PannErgy Plc.

Parent Company's Financial Statement and Annual Report (prepared in accordance with International Financial Reporting Standard as adopted by the EU.) 2017.

including Independent Auditor's Report

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

TABLE OF CONTENTS

Venilia Vellum Könyvvizsgáló és Adótanácsadó Kft.
1026 Budapest, Szilágyi Erzsébet fasor 79.
Tel: +36 1 210-27-33
Fax:+36 1 210-27-34
info@venilia.hu
www.venilia.hu

Independent Auditor's Report

(Free translation)

To the Shareholders of PannErgy Nyrt.

Opinion

We have audited the financial statements of PannErgy Nyrt. (the „Company") for the year 2017 which comprise the statement of financial position as at December 31, 2017 – which shows a total assets of thHUF 12,142,404 –, and the related statement of recognized income, statement of comprehensive income – which shows a net profit for the year of thHUF 74,428 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

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

We are independent of the Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the "Code of Ethics for Professional Accountants" (the IESBA Code) issued by the International Ethics Standards Board for Accountants, and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

Prior year financial statements were audited by another auditor who issued unqualified opinion on 28 February 2017.

Other Information

Other information comprises the information included in the business report of the Company for 2017, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditors' report entitled *"Opinion"* does not apply to the other information.

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

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

In our opinion, the business report of the Company for 2017 corresponds to the financial statements of the Company 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 Company is not subject to additional requirements under any other regulation in connection with the business report, we have not formulated an opinion on this matter.

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

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

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

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

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

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

Venilia Vellum

Venilia Vellum Könyvvizsgáló és Adótanácsadó Kft.
1026 Budapest, Szilágyi Erzsébet fasor 79.
Tel: +36 1 210-27-33
Fax:+36 1 210-27-34
info@venilia.hu
www.venilia.hu

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

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

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

We also:

- ✓ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ✓ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ✓ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✓ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ✓ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are

Venilia Vellum Könyvvizsgáló és Adótanácsadó Kft.
1026 Budapest, Szilágyi Erzsébet fasor 79.
Tel: +36 1 210-27-33
Fax:+36 1 210-27-34
info@venilia.hu
www.venilia.hu

therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 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 the Company, which we issued on 28 February 2018 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Budapest, 19 March 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.

Financial Statements for the year 2017

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

31 December 2017

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.

STATEMENT OF FINANCIAL POSITION

	Notes no.	31. Dec. 2017	31. Dec. 2016
		HUF th	HUF th
Goodwill	14	-	-
Other intangible assets	14	217	270
Tangible assets	15	1,343	1,254
Investment properties	15	-	280,873
Marketable properties	15	343,000	-
Long-term investments	16	4,627,883	4,377,883
Financial assets		-	-
Deferred tax asset	30	12,475	46,799
Long-term receivables	17	11,243	14,929
Total fixed assets		**4,996,161**	**4,722,008**
Inventories	19	-	-
Trade receivables	20	135,028	108,982
Short-term loan receivables	41.3	6,660,581	7,334,168
Other receivables and current assets	21	129,104	492,521
Income tax receivables	21	-	2,284
Securities	22	200,027	20
Cash and cash equivalents	32	21,503	54,905
Total current assets		**7,146,243**	**7,992,880**
TOTAL ASSETS		**12,142,404**	**12,714,888**
Subscribed capital	23	421,093	421,093
Reserves without comprehensive income for the year	25	12,895,142	13,191,521
Comprehensive income for the year	25	74,428	-145,276
Treasury shares	24	-1,682,846	-1,614,436
Total equity		**11,707,817**	**11,852,902**
Long-term loans, leases	26	-	-
Other long-term deferred incomes		-	-
Provisions	27	-	56,236
Total long-term liabilities		**-**	**56,236**
Trade payables	33	154,586	135,967
Short-term debt	28	48,362	635,554
Short-term part of long-term loans	28	-	-
Other long-term deferred incomes		-	-
Income tax paid	30	3,452	-
Other short-term liabilities	29	228,187	34,229
Total short-term liabilities		**434,587**	**805,750**
TOTAL LIABILITIES AND EQUITY		**12,142,404**	**12,714,888**

STATEMENT OF PROFIT OR LOSS

	Note no.	2017.	2016.
		HUF th	**HUF th**
Revenue from sales	5	787,541	759,082
Direct costs of sales	7	-544,635	-502,595
Gross profit		**242,906**	**256,487**
Gross profit ratio %		**30.8 %**	**33.8 %**
Gross cash flow		**247,247**	**261,647**
Gross cash flow rate %		**31.4 %**	**34.5 %**
Indirect costs of sales	6	-153,628	-198,420
Other incomes	10	79,087	68,623
Other expenditures	9	-30,282	-90,510
Operating profit		**138,083**	**36,180**
Operating profit rate %		**17.5 %**	**4.8 %**
EBITDA		**148,857**	**51,590**
EBITDA rate %		**18.9 %**	**6.8 %**
Financial profit	11-12	-20,523	-177,491
Profit before taxes		**117,560**	**-141,311**
Income tax	32	-43,132	-3,965
Net profit for the year		**74,428**	**-145,276**
from: Profit attributable to Shareholders of the company		**74,428**	**-145,276**
Earnings per ordinary share (HUF)			
Basic	31	4.00	-7.74
Diluted	31	3.82	-7.74

STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR

	2017.	2016.
	HUF th	HUF th
Net profit for the year	**74,428**	**-145,276**
Other general incomes		
Exchange difference from the HUF conversion of the reports of foreign subsidiaries	-	-
Exchange difference from the HUF conversion of affiliated companies & companies under common management	-	-
Marketable financial assets with deferred taxes	-	-
Cash flow hedging transactions with deferred taxes	-	-
Share from the comprehensive income of affiliated companies	-	-
Other comprehensive incomes in the period with tax implications	-	-
Total comprehensive income for the year / attributable to	**74,428**	**-145,276**
Shareholders of the Company	**74,428**	**-145,276**

STATEMENT OF CHANGES IN THE EQUITY

Description	Subscribed capital	Reserves	Treasury shares	Equity
Balance as of 31 December 2015	**421,093**	**13,218,250**	**-1,426,020**	**12,213,323**
Profit for 2016	-	-145,276	-	-145,276
Capital issue	-	-	-	-
Dividends	-	-	-	-
Other equity-related transactions	-	-26,729	-	-26,729
Treasury shares	-	-	-233,866	-233,866
Decrease in treasury shares	-	-	45,450	45,450
Balance as of 31 December 2016	**421,093**	**13,046,245**	**-1,614,436**	**11,852,902**
Profit for 2017	-	74,428	-	74,428
Capital issue	-	-	-	-
Dividends	-	-	-	-
Other equity-related transactions	-	-151,103	-	-151,103
Treasury shares	-	-	-68,410	-68,410
Decrease in treasury shares	-	-	-	-
Balance as of 31 December 2017	**421,093**	**12,969,570**	**-1,682,846**	**11,707,817**

STATEMENT OF CASH-FLOWS

	Note no.	2017.	2016.
Cash-flows from operations		**HUF th**	**HUF th**
Profit before taxes		**117,560**	**-141,311**
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	6,620	7,256
Effect of deferred taxes	30	34,324	435
Income tax expenditures	30	-43,132	-3,965
Exchange gain/loss on credits	13	424	8,003
Impairment of tangible assets, goodwill	9, 15	4,153	8,154
Impairment losses and shortage of inventories	19	-	-
Changes in the real market values of properties	10, 15	-70,469	-
Interest payable/received	11,12	-229,265	-158,731
Profit on the sales of tangible assets	10	-	-40,355
Expenditures of the share option program	29,35	-209,046	59,303
Reclassification of provision		-	169,184
Changes in working capital elements			
Increase/decrease of inventories	19	-	-
Income taxes paid	30	3,452	157
Increase/decrease of receivables	20, 21	341,056	-166,284
Increase/decrease of payables	29,13	212,193	64,125
Increase/decrease of prepaid income taxes	21	2,284	-568
Interests received	5, 11	242,534	171,426
Interests paid	12	-13,269	-12,695
Total cash-flows from operations		**399,419**	**-35,866**
Cash-flows from investing activities			
Increase/decrease of existing investments	16	-250,000	-500,000
Sales of investments	16	-	-
Acquisition of tangible and intangible assets	14-15	-762	-559
Sales of tangible and intangible assets	10, 15	-	76,486
Loans to related parties	41.3.	-86,385	-715,498
Repayments of loans from related parties	41.3.	759,972	995,988
Borrowings from related parties	41.3	39,734	604,728
Repayments of borrowings to related parties	41.3	-626,963	-676,331
Total cash-flows from investing activities		**-164,404**	**-215,186**
Cash-flows from financing activities			
Changes in Long-term loans	26	-	-52,842
Purchase of treasury shares	24	-68,410	-233,866
Sales of treasury shares	24	-	45,450

Increase/decrease in securities	22	-200,007	500,717
Total cash-flows from financing activities		**-268,417**	**259,459**
Change in cash and cash equivalents		**-33,402**	**8,407**
Cash and cash equivalents at the beginning of the period		**54,905**	**46,498**
Cash and cash equivalents at the end of the period		**21,503**	**54,905**

Tartalomjegyzék

1. GENERAL BACKGROUND AND DESCRIPTION OF THE ACTIVITIES

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

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

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

2. BASIS OF THE COMPILATION OF THE REPORT

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

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

PannErgy Plc. as parent company's financial statements are prepared with reliance of the historic 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 real values. PannErgy Plc states figures in the consolidated financial statements in Hungarian Forint currency, as rounded up to HUF thousand, with exceptions specifically indicated.

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

3. SUMMARY OF THE KEY POINTS OF THE ACCOUNTING POLICIES

3.1. *General principle*

The accounting policies used in the compilation of the 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. At the same time with first adaptation of EU IFRSs with 1st January 2017, the Company presents basic data of the financial statement by EU IFRSs as well, it guarantees the direct comparison between the periods.

3.2. *New and modified reporting standards in the year*

As of 1 January 2017, there were such new or modified standards to be applied that would be first used by PannErgy Plc. in the financial year starting on 1 January 2017 for the compilation of the financial statements, and that would be relevant to the 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 Plc. has not used this option for the compilation of its consolidated financial statements in relation to 2017.

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 real values and depreciated historic costs, with this classification to be performed at the time of their initial recognition. Investments into capital instruments are evaluated at their real 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 real 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.

Effects of the application of the IFRS 9 standards 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 real values and depreciated historic 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 real 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 depreciated historic values, 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 Ltd, Szentlőrinc Public Utility Nonprofit Ltd) and priority strategic business partners (Audi Hungaria Zrt.), 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 real valuation.

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 depreciated historic 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 real values.

Based on the expected credit loss model, the Company classifies the affiliated loans, credits that continue to be stated at their depreciated historic 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 real 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 depreciated historic values, 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 real values. For the evaluation of participations existing in companies not listed at any stock exchange, the Company involves independent experts for the determination of real values.

The Company presents differences arising from the changes of real 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.

IFRS 15 Revenues from sales (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.

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.

3.3. *Functional currency*

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

Accordingly, the effects of changes in the exchange rates are not discussed in the consolidated financial statements.

3.4. *Transactions on foreign currencies, conversions*

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

3.5. *Fair value measurement*

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

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

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

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

3.6. *Intangible assets*

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

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

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

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

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

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

3.7. *Impairment losses of non-financial assets*

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

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

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

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

3.8. *Research and development*

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

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

3.9. *Property, machines and equipments*

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

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

3.10. *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.

3.11. *Assets held for sale*

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

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

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

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

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

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

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

3.12. *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	20 - 50 years
Production and other machinery, equipments	2 – 8 years
Vehicles	5 years

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

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

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

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

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

3.13. *Investments (projects)*

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

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

3.14. *Long-term investments*

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

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

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

3.15. *Inventories*

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

3.16. *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.

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:

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 consist of 50 or smaller participations, as well as shares not involved in the scope of consolidation for other reasons.

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.

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.

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.

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.

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.

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.

3.17. *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.

3.18. *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. Any resulting amount has to be decreased with the amount of paid up additional contributions recognized as assets under IFRSs, as well as the unused amount of the development reserve reduced with the amount of deferred taxes calculated in accordance with the IAS 12 Income taxes standard.

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

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

3.19. *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.

3.20. *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.

3.21. *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.

3.22. *Provisions*

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

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

The Company recognizes pending liabilities in case

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

Existence on the 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.

3.23. *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.

3.24. *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.

3.25. *Interest and dividend incomes*

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

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

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

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

3.26. *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.

3.27. *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.

3.28. *Government subsidies*

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

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

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

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

3.29. *Comparative periodic information*

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

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

3.30. *Segment specific report*

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

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

3.31. *Gross cash-flow and EBITDA definition*

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 mistakes*

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. SALES REVENUES

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

	2017. HUF Th	2016. HUF Th
Asset management	287,556	286,483
Property management	499,985	472,599
Total	**787,541**	**759,082**

5.2. *Geographical breakdown of sales revenues*

	2017. HUF Th	2016. HUF Th
Domestic sales revenues	786,509	758,331
Sales revenues within the EU	1,032	751
Sales revenues outside the EU	-	-
Total	**787,541**	**759,082**

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

	2017. HUF Th	2016. HUF Th
Electric power sales	448,097	422,959
Interest income from intercompany asset management	242,534	171,415
Intercompany services	43,945	114,276
Mediated and reinvoiced services	43,757	42,953
Rentals of buildings and tangible assets	8,423	7,098
Product sales	785	381
Total	**787,541**	**759,082**

The amount of electric power sales (448,097 HUF Th) represents the reinvoiced electricity fees of the operation of the Company's real-estates in Csepel and Debrecen. Those are reinvoiced to the tenants and also to other owners of the properties (the effected properties are subject to undivided and joint ownership).

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

	2017. HUF Th	2016. HUF Th
Assets used in domestic production	4,996,161	4,722,008
Assets used in intra-EU production	-	-
Assets used in extra-EU production	-	-
Total	**4,996,161**	**4,722,008**

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

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

	2017.	2017. in proportion to total sales	2016.	2016. in proportion to total sales
Total sales from key customers	**729,446**	**92.62 %**	**605,631**	**79.78 %**
Total sales	**787,541**	**100.00 %**	**759,082**	**100.00 %**

6. Administration and General Costs (Indirect costs)

	2017. HUF Th	2016. HUF Th
Expert fees, accounting and auditing charges	62,148	79,227
Office and operating expenses	48,546	51,573
Indirect PEREX	19,313	44,270
Insurance fees	7,977	8,373
Costs relating to public and stock exchange presence	7.525	8,175
Bank costs	6.108	4.999
Indirect depreciation	1.706	-
Other authority fees, duties	305	1,803
Total	**153,628**	**198,420**

Under the heading of operating costs, PannErgy Plc. could achieve cost reductions in a number of areas in comparison to previous years.

The largest decrease can be seen in indirect personnel expenditures, which reflects the overall positive influence of headcount rationalization measures throughout the period under review. In addition to above all indirect cost categories – excluding bank charges – dropped significantly in comparison to previous year.

7. COSTS OF SALES (DIRECT COSTS)

	2017. HUF Th	2016. HUF Th
Costs of goods sold, mediated services	502,218	457,103
Facility maintenance costs, rental costs	36,476	35,538
Direct depreciation (properties)	4,914	7,256
Electric power costs	280	268
Cost of maintenance materials	-	14
Other direct costs	747	2,416
Total	**544,635**	**502,595**

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

8. CHANGES IN HEADCOUNT AND WAGES

	2017. HUF Th	2016. HUF Th
Average headcount (employees)	-	3
Wages and salaries (HUF Th)	14,480	31,210
Other personnel expenses (HUF Th)	1,218	3,219
Taxes and contributions on wages (HUF Th)	3,615	9,841
Total	**19,313**	**44,270**

In 2017 PannErgy Plc. did not employ own workforce arising from the headcount rationalisation actions taken by PannErgy Group. Other personnel expenses include remuneration paid to the Board of Directors, and the amount of related taxes and contributions.

9. Other Expenses

	2017. HUF Th	2016. HUF Th
Local taxes, duties, fines	21,243	18,401
Extraordinary depreciation, write-off on tangible & intangible assets	4,153	8,154
Expenditures relating to damages	2,205	2,517
Subsidies given for offsetting costs	1,350	1,350
Fines, penalties, default interest, compensations	1,317	10
Levies, contributions	14	-
Provisioning	-	56,236
Impairment on receivables	-	135
Miscellaneous	-	3,707
Total	**30,282**	**90,510**

Within the 30,282 HUF Th amount of other expenses the most important item is the amount of local taxes paid to the regional governments located in the operational sites of the Company. Those cover mainly the amount of local trading tax and property tax.

10. Other revenues

	2017. HUF Th	2016. HUF Th
Fair value measurement of properties held for sale	70,469	-
Imposed fines, damage compensation	8,597	7,558
Profit on sales of tangible assets	-	40,355
Lump-sum collection costs, default interests released	-	10,386
Miscellaneous	21	10,324
Total	**79,087**	**68,623**

Within the 79,087 HUF Th amount of other revenues the most important item is the amount of fair value measurement of properties held for sale as of 31/12/2017.

11. Financial incomes

	2017. HUF Th	2016. HUF Th
Realized and non-realized FX gains	2,612	6,653
Gains on derivative transactions	652	10,549
Gains on securities held for sale	1	2,274
Interests received and other interest-type incomes	-	11
Other financial incomes	-	-
Total	**3,265**	**19,487**

12. Financial expenditures

	2017. HUF Th	2016. HUF Th
Interests paid and other interest-type expenditures	13,269	12,695
Realized and non-realized FX losses	6,267	11,387
Losses on derivative transactions	3,709	644
Losses on the disposal of participations	-	169,184
Other financial expenditures	543	3,068
Total	**23,788**	**196,978**

13. Other information on financial operations

	2017. HUF Th	2016. HUF Th
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 424 HUF Th loss in comparison to the 8,003 HUF Th profit of the previous year. This is primarily caused by EUR-denominated receivables and payables.

14. Intangible assets

Gross value

data in HUF Th

	Goodwill	Valuable rights	Purchased software	Other	Total
1 January 2016	-	954	270	-	1224
Purchase	-	15	-	-	15
Sales	-	-	-	-	-
Impairment & write-offs	-	-320	-84	-	-404
Reclassification	-	-	-	-	-
31 December, 2016	-	649	186	-	835
Purchase	-	-	-	-	-
Sales	-	-	-	-	-
Impairment & write-offs	-	-99	-	-	-99
Reclassification	-	-	-	-	-
31 December, 2017	-	550	186	-	736

Accumulated depreciation	Goodwill	Valuable rights	Purchased software	Other	Total
1 January 2016	-	633	270	-	903
Purchase	-	67	-	-	67
Sales	-	-	-	-	-
Impairment & write-offs	-	-321	-84	-	-404
Reclassification	-	-	-	-	-
31 December 2016	-	379	186	-	565
Purchase	-	52	-	-	52
Sales	-	-	-	-	-
Impairment & write-offs	-	-99	-	-	-99
Reclassification	-	-	-	-	-
31 December 2017	-	333	186	-	519
Net value					
1 January 2017	-	270	-	-	270
31 December 2017	-	217	-	-	217

15. TANGIBLE ASSETS

data in HUF Th

Gross value	Properties held for sale	Properties for investment purposes	Machinery, equipment and vehicles	Investment (project)	Total
1 January 2016	-	364,997	77,640	-	442,637
Purchase	-	-	-	544	544
Capitalization	-	-	544	-544	-
Sale	-	-	-43,593	-	-43,593
Reclassification, write-offs, impairment	-	-11,988	-15,344	-	-27,332
31 December 2016	-	353,009	19,247	-	372,256
Purchase	-	-	-	762	762
Capitalization	-	-	762	-762	-
Sales	-	-	-	-	-
Reclassification, depreciation	347,456	-5,553	-1,562	-	340,341
Impact of fair value measurement	70,469	-	-	-	70,469
Reclassification to properties held for sale	-	-347,456	-	-	-347,456
31 December 2017	417,925	-	18,447	-	436,372

Accumulated depreciation	Properties held for sale	Properties for investment purposes	Machinery, equipment and vehicles	Investment (project)	Total
1 January 2016	-	70,944	38,636	-	109,580
Increase	-	5,093	2,096	-	7,189
Sales	-	-	-7,462	-	-7,462
Reclassification, write-off, impairment loss	-	-3,901	-15,277	-	-19,178
31 December 2016	-	72,136	17,993	-	90,129
Increase	-	4,289	573	-	4,862
Sales	-	-	-	-	-
Reclassification, write-off, impairment loss	74,925	-76,425	-1,462	-	-2,962
31 December 2017	74,925	-	17,104	-	92,029

Net value					
1 January 2017	-	280,873	1,254	-	282,127
31 December 2017	343,000	-	1,343	-	344,343

The Company's real-estates located in Budapest XXI. district (Csepel) and Debrecen are classified as marketable properties in 2017, as opposed to 2016 where being classified as investment properties.
At the end of the period under review, in line with the sales plans, actions and available information, the Company reclassified its former investment properties in a total value of 272,531 HUF Th (after 74,925 HUF Th 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 set by independent market appraisal for the properties in question is compared to the book values. The measurement considers a significant, 50% discount factor towards the short-term disposal of these industrial properties, which factor represents the time necessary for selling. With this approach, the affected properties held for sale have been revaluated to 70,469 HUF Th increasing other incomes.

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

16. LONG-TERM INVESTMENTS

	2017. HUF Th	2016. HUF Th
PannErgy Geothermal Power Plant cPlc.	4,604,948	3,258,000
PMM Commercial cPlc.	-	1,096,948
Pannunion Service GmbH.	22,935	22,935
Total	**4,627,883**	**4,377,883**

During 2017 the Company has purchased the remaining minority – 2.3% participation in PannErgy Geothermal Power Plant cPlc, which was the last step in the transaction launched in 2016. The purchase price of the 2.3% participation has been 250,000 HUF Th, which increased the total share of the Company to 100%.

On the 31st August 2017, PMM cPlc. has merged into in PannErgy Geothermal Power Plant cPlc, which lead to the legal closure of PMM cPlc as an entity.

In its statement of financial position, under the heading of Long-term investments PannErgy Plc. presents the book value belonging to Pannunion Service GmbH, an entity that was acquired as an investment, where PannErgy Plc. held 91%. Pannunion Service GmbH is under liquidation, which is expected to be finalized in 2018. During the liquidation process the Company expects to recover all its investments.

17. LONG TERM RECEIVABLES

	2017. HUF Th	2016. HUF Th
Long term receivables	11,243	14,929

As of 31 December 2017, PannErgy Plc. recognized long-term receivables in an amount of 11,243 HUF Th in its financial statements. These receivables are presented at amortized costs and are connected to a property sale in 2015, where a part of the purchase price is payable in the long term, and therefore the Company agreed with the buyer on a schedule involving installments over one year.

18. LEASE-RELATED RECEIVABLES

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

19. INVENTORIES

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

20. TRADE RECEIVABLES

	2017. HUF Th	2016. HUF Th
Trade receivables	135,028	108,982
Total	**135,028**	**108,982**

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

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

21. Other receivables

	2017. HUF Th	2016. HUF Th
Deferred items for the upcoming period	101,725	483,816
Other tax receivables	13,439	2,494
Guarantees provided to intercompanies	8,564	1,900
Receivables from employees	3,405	-
Prepayments	-	632
Receivables from derivative transactions	-	466
Other loans	-	3,143
Miscellaneous	1,971	70
Total	**129,104**	**492,521**

From the items accrued in relation to the upcoming period 87,970 HUF Th is associated with revenue from sales and an amount of 13,755 HUF Th with costs. The details of the amount of other tax receivables reflect that receivables for value-added tax are the most significant with an amount of 12,191 HUF Th.

22. Securities (Investments held for sale)

	2017. HUF Th	2016. HUF Th
Securities held to expiry	200,027	20

After the previous year, the value of securities considerably increased in the financial statements; it was caused by the fact that PannErgy Plc. made temporary investment in an amount of HUF th 200,000 in short-term government bonds (discount treasury notes).

23. Subscribed capital

	2017. HUF Th	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.

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

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

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

24. TREASURY SHARES

	2017.	**2016.**
Treasury shares (number)	2,440,435	2,293,235
Face value (HUF th)	48,809	45,865
Cost (HUF th)	1,682,846	1,614,436

As of December 31 2017, the Company held 2,440,435 treasury shares belonging to PannErgy Plc, exceeding the treasury shareholding on 31 December 2016 by 147,200 shares (6%). The underlying changes comprised an increase of 147,200 treasury shares held, in association with the share purchase program. Number of treasury shares did not decrease in the period.

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 3000 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.

25. Reserves

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

	2017. HUF Th	**2016. HUF Th**
Capital reserve	11,225,813	11,376,916
Profit reserve	1,743,757	1,669,329
Other reserves	-	-
Total	**12,969,570**	**13,046,245**

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

The 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.

26. Long-term liabilities

The Company has no long-term liabilities.

27. Provisions

	2017. HUF Th	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 Plc. did not present provisions for environmental protection and recultivation purposes.

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

28. Short-term loans

The Company has liabilities arising from short term loans as at 31 December 2017:

	2017. HUF Th	2016. HUF Th
Pannunion Services GmbH.	48,072	41,988
PMM Commercial cPlc.	-	593,316
Reclassified current account loans	290	250
Closing balance as at 31 December	**48,362**	**635,554**

29. Other short-term liabilities

	2017. HUF Th	2016. HUF Th
Liabilities form share option program	209,046	-
Deferred items for the upcoming period	10,115	25,099
Tax and contribution liabilities	4,115	542
Wages, salaries and social insurance	492	1,464
Liabilities relating to derivative transactions	-	644
Miscellaneous	4,419	6,480
Other short-term liabilities in total	**228,187**	**34,229**

Among other short-term liabilities, the largest single item arises form the obligations connected with the share option program for 2016–2019 (see details in Chapter 34. share-base payments).
The Company recognizes tax and contribution liabilities in an amount of HUF th 4,115, including an outstanding, HUF th 3,036 amount of local trading tax.
Within the amount of deferred items for the upcoming period the Company recognizes 7,860 HUF Th deferred non-interest type items, while 2,255 HUF Th deferred interest type items for the upcoming period.
At miscellaneous items HUF th 4,419 amount is related to former transformation of shares from materialized to dematerialized as liabilities to owners.

30. Taxation, income taxes

30.1. *Income taxes for the year under review*

	2017. HUF Th	2016. HUF Th
Tax liabilities in the year under review	8,808	3,965
Effect of deferred taxes	34,324	-
Total	**43,132**	**3,965**

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

30.2. *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	15,166	46,799
Difference originating from depreciation under the Accounting and Taxation Act	9	-
Difference in the depreciation of tangible assets due to consolidation	-	-
Provisioning	-	-
Deferred tax receivables (gross)	*15,175*	*46,799*
Deferred tax payables (gross)	*-2,700*	-
Deferred taxes to be settled (net)	**12,475**	**46,799**
Deferred taxes stated for the previous year	46,799	46,799
Deferred tax settlement/write-back	-34,324	-
Deferred tax receivables as of 31 December	**12,475**	**46,799**

The HUF th 12,475 deferred tax receivables recognized among fixed assets covers the 9% corporate income tax relating to the negative tax base that remained unused in association with the subsidiaries belonging to PannErgy Plc., as well as other deferred tax-modifying items under IFRS.

Tax receivables deferred due to accrued losses are based on the controlled, deferred taxes of the subsidiaries concerned. Based on the Company's decision, 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 9,099 decrease in the amount of deferred taxes.

The gross amount of deferred tax receivables is HUF th 15,175, which further decreases the amount of deferred tax liabilities associated with development reserves by HUF th 2,700.

As these deferred tax receivables and liabilities are incurred against the same tax authority, these amounts are netted in accordance with the relevant IFRS requirements, and therefore the financial statements recognize HUF th 12,475 as deferred tax receivables.

30.3. *Calculation of the effective income tax*

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

	2017. HUF Th	2016. HUF Th
Profits before taxes (individual companies)	**224,721**	**14,456**
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)	20,225	1,446
Effect of different tax rates (minimum profit tax)	-	-
Effect of the changes in the tax rate		
Tax implications of non-deductible expenditures, effects of differences in depreciation and other tax-decreasing items	-2,609	6,484
Tax-free incomes		-
Tax allowances	-	
Deferred tax liabilities assessed in the year under review for any negative tax base not stated earlier	-8,808	-3,965
Tax liabilities in the year under review	**8,808**	**3,965**
Write-off of tax receivables assessed earlier for negative tax bases	**34,324**	**-**
Income tax (as per the profit & loss account)	**43,132**	**3,965**

The 435 HUF Th amount of deferred tax has been written of as a result of IFRS transition in the previous period. This however has not been represented as expenditures in the financial statements, but has been booked against capital reserve for the sake of comparable data, as the Company only applies EU IFRS since 1 January 2017.

31. EARNINGS PER SHARE

	2017.	2016.
Net profit for the year to equity holders (HUF th)	74,428	-145,276
Number of issued shares less the number of treasury shares	18,614,220	18,761,420
Profit/loss per share (HUF)	**4.00**	**-7.74**
Diluted profit/loss per share (HUF)	**3.82**	**-7.74**

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.

32. LIQUID ASSETS AND CASH EQUIVALENTS

	2017. HUF Th	2016. HUF Th
Bank and petty cash	21,503	49,014
Separate, blocked liquid assets	-	5,891
Cash and cash equivalents	**21,503**	**54,905**

33. TRADE PAYABLES

	2017. HUF Th	2016. HUF Th
Trade payables	154,586	135,967
Total	**154,586**	**135,967**

34. FINANCIAL INSTRUMENTS

PannErgy Plc. financial instruments can be categorized as follows:

	2017. HUF Th	2016. HUF Th
Financial assets	**5,103,285**	**4,996,619**
Marketable financial assets (available for sale, AFS)	***4,827,910***	***4,377,903***
Long-term investments	4,627,883	4,377,883
Securities	200,027	20
Loans and receivables (LAR)	***264,132***	***603,321***
Loans provided	-	-
Trade receivables	135,028	108,982
Other short-term receivables, prepaid income taxes	129,104	494,339
Financial assets held to maturity (HTM)	***11,243***	***14,929***
Long-term financial receivables	11,243	14,929
Financial instruments evaluated at fair value to profit and loss (FVTPL)	**-**	**466**

Derivative transactions	-	466
Financial liabilities	**434,263**	**805,750**
Other financial liabilities	***434,263***	***805,106***
Trade payables	154,586	135,967
Long-term loans	-	-
Short-term credits	48,362	635,554
Other financial liabilities	231,315	33,585
Financial liabilities evaluated at fair value to profit and loss (FVTPL)	***-***	***644***
Derivative transactions – liabilities	-	644

The Company presents primarily purchased credit securities and participations in other companies among marketable financial assets.
Among loans and receivables, the Company presents purchased and credit securities, as well as trade receivables and loans provided with respect to the nature of these assets. The Company records loans among current assets. The values of loans and receivables are initially stated at their fair values by the Company, and then at their depreciated values in the 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 a property in 2015 as financial instruments held to maturity that mean long-term payments under specific schedules for the Company, and therefore these receivables have the status of being held to maturity.

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

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

35. 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.

<u>Evaluation of the share option program:</u>

For the determination of the fair value of the share option program, all the three opening stages were taken into account. In line with the market conditions considered for the determination of the fair value, with the use of the Black-Scholes model (closing share price as of 31 December 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.

36. OFF-BALANCE SHEET LIABILITIES AND COMMITMENTS

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

Investments implemented amount for 762 HUF Th in 2017, as opposed to the investments of the previous period in the amount of 559 HUF Th. The Company has no investment commitments currently.

36.2. *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.

36.3. *Other pending liabilities*

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

PannErgy Plc. has no liabilities towards credit institutions, thus is not burdened by asset restrictions, however, for external financing agreements that were made by subsidiaries of Pannergy Plc. during the period, various types of guarantees (pledge, suretyship) were undertaken in an amount of HUF th 3,697,319 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.

36.3.2. Commitments made in relation to tenders

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

36.3.3. *Operative leases*

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

	2017. HUF Th	2016. HUF Th
within 1 year	11,823	4,481
over 1 year, but within 5 years	8,170	19,993
over 5 years	-	-
Total	19,993	24,474

The 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.

37. FINANCIAL RISK MANAGEMENT

37.1. *Financial risk factors*

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

37.2. *Market risk*

37.2.1. *Foreign exchange risk*

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

37.2.2. Price risk

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

37.2.3. Cash flow and fair-value interest risk

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

37.3. *Credit risk*

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

37.4. *Liquidity risk*

Liquidity risk represents the risk that the Company becomes unable to fulfill its financial obligations in a timely manner. The purpose of liquidity management is that sufficient resources should be provided for the fulfillment of liabilities upon their respective due dates. The Company's approach to liquidity management is that as far as it is possible there should always be adequate liquidity provided for the fulfillment of liabilities at their due dates under both ordinary and stressed circumstances without suffering unacceptable losses or putting the Company's reputation at risk. Adequate liquidity can be realized by shaping the terms of funding sources in alignment with the lifecycle of the project. Cash flow forecasts are prepared by PannErgy Group's Finance and Treasury Team, and additionally the rolling forecasts relating to the fulfillment of the Group's liquidity requirements are monitored in order to ensure the availability of sufficient liquid assets for operations, while in connection with the credit limits that are not drawn down sufficient margin is intended to be maintained so that the Company should not surpass its credit limits from time to time, and could meet the debt service indicators that are undertaken vis-á-vis financial institutions. These cash flow forecasts based on the financial settlement of trade payables, credit repayments, as well as contracted and other incomes do take PannErgy Group's financial plans into account, alongside the satisfaction of the contracted financial indicators, external regulatory and legal requirements.
Beyond trade payables, other short-term liabilities are presented in the cash flow forecasts with due dates corresponding to their respective natures, meaning that taxes and contributions, liabilities connected with the payment of incomes are financially settled within 30 days, other types of liabilities until the dates determined in the underlying contracts or other documents, but within one year at the latest.

37.5. *Capital management*

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

	2017. **HUF Th**	**2016.** **HUF Th**
Subscribed capital	421,093	421,093
Equity capital in total	11,707,817	11,852,902
Equity capital / subscribed capital	**27.80**	**28.15**

37.6. *Netting of financial assets and financial liabilities*

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

38. PARTICIPATIONS

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

The Company's subsidiaries belonging to the scope of consolidation and the ownership shares are the following as at 31/12/2017:

	Capital net worth (HUF M)	Property share (%)	Voting rights (%)	Rate of involvement in consolidation
Kuala Ltd.	3,00	90,00	90,00	90,00
PannErgy Geothermal Power Plants cPlc.	2.072,70	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
Berekfürdő Energy Ltd.	24,10	100,00	100,00	100,00
DoverDrill Ltd.	86,00	100,00	100,00	100,00
PannErgy Concession Ltd.	3,00	100,00	100,00	100,00
DD Energy Ltd.	3,10	100,00	100,00	100,00
Arrabona Geothermal Ltd.	3,10	100,00	100,00	100,00

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

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

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 Ltd and PannErgy Geothermal Power Plants Ltd 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 Ltd as the acquired entity merged into PannErgy Geothermal Power Plants Ltd, the acquiring entity. With the merger, PMM Ltd became terminated, and PannErgy Geothermal Power Plants Ltd acted as its general legal successor, continuing its operations in the form of a private company limited by shares.

39. SEGMENT REPORT

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

40. EXPLANATION OF THE RECLASSIFICATIONS MADE AFTER THE FINANCIAL STATEMENTS FOR THE BASE PERIOD

PannErgy Plc. applies EU IFRS standards to meet its reporting obligations on 1 January 2017 for the first time. For the sake of comparison with the previous reporting period all the 2016 data are presented in line with IFRS standards within this Financial Statement. Obviously these IFRS based data for 2016 differ from data presented in the Financial statements under Hungarian Accounting Standards. Following adjustments have been made to previous year's HAS data:

Items affected with adjustment	HAS Statement 2016	IFRS Statement 2016	Highlights of adjustment
Deferred tax receivable	-	46,799	New item booked against capital reserve
Treasury shares	1,027,369	-	Booked as share capital against reserves
Financial income from repurchased treasury shares	182,523	-	Repurchased shares booked as share capital against capital reserve
Financial incomes from intercompany lending / financing	174,415	-	Reclassified to sales revenues from financial incomes
Sales revenue from intercompany lending / financing	-	171,415	
Financial expenditures on share-based payments	26,756	-	Movement of treasury shares within share capital.
Change in reserves due to IFRS corrections	-	-824,803	Reclassifications against capital reserve according to the above.

41. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

41.2. *Intercompany transactions*

The Company performed intercompany transactions during 2017 as follows:

Data of transactions consummated with affiliated parties not belonging to the scope of consolidation	**2017. HUF Th**	**2016. HUF Th**
Intercompany sales [1]	286,524	114,276
Procurements from affiliated companies	59,758	62,937
- *Of this, from subsidiaries*	*29,690*	*28,598*
- *Of this, from other companies owned by PannErgy Group's management*	*30,068*	*34,339*
Intercompany receivables	6,733,613	7,379,834
Intercompany liabilities	110,162	692,616
- *Of this, from subsidiaries*	*107,650*	*687,577*
- *Of this, from other companies owned by PannErgy Group's management*	*2,512*	*5,039*

[1] Of this 242.534 HUF Th interest income presented as sales revenue.

41.3. *Intercompany borrowings & loans*

Pannergy Plc. had the following Intercompany borrowings and loans in 2016 and 2017. No loans have been granted to the Management of the Company.

	2017. HUF Th	2016. HUF Th
Opening balance IC loans	7,334,168	7,614,659
New volume of IC loans	86,385	715,498
IC repayments	-759,972	-995,988
Closing balance IC loans	6,660,581	7,334,169

	2017. HUF Th	2016. HUF Th
Opening balance IC borrowings	635,304	706,907
New volume of IC borrowings	39,734	604,728
IC repayments	-626,964	-676,331
Closing balance IC borrowings	48,072	635,304

41.4. *Remuneration of the Management*

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

	2017. HUF Th	2016. HUF Th
Prompt employee benefits	14,480	15,478
Deferred long-term benefits	-	-
Severance payment	-	-
Share based payments	-	-
Total	**14,480**	**15,478**

The Company has approved 195 HUF Th / month remuneration for the Chairman of the Board of Directors as stated in its resolution no. 7/2017 (IV.28). Remuneration set for the other members of the Board amounts for 155 HUF Th / month starting form 29 April 2017.

42. Events after the financial statement date

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

Date	Type of news	Subject-matter, brief contents
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

43. 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.

Parent company's
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. Management summary

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

The Company as parent company of the PannErgy Group has successful business year in 2017. The PannErgy Group realized a considerable consolidated increase in sales, gross margin and gross cash flow, and furthermore its operating and net profit 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.

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 Ltd was demerged, and with the demerger the earlier minority participation was terminated with the effective date of 30 May 2017, PannErgy Geothermal Power Plants Ltd became the Company's sole owner. Thereafter, in December 2017 the Company sold its 100% share in CSRG Energy Ltd at a selling price equalling to the HUF th 150,000 book value.
Furthermore, two subsidiaries, PannErgy Geothermal Power Plants Ltd and PMM Ltd were amalgamated, in the course of which PMM Ltd was merged into PannErgy Geothermal Power Plants Ltd with the effective date of 31 August 2017. With the merger, PMM Ltd became terminated, and PannErgy Geothermal Power Plants Ltd 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 Ltd 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 Ltd increased from 97.7% on 31 December 2016 to 100% on 5 May 2017.

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.

Reclassification of properties to marketable properties

The Company's real-estate properties in Budapest XXI. district (Csepel) and Debrecen were among investment properties in the financial statements for the previous year. At the end of the period under review, according to the related IFRS regulations, the Company reclassified its former investment properties into the category of marketable properties / fixed assets held for sale.

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 Plc as parent/individual company's profit or loss in 2017, key indicators of business operations

Key profit figures (data in HUF thousand)	Year 2017	Year 2016
Revenue from sales	**787,541**	**759,082**
Direct costs of sales	-544,635	-502,595
Gross profit	**242,906**	**256,487**
Gross cash-flow	**247,247**	**261,647**
Indirect costs of sales	-153,628	-198,420
Other incomes	79,087	68,623
Other expenditures	-30,282	-90,510
Operating profit (EBIT)	**138,083**	**36,180**
EBITDA	148,857	51,590
Financial profit	-20,523	-177,491
Profit before taxes	**117,560**	**-141,311**
Net profit for the year	**74,428**	**-145,276**
Return on equity, % (ROE)	0.64 %	-1.23 %
Return on sales, % (ROS)	9.45 %	-19.14 %
Earnings per share (EPS) HUF	**4.00**	**-7.74**

The diluted earnings per share amounted to HUF 3.82; the difference can be explained by the fact that at the time of the establishment of the amount of the diluted earnings per share the Company also considered the number of shares that were involved in the share option program running in the period under review but still not called down/transferred as an item decreasing the volume of treasury shares.

Detailed description of the Company's business operations in 2017

In the year 2017, PannErgy Plc realized sales in a total amount of HUF th 787,541, which exceeded the HUF th 759,082 value for 2016 by 4%.

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.

Furthermore, the Company realized HUF th 287,556 from asset management, holding control activity in the year 2017, because the Company expresses its interest revenues from affiliated companies as net sales in the financial statement from 2017 due to the IFRS transition. For the sake of the comparison, this reclassification concerned the data of previous year, in the year 2016 the Company realized HUF th 286,483 in connection with this business activity.

Similarly, to the previous period, three customers went over 10% of the total amount of the Company's revenue from sales, making up a combined 93% percent of all the sales in the reviewed period.

In 2017, the level of indirect costs of sales (administration and general costs) decreased from HUF th 198,420 in the previous year by 23%, to HUF th 153,628.

For the above reasons, the Company stated HUF th 138,083 under the heading of operating profit and HUF th 148,857 under the heading of EBTDA in 2017. In connection with the operation there was only one non-recurrent item which has significant effect for the profit of the period. This was the effect of the fair value measurement of the real-estate properties held for sale on other incomes in an amount of HUF 70,469.

Based on the foregoing, PannErgy Plc. as parent, individual company's net profit of the year 2017 was HUF th 74,428 after HUF th 43,132 amount of tax payment.

Key figures of property standing (data in HUF thousand)	Year 2017	Year 2016
Fixed assets	**4,996,161**	**4,722,008**
Total current assets	7,146,243	7,992,880
Of this, liquid assets	21,503	54,905
Total assets	**12,142,404**	**12,714,888**
Equity capital in total	**11,707,817**	**11,852,902**

During the reviewed period, the increase of fixed assets was a result of fair value measurement of reclassified properties to marketable category.

Deferred tax assets in an amount of HUF th 12,475 were recognized among assets by the Company, and thus their value decreased by 73% after the base period, in view of PannErgy Plc's calculations pertaining to discounted deferred tax refunds.

The volume of current assets decreased by 11% in comparison with the corresponding value of the previous year, which can be mostly explained with reference to the repayments of loan from affiliated companies.

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.

The Company witnessed 1% decrease 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.

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.

The short-term liabilities increased significantly in the year 2017, the reason was the actual measurement of share-based payment program for 2016-2019 period wiHUF Th th 209,046 amount. This amount is the consequence of reclassification of HUF th 56,236, presented as provision earlier and HUF th 152,810 amount accounted against reserve in this business year. 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.

Key indicators	Year 2017	Year 2016
Profitability indicators		
Return on assets, % (ROA)	0.61	-1.14
Return on equity, % (ROE)	0.64	-1.23
Return on sales, % (ROS)	9.45	-19.14
Property indicators		
Ratio of fixed assets, %	41.15	37.14
Ratio of equity capital, %	96.42	93.22
Rate of indebtedness, %	3.71	7.27
Financial indicators		
Liquidity ratio	1,644.37	991.98
Acid test ratio	1,644.37	991.98
Earnings per share (EPS) HUF	**4.00**	**-7.74**

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

3. General information on the company

3.1. *PannErgy Plc's core activities*

PannErgy Plc ("Company" or "PannErgy") is an entity listed at the Budapest Stock Exchange, included in the BUX basket, and is a premium share issuer; its core activities involve the energy-oriented utilization, extraction and selling of one of Europe's most significant thermal water endowments, and in particular renewable geothermal energy. In association with its geothermal energy-related operations, the Company performs production activities in Miskolc, Győr, Szentlőrinc and Berekfürdő.

As of 31 December 2017, PannErgy Plc. has no employees, senior officers of the company work under contract of services.

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

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

3.2. *Utilization of properties*

Beyond geothermal heat generation and sales (Energy) representing its core activities, the Company owns industrial real-estate properties, offices in the area of Budapest, District XXI (Csepel) and Debrecen from the times before the "Pannonplast to PannErgy" shift in its strategy. In the period under review, under the realization of their disposal the Company qualified these properties as assets held for sale; the Company uses some of these real-estate properties by way of lease-out, while on the other hand the profit realized on these lease operations is negligible in comparison with the revenue from sales, profit originating from the energy-related core operations. For this reason and the approach of the Company's management, the financial statements for 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. In accordance with this target the PannErgy Plc. reclassified these properties to marketable properties in this business year.

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

PannErgy Plc's main goals for the year of 2017 are the followings: On one hand the increase of heat-volume of the Group in connection with the holding control activity over the PannErgy Group as its core business. On the other hand the achievement of group-level gross margin, cash-flow and EBITDA targeted.

The Company as parent company of the PannErgy Group has successful business year in 2017 in consequence of the increase of heat volume and cost cutting actions in base and current periods. Due to this PannErgy Group realized a considerable consolidated increase in sales, gross margin and gross cash flow, and furthermore its operating and net profit of the year 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.

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.

5. THE COMPANY'S STRATEGY

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

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

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

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

For the sake of effective execution of this geothermal strategy the Company reclassified properties located in Budapest XXI. district and Debrecen to marketable, held to sale properties, the Company is committed for sale.

6. PANNERGY PLC'S SUBSIDIARIES

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

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

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

PannErgy subsidiaries	Equity	Subscribed capital	Revenue from sales	Business profit	Profit after taxes	Headcount
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	-
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 Geotermia Ltd.	812,910	3,100	1,267,959	245,636	164,204	1
CSRG Energy Ltd.	*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	27.69	4,923,567
Foreign institutions	20.53	24.25	4,322,237	21.07	25.00	4,438,071
Domestic private persons	31.75	37.50	6,684,428	31.24	37.00	6,578,283
Foreign private persons	0.20	0.24	42,938	0.22	0.26	47,698
Employees, senior officers	0.60	0.71	127,253	0.54	0.63	113,653
Own holding	15.33	-	3,228,438	15.57	-	3,277,638
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	13.63
National Assets Management cPlc.	Domestic	Budgetary	1,675,745	7.96	9.42
ONP Holdings SE *	Foreign	Institutional	1,359,103	6.46	7.64

*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 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
Treasury shares	2,293,235	2,440,435	2,342,435

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. PROTECTION OF ENVIRONMENT

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

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

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

9. Headcount information

The Company has no employees in the year 2017, in the base period the average employee headcount of PannErgy Plc. was 3 persons.

10. Dividend payment, acquisition of treasury shares

The Company's net profit for the year in 2017 was HUF th 74,428 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.

11. Major risks of the Company, the associated uncertainties

PannErgy Plc's major risks are publicized in the *Chapter 36. Financial risk management* of the notes of the financial statement.

12. Publicity

At the website (www.PannErgy.com) among others the Company makes regular and extraordinary disclosures. The publications, public information disclosed by PannErgy Plc can substantially assist the comprehension and evaluation of the Company's operation and economic situation, and therefore they are important amendments to the information shown in this report.

13. KEY EVENTS AFTER THE 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.

14. DATE OF THE PERMITTED RELEASE FOR DISCLOSURE

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

Dénes Gyimóthy
representing the Board of Directors

PannErgy Plc.
Declaration of the Issuer 2017

Based on Section 2.4 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

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

DECLARATION

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

- prepared on the basis of the applicable accounting requirements and to the best of our knowledge, and prepared in accordance with IFRS in 2017, PannErgy Plc. as parent company's individual financial statements offers a realistic and reliable view of the assets, liabilities, financial standing, as well as profits and losses of PannErgy Plc as a public issuer of securities, and;

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

Dénes Gyimóthy
representing the Board of Directors