



**PannErgy Plc. and its subsidiaries
Consolidated Financial Statements
and Annual Report in conformity with
the IFRS
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 consolidated financial statements of PannErgy Nyrt. and its subsidiaries (the „Group”) for the year 2018 which comprise the consolidated statement of financial position as at December 31, 2018 – which shows a total assets of thHUF 25,810,702 –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of thHUF 434,636 –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including a summary of significant accounting policies.

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

Basis for 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 Consolidated Financial Statements" section of our report.

We are independent of the Group 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit matters	Related audit procedures
Recognition of subsidies development purposes	
<p>(Details in sections 10, 28.4 and 29.1 of the Notes to the consolidated financial statements)</p> <p>Group recognised thHUF 299,120 as other income in 2018 and thHUF 4,260,978 reported as deferred income as at 31 December 2018.</p> <p>Management exercise significant judgement whether subsidies should be should be recognized as other income or deferred for the following years. Management has also assessed whether all conditions are met for compliance for conditions of subsidies and whether the deferred income covered the liabilities in case of non-compliance.</p> <p>Due to significant estimation by management we consider that recognised other income and deferred income relating to subsidies received for development purposes as a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> - we interviewed management, - we tested the design and operational effectiveness of Group's internal controls relating to other income, - we reconciled recognition of other income from subsidies received for development purposes to subledger of tangible fixed assets financed by subsidies - we performed recalculation of other income based on depreciation of tangible fixed assets financed by subsidies - we tested transactions post-balance sheet events
Revenue recognition	
<p>(Details in sections 3.23 and 5 of the Notes to the consolidated financial statements)</p> <p>In 2018 the consolidated revenue of the Group is thHUF 4,679,096 and the revenue is a key performance indicator of the Group which may influence management to make sales contracts with non-ordinary, exceptional conditions and therefore we consider revenue recognition as a key audit matter.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> - considering the appropriateness of Group's revenue recognition accounting policies - we interviewed management, - we tested the design and operational effectiveness of Group's internal controls over sales cycle of the Group - 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 consolidated business report of the Group for 2018, which we obtained prior to the date of this auditor's report, and the consolidated annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated 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 consolidated financial statements is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

In our opinion, the consolidated business report of the Group for 2018 corresponds to the consolidated financial statements of the Group 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 Group is not subject to additional requirements under any other regulation in connection with the consolidated business report, we have not formulated an opinion on this matter.

In addition to the above, based on the information obtained about the Group 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 consolidated 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives during the audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, 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 consolidated 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ✓ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- ✓ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ✓ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the Group'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 consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of PannErgy Nyrt 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 PannErgy Nyrt., 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 Group. In addition, there are no other non-audit services which were provided by us to the PannErgy Nyrt. and its controlled undertakings and which have not been disclosed in the consolidated financial statements/ 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.





PannErgy Plc. and its subsidiaries

Consolidated financial statements prepared
in conformity with the IFRS

31 December 2018

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.



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note no.	31 December 2018	31 December 2017
		HUF Th	HUF Th
Goodwill	14	518,487	517,537
Other intangible assets	14	767,882	811,319
Tangible assets	15	19,686,430	19,378,903
Marketable properties	15	410,594	343,000
Long-term investments	16	-	22,935
Financial assets (production well established under a concession project)	17	1,068,432	64,740
Receivables from deferred taxes	32	229,187	290,975
Long-term receivables	18	99,095	203,784
Total fixed assets		22,780,107	21,633,193
Inventories	20	-	120,473
Trade receivables	21	1,513,325	1,369,162
Other receivables	22	405,798	391,317
Prepaid income taxes	32	3,201	20,062
Securities	23	25	200,027
Liquid assets	34	1,108,246	1,288,502
Total current assets		3,030,594	3,389,543
TOTAL ASSETS		25,810,702	25,022,736
Subscribed capital	24	421,093	421,093
Reserves without comprehensive income for the year	26	10,989,757	11,260,845
Comprehensive income for the year (attributable to the shareholders of the Company)	33	433,652	487,860
Treasury shares	25	-2,003,119	-3,169,955
Minority interest	27	25,474	24,540
Total equity		9,866,857	9,024,383
Long-term loans, leases	28	8,252,525	8,794,755
Other long-term deferred incomes	28,4	3,985,318	4,271,328
Provisions	30	18,449	-
Total long-term liabilities		12,256,292	13,066,083
Trade payables	35	1,177,750	899,575
Short-term credits	29	560,423	48,072
Short-term part of long-term credits	29	1,114,509	1,159,562
Other long-term deferred incomes	29,1	275,660	291,481
Other short-term liabilities	31	559,211	533,580
Total short-term liabilities		3,687,553	2,932,270
TOTAL LIABILITIES AND EQUITY		25,810,702	25,022,736

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note no.	2018	2017
		HUF Th	HUF Th
Revenue from sales	5	4,679,096	4,699,211
Direct cost of sales	7	-3,725,708	-3,820,691
Gross profit		953,388	878,520
Gross profit ratio %		20.4 %	18.7 %
Gross cash flow		2,270,174	2,177,248
Gross cash flow rate %		48.5 %	46.3 %
Indirect costs of sales	6	-455,860	-492,336
Other incomes	10	617,797	748,216
Other expenditures	9	-209,197	-211,410
Operating profit		906,128	922,990
Operating profit rate %		19.4 %	19.6 %
EBITDA		2,231,113	2,241,182
EBITDA rate %		47.7 %	47.7 %
Financial profit	11-12	-380,966	-297,453
Profit before taxes		525,162	625,537
Income tax	32	-90,526	-121,007
Net profit for the year		434,636	504,530
Profit/loss, attributable to Shareholders of the Company		433,652	487,860
Non-controlling interests	27	984	16,670
Earnings per ordinary share (HUF)			
Basic	33	23.55	27.60
Diluted	33	23.41	26.33

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2018	2017
	HUF Th	HUF Th
Net profit for the year	434,636	504,530
<i>Other general incomes</i>		
Exchange difference from the HUF conversion of the reports of foreign subsidiaries	-	-
Exchange difference from the HUF conversion of affiliated companies and 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	-	-
<i>Other comprehensive incomes in the period with tax implications</i>	-	-
Total comprehensive income for the year / attributable to	434,636	504,530
Shareholders of the Company	433,652	487,860
Non-controlling interest	984	16,670



CONSOLIDATED STATEMENT OF CHANGES IN THE EQUITY

Description	Subscribed capital	Reserves	Treasury shares	Minority interest	Equity
Balance as of 31 December 2016	421,093	11,385,795	-3,101,545	183,372	8,888,715
Profit for 2017	-	487,860	-	16,670	504,530
Changes in the participation of external members	-	-	-	-175,502	-175,502
Exchange rate difference from consolidation	-	27,860	-	-	27,860
Share option program	-	-152,810	-	-	-152,810
Treasury shares	-	-	-68,410	-	-68,410
Decrease in treasury shares	-	-	-	-	-
Goodwill of minority-acquired shares	-	-	-	-	-
Balance as of 31 December 2017	421,093	11,748,705	-3,169,955	24,540	9,024,383
Profit for 2018	-	433,652	-	984	434,636
Changes in the participation of external members	-	-	-	-50	-50
Exchange rate difference from consolidation	-	-	-	-	-
Share option program	-	175,442	-	-	175,442
Treasury shares	-	-	-6,142	-	-6,142
Decrease in treasury shares	-	-934,390	1,172,978	-	238,588
Goodwill of minority-acquired shares	-	-	-	-	-
Balance as of 31 December 2018	421,093	11,423,409	-2,003,119	25,474	9,866,857

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note no.	2018	2017
Liquid assets from operations		HUF Th	HUF Th
Profit before taxes		525,162	-130,797
<i>Adjustments in relation to the profit before taxes and the cash flow of business operations</i>			
Amortization and depreciation of tangible and intangible assets	14-15.	1,317,007	1,300,434
Effect of deferred taxes	32	61,788	95,235
Income tax expenditures	32	-90,526	-121,007
Exchange gain/loss on credits	13	212,278	-21,133
Impairment of tangible assets, goodwill	9,15	7,978	17,758
Impairment losses and shortage of inventories	9,20	-	10,689
Impairment losses of receivables	9,38	78	7,167
Reclassification of provisions	30	18,449	-56,236
Changes in the fair value of properties	10,15	-69,057	-70,469
Interest payable/received	11-12	258,687	278,732
Profit on the sales of tangible assets	10	-317	-980
Changes in minority participations	27	934	-158,832
<i>Changes in working capital elements</i>			
Increase/decrease of inventories	20	120,473	17,217
Income taxes paid	22	-	20,062
Increase/decrease of receivables	21,22	-158,723	284,782
Increase/decrease of payables	31,35	303,809	-75,342
Increase/decrease of prepaid income taxes	22	16,860	20,091
Interests received	11	7,184	1,833
Interests paid	10	-265,871	-280,565
Net liquid assets originating/used from operations		2,266,193	1,894,973
Liquid assets from investments			
Acquisition of investments in private companies	16	-	-3,000
Increase/decrease of existing investments	16	-950	-174,462
Sale of investments	16	22,935	-
Acquisition of tangible and intangible assets	14-15	-1,587,673	-429,295
Financial assets (production well established under a concession project)	17	-1,003,692	-64,740
Sales of tangible and intangible assets	14-15	61	1,222
Other long- and short-term deferred incomes	28.4	-301,832	-282,889
Changes in long-term receivables	18	104,689	-188,855
Liquid assets from investment operations		-2,766,462	-1,142,019

Financial operations			
Increase/decrease of long-term loans	13,28	-754,508	-42,377
Increase/decrease of short-term loans	29	467,298	109,842
Acquisition/sales of treasury shares	25	407,221	-68,410
Increase/decrease in securities	23	200,003	-200,007
Liquid assets used for financial operations		320,013	-200,952
Net increase/decrease of cash and cash equivalents		-180,256	552,002
Cash and cash equivalents as of 1 January		1,288,502	736,500
Cash and cash equivalents as of 31 December		1,108,246	1,288,502



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1. GENERAL BACKGROUND AND DESCRIPTION OF ACTIVITIES

PannErgy Plc. (hereinafter: “PannErgy Plc.”, “PannErgy” or the “Company”), as the legal successor of Pannonplast Nyrt., has a history of almost one hundred years. On 31 May 1991, the Company was transformed into a 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 substantial volumes of thermal and electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutions of the country as well as for PannErgy’s shareholders. In line with this shift in its strategy, since 2007 its core activities have been redirected from plastic manufacturing to the utilization of renewable, and in particular geothermal energy resources. As of 31 December 2018, PannErgy Plc’s subsidiaries operated projects for the utilization of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő, *inter alia*.

The subsidiaries are listed in Note 41.

The registered address of the Company is: Hungary, H-1117 Budapest, Budafoki út 56.

2. BASIS OF THE COMPILATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the PannErgy Group, comprising PannErgy Plc. and its consolidated subsidiaries (hereinafter referred to as the “PannErgy Group” or “the Group”) were prepared in conformity with the International Financial Reporting Standards endorsed by the European Union (hereinafter: “IFRS” or “EU IFRS”). The consolidated financial statements have been prepared in compliance with the requirements of *Act C of 2000 on Accounting*, pertaining to the consolidated financial statements prepared in conformity with the EU IFRS.

The consolidated financial statements were compiled on a cost basis except for financial instruments, certain financial assets, liabilities and marketable assets, which are presented in the statement of financial position at fair value. PannErgy Plc. rounded up the figures in the consolidated financial statements to thousand Hungarian forints; with exceptions specifically indicated in the statements.

The accounting and other records of the members of the PannErgy Group are maintained in line with the effective Hungarian laws and accounting regulations. The members of the PannErgy Group modify the annual reports compiled on the basis of the Hungarian reporting requirements (*Act C of 2000 on Accounting*) in order to comply with the IFRS.

Since 1 January 2017 PannErgy Plc. as a company listed in a regulated market of the European Economic Area (“EEA”) has had the statutory obligation to apply the EU IFRS for the purposes of its individual reporting. Pursuant to this regulation, PannErgy Plc. as a parent company compiled both its IFRS consolidated financial statements and its individual financial statements in accordance with the requirements of the EU IFRS as of 31 December 2018.

The consolidated financial statements of the PannErgy Group present the Group’s consolidated financial position and the results of its operations and cash flows as well as changes in equity.

3. SUMMARY OF THE KEY ELEMENTS OF THE ACCOUNTING POLICIES

3.1 *General description*

The key accounting policies used in the course of the compilation of the consolidated financial statements are described below. The PannErgy Group applied the accounting principles described and detailed herein consistently for all the business years presented; any modifications in and deviations from the practices of previous business years are specifically indicated.

3.2 *Basis of consolidation*

The consolidated financial statements cover all the assets, liabilities, incomes and expenditures of all the subsidiaries that are in the majority ownership of the PannErgy Group. Intercompany transactions and balances have been eliminated in the course of consolidation.

The minority (external) participations in the net assets of the consolidated subsidiaries (with the exception of goodwill) are presented separately within the equity of the PannErgy Group's. Minority participations include the value of these participations at the time of acquisition or on the date of the original business combination, as well as the changes in the rates of minority participations following acquisition. Losses in excess of the value of the minority participation in the subsidiary that can be allocated to the minority participation are charged to the participation of the Group unless the minority (external) shareholder is obliged and has the option to make additional investments to cover such losses.

3.3 *Effects of the amended rules of the IFRS standards to be implemented as of 1 January 2018 on the introduction of new standards on the financial statements*

The PannErgy Group first applied *IFRS 9 Financial instruments* and *IFRS 15 Revenue from contracts with customers* when compiling its consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 PannErgy Group did not make use of that option when compiling its consolidated 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 consolidated statement of financial position (for finance leases). The new standard requires the lessee to disclose almost all lease agreements in the consolidated 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 consolidated financial statements.

Amendments of IFRS 9 Financial – Prepayment Features with Negative Compensation – endorsed by the EU on 22 March 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 consolidated financial statements of the Company.

Standards and interpretations issued by the IASB, but not endorsed by the EU:

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 decision 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 effect on the consolidated financial statements of the PannErgy Group.

3.4 Functional currency

The functional currency is the currency defined in the *IAS 21 The Effects of Changes in Foreign Exchange Rates*, i.e. the currency of the primary operational environment where the entity operates, and which may be different from the currency of presentation.

The functional currency of the Company is the Hungarian Forint, which is the currency of the primary operational environment. The Company does not engage in business operations in any other environment that would justify the use of a functional currency other than the Hungarian Forint. Accordingly, the effects of changes in exchange rates are not discussed in the consolidated financial statements.

3.5 Conversion of foreign currencies, foreign exchange transactions and balances

Foreign exchange transactions are converted into HUF at the exchange rate effective 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 arise from such transactions or recorded in foreign currencies are recognized in the statement of profit or loss. Exchange gains and losses are shown in the “Financial incomes” or “Financial expenditures” line of the statement of profit or loss.

3.6 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).

In addition, the Company recognizes its non-marketable assets and liabilities, as well as assets and liabilities not held for sale at cost less impairment and depreciation, taking into account the characteristics of valuation and recognition under the relevant IFRS.

Initially, the Company is required to measure its financial assets or liabilities at fair value, including – where such financial assets or liabilities are not recognized at fair value through profit or loss – transaction costs that are directly attributable to the issuance or acquisition of the financial asset or liability.

In the course of follow-up evaluation, the Company applies fair value measurement only to assets that are fixed assets held for sale, marketable financial assets or derivative financial assets. The Company recognizes changes in the fair value under other comprehensive income, i.e. among financial

expenditures/incomes for financial assets and other expenditures/incomes for fixed assets held for sale.

3.7 Intangible assets

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

In the consolidated financial statements, intangible assets recognized at cost by the PannErgy Group because, due to the special nature of these assets, the notion of an active market is not applicable. These costs are reduced by accumulated amortization and, where applicable, impairment, stated in line with the useful life of the asset.

The intangible assets of the Company consist in software used for operations and valuable rights associated with geothermal activities.

Software comprises software developed by third parties; the Company is not involved in any software development activities.

Purchased software is capitalized at cost calculated based on the costs incurred in the course of acquisition and installation. These costs are written off over an estimated useful life of 3–5 years, as appropriate for the type of the software in question.

Trademarks, licenses and purchased know-how have definite useful lives and are recognized at cost less accumulated depreciation. The cost of trademarks and licenses is amortized with the straight-line method over an estimated useful life of 15–25 years.

Certain intangible assets may be stated in the Company's books at zero value at the end of their useful lives and should be written off, yet they are continued to be used by the Company owing to changes in the fundamental assumptions regarding their useful life. To avoid such situations, the Company re-estimates useful life and depreciations annually, at the end of the reporting period. If the asset's useful life is modified after the re-estimation, the difference between the amortization charged until the end of the reporting period and the amortization appropriate for the recalculated useful life is charged to the profit or loss or the equity depending on whether the re-estimation affects depreciation in the reporting period or in the preceding period.

This re-estimation of useful life is not relevant to the purchasing of intangible assets with purchasing values under HUF 100 thousand as purchases below that ceiling are not considered to be material by the Company; therefore, purchases below that amount are not capitalized. The values of such purchases are recognized in the statement of profit or loss for the reporting year in the form of depreciation, and the Company maintains separate records of them, taking into consideration the consideration of asset management.

3.8 *Impairment of non-financial assets*

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

Assets in respect of which the Company recognizes amortization are also subjected to review for impairment in each case when events or altered circumstances imply that the book value may not be fully recovered.

If the Company sees indication that the realizable value of tangible assets or intangible assets may fall below the book value, impairment losses is reconsidered. If the realizable value falls below the book value, impairment must be recognized against the profit or loss with respect to assets carried at cost. The realizable value is the higher of the value in use and market value of the asset. The market value is the amount that can be received for an asset in a transaction between unrelated parties, while the value in use is the net present value of the cash flows derived from the continuous use of the asset and its sale at the end of its useful life.

The assets used by the PannErgy Group in its geothermal projects, which have relevance only on the geothermal system as a whole but not on their own, have no active markets as defined in IAS 36, and therefore – in the absence of a market value – their realizable value is the net present value of the future cash flows originating from their continuous use and realized at the cash-generating unit.

As the realizable value cannot be determined individually for each asset, it is defined separately for each cash-generating unit. At the end of each reporting period the PannErgy Group examines whether the reasons for the recognized impairment still exist. Any previously recognized impairment can be reversed only if there was a change in the circumstances that were taken into consideration at the time of the last latest calculation of impairment. Impairment can be reversed to the level where the book value of the asset does not exceed its recoverable value or its book value less depreciation which would have occurred if no impairment had been charged.

3.9 *Recognition of research and development*

When looking at the recognition of self-produced intangible assets, the Company divides the process of production into research and development phases. In the course of a project for the production of any own intangible asset the Company is unable to distinguish the research phase from the development phase, the expenditures of the project are treated 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; therefore the Company recognizes the expenditures associated with the research as expenditures when they are incurred.

Intangible assets originating from development or from the development phase of an internal project are recognized by the Company among fixed assets provided that the Company can demonstrate the following:

- the technical feasibility of the production of the intangible asset so that it is suitable for use or sale;
- the intent of the unit to complete, use or sell the intangible asset;

- the ability of the unit to use or sell the intangible asset;
- the way the intangible asset will generate future benefits;
- among other things, the unit is required to prove the existence of the product originating from the intangible asset or the market for the intangible asset, or in case it is used internally, the usefulness of the intangible asset;
- availability of sufficient technical, financial and other resources for the completion of the development or the use or sale of the intangible asset;
- the ability of the unit to reliably measure the expenditures that can be attributed to the asset in the course of the development of the intangible asset.

3.10 Property, plant and equipment

In the category of properties, the consolidated financial statements of the PannErgy Group includes building-type tangible assets connected with geothermal heat generation and heat sale (thermal centers, buildings functioning as connection points to heat consumers) as well as geothermal heat transmission systems, production and re-injection thermal wells classified as civil engineering works. Additionally, the Company has office buildings not related to its core activity (and used as investment until sold) and industrial facilities (industrial halls) suitable for production.

In respect of the rating of tangible assets, the Company clearly distinguishes fixed assets intended/held for sale, investment properties, and other properties, machinery and equipment not falling into these special categories but covered by IAS 16.

3.10.1 Investment property

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

3.10.2 Non-current assets held for sale

The Company classifies any fixed assets as held for sale if its book value is expected to be recovered by way of sale rather than in the course of its continuous use. In line with the requirements of IFRS 5, the asset has to be in a condition based on which it can be declared that it is ready for being sold, and the probability of selling needs to be high. The Company deems the probability of selling to be high and therefore it considers the following as fundamental conditions for recognizing the asset as marketable:

- 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 a specific buyer;
- 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 over the shortest period of time and under the most favorable terms possible;
- if it is unlikely that there will be substantial changes to the selling plan and it is unlikely to be withdrawn;

- if based on the plans, the sale is expected to occur within one year of the date of classification. In certain cases the period of sale may be extended to a period exceeding one year. That is the case when events or circumstances beyond the control of the Company delay the conclusion of sale, and there is sufficient evidence that the entity continues to be committed to the plan to sell the asset.

If, based on the foregoing, 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 revaluation is performed on the basis of the valuation at the time of the classification, at fair value less the cost of selling; this principle is also applicable to any subsequent valuations.

In its IFRS financial statements, the Company presents its fixed assets classified as held for sale separately from other assets. The Company separately presents the amounts of accumulated revenues or expenses charged against other comprehensive income which are related to reclassification or subsequent valuation.

In the reporting period the Company recognized as marketable assets its own properties that were geographically located in District XXI of Budapest and in Debrecen (land, buildings, structures) and had been acquired in the period when plastics manufacturing was its core activity before the strategic shift in the operating profile of the PannErgy Group because these properties, unrelated either directly or indirectly to geothermal energy production and sales, are proposed to be sold in the short term, with the direct marketing support of the Company.

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

The Company treats all long-term assets that do not fall into the category of investment properties or marketable fixed assets in accordance with the requirements of *IAS 16 Property, plant and equipment*. These are long-term tangible assets (used over more than one business period) which came under the Company's control as a result of past events and are expected to generate future economic benefits for the Company, the costs of which can be measured reliably, and which are used by the Company for production or the supply of services or administration.

Property, plant and equipment are recognized at historical cost less depreciation. The cost of tangible assets depend on the mode of their production or acquisition. In the case of individual acquisitions, the cost of purchase is the cost itself; in the case of an acquisition through a business combination, it is the fair value, while in the case of self-manufactured assets, it is the expense that arose in the development phase.

Historical cost includes the costs directly incurred in connection with the acquisition of the items. After initial capitalization, subsequent costs are recognized as items increasing the book value of the asset or as separate assets only if the Company is likely to have a share of the future economic benefits originating from the item, and if the cost of the item can be measured reliably. The book value of the replaced components of the items are de-recognized. The costs incurred after the installation of the

tangible asset, such as costs of repair and maintenance, are charged to the profit or loss in the period when they are incurred.

In the case of tangible assets measured with the cost method, depreciation and residual value are determined on the basis of cost and useful life; based on this, the cost less the residual value is depreciated over the useful life, which is recognized in the IFRS statement of profit or loss for the reporting year. The Company takes into account the amount realized at the end of the asset's useful life, after the deduction of the expected costs of disposal, as the residual value.

The annual review and, where necessary, re-estimation of the residual value and useful life (and thus, of the depreciation rate) is required for all tangible assets

A tangible asset may be included in the Company's financial statements at zero value at the end of its useful life and therefore it should be-recognized; however, the Company may continue using it due to changes in the fundamental assumptions of the estimation of the asset's useful life. To avoid such situations, the Company re-estimates useful life and depreciations annually, at the end of the reporting period. If the asset's useful life is modified after re-estimation, the difference between the depreciation charged until the end of the reporting period and the depreciation corresponding to the recalculated useful life is charged to profit or loss or equity, depending on whether the re-estimation affects the reporting period or a preceding depreciation charge.

This re-estimation of useful life is not relevant to the purchasing of intangible assets with purchasing values under HUF 100 thousand as purchases below that ceiling are not considered to be material by the Company; therefore, purchases below that amount are not capitalized. The values of such purchases are recognized in the statement of profit or loss for the reporting year in the form of depreciation, and the Company maintains separate records of them, taking into account the considerations of asset management.

The PannErgy Group does not recognize depreciation for land. The Company calculates the depreciation of properties, machinery and equipment using the straight-line method, whereby the cost or revalued amount of assets is reduced to the residual value over the following estimated useful lives:

Properties (including those belonging to geothermal projects)	20–50 years
Production machinery (including those belonging to geothermal projects)	3–25 years
Other equipment	2–8 years
Vehicles	5 years

The book value of an asset is immediately depreciated to the recoverable amount if the book value is greater than the estimated recoverable amount.

The Company depreciates tangible assets acquired in the framework of a finance lease in the same manner as applied to its own tangible assets over their expected useful life, provided that there is reasonable certainty that ownership will be transferred at the end of the term.

The profit or loss generated or incurred at the time of selling the assets is determined based on the book value and sale price and recognized among other expenditures and incomes.

The Company does not charge any amortization to tangible assets with an indefinite useful life or not yet suitable for use but tests them annually for impairment. Tangible assets for which the Company recognizes depreciation are also subjected to review for impairment in all cases when events or changed circumstances indicate that the book value may not be fully recovered.

If the recoverable value is less than the respective book value, impairment has to be charged to the profit or loss in respect of assets treated at cost. The recoverable value is the higher of the asset's value in use and its fair value less costs to sell. The fair value less costs to sell is the amount that can be obtained for an asset in a transaction between unrelated parties, less the costs of disposal, while the value in use is the net present value of the cash flows derived from the continuous use of the asset and its sale at the end of its useful life. The recoverable value is determined individually for each asset, or if this is not possible, for each cash-generating unit.

At the end of each reporting period, the Company examines whether the reasons for the impairment losses recognized earlier still prevail. Any impairment loss can be reversed only if there has been a change in the circumstances that were taken into consideration at the time of the establishment of the last impairment. Impairment can be reversed only to the level where the book value of the asset does not exceed the recoverable value or – if it is lower – its book value less depreciation that would have applied had the impairment not been recognized.

3.10.4 *Investments, geothermal projects*

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

During the implementation of geothermal projects, typically after a preparatory, design and permission phase, a production well is established (with a pump, a filter and a degasser) followed by an injection well that transfers the produced geothermal fluid back into the soil layer, a thermal center containing a heat exchanger and the control panel of the whole system, the consumer connection points and a transmission system connecting the above elements of the complete geothermal system.

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

3.10.5 *Application of component accounting*

The Company does not apply the elements of IAS 16 relating to component accounting. According to the relevant requirements of the standard, if the main components of assets of significant value feature considerably different economic characteristics, then the main components should be recorded separately, with separate depreciation periods.

Due to the special characteristics of geothermal operations, the Company regards its tangible assets to form a unit, and in technical terms it deems the economic characteristics and useful lives of the components of its tangible assets to be identical. The costs of major overhauls are not regarded as

separate components and are not commissioned separately in accounting terms because these costs cannot be unambiguously estimated at the time of commissioning due to the technical factors influencing useful life (for instance, long-term effects of geodetic conditions and water quality). The Company keeps separate records of these significant, unforeseeable future costs of inspections and capacity increases as giving rise to additional capitalization.

3.11 Investments

From among the methods set out in *IAS 27* for the valuation of investments, the Company uses the cost method for all its participations.

Impairment testing at specified intervals is an important element of the valuation of participations; the Company performs impairment tests on its participations according to the requirements of *IAS 36* when compiling its IFRS financial statements. If there is any indication that a participation has suffered impairment, its recoverable amount has to be determined. The recoverable amount is the higher of value in use (typically the value determined with the discounted cash flow method based on the Company's detailed future financial plans) and fair value less costs of disposal (if it can be determined accurately based on benchmark market information). If the recoverable amount is lower than the asset's cost, impairment has to be recognized and presented in the other expenses line of the statement of profit or loss for the reporting year.

Impairment has to be recognized for participations in line with the foregoing if, on the end of the reporting period for IFRS financial statements, the book value exceeds the expected recoverable amount. The Company considers it an indication of impairment if it has any information pointing to the financial difficulties of a subsidiary, the termination of customer contracts serving as the basis of its income-generating ability, the restructuring of the subsidiary that is disadvantageous for the Company, the transformation of the external financing structure that is disadvantageous for the subsidiary or any threat of bankruptcy.

3.12 Goodwill

The Company carries as goodwill the intangible assets that are associated with the purchasing of asset by paying for goodwill in the light of its expectations in relation to the future economic benefits from the purchased asset, and that cannot be individually identified, i.e. they cannot be unambiguously or directly connected to any of the existing tangible or intangible assets affected by the asset purchase.

The cost of the goodwill corresponds to the positive difference between the sum paid for the business combination and the part of the fair value of the identifiable assets, liabilities and pending liabilities that is attributable to the Company as the acquiring party.

Annually, the value of the goodwill has to be subjected to an impairment test, whereby the Company examines the recovery of the value of the goodwill, comparing the part of the future discounted cash flows at the Group's cash-generating units affected by the given goodwill and having a share from synergies that arise from the combinations ensured by the goodwill in excess of the assets that are linked to the cash-generating units in questions, and the value of the goodwill.

3.13 *Financial assets related to concession agreements (IFRIC 12)*

On 30 November 2006, the International Financial Reporting Interpretations Committee (IFRIC) published its interpretation for IFRIC 12 Service concession agreements; the interpretation covers service concession agreements in order to clarify how the operator of a concession is required to present the infrastructure covered by the service concession agreement, its construction and operating phases and to record the associated incomes and expenditures. IFRIC 12 offers two methods for the accounting of the latter items based on the uncertainty of the future revenues of the concession operator: the financial asset model and the intangible asset model.

PannErgy Plc.'s subsidiaries within the scope of consolidation and engaging in the operation of geothermal projects have contracts with municipality-owned district heating companies that provide district heating services to households, public institutions connected to the district heat supply network and industrial consumers; however, due to the nature of such contractual relationships and the legal and economic content of the transaction these relationships do not constitute concession agreements; consequently, the Company does not apply the IFRIC 12 interpretation. These transactions are not covered by the interpretation for the following reasons:

- Even though the heat energy supply service provided by the Company as a “supplier” affects the public utility infrastructure, the Company is not in possession of any infrastructure necessary for the supply of public services, and it has no control over the public utility infrastructure. The Company has not constructed or acquired any infrastructure that is necessary for the supply of public services; it offers services only to district heating service providers;
- The Company’s contracts with the district heating service providers cover exclusively the takeover of heat energy and the relevant terms; they contain no rights and obligations regarding the provision of public services; moreover, in addition to the absence of legal prerequisites, it would be physically impossible for the Company to provide such services;
- The Company has no responsibility, even partial, for the operation of the infrastructure and services of the district heating suppliers concerned; they are completely unrelated entities;
- The Company has no control whatsoever over the rates of the public services;
- The Company has sole control over its assets;
- Under agreements covered by the IFRIC 12 interpretation, operators are typically required, at the end of the term of the agreement, to return the infrastructure to the grantor in a specific condition and for minimal consideration; the agreements between the Company and the relevant district heat suppliers contain no such requirement.

Accordingly, the provisions of IAS 16 are applicable to the treatment, under IFRS, of the fixed assets owned by the Company and used for the sale of heat to public sector district heat suppliers. Such assets do not constitute infrastructure for the provision of public services and have no direct effect on the direct provision of public services. The revenues realized using such assets are recognized by the

Company in compliance with the requirements of *IAS 18 Revenues* (from 1 January 2018 onwards, *IFRS 15 Revenue from contracts with customers*); there is no construction or development service-type agreement or activity between the partners that would require the presentation of part of revenues from heat supply under the heading of financial assets or intangible assets.

There is a single exception to the above: the concession project of the Company related to the Győr Geothermal Project. PannErgy Geotermikus Erőművek CPlc., a subsidiary of the Company, concluded a concession contract with the Hungarian State for the exploration, extraction and exploitation of geothermal energy in the region of Győr, for a definite period of 35 years (which may be extended once, by 17.5 years). In terms of its legal and accounting qualification, the project, implemented under, and in accordance with the terms and conditions of, the concession contract, is in line with the IFRIC 12 interpretation; therefore, the investment implemented so far in the context of the project is recognized in the category of fixed assets, as a financial asset, in the consolidated statement of financial position, where the presented investment amount is adequate, i.e. it is covered by the value of the discounted cash flows expected for the 35-year term of the concession contract, in proportion to the degree of completion of the investment project.

3.14 Inventories

The overwhelming majority of the inventories recognized in the consolidated financial statements are goods (e.g. casing) as well as work-in-progress and semi-finished goods used in connection with the implementation of geothermal projects, or materials proposed to be used for maintenance in the operational phase of geothermal projects. Inventories are stated at cost or at net realizable value, whichever is lower.

The cost of inventories consists of the cost of acquisition, the cost of conversion as well as costs incurred in moving the inventories to their present location and bringing them to their present condition. Cost may not include expenses relating to warehousing, promotion and marketing or sale. The cost of acquisition consists in the costs incurred by the acquirer to purchase the inventories. The Company includes in this category the consideration paid for the inventories, charges related to imports, non-refundable taxes, the expenses of transportation and handling, and any other payments directly related to the item concerned. Discounts and rebates received are to be deducted from the cost of acquisition. The Company defines net realizable value as the expected selling price under normal business terms, minus the expenses relating to completion and sale expected to be incurred before the sale. Net realizable value must be re-estimated at the end of each reporting period and the amount of the write-off needs to be recalculated annually. If changes occurred in the net realizable value of an inventory item that necessitate the write-back of a previously recognized impairment, the Company may do so up to the amount of the previously recognized impairment. Both write-offs and write-backs need to be stated among other expenditures. The write-off (write-back) must be recognized in the period when it was determined.

From among the options listed in *IAS 2 Inventories*, the Company uses the weighted average cost method for the valuation of inventories.

3.15 *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 PannErgy Group 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 consolidated *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.

3.15.1. *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:

3.15.2. *Receivables*

For the recognition of impairment, the PannErgy Group 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 from district heating suppliers that are in long-term business relations with the companies operating the geothermal projects (MIHŐ Miskolci Hőszolgáltató Ltd., Győr-Szol CPlc., Szentlőrinc Közüzemi Nonprofit Ltd.) and priority strategic business partners (Audi Hungaria CPlc.), and the rating of receivables from entities outside this portfolio.

In practice, the Company does not engage in factoring; should such a situation arise, these receivables would be presented at fair value.

3.15.3. *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 consolidated 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 its 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.

3.15.4. *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 consolidated IFRS financial statements, the PannErgy Group relies on hedge accounting. On a one-off basis certain members of the Group conclude foreign exchange forward transactions that are of hedging character as there is a direct connection between the forward transaction and the future FX purchase of the company. 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 Group engages in no non-hedging forward transactions. For such transactions the Group 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.

3.15.5. *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.

3.15.6. *Marketable financial assets*

The Company recognizes its participations and securities in companies listed or not 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.

3.15.7. *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.

3.15.8. *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 consolidated statement of financial position of the Company encompasses the over-one-year part of grants awarded in application schemes for the geothermal projects. 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 consolidated 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.

3.15.9. 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.

3.15.10. 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 consolidated 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.

3.15.11. 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 change in the effective interest rate results in the change of cost; no such changes have occurred.

3.15.12. Netting of financial instruments

Financial assets and liabilities are netted mandatorily and recognized in the consolidated 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.

3.16 Cash and cash equivalents

In the Company's consolidated IFRS financial statements and statement of cash flows, cash and cash equivalents comprise the amount of financial assets held at the end of the reporting period as the Company's HUF and FX petty cash assets, freely disposable 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 earmarked accounts held with financial institutions, balances in the deposit accounts with agreed maturity held with financial institutions, as well as sight bank deposits. In the consolidated IFRS financial statements and statement of cash flows, negative balances of current accounts held with financial institutions, i.e. overdraft facilities, are presented among short-term liabilities, in the line of short-term credit.

3.17 Equity, subscribed capital

The equity in the Company's consolidated IFRS financial statements is the difference between total assets and total liabilities.

The IFRS subscribed capital equals the subscribed capital specified in the deed of foundation as long as it qualifies to be a capital instrument. The legal form of the Company is a public company limited by shares; PannErgy's ordinary shares listed at the Budapest Stock Exchange are recognized as subscribed capital within the meaning of the IFRS. Incremental costs directly attributable to the issuance of new ordinary shares are reported as an item decreasing the equity.

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

Profit reserve is the accumulated after-tax profit of former years recognized in the IFRS financial statements and not yet distributed to the shareholders, including amounts charged to accumulated profit under IFRS, which may not contain other comprehensive income defined in *IAS 1 Presentation of financial statements*, except for reclassification modifications. The amount of paid-up supplementary payments recognized as assets under the IFRS and the amount of unused development reserve less the related deferred tax calculated based on *IAS 12 Income taxes* must be deducted from the resulting amount.

Revaluation reserve comprises the accumulated other comprehensive income and other comprehensive income for the reporting year indicated in the statement of comprehensive income, as defined in *IAS 1 Presentation of financial statements*.

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

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

3.18 Treasury shares

The Company has repurchased treasury shares at the stock exchange and has the option to acquire its own shares in OTC markets pursuant to the authorization of the General Meeting; these shares are presented in the IFRS financial statements and annual reports separately as items decreasing the equity.

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 procedure ensures that no gain or loss is recognized with regard to treasury shares in the profit or loss of the Company when any change occurs to own shares (purchase, sale, issue, cancellation or revaluation at the end of the reporting period).

3.19 Earnings per share

To determine earnings per share, the Company used the ratio of the profit or loss for the period and the average number of shares for the period less treasury shares owned by the company.

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

Furthermore, when determining the diluted earnings per share the Company also takes into account the number of shares involved in the share option program running in the reporting period as an item decreasing the volume of own shares provided that the conditions set out in the share option program for the call-down of options are satisfied at the time of the preparation of the report and that the own shares concerned had not yet been called down.

Through that adjustment, the diluted earnings per share figure takes into account the anticipated dilution of the number of shares as evidenced by documentation, thereby decreasing the assets per share to be allocated to individual shareholders.

3.20 Current and deferred income tax

Pursuant to *IAS 12 Income Taxes*, income taxes consist of current and deferred taxes. The income tax expenditure disclosed in the consolidated financial statements is the sum of the current tax liability and the deferred tax expenditure. Accordingly, in the Company's consolidated IFRS financial statements, the amount of the corporate income tax payable annually is based on the tax payment obligations stipulated in the relevant Hungarian legal regulations, which is adjusted for the amount of deferred tax expenditures.

Current tax is the income tax payable (recoverable) with regard to the taxable profit (negative tax base) for the period. Income taxes include all domestic and foreign taxes that are levied on taxable profits. The Company measures current tax liabilities (tax assets) for the current period and previous periods at the level expected to be payable to the tax authority (or expected to be reimbursed by the tax authority) using the tax rates and tax regulations that had been incorporated in legal regulations by the end of the reporting period.

Current tax (asset/liability) equals the tax payable/deductible. The actual amounts of the taxes payable/deductible may be different from the amounts stated among current taxes. These modifications reflect the changes in estimated payable/deductible taxes. Unless there is an indication that the modification arises from an error, these current tax changes are to be treated as changes in accounting estimates. These modifications are recognized under tax expenses/revenues in the period when the modification occurs.

Current tax is recognized in profit or loss or other comprehensive income (equity) depending on where the underlying transaction/event is recognized.

Pursuant to the relevant tax regulations, the Company is also required to pay local business tax and innovation contribution, which has a material impact on the Company's profit or loss. Based on the interpretation of the definition of taxable profit as per *IAS 12*, the Company does not treat local business tax and innovation contribution as income taxes but rather as operating expenses, recognizing them under other expenses.

In line with the requirements of *IAS 12*, the Company recognizes income taxes payable/recoverable in respect of future periods, the recovery of which is certain, and which arose in connection with past transactions and events. The tax base of an asset is the amount attributed to that asset for tax purposes, which is deductible upon the recovery of the asset. If the economic benefits are not taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability is the amount attributed to that liability for tax purposes i.e. the liability's carrying amount less any amount deducted subsequently for the purposes of taxes. The tax base for any deferred income equals the carrying value less non-taxable future incomes. Pursuant to *IAS 12*, a temporary difference is the difference between the carrying amount and the tax base which is either taxable or deductible after recovery/settlement. If the temporary difference is taxable, it is a deferred tax liability, while if it is deductible, it is a deferred tax asset.

Sources for deferred tax receivables can potentially include deductible temporary differences, unused negative tax bases and unused tax credits. Future taxable profit and taxable temporary differences may be the sources of recovery of deferred tax.

Deferred tax is required to be fully recognized in the case of deferred tax liabilities. In contrast, in the case of deferred tax assets, recognition is only possible if a future taxable profit against which the deductible temporary differences can be offset is available. Deferred tax is recognized at the same place as the underlying transaction or event (i.e. item).

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

Based on the above, deferred taxes arise if there is a timing difference between the booking of an item for accounting and tax purposes. Deferred tax assets and liabilities are determined using the tax rates for the taxable income of the years when the differences derived from the timing differences are expected to be reversed. Deferred tax liabilities and assets reflect the tax implications of assets and liabilities as of the end of the reporting period, as determined by the Company. Deferred tax assets can only be included in the consolidated statement of financial position if it is probable that during its future activities, the Company will generate a profit that will form part of the tax base, against which the deferred tax asset will be offset.

As of the end of the reporting period, the Company takes into consideration its non-recovered deferred tax assets and liabilities and checks the recovery of these with a discounted cash flow calculation relevant for its future profits.

In line with the requirements of *IAS 12*, the Company does not rely on discounting in the calculation of deferred taxes.

3.21 Provisioning

The Company recognizes liabilities of uncertain timing or amount as provisions if:

- the related obligation arose from past events;
- they exist on the last day of the reporting period;
- they constitute legal or constructive obligations;
- their settlement is expected to result in an outflow of resources giving rise to economic benefits;
- the amount of the obligation can be estimated reliably.

The Company recognizes a contingent liability if:

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

Existence as of the end of the reporting period and connection to past events are important aspects; no provision can be allocated for costs that arise in the interest of future operations.

A past event gives rise to a constructive obligation for the Company if there is no other realistic alternative but to settle it. In the case of a legal obligation this entails the assumption that the obligation is derived from a contract, a legal regulation or other legal transactions. A constructive obligation is an obligation that derives from the Company's actions where, by an established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities and as a result, it has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

In order to decide whether the settlement of the event or obligation forming the potential basis of a provision may induce the outflow of resources embodying economic benefits, the Company examines the probability of occurrence. The Company considers the event where the probability of occurrence is higher than that of non-occurrence (i.e. it exceeds 50 %) as probable. If it is unlikely that the event occurs, the Company carries the given obligation as a contingent liability and discloses it as such in its financial statements but does not recognize it in the statement of financial position.

Provisions are recognized by the Company in the amount necessary to settle all the related obligations. This amount is the best estimate of all of the necessary expenses made based on the information available as of the end of the reporting period taking into account all risks and uncertainties which may arise in connection with the obligation.

If the time value of money significantly influences the amount that is required for the settlement of the related obligation, the provisions are recognized to the extent of the present value of the expenses necessary to settle the obligation. Through the discounting method that indicates the passing of time, the balance sheet value of the provision increases each year with the impact of the discounting and the increase is charged to the current profit or loss as an interest expense under other expenses.

The expense necessary for the settlement of the provision, or a portion of it, may be recovered. In this light, the recovery may only be recognized if it is virtually certain that amount of recovery will be received if the Company settles the obligation affected by the provision. The recovered amount may not exceed the amount of the provision. The recovered amount must be treated as a separate asset; in the statement of profit or loss, the expense related to the provision may be presented net of the amount recognized for the recovery.

With regard to its existing, operational geothermal projects, the Company has no revegetation or environmental obligations; no provisions have been set up in this context.

3.22 Share option program, share-based payments

The Company may operate a share option program pursuant to the authorization of the General Meeting. Under the multi-annual program, the beneficiary of the program is entitled to purchase a specific number of shares at a specific option price if the stock exchange price of PannErgy shares reaches a specified level.

The Company discloses the value of the share option program as a short-term liability against capital reserves, based on the market price of PannErgy shares at the end of the reporting period, its volatility and the probability of reaching the share price specified in the share option program, depending on the outcome of measurement using the Black-Scholes method.

The Company applies the provisions of *IFRS 2 Share-based payments* to the recognition of actual share-based payments in the course of the valuation of the share option program. If share-based payments are made in equity instruments, any costs arising in connection with such payments are charged to equity while in the case of settlement in liquid assets, they are charged to financial liabilities as personnel expenditures.

The Company also applies *IFRS 2 Share-based payments* to share-based payments outside the scope of the share option program, even though they are not common practice in the Company; no such share-based payment occurred in the period covered by these consolidated financial statements. Accordingly, if the Company is free to choose the mode of settlement, then when an obligation arises for settlement in liquid assets at the time of conclusion of the contract, it should be treated as a transaction to be settled in liquid assets. If, however, at the time of the conclusion of the contract no obligations to settle in liquid assets arises, the agreement is to be treated as a transaction to be settled in equity instruments.

If the choice is given for the other party (typically, an employee of the Company), then the Company issues a compound financial instrument, which should be separated into a part to be settled in equity instruments and another part to be settled in liquid assets, and it should be recognized in the consolidated statement of profit or loss and the statement of financial position accordingly.

Share-based benefits offered to employees do not give rise to an obligation for the Company immediately; instead, the right to claim the benefits becomes effective if the vesting and potential non-vesting conditions are fulfilled during a specified period (the so-called vesting period). The vesting

period is usually a period of several years; accordingly, the expected costs have to be charged over the vesting period on a time-proportionate basis.

The value of share-based payments can be defined using a direct or an indirect method. If the direct method is used, the amount of the share-based payment is defined based on the fair value of the product acquired or service used by the Company. When the indirect method is applied, the fair value of the equity instrument may serve as a basis for the definition of the amount of the payment. In the case of share-based payments settled in equity instruments, the fair value of the equity instrument as of the date when the share-based benefit is provided is used for the entire vesting period, while changes in fair value are charged to the equity. In the case of share-based payments settled in liquid assets, the fair value of the equity instrument as of the date when the share-based benefit is provided is re-measured at the end of each reporting period, while changes in fair value are charged to profit or loss.

The costs of share-based payments are always charged to the profit or loss of the company that is the employer of the employees entitled to such benefits. The Company may conclude contracts for share-based benefits with partners who are not employees of the Company. In this case, the principles of recognition and measurement are identical with those applied in the case of share-based employee benefits.

3.23 Accounting for 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 Group has not made use of the option of earlier application and will apply the standard to its consolidated 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.

Effect on the consolidated financial statements of the introduction of *IFRS 15* as of 1 January 2018:

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

- 1) 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;
- 2) 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.
- 3) 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 Group), 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;
- 4) the PannErgy Group 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;
- 5) in the customer contracts of the PannErgy Group 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;

- 6) the customer contracts of the PannErgy Group 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;
- 7) the members of the PannErgy Group 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;
- 8) the PannErgy Group sells no products with the right of repurchase, offers no related warranties, uses no buyer options or agency commissions.

3.24 Interest income and dividend income

The Company may realize interest income on the loans granted in connection with the operation and management of the holding, or dividend income on its shareholder investments; these, however, are eliminated in the course of consolidation. The Company regards such interest and dividend income as income not derived in the ordinary course of business, not treating them as sales revenues but recognizing them among revenues from financial transactions.

Interest income is recognized using the effective interest rate method. In the event of the impairment of loans and receivables, the Company reduces the book value to the recoverable amount which is the present value of the estimated future cash flows discounted with the instrument's original effective interest rate. Thereafter, the difference arising from the reversal of the discount is shown as interest income.

Interest income from impaired loans and receivables is recognized with the application of the effective interest rate used for the calculation of impairment, computed for the net value of the financial asset.

Dividend income is recognized when the Company becomes entitled to the dividend.

3.25 Leases

In the course of the preparation of the consolidated 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 consolidated 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 as leases where the lessor assigns the right to use the asset to the lessee for a period specified in the agreement, in exchange for a single payment or a series of payments. A lease can be classified as either an operating or a finance lease based on whether the risks and rewards are substantially transferred to the lessee.

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

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

In its IFRS consolidated financial statements, the Company carries leased assets as leased property, plant and equipment, in line with its records of property, plant and equipment, under liabilities, where the liabilities equal the present value of the minimum lease liabilities payable pursuant to the contract. Depreciation is charged to an asset recognized as described above based on the estimate of residual value and useful life or the lease term, and financing interests payable in relation to the lease financing will be accounted for as financial expenses in the Company's statement of profit or loss.

The Company as the lessee initially recognizes finance leases as assets and liabilities at amounts equal to the lower of the fair value and present value of the minimum lease payments.

When charging depreciation, the shorter of the lease term and the leased asset's useful life has to be selected as the basis of the depreciation, except when it is reasonably certain that the lessee will obtain ownership at the end of the lease term.

The Company accounts for the financing charges, interests payable up to the end of the term with the effective interest method, using the interest rate implicit in the lease.

The Company may only have lease payables but no lease receivables.

The Company treats sale and leaseback transactions consistently with the treatment of leases. A sale and leaseback transaction consists in the selling of a given asset and its leaseback for financing reasons. The lease payment and the selling price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends on whether the transaction is an operating or finance lease. If the leaseback is a finance lease, any excess of sales proceeds over the carrying amount may not be immediately recognized as income by a seller-lessee. Instead, the profit must be deferred and amortized over the lease term. Amortization is necessary because in the case of a finance leaseback, the lessor provides financing to the lessee, thus it is not appropriate to treat the excess of sales proceeds over the carrying amount as income.

If the fair value is lower than the asset's carrying amount, a loss equaling the difference between the carrying amount and the fair value may not be recognized. While losses from loss-making sales have to

be charged immediately in one amount in the case of an operative lease, such loss may not be recognized in case of a finance lease. It is necessary, however, to assess whether impairment has occurred, in which case the carrying amount has to be reduced to the recoverable amount in line with IAS 36.

To ensure presentation in conformity with the new lease standard (see Chapter 3.3) to be applied as of 1 January 2019, in Chapter 39.3.4 Leases the Company describes in detail the valuable rights (the right of use of an asset throughout a particular period) acquired in accordance with the new standard relating to its lease contracts pertaining to the reporting period and the related rent payment figures.

3.26 Distribution of dividends

Dividends distributable to the shareholders of the Company are recognized in the consolidated financial statements as liabilities in the period when the owners approved the dividend. Distributable dividends are accounted for as a direct decrease in equity.

3.27 State aid, recognition of related deferred income

State aid is recognized at fair value if the Company is reasonably certain to receive such aid because it will satisfy the relevant criteria.

Based on the income approach accounting, the Company recognizes aid as income in the periods, based on the principle of matching, in which the related expenses were incurred.

The only exception is when the aid is based on subsequent settlement, that is, the purpose of the aid is to compensate for expenditures or losses incurred as well as immediate future financial grants given without any related costs. The Company recognizes such aid as income when it opens for draw-down.

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 consolidated statement of financial position of the Company encompasses the over-one-year part of grants awarded in application schemes for geothermal projects on the level of the PannErgy Group. 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 consolidated 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.

3.28 Comparative information across periods

Data for the base year and reporting year were subjected to measurement in the consolidated financial statements in the same manner, expect for reclassifications in the base data, which are explained in

Note 43. In order for the Company's IFRS consolidated financial statements to comply with *IAS 1*, all the statements include a comparative period.

In the context of the financial statements of a business year, by comparative period the Company means the reporting period of the financial statements prepared for the business year preceding the business year concerned.

These comparisons have to be disclosed in sufficient detail so that the users of the financial statements are able to interpret significant modifications affecting the consolidated statement of financial position and the consolidated statement of profit or loss.

3.29 Segment reporting

Definition of segments, review in the business year preceding the reporting year

In line with IFRS requirements, the Company needs to present its operating segments. In the period before the basis period, the PannErgy Group presented two operating segments in its consolidated financial statements: Energy and Asset management. The operating segment encompasses the main area of operation of the Company, that is, the generation and sale of geothermal heat as well as the implementation of related capital projects and other activities. The PannErgy Group defined the operating segment of Asset Management to include the utilization, as the legal successor of Pannonplast Nyrt., of the real estate, the industrial facilities and connected office premises formerly used by Pannonplast Nyrt. in its plastics manufacturing operations, located in District XXI of Budapest (Csepel) and in Debrecen, which meant primarily the re-invoicing of electricity and other public utility fees, and to a smaller extent the collection of office rent; furthermore, it included costs incurred in the course of the management and governance of the group as a financial holding company and issuer at the stock exchange.

In the course of preparing its IFRS consolidated financial statements for the previous year, the Company reviewed its compliance with *IFRS 8 Operating segments* in the aforementioned two segments and its obligation regarding the presentation of the segments. During the review of the definition of operating segments, it was established that **the PannErgy Group has one identifiable segment, that of Energy, while based on the requirements of IFRS 8 Operating Segments**, particularly, the management approaches to segments and the criteria for the presentation of operating segments, **the Company will not identify as a segment the area previously defined as Asset Management.**

Presentation of operating segments, substantiation of the review of segments

It is a standard principle of *IFRS 8 Operating segments* that an entity must disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates [IFRS 8.1]. The standard is to be applied to the consolidated financial statements of the group for those parent companies, and the separate and individual financial statements of those entities whose debt or equity instruments are traded in an open market [IFRS 8.2]. Consequently, PannErgy Plc. is required to present operating segments.

In practice, operating segments may be presented through the following five steps:

- Identification of chief operating decision makers;
- Identification of operating segments;
- Consolidation of operating segments;
- Definition of reportable segments;
- Disclosure of segment information.

In the course of the review of segment definition, the PannErgy Group looked at potential operating segments relying on the five step listed above. An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance based on various criteria.

The consolidated financial statements of the Company show that Energy can be clearly identified as an operating segment of the PannErgy Group. As regards the operation of the PannErgy Group, the management of the Company has adopted the approach to focus all its resources, in line with the expectations of investors, on maximizing the efficiency of the Energy segment; the utilization of property owned by the Company is in all respects an insignificant element in its operation and, based on the management's approach, cannot be considered to constitute an operating segment.

Examination of limits regarding the review of segments

In the year preceding the reporting year, the segment presented as the Asset Management operating segment was not a central element in the strategy of the PannErgy Group; the assessment of the performance of the utilization of the aforesaid properties is a negligible part of the work of the operative management and supreme bodies of the Company; information regarding the utilization of properties is not specifically highlighted in the relevant internal control and reporting system; as these transactions entail constant income (re-invoiced utility charges and rent) and costs (utility charges), the overwhelming majority of the activity consists in pass-through items.

Based on the approach of PannErgy Group's management and the criteria pertaining to the presentation of operating segments, the single operating segment of Energy can be identified at the Company; consequently, the examination of the criteria applicable to reportable segments is irrelevant; nevertheless, the Company has looked at the satisfaction of such limits (Chapter 42 Segments).

The Company needs to meet the disclosure criteria applicable to the entire entity. This means that the figures of the Energy segment in the reporting year and in the previous year reconcile with the financial information pertaining to the entire entity, which was appropriately presented in these consolidated financial statements.

Presentation of geographical project segments

Within Energy, the single operating segment defined within the Company, geographical/project location segments were identified in the reporting period based on their order of magnitude. The Company separately examined their profitability based on financing and other criteria and devised

separate plans for their operation. The geographical segments corresponding to projects are described in section 42.3.

3.30 Gross cash flow and EBITDA definition

Definition of the gross cash flow and EBITDA categories in the consolidated statement of profit or loss:

Gross cash flow is the sum of the gross profit defined as the difference of revenue from sales and the direct cost of sales, and non-cash direct depreciation.

EBITDA (earnings before interest, taxes, depreciation and amortization) is defined by the Company as the sum of the operating profit, direct depreciation (see Note 6. Indirect costs of sales), indirect depreciation (see Note 7. Direct costs of sales), as well as the extraordinary write-off and impairment of tangible or 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 requirements of the IFRS, the preparation of the Company's IFRS consolidated financial statements requires the application of estimates and assumptions, which will affect the amounts disclosed in the financial statements. The Company continually evaluates estimates and judgments based on past experience and other factors, such as expectations related to future events considered as reasonable under the circumstances.

The Company applies the requirements of *IAS 8 Accounting policies, changes in accounting estimates and errors* and *IAS 10 Events after the balance sheet date* as appropriate to any material errors of prior periods, the modification of accounting estimates and the treatment of events after the end of the reporting period.

4.1 Events after the end of the reporting period

In respect of the events between the end of the reporting period and the date of the financial statements' approval, the Company reviews whether the event in question confirms the circumstances that prevailed at the end of the reporting period and if yes, the modification of the financial statements is required. If the event implies circumstances that arose after the end of the reporting period, the only requirement is a disclosure, and only in material cases.

4.2 Material error

During the preparation of the consolidated financial statements, an error may arise from mathematical errors made when applying the accounting policy, from the ignoring of facts or from incorrect interpretation. The Company has adopted the principle that as long as it is possible and not technically impracticable, material errors from former periods need to be corrected retrospectively in the first financial statements or annual report compiled and approved for disclosure after the detection of the error. For the Company, impracticable means that it is impossible to apply even if the Company does everything that can reasonably be expected to ensure application.

The Company defines a material error as follows: the omissions or misstatements of items are material if separately or aggregately they are able to affect the users' decisions made based on the financial

statements. Materiality depends on the assessment of the extent and nature of omissions or misstatements under the given circumstances. The size and nature of an item, or a combination of the two, are the decisive factors in that assessment; as a general principle, the Company defines errors exceeding 1 percent of the total of the IFRS statement of financial position as material.

4.3 Critical accounting estimates and assumptions

In the course of implementation of the IFRS accounting policy, the Company relied on certain estimates and assumptions. Although the resulting accounting estimates are based on the Company's best knowledge of the current events, by definition they are rarely identical with the final results and the actual figures may be different. Estimates and assumptions that may cause the value of assets and liabilities in the statement of financial position to be significantly modified will be presented in the subsequent financial year, as shown below. These assumptions are explained in detail in the relevant notes; however, the most important ones relate to the following:

- Tax allowances in the future or the realization of a future profit that constitutes adequate taxable income against which the deferred tax assets can be set off;
- The outcome of certain pending liabilities;
- Determination of the fair value of financial instruments;
- Determination of the useful life of tangible assets;
- Determination of the impairment of tangible assets and goodwill;
- Determination of the value of provisions.

The methodology of making accounting estimates may change; in the Company's interpretation a change of accounting estimates occurs when the carrying amount of an asset or liability or the amount of the asset's use in the period needs to be modified. Accounting estimates may be changed based on the evaluation of the current position of the assets and liabilities and the assessment of the expected future benefits and obligations related to them. Changes in accounting estimates result from new information or new developments; accordingly, they do not qualify as the correction of an error.

5. REVENUE FROM SALES**5.1 Breakdown of sales revenues by core activity**

	2018 HUF Th	2017 HUF Th
Energy	4,152,313	4,199,226
Property management *	526,783	499,985
Total	4,679,096	4,699,211

*Defined as the Asset Management segment in the base period; it is not an independent segment in reporting period (see Chapter 40 Segments).

5.2 Breakdown of sales revenues by geographical location

	2018 HUF Th	2017 HUF Th
Revenue from domestic sales	4,677,838	4,698,179
Revenue from sales to the EU	1,258	1,032
Revenue from sales outside the EU	-	-
Total	4,679,096	4,699,211

5.3 Breakdown of sales revenues by activity or service

	2018 HUF Th	2017 HUF Th
Heat sales	3,948,334	4,024,233
Electricity sales	489,557	480,002
Mediated and re-invoiced services	94,167	117,780
Sale of products	120,940	66,252
Rent for buildings and tangible assets	26,098	10,944
Total	4,679,096	4,699,211

In the reporting period the consolidated sales revenue of the Company decreased by HUF 20,115 thousand, or 0.4%, relative to the previous period. The breakdown of sales revenue by activities and services reveals that income from the sale of heat decreased by 2% on a year-on-year basis, causing a loss of revenue of HUF 75,899 thousand. This is primarily due to the unfavorable weather conditions of

the reporting period, i.e., the earlier-than-expected end of the 2017/2018 heating season, which occurred earlier than in prior years. The clement weather in the first segment of the first part of the 2018/2019 heating season that occurred in the reporting period had a negative effect on the revenue-generating capacity of the PannErgy Group. Electricity sales increased by 2% in the reporting period; within this, HUF 462,378 thousand relates to the re-invoiced electricity fees of the operation of the Company's real estates in Csepel and Debrecen, which are re-invoiced to the tenants and other owners of the co-owned properties and are unrelated to the generation of geothermal heat. The additional HUF 27.179 thousand electricity sales consist in the sale of electricity relating to the project of the Company in Berekfürdő. In the reporting period the Company realized sales revenues of HUF 120.940 thousand on the sale of goods; this mostly related to casings that the Company carried on its inventory with a view to sale, because, due to their technical specifications, it not intended to use them in future for the implementation or maintenance works of geothermal projects. The rent of buildings and tangible assets more than doubled in the reporting period; this increase relates to the utilization of industrial properties intended for sale, in line with the objective that until the sale of such property, supported by active marketing, the Company should realize maximum rent-type income through rent agreements.

5.4 Breakdown of fixed assets related to sales revenues by geographical segment

	31 December 2018 HUF Th	31 December 2017 HUF Th
Assets used in domestic production	22,780,107	21,663,193
Assets used in production within the EU	-	-
Assets used in production outside the EU	-	-
Total	22,780,107	21,663,193

5.5 Concentration of sales revenue, information regarding key customers

The Company has three key customers, generating at least 10% of the Company's total sales revenues each:

	2018	2018. as a % of total sales	2017	2017. as a % of total sales
Total sales revenue from key customers	3,812,047	81.47 %	3,882,146	82.61 %
Revenue from sales	4,679,096	100.00 %	4,699,211	100.00 %

6. INDIRECT COSTS OF SALES

	2018	2017
	HUF Th	HUF Th
Office and operating costs	121,914	128,160
Expert fees, bookkeeping, audit fees	118.444	126,996
Indirect personnel-type costs	102,848	112,393
Costs related to public and stock exchange presence and social responsibility	59,911	69,385
Banking costs	34,322	31,953
Insurance fees	10,665	9,950
Other fees payable to authorities	7,536	11,793
Indirect depreciation (property, plant and equipment)	220	1.706
Total	455,860	492,336

The PannErgy Group has reduced its indirect operating costs in a number of areas relative to the previous year.

One of the most significant cost cuts was experienced in indirect personnel-type expenditures, at a reduction of 8%, or HUF 9.545 thousand, on a year-on-year basis. The period-end headcount of the PannErgy Group was below the corresponding figure of the previous year; on 31 December 2018 the actual number of employees was 18 persons as opposed to 20 on 31 December 2017, while the average statistical number of staff for the whole year rose from 28 persons in the base period to 32 in the reporting period, in conformity with the activity of the PannErgy Group in the field of investment projects.

Salary-type payments are summarized on Note 8.

In addition to personnel expenditures, there was also a decline in expert and consultancy fees by HUF 8.552 thousand, corresponding to a year-on-year decrease of 7%. Costs of experts incurred in the reporting period include legal and consulting costs relating to the financing of geothermal projects and to accounting projects, expert costs relating to application schemes as well as general consulting fees to support operations and legal fees.

The office and operating costs also show a positive change year-on-year, falling HUF 6.246 thousand, or 5%.

This reduction is also attributable to measures increasing cost efficiency in the field of operating costs.

Indirect depreciation declined slightly in the reporting period, but its order of magnitude remained in the previous year's range.

In addition to the elements of direct costs mentioned above, the costs of public and stock exchange presence disclosed under indirect costs also decreased in the reporting period. With regard to the latter

it should be noted that, for considerations of social responsibility, the PannErgy Group continues to attach high importance to supporting the cities and regions where existing projects are located in the areas of sports activities and other social initiatives, thereby offering support to the end users of geothermal energy.

The slight year-on-year increase of bank charges and insurance premiums is attributable to the intensification of capital projects in the reporting period.

7. DIRECT COSTS OF SALES

	2018	2017
	HUF Th	HUF Th
Direct depreciation (geothermal assets)	1,316,786	1,298,728
Maintenance and operating costs	626,118	756,991
Costs of goods sold, mediated services	596,206	536,983
Electricity charges	530,507	518,387
Facility maintenance costs, rental	352,985	364,171
Reinjection costs	263,637	278,752
Insurance costs (directly related to production)	23,114	25,906
Maintenance materials	824	21,277
Other direct costs	15,531	19,496
Total	3,725,708	3,820,691

The direct costs of sales of the PannErgy Group decreased at a rate close to that of the decline of revenues from sales. Within the “Costs of goods sold, mediated services” category, HUF 463,012 thousand was expenses of sales not related to geothermal operations; they consisted in re-invoiced services, primarily electricity charges, in the context the utilization of real properties in Csepel and Debrecen.

The increase of direct depreciation reflects the effect of the commissioning of capacity expansion and additional investment projects during 2018, while in certain asset categories the period of useful life was adjusted following a technical review, resulting in a minor increase in the depreciation charge.

The decline of maintenance costs is attributable to the lowering of operating and maintenance costs in geothermal projects, caused by the lower production volumes due to unfavorable weather conditions.

The costs of electricity used for heat production and sale moved in line with rising electricity rates, while facility maintenance and reinjection costs declined due to the lower level of heat sales and heat production, taking into consideration the structure of production.

The costs of maintenance materials decreased because in the reporting period such costs are generally incorporated in maintenance and operating costs.

8. HEADCOUNT AND WAGE COSTS

	2018	2017
Average statistical headcount (persons)	32	28
Wage cost (HUF Th)	74,242	82,780
Other personnel-type payments (HUF Th)	11,462	8,984
Taxes and contributions on wages (HUF Th)	17,144	20,629
Total	102,848	112,393

In 2018 the average headcount in the PannErgy Group was 32 persons, corresponding to an increase of 15% over the 28 persons in 2017. The increase is attributable to the intensification of investment activities, the drilling of the third well in Győr under a concession project in the reporting period. On 31 December 2018 the actual number of staff working for the PannErgy Group was 18, a decline of 2 persons relative to the corresponding headcount of 20 one year before; the difference between the average statistical headcount and the actual number of employees is attributable to part-time employment across group members.

In 2018 the PannErgy Group paid no contributions to voluntary pension funds on behalf of its employees; in 2017 such contributions amounted to HUF 240 thousand in the consolidated financial statements, in relation to 1 employee. The amounts paid into voluntary pension funds are determined by employees in the framework of the uniform fringe benefit regime available to all PannErgy Group employees, within the limitations set by the Group.

9. OTHER EXPENDITURES

	2018 HUF Th	2017 HUF Th
Local taxes, duties, fines	100,869	98,918
Mining fee	65,090	67,933
Provisioning for contingent liabilities	18,449	-
Fines, penalties, default interest, compensations paid	9,412	1,593
Extraordinary write-off of tangible or intangible assets	7,978	17,758
Cost relating to insurance events	2,235	2,205
Subsidies granted to offset costs	1,600	1,350
Impairment losses of receivables	78	7,167
Levies, contributions	23	57
Shortage and write-off of inventories	-	10,689
Other	3,463	3,740
Total	209,197	211,410

Within the HUF 209,197 thousand other expenses the most substantial item, at HUF 100,869 thousand, consists in local taxes, most notably the local business tax paid to the local governments at the sites of geothermal projects. Another major item is the mining fee payable relating to geothermal heat production; under this heading the Company incurred expenditures of HUF 65,090 thousand in the reporting period. HUF 7,978 thousand of tangible assets were written off in the context of geothermal projects.

Provisions of HUF 18,449 thousand were generated in the reporting period relating to liabilities expected by the Company to be incurred financially in the future but pertaining to the reporting period. In the category of other expenditures, in contrast with the corresponding period of the previous year, no material non-recurring items (such as extraordinary write-offs or impairment losses) were recorded in the reporting period.

10. OTHER INCOMES

	2018	2017
	HUF Th	HUF Th
Aid received for development purposes	299,120	303,894
Fines, compensation received	134,450	70,139
Income relating to insurance events	79,276	213,410
Fair value measurement of marketable properties	69,057	70,469
Profit on the sales of tangible assets	317	978
Ex post discounts received	-	82,148
Other	35,577	7,178
Total	617,797	748,216

Within the HUF 617,797 thousand other income in the reporting year, the most significant item is aid received. The income recorded in the reporting period as aid for development purposes consists in the write-back of deferred income in proportion with the depreciation charge for the reporting year. Other items of substantial size within other incomes include compensation and penalties relating to previous and current implementation projects and insured events at the aggregate value of HUF 213,726 thousand, a decrease relative to the base period; these items are penalties and compensation received from/acknowledged by insurers or suppliers relating to failures of machinery or service interruptions, as if to compensate for unrealized revenues.

Based on sales plans, measures and the information available, the properties held by the Company as marketable fixed assets 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 69,057 thousand, almost identical with the corresponding figure in the base period, which sum was added to other incomes.

In the consolidated financial statements of the previous year, HUF 82,148 thousand was recognized within other incomes as ex post discounts received; in accordance with the mode of presentation in

the reporting period, such ex post discounts are disclosed as items deducted from direct maintenance and operating costs considering that these discount-type revenues received retroactively relate to the costs of maintenance and operation pertaining to the reporting period.

11. FINANCIAL INCOMES

	2018	2017
	HUF Th	HUF Th
FX gains on FX loans	7,101	33,408
FX gains related to receivables	12,448	6,334
FX gains related to liabilities	8,624	4,223
FX gains related to FX accounts	12,162	2,150
Interest and interest-type income	7,184	1,833
Gains on derivative transactions	14,466	652
Gains arising from dealing securities	322	1
Gains on the sale of participations	64,187	-
Other financial incomes	201	-
Total	126,695	48,601

Financial incomes included foreign exchange gains of HUF 7,101 thousand relating to the EUR-denominated investment loans of the Company. The HUF 14,466 thousand FX gain on derivative transactions in the reporting year was earned on forward FX transactions that the Company concluded in conformity with the trade payables of the PannErgy Group incurred in foreign currencies.

In the reporting period HUF 64,187 thousand 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	2017
	HUF Th	HUF Th
Interest and interest-type expenses	265,871	280,565
FX loss on FX loans	219,379	21,681
FX loss related to receivables	5,624	11,882
FX loss related to liabilities	12,661	5,545
Loss on derivative transactions	1,268	3,709
FX loss related to FX accounts	312	2,447
Other financial expenditures	2,546	20,225
Total	507,661	346,054

In the reporting period financial expenditures amounted to HUF 507,661 thousand, a deterioration of HUF 161,607 thousand relative to the previous period.

This increase of expenditures was attributable primarily to the EUR/HUF exchange rate fluctuations in the reporting period, which had a currency revaluation effect of HUF 186,132 thousand at the end of the period. In accordance with the IFRS requirements, monetary items of the PannErgy Group carried in currencies other than the Forint, the functional currency, are converted into forints at the exchange rate prevailing at the end of the period, and the (financially unrealized) FX differences resulting from such conversion are recognized in the statement of profit or loss under financial transactions. The substantial loss on the period-end revaluations is the result of the significant decrease of the HUF/EUR exchange rate relative to the previous periods.

Notwithstanding the momentary, unrealized effect of the aforementioned revaluation, the Company is not subject to any material exchange rate risk in the course of its operation because it has a natural hedge position considering that, annually, its income realized in foreign currencies almost entirely cover its costs (typically electricity charges) incurred in other currencies as well as its contractual FX-denominated debt servicing obligations towards financial institutions that extended investment loans. The currency of FX items mentioned above may be different from the euro.

Apart from the unfavorable changes of exchange rates affecting FX items in the reporting period, interest and interest-type expenses represent the highest amounts; in the reporting period HUF 265,871 thousand of such expenses were incurred, which represents a HUF 14,694 thousand or 5% decrease year-on-year, primarily reflecting the positive effect of the refinancing of the Győr and Miskolc facilities in prior periods.

Within interest and interest-type expenses, HUF 1,268 thousand relates to interest rate swaps, whereby the PannErgy Group swapped its variable-interest loans to fixed-interest arrangements in the settlement periods of the reporting year. Other financial expenditures entail HUF 2,546 thousand of effective interest expenditure related to the amortized cost of long-term receivables.

As a result, in the reporting period the PannErgy Group recognized a loss of HUF 380,966 thousand as the financial profit/loss.

13. OTHER INFORMATION RELATING TO FINANCIAL TRANSACTIONS

	2018	2017
HUF/EUR exchange rate on 31 December of the previous year	310.14	311.02
HUF/EUR exchange rate on 31 December of the reporting year	321.51	310.14
HUF/EUR exchange difference	11.37	-0.88

The unrealized gain/loss of the year-end FX revaluations amounted to a loss of HUF 186,132 thousand, in contrast with a HUF 21,133 thousand gain in the previous year. This is primarily caused by EUR-denominated receivables and payables, mostly attributable to the revaluation of EUR-denominated investment loans.

14. INTANGIBLE ASSETS*Gross value*

					HUF Th
	Goodwill	Geotherm. know-how	Valuable rights	Purchased software	Total
1 January 2017	-	983,472	161,484	35,420	1,180,376
Purchase	174,462	-	-	-	174,462
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification	343,075	80,640	-80,640	-	343,075
31 December 2017	517,537	1,064,112	80,844	35,420	1,697,913
Purchase	950	-	24,780	-	25,730
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification	-	-	-	-	-
31 December 2018	518,487	1,064,112	105,624	35,420	1,723,643

Accumulated depreciation

	Goodwill	Geotherm. know-how	Valuable rights	Purchased software	Total
1 January 2017	-	202,433	63,179	22,277	287,889
Increase	-	36,601	36,750	7,817	81,168
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification	-	31,342	-31,342	-	-
31 December 2017	-	270,376	68,587	30,094	369,057
Increase	-	62,158	5,873	186	68,218
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification	-	-	-	-	-
31 December 2018	-	332,534	74,460	30,280	437,275

Net value

1 January 2018	517,537	793,736	12,257	5,326	1,328,856
31 December 2018	518,487	731,578	31,164	5,140	1,286,369

The HUF 518,487 thousand of goodwill relates to the 6.91% minority participation in PannErgy Geotermikus Erőművek CPlc. purchased in prior periods; in the course of the acquisition goodwill of HUF 517,537 thousand was created, while goodwill of HUF 950 thousand arose in the context of the purchase of a minority holding in Szentlőrinc Geotermia CPlc., a company covered by consolidation, in the reporting period.

On 31 December 2018 the Company performed the impairment test of the value of the goodwill relying on the future discounted cash flow forecasts of related cash-generating units; the test proved that the HUF 518,487 thousand is the fair value of the goodwill and no impairment needs to be recognized.

In addition to goodwill, the Group discloses among intangible assets a single major development under the heading of geothermal know-how, which relates to geothermal exploration and drilling. In the case of past successful drillings, the know-how is carried by the member companies involved in the project and depreciation is calculated. In other regards, know-how relating to the geothermal business and future geothermal explorations is carried on the books of PannErgy Geotermikus Erőművek CPlc. The inclusion of this high-value intangible asset in the financial statements is justified as specific future benefits attributable to the asset concerned can be linked to it. Based on the year-end calculations prepared relying on the management of the Group, it is possible to quantify the future cash flows arising from the exploitation of developments disclosed in the consolidated statement of financial position. These cash flows, broken down by cash-generating units, were compared, after discounting, with the tangible assets and goodwill of the cash-generating units as well as the book value of geothermal know-how owned by the Group. On this basis, no impairment needs to be recognized in the reporting period.

To ensure uniform accounting treatment across the Group, certain intangible assets were reclassified in the reporting period, following case-by-case reassessment, between categories of intangible assets.

15. TANGIBLE ASSETS

	HUF Th				
Gross value	Marketable properties	Properties	Machinery and vehicles	Investment	Total
1 January 2017	-	16,142,058	7,253,393	29,789	23,425,240
Purchase	-	-	-	494,035	494,035
Capitalization	-	-	329,269	-329,269	-
Sale	-	-	-1,222	-	-1,222
Effect of fair value measurement	70,469	-	-	-	70,469
Reclassification to goodwill	-	-343,075	-	-	-343,075
Reclassification to/from marketable property	272,531	-347,456	-	-	-74,925
Other changes, write-off	-	27,160	-17,358	-	9,402
31 December 2017	343,000	15,478,687	7,564,082	194,555	23,580,324
Purchase	-	-	-	1,562,893	1,562,893
Capitalization	-	61,931	489,725	-551,656	-
Sale	-	-	-7,035	-	-7,035
Effect of fair value measurement	69,057	-	-	-	69,057
Reclassification to goodwill	-	-	-	-	-
Reclassification to/from marketable property	-1,463	1,463	-	-	-
Other changes, write-off	-191	-7,209	-25,949	-	-33,349
31 December 2018	410,403	15,534,872	8,020,823	1,205,792	25,171,890
Accumulated depreciation	Marketable properties	Properties	Machinery and vehicles	Investment	Total
1 January 2017	-	931,402	1,782,678	-	2,714,080
Increase	-	457,314	761,952	-	1,219,266
Sale	-	-	-	-	-
Reclassification, write-off, impairment	-	-74,925	-	-	-74,925
31 December 2017	-	1,313,791	2,544,630	-	3,858,421
Increase	-	452,719	796,070	-	1,248,789
Sale	-	-	-6,974	-	-6,974
Reclassification, write-off, impairment	-191	-191	-25,371	-	-25,371
31 December 2018	-191	1,766,701	3,308,355	-	5,074,865

Net value	Marketable properties	Properties	Machinery and vehicles	Investment	Total
1 January 2018	343,000	14,164,896	5,019,052	194,955	19,721,903
31 December 2018	410,594	13,768,170	4,712,468	1,205,792	20,097,025

The industrial properties of the Company in the XXI. district of Budapest (Csepel) and in Debrecen are disclosed in the consolidated financial statements as marketable properties, with a value of HUF 410,403 thousand. 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 69,057 thousand, which sum was added to other incomes.

In the reporting period HUF 1,463 thousand of marketable properties was reclassified to properties, relating to a property located on the site concerned but not held for the purpose of sale.

Other changes and write-offs comprise the extraordinary depreciation and scrapping of geothermal machinery and equipment in the reporting period, in the value of HUF 7,978 thousand.

Certain properties and machinery serve as collateral for outstanding investment loans. In this context, the following material restrictions of title or mortgages are registered as of 31 December 2018 with regard to properties, machinery and equipment:

PannErgy	Financing entity	Amount of collateral charged to tangible assets	Collateral
Kuala Ltd.	UniCredit Bank Hungary CPlc.	EUR 4,500,000 and HUF 2,292,675 thousand	General mortgage on assets (all movable and immovable property) on the business share of PEGE CPlc.
Miskolci Geotermia CPlc.			
Arrabona Geotermia Ltd.	CIB Bank CPlc.	EUR 14,477.861 and HUF 1,149.455 thousand	General mortgage on assets (all movable and immovable property) on the business share of PEGE CPlc.
DD Energy Ltd.			
Szentlőrinci Geotermia CPlc.	Széchenyi Bank CPlc.	HUF 540,000 thousand	General mortgage on assets (all movable and immovable property)
PannErgy Koncessziós Ltd.	CIB Bank CPlc.	EUR 27,700.000	Pledge on receivables
PannErgy Plc.	Budapest Bank CPlc.	HUF 200,000 thousand	Share pledge

No tangible assets were revalued in the reporting period.

15.1 Year-end valuation of high-value tangible assets

Due to the special nature of geothermal projects, the PannErgy Group has high-value assets in several of its subsidiaries (production and injection wells, properties, heat centers, transmission systems, other assets). Because of the nature of the project, their cash-generating capacity is relevant only with regard to all the tangible assets related to the project considered as a cash-generating unit. For this reason, each project is organized into a separate economic entity, and each group of assets is used in a single market.

As of 31 December 2018, an impairment test was performed in all PannErgy group members where the overwhelming majority of assets consists in tangible assets used in or directly related to production, irrespective of whether the Company has noted any indication of their impairment.

In the interpretation of the PannErgy Group, it is an indication of impairment if losses were suffered in the previous years or the reporting year, which may signal that the economic performance of the assets is weaker than the level envisaged upon installation.

Due to the special nature of the geothermal market, the year-end valuation and impairment test was performed relying on evaluation based on income generating capacity rather than on market comparison, cost-based evaluation or the residual goodwill method. Using this approach, the future benefits expected to be derived by the PannErgy Group from the ownership of the high-value assets were quantified, and the present value of these quantified benefits as future cash flows was estimated. Income-generating capacity was selected as the core benefit, i.e., the discounted present value of cash flows forecasted by the detailed model was calculated for forthcoming years. In the impairment test the calculated value, as recoverable value, was compared with the aggregated book value of tangible assets and intangible assets as of 31 December 2018.

The model used for the calculation of the recoverable amount contains the following:

- an estimate of the envisaged level of future cash flows from the assets to be derived by the Companies defined as individual cash-generating units;
- the amounts and timing of these future cash flows;
- the time value of money;
- other factors based on the characteristics of the industry.

The impairment tests indicated that, in line with the requirements of *IAS 36*, the assets of the Group are recorded at a value not exceeding their recoverable amount, i.e. their book value exceeds the amount recoverable through the use or sale of the asset; consequently, no impairment was recognized.

16. INVESTMENTS

	31 December 2018	31 December 2017
	HUF Th	HUF Th
Pannunion Service GmbH.	-	22,935
Total	-	22,935

In its consolidated statement of financial position for the previous year, the PannErgy Group disclosed under the heading of Long-term investments the book value of Pannunion Service GmbH, an entity that was acquired as an investment but not included in consolidation; the PannErgy Group held a share of 91% in that company. PannErgy Plc. did not include Pannunion Service GmbH in the scope of consolidation because the shareholders decided on the liquidation of the firm and thus its inclusion had no material effect on the consolidated financial statements. The liquidation of Pannunion Service GmbH was finalized in 2018. During the liquidation process the Company recovered all of its investments from the distribution of assets.

17. FINANCIAL ASSETS (PRODUCTION WELL ESTABLISHED UNDER A CONCESSION PROJECT)

	31 December 2018	31 December 2017
	HUF Th	HUF Th
PannErgy Koncessziós Ltd.'s investment in Győr	1,068,432	64,740

As of 31 December 2018, the PannErgy Group reported financial assets relating to concession agreements in the value of HUF 1,068,432 thousand in its consolidated financial statements, in conformity with the IFRIC 12 interpretation. This financial asset comprises the costs of implementation of the production well established under the concession project related to the Győr Geothermal Project of the Company, implemented in 2018.

PannErgy Geotermikus Erőművek CPlc., a subsidiary of the Company, concluded a concession contract with the Hungarian State for the exploration, extraction and exploitation of geothermal energy in the region of Győr, for a definite period of 35 years (which may be extended once, by 17.5 years). In 2017 PannErgy Geotermikus Erőművek CPlc. established a separate concession company, PannErgy Koncessziós Ltd., for this project.

In the reporting period, PannErgy Koncessziós Ltd. established its production well BON-PE-03 under the concession project; the related closing report of exploration has been submitted and accepted; at present the process of obtaining the required legal water permits necessary for the operation of the production well is under way.

In terms of its legal and accounting qualification, the project, implemented under, and in accordance with the terms and conditions of, the concession contract, is in line with the IFRIC 12 interpretation, therefore the investment implemented so far in the context of the project is recognized in the category of fixed assets, as a financial asset, in the consolidated statement of financial position. After the

integration of the BON-PE-03 production well drilled in the framework of the concession project into the Győr Geothermal System following the obtaining of the required permits, the capacity of the Győr project to generate consolidated sales revenue and EBITDA will increase substantially. Accordingly, the recognized value of the “concession” production well presented as a financial asset is adequate based on the IFRIC 12 interpretation, i.e. it is covered by the value of the discounted cash-flows expected for the 35-year term of the concession contract, in proportion to the degree of completion of the investment project.

18. LONG-TERM RECEIVABLES

	31 December 2018	31 December 2017
	HUF Th	HUF Th
Other receivables	99,095	203,784

The PannErgy Group’s consolidated financial statements as of 31 December 2018 show long-term receivables in a total amount of HUF 99,095 thousand. These receivables, stated in terms of amortized cost, are linked to sale and purchase transactions where the Company agreed with the buyer on a long-term – over-year – payment schedule for part of the purchase price.

19. LEASE RECEIVABLES

The PannErgy Group had no lease receivable during the reporting period or the reporting period.

20. INVENTORIES

	31 December 2018	31 December 2017
	HUF Th	HUF Th
Materials	-	22,955
Goods	-	97,518
Total	-	120,473

The bulk of the inventories appearing in the 2017 consolidated financial statements is made up of borehole casings stated as goods, purchased for the implementation of previous geothermal projects but not used. A smaller part of the inventories is made up of materials for use in maintenance. All of these were sold or used up during the reporting period, therefore the IFRS consolidated financial statements of the company show no inventories.

21. TRADE RECEIVABLES

	31 December 2018	31 December 2017
	HUF Th	HUF Th
Trade receivables	1,518,957	1,376,329
Impairment losses for doubtful receivables, reversals	-5,632	-7,167
Total	1,513,325	1,369,162

The members of the PannErgy Group sell their products and services to a small number of buyers, mostly on the basis of long-term contractual arrangements. Due to the stability of the relationships with the Group's customers no impairment losses need to be recognized for trade receivables; an amount of HUF 78 thousand was booked for the reporting period for a single partner. Impairment reserves were reversed in relation to a number of doubtful receivables on the basis of financial settlements effected during the period (see Section 38 on Impairment). The trade receivables are non-interest earning items, with a 30-day term for the most part.

Accounts receivable increased by 11% year-on-year, as a result of the sale of inventories.

22. OTHER RECEIVABLES

	31 December 2018	31 December 2017
	HUF Th	HUF Th
Other tax receivables	161,062	79,837
Deferred items	110,738	118,177
Follow-up discounts received, recognized	100,000	39,000
Advance payments made	25,146	11,102
Receivables associated with insured events	5,709	130,438
Other loans provided	3,143	3,405
Receivables relating to derivative transactions	-	9,300
Receivables from employees	-	58
Other	-	-
Total	405,798	391,317

Revenues relating to insured events appear, in a total amount of HUF 5,709 thousand, in the category of other receivables, comprising compensations received on the basis of recognized legal grounds pertaining to machine failures or service interruptions, some of which will be payable at later dates.

At the end of the reporting period the Company's records showed recognized receivables in a total amount of HUF 100,000 thousand, based on follow-up discounts granted to the Company in relation to services it had used. These items had been settled by the cut-off date of the financial statements.

HUF 1,382 thousand and HUF 109,356 thousand of the deferred items of the next period are associated with the sales revenue and the costs, respectively. As to the details of other tax receivables, the value added tax receivable the largest item is in an amount of HUF 130,551 thousand, followed by receivables relating to the corporate income tax, in an amount of HUF 3,479 thousand, as well as by the receivables relating to the local business tax, at HUF 24,385 thousand.

Of the tax-type receivables the key items include prepaid income taxes in an amount of HUF 3,479 thousand shown in a separate line, in contrast to the corresponding HUF 20,062 thousand of the preceding period.

23. SECURITIES (MARKETABLE FINANCIAL ASSETS)

	31 December 2018 HUF Th	31 December 2017 HUF Th
Securities held until maturity	25	200,027

The value of securities appearing in the consolidated 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 200,000 thousand 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

	31 December 2018 HUF Th	31 December 2017 HUF Th
Subscribed capital	421,093	421,093

On 31 December 2017 the Company's subscribed capital amounted to HUF 421,093 thousand and remained unchanged in 2018. The subscribed capital is stated in the financial reports in its total amount as issued, while the number of shares is presented net of the amount of treasury shares.

The subscribed capital comprises a total of 21,054,655 voting shares, of a nominal value of HUF 20 each. A total of 2,642,637 of the above were held by the Company and its consolidated members on 31 December 2018, down 22% year-on-year, as a result of the buy-back of shares in relation to the share option program during the reporting period.

The Budapest Stock Exchange CPlc. modified the Product List data pertaining to Pannonplast Plc's ordinary shares of the HU0000073440 ISIN code with effect from 21 November 2007.

ISIN Code	new code: HU0000089867	previous code: HU0000073440
Nominal value of the securities:	HUF 20	HUF 100
Securities introduced to the stock exchange (number):	21,054,655	4,210,931

With effect from 12 October 2007 the Court of Registration registered the resolutions adopted by the Company's General Meeting of 31 August 2007 on splitting the nominal value of the shares issued by the Company without affecting the total amount of the Company's subscribed capital. 20 November 2007 was the last day on which the shares of the nominal value of HUF 100 were traded on the exchange.

25. TREASURY SHARES

	31 December 2018	31 December 2017
Treasury shares (number)	2,642,637	3,375,638
Nominal value (HUF Th)	52,853	67,513
Cost (HUF Th)	2,480,246	3,169,955

On 31 December 2018 the Company held a total of 2,642,637 PannErgy Plc. treasury shares, 733,001 less than one year before. The aggregated change was a result of an increase of 8,000 and a decrease of 741,001 during the reporting period, relating to the share option program.

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 contain more information on the Company's treasury share transactions.

26. RESERVES

Reserves are detailed in the PannErgy Group's consolidated financial statements as follows:

	31 December 2018	31 December 2017
	HUF Th	HUF Th
Capital reserve	10,515,993	10,515,993
Retained earnings	1,429,717	1,700,805
Other reserves	-955,953	-955,953
Total	10,989,757	11,260,845

The capital reserve is regarded to be associated with two historical events: the subscribed capital decrease upon the company's transformation into a one limited by shares, and the exchange rate gain resulting from share issue. The amount stated as capital reserve remained unchanged between the business years of 2017 and 2018.

The amount of the profit reserve equals the total amount of the profits accumulated by the PannErgy Group in the previous years, net of the dividends paid to shareholders. No dividends were approved to be paid in 2017 and 2018.

The other reserves line shows the exchange rate differences resulting from the consolidation of foreign subsidiaries sold in earlier years, together with the exchange rate losses on the sale of treasury shares.

The PannErgy Group's consolidated statement of financial position shows the aggregated amount of the reserve created for treasury shares and the general reserves in separate lines. 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 '*Treasury shares*' column of the consolidated statement on the changes in the Company's equity shows the book value – cost – of the current treasury share portfolios and movements, while the amount in the '*Reserve*' column of the '*Sales of treasury shares*' line presents the price difference recognized relative to the relevant book values as a result of the sale transactions concerned. No profit or loss is incurred upon the purchase of treasury shares, therefore no amount recognized among reserves within the equity capital.

27. MINORITY INTERESTS

	31 December 2018 HUF Th	31 December 2017 HUF Th
Balance as of 1 January	24,540	183,372
Reporting year profit or loss of subsidiaries attributable to minority shareholders (subsidiary, external)	984	16,670
Decrease/increase in minority interest due to the sales/purchase of subsidiary shares	-50	-175,502
Balance as of 31 December	25,474	24,540

27.1 Other changes involving minority interests during the reporting year

PannErgy Geotermikus Erőművek CPlc. acquired a 0.2% minority interest in Szentlőrinc Geotermia CPlc. for a purchase price of HUF 1,000 thousand during the period concerned, on the basis of the relevant share sale and purchase contract of 22 March 2018. The IFRS value of the minority interest purchased under the above transaction for HUF 1,000 thousand was HUF 50 thousand, the other HUF 950 thousand was thus stated as 'goodwill' in the consolidated financial statements.

28. LONG-TERM LIABILITIES

	31 December 2018 HUF Th	31 December 2017 HUF Th
Long-term credits/loans and leases		
- EUR-based credit secured with collateral	5,788,889	7,369,710
- HUF-based credit secured with collateral	3,578,145	2,533,599
- Financial lease liabilities	-	51,008
- Short-term part reclassified to short-term credits	-1,114,509	-1,159,562
Long-term loans, leases, total	8,252,525	8,794,755

The total amount of the long-term loans was reduced by loan repayments during the reporting period.

28.1 Weighted average interest rate on long-term loans

The interest rates applied to the outstanding EUR loans relating to the Győr and Miskolc Geothermal Project companies are based on the 3M EURIBOR, regardless of which financial institution provides the required funding. In view of this fact and the contractual interest margins the weighted average interest rates on the collateral covered EUR-based loans was 2.47% s at 31 December 2018, the same as the rate recorded as of 31 December 2017. The weighted average interest rates were calculated not purely on the basis of the EURIBOR, but in a way that would reflect the effects of the associated interest swap transactions.

The HUF-based loans secured with collaterals, with a fixed 2.5% interest rate, are based on the 1M or the 3M BUBOR. The weighted average interest rate applying to those was 3.07% during the period concerned, slightly lower than the 3.10% applied during the corresponding period of the preceding years, however, on the basis of the BUBOR this would be higher; in this case the nearly unchanged level of the interest rate is a result of the positive effects of the interest swap transactions.

28.2 Maturity dates of the long-term loans

HUF 6,954,015 thousand of the total of HUF 8,252,525 thousand long-term liabilities is made up of items maturing in 1-5 years, while HUF 1,298,510 thousand comprises items maturing in over 5 years.

28.3 Details of the lease liabilities recorded among long-term loans

The Company's consolidated financial statements do not show lease liabilities as of 31 December 2018, because the lease liability shown in the previous period in relation to technical facilities of the Berekfüdő Project was fully repaid during the reporting period.

28.4 Other long-term deferred incomes

	2018	2017
	HUF Th	HUF Th
Other long-term deferred incomes	4,260,978	4,562,809
Short-term part of the long-term incomes	-275,660	-291,481
Other long-term deferred incomes, total	3,985,318	4,271,328

It is among the other long-term incomes that the Company states – in connection with its energy industry projects – the over-year part of the non-repayable grants won for its projects through application schemes, while the short-term part is stated among short-term liabilities; the latter is recognized in the consolidated profit & loss account among other incomes, as a result of the reversal (in proportion with depreciation) of assets associated with application schemes.

PannErgy Group level long-term deferred incomes comprise the over-year part of the non-repayable grants won in the context of application schemes for the geothermal projects, while in the individual unconsolidated balance sheet they are stated among deferred liabilities. The short-term part is stated among short-term liabilities.

28.5 Details of aids relating to deferred revenues

					HUF Mn
Group entity	Project ID	Eligible investment cost	Aid granted	Aid drawn down	Aid deferred income (liability)
Szentlőrinci Geotermia CPlc.	KEOP-4.2.0/B-09-2009-0026	883	442	427	350
Berekfürdő Energia Ltd.	KEOP 4.4.0/A/09-2009-0009	250	125	125	63
DoverDrill Mélyfúró Ltd.	GOP-1.3.1-11/A-2011-0192	232	104	104	47
Miskolci Geotermia CPlc.	KEOP 4.7.0-2010-0001	632	316	314	240
Miskolci Geotermia CPlc.	KEOP 4.2.0/B-11-2011-0007	2,856	1,000	1,000	791
Miskolci Geotermia CPlc.	GOP-1.2.1/B-12-2012-0005	323	162	148	61
Kuala Ltd.	KEOP 4.7.0/11-2011-0003	619	309	309	276
Kuala Ltd.	KEOP-4.10.0/B-12-2013-0012	2,836	1,000	1,000	798
DD Energy Ltd.	KEOP-4.10/B-12-2013-0010	3,997	1,000	1,000	822
Arrabona Geotermia CPlc.	KEOP-4.10/B-12-2013-0011	3,509	1,000	992	813
PannErgy Geotermikus Erőművek CPlc.	PIAC_13-1-2013-0006	889	442	442	-
Government aids as of 31 December 2018 were stated in the consolidated statement of financial position in the form of long term and short-term (shorter than one year) deferred incomes (HUF Mn):					4,261

Each of the above projects are of the project implementation type. The project objectives are, in the case of the EEO (Environment and Energy Operational Program) application schemes, geothermal energy utilization, while in the case of the EDOP (Economic Development Operational Program) the objectives include the procurement of assets or system development. The aid granted to the Company in relation to the application scheme PIAC_13 was recognized in full as income, in relation to the sale of the know-how developed with the help of the aid and the depreciation – up to the time of project closure – of the assets purchased in relation to the project.

The expiry of the maintenance periods relating to the various projects implemented under application schemes do not influence the aid reversals because they are linked to the useful life period associated with each asset acquired from aid money.

The PannErgy Group stated an amount of HUF 249,977 thousand as of 31 December 2018 in the way of liability in relation to grant advance it has received, in connection with DoverDrill Mélyfűró Ltd's GINOP-2.1.2-8.1.4-16-2017-00166 application entitled "Grants for R&D&I activities of companies in the framework of combined loan products".

29. SHORT-TERM CREDITS

	31 December 2018 HUF Th	31 December 2017 HUF Th
Short-term part of long-term credits	1,114,509	1,159,562
Other short-term credits	560,423	48,072
Total	1,674,932	1,207,634

No lease liability appears among the short-term credits.

29.1 Short-term part of other long-term deferred incomes

	31 December 2018 HUF Th	31 December 2017 HUF Th
Short-term part of other long-term deferred incomes	275,660	249,481
Total	275,660	249,481

The part of the grants won under application schemes relating to geothermal projects which can be used within a year, which is recognized in the profit & loss account among other incomes in proportion with the depreciation of the intangible assets and tangible assets directly involved in the application scheme.

30. PROVISIONS

	31 December 2018 HUF Th	31 December 2017 HUF Th
Opening balance as of 1 January.	-	56,236
Provisioning	18,449	-
Reclassification of provisions	-	-56,236
Release of provisions	-	-
Closing balance as of 31 December	18,449	-

The Company formed provisions in a total amount of HUF 18,449 thousand during the reporting period to cover liabilities expected to arise from contractual obligations, as well as for financial liabilities that may stem from lawsuits (based their estimated outcomes) for the reporting period.

Provisions were released during the preceding period in relation to the Company's share option program covering the period between 2016 and 2019. Before the base period the Company set aside provisions on the basis of an evaluation of the share option program as of the cut-off date, in view of the fact that the conditions and requisites relating to the exercising of the options had not been in place in full during the relevant periods. Since the basis period the Company has been recognizing the current value of the share option program as a short-term liability against capital reserves, based on the market price of PannErgy shares at the end of the reporting period, its volatility and the probability of reaching the share price specified in the share option program. This accounting policy brought about a change in the basis period and this was the basis of the transfer of the provision to short-term liabilities, and then its release.

In its consolidated statement of financial position for the reporting year and the preceding year PannErgy Group stated no provisions for environmental and recultivation-type obligations.

The Company created no provisions for liabilities relating to redundancy programs or for employee pensions. It has no such obligations other than the contributions paid to the public pension system.

31. OTHER SHORT-TERM LIABILITIES

	31 December 2018	31 December 2017
	HUF Th	HUF Th
Grant advances relating to application schemes	249,977	-
Tax and contribution liabilities	157,259	177,940
Deferred items	84,682	137,658
Liabilities relating to the share option program	33,604	209,046
Wages and social security	4,345	4,516
Liabilities from derivative transactions	1,268	-
Other	28,076	4,420
Other short-term liabilities, total	559,211	533,580

The PannErgy Group stated an amount of HUF 249,977 thousand as at 31 December 2018 in the way of short-term liability in relation to grant advance it has received, in connection with DoverDrill Mélyfúró Ltd's GINOP-2.1.2-8.1.4-16-2017-00166 application entitled "Grants for R&D&I activities of companies in the framework of combined loan products".

The Company's records show tax and contribution liabilities in a total amount of HUF 157,259 thousand, of which mention should be made of the HUF 134,283 thousand VAT liability, and the HUF 20,808 thousand mining annuity liability of the project companies engaged in geothermal heat generation.

Of the HUF 84,682 thousand items deferred to the next period HUF 55,453 thousand is associated with incomes, while HUF 29,229 thousand is the sum of the costs relating to the next period. HUF 5,687 thousand of the latter is made up of interests payable for the next period.

Of the amount of other short-term liabilities, a total of HUF 33,604 thousand is made up of liabilities relating to shares associated with the 2016-2019 share option program that have not been called (see section 37 Share-based benefits)

HUF 4,419 thousand of the other short-term liabilities is stated by the Company in liabilities stemming from the earlier conversion of shares into dematerialized securities, while another HUF 23,663 thousand is made up of grants received, reclassified from deferred incomes to short-term liabilities (but not yet recognized in the profit/loss), pursuant to the relevant authority's decision calling for refunding, regardless of the fact that the Company is seeking for legal remedy.

32. TAXATION, INCOME TAX

32.1 *Income tax payable for the reporting year*

	2018 HUF Th	2017 HUF Th
Tax liabilities for the reporting year	28,738	25,772
Effect of deferred taxes	61,788	95,235
Total	90,526	121,007

The group's tax corporate tax liability for the reporting year is calculated on the basis of the taxable income of each member according to the relevant domestic rules. As in the previous period a 9% corporate income tax rate is applied to each member of the PannErgy Group.

The local business tax payable to the municipal governments concerned is stated by the Company – in accordance with its accounting policy – not among the income tax items but as part of its other expenditures.

32.2 *Receivables from deferred taxes*

In the assessment of the deferred tax assets and liabilities the following amounts of receivables from deferred taxes were stated among the assets:

	2018	2017
	HUF Th	HUF Th
Amounts recovered from deferred losses	88,132	127,169
The difference stemming from depreciation according to the Accounting Act and the depreciation according to the Tax Act	804	-1,285
Tangible assets depreciation difference from consolidation	205,328	218,313
<i>Receivables from deferred taxes (gross)</i>	<i>294,264</i>	<i>344,197</i>
<i>Deferred tax liabilities (gross)</i>	<i>-65,077</i>	<i>-53,222</i>
Deferred tax to be recognized (net)	229,187	290,975
Deferred tax recognized in previous year	290,975	386,210
Deferred tax recognized/reversed	61,788	95,235
Receivables from deferred taxes as of 31 December	229,187	290,975

The deferred tax receivable of HUF 229,187 thousand stated among fixed assets comprises the 9% corporate income tax payable for the unused negative tax bases of the subsidiaries belonging to the PannErgy Group on the one hand, and on the other hand, for other deferred tax modifying items under the IFRS rules.

The deferred tax receivables stemming from accrued and deferred losses is based on the controlled deferred tax recovery of the subsidiaries concerned. The Company decided to apply a five-year period regarding accrued and deferred losses instead of the previously applied the-year period, in accordance with the IAS 12 standard recommendations, resulting in a HUF 20,576 thousand decrease in the amount of the deferred tax receivable.

The total gross amount of the deferred tax receivable is HUF 294,264 thousand. This is reduced by another HUF 65,077 thousand by the amount of the reporting year's deferred tax liability relating to the development reserves.

Since these deferred tax receivables and liabilities are to be settled with the same tax authority, their amounts are netted as prescribed by the IFRS, leaving HUF 229,187 thousand in the way of deferred tax receivable in the consolidated financial statements.

32.3 Calculation of the effective income tax

The difference between the expected income tax figures calculated by multiplying the individual pre-tax profit figures stated in the profit & loss accounts of the members of the PannErgy Group with the income tax rates applying to them, and the corporate income tax figures actually stated in the profit & loss accounts, is calculated as follows:

	2018	2017
	HUF Th	HUF Th
Profits before taxes (individual companies)	383,796	815,498
The tax payable on the basis of the member company's profit/loss at the applicable tax rate (9%)	34,542	74,712
Effects of different tax rates (minimum profit tax)	36,350	1,386
Tax implications of non-deductible expenditures, effects of differences in depreciation and other tax-decreasing items	-2,193	-2,535
Tax-free incomes	-	-
Tax allowances	-26,132	-21,102
Deferred tax liabilities assessed in the reporting year for any negative tax base not stated earlier	-13,829	-26,689
Tax liabilities for the reporting year	28,738	25,772
Write-off of tax receivables assessed earlier for negative tax bases	61,788	95,235
Income tax (as per the profit & loss account)	90,526	121,007

33. EARNINGS PER SHARE

	2018	2017
Net profit for the year attributable to the shareholders of the Company (HUF Th)	433,652	487,860
Number of shares issued less the number of treasury shares	18,412,018	17,679,017
Profit/loss per share (HUF)	23.55	27.60
Diluted profit/loss per share (HUF)	23.41	26.33

The reason for the difference between the profit/loss per share and the diluted profit/loss per share is that, when determining the diluted earnings per share, the Company also takes into account the number of shares not yet called-down/transferred involved in the share option program running in the reporting period as an item decreasing the volume of own shares provided that the conditions set out in the share option program for the call-down of options are satisfied at the time of the preparation of the consolidated financial report. Of the 900,000 shares involved in the share option program as many as 790,001 shares had been transferred after being called down as of 31 December 2018, therefore 109,999 shares were recognized as reducing the stock of own shares.

34. LIQUID ASSETS AND CASH EQUIVALENTS

The PannErgy Group had the following portfolio of liquid assets and cash equivalents as of 31 December 2017:

	31 December 2018 HUF Th	31 December 2017 HUF Th
Bank account and cash at hand	614,969	699,238
Separated, blocked cash	493,277	589,264
Cash and cash equivalents	1,108,246	1,288,502

Certain amounts in regard to which use for purposes other than the account holder's own business operations is subject to the financing institution's consent are stated in the bank account and cash at hand.

Those stated in the separated blocked cash are amounts on accounts managed by financial institutions, blocked as collaterals for loan repayment, not accessible for the borrowers.

35. TRADE PAYABLES

	31 December 2018 HUF Th	31 December 2017 HUF Th
Trade payables	1,177,750	899,575
Total	1,177,750	899,575

36. FINANCIAL INSTRUMENTS

The members of the PannErgy Group hold financial instruments of the following categories:

	31 December 2018 HUF Th	31 December 2017 HUF Th
Financial assets	2,021,722	2,207,287
<i>Financial assets available for sale (AFS)</i>	25	222,962
Long-term investments	-	22,935
Securities	25	200,027
<i>Loans and Receivables (LAR)</i>	1,922,602	1,771,241
Loans provided	3,143	3,405
Trade receivables	1,513,325	1,369,162
Other short term receivables, prepaid income taxes	406,134	398,674
<i>Financial instruments held to maturity (HTM)</i>	99,095	203,784

Long term financial receivables	99,095	203,784
<i>Financial instruments, Fair Value to Profit and Loss, (FVTPL)</i>	-	9,300
Derivative transactions	-	9,300
Financial liabilities	11,670,565	11,435,544
<i>Other financial liabilities</i>	11,669,297	11,435,544
Trade payables	1,177,750	899,575
Long-term credits	8,252,525	8,794,755
Short-term credits	1,674,932	1,207,634
Other financial liabilities	557,943	533,580
<i>Financial liabilities, Fair Value to Profit and Loss, (FVTPL)</i>	1,268	-
Derivative transactions – liabilities	1,268	-

The Company shows primarily the purchased debt securities and its participations in other companies among its marketable financial assets. The portfolio of marketable financial assets comprises participations of or below 50%, along with other participations that are not consolidated for other reasons. The Company's books show no investments at the end of the reporting period.

The Company shows purchased debt securities among the loans and receivables and, on account of their very nature, it is also here that it can show the trade receivables and the loans it has provided. Loans are recognized by the Company among the current assets. The value of loans and receivables are initially shown at fair value, and thereafter at amortized cost, in its IFRS consolidated financial statements, using the effective interest rate method.

The Company states its non-derivative financial assets with fixed or determinable payments, which it positively intends to keep, and is capable of keeping, until maturity, among its financial instruments held-to maturity. The Company shows its outstanding purchase price receivables associated with the sale of assets, entailing long term scheduled payments to be made by the Company, among its financial instruments to be held to maturity; the receivables are of the held to maturity status.

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

All other financial liabilities not carried at fair value through profit or loss – primarily trade payables, loan and credit liabilities, other short-term liabilities. – are recorded under other financial liabilities. Initially, trade payables are recognized at fair value, while subsequently they are measured at amortized cost that are defined with the effective interest method.

37. SHARE-BASED BENEFITS

At its regular General Meeting on 28 April 2016 the Company adopted a new set of terms and conditions for its share option program for the 2016-2019 period. The full details of the program – besides those specified below – are accessible on the Company's website.

Main terms and conditions of the share option program:

Those entitled to participate may acquire conditional call options for a total of 900,000 shares against the Company, subject to the conclusion of the relevant option contracts. The options are of the American type and can be exercised up to 30 April 2019; accruing when certain stock exchange price levels are reached, in several phases:

The option price equals to the turnover-weighted average exchange price during the 60 trading days preceding the day on which the Option becomes available for exercising (1 May 2016), i.e. will be 349.02 HUF/share.

If the stock exchange price exceeds the fixed 349.02 HUF/share option price by 15%, i.e. 402 HUF/share during the option program, the call option can be exercised for 300,000 shares,

If the stock exchange price exceeds the fixed 349.02 HUF/share price by 30% during the option program, i.e. it increases to 454 HUF/share, the call option will open for another tranche of 300,000 shares, that is altogether for 600,000 shares,

If the stock exchange price exceeds the fixed 349.02 HUF/share price by 45% during the above period, i.e. it increases to 506 HUF/share, the call option will open for another tranche of 300,000 shares, that is altogether for 900,000 shares, i.e. the total quantity stipulated in the share option program.

Evaluation of the share option program during the reporting period:

Each of the above three phases in which the option accrues were taken into account in the calculation of the fair value of the share option program as of 31 December 2018. In accordance with the market conditions taken into account in determining the fair value, applying the Black-Scholes formula (the closing share price as of 31 December 2018 is 758 HUF/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 33,604 thousand, stated by the Company as other short term liability against the capital reserve as of 31 December 2018. The reason for recognition against the capital is that the program is exclusively share-based, and the conditions stipulated for the call-down of the options were fully met during the reporting period, therefore the Company's own shares to be transferred from the Company under the program after 31 December 2018 will reduce the capital reserve.

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.

38. IMPAIRMENTS

IAS 36 impairments booked by the PannErgy Group during the reporting period:

2018	HUF Th			
	Impairments, opening balance	Impairment provisioning	Impairment reversal	Impairments, closing balance
Tangible assets	-	-	-	-
Investments	-	-	-	-
Long-term receivables	-	-	-	-
Inventories	-	-	-	-
Trade receivables	7,167	78	1,613	5,632
Other receivables	-	-	-	-
Securities	-	-	-	-
Total impairment	7,167	78	1,613	5,632

Impairment provisioning and reversal were recognized during the reporting period only in regard to trade receivables. No impairment provisioning or reversal was booked among inventories and tangible assets. The only movement in these assets during the reporting period included scrapping and extraordinary depreciation.

39. OFF-BALANCE SHEET LIABILITIES AND COMMITMENTS

39.1 Contractual and investment obligations

The Company had a contractual investment-related obligation in an amount of HUF 812,000 thousand regarding the area of the town of Győr, as of as of 31 December 2018. The Minister for National Development, in his capacity as minister in charge of mining, announced a public tender concerning certain closed areas in the territory of Hungary for exploration, extraction and utilization of geothermal energy under a concession contract, in accordance with Act CXCVI of 2011 on National Assets, Act XVI of 1991 on Concessions and Act XLVIII of 1993 on Mining, on behalf of the Hungarian State. PannErgy Geotermikus Erőművek CPlc a subsidiary of PannErgy Plc., was announced winner of the concession tender pertaining to the area of Győr. Accordingly, PannErgy Geotermikus Erőművek CPlc. concluded a concession contract 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 (which may be extended once, by 17.5 years). PannErgy Koncessziós Ltd., a concession company established in the context of this project in 2017 by PannErgy Geotermikus Erőművek CPlc., explored during the reporting period, in exercise of the rights acquired under the concession contract, the region's geothermal resources at a depth below 2,500 meters, and thereafter it decided to bore another geothermal well. The drilling took place in 2018, during which the investment value of the new well was calculated to be

HUF 1,068,432 thousand, exceeding the contractual investment commitment for an amount of HUF 812,000 thousand.

In terms of its legal and accounting qualification of the project, implemented under, and in accordance with the terms and conditions of, the concession contract, is in line with the IFRIC 12 interpretation, therefore the investment implemented so far in the context of the project is recognized in the category of fixed assets as a financial asset in the consolidated statement of financial position, where the presented amount is adequate, i.e. it is covered by the value of the discounted cash-flows expected for the 35-year term of the concession contract, in proportion to the degree of completion of the investment project.

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, for which it was provided with a non-repayable grant of HUF 500,000 thousand, in addition to which it may access a soft loan of HUF 250,000 thousand under the application scheme facility. In association with its application the Company assumed a contractual investment commitment in an amount of HUF 1,250,000 thousand, the bulk of which was implemented during the reporting period.

39.2 Commitments relating to asset management transactions

In concluding asset management type transactions (sale and purchase of shares and other assets) the Company provides reasonable guarantees to secure the economic contents of the transactions. To the best of its knowledge the Company’s management expect no obligation to perform significant tasks under the guarantees provided.

39.3 Other contingent liabilities

39.3.1. Assets relating to funding by financial institutions, restriction of titles

Collaterals of various types (pledge, guarantee) were provided to the financial institutions contributing to the funding of operations under external financing agreements – of HUF 3,878,144 thousand and EUR 18,005 thousand – concluded by members of the PannErgy Group during the reporting period. The amount of principal debt under the financing agreements has been decreasing gradually through repayments therefore the amounts of the associated contingent liabilities have dropped below the amounts specified in the contracts.

39.3.2. Contingent commitments relating to application schemes

Pursuant to Government Decree 358/2014 (XII. 29) and other related legislation since 1 January 2015 beneficiaries with at least one full closed business year, listed in the NTCA’s register of taxpayers free of tax debt obligations are no longer obliged to provide guarantees in relation to funds received from the European Regional Development Fund or the European Social Fund. Accordingly, with a single exception the PannErgy Group is relieved from the obligation to provide such guarantees in relation to applications. In relation to the grant received under the *PIAC_13 market-oriented research and development activity* application scheme PannErgy Geotermikus Erőművek CPlc. provided guarantee in an amount of HUF 442,000 thousand, which is in place during the project maintenance period.

39.3.3. Other contingent commitments (joint and several guarantee)

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

PannErgy Geotermikus Erőművek CPlc. provided joint and several guarantee to the buyer – in relation to the sale of a reinjection well in 2015 and the sale of the contractual rights pertaining to the reinjection service – to secure the payment of the expected revenues from the reinjection service and compensation for unrealized revenues in case the scale of the reinjection service in the ordinary course of business falls short of the parameters specified in the contract.

39.3.4. Lease transactions

The minimum aggregated amounts payable in the future under non-cancellable operating lease agreements are shown in the following table in a breakdown by maturity:

	31 December 2018 HUF Th	31 December 2017 HUF Th
Within 1 year	17,779	24,552
Over 1 year but within 5 years	32,599	20,019
Over 5 years	-	-
Total	50,378	44,571

The total amount payable under operating lease contracts increased during the reporting year as a result of the contract of certain other types of equipment, machines and vehicles covered by operating lease financing.

The Company carried out an assessment of the details of its lease contracts in connection with the introduction from 1 January 2019 of the IFRS 16 Leases standard and found that the above lease fees cover no acquired valuable rights, i.e. they are lease liabilities relating solely to lease fee payments.

No assets are rented or leased from the Company under lease type arrangements on account of which the IFRS 16 provisions would be applicable.

40. FINANCIAL RISK MANAGEMENT**40.1 Financial risk factors**

The PannErgy Group is exposed to the following types of financial risks through its operations: market risk including exchange rate risk, price risk, fair value interest risk, cash flow interest risk, lending risk and liquidity risk.

40.2 Market risk**40.2.1. Exchange rate risk**

Some of the Company's operations involve foreign currencies and it issues its invoices in EUR as stipulated in the relevant agreements. Part of the Company's liabilities are denominated in EUR, most of them stemming from EUR-based long term investment loans taken out for the implementation of geothermal projects, and many of its foreign and domestic suppliers also issue invoices in EUR. Such assets and liabilities involving settlements in foreign currencies entail risks resulting from fluctuations in currency rates – particularly the EUR rates – which the PannErgy Group uses its best efforts to mitigate, primarily by maximizing the coverage of its EUR loan debt liabilities by the above mentioned EUR-based revenues.

The Company concluded multiple FX forward transactions to hedge the risk of exchange rate losses on the settlement of its future trade payables to be incurred in foreign currencies. These transactions were not cash-flow hedge transactions; the gains and losses on such transactions during the reporting year appear in the financial incomes and financial expenditures categories in its consolidated financial statements.

In view of the PannErgy Group's foreign exchange receivables and liabilities, and assuming a 10% increase/decrease relative to the 31 December 2018 rate of the HUF, the functional currency, the positive/negative effects on the profit are presented in the table below:

Description	EUR		USD	
	2018	2017	2018	2017
Resulting change in profit/loss in HUF Th	664,283	662,686	-	-

Details of EUR-based items (change in HUF Th):

	EUR amount, 2018	Change in profit as a result of 10% change in exchange rate	EUR amount, 2017	Change in profit as a result of 10% change in exchange rate
Long-term receivable	-	-	-	-
Short-term receivables	794,203	25,534	797,408	24,731
Trade payables	1,051,833	33,817	395,128	12,255
Other liabilities	-	-	-	-
FX credits	18,815,317	604,931	20,174,754	625,700
Total		664,283		662,686

40.2.2. Price risk

The Company runs no risks relating to exchange traded commodities or financial instruments. Mention should be made here, however, despite it being essentially a regulatory risk, of the fact that the selling price of the bulk of the geothermal heat sold by the PannErgy Group's members engaged in generating

and selling geothermal heat is a regulated price, which is reviewed and in some cases modified annually by the competent authority, that is, the Hungarian Energy and Public Utility Regulation Authority (HEA). This may influence the PannErgy Group's profitability through the future selling prices.

40.2.3. *Cash flow and fair value interest risk*

The interest rate risk facing the PannErgy Group results primarily from its long term investment loans. Owing to the variable interest rates applying to its loans the Company is exposed to a cash-flow interest rate risk which is only partly offset by variable-rate financial assets, therefore the Company faces a fair value interest rate risk stemming from its fixed-rate loans.

The Company's long-term FX loan portfolio was worth HUF 5,788,889 thousand (EUR 18,005,000) at the end of 2018, while its forint loan portfolio amounted to HUF 3,697,319 thousand, down from the HUF 6,256,998 thousand (EUR 20,175,000) worth of FX loan portfolio and the HUF 3,697,319 thousand forint loan portfolio stated at end-2017. The interest rates applying to the FX loans are typically based on the 3M EURIBOR, while the interest rates on the HUF loans are based either on the 1M or the 3M BUBOR. A 2.5% rate applies to the loans borrowed under the Funding for Growth Scheme operated by the National Bank of Hungary.

The PannErgy Group applies a dynamic analysis to its exchange rate risk exposure, through simulating a series of different financial models, factoring in refinancing, the renewal of existing positions and the involvement of alternative funding sources. It is these scenarios on the basis of which the Company calculates the responses of its profit to from changes in the applicable specific interest. The Company uses the same movements in the interest rates applying to each of the relevant currencies in its various models. Models are worked out only for the liabilities involving the largest interest bearing positions.

To mitigate the interest rate risk entailed by its investment loans the Company has replaced the interest bases applying to its 3M EURIBOR and 3M BUBOR based variable-rate loans with fixed interest rates for the entire remaining term of each loan via interest rate swap (IRS) transactions, taking advantage of the current highly favorable interest rate environment.

The interest rates fixed under the above transactions will remain unchanged even if market rates should increase in the future, therefore no such risk will be borne by the Company. The results of the interest rate swap transactions during the reporting period are shown in the financial incomes or the financial expenditures, as the case may be.

The Company's interest sensitivity is characterized by the fact that a 1% increase in interest rates would have resulted in a HUF 96,670 thousand increase in the Group's profit at the end of 2018, in contrast to the additional cost of HUF 99,543 thousand that would have been recorded at end-2017, assuming an unchanged portfolio of principal debt relative to the cut-off date of the reporting period and that of the basis period. A 1% decrease in the interest rates would entail the opposite effect. Through its interest swap transactions however, replacing the variable interests on the investment loans with fixed rates, the Company eliminated this interest rate risk.

40.3 *Lending risk*

The lending risk is a financial risk of loss from potential non-performance of any contractual obligation by any of the Company's buyers, primarily in the form of failure to settle invoices. It should be noted in

particular that the Company sells its products and services to a handful of customers, resulting in a limited degree of diversification.

Lending risk management is a group function. It is a responsibility for the members of the PannErgy Group to analyze and manage lending risks relating to their new customers before working out and offering terms and conditions of payment and delivery as befits their normal of business operations.

The lending risks faced by the PannErgy Group stem from liquid assets and cash equivalents, the bank deposits and security deposits placed with financial institutions as well as the exposure to buyers through the sale of energy, including receivables and transactions under which the Company assumes commitments.

Customers are rated on the basis of their creditworthiness and their credit limits are determined on the basis of their financial positions, financial data, historical performance and other factors, by the PannErgy Group's Finance and Treasury group. The Company monitors draw-downs from the credit limits. Its customers always pay for their purchases by bank transfers. No credit limit was exceeded during the reporting period, and management does not expect losses from default on the part of the partners concerned.

Buyers' debts (trade receivables) are assessed at the end of the year and actions are taken, as necessary, regarding each buyer individually. The trade receivables are shown, in a breakdown by time past due, in the following table:

	HUF Th					
Total	Before due date	1-90 days past due	91-180 days past due	181-360 days past due	over 360 days past due	
Trade receivables	1,513,325	1,354,660	135,805	22,860	-	-

Items before due date are trade receivables whose due date – specified in the invoice or in the payment agreement – is beyond the cut-off date of the statement of financial position. Among past due items the 1-90 days past due category includes items whose due date for payment has passed by not more than 90 days, and the same principle applies to the other past due categories as well. The due date is always the date specified for payment in the invoice concerned. These are checked in the light of the statement's cut-off date and the buyer concerned, together with the liability, is assigned to the past due category depending on the number of days by which the due date had passed by the cut-off date.

PannErgy Group's liquid assets as of 31. December 2018 are presented in relation to the lending risk in a breakdown by time to maturity:

31.12.2018							HUF Th
Conditions	Weighted average interest rate	<1 month	1-3 months	3-12 months	1-5 years	>5 years	Total
Non-interest earning or sight	-	1,108,246	-	-	-	-	1,108,246
Variable rate	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-	-
Total		1,108,246	-	-	-	-	1,108,246

31.12.2017							HUF Th
Conditions	Weighted average interest rate	<1 month	1-3 months	3-12 months	1-5 years	>5 years	Total
Non-interest earning or sight	-	1,288,502	-	-	-	-	1,288,502
Variable rate	-	-	-	-	-	-	-
Fixed rate	-	-	-	-	-	-	-
Total		1,288,502	-	-	-	-	1,288,502

40.4 Liquidity risk

Liquidity risk is the risk of the company's incapacity to settle its financial liabilities upon their respective due dates. The purpose of liquidity management is to ensure that sufficient funds are available to settle liabilities when they fall due. The Company's approach to liquidity management is aimed at providing sufficient liquidity, to the extent possible, for the settlement of liabilities on their respective due dates in both regular and tight conditions without incurring unacceptable losses or putting its reputation at risk. Adequate liquidity is maintained by adjusting the terms of the funding sources to the lifecycles of its projects. Cash-flow forecasts are worked out by the PannErgy Group's Finance and Treasury group, besides the monitoring of rolling forecasts regarding the satisfaction of the Group's liquidity requirements, in order to maintain a portfolio of liquid assets as required for the Group's operations, while keeping up sufficient manoeuvring room concerning the available credit limits to ensure that the Company does not exceed any of its limits and can deliver the debt required servicing ratios to the financial institutions concerned. The cash-flow forecasts that are based on the financial settlement of trade payables, loan repayments as well as contractual and other incomes are worked out in view of the PannErgy Group's financial plans, the need to maintain the ratios stipulated in contracts as well as all relevant regulatory and statutory regulations.

The financial liabilities in a breakdown by time to due date:

31.12.2018	HUF Th					
	Amount	0-6 months	6-12 months	1-2 years	3-5 years	over 5 years
Non-derivative financial liabilities						
Loans	9,667,034	884,058	530,451	1,149,819	5,804,196	1,298,510
Trade payables	1,177,750	1,141,367	-	996	17,657	17,730
Other financial liabilities (apart from forward transactions)	557,943	557,943	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	-
Forward transactions	1,268	1,268	-	-	-	-

The above table is a collection of the amortized costs of the Company's financial liabilities in terms of their nearest possible maturity dates.

Besides trade payables other short-term liabilities appear in the cash-flow forecasts with due dates corresponding to their respective types: taxes and contributions and other liabilities relating to salaries and wages are settled within 30 days, while other liabilities are settled on the dates specified in the underlying contracts or other documents, but not beyond one year.

40.5 Capital management

The Company's purpose in the management of its capital structure is to maintain continuous operability in order to generate profits for its shareholders and other stakeholder groups as well as to minimize the costs of capital through optimized capital structure. To ensure that adequate capital structure is maintained, and/or adjusted as appropriate, the Company's management makes decisions or proposals concerning the amount of dividends to be paid, or capital repayments to be made, to the shareholders. In certain cases – and with the support of the General Meeting – the management may, also in the context of capital management, make decisions on issuing new shares or selling assets. The management affirms that the Company meets the applicable statutory capital requirements, based on its assessment as stipulated by the provisions laid down in Act V of 2013 on the Civil Code. Data on the equity and its ratio to the subscribed capital are presented in the following table: The positive amount of the equity was significantly larger than the subscribed capital in both the reporting period and the preceding period.

	31 December 2018 HUF Th	31 December 2017 HUF Th
Subscribed capital	421,093	421,093
Total equity capital	9,879,966	9,024,383
Equity / Subscribed capital	23.46	21.43

40.6 *Offsetting of financial assets and financial liabilities*

In the case of financial assets and liabilities that are subject to a mandatory offsetting arrangement or a similar agreement the agreement between the Company and the other party permit offsetting of the given financial assets and liabilities only if both parties opt for this type of clearing. No such agreement or decision is in place in the PannErgy Group, therefore financial assets and liabilities are cleared and settled in terms of gross amounts.

40.7 *Regulatory risk*

In discussing the general regulatory risks it needs to be noted in particular that the selling price of the bulk of the heat sold by certain project companies engaged in heat generation and sale is subject to regulatory pricing, which is regularly reviewed and even adjusted by the pricing authority, thereby limiting the Company's profitability, resulting in considerable uncertainty concerning future selling prices.

40.8 *Technological risk*

Geothermal energy production entails unforeseeable risks, stemming from the unpredictable availability of the geothermal energy resources as well as the tolerance of the equipment used, to the unconventional operational environment.

41. PARTICIPATIONS**41.1 Consolidated subsidiaries**

The Company's consolidated subsidiaries and the respective shareholdings:

	Share capital (HUF Mn)	Share- holding (%)	Voting rights %	Consolidated ratio
PannErgy Geotermikus Erőművek CPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Mélyfúró Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energia Ltd.	24.10	100.00	100.00	100.00
TT Geotermia CPlc.	6.00	100.00	100.00	100.00
Szentlőrinci Geotermia CPlc.	5.00	100.00	100.00	100.00
Miskolci Geotermia CPlc.	5.00	90.00	90.00	90.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Arrabona Geotermia CPlc.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	90.00	90.00	90.00
PannErgy Koncessziós Ltd.	3.00	100.00	100.00	100.00

The ratios presented above show the respective shares of ownership and voting rights of PannErgy Plc. and PannErgy Geotermikus Erőművek CPlc. in the various subsidiaries. The consolidated ratios are the same as the respective shares of ownership.

41.2 Changes affecting investments and participations during the reporting year

PannErgy Geotermikus Erőművek CPlc. acquired a 0.2% minority interest in Szentlőrinc Geotermia CPlc. for a purchase price of HUF 1,000 thousand during the period concerned, on the basis of the relevant share sale and purchase contract of 22 March 2018. The IFRS value of the minority interest purchased under the above transaction was HUF 50 thousand, the other HUF 950 thousand was thus stated as 'goodwill' in the consolidated financial statements.

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 1,000 thousand. The capital increase raised the share capital of the consolidated subsidiary TT-Geotermia CPlc. from HUF 5,000 thousand to HUF to HUF 6,000 thousand, 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, the two equaling 100%.

42. SEGMENTS REPORT

42.1 *Definition and identification of the segments of operation*

In accordance with the applicable IFRS rules the Company must describe the segments in which it operates. Accordingly, the PannErgy Group presented the following two operating segments for the basis period: Energy and Asset management. The Energy industry is the Company's main operating segment, its core operations including the generation and sale of geothermal heat as well as the implementation of related investment projects and other activities. During the basis period the PannErgy Group defined the operating segment of Asset management to include the utilization, as the legal successor of Pannonplast Plc, of the real estate, the industrial facilities and connected office premises formerly used by Pannonplast Plc' in its plastics manufacturing operations, located in District XXI of Budapest (Csepel) and in Debrecen, which meant primarily the re-invoicing of electricity and other public utility fees, and to a smaller extent the collection of office rent; furthermore, it included costs incurred in the course of the management and governance of the group as a financial holding company and issuer at the stock exchange.

In the course of preparing its IFRS consolidated financial statements for the previous year, the Company reviewed its compliance with *IFRS 8 Operating segments* in the aforementioned two segments and its obligation regarding the presentation of the segments. During the review of the definition of operating segments, it was established that **the PannErgy Group has one identifiable segment, that of Energy, while based on the requirements of IFRS 8 Operating Segments**, particularly, the management approaches to segments and the criteria for the presentation of operating segments, **the Company will not identify as a segment the area defined previously as Asset Management.**

This is in line with the fact that the asset management activity which was identified as a segment besides the Energy segment in the Company's earlier financial statements, did not make up a complete self-sufficient component even in such earlier financial statements. Instead, it appeared more like an integrated supplementary function. Moreover, the Company performs its activities exclusively in the territory of Hungary in a similar legal, technical, economic and demographic environment everywhere, which would not justify a geographical segmentation either, and the Company intends to sell the real property on which its asset management activity is based.

In view of the principles detailed in section 3.29 *Segment reports* hereof the Company affirms that Energy as an operating segment can be clearly identified in the case of the PannErgy Group. As regards the operation of the PannErgy Group, the management of the Company has adopted the approach to focus all its resources, in line with the expectations of investors, on maximizing the efficiency of the Energy segment; the utilization of real property owned by the Company is in all respects an insignificant element in its operation and, based on the management's approach, cannot be considered to constitute an operating segment.

42.2 *examination of limits regarding the identification of the operating segments*

In the year preceding the reporting year, the segment presented as the Asset management operating segment was not a central element in the strategy of the PannErgy Group; the assessment of the performance of the utilization of the aforesaid properties is a negligible part of the work of the operative management and supreme bodies of the Company; information regarding the utilization of

properties is not specifically highlighted in the relevant internal control and reporting system; as these transactions entail constant income (re-invoiced utility charges and rent) and costs (utility charges), the overwhelming majority of the activity consists in pass-through items.

Based on the approach of PannErgy Group's management and the criteria pertaining to the presentation of operating segments, the single operating segment of Energy can be identified at the Company; consequently, the examination of the criteria applicable to reportable segments is irrelevant; nevertheless, the Company has looked at the satisfaction of such limits.

The sales revenue from the utilization of the properties in Csepel, that is the 21st district of Budapest, and in the town of Debrecen, amounted to HUF 526,783 thousand during the reporting period, equaling 11% of the PannErgy Group's sales revenue during the same period. Since a significant part of this amount is transferred on by the Company, in the way of public utility fees (electricity, in particular) relating to the properties, being re-invoiced to the tenants, the profit element of the public utility fees relating to the utilization of the properties, that are re-invoiced to tenants provides a more accurate picture of the proportion of the real property utilization business within the sales revenue of the PannErgy Group: it amounted to HUF 39,594 thousand, or 0.85% of the total sales revenue during the business year concerned. The sales revenue booked in the reporting year from the real property utilization activity amounted to HUF 24,178 thousand, or a mere 0.5% of the total sales revenue of the PannErgy Group during the year.

It is concluded from the above that the Company falls short of the IFRS 8 quantitative limit concerning segments, and it can also be added that it will not reach the limit in the future either, because of the prospective expansion of the Energy segment.

Ultimately, the Company has one operating segment, that is, the Energy segment.

Consequently, the Company has to fulfil disclosure obligations covering the whole of the business entity.

In the case of the Company this means that the reporting year's and the basis year's data of the Energy segment are the same as the financial information pertaining to the entirety of the business entity, which are adequately presented herein.

42.3 Geographical segments

Within Energy, the single operating segment defined within the Company, geographical/project location segments were identified in the reporting period based on the order of magnitude of both sales revenue and fixed assets. In addition to assessing financing and other aspects the Company examines the profitability of these separately, working out specific plans concerning their operation.



Profit/loss data by geographical segment (HUF Th):

	Győr	Miskolc	Holding management, other project, activities	Total
Revenue from sales	2,215,905	1,670,456	792,735	4,679,096
<i>Revenue from sales between segments</i>	0	0	0	0
Direct cost of sales	1,587,500	1,361,613	776,595	3,725,708
Gross margin	628,405	308,843	16,140	953,388
Gross margin ratio %	28.4%	18.5%	2.0%	20.4%
Indirect costs of sales	69,829	75,694	310,337	455,860
Other incomes	121,179	220,262	276,356	617,797
Other expenditures	72,272	90,713	46,213	209,197
Operating profit	607,483	362,698	-64,054	906,128
Operating profit rate %	27.4%	21.7%	-8.1%	19.4%
<i>Direct depreciation</i>	732,518	470,102	114,166	1,316,786
<i>Indirect depreciation</i>	97	97	26	220
Total depreciation	732,615	470,199	114,193	1,317,007
Extraordinary depreciation	-	-	7,978	7,978
EBITDA	1,340,098	832,897	58,118	2,231,113
EBITDA rate %	60.5%	49.9%	7.3%	47.7%
Financial profit	-295,047	-152,604	66,685	-380,966
Profit before taxes	312,436	210,094	2,632	525,162
Income tax	8,654	3,469	78,403	90,526
Net profit for the year	303,782	206,625	-75,771	434,636

Main financial position data by geographical segment (HUF Th):

	Győr	Miskolc	Holding management, other project, activities	Total
Intangible assets	75,868	44,050	647,964	767,882
Goodwill	264,418	219,544	34,526	518,487
Tangible assets	8,843,428	8,248,671	2,594,331	19,686,430
Marketable properties	-	-	410,594	410,594
Financial assets, production well established under a concession project	1,068,432	-	-	1,068,432
Long-term receivables	-	-	99,095	99,095
Trade receivables	451,426	600,472	461,427	1,513,325
Liquid assets	928,429	117,312	68,651	1,114,393

	Győr	Miskolc	Holding management, other project, activities	Total
Long-term loans, leases	5,208,211	2,768,519	275,795	8,252,525
Other long-term deferred incomes	1,518,955	2,039,719	426,644	3,985,318
Provision	0	18,449	0	18,449
Trade payables	270,746	224,672	682,333	1,177,750
Short-term credits	0	0	260,423	260,423
Short-term part of long-term credits	712,818	561,476	140,215	1,414,509

43. EXPLANATION FOR RECLASSIFICATIONS RELATIVE TO BASIS PERIOD REPORT

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

44. TRANSACTIONS WITH AFFILIATED PARTIES

The effects of settlements and transactions between all consolidated subsidiaries belonging to PannErgy Plc. were eliminated by consolidation.

44.1 *Transactions with members of the Company's management*

The members of the Group's management are minority shareholders of an enterprise that provides regular business management consultancy type services and long-term rental car type services for PannErgy Plc. – for HUF 74,296 thousand in 2018, from this total the business management consultancy services incurred in HUF 45,874 thousand, and the long-term rental car type services amounted to HUF 28,422 thousand during the reporting period.

In addition, enterprises associated with the Group's management provides the Company with a short-term credit in HUF 260,423 thousand during the reviewed period, these loans received presented as short-term credits in the consolidated financial statements.

44.2 Transactions with affiliated parties

The following items relating to transactions with the following affiliated but not consolidated parties appeared in the PannErgy Group's 2018 consolidated financial statements:

Data of transactions with affiliated but not consolidated parties	2018 HUF Th	2017 HUF Th
Products sold to, services provided for, affiliated but not consolidated parties	-	-
Products, services purchased from affiliated but not consolidated parties	74,296	30,068
- <i>Of which from affiliated but not consolidated subsidiaries</i>	-	-
- <i>Of which from enterprises in which members of the Group's management have shareholdings</i>	74,296	30,068
Receivables from affiliated but not consolidated parties	-	-
Liabilities to affiliated but not consolidated parties	275,791	29,481
- <i>Of which to affiliated but not consolidated subsidiaries</i>	0	26,969
- <i>Of which to enterprises in which members of the Group's management have shareholdings</i>	275,791	2,512

The items in the above table that are related to affiliated but not consolidated subsidiaries are related to the PannErgy Group's German subsidiary called Pannunion Service GmbH, until its termination. During the period under review the PannErgy Group did not use services provided by this subsidiary.

44.3 Loans provided for affiliated parties

The PannErgy Group provided no loans to affiliated but not consolidated parties in 2018 or 2017. No loans were disbursed for management either.

44.4 Changes in intra-group consolidated / eliminated transactions and portfolios

Elimination of profit & loss account items:	2018 HUF Th	2017 HUF Th
Revenue from sales	3,234,213	1,863,050
Direct cost of sales	2,893,288	1,574,511
Indirect cost of sales	90,252	90,326
Other incomes	11,831	379,021
Other expenditures	9,417	218,511
Financial profit/loss	286,499	-239,102

Elimination of statement of financial position items:	2018	2017
	HUF Th	HUF Th
Tangible assets	2,143,179	2,171,255
Intangible assets	142,712	182,564
Next period's items among other receivables	769,125	437,299
Other receivables, short term loans	11,759,245	10,101,536
Long-term loans granted	5,433,997	5,647,620
Long-term liabilities	6,889,435	7,088,390
Next period's items among other liabilities	769,125	437,299
Other short-term liabilities	10,303,808	8,660,766

44.5 Management's compensation

	2018	2017
	HUF Th	HUF Th
Short-term employee benefits	13,500	14,480
Other long term benefit, severance pays	-	-
Share-based payments	-	-
Total	13,500	14,480

By its General Meeting Resolution No. 6/2018. (IV.27.) the Company set the remuneration of the Chairman of the Board of Directors at 195 thousand HUF/month, while that of the other members of the BoD at 155 thousand HUF/month, from 28 April 2018.

45. EVENT AFTER THE CUT-OFF DATE OF THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

References to events that occurred after the cut-off date of the consolidated financial statements are presented in the following table: Based on the references the complete information is accessible at the Company's official places of disclosure.

Date	Type of news	Subject, brief content
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
28 February 2019	Extraordinary information	Treasury share transaction
28 February 2019	Other information	Number of voting rights at 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	Number of voting rights at 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	Extraordinary information	Treasury share transaction

46. DATE OF AUTHORIZATION OF DISCLOSURE

The Company's Board approved the financial statements and authorized their disclosure on 19 March 2019.

Dénes Gyimóthy
Representing the Board of Directors





**PannErgy Plc.
Business and Management
Report
2018**

Based on the PannErgy Group's IFRS
consolidated financial statements

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.



1. EXECUTIVE 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.

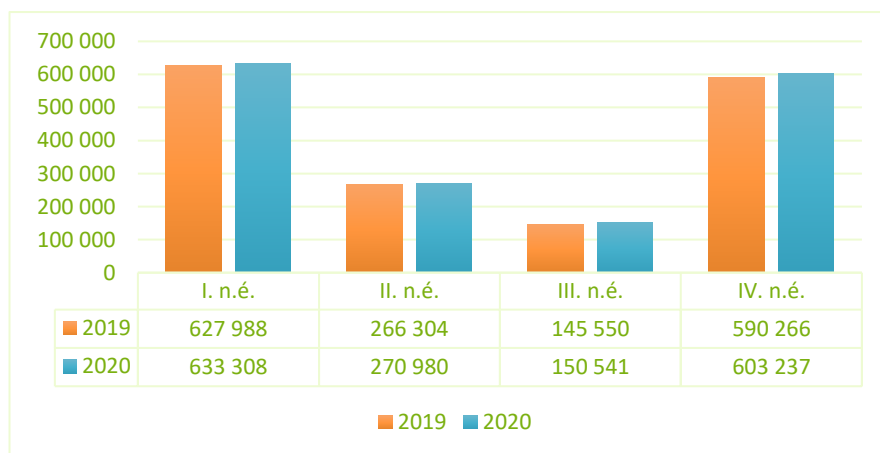
The Company's EBITDA amounted to HUF 2,231 million during the reporting period with a 48% EBITDA rate, nearly the same as the previous year's HUF 2,241 million EBITDA figure and also 48% EBITDA rate. This EBITDA level during the reporting period was largely up to the Company's EBITDA plans and the reporting 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):

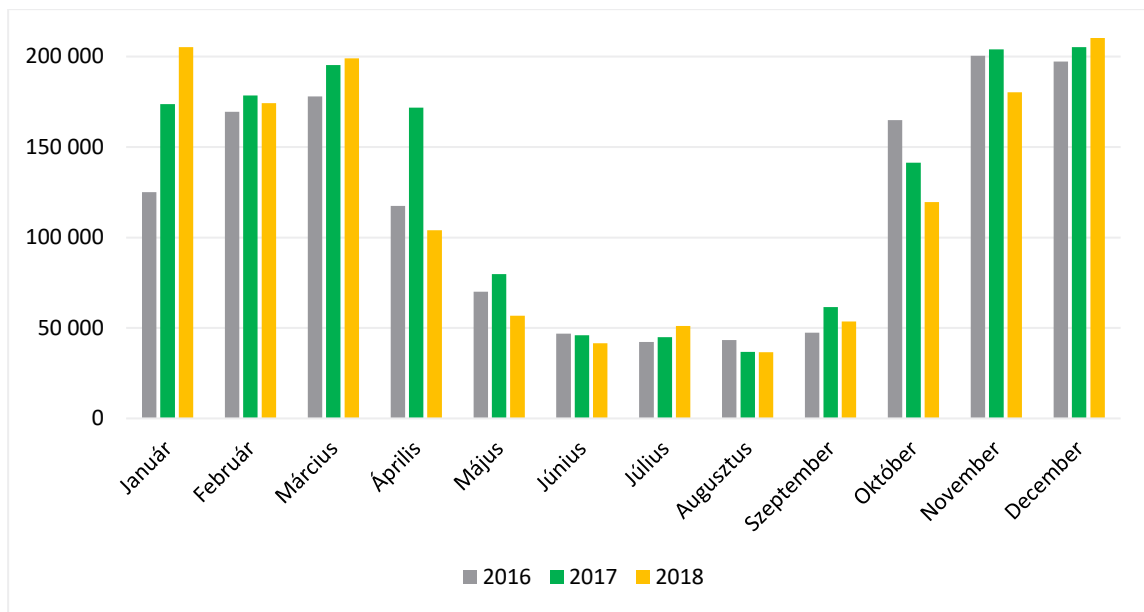


Figure 1
Consolidated quantity of heat sold, in GJ

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.

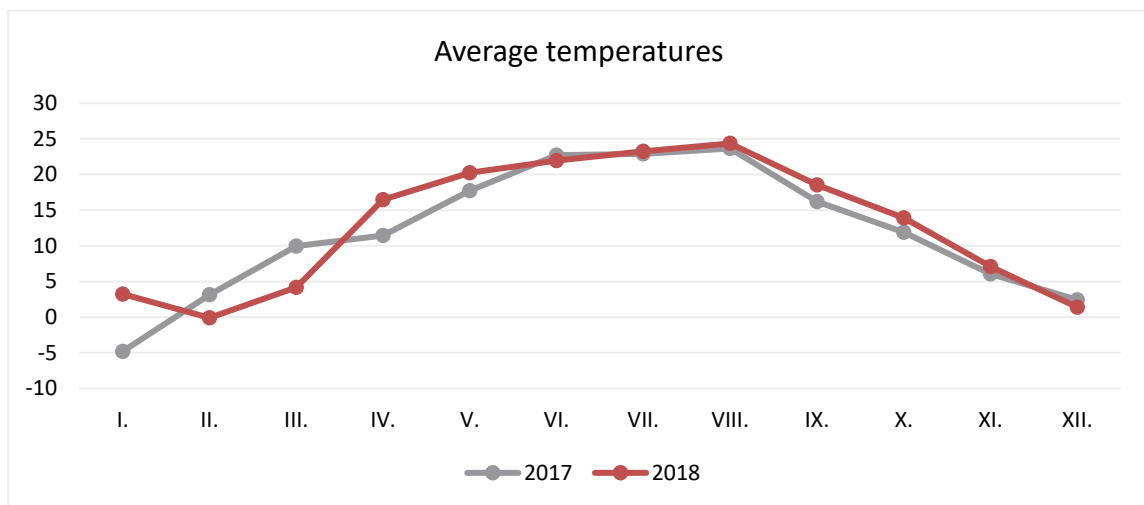


Figure 3

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 1,000 thousand. 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 500,000 thousand, in addition to which it may access a soft loan of HUF 250,000 thousand 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.

The consolidated statement of financial position in the reporting period shows HUF 249,977 thousand in the way of other short-term liabilities, as the advance grant received in the reporting period, together with HUF 124,989 thousand in the way of long-term credit liability, as a soft loan disbursed in connection with the grant.

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 25,022,736 thousand as total assets and total liabilities (balance sheet total) and HUF 487,860 thousand 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 433,652 thousand, and the Board proposes to the General Meeting that no dividend should be paid, similarly to 2017.

2. PANNERGY GROUP'S PROFIT OR LOSS IN 2018, KEY RATIOS OF ITS BUSINESS OPERATIONS

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.

Key profit/loss figures (HUF Th)	2018	2017
Revenue from sales	4,679,096	4,699,211
Direct costs of sales	-3,725,708	-3,820,691
Gross margin	953,388	878,520
<i>Gross margin ratio %</i>	<i>20.4 %</i>	<i>18.7 %</i>
Gross cash-flow	2,270,174	2,177,248
<i>Gross cash flow rate %</i>	<i>48.5 %</i>	<i>46.3 %</i>
Indirect costs of sales	-455,860	-492,336
Other incomes	617,797	748,216
Other expenditures	-209,197	-211,410
Operating profit (EBIT)	906,128	922,990
<i>Operating profit rate %</i>	<i>19.4 %</i>	<i>19.6 %</i>
EBITDA	2,231,113	2,241,182
<i>EBITDA rate %</i>	<i>47.7 %</i>	<i>47.7 %</i>
Financial profit	-380,966	-297,453
Profit before taxes	525,162	625,537
Consolidated net profit for the reporting year, attributable to the Company's shareholders	433,652	487,860
Return on Equity, % (ROE)	4.40 %	5.41 %
Return on Sales, % (ROS)	9.27 %	10.38 %
Earnings per share (EPS) HUF	23.55	27.60



The diluted earnings per share amounted to HUF 23.41, the reason for the difference is that, when determining the diluted earnings per share the Company also takes into account the number of shares not yet called-down/transferred involved in the share option program running in the reporting period as an item decreasing the volume of own shares.

Detailed description of the Company's business operations in 2018:

The PannErgy Group recorded HUF 4,679,096 thousand in the way of consolidated sales revenue in 2018, nearly the same as – 0.4% below – the corresponding amount of HUF 4,699,211 thousand stated for 2017. The drop in the sales revenue was caused primarily by a 7% decrease in the consolidated amount of heat sold as a result of the unfavorable weather conditions during the reporting period, whose negative impact was only partly offset by the higher regulated selling prices applied from 1 October 2018.

HUF 3,948,334 thousand of the total sales revenue of HUF 4,679,096 thousand came from the sale of heat, 2% below the HUF 4,024,233 thousand booked for the corresponding period of the previous year. The bulk of the rest of the sales revenue was generated by services – primarily power supply – mediated and re-invoiced to third parties as part of the asset management activity.

The Győr Geothermal Project contributed HUF 2,215,905 thousand to the economic output of the PannErgy Group in 2018, to be compared with the HUF 2,094,376 thousand recorded for the previous year, of which sales by Arrabona Geotermia Ltd. to Győr-Szol CPlc. amounted to HUF 1,182,384 thousand, while the sales by DD Energy Ltd. to Audi Hungaria CPlc. amounted to HUF 1,031,497 thousand. The sales by the Miskolc Geothermal Project to heat consumer partners amounted to HUF 1,654,614 thousand, significantly below the previous year's HUF 1,848,036 thousand. Of the reporting year's figure, the sales to MIHŐ Miskolci Hőszolgáltató Ltd. amounted to HUF 1,598,166 thousand.

The sales revenue figures of the two smaller projects of the Company (Berekfürdő and Szentlőrinc) also decreased in comparison with the previous period. The decrease was smaller in the case of Szentlőrinc, where HUF 72,209 thousand was earned from the sale of heat in 2018, down from the previous year's HUF 73,934 thousand, while the company in Berekfürdő earned HUF 29,820 thousand from the sale of heat and electricity, 18% less than the HUF 36,349 thousand recorded in 2017.

HUF 526,783 thousand was generated in 2018 (up from the HUF 499,985 thousand recorded in 2017) by the management of the Company's properties in Csepel and Debrecen, thanks to the rental fees earned under the new rental contract concluded concerning the real property in Csepel during the period concerned. It should be noted, however, that the bulk of this sales revenue resulted from the re-invoicing of power consumption of the tenants and the co-owner in relation to the parts of the real property in undivided joint ownership, and other "mediated service" types of costs, with the smaller part of the total sales revenue being made up of rental fees. The profit on re-invoicing was HUF 39,594 thousand during the reporting period, while the rental fee revenue amounted to HUF 24,178 thousand, from which it is clearly concluded that ratio of the net sales revenue relating to the management of the properties concerned and the profit content to the PannErgy Group figures is not significant in comparison with the geothermal heat generation and sale, making up the Group's core operation.

Similarly to 2017, the transactions with three buyers of the Group generated sales revenue figures exceeding 10% of the Group's total consolidated sales revenue; together they accounted for 81% of the total sales revenue during the reporting period.

The total of direct costs decreased in 2018 by 2% from the previous year's HUF 3,820,691 thousand to HUF 3,725,708 thousand. The main reason for the decrease was a drop in the direct costs linked to and proportional with the decreased amount of heat sold during the reporting period. At the same time, the costs of electricity and the direct depreciation increased year-on-year. The 2% increase in the Group's electricity costs was in line with the changes in prices observed during the period. The 1% year-on-year increase in the direct depreciation of the geothermal production equipment during the reporting period was caused, on the one hand, by the commissioning of installations during the reporting period, while on the other hand the Company revised the useful life spans of the various groups of assets at the beginning of the reporting year on the basis of technical considerations and data from experience, and adjusted their depreciation write-off figures as necessary.

Accordingly, the Group showed HUF 953,388 thousand in the way of gross margin for 2018, up 9% in comparison with the HUF 878,520 recorded for the previous year, raising the gross margin ratio to 20.4%. The Company's gross cash flow also increased similarly: its HUF 2,270,174 thousand amount was 4% larger than the HUF 2,177,248 thousand booked for 2017, while the gross cash-flow ratio increased to 48.5%.

The indirect costs of sales amounted to HUF 455,860 thousand during the reporting period, down by a significant 7% from the HUF 492,336 thousand stated for 2017, showing that the trend of decrease observed in earlier years continued in 2018. Among other items, indirect costs as personnel expenditures, general office and administration costs, expert charges, banking and insurance expenses as well as non-capitalizable costs belonging to business development and new projects are stated by the Group under the heading of indirect costs.

Nearly all of the different categories of the indirect costs decreased during the reporting period.

Personnel expenditures dropped by 8% relative to the basis period as a result of effective actions focused on headcount rationalization, despite the Company's intensive investment activities during the reporting period. The actual number of the PannErgy Group's employees was 18 on 31 December 2018, in contrast to the headcount of 20 one year before.

In addition to personnel expenditures, there was also a decline in expert and consultancy fees by HUF 8,552 thousand, corresponding to a year-on-year decrease of 7%. Costs of experts incurred in the reporting period include legal and consulting costs relating to the financing of geothermal projects and to accounting projects, expert costs relating to application schemes as well as general consulting fees to support operations and legal fees.

Indirect depreciation declined slightly in the reporting period, but its order of magnitude remained in the previous year's range.

The office and operating costs also show a positive change year-on-year, falling by HUF 6.246 thousand, or 5%.

This reduction is attributable to measures increasing cost efficiency in the field of operating costs.

In addition to the elements of direct costs mentioned above, the duty type costs and the costs of public and stock exchange presence disclosed under indirect costs also decreased in the reporting period. With regard to the latter it should be noted that, for considerations of social responsibility, the PannErgy Group continues to attach high importance to supporting the cities and regions where existing projects are located in the areas of sports activities and other social initiatives, thereby offering support to the end users of geothermal energy.

The slight year-on-year increase of bank charges and insurance premiums is attributable to the intensification of capital projects in the reporting period.

The balance of other revenues and expenditures during the reporting period is HUF 408,600 thousand, in contrast to the HUF 536,806 thousand recorded in the basis period. The decrease was caused primarily by the revenues from major insured events that occurred during the basis period, recorded in the category of other incomes. HUF 213,726 thousand was recorded in the reporting period in the way of revenues relating to insured events in the category of other incomes, in the form of compensations based on recognized legal grounds relating to machine failures and service interruptions, in contrast to the HUF 283,549 thousand in the previous period.

The largest item in the category of other incomes during the reporting year was made up of grant type incomes, in an amount of HUF 299,120 thousand. The revenue stated during the reporting period as grant for development comprised the reversal in proportion with depreciation during the reporting year of grants received earlier and recognized as deferred income in the form of other income during the reporting period.

Other income of HUF 69,057 thousand was recorded in connection with the fair valuation of properties for sale during the reporting period, corresponding in terms of its order of magnitude, to the HUF 70,469 thousand other income booked in the previous period.

The scale and composition of other expenditures were both nearly the same as those appearing in the previous year's consolidated report – no material one-off items (e.g. extraordinary write-offs or impairment losses) were booked during the reporting period.

Within the HUF 209,197 thousand other expenses the most substantial item, at HUF 100,869 thousand, consists in local taxes, most notably the local business tax paid to the local governments at the sites of geothermal projects. Another major item is the mining fee payable relating to geothermal heat production; under this heading the Company incurred expenditure of HUF 65,090 thousand in the reporting period.

The operating profit (EBIT) amounted to HUF 906,128 thousand in 2018, slightly below the HUF 922,990 thousand in 2017.



The business cash-flow (EBITDA) comprised the influx of HUF 2,231,113 thousand, HUF 10,069 thousand less than the HUF 2,241,182 thousand EBITDA recorded in 2017. HUF 1,300,434 thousand was recognized in the reporting period in the way of depreciation, 1% more than the HUF 1,300,434 thousand stated for 2017, an increase resulting from the capacity increasing investment project implemented during the reporting period. In calculating the EBITDA the Company takes account of the extraordinary depreciation recognized among intangible assets and tangible assets, in an amount of HUF 7,978 thousand during the reporting period, in connection with the replacement of equipment; the corresponding amount in 2017 was HUF 17,758 thousand.

The financial profit was a negative amount of HUF 380,966 thousand during the reporting period, a loss HUF 83,513 greater than the HUF 297,453 thousand loss on financial transactions in 2017.

The deterioration of the financial profit was nearly fully a result of the unrealized exchange rate loss of HUF 186,132 thousand booked in relation to the revaluation at the end of the period of the receivable and liability items stated in the statement of financial position, in contrast to the previous year's HUF 21,133 thousand unrealized gain. This substantial amount of unrealized exchange rate loss stated at the end of the reporting period was a significant weakening of the HUF against the EUR relative to the previous periods and was associated primarily with EUR-based investment loans.

Regardless of the "temporary" unrealized effect of the aforementioned revaluation at the end of the period the Company is not actually exposed to any significant exchange rate risk in its operations, having created a natural hedging position, therefore its revenues that are denominated in foreign currency nearly completely cover its expenditures denominated in foreign currency, including its currency-based debt servicing obligation.

Apart from the unfavourable changes of exchange rates affecting FX items in the reporting period, interest and interest-type expenses represent the highest amounts; in the reporting period HUF 265,871 thousand of such expenses were incurred, which represents a HUF 14,694 thousand or 5% decrease year-on-year, reflecting the positive effect of the refinancing of the Győr and Miskolc facilities in prior periods.

Accordingly, the PannErgy Group's 2018 profit (loss) before taxation is a profit of HUF 525,162 thousand, 16% below the previous year's profit of HUF 625,537 thousand. The decrease resulted for the most part from an increase in the loss on financial transactions in comparison with the figure recorded for the preceding year, including, in particular, a HUF 186,132 thousand unrealized exchange rate loss on foreign currency items at the end of the period.

HUF 90,526 thousand was recognized as corporate tax liability, of which the actual tax liability for the reporting year amounted to HUF 23,738 thousand, while HUF 61,788 thousand was the amount of deferred tax receivable recognized earlier for negative tax bases, now written off.

The Company's consolidated net profit or loss for the reporting period (attributable to the Company's shareholders) was a positive amount of HUF 433,652 thousand, up by HUF 54,208 thousand in comparison with the HUF 487,860 thousand booked for the corresponding period of the previous year, as a result of factors detailed above.

Key data on the asset position (HUF Th)	2018	2017
Fixed assets	22,780,107	21,633,193
Total current assets	3,030,594	3,389,543
Of which Liquid assets	1,108,246	1,288,502
Total assets	25,810,702	25,022,736
Total equity capital	9,866,857	9,024,383

The portfolio of fixed assets increased by 5% during the reporting period. Within this portfolio the value of intangible assets dropped by 5%, reflecting the effects of depreciation during the reporting year. At the same time, the value of tangible assets increased by 2% showing the effects of the assets purchased in the reporting period by DoverDrill Mélyfúró Ltd. in the implementation of its R&D project under the EDIOP application scheme and the surface project implementation works required for in the integration in the Győr system of the production well implemented in the framework of the Győr concession project along with other capacity increasing projects, associated tangible asset procurements exceeding the effects of depreciation during the reporting period.

The Company stated HUF 518,487 thousand in the way of goodwill, of which HUF 517,537 thousand is associated with the minority interest acquired earlier in PEGE CPlc. and a HUF 950 thousand increment in the reporting year through the acquisition of a minority interest in Szentlőrinci Geotermia CPlc.

The Company stated HUF 229,187 thousand as deferred tax receivable among its assets, down 21% or HUF 61,788 thousand year-on-year, as a result of the PannErgy Group's deferred tax recovery calculations.

The portfolio of current assets dropped by 10% year-on-year, predominantly as a result of a decrease in the portfolio of liquid assets and securities, in accordance with the funding requirements of the reporting period's intensive investment activity.

The Company carried no inventories at the end of the reporting period because the maintenance materials stated as inventories at the end of the previous year were used up during the reporting period, and the borehole casings which accounted for the bulk of the inventories earlier on were also sold by the Company, as these borehole casings, purchased but not used up in the course of the implementation of an earlier geothermal project will not, in the future, be used on account of their technical parameters.

Among its current assets the Company had liquid assets in an amount of HUF 1,108,246 thousand at the end of the period, of which HUF 614,969 thousand to was, for the most part, freely disposable in the wake of the banks' approvals, in contrast to the HUF 699,238 thousand stated at the end of the previous year. The amount of separated and blocked liquid assets was HUF 493,277 thousand, also down from the HUF 589,264 thousand recorded at the end of the preceding year. The disposable funds also include certain amounts whose use for purposes other than the Company's, as account holder's, own business operations is subject to the financing institution's consent are stated in the bank account and cash at hand. Those stated in the separated blocked cash are amounts on accounts managed by financial institutions, blocked as collaterals for loan repayment, not accessible for the borrowers.

The Company's equity increased by 9% year-on-year, as a result of a combined effect of the decrease in the net profit of the reporting year attributable to the Company's shareholders and the decrease in the portfolio of treasury shares during the reporting period.

The equity per share (calculated for the number of shares less the portfolio of treasury shares) grew from the previous year's HUF 510 to HUF 536.

The portfolio of long-term credits dropped 6% year-on-year to HUF 8,252,525 thousand through repayments made during the reporting period.

The over-year part of the non-repayable grants won in the context of application schemes for the geothermal projects is shown in the other long-term deferred incomes line. In connection with this an amount of HUF 3,985,318 thousand is shown in the Company's statement of financial position, after a decrease of 7% year-on-year, as a result of the reversals that took place during the reporting year.

Within the portfolio of short-term liabilities the balance of trading partners amounted to HUF 1,177,750 thousand, 31% up year-on-year, as a result of the intensive investment activities during the reporting period.

The portfolio of short-term credits, plus the short term part of the long-term credits, amounted to HUF 1,674,932 thousand at the end of the reporting period, 38% larger than the previous year's HUF 1,207,634 thousand, due to the schedule of loan repayments and the financing of investment activities during the reporting period. The portfolio of other short-term liabilities amounted to HUF 559,211 thousand at the end of the reporting period, up 5% year-on-year, primarily as a result of the HUF 249,977 thousand grant advance drawn down and stated as short term liability in association with DoverDrill Mélyfúró Ltd's EDIOP R&D application. This growth offset the substantial decrease – year-on-year – of the short-term liabilities relating to the reporting period's evaluation of the share option program.

Key indicators	2018	2017
Profitability indicators		
Return on assets, % (ROA)	1.68	1.95
Return on Equity, % (ROE)	4.41	5.41
Return on Sales, % (ROS)	9.27	10.38
Asset position indicators		
Ratio of fixed assets, %	88.24	86.45
Ratio of equity capital, %	38.23	36.06
Indebtedness rate, %	161.59	177.28
Financial indicators		
Liquidity ratio	82.18	115.59
Acid test ratio	82.18	111.49
Earnings per share (EPS) HUF	23.55	27.60

As a result of a modest year-on-year decrease in the PannErgy Group's profit after taxes for the year the profitability ratios diminished slightly in comparison with the corresponding ratios of the previous year. As a consequence of the effects of depreciation during the reporting year the asset position indicators show an increase in the ratio of fixed assets and a decrease in the indebtedness ratio. Similarly to the profitability ratios the financial indicators also diminished year-on-year.

3. INTRODUCTION TO THE COMPANY

3.1 *The PannErgy Group's core operations*

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 extraction, utilization for energy generation and selling of one of Europe's most significant thermal water resources, in particular, renewable geothermal energy. In connection with its geothermal energy generating operations the Company performs productive operations in Miskolc, Győr, Szentlőrinc and Berekfüdő.

As of 31 December 2018 the PannErgy Group had a headcount of 18, its annual average statistical headcount was 32, in accordance with the intensive investment activities pursued during the year. PannErgy Plc. has its registered office in Hungary at H-1117 Budapest, Budafoki út 56.

The Company is operating in a holding structure. For the subsidiaries' detailed data see Chapter 6.

3.2 *Regulated district heating tariffs*

Some of the project companies of PannErgy Group have district heat production licenses. Accordingly, they sell heat in an environment regulated by the Hungarian Energy and Public Utility Regulatory Office (MEKH). In this arrangement the heat sold by PannErgy Group to district heating companies is subject to the authority-regulated tariffs announced each year by the Minister for National Development in the form of the Decree of the Ministry for National Development for a period of one year from 1 October each year until 30 September the following year. The thermal energy tariff in place from 1 October 2018 for the Miskolc Geothermal Project was increased from the previous year's 2,382 HUF/GJ to 2,515 HUF/GJ in the case of Miskolci Geotermia CPlc. and Kuala Ltd.: this is the price invoiced by these two companies for the heat sold to MIHŐ Miskolci Hőszolgáltató Ltd. In connection with the Győr Geothermal Project the regulated district heating tariff charged for the heat sold by Arrabona Geotermia Ltd. to Győr-Szol Győri Közszolgáltató és Vagyongazdálkodó CPlc. was increased from 2,939 HUF/GJ to 3,108 HUF/GJ, while Szentlőrinci Geotermia CPlc. may continue to sell thermal energy to Szentlőrinci Közüemi Nonprofit Ltd. for the same price as in the previous period, that is, 3,654 HUF/GJ.

3.3 *Sale of heat to industrial and non-municipal government partners*

To enhance the diversification of the sale of heat the PannErgy Group is constantly seeking for opportunities to boost its sales of geothermal heat to industrial partners as well, in the form of primary or secondary heat utilization, besides the agreements concluded with heating utility partners. The Company's major industrial consumers purchasing heat, include Audi Hungaria CPlc. in the case of the Győr Geothermal Project, while in the case of the Miskolc Geothermal Project they include Joyson Safety Systems Hungary Ltd (formerly: Takata Safety Systems Hungary Ltd.) and, since the conclusion of a contract and the implementation of a development project during the reporting year, GS Yuasa

Magyarország Ltd. (whose battery manufacturing factory settling in the Southern Industrial Park of the town of Miskolc is supplied by the Company with thermal energy from geothermal source). In addition to the above the PannErgy Group has multiple smaller industrial consumer contracts in place – it continues to be committed to increasing the list of its industrial consumers.

3.4 *Real property utilization*

In addition to its core operations comprising the production and sale of geothermal heat (Energy) the Company has industrial real property and offices originating from before the time of the “Pannonplast - PannErgy” strategy shift, in the 21st district of Budapest (Csepel) and in the town of Debrecen. These pieces of real property were categorized by the Company last year as fixed assets held for sale, in accordance with which it pursued active sales activities during the reporting period, the positive effects of which are expected to be realized in the year following the reporting period owing to the lengthy process of the selling of real property. In the reporting period the Company utilized some of the real properties by letting them to tenants until they are sold, but the profit from the rental fees was negligible in comparison with the sales revenue and profits generated by its core operations in the energy industry. Consequently, and owing to the approach taken by the Company’s management the real property utilization activity is not highlighted in the 2018 consolidated financial statements; the key details are, however, still presented in the relevant sections of the consolidated financial statements.

A transaction was carried out within the PannErgy Group during the reporting period in relation to the real properties in the town of Debrecen, without affecting the consolidated profit or loss figures. 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 has been carried out since the completion of the above transaction by TT-Geotermia CPlc.

As described above, the Company performs no active asset management operations; it utilizes all of its resources primarily in the Energy industry.

4. **ACHIEVEMENT OF PANNERGY’S MAIN TARGETS SET FOR 2018, AND THE ASSOCIATED RISKS**

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

The operation of the Geothermal System of Győr in 2018 was characterized by the fact that the geothermal energy supply was maintained without practically any service interruption whatsoever and the wells were operating reliably and perfectly throughout the entire heating season, providing the customers purchasing heat with a stable supply.

The first quarter of the year saw favorable weather conditions, but the weather suddenly turned warmer in April and put an end to the heating season. Additional substantial shortfalls in the planned supplies were also caused by May, October and November. The heat sold by the Geothermal System of Győr in the first half of 2018 amounted to a total of 377,548 GJ, 10% down from the 418,204 GJ sold during the corresponding period of the preceding year. In the second half of 2018 however, the system sold a total

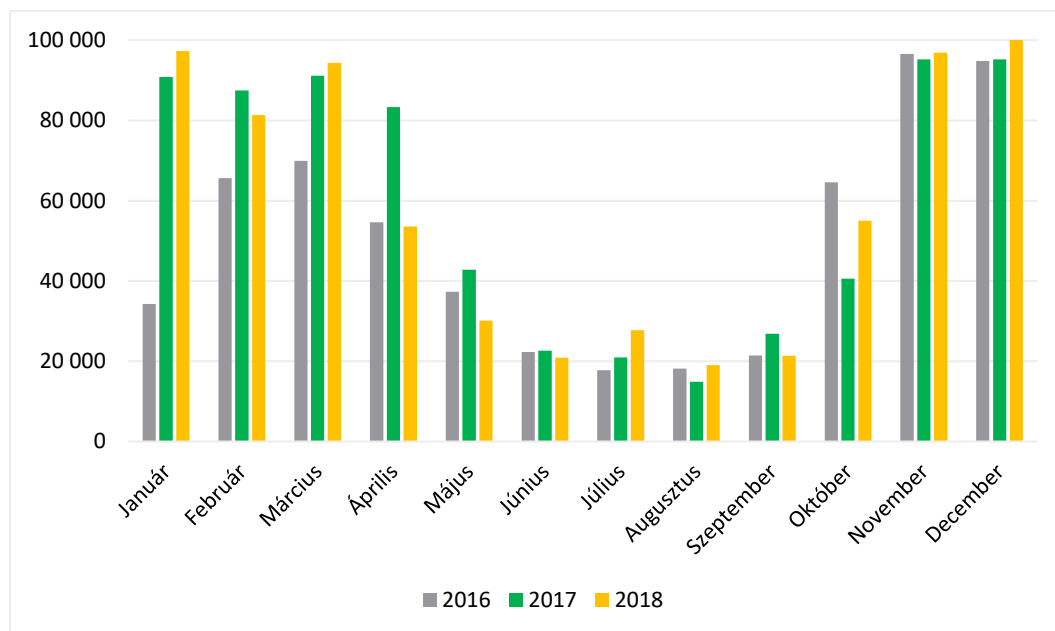
of 331,190 GJ worth of heat, up 13% year-on-year. The increased volume of sales in the fourth quarter of 2018 was a result primarily of the larger heat market created by an increase in the output and the reduced boiler operations of the district heating supplier partner, which could be more favorably adapted to the increased output, more than offsetting the decrease in the thermal energy sales which was a result of the unfavorably warm weather in the months of October and November. The output water temperature of the production wells was as steady 100°C and 101°C, respectively, and their combined output volume was up to 1080 m³/h. An outstanding amount of thermal energy – 3,816 GJ – was sold on 31 December 2018.

In the town of Győr the 2018/2019 heating season started 6 days later than a year before, on 27 September, by the supply of nearly 24,000 homes and institutions.

The regulated district heating producer tariffs to be applied from 1 October 2018 were announced by Decree 19. / 2018. (IX. 27.) of the Minister of Innovation and Technology in the 146th edition in 2018 of the Magyar Közlöny (the Hungarian Official Journal). The regulated heat supply tariff applied by Arrabona Geotermia Ltd. was increased from the previously applied 2,939 HUF/GJ to 3,108 HUF/GJ.

A total of 708,738 GJ worth of heat was sold in Győr during the year. The utilization of the green thermal energy produced by heat center called Bőnyi Hőközpont replaced the burning of 23 million m³ of natural gas, reducing the amount of greenhouse CO₂ released into the atmosphere by more than 41,111 tons during the whole of the year.

The amounts of heat sold in Győr were as follows during the reporting period (GJ):



Consolidated heat sales figures of the Győr Geothermal Project (GJ)			
	2016	2017	2018
January	34,305	90,827	97,271
February	65,618	87,471	81,359
March	69,970	91,190	94,356
April	54,638	83,321	53,599
May	37,286	42,783	30,106
June	22,338	22,612	20,857
July	17,748	20,936	27,744
August	18,161	14,891	19,028
September	21,446	26,895	21,381
October	64,623	40,603	54,990
November	96,565	95,198	96,894
December	94,853	95,254	111,153
Total	597,551	711,981	708,738

4.2 Győr Geothermal Project (Concession project)

in the framework of the concession rights acquired under the concession contract PannErgy Koncessziós Ltd. examined 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 heat supplied by its increased capacity for selling additional green energy to its existing customers.

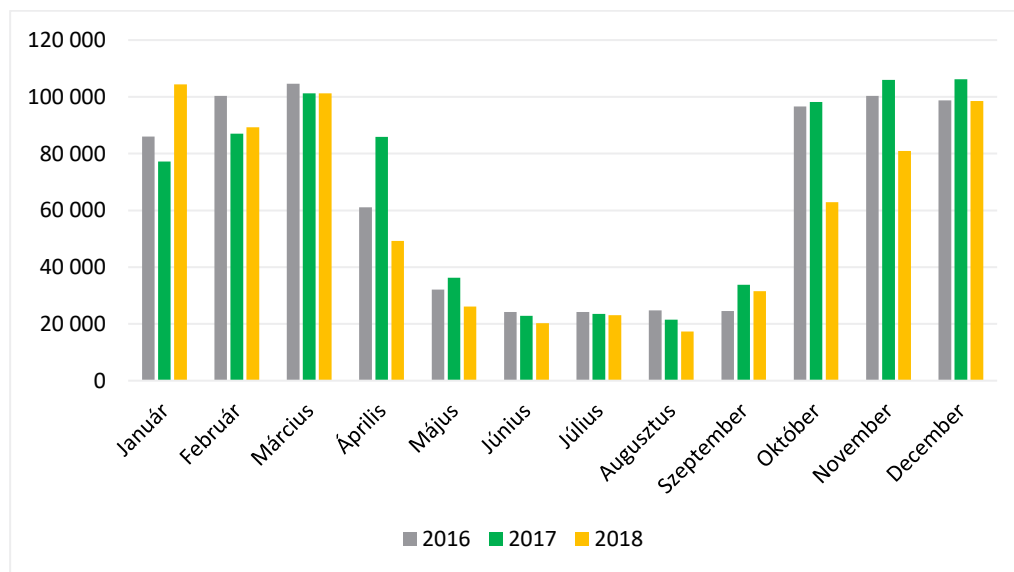
4.3 Miskolc Geothermal Project (Miskolci Geotermia CPlc., Kuala Ltd.)

During its commercial operation in the first half 2018 the Geothermal System of Miskolc sold a total amount of heat of 390,541 GJ, 5% down year-on-year, from 410,503 GJ. On 16 March 2018 the geothermal system sold a total of 3,672 GJ worth of heat in a single day because the ambient temperature remained in the ideal 3-8 C temperature range for 24 hours. The 2018 part of the 2018/2019 heating season which started on 25 September 2018 was somewhat more favorable for the purposes of heating than the end of the preceding heating period. The 2 – 8 °C ambient temperature range is ideal for selling geothermal heat during the heating season, particularly when the difference between the daily minimum and maximum temperatures does not exceed 4-5 C. 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 because it came to an unusually abrupt end in comparison with the preceding heating season, without a gradual transitional period. 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 regulated district heating producer tariffs to be applied from 1 October 2018 were announced by Decree 19. / 2018. (IX. 27.) of the Minister of Innovation and Technology in the 146th edition in 2018 of the Magyar Közlöny (the Hungarian Official Journal). The regulated heating tariff applied by Kuala Ltd. and Miskolci Geotermia CPlc. was increased from 2,382 HUF/GJ to 2,515 HUF/GJ. The amount of heat sold during the year in Miskolc was a total of 704,794 GJ, down 12% year-on-year. The year's sale of heat reduced the CO2 emission by nearly 40,883 tons, replacing almost as much as 23 million m3 of natural gas with green energy in Miskolc.

The amounts of heat sold in Miskolc were as follows during the reporting period (GJ):



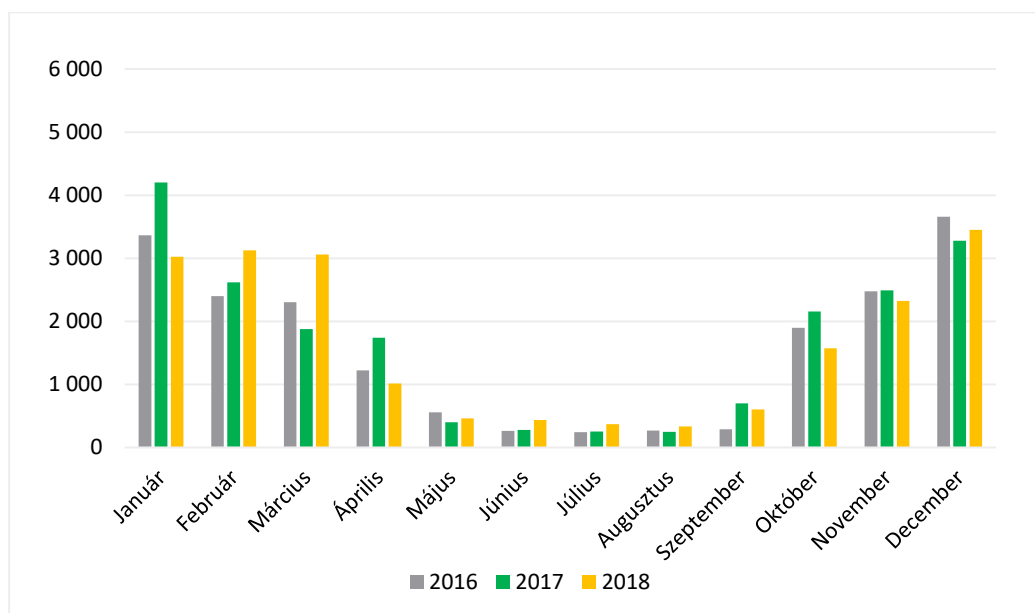
Consolidated heat sales figures of the Miskolc Geothermal Project (GJ)			
	2016	2017	2018
January	85,970	77,189	104,384
February	100,284	87,028	89,328
March	104,643	101,220	101,218
April	61,116	85,882	49,254
May	32,065	36,298	26,094
June	24,234	22,886	20,263
July	24,148	23,556	23,021
August	24,808	21,476	17,330
September	24,596	33,757	31,535
October	96,652	98,227	62,881
November	100,349	105,953	80,937
December	98,768	106,247	98,549
Total	777,633	799,719	704,794

4.4 The geothermal heating facility of Szentlőrinc (Szentlőrinci Geotermia CPlc.)

In 2018 the total amount of heat sold by the Geothermal Facility of Szentlőrinc was about 2% down year-on-year, as a consequence of the negative impacts of the weather conditions. The pump replacement and the resulting optimized operating conditions entailed a major reduction in the system's energy requirement, cutting the specific energy consumption by nearly 50%: from 12 kWh/GJ to 6.15 kWh/GJ. The regulated district heating producer tariffs to be applied from 1 October 2018 were announced by Decree 19. / 2018. (IX. 27.) of the Minister of Innovation and Technology in the 146th edition in 2018 of the Magyar Közlöny (the Hungarian Official Journal). The regulated heating tariff applied by Szentlőrinci Geotermia CPlc was 3,654 HUF/GJ, i.e. it remained unchanged.

The total quantity of heat sold by the Geothermal System of Szentlőrinc amounted to 19,762 GJ in 2018.

The amounts of heat sold in Szentlőrinc were as follows during the reporting period (GJ):



Consolidated heat sales figures of the Szentlőrinc Geothermal Project (GJ)			
	2016	2017	2018
January	3,366	4,200	3,026
February	2,400	2,617	3,124
March	2,305	1,877	3,057
April	1,220	1,741	1,013
May	559	402	458
June	262	276	434
July	243	253	370
August	270	245	334
September	289	700	603
October	1,896	2,154	1,570
November	2,474	2,491	2,323
December	3,658	3,278	3,450
Total	18,942	20,234	19,762

4.5 *Geothermal methane utilization facility of Berekfürdő (Berekfürdő Energia Ltd.)*

The small gas engine power plant generated a total amount of 1,565 MWh electricity and sold 2,600 GJ worth of heat through the utilization of the accompanying gas extracted from thermal water during the 2018 operating period. The annual availability rates of the gas engines in operation in the Berekfürdő facility, as calculated from the calendar time basis, was 92% in the case of the smaller gas engine and 73% in the case of the larger engine, as its overhaul, which was scheduled to take place in the summer, had to be carried out in the last quarter because of the engine's condition.

5. OVERVIEW OF THE CORE OPERATION – ENERGY INDUSTRY

PannErgy Plc. set out to implement its long-term strategy focusing on the utilization of renewable energy sources. The central element of the PannErgy Group's strategy is to become the region's dominant company in the utilization of geothermal energy and to maintain this position, as well as to provide highly reliable environmentally friendly services that are free of geopolitical risks. The PannErgy Group is committed to the utilization of one of the most substantial thermal water activity of Europe for the generation of energy. Geothermal heat can be utilized by households and industrial consumers in the long term and the environment preserving investment projects implemented by PannErgy enable significant reductions in energy expenditures.

On 31 May 1991, the company was 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 itself an ambitious goal of generating substantial volumes of thermal energy and electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutions of the country as well as for PannErgy's shareholders. The increase in the demand for energy is unstoppable in the long term – in spite of temporary set-backs from time to time – however, both the domestic and the global resources are limited. Professional, effective and efficient geothermal energy production is not only a form of utilization of a hitherto hardly used immense source of energy but also one of the most environmentally friendly and cleanest form of energy generation. The European Union has not only come to welcome such forms of energy generation but it is now guiding member states, including Hungary, by way of a strictly regulated program and clear-cut objectives as well.

The PannErgy Group has entered into a variety of cooperation agreements with a number of municipalities primarily in order to access the heat market, of which only the ones meeting a complex set of selection criteria were chosen subsequently as project goals.

Based on its strategy the Company accomplished its first success in 2010 with its geothermal developments by launching its commercial heat generation operation on 1 January 2011 in the framework of the Geothermal Project of Szentlőrinc, together with the sale of energy in the town of Szentlőrinc. The Company's second operational facility to be put into service as a project is to be found in the town of Berekfürdő, operating both heat and electricity from the methane dissolved in the geothermal water. The Berekfürdő facility found its way into the Company's portfolio through acquisition.

May 2013 saw the start-up of Central Europe's largest geothermal power plant, in the form of an investment project implemented by the PannErgy Group. The Geothermal Project of Miskolc won the

international GeoPower Market's "2013 best heating project" award. The PannErgy Group had implemented the second phase of the Geothermal Project of Miskolc by September 2014, and the system started to supply thermal energy in the town of Miskolc to the Downtown and the University heating districts as well, in addition to that of the Avas residential area.

The capacity of the geothermal system enables the supply of additional consumers with environmentally friendly geothermal energy, besides the district heating system of the town of Miskolc as its primary heat consumer.

The PannErgy Group launched its second largest investment project – the Győr Geothermal Project – in the Kisalföld region in early 2014. 24 November 2015 marked the inauguration of the Győr Geothermal Project, a development with a total cost of HUF 10.2 billion. Geothermal energy is delivered to a total of 24,266 homes and the heating systems of 1,046 other consumers under a long term heat supply contract concluded between the PannErgy Group and the district heating company called Győr-Szol CPlc. The energy to be supplied by the Heating Centre at Bőny will cover at least 60% of the heating energy requirement of the AUDI factory. The total annual quantity of thermal energy to be supplied by the Geothermal System of Győr is 1,100 – 1,200 terajoule.

Upon putting into service the Győr project, which was delivered in the autumn of 2015, PannErgy revised its former investments and project-based operation at a group level. The process of revision was launched in the last quarter of 2015 – partly by portfolio cleansing and partly by transforming the system of operation – and is still under way. The Company assessed its funding and investment possibilities as well as the market's demand for heat supplies, identifying a substantial demand for highly competent and well-organized energy generators providing geothermal heat capacities.

The investment projects embraced by the PannErgy Group are in line with the national energy strategy and the renewable energy utilization program, each aimed at boosting Hungary's competitiveness. The relevant EU directive calls for an annual 1.5% new energy saving in the member states' ultimate energy consumption during the period up to 2020, to facilitate competitiveness and reliable supplies. This is a tightening of the existing requirements, as the earlier 9% energy saving target has been raised to 20% for the European Union as a whole. The amount of energy generated from geothermal sources must be increased to 12,000 terajoules by 2020, of which the share of the PannErgy Group with its green energy generating projects is expected increase to 15% in the near future.

PannErgy has not only become the enterprise implementing geothermal energy projects with the most substantial competence and experience but has recently also become one of Hungary's largest groups of companies generating and utilizing geothermal energy.

The key short-term goals include increasing the productive capacities of the Geothermal Systems of both Győr and Miskolc, together with continued system optimization, thereby maximizing the amount of heat sold. It was in this context, among other things, that a third production well was drilled in the Geothermal System of Győr on the basis of the Company's concession contract, and the industrial consumer GS Yuasa was integrated in the system of Miskolc, during the reporting period.

The Company wishes to make the available free capacities of the geothermal systems, and the savings enabled by them, accessible for new partners as well. Industrial use requires special expertise and

project management experience which the Company believes are available at the highest standards in Hungary only from the members of the PannErgy Group.

6. THE PANNERGY GROUP'S SUBSIDIARIES

Of the subsidiaries of the parent company PannErgy Plc. PannErgy Geotermikus Erőművek CPlc. is the Group's technical/professional leader and manager, the owner of the participations held in the various project companies. Moreover, PannErgy Plc. has a minority participation in the subsidiary called TT-Geotermia CPlc, which, together with the majority participation of PannErgy Geotermikus Erőművek CPlc., constitutes a 100% ownership at a group level.

The Hungarian subsidiaries belonging to the PannErgy Group perform their economic activities typically in the territory of Hungary.

6.1 The PannErgy Group's subsidiaries, shares of ownership and consolidation ratios

PannErgy subsidiaries	Share capital (HUF Mn)	Shareholding (%)	Voting rights (%)	Consolidation ratio (%)
PannErgy Geotermikus Erőművek CPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Mélyfúró Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energia Ltd.	24.10	100.00	100.00	100.00
TT Geotermia CPlc.	6.00	100.00	100.00	100.00
Szentlőrinci Geotermia CPlc.	5.00	100.00	100.00	100.00
Miskolci Geotermia CPlc.	5.00	90.00	90.00	90.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Arrabona Geotermia CPlc.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	90.00	90.00	90.00
PannErgy Koncessziós Ltd.	3.00	100.00	100.00	100.00

6.2 Key 2018 data of PannErgy's consolidated subsidiaries, on the basis of individual reports

PannErgy subsidiaries	Equity	Subscribe d capital	Sales revenue	Business profit or loss	Profit after taxes	Head count
PannErgy Plc.	12,357,527	421,093	648,443	97,256	164,867	-
PannErgy Geotermikus Erőművek CPlc.	3,219,799	2,072,682	217,361	12,861	1,096	16
Miskolc Geotermia CPlc.	160,159	5,000	1,163,516	242,962	38,843	5
Szentlőrinci Geotermia CPlc.	25,697	5,000	75,175	26,664	-5,542	1
TT- Geotermia 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 Energia 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 Koncessziós 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 CPlc.	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

Shareholders	Total share capital = Introduced series					
	01.01.2018			31.12.2018		
	%	%	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 individuals	31.24	37.21	6,578,283	31.95	36.54	6,727,535
Foreign private individuals	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 general government system	7.96	9.48	1,675,745	7.96	9.10	1,675,745
International Development Institutions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	100.00	100.00	21,054,655	100.00	100.00	21,054,655

7.2 Shareholders with over 5% shareholdings in the Company

Name	Investor category		Number of shares	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
Nemzeti Eszkögzdálkodási CPlc.	Domestic	General government system	1,675,745	7.96	9.10

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

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

	01.01.2018	30.06.2018	31.12.2018
At company level	2,440,435	1,699,434	1,707,434
Subsidiaries *	935,203	935,203	935,203
Total	3,375,638	2,634,637	2,642,637

*PannErgy shares held by PannErgy Geotermikus Erőművek CPlc., the Company's 100% subsidiary

7.4 Senior officers of the Company

The Company's senior officers are the members of the Board of Directors. Data of the members of the Board of Directors, and their respective shareholdings on 31 December 2018:

Name	Position	Mandated from	Mandated until	Number of shares held
Balázs Bokorovics	Member, Chairman	31.08.2007	indefinite term	-
Dénes Gyimóthy	Member, Vice-Chairman Acting CEO	31.08.2007 (05.05.2015)	indefinite term	-
Katalin Gyimóthy	Member	28.04.2016	indefinite term	-
Lilla Martonfalvai	Member	28.04.2016	indefinite term	100,000
Csaba Major	Member	30.04.2013	indefinite term	-
Attila Juhász	Member	31.08.2007	indefinite term	-
István Töröcskei	Member	31.08.2007	indefinite term	-
Total number of shares held				100,000

The Company has no (strategic) employees influencing its operations.

PannErgy Group's Consolidated annual statements prepared in accordance with the international financial reporting standards and the annual report are signed by Dénes Gyimóthy, acting Chief Executive Officer.

8. THE PANNERGY GROUP'S STRATEGY

Dependence on fossil fuels can be reduced – or in some cases it can even be eliminated – by using other alternative energy sources, including geothermal energy. A system underground geothermal resources, hardly utilized so far, is one of the most significant resources of the Carpathian Basin, including Hungary, the utilization of which enables the generation of thermal energy and power in an environmentally friendly way. Demand for energy is growing unstoppably, however, both the domestic and the global conventional resources are limited.

Professional, effective and efficient geothermal energy production is not only a form of utilization of a hitherto hardly used immense source of energy but also one of cleanest environmentally friendly form of energy generation. The European Union not welcomes such forms of energy generation, but it is now guiding member states, including Hungary, by way of a strictly regulated program and clear-cut objectives as well.

The central element of the PannErgy Group's strategy is to become the region's dominant company in the utilization of geothermal energy and to maintain this position, as well as to provide highly reliable environmentally friendly services that are free of geopolitical risks. The PannErgy Group is committed to the utilization of one of the most substantial thermal water activity of Europe for the generation of energy. Geothermal heat can be utilized by households and industrial consumers in the long term and the environment preserving investment projects implemented by PannErgy enable significant reductions in energy expenditures.

PannErgy has not only become the enterprise implementing geothermal energy projects with the most substantial competence and experience but has recently also become one of Hungary's largest groups of companies generating and utilizing geothermal energy.

The key short-term goals include increasing the productive capacities of the Geothermal Systems of both Győr and Miskolc, together with continued system optimization, thereby maximizing the amount of heat sold.

The Company wishes to make the available free capacities of the geothermal systems, and the savings enabled by them, accessible for new partners as well. Industrial use requires special expertise and project management experience which the Company believes are available at the highest standards in Hungary only from the members of the PannErgy Group.

9. ENVIRONMENTAL PROTECTION

The Company attaches particular importance to environmental protection. In the field of geothermal energy it is working on introducing one of the most environmentally friendly form of energy generation from a renewable source as widely as possible in Hungary.

The subsidiaries involved in geothermal energy make sure that they prepare the impact studies and carry out the assessments prescribed by the relevant environmental regulations and comply with the applicable statutory regulations.

In accordance with the domestic and EU energy policies the Company aims to meet the requirements and apply the considerations of environmental protection in economic development. This requires an increasing reliance on renewable energy sources, harmonizing the relationship between society and environment and, indirectly, facilitating a positive change in the structure of fuels and energy sources used in Hungary by way of a shift from conventional towards renewable energy sources. At the same time, and in observance of economic and technical considerations, the Company assumes responsibility for the continuous strengthening of the environmentally friendly nature of project sites and for environmentally friendly management of natural resources. Research and development is part of the PannErgy Group's environmental policy. The PannErgy Group is fully committed to continuously improving its environmental and energy performance and to acting on the basis of an approach geared towards sustainability. The Company attaches particular importance to the social implications of its activities, working towards responsible and sustainable operation.

10. HEADCOUNT INFORMATION

The average statistical headcount figures of the PannErgy Group during the reporting year are as follows:

Own staff	31.12.2018	31.12.2017	Change
PannErgy Plc.	-	-	-
Affiliated entities	32	28	4
Total	32	28	4

The PannErgy Group's had an average statistical headcount of 32 in 2018, 14% up on the 28 recorded in 2017. The increase was driven by the PannErgy Group's intensive investment activities during the reporting year, however, this staff increase lasted only a specific period of time, and the actual headcount at the end of the year was below the number recorded in the preceding year. On 31

December 2018 the actual number of staff working for the PannErgy Group was 18; the difference between the average statistical headcount and the actual number of employees is attributable to part-time employment across group members and the increased headcount during the year.

11. DIVIDEND PAYMENT, TREASURY SHARE PURCHASE

The Company's 2018 consolidated net profit for the year attributable to the Company's shareholders amounts to HUF 433,652 thousand, and the Board proposes to the General Meeting that no dividend should be paid.

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.

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 contain more information on the Company's treasury share transactions.



12. MAIN RISKS FACED BY THE COMPANY, ASSOCIATED UNCERTAINTIES

A particularly high geological risk is a specific feature of all geothermal projects, which the Group members mitigate by the gathering and integrated processing of the widest possible range of geological and other technical/professional and scientific information.

The impacts of the risks and their management are discussed in Chapter 40. Financial risk management in the 2018 consolidated financial statements. The main risks to which the PannErgy Group is exposed are summed up below.

Exchange rate risk

Some of the Company's operations involve foreign currencies and it issues its invoices in EUR as stipulated in the relevant agreements. Part of the Company's liabilities are denominated in EUR, most of them stemming from EUR-based long term investment loans taken out for the implementation of geothermal projects, and many of its foreign and domestic suppliers also issue invoices in EUR. Such assets and liabilities involving settlements in foreign currencies entail risks resulting from fluctuations in currency rates – particularly the EUR rates – which the PannErgy Group uses its best efforts to mitigate, primarily by maximizing the coverage of its EUR loan debt liabilities by the above mentioned EUR-based revenues.

The Company concluded multiple FX forward transactions to hedge the risk of exchange rate losses on the settlement of its future trade payables to be incurred in foreign currencies. These transactions were not cash-flow hedge transactions; the gains and losses on such transactions during the reporting year appear in the financial incomes and financial expenditures categories in its consolidated financial statements. As at the cut-off date of the consolidated financial statements the Company held no such – as yet unclosed – transactions.

Share price risk

The share price risk needs to be assessed from the aspect of the marketability of the treasury shares and the value of the managers' share option program.

Interest rate risk

The interest rate risk facing the PannErgy Group results primarily from its long term investment loans. Owing to the variable interest rates applying to its loans the Company is exposed to a cash-flow interest rate risk which is only partly offset by variable-rate financial assets. Owing to the fixed-rate credits the Company is exposed to a fair value interest risk, which is eliminated by interest swap transactions concluded for the entire term of the long-term credits concerned, replacing the contractual variable rates with fixed rates.

The PannErgy Group applies a dynamic analysis to its exchange rate risk exposure, through simulating a series of different financial models, factoring in refinancing, the renewal of existing positions and the involvement of alternative funding sources. It is these scenarios on the basis of which the Company calculates the responses of its profit to from changes in the applicable specific interest. The Company uses the same movements in the interest rates applying to each of the relevant currencies in its various models. Models are worked out only for the liabilities involving the largest interest bearing positions.

Lending risk

Lending risk is a financial risk of loss from potential non-performance of any contractual obligation by any of the Company's buyers or other partners. From the Company's perspective this is a risk associated primarily from its buyer's potential failure to settle their invoices. It should be noted in particular that the Company sells its products and services to a handful of customers, resulting in a limited degree of diversification.

Lending risk management is a group function. It is a responsibility for the members of the PannErgy Group to analyze and manage lending risks relating to their new customers before working out and offering terms and conditions of payment and delivery as befits their normal of business operations.

The lending risks faced by the PannErgy Group stem from liquid assets and cash equivalents, the bank deposits and security deposits placed with financial institutions as well as the exposure to buyers through the sale of products or services, including receivables and transactions under which the Company assumes commitments.

Customers are rated on the basis of their creditworthiness and their credit limits are determined on the basis of their financial positions, financial data, historical performance and other factors, by the PannErgy Group's Finance and Treasury group; the Company does not directly engage independent credit rating organizations or experts. The Company monitors draw-downs from the credit limits. Its customers always pay for their purchases by bank transfers. No credit limit was exceeded during the reporting period, and management does not expect losses from default on the part of the partners concerned.

Liquidity risk

Liquidity risk is the risk of the company's incapacity to settle its financial liabilities upon their respective due dates. The purpose of liquidity management is to ensure that sufficient funds are available to settle liabilities when they fall due. The Company's approach to liquidity management is aimed at providing sufficient liquidity, to the extent possible, for the settlement of liabilities on their respective due dates in both regular and tight conditions without incurring unacceptable losses or putting its reputation at risk. Adequate liquidity is maintained by adjusting the terms of the funding sources to the lifecycles of its projects. Cash-flow forecasts are worked out by the PannErgy Group's Finance and Treasury group, besides the monitoring of rolling forecasts regarding the satisfaction of the Group's liquidity requirements, in order to maintain a portfolio of liquid assets as required for the Group's operations, while keeping up sufficient maneuvering room concerning the available credit limits to ensure that the Company does not exceed any of its limits and can deliver the debt required servicing ratios to the financial institutions concerned. The cash-flow forecasts that are based on the financial settlement of trade payables, loan repayments as well as contractual and other incomes are worked out in view of the PannErgy Group's financial plans, the need to maintain the ratios stipulated in contracts as well as all relevant regulatory and statutory regulations.

Regulatory risk

In discussing the general regulatory risks it needs to be noted in particular that the selling price of the bulk of the heat sold by certain project companies engaged in heat generation and sale is subject to regulatory pricing, which is regularly reviewed and even adjusted by the pricing authority, thereby

limiting the Company's profitability, resulting in considerable uncertainty concerning future selling prices.

Technological risk

Geothermal energy production entails unforeseeable risks, stemming from the unpredictable availability of the geothermal energy resources as well as the tolerance of the equipment used, to the unconventional operational environment.

Use of financial instruments

The PannErgy Group applies derivative transactions – whether pertaining to transactions relating to forward transactions on the exchange with the Group's own shares or other money and capital market instruments (even involving leverage) – on the one hand to hedge the Group's foreign exchange rate or interest rate risk or other risk exposures, and on the other hand in order to generate exchange rate or price gains. The Company concluded interest swap transactions covering its FX investment loans in 2018, which are discussed in detail in *3.15 Financial instruments, 11 Incomes from financial transactions, 12 Expenditures on financial transactions and 40.2.3. Cash-flow and fair value interest rate risk* sections of the 2018 consolidated financial statements.

13. PUBLICITY

The Company posts regular and extraordinary notices on its website at (www.pannergy.com), among other things. On its websites relating to its projects (www.miskolci-geotermia.hu, www.kuala.hu, www.gyori-geotermia.hu, www.ddenergy.hu, www.arrabonageotermia.hu, www.szentlorinc-geotermia.hu, www.doverdrill.hu), the PannErgy Group posts technical/professional information on the implementation of the projects. The publications and public information released by PannErgy Plc. may make it considerably easier to understand and judge the Company's operations and economic position, therefore they are important supplements to the information disclosed herein.

14. MAIN EVENTS IN THE PERIOD OF THE CONSOLIDATED STATEMENTS

References to the events concerned are presented in the following table. Based on the references the complete information is accessible at the Company's official places of disclosure.

Date	Type of news	Subject, brief content
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
28 February 2019	Extraordinary information	Treasury share transaction
28 February 2019	Other information	Number of voting rights at 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	Number of voting rights at 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	Number of voting rights at PannErgy Plc.
28 December 2018	Extraordinary information	Treasury share transaction
21 December 2018	Extraordinary information	Detailed description of the share repurchase program
20 December 2018	Other information	PannErgy Plc's event calendar for 2019
1 December 2018	Other information	Number of voting rights at PannErgy Plc.
1 November 2018	Other information	Number of voting rights at PannErgy Plc.
29 October 2018	Other information	Final test results of the new production well at Bőny, added to the Geothermal System of Győr
15 October 2018	Extraordinary information	Quarterly production report
1 October 2018	Other information	Number of voting rights at PannErgy Plc.
28 September 2018	Extraordinary information	Regulated heat tariffs for the district heat supply period of 2018–2019
25 September 2018	Extraordinary information	Heating season may be started with increased capacity in Miskolc
24 September 2018	Extraordinary information	Successful new concession well drilling near Győr, preparations for the heating season
3 September 2018	Extraordinary information	Semi-annual report
1 September 2018	Other information	Number of voting rights at PannErgy Plc.
28 August 2018	Extraordinary information	PannErgy subsidiary winning development grant

1 August 2018	Extraordinary information	PannErgy subsidiary signs agreement with Japanese-owned GS Yuasa Magyarország Ltd
31 July 2018	Other information	Number of voting rights at PannErgy Plc.
16 July 2018	Extraordinary information	Quarterly production report
1 July 2018	Other information	Number of voting rights at PannErgy Plc.
14 June 2018.	Extraordinary information	Articles of Association
31 May 2018	Other information	Number of voting rights at PannErgy Plc.
16 May 2018	Other information	Summary report
1 May 2018	Other information	Number of voting rights at PannErgy Plc.
27 April 2018	Extraordinary information	2017 annual report
27 April 2018	Extraordinary information	2017 IFRS annual report
27 April 2018	Extraordinary information	Responsible Corporate Governance Report
27 April 2018	Extraordinary information	General Meeting Resolutions
16 April 2018	Extraordinary information	Quarterly production report
13 April 2018	Extraordinary information	General Meeting
1 April 2018	Other information	Number of voting rights at PannErgy Plc.
20 March 2018	Proposals to General Meeting	PannErgy increases its shareholding in Szentlőrinci Geotermia CPlc. to 100%
20 March 2018	Proposals to General Meeting	Resolutions adopted by PannErgy Plc. Board of Directors on 19 March 2018
20 March 2018	Proposals to General Meeting	2017 Individual annual report
20 March 2018	Proposals to General Meeting	2017 Consolidated Financial statements and Annual Report of PannErgy Plc. and its subsidiaries
20 March 2018	Proposals to General Meeting	Proposals to Board of Directors
20 March 2018	Other information	Number of voting rights at PannErgy Plc.
13 March 2018	Extraordinary information	Invitation to General Meeting
28 February 2018	Other information	Number of voting rights at PannErgy Plc.
27 February 2018	Extraordinary information	Treasury share and share option transactions
9 February 2018	Extraordinary information	Treasury share and share option transactions
6 February 2018	Extraordinary information	Treasury share and share option transactions
31 January 2018	Other information	Number of voting rights at PannErgy Plc.
15 January 2018	Extraordinary information	Quarterly production report
12 January 2018	Extraordinary information	Owner's announcement
12 January 2018	Extraordinary information	Owner's announcement
1 January 2018	Other information	Number of voting rights at PannErgy Plc.



15. DATE OF AUTHORIZATION OF DISCLOSURE

The Company's Board approved the financial statements and authorized their disclosure on 19 March 2019.

Dénes Gyimóthy
Representing the Board of Directors





PannErgy Plc. Declaration of the issuer 2018

Pursuant to Sections 2.4 and 3.4 of
Appendix 1 to Decree 24/2008 of
the Minister 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

I, Dénes Gyimóthy, acting CEO, representative of the Board of Directors, issue the following declaration in relation to the 2018 IFRS consolidated financial statements and business as well as management reports of the PannErgy Group, pursuant to the statutory requirement laid down in sections 2.4 and 3.4 of Appendix 1 to Decree 24/2008 of the Minister of Finance:

- the 2018 individual annual report of PannErgy Plc., prepared in accordance with the applicable IFRS rules, disclosed simultaneously with the consolidated financial statements and business as well as management report prepared pursuant to the applicable accounting regulations and the IFRS rules to the best of our knowledge, provides a true and reliable picture of the assets, liabilities, financial position, profit and loss of PannErgy Plc. as a public securities issuer, and;
- the business report attached to the annual report provides a reliable picture of the position, development and performance of PannErgy Plc. as public securities issuer company, laying out the key risks and uncertainties;
- the 2018 consolidated financial statements (aggregated consolidated annual report) of PannErgy Plc., prepared on the basis of the applicable accounting regulations to the best of our knowledge, in accordance with the IFRS rules, provides a true and reliable picture of the assets, liabilities, financial position, profit and loss of PannErgy Plc. as a public securities issuer, and the consolidated entities; and
- the business and management report attached to the 2018 consolidated financial statements (aggregated consolidated management report), prepared in accordance with the applicable IFRS rules, provides a reliable picture of the position, development and performance of PannErgy Plc. as a public securities issuer company, and the consolidated entities laying out the key risks and uncertainties.

Dénes Gyimóthy
Representing the Board of Directors

