At the Company, certain intangible assets are stated in the Company's books at zero values at the end of their useful lifetimes, and should be written off, but they are continued to be used by the Company owing to changes in the fundamental assumptions underlying their useful lifetimes. To avoid such situations, the Company re-estimates their useful lifetimes and depreciations each year, on the balance sheet date. Following the re-estimation, in the light of any modification of useful lifetimes any difference between the depreciation stated until the balance sheet date and the depreciation corresponding to the recalculated useful lifetime is recognized in the profit or loss or reserves, depending on that the effect of re-estimation belongs to current or previous period.

This re-estimation of the useful lifetime is not relevant to the purchasing of intangible assets with purchasing values under HUF 100,000, as these purchases under the given limit value are not considered to be substantial by the Company, and therefore no purchases under the given limit value are capitalized. The values of these purchases are presented in the profit & loss account for the year under review in the form of depreciation, and the Company maintains separate records of them with proper respect to the criteria of asset management.

3.7. *Impairment losses of non-financial assets*

The Company does not account for depreciation for intangible assets that have indefinite useful lifetimes, or are still not suitable for use, but reviews them annually with respect to potential impairment losses.

Assets where the Company recognizes depreciation are also subjected to review for impairment losses in all the cases when the given events or changed circumstances indicate that the book value may not be fully returned.

If the Company experiences signs based on which the realizable value of tangible assets and intangible assets may drop under the respective book values, then the values for impairment losses are reviewed. In case any realizable value comes under the respective book value, for assets managed at their historic costs call for the recognition of impairment losses against the amount of the profit or loss. The realizable value is the larger value of the usage value and market value of the given asset. The market value corresponds to the amount that can be realized during transactions in between non-associated parties, whereas the usage value equals to the net present value of the cash flows arising from the continuous use of the assets and the sales of the asset at the end of its useful lifetime.

On each balance sheet date, PannErgy Group examines whether or not the reasons for the impairment losses recognized earlier are still existent. Any impairment loss recognized earlier can be written back only if there has been any change in the circumstances that were taken into consideration at the time of the last statement of the impairment loss. Impairment losses can be written back only to the level where the book value of the asset does not exceed the value of return or the theoretical book value of the asset less the depreciation of the asset in case impairment loss would not have been stated.

3.8. *Research and development*

For the examination of the presentation of intangible assets from own production, the Company divides the production of these assets into a research and development phase. If in the course of the project for the production of any own intangible asset the Company is not able to distinguish the research phase from the development phase, the expenditures belonging to the project are handled as if they were incurred solely in the research phase. Intangible assets originating from research (or the research phase of any internal project) cannot be recognized, and therefore the Company is required to account for the expenditures associated with the research as expenditures to be presented upon its occurrence.

The research and development activity is not relevant at Company, since it’s profile is asset-management and holding-control.

3.9. *Property, machines and equipments*

At the statement of financial position of PannErgy Plc. there are office buildings held for sales (and utilized as investments until their selling) and industrial facilities that are suitable for production (industrial properties).

In connection with the classification of tangible assets, the Company clearly distinguishes fixed assets held for sale, investment properties and other properties, plants and equipment that do not fit these special classification categories but belong to IAS 16.

3.9.1. Investment properties

Based on the IAS 40 Investment properties standard, the definition of properties encompasses building plots, buildings (building parts) and constructed structures. The Company manages and keeps records of all such properties as investment properties that are held for the purpose of lease or in expectation of value increase, and that are not maintained for purpose of the use or administration of the production or supply of goods/services or selling in the normal course of business.

During the period under review, among assets the Company stated its own real-estate properties that were geographically registered in District XXI of Budapest and Debrecen sites (building plots, buildings, constructed structures), and had been acquired still in the period associated with plastics industry activities pursued as core activities before the group-level strategic change in the operating profile of PannErgy Group as investment properties, because now these real-estate properties were utilized by way of lease-out, which was not related to PannErgy Group's core activities, i.e. geothermal energy production and sales directly or indirectly. Based on the existing underlying contracts, it is likely that future economic profits associated with these investment properties will be realized by the Company, and the market values of these investment properties can be reliable measured.

At the end of the period under review, in the light of the available information the Company reclassified its former investment properties into the category of fixed assets held for sale.

3.9.2. Assets held for sale

The Company classifies any fixed assets as held for sale in case the book value of the given asset is expected to return by way of sales instead of continuous use. In line with the relevant requirements of the IFRS 5 standard, the asset has to be in conditions based on which it can be stated that it is ready for being sold, and the probability of selling needs to be considerable. The Company deems the probability of selling to be considerable, and therefore it is taken as the basic condition of recognizing the asset as an investment asset:
if the Company's supreme body/management has confirmed its commitment to the planned sale, and based on this commitment it is confirmed that there exists a plan for the identification of an actual customer;

- if after its documented commitment the Company carries out active marketing activities for selling at a realistic price that is in line with the value of the asset as soon as possible and under the most favourable conditions that are available;

- if it is not likely that the selling plan undergoes any substantial change, or it is not likely to be withdrawn;

- if on the basis of the plans, sale is expected to occur within one year following the date of the classification. There may be specific cases when the period of sale is extended to more than a year. Such cases include when events or circumstances falling beyond the scope of the Company's control cause any delay in the conclusion of sale, or there is sufficient evidence available that the business operator continues to be committed to the plan to sell the asset.

- If based on the foregoing details the Company classifies an asset to be an asset held for sale, at the moment of such reclassification the depreciation of the asset is stopped, and reclassification is performed on the basis of the valuation that is valid at the time of the classification, at real value less the costs of sales; this principle is also applicable to any subsequent sale.

The Company presents fixed assets held for sale separately from the other assets in its financial statements compiled in accordance with the IFRSs. Accumulated incomes or expenditures connected with the reclassification, subsequent selling as set off against other comprehensive incomes are presented by the Company separately.

At the end of the period under review, in the light of the sales plans, actions and available information, the Company reclassified its former investment properties into the category of fixed assets held for sale.

3.9.3. Tangible assets belonging to IAS 16 Property, plant and equipment

The Company manages all long-term assets that do not belong to the category of investment properties or fixed assets held for sale in accordance with the requirements of the IAS 16 Property, plant and equipment standard. These are such permanent, tangible assets (use during more than one business period), i.e. resources coming under the Company's control as a result of purchase events that are expected to generate economic profits for the Company in the future, whose costs can be reliably measured and that are used by the Company for production or the supply of services or administration.

Property, plant and equipment are started at their original costs less depreciation. The costs of tangible assets depend on the form of production, acquisition. In the case of individual purchasing, the purchasing cost equals to the cost, whereas in the event of acquisition during business combination it is the fair value, or for assets from own production it corresponds to the amount of expenditures in the development phase.

The original cost includes the costs directly incurred with the acquisition of the items. After initial capitalization, subsequent costs are presented as items increasing the book value of the asset or separate assets only if the Company is likely to have a share of the future economic profit originating from the given item, and when the cost of the item can be reliably measured. The book values of the replaced components of the items are written off. The costs incurred after the commissioning of the tangible asset, such as repair servicing and maintenance costs, are recognized by the Company against the profit in the period when they are actually incurred.

For tangible assets valuated with the use of the at cost model, depreciation and residual value are determined on the basis of the cost and useful lifetime, in which context the cost less the residual value is depreciated over the useful lifetime and stated in the profit & loss account for the year under review as compiled under IFRSs. The Company determines the residual value as the amount that is expected to be realized at the end of the useful lifetime of the asset after the deduction of the foreseeable costs of alienation.

For all the tangible assets, the residual value and useful lifetime (and consequently the applied depreciation rate) are reviewed annually, and re-estimated as necessary.

At the Company, certain tangible assets are stated in the Company's books at zero values at the end of their useful lifetimes, and should be written off, but they are continued to be used by the Company owing to changes in the fundamental assumptions underlying their useful lifetimes. To avoid such situations, the Company re-estimates their useful lifetimes and depreciations each year, on the balance sheet date. Following the re-estimation, in the light of any modification of useful lifetimes any difference between the depreciation stated until the balance sheet date and the depreciation corresponding to the recalculated useful lifetime is recognized in the profit or loss for the year under review or reserves, depending on that the effect of re-estimation belongs to current or previous period.

This re-estimation of the useful lifetime is not relevant to the purchasing of intangible assets with purchasing values under HUF 100,000, as these purchases under the given limit value are not considered to be substantial by the Company, and therefore no purchases under the given limit value are capitalized. The values of these purchases are presented in the profit & loss account for the year under review in the form of depreciation, and the Company maintains separate records of them with proper respect to the criteria of asset management.

PannErgy Group does not recognize depreciation for building plots. The Company calculates the depreciation of properties, plants and equipment with the use of the straight-line method, during which the costs or revaluated amounts of assets are reduced to the respective residual values over the following estimated useful lifetimes:

Properties	20 - 50 years
Production and other machinery, equipments	2 – 8 years
Vehicles	5 years

The book value of an asset is immediately reduced to the value of return in case the corresponding book value is larger than the estimated value of return.

The Company depreciates tangible assets acquired in the framework of financial lease identically to owned tangible assets over the expected useful lifetime, provided that there is reasonable certainty that ownership will be transferred at the end of the tenor.

The profit or loss generated at the time of the selling of the assets are determined with proper respect to the book values and selling prices and stated among other expenditures and incomes.

The Company does not account for depreciation for tangible assets that have indefinite useful lifetimes, or are still not suitable for use, but reviews them annually with respect to potential impairment losses. Tangible assets where the Company recognizes depreciation are also subjected to review for impairment losses in all the cases when the given events or changed circumstances indicate that the book value may not be fully returned.
In case any returning value comes under the respective book value, for assets managed at their costs call for the recognition of impairment losses against the amount of the profit or loss. The returning value is the larger value of the usage value of the given asset and fair value less the costs of selling. The fair value less the costs of selling corresponds to the amount that can be realized during transactions in between non-associated parties less the costs of alienation, whereas the usage value equals to the net present value of the cash flows arising from the continuous use of the assets and the sales of the asset at the end of its useful lifetime.

On the financial statement’s date, the Company examines whether or not the reasons for the impairment losses recognized earlier are still existent. Any impairment loss can be written back only if there has been any change in the circumstances that were taken into consideration at the time of the last statement of the impairment loss. Impairment losses can be written back only to the level where the book value of the asset does not exceed the value of return or – if it is smaller – the theoretical book value of the asset less the depreciation of the asset in case impairment loss would not have been stated.

3.10. *Investments (projects)*

In the financial statement, the value of tangible assets also extend to the value of investments, which encompass the current costs of the geothermal energy and other types of investments in progress, where depreciation is recognized after the commissioning of the investment.

PannErgy Plc. takes the requirements of the IAS 11 Investment standard into account for projects affecting more than one reporting period, and contracted schedules are determined so that they should be in line with the occurrence of the costs of implementation and the schedule of invoicing.

3.11. *Long-term investments*

From among the methods determined in the IAS27 standard for the evaluation of investments, the Company uses the cost method for all its participations.

Any important element of the evaluation of participations is the review of impairment losses in pre-determined intervals, and therefore the Company performs the review of impairment losses on participations based on the relevant requirements of the IAS 36 standard, annually, at the time of the compilation of the financial statements, annual report in accordance with the IFRSs. If there are signs that the given participation has lost any of its value, the value of return of the participation has to be determined. The value of return corresponds to the larger value of the usage value (typically the value established with the discounted cash flow method on the basis of the Company's detailed financial plans for the future) and the fair value less the costs of alienation (if it can be determined exactly, with respect to market benchmark information). If the value of return is smaller than the cost of the asset, impairment loss needs to be raised and presented under the heading of other expenditures in the profit & loss account for the year under review.

Impairment losses have to be raised for participations in line with the foregoing, if on the accounting date of the financial statements compiled in accordance with IFRSs the book value is larger than the foreseeable value of return. The Company defines it as a sign indicating the loss of value if it has any information in relation to the financial difficulties of the subsidiary, the termination of customer contracts serving as the basis of its income-generating ability, the restructuring of the subsidiary that is unfavourable for the Company, the transformation of the financing structure that is unfavourable for the subsidiary or any threat of bankruptcy.

3.12. *Inventories*

The Company has no inventories in accordance with the nature of its business. If it changes, then the Company will adopt the rules of IAS 2 Inventories standard, with weighted average cost.

3.13. *Financial instruments*

By way of its Regulation 2016/2067, on 22 November 2016 the European Union endorsed the IFRS 9 Financial instruments standard, to be applied for business years starting on 1 January 2018 or thereafter. The Company has not made use of the option of early adoption; thus the standard has been applied since 1 January 2018.

The IFRS 9 Financial instruments standard describes the classification, valuation and presentation of financial assets and financial liabilities, and replaces the sections of the former IAS 39 standard applicable to the classification and valuation of financial instruments. IFRS 9 requires the classification of financial assets into categories measured at their fair values and depreciated cost, respectively. Financial assets need to be classified into these categories at the time of their initial recognition.

The introduction of IFRS 9 on 1 January 2018 has not caused any material change in the principles of classification applied by the Company; the financial instruments that have been recognized in the Company's financial statements at fair value continue to be presented in the same manner, and the same applies to the financial instruments that are recorded at amortized cost. The Company has set up a "amortized cost" category for the assets classified into the "Held to maturity" class, essentially because its business model does not entail any receivables held for sale. The "Available for sale" category essentially pertains only to securities, and the "Held for trading" category to derivative transactions.

Financial instruments include loans provided, loans received, debt securities purchased, debt securities issued, participations in other entities, trade receivables, trade payables, forward and swap transactions as presented in the Company's IFRS financial statements.

Financial instruments (including compound financial instruments) become an asset, a liability or an equity element based on the real content of the underlying contractual obligations; initially they are recognized by the Company at fair value. The fair value of a financial instrument is the price that the Company could realize on the sale of the asset or would pay upon the transfer of the related obligation, assuming arm's length conditions and a transaction in the normal course of business, at the time of the valuation.
Fair value can be determined on the basis of exact market prices or, in the absence of such, using valuation models. In the course of the selection and design of models, models appropriate for the characteristics of the instrument need to be applied and the general principles of fair value determination must be used.

3.13.1. Initial recognition at fair value

Pursuant to IFRS 9, the Company recognizes all financial instruments at fair value initially, at the time of the transaction, that is, on the day when the Company commits itself to the purchasing or selling of the instrument. The company includes in this value the transaction costs that are directly related to the acquisition or issuance of the financial instrument. Financial assets evaluated at fair value against the profit or loss are initially presented at fair value, while transaction costs are stated in the statement of profit or loss.
The classification of financial instruments is based on the purpose of the acquisition of the financial assets, the characteristics of the financial instruments and the definitions of the categories of financial instruments under the IFRS 9 standard. The Company decides on the classification of financial assets at the time of their initial recognition. For subsequent presentation, financial instruments can be classified in the following categories:

3.13.2. Receivables

For the recognition of impairment, the Company introduced an IFRS 9 compatible model based on expected lending loss, to replace the incurred loss model of IAS 39. This change in IFRS 9 had no effect on the financial statements of the Company in the reporting period in the field of the impairment of receivables due to the portfolio of receivables and the nature of the Company's operations and contractual relations.

Trade receivables comprise the amounts due from customers for goods sold or services rendered during the ordinary course of business. If these amounts are expected to be collected within one year, they are classified into current assets, otherwise they are recognized among non-current assets, in conformity with their maturities.

The Company's trade receivables consist almost exclusively in receivables from domestic undertakings based on long-term contractual relations. It was found during the classifications regarding the 2018 business year that there is no need to establish a standard collection process for the trade receivables of the Company as its trade debtors has always paid in time, observing the due dates of payment. Nevertheless, since 1 January 2018 the Company has determined impairment losses expected to occur based on the "expected credit loss" model, meaning that an impairment loss matrix that is designed relying on past events and also considers forward-looking information is used, broken down by type of debtor based on the nature of the relationship with the partner (term of the contract, strategic nature of the contract). For the calculation of impairment losses the Company opted for the Staging method, whereby stage ratings (1–3) are clearly defined relying on portfolio impairment loss considerations and with clear reasons to justify the classification. Furthermore, the Company's size and small number of customers facilitates the use of individual rating rules.

The Company has no retail operations that would call for the use of segment-based SPPI tests. On the other hand, the Company uses the portfolio impairment loss module, where it allocates into separate categories the ratings of receivables.
In practice, the Company does not engage in factoring; should such a situation arise, these receivables would be presented at fair value.

3.13.3. Loans provided

The Company grants loans to other enterprises only on a case-by-case basis, almost without exception to entities belonging to the scope of consolidation. Due to the affiliation and as the repayment of these loans depends on the group-level cash flow planning, the Company recognizes no impairment for these loans. These financial assets to be held to maturity are valued in the financial statements at amortized cost. Since 1 January 2018, the Company has performed and documented the so-called SPPI classification tests/benchmark tests with regard to loans provided to non-affiliated parties that do not belong to the scope of consolidation, taking into consideration whether or not these loans carry variable interest rates. The test revealed that the amortized cost of the loans was adequate.

Based on the expected lending loss model, the Company classifies loans provided and recorded at amortized cost into categories 1 to 3, and impairment is calculated accordingly. When testing impairment, the Company does not take into account particular exposures individually; they are treated in aggregate because the effect of the separate treatment of exposures on valuation is irrelevant in the case of loans to affiliates. Because of the obligation of full-scope documentation, SPPI tests were also run for affiliated undertakings in the scope of consolidation; however, due to the affiliation, they were placed in Category 1 without any further examination or impact assessment and no impairment was recognized.

The commitment fees of the credit line are recognized as a transaction cost (and thus they are to be taken into account in the calculation of the amortized cost and effective interest rates of credit) if it is likely that the given portion of the available credit will be drawn down. In this case, any fee that has already paid is accrued until draw-down. In contrast, if it is unlikely that the given portion of the available credit will be drawn down, the fee is charged to the profit or loss for the year during the commitment period of the credit line.

The general and specific costs of the use of credits that are directly connected with the acquisition, construction or production of classified assets are capitalized where considerable time is required before the asset is suitable for its intended use or sale. Such borrowing costs are added to the cost of the asset until it becomes suitable for is intended use or sale. Any income originating from the temporary investment of individual credits as yet unused in relation to the classified asset is deducted from the borrowing costs to be capitalized.
Any other borrowing cost is recognized in the profit or loss of the period when it is incurred.

3.13.4. Hedging and derivative transactions

The Company applies the rules set out in IFRS 9 regarding hedging and derivative transactions, recognizing them at fair value, with separate documentation and administration.
In the course of the preparation of its IFRS financial statements, the Company relies on hedge accounting. The Company resorts to such one-off transactions in case of high-value foreign currency purchases, applying the specific payment deadline set out in the relevant asset purchase agreement. The Company engages in no non-hedging forward transactions. For such transactions the Company applies hedge accounting as defined in IFRS 9, that is, on 31 December, the end of the reporting period, the fair value of the expected gain/loss on outstanding forward transactions is determined and charged against the financial instruments (assets) as other financial income/expenditure. When the transaction is closed in the following year, the difference between the actual gain/loss realized and the amount recognized on 31 December is posted taking into account the amount established at the end of the reporting period.
In addition to forward foreign exchange transactions, the Company also has interest rate swaps fixed for the long term relating to its investment loans; in this case, the amount of expected loss recorded at the end of the interest period concerned is also recognized for transactions outstanding at the end of the reporting period, based on the statement received from the relevant financial institution. In such cases there is a clear economic link between the hedge and the hedged transaction, and the hedging ratio applied is the ratio used in the past for risk management purposes; these transactions will continue to be presented at fair value.
In addition, the Company follows a natural hedge strategy to cover its foreign exchange risks: its foreign currency (typically euro) denominated revenues almost fully cover its obligations to suppliers incurred in foreign currencies and the servicing of its foreign currency borrowings in the same period.

3.13.5. Liquid assets

As liquid assets comply with the criteria of recognition at amortized cost, therefore, based on the "expected credit loss" model, the Company does not recognize any impairment because, as a general rule, it keeps its liquid assets exclusively in risk-free financial institutions with high credit ratings.

3.13.6. Marketable financial assets

The Company recognizes its participations and securities in companies listed or nor listed at stock exchanges held for sale as marketable liquid assets, and they are stated in the financial statements at fair value. For the evaluation of participations in companies not listed at any stock exchange, the Company relies on independent experts to determine fair value.
The Company presents differences arising from changes of fair value in the statement of profit or loss.

3.13.7. Credits

The Company has only investment loans and working capital loans extended by financial institutions. The credits are classified as short-term liabilities if they are due for repayment within a year. Otherwise, they are presented among long-term liabilities. Credits are initially recognized at fair value, while subsequently they are measured at amortized cost determined using the effective interest rate method.

3.13.8. Trade payables

Trade payables include the amounts payable for goods and services received from suppliers in the ordinary course of business. Trade payables are classified as short-term liabilities if their settlement is due within one year. Otherwise, they are presented among long-term liabilities. Initially, trade payables are recognized at fair value, while subsequently they are measured at amortized cost that is defined with the effective interest rate method.

3.13.9. 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 amortized cost. The change in fair value has to be presented only in the notes to the financial statements. In the case of financial instruments of 'other financial liabilities' nature, the Company applies the effective interest rate method.
Interest, dividends, gains and losses related to financial instruments classified under liabilities are recognized as expenses on financial transactions in the statement of profit or loss as they are incurred. In the case of compound financial instruments, the liability component is measured first, and the equity component is defined as the residual value.

3.13.10. Deferred income

State aid relating to the purchasing of assets are presented by the Company as deferred income, and recognized in equal installments against the profit or loss over the useful life of the asset.
Any state aid that has become repayable needs to be recognized as an adjustment to the accounting estimate.
Accordingly, the long-term deferred income disclosed in a separate line in the statement of financial position of the Company encompass the over-one-year part of grants awarded in application schemes. The short-term, under-one-year part of deferred income is stated among short-term liabilities, also in a separate line.
The end of the maintenance period applicable to the projects funded from application schemes and related grants does not affect the rate of write-back of grants recorded as deferred income because they are linked to the useful life of the subsidized assets; the write-back of the deferred income in

the subject period among other income in the statement of profit or loss occurs during the asset's useful life based on the depreciation of the subsidized assets in the reporting period and on aid intensity.

3.13.11. Determination of effective interest rates

The Company regards as the effective interest rate, to be used for discounting future expected cash flows, the contractual HUF- and EUR-denominated fixed interest rates for which its affiliates swapped their variable interest rates using interest rate swap transactions. Any material changes in the effective interest rate results in the change of cost; no such changes have occurred.

3.13.12. Netting of financial instruments

Financial assets and liabilities are netted mandatorily and recognized in the financial statements as a net amount if the net settlement of the recognized amounts is legally permitted and the Company intends to settle the amounts on a net basis or intends to simultaneously realize the asset and settle the liability.

3.14. *Cash and cash equivalents*

In the Company's statement of financial position and cash-flows compiled in accordance with the IFRSs, cash and cash equivalents mean the amount of financial assets that are held as the Company's HUF and FX petty cash assets, freely usable bank account balances that are available in the Company's electronic accounts held with financial institutions, bank account balances for limited use that are available in the Company's separated accounts held with financial institutions, balances in the tied-up deposit accounts held with financial institutions, as well as sight bank deposits. In the statement of financial position and cash-flows compiled in accordance with the IFRSs, the negative balances that are available in current accounts held with financial institutions, i.e. current account overdraft facilities are presented among short-term liabilities, under the heading of short-term loans.

3.15. *Equity capital, subscribed capital*

The Company's equity capital according to the financial statement prepared in accordance with the IFRSs equals to the difference between the assets and liabilities.

The amount of the subscribed capital under the IFRSs corresponds to the subscribed capital specified in the deed of foundation in case it qualifies to be a capital instrument. The legal form of the Company is a public incorporated company, and PannErgy's ordinary shares listed at the Budapest Stock Exchange are recognized as subscribed capital within the meaning of the IFRSs. The accessory costs that can be directly assigned to the issuance of new ordinary shares are presented as items decreasing the amount of the equity capital.

The capital reserve constitutes all such elements of the equity capital that do cannot be aligned with the definitions of subscribed capital, unpaid issued capital, profit reserve, valuation reserve, profit after taxes or tied-up reserve within the meaning of the IFRSs.

The profit reserve is the accumulated profit after taxes of the previous years – that has not been distributed among the shareholders – as stated in the annual report prepared in accordance with the IFRSs, including amounts accounted in favour or at the account of profit after taxes as required under IFRSs. Any resulting amount has to be decreased with the amount of paid up additional contributions recognized as assets under IFRSs, as well as the unused amount of the development reserve reduced with the amount of deferred taxes calculated in accordance with the IAS 12 Income taxes standard.

The valuation reserve is the sum of the accumulated amount of other comprehensive incomes within the meaning of the IAS 1 Presentation of financial statements standard and other comprehensive incomes for the year under review.

The tied-up reserve is the amount of any paid up additional contribution recognized as liabilities under IFRSs, completed with the unused amount of the development reserve reduced with the amount of deferred taxes calculated in accordance with the IAS 12 Income taxes standard.

3.16. *Treasury shares*

The Company repurchased treasury shares at the stock exchange and has the option to acquire own shares in OTC markets in line with the associated authorization granted by the General Meeting and present them separately as items decreasing the amount of the equity capital in the financial statements compiled in accordance with the IFRSs, its annual report.
The gain/loss on the sale of treasury shares and the effect of their fair valuation at the end of the reporting period is charged directly to equity, in the "reserves due to treasury shares" line.
The above requirements are to ensure that no profit or loss should be presented in the Company's results in connection with treasury shares in the event of any change (purchasing, selling, issuance or cancellation) in treasury shares.

3.17. *Earnings per share*

To determine the amount of the earnings per share, the Company uses the ratio of the profit for the given period to the average number of shares in the given period less the number of treasury shares.

For the determination of the diluted earnings per share, all the diluting factors are taken into consideration. The Company reports the number of shares issued by the Company as the diluted number of shares, with the additional of warrants (options issued by the Company), management options and convertible bonds, as well as the number of shares affected by them.

Moreover, at the time of the establishment of the amount of the diluted earnings per share the Company also considered the number of shares that were involved in the share option program running in the period under review as an item decreasing the volume of treasury shares provided that the set of conditions defined in the share option program for the call-down of options is satisfied at the time of the preparation of the report, and these treasury shares are not called-down yet.

Owing to the above-described adjustment, the diluted earnings per share considers the document-based, anticipated dilution of the number of shares, thereby decreasing the amount to be allocated to the individual shareholders per share.

3.18. *Actual and deferred income taxes*

Pursuant to the requirements of the IAS 12 Deferred tax, income taxes consist of actual and deferred taxes. The amount of the income tax expenditures presented in the financial statements equals to the sum of the actual tax payment obligation and the amount of deferred tax expenditures. Accordingly, in the Company's financial statements compiled in accordance with the IFRSs, the annually payable amount of the income tax is based on the tax payment obligations stipulated in the relevant Hungarian legal regulations, which is adjusted with the amount of deferred tax expenditures.

The actual amount of tax corresponds to the amount of the income tax that is payable (realizable) in connection with the taxable profit (negative tax base) for the given period. Income taxes cover all the domestic and foreign taxes that are based on taxable activities. In association with the period under review and the previous periods, the Company evaluates actual tax liabilities (tax receivables) at their values that are foreseen to be due to the tax authority (or expected to be refunded the tax authority), with the use of the tax rates and taxation-related legal regulations that are enacted until the end of the reporting period concerned.

The actual amount of taxes (liabilities/assets) equals to the sum of the payable/deductible taxes. The actual amounts of the payable/deductible taxes may differ from the amounts that are stated among actual taxes. These adjustments reflect changes to the estimated amounts of payable/deductible taxes. Unless there is a sign indicating that any adjustment arises from an error, these adjustments are to be handled as changes in the accounting estimates of actual tax-related changes. The adjustments are recognized among tax expenditures/incomes for the period of the adjustment.

Actual tax amounts are presented in the profit or loss, or under other comprehensive incomes (equity capital) depending on the fact where the underlying transaction/event is presented.

Pursuant to the relevant legal regulations, the Company is also obliged to pay the local trading tax and innovation contribution, which have considerable influence on the Company's profit or loss. Based on the interpretation of the definition of taxable profit within the meaning of the IAS 12 standard, the Company does not handle taxes that are payable in relation to the local trading tax and innovation contribution tax types as income taxes, but as operating expenditures by stating them under other expenditures.

To meet the requirements of the IAS 12 standard, the Company recognizes income taxes payable/refundable for future periods as deferred taxes, where the refunding of these taxes is ensured, and their occurrence is associated with purchase transactions and events. The tax base for any given asset is such an amount assigned to the asset from the perspective of taxes that can be deducted upon the return of the asset. If the economic profits are not taxable, the tax base is identical to the book value.

The tax base for any given liability corresponds to the amount assigned to the liability from the perspective of taxes, meaning the book value of the liability less any amount that will be deducted subsequently for taxation purposes. The tax base for any deferred income equals to the book value less non-taxable future incomes. Based on the IAS 12 standard, the temporary difference can be assessed between the accounting book value and the tax base, which corresponds to the taxable or deductible amount after return/settlements. If this temporary difference is taxable, it is deemed as a deferred tax liability, while in the case of a deductible temporary difference it belongs to tax receivables.

Sources for deferred tax receivables can potentially include deductible temporary differences, unused negative tax bases and unused tax credits. Sources for the return of deferred taxes are future taxable profits and taxable temporary differences.

In the case of deferred tax liabilities, it is required to present the amounts of the deferred taxes in full. In contrast, deferred tax receivables can be presented only if there are such future taxable profits available against which the deductible temporary differences can be set off. Deferred taxes are presented wherever the underlying transactions or events (i.e. items) are recognized.

It is mandatory to set off deferred tax receivables and deferred tax liabilities against each other if the Company has enforceable right to set off tax receivables and liabilities, and the income taxes relate to the same tax authority.

Deferred taxes described in the foregoing occur in cases when there is any time difference in the accounting of any given item between the Accounting and Taxation Act. The amounts of deferred tax receivables and liabilities are established with the use of the tax rates for the taxable incomes of the years when the deviations arising from the time difference are expected to reverse. Deferred tax receivables and liabilities reflect the tax implications of the assets and liabilities assessed by the Company as of the financial statement's date. Deferred tax receivables can be stated in the statement of financial position only if it is likely that in its future operations the Company is able to generate any profit to serve as the tax base, against which the deferred tax asset can be enforced.

As of the financial statement's date, the Company reviews all deferred tax receivables and liabilities that have remained unreturned and verifies their return with the use of discounted cash flow calculations pertaining to future profits.
In line with the requirements of IAS 12, the Company does not rely on discounting in the calculation of deferred taxes.

3.19. *Provisions*

Under the heading of provisions, the Company presents those liabilities of uncertain scheduling or volumes where

- the associated obligation originates from a purchase event;
- it is outstanding on the financial statement date;
- it is legal or alleged obligation;
- its settlement involves the outflow of assets that are anticipated to have economic profits;
- the amount of the obligation can be estimated reliably.

The Company recognizes pending liabilities in case

- there exists an obligation that originates from events, and whose existence can be confirmed only in the light of the occurrence or non-occurrence of one or more uncertain, future events that are not fully controlled by the Company;
- there exists an obligation that originates from events, but which is not presented, because it is not likely that the settlement of the obligation will call for the outflow of resources that

embody economic profits; or the amount of the obligation cannot be measured with sufficient reliability.

Existence on the statement date and the link to historic events are important aspects, and no provisions may be raised for costs that are incurred in the interest of future operations.

A historic event gives rise to an obligation for the Company in case there is no other realistic alternative for the settlement of the event, but the fulfillment of the obligation. With a legal obligation, it suggests that the obligation originates from a contract, legal regulation or other legal operation. On the other hand, with any alleged obligation, the obligation proper arises from the Company's actions, when by way of any practice established in the past, publicly disclosed policies or a properly detailed periodic report the Company has communicated to other parties that it will assume certain liabilities, and therefore the third party in question can have rightful expectations based on which the Company will fulfill its obligation.

To decide whether or not the event potentially giving rise to provisioning, the fulfillment of the obligation involves the outflow of resources embodying economic profits, the Company examines the probability of the occurrence of the event. The Company regards those events to be likely where the probability of occurrence is larger than that of non-occurrence, meaning that it is over 50%. If the occurrence of the event is not likely, then the Company recognizes and publicly discloses the given obligation as pending liability in its financial statements, without accounting for the event in the financial statement.

The Company states provisions in an amount that is necessary for the fulfillment of all the obligations, and that is deemed as the best estimate of the all the required expenditures in the light of the information that is available on the financial statement date, in proper view of all the risks and uncertainties that may emerge in relation to the obligations.

If the time value of money substantially influences the amount needed for the fulfillment of the obligation concerned, then the Company states the amount of provisions at the present value of the expenses required for the settlement of the obligations. Upon the release of discounts representing the passing of time, the balance sheet value of the provisions increases by the implications of the discount from year to year, while the increments can be accounted against the profit of the years under review and shown as interest expenditures under the heading of other expenditures.

There may be cases when the expenditures needed for the settlement of provisions or any part thereof returns. In view of this fact, returns can be presented only if it is virtually certain that the Company receives the amount of the return provided that the obligation associated with the amount of the provision has been satisfied. The amount received in return may not exceed the amount of the provision. Such returns are to be presented as separated assets, and in the profit c loss account the expenditure connected with the provision can be recognized as netted against the amount of the return, too.

3.20. *Share option program, share-based payments*

Based on the authorization granted by the Board of Directors, the Company can operate share option programs that are announced for cycles extending to several years, where upon reaching the determined levels of the stock exchange rate for PannErgy shares the beneficiary of the program will become entitled to purchase a specific number of shares at the similarly specified option price.

The Company presents the amount of the evaluation of the share option program as short-term liabilities against capital reserves based on the current market rates of PannErgy shares on the given account date, their volatility and the probability of reaching the share rate levels defined for the share option program, depending on the outcomes of the valuation with the use of the Black-Scholes method.

This accounting policy means a change, because in the period before the year under review the Company handled these foreseeable liabilities as provisions with respect to the fact that the set of conditions connected with the call-down of the option was not fully satisfied in the indicated periods.

To the settlement of the actual share-based payment in the course of the evaluation of the share option program, the Company applies the requirements of the IFRS 2 Share-based payment standard. In case share-based payments are made in the form of capital instruments, then the costs incurred with such payments are settled against the equity capital, while in the event of performance in liquid assets they are paid at the account of financial liabilities, as part of personnel expenditures.

To other share-based payments beyond the share option program, the Company applies also the requirements of the IFRS 2 Share-based payment standard, however these payments are not typical at Company's practice, the Company doesn't apply such share-based payments in the period of current financial statements. Based on the foregoing, if the Company may choose the form of performance, and in case there occurs any obligation at the time of the conclusion of the contract for payment in liquid assets, then the transaction has to be handled as one involving performance in liquid assets. If at the time of the conclusion of the contract no obligations to be settled in liquid assets emerge, then the agreement needs to be handled as one to be satisfied in the form of capital instruments.

If the option to choose is given to the other party (typically the Company's employee), then the Company issues complex financial instruments that can be divided into parts to be performed in the form of capital instruments and liquid assets, which have to be presented accordingly in statement of profit or loss and statement of financial position.

Share-based payments typically provided to employees do not give rise to obligations for the Company immediately, but the right to claim the benefits becomes effective just after the fulfillment of the service or non-service conditions to be satisfied within a specific period of time (so-called service period). Such service periods generally extend to several years, and accordingly costs expected to be incurred should be calculated in a time-proportionate manner during the service period.

The values of share-based payments can be determined with direct and indirect methods. With the direct method, the amount of the share-based payment is determined on the basis of the fair value of the purchased product/supplied service. When the indirect method is used, the fair value of the provided capital instrument can serve as the basis of the amount of the payment. For share-based payments performed in the form of capital instruments, the fair value of the capital instrument that is valid at the time of the provision of the share-base payment is used throughout the service period, while changes to the fair value are settled against the equity capital. For share-based payments performed in liquid assets, the fair value of the capital instrument that is valid at the time of the provision of the share-base payment is revaluated on each accounting date, while changes to the fair value are settled against the profit.

All the costs incurred with share-based payments are settled against the profit of the company that has employment contracts with the employees who are entitled for the benefits. The Company may as well enter into agreements for share-based payments with partners who are not the Company's employees. Even in this latter case, the principles of presentation and valuation are identical to the principles applied to share-based payments to employees.

3.21. *Settlement of revenue from sales*

Pursuant to the framework principles governing 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 contributions from shareholders, is generated in the ordinary course of business (sale of goods or services, other use of assets) of the entity, the inflow of future economic benefits is probable, revenues can be measured reliably, and costs (incurred or expected) can be reliably identified and measured.

By way of its Regulation 2016/1905, on 22 September 2016 the European Union endorsed IFRS 15 Revenue from Contracts with Customers, to be applied for business years beginning on or after 1 January 2018, with the option of earlier application. The Company has not made use of the option of earlier application and will apply the standard to its financial statements as of 1 January 2018.

Under the standard, revenue from sales is recognized as control over the goods or services is passed to the customer, i.e., the customer is able to direct their use or obtain the benefits from the goods or services.

Pursuant to the standard, the Company has devised a five-step model for the recognition of revenues:

- Identification of the sales contract
- Identification of the performance obligations
- Determination of the transaction price
- Allocation of the transaction price
- Recognition of revenues

The IFRS 15 standard gives more detailed guidance on the distinction of goods or services: a good or service is distinct if it generates benefits on its own and if it is separately identifiable from other items. Instead of fair value measurement, consideration is defined as the amount to which an entity expects to be entitled. The Company takes the effects of variable consideration into account when determining the transaction price. If the revenue has a significant financing component, the time value of money is also taken into consideration.

Instead of a risk/reward based revenue recognition model, revenues are recognized when control over the service/good is passed to the customer. Control is passed over time if the relevant criteria are met or at a point in time if they are not.

The Company does not recognize as revenue income from the sales of tangible assets and other incomes that are not realized in the course of its ordinary activities.

<u>Effect on the financial statements of the introduction of IFRS 15 as of 1 January 2018:</u>

In the period covered by the present financial statements, the Company has no customer contracts to which IFRS 15 should be applied, for the following reasons:

- there are no customer contracts the conclusion of which would give rise to significant costs that would justify the capitalization and subsequent depreciation of such assets;

- each customer contract meets the requirement set out in the standard that the seller may recognize the revenue only when the good or service is transferred to the customer, at an amount it considers legitimate for such good or service. The invoicing of customers is based on long-term contracts, which clearly define the price, nature, place of delivery of the goods/services. In the past five years no major delay was encountered with regard to these contracts; with the exception of a single business relationship that generated negligible sales revenues, no impairment loss needed to be recognized.

- the recognition of sales revenues complies with the 5-step model, that is, all contracts with customers are in writing, have commercial content (provide for economic benefits for the PannErgy), clearly set out enforceable rights and obligations, the parties have accepted the contract and committed themselves to its performance, and there is a high probability that the Company would collect the consideration for the good/service transferred;

- the Company treats obligations relating to the performance of contracts separately, treating any discounts (determined ex ante or ex post) as separate obligations. The performance obligation is always clearly set out in the contract, and revenues thus invoiced can be recognized;

- in the customer contracts of the Company the price of the transaction is clearly set out and allocated to specific performance periods/dates, consequently the recognition of revenues is evenly spread out. In certain heat supply contracts, the Company uses performance incentives regarding the commitment of the customer to increase its heat purchases; in this case, the discount related to the period is in each case deducted from the sales revenue of the period affected by the discount. The sales revenue of all transactions is identical with the invoiced amount; no discrepancies have been found. In the case of the above discount, based on the calculation formula set out in the contract between the parties, the amount of the discount to be deducted from the revenue of the period concerned and therefore recognized in that period (or subsequently, when a correcting invoice is issued) is clearly defined, consequently no estimates or probability calculations are necessary;

- the customer contracts of the Company clearly match the price of a transaction and the transaction; there is no partial performance within transactions that would necessitate the allocation of prices. If the Company were to provide general discounts ex post, it would allocate it to the deliveries and transactions of the period covered by the discount, in accordance with the requirements of IFRS 15;

- the members of the Company recognize revenues from sales when control over the asset or service sold is passed to the customer, and the customer is able to govern the use of and collect the benefits from such asset;

- the Company sells no products with the right of repurchase, offers no related warranties, uses no buyer options or agency commissions.

3.22. *Interest and dividend incomes*

On the loans furnished in connection with the operation, management of the holding company, the Company may realize interest incomes, similarly to dividend incomes on its investments as a shareholder. **The Company qualifies its interest and dividend incomes from affiliated parties as originating from the normal course of business, and therefore does handle them as revenue from sales in financial statements.** The interest and dividend incomes from non-affiliated parties have handled as financial revenues.

Interest incomes are presented with reliance on the effective interest rate method. In the event of any impairment loss on loans and receivables, the Company cuts the book value back to the value of return, which corresponds to the present value of the estimated future returns discounted with the original effective interest rate of the instrument. Thereafter, the difference coming from the reversal of the discount is shown as interest incomes.

Interest incomes arising from loans and receivables having undergone impairment loss are presented with the application of the effective interest rate used for the calculation of the impairment loss, as established for the net value of the financial asset.

Dividend incomes are present when the Company becomes entitled for the dividend.

3.23. *Leases*

In the course of the preparation of the financial statements the Company has not made use of the option of early application of the IFRS 16 Leases standard; it will start applying the provisions of the new standard as of 1 January 2019. During the preparation of the present IFRS financial statements, the requirements of IAS 17 Leases are applied for the presentation of lease contracts.

In line with the requirements of the IAS 17 Leases standard, the Company considers all such agreements to be leases where the lessor assigns its right to use the asset to the lessee for a period specified in the agreement, in consideration of a non-recurrent payment or a series of payments. Leases may be classified to belong to the operative or financial lease category with respect to the fact whether risks and profits are virtually transferred to the lessee.

The Company regards those agreements to be financial leases where at least two of the following conditions are concurrently satisfied:

- where on the basis of the agreement title is transferred at the end of the tenor;
- where the agreement includes a preferential purchasing option at the end of the tenor, which is – at the beginning of the lease – likely to be demanded by the lessee;
- the tenor of the lease corresponds to majority of the useful lifetime of the assets contemplated in the lease;

- the present value of the minimum lease payments at least virtually equals to the full fair value of the leased asset;
- the leased assets are unique.

The Company keeps records of the leased assets as leased tangible assets in line with the requirements pertaining to the records of tangible assets, in its financial statements compiled in accordance with the IFRSs, against liabilities, where the amount of these liabilities corresponds to the present value of the lease liabilities set to be paid minimally under the agreement. For the asset so accounted, depreciation is calculated on the basis of the estimated residual value, useful lifetime or leased lifetime, while the financing interest burdens connected with the lease-based funding are stated as financial expenditures in the profit & loss account of the Company.

At the time of the making of the lease agreement, the Company, as lessee, states the leased asset and the connected lease liabilities at the lower value of the present value of the minimum lease payments or its fair value.

When the depreciation is calculated, the shorter term of the tenor of the lease or the useful lifetime of the leased asset needs to be chosen as the basis of depreciation, unless it is sufficiently certain that at the end of the tenor the lessee will acquire the title over the leased asset.
The Company accounts for the financing burdens, interests that are due until the end of the tenor with the use of the effective interest rate method, with the reliance on the implicit interest rate of the lease.
The Company may have lease liabilities, but not lease receivables.

The Company handles re-lease transactions in the manner described for leases. A re-lease transaction encompasses the selling of a given asset and the re-leasing of the same asset for the purpose of financing. Usually, the lease fee and the selling price are mutually depending from each other, because they are negotiated in combination with each other. The accounting management of re-lease transactions can differ depending on the fact whether they are operative or financial re-lease transactions. In the case of financial re-lease, any revenue from sales in excess of the book value cannot be stated as incomes immediately by the seller–lessor. Instead, the profit needs to be accrued, and depreciated over the tenor of the lease. The reason underlying depreciation is that in the case of the financial re-lease the lessor furnishes the lessee with funding, and therefore it would not be correct to handle revenue from sales over the respective book value as an income item.

If the fair value is smaller than the book value of the asset, no loss corresponding to the difference between the book value and the fair value may be recognized. While for operative leases, losses arising from loss-making sales need to be stated as a non-recurrent item immediately, the presentation of losses is not possible for financial leases. It is necessary to examine, however, whether any impairment loss has occurred, when – in line with the provisions of the IAS 36 standard – the book value has to be decreased to the value of return.

3.24. *Dividend payment*

The dividends payable to the Company's shareholders are presented by the Company as liabilities in its financial statement, for the period when the shareholders approved the dividends. The due amounts of dividends are accounted as the direct reduction of the equity capital.

3.25. *Government subsidies*

Government subsidies are accounted at their fair values provided that it is reasonably certain that the Company will receive the aids in question, because it will satisfy the conditions associated with the aids.

With reliance on the income approach accounting method, following the principle of matching the Company recognizes subsidies as the incomes of the periods when the corresponding expenditures are incurred.

The only exception to this approach is when any subsidy is based on follow-up accounting, meaning that the goal of the subsidy is the compensation of expenditures or losses that have already been suffered, or future, prompt financial supports furnished without the occurrence of costs. The Company recognizes these subsidies as incomes when they become open for draw-down.

Governmental subsidies relating to the purchasing of assets are presented by the Company as deferred incomes, and accounts for them in equal installments over the useful lifetime of the asset against the profit.
Any governmental subsidy that has become repayable needs to be settled as the adjustment of the accounting estimate.

3.26. *Comparative periodic information*

Data for the base period and period under review were subjected to the same valuation for the financial statements, with exception of reclassifications in base data that are explained in Chapter 40. To make the Company's financial statements compiled in accordance with the IFRSs complaint with the IAS 1 standard, each of the financial statements of the Company includes a comparative period.

The Company understands this comparative period as covering the data of the financial statements prepared for the business year preceding the business year under review for comparison with the financial statements of the business year concerned.
These comparisons have to be presented in sufficient details so that the users of the financial statements could interpret the major modifications in the statement of financial position and statement of profit or loss.

3.27. *Segment specific report*

In line with the relevant IFRS requirements, the Company is to present its operating segments, during the review of the definition of the operating segments, **operating segment can not be identified at the Company**. The core business of the Company is asset management and holding control over PannErgy Group. Within the scope defined as the asset management, as Pannonplast Plc's legal success presented the utilization of the real-estate properties, i.e. the industrial facilities and connected office premises formerly serving Pannonplast Plc's plastics manufacturing operations in District XXI of Budapest (Csepel) and Debrecen, where property utilization primarily means the re-invoicing of electric power and other public utility fees, and to a smaller extent the collection of office rents; furthermore, it encompasses costs and expenses incurred with management and governance of the Group in the form of a financial holding company and issuer at the stock exchange.

Beyond the unnecessity of operational segmentation, the Company pursues its activities solely in the territory of Hungary, in similar legal, technical, economic and demographic environments, so the territorial segmentation isn't reasonable.

3.28. *Gross cash-flow and EBITDA definition*

Definition of the gross cash flow and the EBITDA categories that are parts of the profit & loss account:

Gross cash flow is the sum of the gross margin (the difference between Revenue from sales and Direct costs of sales) and direct depreciation not involving any movement of cash.
EBITDA (profit before interest taxes and depreciation) category defined by the Company covers the operating profit, the amount of direct depreciation (see *Note 6. Administration and general costs (Indirect costs)*), the amount of indirect depreciation (see *Note 7. Costs of sales (Direct costs)*), as well as the amount of the extraordinary write-off, impairment losses of tangible assets, intangible assets (*see Note 9. Other expenditures*).

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

In line with the IFRS requirements, the preparation of the Company's financial statements compiled in accordance with the IFRSs calls for the application of the described estimates and assumptions that influence the amounts presented in the financial statements. The Company continuously evaluates the estimates and judgments in the light of historic experience and other factors, such as the expectations in relation to future events considered to be reasonable under the given conditions.

The Company applies the requirements of the IAS 8 Accounting policies, changes in accounting estimates and errors and IAS 10 Events after the reporting period standards with respect to material errors in the earlier periods, the adjustment of accounting estimates and the management of events after the balance sheet date.

4.1. *Events after the balance sheet date*

Concerning the events taking place between the financial statement date and the date of the approval of the financial statements, the Company examines whether the event in question confirms circumstances that were existent on the financial statement date, as in this case the financial statements have to be modified. If the event suggests that the circumstances occurred just after the financial statement date, it only needs to be disclosed publicly, but solely in material cases.

4.2. *Material mistakes*

During the preparation of the financial statements, errors may arise from the mathematical errors made in the application of the accounting policy, the ignorance or incorrect interpretation of facts. As a fundamental principle associated with the correction of these errors, the Company opines that as far as it is possible – and it is technically not unfeasible –, then material errors in earlier previous should be correct in a follow-up manner in the financial statements, annual report that is first approved for public disclosure after the identification of the error. The Company understands unfeasible as the inability to use even all reasonably expected measures are taken for proper application.

The Company defines material errors as follows: the omissions or incorrect presentation of items are material in case they can individually or collectively influence the decisions of users made on the basis of the financial statements. Materiality depends on the judgment of the degree or nature of the omission or incorrect presentation under the prevailing circumstances. In judgment, crucial factors include the volume or nature of the given item, or the combination of these two, as a general principle the Company defines errors exceeding 1% of total assets of the statemen of financial position compiled in accordance with the IFRSs as material errors.

4.3. *Critical accounting estimates and assumptions*

During the application of the accounting policy compiled as per the IFRSs, the Company makes certain estimates and assumptions in relation to the future. The resulting accounting estimates, which they are based on the Company's best knowledge of the current events, are just rarely identical to – by definition – the factual results, or factual events may differ from them. The estimates and assumptions due to which the values of assets and liabilities presented in the financial statements can be substantially modified during the next financial year are presented hereunder. These assumptions are discussed in details in the respective notes, but the most important assumptions are related to:

- Tax benefits in the future, realization of future profits forming the appropriate amount of tax bases against which deferred tax assets can be enforced;
- Outcomes of certain pending liabilities;
- Determination of the fair values of financial instruments;
- Establishment of the useful lifetimes of tangible assets;
- Determination of impairment losses for tangible assets and goodwill;
- Determination of the value of provisions.

There may be changes in the methodology of accounting estimates. The Company understands changes in the methodology of accounting estimates as cases when it is necessary to modify the book value of any asset or liability, or the amount of the periodic use of any asset. Changes to accounting estimates may be made on the basis of the evaluation of the present situations of assets and liabilities, as well as the proper consideration of the associated, foreseeable future profits and obligations. Changes in the accounting estimates are caused by new information or new developments, and therefore they cannot be deemed as error corrections.

5. Sales Revenues

5.1. *Breakdown of sales revenues based on core activities*

	2018. HUF Th	2017. HUF Th
Asset management	265,617	287,556
Property management	382,826	499,985
Total	**648,443**	**787,541**

5.2. *Geographical breakdown of sales revenues*

	2018. HUF Th	2017. HUF Th
Domestic sales revenues	647,185	786,509
Sales revenues within the EU	1,258	1,032
Sales revenues outside the EU	-	-
Total	**648,443**	**787,541**

5.3. *Breakdown of sales revenues by activities / service types*

	2018. HUF Th	2017. HUF Th
Electric power sales	320,741	448,097
Interest income from intercompany asset management	232,559	242,534
Intercompany services	31,664	43,945
Mediated and reinvoiced services	38,813	43,757
Rentals of buildings and tangible assets	23,578	8,423
Product sales	1,088	785
Total	**648,443**	**787,541**

The amount of electric power sales (320,741 HUF Th) represents the reinvoiced electricity fees of the operation of the Company's real-estates in Csepel and Debrecen. Those are reinvoiced to the tenants and also to other owners of the properties (the effected properties are subject to undivided and joint ownership).

5.4. *Geographical breakdown of fixed assets generating sales revenues*

	2018. HUF Th	2017. HUF Th
Assets used in domestic production	5,152,888	4,996,161
Assets used in intra-EU production	-	-
Assets used in extra-EU production	-	-
Total	**5,152,888**	**4,996,161**

5.5. *Concentration of sales revenue, information highlights regarding key customers*

The Company has three key customers, generating individually min. 10% of the Company's total sales revenues.

	2018.	2018. in proportion to total sales	2017.	2017. in proportion to total sales
Total sales from key customers	**581,229**	**89.63 %**	**729,446**	**92.62 %**
Total sales	**648,443**	**100.00 %**	**787,541**	**100.00 %**

6. Administration and General Costs (Indirect costs)

	2018. HUF Th	2017. HUF Th
Expert fees, accounting and auditing charges	71,882	62,148
Office and operating expenses	32,645	48,546
Indirect PEREX	17,783	19,313
Insurance fees	8,895	7,977
Costs relating to public and stock exchange presence	8,616	7,525
Bank costs	5,821	6,108
Indirect depreciation	5,108	1,706
Other authority fees, duties	125	305
Total	**150,875**	**153,628**

Under the heading of operating costs with same level compared the previous year, PannErgy Plc. could achieve small, 2% cost reductions. The decrease can be seen in indirect personnel expenditures and office and operating expenses, which can compensate the increasing at expert fees, accounting and auditing charges.

7. Costs of sales (Direct costs)

	2018. HUF Th	2017. HUF Th
Costs of goods sold, mediated services	362,758	502,218
Facility maintenance costs, rental costs	29,750	36,476
Direct depreciation (properties)	532	4,914
Electric power costs	196	280
Cost of maintenance materials	3	-
Other direct costs	2,546	747
Total	**395,785**	**544,635**

Direct cost of sales at Pannergy Plc. include the utilization costs of properties located in Csepel and Debrecen.

8. Changes in headcount and wages

	2018. HUF Th	2017. HUF Th
Average headcount (employees)	-	-
Wages and salaries (HUF Th)	13,500	14,480
Other personnel expenses (HUF Th)	1,251	1,218
Taxes and contributions on wages (HUF Th)	3,032	3,615
Total	**17,783**	**19,313**

In 2018 PannErgy Plc. did not employ own workforce arising from the headcount rationalisation actions taken by PannErgy Group. Other personnel expenses include remuneration paid to the Board of Directors, and the amount of related taxes and contributions.

9. Other Expenses

	2018. HUF Th	2017. HUF Th
Local taxes, duties, fines	22,652	21,243
Extraordinary depreciation, write-off on tangible & intangible assets	-	4,154
Expenditures relating to damages	2,235	2,205
Subsidies given for offsetting costs	1,100	1,350
Fines, penalties, default interest, compensations	265	1,317
Levies, contributions	-	13
Remission on loan receivables to subsidiaries	63,500	-
Impairment on receivables	78	-
Miscellaneous	1,113	-
Total	**90,943**	**30,282**

Within the 90,943 HUF Th amount of other expenses the most important item is the 22,652 HUF Th amount of local taxes paid to the regional governments located in the operational sites of the Company. Those cover mainly the amount of local trading tax and property tax. In addition, the Company abandoned the 63,500 HUF Th amount of loan receivables to its subsidiary in 2018.

10. Other Revenues

	2018. HUF Th	2017. HUF Th
Fair value measurement of properties held for sale	69,057	70,469
Imposed fines, damage compensation	8,252	8,597
Profit on sales of tangible assets	300	-
Miscellaneous	8,807	21
Total	**86,416**	**79,087**

Within the 86,416 HUF Th amount of other revenues the most important item is the amount of fair value measurement of properties held for sale as of 31/12/2018.
Within the HUF Th 8,807 amount of miscellaneous other revenues, the Company presented the difference between the book value and the contribution value of the subject of the in-kind contribution at PannErgy Plc's capital increase in its consolidated subsidiary TT-Geotermia Plc. The subject of the in-kind contribution was made up of the transformer building and the associated installations, listed among the real property assets located in Debrecen.

11. Financial incomes

	2018. HUF Th	2017. HUF Th
Realized and non-realized FX gains	10,278	2,612
Gains on derivative transactions	14,466	652
Gains on securities held for sale	322	1
Interests received and other interest-type incomes	20	-
Other financial incomes	64,388	-
Total	**89,474**	**3,265**

In the reporting period HUF Th 64,388 financial income was recorded relating to participations; this is the part of the assets (liquid assets) received by the Company as shareholder in the course of the distribution of assets of PannUnion Service GmbH, a German subsidiary previously outside the scope of consolidation, following its liquidation after bankruptcy, that exceeds the Company's participation.

12. Financial expenditures

	2018. HUF Th	2017. HUF Th
Interests paid and other interest-type expenditures	1,388	13,269
Realized and non-realized FX losses	7,745	6,267
Losses on derivative transactions	1,268	3,709
Other financial expenditures	-	543
Total	**10,401**	**23,788**

13. Other information on financial operations

	2018. HUF Th	2017. HUF Th
HUF/EUR exchange rate on 31 December of the current year	310.14	311.02
HUF/EUR exchange rate on 31 December of the year	321.51	310.14
Difference of the HUF/EUR exchange rate	11,37	-0.88

The outcome of the year-end FX revaluations amounts is totally 3,291 HUF Th profit, this is primarily caused by EUR-denominated receivables and payables.

14. INTANGIBLE ASSETS

Gross value

data in HUF Th

	Goodwill	Valuable rights	Purchased software	Other	Total
1 January 2017	-	649	186	-	835
Purchase	-	-	-	-	-
Sales	-	-	-	-	-
Impairment & write-offs	-	-99	-	-	-99
Reclassification	-	-	-	-	-
31 December, 2017	-	550	186	-	736
Purchase	-	-	-	-	-
Sales	-	-	-	-	-
Impairment & write-offs	-	-	-	-	-
Reclassification	-	-	-	-	-
31 December, 2018	-	550	186	-	736

Accumulated depreciation	Goodwill	Valuable rights	Purchased software	Other	Total
1 January 2017	-	380	186	-	565
Purchase	-	52	-	-	52
Sales	-	-	-	-	-
Impairment & write-offs	-	-99	-	-	-99
Reclassification	-	-	-	-	-
31 December 2017	-	333	186	-	519
Purchase	-	52	-	-	52
Sales	-	-	-	-	-
Impairment & write-offs	-	-	-	-	-
Reclassification	-	-	-	-	-
31 December 2018	-	385	186	-	571
Net value					
1 January 2018	-	217	-	-	217
31 December 2018	-	165	-	-	165

15. TANGIBLE ASSETS

data in HUF Th

Gross value	Properties held for sale	Properties for investment purposes	Machinery, equipment and vehicles	Investment (project)	Total
1 January 2017	-	353,009	19,247	-	372,256
Purchase	-	-	-	762	762
Capitalization	-	-	762	-762	-
Sale	-	-	-	-	-
Reclassification, write-offs, impairment	347,456	-5,554	-1,562	-	340,340
Impact of fair value measurement	70,469	-	-	-	70,469
Reclassification to properties held for sale	-	-347,456	-	-	-347,456
31 December 2017	417,925	-	18,447	-	436,372
Purchase	-	-	54,119	54,119	108,238
Capitalization	-	-	-	-54,119	-54,119
Sales	-7,942	-	-6,395	-	-14,337
Reclassification, depreciation	-	-	-67	-	-67
Impact of fair value measurement	69,057	-	-	-	69,057
Reclassification to properties held for sale	-	-	-	-	-
31 December 2018	479,040	-	66,104	-	545,144

Accumulated depreciation	Properties held for sale	Properties for investment purposes	Machinery, equipment and vehicles	Investment (project)	Total
1 January 2017	-	72,136	17,993	-	90,129
Increase	-	2,789	573	-	3,362
Sales	-	-	-	-	-
Reclassification, write-off, impairment loss	74,925	-74,925	-1,461	-	-1,461
31 December 2017	74,925	-	17,105	-	92,030
Increase	-	-	5,588	-	5,588
Sales	-6,479	-	-6,395	-	-12,874
Reclassification, write-off, impairment loss	-	-	-67	-	-67
31 December 2018	68,446	-	16,231	-	84,677

Net value					
1 January 2018	343,000	-	1,343	-	344,343
31 December 2018	410,594	-	49,873	-	460,467

The industrial properties of the Company in the XXI. district of Budapest (Csepel) and in Debrecen are disclosed in the financial statements as marketable properties. The Company is actively marketing these properties considering that they are not related to the energy sector, which is the main activity of the PannErgy Group. Based on sales plans, measures and the information available, the marketable properties were subjected to fair value measurement at the end of the reporting period. In the course of fair value measurement, the market value stated independent market valuations of the relevant property was compared to the book value, taking into consideration the short-term sale of industrial properties. As a result, the revaluation of the affected marketable properties amounted to HUF Th 69,057, which sum was added to other incomes.

From the increase of gross value of tangible assets amounted in HUF Th 54,119, the Company's long-term rental car contracts caused HUF Th 53,782. For this contract, the Company applied the „lease items (assets and liabilities) in the balance sheet" presentation, in accordance with accounting policies for lease, based IAS 17 standard.

No write-off has been accounted in relation to tangible assets registered under IAS 16 at the year end.
In relation to the tangible assets held by PannErgy Plc. no restrictions or mortgages are registered.

16. Long-term investments

	2018. HUF Th	2017. HUF Th
PannErgy Geothermal Power Plant cPlc.	4,604,948	4,604,948
TT-Geotermia cPlc.	53,714	-
Pannunion Service GmbH.	-	22,935
Total	**4,658,662**	**4,627,883**

PannErgy Plc. acquired a 16.67% share of ownership in TT-Geotermia CPlc. through a capital increase in 2018. Due to the capital increase the original owner PannErgy Geotermikus Erőművek CPlc's shareholding dropped to 83.33% and at the same time PannErgy Plc. obtained a 16.67% participation, together is 100%, so PannErgy Group has still 100% participation.

The liquidation of Pannunion Service GmbH as an investment not included in consolidation was finalized in 2018. During the liquidation process the Company recovered all of its investments from the distribution of assets.

17. Long term receivables

	2018. HUF Th	2017. HUF Th
Long term receivables	8,301	11,243

As of 31 December 2018, PannErgy Plc. recognized long-term receivables in an amount of 8,301 HUF Th in its financial statements. These receivables are presented at amortized costs and are connected to a property sale in 2015, where a part of the purchase price is payable in the long term, and therefore the Company agreed with the buyer on a schedule involving installments over one year.

18. Lease-related receivables

In the period under review and the base period, PannErgy Plc. did not have lease-related receivables.

19. Inventories

In the period under review and the base period, PannErgy Plc. did not have inventories.

20. Trade receivables

	2018. HUF Th	2017. HUF Th
Trade receivables	59,652	135,028
Total	**59,652**	**135,028**

PannErgy Plc. pursue selling operations to a smaller number of concentrated partners, generally with long-term contractual backgrounds. In the light of the steady nature of customer relations, impairment losses raised for trade receivables are not typical at PannErgy Plc.

Trade receivables do not carry interests, and payment deadlines (due dates) are not longer than 30 days. In comparison with the base period amount of trade receivables remained stable.

The trade receivables decreased by 56% year-on-year, because the electricity supply mediation activity in the town of Debrecen with the related contracts with suppliers and customers has been carried out since the completion of the above transaction by TT-Geotermia CPlc, so these carry-type revenues henceforth has not been presented in Company's individual, parent company's financial statement, the trade receivables will be lower level.

21. Short-term loan receivables

	2018. HUF Th	2017. HUF Th
Short-term receivables from subsidiaries	7,079,493	6,660,581
Total	**7,079,493**	**6,660,581**

PannErgy Plc. gave short-term loans to Geothermal Power Plant cPlc. in the current and previous periods, this related party, subsidiary is responsible for the direct shareholder's ownership and control over PannErgy's geothermal project companies.

22. Other receivables

	2018. HUF Th	2017. HUF Th
Deferred items for the upcoming period	252,139	101,725
Other tax receivables	23,759	13,439
Guarantees provided to intercompanies	16,657	8,564
Receivables from employees	3,143	3,405
Miscellaneous	153	1,971
Total	**295,851**	**129,104**

From the items accrued in relation to the upcoming period 244,064 HUF Th is primarily associated with revenue from sales and an amount of 26,020 HUF Th with costs. The details of the amount of other tax receivables reflect that receivables for value-added tax are the most significant with an amount of 18,890 HUF Th.

23. Securities (Investments held for sale)

	2018. HUF Th	2017. HUF Th
Securities held to expiry	**25**	**200,027**

The value of securities appearing in the financial statements dropped significantly in comparison with the previous year because after the refinancing of the Miskolc project at the end of the year the PannErgy Group had invested HUF Th 200,000 beforehand, in short-term government securities (Discount Treasury Bills) on a temporary basis, until the geothermal well drilling scheduled to be started in the second quarter of 2018. In accordance with the Company's investment activities and their financing requirements the securities were sold during the reporting period.

24. Subscribed capital

	2018. HUF Th	2017. HUF Th
Subscribed capital	**421,093**	**421,093**

As of 31 December 2018, the amount of the subscribed capital was HUF Th 421,093, which did not change in 2018. The financial reports state the amount of the subscribed capital in view of all the shares issued, whereas the number of shares is calculated with the deduction of repurchased treasury shares.

The subscribed capital consisted of 21,054,655 voting shares representing an individual face value of HUF 20.

With respect to Pannonplast Plastics Industry Plc's ordinary shares under ISIN code HU0000073440, Budapest Stock Exchange Ltd modified the Product list data with the effective date of 21 November 2007:

ISIN ID	**new data HU0000089867**	**former data HU0000073440**
Face value of the security	20 HUF	100 HUF
Securities introduced to the stock exchange (number)	21,054,655	4,210,931

With the effective date of 12 October 2007, in the company registry the Company Registry Court registered the resolutions of the Company's General Meeting held on 31 August 2007 in relation to the stock split procedure for the face values of the shares issued by the Company, which did not affect the amount of the Company's subscribed capital. The last trading day of the shares carrying a HUF 100 face value at the stock exchange was 20 November 2007.

25. TREASURY SHARES

	2018.	**2017.**
Treasury shares (number)	1,707,434	2,440,435
Face value (HUF Th)	34,149	48,809
Cost (HUF Th)	1,602,511	1,682,846

On 31 December 2018 the Company held a total of 1,707,434 PannErgy Plc. treasury shares, 733,001 less than on 31 December 2017. The aggregated change was a result of an increase of 8,000 and a decrease of 741,001 during the reporting period, all relating to the share option program covering the 2016-2019 period.

The increase of 8,000 in the portfolio of treasury shares held by the Company during the reporting period was in accordance with the relevant resolution taken by the Company's General Meeting on 27 April 2018 on PannErgy Plc's launching, in the same month, of a treasury share buyback program. 28 April 2018 and 27 April 2019 marked the first and the last day of the program. PannErgy Plc. purchases treasury shares for an amount up to HUF 1,000 million, exclusively on the exchange, for a price of at least HUF 1 and not more than HUF 950 per share. Within the limits permitted by law the Board of Directors is authorized to purchase not more ordinary shares of a HUF 20 nominal value under the program than with which the portfolio of treasury shares does not exceed 25% of the total portfolio of shares issued by the Company at any time during the term of the authorization.
Based on the General Meeting's authorization the Company purchased the above mentioned 8,000 shares of its own issue under the program during the period concerned. Additional programs for purchasing treasury shares were acquired in the framework of the program after 31 December 2018.

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

26. Reserves

The details of reserves in PannErgy Plc's financial statements are as follows:

	2018. HUF Th	2017. HUF Th
Capital reserve	11,322,046	10,638,746
Profit reserve	1,743,756	1,669,328
Other reserves	-	-
Total	**13,065,802**	**12,308,074**

In its statement of financial position, PannErgy Plc. presents the sum of reserves for treasury shares and general reserves under a separate heading. The form of accounting and presentation complies with the requirements described in the IAS 32 Financial instruments: Presentation and IAS 33 Earnings per share standards.

The statement on the changes of equity capital are shown in the "Treasury shares" column by presenting book values and costs for the current volumes of treasury shares and changes, whereas the amount belonging to the "Reserve" column of the "Sales of treasury shares" line indicates the exchange rate difference – recognized in comparison with the respective book values – belonging to sales. The acquisition of treasury shares does not involve profit, and therefore no value is entered into reserves within the equity capital.

27. Long-term liabilities

The Company records long-term liabilities in a total amount of HUF Th 18,736 at the end of 2018. These liabilities are payable rental fees over one year and connected with the long-term rental car contract of the Company, the accounting as liabilities is in conformity with the Company's accounting policy for lease.

28. Provisions

	2018. HUF Th	2017. HUF Th
Opening balance as of 1 January	-	56,236
Provisioning	-	-
Provisions reclassified, released	-	-56,236
Closing balance as of 31 December	**-**	**-**

Provision released in the previous period was connected to the share option program for the period of 2016–2019. For the period under review, the Company presents the amount of the evaluation of the share option program as short-term liabilities against capital reserves based on the current market rates of PannErgy shares on the given account date, their volatility and the probability of reaching the share rate levels defined for the share option program.

This accounting policy means a change, because in the period before the year under review the Company handled these foreseeable liabilities as provisions with respect to the fact that the set of conditions connected with the call-down of the option was not fully satisfied in the indicated periods. Based on the foregoing, the period under review saw the transfer of provisions to other short-term liabilities.

In its statement of financial position for the year under review and the previous year, PannErgy Plc. did not present provisions for environmental protection and recultivation purposes.

The Company does not raise reserves for costs relating to headcount redundancy, the pension of employees, and it has no such obligations beyond the contributions paid to the public pension system.

29. Short-term loans, Short-term part of long-term loans

The Company has liabilities arising from short term loans as at 31 December 2018:

	2018. HUF Th	2017. HUF Th
Short-term loan from banks	100,000	-
PannUnion Services GmbH.	-	48,072
Reclassified current account loans	-	290
Closing balance as at 31 December	**100,000**	**48,362**

The increase of short-term loan from banks during the reporting period was in accordance with the financing of the Company's treasury share purchase program.

The Company presented the payable rental fees within one year as short-term part of long-term loans in short-term liabilities. These fees are connected with the long-term rental car contract of the Company and amounted to HUF Th 23,578 in the period under review.

30. Other short-term liabilities

	2018. HUF Th	2017. HUF Th
Liabilities form share option program	33,604	209,046
Deferred items for the upcoming period	6,648	10,115
Tax and contribution liabilities	329	4,115
Wages, salaries and social insurance	1,208	492
Liabilities relating to derivative transactions	1,268	-
Miscellaneous	4,414	4,419
Other short-term liabilities in total	**47,471**	**228,187**

Among other short-term liabilities, the largest single item arises from the obligations connected with the share option program for 2017–2019 (see details in Chapter 36. share-base payments). The Company recognizes tax and contribution liabilities in an amount of HUF Th 5,183.

Within the HUF Th 6,648 amount of deferred items for the upcoming period the Company recognizes HUF Th 6,635 as deferred non-interest type items, while HUF Th 13 deferred interest type items for the upcoming period.

31. TAXATION, INCOME TAXES

31.1. *Income taxes for the year under review*

	2018. HUF Th	2017. HUF Th
Tax liabilities in the year under review	11,462	8,808
Effect of deferred taxes	-	34,324
Total	**11,462**	**43,132**

The corporate income tax payment obligation for the year under review is determined on the basis of the taxable profit assessed in accordance with the relevant Hungarian regulations. For all the entities of PannErgy Group, the applied corporate income tax rate is 9%.

In line with its accounting policy, the Company does not state the local trading tax payable to municipalities, which is assessed with respect to the local trading tax, among profit-related taxes, but other expenditures.

31.2. *Receivables from deferred taxes*

During the evaluation of deferred tax assets and liabilities, deferred tax receivables presented among assets are determined as follows:

	2018. HUF Th	2017. HUF Th
Return due to accrued losses	27,993	15,166
Difference originating from depreciation under the Accounting and Taxation Act	-	9
Difference in the depreciation of tangible assets due to consolidation	-	-
Provisioning	-	-
Deferred tax receivables (gross)	*27,993*	*15,175*
Deferred tax payables (gross)	*-2,700*	*-2,700*
Deferred taxes to be settled (net)	**25,293**	**12,475**
Deferred taxes stated for the previous year	12,475	46,799
Deferred tax settlement/write-back	12,818	-34,324
Deferred tax receivables as of 31 December	**25,293**	**12,475**

The HUF Th 27,993 deferred tax receivables recognized among fixed assets covers the 9% corporate income tax relating to the negative tax base that remained unused in association with the subsidiaries belonging to PannErgy Plc., as well as other deferred tax-modifying items under IFRS.

Tax receivables deferred due to accrued losses are based on the controlled, deferred taxes of the subsidiaries concerned. Based on the Company's decision, 5-year period is taken into account for the return of accrued losses in line with the recommendations of the IAS 12 standard.

The gross amount of deferred tax receivables is HUF Th 27,993, which further decreases the amount of deferred tax liabilities associated with development reserves by HUF Th 2,700.

As these deferred tax receivables and liabilities are incurred against the same tax authority, these amounts are netted in accordance with the relevant IFRS requirements, and therefore the financial statements recognize HUF Th 25,293 as deferred tax receivables.

31.3. *Calculation of the effective income tax*

The calculation of the difference between the expected income tax established as the product of the specific profit before taxes recognized in the PannErgy Plc's profit & loss account and the income tax rates that are applicable to the Company on the one hand, and on the other hand corporate income tax effectively stated in the profit & loss account are as follows:

	2018. HUF Th	2017. HUF Th
Profits before taxes (individual companies)	**176,329**	**224,721**
Tax calculated on the basis of the effective tax rates that are applicable to the profit of the group entities (10% in 2017 and 9% in 2018)	15,870	20,225
Tax implications of non-deductible expenditures, effects of differences in depreciation and other tax-decreasing items	7,054	-2,609
Deferred tax liabilities assessed in the year under review for any negative tax base not stated earlier	-11,462	-8,808
Tax liabilities in the year under review	**11,462**	**8,808**
Write-off of tax receivables assessed earlier for negative tax bases in profit or loss statement	**-**	**34,324**
Income tax (as per the profit & loss account)	**11,462**	**43,132**

32. Earnings per share

	2018.	2017.
Net profit for the year to equity holders (HUF Th)	164,867	74,428
Number of issued shares less the number of treasury shares	19,347,221	18,614,220
Profit/loss per share (HUF)	**8.52**	**4.00**
Diluted profit/loss per share (HUF)	**8.47**	**3.82**

The difference between the profit/loss per share and the diluted profit/loss per share can be explained by the fact that at the time of the establishment of the amount of the diluted earnings per share the Company also considered the number of shares that were involved in the share option program running in the period under review, but still not called down/transferred as an item decreasing the volume of treasury shares provided that the set of conditions defined in the share option program for the call-down of options is satisfied at the time of the preparation of the financial report. As of 31 December 2018, 790,001 shares of the 900,000 shares concerned in the share option program were transferred following the call-down of the shares, and therefore 109,999 treasury shares were taken into account as decreasing items.

33. Liquid assets and cash equivalents

	2018. HUF Th	2017. HUF Th
Bank and petty cash	44,311	21,503
Separate, blocked liquid assets	71	-
Cash and cash equivalents	**44,382**	**21,503**

34. Trade payables

	2018. HUF Th	2017. HUF Th
Trade payables	92,241	154,586
Total	**92,241**	**154,586**

35. Financial instruments

PannErgy Plc. financial instruments can be categorized as follows:

	2018. HUF Th	2017. HUF Th
Financial assets	**12,093,862**	**11,763,867**
Marketable financial assets (available for sale, AFS)	***4,658,686***	***4,827,911***
Long-term investments	4,658,662	4,627,883
Securities	25	200,027
Loans and receivables (LAR)	***7,434,996***	***6,924,713***
Loans provided	7,079,493	6,660,581
Trade receivables	59,652	135,028
Other short-term receivables, prepaid income taxes	295,851	129,104
Financial assets held to maturity (HTM)	***8,301***	***11,243***
Long-term financial receivables	8,301	11,243
Financial instruments evaluated at fair value to profit and loss (FVTPL)	***-***	***-***
Derivative transactions	-	-
Financial liabilities	**274,764**	**434,587**
Other financial liabilities	***273,496***	***434,587***
Trade payables	92,241	154,586
Long-term loans	18,736	-
Short-term credits	100,000	48,362
Short-term part of long-term loan	11,462	-
Other financial liabilities	51,057	231,314
Financial liabilities evaluated at fair value to profit and loss (FVTPL)	***1,268***	***-***
Derivative transactions – liabilities	1,268	-

The Company presents primarily purchased credit securities and participations in other companies among marketable financial assets.
Among loans and receivables, the Company presents purchased and credit securities, as well as trade receivables and loans provided with respect to the nature of these assets. The Company records loans among current assets. The values of loans and receivables are initially stated at their fair values by the Company, and then at their depreciated values in the financial statements prepared in accordance with the IFRSs, with the use of the effective interest rate method.

The Company recognizes non-derivative financial assets carrying fixed or definable payments and fixed terms, as financial instruments held to maturity (HTM), where they are planned to be held until maturity based on the Company's positive intent and ability. The Company presents the outstanding amounts of purchases prices connected with the selling of a property in 2015 as financial instruments held to maturity that mean long-term payments under specific schedules for the Company, and therefore these receivables have the status of being held to maturity.

Receivables associated with futures transactions, swap transactions are recognized by the Company as financial assets evaluated at fair value against the profit or loss, whereas liabilities connected with similar transactions are shown as financial liabilities evaluated at fair value against the profit or loss.

The Company accounts for all the other financial liabilities not evaluated at fair value against the profit or loss as other financial liabilities, such as basically trade payables, loan and credit liabilities, other short-term liabilities. Trade payables are initially presented at their fair values, and later they are evaluated at their amortized costs that are determined with the use of the effective interest rate method.

36. SHARE-BASE PAYMENTS

At its annual ordinary General Meeting held on 28 April 2016, the Company approved the set of conditions for the new share option program for 2016–2019 with its full details – beyond the provisions hereunder – being available at the Company's website.

Key conditions of the share option program:

- The beneficiaries can acquire conditional call options for altogether 900,000 shares against the Company provided that the associated option agreements are concluded. They are American options, and can be exercised until 30 April 2019; the option rights become exercisable upon reaching certain stock exchange price levels, in different phases:
- The option price corresponds to the turnover-weighted average price during the 60 trading days preceding the opening of the Option (1 May 2016), i.e. will be 349.02 HUF/share.

- If in the period of the option program the stock exchange rate exceeds the fixed 349.02 HUF/share price by 15%, i.e. it reaches the HUF 402 rate, then the call option will open for 300,000 shares;

- If in the period of the option program the stock exchange rate exceeds the fixed 349.02 HUF/share price by 30%, i.e. it reaches the HUF 454 rate, then the call option will open for another tranche of 300,000 shares, that is altogether for 600,000 shares;

- If in the given period the stock exchange rate exceeds the fixed 349.02 HUF/share price by 45%, i.e. it reaches the HUF 506 rate, then the call option will open for another tranche of 300,000 shares, that is altogether for 900,000 shares representing the total volume allocated to the share option program.

<u>Evaluation of the share option program:</u>
For the determination of the fair value of the share option program, all the three opening stages were taken into account. In line with the market conditions considered for the determination of the

fair value, with the use of the Black-Scholes model (closing share price as of 31 December 2018: HUF 758 per share, volatility (12 months): 24.9%, risk-free interest rate: 0.99%), the fair value of the options for the total portfolio of 109,999 shares that meet the market conditions of the provision of the options, but still have not been called down by means of the option declaration is HUF Th 33,604 on the aggregate. Based on this, altogether HUF Th 33,064 is recognized in the Company's financial statements as of 31 December 2018 in relation to the evaluation of the share option program as other short-term liabilities against capital reserves.

Those entitled to do so called down a total of 741,001 own shares in 2018 under the share option program. After the buyers' payment of the option price of 349.02 HUF/share the Company transferred the shares, and the price difference was recognized – on account of the shares the Company's own shares – in the capital reserve and had no impact on the Company's profit/loss during the reporting period.

37. OFF-BALANCE SHEET LIABILITIES AND COMMITMENTS

37.1. *Contract-based and investment-related commitments*

Investments implemented amount for 337 HUF Th in 2018, as opposed to the investments of the previous period in the amount of 762 HUF Th. The Company has no investment commitments currently.

37.2. *Obligations undertaken in relation to asset management transactions*

During asset management transactions (selling and purchasing participations, other assets), the company assumes guarantees for the economic purport of the transaction. From these assumed guarantees, the Company's management – in view of their expectations formulated to the best of their knowledge – does not see the occurrence of substantial performance obligations to be likely.

37.3. *Other pending liabilities*

37.3.1. Assets associated with funding by financial institutions, restrictions of title

PannErgy Plc. has no liabilities towards credit institutions, thus is not burdened by asset restrictions, however, for external financing agreements that were made by subsidiaries of Pannergy Plc. during the period, various types of guarantees (pledge, suretyship) were undertaken in an amount of HUF Th 3,878,144 and EUR 18,005,000 towards the funding financial institutions. The outstanding principal amounts of these financing agreements consistently decreased as a result of the repayments made in the meantime, and therefore the amounted of the connected pending commitments were under the presented contracted values.

37.3.2. Commitments made in relation to tenders

Pursuant to Government Decree 358/2014 (Dec 29) and the associated legal regulations, in relation to subsidies provided from the European Regional Development Fund, the European Social Fund and Cohesion Fund from 1 January 2015 beneficiaries are not obliged to furnish guarantees if they have at least one closed full business year and are registered in the database of the National Tax Administration (NAV) as taxpayers without public debts. Therefore, with one single exception, PannErgy Plc. is exempt from the provision of such, relevant-to-subsidiaries guarantees in connection with tenders and applications. For the amount of subsidy provided to the PIAC_13

Market-oriented research and development activities, PannErgy Geothermal Power Plants Ltd made a commitment in relation to the subsidy scheme in an amount of HUF Th 442,000, which remains effective during the maintenance period of the project.

37.3.3. Operative leases

Based on the operative leases existing without the option of cancellation, the aggregate amount of lease obligations that are to be minimally paid in the future is presented in the table below, in a breakdown for maturity categories:

	2018. HUF Th	2017. HUF Th
within 1 year	11,823	4,481
over 1 year, but within 5 years	8,170	19,993
over 5 years	-	-
Total	**19,993**	**24,474**

The increase of operative lease obligations is connected with the long-term rent type contract of other equipment, machinery, vehicles concerned in operative lease financing during the year under review.

The payable fee liabilities from the Company's long-term rental car /operative lease contracts were presented as liabilities in financial statements, in parallel, the car as a subject of the rental contract was accounted as tangible asset, in line with the Company's accounting policy for lease. At the same time with the mentioned presentation in the statement of financial position, here in this "off-balance sheet liabilities" chapter the reason of the presentation is the comparison with the previous period.

38. Financial risk management

38.1. *Financial risk factors*

Due to its activities, PannErgy Plc. is exposed to the following financial risks: market risk, including exchange rate risk, price risk, fair value interest rate risk, cash flow interest rate risk, as well as credit risk and liquidity risk.

38.2. *Market risk*

38.2.1. Foreign exchange risk

The Company also performs activities settled in foreign currencies, and there are contracted customers to which EUR-denominated amounts are invoiced based on the agreements pertaining to invoicing. It similarly has EUR-denominated liabilities; they are basically EUR-based long-term investment loans demanded for the implementation of the geothermal projects, and furthermore with a number of foreign and domestic suppliers settlements and invoicing are carried out in EUR currency. The assets and liabilities denominated in foreign currencies carry the risk arising from the changes of foreign exchange rates, and in particular Euro rates, which PannErgy Plc. strives for mitigating on the broadest possible scale, primarily by hedging the largest possible proportion of the above-mentioned EUR-based revenues with credit liabilities also in Euro currency.

In 2018, the Company concluded several forward FX transactions to cover the risks of foreign exchange losses that may originate from the financial settlement of its trade payables to be incurred in the future in foreign currencies. These transactions were not cash flow hedging transactions, and therefore in the year under review the gains and losses realized on these transactions will be presented among the financial incomes and expenditures of the financial statements, separately detailed.

38.2.2. Price risk

The Company does not carry price risks in relation to commodities or financial instruments.

38.2.3. Cash flow and fair-value interest risk

The Company carries only limited interest rate risk, as it is not financed actively by long-term loans provided by external financing companies, thus no interest rate risk arises from the maturity. The Company only bears short-term intercompany loans.

38.3. *Credit risk*

Credit risk is the risk of financial losses arising from the potential non-performance of any contracted obligation by the Company's customer partner, and primarily covers the risks arising from 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.
For the rating of customers, the creditworthiness and credit limits of the customers are determined by PannErgy Group's Finance and Treasury Team with respect to their respective financial positions, financial data, historic experience and other factors. The Company regularly monitors the utilization of credit limits, and the customers make all payments in consideration of their purchases via bank transfer. During the reporting period, there were no overdrafts in the credit limits, and according to the management no losses can be anticipated from these customer performances.
The year-end evaluation of customer debts (outstanding amounts) and the execution of the necessary measures are performed separately for the individual customers.

38.4. *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. Adequate liquidity can be realized by shaping the terms of funding sources in alignment with the lifecycle of the project. Cash flow forecasts are prepared by PannErgy Group's Finance and Treasury Team, and additionally the rolling forecasts relating to the fulfillment of the Group's liquidity requirements are monitored in order to ensure the availability of sufficient liquid assets for operations, while in connection with the credit limits that are not drawn down sufficient margin is intended to be maintained so that the Company should not surpass its credit limits from time to time, and could meet the debt service indicators that are undertaken vis-á-vis financial institutions. These cash flow forecasts based on the financial settlement of trade payables, credit repayments, as well as contracted and other incomes do take PannErgy Group's financial plans into account,

alongside the satisfaction of the contracted financial indicators, external regulatory and legal requirements.
Beyond trade payables, other short-term liabilities are presented in the cash flow forecasts with due dates corresponding to their respective natures, meaning that taxes and contributions, liabilities connected with the payment of incomes are financially settled within 30 days, other types of liabilities until the dates determined in the underlying contracts or other documents, but within one year at the latest.

38.5. *Capital management*

With the shaping of the capital structure, the Company has the goal to sustain its continuous operability in order to ensure profits to its shareholders and groups of other stakeholders and maintain optimal capital structure in order to reduce capital costs. Towards the maintenance or adjustment of the capital structure, the Company's management makes decisions or proposals towards the shareholders in relation to the amount of the dividends to be paid, the repayment of capital amounts to shareholders, and similarly in cases associated with the capital structure the management may decide on the issuance of new shares or the disposal of assets. The management confirms that the Company complies with the relevant statutory capital requirements. In evaluating this aspect, the Company monitors the requirements of Act V of 2013 on the Civil Code. Equity capital and its ratio to the amount of the subscribed capital are shown in the following table. The equity capital is positive, and considerably exceeds the amount of the subscribed capital both in the period under review and the previous year.

	2018. HUF Th	**2017. HUF Th**
Subscribed capital	421,093	421,093
Equity capital in total	12,357,527	11,707,817
Equity capital / subscribed capital	**29.35**	**27.80**

38.6. *Netting of financial assets and financial liabilities*

In the case of financial assets and financial liabilities contemplated in any mandatory netting agreement or similar agreement, the agreements made between the Company and any other party allows the net-based settlement of the given financial assets and liabilities if both parties decide on the application of the net-based settlement. At PannErgy Plc., there was no such agreement or decision made, in the absence of which financial assets and liabilities are settled on a gross basis.

39. PARTICIPATIONS

39.1. *The Company's subsidiaries belonging to the scope of consolidation*

The Company's subsidiaries belonging to the scope of consolidation and the ownership shares are the following as at 31 december 2018:

	Capital net worth (HUF M)	Property share (%)	Voting rights (%)	Rate of involvement in consolidation
PannErgy Geothermal Power Plants cPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energy Ltd.	24.10	100.00	100.00	100.00
TT Geothermal cPlc.	6.00	100.00	100.00	100.00
Szentlőrinc Geothermal cPlc.	5.00	100.00	100.00	100.00
Miskolc Geothermal cPlc.	5.00	90.00	90.00	90.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Arrabona Geothermal Ltd.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	90.00	90.00	90.00
PannErgy Concession Ltd.	3.00	100.00	100.00	100.00

The ratios of ownership and voting rights show the ratios of direct ownership and voting rights in PannErgy Plc and PannErgy Geothermal Power Plants Ltd. The rate of involvement in consolidation and the ownership share do not differ from each other.

39.2. *Changes in investments, participations during the year under review*

Pursuant to a decision taken by PannErgy Plc. as owner and as reflected by the relevant rulings of the Court of Registration of the Budapest Metropolitan Court PannErgy Plc. acquired a 16.67% share of ownership in TT-Geotermia CPlc. through a capital increase in the form of a non-pecuniary contribution worth HUF Th 1,000. The capital increase raised the share capital of the consolidated subsidiary TT-Geotermia CPlc. from HUF Th 5,000 to HUF Th 6,000, and the subsidiary remained fully consolidated because the original owner PannErgy Geotermikus Erőművek CPlc's shareholding dropped to 83.33% and at the same time PannErgy Plc. obtained a 16.67% participation, together PannErgy Group level is 100%.

40. SEGMENT REPORT

In line with the relevant IFRS requirements, the Company is to present its operating segments. PannErgy Plc. described one operating segments in its report for the base period (Assets Management segment), thus the Company has to comply with the reporting requirements on Financial Statement level.
In practice this means the figures of Asset managements segment of the year under review and the previous year fully match the figures of the Financial Statements being presented above.

41. Explanation of the reclassifications made after the financial statements for the base period

The PannErgy Group did not modify the data contained in its 2017 financial statements; the basis data presented herein are the same as those to be found in the 2017 financial statements.

42. Transactions with affiliated parties

42.1. *Transactions with the members of the Company's management*

The Group's management is in ownership relation with a company that continuously provides business management counselling and long-term rental car services to PannErgy Plc; the value of these services in 2018 was HUF Th 71,725, from this total the business management consultancy services incurred in HUF Th 45,874, and the long-term rental car type services amounted to HUF Th 25,851 during the reporting period. That the latter fees were accounted in line with the Company's accounting policy for lease, the rental fees paid in the reviewed period presented as liabilities in the financial statements.

42.2. *Intercompany transactions*

The Company performed intercompany transactions during 2018 as follows:

Data of transactions consummated with affiliated parties	**2018. HUF Th**	**2017. HUF Th**
Intercompany sales [1]	264,223	286,524
Procurements from affiliated companies	102,776	59,758
- *Of this, from subsidiaries*	*31,051*	*29,690*
- *Of this, from other companies owned by PannErgy Group's management*	*71,725*	*30,068*
Intercompany receivables	7,144,341	6,733,613
Intercompany liabilities	73,334	110,162
- *Of this, from subsidiaries*	*57,966*	*107,650*
- *Of this, from other companies owned by PannErgy Group's management*	*15,368*	*2,512*

[1] Of this 232,559 HUF Th interest income presented as sales revenue.

42.3. *Intercompany borrowings & loans*

Pannergy Plc. had the following Intercompany borrowings and loans in 2017 and 2018. No loans have been granted to the Management of the Company.

	2018. HUF Th	2017. HUF Th
Opening balance IC loans	6,660,581	7,334,168
New volume of IC loans	704,254	86,385
IC repayments	221,842	-759,972
Remission on IC loans	63,500	-
Closing balance IC loans	7,079,493	6,660,581

	2018. HUF Th	2017. HUF Th
Opening balance IC borrowings	48,072	635,304
New volume of IC borrowings	-	39,732
IC repayments	48,072	626,964
Closing balance IC borrowings	-	48,072

42.4. *Remuneration of the Management*

Remuneration of the key members of the Management, the members of the Board of Directors, and other employees participating in strategic decisions at the Company and its subsidiaries are as follows in terms of remuneration categories set by IAS 24 standard – a Publication rules on intercompany items (table lists the amounts disbursed during the given period):

	2018. HUF Th	2017. HUF Th
Prompt employee benefits	13,500	14,480
Deferred long-term benefits	-	-
Severance payment	-	-
Share based payments	-	-
Total	**13,500**	**14,480**

The Company has approved HUF Th 195 / month remuneration for the Chairman of the Board of Directors as stated in its resolution no. 6/2018 (IV.27). Remuneration set for the other members of the Board amounts for HUF Th 155 / month starting form 29 April 2018.

43. Events after the financial statement date

The table provides links to events taking place after the financial statement date. Based on the given references, comprehensive information is available at the Company's official publication sites.

Date	Type of news	Subject-matter, brief contents
19 March 2019	Extraordinary information	Treasury share transaction
14 March 2019	Extraordinary information	Treasury share transaction
12 March 2019	Extraordinary information	Treasury share transaction
12 March 2019	Extraordinary information	General Meeting – Invitation
8 March 2019	Extraordinary information	Treasury share and share option transactions
7 March 2019	Extraordinary information	Treasury share transaction
5 March 2019	Extraordinary information	Treasury share transaction
3 March 2019	Extraordinary information	Treasury share transaction
1 March 2019	Extraordinary information	Treasury share transaction
28 February 2019	Other information	Composition of share capital of the PannErgy Plc.
26 February 2019	Extraordinary information	Treasury share transaction
22 February 2019	Extraordinary information	Treasury share transaction
21 February 2019	Extraordinary information	Treasury share transaction
19 February 2019	Extraordinary information	Treasury share transaction
15 February 2019	Extraordinary information	Treasury share transaction
14 February 2019	Extraordinary information	Treasury share transaction
12 February 2019	Extraordinary information	Treasury share transaction
8 February 2019	Extraordinary information	Treasury share transaction
7 February 2019	Extraordinary information	Treasury share and share option transactions
5 February 2019	Extraordinary information	Treasury share transaction
1 February 2019	Extraordinary information	Treasury share transaction
31 January 2019	Other information	Composition of share capital of the PannErgy Plc.
31 January 2019	Extraordinary information	Treasury share transaction
29 January 2019	Extraordinary information	Treasury share transaction
25 January 2019	Extraordinary information	Treasury share transaction
23 January 2019	Extraordinary information	Treasury share transaction
21 January 2019	Extraordinary information	Treasury share transaction
18 January 2019	Extraordinary information	Treasury share transaction
17 January 2019	Extraordinary information	Treasury share transaction
15 January 2019	Extraordinary information	Quarterly production report
15 January 2019	Extraordinary information	Treasury share transaction
11 January 2019	Extraordinary information	Treasury share transaction
10 January 2019	Extraordinary information	Treasury share transaction
8 January 2019	Extraordinary information	Treasury share transaction
4 January 2019	Extraordinary information	Treasury share transaction
3 January 2019	Extraordinary information	Treasury share transaction
2 January 2019	Other information	Composition of share capital of the PannErgy Plc.

44. DATE OF THE PERMITTED RELEASE FOR DISCLOSURE

The financial statements were approved by the Company's Board of Directors and permitted for disclosure on 19 March 2019.

Dénes Gyimóthy
representing the Board of Directors

PannErgy Plc.

Parent company's Business and Management Report 2018

Based on the financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU

Budapest, 19 March 2019

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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1. Management summary

Gross margin, cash-flow and EBITDA in accordance with the plans, despite lower heat sales

Unfavorable weather conditions during the reporting period brought about lower levels of heat production and sales, as a result of which the Company's consolidated sales revenue totaled slightly below, but nearly equal to, the previous year's level. Nonetheless, an increase was achieved in the consolidated gross margin and gross cash-flow, through effective operational and cost management processes.

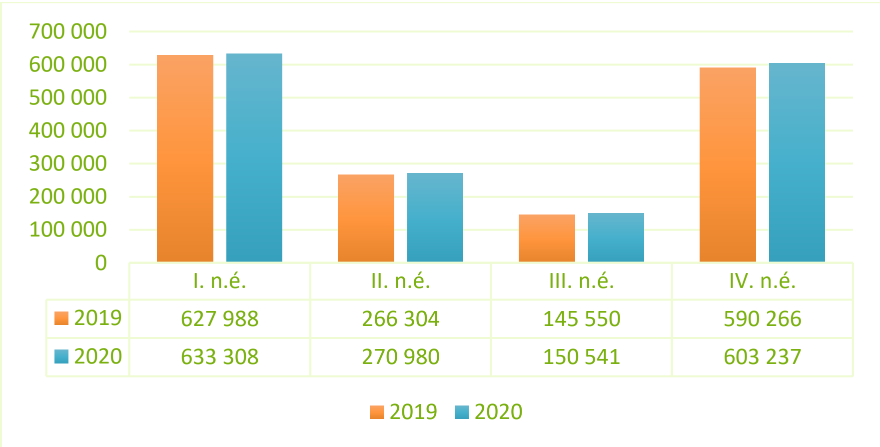
The Company's EBITDA amounted to HUF 2,231 million during the reporting period with a 48% EBITDA rate, nearly the same as the previous year's HUF 2,241 million EBITDA figure and also 48% EBITDA rate. This EBITDA level during the reporting period was largely up to the Company's EBITDA plans and the reporting period's business line estimates, despite the loss of sales revenue caused by the unfavorable weather conditions.

The Company's EBITDA expectations concerning the coming years

The Company plans to continue implementing additional investment projects to improve efficiency and safety in 2019, with the ultimate aim of expanding and making more economically efficient the utilization of energy in the geothermal resources it has reached. The Company hopes to enhance the services provided for its existing customers and to provide new customers with geothermal energy. The Company is continuously seeking for and assessing such opportunities.

The Company plans to achieve TJ 1,620 in terms of total heat sales volume in 2019, and TJ 1,658 in 2020. The Company plans to generate HUF 2,320-2,380 million in terms of EBITDA in 2019, up 4-7% on the basis figure. The 2020 EBITDA plan is HUF 2,580-2,640 million, that is, another 11% increase. The estimated HUF 164 million consolidated annual EBITDA increasing effect of the envisaged repurchase of the third reinjection well at Miskolc is a major contribution to the planned EBITDA increase.

Planned consolidated quantities of heat planned to be sold, broken down by quarterly data:



Drop in the quantity of heat sold, as a result of unfavourable weather conditions

In 2018 the PannErgy Group continued to pursue its objective set forth in its geothermal energy production and utilization strategy, involving continued adjustment and fine tuning type activities, enabling efficiency improvements, in the operational conditions and the functioning of the geothermal projects at the Group's four project sites (Miskolc, Győr, Szentlőrinc and Berekfürdő) during the reporting period. Moreover, the Company also focused on the surface operations enabling the drilling of a production well relating to the Győr Concession Project and its integration in the existing system, with a view to making sure that these projects cause no disruptions in heat production and sale to heat consumer partners. Through economically efficient operation the Company managed to offset the effects on profitability of the loss of heat sales caused by the unfavorable weather conditions.

During its operations in 2018 the PannErgy Group sold a total of 1,435,894 GJ heat, down 7% from the previous year's sale of 1,535,497 GJ. The negative impacts on the profitability of the shortfall in the amount of heat sold were compensated to some extent by the higher regulatory selling prices applied from 1 October 2018, besides the aforementioned improvement in the efficiency of operations.

The consolidated quantity of heat sold by the PannErgy Group in 2018 (GJ):

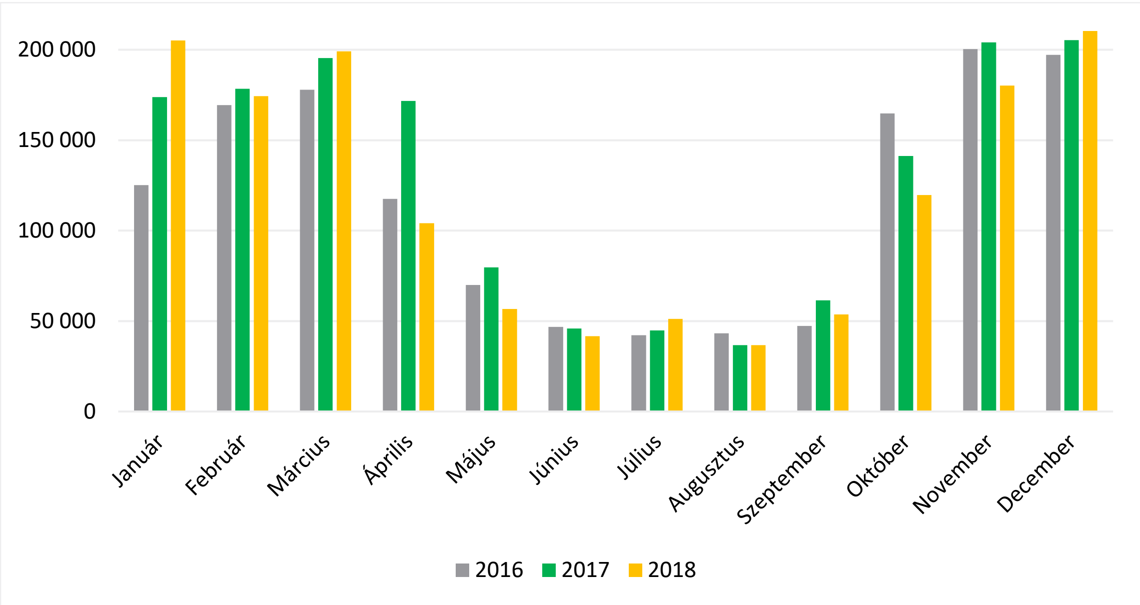


Figure 1
Consolidated quantity of heat sold, in GJ

The chart illustrates the aggregate amount of heat sold by the Miskolc, Győr, Szentlőrinc and Berekfürdő projects, in a monthly breakdown.

Period	2016	2017	2018
January	124,060	172,758	205,199
February	168,574	177,533	174,300
March	177,177	194,634	199,090
April	117,075	171,294	104,033
May	69,990	79,700	56,758
June	46,866	45,936	41,641
July	42,193	44,865	51,247
August	43,294	36,709	36,794
September	46,429	61,502	53,650
October	163,409	141,270	119,652
November	199,716	204,045	180,263
December	197,650	205,251	213,267
TOTAL	**1,396,434**	**1,535,497**	**1,435,894**

Figure 2
Consolidated quantity of heat sold, in GJ, in a table

By comparing the heat sales figures of 2018 to the corresponding figures of 2017 it can be concluded that the weather conditions in 2018 were less favorable than during the year before.

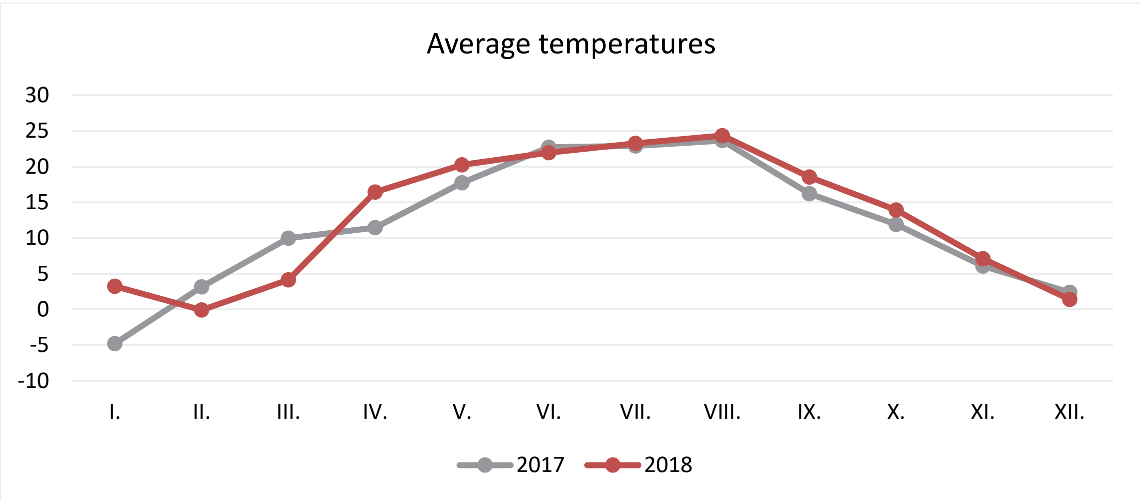


Figure 3
Average temperatures in 2017 and 2018

The 2 – 8 °C ambient temperature range is ideal for selling geothermal heat during the heating season: the smaller the difference between the daily minimum and maximum temperature the better for this industry. The Company estimates that in Győr and in Miskolc the unfavorable weather conditions resulted in the sale of 40 000 GJ and 60 000 GJ less heat during the year, respectively. Figure 3 shows that average temperatures were less favorable during the first, third and fourth quarter, than during the corresponding periods of the previous year, particularly in the months of March, April, October and November. The 2018/2019 heating season started at the end of September. As to the annual aggregate, the total annual heat sales of the previous heating season was affected negatively primarily by the end of the 2017/2018 heating season in comparison with the preceding heating season because it came to an unusually abrupt end. No major changes were observed in the sale of heat during the summer months, as the weather conditions have little impact on it. The shortfalls of the fourth quarter were caused primarily by the warm autumn weather and minor technical factors in Miskolc. The Company took actions to offset the impacts of the technical factors – primarily on the profit generated in October and less profoundly on the November profit – as fully as possible. The total amount of heat sold in 2018 was down 7% year-on-year, however, the Company's profitability was positively affected by the above mentioned improved operational efficiency and the higher regulatory selling prices from 1 October.

Acquisition of minority interest in the Szentlőrinc plant

During the first quarter of the reporting period the Company concluded an interest sale and purchase contract with the minority shareholder of Szentlőrinci Geotermia CPlc. – the Municipal Government of the Town of Szentlőrinc – under which its 0.2% minority interest was taken over by PannErgy Geotermikus Erőművek CPlc., holder of 99.8%, for a purchase price of HUF Th 1,000. The transaction increased PannErgy Plc's share of ownership in Szentlőrinci Geotermia CPlc. from the 99.8% as of 31 December 2017 to 100%.

Development grant won

With its application submitted under the Economic Development and Innovation Operational Program (EDIOP) DoverDrill Mélyfúró Ltd., PannErgy Plc's subsidiary, won a non-repayable grant of approx. HUF Th 500,000, in addition to which it may access a soft loan of HUF Th 250,000 under the application scheme facility. DoverDrill Mélyfúró Ltd. submitted its application under the GINOP-2.1.2-8.1.4-16-2017-00166 "Grants for R&D&I activities of companies in the framework of combined loan products" application scheme as part of the Economic Development and Innovation Operational Program. The Company plans to sell the resulting technological development in the domestic and international market after the closure of the project under the application scheme.

Treasury share buyback programs

Based on a resolution taken by the Company's General Meeting on 28 April 2017 PannErgy Plc. launched a treasury share buyback program, to be implemented during the period between 29 April 2017 and 27 April 2018. PannErgy Plc. could have purchased treasury shares for an amount up to HUF 1,000 million on the exchange, for a price of at least HUF 1 and not more than HUF 600 per share. The treasury share buyback program was closed in April 2018. The Company purchased no treasury shares in the first four months of 2018.

The increase of 8,000 in the portfolio of treasury shares held by the Company during the reporting period was in accordance with the relevant resolution taken by the Company's General Meeting on 27 April 2018 on PannErgy Plc's launching, in the same month, of another treasury share buyback program. 28 April 2018 and 27 April 2019 marked the first and the last day of the program. PannErgy Plc. purchases treasury shares for an amount up to HUF 1,000 million, exclusively on the exchange, for a price of at least HUF 1 and not more than HUF 950 per share. Within the limits permitted by law the Board of Directors is authorized to purchase not more ordinary shares of a HUF 20 nominal value under the program than with which the portfolio of treasury shares does not

exceed 25% of the total portfolio of shares issued by the Company at any time during the term of the authorization.
Based on the General Meeting's authorization the Company purchased the above mentioned 8,000 shares of its own issue under the program during the period concerned. Additional programs for purchasing treasury shares were acquired in the framework of the program after 31 December 2018.

On 31 December 2018 the Company held a total of 2,642,637 PannErgy Plc. treasury shares, 733,001 less than on 31 December 2017. The aggregated change was a result of an increase of 8,000 and a decrease of 741,001 during the reporting period, all relating to the share option program covering the 2016-2019 period. At the end of the period under review the treasury share portfolio equaled 12.55% of the total issued portfolio.

Concession contract

PannErgy Geotermikus Erőművek CPlc. – a member of the PannErgy Group – concluded a concession contract in February 2017 with the Hungarian State for the exploration and extraction as well as utilization of geothermal energy in the region of Győr, for a definite period of 35 years.
The conclusion of the concession contract was followed – on 17 February 2017 – by the establishment of PannErgy Koncessziós Ltd. Having examined, in the framework of the concession rights acquired under the concession contract, the geothermal resources in the zone over 2,500 meters below the surface, that is the zone covered by the concession, the newly established concession company decided to have a new geothermal well drilled in order to increase its thermal capacity, an investment expected to pay off, for which the Company was issued with the final construction permit on 26 January 2018. The drilling of the productive well No. BON-PE-03 was started in the third week of April 2018 and was successfully completed – in accordance with the schedule of exploration under concession – in the third quarter of 2018. PannErgy plans to use the additional quantity of heat supplied by its increased capacity for selling additional green energy to its existing customers.

General meeting closing the previous business year, dividend payment

The regular General Meeting of the Company closing the 2017 business year took place, in the form of a repeated meeting, with a quorum on 27 April 2018.

In view of the Board report, the report of the Audit Committee and the auditor's report the General Meeting approved the consolidated report of the PannErgy Group, consolidated in accordance with the EU IFRS rules, with HUF Th 12,142,404 as total assets and total liabilities (balance sheet total) and HUF Th 74,428 as profit after taxes.
The General Meeting approved the Board's proposal for adding the whole of the Company's profit after taxes to its profit reserve, i.e. the Company pays no dividend for the year.

The Company's 2018 consolidated net profit for the year attributable to the Company's shareholders amounts to HUF Th 164,867, and the Board proposes to the General Meeting that no dividend should be paid, similarly to 2017.

2. PannErgy Plc as parent/individual company's profit or loss in 2018, key indicators of business operations

Key profit figures (data in HUF Thousand)	Year 2018	Year 2017
Revenue from sales	**648,443**	**787,541**
Direct costs of sales	-395,785	-544,635
Gross profit	**252,658**	**242,906**
Gross cash-flow	**252,710**	**247,247**
Indirect costs of sales	-150,875	-153,628
Other incomes	86,416	79,087
Other expenditures	-90,943	-30,282
Operating profit (EBIT)	**97,256**	**138,083**
EBITDA	102,896	148,857
Financial profit	79,073	-20,523
Profit before taxes	**176,329**	**117,560**
Net profit for the year	**164,867**	**74,428**
Return on equity, % (ROE)	1.33 %	0.64 %
Return on sales, % (ROS)	25.42 %	9.45 %
Earnings per share (EPS) HUF	**8.52**	**4.00**

The diluted earnings per share amounted to HUF 8.47; the difference can be explained by the fact that at the time of the establishment of the amount of the diluted earnings per share the Company also considered the number of shares that were involved in the share option program running in the period under review but still not called down/transferred as an item decreasing the volume of treasury shares.

Detailed description of the Company's business operations in 2018

In the year 2018, PannErgy Plc realized sales in a total amount of HUF Th 648,443, which less than the HUF Th 787,541 value for 2017 by 18%. The reason of that a transaction was carried out within the PannErgy Group during the reporting period in relation to the real properties in the town of Debrecen. PannErgy Plc. effected a capital increase by in-kind contribution in its consolidated subsidiary TT-Geotermia CPlc. The subject of the in-kind contribution was made up of the transformer building and the associated installations, listed among the real property assets located in Debrecen. This is the building that supplies power to the Debrecen industrial site in undivided joint ownership, simultaneously with the consumption-based re-invoicing of the electricity costs to the co-owners. This electricity supply mediation activity with the related contracts with suppliers and customers has been carried out since the completion of the above transaction by TT-Geotermia

CPlc, so these carry-type revenues henceforth has not been presented in Company's individual, parent company's financial statement.

In comparison with the HUF Th 499,985 amount recognized in the previous year, during the period under review HUF Th 382,826 sales were generated in association with the management of the real-estate properties owned by the Company in Csepel and Debrecen. Nevertheless, a major proportion of these sales came from the electric power consumption of tenants and other re-invoiced costs belonging to "mediated services", and only a smaller share represented rents. The revenues from rental services amounted to HUF Th 23,578 in the period under review, which is significantly higher than HUF Th 9,117 in the previous period, due to the new rental contract for properties conducted in 2018.

Furthermore, the Company realized HUF Th 265,617 from asset management, holding control activity in the year 2018, because the Company expresses its interest revenues from affiliated companies as net sales in the financial statement in accordance with the bookkeeping based on EU IFRS. The Company realized HUF Th 232,559 interest revenues from affiliated companies in the period under review, compared to HUF Th 242,534 in the previous year.

Similarly, to the previous period, three customers went over 10% of the total amount of the Company's revenue from sales, making up a combined 90% percent of all the sales in the reviewed period.

In 2018, the level of indirect costs of sales (administration and general costs) decreased by 23% to HUF Th 150,875 from the previous period.

For the above reasons, the Company stated HUF Th 97,256 under the heading of operating profit and HUF Th 102,896 under the heading of EBTDA in 2018. In connection with the operation there was only one non-recurrent item which has significant effect for the profit of the period. This was the effect of the fair value measurement of the real-estate properties held for sale on other incomes in an amount of HUF Th 69,057.

Based on the foregoing, PannErgy Plc. as parent, individual company's net profit of the year 2018 was HUF Th 164,867 after HUF Th 11,462 amount of tax payment.

Key figures of property standing (data in HUF Thousand)	Year 2018	Year 2017
Fixed assets	**5,152,888**	**4,996,161**
Total current assets	7,479,403	7,146,243
Of this, liquid assets	44,382	21,503
Total assets	**12,632,291**	**12,142,404**
Equity capital in total	**12,357,527**	**11,707,817**

During the reviewed period, the increase of fixed assets was first and foremost a result of fair value measurement of reclassified properties to marketable category in an amount of HUF Th 69,057.

Deferred tax assets in an amount of HUF Th 25,293 were recognized among assets by the Company, and thus their value significantly increased after the base period, in view of PannErgy Plc's calculations pertaining to discounted deferred tax refunds.

The volume of current assets exceeded by 5% in comparison with the corresponding value of the previous year, which can be mostly explained with reference to the payments of loan to affiliated companies.

After the previous year, the value of securities considerably decreased in the financial statements; it was caused by the fact that PannErgy Group sold short-term governmental notes (discount treasury notes) as its temporary investment in 2018, in line with the financing needs of intensive project activity of Győr concession investment during the reviewed period.

The Company succeeded 1% increase from the base value of its equity capital, which resulted from the combination of the net profit for the year, the decreasing value of repurchased treasury shares.

The short-term liabilities decreased significantly in the year 2018, the reason was the actual measurement of share-based payment program for 2016-2019 period, HUF Th 39,746 presented as short-term liabilities for this purpose, compared to HUF Th 209,046 in the previous year. The significant change is primarily based on the executed call-down of options and related transfer of treasury shares in this business year.

Key indicators	Year 2018	Year 2017
Profitability indicators		
Return on assets, % (ROA)	1.31	0.61
Return on equity, % (ROE)	1.33	0.64
Return on sales, % (ROS)	25.42	9.45
Property indicators		
Ratio of fixed assets, %	40.79	41.15
Ratio of equity capital, %	97.82	96.42
Rate of indebtedness, %	2.22	3.71
Financial indicators		
Liquidity ratio	2,921.32	1,644.37
Acid test ratio	2,921.32	1,644.37
Earnings per share (EPS) HUF	**8.52**	**4.00**

As a result of the substantial improvement of PannErgy Plc's net profit of the year, all the key indicators showed betterment in comparison with the previous period.

3. GENERAL INFORMATION ON THE COMPANY

3.1. *PannErgy Plc'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 2018, PannErgy Plc. has no employees, senior officers of the company work under contract of services.

PannErgy Plc. is registered in Hungary, under the address of H–1117 Budapest, Budafoki út 56.

3.2. *Utilization of 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. In the period under review, under the realization of their disposal the Company qualified these properties as assets held for sale, as in the previous year. 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 revenue from sales, profit originating from the energy-related core operations.

For this reason and the approach of the Company's management, the financial statements for 2018 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 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. In accordance with this target the PannErgy Plc. continued to handle these properties as marketable properties in this business year.

4. PANNERGY PLC'S MAIN OBJECTIVES FOR THE YEAR OF 2018 AND RELATED RISKS

According to its holding management and control activity. PannErgy Plc's main goals for the year of 2018 are the followings: The increase of heat-volume of the Group and the achievement of group-level gross margin, cash-flow and EBITDA targeted.

In business year 2018 the PannErgy Group worked towards its objectives prescribed in the previous year regarding its strategy for the production and utilization of geothermal energy, through continued fine tuning of the operational states and functioning of its geothermal projects to achieve further improvements in efficiency, boost heat production and, consequently, to generate increasing sales revenue and EBITDA levels. These endeavors were negatively affected by unfavorable weather conditions during the reporting period, causing a shortfall in the sale of heat year-on-year and a lower sales revenue level, in spite of the higher regulated prices applied from 1 October 2018 than the prices applied during the previous heating season. The improved operational efficiency and cost management enabled the PannErgy Group to offset the negative effect of the sales revenue decrease; consequently, the consolidated gross margin and the gross cash-flow expanded while the reporting period's EBITDA level was nearly equal to that of the preceding period, with an unchanged EBITDA rate.

The Company's EBITDA amounted to HUF 2,231 million during the reporting period with a 48% EBITDA rate, nearly the same as the previous year's HUF 2,241 million EBITDA figure and also 48% EBITDA rate. This EBITDA level during the reporting period was largely up to the Company's EBITDA plans and the reporting period's business line estimates, despite the loss of sales revenue caused by the unfavorable weather conditions.

5. THE COMPANY'S STRATEGY

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.

PannErgy Group's strategy is centred 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.

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 available 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.

For the sake of effective execution of this geothermal strategy the Company continued to handle properties located in Budapest XXI. district and Debrecen as marketable, held to sale properties, The Company is committed for sale, it had heavy sales activity in the reviewed period, the positive effect of this activity will be scheduled to take place in the next year, in line with the Company's expectations.

6. PannErgy Plc's Subsidiaries

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
PannErgy Geothermal Power Plants cPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energy Ltd.	24.10	100.00	100.00	100.00
TT Geothermal cPlc.	6.00	100.00	100.00	100.00
Szentlőrinc Geothermal cPlc.	5.00	100.00	100.00	100.00
Miskolc Geothermal cPlc.	5.00	90.00	90.00	90.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Arrabona Geotermia Ltd.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	90.00	90.00	90.00
PannErgy Concession Ltd.	3.00	100.00	100.00	100.00

6.2. *Main data of PannErgy's consolidated subsidiaries for 2018, based on individual statements*

PannErgy subsidiaries	Equity	Subscribed capital	Revenue from sales	Business profit	Profit after taxes	Head-count
PannErgy Plc.	12,357,527	421,093	648,443	97,256	164,867	-
PannErgy Geothermal Power Plants cPlc.	3,219,799	2,072,682	217,361	12,861	1,096	16
Miskolc Geothermal cPlc.	160,159	5,000	1,163,516	242,962	38,843	5
Szentlőrinc Geothermal cPlc.	25,697	5,000	75,175	26,664	-5,542	1
TT- Geothermal cPlc.	12,409	6,000	145,200	-1,782	-4,248	-
Kuala Ltd.	102,158	3,000	959,930	47,454	-28,980	1
Berekfürdő Energy Ltd.	24,879	24,100	29,820	-499	-3,072	-
DoverDrill Ltd.	836,883	86,000	1,597,047	16,211	1,124	7
PannErgy Concession Ltd.	-5,077	3,000	91,528	-2,017	-7,388	-
DD Energy Ltd.	726,661	3,100	1,313,243	-60,757	-285,431	1
Arrabona Geotermia Ltd.	1,297,145	3,100	1,618,046	600,708	484,234	1

7. The Company's ownership structure, senior officers

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

Classification of shareholders	Share capital total = Introduced series					
	1 January 2018			31 December 2018		
	%	%	unit(s)	%	%	unit(s)
Domestic institutions	22.92	27.30	4,825,567	25.24	28.86	5,314,498
Foreign institutions	21.08	25.10	4,438,071	21.50	24.58	4,526,036
Domestic private persons	31.24	37.21	6,578,283	31.95	36.54	6,727,535
Foreign private persons	0.23	0.27	47,698	0.26	0.30	54,551
Employees, senior officers	0.54	0.64	113,653	0.54	0.62	113,653
Own holding	16.03	-	3,375,638	12.55	-	2,642,637
Owner belonging to the central budget	7.96	9.48	1,675,745	7.96	9.10	1,675,745
International Development Institutions	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
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 (pcs)	Shareholding (%)	Voting rights (%)
Benji Invest Ltd.	Domestic	Institutional	2,424,010	11.51	13.17
Cashline Holding cPlc.	Foreign	Institutional	1,850,000	8.79	10.05
National Assets Management cPlc.	Domestic	Budgetary	1,675,745	7.96	9.10

7.3. *Changes in 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:

	1 January 2018.	30 June 2018	31 December 2018
Treasury shares	2,440,435	1,699,434	1,707,434

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 2018:

Name	Position	Starting date of the appointment	End/termination of the appointment	Shareholding (pcs)
Balázs Bokorovics	Member, Chairman	31 August 2007.	for an undefined period of time	-
Dénes Gyimóthy	Member, Vice-chairman, acting CEO	31 August 2007. (5 May 2015.)	for an undefined period of time	-
Katalin Gyimóthy	Member	28 April 2017	for an undefined period of time	-
Lilla Martonfalvay	Member	28 April 2017	for an undefined period of time	100.000
Csaba Major	Member	30 April 2013	for an undefined period of time	-
Attila Juhász	Member	31 August 2007	for an undefined period of time	-
István Töröcskei	Member	31 August 2007	for an undefined period of time	-
Shareholding (shares) in total				100.000

The Company does not have (strategic) employees influencing operations.
PannErgy Plc's annual financial statements prepared in accordance with the international financial reporting standards and the annual report are signed by Dénes Gyimóthy, acting chief executive officer.

8. PROTECTION OF ENVIRONMENT

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.

9. HEADCOUNT INFORMATION

The Company has no employees in the year 2018, as in the base period. The personnel expenses at Company's financial statement are the remuneration paid to members of the Board of Directors and the related taxes and contributions, in current and previous period as well.

10. DIVIDEND PAYMENT, ACQUISITION OF TREASURY SHARES

The Company's net profit for the year in 2018 was HUF Th 164,867 profit, and the Board of Directors does not propose dividend payment to the General Meeting.

On 31 December 2018 the Company held a total of 1,707,434 PannErgy Plc. treasury shares, 733,001 less than on 31 December 2017. The aggregated change was a result of an increase of 8,000 and a decrease of 741,001 during the reporting period, all relating to the share option program covering the 2016-2019 period.

The increase of 8,000 in the portfolio of treasury shares held by the Company during the reporting period was in accordance with the relevant resolution taken by the Company's General Meeting on 27 April 2018 on PannErgy Plc's launching, in the same month, of a treasury share buyback program. 28 April 2018 and 27 April 2019 marked the first and the last day of the program. PannErgy Plc. purchases treasury shares for an amount up to HUF 1,000 million, exclusively on the exchange, for a price of at least HUF 1 and not more than HUF 950 per share. Within the limits permitted by law the Board of Directors is authorized to purchase not more ordinary shares of a HUF 20 nominal value under the program than with which the portfolio of treasury shares does not exceed 25% of the total portfolio of shares issued by the Company at any time during the term of the authorization.
Based on the General Meeting's authorization the Company purchased the above mentioned 8,000 shares of its own issue under the program during the period concerned. Additional programs for purchasing treasury shares were acquired in the framework of the program after 31 December 2018.

The public disclosures, news contain more information on the Company's treasury share transactions.

11. Major risks of the company, the associated uncertainties

PannErgy Plc's major risks are publicized in the *Chapter 37. Financial risk management* of the notes of the financial statement.

12. Publicity

At the website (www.PannErgy.com) among others the Company makes regular and extraordinary disclosures. 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.

13. KEY EVENTS AFTER THE FINANCIAL STATEMENT 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.

Date	Type of news	Subject-matter, brief contents
19 March 2019	Extraordinary information	Treasury share transaction
14 March 2019	Extraordinary information	Treasury share transaction
12 March 2019	Extraordinary information	Treasury share transaction
12 March 2019	Extraordinary information	General Meeting - Invitation
8 March 2019	Extraordinary information	Treasury share and share option transactions
7 March 2019	Extraordinary information	Treasury share transaction
5 March 2019	Extraordinary information	Treasury share transaction
3 March 2019	Extraordinary information	Treasury share transaction
1 March 2019	Extraordinary information	Treasury share transaction
28 February 2019	Other information	Composition of share capital of the PannErgy Plc.
26 February 2019	Extraordinary information	Treasury share transaction
22 February 2019	Extraordinary information	Treasury share transaction
21 February 2019	Extraordinary information	Treasury share transaction
19 February 2019	Extraordinary information	Treasury share transaction
15 February 2019	Extraordinary information	Treasury share transaction
14 February 2019	Extraordinary information	Treasury share transaction
12 February 2019	Extraordinary information	Treasury share transaction
8 February 2019	Extraordinary information	Treasury share transaction
7 February 2019	Extraordinary information	Treasury share and share option transactions
5 February 2019	Extraordinary information	Treasury share transaction
1 February 2019	Extraordinary information	Treasury share transaction
31 January 2019	Other information	Composition of share capital of the PannErgy Plc.
31 January 2019	Extraordinary information	Treasury share transaction
29 January 2019	Extraordinary information	Treasury share transaction
25 January 2019	Extraordinary information	Treasury share transaction
23 January 2019	Extraordinary information	Treasury share transaction
21 January 2019	Extraordinary information	Treasury share transaction
18 January 2019	Extraordinary information	Treasury share transaction
17 January 2019	Extraordinary information	Treasury share transaction
15 January 2019	Extraordinary information	Quarterly production report
15 January 2019	Extraordinary information	Treasury share transaction
11 January 2019	Extraordinary information	Treasury share transaction
10 January 2019	Extraordinary information	Treasury share transaction
8 January 2019	Extraordinary information	Treasury share transaction
4 January 2019	Extraordinary information	Treasury share transaction
3 January 2019	Extraordinary information	Treasury share transaction
2 January 2019	Other information	Composition of share capital of the PannErgy Plc.

14. DATE OF THE PERMITTED RELEASE FOR DISCLOSURE

The financial statements were approved by the Company's Board of Directors and permitted for disclosure on 19 March 2019.

Dénes Gyimóthy
representing the Board of Directors

PannErgy Plc.
Declaration of the Issuer
2018

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

Budapest, 19 March 2019

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 Plc's financial statements for 2018 prepared in accordance with IFRS, as well as the annual report, pursuant to the statutory requirements set forth in Section 2.4 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 prepared in accordance with IFRS in 2018, PannErgy Plc. as parent company's individual financial statements 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 annual report associated with the financial statement 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.

Dénes Gyimóthy
representing the Board of Directors