PannErgy Plc.
Annual Report and Business Report (prepared in accordance with International Financial Reporting Standards as adopted by the EU) 2020

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 2020 which comprise the statement of financial position as at December 31, 2020 – which shows a total assets of thHUF 11,458,381 –, and the related statement of recognized income, statement of comprehensive income – which shows a net profit for the year of thHUF 3,315 –, 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, 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit matters	Related audit procedures
Revenue recognition	
(Details in notes 4.21 and 6 of the notes to the financial statements) In 2020 the revenue of the Company is thHUF 312.623 and the revenue is a key performance indicator of the Company which may influence management to make sales contracts with non-ordinary, exceptional conditions. Due to the above we consider this area as a key audit matter.	Our audit procedures included: - considering the appropriateness of Company's revenue recognition accounting policies, - we interviewed management, - we tested the design and operational effectiveness of Company's internal controls over sales cycle of the Company, - we gathered third party confirmations about revenue and receivables, - we tested transactions post-balance sheet events.

Other Information

Other information comprises the information included in the business report of the Company for 2020, 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 2020 corresponds to the financial statements of the Company for 2020 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.

Venilia Vellum

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

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

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

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

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

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

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

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

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

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

We also:

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 30 April 2020 and our uninterrupted engagement has lasted since 28 April 2017.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the the Company, which we issued on 18 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Budapest, 26 March 2021

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.

Annual report
for the 2020 business year
prepared in accordance with International Financial Reporting Standards as adopted by the EU

31 December 2020

Budapest, 26 March 2021

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

PROFIT AND LOSS STATEMENT

	Note no.	2020.	2019.
		HUF Th	**HUF Th**
Revenue from sales	6	312,623	335,238
Direct cost of sales	8	-81,386	-78,217
Gross margin		**231,237**	**257,021**
Gross profit ratio %		**74.0 %**	**76.7 %**
Gross cash flow		**237,629**	**257,461**
Gross cash flow rate %		**76.0 %**	**76.8 %**
Indirect costs of sales	7	-142,667	-136,335
Other revenues	11	219	79,793
Other expenditures	10	-97,487	-142,770
Operating profit		**-8,698**	**57,710**
Operating profit rate %		**-2.8 %**	**17.2%**
EBITDA		**15,997**	**77,387**
EBITDA rate %		**5.1%**	**23.1%**
Financial profit	12-13	19,177	-1,412
Profit before taxes		**10,479**	**56,298**
Income tax	32	-7,164	-12,820
Net profit for the year		**3,315**	**43,478**
Other comprehensive income		-	-
Total comprehensive income for the reporting period		**3,315**	**43,478**
Earnings per ordinary share (HUF)			
Basic	33	0.19	2.31
Diluted	33	0.19	2.31

BALANCE SHEET

	Note no.	2020 31 December	2019 31 December
		HUF Th	HUF Th
Intangible assets	15	1,482	113
Tangible assets	16	13,292	30,762
Investment properties	16	158,620	113,957
Marketable properties	16	-	2,756
Long-term investments	17	4,604,948	4,658,662
Receivables from deferred taxes	32	10,965	12,498
Long-term receivables	18	2,294	5,318
Total fixed assets		**4,791,601**	**4,824,066**
Trade receivables	21	16,893	47,736
Loans provided	22	6,278,000	7,278,248
Other receivables	23	94,130	127,189
Securities	24	217,612	24
Liquid assets	34	60,145	16,969
Total current assets		**6,666,780**	**7,470,166**
TOTAL ASSETS		**11,458,381**	**12,294,232**
Subscribed capital	25	421,093	421,093
Reserves	27	13,293,165	13,172,307
Comprehensive income for the year		3,315	43,478
Reserve for repurchased treasury shares	26	-2,473,623	-1,665,098
Total shareholders' equity		**11,243,950**	**11,971,780**
Long-term loans, leases	28	4,026	9,567
Provisions	29	-	-
Total long-term liabilities		**4,026**	**9,567**
Trade payables	35	89,166	86,117
Short-term credits	30	100,000	200,000
Short-term part of long-term credits and leases	30	6,829	10,244
Income taxes payable	31	-	2,686
Other short-term liabilities	31	14,410	13,838
Total short-term liabilities		**210,405**	**312,885**
TOTAL LIABILITIES AND EQUITY		**11,458,381**	**12,294,232**

STATEMENT OF COMPREHENSIVE INCOME

	2020	2019
	HUF Th	**HUF Th**
Net profit for the year	**3,315**	**43,478**
Other comprehensive income		
Exchange difference from the HUF conversion of the reports of foreign subsidiaries	-	-
Exchange difference from the HUF conversion of reports of affiliated companies and companies under common management	-	-
Marketable financial assets with deferred taxes	-	-
Cash flow hedging transactions with deferred taxes	-	-
Share from the comprehensive income of affiliated companies	-	-
Other comprehensive incomes in the period with tax implications	-	-
Total comprehensive income for the year	**3,315**	**43,478**
of which: Total comprehensive income attributable to the shareholders of the Company	**3,315**	**43,478**

STATEMENT OF CHANGES IN THE EQUITY

Description	Subscribed capital	Reserves	Treasury shares	Equity
Balance as of 31 December 2018	**421,093**	**13,230,669**	**-1,294,235**	**12,357,527**
Profit for 2019	-	43,478	-	43,478
Capital issue	-	-	-	-
Dividends	-	-	-	-
Other equity-related transactions	-	-12,741	-	-12,741
Treasury shares	-	-34,261	-454,219	-488,480
Decrease in treasury shares	-	-11,360	83,356	71,996
Balance as at 31 December 2019	**421,093**	**13,215,785**	**-1,665,098**	**11,971,780**
Profit for 2020	-	3,315	-	3,315
Capital issue	-	-	-	-
Dividends	-	-	-	-
Other equity-related transactions	-	-52,713	-	-52,713
Treasury shares	-	130,093	-808,525	-678,432
Decrease in treasury shares	-	-	-	-
Balance as at 31 December 2020	**421,093**	**13,296,480**	**-2,473,623**	**11,243,950**

STATEMENT OF CASH FLOWS

	Note no.	2020	2019
Liquid assets from operations		**HUF Th**	**HUF Th**
Profit before taxes		**10,479**	**56,298**
Adjustments in relation to the profit before taxes and the cash flow of business operations			
Amortization and depreciation of tangible and intangible assets	15-16	24,695	18,714
Effect of deferred taxes	32	1,533	-
Income tax expenditures	32	-7,164	-12,820
Exchange gain/loss on credits	14	-	-
Impairment of tangible assets, goodwill	10, 16	-	963
Changes in the fair value of properties	11, 16	-	-
Interest payable/received	12-13	3,691	3,498
Profit on the sales of tangible assets	11	-	83,439
Expenditures of the share option programme	37	-	-
Changes in working capital elements			
Income taxes paid	32	-	-
Increase/decrease of receivables	21-23	73,444	183,560
Increase/decrease of payables	30,31,35	3,620	-39,786
Increase/decrease of prepaid income taxes	23	-9,201	-2,168
Interests received	6, 12	-	-
Interests paid	13	-3,691	-3,498
Net liquid assets originating from/used in operations		**97,406**	**288,200**
Liquid assets from investments			
Acquisition of investments in private companies	17	-	-
Increase/decrease of existing investments	17	1,000	-
Acquisition of tangible and intangible assets	15-16	-53,257	-312
Sales of tangible and intangible assets	15-16	2,756	293,679
Loans to related parties	43.3	-243,500	-457,705
Repayment of loans from related parties	43.3	1,243,747	258,950
Loans from related parties	43.3	-	-
Repayment of loans to related parties	43.3	-	-
Liquid assets from investment operations		**950,746**	**94,613**
Financial operations			
Increase/decrease of long-term loans	28	-5,540	-9,169
Increase/decrease of short-term loans	30	-103,415	98,783
Purchase/sale of treasury shares	26	-678,432	-499,840
Increase/decrease in securities	24	-217,589	1
Liquid assets used for financial operations		**-1,004,976**	**-410,226**
Net increase/decrease of cash and cash equivalents		**43,176**	**-27,413**
Cash and cash equivalents as of 1 January		**16,969**	**44,382**
Cash and cash equivalents as of 31 December		**60,145**	**16,969**

Table of contents

1. General background and description of activities

PannErgy Plc. (hereinafter: "PannErgy Plc.", "PannErgy" or the "Company"), as the legal successor of Pannonplast Nyrt., has a history of almost one hundred years. On 31 May 1991, the Company was transformed into a public company limited by shares, in line with Act XII of 1989 on the transformation of economic organizations. In 2007, PannErgy set the goal to generate substantial volumes of thermal and electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutions of the country as well as for PannErgy's shareholders. In line with this shift in its strategy, since 2007 its core activities have been redirected from plastic manufacturing to the utilization of renewable, and in particular geothermal energy resources. As at 31 December 2020, PannErgy Nyrt's subsidiaries operated projects for the utilization of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő, *inter alia*.
The subsidiaries are listed in Chapter 40.

The core business of PannErgy Plc. as an individual company is control over the PannErgy Group holding and the related asset management as well as the utilisation of real properties relating to plastic manufacturing from the period before the strategy shift, particularly in the form of sale and, before such sale, by rental.

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

2. Basis of the compilation of the financial statements

The accounting and other records of the members of PannErgy Plc. are maintained in line with the effective Hungarian laws and accounting regulations.

Since 1 January 2017 PannErgy Plc. as a company listed in a regulated market of the European Economic Area ("EEA") has had the statutory obligation to apply the International Financial Reporting Standards endorsed by the European Union (EU IFRS) for the purposes of its individual reporting. **Pursuant to this regulation, PannErgy Plc. as an individual company has compiled both its IFRS consolidated financial statements and its individual financial statements in accordance with the requirements of the IFRS since 1 January 2017.**

The annual report or PannErgy Plc. was compiled on a cost basis except for financial instruments, certain financial assets, liabilities and marketable assets, which are presented in the balance sheet at fair value. PannErgy Plc. states figures in its annual report in Hungarian Forints rounded up to HUF thousand, with exceptions specifically indicated.

The annual report of PannErgy Plc. presents the Company's financial position and the results of its operations and cash flows as well as changes in the equity.

3. THE IMPACT OF THE PANDEMIC (COVID-19) ON THE COMPANY'S REPORT

PannErgy Plc. proceeded in accordance with the recommendations of the European Securities and Markets Authority (ESMA) regarding the presentation of the effects of the COVID-19 pandemic, which arose in the reporting period, on the Company and its financial statements. Accordingly, the Company places emphasis on business continuity planning and has emergency plans for all critical areas at operation. The Company is prepared for using their emergency plans as and when necessary. This should include taking and implementing business continuity measures to ensure to ensure operational continuity in line with regulatory obligations.

In accordance with the disclosure recommendations of ESMA, the Company, as a securities' issuer discloses, as promptly as possible, in accordance with its transparency obligations under the market abuse regulations, all relevant data and information on the effects and impacts of the pandemic on the Company' assets, income and financial position, operational activities, perspectives and plans.

The Company provides market participants with information on their best estimates of the actual and possible impacts of the COVID-19 pandemic according to qualitative and quantitative assessments of their own business activities, financial position and performance.

<u>In conformity with the ESMA recommendation PannErgy Plc. publishes the following information in its consolidated year financial report on 2020:</u>

The COVID-19 pandemic has no material impact on the figures presented in the Company's consolidated year financial report on 2020. This is also confirmed by the fact that despite the uncertainties and economic and other difficulties experienced in the entire reporting period in connection with the pandemic the Company managed to tackle the challenges. On the one hand, the Company supplied to its heat-receiving partners at a high level of operational safety; and on the other hand, it managed to keep up and even increase its EBITDA, its key operational metric, over and above the budgeted level relative to the preceding year.

In order to maintain business continuity, the Company has activated a number of emergency measures since the appearance of the COVID-19 virus in Hungary as warranted by the latest available information In addition to monitoring the latest developments in the pandemics, the Company prepares and updates action plans to respond to any new adverse developments. This was one of the reasons why the negative effects of the pandemics could be averted both during and outside the heating season:

The sales revenue generating capability of the Company's core operation, geothermal heat generation and sale, is exposed to the negative impacts of the COVID-19 pandemic as detailed below:

The Company sells its output to a small number of customers. Its direct partners are district heating service providers and manufacturing companies. In the reporting period there were no incidents at

the heat-receiving partners that would have resulted in a material decrease in the year 2020 sales revenue as a consequence of the COVID-19 pandemic.
On 17 March 2020 Audit Hungaria CPlc., the Company's largest industrial partner purchasing heat, announced a temporary shut-down of its plant in Győr from 23 March 2020; however, this caused no significant loss of sales revenue. First, the shut-down affected a time outside the heating season; second, the heat demand of the heat-receiving partner is predominantly driven by the weather as the heat energy is typically used to heat halls and supporting facilities (uninterrupted during the shut-down) and only to a lesser extent for technological heat utilisation. In addition, the capacities reserved for Audi can be used in the Győr district heating system due to the special technical setup of the system. There is continuously higher heat demand in the Győr district heating system; the share of geothermal energy fed into the system has remained under half of the heat demand of the district heating system.

Other major partners of the Company with a solid background include MIHŐ Miskolci Hőszolgáltató Ltd. (district heating service provider in Miskolc) and GYŐR-SZOL CPlc. (district heating service provider in Győr). As expected by the Company, these major partners are less sensitive to the effects of the COVID-19 pandemic, and the sales revenue from heat supplies to them was not adversely affected in the reporting period; indeed, work performed under the home office regime, which became widespread as result of the pandemic, has stabilized the energy demand of households.

Besides the above Group-level impacts it should also be noted that the COVID-19 pandemic had no material impacts on the data shown in PannErgy Nyrt's 2020 unconsolidated financial statements either.

4. SUMMARY OF THE KEY ELEMENTS OF THE ACCOUNTING POLICIES

4.1. *General description*

The key accounting policies used in the course of the compilation of the IFRS annual report are described below. PannErgy Plc. consistently applies the accounting principles described and detailed herein consistently in relation to all the presented business years. Concurrently with their first application as at 1st January 2020, the Company presents prior year figures in the financial statement in accordance with the IFRS as well to facilitate comparability.
These accounting policies are in conformity with the key accounting policies used in the course of the compilation of the consolidated financial statements for 2019.

4.2. *Effects of the amended rules of the IFRS standards to be implemented as at 1 January 2020 an of the introduction of new standards on the financial statements*

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

- **Amendments to references to the conceptual framework in IFRS standards** – endorsed by the EU on 29 November 2019 (to be applied to reporting periods beginning on or after 1 January 2020);

- **Amendments to IAS 1 Presentation of financial statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** – Definition of material – endorsed by the EU on 29 November 2019 (applicable to reporting periods beginning on or after 1 January 2020);

- **Amendments to IFRS 9 Financial instruments, IAS 39 Financial instruments: recognition and measurement and IFRS 7 Financial instruments: disclosures** – interest rate benchmark reform – endorsed by the EU on 15 January 2020 (applicable to reporting periods beginning on or after 1 January 2020);

- **Amendment of IFRS 16 Leases** – 'Covid-19-Related Rent Concessions – endorsed by the EU on 9 October 2020 (to be applied to reporting periods beginning on or after 1 June 2020);

- **Amendments of IFRS 3 Business combinations** – endorsed by the EU on 21 Mach 2020 (to be applied to reporting periods beginning on or after 1 January 2020).

The Company holds that the adoption of these standards and the amendment of existing ones will have no material effect on the financial statements of the Company.

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

- **Amendment of IFRS 4 Insurance contracts – Extension of the Temporary Exemption from Applying IFRS 9** – endorsed by the EU on 15 December 2020 (to be applied to reporting periods beginning on or after 1 January 2021).
-

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

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

- **IFRS 17 Insurance contracts, including the amendments of IFRS 17** (to be applied to reporting periods beginning on or after 1 January 2023);

- **Amendments of IFRS 3 Business combinations; IAS 16 Property, plant and equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets** – Annual improvements (to be applied to reporting periods beginning on or after 1 January 2022);

- **Amendment of IAS 1 Presentation of financial statements** – Classification of Liabilities as Current or Non-current (to be applied to reporting periods beginning on or after 1 January 2023);

- **Amendments of IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** – interest rate benchmark reform – Phase 2 (to be applied to reporting periods beginning on or after 1 January 2021);

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

The implementation of these amendments, new standards and interpretations would have no material effect on the individual report of PannErgy Plc.

4.3. *Functional currency*

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

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

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

Foreign exchange transactions are converted into HUF at the exchange rate effective on the day of the transaction or – in the case of revaluation – valuation. The exchange gains and losses originating from the year-end revaluation of the financial assets and liabilities that arise from such transactions or recorded in foreign currencies are recognized in the statement of profit or loss. Exchange gains and losses are shown in the “Financial incomes” or “Financial expenditures” line of the statement of profit or loss.
The Company converts its FX revenues at the MNB exchange rate and uses such rate to measure them at the end of the period.

4.5. *Fair value measurement*

The Company uses fair value measurement in the case of “Held to collect” items. For the establishment of fair value, the following hierarchy is applied:
- level 1: price listed on a regulated market,
- level 2: calculated price based on input data available on essentially regulated markets,
- level 3: calculated price based on input data not available on major regulated markets

The Company’s financial statements include only “level 1” type securities.

The Company recognizes changes in the fair value under other comprehensive income, i.e. among financial expenditures/incomes for financial assets and other expenditures/incomes for fixed assets held for sale.

4.6. *Intangible assets*

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

In the report, intangible assets are recognized at cost by the Company (with the exception of goodwill) because, due to the special nature of these assets, the notion of an active market is not applicable. These costs are reduced by accumulated amortization and, where applicable, impairment, stated in line with the useful life of the asset.

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

Software comprises software developed by third parties; the Company is not involved in any software development activities.
Purchased software is capitalized at cost calculated based on the costs incurred in the course of acquisition and installation. These costs are written off over an estimated useful life of 3–5 years, as appropriate for the type of the software in question.

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

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

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

4.7. *Impairment of non-financial assets*

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

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

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

4.8. *Recognition of research and development*

When looking at the recognition of self-produced intangible assets, the Company divides the process of production into research and development phases. In the course of a project for the production of any own intangible asset the Company is unable to distinguish the research phase from the development phase, the expenditures of the project are treated as if they were incurred solely in the research phase. Intangible assets originating from research (or the research phase of any internal project) cannot be recognized; therefore the Company recognizes the expenditures associated with the research as expenditures when they are incurred.

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

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

4.9. *Property, plant and equipment*

In its report, the Company has no property that would need to be presented under the requirements of IAS 16; however, it does have office buildings held for sale not related to its core activity (and used as investment until sold) and industrial facilities (industrial halls) suitable for production.

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

4.9.1 Investment property

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

At the end of the reporting period the Company owns investment properties.

4.9.2 Non-current assets held for sale

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

- if the Company's supreme body/management has confirmed its commitment to the planned sale, and based on this commitment it is confirmed that there exists a plan for the identification of a specific buyer;
- if, after its documented commitment, the Company carries out active marketing activities for selling at a realistic price that is in line with the value of the asset over the shortest period of time and under the most favorable terms possible;
- if it is unlikely that there will be substantial changes to the selling plan and it is unlikely to be withdrawn;
- if based on the plans, the sale is expected to occur within one year of the date of classification. In certain cases the period of sale may be extended to a period exceeding one year. That is the case when events or circumstances beyond the control of the Company delay the conclusion of sale, and there is sufficient evidence that the entity continues to be committed to the plan to sell the asset.

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

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

4.9.3 Tangible assets under IAS 16 Property, plant and equipment

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

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

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

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

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

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

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

The Company does not recognize depreciation for land.

The Company calculates the depreciation of properties, machinery and equipment using the straight-line method, whereby the cost or revalued amount of assets is reduced to the residual value over the following estimated useful lives:

Properties	20–50 years
Production machinery	3–25 years
Other equipment	2–8 years
Vehicles	5 years

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

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

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

The Company does not charge any amortization to tangible assets with an indefinite useful life or not yet suitable for use but tests them annually for impairment. Tangible assets for which the Company recognizes depreciation are also subjected to review for impairment in all cases when events or changed circumstances indicate that the book value may not be fully recovered.
If the recoverable value is less than the respective book value, impairment has to be charged to the profit or loss in respect of assets treated at cost. The recoverable value is the higher of the asset's value in use and its fair value less costs to sell. The fair value less costs to sell is the amount that can be obtained for an asset in a transaction between unrelated parties, less the costs of disposal, while the value in use is the net present value of the cash flows derived from the continuous use of the asset and its sale at the end of its useful life. The recoverable value is determined individually for each asset, or if this is not possible, for each cash-generating unit.

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

4.9.4 Investments

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

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

4.9.5 Application of component accounting

The Company does not apply the elements of IAS 16 relating to component accounting as it has no such assets. According to the relevant requirements of the standard, if the main components of assets of significant value feature considerably different economic characteristics, then the main components should be recorded separately, with separate depreciation periods.

4.10. *Investments*

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

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

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

4.11. *Goodwill*

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

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

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

4.12. *Inventories*

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

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

4.13. *Financial instruments*

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

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

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

All the receivables of the Company belong to the "Held to collect" category.

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

Financial instruments (including compound financial instruments) become an asset, a liability or an equity element based on the real content of the underlying contractual obligations; initially they are recognized by the Company at fair value. The fair value of a financial instrument is the price that the Company could realize on the sale of the asset, or would pay upon the transfer of the related obligation, assuming arm's length conditions and a transaction in the normal course of business, at the time of the valuation.

Fair value can be determined on the basis of exact market prices or, in the absence of such, using valuation models. In the course of the selection and design of models, models appropriate for the characteristics of the instrument need to be applied and the general principles of fair value determination must be used.

4.13.1 Initial recognition at fair value

Pursuant to IFRS 9, the Company recognizes all financial instruments at fair value initially, at the time of the transaction, that is, on the day when the Company commits itself to the purchasing or selling of the instrument. The company includes in this value the transaction costs that are directly related to the acquisition or issuance of the financial instrument. Financial assets evaluated at fair value against the profit or loss are initially presented at fair value, while transaction costs are stated in the statement of profit or loss.

The classification of financial instruments is based on the purpose of the acquisition of the financial assets, the characteristics of the financial instruments and the definitions of the categories of financial instruments under IFRS 9. The Company decides on the classification of financial assets at the time of their initial recognition. For subsequent presentation, financial instruments can be classified in the following categories:

4.13.2 Receivables

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

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

The Company's trade receivables consist almost exclusively in receivables from domestic undertakings based on long-term contractual relations. It was found during the classifications regarding the 2020 business year that there is no need to establish a standard collection process for the trade receivables of the Company as its trade debtors has always paid in time, observing the due dates of payment. Nonetheless, the Company has determined impairment losses expected to occur based on the "expected credit loss" model, meaning that an impairment loss matrix that is designed relying on past events and also considers forward-looking information is used, broken down by type of debtor based on the nature of the relationship with the partner (term of the contract, strategic nature of the contract). For the calculation of impairment losses the Company opted for the Staging method, whereby stage ratings (1–3) are clearly defined relying on portfolio impairment loss considerations and with clear reasons to justify the classification. Furthermore, the Company's size and small number of customers facilitates the use of individual rating rules.

The Company has no retail operations that would call for the use of segment-based SPPI tests. On the other hand, the Company makes use of the portfolio impairment loss module, where it allocates the rating of receivables into a separate category.

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

4.13.3 Loans provided

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

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

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

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

4.13.4 Hedging and derivative transactions

The Company applies the rules set out in IFRS 9 regarding hedging and derivative transactions, recognizing them at fair value, with separate documentation and administration.
In the course of the preparation of its IFRS financial statements, the Company relies on hedge accounting. On a one-off basis certain members of the Group conclude foreign exchange forward transactions that are of hedging character as there is a direct connection between the forward transaction and the future FX purchase of the company. The Company resorts to such one-off transactions in case of high-value foreign currency purchases, applying the specific payment deadline set out in the relevant asset purchase agreement. The Group engages in no non-hedging

forward transactions. For such transactions the Group applies hedge accounting as defined in IFRS 9, that is, on 31 December, the end of the reporting period, the fair value of the expected gain/loss on outstanding forward transactions is determined and charged against the financial instruments (assets) as other financial income/expenditure. When the transaction is closed in the following year, the difference between the actual gain/loss realized and the amount recognized on 31 December is posted taking into account the amount established at the end of the reporting period.

In addition to forward foreign exchange transactions, the Company also has interest rate swaps fixed for the long term relating to its investment loans; in this case, the amount of expected loss recorded at the end of the interest period concerned is also recognized for transactions outstanding at the end of the reporting period, based on the statement received from the relevant financial institution. In such cases there is a clear economic link between the hedge and the hedged transaction, and the hedging ratio applied is the ratio used in the past for risk management purposes; these transactions will continue to be presented at fair value.

In addition, the Company targets a natural hedge strategy to cover its foreign exchange risks: its foreign currency (typically euro) denominated revenues almost fully cover its obligations to suppliers incurred in foreign currencies and the servicing of its foreign currency borrowings in the same period.

4.13.5 Liquid assets

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

4.13.6 „Held to collect" financial assets

The Company recognizes its participations and securities in companies listed or nor listed at stock exchanges as "Held to collect" financial assets, and they are stated in the financial statements at fair value. For the evaluation of participations in companies not listed at any stock exchange, the Company relies on independent experts to determine fair value.

The Company presents differences arising from changes of fair value in the statement of profit or loss.

4.13.7 Credits

The credits are classified as short-term liabilities if they are due for repayment within a year. Otherwise, they are presented among long-term liabilities. Credits are initially recognized at fair value, while subsequently they are measured at amortized cost determined using the effective interest rate method.

4.13.8 Trade payables

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

4.13.9 Other financial liabilities

All other financial liabilities not carried at fair value through profit or loss are recorded under other financial liabilities. In its IFRS financial statements, the Company presents the value of other financial liabilities at amortized cost. The change in fair value has to be presented only in the notes to the financial statements. In the case of financial instruments of 'other financial liabilities' nature, the Company applies the effective interest rate method.
Interest, dividends, gains and losses related to financial instruments classified under liabilities are recognized as expenses on financial transactions in the statement of profit or loss as they are incurred. In the case of compound financial instruments, the liability component is measured first, and the equity component is defined as the residual value.

4.13.10 Deferred income

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

4.13.11 Determination of effective interest rates

The Company regards as the effective interest rate, to be used for discounting future expected cash flows, the contractual HUF- and EUR-denominated fixed interest rates for which its affiliates swapped their variable interest rates using interest rate swap transactions. Any material change in the effective interest rate results in the change of cost; no such changes have occurred. The effective interest rate used by the Company was 2.4%, which is the actual interest rate applying to long term HUF investment loans and, in the case of EUR loans, the rate resulting from interest rate swap transactions. The Company uses such effective interest rate as the discount rate where it performs discounted cash flow calculations, e.g. for the measurement of intangible asset, tangible assets or goodwill. The Company has no assets that would warrant discounting. In the case of long-term loans, the effective interest rate corresponds to the interest rate specified in the contract, thus no discounting is required. The long-term deferred income relating to grants need not be discounted because they had all been financially settled, and they are presented as liabilities only because of the requirement to spread the assets affected by the grant throughout the useful life of the assets.

4.13.12 Netting of financial instruments

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

4.14. *Cash and cash equivalents*

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

4.15. *Equity, subscribed capital*

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

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

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

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

After-tax profit is the aggregate amount of the net after-tax profit presented for continuing and discontinued operations and included in the profit or loss section of the statement of comprehensive income, as defined in *IAS 1 Presentation of financial statements*, or in the separate statement of profit or loss.
Tied-up reserve is the amount of received supplementary payments recognized as liabilities under the IFRS plus the amount of unused development reserve less the pertaining deferred tax calculated based on *IAS 12 Income taxes*.

4.16. *Treasury shares*

The Company may repurchase its own shares at the stock exchange pursuant to the authorization of the General Meeting; these shares are presented in the IFRS annual reports separately as items decreasing the equity.
The gain/loss on the sale of treasury shares and the effect of their fair valuation at the end of the reporting period is charged directly to equity, in the "reserves due to treasury shares" line.
The above procedure ensures that no gain or loss is recognized with regard to treasury shares in the profit or loss of the Company when any change occurs to own shares (purchase, sale, issue or cancellation).

4.17. *Earnings per share*

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

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

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

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

4.18. *Current and deferred income tax*

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

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

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

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

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

In line with the requirements of IAS 12, the Company recognizes income taxes payable/recoverable in respect of future periods, the recovery of which is certain and which arose in connection with past transactions and events. The tax base of an asset is the amount attributed to that asset for tax purposes, which is deductible upon the recovery of the asset. If the economic benefits are not taxable, the tax base of the asset is equal to its carrying amount.
The tax base of a liability is the amount attributed to that liability for tax purposes i.e. the liability's carrying amount less any amount deducted subsequently for the purposes of taxes. The tax base for any deferred income equals the carrying value less non-taxable future incomes. Pursuant to IAS 12, a temporary difference is the difference between the carrying amount and the tax base which is either taxable or deductible after recovery/settlement. If the temporary difference is taxable, it is a deferred tax liability, while if it is deductible, it is a deferred tax asset.

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

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

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

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

As of the end of the reporting period, the Company takes into consideration its non-recovered deferred tax assets and liabilities and checks the recovery of these with a discounted cash flow calculation relevant for its future profits.
In line with the requirements of IAS 12, the Company does not rely on discounting in the calculation of deferred taxes.

4.19. *Provisioning*

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

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

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

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

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

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

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

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

The Company has no revegetation or environmental obligations; no provisions have been set up in this context.

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

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

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

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

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

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

Share-based benefits offered to employees do not give rise to an obligation for the Company immediately; instead, the right to claim the benefits becomes effective if the vesting and potential non-vesting conditions are fulfilled during a specified period (the so-called vesting period). The vesting period is usually a period of several years; accordingly, the expected costs have to be charged over the vesting period on a time-proportionate basis.

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

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

The Company does not have a valid stock option program in the period under review, the previous one was completed in the base period.

4.21. *Accounting for revenue from sales*

Pursuant to the framework principles governing the preparation and presentation of the financial statements, revenue is the growth of economic benefits during the reporting period resulting from either the inflow or increase of assets or the decrease of liabilities, which will result in a rise in the equity for reasons other than contributions from shareholders, is generated in the ordinary course of business (sale of goods or services, other use of assets) of the entity, the inflow of future economic benefits is probable, revenues can be measured reliably, and costs (incurred or expected) can be reliably identified and measured.

By way of its Regulation 2016/1905, on 22 September 2016 the European Union endorsed *IFRS 15 Revenue from Contracts with Customers*, to be applied for business years beginning on or after 1 January 2018, with the option of earlier application. The Group has not made use of the option of earlier application and will apply the standard to its financial statements as of 1 January 2018.
Under the standard, revenue from sales is recognized as control over the goods or services is passed to the customer, i.e., the customer is able to direct their use or obtain the benefits from the goods or services.

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

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

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

Instead of a risk/reward based revenue recognition model, revenues are recognized when control over the service/good is passed to the customer. Control is passed over time if the relevant criteria are met or at a point in time if they are not.
The Company does not recognize as revenue income from the sales of tangible assets and other incomes that are not realized in the course of its ordinary activities.

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

- there are no customer contracts the conclusion of which would give rise to significant costs that would justify the capitalization and subsequent depreciation of such assets;
- each customer contract meets the requirement set out in the standard that the seller may recognize the revenue only when the good or service is transferred to the customer, at an

amount it considers legitimate for such good or service. The invoicing of customers is based on long-term contracts, which clearly define the price, nature, place of delivery of the goods/services. In the past five years no major delay was encountered with regard to these contracts; with the exception of a single business relationship that generated negligible sales revenues, no impairment loss needed to be recognized.

- the recognition of sales revenues complies with the 5-step model, that is, all contracts with customers are in writing, have commercial content (provide for economic benefits for the Company), clearly set out enforceable rights and obligations, the parties have accepted the contract and committed themselves to its performance, and there is a high probability that the Company would collect the consideration for the good/service transferred;
- the Company treats obligations relating to the performance of contracts separately, treating any discounts (determined ex ante or ex post) as separate obligations. The performance obligation is always clearly set out in the contract, and revenues thus invoiced can be recognized;
- in the customer contracts of the Company the price of the transaction is clearly set out and allocated to specific performance periods/dates, consequently the recognition of revenues is evenly spread out. In certain heat supply contracts the Company uses performance incentives regarding the commitment of the customer to increase its heat purchases; in this case, the discount related to the period is in each case deducted from the sales revenue of the period affected by the discount. The sales revenue of all transactions is identical with the invoiced amount; no discrepancies have been found. In the case of the above discount, based on the calculation formula set out in the contract between the parties, the amount of the discount to be deducted from the revenue of the period concerned and therefore recognized in that period (or subsequently, when a correcting invoice is issued) is clearly defined, consequently no estimates or probability calculations are necessary;
- the customer contracts of the Company clearly match the price of a transaction and the transaction; there is no partial performance within transactions that would necessitate the allocation of prices. If the Company were to provide general discounts ex post, it would allocate it to the deliveries and transactions of the period covered by the discount, in accordance with the requirements of IFRS 15;
- the members of the Company recognize revenues from sales when control over the asset or service sold is passed to the customer, and the customer is able to govern the use of and collect the benefits from such asset;

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

4.22. *Interest income and dividend income*

The Company may realize interest income on the loans granted in connection with the operation and management of the holding, or dividend income on its shareholder investments; these are treated as revenue relating to the core activity of holding control.
The Company regards such interest and dividend income as income not derived in the ordinary course of business, not treating them as sales revenues but recognizing them among revenues from financial transactions.
Interest income is recognized using the effective interest rate method. In the event of the impairment of loans and receivables, the Company reduces the book value to the recoverable amount which is the present value of the estimated future cash flows discounted with the

instrument's original effective interest rate. Thereafter, the difference arising from the reversal of the discount is shown as interest income.
Interest income from impaired loans and receivables is recognized with the application of the effective interest rate used for the calculation of impairment, computed for the net value of the financial asset.

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

4.23. *Leases*

In the course of the preparation of the financial statements the Company has not made use of the option of early application of *IFRS 16 Leases*; it started applying the provisions of the new standard as of 1 January 2019. In line with the requirements of IFRS 1, the comparable period for the preceding year must also be presented as if the Company had always used IFRS 16, taking into account the exemptions allowed under IFRS 1.
The Company does not act as lessor; consequently, it needs to apply IFRS 16 exclusively as lessee. The use of IFRS 16 removes the difference between the treatment of operating lease transactions and that of finance leases for the Company as lessee; lessees have to show in the balance sheet an asset embodying the right of use under the transaction and a leasing liability, that is, the obligation to make the lease payments. IFRS 16 provides that a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
The costs relating to the use of the asset – which used to be shown in the form of operating lease fees under the Hungarian accounting standards and the former *IAS 17 Leases* – are shown under the new IFRS 16 lease standard as depreciation of the right-of-use-asset and as interest-type expenditure of the lease liability. Moreover, upon the occurrence of certain events (e.g. the lease term is modified, the amounts payable in the way of lease fees are modified as a result of changes in indices or interest rates affecting lease fee payments) the lessee must revaluate the lease liability. The amount by which the lease liability is modified must be presented by the lessee as a change in the right-of-use asset. The standard stipulates exceptions for presentation regarding short term leases and ones with low-value underlying assets.
At the time of the adoption of the new regime the Company has no sublease or re-lease transactions. Nor does it have right-of-use assets regarded investment property.

The Company makes use of the following exemptions offered by IFRS 1:

- The lease liability is valued at the present value of the remaining lease fees, discounting them with the lessee's incremental borrowing rate of interest prevailing on the day of IFRS transition, that is, 1 January 2018;
- The right-of-use asset presented upon first application is shown at a value equalling that of the lease liability adjusted with the pre-paid or deferred lease fees shown in relation to the given lease arrangement right before the date of first application in the statement pertaining to the Company's financial position;
- The Company uses a single discount rate to the portfolio of lease transactions of essentially similar parameters (e.g. similar remaining lease terms, underlying assets of similar categories, similar economic environment);
- The Company makes use of the simplification allowed by the standard in the case of leases with shorter than 12-month remaining terms on 1 January 2018, the day of transition. Such leases are recognised by the Company as short term leases;

- The Company applies the simplification allowed by the standard to leases with low-value underlying assets;
- When first applying the standard the Company does not factor in the initial direct costs in right-of use asset valuation;
- The Company applies retrospection, for example in determining the lease term, if the contract offers lease term extension or termination options.

The Company presents the cumulative impact of the transition to IFRS 16 as an adjustment to the opening balance of accumulated profit when first applied; however, no such adjustment was made.

4.24. *Distribution of dividends*

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

4.25. *State aid*

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

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

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

State aid relating to the purchasing of assets are presented by the Company as deferred income, and recognized in equal installments against the profit or loss over the useful life of the asset.
Any state aid that has become repayable needs to be recognized as an adjustment to the accounting estimate.

4.26. *Comparative information across periods*

Data for the base year and reporting year were subjected to measurement in the financial statements in the same manner, except for reclassifications in the base data, which are explained in Note 40. In order for the Company's IFRS financial statements to comply with *IAS 1*, all the statements include a comparative period.

In the context of the financial statements of a business year, by comparative period the Company means the reporting period of the financial statements prepared for the business year preceding the business year concerned.
These comparisons have to be disclosed in sufficient detail so that the users of the annual report are able to interpret significant modifications affecting the statement of financial position and the statement of profit or loss.

4.27. *Segment reporting*

In line with the relevant IFRS requirements, the Company is to present its operating segments; however, the review **identified no operating segments**. The core business of the Company is asset management and management of the holding. In this regard, PannErgy Plc. as the legal successor of Pannonplast Nyrt. presented the utilization of the real-estate properties, i.e. the industrial facilities and connected office premises formerly serving Pannonplast Nyrt.'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 a uniform legal, technical, economic and demographic environment; consequently, territorial segmentation is not relevant.

4.28. *Gross cash flow and EBITDA definition*

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

- Gross cash flow is the sum of the gross profit defined as the difference of revenue from sales and the direct cost of sales, and non-cash direct depreciation.
- EBITDA (earnings before interest, taxes, depreciation and amortization) is defined by the Company as the sum of the operating profit, direct depreciation (see Note 6. Indirect costs of sales), indirect depreciation (see Note 7. Direct costs of sales), as well as the extraordinary write-off and impairment of tangible or intangible assets (see Note 9. Other expenditures).

5. 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 IFRS financial statements compiled calls for the application of certain estimates and assumptions, which affect the amounts presented in the financial statements. The Company continually evaluates estimates and judgments based on past experience and other factors, such as expectations related to future events considered as reasonable under the circumstances.

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

5.1. *Events after the balance sheet date*

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

5.2. *Material error*

During the preparation of the annual report, an error may arise from mathematical errors made when applying the accounting policy, from the ignoring of facts or from incorrect interpretation. The Company has adopted the principle that as long as it is possible and not technically impracticable, material errors from former periods need to be corrected retrospectively in the first financial statements or annual report compiled and approved for disclosure after the detection of the error. For the Company, impracticable means that it is impossible to apply even if the Company does everything that can reasonably be expected to ensure application.
The Company defines a material error as follows: the omissions or misstatements of items are material if separately or aggregately they are able to affect the users' decisions made based on the annual report. Materiality depends on the assessment of the extent and nature of omissions or misstatements under the given circumstances. The size and nature of an item, or a combination of the two, are the decisive factors in that assessment; as a general principle, the Company defines errors exceeding 1 percent of the IFRS balance sheet total.

5.3. *Critical accounting estimates and assumptions*

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

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

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

6. Revenue from sales

6.1. *Breakdown of sales revenues by core activity*

	2020 HUF Th	2019 HUF Th
Asset management	253,605	273,894
Property management	59,018	61,344
Total	**312,623**	**335,238**

6.2. *Breakdown of sales revenues by geographical location*

	2020 HUF Th	2019 HUF Th
Revenue from domestic sales	310,796	333,580
Revenue from sales to the EU	1,827	1,658
Revenue from sales outside the EU	-	-
Total	**312,623**	**335,238**

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

	2020 HUF Th	2019 HUF Th
Interest income from intercompany asset management	218,415	238,931
Intercompany services	32,750	33,086
Mediated and re-invoiced services	36,492	32,567
Rent for buildings and tangible assets	22,763	22,091
Electricity resale	4	6,954
Sale of products	2,199	1,609
Total	**312,623**	**335,238**

The decrease in the sales revenue during the reporting period resulted from the lower level of interest revenues from the loans provided for affiliated undertakings during the reporting period, in line with group-level cash-flow processes.

6.4. *Geographical breakdown of fixed assets related to sales revenues*

	2020 HUF Th	2019 HUF Th
Assets used in domestic production	4,789,984	4,824,066
Assets used in production within the EU	-	-
Assets used in production outside the EU	-	-
Total	**4,789,984**	**4,824,066**

6.5. *Concentration of sales revenue, information regarding key customers*

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

	2020	as a % of total sales in 2020	2019	2019. as a % of total sales
Total sales revenue from key customers	**261,014**	**83.49 %**	**239,114**	**71.33 %**
Revenue from sales	**312,623**	**100.00 %**	**335,238**	**100.00 %**

The increase in the concentration of the sales revenue during the reporting period resulted from the higher level of the sales revenue earned from items invoiced to one of the partners in Debrecen: from re-invoicing EUR based electricity charges, and the invoicing of rental fees. The bulk (more than 50%) of the Company's sales revenue comes from the subsidiary called PannErgy Geotermikus Erőművek CPlc., in the form of interest due/received on the basis of a shareholder's loan, recognised in the books as sales revenue associated with the Company's holding operations.

7. INDIRECT COSTS OF SALES

	2020 HUF Th	2020 HUF Th
Expert and audit fees	66,499	62,972
Indirect depreciation	18,303	18,274
Indirect personnel-type costs	16,163	17,839
Costs related to public and stock exchange presence	15,150	9,338
Insurance premiums	10,705	9,593
Office and operating costs	10,268	12,985
Banking costs	5,574	5,248
Other fees and duties payable to authorities	5	86
Total	**142,667**	**136,335**

The indirect operating costs of PannErgy Plc. increased during the reporting period by 5% year-on-year. The most significant item in this category was observed in the costs relating to presence in public and the exchange, attributable to the costs related to rendering the Company's year 2020 consolidated IFRS report ESEF-compatible.

8. Direct costs of sales

	2020 HUF Th	2019 HUF Th
Costs of goods sold, mediated services	68,672	71,404
Facility maintenance costs, rental	4,873	5,136
Direct depreciation (real property)	6,392	440
Electricity charges	399	232
Cost of maintenance materials	0	58
Other indirect costs	1,050	947
Total	**81,386**	**78,217**

Direct costs of sales at PannErgy Plc. include primarily the re-invoiced utilization costs of properties located in Debrecen. The increase observed during the reporting period was a result of the depreciation during the period of properties whose values had been increased by refurbishment works.

9. Headcount and wage costs

	2020	2019
Average statistical headcount (persons)	-	-
Wage cost (HUF Th)	12,820	13,500
Other personnel-type payments (HUF Th)	885	1,379
Taxes and contributions on wages (HUF Th)	2,458	2,960
Total	**16,163**	**17,839**

In the reporting period, PannErgy Plc. had no employees. Other personnel expenses include remuneration paid to the Board of Directors, and the amount of related taxes and contributions.

10. Other expenditures

	2020 HUF Th	2019 HUF Th
Remission of shareholder's loans to subsidiaries	88,000	119,000
Cost relating to insurance events	2,232	2,026
Local taxes, duties, fines	2,085	17,552
Subsidies granted to offset costs	650	-
Impairment losses of receivables	238	62
Fines, penalties, default interest, compensations paid	57	107
Extraordinary write-off or impairment on tangible &intangible assets	0	963
Other	4,225	3,060
Total	**97,487**	**142,770**

The largest single item of the HUF 97,487 thousand total amount of other expenditures during the reporting year was the waiver of subsidiaries' debts resulting from shareholder loans in an amount of HUF 88,000 thousand.

11. Other incomes

	2020 HUF Th	2019 HUF Th
Profit on the sales of tangible assets	-	72,188
Fines, compensation received	-	7,082
Other	219	523
Total	**219**	**79,793**

12. Financial incomes

	2020 HUF Th	2019 HUF Th
Realized and non-realized FX gains	21,155	2,175
Gains on derivative transactions	2,408	2,610
Gains arising from dealing securities	295	1
Interest and interest-type income	-	-
Other financial incomes	118	160
Total	**23,976**	**4,946**

13. Financial expenditures

	2020 HUF Th	2019 HUF Th
Interest and interest-type expenses	3,691	3,498
Realized and non-realized FX losses	1,102	1,355
Loss on derivative transactions	-	1,504
Other financial expenditures	6	1
Total	**4,799**	**6,358**

14. Other information relating to financial transactions

	2020	2019
Opening EUR/HUF exchange rate	330.52	321.51
EUR/HUF exchange rate on 31 December	365.13	330.52
EUR/HUF exchange difference	34.61	9.01

The gain/loss realized at the year-end FX revaluations amounted to a profit of HUF 5,621 thousand. This is primarily related to EUR-denominated receivables and payables.

15. INTANGIBLE ASSETS

Gross value

HUF Th

	Goodwill	Valuable rights	Intellectual property	Other	Total
1 January 2019	-	550	186	-	736
Purchase	-	-	-	-	-
Sale	-	-19	-116	-	-135
Impairment, write-off	-	-8	-	-	-8
Reclassification	-	-	-	-	-
31 December 2019	-	523	70	-	593
Purchase	-	-	1,475	-	1,475
Sale	-	-	-	-	-
Impairment, write-off	-	-	-70	-	-70
Reclassification	-	-	-	-	-
31 December 2020	-	523	1,475	-	1,998

Accumulated depreciation

	Goodwill	Valuable rights	Intellectual property	Other	Total
1 January 2019	-	385	186	-	571
Increase	-	52	-	-	52
Sale	-	-19	-116	-	-135
Impairment, write-off	-	-8	-	-	-8
Reclassification	-	-	-	-	-
31 December 2019	-	410	70	-	480
Increase	-	52	54	-	106
Sale	-	-	-	-	-
Impairment, write-off	-	-	-70	-	-
Reclassification	-	-	-	-	-
31 December 2020	-	462	54	-	516

Net value

	Goodwill	Valuable rights	Intellectual property	Other	Total
1 January 2020	-	113	-	-	113
31 December 2020	-	61	1,421	-	1,482

16. Tangible assets

HUF Th

Gross value	Marketable properties	Properties for investment purposes	Machinery and vehicles	Investment	Total
1 January 2019	410,403	-	66,104	-	476,507
Purchase	-	-	-	311	311
Capitalization	-	-	311	-311	-
Revenue from sales, contribution in kind	-292,559	-	-10,089	-	-302,648
Reclassification, write-offs	-	-	-1,835	-	-1,835
Effect of fair value measurement	-	-	-	-	-
Reclassification	-115,279	115,279	-	-	-
31 December 2019	2,565	115,279	54,491	-	172,335
Purchase	-	-	-	51,782	51,782
Capitalization	-	50,949	833	-51,782	-
Revenue from sales, contribution in kind	-2,756	-	-	-	-2,756
Reclassification, write-offs	-	-	-	-	-
Effect of fair value measurement	-	-	-	-	-
Reclassification	191	-	-	-	191
31 December 2020	-	166,228	55,324	-	221,552

Accumulated depreciation	Marketable properties	Properties for investment purposes	Machinery and vehicles	Investment	Total
1 January 2019	-191	-	16,231	-	16,040
Increase	-	388	18,274	-	18,662
Sale	-	-	-8,969	-	-8,969
Reclassification, write-offs	-	-934	-1,807	-	873
31 December 2019	-191	1,322	23,729	-	24,860
Increase	-	6,286	18,303	-	24,589
Sale	-	-	-	-	-
Reclassification, write-offs	191	-	-	-	191
31 December 2020	-	7,608	42,032	-	49,640
Net value					
1 January 2020	2,756	113,957	30,762	-	147,475
31 December 2020	-	158,620	13,292	-	171,912

In addition to its core operations comprising the production and sale of geothermal heat (Energy) the Company has industrial real property and offices originating from before the time of the “Pannonplast - PannErgy” strategy shift, in the 21st district of Budapest (Csepel) and in the town of

Debrecen. The properties in Csepel had earlier been assigned by the Company to the category of fixed assets held for sale and managed to sell most of them during the reporting period. The deal left the Company at the end of the base period with properties in Csepel worth only some HUF 2,756 thousand. These are public roads, shared with a number of co-owners. The latter were sold during the reporting period, as a result of which the Company stated no properties held for sale as at 31 December 2020.

PannErgy Plc. shows its industrial properties located in Debrecen in the category of investment properties; rather than making efforts to sell them, the Company utilises them essentially through leasing to tenants. The increase booked in the reporting year stemmed from the refurbishment of the office building in Debrecen. In the wake of refurbishment the Company leases this – formerly vacant – property to tenants.

The HUF 13,292 thousand value of tangible assets at the end of the reporting period relates to long-term leases of motor vehicles, where the Company applies the rules governing the recognition of lease items (assets and liabilities) in the balance sheet pursuant to its accounting policy based on IFRS 16.

With regard to tangible assets, there are no restrictions on title and no mortgages; furthermore, no impairment was recognized at year-end.

17. INVESTMENTS

	2020 HUF Th	2019 HUF Th
PannErgy Geothermal Power Plants cPlc.	4,604,948	4,604,948
TT-Geotermia cPlc.	-	53,714
Total	**4,604,948**	**4,658,662**

The Company sold its 16.7% minority interest in TT-Geotermia cPlc. to PannErgy Geotermikus Erőművek cPlc. in the reporting period.

18. LONG-TERM RECEIVABLES

	2020 HUF Th	2019 HUF Th
Other receivables	2,294	5,318

As at 31 December 2020, PannErgy Plc. showed long-term receivables in an amount of HUF 2,294 thousand in its financial statements. These receivables are presented at amortized costs and are connected to a property sale of PannErgy Plc. in 2015, where it was agreed with the buyer that a part of the purchase price would be paid over a period exceeding one year.

19. LEASE RECEIVABLES

In the reporting period and the base period, PannErgy Plc. had no lease payments receivable.

20. Inventories

At the end of the reporting period, the Company had no inventories.

21. Trade receivables

	2020 HUF Th	2019 HUF Th
Trade receivables	16,893	47,736
Total	**16,893**	**47,736**

PannErgy Group sells its products and services to a small number of buyers, mostly on the basis of long-term contractual arrangements. In the light of the steady nature of customer relations, no impairment losses were recognized for trade receivables at PannErgy Plc. The trade receivables are non-interest earning items, with a 30-day term for the most part. Trade receivables dropped by 65% year-on-year.

22. Loans provided

	2020 HUF Th	2019 HUF Th
Intercompany loans to subsidiaries	6,278,000	7,278,248
Total	**6,278,000**	**7,278,248**

PannErgy Plc. provided intercompany loans in the reporting period and in previous years to PannErgy Geothermal Power Plants CPlc., which exercises direct ownership control over the geothermic project companies.

23. Other receivables

	2020 HUF Th	2019 HUF Th
Next period's items	59,575	91,230
Other tax receivables	31,412	30,221
Short-term part of long-term receivables	3,143	3,143
Guarantee fees to related parties	-	2,595
Other	-	-
Total	**94,130**	**127,189**

HUF 44,997 thousand of the items of the next period is associated with revenues, mostly interest revenues, while HUF 14,578 thousand relates to costs. As to the details of other tax receivables, the value added tax receivable is the largest item in the amount of HUF 19,762 thousand.

24. Securities

	2020 HUF Th	2019 HUF Th
Securities held until maturity	**217,612**	**24**

The Company increased its securities portfolio considerably during the reporting period, purchasing investment units and bonds.

25. Subscribed capital

	2020 HUF Th	2019 HUF Th
Subscribed capital	**421,093**	**421,093**

On 31 December 2020 the subscribed capital amounted to HUF 421,093 thousand, the same as in 2019. The subscribed capital is stated in the financial reports in its total amount as issued, while the number of shares is presented net of the amount of treasury shares.

The subscribed capital consists in a total of 21,054,655 voting shares, of a nominal value of HUF 20 each. The ISIN identifier of the shares listed on the Budapest Stock Exchange: HU0000089867.

Before 21 November 2007 the Company (PannonPlast Műanyagipari Nyrt.) owned common shares (HU0000073440 ISIN) of a nominal value of HUF 100 each.

26. Treasury shares

	2020,	2019,
Treasury shares (number)	3,254,767	2,256,230
Nominal value (HUF Th)	65,095	45,125
Cost (HUF Th)	2,686,012	2,007,579

On 31 December 2020 the Company held a total of 3,254,767 PannErgy Plc. treasury shares, 998,537 more than the stock of treasury shares held on 31 December 2019. The change resulted from the purchase of treasury shares in the framework of the treasury share buyback program taking place during the reporting period; the treasury share portfolio decrease occurred during the reporting period. A total of 413,000, and 585,537, treasury shares were bought back in the first half and in the second half of 2020, respectively, under the treasury share buyback programs.

The stock exchange closing price of PannErgy shares was HUF 760 per share at the end of the review period, compared to HUF 738 on 31 December 2019, i.e. the price was 3% higher than it had been before the outbreak of the COVID-19 pandemic.

The details of the treasury share buyback programs effective in the reporting period are explained in *Chapter 9 Dividend payment, Treasury share purchase.*
The public disclosures contain more information on the Company's treasury share transactions.

27. Reserves

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

	2020 HUF Th	**2019 HUF Th**
Capital reserve	10,306,500	10,306,500
Retained earnings	2,986,665	2,865,807
Total	**13,293,165**	**13,172,307**

The PannErgy Plc.'s IFRS statement of financial position shows the aggregated amount of the reserve created for treasury shares and the general reserves in separate lines. The form of accounting and presentation complies with the requirements described in the *IAS 32 Financial instruments: Presentation and IAS 33 Earnings per share standard*s.

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

28. Long-term liabilities

The Company had long-term financial obligations in an amount of HUF 4,026 thousand at the end of the reporting period. These are fees relating to long-term lease contracts of motor vehicles payable at maturities over one year, which the Company recognises as obligations pursuant to its accounting policy in line with IFRS 16.

29. Provisions

In the reporting period the Company had no economic events relating to provisioning. In its consolidated balances sheet of the reporting year and previous years, PannErgy Plc. discloses no provisions for environmental or revegetation liabilities; furthermore, it created no provisions for liabilities relating to redundancy programs or for employee pensions. It has no such obligations other than the contributions paid to the public pension system.

30. Short-term credits, Short-term part of long-term credits

The Company has the following obligations from short-term credits on 31 December 2020:

	2020 HUF Th	2019 HUF Th
Short-term bank loans	100,000	200,000
Short-term part of long-term credits and leases	6,829	10,244
Closing balance as of 31 December	**106,829**	**210,244**

External funds disbursed by a funding financial institution was stated in the way of short-term loans in the reporting period.
The amount of lease fees to be incurred within one year of the balance sheet cut-off date in relation to the Company's long term car lease contracts categorised as liabilities on the basis of its accounting policy referred to in Chapter 27 was HUF 6,829 thousand on 31 December 2020.

31. Other short-term liabilities

	2020 HUF Th	2019 HUF Th
Next period's items	6,512	6,500
Liability relating to the treasury share buyback program	2,250	1,471
Wages and social security	1,019	1,196
Tax and contribution liabilities	209	243
Liabilities relating to derivative transactions	-	12
Other short-term liabilities	4,420	4,416
Other short-term liabilities, total	**14,410**	**13,838**

The most significant item within other short-term liabilities is items of the next period, at HUF 6,512 thousand; these are non-interest costs relating to the next period.

HUF 4,416 thousand of the other short-term liabilities is recognized by the Company in liabilities stemming from the earlier conversion of shares into dematerialized securities.

32. Taxation, income tax

32.1. *Income tax payable for the reporting year*

	2020 HUF Th	2019 HUF Th
Tax liabilities for the reporting year	5,631	12,820
Effect of deferred taxes	1,533	-
Total	**7,164**	**12,820**

The corporate tax liability for the reporting year is calculated on the basis of the rules governing taxable income set out in the relevant Hungarian rules. As in the previous period, a 9% corporate income tax rate is applied in the reporting period.

The local business tax payable to the municipal governments and the innovation contribution payable on the basis of the local business tax base is stated by the Company – in accordance with its accounting policy – as part of its other expenditures rather than among income taxes.

32.2. *Receivables from deferred taxes*

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

	2020 HUF Th	2019 HUF Th
Amounts recovered from deferred losses	8,956	15,198
The difference between the amount of the depreciation under the Accounting Act and the corresponding amount under the Tax Act	2,009	-
Receivables from deferred taxes (gross)	*10,965*	*15,198*
Deferred tax liabilities (gross)	-	*-2,700*
Deferred tax to be recognized (net)	**10,965**	**12,498**
Deferred tax recognized in previous year	12,498	25,293
Deferred tax recognized/reversed	-1,533	-12,552
Receivables from deferred taxes as of 31 December	**10,965**	**12,498**

The deferred tax receivable of HUF 10,965 thousand stated among fixed assets includes the 9% corporate income tax payable, on the one hand, for the unused negative tax bases of PannErgy Plc., and on the other hand, for other deferred tax modifying items under the IFRS rules. The deferred tax receivable stemming from accrued and deferred losses is based on the recovery of deferred taxes. The Company decided to apply a five-year period regarding accrued and deferred losses, in accordance with the IAS 12 recommendations.

The total gross amount of the deferred tax receivable is HUF 10,965 thousand, and since the Company has no deferred tax liability, the amount of the deferred tax liability is zero, so the HUF 10,965 deferred tax receivable is stated in the annual report.

32.3. *Calculation of the effective income tax*

The difference between the expected income tax figures calculated by multiplying the individual pre-tax profit figures stated in the statement of comprehensive income of PannErgy Plc. with the applicable income tax rates, and the corporate income tax figures actually stated in the statement of comprehensive income, is calculated as follows:

	2020 HUF Th	2019 HUF Th
Profit before taxes	**10,478**	**56,298**
The tax payable on the company's profit/loss at the applicable tax rate (9%)	943	5,067
Tax implications of non-deductible expenditures, effects of tax base decreasing and increasing other items	10,318	20,573
Deferred tax liabilities assessed in the reporting year for any negative tax base not stated earlier	-5,631	-12,820
Tax liabilities for the reporting year	**5,631**	**12,820**
Write-off of tax receivables assessed earlier	**1,533**	**-**
Income tax (as per the profit & loss account)	**7,164**	**12,820**

33. Earnings per share

	2020.	2019.
Profit after taxes (HUF th)	3,315	43,478
Number of shares issued less the number of treasury shares	17,799,888	18,798,425
Profit/loss per share (HUF)	**0.19**	**2.31**
Diluted profit/ loss per share (HUF)	**0.19**	**2.31**

There is no difference between the profit/loss per share the diluted profit/loss per share at the end of the reporting period since the Company calculates the diluted profit/loss per share without taking into account any adjustment factor, just like in the base period. The reason for this is that the Company has no ongoing share option program.

34. LIQUID ASSETS AND CASH EQUIVALENTS

	2020 HUF Th	2019 HUF Th
Bank account and cash at hand	60,145	16,969
Separated, blocked cash	-	-
Cash and cash equivalents	**60,145**	**16,969**

35. TRADE PAYABLES

	2020 HUF Th	2019 HUF Th
Domestic and foreign trade payables	89,166	86,117
Total	**89,166**	**86,117**

The portfolio of trade payables increased somewhat during the reporting period.

36. FINANCIAL INSTRUMENTS

The financial instruments of PannErgy Plc. can be classified in the following categories:

	2020 HUF Th	2019 HUF Th
Financial assets	**11,213,877**	**12,117,177**
Financial assets available for sale (AFS)	***4,822,560***	***4,658,686***
Long-term investments	4,604,948	4,658,662
Securities	217,612	24
Loans and Receivables (LAR)	***6,389,023***	***7,453,173***
Loans provided	6,278,000	7,278,248
Trade receivables	16,893	47,736
Other short term receivables, prepaid income taxes	94,130	127,189
Financial instruments held to maturity (Held to Collect)	***2,294***	***5,318***
Long term financial receivables	2,294	5,318
Financial instruments, Fair Value to Profit and Loss (FVTPL)	***-***	***-***
Derivative transactions	-	-
Financial liabilities	**214,431**	**322,452**

Other financial liabilities	***214,431***	***322,440***
Trade payables	89,166	86,117
Long-term loans, leases	4,026	9,567
Short-term credits	100,000	200,000
Short-term part of long-term credits and leases	6,829	10,244
Other financial liabilities	14,410	16,512
Financial liabilities, Fair Value to Profit and Loss, (FVTPL)	***-***	***12***
Derivative transactions – liabilities	-	12

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

The Company states its non-derivative financial assets with fixed or determinable payments, which it positively intends to keep and is capable of keeping, until maturity, among its financial instruments held to maturity (Held to Collect). The Company shows its outstanding purchase price receivables associated with the sale of real property in 2015, entailing long term scheduled payments to be made by the Company, among its financial instruments to be held to maturity; the receivables are of the held-to-maturity status.

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

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

37. SHARE-BASED BENEFITS

The Company has no ongoing effective share option program during the reporting period and no share-based benefits were allocated either. Accordingly, the Company's financial statements do not show any liability in regard to share-based benefits.

38. Off-balance sheet liabilities and commitments

38.1. *Contractual and investment obligations*

Investments implemented amount for HUF 53,257 thousand in 2020, as opposed to the investments of the previous period in the amount of HUF 311 thousand. The Company has no investment commitments currently.

38.2. *Commitments relating to asset management transactions*

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

38.3. *Other contingent liabilities*

38.3.1 Assets relating to funding by financial institutions, restriction of title

Collaterals of various types (pledges, guarantee) were provided for funding financial institutions in relation to external financing contracts concluded by PannErgy Plc.'s member companies, as detailed in Note 16 on the consolidated financial statement. PannErgy Plc., as a company on its own, provides security deposit comprised of securities in an amount of HUF 300,000 thousand to secure its HUF 100,000 thousand loan.

38.3.2 Contingent commitments relating to application schemes

Pursuant to Government Decree 358/2014 (XII. 29) and other related legislation since 1 January 2015 beneficiaries with at least one full closed business year, listed in the NTCA's register of taxpayers free of tax debt obligations are no longer obliged to provide guarantees in relation to funds received from the European Regional Development Fund or the European Social Fund. Accordingly, the PannErgy Group is relieved from the obligation to provide such guarantees in relation to applications regarding all of its applications now in the project maintenance phase.

38.3.3 Operative leases

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

	2020 HUF Th	**2019 HUF Th**
Within 1 year	9,698	10,244
Over 1 year but within 5 years	6,271	9,567
Over 5 years	-	-
Total	15,970	19,811

In the reporting period, in line with its accounting policy relating to the recognition of leases in compliance with IFRS 16, in the balance sheet the Company presents its future payment obligations arising from the operating lease/long-term lease of vehicles as liabilities, parallel with the presentation of the leased vehicle as assets.

In accordance with IFRS 16 Leases the Company carried out an assessment of the details of its lease contracts and found that the above lease payments include no acquired valuable rights, i.e. they are lease liabilities in their entirety.
No assets are rented or leased from the Company under lease type arrangements on account of which the IFRS 16 provisions would be applicable.

39. Financial risk management

39.1. *Financial risk factors*

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

39.2. *Market risk*

39.2.1 Exchange rate risk

Some of the Company's operations involve foreign currencies and it issues its invoices in EUR as stipulated in the relevant agreements. It also has EUR-denominated liabilities. Such assets and liabilities involving settlements in foreign currencies entail risks resulting from fluctuations in currency rates – particularly the EUR rates – which PannErgy Plc. uses its best efforts to mitigate, primarily by maximizing the coverage of its EUR loan debt liabilities by the above mentioned EUR-based revenues. The Company occasionally concluded FX forward transactions in the reporting period, mitigating the risk of exchange rate losses on the settlement of its future payables to be incurred in foreign currencies. These transactions were not cash-flow hedge transactions; the gains and losses on such transactions during the reporting year appear in the financial incomes and financial expenditures categories in its annual report, detailed separately.

39.2.2 Price risk

The Company runs no risks relating to exchange traded commodities or financial instruments.

39.2.3 Cash flow and fair value interest risk

The interest rate risk arising at the Company is negligible as it is does not make use of long-term loans of such long terms provided by external financing companies, thus no interest rate risk arises from the length of the term. The only type of loan the Company has is short-term loans from related parties.

39.3. *Lending risk*

The lending risk is a financial risk of loss from potential non-performance of any contractual obligation by any of the Company's buyers, primarily in the form of failure to settle invoices. It should be noted in particular that the Company sells its products and services to a handful of customers, resulting in a limited degree of diversification.
Customers are rated on the basis of their creditworthiness and their credit limits are determined on the basis of their financial positions, financial data, historical performance and other factors, by the PannErgy Plc.'s Finance and Treasury group. The Company monitors draw-downs from the

credit limits. Its customers always pay for their purchases by way of bank transfer. No credit limit was exceeded during the reporting period, and management does not expect losses from default on the part of the partners concerned. Buyers' debts (trade receivables) are assessed at the end of the year and actions are taken, as necessary, regarding each buyer individually.

39.4. *Liquidity risk*

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

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

39.5. *Capital management*

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

	2020 HUF Th	**2019 HUF Th**
Subscribed capital	421,093	421,093
Total equity capital	11,243,950	11,971,780
Equity / Subscribed capital	**26.70**	**28.43**

39.6. *Offsetting of financial assets and financial liabilities*

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

39.7. *Epidemic risk*

The expected human and economic impacts of the COVID-19 epidemic that broke out in 2019 and that was declared a pandemic in 2020 will affect a wide variety of segments and areas at both society and economy, as well as economic participants; their effects can only be roughly estimated and, as such, carry substantial risks. Given its very nature, the operation of the Company are not expected to be severely restricted by the pandemic's adverse consequences; this is explained in more detail in chapter 3. herein.

40. PARTICIPATIONS (DIRECT AND INDIRECT)

40.1. *Consolidated subsidiaries*

The consolidated subsidiaries of the Company as a parent and the respective shareholdings as at 31 December 2020:

	Share capital (HUF Mn)	Direct Share holding (%)	Undirect Share holding (%)	Voting rights (%)	Consoli-dated ratio
PannErgy Geothermal Power Plants Ltd.	2,072.70	100.00	-	100.00	100.00
DoverDrill Mélyfúró Ltd.	86.00	-	100.00	100.00	100.00
Berekfürdő Energia Ltd.	24.10	-	100.00	100.00	100.00
Well Research Ltd.	10.00	-	100.00	100.00	100.00
Arrabona Koncessziós Ltd.	6.10	-	100.00	100.00	100.00
TT Geotermia CPlc.	6.00	-	100.00	100.00	100.00
Szentlőrinci Geotermia CPlc.	5.00	-	100.00	100.00	100.00
Miskolci Geotermia CPlc.	5.00	-	100.00	100.00	100.00
DD Energy Ltd.	3.10	-	100.00	100.00	100.00
Kuala Ltd.	3.00	-	100.00	100.00	100.00

The ratios presented above show the respective shares of ownership and voting rights of PannErgy Plc. and PannErgy Geothermal Power Plants Ltd. in the various subsidiaries. The consolidated ratios are the same as the respective shares of ownership. The parent company PannErgy Plc. Has a 100% stake in PannErgy Geothermal Power Plants Zrt., The professional management company of the Group, which is the direct 100% owner of all PannErgy project companies and member companies.

40.2. *Changes affecting investments and participations during the reporting year*

Only one transaction involving/affecting investments and participations took place during the reporting period. MIHŐ Miskolci Hőszolgáltató Kft's 10% share in Miskolci Geotermia CPlc. and 10% Kuala Ltd. participation were purchased by PannErgy Geotermikus Erőművek CPlc., as a result of which on 31 December 2020 it was the sole (100%) owner of the two Miskolc project companies. The share sale and purchase contract was sealed on 11 September 2020, and came into force as at 17 November 2020 when the necessary official permits were obtained.

41. Segments report

In line with IFRS requirements, the Company needs to present its operating segments. PannErgy Plc. described one operating segments in its individual EU IFRS report (Assets Management), thus the Company has to fulfil disclosure obligations covering the whole of the business entity.

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

42. Explanation for reclassifications relative to basis period report

PannErgy Plc. did not change the figures in the basis annual report; the base figures of this report are identical with the data in the year 2019 annual report.

43. Transactions with affiliated parties

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

The members of PannErgy Plc.'s management are shareholders of enterprises that provide regular business management consultancy or long-term lease of vehicle type services for PannErgy Plc. – in 2020 such services amounted to HUF 60,514 thousand, of which business management consultancy services were provided in the amount of HUF 44,200 thousand, and long-term leases in the amount of HUF 16,314 thousand.

43.2. *Transactions with affiliated parties*

The Company performed the following transactions with related parties during 2020:

Data of transactions with related parties	**2020 HUF Th**	**2019 HUF Th**
Sales to related parties [1]	253,559	272,017
Purchases from related parties	93,793	100,397
- *Of this, from subsidiaries*	*33,279*	*41,544*
- *Of which from enterprises in which members of the Group's management have shareholdings*	*60,514*	*58,853*
Receivables from related parties	6,288,953	7,404,920
Liabilities to related parties	24,090	75,374

- *Of this, to subsidiaries*	*20,293*	*75,374*
- *Of which to enterprises in which members of the Group's management have shareholdings*	*3,797*	-

[1] Of this, HUF 218,414 thousand interest income from related parties presented as sales revenue.

43.3. *Loans to and from related parties*

PannErgy Plc. provided the following loans to related parties in 2020 and 2019. No loans were disbursed for management.

	2020 HUF Th	**2019 HUF Th**
Opening balance of loans granted	7,278,248	7,079,493
New volume of loans to related parties	243,500	457,705
Repayment of loans from related parties	1,155,748	139,950
Remission of loan to related parties	88,000	119,000
Closing balance of loans granted	6,278,000	7,278,248

PannErgy Plc. shows no loans that would have been provided for the Company by affiliated undertakings; no such transactions (borrowing, repayments) took place during the reporting period.

43.4. *Management's compensation*

In line with the compensation categories set out in *IAS 24 Related party disclosures*, the compensation of key management personnel, the members of the Board of Directors of the Company and the other employees participating in strategic decisions at the Company and its major subsidiaries was as follows (the table contains the sums paid in the year concerned):

	2020 HUF Th	**2019 HUF Th**
Short-term employee benefits	12,820	13,500
Total	**12,820**	**13,500**

By its BoD Resolution No. 4/2020. (IV. 30.) the Company set the remuneration of the Chairman of the Board of Directors at 195 thousand HUF/month, while that of the other members of the BoD at 155 thousand HUF/month, from 1 May 2020, i.e. the directors' remunerations remained unchanged. The Board of Directors acted in the capacity of the General Meeting in accordance with Section 9 (2) of Government Decree 102/2020 (IV. 10.) on derogating provisions governing the operation of partnerships and joint-stock companies during the state of danger.

No long term benefits or share-based allocations were provided for the members of the BoD, other than the above remunerations, during the reporting period or the base period.

44. EVENTS AFTER THE END OF THE BALANCE SHEET DATE

References to events that occurred after the balance sheet date are presented in the following table; the complete information is accessible at the Company's official places of disclosure.

Date	Type of news	Subject, brief content
15 March 2021	Extraordinary information	Supplementation of the agenda of PannErgy's annual regular general meeting
5 March 2021	Extraordinary information	Invitation to the General Meeting
28 February 2021	Extraordinary information	Number of voting rights at PannErgy Plc.
31 January 2021	Extraordinary information	Number of voting rights at PannErgy Plc.
15 January 2021	Extraordinary information	Quarterly production report, 2021 EBITDA plan
11 January 2021	Extraordinary information	Treasury share transaction
4 January 2021	Other information	Change in investor's contact person
1 January 2021	Other information	Voting rights, share capital

45. DATE OF AUTHORIZATION OF DISCLOSURE

The Company's Board approved the financial statements and authorized their disclosure on 24 March 2021.

Dénes Gyimóthy
Representing the Board of Directors

PannErgy Plc. Business Report 2020

Based on the EU IFRS annual report of PannErgy Plc.

Budapest, 26 March 2021

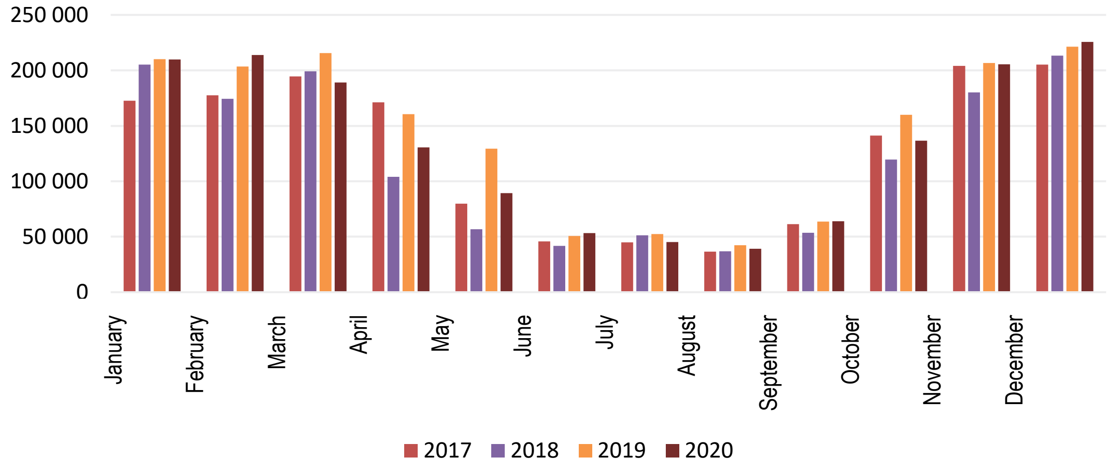
This announcement is published in Hungarian and English languages. In case of any contradiction between these two versions, the Hungarian version shall prevail.

1. Executive Summary (regarding the PannErgy Group)

Reliable heat generation during the pandemic, ensuring the achievement of the reporting year's planned EBITDA figures

The PannErgy Group managed to accomplish its objective laid down in its geothermal energy generation and utilisation strategy – aimed at efficient utilisation of the capacities available at the various project sites in line with the prevailing weather conditions and at dynamically choosing the operating condition(s) best supporting this aim – even in business year 2020, in a challenging economic and social environment dramatically altered by the COVID-19 pandemic.

The 1,602 TJ of green heat sold in 2020 exceeded the average green heat sales figures of the preceding years, yet it fell short of the base period's 1,716 TJ when the weather conditions were a lot more favourable from this aspect. The Company fell short of the 2020 target amount of 1,647 TJ by as little as 2.7%. The Company's consolidated sales revenue increased by 4.9% year-on-year, despite a minor decrease in the sales revenue of the geothermal division. The Company's consolidated EBITDA amounted to HUF 2,735 million, 2.6% up year-on-year and 5.2% over the HUF 2,600 million high end of the planned EBITDA range for the year. The outstanding EBITDA performance was achieved partly through good management and partly through the positive effects of the capacity enhancing and efficiency improving development projects described in the Q4 production report, appearing already in the reporting year.



Consolidated volume of heat sold (GJ)
The chart presents the aggregate volume of heat sold by the Miskolc, Győr, Szentlőrinc and Berekfürdő projects, in a monthly breakdown.

	2017	2018	2019	2020	2020 TARGET	2021 TARGET
January	172,758	205,199	209,999	209,678		
February	177,533	174,300	203,484	213,855		
March	194,634	199,090	215,693	189,195		
Q1	**544,925**	**578,589**	**629,176**	**612,728**	**621,403**	**660,769**
April	171,294	104,033	160,548	130,407		
May	79,700	56,758	129,300	89,190		
June	45,936	41,641	50,780	53,394		
Q2	**296,930**	**202,432**	**340,628**	**272,991**	**247,988**	**290,438**
July	44,865	51,247	52,406	45,297		
August	36,709	36,794	42,415	39,205		
September	61,502	53,650	63,731	64,096		
Q3	**143,076**	**141,691**	**158,552**	**148,598**	**164,526**	**160,683**
October	141,270	119,652	159,888	136,460		
November	204,045	180,263	206,686	205,417		
December	205,251	213,267	221,248	225,688		
Q4	**550,566**	**513,182**	**587,822**	**567,565**	**612,739**	**620,679**
ANNUAL TOTAL	**1,535,497**	**1,435,894**	**1,716,178**	**1,601,882**	**1,646,656**	**1,732,569**

Actual and target consolidated amounts of heat sold, in GJ

The Company's consolidated sales revenue and the direct costs of sale increased by 4.9% and 6.8%, respectively, primarily as a result of growth of ("pass-through") energy costs charged to buyers not related to geothermy, and increase in direct depreciation. As an aggregate result of the above the Company's gross margin decreased somewhat, however, the consolidated gross cash-flow increased by 4.8% or HUF 138,895 thousand.

Administrative and overhead costs increased by 11.3%, primarily as a result of one-off expert and consultant fees relating to refinancing during the reporting period as well as the associated banking costs. The reporting period's HUF 132,343 thousand balance of the other incomes and expenditures fell short of the figure recorded for the base period, which had been increased by the revenue from the sale of real property in Csepel.

The HUF 69,120 thousand increase in the EBITDA during the reporting period relative to the base year was delivered on the basis of a more or less unchanged 46.2% EBITDA rate.

The Company booked a financial loss of HUF 813,452 thousand, primarily because of the weakening of the HUF against the EUR, and revaluation losses on foreign exchange and interest positions resulting from the decrease in interest rates, realised for the most part owing to refinancing.

Despite the substantial financial loss the Company realised HUF 236,720 thousand in consolidated net profit, as profit after taxes, in 2020 – to be compared with the HUF 734,898 thousand consolidated profit posted in the base period.

Key profit/loss figures (HUF Th)	2020.	2019.
Revenue from sales	**5,922,505**	**5,647,921**
Direct costs of sales	-4,483,423	-4,192,794
Gross margin	**1,439,082**	**1,455,127**
Gross cash-flow	**3,054,095**	**2,919,836**
Gross cash flow rate	**51.6%**	**51.7 %**
Indirect costs of sales	-494,259	-449,697
Other revenues and expenditures	132,343	19,225
Operating profit (EBIT)	**1,077,166**	**1,197,680**
EBITDA	**2,736,466**	**2,665,645**
EBITDA rate	**46.2%**	**47.2 %**
Profit/loss on financial transactions	-813,452	-415,998
Of which: Effect of period-end FX revaluation	-59,765	*-131,534*
Profit before taxes	**263,714**	**781,682**
Consolidated net profit for the reporting period	**235,298**	**734,898**
Return on Equity (ROE) %	2.42	7.13
Return on Sales (ROS) %	3.99	12.90
Earnings per ordinary share (diluted EPS) (HUF)	14.01	40.77

The Company’s EBITDA expectations concerning the coming years

The Company’s target for heat sales in 2021 is 1,727 TJ, adjusting its 1,733 TJ forecast published for 2020 Q4 (for the quarterly breakdown see the above table). In connection with this the Company maintains its 2021 HUF 2,800-2,880 million consolidated EBITDA target. This EBITDA target range for 2021 is up approx. 11% on the target range of the base period and is up approx. 2-5% on the actual EBITDA figure, primarily reflecting the effect of the previously described capacity expansion and efficiency improving projects throughout the year.

Treasury share buyback programs

On 31 December 2020 the Company held a total of 4,189,970 PannErgy Plc. treasury shares, 998,537 more than the stock of treasury shares held on 31 December 2019. The change resulted from the purchase of treasury shares in the framework of the treasury share buyback program taking place during the reporting period; the treasury share portfolio decrease occurred during the reporting period.

A total of 413,000 and a total of 585,537 treasury shares were bought back in the first half and in the second half of 2020, respectively, under the above treasury share buyback programs.

The stock exchange closing price of PannErgy shares was HUF 760 per share at the end of the review period, compared to HUF 738 on 31 December 2019, i.e. the price was 3% higher than it had been before the outbreak of the COVID-19 pandemic.

Refinancing during the reporting period

PannErgy managed to secure long term refinancing for its bank loans during the reporting period. On 15 July 2020 the Group's project companies in Győr, i.e. Arrabona Koncessziós Ltd. and DD Energy Ltd., as well as those in Miskolc, i.e. Miskolci Geotermia CPlc. and Kuala Ltd. —, as borrowers and providers of collateral, entered into a HUF 11 billion financing agreement with the banking consortium comprising UniCredit Bank Hungary CPlc. and CIB Bank CPlc. As part of the financing agreement, other member companies of the PannErgy Group were also involved in the transaction as providers of collateral. As a result of the refinancing transaction, a loan portfolio of HUF 9.5 billion in total of the PannErgy Group — maturing in the short and medium term and with a substantial balloon — has been refinanced with a 10-year long-term loan, thereby ensuring the Group's predictable and economical financing in the long run, along with reserve funds for the coming investment activities, securing a stable background in the new economic and operational environment brought about by the COVID-19 pandemic. Refinancing denominated in HUF – in an amount of HUF 8.25 billion, with a fixed 2.40% interest rate – was secured from the FGS Go! ("NHP Hajrá") scheme launched in April 2020 by the Magyar Nemzeti Bank. The remaining HUF 2.75 billion limit was denominated and drawn down in EUR. FGS loans are provided with a fixed interest rate for the entire loan term, while the EUR loans carry variable interest rates. For the latter the Company concluded IRS (interest rate swap) transactions in the way of long term hedging of the interest rate risk, ultimately resulting in an effectively fixed, weighted average interest rate of 2.18%.

As a result of the refinancing transaction concluded in July 2020, the PannErgy Group's consolidated debt servicing obligation drops by approximately HUF 200 million per year.

On 10 November 2020 the PannErgy Group concluded another HUF 1 billion investment credit facility agreement with UniCredit Bank Hungary CPlc. Development and extension projects could be financed in the context of the credit line in the framework of the Magyar Nemzeti Bank's FGS Go! credit programme. The term of the loans that can be drawn down from the credit line is nearly 10 years, similarly to the earlier refinancing arrangement. The credits were denominated in HUF, with a fixed 2.50% p.a. interest rate. The Company has been and is using the credit line for capital projects enhancing the Company's profitability, the effectiveness of heat generation and/or operational reliability.

A total of HUF 654 million was drawn down from the credit line during the reporting period, for capacity enhancing projects in the town of Győr.

Acquisition of the minority participations of the Miskolc project companies

On 17 November 2020 the Company increased its share to 100% in the two project companies in Miskolc: Miskolci Geotermia CPlc. and Kuala Ltd. The transaction involved the conclusion of a shareholding and share sale and purchase contract between PannErgy Plc. subsidiary's PannErgy Geotermikus Erőművek CPlc. and MIHŐ Miskolci Hőszolgáltató Ltd. concerning the MIHŐ Miskolci Hőszolgáltató Kft's acquisition of the 10% shareholding in each of Miskolci Geotermia CPlc. and Kuala Ltd.

This transaction resulted in the increase of PannErgy Geotermikus Erőművek Plc's share of ownership of each company from 90% to 100%. By the payment of the total combined purchase price of HUF 185 million, the transaction was closed on 17 November 2020. In accordance with Act XVIII of 2005 on District Heat Supply, a final approval from the Hungarian Energy and Public Utility Regulatory Authority was required for the acquisition of the shares and for the exercise of the rights represented by them.

General meeting closing the previous business year, dividend payment

Pursuant to Sections 113 (4)-(6) of Act LVIII of 2020 on the Transitional Rules and Epidemiological Preparedness related to the Cessation of the State of Danger the Company declined to hold its regular annual general meeting closing business year 2019 on 30 April 2020 with the shareholders being present in person. Instead, the Board of Directors adopted a resolution, acting within the General Meeting's scope of power: By BoD Resolution 2020.04.30./1. it approved the Company's 2019 consolidated annual report, prepared in accordance with the international financial reporting standards (IFRS), with HUF 25,974 million in terms of assets and liabilities (balance sheet total) and HUF 735 profit after taxes. Having approved the consolidated annual report, the Board of Directors did not consent to the payment of dividends.

On 4 May 2020 the Company announced that in relation to Resolutions No. 2020.04.30/1 and 5 adopted by the Board of Directors under the competence of the General Meeting on 30 April 2020 pursuant to Section 9(2) of Government Decree 102/2020 (10 April) on derogating provisions concerning the operation of partnerships and corporations during the state of danger (hereinafter: 'the Decree'), shareholders of the Company representing at least 1% of the votes have requested to convene the General Meeting with the aim of ex post approval of the resolutions, in accordance with Sections 9(6) and 9(7) of the Decree.

Subject to Sections 9(6) to 9(8) of the Decree, the Board of Directors made arrangements for convening the General Meeting, which took place on 7 August 2020. In accordance with Sections 113(4) to 113(6) of the Act LVIII of 2020 on the Transitional Rules and Epidemiological Preparedness related to the Cessation of the State of Danger, by its resolution No. 2/20. (VIII.7.) the General Meeting approved the part of BoD Resolution No. 2020.04.30./1 adopted by the Board of Directors in the capacity of the General Meeting on the use of profit after taxes (dividend payment) for 2019 according to which the General Meeting shall transfer the total amount of the Company's 2019 profit after taxes to the profit reserve, and therefore the Company would not pay any dividend.

The Company's 2020 consolidated net profit – that is, its profit after taxes, attributable to the Company's shareholders – for the year amounts to HUF 236,720 thousand.

In view of anticipated investment possibilities and needs for 2021, the necessity of holding free cash and cash equivalent assets required for safe and prudent operation, and thus of maintaining a high level of financial and operational stability while allowing for flexibility, the Board of Directors recommends a dividend payment of HUF 15 per share from the reporting year's profit after taxes and the positive retained earnings from previous periods' profitable operations. Scheduled starting date of dividend payment is 14 July 2021.

2. PannErgy Plc. as an individual company's profit or loss in 2020, key indicators of business operations

Key profit/loss figures (HUF Th)	2020	2019
Revenue from sales	**312,623**	**335,238**
Direct costs of sales	-81,386	-78,217
Gross margin	**231,237**	**257,021**
Gross cash-flow	**237,629**	**257,461**
Indirect costs of sales	-142,667	-136,335
Other revenues	219	79,793
Other expenditures	-97,487	-142,770
Operating profit (EBIT)	**-8,698**	**57,710**
EBITDA	**15,997**	**77,387**
Profit/loss on financial transactions	19,177	-1,412
Profit before taxes	**10,479**	**56,298**
Net earnings of the reporting year	***3,315***	***43,478***
Return on Equity, % (ROE)	*0.03*	*0.36*
Return on Sales, % (ROS)	1.06	12.97
Earnings per share (EPS) HUF	**0.19**	**2.31**

The diluted earnings per share amounted to HUF 2.31. Like in the previous period, there is no difference in determining the diluted earnings per share as there was no share option program running with shares not called at the end of the reporting period.

Detailed description of the business operations of PannErgy Plc. as an individual company in 2020:

PannErgy Plc. earned HUF 312,623 thousand in terms of consolidated sales revenue in 2020 7% below the 335,238 thousand figure posted for 2019, primarily as a result of the lower interest rates during the reporting year on the loans provided for affiliated undertakings in relation to its asset management and holding governance activities.

HUF 59,259 thousand sales revenue was generated in the reporting period (up from the HUF 335,238 thousand recorded in the precious period) by the management of the Company's properties in Csepel and Debrecen. The bulk of this sales revenue resulted from the re-invoicing of power consumption and other "mediated service" types of costs, with the smaller part of the total sales revenue being made up of rental fees.

Rental revenues amounted during the reporting period to HUF 22,763 thousand, 3% more than the HUF 22,091 thousand posted for 2019, as a result of the new lease contracts concluded regarding the properties in Debrecen.

In addition, the asset management and holding control activities of the Company generated revenues of HUF 251,164 thousand in the reporting period as, in conformity with the EU IFRS, the Company presents its interest revenues from related parties as sales revenue. In the reporting period the Company realised interest income of HUF 218,414 thousand on its asset management and holding control operation, in contrast with the interest income of HUF 238,931 thousand of the previous year.
The holding control related expenditures of the Company increased by 5% relative to the previous year; in the reporting period; they amounted to HUF 142,667 thousand.

As a result, in the reporting period the Company realized HUF -8,698 thousand operating profit and HUF 15,997 EBITDA.

Consequently, the Company had income tax expenditure of HUF 7.164 thousand and generated HUF 3,315 thousand net profit in the reporting year.

Key data on the asset position (HUF Th)	2020	2019
Fixed assets	**4,791,601**	**4,824,066**
Total current assets	6,666,780	7,470,166
Of which Liquid assets	60,145	16,969
Total assets	**11,458,381**	**12,294,232**
Total shareholders' equity	**11,243,950**	**11,971,780**

The decrease in the non-current assets during the reporting period was caused partly by the depreciation of tangible assets and intangible assets, and a decrease in long term investments which in turn resulted from the sale of the participation in the affiliated undertaking TT-Geotermia CPlc.

The Company stated HUF 10,965 thousand as deferred tax receivable among its assets, a decrease on a year-on-year basis, as a result of PannErgy Plc.'s deferred tax recovery calculations. A 11% drop in the portfolio of current assets resulted primarily from repayments of loans provided for affiliated undertakings.

The Company's equity decreased by 6% year-on-year, primarily as a result of the equity decreasing effect of the treasury shares repurchased during the reporting period.

In the reporting period external finance granted by a financing financial institution relating to treasury share buyback programmes was disclosed as short-term loans, at HUF 100,000 thousand as compared to the HUF 200,000 thousand in the previous year.

Key indicators	2020	2019
Profitability indicators		
Return on assets, % (ROA)	0.03	0.35
Return on Equity, % (ROE)	0.03	0.36
Return on Sales, % (ROS)	1.06	12.97
Asset position indicators		
Ratio of fixed assets, %	41.82	39.24
Ratio of equity capital, %	98.13	97.38
Indebtedness rate, %	1.91	2.69
Financial indicators		
Liquidity ratio	3,168.55	2,387,51
Acid test ratio	3,168.55	2,387,51
Earnings per share (EPS) HUF	**0.19**	**2.31**

Due to the decline of the profits of PannErgy Plc. in the reporting year, profitability and financial indicators were also down year-on-year.

3. Introduction to the Company

3.1. *Core activity of PannErgy Plc.*

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 and controller of the PannErgy Group; the core activities of the Group involve the extraction, utilization for energy generation and selling of one of Europe's most significant thermal water resources, in particular, renewable geothermal energy. In connection with its geothermal energy generating operations the Company performs productive operations in Miskolc, Győr, Szentlőrinc and Berekfürdő. On 31 December 2020 PannErgy Plc. has no employees; it senior officers do not work under an employment relationship. PannErgy Plc. has its registered office in Hungary at H–1117 Budapest, Budafoki út 56.

3.2. *Real property utilization*

Besides its core operations comprising the production and sale of geothermal heat (Energy) by the end of the reporting period the Company only had industrial real properties and offices – originating from before the time of the "Pannonplast - PannErgy" strategy shift – the town of Debrecen. The Company sold even its last remaining properties in Csepel during the reporting period: they consisted in a variety of public roads of a relatively small value, co-owned with other entities. Consequently, the Company shows no real estate held for sale in its financial statement at the end of the reporting period.

The PannErgy Plc. shows its industrial properties in Debrecen, which are not directly or indirectly related to the Group's core operation, that is, geothermal heat generation and sale, in its investment property portfolio, which it intends to utilise through lease arrangements. Such properties appeared in the Company's consolidated statement of financial position in an amount of HUF 158,620 thousand.

The growth that took place during the reporting period was a result of the refurbishment of the office building to be found at the industrial site in Debrecen, in relation to which the Company managed to lease part of the office building to tenants. Other parts of the property in Debrecen, also in PannErgy's ownership, were also leased to tenants.

4. Achievement of PannErgy Plc.'s main targets set for 2020, and the associated risks

The main objective of the Company as the parent of the PannErgy Group for 2020 is to increase heat generation relating to its holding control as its core operation and, in this context, the improvement of the predefined group-level margin, cash flow and EBITDA.

The PannErgy Group managed to accomplish its objective laid down in its geothermal energy generation and utilisation strategy – aimed at efficient utilisation of the capacities available at the various project sites in line with the prevailing weather conditions and at dynamically choosing the operating condition(s) best supporting this aim – even in business year 2020, in a challenging economic and social environment dramatically altered by the COVID-19 pandemic. Although the amount of green heat sold during the reporting year fell short of the base period's figure as a result of the extremely good weather conditions, it still exceeded the average amount sold in earlier years. The Company's consolidated EBITDA amounted to HUF 2,735 million, 2.6% up year-on-year and 5.2% over the HUF 2,600 million high end of the planned EBITDA range for the year. The outstanding EBITDA performance was achieved partly through good management and partly through the positive effects of the capacity enhancing and efficiency improving development projects described in the Q4 production report, appearing already in the reporting year.

The key 2020 objective of PannErgy Plc. as a separate company is profitable financial management on the group level, in addition to the objectives described above. The conditions for this were present at the Company, just as in the previous year; the net profit in the reporting year was HUF 3,315 thousand, down from the figure of the prior year due to the remission of intercompany loans in an amount of HUF 88,000 thousand.

5. The company's strategy, environmental goals

The core element of the strategy of the PannErgy Group, the region's dominant company utilising geothermal heat, is to play a key role in countering climate change by its environmentally friendly services of high operational reliability, and to enable major reductions in energy related expenditures by implementing environment preserving capital projects.

5.1. *Impact of climate change on PannErgy's heat markets*

One of the tangible effects of climate change in Hungary manifests itself in the form of frequent volatile and extreme changes in weather conditions, including ambient temperatures, and a rise in the average temperature of winter months from the historically cold, steadily sub-zero range to markedly above the freezing point. These changes are not expected to have an adverse impact on the output of geothermal heat generation; in fact, the perspectives of input into district heating systems are favourable on average over a horizon of several years. The reason for this – as noted in this report – is the fact that daily geothermal heat sales are ideal in the 2–8°C temperature range during the heating season.

At the same time, the potential decrease in the demand for heat during the transitional seasons may be offset or even surpassed by the growth in the potential of the increasingly mild winter periods.

The demand for energy in the large district heating systems supplied by the PannErgy Group is far greater than the amount of geothermal energy that can be fed into those systems. Accordingly, any change in the demand for heat in those heating systems stemming from the climate change has no perceivable effect on PannErgy Group, and the Company does not expect any trend-like negative effects in the future either.

The primary goal of PannErgy is to utilise its substantial uncommitted available thermal capacities – in addition to the capacities being utilised now –, which is expected to further reduce sensitivity to ambient temperature changes. The most important possible areas for utilising free thermal capacities include:

- implementation of energy efficiency and optimisation projects with existing customers;
- cold energy projects for the utilisation of the so-called ‘summer’ heat;
- connection of new customers indirectly through district heating systems or directly to the geothermal systems on the primary or the secondary (return) sides;
- technical, energy and R&D projects aimed at the improvement of heat production efficiency.

5.2. *PannErgy for the prevention of climate change*

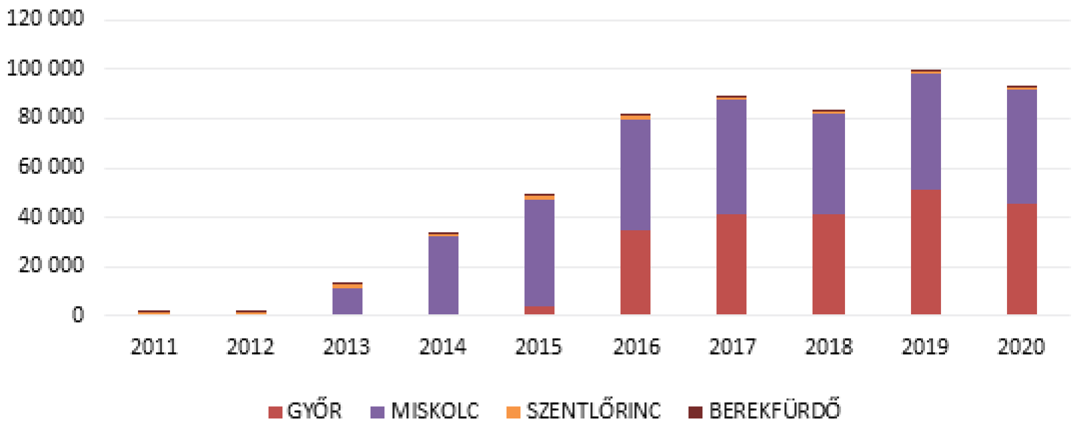
In line with global efforts, Hungary intends to take resolute action against climate change. The key energy sector action plan for these efforts is the new National Energy Strategy (NES) published in January 2020, which replaced a similar strategy published in 2011. The NES presents the future of the Hungarian energy sector for the period until 2030 and, at the same time, it provides an outlook for the decade following that period. The NES takes into consideration the requirement of the European Union, namely, that the economies of EU Member States must become climate-neutral, overall, by 2050.

The NES is committed to decarbonisation, providing ample leeway for the further proliferation of green and other, emission-free energy production solutions. NES goals to be highlighted from the perspective of the geothermal energy production represented by PannErgy:

- reducing Hungary’s gas consumption and thus, its reliance on energy imports;
- giving preference to district heating systems;
- reducing the share of natural gas sources to below 50% in district heating systems;
- increasing the utilisation of geothermal sources and urban waste in district heating systems, implementation of the Green District Heating Programme.

As a comprehensive, quantified target, by 2030 the share of renewable energy sources in gross final energy consumption should be raised to at least 21% (from 13.3% in 2017) (whereby greenhouse gas emissions will decline by around 40% compared to the level recorded in 1990).

The PannErgy Group’s projects contributed to the efforts made to preserve a more liveable environment and combat climate change by the CO_2 emission cuts shown in the figure below. The estimated reduction amounted to 92,920 tons in the review period, while the total aggregate volume of greenhouse gas emission saved by the PannErgy Group so far is estimated at 510,410 tons.



5.3. *To achieve carbon-neutrality from 2021*

From 2021 on the Company's operations qualify as fully carbon-neutral. As a green energy producer, PannErgy has long been one of the major players at the forefront of zero-emission energy production in the domestic energy industry. The Company is proud that, since the implementation of its geothermal strategy, it has been able to replace the emission of more than half a million tons of carbon dioxide with green heat production. The Company would like to actively contribute to the achievement of the objectives defined in the Paris Agreement on climate change by joining voluntary projects in which small emissions resulting from current operations are compensated for in the form of Guarantees of Origin (GOs) and carbon credits. In practice, this can be achieved by acquiring Scope 1 and Scope 2 emission levels of the Greenhouse Gas Protocol.

At the start of 2021, PannErgy decided not to keep the current track of its operational development focusing on environmental protection and sustainability but to aim for the highest level, a fully carbon-neutral operation.

In order to achieve total carbon neutrality, from the start of business year 2021, PannErgy Group is not only analysing its own situation, but also actively reacts to all material divergence from the carbon-neutral position. Accordingly, the Company supplies the electricity necessary for the operation of its machines and equipment, such as well pumps and other surface equipment, from renewable energy sources, and also aims to neutralise the carbon emission of the vehicles used by the Group.

PannErgy compensates for its Scope 1 emission levels by acquiring 57 VCUs (Verified Carbon Units), and for its Scope 2 emissions, by acquiring a Guarantee of Origin representing 23,000 MWh of electricity produced. VCUs have obtained internationally recognised "Verified Carbon Standard" certification.

6. Subsidiaries of PannErgy Plc.

6.1. *The PannErgy Plc.'s subsidiaries, shares of ownership and consolidation ratios*

PannErgy subsidiaries	Share capital (HUF Mn)	Share holding (%)	Voting rights (%)	Consolidation ratio
PannErgy Geothermal Power Plants Ltd.	2,072.70	100.00	100.00	100.00
DoverDrill Mélyfúró Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energia Ltd.	24.10	100.00	100.00	100.00
Well Research Ltd.	10.00	100.00	100.00	100.00
Arrabona Koncessziós Ltd.	6.10	100.00	100.00	100.00
TT Geotermia CPlc.	6.00	100.00	100.00	100.00
Szentlőrinci Geotermia CPlc.	5.00	100.00	100.00	100.00
Miskolci Geotermia CPlc.	5.00	100.00	100.00	100.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	100.00	100.00	100.00

6.2. *Key data of PannErgy's consolidated subsidiaries in the reporting period*

PannErgy subsidiaries	Equity	Subscribed capital	Sales revenue	Business profit or loss	Profit after taxes	Headcount
PannErgy Plc.	11,243,949	421,093	312,623	-8,699	3,314	-
PannErgy Geothermal Power Plants Ltd.	3,224,340	2,072,682	97,724	5,342	3,436	9
Arrabona Koncessziós Ltd.	1,598,776	6,100	1,947,508	351,253	164,876	2
DD Energy Ltd.	1,031,637	3,100	1,820,524	441,089	34,307	1
DoverDrill Ltd.	840,358	86,000	462,223	6,325	1,025	7
Well Research Ltd.	621,690	10,000	272,728	78,303	54,359	2
Miskolc Geotermia CPlc.	229,214	50,000	1,499,610	307,844	3,984	5
Kuala Ltd.	103,764	3,000	1,101,142	94,407	1,053	1
Szentlőrinci Geotermia CPlc.	11,724	5,000	73,032	29,454	-14,882	-
Berekfürdő Energia Ltd.	8,449	24,100	31,887	-14,092	-16,511	-
TT- Geotermia CPlc.	7,250	6,000	796,987	-5,058	-6,324	-

7. The Company's ownership structure, Senior officers

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

Shareholders	Total share capital = Introduced series					
	01.01.2020			31.12.2020		
	%	%	db	%	%	shares
Domestic institutions	23.93	28.21	5,039,030	34.70	43.32	7,306,202
Foreign institutions	21.45	25.28	4,516,639	8.11	10.13	1,708,161
Domestic private individuals	30.69	36.17	6,461,819	27.00	33.70	5,684,997
Foreign private individuals	0.33	0.39	69,989	0.41	0.51	85,580
Employees, senior officers	0.48	0.57	100,000	1.93	2.41	407,000
Own holding[1]	15.16	0.00	3,191,433	19.89	0.00	4,186,970
Owner belonging to the general government system	7.96	9.38	1,675,745	7.96	9.93	1,675,745
Total	**100.00**	**100.00**	**21,054,655**	**100.00**	**100.00**	**21,054,655**

[1]: Reflecting the share register as at 31 December 2020. Likewise, the Other disclosure "Voting rights, share capital" published by the Company on 1 January 2021 showed a total of 4,186,970 treasury shares, matching the number shown in the share register. Moreover the Company purchased 3,000 treasury shares at the end of the reporting period; this amount of shares purchased, and so acquired, but not delivered, at the end of the reporting period, results in the difference between the number of treasury shares as at 31 December 2020 published earlier and the corresponding number appearing in these consolidated financial statements.

7.2. *Shareholders with over 5% shareholdings in the Company*

Name	Investor category		Number of shares	Shareholding (%)	Voting rights (%)
Benji Invest Ltd. FCI Kompozit Ltd.	Domestic	Company	3,174,010	15.08	18.82
MVM Hungarian Electricity Ltd.	Domestic	Company	1,675,745	7.96	9.93
Soltút Ltd. / Kálmán Rencsár	Domestic	Company	1,151,240	5.47	6.83

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

Changes in the number of treasury shares held by PannErgy Plc. in the reporting year:

	01.01.2020	30.06.2020	31.12.2020
Treasury shares	2,256,230	2,669,230	3,254,767

7.4. *Senior officers of the Company*

The Company's senior officers are the members of the Board of Directors. Data of the members of the Board of Directors, and their respective shareholdings on 31 December 2020:

Name	Position	Date of entry into office	Mandated until	Number of shares held
Balázs Bokorovics	Member, Chairman	31/08/2007	indefinite term	-
Dénes Gyimóthy	Member, Vice-Chairman Acting Chief Executive Officer	31.08.2007 (05.05.2015)	indefinite term	-
Katalin Gyimóthy	Member	28/04/2016	indefinite term	-
Lilla Martonfalvay	Member	28/04/2016	indefinite term	100,000
Attila Juhász	Member	31/08/2007	indefinite term	-
Kálmán Rencsár	Member	30/04/2020	indefinite term	307,000
Total number of shares held				**407,000**

The Company has no (strategic) employees influencing its operations.
The EU IFRS annual report and business report of PannErgy Plc. are signed by Dénes Gyimóthy, acting chief executive officer.

8. HEADCOUNT INFORMATION

In 2020 the Company had no employees, similarly to the prior year; in both periods the report of the Company disclosed, as personnel-type expenditure, the remuneration paid to members of the Board of Directors and the amount of related taxes and contributions.

9. Dividend payment, Treasury share purchase

The Company's 2020 consolidated net profit – that is, its profit after taxes, attributable to the Company's shareholders – for the year amounts to HUF 236,720 thousand.
In view of anticipated investment possibilities and needs for 2021, the necessity of holding free cash and cash equivalent assets required for safe and prudent operation, and thus of maintaining a high level of financial and operational stability while allowing for flexibility, the Board of Directors recommends a dividend payment of **HUF 15 per share** from the reporting year's profit after taxes and the positive retained earnings from previous periods' profitable operations. Scheduled starting date of dividend payment is 14 July 2021.

Treasury share buyback programs

On 31 December 2020 the PannErgy as a separate company held a total of 3,254,767 PannErgy treasury shares, 998,537 more than the stock of treasury shares held on 31 December 2019. The change resulted from the purchase of treasury shares in the framework of the treasury share buyback program taking place during the reporting period; the treasury share portfolio decrease occurred during the reporting period. A total of 413,000 and a total of 585,537 treasury shares were bought back in the first half and in the second half of 2020, respectively, under the above-mentioned treasury share buyback programs.

The stock exchange closing price of PannErgy shares was HUF 760 per share at the end of the review period, compared to HUF 738 on 31 December 2019, i.e. the price was 3% higher than it had been before the outbreak of the COVID-19 pandemic.

10. Main risks faced by the Company, associated uncertainties

PannErgy Plc.'s major risks are detailed in the *Chapter 39 Financial risk management* of the Notes to the financial statements.

11. Publicity

The Company posts regular and extraordinary notices on its website at (www.pannergy.com), among other things. The publications and public information released by PannErgy Plc. may make it considerably easier to understand and judge the Company's operations and economic position, therefore they are important supplements to the information disclosed herein.

12. Key events after the balance sheet date

Events that took place after the balance sheet cut-off date, published and accessible at the Company's official places of disclosure are listed in detail in note *44. Events after the balance sheet cut-off date* of the notes to the report.

13. Date of authorization of disclosure

The Company's Board approved the financial statements and authorized their disclosure on 24 March 2021.

Dénes Gyimóthy
Representing the Board of Directors

PannErgy Plc.
Declaration of the issuer
2020

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

Budapest, 26 March 2021

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

DECLARATION

I, Dénes Gyimóthy, acting CEO, representative of the Board of Directors, issue the following declaration in relation to the 2020 EU IFRS annual report and business reports of PannErgy Plc., pursuant to the statutory requirement laid down in Section 2.4 of Appendix 1 to Decree 24/2008 (VII.15,) of the Minister of Finance:

- the 2020 individual annual report of PannErgy Plc., prepared in accordance with the applicable accounting regulations and the EU IFRS rules to the best of our knowledge, provides a true and reliable picture of the assets, liabilities, financial position, profit and loss of PannErgy Plc. as a public securities issuer, and;

- the business report attached to the annual report prepared in accordance with the applicable EU IFRS provides a reliable picture of the position, development and performance of PannErgy Plc. as public securities issuer company, laying out the key risks and uncertainties.

Dénes Gyimóthy
Representing the Board of Directors