PannErgy Plc. and its subsidiaries Consolidated Financial Statements and Annual Report in conformity with the IFRS

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

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Independent Auditor's Report

(Free translation)

To the Shareholders of PannErgy Nyrt.

Opinion

We have audited the consolidated financial statements of PannErgy Nyrt. and its subsidiaries (the „Group") for the year 2020 which comprise the consolidated statement of financial position as at December 31, 2020 – which shows a total assets of thHUF 26,733,015 –, and the related consolidated statement of recognized income, consolidated statement of comprehensive income – which shows a net profit for the year of thHUF 236,720 –, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the consolidated financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing consolidated financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

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

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Key Audit matters	Related audit procedures
Recognition of subsidies development purposes	
(Details in notes 4.27., 11., 29.4., 29.5 and 30.1 of the notes to the consolidated financial statements) Group recognised thHUF 273,958 as other income in 2020 and thHUF 4,227,176 reported as deferred income as at 31 December 2020. Management exercise significant judgement whether subsidies should be should be recognized as other income or deferred for the following years. Management has also assessed whether all conditions are met for compliance for conditions of subsidies and whether the deferred income covered the liabilities in case of non-compliance. Due to significant estimation by management we consider that recognised other income and deferred income relating to subsidies received for development purposes as a key audit matter.	Our audit procedures included: - we interviewed management, - we tested the design and operational effectiveness of Group's internal controls relating to other income, - we reconciled recognition of other income from subsidies received for development purposes to subledger of tangible fixed assets financed by subsidies, - we performed recalculation of other income based on depreciation of tangible fixed assets financed by subisidies, - we tested transactions post-balance sheet events.
Revenue recognition	
(Details in notes 4.23 and 6 of the notes to the consolidated financial statements) In 2020 the consolidated revenue of the Group is thHUF 5,922,505 and the revenue is a key performance indicator of the Group 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 Group's revenue recognition accounting policies, - we interviewed management, - we tested the design and operational effectiveness of Group's internal controls over sales cycle of the Group, - we gathered third party confirmations about revenue and receivables, - we tested transactions post-balance sheet events.

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Other Information

Other information comprises the information included in the consolidated business report of the Group for 2020, which we obtained prior to the date of this auditor's report, and the consolidated annual report, which is expected to be made available to us after that date, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the consolidated business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the consolidated financial statements provided in the section of our independent auditors' report entitled "Opinion" does not apply to the other information.

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

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

In our opinion, the consolidated business report of the Group for 2020 corresponds to the consolidated financial statements of the Group 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.

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

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

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

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

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

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

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

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

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

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

We also:

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

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

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

Budapest, 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. and its subsidiaries

Consolidated financial statements prepared in conformity with the IFRS

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.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note no.	31 Dec. 2020	31 Dec. 2019
		HUF Th	HUF Th
Goodwill	15	678,409	518,487
Other intangible assets	15	1,790,116	1,918,449
Tangible assets	16	19,053,450	19,120,564
Investment properties	16	158,620	113,957
Marketable properties	16	-	2,756
Other invested financial assets	17	574,639	72,949
Financial assets (concession assets)	18	1,136,034	1,183,496
Receivables from deferred taxes	33	239,982	242,892
Long-term receivables	19	2,293	5,318
Total fixed assets		**23,633,543**	**23,178,868**
Inventories	21	29,076	27,651
Trade receivables	22	1,717,438	1,277,883
Other receivables	23	416,826	144,569
Prepaid income taxes	33	10,470	-
Securities	24	259,763	24
Liquid assets	35	665,899	1,344,788
Total current assets		**3,099,472**	**2,794,915**
TOTAL ASSETS		**26,733,015**	**25,973,783**
Subscribed capital	25	421,093	421,093
Reserves without comprehensive income for the year	27	12,273,796	11,387,761
Comprehensive income for the year (attributable to the shareholders of the Company)	34	236,277	728,336
Reserve for repurchased treasury shares	26	-3,184,377	-2,355,278
Minority interest	28	-	32,036
Total equity		**9,746,789**	**10,213,948**
Long-term loans, leases	29	10,453,562	7,878,536
Other long-term deferred incomes	29.4	3,986,938	4,030,962
Provisions	31	-	-
Total long-term liabilities		**14,440,500**	**11,909,498**
Trade payables	36	814,682	900,737
Short-term credits	30	106,829	710,244
Short-term part of long-term credits	30	1,132,693	1,496,188
Other long-term deferred incomes	30.1	240,238	220,189
Other short-term liabilities	32	251,284	522,979
Total short-term liabilities		**2,545,726**	**3,850,337**
TOTAL LIABILITIES AND EQUITY		**26,733,015**	**25,973,783**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note no.	2020	2019
		HUF Th	HUF Th
Revenue from sales	6	5,922,505	5,647,921
Direct cost of sales	8	-4,478,787	-4,192,794
Gross margin		**1,443,718**	**1,455,127**
Gross profit ratio %		**24.4 %**	**25.8 %**
Gross cash flow		**3,058,731**	**2,919,836**
Gross cash flow rate %		**51.6 %**	**51.7 %**
Indirect costs of sales	7	-500,596	-449,697
Other revenues	11	379,035	416,251
Other expenditures	10	-246,692	-224,001
Operating profit		**1,075,465**	**1,197,680**
Operating profit rate %		**18.2 %**	**21.2 %**
EBITDA		**2,734,765**	**2,665,645**
EBITDA rate %		**46.2 %**	**47.2 %**
Financial profit	12-13	-813,452	-415,998
Profit before taxes		**262,013**	**781,682**
Income tax	33	-25,293	-46,784
Net profit for the year		**236,720**	**734,898**
of which:			
Profit/loss, attributable to Shareholders of the Company		**236,278**	**728,336**
of which: Share of (external) minority shareholders from the profit/loss of the reporting period	28	**442**	**6,562**
Earnings per ordinary share (HUF)			
Basic	34	14.01	40.77
Diluted	34	14.01	40.77

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2020	2019
	HUF Th	HUF Th
Net profit for the year	**236,720**	**734,898**
Other comprehensive income		
Exchange difference from the HUF conversion of the reports of foreign subsidiaries	-	-
Exchange difference from the HUF conversion of affiliated companies and companies under common management	-	-
Marketable financial assets with deferred taxes	-	-
Cash flow hedging transactions with deferred taxes	-	-
Share from the comprehensive income of affiliated companies	-	-
Other comprehensive incomes in the period with tax implications	-	-
Total comprehensive income for the year / attributable to	**236,720**	**734,898**
Shareholders of the Company	**236,278**	**728,336**
Non-controlling interest	**442**	**6,562**

CONSOLIDATED STATEMENT OF CHANGES IN THE EQUITY

Description	Subscribed capital	Reserves	Treasury shares	Participation of external members	Equity
Balance as of 31 December 2018	**421,093**	**11,423,409**	**-2,003,119**	**25,474**	**9,866,857**
Profit for 2019	-	728,336	-	6,562	734,898
Changes in the participation of external members	-	-	-	-	-
Exchange rate difference from consolidation	-	23,833	-	-	23,833
Share option program	-	-	-	-	-
Treasury shares	-	-52,909	-435,515	-	-488,424
Decrease in treasury shares	-	-6,572	83,356	-	76,784
Goodwill of minority-acquired shares	-	-	-	-	-
Balance as of 31 December 2019	**421,093**	**12,116,097**	**-2,355,278**	**32,036**	**10,213,948**
Profit for 2020	-	236,278	-	442	236,720
Changes in the participation of external members	-	-	-	-32,478	-32,478
Exchange rate difference from consolidation	-	7,032	-	-	7,032
Share option program	-	-	-	-	-
Treasury shares	-	150,667	-829,100	-	-678,433
Decrease in treasury shares	-	-	-	-	-
Goodwill of minority-acquired shares	-	-	-	-	-
Balance as of 31 December 2020	**421,093**	**12,510,074**	**-3,184,378**	**-**	**9,746,789**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note no.	2020	2019
Liquid assets from operations		**HUF Th**	**HUF Th**
Profit before taxes		**262,013**	**781,682**
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	1,616,086	1,467,002
Effect of deferred taxes	33	2,910	-13,704
Income tax expenditures	33	-25,293	-46,784
Exchange gain/loss on credits	14	452,945	193,617
Impairment of tangible assets, goodwill	10,16	43,214	963
Impairment losses and shortage of inventories	10,21	-	-
Impairment losses of receivables	10,39	238	405
Reclassification of provisions	31	-	-18,449
Changes in the fair value of properties	11,16	-	-
Interest payable/received	12-13	284,507	273,382
Profit on the sales of tangible assets	11	-444	71,073
Changes in minority participations	28	-32,036	6,562
Changes in working capital elements			
Increase/decrease of inventories	21	--1,425	-27,651
Income taxes paid	23	-	-
Increase/decrease of receivables	22,23	-712,050	496,265
Increase/decrease of payables	32,36	-357,750	-313,245
Increase/decrease of prepaid income taxes	23	-10,470	3,201
Interests received	12	807	-118
Interests paid	13	-285,314	-273,264
Net liquid assets originating/used from operations		**1,237,938**	**2,600,937**
Liquid assets from investments			
Acquisition of investments in private companies	16	-	-
Increase/decrease of existing investments	16	-159,922	-
Acquisition of tangible and intangible assets	15-16	-1,461,797	-2,139,374
Increase of financial assets (concession assets)	18	-	-27,250
Sales of tangible and intangible assets	15-16	3,500	292,777
Other long- and short-term deferred incomes	29,4	-23,975	-9,827
Changes in long-term receivables	19	3,025	93,777
Liquid assets from investment operations		**-1,639,169**	**-1,789,897**

	Note no.	2020	2019
Financial operations			
Increase/decrease of long-term loans	14,29	2,122,081	-567,606
Increase/decrease of long-term loans	30	-966,910	531,500
Difference from consolidation	27	7,032	-23,833
Acquisition/sales of treasury shares	26	-678,432	-441,612
Increase/decrease in securities	24	-761,429	-72,947
Liquid assets used for financial operations		**-277,658**	**-574,498**
Net increase/decrease of cash and cash equivalents		**-678,889**	**236,542**
Cash and cash equivalents as of 1 January		**1,344,788**	**1,108,246**
Cash and cash equivalents as of 31 December		**665,899**	**1,344,788**

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 or even electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutions of the country as well as for PannErgy's shareholders. In line with this shift in its strategy, since 2007 its core activities have been redirected from plastic manufacturing to the utilization of renewable, and in particular geothermal energy resources. As of 31 December 2020, PannErgy Plc.'s subsidiaries operated projects for the utilization of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő, inter alia.

The subsidiaries are listed in Note 42.

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

2. BASIS OF THE COMPILATION OF THE FINANCIAL STATEMENTS

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

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

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

Since 1 January 2017 PannErgy Plc. as a company listed in a regulated market of the European Economic Area ("EEA") has had the statutory obligation to apply the EU IFRS for the purposes of its individual reporting. Pursuant to this regulation, PannErgy Plc. as a parent company compiled both its IFRS consolidated financial statements and its individual financial statements in accordance with the requirements of the EU IFRS as of 31 December 2020.
The consolidated financial statements of the PannErgy Group present the Group's consolidated financial position and the results of its operations and cash flows as well as changes in equity.

The European Securities and Markets Authority (ESMA) issued rules for the European Single Electronic Format (ESEF) effective as of the financial year starting on 1 January 2020. Pursuant to the new regulation, financial reporting for EU-regulated listed companies, including PannErgy Plc., has changed considerably. The new consolidated annual reports need to be produced in the XHTML format, which facilitates the use of inline XBRL (iXBRL), where data consolidated in conformity with the IFRS must be recorded. The relevant Hungarian legislation also changed as of 27 February 2021; in its resolution No 1078/2021.(II.27), the Hungarian Government decided on the conditional postponement of the publication of annul financial reports regarding securities listed on regulated markets in the single electronic format; accordingly, Hungary has made use of the option that issuers employ the provisions regarding the preparation of the annual financial report in the single electronic format (ESEF) for financial years starting on 1 January 2021.
Considering that at the time of the aforesaid decision on postponement PannErgy Plc. had already completed its project to make its consolidated financial statements ESEF-compatible, it decided to make use of the option, despite the postponement, to submit to regulatory authorities its year 2020 consolidated financial statements in the XHTML format containing iXBRL's as well.

3. THE IMPACT OF THE PANDEMICS (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 of 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.
In conformity with the ESMA recommendation PannErgy Plc. publishes the following information in its consolidated year financial report on 2020:

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 heat 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. (districting 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.

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

4.2. *Basis of consolidation*

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

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

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

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

The Company considers 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 for 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 for 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 for 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 for 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 for reporting periods beginning on or after 1 January 2021),

- **Amendments to 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),

These amendments would not significantly influence the financial statements of the Company.

4.4. *Functional currency*

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

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

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

4.6. *Fair value measurement*

The Company uses fair value measurement in the case of "Held to collect" type financial assets. 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.

4.7. *Intangible assets*

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

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

The intangible assets of the Company consist in software used for operations, valuable rights and know-how 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 and own-produced 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.

4.8. *Impairment of non-financial assets*

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

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

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

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

As the realizable value cannot be determined individually for each asset, it is defined separately for each cash-generating unit. At the end of each reporting period the PannErgy Group examines whether the reasons for the recognized impairment still exist. Any previously recognized impairment can be

reversed only if there was a change in the circumstances that were taken into consideration at the time of the last latest calculation of impairment. Impairment can be reversed to the level where the book value of the asset does not exceed its recoverable value or its book value less depreciation which would have occurred if no impairment had been charged.

4.9. *Recognition of research and development*

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

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

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

4.10. *Property, plant and equipment*

In the category of properties, the consolidated financial statements of the PannErgy Group includes building-type tangible assets connected with geothermal heat generation and heat sale (thermal centers, buildings functioning as connection points to heat consumers) as well as geothermal heat transmission systems, production and re-injection thermal wells classified as civil engineering works. Furthermore, the Company also has industrial real estates recorded as investment assets and not related to its core activities.

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*.

4.10.1 Investment property

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

4.10.2 Non-current assets held for sale

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

- if the Company's supreme body and 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 the 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.

4.10.3 Tangible assets under IAS 16 Property, plant and equipment

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

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

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

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

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

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

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

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

Properties	20–50 years
Plant and 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.

4.10.4 Investments, geothermal projects

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

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

The PannErgy Group takes the requirements of *IAS 11 "Investment contracts"* 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.

4.10.5 Application of component accounting

The Company does not apply the elements of IAS 16 relating to component accounting. According to the relevant requirements of the standard, if the main components of assets of significant value feature considerably different economic characteristics, then the main components should be recorded separately, with separate depreciation periods.
Due to the special characteristics of geothermal operations, the Company regards its tangible assets to form a unit, and in technical terms it deems the economic characteristics and useful lives of the components of its tangible assets to be identical. The costs of major overhauls are not regarded as separate components and are not commissioned separately in accounting terms because these costs cannot be unambiguously estimated at the time of commissioning due to the technical factors influencing useful life (for instance, long-term effects of geodetic conditions and water quality). The Company keeps separate records of these significant, unforeseeable future costs of inspections and capacity increases as giving rise to additional capitalization.

4.11. *Investments*

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

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

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

4.12. *Goodwill*

The Company carries as goodwill the intangible assets that are associated with the purchasing of asset by paying for goodwill in the light of its expectations in relation to the future economic benefits from

the purchased asset, and that cannot be individually identified, i.e. they cannot be unambiguously or directly connected to any of the existing tangible or intangible assets affected by the asset purchase.

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

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

4.13. *Financial assets related to concession agreements (IFRIC 12)*

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

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

- Even though the heat energy supply service provided by the Company as a "supplier" affects the public utility infrastructure, the Company is not in possession of any infrastructure necessary for the supply of public services, and it has no control over the public utility infrastructure. The Company has not constructed or acquired any infrastructure that is necessary for the supply of public services; it offers services only to district heating service providers;
- The Company's contracts with the district heating service providers cover exclusively the takeover of heat energy and the relevant terms; they contain no rights and obligations regarding the provision of public services; moreover, in addition to the absence of legal prerequisites, it would be physically impossible for the Company to provide such services;
- The Company has no responsibility, even partial, for the operation of the infrastructure and services of the district heating suppliers concerned; they are completely unrelated entities;
- The Company has no control whatsoever over the rates of the public services;
- The Company has sole control over its assets;

- Under agreements covered by the *IFRIC 12* interpretation, operators are typically required, at the end of the term of the agreement, to return the infrastructure to the grantor in a specific condition and for minimal consideration; the agreements between the Company and the relevant district heat suppliers contain no such requirement.

Accordingly, the provisions of *IAS 16* are applicable to the treatment, under IFRS, of the fixed assets owned by the Company and used for the sale of heat to public sector district heat suppliers. Such assets do not constitute infrastructure for the provision of public services and have no direct effect on the direct provision of public services. The revenues realized using such assets are recognized by the Company in compliance with the requirements of *IFRS 15 Revenue from contracts with customers;* there is no construction or development service-type agreement or activity between the partners that would require the presentation of part of revenues from heat supply under the heading of financial assets or intangible assets.

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

4.14. *Inventories*

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

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

stated among other expenditures. The write-off (write-back) must be recognized in the period when it was determined.

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

4.15. *Financial instruments*

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

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, including reporting period. 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 collect" 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.

4.15.1. Initial recognition at fair value

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

4.15.2. Receivables

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

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

The Company's trade receivables consist almost exclusively in receivables from domestic undertakings based on long-term contractual relations. It was found during the classifications regarding the 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. Nevertheless, in the reporting period the Company has determined impairment losses expected to occur based on the "expected credit loss" model, meaning that an impairment loss matrix that is designed relying on past events and also considers forward-looking information is used, broken down by type of debtor based on the nature of the relationship with the partner (term of the contract, strategic nature of the contract). For the calculation of impairment losses the Company opted for the Staging method, whereby stage ratings (1–3) are clearly defined relying on portfolio impairment loss considerations and with clear reasons to justify the classification. Furthermore, the Company's size and small number of customers facilitates the use of individual rating rules.

The Company has no retail operations that would call for the use of segment-based SPPI tests. On the other hand, the Company uses the portfolio impairment loss module, where it allocates into separate categories the ratings of receivables from district heating suppliers that are in long-term business relations with the companies operating the geothermal projects (MIHŐ Miskolc Hőszolgáltató Ltd., GYŐR-SZOL cPlc., Szentlőrinc Közüzemi Nonprofit Ltd.) and priority strategic business partners (Audi Hungária cPlc.), and the rating of receivables from entities outside this portfolio.

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

4.15.3. Loans provided

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

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

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

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

4.15.4. Hedging and derivative transactions

The Company applies the rules set out in *IFRS 9* regarding hedging and derivative transactions, recognizing them at fair value, with separate documentation and administration.

In the course of the preparation of its consolidated IFRS financial statements, the PannErgy Group relies on hedge accounting. On a one-off basis certain members of the Group conclude foreign exchange forward transactions that are of hedging character as there is a direct connection between the forward transaction and the future FX purchase of the company. The Company resorts to such one-off

transactions in case of high-value foreign currency purchases, applying the specific payment deadline set out in the relevant asset purchase agreement. The Group engages in no non-hedging forward transactions. For such transactions the Group applies hedge accounting as defined in *IFRS 9*, that is, on 31 December, the end of the reporting period, the fair value of the expected gain/loss on outstanding forward transactions is determined and charged against the financial instruments (assets) as other financial income/expenditure. When the transaction is closed in the following year, the difference between the actual gain/loss realized and the amount recognized on 31 December is posted taking into account the amount established at the end of the reporting period.

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

In addition, the Company 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.

The foreign currency loans, which represent the largest item within the Company's liabilities, have been refinanced with HUF-denominated loans; consequently, the volume of the related interest rate swaps has also decreased considerably.

4.15.5. Liquid assets

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

4.15.6. „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.

4.15.7. Credits

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

4.15.8. Deferred income

State aid relating to the purchasing of assets are presented by the Company as deferred income, and recognized in equal installments against the profit or loss over the useful life of the asset.

Any state aid that has become repayable needs to be recognized as an adjustment to the accounting estimate. Accordingly, the long-term deferred income disclosed in a separate line in the consolidated statement of financial position of the Company 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.

4.15.9. Trade payables

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

4.15.10. Other financial liabilities

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

4.15.11. Determination of effective interest rates

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

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interest rate results in the change of cost; no such changes have occurred. The effective interest rate used by the Company in the reporting period was 2.4%, which corresponds to the effective interest rate of long-term, HUF-denominated investment loans and with the interest rate of EUR loans achieved through interest rate swaps. 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.

4.15.12. Netting of financial instruments

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

4.16. *Cash and cash equivalents*

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

4.17. *Equity, subscribed capital*

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

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

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

Profit reserve is the accumulated after-tax profit of former years recognized in the IFRS financial statements and not yet distributed to the shareholders, including amounts charged to accumulated

profit under IFRS, which may not contain other comprehensive income defined in *IAS 1 "Presentation of financial statements"*, except for reclassification modifications. The amount of paid-up supplementary payments recognized as assets under the IFRS and the amount of unused development reserve less the related deferred tax calculated based on *IAS 12 Income taxes* must be deducted from the resulting amount.

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

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

4.18. *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 financial statements and annual reports separately as items decreasing the equity.
The gain/loss on the sale of treasury shares and the effect of their fair valuation at the end of the reporting period is charged directly to equity, in the "reserves due to treasury shares" line.
The above procedure ensures that no gain or loss is recognized with regard to treasury shares in the profit or loss of the Company when any change occurs to own shares (purchase, sale, issue, cancellation or revaluation at the end of the reporting period).

4.19. *Earnings per share*

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

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

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

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

4.20. *Current and deferred income tax*

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

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

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

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

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

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

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

taxable or deductible after recovery/settlement. If the temporary difference is taxable, it is a deferred tax liability, while if it is deductible, it is a deferred tax asset.

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

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

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

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

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

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

4.21. *Provisioning*

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

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

The Company recognizes a contingent liability if:

- there is an obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company;

- there is an obligation that arises from past events but is not recognized because it is improbable that an outflow of resources embodying economic benefits will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

is re-measured at the end of each reporting period, while changes in fair value are charged to profit or loss.

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

In the reporting period, the Company has no share option program; the previous one ended in the base period.

4.23. *Accounting for revenue from sales*

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

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

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

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

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 consolidated financial statements, the PannErgy Group has no customer contracts to which *IFRS 15* should be applied, for the following reasons:

1) there are no customer contracts the conclusion of which would give rise to significant costs that would justify the capitalization and subsequent depreciation of such assets;
2) each customer contract meets the requirement set out in the standard that the seller may recognize the revenue only when the good or service is transferred to the customer, at an amount it considers legitimate for such good or service. The invoicing of customers is based on long-term contracts, which clearly define the price, nature, place of delivery of the goods/services. In the past five years no major delay was encountered with regard to these contracts; with the exception of a single business relationship that generated negligible sales revenues, no impairment loss needed to be recognized.
3) the recognition of sales revenues complies with the 5-step model, that is, all contracts with customers are in writing, have commercial content (provide for economic benefits for the PannErgy Group), clearly set out enforceable rights and obligations, the parties have accepted the contract and committed themselves to its performance, and there is a high probability that the Company would collect the consideration for the good/service transferred;
4) the PannErgy Group treats obligations relating to the performance of contracts separately, treating any discounts (determined ex ante or ex post) as separate obligations. The performance obligation is always clearly set out in the contract, and revenues thus invoiced can be recognized;
5) in the customer contracts of the PannErgy Group the price of the transaction is clearly set out and allocated to specific performance periods/dates, consequently the recognition of revenues is evenly spread out. In certain heat supply contracts the Company uses performance incentives regarding the commitment of the customer to increase its heat purchases; in this case, the discount related to the period is in each case deducted from the sales revenue of the period affected by the discount. The sales revenue of all transactions is identical with the invoiced amount; no discrepancies have been found. In the case of the above discount, based on the calculation formula set out in the contract between the parties, the amount of the discount to be deducted from the revenue of the period concerned and therefore recognized in that period (or subsequently, when a correcting invoice is issued) is clearly defined, consequently no estimates or probability calculations are necessary;
6) the customer contracts of the PannErgy Group clearly match the price of a transaction and the transaction; there is no partial performance within transactions that would necessitate the allocation of prices. If the Company were to provide general discounts ex post, it would allocate it to the deliveries and transactions of the period covered by the discount, in accordance with the requirements of IFRS 15;
7) the members of the PannErgy Group recognize revenues from sales when control over the asset or service sold is passed to the customer, and the customer is able to govern the use of and collect the benefits from such asset;

8) the PannErgy Group sells no products with the right of repurchase, offers no related warranties, uses no buyer options or agency commissions.

4.24. *Interest income and dividend income*

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

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

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

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

4.25. *Leases*

In the course of the preparation of the consolidated financial statements the Company did not make use of the option of early application of the *IFRS 16 "Leases"* standard; 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 I*FRS 16*, taking into account the exemptions allowed under *IFRS 1*.
The Company engages 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. The *IFRS 16* provides that a contract is a lease contract or it includes leasing 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.

The Company has no sublease or re-lease transactions. Nor does it have right-of-use assets regarded investment property.

The Company has made 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 would have presented the cumulative impact of the transition to *IFRS 16* as an adjustment to the opening balance of accumulated profit at the time of first adoption, if such effect had occurred.

4.26. *Distribution of dividends*

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

4.27. *State aid, recognition of related deferred income*

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

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

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

State aid relating to the purchasing of assets are presented by the Company as deferred income, and recognized in equal installments against the profit or loss over the useful life of the asset.

Any state aid that has become repayable needs to be recognized as an adjustment to the accounting estimate.

Accordingly, the long-term deferred income disclosed in a separate line in the consolidated statement of financial position of the Company encompasses the over-one-year part of grants awarded in application schemes for geothermal projects on the level of the PannErgy Group. The short-term, under-one-year part of deferred income is stated among short-term liabilities, also in a separate line. The end of the maintenance period applicable to the projects funded from application schemes and related grants does not affect the rate of write-back of grants recorded as deferred income because they are linked to the useful life of the subsidized assets; the write-back of the deferred income in the subject period among other income in the consolidated statement of profit or loss occurs during the asset's useful life based on the depreciation of the subsidized assets in the reporting period and on aid intensity.

4.28. *Comparative information across periods*

Data for the base year and reporting year were subjected to measurement in the consolidated financial statements in the same manner, expect for reclassifications in the base data, which are explained in *Note 44*. In order for the Company's IFRS consolidated financial statements to comply with *IAS 1*, all the statements include a comparative period.
In the context of the financial statements of a business year, by comparative period the Company means the reporting period of the financial statements prepared for the business year preceding the business year concerned.
These comparisons have to be disclosed in sufficient detail so that the users of the financial statements are able to interpret significant modifications affecting the consolidated statement of financial position and the consolidated statement of profit or loss.

4.29. *Segment reporting*

Definition of segments

In line with IFRS requirements, the Company needs to present its operating segments. The Company identified a single operating segment during the reporting period, just like in the base period: Energy.
The Energy industry is the Company's main operating segment, its core operations including the generation and sale of geothermal heat as well as the implementation of related investment projects and other activities.
The PannErgy Group, as the legal successor of Pannonplast Nyrt., does not identify the utilization – in the way of property management – of industrial facilities and related office premises formerly used by Pannonplast Nyrt. in its plastics manufacturing operations as a separate operating segment for the purposes of the following *IFRS 8* principles:

Presentation of operating segments, substantiation of the review of segments
It is a standard principle of *IFRS 8 "Operating segments"* that an entity must disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business

activities in which it engages and the economic environments in which it operates [IFRS 8.1]. The standard is to be applied to the consolidated financial statements of the group for those parent companies, and the separate and individual financial statements of those entities whose debt or equity instruments are traded in an open market [IFRS 8.2]. Consequently, PannErgy Plc. is required to present operating segments.

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

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

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

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

Examination of limits regarding the review of segments

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

Based on the approach of PannErgy Group's management and the criteria pertaining to the presentation of operating segments, the single operating segment of Energy can be identified at the Company; consequently, the examination of the criteria applicable to reportable segments is irrelevant; nevertheless, the Company has looked at the satisfaction of such limits (Note 43 *Segments*).

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

Presentation of geographical segments

The Company pursues its activities solely in the territory of Hungary, in a similar legal, technical, economic and demographic environment; consequently, territorial segmentation is not relevant.

Within Energy, the single operating segment defined within the Company, geographical/project location segments were identified in the reporting period based on their order of magnitude. In addition to assessing financing and other aspects the Company examines the profitability of these separately, working out specific plans concerning their operation. The geographical segments corresponding to projects are described in *Note 43.2*.

4.30. *Gross cash flow and EBITDA definition*

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

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

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

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

In line with the requirements of the IFRS, the preparation of the Company's IFRS consolidated financial statements requires the application of estimates and assumptions, which will affect the amounts disclosed in the financial statements. The Company continually evaluates estimates and judgments based on past experience and other factors, such as expectations related to future events considered as reasonable under the circumstances.

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

5.1. *Events after the end of the reporting period*

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

5.2. *Material error*

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

The Company defines a material error as follows: the omissions or misstatements of items are material if separately or aggregately they are able to affect the users' decisions made based on the financial statements. Materiality depends on the assessment of the extent and nature of omissions or misstatements under the given circumstances. The size and nature of an item, or a combination of the two, are the decisive factors in that assessment; as a general principle, the Company defines errors exceeding 1 percent of the total of the IFRS statement of financial position as material.

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 statement of financial position to be significantly modified will be presented in the

subsequent financial year, as shown below. These assumptions are explained in detail in the relevant notes; however, the most important ones relate to the following:

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

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

6. REVENUE FROM SALES

6.1. *Breakdown of sales revenues by core activity*

	2020 HUF Th	2019 HUF Th
Energy	5,070,159	5,060,007
Property management [1]	852,346	587,914
Total	**5,922,505**	**5,647,921**

[1] Not defined as a separate segment, see Chapter *43 Segments*.

6.2. *Breakdown of sales revenues by geographical location*

	2020 HUF Th	2019 HUF Th
Revenue from domestic sales	5,920,678	5,646,352
Revenue from sales to the EU	1,827	1,569
Revenue from sales outside the EU	-	-
Total	**5,922,505**	**5,647,921**

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

	2020 HUF Th	2019 HUF Th
Heat sales	4,905,797	4,981,506
Electricity sales	818,093	552,316
Mediated and re-invoiced services	89,355	85,155
Sale of products	84,157	4,423
Rent for buildings and tangible assets	25,103	24,521
Total	**5,922,505**	**5,647,921**

In the reporting period the consolidated sales revenue of the Company increased by HUF 274,584 thousand, or 4.9%, relative to the previous period. The breakdown of sales revenue by activities and services reveals that income from the sale of heat decreased by 1.5% on a year-on-year basis, causing a decline in revenue of HUF 75,709 thousand. This is due primarily to inclement weather conditions,

for the purposes of heat production, during the reporting period relative to the previous year, and the end of the 2019/2020 heating season occurring earlier than in the previous year.
Electricity sales increased by 48.1% in the reporting period; within this, HUF 796,166 thousand relates to the re-invoiced electricity fees of the operation of PannErgy Plc.'s real estates in Debrecen, which are re-invoiced to other owners of the co-owned properties and are unrelated to the generation of geothermal heat. The significant increase was attributable, in one part, to the change in the EUR/HUF exchange rate as the majority of the re-invoiced electricity is EUR denominated. The other reason is the significant energy price increase in the reporting period; this had an effect in increasing the re-invoiced amount as well. The additional HUF 21.927 thousand electricity sales consist in the sale of electricity relating to the project of the Company in Berekfürdő.
The rent for buildings and tangible assets in the reporting period was 2.4% higher than in the previous year. This positive change is due to the fact that the Company utilizes its properties in Debrecen under new arrangements from the reporting period on.

6.4. Breakdown of fixed assets related to sales revenues by geographical segment

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Assets used in domestic production	23,633,543	23,178,868
Assets used in production within the EU	-	-
Assets used in production outside the EU	-	-
Total	**23,633,543**	**23,178,868**

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

The PannErgy Group has three key customers, each 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	**4,785,036**	**80.79%**	**4,850,033**	**85.87%**
Revenue from sales	**5,922,505**	**100.00%**	**5,647,921**	**100.00%**

7. INDIRECT COSTS OF SALES

	2020 HUF Th	2019 HUF Th
Indirect personnel-type costs	122,300	101,443
Expert fees, bookkeeping, audit fees	114,726	101,998
Office and operating costs	107,349	103,848
Costs related to public and stock exchange presence and social responsibility	86,676	85,111
Banking costs	52,300	35,221
Insurance fees	12,393	11,242
Other fees and duties payable to authorities	3,779	8,541
Indirect depreciation (property, plant and equipment)	1,073	2,293
Total	**500,596**	**449,697**

The PannErgy Group's indirect operating costs increased by 11.3% during the reporting period year-on-year.
The 3.4% increase in office and operating costs relates to the COVID-19 pandemic, and it is caused by the acquisition costs pertaining to safe working conditions and prevention. Costs of experts incurred in the reporting period include legal and consulting costs relating to the financing of geothermal projects and to accounting projects, expert costs relating to application schemes as well as general consulting fees to support operations and legal fees. The 12.5% increase in the cost of experts in the reporting period was attributable to the expenses relating to the refinancing of the Miskolc and Győr project companies, mostly legal in nature. The significant increase of bank costs, at 48.5%, in the reporting period is also a one-off extra cost related to that refinancing process.

Indirect personnel-type expenditures increased by 20.6% year-on-year, mostly due to the extremely low values of the base period. In the base period, some of the personnel-type expenditures of the Company were recognized and capitalized relating to a single research and development project. The period-end headcount of the PannErgy Group was above the corresponding figure of the previous year; on 31 December 2020 the actual number of employees was 18 persons as opposed to 17 on 31 December 2019, while the average statistical number of staff for the whole year was 27 persons, the same as in the base period, i.e., there has been no change in this respect.
Salary-type payments are summarized in Note 9. *Headcount and wage costs*.

The costs of public and stock exchange presence – stated as indirect costs – increased by 1.8% during the reporting period. That increase was attributable to the costs related to making the Company's year 2020 consolidated IFRS report ESEF-compatible.
As to the costs of public and stock exchange presence it should be noted that, for social responsibility considerations, PannErgy Group continues to attach high importance to supporting the cities and

regions where existing projects are located, in the areas of sports activities and other social initiatives, thereby offering support to the end users of geothermal energy.

8. DIRECT COSTS OF SALES

	2020 HUF Th	2019 HUF Th
Direct depreciation (geothermal assets)	1,615,013	1,464,709
Maintenance and operating costs	896,533	846,623
Costs of goods sold, mediated services	840,140	556,548
Electricity charges	689,338	758,524
Facility maintenance costs, rental	373,694	362,618
Insurance costs (directly related to production)	33,677	29,888
Maintenance materials	656	1,235
Reinjection costs	-	140,816
Other direct costs	29,736	31,833
Total	**4,478,787**	**4,192,794**

The direct cost of sales of the PannErgy Group increased by 6.8%; however, after the elimination of pass-through items, the figures remained unchanged. In the "Costs of goods sold, mediated services" category, HUF 840,140 thousand was stated as expenses of sales not related to geothermal operations; they mostly consisted in re-invoiced ("pass-through") services, primarily the cost of electricity, in the context the utilization of real properties owned by the Company in Debrecen and in Csepel (the latter were sold during the year).

The increase of direct depreciation reflects the effect of the commissioning of capacity expansion and additional investment projects during 2020, while in certain asset categories the period of useful life was adjusted, in conformity with the accounting policy, following a technical review, resulting in a modest increase in the depreciation charge.

The growth of maintenance costs is attributable to additional tasks relating to the operation and maintenance of the ever expanding assets of geothermal projects, to higher operational/efficiency expectations and, inter alia, to the increased operational safety levels required by the pandemic.

The decrease of costs of electricity required for generating and selling thermal energy is primarily attributable to the implemented and ongoing efficiency enhancing investments and measures. The decrease in reinjection costs was facilitated by an acquisition in June 2019 whereby the PannErgy Group acquired ownership of the third reinjection well in Miskolc, as a result of which reinjection costs were incurred only during the first half of the base period at the consolidated level.

9. HEADCOUNT AND WAGE COSTS

	2020	2019
Average statistical headcount (persons)	27	27
Wage cost (HUF Th)	98,552	78,321
Other personnel-type payments (HUF Th)	5,891	6,762
Taxes and contributions on wages (HUF Th)	17,857	16,360
Total	**122,300**	**101,443**

The PannErgy Group had an average statistical headcount of 27 in 2020; that is, no change occurred relative to 2019. On 31 December 2020 the actual number of staff working for the PannErgy Group was 18, as compared to the 17 recorded on 31 December 2019. The difference between the average statistical headcount and the actual number of employees is attributable to part-time employment across group members and the increased headcount during the year.

Just as in the previous year, the PannErgy Group made no contributions to any voluntary pension fund for its employees in 2020 either.

10. OTHER EXPENDITURES

	2020 HUF Th	2019 HUF Th
Local taxes, duties, fines	122,511	129,621
Mining fee	69,940	75,654
Extraordinary write-off of tangible or intangible assets	43,214	963
Cost relating to insurance events	2,232	2,026
Fines, penalties, default interest, compensations paid	1,305	6,239
Subsidies granted to offset costs	950	51
Impairment losses of receivables	238	405
Levies, contributions	20	24
Other	6,282	9,018
Total	**246,692**	**224,001**

Within the HUF 246,692 thousand other expenses the most substantial item – of HUF 122,511 thousand – consists in local taxes, most notably the local business tax paid to the local governments at the sites of geothermal projects. Another major item is the mining fee payable relating to geothermal heat production; under this heading the Company incurred expenditures of HUF 69,940 thousand in the reporting period. HUF 43,214 thousand of tangible assets were written off in the context of geothermal projects. This was related to the gas engine replacement in the context of the capacity expansion at the

Berekfürdő project and to the termination of former project preparation works, expected not to be put to use, as investment in progress.

No specific provisions were made during the reporting period.

11. OTHER INCOMES

	2020 HUF Th	2019 HUF Th
Aid received for development purposes	273,958	241,300
Income relating to insurance events	62,286	40,257
Fines, compensation received	31,053	10,081
Profit on the sales of tangible assets	-	71,073
Provisions released	-	18,449
Other	11,738	35,091
Total	**379,035**	**416,251**

Within the HUF 379,035 thousand other income in the reporting year, the most significant item is development aid received, in an amount of HUF 273,958 thousand. This consists in the write-back of deferred income in proportion with the depreciation charge for the reporting year relating to non-repayable investment and development grants. The increase relative to the previous period is attributable to the write-back, in the reporting period, of deferred income relating to the GINOP project of DoverDrill Mélyfúró Ltd., completed in 2020.

Compensations and penalties relating to insured events that occurred and projects that were implemented in earlier periods made up a smaller amount – HUF 93,339 thousand – in the category of other incomes during the reporting period than in the base period. The items in this category included penalties, compensations or other damage-related income-type items received or acknowledged in relation to machine failures and service interruptions.

12. FINANCIAL INCOMES

	2020 HUF Th	2019 HUF Th
FX gains related to receivables	54,118	59,681
FX gains related to FX accounts	22,392	11,650
FX gains related to liabilities	14,329	10,195
Gains arising from the fair valuation of securities	9,290	-
Gains on derivative transactions	2,396	2,610
Gains arising from dealing securities	1,271	1
Interest and interest-type income	807	-
FX gains on FX loans	299	6,355
Other financial incomes	118	42
Total	**105,020**	**90,534**

Financial incomes included an amount of HUF 91,138 thousand in realized and unrealized exchange rate gains relating to various receivables and liabilities. The HUF 2,396 thousand FX gain on derivative transactions in the reporting year was earned on forward FX transactions, concluded in conformity with the trade payables of the PannErgy Group incurred in foreign currencies.

13. FINANCIAL EXPENDITURES

	2020 HUF Th	2019 HUF Th
FX loss on FX loans	453,244	199,972
Interest and interest-type expenses	285,314	273,264
Loss on derivative transactions	128,043	1,504
FX loss related to liabilities	44,359	22,793
FX loss related to receivables	7,394	8,828
FX loss related to FX accounts	112	170
Loss arising from the fair valuation of securities	6	-
Other financial expenditures	-	1
Total	**918,472**	**506,532**

In the reporting period financial expenditures amounted to HUF 918,472 thousand, a significant deterioration of HUF 411,940 thousand relative to the previous period.

Within the HUF 285,314 thousand expenditure incurred in the way of interests paid during the reporting period in relation to credit and loan liabilities, HUF 31,528 thousand relates to the recognition of gains realized in the reporting period on interest swaps of the Miskolc and Győr project companies.

The Company replaced, through interest rate swaps, the variable interest rates of its long-term borrowings by fixed rates for the entire term of the investment loan, thus hedging the interest rate risk of future financing cash outflows.
The largest item in financial expenditures is an exchange rate loss of HUF 453,244 thousand on FX credits and loans. Within this, HUF 367,125 thousand consisted in exchange rate losses suffered on refinancing, as a result of financial settlements relating to investment credit agreements concluded. The remaining HUF 86,119 thousand represents unrealized exchange losses relating to FX credits and loans calculated based on the period-end market rates.

Of the financial profit/loss of the PannErgy Group during the reporting period the unrealised FX revaluation at the end of the period resulted in an overall loss of HUF 59,765 thousand regarding all types of assets and liabilities, having aggregated exchange rate gains and losses. In accordance with IFRS requirements, monetary items of the PannErgy Group carried in currencies other than the forint – the functional currency – are converted into forints at the exchange rate prevailing at the end of the period, and the (financially unrealised) exchange rate differences resulting from such conversions are recognised in the profit and loss account under financial transactions. The loss on the period-end revaluations is the result of a decrease of the HUF/EUR exchange rate relative to the previous periods.

Notwithstanding the momentary, unrealised or financial transaction effect of the aforementioned revaluation, the Company is not subject to any material long-term exchange rate risk in the course of its operation because it has a natural hedge position in view of the fact that on an annual level its income realised in foreign currencies almost entirely covers its costs (typically electricity charges) incurred in other currencies as well as its contractual debt servicing obligations, denominated in foreign currency, towards financial institutions having extended investment loans. The currency of FX items referred to above is always EUR.

There is a loss of HUF 128,043 thousand relating to derivative transactions in the reporting period; within this, HUF 127,710 thousand constituted loss on interest rate swaps closed in the course of refinancing in 2020. As a result of refinancing, the HUF bank loans were converted into fixed-interest loans, thus there is no more need to conclude hedging interest rate swaps to cover the risk of increasing market interest rates.

As a result, in the reporting period the PannErgy Group recognized a loss of HUF 813,452 thousand as the financial profit/loss.

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 annual exchange rate change	34.61	9.01

15. INTANGIBLE ASSETS

Gross value

HUF Th

	Goodwill	Know-how	Valuable rights	Purchased software	Total
1 January 2019	518,487	2,044,668	105,624	35,420	2,704,199
Purchase	-	280,339	-	6,302	286,641
Sale	-	-	-	-	-
Impairment, write-off	-	-	-27	-	-27
Reclassification	-	-64,350	-	-	-64,350
31 December 2019	518,487	2,260,657	105,651	41,722	2,926,517
Purchase	159,922	37,674	2,200	6,766	206,562
Sale	-	-24,970	-	-	-24,970
Impairment, write-off	-	-	-	-	-
Reclassification	-	-	-386	-	-386
31 December 2020	678,409	2,273,361	107,465	48,488	3,107,723

Accumulated depreciation

	Goodwill	Know-how	Valuable rights	Purchased software	Total
1 January 2019	-	332,534	74,460	30,280	437,274
Increase	-	41,094	8,544	2,641	52,279
Sale	-	-	-	-	-
Impairment, write-off	-	-	-27	-	-27
Reclassification	-	-	-	-	-
31 December 2019	-	373,628	83,031	32,921	489,580
Increase	-	153,964	6,164	14,845	174,973
Sale	-	-24,970	-	-	-24,970
Impairment, write-off	-	-	-386	-	-386
Reclassification	-	-	-	-	-
31 December 2020	-	502,622	88,809	47,766	639,197

Net value

1 January 2020	518,487	1,887,029	22,620	8,801	2,436,936
31 December 2020	678,409	1,770,739	18,656	721	2,468,525

HUF 517,537 thousand of the HUF 678,409 thousand goodwill relates to the 6.91% minority participation in PannErgy Geothermal Power Plants cPlc. purchased in prior periods; while goodwill of HUF 950 thousand arose in the context of the purchase of a minority holding in Szentlőrinc Geotermia cPlc., a company covered by consolidation, from the previous years. The HUF 159,922 thousand goodwill increase in 2020 was linked to the Company's two project companies in the town of Miskolc, as it purchased two 10% minority stakes owned by MIHŐ Miskolci Hőszolgáltató Ltd. This transaction brought an end to the Company's minority subsidiary shareholdings.

On 31 December 2020 the Company performed the impairment test of the value of the goodwill relying on the future discounted cash flow forecasts of related cash-generating units; finding that the HUF 678,409 value of the goodwill is its actual fair value, therefore no impairment needs to be recognized.

In addition to goodwill, the Group discloses a number of geothermal know-how elements among intangible assets, relating to deep geothermal exploration and drilling projects as well as the special expertise relating to the construction and operation of efficient systems geothermal systems. The inclusion of these high-value intangible assets in the financial statements is justified as specific future benefits attributable to the asset concerned can be linked to it. Based on the year-end calculations prepared relying on the management of the Group, it is possible to quantify the future cash flows arising from the exploitation of developments disclosed in the consolidated statement of financial position. These cash flows, broken down by cash-generating units, were compared, after discounting, with the tangible assets and goodwill of the cash-generating units as well as the book value of geothermal know-how owned by the Group. On this basis, no impairment needs to be recognized in the reporting period regarding assets stated among intangible assets.

16. TANGIBLE ASSETS

HUF Th

Gross value	Marketable properties	Investment properties	Properties	Machinery and vehicles	Investment	Total
1 January 2019	410,403	-	15,534,872	8,020,823	225,236	24,191,334
Purchase	-	-	112,451	403,307	300	516,058
Capitalization	-	-	11,329	131,545	-142,874	-
Sale	-292,559	-	-	-218	-	-292,777
Effect of fair value measurement	-	-	-	-	-	-
Reclassification to intangible assets or financial assets	-	-	-	-	-46,650	-46,650
Reclassification to/from marketable property	-115,279	115,279	-	-	-	-
Other changes, write-off	-	-	1,274,370	62,146	-	1,336,516
31 December 2019	2,565	115,279	16,933,022	8,617,603	36,012	25,704,481
Purchase	-	50,948	140,136	1,101,022	142,346	1,434,452
Capitalization	-	-	-	-	-5,925	-5,925
Sale	-2,756	-	-	-221,516	-	-224,272
Effect of fair value measurement	-	-	-	-	-	-
Reclassification to intangible assets or financial assets	-	-	-	-	-	-
Reclassification to/from marketable property	-	-	-	-	-	-
Other changes, write-off	191	-	-	-40,100	-28,532	-68,441
31 December 2020	-	166,227	17,073,158	9,457,009	143,901	26,840,295

Accumulated depreciation	Marketable properties	Investment properties	Properties	Machinery and vehicles	Investment	Total
1 January 2019	-191	-	1,766,701	3,308,355	-	5,074,865
Increase	-	388	500,097	890,892	-	1,391,377
Sale	-	-	-	-	-	-
Reclassification, write-off, impairment	-	-934	-	-29	-	-963
31 December 2019	-191	1,322	2,266,798	4,199,276	-	6,465,279
Increase	-	6,285	505,947	900,789	-	1,413,021
Sale	-	-	-	-226,774	-	-226,774
Reclassification, write-off, impairment	-191	-	-	-25,418	-	-25,227
31 December 2020	-	7,607	2,772,745	4,847,873	-	7,628,225

Int	Marketable properties	Investment properties	Properties	Machinery and vehicles	Investment	Total
1 January 2020	2,756	113,957	14,666,224	4,418,328	36,012	19,237,277
31 December 2020	-	158,620	14,300,413	4,609,136	143,901	19,212,070

In addition to its core operations comprising the production and sale of geothermal heat (Energy) the Company has industrial real properties and offices originating from before the time of the "Pannonplast - PannErgy" strategy shift in the town of Debrecen. These properties are categorised by the Company as investment property and utilised by letting.
The PannErgy Group recognised HUF 1,616,086 thousand during the reporting period in the way of depreciation, in the following breakdown: HUF 265,002 thousand for intangible assets, HUF 1,297,336 thousand for tangible assets, HUF 6.286 thousand for investment properties and HUF 47,462 thousand for the production well and associated facilities put in place under a concession project; the latter being presented in the consolidated statement of financial position as financial assets.

Certain properties and machinery serve as collateral for outstanding investment loans. In this context, the following material restrictions of title or mortgages are registered as of 31 December 2020 with regard to properties, machinery and equipment:

PannErgy company	Financing entity	Amount of collateral charged to tangible assets	Collateral
Miskolci Geotermia cPlc. and Kuala Ltd.	UniCredit Bank Hungary cPlc. and CIB Bank cPlc.	HUF 11,368,000 thousand	Joint general mortgage on assets (all movable and for items of immovable property individually worth at least HUF 50,000 thousand)
Arrabona Koncessziós Ltd. and DD Energy Ltd.	Unicredit Bank Hungary cPlc. and CIB Bank cPlc.	HUF 10,950,817 thousand	Joint general mortgage on assets (all movable and for items of immovable property individually worth at least HUF 50,000 thousand)
DoverDrill Mélyfúró Ltd.	Budapest Bank cPlc.	HUF 249,977 thousand	Mortgage on assets, on the PannErgy Group's industrial property to be found in Debrecen and on movable assets acquired under the GINOP application scheme.
Szentlőrinci Geotermia cPlc.	Széchenyi Bank cPlc.	HUF 540,000 thousand	General mortgage on assets (all movable and immovable property)
PannErgy Plc.	Budapest Bank cPlc.	HUF 300.000 thousand	Securities deposited as collateral

The values of the collaterals cover nearly the entire portfolio of tangible assets, therefore they correspond to the tangible asset data contained in the consolidated financial statements. The total amount of the associated long and short term credit obligations is smaller than that of the collateral securities in the consolidated statement of financial position.
No tangible assets were revalued in the reporting period.

16.1. *Year-end valuation of high-value tangible assets*

Due to the special nature of geothermal projects, the PannErgy Group has high-value assets in several of its subsidiaries (production and injection wells, properties, heat centers, transmission systems, other

assets). Because of the nature of the project, their cash-generating capacity is relevant only with regard to all the tangible assets related to the project considered as a cash-generating unit. For this reason, each project is organized into a separate economic entity, and each group of assets is used in a single market.
As of 31 December 2020, an impairment test was performed in all PannErgy group members where the overwhelming majority of assets consists in tangible assets used in or directly related to production, irrespective of whether the Company has noted any indication of their impairment.

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

Due to the special nature of the geothermal market, the year-end valuation and impairment test was performed relying on evaluation based on income generating capacity rather than on market comparison, cost-based evaluation or the residual goodwill method. Using this approach, the future benefits expected to be derived by the PannErgy Group from the ownership of the high-value assets were quantified, and the present value of these quantified benefits as future cash flows was estimated. Income-generating capacity was selected as the core benefit, i.e., the discounted present value of cash flows forecasted by the detailed model was calculated for forthcoming years. In the impairment test the calculated value, as recoverable value, was compared with the aggregated book value of tangible assets and intangible assets as of 31 December 2020.
The model used for the calculation of the recoverable amount contains the following:

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

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

17. OTHER INVESTED FINANCIAL ASSETS

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Government securities	574,639	72,949
Total	**574,639**	**72,949**

The Company had no financial investments before the reporting period. The Company invested part of its separated liquid assets the use of which is subject to authorization by the funding financial institution (HUF 72,949 thousand) in government securities. In relation to the refinancing of long term investment loans the Company purchased additional government securities for an amount of HUF 501,690 thousand during the period concerned, blocked as security deposit by the funding financial institution. The specific type of the government securities concerned is: government bonds.

18. FINANCIAL ASSETS (CONCESSION ASSETS)

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
PannErgy Koncessziós Ltd.'s investment in Győr	1,136,034	1,183,496

As of 31 December 2020, the PannErgy Group reported financial assets relating to concession agreements in the value of HUF 1,136,034 thousand in its consolidated financial statements, in conformity with the *IFRIC 12* interpretation. This financial asset comprises the costs of implementation (including the concession tender costs) of the production well established under the concession development project implemented in the context of the Company's Geothermal Project in Győr.

The decrease during the reporting period resulted from scheduled depreciation booked for the period, in an amount of HUF 47,462 thousand. The value stated for the concession asset shown as financial asset at the end of the period is adequate, i.e. it is covered by the discounted cash-flows expected from the well's heat generation during the 35-year term of the concession contract. Even the change in the effective interest rate used for discounting as part of valuation regarding the reporting period and the change in the relevant period as a consequence of the passing of a year did not have a negative impact on the value of the concession asset; no depreciation was recognised.

The Company sealed a concession contract with the Hungarian State on the exploration, production and utilisation of geothermal energy in the Győr region in 2017, over a period of 35 years, with the option of an extension by 17.5 years. It was in the context of this concession project that the Company established its production well (BON-PE-03) at the village of Bőny.

19. LONG-TERM RECEIVABLES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Other receivables	2,293	5,318

The PannErgy Group's consolidated financial statements as of 31 December 2020 show long-term receivables in a total amount of HUF 2,293 thousand. These receivables, stated in terms of amortised cost, are linked to sale and purchase transactions where the Company agreed with the buyer on a long-term – over-year – payment schedule for part of the purchase price.

20. LEASE RECEIVABLES

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

21. INVENTORIES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Materials	29,076	27,651
Total	**29,076**	**27,651**

The inventories shown in the 2020 consolidated financial statements include reserve maintenance materials required for the efficient, safe and secure running of the geothermal projects in operation.

22. TRADE RECEIVABLES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Trade receivables	1,719,825	1,280,270
Impairment loss provisioning for doubtful receivables, and provisions reversed	-2,387	-2,387
Total	**1,717,438**	**1,277,883**

The members of the PannErgy Group sell their products and services to a small number of buyers, mostly on the basis of long-term contractual arrangements. In view of the stability of the relations between the Company and its buyers no impairment loss provision was set aside for any partner during the period concerned. No impairment loss provisions were reserved during the period concerned. The trade receivables are non-interest earning items, with a 30-day term for the most part.
Accounts receivable increased by 34.3% year-on-year.

23. OTHER RECEIVABLES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Other tax receivables	237,199	53,801
Deferred items	96,808	75,401
Other receivables associated with assignments	58,846	-
Advance payments made	16,194	12,224
Receivables associated with insured events	4,636	-
Other loans provided	3,143	3,143
Other	-	-
Total	**416,826**	**144,569**

HUF 9.661 thousand and HUF 87,147 thousand of the deferred items of the next period are associated with the sales revenue and the costs, respectively. The largest items in the category of other tax receivables in the company's books include VAT receivables and local industry tax receivables in a total of HUF 221,495 thousand and HUF 15,633 thousand, respectively, each being receivable from the tax authority. A substantial amount of value added tax receivable is associated with the increased intensity of capital projects in the fourth quarter of the reporting period.

24. SECURITIES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Securities held until maturity	259,763	24

The Company increased its securities portfolio considerably during the reporting period. On the one hand, it purchased bonds and investment units in an amount of HUF 217,682 thousand. Moreover, it invested part of its separated liquid assets the use of which is subject to authorization by the funding financial institution (HUF 42,057 thousand) in short term government securities, which were blocked by the funding financial institution in the way of security deposit.

25. SUBSCRIBED CAPITAL

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Subscribed capital	421,093	421,093

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

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

Before 21 November 2007 the Company (then called PannonPlast Műanyagipari Nyrt.) owned common shares (HU0000073440 ISIN) of a nominal value of HUF 100 each; the nominal value splitting procedure took place thereafter.

26. TREASURY SHARES

	2020 31 Dec.	2019 31 Dec.
Treasury shares (number)	4,189,970	3,191,433
Nominal value (HUF Th)	83,799	63,829
Cost (HUF Th)	3,184,377	2,355,278

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 was exclusively a result of an increase in the portfolio of treasury shares; no decrease occurred in the Company's portfolio of treasury shares.

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. The difference between the above 4,189,970 treasury shares stated in the records and the total of 4,186,970 treasury shares appearing in the share register as at 31 December 2020 is the result of the purchase of 3,000 treasury shares at the end of the reporting period (which had thus been acquired but not delivered yet).

The 998,537-share increase in the Company's portfolio of treasury shares in the reporting period is linked to the Company's treasury share repurchasing program that took place during the reporting period, in the framework of which 413,000 treasury shares were repurchased in 2020 H1, followed by the repurchase of 585,537 shares in 2020 H2.

With respect to the treasury share transactions, more detailed information is made available in the Company's public disclosures; moreover, details of the treasury share buyback programs started and completed during the reporting period are discussed in *Chapter 10-11 Dividend payment treasury share buyback* of the Business and Management Report worked out on these basis of this consolidated financial statements.

27. RESERVES

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

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Capital reserve	10,515,993	10,515,993
Retained earnings	2,713,756	1,827,721
Other reserves	-955,953	-955,953
Total	**12,273,796**	**11,387,761**

The capital reserve is regarded to be associated with two historical events: the subscribed capital decrease upon the company's transformation into a one limited by shares, and the exchange rate gain resulting from share issue. The amount stated as capital reserve remained unchanged between the business years of 2020 and 2019.

The amount of the profit reserve equals the total amount of the profits accumulated by the PannErgy Group in the previous years, net of the dividends paid to shareholders. No dividends were approved to be paid in 2020 and 2019.

The Company shows a difference from consolidation among its reserves in an amount of HUF 7,032 thousand as of 31 December 2020, resulting from consolidation.

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

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

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Balance as of 1 January	32,036	25,474
Reporting year profit or loss of subsidiaries attributable to minority shareholders (subsidiary, external)	442	6,562
Decrease/increase in minority interest due to the sales/purchase of subsidiary shares	-32,478	-
Balance as of 31 December	**-**	**32,036**

28.1. *Other changes involving minority interests during the reporting year*

External minority interests in the Company's subsidiaries were terminated during the reporting period. MIHŐ Miskolci Hőszolgáltató Ltd's 10% share in Miskolci Geotermia cPlc. and 10% Kuala Ltd. participation were purchased by PannErgy Geothermal Power Plant cPlc. during the reporting period, 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 of 17 November 2020 when the necessary official permits were obtained.

29. LONG-TERM LIABILITIES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
HUF-based credit secured with collateral	8,879,072	4,082,408
EUR-based credit secured with collateral	2,703,157	5,282,749
Financial lease liabilities	4,026	9,567
Short-term part reclassified to short-term credits	-1,132,693	-1,496,188
Long-term loans, leases, total	**10,453,562**	**7,878,536**

The increase in the portfolio of long term loans, one component of which is a decrease in the EUR loan and the other is an increase in the HUF loans, resulted from the new long term investment loan contracts concluded as part of the refinancing transactions during the reporting period.

29.1. *Weighted average interest rate on long-term loans*

The interest rates applied to the outstanding EUR loans related to all of the project companies concerned, are based on the 6M EURIBOR, regardless of which financial institution provided the required funding. In view of this fact and the contractual interest margins the weighted average

interest rates on the collateral covered EUR-based loans was 2.56% in view of the loan amounts as at 31 December 2020, slightly exceeding the 2.47% recorded as at 31 December 2019, taking into account the interest fixing effect of the interest swap transactions as well. Without the interest swap transactions the weighted average interest rate on the EUR-based loans would have been 2.18% on the cut-off date, however, the fixing of the interest rates on the investment loans by way of the interest swap transactions affords considerable predictability and significantly mitigates the interest rate risk faced by the Company. Most of the HUF-based loans secured with collaterals carry a fixed interest rate of 2.40%, some carry fixed rates of 2.00% or 2.50%. Their weighted average interest rate was 2.39% based on the loan amounts as at 31 December 2020, which is significantly more favourable than the 2.91% stated one year earlier.

29.2. *Maturity dates of the long-term loans*

HUF 4,824,919 thousand of the total of HUF 10,453,562 thousand long-term liabilities is made up of items maturing in 1-5 years, while HUF 5,628,643 thousand comprises items maturing in over 5 years.

29.3. *Lease liabilities recorded among long-term liabilities*

As at 31 December 2020 the Company shows long term lease liabilities in an amount of HUF 4,026 thousand among the long term liabilities in the consolidated financial statements, in relation to car leased under arrangements categorised as lease according to the relevant *IFRS 16*.

29.4. *Other long-term deferred incomes*

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Other long-term deferred incomes	4,227,176	4,251,151
Short-term part of the long-term incomes	-240,238	-220,189
Other long-term deferred incomes, total	**3,986,938**	**4,030,962**

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

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

29.5. *Details of aids relating to deferred revenues*

HUF Mn

Group entity	Project ID	Eligible investment cost	Aid granted	Aid drawn down	Aid deferred income (liability)
Szentlőrinci Geotermia cPlc.	KEOP-4.2.0/B-09-2009-0026	883	442	427	330
Berekfürdő Energia Ltd.	KEOP 4.4.0/A/09-2009-0009	250	125	125	42
DoverDrill Mélyfúró Ltd.	GINOP-2.1.2-8-1-4-16-2017-00166	1,250	500	450	408
Miskolci Geotermia cPlc.	KEOP 4.7.0-2010-0001	632	316	314	229
Miskolci Geotermia cPlc.	KEOP 4.2.0/B-11-2011-0007	2,856	1,000	1,000	724
Miskolci Geotermia cPlc.	GOP-1.2.1/B-12-2012-0005	323	162	148	34
Kuala Ltd.	KEOP 4.7.0/11-2011-0003	619	309	309	264
Kuala Ltd.	KEOP-4.10.0/B-12-2013-0012	2,836	1,000	1,000	728
DD Energy Ltd.	KEOP-4.10/B-12-2013-0010	3,997	1,000	1,000	731
Arrabona Koncessziós Ltd.	KEOP-4.10/B-12-2013-0011	3,509	1,000	992	737
Government aids as of 31 December 2020 were stated in the consolidated statement of financial position in the form of long term and short-term (shorter than one year) deferred incomes (HUF Mn):					**4.227**

Each of the above projects are of the project implementation type. The project objectives are, in the case of the EEOP (Environment and Energy Operational Program) application schemes, geothermal energy utilization, while in the case of the EDOP (Economic Development Operational Program) the objectives include the procurement of assets or system development.

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

The records of PannErgy Group show no grant advance in relation to the application schemes. The liability stemming from the draw-down of the HUF 249,977 thousand grant advance – stated at the end

of the preceding year – was eliminated by the amounts recognised in relation to application schemes during the reporting period.

30. SHORT-TERM CREDITS

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Short-term part of long-term credits	1,132,693	1,496,188
Other short-term credits	106,829	710,244
Total	**1,239,522**	**2,206,432**

Among short term credits an amount of HUF 6,829 thousand is shown at the end of the reporting period, relating to the lease of cars categorised as lease under the relevant IFRS.

30.1. *Short-term part of other long-term deferred incomes*

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Short-term part of other long-term deferred incomes	240,238	220,189
Total	**240,238**	**220,189**

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

31. PROVISIONS

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Opening balance as of 1 January.	-	18,449
Provisioning	-	-
Reclassification of provisions	-	-
Release of provisions	-	18,449
Closing balance as of 31 December	**-**	**-**

The Company did not form or release specific provisions in relation to contractual liabilities stemming from binding contracts, or to financial obligations expected to stem from lawsuits during the reporting period.

In its consolidated statement of financial position for reporting year and previous years, the PannErgy Group discloses no provisions for environmental or revegetation liabilities, costs of redundancy programs or employee pensions. It has no such obligations other than the contributions paid to the public pension system.

32. OTHER SHORT-TERM LIABILITIES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Tax and contribution liabilities	212,966	204,598
Deferred items	22,704	53,996
Wages and social security	8,945	8,506
Grant advances relating to application schemes	-	249,977
Liabilities from derivative transactions	-	12
Other	6,669	5,890
Other short-term liabilities, total	**251,284**	**522,979**

At the end of the base period the PannErgy Group stated HUF 249,977 thousand short time liabilities relating to the use of grant advance funds in connection with DoverDrill Mélyfúró Ltd's GINOP application. This liability was eliminated during the reporting period through draw-downs in the course of the recognition of grant funds in its accounts.

At the end of the reporting period the Company's records show tax and contribution liabilities in a total amount of HUF 212,966 thousand, of which the largest items are made up of VAT liabilities in a total amount of HUF 183,011 thousand, and the mining annuity liabilities of the project companies engaged in geothermal heat generation, in a total amount of HUF 22,285 thousand.

Of the HUF 22,704 thousand items deferred to the next period HUF 662 thousand is associated with incomes, while HUF 22,042 thousand is the sum of the costs relating to the next period. HUF 993 thousand of the latter is made up of interests payable for the next period.

The most significant item is made up of other short term liabilities in an amount of HUF 4,419 thousand, stemming from the earlier dematerialisation of shares.

33. TAXATION, INCOME TAX

33.1. *Income tax payable for the reporting year*

	2020 HUF Th	2019 HUF Th
Tax liabilities for the reporting year	22,384	60,488
Effect of deferred taxes	2,909	-13,704
Total	**25,293**	**46,784**

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

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

33.2. *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	39,446	52,922
The difference stemming from depreciation according to the Accounting Act and the depreciation according to the Tax Act	22,336	25,106
Tangible assets, depreciation difference, from consolidation	201,100	196,079
Receivables from deferred taxes (gross)	*262,882*	*274,107*
Deferred tax liabilities (gross)	*-22,900*	*-31,216*
Deferred tax to be recognized (net)	**239,982**	**242,891**
Deferred tax recognized in previous year	242,891	229,187
Deferred tax recognized/reversed	-2,909	13,704
Receivables from deferred taxes as of 31 December	**239,982**	**242,891**

The deferred tax receivable of HUF 239,982 thousand stated among fixed assets comprises the 9% corporate income tax payable for the unused negative tax bases of the subsidiaries belonging to the PannErgy Group on the one hand, and on the other hand, for other deferred tax modifying items under the IFRS rules.
The deferred tax receivables stemming from accrued and deferred losses is based on the controlled deferred tax recovery of the subsidiaries concerned. The Company decided to apply a five-year period regarding accrued and deferred losses instead of the previously applied the-year period, in accordance

with the *IAS 12* standard recommendations, resulting in a HUF 39,446 thousand decrease in the amount of the deferred tax receivable.

The total gross amount of the deferred tax receivable is HUF 262,882 thousand. This is reduced by another HUF 22,900 thousand by the amount of the reporting year's deferred tax liability relating to the development reserves.

Since these deferred tax receivables and liabilities are to be settled with the same tax authority, their amounts are netted as prescribed by the IFRS, leaving HUF 239,982 thousand in the way of deferred tax receivable in the consolidated financial statements.

33.3. *Calculation of the effective income tax*

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

	2020 HUF Th	2019 HUF Th
Profits before taxes (individual companies)	**252,565**	**631,305**
The tax payable on the basis of the member company's profit/loss at the applicable tax rate (9%)	22,731	56,817
Effects of different tax rates (minimum profit tax)	4,843	800
Tax implications of non-deductible expenditures, effects of differences in depreciation and other tax-decreasing items	26,078	69,799
Tax allowances	-21,791	-42,938
Deferred tax liabilities assessed in the reporting year for any negative tax base not stated earlier	-9,477	-23,990
Tax liabilities for the reporting year	**22,384**	**60,488**
Write-off of tax receivables assessed earlier for negative tax bases	**2,909**	**-13,704**
Income tax (as per the profit & loss account)	**25,293**	**46,784**

34. EARNINGS PER SHARE

	2020.	2019.
Net profit for the year attributable to the shareholders of the Company (HUF Th)	236,278	728,336
Number of shares issued less the number of treasury shares	16,864,685	17,863,222
Profit/loss per share (HUF)	**14.01**	**40.77**
Diluted profit/loss per share (HUF)	**14.01**	**40.77**

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, unlike the way it did in the base period.

35. LIQUID ASSETS AND CASH EQUIVALENTS

The PannErgy Group had the following portfolio of liquid assets and cash equivalents as of 31 December 2020:

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Bank account and cash at hand	496,171	766,482
Separated, blocked cash	169,728	578,306
Cash and cash equivalents	**665,899**	**1,344,788**

Certain amounts in regard to which use for purposes other than the account holder's own business operations is subject to the financing institution's consent are stated in the bank account and cash at hand.
Those stated among the separated blocked cash items are amounts on accounts managed by financial institutions, blocked as collaterals for loan repayment, and not accessible by the borrowers.
The Company's government securities of HUF 574,639 thousand are stated among fixed assets, while the portfolio of securities worth 259,763 thousand are shown among current assets.

36. TRADE PAYABLES

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Trade payables	814,682	900,737
Total	**814,682**	**900,737**

At the end of the reporting period the Company's trade payables amounted to 10% less year-on-year, in accordance with the group's cash-flow processes.

37. FINANCIAL INSTRUMENTS

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

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Financial assets	**2,984,572**	**1,500,742**
Financial assets available for sale (AFS)	***834,402***	***72,973***
Other invested financial assets (government securities)	574,639	72,949
Securities	259,763	24
Loans and Receivables (LAR)	***2,147,877***	***1,422,452***
Loans provided	3,143	3,143
Trade receivables	1,717,438	1,277,883
Other short term receivables, prepaid income taxes	427,296	141,426
Financial instruments Held to Collect (HTC)	***2,293***	***5,318***
Long term financial receivables	2,293	5,318
Financial instruments, Fair Value to Profit and Loss (FVTPL)	**-**	**-**
Derivative transactions	-	-
Financial liabilities	**12,759,050**	**11,508,684**
Other financial liabilities	***12,759,050***	***11,508,672***
Trade payables	814,682	900,737
Long-term credits	10,453,562	7,878,536
Short-term credits	1,239,522	2,206,432
Other financial liabilities	251,284	522,967
Financial liabilities, Fair Value to Profit and Loss, (FVTPL)	**-**	***12***
Derivative transactions – liabilities	-	12

The Company shows primarily the purchased debt securities regardless of maturity, and its participations in other companies, among its marketable financial assets. The portfolio of marketable financial assets comprises participations of or below 50%, along with other participations that are not consolidated for other reasons, but the company shows no such asset in its statements at the end of the reporting period. Among its other financial investments the Company shows government securities in an amount of HUF 574,639 thousand and short term securities held for trading, in an amount of HUF 259,763 thousand. It invested part of its separated liquid assets the use of which is subject to authorization by the funding financial institution in long and short term government securities for investment: HUF 574,639 thousand in government bonds and HUF 42,057 thousand in discount Treasury bills.

The Company shows purchased debt securities among the loans and receivables and, on account of their very nature, it is also here that it can show the trade receivables and the loans it has provided. Loans are recognized by the Company among the current assets. The value of loans and receivables are initially shown at fair value, and thereafter at amortized cost, in its IFRS consolidated financial statements, using the effective interest rate method.
The Company states its non-derivative financial assets with fixed or determinable payments, which it positively intends to keep, and is capable of keeping, until maturity, among its financial instruments held-to maturity. The Company shows its outstanding purchase price receivables associated with the sale of assets, entailing long term scheduled payments to be made by the Company, among its financial instruments to be held to maturity; the receivables are of the held to maturity status.

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

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

38. SHARE-BASED BENEFITS

The Company had no share option program in place during the base period or the reporting period; accordingly, no such evaluation is carried out at the end of the reporting period. No share-based allocation occurred at the Company during the reporting period.

39. IMPAIRMENTS

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

2020				HUF Th
	Impairments, opening balance	**Impairment provisioning**	**Impairment reversal**	**Impairments, closing balance**
Trade receivables	2,387	-	-	2,387
Total impairment	**2,387**	**-**	**-**	**2,387**

2019				HUF Th
	Impairments, opening balance	**Impairment provisioning**	**Impairment reversal**	**Impairments, closing balance**
Trade receivables	5,632	344	3,589	2,387
Total impairment	**5,632**	**344**	**3,589**	**2,387**

No impairment provisioning and reversal were recognized during the reporting period regarding trade receivables or inventories. The same applies to tangible assets as well, in which category only scrapping and extraordinary depreciation type movements took place during the reporting period.

40. OFF-BALANCE SHEET LIABILITIES AND COMMITMENTS

40.1. *Contractual and investment obligations*

The PannErgy Group has no contractual investment commitment as at the end of the reporting period.

The subsidiary DoverDrill Mélyfúró Ltd. submitted its application under the GINOP-2.1.2-8.1.4-16-2017-00166 "Grants for R&D&I activities of companies in the framework of combined loan products" application scheme. The application was accepted as a successful one in 2017, in relation to which the Company fulfilled its contractual investment commitment in 2020 and the application procedure was closed.

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.

40.2. *Other contingent liabilities*

40.2.1 Assets relating to funding by financial institutions, restriction of titles

Collaterals of various types were provided at the end of the reporting period for the funding financial institutions under external financing agreements concluded by members of the PannErgy Group in amounts of HUF 8,979,072 thousand and EUR 7,403 thousand. The collaterals concerned include pledges on receivables, movables, other assets and bank accounts, as well as guarantees to funding financial institutions. These are detailed in note *16. Tangible assets*.

40.2.2 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.

40.2.3 Other contingent commitments to external parties

PannErgy Geothermal Power Plants cPlc. has a joint and several guarantee in place in connection with the Miskolc Geothermal Project towards one of the heat receiving customers for commitments stemming from potential future loss events, in the amount up to HUF 100 million in the case of Miskolci Geotermia cPlc. and without a value limit for Kuala Ltd. No future cash outflow is expected in relation to this contingent commitment, therefore no specific provision needs to be formed.

40.2.4 Lease transactions

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

	2020 31 Dec. HUF Th	2019 31 Dec. HUF Th
Within 1 year	24,888	18,553
Over 1 year but within 5 years	27,953	40,156
Over 5 years	-	-
Total	**52,841**	**58,709**

The total amount payable under operating lease contracts decreased during the reporting year in relation to contracts covering certain other equipment, machines and vehicles covered by operating lease financing. The lease-related liabilities are related solely to vehicles; the decrease in their amount is a result of the scheduled repayments made during the reporting period.

In accordance with *IFRS 16 Leases* the Company carried out another assessment of the details of the lease contracts in place during the reporting period, finding that the above lease fees cover no acquired valuable rights, i.e. they are lease liabilities relating solely to lease fee payments.
No assets are rented or leased from the Company under lease type arrangements on account of which the IFRS 16 provisions would be applicable.

41. FINANCIAL RISK MANAGEMENT

41.1. *Financial risk factors*

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

41.2. *Market risk*

41.2.1. Exchange rate risk

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

The Company occasionally concluded FX forward transactions in 2020, 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 consolidated financial statements.

In view of the PannErgy Group's foreign exchange receivables and liabilities, and assuming a 10% increase/decrease relative to the 31 December 2020 rate of the HUF, the functional currency, the positive/negative effects on the profit are presented in the table below:

	EUR		USD	
	2020	**2019**	**2020**	**2019**
Resulting change in profit/loss in HUF Th	-255,256	-548,524	-	-

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

	EUR amount, 2020	**Change in profit as a result of 10% change in exchange rate**	**EUR amount, 2019**	**Change in profit as a result of 10% change in exchange rate**
Short-term receivables	1,561,475	57.014	756.227	24.995
Trade payables	1,149,019	-41,954	1,368,861	-45,244
FX credits	7,403,272	-270,316	15,983,146	-528,275
Total		**-255.256**		**-548.524**

41.2.2 Price risk

The Company runs no risks relating to exchange traded commodities or financial instruments. Mention should be made here, however, despite it being essentially a regulatory risk, of the fact that the selling price of the bulk of the geothermal heat sold by the PannErgy Group's members engaged in generating and selling geothermal heat is a regulated price, which is reviewed and in some cases modified annually by the competent authority, that is, the Hungarian Energy and Public Utility Regulation Authority (HEA). This may influence the PannErgy Group's profitability through the future selling prices. The Company mitigates this risk by continuously monitoring the factors having an impact on regulatory pricing.

41.2.3 Cash flow and fair value interest risk

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

The Company's long-term FX loan portfolio was worth HUF 2,703,157 thousand (EUR 7,403 thousand) at the end of 2020, while its forint loan portfolio amounted to HUF 8,879,072 thousand, to be compared to the HUF 5,282,749 thousand (EUR 15.983 thousand) worth of FX loan portfolio and the HUF 4,082,408 thousand forint loan portfolio stated at end-2019. The interest rates applying to the FX

loans are typically based on the 6M EURIBOR, while those on the HUF loans are typically fixed 2.5% and 2.4% rates.

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

To mitigate the interest rate risk entailed by its investment loans the Company has replaced the interest bases applying to its 6M EURIBOR-based variable-rate loans with fixed interest rates for the entire remaining term of each loan via interest rate swap (IRS) transactions, taking advantage of the current favorable interest rate environment. The interest rates fixed under the above transactions will remain unchanged even if market rates should increase in the future, therefore no such risk will be borne by the Company. The results of the interest rate swap transactions during the reporting period are shown in the financial incomes or the financial expenditures, as the case may be.

The Company's interest sensitivity is characterized by the fact that a 1% increase in interest rates would have resulted in a HUF 116,822 thousand increase in the Group's profit at the end of 2020, in contrast to the additional cost of HUF 96,652 thousand that would have been recorded at end-2019, assuming an unchanged portfolio of principal debt relative to the cut-off date of the reporting period and that of the base period. A 1% decrease in the interest rates would entail the opposite effect. Through its interest swap transactions however, replacing the variable interests on the investment loans with fixed rates, the Company eliminated this interest rate risk.

41.3. *Lending risk*

The lending risk is a financial risk of loss from potential non-performance of any contractual obligation by any of the Company's buyers, primarily in the form of failure to settle invoices. It should be noted in particular that the Company sells its products and services to a handful of customers, resulting in a limited degree of diversification.
Lending risk management is a group function. It is a responsibility for the members of the PannErgy Group to analyze and manage lending risks relating to their new customers before working out and offering terms and conditions of payment and delivery as befits their normal of business operations.

The lending risks faced by the PannErgy Group stem from liquid assets and cash equivalents, the bank deposits and security deposits placed with financial institutions as well as the exposure to buyers through the sale of energy, including receivables and transactions under which the Company assumes commitments. The Company manages its lending risks by detailed continuous buyer rating and effective receivable monitoring. Customers are rated on the basis of their creditworthiness and their credit limits are determined on the basis of their financial positions, financial data, historical performance and other factors, by the PannErgy Group's Finance and Treasury group. The Company monitors draw-downs from the credit limits. Its customers always pay for their purchases by bank transfers. No credit line was exceeded during the reporting period, and management does not expect

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

HUF Th

	Total	Before due date	1-90 days past due	91-180 days past due	181-360 days past due	over 360 days past due
Trade receivables	1,717,438	1,683,392	22,616	11,430	-	-

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

PannErgy Group's liquid assets and securities as at 31. December 2020 are presented in relation to the lending risk in a breakdown by time to maturity:

31.12.2020 HUF Th

Conditions	**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 years**	**Total**
Non-interest bearing, or sight	665,899	-	-	-	-	665,899
Variable rate	-	-	-	-	217,707	217,707
Fixed rate	-	-	547,642	69,053	-	616,695
Total	**665,899**	**-**	**547,642**	**69,053**	**217,707**	**1,500,301**

31.12.2019 HUF Th

Conditions		**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 years**	**Total**
Non-interest bearing, or sight		1,344,788	-	-	-	-	1,344,788
Variable rate		-	-	-	-	24	24
Fixed rate		-	-	-	72,949	-	72,949
Total	**-**	**1,344,788**	**-**	**-**	**72,949**	**24**	**1,417,761**

The company's liquid assets are stated in the category of non-interest bearing or sight assets, while the Company's securities shown among its fixed assets and current assets are stated in the category of

variable and fixed rate assets. The securities in the longer than five-year category are either investment units without maturity or corporate bonds with maturity periods exceeding five years.

41.4. *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 lifecycles of its projects. Cash-flow forecasts are worked out by the PannErgy Group's Finance and Treasury group, besides the monitoring of rolling forecasts regarding the satisfaction of the Group's liquidity requirements, in order to maintain a portfolio of liquid assets as required for the Group's operations, while keeping up sufficient manoeuvring room concerning the available credit limits to ensure that the Company does not exceed any of its limits and can deliver the debt required servicing ratios to the financial institutions concerned. The cash-flow forecasts that are based on the financial settlement of trade payables, loan repayments as well as contractual and other incomes are worked out in view of the PannErgy Group's financial plans, the need to maintain the ratios stipulated in contracts as well as all relevant regulatory and statutory regulations.
The financial liabilities in a breakdown by time to due date:

31.12.2020 HUF Th

	Amount	0-6 months	6-12 months	1-2 years	3-5 years	over 5 years
Non-derivative financial liabilities						
Loans	11,693,084	560,317	672,673	1,184,284	3,647,166	5,628,644
Trade payables	814,682	814,682	-	-	-	-
Other financial liabilities (apart from forward transactions)	251,284	251,284	-	-	-	-
Derivative financial liabilities	-	-	-	-	-	-

The above table is a collection of the amortized costs of the Company's financial liabilities in terms of their nearest possible maturity dates.
Besides trade payables other short-term liabilities appear in the cash-flow forecasts with due dates corresponding to their respective types: taxes and contributions and other liabilities relating to salaries and wages are settled within 30 days, while other liabilities are settled on the dates specified in the underlying contracts or other documents, but not beyond one year.

41.5. *Capital management*

The Company's purpose in the management of its capital structure is to maintain continuous operability in order to generate profits for its shareholders and other stakeholder groups as well as to minimize the costs of capital through optimized capital structure. To ensure that adequate capital structure is

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

	2020 31 Dec. HUF Th	**2019 31 Dec. HUF Th**
Subscribed capital	421,093	421,093
Total equity capital	9,746,789	10,213,948
Equity / Subscribed capital	**23.15**	**24.26**

41.6. *Offsetting of financial assets and financial liabilities*

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

41.7. *Regulatory risk*

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

41.8. *Technological risk*

Geothermal energy production entails unforeseeable risks, stemming from the unpredictable availability of the geothermal energy resources as well as the tolerance of the equipment used, to the unconventional operational environment. To mitigate this risk the Company prepares every one of its geothermal projects in a prudent way, the collection and detailed assessment and evaluation of all accessible data and information that may affect its implementation.

41.9. *Pandemic 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 of 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 Note *3. The impacts of the Covid-19 pandemic on the Company's report* herein.

42. PARTICIPATIONS

42.1. *Consolidated subsidiaries*

	Share capital (HUF Mn)	Shareholding (%)	Voting rights (%)	Consolidation ratio
PannErgy Geothermal Power Plants cPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Mélyfúró Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energia Ltd.	24.10	100.00	100.00	100.00
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 cPlc. in the various subsidiaries. The consolidated ratios are the same as the respective shares of ownership. PannErgy Plc. as parent company has 100% shareholding ratio at PannErgy Geothermal Power Plants cPlc. which company is managing the geothermal project companies owned by itself directly, with 100% shareholding.

42.2. *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 Ltd's 10% share in Miskolci Geotermia CPlc. and 10% Kuala Ltd. participation were purchased by PannErgy Geothermal Power Plants 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 of 17 November 2020 when the necessary official permits were obtained.

43. SEGMENTS REPORT

43.1. *Definition and identification of the segments of operation*

In line with IFRS requirements, the Company needs to present its operating segments. The Company identified a single operating segment during the reporting period, just like in the base period: Energy. The Energy industry is the Company's main operating segment, its core operations including the generation and sale of geothermal heat as well as the implementation of related investment projects and other activities. The PannErgy Group does not identify the utilization – in the way of property

management – of industrial facilities and related office premises formerly used by Pannonplast Plc. in its plastics manufacturing operations, as a separate operating segment for the following reasons:

- based on the requirements of *IFRS 8 Operating Segments*, particularly, the management approaches to segments and the criteria for the presentation of operating segments the asset management and property utilization activity performed in addition to the Energy segment does not form truly separate components in themselves. This may be regarded as a integrated supplementary function, including the re-invoicing of electricity and other utility fees and, to a lesser extent, the collection of office rents. Moreover, the Company is planning to sell the properties concerned; indeed, the most valuable property was actually sold during the reporting period;
- the assessment of the performance of the utilization of the aforesaid properties is a negligible part of the work of the operative management and supreme bodies of the Company; information regarding the utilization of properties is not specifically highlighted in the relevant internal control and reporting system; because these are 'pass-through' type transactions with constant revenue and cost elements;
- the Company pursues its activities solely in the territory of Hungary, in a similar legal, technical, economic and demographic environment, consequently, territorial segmentation is not relevant;
- In view of the principles detailed in section *4.29 Segment reports* hereof the Company affirms that Energy as an operating segment can be clearly identified in the case of the PannErgy Group. As regards the operation of the PannErgy Group, the management of the Company has adopted the approach to focus all its resources, in line with the expectations of investors, on maximizing the efficiency of the Energy segment; the utilization of property owned by the Company is in all respects an insignificant element in its operation and, based on the management's approach, cannot be considered to constitute an operating segment.

Regardless of the above the Company reviewed the limit values of the asset management and property utilization activity linked to the identification of the operating segments and it is concluded from the assessment that the sales revenue from the utilization of the properties in Csepel, that is District XXI of Budapest, and in the town of Debrecen, amounted to HUF 852,346 thousand during the reporting period, equaling 140% of the PannErgy Group's sales revenue during the same period. Since a significant – 97% – part of this amount is made up of pass-through items, without coverage, i.e. public utility fees re-invoiced to the tenants, the profit element of the public utility fees relating to the utilization of the properties, that are re-invoiced to tenants provides a more accurate picture of the proportion of the real property utilization business within the sales revenue of the PannErgy Group: it amounted to HUF 8,361 thousand. This accounts for 0.1% of the total sales revenue, to be compared with the preceding year's 0.4% (HUF 21,117 thousand). Accordingly, the asset management and property utilization activity is below the *IFRS 8* quantitative limit pertaining to standards and it will remain so because of the continuous growth of the Energy segment and the diminishing of the property portfolio.

Ultimately, the Company has one operating segment, that is, the Energy segment. Consequently, the Company has to fulfil disclosure obligations covering the whole of the business entity. In the case of the Company this means that the reporting year's and the basis year's data of the Energy segment are the same as the financial information pertaining to the entirety of the business entity, which are adequately presented herein.

43.2. *Geographical segments*

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

Profit/loss data by geographical segment (HUF Th):	Győr	Miskolc	Holding management, other activities	Total
Revenue from sales	**2,741,439**	**2,102,629**	**1,078,437**	**5,922,505**
Revenues among segments	-	-	-	-
Direct cost of sales	**1,898,945**	**1,406,572**	**1,173,270**	**4,478,787**
Gross margin	**842,494**	**696,057**	**-94,433**	**1,443,718**
Gross margin ratio %	***30,7%***	***33,1%***	***-8,8%***	***24,4%***
Indirect costs of sales	103,477	124,504	272,615	500,596
Other revenues	153,315	84,543	141,177	379,035
Other expenditures	97,501	82,600	66,591	246,692
Operating profit	**794,831**	**573,496**	**-292,862**	**1,075,465**
Operating profit rate %	**29,0%**	**27,3%**	**-27,2%**	**18,2%**
Direct depreciation	780,965	540,964	293,084	1,615,013
Indirect depreciation	1,040	33	-	1,073
Total depreciation	**782,005**	**540,996**	**293,084**	**1,616,086**
Extraordinary depreciation	-	-	43,214	43,214
EBITDA	**1,576,836**	**1,114,492**	**43,437**	**2,734,765**
EBITDA rate %	**57,5%**	**53,0%**	**4,1%**	**46,2%**
Financial profit	-543,564	-286,867	16,979	-813,452
Profit before taxes	**251,267**	**286,629**	**-275,883**	**262,013**
Income tax	7,126	5,673	12,494	25,293
Net profit for the year	**244,141**	**280,956**	**-288,377**	**236,720**

Main financial position data by geographical segment (HUF Th):	Győr	Miskolc	Holding management, other activities	Total
Goodwill	264,418	379,466	34,525	678,409
Intangible assets	53,631	32,049	1,704,436	1,790,116
Tangible assets	8,779,018	8,952,128	1,322,304	19,053,450
Investment properties	-	-	158,620	158,620
Financial assets (concession)	1,136,034	-	-	1,136,034
Long-term receivables	-	-	2,293	2,293
Trade receivables	765,111	682,704	269,623	1,717,438
Liquid assets	243,153	291,056	131,690	665,899
Long-term loans, leases	6,623,316	3,539,792	290,454	10,453,562
Long-term deferred income	1,385,226	1,897,733	703,979	3,986,938
Trade payables	296,886	281,166	236,630	814,682
Short-term credits	-	-	106,829	106,829
Short-term part of long-term credits	712,613	370,937	49,143	1,132,693
Short-term deferred income	82,854	82,055	75,329	240,238

44. EXPLANATION FOR RECLASSIFICATIONS RELATIVE TO BASE PERIOD REPORT AND DURING THE REPORTING PERIOD

The PannErgy Group did not modify the data contained in its 2019 consolidated financial statements; the basis data presented herein are the same as those to be found in the 2019 consolidated financial statements.

45. TRANSACTIONS WITH AFFILIATED PARTIES

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

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

The members of the Group'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.

45.2. *Transactions with affiliated parties*

The following transactions took place at the PannErgy Group with affiliated but not consolidated parties, during the reporting period:

Data of transactions with affiliated but not consolidated parties, in the consolidated financial statements	2020 HUF Th	2019 HUF Th
Revenue from sales	1,827	-
Costs of goods and services	60,514	52,441
Receivables at the end of the reporting period	305	-

All of the transactions – during the reporting period and during the base period – with affiliated but not consolidated parties involved entities relating to the Group's management.

45.3. *Loans to affiliated parties*

The PannErgy Group provided no loans to affiliated but not consolidated parties, or for any member of the management, in 2020 or 2019.

45.4. *Changes in intra-group consolidated / eliminated transactions and positions*

Elimination of profit & loss account items:	**2020 HUF Th**	**2019 HUF Th**
Revenue from sales	2,493,482	2,361,650
Direct cost of sales	1,966,609	2,013,238
Indirect cost of sales	96,052	93,390
Other revenues	121,708	455,158
Other expenditures	121,708	437,462
Financial profit/loss	288,490	309,007

Elimination of statement of financial position items:	**2020 HUF Th**	**2019 HUF Th**
Tangible assets	2,163,036	2,068,034
Intangible assets	71,410	110,617
Next period's items among other receivables	667,567	872,143
Other receivables, short term loans	7,747,705	10,057,723
Long-term loans granted	7,515,314	9,212,706
Long-term liabilities	7,515,314	9,212,706
Next period's items among other liabilities	667,567	872,143
Other short-term liabilities	7,747,705	10,057,723

45.5. *Management's compensation*

	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.

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

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

Date	Type of news	Subject, brief content
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

47. 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 and Management Report
2020

Based on the PannErgy Group's IFRS consolidated financial statements

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.

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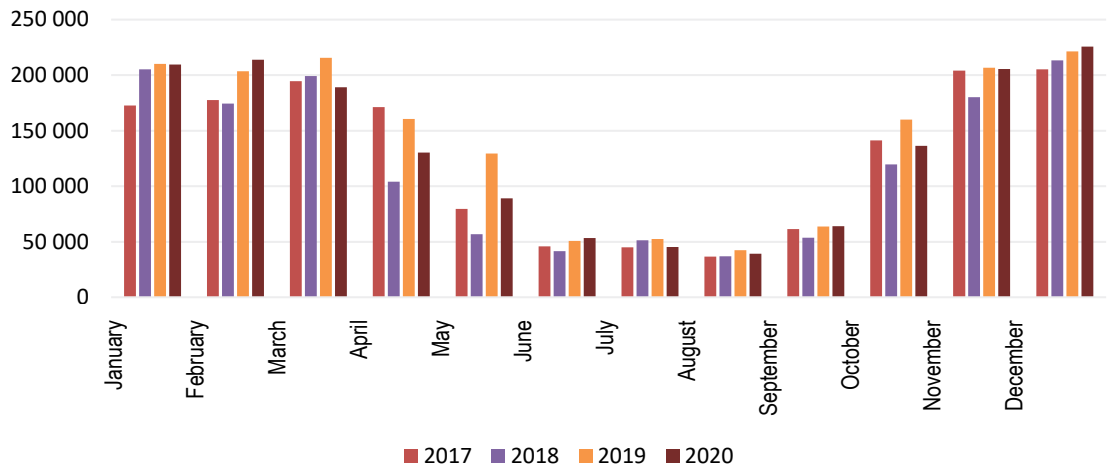
1. EXECUTIVE SUMMARY

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	-4,478,787	-4,192,794
Gross margin	**1,443,718**	**1,455,127**
Gross cash-flow	**3,058,731**	**2,919,836**
Gross cash flow rate	**51.6%**	**51.7%**
Indirect costs of sales	-500,596	-449,697
Other revenues and expenditures	132,343	192,250
Operating profit (EBIT)	**1,075,465**	**1,197,680**
EBITDA	**2,734,765**	**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	**262,013**	**781,682**
Consolidated net profit for the reporting period	**236,720**	**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 Geothermal Power Plants cPlc. and MIHŐ Miskolci Hőszolgáltató Ltd. concerning the MIHŐ Miskolci Hőszolgáltató Ltd's acquisition of the 10% shareholding in each of Miskolci Geotermia cPlc. and Kuala Ltd.

This transaction resulted in the increase of PannErgy Geothermal Power Plants cPlc'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 236,278 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. The scheduled starting date of the dividend payment is 14 July 2021.

2. PANNERGY GROUP'S PROFIT OR LOSS IN 2020, KEY RATIOS OF ITS BUSINESS OPERATIONS

In 2020 the PannErgy Group continued its activities aimed at accomplishing its geothermal energy production and utilization strategy laid down in the preceding year, focused on boosting its sales revenue and EBITDA through increased heat output through continued improvements in the operational condition, and the efficiency of the operation, of its geothermal projects, as well as by capacity enhancements. In the wake of the outbreak in early 2020 of the pandemic the Company focused all of its efforts on keeping up its safe and reliable operations and achieve its strategic objectives in spite of profound changes in its environment. Its efforts were successful and through operational activities, operation and maintenance effectively adopting the changed circumstances the PannErgy Group managed to raise its gross cash-flow and EBITDA levels during the reporting period.

Key profit/loss figures (HUF Th)	2020.	2019.
Revenue from sales	**5,922,505**	**5,647,921**
Direct costs of sales	-4,478,787	-4,192,794
Gross margin	**1,443,718**	**1,455,127**
Gross margin ratio %	*24.4%*	*25.8%*
Gross cash-flow	**3,058,731**	**2,919,836**
Gross cash flow rate %	*51.6%*	*51.7%*
Indirect costs of sales	-500,596	-449,697
Other revenues	379,035	416,251
Other expenditures	-246,692	-224,001
Operating profit (EBIT)	**1,075,465**	**1,197,680**
Operating profit rate %	*18.2%*	*21.2%*
EBITDA	**2,734,765**	**2,665,645**
EBITDA rate %	*46.2%*	*47.2%*
Financial profit	-813,452	-415,998
Profit before taxes	**262,013**	**781,682**
Consolidated net earnings in the reporting year, as profit after taxes	**236,720**	**728,336**
Return on Equity, % (ROE)	2.42	7.13
Return on Sales, % (ROS)	3.99	12.90
Earnings per share (EPS), in HUF	14.01	40.77

The diluted earnings per share amounted to HUF 14.01. Unlike in the previous period, there is no difference in determining the diluted earnings per share.

Detailed description of the Company's business operations in 2020:

The Company's consolidated sales revenue of HUF 5,922,505 thousand was up 4.9% year-on-year, in spite of a minor decrease in the sales revenue of the geothermal division.
A breakdown of heat sale by project shows that Geothermal Project of Győr contributed HUF 2,740,033 thousand to the PannErgy Group's business performance in 2020, down 4.6% from the HUF 2,870,939 thousand in 2019. Arrabona Koncessziós Ltd's sales to Győr-Szol cPlc. amounted to HUF 1,507,943 thousand of the above total figure, while DD Energy Ltd's sales to its automotive industry customer amounted to HUF 1,230,929 thousand (to be compared to the previous year's HUF 1,770,144 thousand and HUF 1,099,913 thousand figures, respectively). Sales realised in the framework of the Geothermal Project of Miskolc towards heat-receiving partners added up to HUF 2,092,199 thousand in the review period, of which HUF 2,046,163 million was sold to MIHŐ Heat Distribution Ltd. of Miskolc. These figures were, despite the unusually favourable weather conditions in the base period and thanks to the optimum efficiency and effectiveness of the operation of the project, exceeded the preceding year's corresponding figures of HUF 2,038,227 thousand and HUF 1,979,976, respectively. Regarding the Miskolc project alone this represents a sales revenue increase of 2.6% year-on-year.

The Company's two smaller volume projects – of Berekfürdő and Szentlőrinc – performed differently as regards their sales revenues compared to those of the preceding years: The Szentlőrinc project generated HUF 70,247 thousand in terms of sales revenue during the reporting period, up 6.2% of the preceding year's HUF 66,134 thousand. By contrast, the HUF 3,188 thousand sales revenue of the Berekfürdő project from heat tariffs was substantially below the HUF 6,206 thousand earned in 2019. The operations of the latter project were impeded by a number of factors including a shut-down necessitated by the modernisation of its equipment by replacements and the negative impacts of closures brought on by the pandemic, on the heat-receiving partner' consumption. Because of the relative scale of the project however, these had but a negligible impact on the consolidated sales revenue of the reporting period.

Besides the sale of thermal energy the PannErgy Group earned HUF 818,093 thousand from the sale of electricity, including 796,166 thousand electricity fee relating to the operation of the PannErgy Plc's real estates in Debrecen, re-invoiced to the tenants and other owners of the co-owned properties, which is not related to the energy industry core operation. Such "pass-through" energy sales do not contribute appreciable amounts (in the way of margin) to the Group's profit. The additional HUF 21,927 thousand electricity sales revenue comes from the sale of electricity in relation to the Company's project in Berekfürdő.

Other re-invoiced utility services generated HUF 89,355 thousand sales revenue (HUF 8,361 thousand profit) in the utilization of the properties not related to the Company's geothermal operations during the period concerned. An amount of HUF 23,363 thousand was realised in the way of profit from the property rental fees. The results relating to real properties fell short, on the whole, from the corresponding figures of the preceding year, because of the sale of PannErgy Plc's property in Csepel during the base period.

Similarly to the previous period, three customers exceeded 10% of the total amount of the Group's consolidated revenue from sales, making up a combined 81% percent of the total sales of PannErgy Group in the reporting period, to be compared to the base period's 86%.

The direct costs of sales increased from HUF 4,192,794 thousand in 2019 by 6.8% to HUF 4,478,787 thousand during the reporting period, however without the pass-through items the cost of sales figure remained more or less unchanged. In the "Costs of goods sold, mediated services" category, HUF 840,140 thousand was stated as expenses of sales not related to geothermal operations; they mostly consisted in re-invoiced ("pass-through") services, primarily the cost of electricity, in the context the utilization of real properties owned by the Company in Debrecen and in Csepel (the latter were sold during the year).

The increase of direct depreciation reflects the effect of the commissioning of capacity expansion and additional investment projects during 2020, while in certain asset categories the period of useful life was adjusted, in conformity with the accounting policy, following a technical review, resulting in a modest increase in the depreciation charge.

The growth of maintenance costs is attributable to additional tasks relating to the operation and maintenance of the ever expanding assets of geothermal projects, to higher operational/efficiency expectations and, inter alia, to the increased operational safety levels required by the pandemic.

The decrease of costs of electricity required for generating and selling thermal energy is primarily attributable to the implemented and ongoing efficiency enhancing investments and measures. The decrease in reinjection costs was facilitated by an acquisition in June 2019 whereby the PannErgy Group acquired ownership of the third reinjection well in Miskolc, as a result of which reinjection costs were incurred only during the first half of the base period at the consolidated level.

Accordingly, the Group stated HUF 3,058,731 thousand in the way of gross cash-flow in 2020, 4.8% up on the previous year's HUF 2,919,836 thousand, while the gross cash-flow ratio remained unchanged.

The PannErgy Group's administrative and overhead, that is, indirect operating costs increased by 11.3% during the reporting period year-on-year.

The 3.4% increase in office and operating costs relates to the COVID-19 pandemic, and it is caused by the acquisition costs pertaining to safe working conditions and prevention. Costs of experts incurred in the reporting period include legal and consulting costs relating to the financing of geothermal projects and to accounting projects, expert costs relating to application schemes as well as general consulting fees to support operations and legal fees. The 14.5% increase in the cost of experts in the reporting period was attributable to the expenses relating to the refinancing of the Miskolc and Győr project companies, mostly legal in nature. HUF 15,600 thousand of the PannErgy Group's total expert fees was accounted for by the Group's auditing costs, of which HUF 7,300 thousand was incurred by PannErgy Plc., the Group's parent company, in relation to the auditing of the individual report and the consolidated financial report and their quality assurance audit.

The significant increase of bank costs, at 48.5%, in the reporting period is also a one-off extra cost related to that refinancing process.

Indirect personnel-type expenditures increased by 20.6% year-on-year, mostly due to the extremely low values of the base period. In the base period, some of the personnel-type expenditures of the Company were recognized and capitalized relating to a single research and development project. The period-end headcount of the PannErgy Group was above the corresponding figure of the previous year; on 31 December 2020 the actual number of employees was 18 persons as opposed to 17 on 31 December 2019, while the average statistical number of staff for the whole year was 27 persons, the same as in the base period, i.e., there has been no change in this respect.

The costs of public and stock exchange presence – stated as indirect costs – increased by 1.8% during the reporting period. That increase was attributable to the costs related to making the Company's year 2020 consolidated IFRS report ESEF-compatible.

The balance of other revenues and expenditures during the reporting period is a revenue of HUF 132,343 thousand, in contrast to the HUF 192,250 thousand recorded in the base period.

The most substantial – HUF 122,511 thousand – item of the HUF 246,692 thousand other expenses consists of local taxes, most notably the **local business tax** paid to the local governments at the sites of geothermal projects. Another major item is the **mining fee payable** relating to geothermal heat production; under this heading the Company incurred expenditure of **HUF 69,940 thousand**. HUF 43.214 thousand of tangible assets were written off in the context of geothermal projects. This was related to the gas engine replacement in the context of the capacity expansion at the Berekfürdő project and to the termination of former project preparation works, expected not to be put to use, as investment in progress.

Within the HUF 379,035 thousand other income in the reporting year, the most significant item is development aid received, in an amount of HUF 273,958 thousand, comprising consists of the write-back of deferred income in proportion with the depreciation charge for the reporting year relating to non-repayable investment and development grants. The increase relative to the previous period is attributable to the write-back, in the reporting period, of deferred income relating to the EDIOP project of DoverDrill Mélyfúró Ltd., completed in 2020.

Compensations and penalties relating to insured events that occurred and projects that were implemented in earlier periods made up a smaller amount – HUF 93,339 thousand – in the category of other incomes during the reporting period than in the base period. The items in this category included penalties, compensations or other damage-related income-type items received or acknowledged in relation to machine failures and service interruptions.

As a consequence of the above factors the operating profit/loss (EBIT) appeared as a profit of HUF 1,075,465 thousand in the 2020 business year, down 11.4% from the HUF 1,197,680 thousand posted in 2019.

The business cash-flow (EBITDA) comprised the influx of HUF 2,734,765 thousand with a 46.2% EBITDA ratio, exceeding the HUF 2,665,645 thousand EBITDA of 2018 by HUF 69,120 thousand.

Scheduled and extra depreciation was recognised during the reporting period in a total amount of HUF 1,616,086 thousand, up 10.2% on the preceding year's HUF 1,467,002 thousand. In calculating the EBITDA the Company takes account of the extraordinary depreciation recognised among intangible assets and tangible assets as well.

The PannErgy Group recognized a loss of HUF 813,452 thousand as the financial profit/loss in the reporting period. Of this total amount, financial expenditures amounted to HUF 918,472 thousand in the reporting period, up HUF 411,940 year-on-year.

Within the HUF 285,314 thousand expenditure incurred in the way of interests paid during the reporting period in relation to credit and loan liabilities, HUF 31,528 thousand relates to the recognition of gains realized in the reporting period on interest swaps of the Miskolc and Győr project companies. The Company replaced, through interest rate swaps, the variable interest rates of its long-term borrowings by fixed rates for the entire term of the investment loan, thus hedging the interest rate risk of future financing cash outflows.

The largest item in financial expenditures is an exchange rate loss of HUF 453,244 thousand on FX credits and loans. Within this, HUF 367,125 thousand consisted in exchange rate losses suffered on refinancing, as a result of financial settlements relating to investment credit agreements concluded. The remaining HUF 86,119 thousand represents unrealized exchange losses relating to FX credits and loans calculated based on the period-end market rates.

Of the financial profit/loss of the PannErgy Group during the reporting period the unrealised FX revaluation at the end of the period resulted in an overall loss of HUF 59,765 thousand regarding all types of assets and liabilities, having aggregated exchange rate gains and losses. In accordance with IFRS requirements, monetary items of the PannErgy Group carried in currencies other than the HUF – the functional currency – are converted into HUF at the exchange rate prevailing at the end of the period, and the (financially unrealised) exchange rate differences resulting from such conversions are recognised in the profit and loss account under financial transactions. The loss on the period-end revaluations is the result of a decrease of the HUF/EUR exchange rate relative to the previous periods.

Notwithstanding the momentary, unrealised or financial transaction effect of the aforementioned revaluation, the Company is not subject to any material long-term exchange rate risk in the course of its operation because it has a natural hedge position in view of the fact that on an annual level its income realised in foreign currencies almost entirely covers its costs (typically electricity charges) incurred in other currencies as well as its contractual debt servicing obligations, denominated in foreign currency, towards financial institutions having extended investment loans. The currency of FX items referred to above is always EUR.

There is a loss of HUF 128,043 thousand relating to derivative transactions in the reporting period; within this, HUF 127,710 thousand constituted loss on interest rate swaps closed in the course of refinancing in 2020. As a result of refinancing, the HUF bank loans were converted into fixed-interest

loans, thus there is no more need to conclude hedging interest rate swaps to cover the risk of increasing market interest rates.

Accordingly, the PannErgy Group's 2020 profit before taxes amounted to HUF 262,013 thousand, way below the previous year's HUF 781,682 thousand, owing to the above developments.

The Company recognised HUF 25,293 thousand in tax liability for the reporting period, so **it's consolidated net profit (profit after taxes) amounted to HUF 236,720 thousand** in 2020, significantly below the HUF 734,898 thousand recorded for 2019.

Key data on the asset position (HUF Th)	2020.	2019.
Fixed assets	**23,633,543**	**23,178,868**
Total current assets	3,099,472	2,794,915
Of which Liquid assets	*665,899*	*1,344,788*
Total assets	**26,733,015**	**25,973,783**
Total shareholders' equity	**9,746,789**	**10,213,948**

The portfolio of fixed assets increased by 2.0% during the reporting period, of which marketable financial instruments increased the most substantially. The Company invested part of its separated liquid assets the use of which is subject to authorization by the funding financial institution in government securities, blocked by the funding financial institution in the way of security deposit.

The decrease during the reporting period in the portfolio of intangible assets, tangible assets and concession assets was a result of scheduled depreciation which exceeded the value of the capacity increasing projects and tangible asset purchases taking place in the same period.

The Company stated HUF 678,409 thousand in the way of goodwill, similarly to the preceding period, in which the largest element is related to the minority interest acquired earlier in PannErgy Geotermikus Erőművek cPlc., in an amount of HUF 517,537 thousand. Goodwill in an amount of HUF 950 thousand is associated with the acquisition of a minority interest in Szentlőrinci Geotermia cPlc. The HUF 159,922 thousand goodwill increase in 2020 was linked to the Company's project companies in the town of Miskolc, as it purchased MIHŐ Miskolci Hőszolgáltató Ltd's minority shareholding. This transaction brought an end to the Company's minority interests.

The Company stated HUF 239,982 thousand as deferred tax receivable among its assets, down 1.2% year-on-year, as a result of the PannErgy Group's deferred tax recovery calculations.

The portfolio of current assets grew by 10.9% year-on-year, thanks to a marked increase in trade receivables, other receivables and securities.

At the end of the reporting period, the Company stated inventories – maintenance materials for use in the operation of the geothermal projects – in an amount of HUF 29,076 thousand.

Among its current assets the Company had liquid assets in an amount of HUF 665.899 thousand at the end of the period in contrast to the HUF 766,482 thousand stated at the end of the previous year.

The Company's equity decreased by 4.6% year-on-year, as a result of a combined effect of the net profit of the reporting year attributable to the Company's shareholders and the buy-back of a large quantity of treasury shares during the reporting period. The equity per share (calculated for the number of shares less the portfolio of treasury shares) grew from the previous year's HUF 572 to HUF 578.

The long term credit portfolio increased by 32.7% year-on-year to HUF 10,453,562 thousand, as a result of refinancing transactions and the draw-down of new loans during the reporting period.

The over-year part of the non-repayable grants won in the context of application schemes for the geothermal projects is shown in the other long-term deferred incomes line. In connection with this an amount of HUF 3,986,938 thousand is shown in the Company's statement of financial position, after a decrease of 1.1% year-on-year.

The balance of trading partners was HUF 814,682 thousand in the category of short term liabilities, down 10.6% year-on-year, as a result of intensive investment activities carried out during the base period, affecting the balance sheet cut-off date.

The portfolio of short-term credits, plus the short term part of the long-term credits, amounted to HUF 1,239,522 thousand at the end of the reporting period, 43.9% down from the previous year's HUF 2,206,432 thousand, also reflecting the effects of mostly refinancing credit transactions carried out during the reporting period. The portfolio of other short-term liabilities amounted to HUF 251,284 thousand at the end of the reporting period.

Key indicators	2020.	2019.
Profitability indicators		
Return on assets, % (ROA)	0.88	2.80
Return on Equity, % (ROE)	2.43	7.20
Return on Sales, % (ROS)	3.99	12.90
Asset position indicators		
Ratio of fixed assets, %	88.41	89.24
Ratio of equity capital, %	36.46	39.32
Indebtedness rate, %	174.28	154.30
Financial indicators		
Liquidity ratio	121.75	72.59
Acid test ratio	120.61	71.87
Earnings per share (EPS), in HUF	**14.01**	**40.77**

The PannErgy Group's profit after taxes for the reporting year fell short of the previous year's figure despite the increased sales revenue, owing to certain one-off financial expenditures and the exchange rate losses incurred during the year. Consequently, the Company's profitability ratios deteriorated in comparison with the base period. The asset position indicators remained more or less unchanged. The

financial ratios however, improve considerably year-on-year, thanks to the reporting period's strong cash-flow and successful credit restructuring arrangements.

3. INTRODUCTION TO THE COMPANY

3.1. *The PannErgy Group's core operations*

PannErgy Plc. ("Company" or "PannErgy") is an entity listed at the Budapest Stock Exchange, included in the BUX basket, and is a premium share issuer; its core activities involve the extraction, utilization for energy generation and selling of one of Europe's most significant thermal water resources, in particular, renewable geothermal energy. In connection with its geothermal energy generating operations the Company performs productive operations in Miskolc, Győr, Szentlőrinc and Berekfürdő. As at 31 December 2020 the PannErgy Group had a headcount of 18, with an annual average statistical headcount of 27.
PannErgy Plc. has its registered office in Hungary at H–1117 Budapest, Budafoki út 56. The Company is operating in a holding structure. For the subsidiaries' detailed data see Chapter 7.

3.2. *Regulated district heating tariffs*

Some of the project companies of PannErgy Group have district heat production licenses. Accordingly, they sell heat in an environment regulated by the Hungarian Energy and Public Utility Regulatory Office (MEKH). In this arrangement the heat sold by PannErgy Group to district heating companies is subject to the authority-regulated tariffs announced each year by the Minister for National Development in the form of the Decree of the Ministry for National Development for a period of one year from 1 October each year until 30 September the following year. The thermal energy tariff in place from 1 October 2020 for the Miskolc Geothermal Project was increased from the previous year's net 2,695 HUF/GJ to 2,626 HUF/GJ in the case of Miskolci Geotermia cPlc. and Kuala Ltd.: this is the price invoiced by these two companies for the heat sold to MIHŐ Miskolci Hőszolgáltató Ltd. In connection with the Győr Geothermal Project the regulated district heating tariff charged for the heat sold by Arrabona Koncessziós Ltd. to Győr-Szol Győri Közszolgáltató és Vagyongazdálkodó cPlc. remained unchanged at 3,204 HUF/GJ. Szentlőrinci Geotermia cPlc. may continue to sell thermal energy to Szentlőrinci Közüzemi Nonprofit Ltd. for the same price as in the previous period, that is, 3,654 HUF/GJ.

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

To enhance the diversification of the sale of heat the PannErgy Group is constantly seeking for opportunities to boost its sales of geothermal heat to industrial partners as well, in the form of primary or secondary heat utilization, besides the agreements concluded with heating utility partners. The Company's major industrial consumers purchasing heat, include Audi Hungaria cPlc. in the case of the Győr Geothermal Project, while in the case of the Miskolc Geothermal Project they include Joyson Safety Systems Hungary Ltd and GS Yuasa Magyarország Ltd.

3.4. *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'S MAIN TARGETS SET FOR 2020, AND THE ASSOCIATED RISKS

4.1. *Győri Geotermikus Projekt (DD Energy Ltd., Arrabona Concession Ltd.)*

The Győr Geothermal Project sold a total of 303,061 GJ thermal energy in 2020 Q1, down 7% year-on-year. Due to the high ambient temperatures that arrived in March, the project companies embarked on the process of shifting into a temporary out-of-heating-season operating mode during which the Company is turning the production wells into a self-flow state. Consequently, the yield of production wells decreased, however, the electricity needs of the production dropped to almost zero and, as the weather is getting warmer, the Company managed, even during this period, to meet the decreasing consumer heat demand more cost-effectively, without any decrease in profitability and, at the same time, at a higher level of operational safety. During the period of shifting into a new operating mode, some measurement, control and maintenance procedures planned for autumn could be carried out earlier.

The pandemic's most severe negative impact on heat generation came during the reporting period from the temporary shut-down of AUDI's factory in Győr between 23 March and 14 April 2020, however, PannErgy reallocated the resulting extra capacity into the town's district heating system, whereby it avoided any material impact on its profitability in H1 2020.

During the second quarter of the reporting period the Győr Geothermal Project sold a total of 134,389 GJ thermal energy, 27% down year on year. The shortfall can be partly attributed to warmer weather compared to the base period, and partly to the earlier-than-usual seasonal operating mode switch described in the production report of the first quarter.

The Győr Geothermal Project sold a total of 275,528 GJ thermal energy in 2020 Q4, down 5% year-on-year. The shortfall can be primarily attributed to the protracted capacity expansion carried out in the fourth quarter, along with unscheduled repair works.

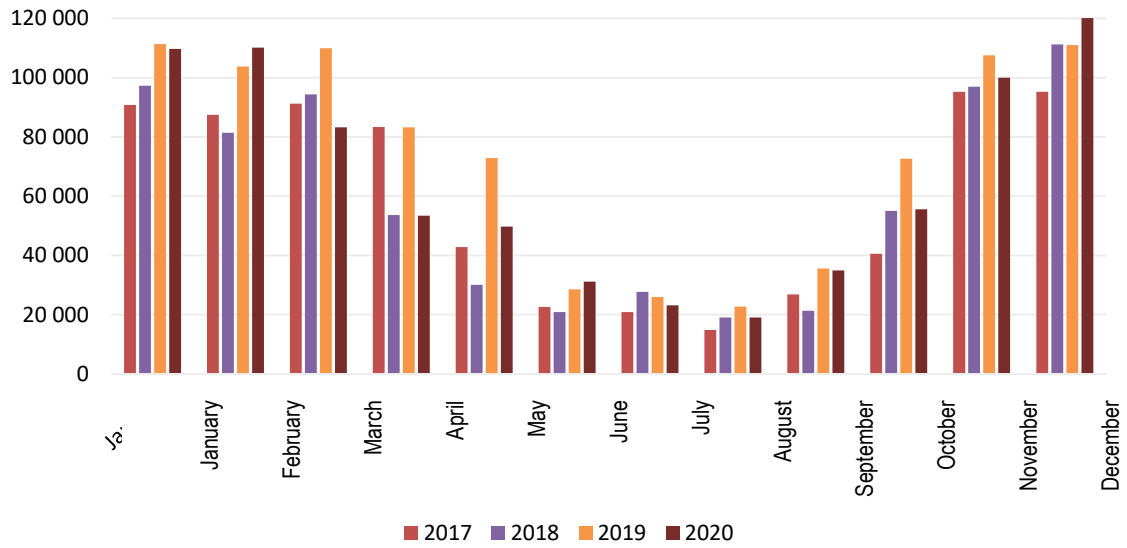
In 2020, a number of developments were carried out in the context of the Győr Geothermal Project. For the most part, their positive effect on the Company's P&L will be perceivable in 2021. A heat exchanger park was put in place with a higher throughput-capacity towards the district heating service provider and the related engineering development took place during the reporting period, which are expected to increase the annual heat input by 13–16 TJ; the expanded capacity was put into service in September 2020. Another significant capital project started and completed during the reporting year was the handover of a pump-equipped production, which was put into service in November.

The third notable capital project was raising the output temperatures of the water from the Győr production wells by 1 C° and 2 C°, respectively; this enthalpy increase was activated in early 2021.

The development projects implemented regarding the wells enable an annual 50-60 TJ increase in the heat input in the entire Győr system.

On the whole, the Company realised 790,118 GJ heat sales in the commercial operations of the Geothermal System of Győr in 2020, down 11% from the 885,107 GJ heat sold in 2019.

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



Consolidated heat sales figures of the Győr Geothermal Project (GJ)				
	2017	**2018**	**2019**	**2020**
January	90,827	97,271	111,334	109,674
February	87,471	81,359	103,768	110,166
March	91,190	94,356	109,948	83,221
April	83,321	53,599	83,265	53,418
May	42,783	30,106	72,868	49,791
June	22,612	20,857	28,558	31,180
July	20,936	27,744	25,953	23,164
August	14,891	19,028	22,703	19,056
September	26,895	21,381	35,621	34,920
October	40,603	54,990	72,587	55,529
November	95,198	96,894	107,473	99,915
December	95,254	111,153	111,029	120,084
Total	**711,981**	**708,738**	**885,107**	**790,118**

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

The Geothermal System of Miskolc sold a total of 300,240 GJ thermal energy in 2020 Q1, up 2% compared to the thermal energy sales of the same period in 2019.

Thereafter, in 2020 Q2 it sold a total of 135,750 GJ thermal energy in 2020 Q2, down 11% year-on-year, as a consequence of slightly higher temperatures throughout the month of May.

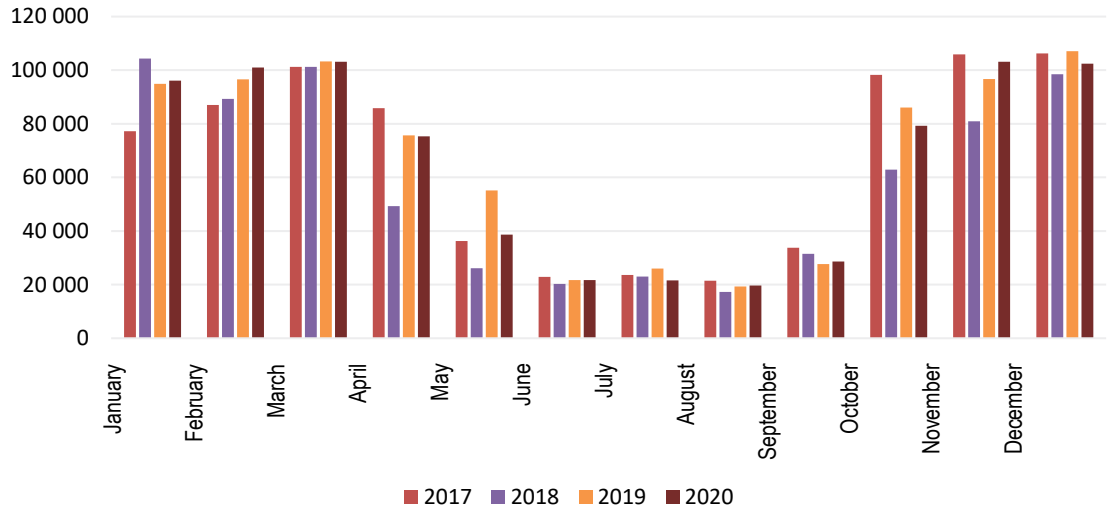
The Geothermal System of Miskolc sold a total of 69,955 GJ thermal energy in 2020 Q3, showing a 4% decline compared to heat sales data of the same period in 2019.
Pursuant to legislation, the heating season starts on 15 September and ends on 15 May of the following year. Continuous district heating supply starts on 15 October and ends on 15 April. Based on the Operating Agreement concluded with the communities of residents, service providers automatically

start district heating services on 15 September if the average outdoor temperature remains under 10°C for 1 day or under 12°C for 3 consecutive days. The communities of residents may ask for deviation from the date of the automated startup of heating if all the condominiums belonging to a specific district heating center submit a written notice to that effect to the district heating service provider. The service provider in Miskolc, MIHŐ Miskolci Hőszolgáltató Ltd., commenced intermittent district heating services on 27 September for the heating season of 2020/2021, a few days earlier than last year.

The Geothermal System of Miskolc sold a total of 284,890 GJ thermal energy in 2020 Q4, showing a 2% decline compared to heat sales data of the same period in 2019.

Overall, the Company realised 790,835 GJ heat sales in the commercial operations of the Geothermal System of Miskolc during the first half of 2020, down 2% from the 810,152 GJ heat sold during the previous year.

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



Consolidated heat sales figures of the Miskolc Geothermal Project (GJ)				
	2017	**2018**	**2019**	**2020**
January	77,189	104,384	94,905	96,115
February	87,028	89,328	96,584	101,002
March	10,122	101,218	103,323	103,123
April	85,882	49,254	75,663	75,372
May	36,298	26,094	55,201	38,645
June	22,886	20,263	2,174	21,733
July	23,556	23,021	26,002	21,623
August	21,476	1,733	19,279	19,685
September	33,757	31,535	27,677	28,647
October	98,227	62,881	86,057	79,291
November	105,953	80,937	96,644	103,157
December	106,247	98,549	107,077	102,442
Total	**799,719**	**704,794**	**810,152**	**790,835**

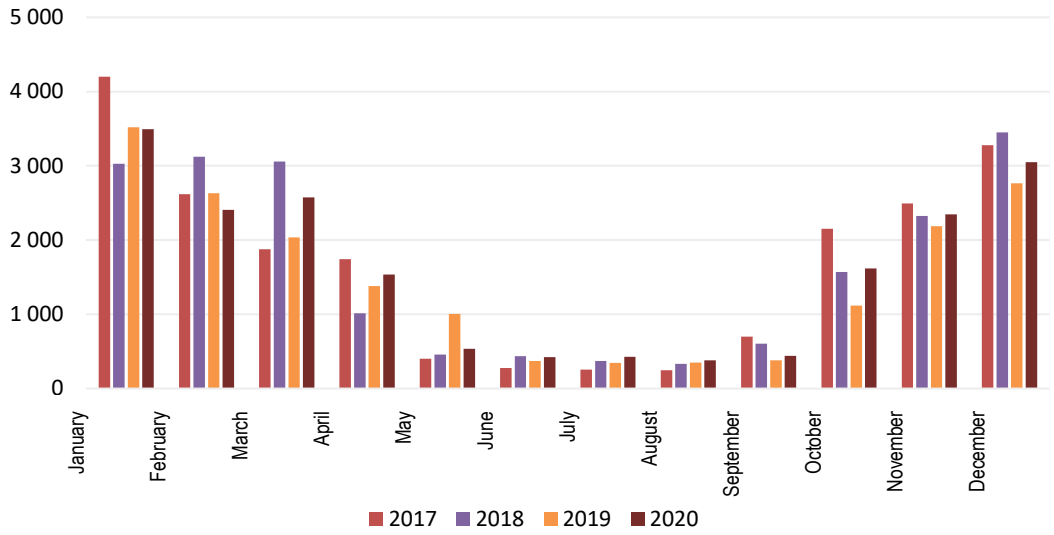
In 2020, a number of developments were carried out in the context of the Miskolc Geothermal Project, the effect of which was already perceivable in 2020. Mention should, in particular be made of the cutting of specific electricity consumption resulting from the transformation of the engineering system associated with the production wells. The transformed system was put into service in January 2020.

Another major development project took place in October 2020 where temperature drop on the heat exchanger was reduced by transforming the heat exchanger of one of the production wells, enabling a 5–8 TJ increase in annual thermal energy transmission.

4.3. *The geothermal heating facility of Szentlőrinc (Szentlőrinci Geotermia cPlc.)*

In Szentlőrinc, the volume of heat sold was 19,225 GJ, 16% more than in the base period. The Geothermal Facility of Szentlőrinc can fully meet the heat demand of the local district heating system on its own; thus the weather sensitivity of the geothermal heat input is significantly higher than that of district heating systems with complex heat resources.

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



Consolidated heat sales figures of the Szentlőrinc Geothermal Project (GJ)				
	2017	**2018**	**2019**	**2020**
January	4,200	3,026	3,519	3,492
February	2,617	3,124	2,630	2,407
March	1,877	3,057	2,035	2,574
April	1,741	1,013	1,380	1,534
May	402	458	1,004	536
June	276	434	372	422
July	253	370	347	429
August	245	334	348	381
September	700	603	382	439
October	2,154	1,570	1,118	1,616
November	2,491	2,323	2,186	2,345
December	3,278	3,450	2,763	3,050
Total	**20,234**	**19,762**	**18,084**	**19,225**

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

The Geothermal Methane Utilization Small Power Plant of Berekfürdő sold a total of 782,205 kWh electricity during the reporting period. Electricity sales in 2020 was adversely affected by the fact that it was not until the last month of the reporting year that the complex efficiency improvement project (involving the replacement of the gas engines as well) was put into service. The project's sales revenue and EBITDA increasing effects will be realised in the year following the reporting period. A total of 2,238 GJ of heat was sold in 2020, down 21% from the 2,835 GJ sold in 2018. Another factor contributing to the drop in sales revenue (besides the unfavourable availability of the gas engines before the above project) was the pandemic, as a consequence of the closures (e.g. swimming pools) as part of the measures introduced in response to it, affecting our heat-receiving partners among others.

5. OVERVIEW OF THE ENERGY INDUSTRY, THE SECTOR OF OUR CORE OPERATIONS

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

In 2007, PannErgy set itself an ambitious goal of generating substantial volumes of thermal energy and electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutions of the country as well as for PannErgy's shareholders. The increase in the demand for energy is unstoppable in the long term – in spite of temporary set-backs from time to time – however, both the domestic and the global resources are limited. Professional, effective and efficient geothermal energy production is not only a form of utilization of a hitherto hardly used

immense source of energy but also one of the most environmentally friendly and cleanest form of energy generation. The European Union has not only come to welcome such forms of energy generation but it is now guiding member states, including Hungary, by way of a strictly regulated program and clear-cut objectives as well.

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

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

May 2013 saw the start-up of Central Europe's largest geothermal power plant, in the form of an investment project implemented by the PannErgy Group. The Geothermal Project of Miskolc won the international GeoPower Market's "2013 best heating project" award. The PannErgy Group had implemented the second phase of the Geothermal Project of Miskolc by September 2014, and the system started to supply thermal energy in the town of Miskolc to the Downtown and the University heating districts as well, in addition to that of the Avas residential area.
The capacity of the geothermal system enables the supply of additional consumers with environmentally friendly geothermal energy, besides the district heating system of the town of Miskolc as its primary heat consumer.

The PannErgy Group launched its second largest investment project – the Győr Geothermal Project – in the Kisalföld region in early 2014. 24 November 2015 marked the inauguration of the Győr Geothermal Project, a development with a total cost of HUF 10.2 billion. Geothermal energy is delivered to a total of 24 thousand homes and the heating systems of nearly a thousand other consumers under a long term heat supply contract concluded between the PannErgy Group and the district heating company called Győr-Szol cPlc. The energy to be supplied by the Heating Centre at Bőny covers at least 60% of the heating energy requirement of the AUDI factory. The total annual quantity of thermal energy to be supplied by the Geothermal System of Győr is 1,100 – 1,200 terajoule, enabled by commissioning of the third production well (BON-PE-03) implemented at Bőny in the context of the PannErgy Group's concession project.

6. THE PANNERGY GROUP'S STRATEGY, ENVIRONMENTAL OBJECTIVES

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.

6.1. *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.

6.2. *PannErgy for the prevention of climate change*

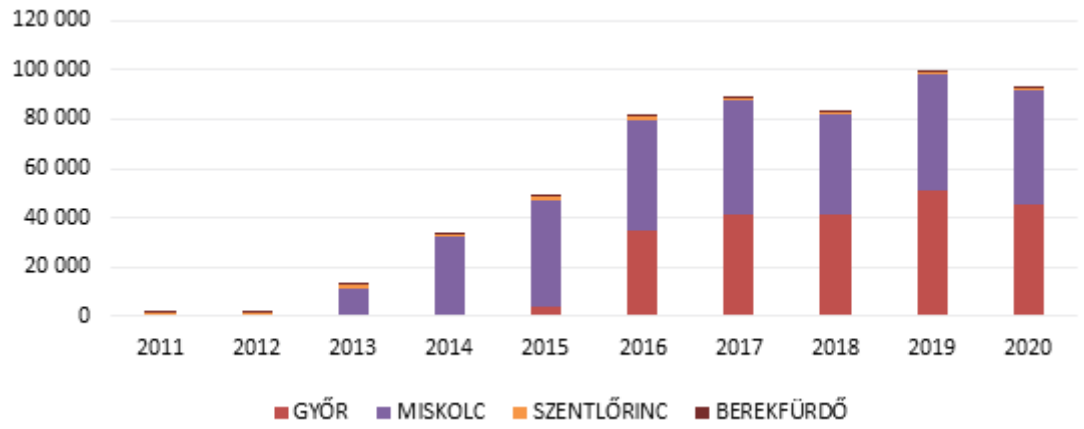
In line with global efforts, Hungary intends to take resolute action against climate change. The key energy sector action plan for these efforts is the new National Energy Strategy (NES) published in January 2020, which replaced a similar strategy published in 2011. The NES presents the future of the 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.



6.3. *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.

7. THE PANNERGY GROUP'S SUBSIDIARIES

PannErgy Plc., the parent company, has a 100% share of ownership in PannErgy Geothermal Power Plants cPlc., the Group's technical/professional leader company, which in turn is 100% direct owner of all PannErgy project companies and group member companies.
The PannErgy Group has subsidiaries only in Hungary and the member companies are operating in the territory of Hungary.

7.1. *The PannErgy Group's subsidiaries, ratios of participations and consolidation*

PannErgy subsidiaries	Share capital (HUF Mn)	Shareholding (%)	Voting rights (%)	Consolidation ratio (%)
PannErgy Geothermal Power Plants cPlc.	2,072.70	100.00	100.00	100.00
DoverDrill Mélyfúró Ltd.	86.00	100.00	100.00	100.00
Berekfürdő Energia Ltd.	24.10	100.00	100.00	100.00
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

7.2. *Key 2020 data of PannErgy's consolidated subsidiaries, on the basis of individual reports*

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 cPlc.	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	-

8. THE COMPANY'S OWNERSHIP STRUCTURE, SENIOR OFFICERS

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

Shareholders	Total share capital = Introduced series					
	01.01.2020			31.12.2020		
	%	%	shares	%	%	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
International Development Institutions	-	-	-	-	-	-
Other	-	-	-	-	-	-
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.

8.2. *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

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

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

	01.01.2020	30.06.2020	31.12.2020
At company level	2,256,230	2,669,230	3,254,767
Subsidiaries [1]	935,203	935,203	935,203
Total [2]	**3,191,433**	**3,604,433**	**4,189,970**

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

[2] 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. The difference between the above 4,189,970 treasury shares stated in the records and the total of 4,186,970 treasury shares appearing in the share register as at 31 December 2020 is the result of the purchase of 3,000 treasury shares at the end of the reporting period (which had thus been acquired but not delivered yet).

8.4. *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.
PannErgy Group's Consolidated annual statements prepared in accordance with the international financial reporting standards and the annual report are signed by Dénes Gyimóthy, acting Chief Executive Officer, as authorised by the BoD.

9. HEADCOUNT INFORMATION

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

Own staff	31.12.2020	31.12.2019	Change
PannErgy Plc.	-	-	-
Affiliated entities	27	27	-
Total	**27**	**27**	**-**

The PannErgy Group's had an average statistical headcount of 27 in 2020, the same as in 2019. On 31 December 2020 the actual number of staff working for the PannErgy Group was 18; the difference between the average statistical headcount and the actual number of employees is attributable to part-time employment across group members and the increased headcount during the year.

10. DISTRIBUTION OF DIVIDENDS

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 236,278 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. The scheduled starting date of the dividend payment is 14 July 2021.

11. TREASURY SHARE BUYBACKS, BUYBACK PROGRAMS DURING THE REPORTING PERIOD

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.
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. The difference between the above 4,189,970 treasury shares stated in the records and the total of 4,186,970 treasury shares appearing in the share register as at 31 December 2020 is the result of the purchase of 3,000 treasury shares at the end of the reporting period (which had thus been acquired but not delivered yet).

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 portfolio of treasury shares did not decrease and there was no share option program in place during the period concerned.

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.

Details of the treasury share buyback program concluded during the reporting period:
In accordance with Resolution No. 6/2019. (IV. 26.) of the Company's General Meeting held on 26 April 2019, PannErgy Plc. launched a treasury share repurchasing program starting on 2 May 2019 and ending on 26 April 2020. Under the programme, PannErgy Plc. was entitled to purchase treasury shares up to HUF 1,000 million. The Company aimed at purchasing 1,000 PannErgy Plc. equity shares per trading day at the Budapest Stock Exchange. The purchase price equals the current market price corresponding to the prevailing strike price, but cannot exceed HUF 950 per share. The Company had purchased 413,000 shares by 26 April 2020 in the framework of this treasury share buyback programme; together with the 157,300 shares purchased in 2019 a total of 570,300 treasury shares were purchased under the program closed on 27 April 2020.

Details of the treasury share buyback program commenced during the reporting period:
By its resolution No. 2020.04.30./5. of 30 April 2020 the Board of Directors—acting in the capacity of the General Meeting in accordance with Section 9(2) of Government Decree 102/2020 (April 10) on derogating provisions governing the operation of partnerships and joint-stock companies during the state of danger—authorized the Board of Directors to purchase own shares up to an amount of HUF 1,000,000,000 (that is one billion Hungarian forints) at a share price amounting to at least HUF 1 and up to HUF 750 as the maximum. Under the program so adopted the Board of Directors is authorised to purchase as many shares as will make sure that the portfolio of treasury shares does not, at any time during the period covered by the authorisation, exceed 25% of the total portfolio of shares the Company has issued. The authorization shall be valid during the period starting on 1 May 2020 and ending on 29 April 2021, providing that treasury shares may only be purchased on the exchange. By its resolution 3./2020 (VIII.7.) the General Meeting held on 7 August 2020 approved – 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 – resolution 2020.04.30./5. adopted by the BoD in its scope of competence as general meeting concerning the purchase of treasury shares based on BoD authorisation.
A total of 585,537 treasury shares were purchased during the second half of the reporting period under this still ongoing treasury share buyback program.

12. Main risks faced by the Company, associated uncertainties

A particularly high geological risk is a specific feature of all geothermal projects, which the Group members mitigate by the gathering and integrated processing of the widest possible range of geological and other technical/professional and scientific information. The impacts of the risks relating to operational activities and their management are discussed in *Note 41. Financial risk management* in the 2020 consolidated financial statements.

The Company works out a Responsible Corporate Governance Report in accordance with the Responsible Corporate Governance Recommendations released by the Budapest Stock Exchange. The report contains corporate governance information and is adopted by the Company's supreme body simultaneously with the adoption of the annual consolidated report.

13. 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.

14. Main events during the period covered by the consolidated statement of financial position

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

Date	Type of news	Subject, brief content
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
28 December 2020	Extraordinary information	Treasury share transaction
21 December 2020	Extraordinary information	Corporate events calendar
20 December 2020	Extraordinary information	Treasury share transaction
13 December 2020	Extraordinary information	Treasury share transaction
6 December 2020	Extraordinary information	Treasury share transaction
30 November 2020	Extraordinary information	Number of voting rights at PannErgy Plc.
29 November 2020	Extraordinary information	Treasury share transaction
22 November 2020	Extraordinary information	Treasury share transaction
17 November 2020	Extraordinary information	PannErgy to increase its share to 100% in Miskolci Geotermia CPlc. and Kuala Ltd.
15 November 2020	Extraordinary information	Treasury share transaction
10 November 2020	Extraordinary information	PannErgy concluded a HUF 1 billion investment credit facility agreement
8 November 2020	Extraordinary information	Treasury share transaction
1 November 2020	Extraordinary information	Number of voting rights at PannErgy Plc.
1 November 2020	Extraordinary information	Treasury share transaction
25 October 2020	Extraordinary information	Treasury share transaction
18 October 2020	Extraordinary information	Treasury share transaction
15 October 2020	Extraordinary information	Quarterly production report
11 October 2020	Extraordinary information	Treasury share transaction
5 October 2020	Extraordinary information	Treasury share transaction
1 October 2020	Extraordinary information	Regulated heat tariffs for the district heat supply period of 2020–2021
1 October 2020	Other information	Number of voting rights at PannErgy Plc.
29 September 2020	Other information	The district heating season has started in Miskolc
27 September 2020	Extraordinary information	Treasury share transaction
20 September 2020	Extraordinary information	Treasury share transaction
13 September 2020	Extraordinary information	Treasury share transaction

10 September 2020	Extraordinary information	Disclosure of Transactions by Persons Discharging Managerial Responsibilities
6 September 2020	Extraordinary information	Treasury share transaction
31 August 2020	Other information	Number of voting rights at PannErgy Plc.
30 August 2020	Extraordinary information	Treasury share transaction
27 August 2020	Extraordinary information	Articles of Association
23 August 2020	Extraordinary information	Treasury share transaction
19 August 2020	Extraordinary information	Personal change in PannErgy Plc's Board of Directors
19 August 2020	Extraordinary information	Change in voting rights
18 August 2020	Extraordinary information	Change of shares held by an individual carrying out managerial duties in PannErgy Plc.
15 August 2020	Extraordinary information	Treasury share transaction
8 August 2020	Extraordinary information	Detailed description of the share repurchasing programme
7 August 2020	Extraordinary information	General Meeting Resolutions
6 August 2020	Extraordinary information	Semi-annual report
2 August 2020	Other information	Number of voting rights at PannErgy Plc.
24 July 2020	Extraordinary information	General Meeting
22 July 2020	Extraordinary information	Owner's announcement
17 July 2020	Extraordinary information	Owner's announcement
17 July 2020	Extraordinary information	Owner's announcement
15 July 2020	Extraordinary information	Quarterly production report
15 July 2020	Extraordinary information	PannErgy secures long-term refinancing for bank loans
3 July 2020	Proposals to the General Meeting	Resolutions adopted by the Management Board of PannErgy Plc.
3 July 2020	Proposals to the General Meeting	Proposals to the Board of Directors
30 June 2020	Other information	Number of voting rights at PannErgy Plc.
19 June 2020	Extraordinary information	Invitation to the General Meeting
10 June 2020	Extraordinary information	Correction to the Announcement by shareholders
9 June 2020	Extraordinary information	Owner's announcement
1 June 2020	Other information	Number of voting rights at PannErgy Plc.
4 May 2020	Extraordinary information	Shareholders' request for the convening of a General Meeting
1 May 2020	Other information	Number of voting rights at PannErgy Plc.
30 April 2020	Extraordinary information	Information on shares held by the newly appointed executive officer
30 April 2020	Extraordinary information	Remuneration Policy approved by PANNERGY PLC's Board of Directors on behalf of the Company's Regular Annual General Meeting
30 April 2020	Extraordinary information	PANNERGY PLC's Responsible Corporate Governance Report in accordance with the Responsible Corporate Governance Recommendations released by the Budapest Stock Exchange
30 April 2020	Annual Report	2019 IFRS report approved by PANNERGY PLC's Board of Directors on behalf of the Company's Regular Annual General Meeting

30 April 2020	Annual Report	2019 report approved by PANNERGY PLC's Board of Directors on behalf of the Company's Regular Annual General Meeting
30 April 2020	General Meeting Resolutions	Resolutions adopted by PANNERGY PLC's Board of Directors on behalf of the regular annual General Meeting convened for 30 April 2020
28 April 2020	Extraordinary information	The heating season has ended
27 April 2020	Extraordinary information	Supplement to the notice related to the annual regular General Meeting
27 April 2020	Extraordinary information	Treasury share transaction
22 April 2020	Proposals to the General Meeting	Resolutions adopted by the Management Board of PannErgy Plc.
22 April 2020	Extraordinary information	Personal change in PannErgy Plc's Board of Directors
19 April 2020	Extraordinary information	Treasury share transaction
17 April 2020	Extraordinary information	Extraordinary information on the annual regular General Meeting
15 April 2020	Extraordinary information	Quarterly production report
13 April 2020	Extraordinary information	Treasury share transaction
9 April 2020	Extraordinary information	The General Meeting convened for 17 April is cancelled
5 April 2020	Extraordinary information	Treasury share transaction
31 March 2020	Other information	Number of voting rights at PannErgy Plc.
27 March 2020	Proposals to the General Meeting	Resolutions adopted by the Management Board of PannErgy Plc.
27 March 2020	Proposals to the General Meeting	2019 Individual Annual Report
27 March 2020	Proposals to the General Meeting	2019 Consolidated Financial statements and Annual Report of PannErgy Plc. and its subsidiaries
27 March 2020	Proposals to the General Meeting	Proposals to the Board of Directors
27 March 2020	Extraordinary information	Number of voting rights at PannErgy Plc.
27 March 2020	Extraordinary information	Treasury share transaction
26 March 2020	Extraordinary information	The impact of the COVID-19 epidemic on the Annual General Meeting
22 March 2020	Extraordinary information	Treasury share transaction
17 March 2020	Extraordinary information	Production at AUDI's factory in Győr stops
17 March 2020	Extraordinary information	Invitation to the General Meeting
15 March 2020	Extraordinary information	Treasury share transaction
8 March 2020	Extraordinary information	Treasury share transaction
1 March 2020	Other information	Number of voting rights at PannErgy Plc.
1 March 2020	Extraordinary information	Treasury share transaction
23 February 2020	Extraordinary information	Treasury share transaction
17 February 2020	Extraordinary information	Treasury share transaction
15 February 2020	Extraordinary information	Changes to the implementation of the share-buyback program
9 February 2020	Extraordinary information	Treasury share transaction
2 February 2020	Other information	Number of voting rights at PannErgy Plc.
2 February 2020	Extraordinary information	Treasury share transaction
26 January 2020	Extraordinary information	Treasury share transaction

19 January 2020	Extraordinary information	Treasury share transaction
15 January 2020	Extraordinary information	Quarterly production report
12 January 2020	Extraordinary information	Treasury share transaction
2 January 2020	Other information	Number of voting rights at PannErgy Plc.

15. DATE OF AUTHORIZATION OF DISCLOSURE

The Company's Board approved the financial statements and authorized their disclosure on 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 Finance

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 IFRS consolidated financial statements and business as well as management reports of the PannErgy Group, pursuant to the statutory requirement laid down in sections 2.4 and 3.4 of Appendix 1 to Decree 24/2008 of the Minister of Finance:

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

- the business report attached to the annual report provides a reliable picture of the position, development and performance of PannErgy Plc. as public securities issuer company, laying out the key risks and uncertainties;

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

- the business and management report attached to the 2020 consolidated financial statements (aggregated consolidated management report), prepared in accordance with the applicable IFRS rules, provides a reliable picture of the position, development and performance of PannErgy Plc. as a public securities issuer company, and the consolidated entities laying out the key risks and uncertainties.

Dénes Gyimóthy
Representing the Board of Directors