PannErgy Plc and its subsidiaries Consolidated Financial Statements and Annual Report prepared in accordance with International Financial Reporting Standards as adopted by the EU. 2017

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 2017 which comprise the consolidated statement of financial position as at December 31, 2017 – which shows a total assets of thHUF 25,022,736 –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of thHUF 504,530 –, 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, 2017 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.

Venilia Vellum

Key Audit matters	Related audit procedures
Recognition of subsidies development purposes	
(Details in sections 10, 28.4 and 29.1 of the Notes to the consolidated financial statements) Group recognised thHUF 303,894 as other income in 2017 and thHUF 4,562,809 reported as deferred income as at 31 December 2017. 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. 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.	Our audit procedures included: - 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 subisidies - we tested transactions post-balance sheet events
Revenue recognition	
(Details in sections 3.23 and 5 of the Notes to the consolidated financial statements) Consolidated revenue of the Group is thHUF 4,699,211 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.	Our audit procedures included: - 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 Matters

Prior year consolidated financial statements were audited by another auditor who issued unqualified opinion on 23 March 2017.

Other Information

Other information comprises the information included in the consolidated business report of the Group for 2017, 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 2017 corresponds to the consolidated financial statements of the Group for 2017 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 28 April 2017 and our uninterrupted engagement has lasted since our appointment.

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 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 2018

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 accordance with the International Financial Reporting Standards as adopted by the EU.

31 December 2017

Budapest, 19 March 2018

Dénes Gyimóthy
representing the Board of Directors

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note no.	31. Dec. 2017	31. Dec. 2016
		HUF th	HUF th
Goodwill	14	517,537	-
Other intangible assets	14	811,319	892,487
Tangible assets	15	19,378,903	20,430,287
Investment properties	15	-	280,873
Marketable properties	15	343,000	-
Long-term investments	16	22,935	22,935
Marketable investments	16	0	250,000
Financial assets (concession agreement)	17	64,740	-
Receivables from deferred taxes	32	290,975	386,210
Long-term receivables	18	203,784	14,929
Total fixed assets		**21,633,193**	**22,277,721**
Inventories	20	120,473	148,379
Trade receivables	21	1,369,162	1,671,245
Other receivables	22	391,317	381,183
Prepaid income taxes	32	20,062	40,153
Securities	23	200,027	20
Liquid assets	34	1,288,502	736,500
Total current assets		**3,389,543**	**2,977,480**
TOTAL ASSETS		**25,022,736**	**25,255,201**
Subscribed capital	24	421,093	421,093
Reserves without comprehensive income for the year	24	11,260,845	11,536,794
Comprehensive income for the year	24	487,860	-150,999
Treasury shares	25	-3,169,955	-3,101,545
Minority interest	27	24,540	183,372
Total equity		**9,024,383**	**8,888,715**
Long-term loans, leases	28	8,794,755	8,858,265
Other long-term deferred incomes	28.4	4,271,328	4,564,927
Provisions	30	0	56,236
Total long-term liabilities		**13,066,083**	**13,479,428**
Trade payables	35	899,575	1,170,467
Short-term credits	29	48,072	142,377
Short-term part of long-term credits	29	1,159,562	955,415
Other long-term deferred incomes	29.1	291,481	280,771
Deferred tax liabilities	32	-	-
Other short-term liabilities	31	533,580	338,028
Total short-term liabilities		**2,932,270**	**2,887,058**
TOTAL LIABILITIES AND EQUITY		**25,022,736**	**25,255,201**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note no.	2017	2016
		HUF th	**HUF th**
Revenue from sales	5	4,699,211	4,529,069
Direct costs of sales	7	-3,820,691	-3,665,914
Gross profit		**878,520**	**863,155**
Gross profit ratio%		**18.7%**	**19.1%**
Gross cash flow		**2,177,248**	**2,019,178**
Gross cash flow rate%		**46.3%**	**44.6%**
Indirect costs of sales	6	-492,336	-683,740
Other incomes	10	748,216	662,725
Other expenditures	9	-211,410	-561,644
Operating profit		**922,990**	**280,496**
Operating profit rate%		**19.6%**	**6.2%**
EBITDA		**2,241,182**	**1,715,345**
EBITDA rate%		**47.7%**	**37.9%**
Financial profit	11 -12	-297,453	-411,293
Profit before taxes		**625,537**	**-130,797**
Income tax	32	-121,007	-27,732
Net profit for the year		**504,530**	**-158,529**
Profit/Loss, attributable to			
Shareholders of the Company		**487,860**	**-150,999**
Non-controlling interests	27	**16,670**	**-7,530**
Earnings per ordinary share (HUF)			
Basic	33	27.60	-8.47
Diluted	33	26.33	-8.47

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR

	2017	2016
	HUF th	HUF th
Net profit for the year	**504,530**	**-158,529**
Other general incomes		
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	-	-
Other comprehensive incomes in the period with tax implications	-	-
Total comprehensive income for the year / attributable to	**504,530**	**-158,529**
Shareholders of the Company	**487,860**	**-150,999**
Non-controlling interests	**16,670**	**-7,530**

CONSOLIDATED STATEMENT OF CHANGES IN THE EQUITY

Description	Subscribed capital	Reserves	Treasury shares	Minority interest	Equity
Balance as of 31 December 2015	**421,093**	**11,672,070**	**-3,009,223**	**247,609**	**9,331,549**
Profit for 2016	-	-150,999	-	-7,530	-158,529
Changes in the participation of external members	-	-	-	-56,707	-56,707
Exchange rate difference from consolidation	-	-	-	-	-
Share option program	-	-39,339	-	-	-39,339
Treasury shares	-	-	-233,866	-	-233,866
Decrease in treasury shares	-	-95,937	141,544	-	45,607
Goodwill of minority-acquired shares	-	-	-	-	-
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**

CONSOLIDATED STATEMENT OF CASH-FLOWS

	Note no.	2017	2016
Liquid assets from operations		**HUF th**	**HUF th**
Profit before taxes		**625,537**	**-130,797**
Adjustments in relation to the profit before taxes and the cash flow of business operations			
Amortization and depreciation of tangible and intangible assets	14–15	1,300,434	1,196,412
Effect of deferred taxes	32	95,235	12,178
Income tax expenditures	32	-121,007	-27,732
Exchange gain/loss on credits	13	-21,133	-56,635
Impairment of tangible assets, goodwill	9,15	17,758	238,437
Impairment losses and shortage of inventories	9,20	10,689	2,656
Impairment losses of receivables	9,38	7,167	-
Write-off expenditures relating to the project	9	-	50,000
Reclassification of provisions	30	-56,236	-
Changes in the real market values of properties	8,15	-70,469	-
Interest payable/received	11–12	278,732	412,193
Profit on the sales of tangible assets	10	-980	-36,865
Expenditures of the share option program	36	-	43,653
Changes in minority participations	27	-158,832	-56,707
Changes in working capital elements			
Increase/decrease of inventories	20	17,217	89,377
Income taxes paid	22	20,062	23,296
Increase/decrease of receivables	21,22	284,782	298,856
Increase/decrease of payables	31,35	-75,342	-870,715
Increase/decrease of prepaid income taxes	22	20,091	-
Interests received	11	1,833	2,522
Interests paid	10	-280,565	-414,715
Net liquid assets originating/used from operations		**1,894,973**	**775,414**
Liquid assets from investments			
Acquisition of investments in private companies	16	-3,000	-
Increase/decrease of existing investments	16	-174,462	-156,925
Sales of investments	16	-	1,265
Acquisition of tangible and intangible assets	14 -15	-494,035	-1,319,738
Sales of tangible and intangible assets	14–15	1,222	102,930
Other long- and short-term deferred incomes	28.4	-282,889	-264,012
Changes in long-term receivables	18	-188,855	4,142
Liquid assets from investment operations		**-1,142,019**	**-1,632,338**

Financial operations			
Increase/decrease of long-term loans	13,28	42,377	-340,958
Increase/decrease of short-term loans	29	109,842	313,040
Difference from consolidation, other changes in reserves	24	-	92,322
Acquisition/sales of treasury shares	25	-68,410	-92,322
Capital increase, exchange premium of minority participations	27	-	-
Increase/decrease in securities	23	-200,007	500,717
Liquid assets used for financial operations		**200,952**	**472,799**
Net increase/decrease of cash and cash equivalents		**552,002**	**-384,125**
Cash and cash equivalents as of 1 January		**736,500**	**1,120,625**
Cash and cash equivalents as of 31 December		**1,288,502**	**736,500**

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1. GENERAL BACKGROUND AND DESCRIPTION OF THE ACTIVITIES

As Pannonplast Plc's legal successor, PannErgy Plc (hereinafter referred to as PannErgy Plc, PannErgy or the Company) is a business entity looking back on a past of nearly a century. On 31 May 1991, the Company transformed into a public company limited by shares, in line with Act XII of 1989 on the Transformation of Economic Organizations. In 2007, PannErgy set the goal to generate considerable volumes of heat and electric power with the exploitation of the long-known Hungarian geothermal resources, thereby creating value for the population and institutions of Hungary, as well as PannErgy's shareholders. In line with this change in its strategy, following 2007 its core activities encompassed the utilization of renewable, and in particular geothermal energy instead of the earlier manufacturing operations in the plastics industry. As of 31 December 2017, PannErgy Plc's subsidiaries operated projects for the utilization of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő.

The list of these subsidiaries can be found in Note 41.

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

2. BASIS OF THE COMPILATION OF THE REPORT

PannErgy Group comprising PannErgy Plc and its consolidated subsidiaries (hereinafter referred to as PannErgy Group or the Group) prepare financial statements in line with the International Financial Reporting Standards accepted by the European Union (hereinafter referred to as "IFRS" or "EU IFRS"). The consolidated financial statements are compiled in accordance with the requirements of *Act C of 2000* on Accounting, pertaining to the consolidated reports prepared based on the EU IFRSs.

The consolidated financial statements are prepared with reliance of the costs principle with the exception of financial instruments, certain financial assets, liabilities and assets held for sale, which are presented in the consolidated statement of financial position at their fair values. PannErgy Plc states figures in the consolidated financial statements in Hungarian Forint currency, as rounded up to HUF thousand, with exceptions specifically indicated.

The accounting and other records for the entities belonging to PannErgy Group are managed in line with the Hungarian laws and accounting regulations in effect from time to time. The members of PannErgy Group modify the reports compiled on the basis of the Hungarian reporting requirements (Act C of 2000 on Accounting) for compliance with IFRS.

PannErgy Plc as a company listed in any regulated market of the European Economic Area ("EEA") has the statutory obligation to apply the EU IFRSs for individual reporting purposes from 1 January 2017. Within the meaning of this regulation, since 1 January 2017 PannErgy Plc, as the parent company has compiled both its consolidated report and individual reports in accordance with the requirements of the EU IFRSs and IFRSs, respectively.

PannErgy Group's consolidated financial statements present the Group's consolidated financial standing and activities, the results of its cash flow and changes in the equity capital.

3. Summary of the key elements of the accounting policy

3.1. *General description*

The accounting policies used in the compilation of the consolidated financial statements are described below. PannErgy Group applied the accounting principles described and detailed herein consistently in relation to all the presented business years, and all modifications and deviations in comparison with the earlier business years are specifically indicated.

3.2. *Basis of the consolidation*

The consolidated financial statements cover all the assets, liabilities, incomes and expenditures belonging to all the subsidiaries that are in the majority ownership of PannErgy Group. The balances of the transactions and settlements among the group entities are screened in the course of the consolidation.
The minority (external) participations that are present in the net assets of the consolidated subsidiaries (with the exception of goodwill) are stated A separately within PannErgy Group's equity capital. Minority participations include the values of these participations at the time of acquisition, on the date of the original business combination, alongside the values of changes in the extents of the minority participations following acquisition. Losses connected with the minority participations in excess of the values of the minority participations in the subsidiaries are stated at the account of the Group's shareholding unless the minority (external) shareholder is obliged and has the option to execute further investments to cover such losses.

3.3. *Presentation of the new and modified reporting standards that are/can be applied in the year under review*

As of 1 January 2017, there were such new or modified standards to be applied that would be first used by PannErgy Group in the financial year starting on 1 January 2017 for the compilation of the consolidated financial statements, and that would be relevant to the consolidated financial statements for the year under review.

New standards and interpretations that still not have been used

The standards, modifications and interpretations that are detailed below, and have already become effective are valid as of 1 January 2018 and for the subsequent business years. The early application of the standards is permitted, but PannErgy Group has not used this option for the compilation of its consolidated financial statements in relation to 2017.

3.3.1. IFRS 9 Financial instruments

By way of its Regulation 2016/2067, on 22 November 2016 the European Union adopted and accepted the *IFRS 9 standard*, which should be validly applied as of 1 January 2018 and for the subsequent business years, with the option of early use. The standard focusing on the presentation, evaluation and classification of financial assets and financial liabilities was published in July 2014 for the replacement of the associated parts of the *IAS 39 standard*. The *IFRS 9 standard* requires the classification of financial assets into categories evaluated at their respective fair values and amortized costs, with this classification to be performed at the time of their initial recognition. Investments into capital instruments are evaluated at their fair values, in comparison with the associated profit or loss. The Company does not apply the requirements of the standard pertaining to the accounting of changes in the fair values, as well as the statement of impairment losses for credit losses.

As a company listed at the stock exchange, PannErgy Plc is required to apply the provisions of the IFRS 9 "Financial instruments" standard from 1 January 2018. In this context, in its annual report for 2017 the Company discloses those expected impacts of the IFRS 9 standard to be introduced from 1 January 2018 that have been comprehensively assessed.

3.3.2. Effects of the application of the IFRS 9 standard on the Company's financial instruments

The IFRS 9 "Financial instruments" standard describes the classification, evaluation and presentation of financial assets and financial liabilities, and replaces the parts of the former IAS 39 standard on the classification and evaluation of financial instruments. The IFRS 9 standard requires the classification of financial assets into categories evaluated at their respective fair values and amortized costs. At the time of the initial presentation, financial assets have to be classified into these categories.
At the end of 2017, the Company prepared an IFRS 9 effect analysis with the ultimate goal of identifying the areas that were affected by the new standard.

The introduction of the IFRS 9 is not expected to cause any material change in the principles of classification applied by the Company, as the financial instruments that have so far been recognized in the Company's financial statements at their fair values continue to be present in the same manner, and the same applies to the financial instruments that are recorded at the respective depreciated values. The assets classified into the "Held to maturity" category will form the category with amortized costs, basically because the Company's business model does not recognize receivables held for sale. The "Available for sale" category pertains fundamentally to securities, whereas the "Held for trading" category is associated only with derivative transactions.

Receivables
As for the statement of impairment losses, the incurred loss model of the IAS 39 standard will be replaced by the new model based on foreseeable credit losses, and this change that is inherent in the IFRS 9 standard is anticipated to bring about a change in the impairment losses of the Company's financial statements, i.e. impairment losses on receivables, still the extent of this change will be rather small (it will fall in the range of HUF 0–100,00 on the annual level) due to the nature of the Company's receivables portfolio and activities, contracted relations. With the effective date of 1 January 2018, the Company will set out the rules pertaining to the impairment losses of receivables in a separate set of regulations.

The Company's trade receivables consists almost exclusively debtors from domestic enterprises against companies that have been involved in contract-based relationships for years now. Based on the experience so far, it can be claimed that in relation to the Company's trade receivables there is no need for a standard collection processes, because these customers pay in a timely manner, by observing the respective due dates of payment. However, the Company determines impairment losses expected to occur from 1 January 2018 based on the "expected crediting loss" model, meaning that an impairment loss matrix built with respect to historic data also considering foresighted information will be applied for the individual types of customers, in view of the nature of the existing relationship with the given customers (term of the contract, strategic nature of the contract). The methodology selected by the Company in relation to impairment losses is the so-called staging methodology, in which the stage ratings (1–3) are clearly determined in view of the aspects of impairment losses in the portfolio with exact causes underlying the given ratings. Furthermore, the Company's size, small number of customers allows the application of the rules of individual rating.

The Company does not pursue retail activities that would justify the application of SPPI tests for the individual segments. On the other hand, the Company uses the portfolio impairment loss module that distinguishes separate categories for the rating of receivables from the district heating suppliers that are in long-term business relations with the companies operating the geothermal projects (MIHŐ Miskolc Heat Distribution Ltd., Győr-Szol cPlc., Szentlőrinc Public Utility Nonprofit Ltd.) and priority strategic business partners (Audi Hungaria cPlc.), as well as the rating of receivables from other entities in the portfolio.
In practice, the Company does not apply factoring, or if such transactions were applied, these receivables would be presented by means of fair value measurement.

Loans provided
The Company furnishes loans to other enterprises only on a case-by-case basis, and on nearly all occasions only to entities belonging to the scope of consolidation. Due to their affiliated nature, and as the repayment of these loans depends on the Group-level cash flow planning, the Company does not recognize impairment losses for these loans. These financial assets to be held until maturity are evaluated at their respective amortized costs. From 1 January 2018, the Company performs and documents the so-called SPPI classification tests/benchmark tests in relation to loans provided to non-affiliated parties that do not belong to the scope of consolidation, with respect to the fact whether or not these credits carry variable interest rates. If a test fails, the given loans call for the determination of their fair values.

Based on the expected credit loss model, the Company classifies the affiliated loans, credits that continue to be stated at their amortized costs in category 1 to 3, and the level of impairment losses are determined accordingly. During the examination of impairment losses, the Company does not consider the individual exposures as specific ratings, but handles them in aggregate, because for loans provided to affiliated enterprises the impact of the separate handling of exposures on the evaluation would not be relevant. Due to the comprehensive documentation obligation, the SPPI tests are also conducted in relation to the affiliated companies belonging to the scope of consolidation, but for their affiliated nature they are determined to be parts of category 1 – i.e. the category not affected by impairment losses – without any further test or impact analysis.

Hedging and derivative transactions
The Company will apply the new rules pertaining to hedging transactions and derivative transactions only in part, because these transactions are present only in one area where the variable interest rates of long-term investment loans are swapped to fixed interest rates for the entire terms of loans by means of swap transactions. In this case, the economic relation between the hedging transaction and hedged transaction is unambiguous, the applied hedging ratio corresponds to the rate used so far in risk management, and similarly to the practices applied so far these transactions continue to be stated at their fair values. With the effective date of 1 January 2018, the rules relating to these transactions

are set forth in the Company's separate regulations, which describe the business model connected with hedging transactions and derivative transactions, as well as the details of the management and administration of these transactions.

Liquid assets

As the liquid assets comply with the criteria of presentation at amortized costs, therefore – based on the "expected calculation crediting loss" loss model – the Company does not account for impairment losses, because the fundamental criterion is that liquid assets are to be held with risk-free financial institutions featuring high credit ratings.

Marketable financial assets

The Company recognizes its participations, securities held in companies listed or nor listed at stock exchanges for sale as marketable liquid assets, and they are evaluated in the financial statements at their fair values. For the evaluation of participations existing in companies not listed at any stock exchange, the Company involves independent experts for the determination of fair values.
The Company presents differences arising from the changes of fair values in the profit & loss account.

Credits

The Company has only investment loans and working capital loans that have been furnished by its funding financial institutions. There are no identified differences in comparison with the formerly used accounting statements based on IAS 39.

Trade payables

There are no identified differences in comparison with the formerly used accounting statements.

Other areas

There are no further modifying items, but the above-mentioned modifications justify alterations in the accounting policy, accounting systems and processes, as well as the necessary disclosures (including the financial statements for the business year starting on 31 December 2017), the quantification of the tax implications arising from the application of the new standard. The Company does not apply the institutions of hedging settlements, embedded derivatives, impairment losses raised for financial lease receivables, etc.

Determination of effective interest rates

The Company considers the contracted HUF- and EUR-denominated fixed interest rates that are used for the discounting of future, expected cash flows, and for which the variable interest rates have been swapped by its entities in the framework of interest rate swap transactions to be the effective interest rates.

3.3.3. IFRS 15 Revenue from sales from customer contracts

By way of its Regulation 2016/1905, on 22 September 2016 the European Union adopted and accepted the *IFRS 15 standard*, which should be validly applied as of 1 January 2018 and for the subsequent business years, with the option of early use.

The Company did not rely on the option of the early application of this standard, and therefore it did not have any implication on the consolidated financial statements prepared in relation to the year of 2017.
The *IFRS 15 standard* focuses on the presentation of revenues, introduces new accounting principles in relation to the amounts, timing of revenue from sales arising from customer contracts and the eligible amount of cash flows, alongside their presentation in the financial statements. Under the standard, revenue from sales can be recognized in case the control over the assets or services is transferred to the customer, meaning that the customer becomes capable of controlling their use or entitled for the benefits originating from the assets or services. This standard replaces the *IAS 18 Revenue* and *IAS 11 Construction contracts* standards.
The Company is in the process of assessing all the impacts of the *IFRS 15 standard*, but it is not anticipated to exercise any material influence on the consolidated financial statements.

3.3.4. IFRS 16 Leases

On 13 January 2016, IASB issued a new lease standard, which will be in effect from 1 January 2019. The requirements of the new standard bring about substantial changes in lease contracts, with special respect to the form of settlement, stating that lease contracts represent an important solution for financing, as they give business entities the opportunity to use fixed assets without undertaking any considerable, initial outflow of cash. According to the currently used lease standard, the lessee can recognize these agreements off the balance sheet (for operative leases) or present them in the consolidated statement of financial position in the case of financial leases. The new standard requires the lessee to show nearly all the lease agreements in the consolidated statement of financial position, so that its right to use the given asset over a specific period of time should be properly reflected together with the commitment to pay the associated leasing fee. For lessors, the connected accounting statements remain mostly unchanged.
The Company is in the process of assessing all the impacts of the *IFRS 16 standard*, but it does not have any impact on these consolidated financial statements.

Besides, there are no other, still not effective IFRS or IFRIC interpretation that is expected to exercise a material effect on the Company.

3.4. *Functional currency*

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

3.5. *Conversion of foreign currencies, foreign exchange transactions and balances*

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

3.6. *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).

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

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

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

3.7. *Intangible assets*

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

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

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

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

Trademarks, licenses, purchased know-how have definite useful lifetimes, and are stated at their costs less their accumulated depreciation. The costs of trademarks and licenses are depreciated with the straight-line method over estimated useful lifetimes of 15–25 years.

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

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

3.8. *Impairment losses of non-financial assets*

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

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

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

The assets that PannErgy Group uses in its geothermal projects do not have active markets as per the definition of the *IAS 36 standard* individually, but only as interpreted on the level of geothermal systems, and therefore – in the lack of such market values – the realizable values of these assets correspond to the net present values of the future cash flows originating from the continuous use of the assets and produced by the given cash-generating unit.

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

3.9. *Statement of research and development*

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

Intangible assets originating from the development phase of a development or internal project are recognized by the Company among fixed assets provided that the following details can be proven:

- such technical feasibility of the production of the intangible asset that make it suitable for use or selling;
- 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 how the intangible asset will generate future benefits;
- among others, the unit is required to prove the existence of the product originating from the intangible asset or the market for the intangible asset proper, or in case it is internally applied, the usefulness of the intangible asset;
- availability of sufficient technical, financial and other resources for the completion of the development, as well as the use or selling of the intangible asset;
- the ability of the unit to reliably measure the amount of the expenditures that can be attributed to the asset in the course of the development of the intangible asset.

The Company keeps the know-how associated with its geological and geophysical developments (selection of the target regions), surface MT and gravitational studies (accurate designation of the drilling sites), as well as drilling permits and trial drilling operations at costs in its books. In the case of successfully implemented geothermal projects, the related values are decreased with the amounts charged to the heat energy production companies formed as a consequence and in proportion of the respective projects.

3.10. *Property, plant and equipment*

As properties, PannErgy Group's consolidated statement of financial position includes tangible assets of building structure character connected with geothermal heat generation and heat sales (heat centers, buildings functioning as connection points to heat consumers), as well as geothermal heat transmission systems of other contracted structure character, production and re-injection thermal wells. Furthermore, not relating to its core activities, the Company also has office buildings held for sale (and utilized as investments until their selling) and industrial facilities that are suitable for production (industrial halls).

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

3.10.1. Investment properties

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

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

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

3.10.2. Assets held for sale

The Company classifies any fixed assets as held for sale in case the book value of the given asset is expected to return by way of sales instead of continuous use. In line with the relevant requirements of the *IFRS 5 standard*, the asset has to be in conditions based on which it can be stated that it is ready for being sold, and the probability of selling needs to be considerable. The Company deems the probability of selling to be considerable, and therefore it is taken as the basic condition of recognizing the asset as an investment asset:

- if the Company’s supreme body/management has confirmed its commitment to the planned sale, and based on this commitment it is confirmed that there exists a plan for the identification of an actual customer;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.10.4. Investments, geothermal projects

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

In the course of the implementation of geothermal projects, after a preparative, planning–permitting phase it is typically a production well (including a pump, filter, degassing unit), a re-injection well for the return of the extracted geothermal fluid into the geological layers, a heating center with a heat exchanger and the control engineering elements for the entire system, the coupling/connection points to the consumers, as well as the transmission system linking up the above-listed elements of the entire geothermal system that are constructed.

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

3.10.5. *Application of component accounting*

The Company does not apply the elements of the IAS 16 standard 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 specific depreciation periods.
Due to the special characteristics of geothermal operations, the Company regards its individual tangible assets to form unity, and in technical terms it deems the economic characteristics, lifetimes of the components of its tangible assets to be identical. Even the costs of major overhauls are not determined as separate components or commissioned separately in accounting terms, because these costs cannot be unambiguously estimated at the time of commissioning due to the technical factors influencing useful lifetimes (for instance, long-term effects of geodetic conditions, water quality). The Company keeps records of these unforeseeable, future, considerable costs of inspections, capacity increase as giving way to additional capitalization by nature, separately.

3.11. *Investments*

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

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

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

3.12. *Goodwill*

The Company accounts for intangible assets as goodwill that are associated with the purchasing of any asset by paying for goodwill in the light of its expectations in relation to the future economic profits originating from the purchased asset, and that cannot be individually identified, meaning that cannot be unambiguously and directly connected to any of the existing tangible assets, intangible assets concerned in the given asset acquisition.

The cost of the goodwill corresponds to the among by which amount paid for the given business combination exceeds that part of the fair value of the identifiable assets, liabilities and pending liabilities that falls on the Company as the acquiring party.

Annually, the value of the goodwill has to be subjected to an impairment loss test in which the Company examines the return of the value of the goodwill, that is compares 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 connected with the cash-generating units in questions, as well as the value of the goodwill.

3.13. *Financial assets in relation to the concession agreement (IFRIC 12)*

On 30 November 2006, the International Financial Reporting Interpretations Committee (IFRIC) published its interpretation for IFRIC 12 Service concession agreements in relation to service concession agreements in order to clarify how the operator of the concession is required to present the infrastructure belonging to the scope of the service concession agreement, their building and operating phases, meaning how to account for the associated incomes and expenditures. IFRIC 12 distinguishes two methods for the accounting of these latter items, i.e. the financial asset and intangible asset model, in view of the uncertainty factors of the future incomes realized by the operator of the concession.

PannErgy Plc's entities belonging to the scope of consolidation and involved in the operation of geothermal projects are in contractual relations with such district heat supply companies in municipal ownership that provide district heating services to the inhabitants of the given city, public institutions linked to the district heat supply network and industrial consumers, but by nature – in the light of the legal and economic contents of the transactions – these contractual relations cannot be deemed as concession agreements, and for this reason the Company does not apply the IFRIC 12 interpretation. These transactions do not belong to the scope of the said interpretation for the following reasons:

- Although the heat energy supply provided by the Company as a "supplier" influences the public utility infrastructure, the Company is not in possession of any infrastructure that is necessary for the supply of public utilities, and has no influence on the public utility infrastructure. The companies have not built or taken over any infrastructure that is necessary for the supply of public utilities, but such services are provided only to district heating service providers;

- The Company's contracts with the district heating service providers concerned regulate the takeover of heat energy and its conditions, but do not set forth rights and obligations in relation to the provision of public utilities; in addition to the absence of legal conditions, public utility supply is not feasible in physical terms, either;

- The Company is not responsible, even partly, for the operation of the infrastructure and services of the district heating service providers in question, but they are fully independent from each other;

- The Company has no influence on the prices of public utilities;

- It is solely the Company that has the right of disposal over the Company's assets;
- In the agreements belonging to the scope of the IFRIC 12 interpretation, it is typically the operator that is obliged to make the infrastructure available to the assignor in the agreed conditions at the end of the term of the agreement against some insignificant consideration, but the agreements made between the Company and the district heating service providers concerned do not stipulate such requirements.

Based on the foregoing, the management of the tangible assets owned by the Company and ensuring heat sales to the publicly owned district heating service providers under IFRS is governed by the relevant provisions of the IAS 16 standard. These assets are not infrastructure elements used for the provision of public utilities, and have no direct impacts on public utility supply. The revenues realized with the use of these assets are recognized by the Company as per the requirements of IAS 18 Revenues standard (from 1 January 2018 IFRS 15 Revenue from contracts with customers standard), while there are not such construction or development service type agreement or activities in between the partners based on which any part of revenues from heat supply should be stated under the heading of financial assets or intangible assets.

There is one exception to this: the Company's concession project in relation to the Geothermal Project of Győr. The Company's subsidiary, PannErgy Geothermal Power Plants cPlc. signed a concession agreement with the State of Hungary for a definite term of 35 years (with a non-recurrent renewal option for another term of 17 and half years) in relation to the area of Győr, towards the exploration, extraction and utilization of geothermal energy. With respect to the legal and accounting classification of the project to be implemented during the effective term of the concession agreement and in observance of the contracted conditions, the project is in line with the interpretation given in IFRIC 12, based on which the value of the investment so far realized in the framework of the project will be presented among fixed assets, as financial assets in the consolidated statement of financial statement, where the presented value corresponds to, i.e. covered by the value of the discounted cash flow foreseen to occur over the 35-year term of the concession agreement in proportion to the rate of the completion of the investment from time to time.

3.14. *Inventories*

The large majority of inventories presented in the consolidated financial statements are goods connected with the implementation of geothermal projects (such as casing pipes), production in progress and semi-finished products, as well as inventories of maintenance materials planned to be used on the operating phases of the geothermal projects. Inventories are presented at the lower value of the costs or net realizable values.

The costs of inventories cover the costs of purchasing, the associated conversion costs and all the other costs that are necessary for putting the inventories to their current places and conditions. These costs cannot extend to warehousing costs, promotion and marketing expenses, the costs of sales. Purchasing costs correspond to costs that are incurred by the buyer of the inventories in order to acquire the inventories in question. The Company regards purchasing costs to include the consideration payable for the inventories, the burdens connected with their import, non-refundable taxes, transportation and handling costs, as well as other expenses that can be directly associated with the purchasing of the given inventories. Purchasing costs are decreased by the discounts and rebates received. The Company defines the net realizable value as the expected selling price – under normal business circumstances – less the costs of completion and selling incurred until sales. The net realizable value has to be re-estimated on each balance sheet date, and their description has to be redefined from year to year. If the net realizable value of the inventories undergoes any change on the basis of which any impairment loss stated in relation to inventories needs to be written back, it can be realized by the Company, but only to the extent of the impairment loss that has been raised earlier. Such write-off and write-back items have to be presented among other expenditures. Any write-off (write-back) of the inventories needs to be recognized for the period when it was established.

For the evaluation of inventories, the Company applies the weighted average cost from among the valuation methods listed in the *IAS 2 Inventories standard*.

3.15. *Financial instruments*

The Company defines financial instruments to include loans provided, loans received, purchased credit securities, issued credit securities, participations in other entities, trade receivables, trade payables, futures transactions and swap transactions as presented in its consolidated financial statements compiled in accordance with the IFRSs.

Financial instruments (including complex financial instruments) become asset, liability or capital elements with respect to the real contents of the underlying contracted obligations, and are initially evaluated by the Company at their fair values. The fair value of a financial instrument is the price that the Company could realize on the sales of the asset, or that the Company 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 sales.
The fair value can be determined on the basis of the exact market prices or – if they are unavailable – with the use of valuation models. During the selection and establishment of models, the models that are in line with the properties of the instruments have to be applied, and the general principles of the determination of the fair value needs to be taken into account.

3.15.1. Initial presentation at fair value

Pursuant to the *IAS 39 standard*, the Company present all the financial instruments at fair values initially, at the time of transacting, i.e. on the day when the Company commits itself to the purchasing or selling of the given asset. In this value, the Company also includes the transaction costs that are directly related to the acquisition or selling of the financial instruments. Evaluated at fair values against the profit or loss, financial instruments are initially presented at their fair values, while transaction costs are stated in the profit & loss account.
The classification of financial instruments is determined by the purpose of the acquisition of financial assets, the properties of financial instruments and the definitions connected with the categories of financial instruments under the *IAS 39 standard*. The Company defines the classification of financial assets at the time of initial presentation. For subsequent presentation, financial instruments can be classified in the following categories:

3.15.2. Marketable financial assets

The Company records financial assets that are indicated to be marketable, or are not classified into any other category as marketable financial assets (available for sale, AFS). The valuation of marketable financial assets is based on fair value, and changes in the fair value are handled by the Company as part of other comprehensive incomes. To financial instruments belonging to this category, the Company applies the effective interest rate method only if they are tax instruments. Marketable financial assets are subject to the rules of impairment losses associated with financial instruments.
The Company presents primarily purchased credit securities and participations in other companies among marketable financial assets. Marketable financial assets consists of 50 or smaller participations, as well as shares not involved in the scope of consolidation for other reasons.

3.15.3. Loans and receivables

Loans and receivables are such non-derivative assets without fixed or definable payments that are not listed in active markets. Among loans and receivables, the Company presents purchased and credit securities, as well as trade receivables and loans provided with respect to the nature of these assets. The Company records loans among current assets, with the exception of assets whose maturity exceeds one year following the balance sheet date, because these latter assets are recognized as fixed assets.

The values of loans and receivables are initially stated at their fair values by the Company, and then at their depreciated values in the consolidated financial statements prepared in accordance with the IFRSs, with the use of the effective interest rate method. With registration at the depreciation of cost, the Company ensures that the initial cost (fair value) of the instruments could be modified by the initial premiums, discounts, transaction costs and certain financial service fees connected with these instruments, and determined during the expected tenor with the use of the effective interest rate method, whereas the difference between the nominal interest rate and effective interest rate is used to adjust the book value of the instrument. The effective interest rate is determined by the Company at the time of the acquisition of the instrument, without taking future credit losses into consideration. The so determined effective interest rate can be modified only in the case of instruments carrying variable interest rates. If initially there are no specific costs, fees connected with the financial instruments, the effective interest rate corresponds to the transaction interest rate.
Changes in the fair value need to be presented only in the notes to the consolidated financial statements. To financial instruments belonging to loans and receivables, the Company applies the rules of impairment losses.

Trade receivables cover amounts payable by customers in consideration of goods and services sold and supplied in the normal course of business. If these amounts are expected to be collected within one year, they are classified as current assets, otherwise they are presented among fixed assets in line with their respective maturities.

The commitment fees of credit limits are shown as transaction expenses (and they are to be taken into account in the calculation of the amortized costs and effective interest rates of credits) if it is likely that the given part of the available credit will be drawn down. In this case, any amount that has already paid is accrued until draw-down. In contrast, if it is unlikely that the given part of the available credit will be drawn down, the fee is accounted during the commitment period of the credit limit against the profit or loss of the year under review.

The general and specific costs of the use of credits that are directly connected with the purchasing, construction or production of classified assets are capitalized where considerable time is needed for making the asset suitable for use or selling in line with the anticipated goal. Such credit costs are added to the cost of the given asset until it becomes suitable for use or selling in line with the anticipated goal. Any income originating from the temporary investment of individual credits that still have not been used in relation to the classified asset is deducted from the amount of the costs of credit that can be capitalized.

All the other costs of credits are presented in the profit or loss of the period when they are incurred.

3.15.4. Financial assets held to maturity

The Company recognizes non-derivative financial assets carrying fixed or definable payments and fixed terms, as financial instruments held to maturity (HTM), where they are planned to be held until maturity based on the Company's positive intent and ability, they are typically purchased credit securities. The values of financial assets held to maturity are presented by the Company at their depreciated fair values in the consolidated financial statements prepared in accordance with the IFRSs. Changes in the fair value need to be presented only in the notes. To financial assets held to maturity, the Company applies the determination of value with reliance on the effective interest rate, as well as the rules of impairment losses.

3.15.5. Financial instruments evaluated at fair value to profit and loss

The Company keeps records of financial assets or liabilities held for trading and derivative products (if they do not represent hedging transactions in efficient cash flow hedging transactions) as financial instruments evaluated at fair value to profit and loss (FVTPL), similarly to financial assets and financial instruments shown to have been evaluated at fair values at the time of initial presentation against the profit or loss.

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

3.15.6. Other financial liabilities

The Company accounts for all the other financial liabilities not evaluated at fair value against the profit or loss as other financial liabilities. The values of other financial liabilities held to maturity are presented by the Company at their depreciated fair values in the financial statements prepared in accordance with the IFRSs. Changes in the fair value need to be presented only in the notes to the consolidated financial statements. To financial instruments belonging to other financial liabilities, the Company applies the determination of value with reliance on the effective interest rate.

Upon their occurrence, interests, dividends, profits and losses that belong to financial instruments classified as liabilities are stated in the profit & loss account, under the heading of financial expenditures. In the case of complex financial instruments, first those parts of the liabilities are evaluated where the principal amounts are defined as residual values.

Trade payables cover amounts payable in consideration of goods and services received from suppliers in the normal course of business. Trade payables are classified to belong to short-term liabilities in case they are to be paid up within one year. Otherwise, they are presented among long-term liabilities. Trade payables are initially presented at their fair values, and later they are evaluated at their amortized costs that are determined with the use of the effective interest rate method.

3.15.7. Netting of financial instruments

Financial assets and liabilities are required to be netted, and presented in net amounts in the consolidated statement of financial position if the net settlement of the stated amounts is legally permitted, and the Company intends to recognize these values in net amounts, or wants to realize the assets and settle the liabilities concurrently.

3.15.8. Impairment losses of financial assets

At the end of each reporting period, the Company examines whether or not there is any objective evidence suggesting the impairment loss for a financial asset or any specific group of financial assets. In the case of a financial asset or any specific group of financial assets, impairment loss occurs, and the associated expenditures are booked if as a result of events following the initial presentation of the asset objective evidence becomes available in support of the impairment loss, this event causing the loss influences the estimated future cash flow of the financial asset or specific group of financial assets, and the value of this effect can be reliably estimated. An indication suggesting impairment loss can be if customers or a group of customers struggles with serious financial difficulties, fails to pay up interests or repay principal amounts in a timely manner or at all, is likely to become insolvent, or is about to be subjected to other financial restructuring, while the observable data point out that the estimated future cash flows will decrease to a measurable extent, for instance economic circumstances considerably influencing the probability of insolvency undergo changes.

In the category of loans and receivables, the Company establishes the amount of losses as the difference between the book value of the assets and the present value of the estimated future cash flows discounted with the original effective interest rate of the financial asset a (without future credit losses that still have not been incurred). The book value of the asset is reduced, and the amount of the loss is presented in the profit & loss account, under the heading of financial expenditures for loans and other expenditures for receivables. In the case of loans carrying variable interest rates and investments held to maturity, the discount rate used for the determination of losses as a result of impairment loss corresponds to the current effective interest rate belonging to the asset. For practical reasons, the Company may choose to determine impairment loss on the basis of the fair value that can be established with respect to the price of the instrument observed in the market.

If in any subsequent period the amount of the impairment loss decreases, and this decrease can be objectively associated with an event that occurs after the accounting of the impairment losses (for instance, the improvement of the creditworthiness rating of the debtor), any write-back of the loss due to the impairment loss raised earlier has to be presented in the profit & loss account, under the heading of financial incomes for loans and other incomes for receivables.

3.16. *Cash and cash equivalents*

In the Company's consolidated statement of financial position and cash-flows compiled in accordance with the IFRSs, cash and cash equivalents mean the amount of financial assets that are held as the Company's HUF and FX petty cash assets, freely usable bank account balances that are available in the

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

3.17. *Equity capital, subscribed capital*

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

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

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

The profit reserve is the accumulated profit after taxes of the previous years – that has not been distributed among the shareholders – as stated in the annual report prepared in accordance with the IFRSs, including amounts accounted in favour or at the account of profit after taxes as required under IFRSs, which cannot include comprehensive incomes within the meaning of the *IAS 1 Presentation of financial statements*. Any resulting amount has to be decreased with the amount of paid up additional contributions recognized as assets under IFRSs, as well as the unused amount of the development reserve reduced with the amount of deferred taxes calculated in accordance with the *IAS 12 Income taxes* standard.

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

The profit after taxes corresponds to the combined amount of the net profit after taxes from both continued and discontinued activities as presented in the profit section of the comprehensive income statement or the separate profit & loss account within the meaning of the *IAS 1 Presentation of financial statements* standard.
The tied-up reserve is the amount of any paid up additional contribution recognized as liabilities under IFRSs, completed with the unused amount of the development reserve reduced with the amount of deferred taxes calculated in accordance with the *IAS 12 Income taxes* standard.

3.18. *Treasury shares*

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

3.19. *Earnings per share*

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

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

Moreover, at the time of the establishment of the amount of the diluted earnings per share the Company also considered the number of shares that were involved in the share option program running in the period under review as an item decreasing the volume of treasury shares provided that the set of conditions defined in the share option program for the call-down of options is satisfied at the time of the preparation of the report.

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

3.20. *Actual and deferred income taxes*

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

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

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

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

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

To meet the requirements of the *IAS 12 standard*, the Company recognizes income taxes payable/refundable for future periods as deferred taxes, where the refunding of these taxes is ensured, and their occurrence is associated with purchase transactions and events. The tax base for any given asset is such an amount assigned to the asset from the perspective of taxes that can be deducted upon the return of the asset. If the economic profits are not taxable, the tax base is identical to the book value.
The tax base for any given liability corresponds to the amount assigned to the liability from the perspective of taxes, meaning the book value of the liability less any amount that will be deducted subsequently for taxation purposes. The tax base for any deferred income equals to the book value less non-taxable future incomes. Based on the *IAS 12 standard*, the temporary difference can be assessed between the accounting book value and the tax base, which corresponds to the taxable or deductible amount after return/settlements. If this temporary difference is taxable, it is deemed as a deferred tax liability, while in the case of a deductible temporary difference it belongs to tax receivables.

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

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

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

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

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

3.21. *Provisioning*

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

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

The Company recognizes pending liabilities in case

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

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

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

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

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

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

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

In association with the already operated geothermal projects, the Company is not to shoulder recultivation, environmental protection liabilities, and in this respect no provisions have been raised.

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

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

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

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

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

To other share-based payments beyond the share option program, the Company applies the requirements of the *IFRS 2 Share-based payment* standard. Based on the foregoing, if the Company may choose the form of performance, and in case there occurs any obligation at the time of the conclusion of the contract for payment in liquid assets, then the transaction has to be handled as one involving performance in liquid assets. If at the time of the conclusion of the contract no obligations to be settled in liquid assets emerge, then the agreement needs to be handled as one to be satisfied in the form of capital instruments.

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

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

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

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

3.23. *Settlement of revenue from sales*

Pursuant to the framework principles pertaining to the preparation and presentation of the financial statements, revenues represent the increment of economic profits in the form of the inflow or increase of assets, or the decrease of liabilities during the reporting period, which results in the growth of the equity capital for reasons beyond the contributions of shareholders. Based on the *IAS 18 Revenue* standard, revenue from sales are incomes that arise from the normal course of business of the economic operator. At the Company, revenue from sales connected with the normal course of business are realized on the following activities:

- Sales of goods;
- Provision of services;
- Use of the Company's assets resulting in royalties from others.

A common characteristic of all the above types of revenue from sales is that the inflow of future economic profits is likely, revenues can be reliably measured, whereas costs (incurred and anticipated) can be reliably identified and measured.

With respect to the *IAS 18 Revenue* standard, considerations received or due have to be valuated at fair value, in proper view of the amount of any commercial or volume-based discount that has been approved by the economic operator as amounts reducing the amount of revenue from sales. Fair value is exclusive of the associated taxes. In the event of payment over the usual due date of payment, revenue from sales need to be valuated at their net present values. Based on the principle of matching, the revenues and costs should be associated with the period when they are collected and incurred in economic terms.

The *IFRS 15 (Revenue from contracts with customers)* standard is required to be used from 1 January 2018 or the subsequent business years; the new revenue standard brings about changes in comparison with the *IAS 18 standard* in several aspects. A five-step model will be worked out for the presentation of revenues:

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

The *IFRS 15 standard* gives closer guidance in relation to the separation of products and services, a product or service is deemed to be suitable for separation if it generates profit on its own, or if it cannot be separated from other items. Valuation at the fair value is discontinued, and the consideration is determined as the amount for which the Company expects to become eligible. The Company should take the impacts of the variable consideration into account at the time of the establishment of the transaction price. Furthermore, if revenues have any significant financing component, the time value of money also needs to be considered.

In addition to the foregoing, the risk- and profit-based presentation model of revenues is not used any longer. Revenues are presented when the buyer obtains the right of control over the service/asset. This control is transferred in a time-proportionate manner, upon the fulfillment of the conditions, or – if the conditions are not satisfied – at a specific time.

The earlier use of the *IFRS 15 standard* is allowed, but in view of a number of aspects the Company has chosen not to apple the new revenue standard earlier, only from 1 January 2018, in line with the statutory requirement.

The Company does not recognize the sales of tangible assets and other incomes that are not realized in the normal course of business as revenue from sales.

3.24. *Interest and dividend incomes*

On the loans furnished in connection with the operation, management of the holding company, the Company may realize interest incomes, similarly to dividend incomes on its investments as a shareholder, but these items are screened in the course of consolidation. The Company qualifies its interest and dividend incomes from non-affiliated parties as not originating from the normal course of business, and therefore does not handle them as revenue from sales, but among financial incomes.

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

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

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

3.25. *Leases*

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

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

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

- the tenor of the lease corresponds to majority of the useful lifetime of the assets contemplated in the lease;
- the present value of the minimum lease payments at least virtually equals to the full fair value of the leased asset;
- the leased assets are unique.

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

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

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

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

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

3.26. *Dividend payment*

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

3.27. *Government aids*

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

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

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

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

3.28. *Comparative periodic information*

Data for the base period and period under review were subjected to the same valuation for the consolidated financial statements, with exception of reclassifications in base data that are explained in Chapter 41. To make the Company's consolidated financial statements compiled in accordance with the IFRSs complaint with the *IAS 1 standard*, each of the financial statements of the Company includes a comparative period.

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

3.29. *Segment-specific report*

<u>Definition of the segments, review in the business year preceding the current year</u>

In line with the relevant IFRS requirements, the Company is to present its operating segments, and in this context PannErgy Group described two operating segments in its consolidated report for the previous years: the Energy and Assets Management segments. The Energy segment extends to the

Company's core activities, that is the production and sales of geothermal heat, as well as the associated investment and other activities. Within the scope defined as the Assets Management segment PannErgy Group, as Pannonplast Plc's legal success presented the utilization of the real-estate properties, i.e. the industrial facilities and connected office premises formerly serving Pannonplast Plc's plastics manufacturing operations in District XXI of Budapest (Csepel) and Debrecen, where property utilization primarily means the re-invoicing of electric power and other public utility fees, and to a smaller extent the collection of office rents; furthermore, it encompasses costs and expenses incurred with management and governance of the Group in the form of a financial holding company and issuer at the stock exchange.

In relation to the IFRS-based consolidated financial statements for the previous period, the Company examined the compliance of the two above-described standards with the IFRS 8 Operating Segments standard, as well as the presentation obligations relating to these segments. During the review of the definition of the operating segments, it was found that at **PannErgy Group, one operating segment, Energy can be identified**, whereas the segment that was formerly defined as Assets Management would not be identified as a separate segment by the Company in the future in accordance with the requirements of the **IFRS 8 Operating Segments** standard, and in particular the managerial approaches to segments, as well as the criteria relating to the presentation of the operating segments.

It is line with the view that beyond the Energy segment assets management activities designated as a separate segment in the earlier financial statement do not form a fully independent component any longer, but rather can be considered as an integrated complementary function; additionally, the Company pursues its activities solely in the territory of Hungary, in similar legal, technical, economic and demographic environments.

Presentation of the operating segments, basis of segment review

The fundamental principle of the IFRS 8 Operating Segments standard is that business entities are to disclose information in such depth that allows the users of the financial statements to evaluate the nature and financial impacts of the business operations pursued by the business entity, as well as the economic environment of its operations [IFRS 8.1]. This standard is applicable to the consolidated financial statements of the group at any parent company, or the individual or independent financial statements of an operating unit whose debt or capital instruments are traded in the open market [IFRS 8.2]. For this reason, PannErgy Plc is obliged to present the operating segments.

In practice, operating segments can be presented via the following five steps:

- Identification of the key operating decision-makers;
- Identification of the operating segments;
- Consolidation of the operating segments;
- Definition of the segments that can be presented;
- Disclosure of segment-specific information.

During the review of the definition of its segments, PannErgy Group examined the potential operating segments via these five steps. The operating segment is such a component of the business entity that pursues business activities involving revenue from sales and expenditures (including the revenue from sales and expenditures connected with the other components of the same business entity), where the

operating results are regularly reviewed by the supreme body of operating decision-making belonging to the business entity in order to make decisions on the resources that can be allocated to the segment, and evaluate its performance in view of various criteria.
In the light of the Company's consolidated financial statements, it can be claimed that Energy as an operating segment can be clearly identified in the case of PannErgy Group. With respect to PannErgy Group's operations, the Company's managers follow an approach wherein all the resources – in line with the expectations of the investors – should be focused on the most efficient operations of the Energy segment possible, and as the utilization of the real-estate properties owned by the Company represent an insignificant proportion of operations in all respects in the managers' approach it cannot be regarded as an operating segment.

Examination of the limit values associated with the review of the segments

Presented as a segment on its own in the year preceding the year under review, the Assets Management operating segment does not constitute a center element of the strategy framed by PannErgy Group, the performance assessment associated with the activities for the utilization of the above-mentioned real-estate properties is of negligible volume in the work of the Company's operating management and supreme bodies, the connected reporting system for internal control does not handle information relating to the utilization of properties with priority, as the associated transactions involve permanent revenue from sales (re-invoiced public utility fees and rents) and costs (public utility charges), the majority of the activities consists of "mediated" items.
In the attitude of PannErgy Group's managers and based on the criteria that apply to the description of the operating segments, there is one operating segment, i.e. the Energy segment that can be identified at the Company, and therefore the examination of the criteria relating to the segments that can be presented is not relevant, still the Company has studied the fulfillment of the corresponding limit values (Note 42. Segments).

The Company is required to comply with the public disclosure obligations that are relevant to business operators, which means that the data of the Energy segment for the year under review and the previous year correspond to the financial information relating to the entire business entity, and it is properly presented in these consolidated financial statements.

3.30. *Gross cash flow and the definition of EBITDA*

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

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

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

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

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

4.1. *Events after the balance sheet date*

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

4.2. *Material error*

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

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

4.3. *Critical accounting estimates and assumptions.*

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

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

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

5. Revenue from sales

5.1. *Breakdown of revenue from sales based on the core activities*

	2017 HUF th	2016 HUF th
Energy	4,199,226	4,056,470
Property management *	499,985	472,599
Total	**4,699,211**	**4,529,069**

*In the basic period, Asset management was defined as a segment, while for the period under reviev not taken as an independent segment (see Chapter 40. Segments).

5.2. *Geographic breakdown of the revenue from sales*

	2017 HUF th	2016 HUF th
Domestic revenue from sales	4,698,179	4,527,490
Intra-Community revenue from sales	1,032	1,579
Extra-Community revenue from sales	-	-
Total	**4,699,211**	**4,529,069**

5.3. *Details of the activities-services generating revenue from sales*

	2017 HUF th	2016 HUF th
Heat sales	4,024,233	3,632,527
Electric power sales	480,002	449,898
Mediated and re-invoiced services	117,780	419,572
Product sales (casing pipes, other)	66,252	15,345
Rentals of buildings and tangible assets	10,944	11,727
Total	**4,699,211**	**4,529,069**

Within electric power sales, HUF th 448,097 belongs to the electricity that is connected with the operation of the Company’s real-estate properties in Csepel and Debrecen, and re-invoiced to the tenants and the other owners of the properties in joint, undivided ownership, i.e. it is not related to geothermal energy. Beyond this amount, electric power sales connected with the Company’s project in Berekfürdő.

5.4. *Breakdown of the fixed assets connected with the revenue from sales in the various geographical segments*

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Assets used in domestic production	21,663,193	22,277,721
Assets used in intra-Community production	-	-
Assets used in extra-Community production	-	-
Total	**21,663,193**	**22,277,721**

5.5. *Concentration of revenue from sales, information relating to the key customers*

The Company has three customer partners from which at least 10% of the Company's total revenue from sales originate:

	2017	In relation to the total amount of revenue from sales in 2017	2016	In relation to the total amount of revenue from sales in 2016
Total amount of the revenue from sales from significant customers	**3,882,146**	**82.61%**	**3,492,824**	**77.12%**
Revenue from sales	**4,699,211**	**100.00%**	**4,529,069**	**100.00%**

6. ADMINISTRATION AND GENERAL COSTS (MEDICATED COSTS)

	2017 HUF th	2016 HUF th
Direct personnel expenditures	112,393	170,844
Office and operating expenses	128,160	148,114
Expert fees, accounting and auditing charges	126,996	138,948
Costs relating to public and stock exchange presence, as well as social commitments	69,385	132,237
Indirect depreciation (real-estate properties, machines, equipment)	1,706	40,389
Bank charges	31,953	23,876
Other authority fees, duties	11,793	18,688
Insurance fees	9,950	10,644
Total	**492,336**	**683,740**

Under the heading of operating costs, PannErgy Group could achieve cost reductions in a number of areas in comparison with the previous year.

The largest single decrease can be seen in personnel expenditures, where costs dropped by HUF th 58,451 or 34% in comparison with the previous period, which reflects the overall positive influence of headcount rationalization measures throughout the period under review. As of the end of the period under review, the headcount of employees at PannErgy Group decreased in comparison with the corresponding period of the previous year; on December 31 December 2017 the actual headcount was 20 employees after 21 employees as of 31 December 2016, and at the same time the average statistical headcount for the entire year decreased to 28 employees in the period under review following 33 employees in the base period.
The summary of wage-type payments is provided in Note 8.

Beyond personnel expenditures, expert and counseling fees also shrank, in an amount of HUF th 11,952 to arrive at a 9% lower level than in the same period of the previous year. The reason underlying this decrease was the high value recorded in the base period, caused by the preparation of the refinancing of the Győr project in the previous year, as well as the costs of experts incurred with the selling and acquisition of corporate participations. The expert costs incurred in the period under review are connected with the refinancing of the Geothermal Project of Miskolc, projects in the field of accounting and subsidy applications.

Major changes took place in comparison with the same period last year in office and operating costs that dropped by HUF th 19,954, bringing about 13% decrease.
The shrinking of these costs was owing to the rationalization of operating costs in the previous year, with the major item being the cost-saving realized on the lease contract for the smaller office space accommodating the registered seat, as well as the significant decrease of the Company's costs for car rentals.

The change in indirect depreciation in the period under review was caused by the modified classification, as the Company altered the classification of certain asset groups, and having decided that they are directly related to income-generating activities the Company now presented them among indirect costs. The quantified effect of the change corresponds to the HUF th 38,683 decrease in indirect depreciation during the period under review, in comparison with the previous period.

Beside the indirect cost elements listed above, further decrease took place in the period under review with respect to banking charges, insurance costs, duty-type expenses, as well as the costs of presence as a public company and at the stock exchange stated as indirect costs. In this latter context, it can be noted that PannErgy Group continues to attribute importance to supporting sports and other social initiatives in the cities and settlements where its operating projects are located, their broader regions, and ultimately the final consumers of geothermal energy as part of its social corporate responsibilities.

7. Costs of sales (Direct costs)

	2017 HUF th	2016 HUF th
Indirect depreciation (geothermal assets)	1,298,728	1,156,023
Maintenance, operating costs	756,991	431,195
Costs of goods sold, mediated services	536,983	788,353
Electric power costs	518,387	390,014
Facility maintenance costs, rental costs	364,171	317,539
Re-injection expenses	278,752	264,970
Insurance expenses (directly related to production)	25,906	23,070
Maintenance materials	21,277	87,289
Other direct costs	19,496	207,461
Total	**3,820,691**	**3,665,914**

The costs of sales and indirect costs at PannErgy Group increased almost in proportion to the volume of revenue from sales. In this context, within the category of "Costs of goods sold, mediated services" HUF th 476,800 represented costs of sales not belonging to geothermal energy, but they were re-invoiced items, principally electric power, associated with the utilization of the real-estate properties in Csepel and Debrecen.

The increase in direct depreciation was the outcome of the commissioning of capacity-increasing investments in 2016 and supplementary investments in 2017. The rise in maintenance costs was associated with the Geothermal Project of Győr.

The costs of electric power needed for heat production and heat sales, facility maintenance costs and re-injection costs showed upward trends because of the increasing heat sales, in view of the given production structure, too.

Decreasing maintenance materials are owing to the fact that the maintenance and operating costs in the period under review already cover the majority of these types of costs.

8. CHANGES IN HEADCOUNT AND WAGE COSTS

	2017	2016
Average headcount (employees)	28	33
Wages and salaries (HUF th)	82,780	119,678
Other personnel expenses (HUF th)	8,984	14,730
Taxes and contributions on wages (HUF th)	20,629	36,436
Total	**112,393**	**170,844**

The average employee headcount of PannErgy Group in 2017 was 28 persons, which meant 15% reduction in comparison with the 33-strong average statistical headcount in 2016. The reason for this reduction was the Company's move to rationalize the headcount substantially by focusing on the operation of the existing projects in the second half of the previous year, which had positive implications all through the period under review. As of 31 December 2017, the actual employee headcount of PannErgy Group was 20 people, and the difference between the average statistical headcount and the actual headcount of employees originated from part-time employments at the individual Group entities.

In 2017, PannErgy Group paid contributions to the voluntary pension funds in an amount of HUF 240,000 in relation to 1 employee, while this item had amounted to HUF th 1,271 in the consolidated financial statements of 2016 with respect to 13 employees. Amounts payable to voluntary pension funds are determined by the employees in the framework of the uniform fringe benefit systems, which is available to all the employees of PannErgy Group, by observing the restrictions defined by PannErgy Group.

9. Other expenditures

	2017 HUF th	2016 HUF th
Local taxes, duties, fines	98,918	102,969
Mining annuities	67,933	60,917
Extraordinary depreciation, write-off of tangible assets, intangible assets	17,758	238,437
Deficiency, write-off of inventories	10,689	2,656
Impairment losses raised on receivables	7,167	-
Expenditures relating to damage incidents	2,205	2,517
Fines, penalties, default interest, damages paid	1,593	12,602
Supports provided as compensation for costs	1,350	1,350
Levies, contributions	57	114
Expenditures in relation to completed projects (impairment loss, write-off, recultivation)	-	89,568
Sponsorship to spectacle team sports	-	5000
Miscellaneous	3,740	45,514
Total	**211,410**	**561,644**

Within the total HUF th 211,410 value of other expenditures in the year under review, the largest single item was constituted by local taxes – primarily local trading tax – paid by the Company to the municipalities at the operating sites of geothermal projects in an amount of HUF th 98,918. Besides, another significant item was the mining annuities that were payable in connection with the production of geothermal heat; under this title, the Company had expenditures in an amount of HUF th 67,933 in the period under review. In relation to geothermal projects, tangible assets and inventories were scrapped, written off in an amount of HUF th 17,758 and HUF th 10,689, respectively. In relation to other expenditures for the period under review, it can be claimed that unlike in the same period of the previous year there were no considerable non-recurrent items (e.g. extraordinary depreciations, impairment losses in material amounts).

10. OTHER INCOMES

	2017 HUF th	2016 HUF th
Subsidies received for development purposes	303,894	412,377
Income relating to damage incidents	213,410	8,580
Follow-up discounts	82,148	5,000
Fair value measurement of properties held for sale	70,469	-
Imposed fines, damage compensation	70,139	15,575
Profit on the sales of tangible assets	978	36,865
Lump-sum collection costs, default interests released	-	126,098
Miscellaneous	7,178	58,230
Total	**748,216**	**662,725**

Within the HUF th 748,216 volume of other incomes during the year under review, the most significant item was the value of aids received, which dropped in comparison with the previous period, because in the base period a subsidy disbursed following the closing of the subsidy application process in 2015 was presented as an item in other incomes, in line with the type of the item. The incomes presented as aids that were received for development purposes in the period under review cover the write-back of deferred incomes in proportion of the depreciation during the year under review. Furthermore, within other incomes significant amounts are given by damage compensation connected with damage incidents in the earlier periods and period under review, as well as incomes otherwise relating to damage events. HUF th 283,549 were received as compensation payments made by insurance companies in connection with the failures or outages of machines – in fact compensate for lost incomes –, as well as contractual penalties, indemnifications received from/acknowledged by suppliers.

At the end of the period under review, in the light of the sales plans, actions and available information, the Company reclassified its former investment properties into the category of fixed assets held for sale, which were subjected to fair value measurement. In the course of fair value measurement, the fair value established in the independent market appraisal for the properties in question as compared with their book values, with the proper consideration of a significant, 50% discount factor towards the short-term disposal of these industrial properties, this factor represents the time-necessity of sale and selling costs . With this approach, the given properties held for sale were re-valuated to worth HUF th 70,469, which was to increase other incomes.

11. FINANCIAL INCOMES

	2017 HUF th	2016 HUF th
Exchange gains on FX credits, loans	33,408	90,872
Exchange gains in relation to receivables	6,334	10,811
Exchange gains in relation to payables	4,223	4,611
Exchange gains in relation to FX accounts	2,150	288
Interests received and interest-type incomes	1,833	2,522
Exchange gains on derivative transactions	652	10,549
Exchange gains on negotiable securities	1	2,274
Write-backs relating to the share option program	-	12,583
Exchange gains on the disposal of participations	-	2,484
Other financial incomes	-	449
Total	**48,601**	**137,443**

Among financial incomes, exchange gains in relation to the Company's EUR-denominated investment loans were realized in an amount of HUF th 33,408. During the year under review, the HUF th 652 exchange gains on derivative transactions were achieved in connection with futures foreign currency transactions, in transactions concluded by the Company in line with PannErgy Group's trade payables outstanding in foreign currencies.

12. FINANCIAL EXPENDITURES

	2017 HUF th	2016 HUF th
Interests paid and interest-type expenditures	280,565	414,715
Exchange losses on FX credits, loans	21,681	31,513
Exchange losses relating to receivables	11,882	30,565
Exchange losses relating to payables	5,545	11,833
Losses on derivative transactions	3,709	644
Exchange losses in relation to FX accounts	2,447	3,012
Exchange losses on the disposal of participations	-	218
Expenditures of the share option program	-	56,236
Other financial expenditures	20,225	-
Total	**346,054**	**548,736**

The financial expenditures amounted to HUF th 346,054 in the period under review, which was by HUF th 202,682 more favourable than the amount of financial expenditures in 2016. It was primarily caused by the lower level of expenditures from interests paid, and as a positive outcome of the refinancing moves in Győr and Miskolc in 2016 and 2017, respectively, HUF th 134,150 less interests expenditures were incurred. Beyond the positive influence of refinancing reflected by the financial profit, favourable trends could be seen in the profit-related outcomes of the exchange rate differences of FX receivables and payables.

Within interest paid and interest-type expenditures, HUF th 3,709 was associated with interest swap transactions during which PannErgy Group exchanged its credits carrying variable interests for fixed interest rate conditions in periods settled during the year under review.

For some of the financial expenditures, effective interest expenditures can be seen in connection with the amortized costs of long-term receivables in an amount of HUF th 16,842.

13. OTHER INFORMATION RELATING TO FINANCIAL OPERATIONS

	2017	2016
HUF/EUR exchange rate on 31 December of the current year	311.02	313.32
HUF/EUR exchange rate on 31 December of the year	310.14	311.02
Difference of the HUF/EUR exchange rate	-0.88	-2.30

The outcome of the year-end FX revaluations amounts to HUF th 21,133 profit, and is primarily connected with EUR-denominated investment loans.

14. Intangible assets

Gross value

data in HUF th

	Goodwill	Geotherm. know-how	Valuable rights	Purchased software	Total
1 January 2016	-	847,031	466,099	84,443	1,397,573
Purchasing	343,075	-	-	898	343,973
Sales	-	-	-	-	-
Impairment loss, write-off	-	-167,951	-223	-403	-168,577
Reclassification	-343,075	304,392	-304,392	-49,518	-392,593
31 December 2016	-	983,472	161,484	35,420	1,180,376
Purchasing	174,462	-	-	-	174,462
Sales	-	-	-	-	-
Impairment loss, 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

Accumulated depreciation

	Goodwill	Geotherm. know-how	Valuable rights	Purchased software	Total
1 January 2016	-	65,695	196,021	5,460	267,176
Increase	-	74,301	2,142	1,605	78,048
Sales	-	-	-	-	-
Impairment loss, write-off	-	-	-	-	-
Reclassification	-	62,437	-134,984	15,212	-57,335
31 December 2016	-	202,433	63,179	22,277	287,889
Increase	-	36,601	36,750	7,817	81,168
Sales	-	-	-	-	-
Impairment loss, write-off	-	-	-	-	-
Reclassification	-	31,342	-31,342	-	-
31 December 2017	-	270,376	68,587	30,094	369,057

Net value

1 January 2017	-	781,039	98,305	13,143	892,487
31 December 2017	517,537	793,736	12,257	5,326	1,328,856

In connection with the 6.91% participation acquired from ONP Holdings SE at a value of HUF th 750,000 in two installments, a minority share of HUF th 232,463 was written off, giving rise to goodwill in an amount of HUF th 517,537.

From among the above-mentioned value of the goodwill, HUF th 174,462 is associated with the second phase and closing of the transaction during the period under review, when the Company purchased the remaining 2.3% PEGE share against an amount of HUF th 250,000. During the period under review, HUF th 343,075 goodwill was reclassified from the value of tangible assets, and thus it was stated in a separate goodwill line after the review of the accounting policy, because the goodwill generated in the base period had been split up in the previous year among the tangible assets of the Miskolc, Győr and Szentlőrinc projects, belonging to the PEGE business lines.
With respect to the value of the goodwill, on 31 December 2017 the Company conducted the impairment loss test based on the forecasts of the future discounted cash flow of the connected cash-generating units, which confirmed that the HUF th 517,537 value of the goodwill was a fair value, and therefore the recognition of impairment loss was not justified.

Besides the value of the goodwill, the Company presents a major development as geothermal know-how among intangible assets, which is associated with geothermal exploration, drilling operations. In the case of the successful drilling operations that have already been completed, the know-how lies with the group entities involved in the projects, and depreciation is accounted. Furthermore, the know-how connected with the geothermal business line and future geothermal explorations lies with PannErgy Geothermal Power Plants cPlc. The presentation of this large-value intangible asset in the report is justified, because it can bring about actual future profits that can be attributed to the given asset. In view of the year-end calculations that were made with the use of the best estimates given by the Group's management, the future cash flows originating from the developments shown in the consolidated statement of financial position can be quantified. After the application of discounting, these cash flows broken down to the individual cash-generating units were compared with the tangible assets and goodwill of the cash-generating units, and additionally with the book value of the geothermal know-how possessed by the Group, and based on the outcomes the accounting of the impairment loss in the period under review was not justified.

Towards uniform accounting treatment on the Group level, after individual re-ratings certain intangible assets were reclassified during the period under review in between various categories of intangible assets with respect to their nature.

15. Tangible assets

data in HUF th

Gross value	Properties held for sale	Lands and buildings	Machinery, equipment and vehicles	Investment	Total
1 January 2016	-	15,788,660	6,399,332	89,448	22,277,440
Purchasing	-	-	-	966,091	966,091
Capitalization	-	78,678	897,087	-975,765	-
Sales	-	37,405	65,525	-	102,930
Reclassification, write-off, impairment loss	-	312,125	22,499	-49,985	284,639
31 December 2016	-	16,142,058	7,253,393	29,789	23,425,240
Purchasing	-	-	-	494,035	494,035
Capitalization	-	-	329,269	-329,269	-
Sales	-	-	-1,222	-	-1,222
Impact of fair value measurement	70,469	-	-	-	70,469
Reclassification to goodwill	-	-343,075	-	-	-343,075
Reclassification to properties held for sale	272,531	-347,456	-	-	-74,925
Other movements	-	-27,160	17,758	-	-9,402
31 December 2017	343,000	15,478,687	7,563,682	194,555	23,579,924

Cumulative depreciation	Properties held for sale	Lands and buildings	Machinery, equipment and vehicles	Investment	Total
1 January 2016	-	427,197	1,156,799	-	1,628,996
Increase	-	463,412	654,951	-	1,118,363
Sales	-	-306	-18,778	-	-19,084
Reclassification, write-off, impairment loss	-	-3,901	-10,294	-	-14,195
31 December 2016	-	931,402	1,782,678	-	2,714,080
Increase	-	457,314	761,952	-	1,219,266
Sales	-	-	-	-	-
Reclassification, write-off, impairment loss	-	-74,925	-	-	-74,925
31 December 2017	-	1,313,791	2,544,630	-	3,858,421

Net value					
1 January 2017	-	15,210,656	5,470,715	29,789	20,711,160
31 December 2017	343,000	14,164,896	5,019,052	194,955	19,721,903

Lands and buildings reclassified to intangible assets in a total value of HUF th 343,075, including goodwill are explained in Chapter 14. Intangible assets.

The Company real-estate properties in Budapest XXI. district (Csepel) and Debrecen were among the properties named in the consolidated statement of financial position and among investment properties for the previous year.
At the end of the period under review, in the light of the sales plans, actions and available information, the Company reclassified its former investment properties in a total value of HUF th 272,531 (after HUF th 74,925 depreciation for the year) into the category of fixed assets held for sale, which were subjected to fair value measurement. In the course of fair value measurement, the fair value established in the independent market appraisal for the properties in question as compared with their book values, with the proper consideration of a significant, 50% discount factor towards the short-term disposal of these industrial properties, which factor represents the time necessity of selling costs. With this approach, the given properties held for sale were re-valuated to worth HUF th 70,469, which was to increase other incomes.
At the other movements category HUF th 17,758 is write-off costs of Machinery, equipment and vehicles. At lands and buildings HUF th 27,160 increasing is related to previous year, is not affected by consolidated statement of profit or loss of this year, accounted against equity.

Certain properties and machinery serve as collateral for the existing investment loans. In this context, the following material restrictions of title, mortgages were in effect on 31 December 2017 with respect to properties, plants and equipment:

PannErgy Company	Financier	Amount of the collateral encumbering tangible assets	Collaterals
Kuala Ltd. Miskolc Geothermal cPlc.	UniCredit Bank Hungary cPlc.	EUR 4,500,000 and HUF th 2,292,675	Combined mortgage right on assets for a fixed amount (all real-estate and movable properties), PEGE Zrt. shares
Arrabona Geothermal Ltd. DD Energy Ltd.	CIB Bank cPlc.	EUR 27,402,334	Combined mortgage right on assets for a fixed amount (all real-estate and movable properties), PEGE Zrt. shares
Szentlőrinc Geothermal cPlc.	Széchenyi Bank cPlc.	HUF th 540,000	Mortgage right on assets for a fixed amount (all real-estate and movable properties)
Berekfürdő Energy Ltd	Unicredit Leasing Hungary cPlc.	EUR 617,502	Mortgage right on the assets of the geothermal project, PEGE Zrt. enforceable guarantee

During the period under review, no tangible assets were revaluated.

15.1. *Year-end valuation of large-value tangible assets*

Due to the special nature of geothermal projects, in several subsidiaries PannErgy Group holds large-value assets (production and re-injection wells, real-estate properties, heating centers, transmission lines, other assets), where cash-generating capacity can be interpreted solely when it is project to all the tangible assets as the cash-generating unit connected with the given project, as a result of the nature of the project. As a sign of confirmation, the individual projects are organized into separate economic units, and any given group of assets is used only on a single market.
On 31 December 2017, the impairment loss test was carried out at all the PannErgy entities where the decisive majority of assets is involved in or directly connected to production as irrespective of the fact whether or not the Company perceived any sign of impairment loss.

PannErgy Group understands a sign of impairment loss if losses occurred in the previous years or during the year under review, which can potentially indicate that the economic performance of the assets is weaker than the expected level specified at the time of commissioning.
Due to the special nature of geothermal activities, valuation based on the income-generating capacity is used for the year-end valuation of large-value assets, the impairment loss test instead of market comparison, cost-based valuation or the residual goodwill method. In the applied method, the future benefits arising from the ownership of the large-value assets for PannErgy Group were quantified, and the present values of these quantified benefits, as future cash flows were estimated. As an advantage, the income-generating capacity was determined as the basis, meaning that based on the detailed model connected with the upcoming years the discounted present values of the indicated cash flows were calculated. Calculated during the impairment loss test, this value as the value of return was compared with the combined book value of tangible assets and intangible assets as of 31 December 2017.
The model for the calculation of the value of return includes:

- estimate in relation to the planned amounts of future cash flows originating from assets that are defined as individual cash-generating units for the companies;
- the amount of these future cash flows and timely performance;
- the time value of money;
- other factors based on other sectoral characteristics.

Based on the conducted impairment loss tests, in line with the requirements of the *IAS 36 standard* the Group's assets are recognized at values not exceeding the respective values of return, meaning that if their book values exceed the amounts returning from the use or sales of the assets, no impairment losses are not recognized.

16. INVESTMENTS

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Geo-Wendung cPlc.	-	250,000
Pannunion Service GmbH	22,935	22,935
Total	**22,935**	**272,935**

In its consolidated statement of financial position, under the heading of Long-term investments PannErgy Group presents the book value belonging to Pannunion Service GmbH, an entity that was acquired as an investment, but not consolidated, where PannErgy Group held 91%. In view of the owners decided the liquidation of company, Pannunion Service GmbH isn't involved in the scope of consolidation, and such involvement would not have any material impact on the consolidated financial statements. Pannunion Service GmbH is in the process of voluntary dissolution, which will be concluded in 2018. At the time of the division of assets as part of the voluntary dissolution, the Company's investment will fully return.

The Company's direct investment in 40% of Geo-Wendung cPlc. (24% indirect investment) at a worth of HUF th 250,000 was shown among marketable investments in the previous year. This investment ceased to exist in the period under review, as the Company sold its 100% business share in CSRG Energy cPlc., the 24% owner of Geo-Wendung cPlc.

17. Financial assets (in relation to the concession agreement)

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
PannErgy Concession Ltd's investment in Győr	64,740	-

As of 31 December 2017, PannErgy Group recognized financial assets in an amount of HUF th 64,740 in its consolidated financial statements, in accordance with the requirements of the IFRIC 12 interpretation. This financial asset covers the costs incurred in an amount of HUF th 19,740 in relation to the preparations, assessment needed for the concession project that is set to be implemented in 2018 in connection with the Company's Geothermal Project of Győr, as well as the concession fee paid to the Hungarian State in an amount of HUF th 45,000.

The Company's subsidiary, PannErgy Geothermal Power Plants cPlc. signed a concession agreement with the State of Hungary for a definite term of 35 years (with a non-recurrent renewal option for another term of 17 and half years) in relation to the area of Győr, towards the exploration, extraction and utilization of geothermal energy. For this project, in 2017 PannErgy Geothermal Power Plants cPlc. formed a separate concession companies, PannErgy Concession Ltd.

With respect to the legal and accounting classification of the project to be implemented during the effective term of the concession agreement and in observance of the contracted conditions, the project is in line with the interpretation given in IFRIC 12, based on which the value of the investment so far realized in the framework of the project will be presented among fixed assets, as financial assets in the consolidated statement of financial position, where the presented value corresponds to, i.e. covered by the value of the discounted cash flow foreseen to occur over the 35-year term of the concession agreement in proportion to the rate of the completion of the investment from time to time.

18. LONG-TERM RECEIVABLES

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Other receivables	203,784	14,929

As of 31 December 2017, PannErgy Group recognized long-term receivables in an amount of HUF th 203,784 in its consolidated financial statements. These receivables presented at their amortized costs are connected with sales and purchasing transactions where a part of the purchase price is payable in the long term, and therefore the Company agreed with the buying partner on a schedule involving installments over one year.

19. LEASE RECEIVABLES

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

20. INVENTORIES

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Materials	22,955	3,710
Production in progress and semi-finished products	-	-
Finished products	-	-
Merchandise (goods for resale)	97,518	144,669
Impairment loss on inventories	-	-
Total	**120,473**	**148,379**

Presented in the consolidated financial statements for 2017 and 2016, a major part of inventories are goods, notably goods used in for the implementation of geothermal projects (typically casing pipes) and additionally the Company also had maintenance materials as of the date of the consolidated financial statements.

The main reason underlying the decrease in inventories during the period under review, but in the course of the technical review of inventories items were scrapped and written off in an amount of HUF th 10,689.

21. TRADE RECEIVABLES

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Trade receivables	1,376,329	1,671,245
Impairment losses raised and written back for doubtful receivables	-7,167	-
Total	**1,369,162**	**1,671,245**

The entities of PannErgy Groups pursue selling operations to a smaller number of concentrated partners, generally with long-term contractual backgrounds. In the light of the steady nature of customer relations, impairment losses raised for trade receivables are not typical at PannErgy Group, and in the period under review impairment losses were raised in an amount of HUF th 7,167 in relation to one partner (see 38. Impairments).

Trade receivables do not carry interests, and in general are for terms of 30 days.
In comparison with the base period, trade receivables remained on an approximately identical value.

22. OTHER RECEIVABLES

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Receivables connected with damage events	130,438	-
Deferred items for the upcoming period	118,177	99,354
Other tax receivables	79,837	188,877
Follow-up discounts	39,000	-
Prepayments provided	11,102	71,226
Receivables associated with derivative transactions	9,300	519
Other loans provided	3,405	21,143
Receivables from employees	58	64
Miscellaneous	-	-
Total	**391,317**	**381,183**

In other receivables HUF th 130,438 is receivables connected to damages events of geothermal machineries, equipments and these receivables are confirmed by partners and partly will be paid in the future.

As of 31 December 2017, PannErgy Group recognized follow-up discount receivables in an amount of HUF th 39,000 in its consolidated financial statements. These receivables connected with acquired services and settled to the financial statement date.

From the items accrued in relation to the upcoming period, HUF th 78 is associated with revenue from sales and an amount of HUF th 118,099 with costs. The details of the amount of other tax receivables reflect that receivables for value-added tax are the most significant with an amount of HUF th 43,734 alongside receivables relating to corporate income tax at a value of HUF th 20,385 and receivables for innovation contribution in an amount of HUF th 20,591.

From among tax-type receivables, prepaid income taxes are shown in a separate line of the financial statement, where the Company stated an amount of HUF th 20,062 for the period under review after the HUF th 40,153 value of the previous period.

23. SECURITIES (MARKETABLE FINANCIAL ASSETS)

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Securities held to expiry	200,027	20

After the previous year, the value of securities considerably increased in the consolidated financial statements; it was caused by the fact that after the refinancing transaction for Miskolc – in line with its cash flow plans – PannErgy Group made temporary investment in an amount of HUF th 200,000 in short-term governmental notes (discount treasury notes) until the beginning of the geothermal well drilling to be completed in the second quarter of 2018 during the concession investment of Győr.

24. SUBSCRIBED CAPITAL

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Subscribed capital	421,093	421,093

As of 31 December 2016, the amount of the subscribed capital was HUF th 421,093, which did not change in 2017. The financial reports state the amount of the subscribed capital in view of all the shares issued, whereas the number of shares is calculated with the deduction of repurchased treasury shares.

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

As of December 31 2017, the Company and its subsidiaries belonging to the scope of consolidation held 3,375,638 treasury shares, representing 4.6% growth after the previous period, as a consequence of the treasury share purchases taking place from January to March in the period under review.

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

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

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

25. TREASURY SHARES

	31. Dec. 2017	31. Dec. 2016
Treasury shares (number)	3,375,638	3,228,438
Face value (HUF th)	67,513	64,569
Cost (HUF th)	3,169,955	3,101,545

As of December 31 2017, the Company held 3,375,638 treasury shares belonging to PannErgy Plc, exceeding the treasury share holding on 31 December 2016 by 147,200 shares. The underlying changes comprised an increase of 147,200 treasury shares held, while the period under review did not see any decrease in treasury shares in association with the share option program or otherwise. Announced on 18 December 2017, the Company settled the option for 98,000 shares just after 31 December 2017.

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

Within the meaning of the decision of the Company's General Meeting held on 28 April 2017, PannErgy Plc launched yet another treasury share purchasing program with the starting date of 29 April 2017 and closing date of 27 April 2018. Within the framework of this program, PannErgy Plc is to purchase treasury shares in a maximum amount of HUF 1,000 million at the stock exchange, at a rate ranging from HUF 1 and HUF 600. While the authorization of the General Meeting was in place, during 2017 no treasury shares were repurchased in the framework of this program due to the considerable increase of the share rate.

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

26. Reserves

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

	31. Dec. 2017 HUF th	**31. Dec. 2016 HUF th**
Capital reserve	10,515,993	10,515,993
Profit reserve	1,700,805	1,967,453
Other reserves	-955,953	-946,652
Total	**11,260,845**	**11,536,794**

The capital reserve can be associated with two historic events: on the one hand, the decrease of the subscribed capital at the time of restructuring into a company limited by shares, and on the other hand the exchange gains realized on the issuance of shares. The amount stated as the capital reserve did not change from the business year of 2016 to 2017.

The profit reserve covers the amount of the profits accumulated by PannErgy Group in the previous year less the amount of the dividends paid to the shareholders. In 2016 and 2017, no dividend payments were approved.

Under other reserves, the Company accounted for the exchange rate differences originating from the consolidation of the foreign subsidiaries that were sold in former years, as well as exchange losses suffered on the selling of treasury shares.

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

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

27. MINORITY INTERESTS

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Balance as of 1 January	183,372	247,609
Part of the profit of subsidiaries in the year under review belonging to minority (external subsidiary) shareholders	16,670	-7,530
Decrease/increase of minority participation due to the sales/acquisition of business shares in subsidiaries	-175,502	-56,707
Balance as of 31 December	**24,540**	**183,372**

27.1. *PEGE participation acquired from ONP Holdings SE*

The period under review also saw the closing of the transaction between ONP Holdings SE and PannErgy Plc for the acquisition of ONP Holdings SE's 6.91% minority participation in PannErgy Geothermal Power Plants cPlc. based on a share transfer agreement. From the HUF th 750,000 amount determined as the purchase price of the 6.91% share, HUF th 500,000 was financially settled back in 2016 with the concurrent write-off of 4.6% minority interests. For the closing of the transaction, the selling of the remaining 2.3% share and the payment of the second, HUF th 250,000 installment took place in in April 2017. As a result of the transaction, PannErgy Plc's shareholding in PannErgy Geothermal Power Plants cPlc. increased from 97.7% on 31 December 2016 to 100% on 5 May 2017. In the Company’s consolidated financial statements relating to the period under review, the minority interests in PannErgy Geothermal Power Plants cPlc. deceased by HUF th 75,538 to zero.

27.2. *Other changes in participations during the year under review*

In October 2015, with an investment at a worth of HUF th 250,000 CSRG Energy cPlc. acquired 40% share in Geo-Wendung cPlc. committed to the utilization of secondary geothermal heat in Miskolc. Based on the sales contract concluded in March 2016, the Company sold 40% of its participation in CSRG Energy cPlc. against a HUF th 100,000 purchase price to a group of investors committed to the utilization of secondary heat, as a customer partner, and in this context the amount of minority participation in the Company’s consolidated financial statements rose by HUF th 100,218. During the period under review, the shareholders of CSRG Energy cPlc. decided on demerger, and by end of the demerging process registered on 30 May 2018 CSRG Energy Ltd became the 100% subsidiary of PannErgy Geothermal Power Plants cPlc., while the Company’s minority interests in CSRG Energy cPlc. dropped by HUF th 99,963 to zero.
After the merge, CSRG Energy cPlc. (holding a 24% share in Geo-Wendung cPlc.) was sold during the period under review, in December 2018.

In 2017, the amount of minority participations increased by HUF th 16,669 owing to the profits of the subsidiaries in question.

28. Long-term liabilities

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Long-term credits, leases		
- EUR-based credit secured with collateral	*7,369,710*	*6,864,247*
- HUF-based credit secured with collateral	*2,533,599*	*2,872,678*
- Financial lease obligations	*51,008*	*65,555*
- HUF-based loan not secured with collateral	*-*	*11,200*
- Reclassified to other short-term liabilities, payable within the year	-1,159,562	-955,415
Long-term credits, leases in total	**8,794,755**	**8,858,265**

The increase in long-term credits during the period under review is the consequence of the restructured tenor resulting from the refinancing move that was connected with the Geothermal Project of Miskolc.

28.1. *Weighted average interest rate of long-term credits*

The basis of the interest rates of the EUR-denominated at the geothermal project companies of Győr and Miskolc – as irrespective of the funding financial institution involved – is the 3-monthly EURIBOR, and the 1-monthly EURIBOR in the case of the refinancing of Berekfürdő Energy Ltd. With respect to this fact and the contracted interest premium, the weighted average interest rate of the collateralized, EUR-denominated credits as of 31 December 2017 was 2.47%, after 2.49% on 31 June 2016; these weighted average interest rates were not calculated purely from the EURIBOR rate, but also reflected the impacts of the connected interest swap transactions.

The collateralized HUF-based credits either carry fixed 2.5% interests, or based on the 1-monthly or 3-monthly BUBOR. Their weighted average interest rate was 3.10% in the period under review, which indicates slight improvement in comparison to the 2.93% figure in the corresponding period of the previous year, reflecting the positive influence of interest swap transactions in maintaining interests on their prevailing levels.

Their weighted average interest rate of financial leases was 6.91% as of 31 December 2017, which is identical to the corresponding figure in the previous year.

28.2. *Expiry dates of long-term credits*

From the HUF th 8,764,755 amount of long-term credits, HUF th 4,335,555 represents liabilities expiring in one to five years, whereas HUF th 4,459,200 matures over five years.

28.3. *Details of lease liabilities as part of long-term credits*

2017

Description	**EUR**	**HUF th**	**Expiry**	**Book value of the associated assets, HUF th**
Production equipment	164,470.15	51,009	04.01.2021	117,998

2016

Description	**EUR**	**HUF th**	**Expiry**	**Book value of the associated assets, HUF th**
Production equipment	210,775.60	65,555	04.01.2021	129,901

The lease obligation relates to the technical equipment of the Berekfürdő Project.

28.4. *Other long-term deferred incomes*

	2017 HUF th	**2016 HUF th**
Other long-term deferred incomes	4,562,809	4,845,698
Short-term amount of long-term incomes	-291,481	-280,771
Other long-term deferred incomes in total	**4,271,328**	**4,564,927**

In relation to its energy projects, under the heading of other long-term deferred incomes the Company states the long-term tranches of the non-repayable subsidies awarded to the geothermal projects in subsidy application schemes, while the short-term parts are recognized among short-term liabilities; these latter amounts are stated under other incomes in condolidated statement of profit or loss with respect to the write-backs in proportion of the depreciation for assets concerned in the subsidy.

The heading of long-term, deferred incomes presents the long-term tranches of the non-repayable subsidies awarded to the geothermal projects in subsidy application schemes on the level of PannErgy Group, and are stated in the individual balance sheets among accruals. The short-term parts are shown among short-term liabilities.

28.5. *Details of subsidies connected with deferred incomes*

data in HUF million

Group entity	Project ID	Eligible investment costs	Subsidy awarded	Subsidy called off	Deferred incomes from subsidies (liabilities)
Szentlőrinc Geothermal cPlc.	KEOP-4.2.0/B-09-2009-0026	883	442	427	364
Berekfürdő Energy Ltd.	KEOP 4.4.0/A/09-2009-0009	250	125	125	70
DoverDrill Ltd.	GOP-1.3.1-11/A-2011-0192	232	104	104	62
Miskolc Geothermal cPlc.	KEOP 4.7.0-2010-0001	632	316	314	271
Miskolc Geothermal cPlc.	KEOP 4.2.0/B-11-2011-0007	2,856	1,000	1,000	833
Miskolc Geothermal cPlc.	GOP-1.2.1/B-12-2012-0005	323	162	148	80
Kuala Ltd.	KEOP 4.7.0/11-2011-0003	619	309	309	283
Kuala Ltd.	KEOP-4.10.0/B-12-2013-0012	2,836	1,000	1,000	850
DD Energy Ltd.	KEOP-4.10/B-12-2013-0010	3,997	1,000	1,000	880
Arrabona Geothermal Ltd.	KEOP-4.10/B-12-2013-0011	3,509	1,000	992	870
PannErgy Geothermal Power Plants cPlc.	PIAC_13-1-2013-0006	889	442	442	-
Total subsidies stated in the financial statements as of 31 December 2017:					**4,563**

By type, all the above projects target project implementation, whereas the project objectives for KEOP subsidy applications focus on the utilization of geothermal energy, whereas for GOP subsidies asset procurement or system development. The subsidies received in association with the PIAC_13 subsidy application scheme was fully recognized as incomes in connection with the selling of the know-how developed in relation to the subsidy, as well as the depreciation of the assets that were purchased in association with developments until the closing of the project.

The maintenance periods relating to the individual projects funded from subsidies do not affect write-backs of subsidies, because they are associated with the useful lifetimes of the assets financed from the subsidies.

PannErgy Group does not recognize obligations connected with advance subsidies payments as of 31 December 2017.

29. Short-term credits

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Short-term bank loans	-	-
Short-term part of long-term credits	1,159,562	955,415
Other short-term credits	48,072	142,377
Total	**1,207,634**	**1,097,792**

Among short-term loans, there is an obligation connected with a lease agreement for a specific group of tangible assets where the short-term repayment obligation is as follows:

Description	EUR	HUF th	Expiry
Production equipment	45,943	15,365	04.01.2021

29.1. *Short-term amount of other long-term deferred incomes*

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Short-term amount of other long-term deferred incomes	291,481	280,771
Total	**291,481**	**280,771**

The parts of the subsidies awarded in subsidy application schemes for geothermal projects that can be used within one year are presented under other incomes in the profit or loss account, in proportion of the depreciation of the intangible assets and tangible assets directly associated with the given subsidies application scheme.

30. Provisions

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Opening balance as of 1 January	56,236	13,745
Provisioning	-	56,236
Provisions reclassified	-56,236	-
Provisions released	-	-13,745
Closing balance as of 31 December	**-**	**56,236**

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

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

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

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

31. OTHER SHORT-TERM LIABILITIES

	31. Dec. 2017 HUF th	**31. Dec. 2016 HUF th**
Tax and contribution liabilities	177,940	189,764
Deferred items for the upcoming period	137,658	120,681
Wages, salaries and social insurance	4,516	7,887
Liabilities relating to derivative transactions	-	5,063
Liabilities relating to the share option program	209,046	-
Miscellaneous	4,420	14,633
Other short-term liabilities in total	**533,580**	**338,028**

Among other short-term liabilities, the largest single item is constituted by the obligations connected with the share option program for 2016–2019 (see details in Chapter 37. Share-base payments)
The Company recognizes tax and contribution liabilities in an amount of HUF th 177,940, including an outstanding, HUF th 155,341 amount of VAT payables, as well as the HUF th 21,478 amount of the mining annuity payment obligations due from the project companies involved in geothermal heat generation.

At miscellaneous items HUF th 4,419 amount is related to former transformation of shares from materialized to dematerialized as liabilities to owners.

Deferred items stated for the upcoming period in a total amount of HUF th 137,658, th HUF 76,942 is associated with incomes, whereas HUF th 60,716 belongs to the costs of the next period; from this latter amount, HUF th 8,825 represents interests that are payable in the upcoming period.

32. TAXATION, INCOME TAXES

32.1. *Income taxes for the year under review*

	2017 **HUF th**	**2016** **HUF th**
Tax liabilities in the year under review	25,772	15,554
Effect of deferred taxes	95,235	12,178
Total	**121,007**	**27,732**

The corporate income tax payment obligation on the Group level, for the year under review is determined on the basis of the taxable profits of the individual companies assessed in accordance with the relevant Hungarian regulations. For all the entities of PannErgy Group, the applied corporate income tax rate is 9% in contrast with 10% in the previous year.

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

32.2. *Receivables from deferred taxes*

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

	2017 HUF th	2016 HUF th
Return due to accrued losses	127,169	210,191
Difference originating from depreciation under the Accounting and Taxation Act	-1,285	-
Difference in the depreciation of tangible assets due to consolidation	218,313	214,827
Provisioning	-	-
Deferred tax receivables (gross)	*344,197*	*425,018*
Deferred tax payables (gross)	*-53,222*	*-38,808*
Deferred taxes to be settled (net)	**290,975**	**386,210**
Deferred taxes stated for the previous year	386,210	398,388
Deferred tax settlement/write-back	95,235	-12,178
Deferred tax receivables as of 31 December	**290,975**	**386,210**

Based on the tax brackets prescribed in the changes in the relevant legal regulations from 1 January 2017, the HUF th 290,975 deferred tax receivables recognized among fixed assets covers the 10% corporate income tax relating to the negative tax base that remained unused in association with the subsidiaries belonging to PannErgy Group, as well as other deferred tax-modifying items under IFRS. Tax receivables deferred due to accrued losses are based on the controlled, deferred taxes of the subsidiaries concerned. Based on the Company's decision, instead of the 10-year period applied earlier now a period of 5 years is taken into account for the return of accrued losses in line with the recommendations of the IAS 12 standard, which resulted in a HUF th 78,232 decrease in the amount of deferred taxes.

The gross amount of deferred tax receivables is HUF th 344,197, which further decreases the amount of deferred tax liabilities associated with development reserves by HUF th 53,222.

As these deferred tax receivables and liabilities are incurred against the same tax authority, these amounts of netted in accordance with the relevant IFRS requirements, and therefore the consolidated financial statements recognize HUF th 290,975 as deferred tax receivables.

32.3. *Calculation of the effective income tax*

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

	2017 HUF th	2016 HUF th
Profits before taxes (individual companies)	**815,498**	**-283,292**
Tax calculated on the basis of the effective tax rates that are applicable to the profit of the group entities (10% in 2016 and 9% in 2017)	74,712	18,437
Effect of different tax rates (minimum profit tax)	1,386	7,178
Effect of the changes in the tax rate		
Tax implications of non-deductible expenditures, effects of differences in depreciation and other tax-decreasing items	-2,535	23,538
Tax-free incomes		-
Tax allowances	-21,102	-16,294
Deferred tax liabilities assessed in the year under review for any negative tax base not stated earlier	-26,689	-17,305
Tax liabilities in the year under review	**25,772**	**15,554**
Write-off of tax receivables assessed earlier for negative tax bases	**95,235**	**12,178**
Income tax (as per the profit & loss account)	**121,007**	**27,732**

33. Earnings per share

	2017	2016
Net profit for the year to equity holders	487,860	-150,999
Number of issued shares less the number of treasury shares	17,679,017	17,826,217
Profit/loss per share (HUF)	**27.60**	**-8.47**
Diluted profit/loss per share (HUF)	**26.33**	**-8.47**

The difference between the profit/loss per share and the diluted profit/loss per share can be explained by the fact that at the time of the establishment of the amount of the diluted earnings per share the Company also considered the number of shares that were involved in the share option program running in the period under review, but still not called down/transferred as an item decreasing the volume of treasury shares provided that the set of conditions defined in the share option program for the call-down of options is satisfied at the time of the preparation of the consolidated financial report. As of 31 December 2017, 49,000 shares of the 900,000 shares concerned in the share option program were transferred following the call-down of the shares, and therefore 851,000 treasury shares were taken into account as decreasing items.

34. LIQUID ASSETS AND CASH EQUIVALENTS

As of 31 December 2017, the liquid assets and cash equivalents of PannErgy Group were as follows:

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Bank and petty cash	699,238	263,230
Separate, blocked liquid assets	589,264	473,270
Cash and cash equivalents	**1,288,502**	**736,500**

Separate, blocked liquid assets represent such amounts held in current accounts with financial institutions where utilization is conditioned on the approval of the funding financial institutions or blocked amounts that are available in the separate DSRA or CAPEX type reserve account in line with the credit contracts concerned, where their use is impossible.

35. TRADE PAYABLES

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Trade payables	899,575	1,170,467

36. Financial instruments

PannErgy Group's financial instruments can be categorized as follows:

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
Financial assets	**2,207,287**	**2,378,811**
Marketable financial assets (available for sale, AFS)	***222,962***	***272,955***
Marketable investments	-	250,000
Long-term investments	22,935	22,935
Securities	200,027	20
Loans and receivables (LAR)	***1,771,241***	***2,092,062***
Loans provided	3,405	21,143
Trade receivables	1,369,162	1,671,245
Other short-term receivables, prepaid income taxes	398,674	399,674
Financial assets held to maturity (HTM)	***203,784***	***14,929***
Long-term financial receivables	203,784	14,929
Financial instruments evaluated at fair value to profit and loss (FVTPL)	***9,300***	**519**
Derivative transactions	9,300	519
Financial liabilities	**11,435,544**	**11,464,552**
Other financial liabilities	***11,435,544***	***11,459,489***
Trade payables	899,575	1,170,467
Long-term loans	8,794,755	8,858,265
Short-term credits	1,207,634	1,097,792
Other financial liabilities	533,580	332,965
Financial liabilities evaluated at fair value to profit and loss (FVTPL)	**-**	***5,063***
Derivative transactions – liabilities	-	5,039

The Company presents primarily purchased credit securities and participations in other companies among marketable financial assets. Marketable financial assets consists of 50 or smaller participations, as well as shares not involved in the scope of consolidation for other reasons. The largest single item of marketable investments in the previous year, the 40% participation in Geo-Wendung cPlc. at a value of HUF th 250,000 ceased to exist in the period under review as a result of the selling of this business share.

Among loans and receivables, the Company presents purchased and credit securities, as well as trade receivables and loans provided with respect to the nature of these assets. The Company records loans among current assets. The values of loans and receivables are initially stated at their fair values by the

Company, and then at their depreciated values in the consolidated financial statements prepared in accordance with the IFRSs, with the use of the effective interest rate method.

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

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

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

37. SHARE-BASE PAYMENTS

At its annual ordinary General Meeting held on 28 April 2016, by way of its Resolution no. 17/2016. (IV.28.) the Company closed its share option program for 2013–2016, and approved the set of conditions for the new share option program for 2016–2019 with its full details – beyond the provisions hereunder – being available at the Company's website.

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

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

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

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

Evaluation of the share option program:
For the determination of the fair value of the share option program, all the three opening stages were taken into account. In line with the market conditions considered for the determination of the fair value, with the use of the Black-Scholes model (closing share price as of 31 December 2017: HUF 671 per share, volatility (12 months): 28.7%, risk-free interest rate: 2.5%), the fair value of the options for the total portfolio of 753,000 shares that meet the market conditions of the provision of the options, but still have not been called down by means of the option declaration is HUF th 174,650 on the aggregate. To this an amount of HUF th 34,369 is to be added in relation to the settlement of 98,000 shares called down in December 2017 and cleared in January 2018 (financial settlement in line with the option price by the beneficiary of the option, and thereafter the transfer of shares by the Company) following the announcement of the Company. Based on this, altogether HUF th 209,046 is recognized in the Company's consolidated financial statements as of 31 December 2017 in relation to the evaluation of the share option program as other short-term liabilities against capital reserves.
In the period before the year under review, the Company had presented these foreseeable liabilities among the financial expenditures, while in the period under review these settlements was made under the heading of capital reserve with respect to the fact that the set of conditions for the program was fully met during the period under review solely in connection with share-based criteria that were also associated with the call-down of options, and therefore in the framework of the program, following 31 December 2017 the treasury shares to be released by the Company would decrease capital reserves.

38. IMPAIRMENTS

Impairments at PannErgy Group in line with IAS 36 standard:

2017	Balance as of 31 December 2016	Impairment loss	Impairment reversal	data in HUF th Balance as of 31 December 2017
Tangible assets	-	-	-	-
Investments	-	-	-	-
Long-term receivables	-	-	-	-
Inventories	-	-	-	-
Trade receivables	-	7,167	-	7,167
Other receivables	-	-	-	-
Securities	-	-	-	-
Total	**-**	**7,167**	**-**	**7,167**

In 2017 the impairment loss concerns only trade receivables. At inventories and tangible assets there weren't impairment losses, only extraordinary amortization and scrapping. At previous period there wasn't impairment loss or impairment reversal.

39. EX-BALANCE SHEET LIABILITIES AND COMMITMENTS

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

Investments implemented in 2017 amounted to HUF th 329,269 (beyond the goodwill mentioned Notes 14. and 15.) in contrast with the HUF th 1,318,839 amount of investments realized in the year before the year under review. The majority of investments in the year under review were connected with the summer well operations of the Geothermal Project of Győr.

Based on the concession agreement signed on 31 June 2017 in relation only to the area of Győr, the Company has contract-based, investment-related commitments in an amount of HUF th 812,000. Based on Act CXCVI of 2011 on National Assets, Act XVI of 1991 on Concessions and Act XLVIII of 1993 on Mining, and on behalf of the State of Hungary the Minister for National Development, as the minister in charge of mining affairs, announced an open tender for certain specific, closed areas in Hungary towards the exploration, extraction and utilization of geothermal energy in the framework of concession agreements. The concession tender relating to the area of Győr was awarded to PannErgy Plc's subsidiary, PannErgy Geothermal Power Plants cPlc. In line with the foregoing, PannErgy Geothermal Power Plants cPlc. signed a concession agreement with the State of Hungary for a definite term of 35 years (with a non-recurrent renewal option for another term of 17 and half years) in relation to the area of Győr, towards the exploration, extraction and utilization of geothermal energy. By relying on the rights acquired with the concession agreement, PannErgy Concession limited formed by PannErgy Geothermal Power Plants cPlc. for this project in 2017 examined the concession-based geothermal endowments of the region potentially found under 2500 meters, and thereafter decided on the drilling of a new geothermal well, where the amount of construction is expected to be over the above-mentioned, minimally HUF th 812,000 contracted-based, investment-related amount of the commitment.

With respect to the legal and accounting classification of the project to be implemented during the effective term of the concession agreement and in observance of the contracted conditions, the project is in line with the interpretation given in IFRIC 12, based on which the value of the investment so far realized in the framework of the project will be presented among fixed assets, as financial assets in the consolidated statement of financial position, where the presented value corresponds to, i.e. covered by the value of the discounted cash flow foreseen to occur over the 35-year term of the concession agreement in proportion to the rate of the completion of the investment from time to time.

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

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

39.3. *Other pending liabilities*

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

For external financing agreements that were made by the Pannergy Group entities during the period, various types of guarantees (pledge, suretyship) were undertaken in an amount of HUF th 3,697,319 and EUR 20,175,000 towards the funding financial institutions. The outstanding principal amounts of these financing agreements consistently decreased as a result of the repayments made in the meantime, and therefore the amounted of the connected pending commitments were under the presented contracted values.

39.3.2. Commitments made in relation to tenders

Pursuant to Government Decree 358/2014 (Dec 29) and the associated legal regulations, in relation to subsidies provided from the European Regional Development Fund, the European Social Fund and Cohesion Fund from 1 January 2015 beneficiaries are not obliged to furnish guarantees if they have at least one closed full business year, and are registered in the database of the National Tax Administration (NAV) as taxpayers without public debts. Therefore, with one single exception, PannErgy Group is exempt from the provision of such guarantees in connection with tenders and applications. For the amount of subsidy provided to the PIAC_13 Market-oriented research and development activities, PannErgy Geothermal Power Plants cPlc. made a commitment in relation to the subsidy scheme in an amount of HUF th 442,000, which remains effective during the maintenance period of the project.

39.3.3. Other pending obligations undertaken (joint and several suretyship)

PannErgy Geothermal Power Plants cPlc. has joint and several suretyship obligations in connection with the Geothermal Project of Miskolc towards one of the heat-receiving customers with respect to potential future damage incidents; the limit amount is HUF 100 million for Miskolc Geothermal cPlc., and has no limit value for Kuala Ltd.

In association with the selling of the reinjection well in 2015 and the transfer of the contracted rights relating to reinjection services, PannErgy Geothermal Power Plants cPlc. has undertaken joint and several suretyship towards the customer for the payment of the expected revenues of reinjection services and the payment of any revenue lost in case the volume of reinjection services fails to reach the quantities undertaken in the contract.

39.3.4. *Operative leases*

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

	31. Dec. 2017 HUF th	31. Dec. 2016 HUF th
within 1 year	24,552	18,616
over 1 year, but within 5 years	20,019	53,441
over 5 years	-	-
Total	44,571	72,057

The decrease of operative lease obligations is connected with the selling of other equipment, machinery, vehicles concerned in operative lease financing during the year under review.

40. FINANCIAL RISK MANAGEMENT

40.1. *Financial risk factors*

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

40.2. *Market risk*

40.2.1. *Exchange risk*

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

In 2017, the Company concluded several forward FX transactions to cover the risks of foreign exchange losses that may originate from the financial settlement of its trade payables to be incurred in the future in foreign currencies. These transactions were not cash flow hedging transactions, and therefore in the year under review the gains and losses realized on these transactions will be presented among the financial incomes and expenditures of the consolidated financial statements. As of the balance sheet date of the consolidated financial statements, there were no open futures foreign exchange transactions.

With respect to the volumes of PannErgy Group's receivables and payables in foreign currencies, and by assuming 10% increase/decrease in the exchange rates of the Hungarian Forint, serving as the functional currency, in comparison with the exchange rate as of 31 December 2017, the following table sums up the increasing/decreasing impact on the profit:

Description	EUR		USD	
	2017	**2016**	**2017**	**2016**
Impact on the profit in HUF th	662,686	764,081	-	-

EUR-denominated items can be detailed as follows (impact in HUF th):

	2017 10% change in the exchange rate		**2016 10% change in the exchange rate**	
	EUR	**Impact on profit/loss**	**EUR**	**Impact on profit/loss**
Long-term receivables	-	-	-	-
Short-term receivables	797,408	24,731	1,359,709	42,290
Trade payables	395,128	12,255	926,354	28,811
Other liabilities	-	-	-	-
FX credits	20,174,754	625,700	22,280,888	692,980
Total		**662,686**		**764,081**

40.2.2. Price risk

The Company does not carry price risks in relation to commodities or financial instruments. However, an associated factor is – while by nature it rather represent regulatory risks – the fact that the selling price of a determining part of the heat energy sold by certain project companies involved in heat production and sales is subject to official price setting, and thus is regularly, annually reviewed by the competent price setting organization, Hungarian Energy and Public Utility Regulatory Authority (MEKH). Via future selling prices, it may influence the profitability of PannErgy Group.

40.2.3. Cash flow and real-value interest risk

PannErgy Group is exposed to interest risks primarily due to long-term loans taken out for investment purposes. The Company carries cash flow-rated interest risks as a result of loans with variable interest rates, which is just partly counterbalanced by liquid assets with also with variable interest rates, and therefore the Company is exposed to fair value interest risks because of the credits carrying fixed interest rates.
As of the end of 2017, the overall amount of long-term loans taken out by the Company in foreign currencies equaled to HUF th 6,256,998 (EUR 20,175), whereas the amount of HUF-denominated loans was HUF th 3,697,319, in contrast with the HUF th 6,929,802 amount of loans accepted in foreign currencies as of the end of 2016 and the HUF th 2,872,678 loans in Hungarian Forint. The interest rates of FX loans are typically set on the basis of the 3-monthly EURIBOR rate, while interest rates for HUF-

denominated loans include ones based on the 1 or 3-monthly BUBOR rate, as well as loans carrying 2.5% interests in the framework of the Growth Credit Program of the National Bank of Hungary.

PannErgy Group dynamically analyzes its exposure to interest risks. In this process, it simulates various financial models with respect to refinancing, the renewal of the existing positions, opportunities to have access to alternative funding sources. The Company uses these scenarios to calculate the effects of the changes in the specific interest rates on the profit. In the individual models, the Company takes the same changes in interest rates into consideration for all the currencies concerned. The models are worked out only for the liabilities that represent that key interest-bearing positions.

To mitigate interest risks, the Company replaced its variable interest rates based on 3-monthly EURIBOR and 3-monthly BUBOR for fixed interest rates for the entire term of the still remaining tenors by means of interest rate swap (IRS) transactions, with reliance on the current, extremely low interest environment.
As a result of these transactions, the now fixed interest rates will not change even in the case of any future increase in market interest rates, and therefore the Company does not carry this risk any longer. The outcomes of these interest swap transactions in the period under review are presented among financial incomes and financial expenditures.

Examining the Company’s interest sensitivity, it can be claimed that any 1% increase in interest rates would bring about excess expenses in the amount of HUF th 99,543 to the Group’s profit, in contrast with the HUF th 98,025 excess expenses determined at the end of 2016 provided that the amount of the principal is the same for both the period under review and the base period. Any 1% decrease in interest rates would generate a reverse effect.

40.3. *Credit risk*

Credit risk is the risk of financial losses arising from the potential non-performance of any contracted obligation by the Company’s customer partner, and primarily covers the risks arising from the non-payment of customers. It is to be noted that the Company performs sales for a concentrated group of a small number of customers, which means a low level of diversification.

Credit risks are managed on the group level. The entities of PannErgy Group are responsible for managing and analyzing the credit risks that can be associated with new customers still before offering payment and delivery conditions within the framework of the normal course of operations.

At PannErgy Group, credit risks originate from the credit-related exposures that are connected with liquid assets and cash equivalents, deposits held with banks and financial institutions, as well as energy sales to customers, including outstanding receivables and transactions where the Company has made any commitment.

For the rating of customers, the creditworthiness and credit limits of the customers are determined by PannErgy Group's Finance and Treasury Team with respect to their respective financial positions, financial data, historic experience and other factors. The Company regularly monitors the utilization of credit limits, and the customers make all payments in consideration of their purchases via bank transfer.

During the reporting period, there were no overdrafts in the credit limits, and according to the management no losses can be anticipated from these customer performances.

The year-end evaluation of customer debts (outstanding amounts) and the execution of the necessary measures are performed separately for the individual customers. The breakdown of trade receivables is summarized in the following table:

data in HUF th

	Total	Within payment deadline	Within 1–90 days	Within 91–180 days	Within 181–360 days	over 360 days
Trade receivables	1,369,162	1,336,901	17,177	2,019	13,065	-

Due dates still within the term of payment indicate trade receivables where the term of payment specified in the invoice or payment arrangement still has not expired on the financial statement date. For overdue items, the category within 1–90 days shows already expired items, i.e. trade receivables being overdue for 1 to 90 days, and the same principle applies to the other aging categories. The due date of payment always relates to the term of payment specified in the invoice, which is then compared with the accounting date of the report, and the individual customers and their receivables are assigned to the corresponding category of overdue items in the light of the number of days.

In connection with the credit risks, the liquid assets of PannErgy Group as of 31.12.2017 in a breakdown of the due dates of payment are:

31.12.2017 data in HUF th

Terms	Weighted average interest rate	<1 month	1–3 months	3–12 months	1–5 years	>5 years	Total
Not interest-bearing or sight	-	1,288,502	-	-	-	-	1,288,502
Variable interest rate	-	-	-	-	-	-	-
Fixed interest rate	-	-	-	-	-	-	-
Total		**1,288,502**	**-**	**-**	**-**	**-**	**1,288,502**

31.12.2016 data in HUF th

Terms	Weighted average interest rate	<1 month	1–3 months	3–12 months	1–5 years	>5 years	Total
Not interest-bearing or at sight	-	736,500	-	-	-	-	736,500

Variable interest rate	-	-	-	-	-	-	-
Fixed interest rate	-	-	-	-	-	-	-
Total		**736,500**	**-**	**-**	**-**	**-**	**736,500**

40.4. *Liquidity risk*

Liquidity risk represents the risk that the Company becomes unable to fulfill its financial obligations in a timely manner. The purpose of liquidity management is that sufficient resources should be provided for the fulfillment of liabilities upon their respective due dates. The Company's approach to liquidity management is that as far as it is possible there should always be adequate liquidity provided for the fulfillment of liabilities at their due dates under both ordinary and stressed circumstances without suffering unacceptable losses or putting the Company's reputation at risk. Adequate liquidity can be realized by shaping the terms of funding sources in alignment with the lifecycle of the project. Cash flow forecasts are prepared by PannErgy Group's Finance and Treasury Team, and additionally the rolling forecasts relating to the fulfillment of the Group's liquidity requirements are monitored in order to ensure the availability of sufficient liquid assets for operations, while in connection with the credit limits that are not drawn down sufficient margin is intended to be maintained so that the Company should not surpass its credit limits from time to time, and could meet the debt service indicators that are undertaken vis-á-vis financial institutions. These cash flow forecasts based on the financial settlement of trade payables, credit repayments, as well as contracted and other incomes do take PannErgy Group's financial plans into account, alongside the satisfaction of the contracted financial indicators, external regulatory and legal requirements.

Breakdown of financial liabilities with respect to their due dates:

31 December 2017

data in HUF th

	Value	0–6 months	6–12 months	1–2 years	3–5 years	over 5 years
Non-derivative financial liabilities						
Credits	10,002,389	823,266	384,367	1,038,513	3,297,043	4,459,200
Trade payables	899,575	641,149	13	27,687	213,433	17,293
Other financial liabilities (except of derivative financial liabilities)	529,161	529,161	-	-	-	-
Derivative financial liabilities						
Futures transactions	4,419	4,419	-	-	-	-

The above table shows the amortized costs of the Group's financial liabilities with respect to their earliest potential due dates.

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

40.5. *Management of capital*

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

	31. Dec. 2017 HUF th	**31. Dec. 2016 HUF th**
Subscribed capital	421,093	421,093
Equity capital in total	9,024,383	8,888,715
Equity capital / subscribed capital	**21.43**	**21.11**

40.6. *Netting of financial assets and financial liabilities*

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

40.7. *Regulatory risk*

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

40.8. *Technological risk*

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

41. Participations

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

The Company's subsidiaries belonging to the scope of consolidation and the ownership shares are the following.

	Capital net worth (HUF M)	Property share (%)	Voting rights (%)	Rate of involvement in consolidation
PannErgy Geothermal Power Plants cPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energy Ltd.	24.10	100.00	100.00	100.00
TT Geothermal cPlc.	5.00	100.00	100.00	100.00
Szentlőrinc Geothermal cPlc.	5.00	99.80	99.80	99.80
Miskolc Geothermal cPlc.	5.00	90.00	90.00	90.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Arrabona Geothermal Ltd.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	90.00	90.00	90.00
PannErgy Concession Ltd.	3.00	100.00	100.00	100.00

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

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

At the end of the previous period, the Company held a 60% share in CSRG Energy cPlc. May 2017 witnessed a process of demerger reflecting the given ownership shares, during which – reflecting CSRG Energy cPlc's 60% ownership share before the demerger – PannErgy Geothermal Power Plants cPlc. acquired 100% share in the legal successor CSRG Energy cPlc., whereas the minority shareholder seceded and left with the corporate assets corresponding to the earlier 40% minority interests. Thereafter, in December 2017 the Company sold its 100% share in CSRG Energy cPlc. at a selling price equaling to the HUF th 150,000 book value.

Pursuant to the decision of PannErgy Plc's shareholders and the relevant resolutions of the Company Registry Court of the Metropolitan Tribunal Court of Budapest, PMM cPlc. and PannErgy Geothermal Power Plants cPlc. merged with the effective date of 31 August 2017.
The form of the merger was merger by acquisition as defined in Section (1) of Article 3:44 of the Civil Code, wherein PMM cPlc. as the acquired entity merged into PannErgy Geothermal Power Plants cPlc., the acquiring entity. With the merger, PMM cPlc. became terminated, and PannErgy Geothermal Power Plants cPlc. acted as its general legal successor, continuing its operations in the form of a private company limited by shares.

42. SEGMENT-SPECIFIC REPORT

42.1. *Definition, identification of the segments*

In line with the relevant IFRS requirements, the Company is to present its operating segments, and in this context PannErgy Group described two operating segments in its consolidated report for the base period: the Energy and Assets Management segments. The Energy segment extends to the Company's core activities, that is the production and sales of geothermal heat, as well as the associated investment and other activities. In the base period, within the scope defined as the Assets Management segment PannErgy Group, as Pannonplast Plc's legal success presented the utilization of the real-estate properties, i.e. the industrial facilities and connected office premises formerly serving Pannonplast Plc's plastics manufacturing operations in District XXI of Budapest (Csepel) and Debrecen, where property utilization primarily means the re-invoicing of electric power and other public utility fees, and to a smaller extent the collection of office rents; furthermore, it encompasses costs and expenses incurred with management and governance of the Group in the form of a financial holding company and issuer at the stock exchange.

In relation to the IFRS-based consolidated financial statements for the previous period, the Company examined the compliance of the two above-described standards with the IFRS 8 Operating Segments standard, as well as the presentation obligations relating to these segments. During the review of the definition of the operating segments, it was found that at **PannErgy Group, one operating segment, Energy can be identified**, whereas the segment that was formerly defined as Assets Management would not be identified as a separate segment by the Company in the future in accordance with the requirements of the **IFRS 8 Operating Segments** standard, and in particular the managerial approaches to segments, as well as the criteria relating to the presentation of the operating segments.

It is line with the view that beyond the Energy segment assets management activities designated as a separate segment in the earlier financial statement do not form a fully independent component any longer, but rather can be considered as an integrated complementary function; additionally, the Company pursues its activities solely in the territory of Hungary, in similar legal, technical, economic and demographic environments, and the Company intends to sell the properties serving as the basis of its asset management activities.

In view of the principles detailed in Chapter *3.29 Segment reports* of these consolidated financial statements, the Company ascertains that Energy as an operating segment can be clearly identified in the case of PannErgy Group. With respect to PannErgy Group's operations, the Company's managers follow an approach wherein all the resources – in line with the expectations of the investors – should be focused on the most efficient operations of the Energy segment possible, and as the utilization of the real-estate properties owned by the Company represent an insignificant proportion of operations in all respects in the managers' approach it cannot be regarded as an operating segment.

42.2. *Examination of the limit values associated with the identification of the segments*

Presented as a segment on its own in the year preceding the year under review, the Assets Management operating segment does not constitute a center element of the strategy framed by PannErgy Group, the performance assessment associated with the activities for the utilization of the above-mentioned real-estate properties is of negligible volume in the work of the Company's operating management and supreme bodies, the connected reporting system for internal control does not handle information relating to the utilization of properties with priority, as the associated transactions involve permanent revenue from sales (re-invoiced public utility fees and rents) and costs (public utility charges), the majority of the activities consists of "mediated" items.
In the attitude of PannErgy Group's managers and based on the criteria that apply to the description of the operating segments, there is one operating segment, i.e. the Energy segment that can be identified at the Company, and therefore the examination of the criteria relating to the segments that can be presented is not relevant, still the Company has studied the fulfillment of the corresponding limit values.

In terms of revenues, the turnover associated with the real-estate properties in District XXI of Budapest (Csepel) and Debrecen amounted to HUF th 499,958 in the period under review, representing a 10.64% ratio in the total amount of PannErgy Group's revenue from sales in the period under review. As a major proportion of these revenues is mediated items, meaning that they are connected with the re-invoicing of the public utility fees (primarily electric power) relating to the real-estate properties, a more accurate view of the share of property utilization within PannErgy Group's revenue from sales can be formulated if one looks at the profit realized on the re-invoicing of the public utility fees associated with real-estate property utilization, which amounted to HUF th 14,068 in the business year, which represented 0.30% within revenue from sales. In the year under review, the revenue from sales from the rents that are associated with the real-estate property utilization activities amounted to HUF th 9,117, which is only 0.19% of the revenue from sales of PannErgy Group during the reviewed year.

Based on the foregoing, it can be claimed that the Company does not reach the volume limit values relating to the segments described in the IFRS 8 standard, and – in the light of the future growth of the Energy segment – nor will it meet the limit even in the future.

In summary of the above details, it has been ascertained that one operating segment (Energy) can be identified at the company. For this reason, the Company is to satisfy the disclosure requirements in relation to the entire business entity.

In the case of the Company, it means that the data of the Energy segment for the year under review and the base figures correspond to the financial information relating to the entire business entity, and it is properly presented in these consolidated financial statements.

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

PannErgy Group did not make any change to the data presented in its consolidated financial statements for 2016, the base figures shown in these financial statements are identical to the ones included in the 2016 consolidated financial statements.

44. Transactions with affiliated parties

At PannErgy Plc's all the subsidiaries involved in the scope of consolidation, the effects of mutual set-offs and transactions were screened in the course of consolidation.

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

The Group's management is in ownership relation with a company that continuously provides business management counseling services to PannErgy Plc; the value of these services in 2017 was HUF th 30,068.

44.2. *Transactions consummated with affiliated entities*

In relation to PannErgy Group's transactions consummated with the following affiliated parties not belonging to the scope of consolidation, for 2017 the following items were presented in the consolidated financial statements:

Data of transactions consummated with affiliated parties not belonging to the scope of consolidation	**2017 HUF th**	**2016 HUF th**
Sales to affiliated parties not belonging to the scope of consolidation	-	-
Purchasing from affiliated parties not belonging to the scope of consolidation	30,068	47,926
- *Of this, from subsidiaries not belonging to the scope of consolidation*	-	*13,587*
- *Of this, from the company in ownership relation with the Company's management*	*30,068*	*34,339*
Receivables from affiliated parties not belonging to the scope of consolidation	-	-
Payables to affiliated parties not belonging to the scope of consolidation	29,481	35,387
- *Of this, to subsidiaries not belonging to the scope of consolidation*	*26,969*	*30,348*
- *Of this, to the company in ownership relation with the Company's management*	*2,512*	*5,039*

The items that are presented in the above table, and associated with subsidiaries not belonging to the scope of consolidation are connected with PannErgy Group's German subsidiary, Pannunion Service GmbH, from which PannErgy Group did order services from the indicated time, and therefore the associated payables are trade payables relating to services that were supplied in earlier periods.

44.3. *Loans provided to affiliated parties*

Neither in 2017, nor in 2016, PannErgy Group furnished loans to affiliated parties that did not belong to the scope of consolidation, and loans were not disbursed to the management, either.

44.4. *Changes in intra-group, consolidated / screened turnovers and volumes*

Screening of statement of profit of loss account items:	**2017 HUF th**	**2016 HUF th**
Revenue from sales	1,863,050	1,697,654
Direct costs of sales	1,574,511	1,563,698
Indirect costs of sales	90,326	116,161
Other incomes	379,021	694,475
Other expenditures	218,511	709,954
Financial profit	-239,102	-

Screening of statement of financial position items:	**2017 HUF th**	**2016 HUF th**
Tangible assets	2,171,255	2,362,378
Intangible assets	182,564	-
Items for the upcoming period among other receivables	437,299	1,363,292
Other receivables, short-term loans	10,101,536	10,511,061
Long-term loans given	5,647,620	6,479,228
Long-term liabilities	7,088,390	-
Items for the upcoming period among other payables	437,299	1,363,292
Other short-term liabilities	8,660,766	9,073,068

44.5. *Compensation of the members of the Company's management*

	2017 HUF th	**2016 HUF th**
Short-term benefits to employees	14,480	15,478
Other long-term benefits, severance pays	-	-
Share-based payments	-	-
Total	**14,480**	**15,478**

By way of its Resolution no. 7/2017. (IV.28.) of the General Meeting, the Company established the emoluments of the Chairman of the Board of Directors to be a gross amount of HUF th 195 a month, and the emoluments of the other members to be a gross amount of HUF th 155 from 29 April 2017.

45. EVENTS AFTER THE CONSOLIDATED FINANCIAL STATEMENT DATE

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

Date	Type of news	Subject-matter, brief contents
13 March 2018	Extraordinary information	Invitation to the ordinary 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	Announcement by shareholders
12 January 2018	Extraordinary information	Announcement by shareholders
1 January 2018	Other information	Number of voting rights at PannErgy Plc

46. DATE OF THE PERMITTED RELEASE FOR DISCLOSURE

The financial statements were approved by the Company's Board of Directors and permitted for disclosure on 19 March 2018.

Dénes Gyimóthy
representing the Board of Directors

PannErgy Plc
Business and Management Report
2017

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

Budapest, 19 March 2018

Dénes Gyimóthy
representing the Board of Directors

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

1. Executive Summary

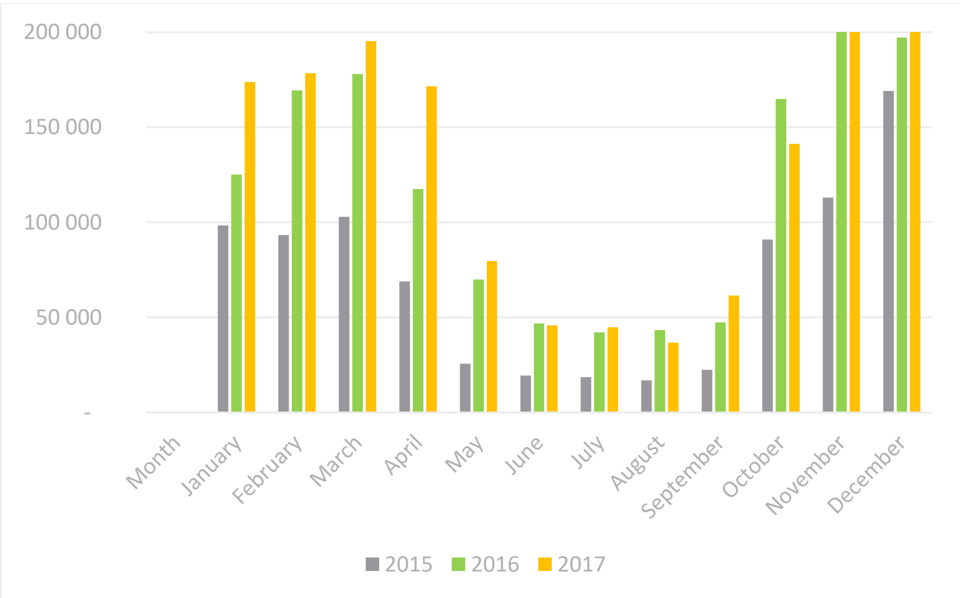
Improvement in the gross margin, cash flow and EBITDA as foreseen in the plans

Owing to the combined, positive effect of the increasing heat generation, as well as the cost rationalization moves taken in the previous period and the year under review, during 2017 PannErgy Group realized a considerable consolidated increase in sales, gross margin and gross cash flow, and furthermore its operating and taxed result also rose significantly.
In the period contemplated herein, the Company's EBITDA amounted to HUF 2,241 million with a 48% EBITDA rate, which reached up to the adjusted EBITDA level targeted by PannErgy Group for the business year of 2017. This EBIDTA goal is more or less in line with the estimated EBIDTA for the business line, presented in the abstract of the business line evaluation report, and published by the Company on 30 May 2016 for the year of 2017 and forecasts by independent capital market analysts.

Considerable increase in heat generation

In 2017, PannErgy Group has continued the accomplishment of the objectives set out in its geothermal energy production and utilization strategy, which during the period under review meant the fine tuning of the conditions and operations of the geothermal projects at the four project locations of the Group (Miskolc, Győr, Szentlőrinc and Berekfürdő) for the further improvement of efficiency. Owing to its continuous operations successfully keeping the optimum level in focus, PannErgy Group's commercial activities during 2017 achieved consolidated heat sales in a total volume of 1,538,556 GJ, representing substantial 10% improvement in comparison to the 1,402,155 GJ heat sales in the previous year.

Consolidated heat volume sold by PannErgy Group in 2017 (GJ):



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

This growth is primarily due to the successful, growing operation of the Geothermal System of Győr, as well as the positive outcomes of investment program implemented in the previous year for extension of capacities in the thermal water yield. During the period under review, a goal was to eliminate the operating difficulties that the system was struggling in the same period last year by identifying the particular properties, unforeseeable chemical and physical reactions in the well system of Győr. Beyond the effective operation of the Geothermal System of Győr, PannErgy Group succeeded in enhancing productivity and increasing heat sales at another major project, the Geothermal System of Miskolc in spite of the fact that the extremely cold weather in the early periods (first quarter) of 2017 had a negative impact on volume of heat input.

Transformations targeting the cleaning of portfolio elements

In this period, the Company continued its efforts for the rationalization of portfolio elements in order to meet the strategic goal to have the Company's resources focused on the already operating projects of PannErgy Group and their further development. In this context, CSRG Energy cPlc. was demerged, and with the demerger the earlier minority participation was terminated with the effective date of 30 May 2017, PannErgy Geothermal Power Plants cPlc. became the Company's sole owner. Thereafter, in December 2017 the Company sold its 100% share in CSRG Energy cPlc. at a selling price equaling to the HUF th 150,000 book value.
Furthermore, two subsidiaries, PannErgy Geothermal Power Plants cPlc. and PMM cPlc. were amalgamated, in the course of which PMM cPlc. was merged into PannErgy Geothermal Power Plants cPlc. with the effective date of 31 August 2017. With the merger, PMM cPlc. became terminated, and PannErgy Geothermal Power Plants cPlc. acted as its general legal successor.

Closing the transaction for the acquisition of the minority interests

2017 saw the closing of the transaction between PannErgy Plc and ONP Holdings SE for the acquisition of ONP Holdings SE's 6.91% minority participation in PannErgy Geothermal Power Plants cPlc. based on a share transfer agreement. From the HUF th 750,000 amount determined as the purchase price of the 6.91% share, HUF th 500,000 was financially settled in 2016, and consequently the participation decreased to 2.3%. The remaining 2.3% share was paid up in an amount of HUF th 250,000 as the closing of the transaction, in April 2017. As a result of the transaction, PannErgy Plc's shareholding in PannErgy Geothermal Power Plants cPlc. increased from 97.7% on 31 December 2016 to 100% on 5 May 2017.

Creation of more favourable conditions of funding

Following the refinancing that took place in the previous period in relation to the group entities having implemented the Geothermal Project of Győr for the creation of much more favourable financing conditions, the period under review – November 2017 – saw another refinancing move at the Company’s two subsidiaries that had realized the Geothermal Project of Miskolc, Miskolc Geothermal cPlc. and Kuala Ltd. In this context, the Company decided on the refinancing of investment loan contracts concluded during 2013 and 2014 in a total amount of HUF 3.5 billion. As a result of the agreement, the borrowers will have the option to rely on long-term funding lines in an amount of EUR 4.5 million and HUF 2.1 billion, respectively, accompanied by a HUF 200 million limit for short-term financing. The long-term loans have already been called off, and the earlier, market-based loans – disbursed beyond the NHP program – have been concurrently repaid before the end of the tenor. The tenor of the new loans is 7 years, following a repayment profile aligned with the 10-year term of depreciation. Owing to the new loan agreements, a part of the credit limit has been used for the refinancing of earlier loans, whereas another part, in an approximate amount of HUF 1 billion, can be utilized as a source for the concession investment in Győr by way of partly refinancing PannErgy Group’s own contribution provided to the Miskolc projects. With respect to the part of the credit limits carrying variable interests, the borrowers entered into interest rate swap (IRS) transactions with the lenders, and therefore the effective interest rate of the current loans were fixed throughout the tenors of the loans. As a consequence of this refinancing move, the interest payables of Miskolc Geothermal cPlc. and Kuala Ltd decreased.

Treasury share purchasing programs

Based on Resolution 19/2016 (Apr 28) of the Company's General Meeting held on 28 April 2016, PannErgy Plc launched a treasury share repurchasing program starting in May 2016 and ending in April 2017, in a total amount of HUF 300 million. The program was closed in April 2017. In association with this program, during January–April of 2017, the Company purchased 147,200 shares at the Budapest Stock Exchange.

Within the meaning of the decision of the Company's General Meeting held on 28 April 2017, PannErgy Plc launched yet another treasury share purchasing program with the starting date of 29 April 2017 and closing date of 27 April 2018. Within the framework of this program, PannErgy Plc is to purchase treasury shares in a maximum amount of HUF 1,000 million at the stock exchange, at a rate ranging from HUF 1 and HUF 600. While the authorization of the General Meeting was in place, during 2017 no treasury shares were repurchased in the framework of this program due to the considerable increase of the share rate.

As of 31 December 2017, the Company held 3,375,638 treasury shares belonging to PannErgy Plc, exceeding the treasury share holding on 31 December 2016 by 147,200 shares; at the end of the period under review, the treasury share portfolio was 16.03% of all the issued shares.

Concession agreement

In February 2017, PannErgy Group's entity, PannErgy Geothermal Power Plants cPlc. signed a concession agreement with the State of Hungary for a definite term of 35 years in relation to the area of Győr, towards the exploration, extraction and utilization of geothermal energy.
Following the conclusion of the concession agreement, on 17 February 2017 PannErgy Concession Ltd was founded, and with reliance on the rights acquired with the concession agreement the concession company examined the concession-based geothermal endowments of the region potentially found 2,500 meters, and thereafter it decided on the drilling of a new geothermal well to increase its profitable heat capacities. The preparations are now in progress, and it will be implemented from the second quarter of 2018.

General meeting closing the pervious business year

The Company's repeated ordinary General Meeting closing the business year of 2016 was held on 28 April 2017, and formed a quorum.

2. PannErgy Group's profit or loss in 2017, key indicators of business operations

For PannErgy Group, the business year of 2017 concentrated on the accomplishment of the objectives connected with the strategy that was framed in the previous year with on geothermal energy production and utilization, i.e. further fine-tuning for the improvement of efficiency in the normal operations and functioning of the geothermal projects towards increased heat generation, and in this context the realization of the targeted revenue from sales and EBITDA levels. Owing to the combined, positive effect of the increasing heat generation, as well as the cost rationalization moves taken in the previous period and the year under review, during 2017 PannErgy Group realized a considerable consolidated increase in sales, gross margin and gross cash flow, and furthermore its operating and taxed result also rose substantially.

In the previous year, the Company also presented profit figures adjusted with identified non-recurrent items associated with operations, and for proper comparability the same method of presentation was used in the period under review, too. To identify non-recurrent items, the Company followed the principle that only those material expenditures and income-type items were taken into consideration whose emergence could be evidently associated with the period under review, and therefore they are not expected to occur in the upcoming periods. This chapter lists the material non-recurrent items that are associated with the period under review:

Key profit figures (data in HUF thousand)	Year 2017	Year 2016
Revenue from sales	**4,699,211**	**4,529,069**
Direct costs of sales	-3,820,691	-3,665,914
Gross profit	**878,520**	**863,155**
Gross cash flow	**2,177,248**	**2,019,178**
Indirect costs of sales	-492,336	-683,740
Other incomes	748,216	662,725
Other expenditures	-211,410	-561,644
including: effects of the non-recurrent items	***+70,469***	***-325,102***
Operating profit (EBIT)	**922,990**	**280,496**
Adjusted operating profit (without non-recurrent items)	***852,521***	***605,598***
EBITDA	**2,241,182**	**1,715,345**
Adjusted EBITDA (without non-recurrent items)	***2,170,713***	***1,802,010***
Financial profit	-297,453	-411,293
Profit before taxes	**625,537**	**-130,797**
Adjusted profit before taxes (without non-recurrent items)	***555,068***	***194,305***
Net profit for the year to equity holders of parent company	**487,860**	**-150,999**
Adjusted net profit for the year to equity holders (without non-recurrent items)	***417,391***	***174,103***

Key profit figures (data in HUF thousand)	Year 2017	Year 2016
Return on equity,% (ROE)	5.41%	-1.70%
Return on sales,% (ROS)	10.38%	-3.33%
Earnings per share (EPS) HUF	**27.60**	**-8.47**

The diluted earnings per share amounted to HUF 26.33; the difference can be explained by the fact that at the time of the establishment of the amount of the diluted earnings per share the Company also considered the number of shares that were involved in the share option program running in the period under review but still not called down/transferred as an item decreasing the volume of treasury shares.

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

data in HUF th

Non-recurrent item	Increasing effect of the non-recurrent item on EBITDA	Increasing effect of the non-recurrent item on EBIDTA
Effect of the fair value measurement of the real-estate properties held for sale on other incomes	70,469	70,469
Total	**70,469**	**70,469**

<u>Detailed description of the Company's business operations in 2017:</u>

In the year of 2017, PannErgy Group realized sales in a total consolidated amount of HUF th 4,699,211 which exceeded the HUF th 4,529,069 value for 2016 by 4% owing to the fact that in addition to the Miskolc system the system in Győr was also operated all through the period, and the quantity of sold heat from both systems could be increased. From the HUF th 4,699,211 revenue from sales, heat sales accounted for HUF th 4,024,233 in contrast with the HUF th 3,632,526 proceeds in the corresponding period in the previous year, representing 11% increase. The majority of the remaining amount of revenue from sales was related to assets management activities, mediated and re-invoiced services, primarily the supply of electric power.

The Geothermal Project of Győr contributed to PannErgy Group's business performance with HUF th 2,094,376 sales during 2017, from which sales by Arrabona Geothermal Ltd. towards Győr-Szol cPlc. brought about HUF th 1,035,088 whereas sales to DD Energy Ltd's automotive customer amounted to HUF th 1,058,752. Sales transacted in the framework of the Geothermal Project of Miskolc towards heat-receiving partners added up to HUF th 1,848,036 from which HUF th 1,788,306 was sold to MIHŐ Heat Distribution Ltd of Miskolc.

The Company's two smaller-volume projects in Szentlőrinc and Berekfürdő showed similar performance as in the previous period: Szentlőrinc realized HUF th 73,934 revenue from sales during 2017, whereas in Berekfürdő HUF th 36,349 turnover could be stated from heat tariffs and electric power sales.

In comparison with the HUF th 472,599 amount recognized in the previous year, during the period under review HUF th 499,985 sales were generated in association with the management of the real-estate properties owned by the Company in Csepel and Debrecen. Nevertheless, a major proportion of these sales came from the electric power consumption of tenants and other re-invoiced costs belonging to "mediated services", and only a smaller share represented rents. The profit of re-invoiced services amounted to HUF th 14,068 in the period under review, while rents made up an amount of HUF th 9,117 based on which it can be clearly stated that the net revenues associated with the management of the above-mentioned real-estate properties and the connected profit were negligible in comparison with geothermal heat generation and sales representing the core activities.

Similarly to the previous period, three customers went over 10% of the total amount of the Group's consolidated revenue from sales, making up a combined 83% percent of all the sales in the reviewed period.

In 2017, the level of direct costs increased from HUF th 3,665,914 in the previous year by 4%, to HUF th 3,820,691. The reason underlying this increase was in line with the increased heat sales, and therefore was caused by the associated rising costs.

For the above reasons, the Group stated HUF th 878,520 under the heading of gross margin in 2017, which represents a 2% higher value than the HUF th 863,154 amount during the previous year. Direct depreciation as part of these direct costs increased, as the amounts of depreciation associated with the capacity-expanding investments of the Geothermal Project of Győr last year were added to this amount.

Administration and general costs, i.e. indirect costs totaled up to HUF th 492,336 in the period under review, which came to be substantially, by 28% lower than the HUF th 683,740 figure for 2016. The Group states such 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 under the heading of indirect costs.

In comparison to the base period, the period under review witnessed a downward tendency for nearly all the indirect costs.

Personnel expenditures underwent a substantial decrease in an amount of HUF th 58,451 in comparison with the base period, which reflects the positive influence of headcount rationalization measures taken in the second half of the previous year. As of 31 December 2017, the actual number of employees working at the Group was 20.

Beyond personnel expenditures, it was expert and counseling fees that saw the most significant drop, in an amount of HUF th 12,593 (corresponding to 9% decrease) in comparison with the previous year. The reason underlying this decrease was the high value recorded in the base period, caused by the preparation of the refinancing of the Győr project in the previous year, as well as the costs of experts incurred with the selling and acquisition of corporate participations.

Major changes took place in comparison with the same period last year in office and operating costs that dropped by HUF th 19,954 bringing about 13% decrease.

The shrinking of these costs was owing to the rationalization of operating costs in the previous year, with the major item being the cost-saving realized on the lease contract for the smaller office space accommodating the registered seat, as well as the significant decrease of the Company's costs for car rentals.

Beside the indirect cost elements listed above, further decrease took place in the period under review with respect to banking charges, insurance costs, duty-type expenses, as well as the costs of presence as a public company and at the stock exchange stated as indirect costs. In this latter context, it can be noted that PannErgy Group continues to attribute importance to supporting sports and other social initiatives in the cities and settlements where its operating projects are located, their broader regions, and ultimately the final consumers of geothermal energy as part of its social corporate responsibilities.

The balance of other incomes and expenditures was HUF th 536,806 in the period under review, in comparison with the HUF th 101,081 value in the base period. The main reasons underlying this increase include other extra incomes in an amount of HUF th 70,469 from the fair value measurement of real-estate properties held for sale, the HUF th 328,005 amount of other expenditures incurred as considerable, non-recurrent costs items in the base period, the extraordinary level of depreciation for tangible assets and in connection with the closing of the Geothermal Project of Gödöllő.

In relation to other expenditures for the period under review, it can be claimed that unlike in the previous year there were no considerable non-recurrent items (e.g. extraordinary depreciations, impairment losses in material amounts).

Beyond the foregoing, among other incomes HUF th 283,549 represents incomes relating to damage events, as compensations from insurance companies on recognized legal grounds, partly to be paid in the future, in association with the failure of machines and operating outages.

HUF th 922,900 profit was stated to be the operating profit (EBIT) for 2017, well over the HUF th 280,496 in 2016.

The business cash flow (EBITDA) indicated HUF th 2,241,182 inflow, which is HUF th 525,837 more favourable than the HUF th 1,715,345 EBIDTA in the previous year. In the period under review, HUF th 1,300,434 depreciation was accounted, and its value exceeded the HUF th 1,196,412 value in 2016 by 9% as a consequence of the increasing amount of depreciation in the period under review due to the capacity-expanding of investments for the Geothermal Project of Győr. When determining the EBIDTA level, the Company takes the amount of extraordinary depreciation stated for intangible assets and tangible assets into account, which amounted to HUF th 17,758 in the period under review in association with the replacement of equipment, whereas in the previous year HUF th 238,437 was taken into consideration in relation to the depreciation of the Geothermal Project of Gödöllő and other geothermal assets for the establishment of the EBIDTA.

The financial profit amounted to HUF th 297,453 loss in the period under review, which was by HUF th 113,840 more favourable than the HUF th 411,293 loss of financial operations in 2016.
It was primarily caused by the lower level of expenditures from interests paid, where the impact of refinancing transactions in the previous year and the period under review generated HUF th 131,150 less interest expenditures.

Beyond the positive influence of refinancing reflected by the financial profit, favourable trends could be seen in the profit-related outcomes of the exchange rate differences of FX receivables and payables.
In connection with the realized and unrealized foreign exchange gains, it can be claimed that the incomes from such financial operations were nearly identical to the amount of exchange losses stated in the period under review.

Based on the foregoing, PannErgy Group's profit before taxes for 2017 was HUF th 625,537 which far exceeds the HUF th -130,797 loss recorded in the previous year.

The Company stated HUF th 121,007 for tax payment obligation, including the actual HUF th 25,772 amount of tax payment obligation in the year under review, as well as the write-off of deferred tax liabilities raised in relation to negative tax bases in an amount of HUF th 95,235.

HUF th 487,860 profit was stated to be the Company's consolidated net profit for the year to equity holders of the parent company, which is by HUF th 638,859 larger than the HUF th -150,999 loss recognized in the same period last year in consequence of the reason detailed above.

Key figures of property standing (data in HUF thousand)	Year 2017	Year 2016
Fixed assets	**21,633,193**	**22,277,721**
Total current assets	3,389,543	2,977,480
Of this, liquid assets	1,288,502	736,500
Total assets	**25,022,736**	**25,255,201**
Equity capital in total	**9,024,383**	**8,888,715**

During the reviewed period, the volume of fixed assets decreased by 3%. In this context, the value of intangible assets decreased by 10% accompanied the value of tangible assets shrinking by 5%, which was a result of reclassification connected with real-estate properties held for sale and good will.
The Company recognizes HUF th 517,537 under the heading of goodwill in connection with the minority interests acquired in PEGE cPlc. from ONP Holdings SE.

Deferred tax receivables in an amount of HUF th 290,975 were recognized among assets by the Company, and thus their value decreased by 25% to HUF th 95,235 after the base period, in view of PannErgy Group's calculations pertaining to discounted deferred tax refunds.

The volume of current assets increased by 14% in comparison with the corresponding value of the previous year, which can be mostly explained with reference to the increasing volumes of liquid assets and securities after the refinancing move for Miskolc.

Inventories decreased mainly because of the use of maintenance materials in the period under review.

After the previous year, the value of securities considerably increased in the consolidated financial statements; it was caused by the fact that after the refinancing transaction for Miskolc – in line with its cash flow plans – PannErgy Group made temporary investment in an amount of HUF th 200,000 in short-term governmental notes (discount treasury notes) until the beginning of the geothermal well drilling to be completed in the second quarter of 2018 during the concession investment of Győr.

Within current assets, the volume of liquid assets substantially increased, at the end of the period the Company held liquid assets in a total amount of HUF th 1,288,502 of which HUF th 699,238 represented a freely usable amount.

The Company witnessed 2% increase from the base value of its equity capital, which resulted from the combination of the net profit for the year, the increasing value of repurchased treasury shares and the decrease in minority interests.

The amount of equity capital per share (calculated from the number of shares less treasury shares) rose to HUF 510 from HUF 499 in the previous year.

The volume of long-term loans decreased by 1% after the previous year to HUF th 8,794,755 with the reason underlying the smaller extent of drop was that the effects of repayments in the period under review were compensated by the restructuring of the tenors in the course of the refinancing of the Miskolc projects.

The heading of other long-term, deferred incomes presents the long-term tranches of the non-repayable subsidies awarded to the geothermal projects in subsidy application schemes. In this respect, an amount of HUF th 4,271,328 is stated in the Company's consolidated financial statement, which represents 6% decrease in comparison with the previous year as a result of the write-backs in the year under review.

Within short-term liabilities, the balance of trade payables was HUF th 899,575 which was 23% smaller than in the base period. The reason for the decrease roots back in the previous period when a higher base value had been recognized because of the intensive investment activities relating to the Geothermal Project of Győr.

Together with the short-term installments of long-term loans, the overall value of short-term loans was HUF th 1,207,634 at the end of the period under review, bringing about 10% growth after the base period. Other short-term liabilities amounted to HUF th 533,580 as of the end of the period under review, which represented 58% decrease after the previous period, with the main associated cause being the presentation of payables in an amount of HUF th 209,046 in association with the share option program.

Key indicators	Year 2017	Year 2016
Profitability indicators		
Return on assets,% (ROA)	1.95	-0.60
Return on equity,% (ROE)	5.41	-1.70
Return on sales,% (ROS)	10.38	-3.33
Property indicators		
Ratio of fixed assets,%	86.45	88.21
Ratio of equity capital,%	36.06	35.20
Rate of indebtedness,%	177.28	184.13
Financial indicators		
Liquidity ratio	115.59	103.13
Acid test ratio	111.49	97.99
Earnings per share (EPS) HUF	**27.60**	**-8.47**

As a result of the substantial improvement of PannErgy Group's profit in the sear under review, profitability indicators showed significant betterment in comparison with the previous period. Owing to the effects of depreciation in the year under review, the proper standing indicators reflect decrease in the ratio of invested assets and the degree of indebtedness. Similarly to the profitability indicators, financial indicators largely improved after the previous year due to the positive processes in the studied period.

3. GENERAL INFORMATION ON THE COMPANY

3.1. *PannErgy Group's core activities*

PannErgy Plc ("Company" or "PannErgy") is an entity listed at the Budapest Stock Exchange, included in the BUX basket, and is a premium share issuer; its core activities involve the energy-oriented utilization, extraction and selling of one of Europe's most significant thermal water endowments, and in particular renewable geothermal energy. In association with its geothermal energy-related operations, the Company performs production activities in Miskolc, Győr, Szentlőrinc and Berekfürdő.
As of 31 December 2017, PannErgy Group had 28 employees.
PannErgy Plc is registered in Hungary, under the address of H–1117 Budapest, Budafoki út 56.

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

3.2. *Authority-regulated district heating sales tariffs*

Some of the project companies of PannErgy Group have district heat production licenses, and in this context they pursue heat-selling operations in an environment regulated by the Hungarian Energy and Public Utility Regulatory Office (MEKH) . In consequence, the heat sold by PannErgy Group to district heat supply companies is subject to the authority-regulated tariffs announced by the Minister for National Development in the form of the Decree of the Ministry for National Development for a period of one year from 1 October each year until 30 September the following year. The heat selling tariff in effect from 1 October 2017 for the Geothermal Project of Miskolc is 2,382 HUF/GJ in the case of Miskolc Geothermal cPlc. and Kuala Ltd., which means that the two companies charge any heat sold to MIHŐ Miskolc Heat Distribution Ltd. at this authority-regulated tariff. In connection with the Geothermal Project of Győr, sales to Arrabona Geothermal Ltd. and Győr-Szol Győr Public Services and Assets Management cPlc. are transacted at the authority-regulated district heat tariff of 2,939 HUF/GJ, whereas Szentlőrinc Geothermal cPlc. can sell heat to Szentlőrinc Public Utility Nonprofit Ltd. at the authority-set tariff of 3,654 HUF/GJ.

3.3. *Heat sales to industrial and non-municipal partners*

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

3.4. *Utilization of real-estate properties*

Beyond geothermal heat generation and sales (Energy) representing its core activities, the Company owns industrial real-estate properties, offices in the area of Budapest, District XXI (Csepel) and Debrecen from the times before the "Pannonplast to PannErgy" shift in its strategy. In the period under review, under the realization of their disposal the Company qualified these properties as assets held for sale; the Company uses some of these real-estate properties by way of lease-out, while on the other hand the profit realized on these lease operations is negligible in comparison with the revenue from sales, profit originating from the energy-related core operations. For this reason and the approach of the Company's management, the consolidated financial statements for 2017 do not distinguish real-estate property utilization activities in particular any longer, but the associated main information continues to be included in the relevant parts of the consolidated financial statements.
In line with the foregoing, the Company does not perform active asset management operations, but mobilizes all its resources in the field of Energy.

4. ACCOMPLISHMENT OF PANNERGY'S MAIN OBJECTIVES FOR THE YEAR OF 2017 AND RISKS

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

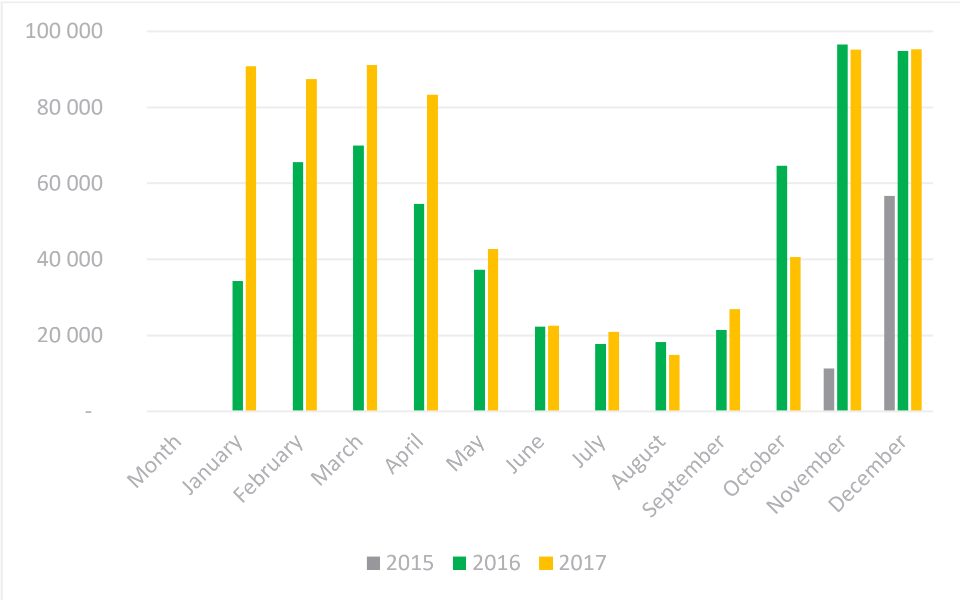
Concerning the operation of the Geothermal System of Győr in 2017, it can be claimed that it showed fail-safe operations during the heating season of 2016/2017, meaning that the equipment could steadily be run without any stoppage, and the heat-receiving partners experienced seamless supplies. Following the weather conditions that were rather unfavourable for geothermal operations in the first quarter, Győr witnessed a positive turn from the end of March until the closing of the heating season of 2016/2017 on 17 May 2017, which partly compensated for the depressed level of heat sales in the earlier period of the year.

In the commercial operations of the Geothermal System of Győr during the first half of 2017 the Company realized 418,203 GJ heat sales, which is 47% higher than the 284,156 GJ heat sold during the corresponding period of the previous year. The heating season of 2017/2018 started on 20 September 2017, operations were not hindered by technical problems, the secondary heat transmission network functioned without failures. Weather conditions turned out to be favourable in the year-end months for the geothermal system – similarly to the system in Miskolc –, i.e. low temperatures that could have restricted the utilization of capacities did not occur. The outflow temperature of the production wells steadily ranged between 99.5°C and 101.5°C, whereas their aggregate yield went up to 900 m^3/h. On 24 December 2017, outstanding daily sales of 3,369 GJ were achieved. Due to the delayed performance of the manufacturer of the well pump, the reinstallation of maintained pump into well no. BON-PE-02 was completed 30 day later than the planned date in the fourth quarter of 2017, and therefore it was not until the last day of October that the full geothermal capacity became available. The total heat sales loss of almost 47 TJ (in September and October) was fully compensated by the supplier in default, which amount was accounted as other income.

The first consumer using secondary energy was connected in the area of the Industrial Park of Győr. Since November 2017, the Company has been supplying this consumer with secondary heat power originating from the cooled water returning from large consumers. The short-term goals continue to include an attempt to make the free capacities of the Geothermal System of Győr, as well as its saving-related advantages available for the Company's new partners as well. The heat sales of the Geothermal System of Győr were 293,777 GJ in the second half of 2017, while the overall total sale of the same year was 711,980 GJ. The utilization of green heat energy produced by the Heat Center of Bőny replaced the use of 23.3 million m^3 natural gas, meaning that annually more than 41,300 tons of CO_2 causing greenhouse effects were not released to the atmosphere.

With respect to the concession agreement of February 2017 made by PannErgy Group's entity, PannErgy Geothermal Power Plants cPlc. with the State of Hungary for a definite term of 35 years in relation to the area of Győr, towards the exploration, extraction and utilization of geothermal energy, on 17 February 2017 PannErgy Concession Ltd. was formed, and based on the rights acquired by way of the concession agreement it examined the concession-related geothermal endowments of the region under the depth of 2500 meters. In the second quarter of 2017, the Technical Operating Plan for Researching Minerals became effective, based on which seismic measurements were carried out in the summer months. In the second half of the year, the Company started to determine the investment operations in connection with the concession project to potentially increase heat capacities in Győr.

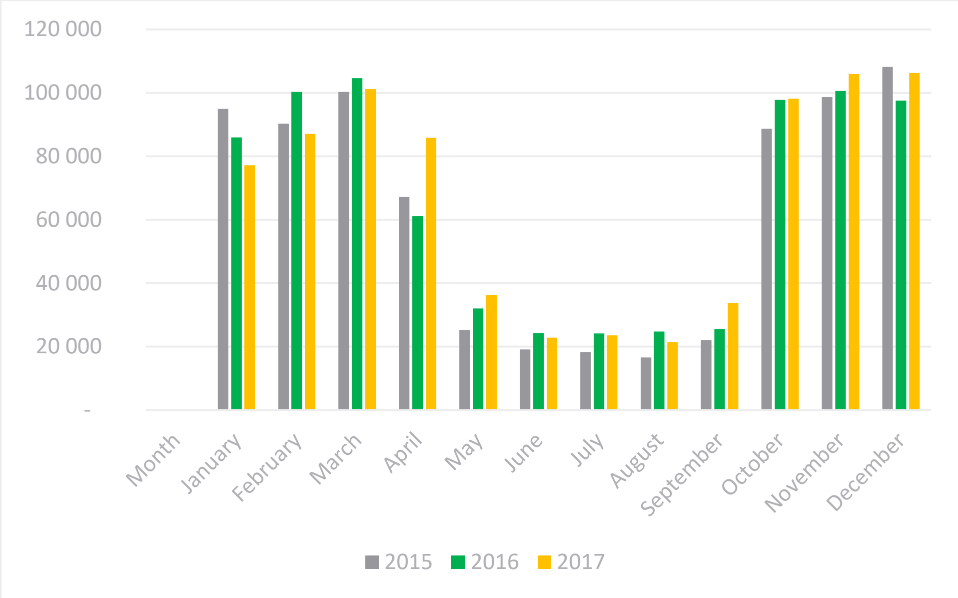
The quantities of heat sold in Győr during the period under review were as follows (GJ):



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

Concerning the operation of the Geothermal System of Miskolc in 2017, it can be claimed that heating season of 2016/2017 saw fluctuating daily mean temperatures in between periods bringing about extreme temperature values, the heating season prolonged and was closed just on 10 May 2017. Due to the particular characteristics of heat supply, in extremely cold outdoor temperatures, the high outgoing water temperatures in the district heat supply system and the resulting higher temperatures of the returning heating media pose limitations on the utilizability of the geothermal heat energy. During the period after the end of March, heat sales benefited from more favourable weather conditions than in the first quarter of the year, and therefore most of the second quarter in the period under review compensated for the heat sales lost in the beginning of the year due to extremely cold temperatures. In the commercial operations of the Geothermal System of Miskolc during the first half of 2017, the Company realized 410,503 GJ heat sales, which is nearly 1% improvement in comparison to the 408,312 GJ heat sold during the corresponding period of the previous year. In relation to the 2017 part of the heating season of 2017/18 having started on 28 September 2017, it can be claimed that there was no such remarkable failure that disturbed the continuous feeding of the geothermal heat into the district heating system of Miskolc, and green heat supply to one of the largest industrial consumers of the region, the Miskolc-based factory of Takata Safety System Hungary Ltd. was similarly undisturbed. With respect to heat supply, the year-end months of the 2017/18 heating season brought about more favourable weather, there were no cold temperatures to restrict the utilization of geothermal capacities, while at daytime ambient temperatures did not increase to levels that would have necessitated the reduction of district heating volumes under the existing geothermal capacities. On 12 December 2017, the geothermal system reached peak daily heat sales of 3,812 GJ. As a result of the system-optimizing investments implemented outside the heating season, yields rose. The Geothermal System of Miskolc achieved 2.7% sales increase in the year of 2017 following heat sales in 2016 with an annual 799,719 GJ quantity of heat sold. With the achieved annual heat sales, CO_2 release dropped by nearly 46,389 tons, where green energy replaced approximately 26.1 million m^3 natural gas in Miskolc.

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

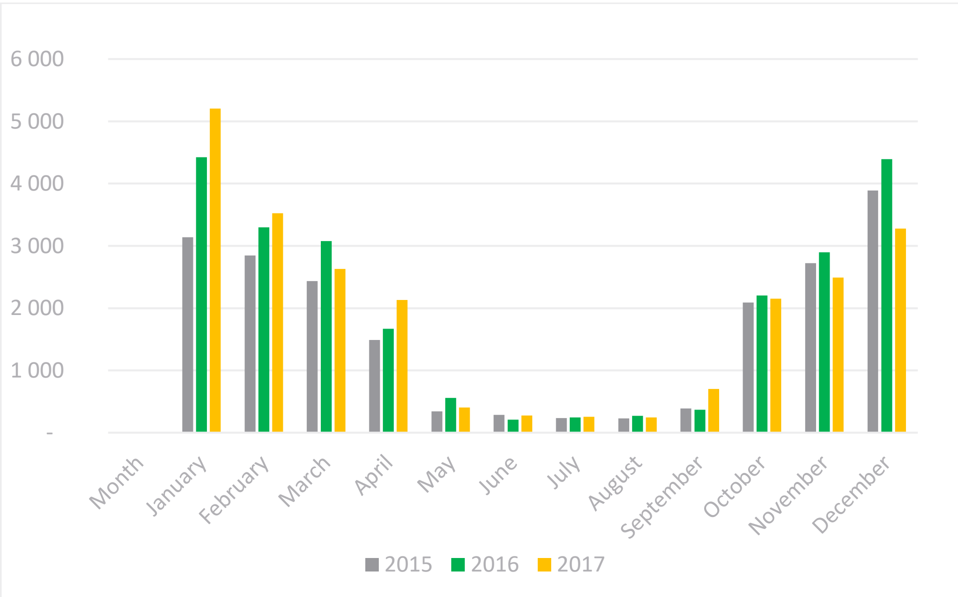


4.3. *Geothermal heating facility of Szentlőrinc (Szentlőrinc Geothermal cPlc.)*

In the year of 2017, the Szentlőrinc facility was operated without any problem, at nearly 100% availability. Owing to the rather chilly spring months, heating services were stopped just on the last day of April 2017, which gave a nearly 20% boost to heat sales in the period in question. In association with its preparations for the winter heating season, the Company also completed a review of the well pump of Szentlőrinc, and as a result the replacement of the well pump was scheduled for a period in 2018 beyond the heating season.

Szentlőrinc Geothermal cPlc's project under subsidy ID KEOP-4.2.0/B-09-2009-0026 was successfully closed in November 2017. The sales of the Geothermal System of Szentlőrinc amounted to 23,343 GJ in 2017, which was nearly identical to the volume achieved in 2016.

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



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

In the operating period during 2017, the gas-engine small power plant produced 1957 MWh electric power and sold 1827 MWh heat energy with the utilization of the accompanying gas extracted from thermal water. Calculated on a calendar basis, the availability of the gas engines in Berekfürdő was 90%, with a lower rate in the last quarter due to the reconditioning of the gas engines. In 2017, the gas-engine small power plant sold 3562 GJ heat power by utilizing the accompanying gas extracted from the thermal water.

5. OVERVIEW OF THE CORE ACTIVITY FROM THE PERSPECTIVE OF ENERGY

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

On 31 May 1991, the Company transformed into a company limited by shares, in line with Act XII of 1989 on the transformation of economic organizations. In 2007, PannErgy envisaged a particular scheme, i.e. to generate considerable volumes of heat and electric power with the exploitation of the long-known Hungarian geothermal resources, thereby creating value for the population and institutions of Hungary, as well as PannErgy's shareholders. In spite of the temporary downturns, the growth of demands for energy seems to be unstoppable in the long run, while the volume of both domestic and global sources is limited. The expert-like and effective geothermal energy production results in the exploitation of a huge pool of energy resources that have just minimally utilized so far, while being one of the most environmentally friendly and cleanest ways of power generation. Today, the European Union does not only welcome these new forms of energy production, but also tries to orient the member states, including Hungary, by establishing strict programs and targets.

PannErgy Group has forged various cooperation agreements with dozens of local governments – primarily to penetrate the heat market – of which, later, only those were selected as project targets which could meet the complex set of selection criteria.

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

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

In addition to the primary heat consumer, i.e. the district heating system of Miskolc, the capacity of the geothermal system allows the supply of the environmentally friendly geothermal heat to further consumers.

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

Upon the commissioning of the Győr project opened in the autumn of 2015, PannErgy revaluated its investments and project-based operations so far. This revaluation move had been partly commenced with portfolio screening and the transformation operations in the last quarter of 2015, and then was carried on in both 2016 and 2017. The Company assessed its funding and investment options, as well as demands in the heat supply market, and found that there was strong demand for well-organized energy producers featuring massive competences and offering geothermal energy capacities.

PannErgy Group's investments are in line with the national energy strategy, as well as the renewable energy utilization program that both serve the improvement of Hungary's competitiveness. The European Union directive pertaining to the EU members states sets a target where annually new energy savings corresponding to 1.5% of the ultimate energy consumption of the member states should be realized in the period until 2020 for reasons of competitiveness and supply safety. In comparison with the currently effective requirements, it poses more stringent expectations, as for the entire European Union the prescribed rate of savings has been increased to 20% instead of the earlier 9% target. In Hungary, the volume of energy from geothermal sources is to reach 12,000 terajoules by 2020. With its projects generating green energy, PannErgy Group is planning to approach 15% soon.

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

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

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

6. PannErgy Group's subsidiaries

From among the two consolidated subsidiaries of the parent company, PannErgy Plc, PMM cPlc. was responsible for the effective implementation of geothermal projects as a general contractor, whereas PannErgy Geothermal Power Plants cPlc. is the professional leader of the Group, and this latter company owns the participations in the individual project companies. With the effective date of 31 August 2017, PMM cPlc. merged into PannErgy Geothermal Power Plants cPlc. After the merger, PMM cPlc. ceased to exist, and PannErgy Geothermal Power Plants cPlc. became its legal successor.

PannErgy Group's Hungarian subsidiaries are involved in business operations typically in Hungary.

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

PannErgy subsidiaries	Capital net worth (HUF M)	Property share (%)	Voting rights (%)	Rate of consolidation (%)
PannErgy Geothermal Power Plants cPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energy Ltd.	24.10	100.00	100.00	100.00
TT Geothermal cPlc.	5.00	100.00	100.00	100.00
Szentlőrinc Geothermal cPlc.	5.00	99.80	99.80	99.80
Miskolc Geothermal cPlc.	5.00	90.00	90.00	90.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Arrabona Geothermal Ltd.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	90.00	90.00	90.00
PannErgy Concession Ltd.	3.00	100.00	100.00	100.00
Pannunion Service GmbH.	25.00	91.00	91.00	0.00

6.2. *Main data of PannErgy's consolidated subsidiaries for 2017, based on the individual statements*

PannErgy subsidiaries	Equity	Subscribed capital	Revenue from sales	Business profit	Profit after taxes	Headcount
PannErgy Plc.	11,707,817	421,093	787,541	138,083	74,428	-
PannErgy Geothermal Power Plants cPlc.	3,218,705	2,072,682	95,942	33,102	75,673	11
Miskolc Geothermal cPlc.	121,316	5,000	1,278,119	364,164	1,137,332	5
Szentlőrinc Geothermal cPlc.	31,239	5,000	87,077	31,905	9,449	2
TT-Geothermal cPlc.	-37,056	5,000	-	-11,979	-12,710	-
Kuala Ltd.	131,138	3,000	1,031,225	154,700	65,203	1
Berekfürdő Energy Ltd.	27,952	24,100	36,349	48,440	42,810	0
DoverDrill Ltd.	835,759	86,000	533,535	-8,138	6,261	7
PannErgy Concession Ltd.	2,311	3,000	-	-690	-689	-
DD Energy Ltd.	1,012,092	3,100	1,416,922	227,611	118,792	1
Arrabona Geothermal Ltd.	812,910	3,100	1,267,959	245,636	164,204	1
CSRG Energy cPlc.			*Participation sold in 2017*			
PMM Trading cPlc.			*Ceased to exist by means of merger in 2017*			

7. THE COMPANY'S OWNERSHIP STRUCTURE, SENIOR OFFICERS

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

Classification of shareholders	Share capital total = Introduced series					
	1 January 2017			31 December 2017		
	%	%	unit(s)	%	%	unit(s)
Domestic institutions	23.63	27.90	4,973,616	23.40	27.30	4,825,567
Foreign institutions	20.53	24.25	4,322,237	20.08	25.10	4,438,071
Domestic private persons	31.75	37.50	6,684,428	31.24	37.21	6,578,283
Foreign private persons	0.20	0.24	42,938	0.23	0.27	47,698
Employees, senior officers	0.60	0.71	127,253	0.54	0.64	113,653
Own holding	15.33	-	3,228,438	16.03	-	3,375,638
Owner belonging to the central budget	7.96	9.40	1,675,745	7.96	9.42	1,675,745
International Development Institutions	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total	**100.00**	**100.00**	**21,054,655**	**100.00**	**100.00**	**21,054,655**

7.2. *Owners of the Company with shares over 5%*

Name	Investor classification		Number (pcs)	Shareholding (%)	Voting rights (%)
Benji Invest Ltd.	Domestic	Institutional	2,424,010	11.51	13.71
National Assets Management cPlc.	Domestic	Budgetary	1,675,745	7.96	9.48
ONP Holdings SE *	Foreign	Institutional	1,359,103	6.46	7.69

*Based on the announcement of the shareholder, as of 12 January 2018 ONP Holdings SE held 1,750,000 PannErgy shares following a transaction taking place on 12 January 2018, which corresponded to 8.31% participation.

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

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

	1 January 2017	30 June 2017	31 December 2017
At company level	2,293,235	2,440,435	2,440,435
Subsidiaries *	935,203	935,203	935,203
Total	3,228,438	3,375,638	3,375,638

*PannErgy shares held by PannErgy Geothermal Power Plants cPlc., the Company's 100% subsidiary

7.4. *Senior officers of the Company*

The senior officers of the Company comprise the members of the Board of Directors. Data of the members of the Board of Directors, as well as their respective shareholdings on 31 December 2017:

Name	Position	Starting date of the appointment	End/termination of the appointment	Shareholding (pcs)
Balázs Bokorovics	Member, Chairman	31 August 2007	for an undefined period of time	-
Dénes Gyimóthy	Member, Vice-Chairman, acting CEO	5 May 2015	for an undefined period of time	-
Katalin Gyimóthy	Member	28 April 2016	for an undefined period of time	-
Lilla Martonfalvay	Member	28 April 2016	for an undefined period of time	100,000
Csaba Major	Member	30 April 2013	for an undefined period of time	-
Attila Juhász	Member	31 August 2007	for an undefined period of time	-
István Töröcskei	Member	31 August 2007	for an undefined period of time	-
Shareholding (shares) in total				100,000

The Company does not have (strategic) employees influencing operations.
PannErgy 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. PANNERGY GROUP'S STRATEGY

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

The expert-like and effective geothermal energy production results in the exploitation of a huge pool of resources that have just minimally utilized so far, while being one of the cleanest and most environmentally friendly ways of power generation. Today, the European Union does not only welcome these new forms of energy production, but also tries to orient the member states, including Hungary, by establishing strict programs and targets.
PannErgy Group's strategy is centered around its aspiration to become the dominant business operator for geothermal heat utilization in the region, maintain this position, and at the same deliver environmentally friendly supplies at high operating safety, without geopolitical risks. PannErgy Group is committed to the energy-related exploitation of one of Europe's largest active geothermal water resource. Geothermal heat can serve households and industrial users in the long run, and with PannErgy's environmentally sparing investments considerable reduction in energy expenses can be achieved.

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

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

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

9. Environmental protection

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

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

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

10. Headcount information

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

Own headcount	31 December 2017	31 December 2016	Change
PannErgy Plc	0	3	-3
Associated companies	28	30	-2
Total	**28**	**33**	**-5**

The average employee headcount of PannErgy Group in 2017 was 28 persons, which meant 15% reduction in comparison with the 33-strong average statistical headcount in 2016. The reason for this reduction was the Company's move to rationalize the headcount substantially by focusing on the operation of the existing projects in the second half of the previous year. As of 31 December 2017, the actual employee headcount of PannErgy Group was 20 people, and the difference between the average statistical headcount and the actual headcount of employees originated from part-time employments at the individual Group entities.

11. Dividend payment, acquisition of treasury shares

The Company's consolidated net profit for the year to equity holders of the parent company in 2017 was HUF th 487,860 profit, and the Board of Directors does not propose dividend payment to the General Meeting with respect to the necessity to make prudent financial resource levels continuously available and the funding demand of PannErgy Concession Ltd's 2018 investment in relation to the Geothermal Project of Győr.

As of December 31 2017, the Company held 3,375,638 treasury shares belonging to PannErgy Plc, exceeding the treasury share holding on 31 December 2016 by 147,200 shares. The underlying changes comprised an increase of 147,200 treasury shares held, while the period under review did not see any decrease in treasury shares in association with the share option program or otherwise. Announced on 18 December 2017, the Company called down the option for 98,000 shares just after 31 December 2017.

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

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

12. MAJOR RISKS OF THE COMPANY, THE ASSOCIATED UNCERTAINTIES

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

The effects of the risks and the form of their management are explained in Note no. 40: Financial risk management. The key risks that PannErgy Group faces are summed up below.

Foreign exchange risk

The Company also performs activities settled in foreign currencies, and there are contracted customers to which EUR-denominated amounts are invoiced based on the agreements pertaining to invoicing. It similarly has EUR-denominated liabilities; they are basically EUR-based long-term investment loans demanded for the implementation of the geothermal projects, and furthermore with a number of foreign and domestic suppliers settlements and invoicing are carried out in EUR currency. The assets and liabilities denominated in foreign currencies carry the risk arising from the changes of foreign exchange rates, and in particular Euro rates, which PannErgy Group strives for mitigating on the broadest possible scale, primarily by hedging the largest possible proportion of the above-mentioned EUR-based revenues with credit liabilities also in Euro currency.
In 2017, the Company concluded several forward FX transactions to cover the risks of foreign exchange losses that may originate from the financial settlement of its trade payables to be incurred in the future in foreign currencies. These transactions were not cash flow hedging transactions, and therefore in the year under review the gains and losses realized on these transactions will be presented among the financial incomes and expenditures of the consolidated financial statements. As of the balance sheet date of the consolidated financial statements, the Company did not recognize such unclosed transactions.

Share rate risk

The share price risk is to be considered in view of the marketability of repurchased treasury shares and the value of the managerial share option program.

Interest risk

PannErgy Group is exposed to interest risks primarily due to long-term loans taken out for investment purposes. The Company carries cash flow-rated interest risks as a result of loans with variable interest rates, which is just partly counterbalanced by liquid assets with also with variable interest rates. Because of the loans with variable interest rates, the Company is exposed to fair value-related interest risks, which are eliminated for interest swap transactions concluded for the entire term of the above-mentioned long-term loans, by which the contract-based variable interests are swapped to fixed interests.
PannErgy Group dynamically analyzes its exposure to interest risks. In this process, it simulates various financial models with respect to refinancing, the renewal of the existing positions, opportunities to have access to alternative funding sources. The Company uses these scenarios to calculate the effects of the changes in the specific interest rates on the profit. In the individual models, the Company takes the same changes in interest rates into consideration for all the currencies concerned. The models are worked out only for the liabilities that represent that key interest-bearing positions.

Credit risk

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

Credit risks are managed on the group level. The entities of PannErgy Group are responsible for managing and analyzing the credit risks that can be associated with new customers still before offering payment and delivery conditions within the framework of the normal course of operations.

At PannErgy Group, credit risks originate from the credit-related exposures that are connected with liquid assets and cash equivalents, deposits held with banks and financial institutions, as well as sales to customers, including outstanding receivables and transactions where the Company has made any commitment.

For the rating of customers, the Company does not involve any independent rating agency directly, but the creditworthiness and credit limits of the customers are determined by PannErgy Group's Finance and Treasury Team with respect to their respective financial positions, financial data, historic experience and other factors. The Company regularly monitors the utilization of credit limits, and the customers make all payments in consideration of their purchases via bank transfer. During the reporting period, there were no overdrafts in the credit limits, and according to the management no losses can be anticipated from these customer performances.

Liquidity risk

Liquidity risk represents the risk that the Company becomes unable to fulfill its financial obligations in a timely manner. The purpose of liquidity management is that sufficient resources should be provided for the fulfillment of liabilities upon their respective due dates. The Company's approach to liquidity management is that as far as it is possible there should always be adequate liquidity provided for the fulfillment of liabilities at their due dates under both ordinary and stressed circumstances without suffering unacceptable losses or putting the Company's reputation at risk. Adequate liquidity can be realized by shaping the terms of funding sources in alignment with the lifecycle of the project. Cash flow forecasts are prepared by PannErgy Group's Finance and Treasury Team, and additionally the rolling forecasts relating to the fulfillment of the Group's liquidity requirements are monitored in order to ensure the availability of sufficient liquid assets for operations, while in connection with the credit limits that are not drawn down sufficient margin is intended to be maintained so that the Company should not surpass its credit limits from time to time, and could meet the debt service indicators that are undertaken vis-á-vis financial institutions. These cash flow forecasts based on the financial settlement of trade payables, credit repayments, as well as contracted and other incomes do take PannErgy Group's financial plans into account, alongside the satisfaction of the contracted financial indicators, external regulatory and legal requirements.

Regulatory risk

From among the general types of regulatory risks, a factor to be specifically highlighted in relation to the Company is that the selling price of a determining part of the heat energy sold by certain project companies involved in heat production and sales is subject to official price setting, and thus is regularly reviewed by the competent price setting organization, which can potentially modify or limit the

Company's profitability. Consequently, considerable uncertainties arise with respect to the future selling prices.

Technological risk

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

Application of financial instruments

The Company can opt for derivative transactions – either for stock-exchange futures treasury share transactions, or in relation to transactions for other financial and capital market instruments (or even capital gearing) – in order to hedge PannErgy Group's foreign currency risks, interest risks and other exposures, as well as to realize exchange gains. In 2017, the Company consummated interest swap transactions in connection with its FX-based investment loans that are detailed in Note *3.15. Financial instruments, 11. Financial incomes, 12. Financing expenditures, 40.2.3. Cash flow and real-value interest risks*.

13. PUBLICITY

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

14. KEY EVENTS AFTER THE CONSOLIDATED FINANCIAL STATEMENT DATE

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

Date	Type of news	Subject-matter, brief contents
13 March 2018	Extraordinary information	Invitation to the ordinary 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	Announcement by shareholders
12 January 2018	Extraordinary information	Announcement by shareholders
1 January 2018	Other information	Number of voting rights at PannErgy Plc.

15. EXTRAORDINARY AND OTHER INFORMATION PUBLISHED IN THE PERIOD UNDER REVIEW

The table provides links to the events taking place in the period under review. Based on the given references, comprehensive information is available at the Company's official places of publication.

Date	Type of news	Subject-matter, brief contents
13 March 2018	Extraordinary information	Invitation to the ordinary 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	Announcement by shareholders
12 January 2018	Extraordinary information	Announcement by shareholders
1 January 2018	Other information	Number of voting rights at PannErgy Plc.
20.12.2017	Other information	PannErgy Plc's event calendar for 2018
18 December 2017	Extraordinary information	Treasury share and share option transactions
12 December 2017	Extraordinary information	PEGE cPlc's move to sell its participation in CSRG Energy cPlc.
30 November 2017	Other information	Number of voting rights at PannErgy Plc
23 December 2017	Extraordinary information	Bank loans refinanced at two PannErgy subsidiaries
1 November 2017	Extraordinary information	Number of voting rights at PannErgy Plc
16 October 2017	Extraordinary information	Quarterly Production Report
2 October 2017	Other information	Number of voting rights at PannErgy Plc
29 September 2017	Other information	Official heat tariffs for the district heat supply period of 2017–2018
1 September 2017	Extraordinary information	Half-yearly Report
31 August 2017	Other information	Number of voting rights at PannErgy Plc
10 August 2017	Extraordinary information	Decision of the company registry court concerning the merger of PannErgy Plc's subsidiaries
1 August 2017	Other information	Number of voting rights at PannErgy Plc
18 July 2017	Extraordinary information	Quarterly Production Report
12 July 2017	Other information	Articles of Corporation
30 July 2017	Extraordinary information	Change in PannErgy Plc's Board of Directors
2 July 2017	Other information	Number of voting rights at PannErgy Plc
1 June 2017	Other information	CSRG Energy cPlc. sales transaction closed by PannErgy Geothermal Power Plants cPlc.
1 June 2017	Other information	Number of voting rights at PannErgy Plc.
11 May 2017	Other information	Summary Report
4 May 2017	Other information	Number of voting rights at PannErgy Plc.
28 April 2017	Extraordinary information	Annual report
28 April 2017	Extraordinary information	Responsible Corporate Management Report
28 April 2017	Extraordinary information	Merger of PMM Commercial cPlc. into PannErgy Geothermal Power Plants cPlc.
28 April 2017	Extraordinary information	PannErgy Plc has raised its shall in PEGE cPlc. to 100%

28 April 2017	Extraordinary information	Resolutions of the General Meeting
18 April 2017	Extraordinary information	Quarterly Production Report
13 April 2017	Extraordinary information	General Assembly
3 April 2017	Extraordinary information	Treasury share transaction and update in relation the share repurchasing program
31 May 2017	Other information	Number of voting rights at PannErgy Plc.
31 May 2017	Extraordinary information	Treasury share transactions
29 March 2017	Extraordinary information	Treasury share transactions
27 March 2017	Extraordinary information	Treasury share transactions
23 March 2017	Extraordinary information	Proposed resolutions to the General Meeting
23 March 2017	Other information	Number of voting rights at PannErgy Plc.
23 March 2017	Extraordinary information	Treasury share transactions
21 March 2017	Extraordinary information	Treasury share transactions
21 March 2017	Extraordinary information	Amendment to the agenda of PannErgy's annual ordinary General Meeting
18 March 2017	Extraordinary information	Treasury share transactions
15 March 2017	Extraordinary information	Treasury share transactions
10 March 2017	Extraordinary information	Treasury share transactions
9 March 2017	Extraordinary information	Letter of invitation to the General Meeting
8 March 2017	Extraordinary information	Treasury share transactions
6 March 2017	Extraordinary information	Treasury share transactions
2 March 2017	Extraordinary information	Treasury share transactions
28 February 2017	Extraordinary information	Treasury share transactions
28 February 2017	Other information	Number of voting rights at PannErgy Plc.
24 February 2017	Extraordinary information	Treasury share transactions
23 February 2017	Extraordinary information	Treasury share transactions
20 February 2017	Extraordinary information	Treasury share transactions
17 February 2017	Extraordinary information	PannErgy Concession Ltd has been formed
16 February 2017	Extraordinary information	Treasury share transactions
14 February 2017	Extraordinary information	Treasury share transactions
10 February 2017	Extraordinary information	Treasury share transactions
8 February 2017	Extraordinary information	Treasury share transactions
7 February 2017	Other information	Even greener future for Audi's heat
6 February 2017	Extraordinary information	Treasury share transactions
6 February 2017	Extraordinary information	PannErgy Plc's subsidiary has signed a concession agreement for the area of Győr
2 February 2017	Extraordinary information	Treasury share transactions
31 January 2017	Other information	Information relating to the performance of CSRG Energy cPlc's sales contract
31 January 2017	Other information	Number of voting rights at PannErgy Plc.
31 January 2017	Extraordinary information	Treasury share transactions
27 January 2017	Extraordinary information	Treasury share transactions
25 January 2017	Extraordinary information	Treasury share transactions
23 January 2017	Extraordinary information	Treasury share transactions
19 January 2017	Extraordinary information	Treasury share transactions
17 January 2017	Extraordinary information	Treasury share transactions

16 January 2017	Extraordinary information	Quarterly Production Report
13 January 2017	Extraordinary information	Treasury share transactions
11 January 2017	Extraordinary information	Treasury share transactions
10 January 2017	Extraordinary information	Treasury share transactions
5 January 2017	Extraordinary information	Treasury share transactions
3 January 2017	Extraordinary information	Treasury share transactions
1 January 2017	Other information	Number of voting rights at PannErgy Plc.

16. DATE OF THE PERMITTED RELEASE FOR DISCLOSURE

The financial statements were approved by the Company's Board of Directors and permitted for disclosure on 19 March 2018.

Dénes Gyimóthy
representing the Board of Directors

PannErgy Plc
Declaration of the Issuer
2017

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

Budapest, 19 March 2018

Dénes Gyimóthy
representing the Board of Directors

DECLARATION

In association with PannErgy Group's consolidated financial statements for 2017 prepared in accordance with IFRS, as well as the business and management report, pursuant to the statutory requirements set forth in Section 2.4 and 3.4 of Appendix 1 to Decree 24/2008 (July 15) of the Ministry of Finance, I, the undersigned Dénes Gyimóthy, acting chief executive officer hereby declare in representation of the Board of Directors that

- prepared on the basis of the applicable accounting requirements and to the best of our knowledge, and also published at the time of the publication of the consolidated financial statements for 2017 prepared in accordance with IFRS, as well as the business and management report, PannErgy Plc's individual annual report offers a realistic and reliable view of the assets, liabilities, financial standing, as well as profits and losses of PannErgy Plc as a public issuer of securities, and;

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

- prepared on the basis of the applicable accounting requirements and to the best of our knowledge, the consolidated financial statements for 2017 prepared in accordance with IFRS with respect to PannErgy Plc (consolidated annual report) offers a realistic and reliable view of the assets, liabilities, financial standings, as well as profits and losses of PannErgy Plc as a public issuer of securities and the business entities involved in the scope of consolidation, and;

- the business and management report associated with the consolidated financial statements for 2017 prepared in accordance with IFRS (consolidated management report) offers a reliable view of the situation, development and performance of PannErgy Plc as a public issuer of securities and the business entities involved in the scope of consolidation, and discloses the key risks and uncertainties.

Dénes Gyimóthy
representing the Board of Directors