PannErgy Plc. and its Subsidiaries Consolidated Financial Statements and Annual Report prepared in accordance with the IFRS standards 2023

Including the Independent Auditor's Report

THIS ANNOUNCEMENT IS PUBLISHED IN HUNGARIAN (MANDATORY, OFFICIAL) AND ENGLISH LANGUAGES. IN CASE OF ANY CONTRADICTION BETWEEN THESE TWO VERSIONS, THE OFFICIAL HUNGARIAN VERSION SHALL PREVAIL.

The attached pdf report is not the official report of the Company; the official report will be drawn up and published in ZIP (specifically XHTML-XBRL) format as required by applicable legislation. The contents of the attached pdf report are fully identical with those of the report published in ZIP (specifically XHTML-XBRL) format.

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PannErgy Plc. and its Subsidiaries

Consolidated financial statements compiled in conformity with the IFRS standards

31 December 2023

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Budapest, 27 March 2024

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note no.	31 December 2023	31 December 2022
		HUF Mn	HUF Mn
Goodwill	15	678	678
Other intangible assets	15	1,661	1,724
Tangible assets	16	19,528	20,053
Investment properties	16	89	101
Marketable properties	16	-	-
Other invested financial assets	17	-	-
Financial assets (concession assets)	18, 44	-	-
Receivables from deferred taxes	33	120	139
Long-term receivables	19	-	-
Total fixed assets		**22,076**	**22,695**
Inventories	21	30	25
Trade receivables	22	2,058	2,260
Other receivables	23	290	1,305
Prepaid income taxes	33	-	-
Securities	24	284	417
Liquid assets	35	1,514	629
Total current assets		**4,176**	**4,636**
TOTAL ASSETS		**26,252**	**27,331**
Subscribed capital	25	400	400
Reserves without comprehensive income for the reporting year	27	15,222	14,139
Net P/L of the reporting year	34	1,716	1,310
Reserve for repurchased treasury shares	26	-5,880	-5,315
Minority shareholdings	28	-	-
Total shareholders' equity		**11,458**	**10,534**
Long-term loans, leases	29	8,163	9,086
Other long-term deferred incomes	29.4	3,187	3,439
Provisions	31	336	144
Total long-term liabilities		**11,686**	**12,669**
Trade payables	36	804	779
Short-term credits	30	9	1,169
Short-term part of long-term credits	30	1,359	1,308
Short term part of other long-term deferred incomes	30.1	275	275
Other short-term liabilities	32	661	597
Total short-term liabilities		**3,108**	**4,128**
TOTAL LIABILITIES AND EQUITY		**26,252**	**27,331**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Note no.	2023	2022
		HUF Mn	**HUF Mn**
Revenue from sales	*6*	9,668	7,145
Direct cost of sales	*8*	-6,625	-5,047
Gross margin		**3,043**	**2,098**
Gross profit ratio %		**31%**	**29%**
Gross cash flow		**4,883**	**3,813**
Gross cash flow rate %		**51%**	**53%**
Indirect costs of sales	*7*	-688	-582
Other revenues	*11*	320	748
Other expenditures	*10*	-597	-368
Operating profit		**2,078**	**1,896**
Operating profit ratio %		**21%**	**27%**
EBITDA		**3,930**	**3,612**
EBITDA rate %		**41%**	**51%**
Financial profit	*12-13*	-241	-480
Profit before taxes		**1,837**	**1,416**
Income tax	*33*	-121	-106
Net profit for the year		**1,716**	**1,310**
Profit/loss, attributable to Shareholders of the Company		**1,716**	**1,310**
Share of non-controlling interests in net profit for the year	*28*	**-**	**-**
Earnings per ordinary share – Basic (HUF)		**112**	**82**
Earnings per ordinary share – Diluted (HUF)		112	82

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	2023	2022
	HUF Mn	HUF Mn
Net profit for the year	**1,716**	**1,310**
Other comprehensive income		
Other comprehensive income in the period with tax implications	-	-
Total comprehensive income for the year / attributable to	**1,716**	**1,310**
Shareholders of the Company	**1,716**	**1,310**
Share of minority (external) shareholders in total other comprehensive income	-	-

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Description	Subscribed capital	Reserves	Repurchased treasury share	Participation of external members	Equity
Balance as at 31 December 2021	**421**	**14,404**	**-4,845**	**-**	**9,980**
P/L for 2022	-	1,310	-	-	1,310
Changes in the participation of external members	-	-	-	-	-
Difference arising from consolidation or transformation	-	-3	-	-	-3
Share option programme	-	-	-	-	-
Repurchased treasury shares	-	1,055	-1,514	-	-459
Decrease in treasury shares	-21	-1,023	1,044	-	-
Distribution of dividends	-	-294	-	-	-294
Changes in the Accounting Policy	-	-	-	-	-
Balance as at 31 December 2022	**400**	**15,449**	**-5,315**	**-**	**10,534**
P/L for 2023	-	1,716	-	-	1,716
Changes in the participation of external members	-	-	-	-	-
Difference arising from consolidation or transformation	-	17	-	-	17
Share option programme	-	-	-	-	-
Repurchased treasury shares	-	-	-809	-	-809
Decrease in treasury shares	-	-244	244	-	-
Distribution of dividends	-	-	-	-	-
Changes in the Accounting Policy	-	-	-	-	-
Balance as at 31 December 2023	**400**	**16,938**	**-5,880**	**-**	**11,458**

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note no.	2023	2022
Liquid assets from operations		**HUF Mn**	**HUF Mn**
Profit before taxes		**1,837**	**1,416**
Adjustments in relation to the profit before taxes and the cash flow of business operations			
Amortisation and depreciation of tangible and intangible assets	15-16.	1,845	1,716
Effect of deferred taxes	33	19	44
Income tax expenditures	33	-121	-106
Exchange gain/loss on credits	14	-116	37
Impairment of tangible assets, goodwill	10,16	6	-
Impairment losses and shortage of inventories	10,21	-	-
Impairment losses of receivables	10,39	-	1
Change in provisions in the reporting year	31	192	144
Changes in the fair value of properties	11,16	-	-
Profit on the sales of tangible assets	11	-	-
Changes in minority participations	28	-	-
Changes in working capital elements			
Increase/decrease in inventories	21	-5	-18
Income taxes paid	23	-	-
Increase/decrease in receivables	22,23	1,217	-1,447
Increase/decrease in payables	32,36	89	58
Increase/decrease in prepaid income taxes	23	-	23
Net liquid assets originating/used from operations		**4,963**	**1,868**
Liquid assets from investments			
Acquisition of investments in private companies	16	-	-
Increase/decrease in existing investments	16	-	-
Acquisition of tangible and intangible assets	15-16	-1,251	-1,715
Change in financial assets (concession assets)	18	-	-
Sales of tangible and intangible assets	15-16	-	90
Change in long-term and short-term deferred income	29.4	-252	-275
Changes in long-term receivables	19	-	-
Liquid assets from investment operations		**-1,503**	**-2,106**
Financial operations			
Increase/decrease in long-term loans	14,29	-807	-952
Increase/decrease in short-term loans	30	-1,109	880
Difference from consolidation and changes in other reserves	27	17	-3
Purchase of treasury shares	26	-809	-459
Distribution of dividends	27	-	-294
Increase/decrease in securities	24	133	213
Liquid assets used for financial operations		**-2,575**	**-615**
Net increase/decrease in cash and cash equivalents		**885**	**-647**
Cash and cash equivalents as at 1 January		**629**	**1,276**
Cash and cash equivalents as at 31 December		**1,514**	**629**

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1. General background and description of activities

PannErgy Plc. (hereinafter: PannErgy Plc., PannErgy or the Company), as the legal successor of Pannonplast Plc., a company established more than 100 years ago, has a history of almost one hundred years but is operating efficiently and sustainably in accordance with today's requirements, whose mission is to build the future by providing clean and renewable energy solutions while providing the means – through the utilisation of geothermal energy as a renewable energy source – for sustainable development and value creation.
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 organisations. 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 utilisation of renewable, and in particular geothermal energy resources. As at 31 December 2023, PannErgy Plc.'s subsidiaries operated projects for the utilisation of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő.

The subsidiaries are listed in Note 42.

PannErgy Plc. is an entity listed on the Budapest Stock Exchange, included in the BUX basket, and is a premium share issuer. The free-float proportion, that is, the proportion of shares held by shareholders with individual shareholdings below 5% was 43% as at 31 December 2023.

The registered address of the Company is: Hungary, 1112 Budapest, Boldizsár u 2. The Company moved headquarters during the reporting period from the previous address of 1117 Budapest, Budafoki út 56. to the above location.

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: PannErgy Group or the Group) were compiled in conformity with the International Financial Reporting Standards adopted by the European Union (hereinafter: IFRS or EU IFRS). The consolidated financial statements were drawn up in compliance with the requirements of *Act C of 2000 on Accounting* relevant 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 million 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.

From 1 January 2017 PannErgy Plc., as a company listed in a regulated market of the European Economic Area, is required to apply the EU IFRS for the purposes of its individual reporting. In accordance with the statutory 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 at 31 December 2023.
The consolidated financial statements of the PannErgy Group present the Group's consolidated financial position and the results of its operations and cash flows as well as changes in equity.

3. INFORMATION ON THE PREPARATION OF THE ESEF REPORT

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 for companies listed on exchanges regulated by the European Union, including PannErgy Plc. The new, consolidated financial statements need to be officially produced in XHTML format since then, which facilitates the use of inline XBRL (iXBRL), where data consolidated in conformity with the IFRS must be recorded. **In accordance with the relevant legislation, as in the previous year, PannErgy compiles, and submits to the regulatory authorities, its official, consolidated financial statements for 2023 in XHTML format, which contains iXBRLs, in ZIP format in line with the relevant rules, wherever required.**

In preparing the official ESEF report for 2023 the Company acted in accordance with the relevant legislation as detailed below:

- The Company used the ESEF 2021 taxonomy in preparing the official consolidated financial statements for 2023 in XHTML format containing iXBRLs;
- The notes to the consolidated financial statements were fully covered and marked with the block tags according to the ESEF regulation;
- The ESEF regulation issued by the ESMA includes tags that have multiple meanings. The Company uses such tags simultaneously with the tags having single meanings, in all cases where they may be of relevance in terms of content;
- In attaching tags to the content of the report the Company takes care not to create irrelevant extension tags; instead, it uses mandatory tags of identical content and already included in the taxonomy used in the regulation;
- Where an extension tag needs to be used, it is only used after thorough consideration and assessment and in all such cases the mandatory tag that is the closest to the extension in terms of content, is "anchored" in place;
- The Company pays particular attention to avoid using tags pertaining to the accounting policy in relation to descriptive/accounting disclosures, and vice versa;
- When using tags the Company checks to make sure that orders of magnitude of the place values of the numeric tags applying to primary financial statements and specific notes match the rounding applied to the item concerned;
- Because they are irrelevant for the operation, the Company does not include information for mandatory tags pertaining to the notes regarding: calculations different from IFRS, assets typical to financial institutions, financial institution settlements, activities not to be continued, special costs, information regarding insurance companies, information regarding mining, special construction for customers, derived securities, biological assets;
- In relation to the preparation of the ESEF format report the Company has built up its control processes and integrated them in its annual reporting process. In relation to this, a summary

that is readable to the human eye is prepared of the matching information (judgements) relating to tagging, for those in charge of approving the consolidated financial statements;

- The task of tagging the financial statements is performed not by an external service provider but by the Company's accounting team using the Regnology (previously: InVoke) software – qualifies by the ESEF and included in the ESEF Certified Software list, under the direction of the accounting manager;
- services (help desk services relating to ESEF software) are provided for the Company in relation to the preparation of the ESEF report by RamaSoft Adatszolgáltató és Informatikai CPlc. as a consultant;
- The Company's auditor checks the tagging of the ESEF report in terms of professional conformity and completeness assessment. The Company provides the auditor with the lists and statements required for the auditor to ascertain the completeness and conformity of tagging (so that the auditor can check all tagged data and figures) and assess the risk of wrong tagging. In addition to supplying data the Company provides access – with querying authorisation – to the ESEF software it uses, for the performance of additional checks;
- **In accordance with the applicable legal regulations the Companies do not prepare their individual reports in ESEF format.**

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.
The financial statements are prepared on the basis of the going concern principle.

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.

PannErgy Plc. has a 100% stake in each of its subsidiaries. Accordingly, there are only subsidiaries besides the consolidating parent company PannErgy Plc. – there is no minority shareholding or non-influence based influence in other companies.

4.3. *Effects of the amended rules of the IFRS standards to be implemented on 1 January 2023 and of the introduction of new standards on the financial statements*

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

Amendments to 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 2023).

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

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

IFRS 17 Insurance Contracts, including the amendments to IFRS 17 (to be applied for reporting periods beginning on or after 1 January 2023);

Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Accounting Estimates (applicable to reporting periods beginning on or after 1 January 2023);

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 – Disclosure of Accounting Policies (to be applied to reporting periods beginning on or after 1 January 2023);

Amendments to IAS 12 Income Taxes – Deferred Tax related to Assets and Liabilities Arising from a Single Transaction (to be applied for reporting periods beginning on or after 1 January 2023);

Amendments to IFRS 17 Insurance Contracts – Initial application of IFRS 17 and IFRS 9 – Comparative Information (to be applied to reporting periods beginning on or after 1 January 2023).

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:

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

Amendments to IFRS 16 Leases – Lease Liability in a Sale and Leaseback (to be applied to reporting periods beginning on or after 1 January 2024);

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (the effective date has been postponed for an indefinite time until the research project arrives at a conclusion regarding the equity method);

IFRS 14 Regulatory Deferral Accounts (to be applied for reporting periods beginning on or after 1 January 2016) – The European Commission adopted a decision that it would not apply the endorsement process to this interim standard and that it would wait for the final version of the standard instead.

The implementation of these amendments, new standards and interpretations would have no material impact on the individual/consolidated financial statements of the Company/the Group.

Highlighting the most important accounting policies:

In accordance with IAS 1 "Presentation of Financial Statements" accounting policies that are not significant from the aspect of the Company's operations need not to be disclosed. Should the Company make such a disclosure nonetheless, it must clearly indicate that the accounting policy concerned is not significant.
Accounting policies that had significant impacts on transactions during the period, which were material in terms of their amounts or which materially influenced decisions made by management, are considered by the Company as significant accounting policies.
Accounting policies that related during the reporting period to non-material amounts and/or transactions, or that are standardised policies with little specificities that are characteristic of the Company, are considered by the Company as insignificant accounting policies.

Accordingly, in the case of significant accounting policies the Company adds the note "Significant policy" to the title of the chapter concerned.

4.4. *Functional currency, presentation currency (SIGNIFICANT POLICY)*

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 presentation currency.
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, its currency of presentation is also the Hungarian forint.** Although some revenues and expenditures of the Company are incurred in a currency other than the functional currency (primarily in EUR or USD), their share is significantly lower than that of the transactions conducted in Hungarian forint; consequently, the use of any currency other than the Hungarian forint as functional currency is not warranted in this regard either. Accordingly, the effects of changes in exchange rates are not discussed in the consolidated financial statements.

4.5. *Translation of foreign currencies, foreign exchange transactions and balances (SIGNIFICANT POLICY)*

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 re-measurement of the financial assets and liabilities that arise from such transactions or recorded in foreign currencies are recognised 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 (SIGNIFICANT POLICY)*

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 recognises changes in the fair value among financial expenditures/revenues in the case of financial assets valued through profit or loss (FVTPL), and as part of the other comprehensive income in the case of financial assets available for sale (AFS).

4.7. *Intangible assets (SIGNIFICANT POLICY)*

Based on the definition of assets within the conceptual framework principles of financial reporting and *IAS 38 Intangible Assets*, the Company recognises 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.

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

The intangible assets of the Company consist of 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 capitalised 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 recognised at cost less accumulated depreciation. The cost of trademarks and licenses is amortised 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 amortisation charged until the end of the reporting period and the amortisation 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 capitalised. The values of such purchases are recognised 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 (IAS 36) (SIGNIFICANT POLICY)*

The Company does not charge any amortisation 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 recognises amortisation are also subject to review for impairment in each case where events, changed circumstances or external or internal information sources indicate that the asset is impaired, i.e. its current recoverable amount is less than its current carrying amount.

Such external information sources include the following:

- there are observable indications that the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use;
- significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- the carrying amount of the net assets of the entity is more than its market capitalisation.

Internal sources of information:

- evidence is available of obsolescence or physical damage of an asset;
- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an

asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

If any of these indications is present or the Company perceives such indications, it is required to make a formal estimate of the recoverable amount (impairment test), and the impairment will be reviewed.

If the realisable value falls below the book value, impairment must be recognised against the profit or loss with respect to assets carried at cost. The realisable 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 realisable value is the net present value of the future cash flows originating from their continuous use and realised at the cash-generating unit.

As the realisable 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 recognised impairment still exist. Any previously recognised impairment can be reversed only if there was a change in the circumstances that were taken into consideration at the time of the latest calculation of impairment. The option to reverse impairment is subject to restrictions. On the one hand, the carrying amount of the asset may not exceed its recoverable amount or the carrying amount of the asset net of amortisation, in the latter case not considering the effect of the recognition of the impairment.

For the purposes of making a formal estimate of the recoverable amount (impairment test), the Company applies the discount rate / effective interest rate defined in detail in Section *4.15.11, Effective Interest Rate.*

PannErgy determines the potential impairment of assets (impairment test) along the lines of the above principles. No circumstance was identified during the reporting period that may indicate that the recognition of impairments is not appropriate. No circumstance was identified in relation to impairments recognised for previous periods that may indicate that the impairments recognised in previous periods were inappropriate, or that the plans underlying the impairment tests were inappropriate.

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 recognised; therefore the Company recognises 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 recognised 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 (SIGNIFICANT POLICY)*

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 centres, 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/commercial 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 (SIGNIFICANT POLICY)

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.

Each one of the investment properties owned by the Company is a purchased investment property, whose cost value comprises the purchase price together with expenses associated with and attributable to the purchase of the property.

The Company evaluates the investment properties on the basis of the *IAS 16* cost model. Accordingly, depreciation based on the asset's useful life – and when there is evidence of impairment, it – is recognised in accordance with *IAS 16*. The fair value has to be stated anyway, regardless of the Company's decision to use the cost model.

Investment properties are stated on a separate line in the IFRS financial statements. Upon its sale, or final termination of its use, the investment property concerned is derecognised from the IFRS financial statement, in accordance with the fact that no future gains are expected from it. Upon derecognition the difference between the carrying value and the net sales revenue of the property is shown, based on netting, either as a revenue item in the sales revenue line or as an expenditure item in the cost of sales line of the profit and loss statement.

4.10.2 Fixed 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 recognising the asset as marketable:

- if the Company's supreme body or management has confirmed its commitment to the planned sale, as evidenced by the relevant documents, 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 favourable 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 re-measurement is performed on the basis of the measurement 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 measurement.

4.10.3 Tangible assets under IAS 16 Property, plant and equipment (SIGNIFICANT POLICY)

The Company treats all long-term assets that do not fall into the category of investment properties or fixed assets held for sale 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 recognised at historical cost less depreciation. The cost of tangible assets depends 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 capitalisation, subsequent costs are recognised 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-recognised. 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 recognised in the IFRS statement of profit or loss for the reporting year. The Company takes into account the amount realised 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-recognised; 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 tangible 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 capitalised. The values of such purchases are recognised in the statement of profit or loss for the reporting year in the form of depreciation, and the Company maintains separate records of them, taking into consideration the consideration of asset management.

The PannErgy Group does not recognise 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 under 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 recognised among other expenditures and incomes.

The Company does not charge any amortisation 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 recognises 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 recognised 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 recognised.

4.10.4 Investments, geothermal projects (SIGNIFICANT POLICY)

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 recognised 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 centre containing a heat exchanger and the control panel of the whole system, the consumer connection and 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 Construction 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 capitalisation.

4.11. *Investments*

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

Impairment testing at specified intervals is an important element of the measurement 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 recognised and presented in the other expenses line of the statement of profit or loss for the reporting year.

Impairment has to be recognised 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 (SIGNIFICANT POLICY)*

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.

PannErgy determines the potential impairment of goodwill (impairment test) along the lines of the above principles. No circumstance was identified during the reporting period that may indicate that the recognition of impairments is not appropriate. The Company backtested the impairments recognised for previous periods and no circumstance was identified that may indicate that the impairments recognised in previous periods were inappropriate, or that the plans underlying the impairment tests were inappropriate.

4.13. *Accounting Policy change – Financial assets related to concession agreements (IFRIC 12) (SIGNIFICANT POLICY)*

On 30 November 2006, the International Financial Reporting Interpretations Committee (IFRIC) published its interpretation for *IFRIC 12 Service Concession Arrangements*; the interpretation covers service concession arrangements in order to clarify how the operator of a concession is required to present the infrastructure covered by the service concession arrangement, its construction and operating phases and to record the associated incomes and expenditures. *IFRIC 12* offers two methods for recognising 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 to specific project companies engaged in heat generation and sale**. 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 tangible 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 realised using such assets are recognised 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 may require the presentation of part of revenues from heat supply under the heading of financial assets or intangible assets.

Taking into account other aspects as well, not even the Company's concession project relating to the Győr Geothermal Project is an exception to the above. In the wake of a peer review during the period under review, the Company changed its interpretation and accounting policies in relation to the transaction. The Company stated the assets put in place earlier on in the context of this project as financial assets in its report in accordance with the interpretation of IFRIC 12, however, during the period under review they appear – in accordance with IAS 16 – among intangible assets and tangible assets.

To enable comparability the base period data are also changed in accordance with the above Accounting Policy change. The impact of the change is detailed in chapter *44. Explanation for reclassifications relative to base period report and during the reporting period*

Assets placed in service under a concession arrangement with the Hungarian Government

On 1 February 2017, PannErgy entered into a concession agreement with the Minister for National Development acting on behalf of the Hungarian Government as grantor, in respect of the area located in the region surrounding the city of Győr in order to search for, extract and utilise geothermal energy. The agreement covers a fixed period of 35 years, which may be extended by 17.5 years without any further application. During the term of the agreement, PannErgy is entitled and required to carry out the mining activity related to the geothermal resource stated in the research work programme (research drilling below 2,500 metres and subsequently the utilisation of geothermal fluids) at the contracted location, supervised by the grantor. During the term of the agreement, the grantor Hungarian Government provides all required permits and licences. After the expiry of the agreement, the assets installed at the contracted location are either transferred to the Hungarian Government without the payment of consideration, or PannErgy is required to dismantle the assets, whichever is chosen by the grantor.

In terms of its legal and accounting qualification, the project – implemented under and in accordance with the terms and conditions of the concession agreement – is in line with the IAS 16 provisions and the *IFRIC 12* interpretations do not apply to it, as detailed below:

- The Hungarian State as the entity granting concession, granted a right to PannErgy (Arrabona Koncessziós Ltd.) as concessionaire, for the exploration, extraction and utilisation of geothermal energy in the area located in the vicinity of the town of Győr;
- PannErgy, as concessionaire, is authorised to carry out the mining activity related to the geothermal resource stated in the research work programme (utilisation of geothermal fluids extracted from a depth below 2,500 metres) at the contracted location, under the grantor's supervision during the term of the agreement;
- PannErgy does not meet the criteria of the "operator" category for the purposes of IFRIC 12; it has been granted a right for drilling and extraction by the Hungarian State – as granting authority – but it is not operating state-owned facilities and equipment;
- the Hungarian State is not paying a fee to PannErgy for the operation of its facilities under a concession. PannErgy is paying a mining fee as prescribed by the applicable legal regulations in relation to the thermal energy extracted from the geothermal fluid extracted from the geothermal production well ending at the depth specified in the concession arrangement. When the heat so produced is sold to a district heating company, the regulatory heat price is applied but it can in no way be regarded as a concession fee or consideration payable for the operation of concession equipment because the regulatory heat price is established on the basis of the fact – based on legislation – that thermal energy is fed into the district heating system;
- this is corroborated by the fact that when PannErgy sells geothermal heat extracted from the concession depth not to a district heating company but to an industrial consumer, then it is sold for a market price determined under market conditions;
- PannErgy did not commit – in the concession contract – to sell the geothermal heat extracted from the concession depth to a district heating company;
- After the expiry of the agreement (in 2070), the assets installed at the contracted location are either transferred to the Hungarian Government without the payment of consideration, or PannErgy is required to dismantle the assets, whichever is chosen by the grantor.

Accordingly, regardless of the fact that the Company was granted an exploration and extraction right for the concession depth of over 2500 metres under the concession contract, the assets put in place in relation to the project do not qualify as concession assets for the purposes of IFRIC 12. They are stated as tangible assets or intangible assets – as appropriate – under the IAS 16 rules.

The above assets, affected by the change in the accounting policy, are – in accordance with IAS 16 – stated among financial investments in an amount of HUF 984 million depreciated cost as at 31 December 2023, of which HUF 935 million was stated as tangible assets, HUF 49 million as intangible assets (rights relating to exploration under concession) while the corresponding amounts in the base period were HUF 972 million and HUF 63 million.

4.14. *Inventories*

The overwhelming majority of the inventories recognised 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 realisable 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 of 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 realisable 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 realisable 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 realisable value of an inventory item that necessitate the write-back of a previously recognised impairment, the Company may do so up to the amount of the previously recognised impairment. Both write-offs and write-backs need to be stated among other expenditures. The write-off (write-back) must be recognised 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 measurement of inventories.

4.15. *Financial instruments (SIGNIFICANT POLICY)*

IFRS 9 Financial Instruments addresses the classification, measurement and presentation of financial assets and financial liabilities, and it replaced the sections of the former *IAS 39* standard applicable to the classification and measurement of financial instruments. *IFRS 9* requires the classification of financial assets into categories measured at fair value and amortised cost, respectively. Financial assets need to be classified into these categories at the time of their initial recognition.

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 recognised by the Company at fair value. The fair value of a financial instrument is the price that the Company could realise 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 measurement.

Fair value can be determined on the basis of exact market prices or, in the absence thereof, using measurement 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 (SIGNIFICANT POLICY)

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

4.15.2 Receivables (SIGNIFICANT POLICY)

For the recognition of impairment, the PannErgy Group applies an *IFRS 9* compatible model based on expected credit losses.

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 recognised among non-current assets, in conformity with their maturities.

The Company's trade receivables consist almost exclusively of receivables from domestic undertakings based on long-term contractual relations. Upon determining the ratings for the 2023 business year, we found that there was no need to establish a standard collection process for the trade receivables of the Company as its trade debtors always paid on 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 provision 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 Hungaria CPlc.), and the rating of receivables from entities outside this portfolio.

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

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 recognises no impairment for these loans. These financial assets to be held to maturity are valued in the consolidated financial statements at amortised 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 the variable interest rates applying to such loans. The test revealed that the amortised cost of the loans was adequate.

Based on the expected lending loss model, the Company classifies loans provided and recorded at amortised 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 measurement 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 recognised.

The commitment fees of the credit line are recognised as a transaction cost (and thus they are to be taken into account in the calculation of the amortised 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 capitalised 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 capitalised. Any other borrowing cost is recognised in the profit or loss of the period when it is incurred.

4.15.4 Hedging and derivative transactions (SIGNIFICANT POLICY)

The Company applies the rules set out in *IFRS 9* regarding hedging and derivative transactions, recognising 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. For such transactions the Group applies hedge accounting as defined in *IFRS 9*, that is, on 31 December – at 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 realised and the amount recognised 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 recognised 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; namely, it strives to ensure that its foreign currency (typically euro) denominated revenues almost fully cover its obligations to suppliers incurred in foreign currencies and the servicing of its foreign currency borrowings in the same period.

4.15.5 Liquid assets (SIGNIFICANT POLICY)

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

4.15.6 ‘Held to collect’ financial assets (SIGNIFICANT POLICY)

The Company recognises 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 measurement 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 Loans (SIGNIFICANT POLICY)

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 recognised at fair value, while subsequently they are measured at amortised cost determined using the effective interest rate method.

4.15.8 Deferred income (SIGNIFICANT POLICY)

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

Any state aid that has become repayable needs to be recognised 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 subsidised 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 subsidised assets in the reporting period and on aid intensity.

4.15.9 Trade payables (SIGNIFICANT POLICY)

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 recognised at fair value, while subsequently they are measured at amortised cost that are defined with the effective interest method.

4.15.10 Other financial liabilities (SIGNIFICANT POLICY)

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 amortised 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 included in 'other financial liabilities' by nature, the Company applies the effective interest rate measurement method as per Note no. 4.15.11.
Interest, dividends, gains and losses related to financial instruments classified under liabilities are recognised 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 (SIGNIFICANT POLICY)

As in the base period, the Company set the effective interest rate at 4.5% during the period under review for the calculation of the present value of future expected cash-flows. This rate was used in discounting.

This effective interest rate is set on the basis of the following:

In the case of PannErgy Group, all of the assets are in use. With proper maintenance, these assets can be used for a very long time with a minimum amount of expenditure, and an already installed system is much more cost efficient than generating other known types of thermal energy. In addition, it is an environmentally friendly, sustainable solution. Consequently, the only rational decision on the Company's part is to continue to operate the assets. Pursuant to the legislation on the determination of regulated heat tariffs (Section 5 of Decree No. 50/2011 (IX. 30.) of the Ministry for National Development), the pre-tax profit of district heating suppliers may not exceed 4.5% of the gross asset value. In other words, profitability is statutorily capped over the long term; therefore, essentially no change can occur in external circumstances that may have an impact on the effective interest rates on the revenue/profitability side. Based on the above, the only variable that is relevant to the definition of the effective interest rate by PannErgy Group is whether the market interest rates or other market rates of return on investments have increased during the period, and whether these increases are likely to affect the discount rate used for calculating an asset's value in use.

The discount rate should be a pre-tax discount rate that reflects the current assessment of the market of:

- the time value of money, and
- asset-specific risks for which future cash flow estimates have not been adjusted.

The Company can consider the following rates as a baseline for estimating the discount rate:

- the entity's weighted average cost of capital, which can be determined by using procedures such as the capital asset pricing model;
- the entity's incremental borrowing rate; and
- other market borrowing rates.

The discount rate is independent of the capital structure of the Company and of the method applied by the entity to finance the purchase of the asset, as the future cash flows likely to be generated by the asset do not depend on the method applied by the entity to finance the purchase of the asset.

Pursuant to the above mentioned legislation on the determination of regulated heat tariffs (Section 5 of Decree No. 50/2011 (IX.30.) of the Ministry for National Development), the sales prices – as regulated heat tariffs – defined for the Company's project companies – as district heating suppliers – are determined in such a way that they cannot persistently exceed 4.5% of the pre-tax profit; therefore, the PannErgy Group's average pre-tax cost of capital can be considered 4.5%.

This 4.5% pre-tax cost of capital is also confirmed by the new, long-term, fixed financing options potentially available to the Company in the reporting period in respect of the financing of future revenues, calculated at the 75%–25% HUF/EUR rate, which is consistent with practice.

PannErgy determines the 4.5% effective interest rate defined in accordance with the above principles to be the discount rate, as the best estimate for the relevant discount rate. It applies this rate for the impairment testing of assets (including the impairment of financial assets as per IFRIC 12), for determining the presentation value and the related lease liability of right-of-use assets under the *IFRS 16 Leases* standard, and for any other relevant purposes.

The change in the effective interest rate resulted in a change in the historical cost of the assets leased by the Company. The change affected assets stated under tangible assets and measured in accordance with the *IFRS 16 Leases* standard, as well as the related lease liabilities. The impact of the change is described in detail in the relevant notes. The modification did not affect anything else.

The Company has no assets that may warrant the discounting of values in the statement of financial position. 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 recognised in the consolidated financial statements as a net amount if the net settlement of the recognised amounts is legally permitted and the Company intends to settle the amounts on a net basis, or intends to simultaneously realise the asset and settle the liability.

4.16. *Cash and cash equivalents (SIGNIFICANT POLICY)*

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 cash on hand, 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 on the deposit accounts with agreed maturity held with financial institutions, as well as demand 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, provided they are complete with overdraft credit facilities, without which they are stated among liquid assets in accordance with the contents of the relevant contracts.

4.17. *Equity, subscribed capital (SIGNIFICANT POLICY)*

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 recognised 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 recognised 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 recognised 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 recognised 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. *Repurchased treasury share (SIGNIFICANT POLICY)*

The Company may repurchase its treasury shares at the stock exchange pursuant to the authorisation 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 repurchased treasury shares and the effect of their fair measurement at the end of the reporting period is recognised directly through equity, on the 'Reserve for repurchased treasury shares' line.

The above procedure ensures that no gain or loss is recognised regarding treasury shares in the profit or loss of the Company when any change occurs to own shares (purchase, sale, issue, cancellation or re-measurement at the end of the reporting period).

4.19. *Earnings per share (SIGNIFICANT POLICY)*

To determine earnings per share, the Company used the quotient of the profit/loss for the period and the Company's closing number of shares on the last day of the period less repurchased treasury shares.

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

Furthermore, when determining the diluted earnings per share the Company also takes into account the number of shares involved in the share option programme running in the reporting period as an item decreasing the volume of own shares provided that the conditions set out in the share option programme 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 (SIGNIFICANT POLICY)*

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) regarding 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 recognised under tax expenses/revenues in the period when the modification occurs.

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

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, recognising them under other expenses. In the case of PannErgy, there was only a limited number of items that reduced the revenues used for the calculation of the tax base for the local business tax and the innovation contribution; therefore, these taxes are more like revenue-type taxes and as such, they are not subject to *IAS 12* and are presented under operating expenses.

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

4.21. *Provisioning (SIGNIFICANT POLICY)*

The Company recognises 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 recognises 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 recognised 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 recognise it in the statement of financial position.

Provisions are recognised 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 recognised 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 recognised 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 recognised for the recovery.

Regarding its existing, operational geothermal projects, the Company has no re-vegetation or environmental obligations; no provisions have been set up in this context.

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

The Company does not have a share option programme for the reporting period.

The Company applies the provisions of *IFRS 2 Share-based Payment* to the recognition of actual share-based payments when measuring potential future share option programmes. 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 staff costs.

The Company also applies *IFRS 2 Share-based Payment* to share-based payments outside the scope of the share option programme, even though they are not common practice at the Company either, and 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 recognised 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.

4.23. *Accounting for revenue from sales (SIGNIFICANT POLICY)*

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 in assets or the decrease in 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.

Under *IFRS 15 Revenue from Contracts with Customers*, revenue from sales is recognised as control over the goods or services is passed to the customer; in other words, the customer is able to control 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 the revenue.

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 recognised 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 recognise as revenue income from the sales of tangible assets and other incomes that are not realised in the course of its ordinary activities.

In the period covered by the present consolidated financial statements, 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 capitalisation and subsequent depreciation of such assets;
2) each customer contract meets the requirement set out in the standard that the seller may recognise 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 recognised.
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 recognised;
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 recognised 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 may 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 recognise 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 also realise interest income on the loans granted in connection with the operation and governance of the holding, or obtain dividend income on its shareholder investments; these, however, are eliminated in the course of consolidation. The Company does not regard such interest and dividend income as income from ordinary course of business – i.e. it does not treat them as sales revenues – but recognises them under income from financial transactions.

Interest income is recognised 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 recognised 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 recognised when the Company becomes entitled to the dividend.

4.25. *Leases (SIGNIFICANT POLICY)*

In compiling the consolidated financial statements, the Company applied the provisions of *IFRS 16 Leases* to its lease receivables and lease liabilities and its contractual schemes.
The Company is not engaged in activities considered as leasing for the purposes of IFRS 16 as it has no contracts for long-term letting or leasing, covering the useful lives of the assets concerned, or coming under the scope of the standard according to some other criteria. Accordingly the provisions laid down in *IFRS 16* must only be used by the Company as a lessee. The use of *IFRS 16* has removed the difference between the treatment of operating lease transactions and that of finance leases for the Company as lessee; in the financial statements lessees have to show 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 are shown under the new *IFRS 16* lease standard as depreciation of the right-of-use asset and as the 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.

4.26. *Dividend payment (SIGNIFICANT POLICY)*

Dividends distributable to the shareholders of the Company are recognised 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 (SIGNIFICANT POLICY)*

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

Based on the income approach accounting, the Company recognises 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 recognises 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 recognised in equal instalments against the profit or loss over the useful life of the asset.

Any state aid that has become repayable needs to be recognised 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 subsidised 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 subsidised assets in the reporting period and on aid intensity.

4.28. *Comparative information across periods (SIGNIFICANT POLICY)*

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*. 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 (SIGNIFICANT POLICY)*

In line with IFRS requirements, the Company needs to present its operating segments. **As in the base period, the Company identified a single operating segment during the reporting 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 Plc., does not identify the utilisation – 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 purposes of the following *IFRS 8* principles:

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 steps 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 maximising the efficiency of the Energy segment; the utilisation 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.

The property utilisation – as asset management – of industrial facilities other than those serving geothermal heat generation purposes and the related office areas are not a central element in the strategy of the PannErgy Group; the assessment of the performance of the utilisation of the aforesaid properties is a negligible part of the work of the operative management and supreme bodies of the Company; information regarding the utilisation of properties is not specifically highlighted in the relevant internal control and reporting system; as these transactions entail constant income (reinvoiced utility charges and rent) and costs (utility charges), the overwhelming majority of the activity consists of 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.

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. Nevertheless, in the reporting period the Company identified – based on size – segments broken down by region/project location within its only operating segment, Energy. 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.

From the reporting period the Company is using more than three categories in the description of the geographical segment. The categories Miskolc, Győr and the Holding management/other activities, are now supplemented with Szentlőrinc, with its data removed from the previous Holding management/other activities category. The extension of presentation is justified not so much by reasons having to do with scale but the need for presenting the result of the heat generation activity more transparently.

4.30. *Gross cash flow and EBITDA definition (SIGNIFICANT POLICY)*

As in previous periods, the Company uses the following main quantitative and qualitative indicators, as well as alternative performance measures in measuring its operating performance in the reporting period:

Consolidated quantity of heat sold (GJ), consolidated gross cash-flow, consolidated EBITDA.

Of these indicators the Company identifies the consolidated quantity of heat sold as both a quantitative and a key qualitative indicator, since the quality of geothermal heat generation and the subsequent operational processes preparing the sale of heat are effectively represented by the consolidated quantity of heat sold. No other performance quality indicator is presented by the Company.

<u>The gross cash flow and the EBITDA categories presented in the consolidated financial statements are defined by the Company as follows:</u>

The gross cash-flow is the sum of the gross margin – equalling the difference between the sales revenue and direct costs of sales – and the amount of depreciation that entails no cash flows, stated among the direct costs of sale. The Company uses this alternative performance indicator because it adequately represents the cash flow generated directly in relation to the sales revenue generating activity and, as such, it is representative of the Company's operation, a useful piece of information for investors.

EBITDA (earnings before interests, taxes, depreciation and amortisation) is the sum of the operating, indirect depreciation (among Indirect costs of sales), the sum of direct depreciation (among Direct costs of sales), and the extraordinary write-off and impairment of tangible asset and intangible assets (among Other expenditures).

The Company uses this alternative performance indicator because by eliminating the differences stemming from different taxation, financing background (interest payment) and investments it provides an adequate view of the Company's cash generating capacity and goodwill, and it enables its operation to be comparable with other entities in the energy sector. Accordingly, the EBITDA is a highly representative metric for the public concerning the Company's operation.

No hypotheses or assumptions were used in the calculation of the gross cash-flow or the EBITDA as alternative performance measures; no element of the measures is related to actual or expected performance in any past or future period, or contain any estimate or extrapolation pertaining to the future.

In applying the above alternative performance measures (APM) the Company fully complies with the relevant recommendation (5/2017. (V. 24.)) of the Magyar Nemzeti Bank providing for conformity to the guideline of the ESMA (European Securities Market Authority) on APMs (ESMA/2015/1415).

5. MATERIAL/CRITICAL ACCOUNTING ASSUMPTIONS AND ESTIMATES IN THE APPLICATION OF THE ACCOUNTING POLICY (SIGNIFICANT 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 continuously 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 Reporting Period* 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% 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 realisation 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;
- Measurement 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*

	2023 HUF Mn	2022 HUF Mn
Energy	9,632	6,635
Property management [1]	36	510
Total	**9,668**	**7,145**

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

6.2. *Breakdown of sales revenues by geographical location*

	2023 HUF Mn	2022 HUF Mn
Revenue from domestic sales	9,667	6,995
Revenue from sales to the EU	1	150
Revenue from sales outside the EU	-	-
Total	**9,668**	**7,145**

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

	2023 HUF Mn	2022 HUF Mn
Heat sales	9,230	6,238
Electricity sales	342	631
Mediated and other services	68	100
Sale of products	1	149
Rent for buildings and tangible assets	27	27
Total	**9,668**	**7,145**

In the reporting period the consolidated sales revenue of the Company increased by HUF 2,523 million, up 35% year-on-year. The breakdown of sales revenue by activities and services reveals that income from the sale of heat rose by 48% year-on-year to HUF 2,992 million, primarily as a result of the recognition, through regulated pricing, of the significantly increased electricity costs – as justified costs associated with district heat generation – relating to the base period and certain periods of the reporting period.

The revenue from the sale of electricity dropped by 46% during the period concerned, in line with market price movements, along with, however, an increase in the margin. The HUF 341 million revenue from electricity sales derives from the sale of electricity relating to the Company's project in Berekfürdő, which surpasses the HUF 177 million revenue of the base period significantly, thanks to the higher level of the volume sold as a result of efficiency improving projects on the one hand, and to the steep increase in electricity prices typical during the reporting period on the other hand. The significantly higher level of revenue contributed to the consolidated gross margin of the Group with a substantial margin content in the reporting period.

Within the HUF 342 million revenue, the HUF 1 million above the revenue realised from the sale of electricity through the Berekfürdő project consists of items unrelated to the Group's core activity, Energy – these are pass-through items with no material margin. This sales revenue was generated by reinvoicing electricity charges relating to the operation of PannErgy Plc.'s properties in Debrecen to co-owners of the property concerned, which is in undivided joint ownership. The significant decrease from the previous year's HUF 454 million in the revenues from these pass-through items can be attributed to divestment of the Debrecen utility distribution system in 2022.

The decrease in the revenues from mediated and other services from HUF 100 million in the base period to HUF 68 million was also related to the above divestment. Moreover, the Company recognised HUF 1 million as revenue from the sale of intangible assets and tangible assets stated in its books as assets held for sale.
The rent from buildings and tangible assets during the reporting period came from the utilisation of the Company's properties in Debrecen; amounting to HUF 27 million, the rental fee revenue practically equalled the previous year's amount.

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

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Assets used in domestic production	22,076	22,695
Assets used in production abroad (within and outside the	-	-
Total	**22,076**	**22,695**

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:

	2023	as a % of total sales in 2023	2022	as a % of total sales in 2022
Total sales revenue from key customers	**9,017**	**93%**	**5,994**	**84%**
Revenue from sales	**9,668**	**100%**	**7,145**	**100%**

7. Indirect costs of sales

	2023 HUF Mn	2022 HUF Mn
Indirect personnel-type costs	222	167
Expert fees, bookkeeping, audit fees	180	142
Office and operating costs	148	138
Costs related to public and stock exchange presence and social responsibility	60	85
Banking costs	35	25
Insurance premiums	30	20
Other fees and duties payable to authorities	8	4
Indirect depreciation (property, plant and equipment)	5	1
Total	**688**	**582**

The PannErgy Group's indirect operating costs increased by 18% during the reporting period year-on-year, essentially in line with the changes in generator and supplier price indices.

Indirect staff costs were up 33% year-on-year, in line with the labour market processes typical in the reporting period and the increased headcount during the same period. 7 people joined the Company, and 4 people left during the reporting period. In comparison to the previous year – when 4 persons left – this year was one of more intensive fluctuation, primarily as a consequence of the preparations for the geothermal projects of the coming periods.
At the end of the period the headcount of the PannErgy Group was up 21% year-on-year: by 31 December 2023 the actual number of employees had increased to 17 from the 14 recorded on 31 December 2022. The average statistical staff number for the whole year was 22 in the reporting period, the same as in the preceding reporting period. Salary-type payments are summarised in *Note no. 9 Headcount and wage costs*.

Costs of experts incurred in the reporting period include legal and consulting costs relating to the bank 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. Consultancy costs increased by 27% during the reporting period. In the category of consultancy costs the PannErgy Group's auditing costs amounted to HUF 19 million, in connection with the auditing of the annual reports and the transformation-related statements of assets and liabilities. Of this, HUF 9 million was incurred by PannErgy Plc., the Group's parent company, in relation to the auditing of the individual report and the consolidated financial statements.

The office and operating costs grew 7% during the reporting period year-on-year, falling short of the increase in the generator and supplier price index, thanks to the energy efficiency measures affecting operations during the reporting period (including moving into a new, highly energy efficient office building and replacing the fleet with electric motor vehicles).

The costs of public and stock exchange presence, stated as indirect costs, decreased by 29% during the reporting period, primarily because no dividend payment took place during the period concerned, as a result of which the associated auxiliary costs were not incurred. 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

	2023 HUF Mn	2022 HUF Mn
Electricity charges	2,826	1,076
Direct depreciation (geothermal assets)	1,840	1,715
Maintenance and operating costs	1,328	1,126
Facility maintenance costs, rental	501	421
Insurance costs (directly related to production)	61	54
Costs of goods sold, mediated services	22	605
Maintenance materials	2	1
Other direct costs	45	49
Total	**6,625**	**5,047**

The direct costs of sales increased in the reporting period by 31% year-on-year.

The significant – 163% – increase in the costs of electricity relating to heat generation and transport was caused by a massive price increase in the electricity market. These impacts had not yet occurred during the base period because during that period the Company was still able to purchase electricity under terms and conditions laid down in fixed-price electricity purchase contracts concluded under the earlier ‘normalised’ market conditions.

The electricity costs, which have increased significantly in comparison to the prices that prevailed during the base period will be recognised in the regulatory pricing of heat in the coming periods – similarly to other justified costs associated with district heat generation – therefore they will be recovered from the sales revenue of coming periods.

The Company keeps monitoring the spot and futures electricity market and concluding periodical electricity supply contracts adapted to the sales pricing structure to mitigate the risks manifested in the unpredictability of the energy market environment during the base period and part of the reporting period and in the price levels surpassing those of the preceding period several times over.

As a result of the higher level of efficiency and operational safety improving projects implemented in the reporting year and in the previous year, the amount of direct depreciation rose by 7% year-on-year; compared to the HUF 1,715 million recorded in the base period, the Company booked HUF 1,840 million as the direct cost of the amortisation of assets used directly in geothermal heat generation in the reporting period.

The 18% increase in maintenance and operating costs and the 19% rise in facility management costs are attributable primarily to the price increases aligned to the price index changes – affecting both procurements and services – during the reporting period. The increase is also linked to the steadily expanding assets of geothermal projects, the additional operational and maintenance tasks resulting from the efficiency and capacity improving projects and higher operational-efficiency requirements.

The significant decrease in the figure shown in the Costs of goods sold, mediated services line during the period under review affected the mediated services relating to pass-through items. The substantial decrease year-on-year was a result of the divestment of the Debrecen utility distribution system during the base period.

9. HEADCOUNT AND WAGE COSTS

	2023	2022
Average statistical headcount (persons)	22	22
Wage cost (HUF Mn)	186	140
Other personnel-type payments (HUF Mn)	11	8
Taxes and contributions on wages (HUF Mn)	25	19
Total	**222**	**167**

The indirect personnel-type costs, including payroll costs, increased by 33% relative to the preceding period. This increase was in tandem with the increased fluctuation during the reporting period, the headcount that had increased by the end of the year and the typical periodical wage level fluctuations that are observed in Hungary.

On 31 December 2023 the PannErgy Group had a total of 17 employees, three persons (21%) more than the 14 persons recorded on 31 December 2022. The PannErgy Group's average statistical headcount was 22 in 2023, the same as in 2022. The difference between the average statistical headcount and the number of employees is attributable to part-time employment across group members and the increased headcount during the year.

The preparations for the geothermal projects to be implemented in the next periods resulted in a more intensive fluctuation at the Company: 7 persons were hired and 4 left during the period under review, while during the preceding period only 4 persons left the Company.

As in the previous year, PannErgy Group made no contributions to any voluntary pension fund for its employees or executive officers in 2023 either. The Company has no liabilities or commitments to employees or past and present executive officers in relation to pension payment or pension benefits.

10. OTHER EXPENDITURES

	2023 HUF Mn	2022 HUF Mn
Provisioning	336	144
Local taxes, duties, fines	166	140
Mining fee	71	74
Aids granted to offset costs	14	3
Extra depreciation on tangible assets	6	-
Cost relating to insurance events	2	2
Other	2	5
Total	**597**	**368**

The most substantial (HUF 336 million) items within the HUF 597 million portfolio of other expenses are specific provisions generated, which are related to the regulatory heat pricing linked to district heat generation in coming periods, as (primarily electricity) costs relating to heat generation during the period under review that will be incurred in the coming period as direct settlement obligations.

The significant increase in other expenditures relative to the base period is explained by the above mentioned provisioning which did not take place during the base period.

The most substantial (HUF 166 million during the period under review) item of other expenses usually consists of local taxes, most notably the local business tax paid to the municipalities at the sites of geothermal projects. 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, recognising them under other expenses. In the case of PannErgy, there was only a limited number of items that reduced the revenues used for the calculation of the tax base for the local business tax and the innovation contribution; therefore, these taxes are more like revenue-type taxes and as such, they are not subject to *IAS 12* and are presented under operating expenses.

Another major item in addition to the above is the mining fee payable relating to geothermal heat production; as in the previous period, under this heading the Company incurred expenditures of HUF 71 million in the reporting period.

11. OTHER INCOMES

	2023 HUF Mn	2022 HUF Mn
Aid received for development purposes	252	275
Fines, compensation received	33	359
Profit on the sale of tangible assets	1	90
Other	34	24
Total	**320**	**748**

One of the most significant items of the HUF 464 million 'other income' in the reporting year is development aid received in the amount of HUF 252 million, comprising the reversal of deferred income in proportion with the depreciation charge for the reporting year relating to non-repayable investment and development grants.

Compensations and penalties relating to insured events that occurred and projects that were implemented in earlier periods, as well as discounts received subsequently together amounted to HUF 33 million in the category of 'other incomes' during the reporting period, in a significantly smaller amount 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 or equipment failures and service interruptions as well as ex-post discounts based on agreements.

Another reason for the significant year-on-year decrease in other revenues is that no singe tangible asset sale transaction the like of which took place in the base period occurred in the period under review.

It can be concluded therefore that the Company's other revenues dropped relative to 2022 primarily because of one-off items recorded in the base period in a total amount of nearly HUF 400 million.

12. FINANCIAL INCOMES

	2023 HUF Mn	2022 HUF Mn
Returns on securities held for trading	185	19
FX gains on FX loans	204	164
Interest and interest-type income	95	5
FX gains related to liabilities	50	48
FX gains related to receivables	24	81
FX gains related to FX accounts	18	72
Gain arising from the fair measurement of securities	9	-
Gains on derivative transactions	2	1
Total	**587**	**390**

In the reporting period the Company invested its uncommitted cash and liquid assets in low-risk short term instruments in accordance with the Group's cash-flow plan, taking advantage of the favourable short-term money market return opportunities in the period under review. As a result it generated significant income compared to the base period: HUF 185 million in returns on securities held for sale (discount treasury bills, other short-term government securities) and HUF 27 million in interest on bank deposits.
Of the HUF 95 million interests received and other interest type revenues, besides the HUF 27 million detailed above an amount of HUF 68 million was received in relation to interest swap transactions in long-term loans.

Financial incomes included an amount of HUF 296 million in realized and unrealized exchange rate gains relating to various receivables and liabilities denominated in foreign currencies. The HUF 2 million 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

	2023 HUF Mn	2022 HUF Mn
Interest and interest-type expenses	402	307
Loss on derivative transactions	200	74
FX loss related to liabilities	82	36
FX loss on FX loans	88	407
FX loss related to receivables	46	46
FX loss related to FX accounts	10	-
Other financial expenditures	-	-
Total	**828**	**870**

Financial expenditures amounted in the reporting period to HUF 828 million down by HUF 42 million from the corresponding amount posted in the preceding period.

One of the most important items among financial expenditures is the interest paid on credit and loan liabilities. HUF 402 million was booked for the reporting period under this heading, HUF 95 million more than the corresponding amount booked in the base period. HUF 27 million of the increase in the period under review was linked to the costs of financing incurred in the first half of the reporting period in connection with working capital loans relating to electricity purchases, while HUF 68 million was made up of additional interest costs of long-term loans with variable interest rates.

To mitigate the interest rate risk entailed by these investment loans, the Company replaced the interest bases applying to its 6M EURIBOR-based variable-rate loans by fixed interest rates for the entire remaining term of each loan via interest rate swap (IRS) transactions. As a result, during the reporting period it generated HUF 68 million in revenues from interest swap transactions – in contrast to the above HUF 68 million additional financial expenditure – whereby it eliminated the impact of the change in the interest environment during the period concerned.

The HUF 200 million FX loss on derivative transactions in the reporting year resulted from forward FX transactions concluded by the PannErgy Group to manage the foreign exchange exposure of its trade payables incurred in foreign currencies, primarily in relation to electricity purchases (as an item accepted in regulatory generator price fixing).

A total amount of HUF 226 million was recognised as exchange loss on various other foreign currency items.

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 net profit of HUF 50 million 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 translated to HUF at the exchange rate prevailing at the end of the period, and the (financially unrealised) exchange rate differences resulting from such translations are recognised in the statement of profit or loss under financial transactions. The loss on the period-end revaluations is the result of a decline in the HUF/EUR exchange rate relative to the previous periods.

Thanks to its a significant natural currency hedge position the Company has only a moderate exposure to long-term foreign exchange risk in its operations, other than the momentary unrealised impact of the above revaluation. This is because its foreign currency revenues largely cover its costs incurred in the same currency and its contractual bank debt servicing obligations, denominated in foreign currency, towards financial institutions disbursing investment loans. In the case of the Company, the currency of the FX items mentioned above is always EUR.

As a consequence of the above, the PannErgy Group recognises a loss of HUF 241 million for the reporting period as profit/loss on financial transactions, instead of the HUF 480 million loss recognised in the base period.

14. OTHER INFORMATION RELATING TO FINANCIAL TRANSACTIONS

	2023	2022
Opening EUR/HUF exchange rate	400.25	369.00
EUR/HUF exchange rate on 31 December	382.78	400.25
Annual change in the EUR/HUF exchange rate	-17.47	31.25

15. INTANGIBLE ASSETS

Gross value

data in HUF million

	Goodwill	Know-how	Valuable rights	Purchased software	Total
1 January 2022	678	2,424	108	49	3,259
Purchase	-	148	-	-	148
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification – other	-	-109	-	-	-109
Reclassification from financial assets owing to changes in the Accounting Policy	-	111	-	-	111
31 December 2022	678	2,574	108	49	3,409
Purchase	-	182	-	-	182
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification – other					
Reclassification from financial assets owing to changes in the Accounting Policy	-	-	-	-	-
31 December 2023	678	2,756	108	49	3,591

Accumulated depreciation

	Goodwill	Know-how	Valuable rights	Purchased software	Total
1 January 2022	-	662	90	49	801
Increase	-	180	1	-	181
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification – other	-	-23	-	-	-23
Reclassification from financial assets owing to changes in the Accounting Policy	-	48	-	-	48
31 December 2022	-	867	91	49	1,007
Increase	-	244	1	-	245
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification – other	-	-	-	-	-

Reclassification from financial assets owing to changes in the Accounting Policy	-	-	-	-	-
31 December 2023	-	1,111	92	49	1,252

Net value

	Goodwill	Know-how	Valuable rights	Purchased software	Total
1 January 2023	678	1,707	17	-	2,402
31 December 2023	678	1,645	16	-	2,339

HUF 517 million of the HUF 678 million goodwill stated by the Company relates to the 7% minority participation in PannErgy Geothermal Power Plants CPlc. purchased in prior periods. Another HUF 160 million goodwill is related to the Company's two project companies in Miskolc (Miskolci Geotermia Ltd., Kuala Ltd.), and HUF 1 million to its subsidiary in Szentlőrinc, all in connection with previously purchased minority participations.
On 31 December 2023 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. According to the result, no impairment needs to be recognised.

In addition to goodwill, the Group discloses several 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 recognised in the reporting period regarding assets stated among intangible assets.

As regards intangible assets, assets of HUF 182 million were purchased in the reporting period, and scheduled amortisation amounted to HUF 245 million.

Moreover – in line with the changes in the Accounting Policy, detailed in chapters *18. Financial assets (concession assets)* and *44. Reclassifications relative to the base period and explanation of reclassifications during the reporting period* – the Company reclassified intangible assets of HUF 111 million, minus HUF 48 million accumulated depreciation, that is, net HUF 63 million during the base period from financial assets (concession assets) to other intangible assets. The depreciation of these reclassified items was HUF 14 million in the period under review.

16. TANGIBLE ASSETS

data in HUF million

Gross value	Marketable properties	Investment properties	Properties	Machinery and vehicles	Investment	Total
1 January 2022	-	133	17,198	10,640	161	28,132
Purchase	-	-	-	-	1,567	1,567
Capitalisation	-	-	95	1,327	-1,422	-
Sale	-	-	-	-	-	-
IFRS 16 Lease remeasurement	-	-	-	66	-	66
Reclassification from financial assets owing to changes in the Accounting Policy	-	-	1,085	11	-	1,096
Other changes, write-off	-	-	-	-	-	-
31 December 2022	-	133	18,378	12,044	306	30,861
Purchase	-	-	-	-	974	974
Capitalisation	-	-	87	687	-774	-
Sale	-	-	-	-	-	-
IFRS 16 Lease remeasurement	-	-	-	-	-	-
Reclassification from financial assets owing to changes in the Accounting Policy	-	-	-	-	-	-
Other changes, write-off	-	-	-7	-41	-	-48
31 December 2023	-	133	18,458	12,690	506	31,787

Accumulated depreciation	Marketable properties	Investment properties	Properties	Machinery and vehicles	Investmen t	Total
1 January 2022	-	19	3,432	5,576	-	9,027
Increase	-	13	727	795	-	1,535
Sale	-	-	-	-	-	-
IFRS 16 Lease remeasurement	-	-	-	59	-	59
Reclassification from financial assets owing to changes in the Accounting Policy	-	-	120	4	-	124
Other changes, write-off	-	-	-36	-1	-	-37
31 December 2022	-	32	4,243	6,432	-	10,708
Increase	-	12	699	889	-	1,600
Sale	-	-	-	-	-	
IFRS 16 Lease remeasurement	-	-	-	-96	-	-96
Reclassification from financial assets owing to changes in the Accounting Policy	-	-	-	-	-	-
Other changes, write-off	-	-	-5	-36	-	-41
31 December 2023	-	44	4,937	7,189	-	12,170

Net value	**Marketable properties**	**Investment properties**	**Properties**	**Machinery and vehicles**	**Investment**	**Total**
1 January 2023	-	101	14,135	5,612	306	20,154
31 December 2023	-	89	13,521	5,501	506	19,617

PannErgy Group posted depreciation of HUF 1,845 million for the reporting period, of which HUF 245 million was for intangible assets, HUF 699 million for land and buildings, HUF 889 million for machines and equipment and HUF 12 million for investment properties.

In 2023, tangible assets of HUF 974 million were purchased in relation to geothermal heat generation; the gross value rose by HUF 774 million as they were commissioned during the reporting period. The projects were aimed at efficiency and operational safety improvement, and primarily affected the two primary project locations (Győr, Miskolc). At the end of the period, the Company recognised capital work in progress at a value of HUF 506 million, most of which is related to the preparations of the third production well of the Miskolc project.

In line with the changes in the Accounting Policy, detailed in chapters *18. Financial assets (concession assets) and 44. Reclassifications relative to the base period and explanation of reclassifications during the reporting period* – the Company reclassified tangible assets (Property, Machinery and vehicles) of HUF 1,096 million, minus HUF 124 million accumulated depreciation, that is, net HUF 972 million during the base period from financial assets (concession assets) to tangible assets. The depreciation of these reclassified items was HUF 37 million in the period under review.

Some special geothermal equipment and machines used for the Company's geothermal projects in Győr and Miskolc operate under long-term lease contracts. Based on the content of the lease agreement and in line with the requirements of the *IFRS 16 Leases* standard, the long-term lease liability was calculated against the cost of the leased assets based on the present value of the lease fees paid by the Company during the lease term. In the reporting period the Company remeasured lease contracts in accordance with the requirements of the *IFRS 16* standard. Based on the change during the reporting period in the effective interest rate used for calculating the present value of leasing fees and on the exchange rate movements in the reporting period compared to the original presentation of FX denominated contracts, the depreciation during the preceding periods of the leased asset stated among machinery and equipment rose amounted to HUF 96 million. At the end of the period the value of the assets stated among tangible assets on the basis of leasing contracts was HUF 25 million.

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. The Company categorises such real estates, which are not related to geothermal projects, as real estates held for investment and utilises them by letting to tenants and in view of the existing contractual background the future economic benefits relating to these investment properties are expected to be received by the Company and the cost of the investment properties can be reliably measured. In accordance with the Accounting Policy and the options listed in the *IAS 40* standard, investment properties are recognised at cost in the consolidated financial statements. At the end of the reporting period, investment properties are stated in the consolidated financial statements at the carrying amount less amortisation, i.e. HUF 89 million. Their fair value was HUF 121 million at the end of the reporting period.

Nearly 100% of these real estates are utilised externally, in line with the fact that PannErgy is engaged in no productive or service provision activities at the Debrecen site, other than letting real estates.

Certain properties and machinery serve as collateral for outstanding investment loans. In this context, the following material restrictions of title or mortgages were registered on 31 December 2023:

PannErgy	Financing entity	Amount of collateral charged to tangible assets	Collateral
Miskolci Geotermia Ltd. and Kuala Ltd.	Unicredit Bank Hungary CPlc. and CIB Bank CPlc.	HUF 11,368 million	Joint general mortgage on assets on all movable assets and on items of immovable property individually worth at least HUF 50 million (Refinanced investment loans for the Miskolc Geothermal Project)
Arrabona Koncessziós Ltd. and DD Energy Ltd.	Unicredit Bank Hungary CPlc. and CIB Bank CPlc.	HUF 12,368 million	Joint general mortgage on assets on all movable assets and on items of immovable property individually worth at least HUF 50 million (Refinanced investment loans for the Győr Geothermal Project)
Arrabona Koncessziós Ltd., DD Energy Ltd., Kuala Ltd., Miskolci Geotermia Ltd.	Unicredit Bank Hungary CPlc. and CIB Bank CPlc.	HUF 1,984 million and EUR 2,460,227	Joint general mortgage on assets regarding the assets of all development and extension projects covered by the investment credit facility agreement (movable and immovable)
DoverDrill Mélyfúró Ltd.	Budapest Bank CPlc.	HUF 250 million	Mortgage on assets, on the PannErgy Group's industrial property to be found in Debrecen and on movable assets acquired under the EDIOP application scheme.
PannErgy Plc.	Budapest Bank CPlc.	HUF 300 million	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 measurement 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 centres, 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 organised into a separate economic entity, and each group of assets is used in a single market.

On 31 December 2023, an impairment test was performed at all PannErgy group members where the overwhelming majority of assets consists of 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 measurement 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 forecast by the detailed model was calculated for the coming 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 at 31 December 2023.

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 and 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 recognised.

17. Other invested financial assets

The Company had no other non-current financial investments in the reporting period. During the period concerned the Company purchased only short-term government securities and discount treasury bills for investment, in accordance with the holding-level cash-flow planning and processes.

18. Financial assets (concession assets)

	31 December 2023 HUF Mn	**31 December 2022 HUF Mn**
The project of Arrabona Koncessziós Ltd. in the region of Győr	-	-

The PannErgy Group showed financial assets relating to concession agreements in an amount of HUF 1,035 million in its consolidated financial statements as at 31 December 2022. The accounting treatment of these assets was revised in the period concerned in accordance with the provisions of the *IFRIC 12* interpretation, during which it was found that these are the cost value of the geothermal production well constructed in the wake of the exploration drilling project under concession implemented in relation to the Győr Geothermal Project in accordance with the standard provisions of *IAS 16 Property, plant and equipment*, i.e. it does not belong to the concession arrangements detailed under the *IFRIC 12* interpretation.

Accordingly, the HUF 1,035 million value of the assets implemented during earlier years under the Győr concession agreement and owned by the Company, stated during the base period in the financial assets line was reclassified in accordance with the Accounting Policy change, in a gross amount of HUF 1,096 million – HUF 124 million in accumulated depreciation, that is, a net amount of HUF 972 million, to tangible assets, and in a gross amount of HUF 111 million – HUF 48 million accumulated depreciation, that is, a net amount of HUF 63 million, to intangible assets.

For the details of reclassification during the reporting period see the chapters *15 Intangible assets, 16. Tangible assets* and *44. Explanation for reclassifications relative to base period report and during the reporting period*.

19. LONG-TERM RECEIVABLES

The PannErgy Group states no long-term receivables in its consolidated financial statements on 31 December 2023.

20. LEASE RECEIVABLES

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

21. INVENTORIES

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Materials	28	12
Goods	2	13
Total	**30**	**25**

On the one hand, the inventories shown in the 2023 consolidated financial statements include reserve maintenance materials purchased in the amount of HUF 28 million to provide for the efficient, safe and secure operation of the geothermal projects. On the other hand, they comprise goods purchased for resale – also in relation to geothermal activity – in the amount of HUF 2 million.

22. Trade receivables

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Trade receivables	2,058	2,261
Impairment loss provisioning for doubtful receivables, and provisions reversed	-	-1
Total	**2,058**	**2,260**

Accounts receivable decreased by 9% year-on-year. 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. The trade receivables are non-interest earning items, with 30–45-day payment terms for the most part.

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, at the end of the period the Company stated no impairment loss provisions for doubtful receivables.

The Company's impairment provision matrix pertaining to the reporting period is presented in Note no. *39 Impairments*.

23. Other receivables

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Other receivables from suppliers	143	332
Deferred items for the next period	132	103
Other tax receivables	8	299
Prepayments given	5	571
Receivables associated with derivative transactions	2	-
Total	**290**	**1,305**

The Group recognised HUF 143 million as other receivables from suppliers. These receivables cover compensations, ex post discounts and other settlements.

HUF 35 million and HUF 97 million of the HUF 132 million total amount of deferred items of the next period are associated with sales revenues and costs, respectively.

Tax type receivables from the tax authority are stated in an amount of HUF 8 million.

The amount stated in Other receivables decreased significantly year-on-year. The HUF 291 million decrease in the amount of other tax receivables was related to the value added tax receivable position resulting from the increased intensity of investment activities during the last quarter of the reporting period.

At the end of the previous period the Company stated HUF 571 million in prepayments given; these receivables are related to the electricity purchases of coming periods and cover advances paid to suppliers and deposits made. Such advance amounts were cleared and settled during the period under review.

24. SECURITIES HELD FOR SALE

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Securities held for sale	284	417

In the reporting period the Company's short-term securities portfolio decreased by HUF 133 million in line with the maturity dates of the securities. In terms of their nature, these securities held for sale are short-term discount Treasury bills and government bonds reclassified from long-term financial instruments as they mature in 2024. In line with the investment loan contracts, these securities, held for sale, were blocked by the creditor financial institutions as security deposits.

25. SUBSCRIBED CAPITAL

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Subscribed capital	400	400

On 31 December 2023, the subscribed capital amounted to HUF 400 million, which is similar to the amount stated one year earlier.
The subscribed capital stated in the Company's consolidated financial statements as per the IFRS and the subscribed capital registered by the competent Court of Registration are fully identical, there is no difference between the two figures.

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 repurchased treasury shares.

After the capital reduction – involving 1,054,655 shares – conducted during the base period, subscribed capital continues to comprise a total of 20,000,000 voting shares, of a nominal value of HUF 20 each, in the reporting period. The ISIN identifier of the shares listed on the Budapest Stock Exchange: HU0000089867.

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

26. Repurchased treasury share

	31 December 2023	31 December 2022
Number of repurchased treasury shares	4,704,132	4,041,700
Nominal value (HUF Mn)	94	81
Book value (HUF Mn)	5,880	5,315

On 31 December 2023 the Company held a total of 4,704,132 PannErgy Plc. treasury shares, 662,432 more than the stock of treasury shares held on 31 December 2022. The increase during the period concerned resulted from the repurchase of 662,432 treasury shares, in connection with the Company's treasury share buyback programmes during the reporting period. A total of 384,804, and 277,628 treasury shares were repurchased in 2023 H1 and 2023 H2, respectively, under the programmes.

The cost of share purchases in the reporting period was HUF 809 million, the effect of the revaluation at the end of the period was HUF 244 million. The combined effect was a change of HUF 565 million in the value of the repurchased treasury shares.

With respect to treasury share transactions, more detailed information is provided in the Company's public disclosures; moreover, details of the treasury share buyback programmes commenced and completed during the reporting period are discussed in *Chapter 11 Treasury share buyback* of the Business and Management Report drawn up based on these consolidated financial statements.

27. Reserves

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

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Capital reserve	8,098	8,354
Retained earnings	8,318	6,912
Other reserves	-1,194	-1,127
Total	**15,222**	**14,139**

The amount recognised as capital reserve dropped by HUF 256 million, while the value of retained earnings rose by HUF 1,406 million in the reporting period. The main reasons of the changes included the IFRS reclassification difference, the transfer of the previous year's profit after taxes to the profit reserve and the reserve movements relating to the changes in own shares during the reporting period. The movement in other reserves was related to the development reserves.
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.

In the reporting period the General Meeting of the Company decided that it would not pay dividends for the year 2022. More detailed information is provided regarding the dividend in the public disclosures. Details of dividend payments made during the reporting period are presented in *Chapter 10. Dividend payment* of the Business and Management Report that was drawn up based on these consolidated financial statements.

In accordance with the provisions of Section 114/B of Act C of 2000 on Accounting, the Company has drawn up the Equity Correlation Table of PannErgy Plc. – as a company on its own – as at 31 December 2023, which is presented in *Note no. 27 Reserves* of the separate financial statements; that Equity Correlation Table will serve as the basis for calculating the maximum amount of dividends (if any) for 2023 as dividend payment limitation.

In relation to subsidiary-specific transformations in the reporting period, reserves show – under retained earnings – a difference of HUF 17 million resulting from consolidation.

On the line of 'other reserves', the Company recognises earmarked reserves tied up in relation to shares other than treasury shares, reclassified from retained earnings under a different legal title, in relation to research and development projects and development reserves.

PannErgy Group's consolidated statement of financial position shows the reserve allocated for repurchased treasury shares on a separate line. 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.

28. MINORITY INTERESTS

In the reporting period and in the base period the Company does not recognise any minority (subsidiary, external) interests. Similarly to the base period, there were no transactions related to minority interests in 2023.

29. LONG-TERM LIABILITIES

	31 December 2023 HUF Mn	**31 December 2022 HUF Mn**
HUF based loan secured with collateral	7,204	7,657
EUR based loan secured with collateral	2,302	2,737
Financial lease liabilities	16	-
Short-term part reclassified to short-term credits	-1,359	-1,308
Long-term loans, leases, total	**8,163**	**9,086**

The decline in long-term loans – in particular, EUR and HUF loans – resulted from instalments made during the reporting period.

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

The interest rates applied to outstanding EUR loans at the Group's relevant companies are based on the 6M EURIBOR, regardless of which financial institution provided the funding. In view of this fact and the contractual interest margins, the weighted average interest rate on secured EUR-based loans was 2.80% in consideration of the loan amounts as at 31 December 2023, which falls short of the average interest rate of 2.99% of the previous year, also taking into account the interest fixing effect of interest swap transactions. Without the interest rate swap transactions the weighted average interest rate on EUR-based loans would have been 6.53% on the cut-off date. The fixing of the lending rates of investment loans by means of interest swap transactions affords considerable predictability, and mitigates the interest rate risk faced by the Company significantly. Most of the HUF-based secured loans carry a fixed interest rate of 2.40% and 2.50%; in some cases 2.00%, 6.00% or 1M BUBOR +2.00%. Based on the loan amounts outstanding on 31 December 2023, their weighted average interest rate is 2.69% – exceeding the 2.42% recorded for base period.

The interest expenses recognised during the reporting period account for 4.2% of the amount of long-term loans and leases – including the part due within a year, reclassified as short term loans – as at the end of the reporting period, approximating the effective interest rate applied by the Company in its calculations.

29.2. *Maturity dates of long-term loans*

HUF 5,952 million of the total (HUF 8,163 million) amount of long-term loans and leases is made up of items maturing in 1–5 years, while HUF 2,211 million is made up of items maturing in over 5 years, fully comprising long term loans denominated in HUF or EUR.

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

The Company stated long term liabilities associated with leases in a total amount of HUF 16 million as at 31 December 2023, in connection with motor vehicles.

29.4. *Other long-term deferred incomes*

	2023 **HUF Mn**	**2022** **HUF Mn**
Other long-term deferred incomes	3,462	3,714
Short-term part of the long-term incomes	-275	-275
Other long-term deferred incomes, total	**3,187**	**3,439**

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 recognised in the consolidated statement of profit or loss 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*

data in HUF millions

Group entity	Project ID	Eligible investment cost	Aid granted	Aid drawn down	Aid deferred income (liability)
Szentlőrinci Geotermia Ltd.	KEOP-4.2.0/B-09-2009-0026	883	442	427	300
Berekfürdő Energia Ltd.	KEOP 4.4.0/A/09-2009-0009	250	125	125	25
DoverDrill Mélyfúró Ltd.	GINOP-2.1.2-8-1-4-16-2017-00166	1,250	500	450	280
Miskolci Geotermia Ltd.	KEOP 4.7.0-2010-0001	632	316	314	203
Miskolci Geotermia Ltd.	KEOP 4.2.0/B-11-2011-0007	2,856	1,000	1,000	618
Miskolci Geotermia Ltd.	GOP-1.2.1/B-12-2012-0005	323	162	148	8
Kuala Ltd.	KEOP 4.7.0/11-2011-0003	619	309	309	234
Kuala Ltd.	KEOP-4.10.0/B-12-2013-0012	2,836	1,000	1,000	616
DD Energy Ltd.	KEOP-4.10/B-12-2013-0010	3,997	1,000	1,000	574
Arrabona Koncessziós Ltd.	KEOP-4.10/B-12-2013-0011	3,509	1,000	992	604

Government aids on 31 December 2023 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):	**3,462**

Each of the above projects fall into the category of project implementation. The project objective is geothermal energy utilisation in the case of the KEOP (Environment and Energy Operational Programme, EEOP) application schemes, the procurement of assets in the case of GOP (Economic Development Operational Programme, EDOP) tenders, and research & development in the case of GINOP (Economic Development and Innovation Operational Programme, EDIOP).

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.

At the end of the reporting period the PannErgy Group did not recognise any advances in relation to grants and it did not receive any amount under this title during the period.

30. Short-term credits

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Short-term part of long-term credits	1,359	1,308
Other short-term credits	-	1,029
Short-term part of long-term lease liabilities	9	140
Total	**1,368**	**2,477**

The substantial amount of short-term loans in the base period resulted from the working capital loan received during the period in relation to the FX-denominated electricity purchases of PannErgy Group. The short-term financing surplus for the loan is transitional; it was necessitated by the cash flow needs related to the higher amount of contractual trade payables in the period following the reporting period. Those liabilities were settled – repaid – during the period under review.
An amount of HUF 9 million was incurred a as short-term lease liability for the lease of motor vehicles at the end of the reporting period.

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

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Short-term part of other long-term deferred revenues	275	275
Total	**275**	**275**

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

31. Provisions

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Opening balance as of 1 January.	144	-
Provisioning	336	144
Release of provisions	-144	-
Closing balance on 31 December	**336**	**144**

During the period concerned the Company generated HUF 336 million as specific provisions in relation to regulatory heat pricing linked to district heat generation in coming periods, for (primarily electricity) costs relating to heat generation during the period under review that will be incurred in the coming period as direct settlement obligations.

In the base period, the Company allocated specific provisions of HUF 144 million for a liability arising from the possible consequence of a lawsuit related to an account payable not recognised by the Company, in relation to a tender conducted years ago, not involving any non-refundable grant. The Company incurred a due and payable debt during the period concerned in relation to the above case, which was financially settled during the year. Simultaneously with this other expenditure item the HUF 144 million provision set aside in the preceding year was released and the two items were netted against each other.

As a consequence of the above movements the Company’s specific provision portfolio amounted to HUF 336 million as at 31 December 2023.

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

32. OTHER SHORT-TERM LIABILITIES

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Tax and contribution liabilities	366	296
Deferred items for the next period	253	219
Wages and social security	15	11
Liabilities relating to derivative transactions	10	60
Other liabilities	17	11
Other short-term liabilities, total	**661**	**597**

Of the items of the HUF 253 million carried forward to the next period, HUF 75 million represents other compensation-type deferred revenues from suppliers to be recognised in the coming period, while HUF 178 million is the sum of the costs affecting the reporting period and recognised in the reporting period as costs and expenditures, which will be invoiced in the coming period.

At the end of the reporting period the Company’s records show tax and contribution liabilities in a total amount of HUF 366 million, of which the largest items are made up of VAT liabilities relating to transactions settled during the reporting period in a total amount of HUF 239 million, the corporate income tax liabilities of Group members in the amount of HUF 64 million, and the mining annuity liabilities of the project companies engaged in geothermal heat generation, in a total amount of HUF 23 million.

Within other liabilities, the most significant item represents other short-term liabilities in an amount of HUF 4 million, stemming from the earlier dematerialisation of shares.

33. Taxation, income tax

33.1. *Income tax payable for the reporting year*

	2023 HUF Mn	2022 HUF Mn
Tax liabilities for the reporting year	102	62
Effect of deferred taxes	19	44
Total	**121**	**106**

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.

In accordance with its accounting policy – which is based on the provisions of the *IAS 12* standard –, the local business tax payable to municipalities is recognised under other expenditures instead of the income tax items.

The framework principles regulating the global minimum tax (GloBE) payable by multinational enterprises – under which they must pay a tax of a minimum of 15% in every country in which they generate income – do not apply to the Company. This regulation applies to multinational enterprises generating profits of at least EUR 750 million at a group level. The PannErgy Group's consolidated sales revenue – net accounting income as per the GloBE – is below this limit above which the tax concerned is payable, therefore the Group incurs no supplementary tax liability.

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:

	2023 HUF Mn	2022 HUF Mn
Amounts recovered from deferred losses	13	19
The difference stemming from depreciation according to the Accounting Act and the depreciation according to the Tax Act	7	2
Tangible assets depreciation difference from consolidation	158	170
Receivables from deferred taxes (gross)	*178*	*191*
Deferred tax liabilities (gross)	*-58*	*-52*

Deferred tax to be recognised (net)	**120**	**139**
Deferred tax recognised in previous year	139	183
Deferred tax recognised/reversed	-19	-44
Receivables from deferred taxes on 31 December	**120**	**139**

The deferred tax receivable of HUF 120 million 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.

The total gross amount of deferred tax receivables is HUF 178 million. This is reduced by another HUF 58 million, i.e. 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 standards, leaving HUF 120 million as deferred tax receivables 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 statements of profit or loss of PannErgy Group members with the income tax rates applying to them, and the corporate income tax figures actually stated in the statements of profit or loss are calculated as follows:

	2023 HUF Mn	**2022 HUF Mn**
Profits before taxes (individual companies)	**1,675**	**1,408**
The tax payable on the basis of the member company's profit/loss at the applicable tax rate (9%)	151	127
Effects of different tax rates (minimum profit tax)	14	4
Tax implications of non-deductible expenditures, effects of differences in depreciation and other tax-decreasing items	63	7
Tax allowances	-44	-25
During the reporting year, use of the negative tax base carried over from previous years	-82	-51
Tax liabilities for the reporting year	**102**	**62**
Write-off of tax receivables assessed earlier for negative tax bases	**19**	**44**
Income tax (as per the profit & loss account)	**121**	**106**

34. Earnings per share

	2023	2022
Profit/loss, attributable to shareholders of the Company (HUF Mn)	1,716	1,310
Number of shares less treasury shares	15,295,868	15,958,300
Profit/loss per share (HUF)	**112**	**82**
Diluted profit/loss per share (HUF)	**112**	**82**

There is no difference between the profit/loss per share and the diluted profit/loss per share at the end of the reporting period because, as in the base period, the Company calculates the diluted profit/loss per share without taking into account any adjustment factor.

35. Cash and cash equivalents

The PannErgy Group had the following portfolio of cash and cash equivalents on 31 December 2023:

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Fixed deposits	1,180	-
Bank account and cash at hand	308	492
Separated, blocked cash	26	137
Cash and cash equivalents	**1,514**	**629**

At the the end of the reporting period the Company had short-term fixed bank deposits of a total of HUF 1,180 million, in line with the Group's cash-flow processes and the money market conditions that characterised the period. The short-term government bonds of HUF 284 million and discount Treasury bills held by the Group were stated under current assets as securities.

The bank account and cash on hand category also includes amounts which use for purposes other than the accountholder's own business operations is subject to the financing institution's consent.

Cash items stated among separated blocked cash items are amounts held by financial institutions on current accounts, blocked as collateral for loan repayment, with restricted access by borrowers.

36. Trade payables

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Trade payables	804	779
Total	**804**	**779**

At the end of the reporting period the Company's trade payables are 3% higher than at the end of the base period.

37. Financial instruments

The PannErgy Group holds financial instruments of the following categories:

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Financial assets	**2,632**	**3,982**
Financial assets available for sale (AFS)	**-**	**-**
Other invested financial assets (government securities)	-	-
Loans and Receivables (LAR)	***2,346***	***3,563***
Loans provided	-	-
Trade receivables	2,058	2,260
Other short-term receivables, prepaid income taxes	288	1,303
Financial instruments held for sale (Held to Collect, HTC)	**-**	**-**
Long term financial receivables	-	-
Financial instruments, Fair Value to Profit and Loss (FVTPL)	**286**	**419**
Securities (held for sale)	284	417
Derivative transactions	2	2
Financial liabilities	**10,996**	**12,939**
Other financial liabilities	***10,986***	***12,879***
Trade payables	804	779
Long-term loans, lease liabilities	8,163	9,086
Short-term loans, lease liabilities	1,368	2,477
Other financial liabilities	651	537
Financial liabilities, Fair Value to Profit and Loss, (FVTPL)	***10***	***60***

Derivative transactions – liabilities (under other short-term liabilities)	10	60

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 the financial instruments recognised at fair value through profit or loss the Company's records show short term securities held for sale in an amount of HUF 284 million.

The Company invested some of its separated cash – the use of which is subject to the creditor financial institution's consent – in short-term government securities for investment purposes.

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 recognised by the Company among the current assets. The value of loans and receivables are initially shown at fair value, and thereafter at amortised 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 recognised 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 recognised at fair value, while subsequently they are measured at amortised cost that are defined with the effective interest method.

38. SHARE-BASED BENEFITS

The Company had no share option programme in place during the base period or the reporting period; accordingly, no such measurement 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:

2023 data in HUF millions

	Impairments, opening balance	Impairment provisioning	Impairment reversal	Impairments, closing balance
Trade receivables	1	-	1	-
Total impairment	**1**	**-**	**1**	**-**

2022 data in HUF millions

	Impairments, opening balance	Impairment provisioning	Impairment reversal	Impairments, closing balance
Trade receivables	1	1	1	1
Total impairment	**1**	**1**	**1**	**1**

No impairment provisioning and reversal were recognised during the reporting period regarding tangible assets and inventories. HUF 1 million impairment loss provision made earlier was reversed in connection with the derecognition of trade receivables during the reporting period.

The Company's statement of its 2023 impairment provision matrix underlying the impairment charges applied in the reporting period:

data in HUF millions

Impairment provision matrix	Balances outstanding at the beginning of 2023	Balances outstanding at the end of 2023	Loss from default 2023	Default rate 2023	Expected default rate 2023	Expected credit loss 2023	Stage 1 impairment 0%	Stage 2 impairment 25%	Stage 3 impairment 100%
Marketable financial assets (Available for Sale, AFS)	-	-	-			-	-	-	-
Investments available for sale	-	-	-	0%	0%	-	-	-	-
Long-term investments	-	-	-	0%	0%	-	-	-	-
Other financial investments (long-term securities)	-	-	-	0%	0%	-	-	-	-
Securities (short-term)	-	-	-	0%	0%	-	-	-	-
Loans and receivables (Loans and Receivables, LAR)	-	-	-			-	-	-	-

Impairment provision matrix	Balances outstanding at the beginning of 2023	Balances outstanding at the end of 2023	Loss from default 2023	Default rate 2023	Expected default rate 2023	Expected credit loss 2023	Stage 1 impairment 0%	Stage 2 impairment 25%	Stage 3 impairment 100%
Loans provided	-	-	-	0%	0%	-	-	-	-
Trade receivables	-	-	-	0%	0%	-	-	-	-
Other current receivables	-	-	-	0%	0%	-	-	-	-
Held to maturity financial assets (HTM)	-	-	-			-	-	-	-
Long term financial receivables	-	-	-	0%	0%	-	-	-	-
Liquid assets	**-**	**-**	**-**	**0%**	**0%**	**-**	**-**	**-**	**-**
Total	-	-	-			-	-	-	-

40. OFF-BALANCE SHEET LIABILITIES AND COMMITMENTS

40.1. *Contractual obligations and commitments for investment*

At the end of the reporting period the PannErgy Group has material contractual investment commitments of HUF 994 million in relation to ongoing geothermal projects.

<u>Enhancement of the Miskolc Geothermal Project</u>
On 18 November 2022 the Ministry of Technology and Industry – as Grant Provider – **awarded a grant of** up to **HUF 994 million for the application submitted by Kuala Ltd. a member of the PannErgy Group. The grant is related to the boring of the third geothermal production well of the Miskolc Geothermal Project.** Kuala Ltd. submitted its application No. GEOTERM-2022.2-2022-00002 in response to the contract notice entitled 'Grants for the activities of geothermal-based heat production projects' announced under the Climate and Nature Protection Action Plan.

In the wake of the processes of preparation for the conclusion of the contract the Ministry for Energy issued the Grant Instrument, dated 24 August 2023, for the above-mentioned grant to KUALA Ltd., the Company's subsidiary implementing the project concerned.

The project is expected to increase the usable capacity of the system by up to 15%–20% and the growing number of production wells will improve its operational continuity significantly, whereby the spare capacity untypical of geothermal power plants will become available. After the geothermal system of Győr, this may become PannErgy's second system with spare capacity, providing the means to restart heat production in the event of a failure by way of a few hours' of reswitching instead of a well-pump replacement that may take at least 7 to 12 days.
The project is expected to be completed by the commencement of the 2024/2025 district heating season – licensing and preparatory works were taking place during the period under review and the preparation of the report.

In relation to this a HUF 382 million investment in progress appears among tangible assets as at 31 December 2023; none of the grant has been drawn down, in line with the nature of the grant instrument and the ex-post financing type financial schedule contained in it. The remaining total contractual cost of the project is – in relation to well drilling and the construction of the surface system that is partly related to the well – over HUF 2 billion according to information currently at our disposal.

Budapest environs project

Also during the previous period the Company submitted a successful application for a project relating to the drilling of a geothermal production well to be implemented in the vicinity of Budapest. The envisaged project is to be implemented in a partly unexplored area therefore it entails considerable risks. The grant contracts (Incentive Agreements) relating to this application scheme project were not concluded yet and the conditions for drawing down the grants were not met either.

The Company informed the participants of the capital market on 4 October 2023 that the Ministry of Energy rejected the above application under an amendment to the grant award decision. According to the justification attached to the decision the condition stipulated as a prerequisite for the provision of a grant for the project was not met because at least 1 (one) reinjection well has to be implemented from the awardee's own costs during the implementation (grant funding) period.

Accordingly, the drilling preparation works, originally scheduled for 2024, may only be started later on in case the application conditions and the technical and financial requirements stipulated in similar application schemes make it possible to implement the project and ensure its returns. The Company continues to be committed to the implementation of further explorations in connection with the project.

In relation to the project's preparation and the obtaining of the necessary licences an amount of HUF 55 million investment in progress appears among tangible assets as at 31 December 2023.

The project was not taken into account in the business profit/loss plans disclosed by the group, therefore the rejection of the grant application in the first round did not influence the figures appearing in the reporting period's consolidated financial statements.

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 expects 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

Collateral of various types was provided at the end of the reporting period to the creditor financial institutions under external financing agreements concluded by members of the PannErgy Group in amounts of HUF 7,205 million and EUR 6,013 thousand. The collaterals concerned include pledges on receivables, movables, other assets, and bank accounts, as well as collaterals and provided guarantees for funding financial institutions. These are detailed in *Note no 16. Tangible assets*.

40.2.2 Contingent commitments relating to application schemes and Incentive Agreements concluded

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 Geotermikus Erőművek CPlc. has a joint and several guarantee in place in connection with the Miskolc Geothermal Project towards one of the heat receiving customers for commitments stemming from potential future loss events, in 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:

	31 December 2023 HUF Mn	**31 December 2022 HUF Mn**
Within 1 year	9	140
Over 1 year but within 5 years	16	-
Over 5 years	-	-
Total	**25**	**140**

The lease liabilities are related to the long-term lease contracts concerning the special geothermal installations and equipment used for the Company's geothermal projects and to vehicle leasing contracts. The Company leases such assets for a long term, and the long-term lease liability is calculated against the cost of the leased assets on the basis of the present value of the lease fees expected to be paid by the Company during the lease term as specified in *IFRS 16 Leases*. The Company's records show HUF 25 million in long term lease liabilities in relation to such leased equipment as at 31 December 2023, of which HUF 9 million stated is among long term liabilities and HUF 16 million among short term liabilities.

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, cash flow and fair value interest rate 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 can be attributed to EUR-based long-term investment loans taken out for the implementation of geothermal projects; moreover, the Company also has foreign and domestic suppliers with which accounts are settled and invoices are issued 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 maximising the coverage of its EUR loan debt liabilities by the above mentioned EUR-based revenues. In 2023, in a fundamentally changed energy market environment, the Company continuously conducted FX forward transactions in order to mitigate the risk of exchange rate losses on the financial settlement of FX liabilities to be incurred in the near future. These transactions were not cash-flow hedge transactions; the P/L resulting from such transactions during the reporting year appears in the financial income and financial expenditures categories of the consolidated financial statements.

In view of PannErgy Group's foreign exchange receivables and liabilities, and assuming a 10% increase/decrease relative to the EUR/HUF rate prevailing on 31 December 2023, with the forint being the functional currency, the positive/negative effects on the P/L are presented in the table below:

Description	EUR		USD	
	2023	**2022**	**2022**	**2020**
Resulting change in P/L (HUF Mn)	-95	-328	-	-

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

	EUR value (Th) 2023	Change in profit as a result of 10% change in exchange rate	EUR value (Th) 2022	Change in profit as a result of 10% change in exchange rate
Trade receivables	1,694	65	1,205	48
Trade payables	1,338	-51	861	-34
FX credits	6,012	-230	8,537	-342
Total		**-216**		**-328**

41.2.2. Price risk

The Company runs no risks relating to exchange traded commodities or financial instruments. It should be mentioned, however, that even though it is essentially a regulatory risk, the selling price of the bulk of the geothermal heat sold by PannErgy Group members that are engaged in generating and selling geothermal heat is a regulated price, which is reviewed and in some cases modified regularly – sometimes even on a quarterly basis – by the competent price-setting authority, i.e. the Hungarian Energy and Public Utility Regulation Authority (HEA). This may influence PannErgy Group's profitability through future selling prices. The Company mitigates this risk by continuously monitoring the factors having an impact on regulatory pricing and by notifying the authority in the case of a justified cost increase as quickly as possible in order to have the costs reflected in the regulated generator price. It should be noted that the regulatory pricing system is not primarily a risk but a price risk management structure because the HEA ensures the reliable economic operation of the licensees through pricing and through recognising the costs associated with district heat generation.

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 lending rates on 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 risk due to its fixed-rate loans.

The Company's long-term and short-term FX loan portfolio was worth HUF 2,302 million (EUR 6,013 thousand) at the end of 2023, while its portfolio of long-term and short-term forint loans amounted to HUF 7,205 million, relative to the HUF 3,415 million (EUR 8,537 thousand) worth of the FX loan portfolio and the HUF 8,006 million loan portfolio stated at the end of 2022.

For information on interests see chapter *29.1 Weighted average interest rate on long-term loans*

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. The Company calculates the effect of interest rate fluctuations on P/L based on these scenarios. 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 by fixed interest rates for the entire remaining term of each loan via interest rate swap (IRS) transactions, taking advantage of the previously favourable interest rate environment. The effective interest rates fixed under the above transactions will remain unchanged even if market rates 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 financial incomes in an amount of HUF 68 million.

The Company's interest sensitivity is characterised by the fact that a 1% increase in interest rates would, in theory, result in a marginal HUF 24 million increase in the Group's profit at the end of 2023, disregarding the impacts of interest swap transactions, since the contracts stipulate predominantly fixed interest rate conditions. A 1% decrease in the interest rates would entail the opposite effect.
However, the Company eliminates even this moderate interest rate risk associated with its EUR-based loans by way of the interest rate swaps mentioned above, as they replaced the variable interest rates on investment loans by fixed rates.

At the end of the reporting period, within long-term and short-term loans the share of HUF loans was 76% as opposed to 70% in the previous year. The increase in the share of EUR loans was a result of the fact that the Company repaid a larger proportion of HUF loans during the reporting period in line with the relevant contracts.

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 analyse 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 way of bank transfer. No credit limit was exceeded during the reporting period, and management does not expect losses from default on the part of the partners concerned. Buyers' debts (trade receivables) are assessed and actions are taken, as necessary, regarding each buyer partner individually, at the end of the year.
Trade receivables in a breakdown by due dates (data in HUF million)

	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	2,058	2,034	12	11	1	-

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 2023 are presented in relation to the lending risk in a breakdown by time to maturity (data in HUF million):

Conditions	**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 years**	**Total**
Non-interest bearing or demand	1,514	-	-	-	-	1,514
Variable rate	-	-	-	-	-	-
Fixed rate	-	-	284	-	-	284
Total	**1,514**	**-**	**284**	**-**	**-**	**1,798**

The Company's cash is stated in the category of non-interest bearing or on-demand assets, while the Company's securities shown among its current assets are stated in the category of variable and fixed rate assets.

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 life cycles 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.

Financial liabilities broken down by due date (data in HUF million):

31.12.2023

	Amount	0-6 months	6-12 months	1-2 years	3-5 years	Over 5 years
Non-derivative financial liabilities						
Loans	11,563	1,477	1,001	1,311	4,143	3,632
Trade payables	804	801	3	-	-	-
Other financial liabilities	651	651	-	-	-	-
Derivative financial liabilities	10	10	-	-	-	-

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

	31 December 2023 HUF Mn	31 December 2022 HUF Mn
Subscribed capital	400	400
Total equity capital	11,458	10,534
Equity / Subscribed capital	**28.65**	**26.34**

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, but at the same time ensuring, 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. *Epidemic risk and war risk*

Expected human and economic impacts caused by potential pandemics in the future, the like of which was experienced in recent years, may result in consequences affecting a variety of different segments and participants of society and economy. In a situation similar to what we experienced in 2020–2021 the impacts cannot be precisely or fully estimated, therefore such situations continue to entail risks. Given its very nature, the operation of the Company is not expected to be severely restricted by likely future negative consequences of any future epidemic.

The indirect economic impacts of the war that broke out between Russia and Ukraine in 2022 (primarily through extreme fluctuations in the energy markets) did affect the Company during both the base period and the period under review, but only to a limited extent.

In response to the war, the European Union and other international parties adopted wide-ranging, comprehensive economic and other legal sanctions in various areas against Russia in the recent years and such sanctions are expected to be introduced in the future as well. Both the war and the sanctions – those already in place and those adopted in future – have perceivable direct and indirect economic implications that may have an impact on the operating environment of PannErgy. At the time of the preparation of these consolidated financial statements, the impact of future consequences and effects cannot be estimated. Based on the information available, the potential future negative effects of the war are expected to have a limited impact on the operation of the Company because

- the Company has no exposure to Russian or Ukrainian buyers, suppliers, or creditors;

- the Russia–Ukraine war exerts no direct, significant impact on the Company's revenues in the reporting period, on the measurement of its assets or on its investments;
- the availability of the geothermal energy sources used by the Company is independent of the parties involved in the war.

In addition, it should be noted that the geothermal heat production activity of the Company contributes directly to reducing the exposure of Hungary's energy dependence to external market participants and circumstances.

PannErgy Plc. proceeded in the reporting period – as in the previous period – in accordance with the recommendations of the European Securities and Markets Authority (ESMA) regarding the presentation of the impacts of the extraordinary events (war and pandemic) on the Company's financial statements. In line with the recommendations the Company placed and continues to place special emphasis on business continuity planning, and for all critical areas of operation has emergency plans that are suitable to support the adoption of the necessary business continuity measures.

In accordance with the disclosure recommendations of ESMA, the Company, as a securities' issuer discloses, as promptly as possible and in accordance with its transparency obligations under the market abuse regulations, all relevant data and information on the impact of the Russia–Ukraine war, the pandemic or any other unexpected event on the Company' assets, income and financial position, operational activities, perspectives and plans.

In conformity with the ESMA recommendation, PannErgy Plc. publishes the following information in relation to the Russia–Ukraine war and the earlier pandemic in its consolidated financial statements for 2023:

Neither the ongoing military events of the Russia–Ukraine war, nor the pandemic events started in previous years – which have turned into normal epidemic condition in the reporting period – had a material impact on the figures presented in the Company's consolidated financial statements for 2023. In the reporting period the Company continued to provide services to its heat-receiving partners at a high level of operational safety; moreover, it was able to maintain the level of EBITDA – its key operational metric – and even increase it as planned relative to the preceding year.

41.10.*Risk of the adverse effects of climate change*

The activity of the Company is not affected directly and significantly by the adverse effects of climate change; they do not exert a material impact on revenues that may jeopardise the level of revenues presented in these financial statements. In addition, the activity of the Company is climate-neutral in the sense that the utility and value of the assets required for its core activity – geothermal heat generation – are not affected by the potential negative effects of the climate change. The Company does not need to resort to extra projects to eliminate the adverse effects of climate change, nor does it incur any extra costs (e.g. maintenance) in this regard.
Moreover, it should be noted that the core element of the strategy of PannErgy Group – as 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.

PannErgy Plc. uses clean and renewable energy solutions to build the future, giving every generation the opportunity to create value by applying the principles of environmental protection and sustainability. The Company has set itself the goal of becoming a market leader in the Central and Eastern European region through the use of geothermal energy, which provides significant economical and ecological value for now and in the future. The environmental strategy of PannErgy designed to mitigate or prevent the negative effects of the climate change is described in *Section 6 Strategy and Environmental Objectives of the PannErgy Group* of the Business and Management Report.

In relation to the Company's activities relating to climate change and environmental protection the ESMA recommendation discloses the following in relation to its consolidated financial statements:

- **it acts as a renewable energy producer and is engaged in carbon-saving activities;**
- **it prepares a separate ESG/Sustainability Report in accordance with the requirements of the GRI Global Reporting Initiative, GRI Universal Standards 2021, in line with the regulations for listed companies;**
- **the ESG/Sustainability Report for 2023 will be published at the same time as these consolidated financial statements,**
- **the ESG/Sustainability Report will include detailed information on carbon savings and emissions, with all assumptions evaluated and published;**
- the non-financial information in the ESG report for 2023 is consistent with the information contained in these consolidated financial statements;
- these consolidated financial statements do not contain information on specific provisions set aside for environmental protection or climate change, or information on contingent receivables, liabilities, environmental assets, their impairment loss, the scheduling of environmental projects/investments or their financial impacts;
- The Company is not involved in any green financing programme and has no long term green power purchase agreements;
- Based on the Company's renewable energy generation and carbon emission saving activity the report contains no information on carbon credits or renewable energy certificates – in the case of the Company there is no need for this kind of pollutant emission compensations.

41.11.*Description of the reporting period's macroeconomic environment*

In accordance with the ESMA regulations the Company discusses Hungary's 2023 macroeconomic environment in this chapter in relation to the reporting period's consolidated financial statements.

GDP

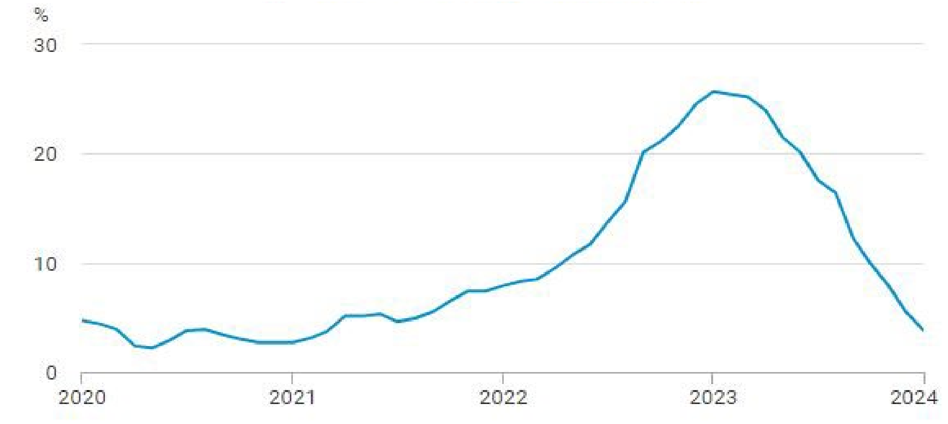
According to the Central Statistical Office's first estimate of Hungary's 2023 GDP, the performance of the Hungarian economy dropped by 0.8% in comparison to the 2022 GDP. The first three quarters of the year were dominated by a decrease year-on-year but by the fourth quarter the Hungarian economy embarked on a growth path again. The decrease in the overall 2023 GDP was driven primarily by a downturn in investment and household consumption.

A gradual upswing is projected for 2024 and 2025; in view of the economic expectations prevailing in the market the growth of GDP may accelerate to 2.4% and 3.6% in 2024 and 2025, respectively, as a result of a decrease in inflation and in the financing rates, *inter alia*.

Inflationary environment during the reporting period

Consumer prices increased by an average of 17.6% in 2023, year-on-year. The 25.9% food price increase was the most dramatic factor in the consumer basket, followed by an increase of 22.1% in household energy prices, 18.6% in other products and fuels, 15.4% in alcoholic beverages and tobacco products, 13.2% in services, 8.3% in clothing items and 5.6% in durable goods. The average consumer price increase in pensioners' households was as high as 18.3%.

Changes in consumer prices
(year-on-year)



Source: CSO

The Magyar Nemzeti Bank expects continuation of the rapid disinflationary process in 2024 Q1, however, in the remaining part of the year the rate of the decrease of inflation will diminish as a consequence of the elimination of the strong basis effects, of and the impacts of regulatory changes and amendments to taxation rules on consumer prices. According to current market expectations the consumer price index should permanently return into the range of inflation rate targeted by the central bank by year 2025. The annual inflation rate may be 4.0–5.5% in 2024 and 2.5–3.5% from 2025 on. (Source: MNB Inflation report, December 2023)

Inflation has a natural direct and indirect impact on the Company's operation regarding both revenues and the costs, affecting even its operational and financial operation in a manageable manner.
In terms of costs, the inflation has a perceptible impact on the growth of procurement costs, maintenance/operating costs, energy prices and labour costs. On the revenue side the Company is able to continuously integrate the price increases in its prices charged to both its district heating company, and at the same time, trading, partners through the regulatory district heating price setting and its

commercial contracts' price setting mechanism, thereby offsetting any substantial negative impact by inflation on the Company's profitability.

The interest rate environment

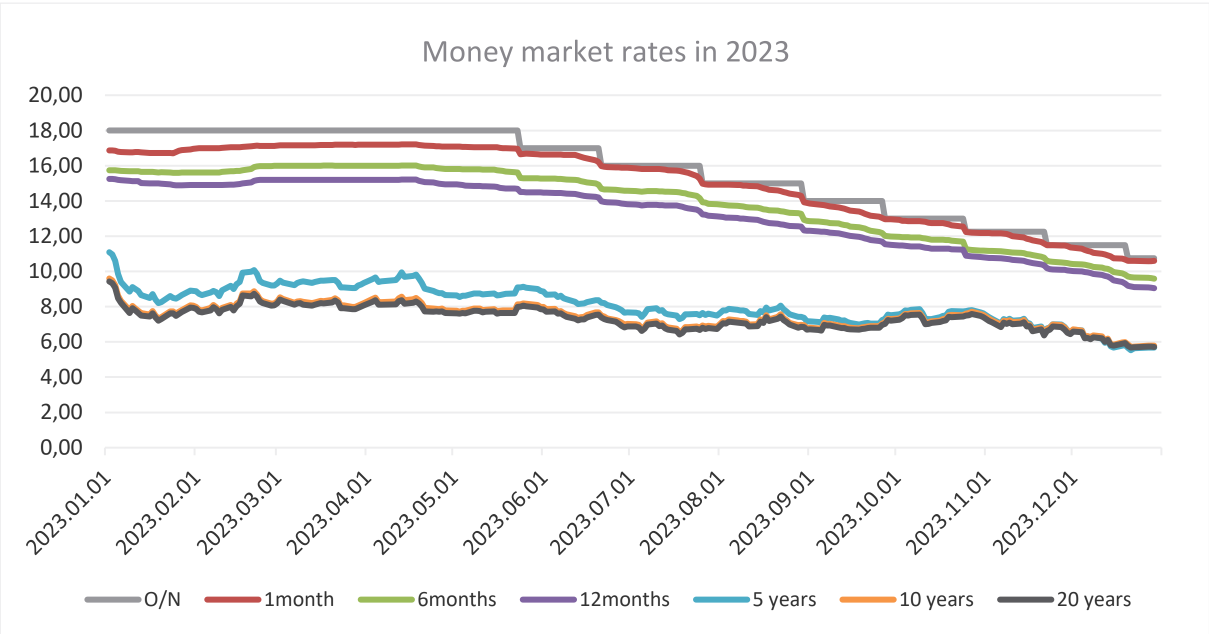
The MNB policy rate

Owing to the high domestic inflationary environment as well as money and currency market turbulences the MNB increased the central bank policy rate in 2022 through several steps to 13%. From 2023 Q4 the MNB reduced the policy rate to 10.75% through monthly 0.75% interest rate cuts by the end of 2023. In 2024 there have been additional major easing measures in the domestic interest rate policy and similar measures are expected to follow.

BUBOR/BIRS

The Budapest Interbank Offered Rate, i.e., the BUBOR and the Budapest Interest Rate Swap transactions, i.e. BIRS reference indicator quotes also showed a declining trend in 2023, which was favourable for the Company.

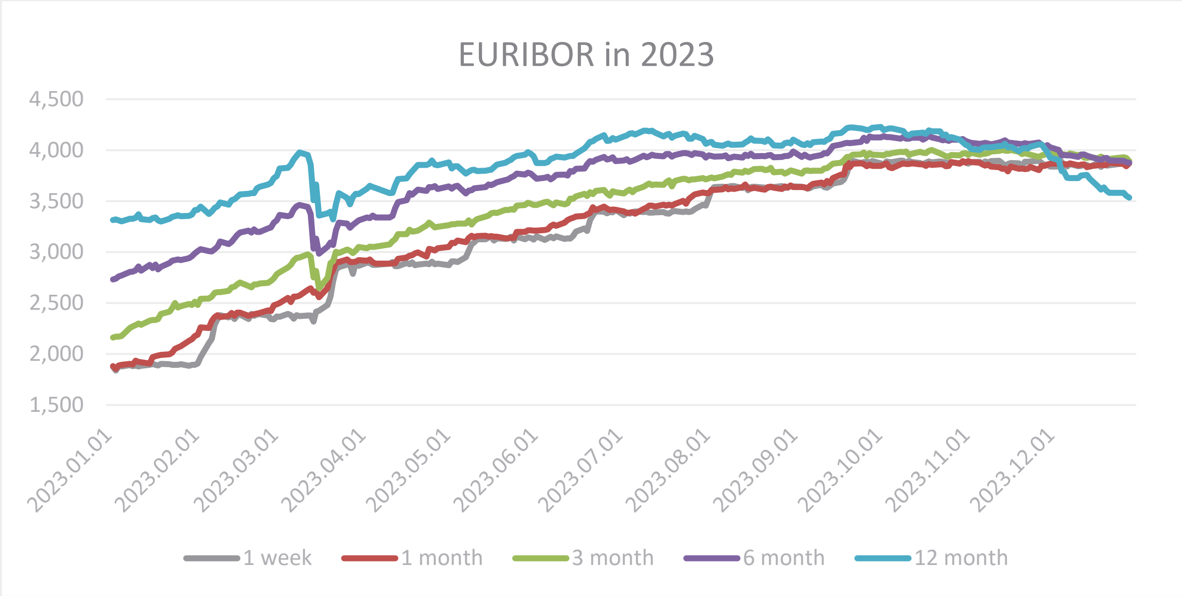
At the beginning of 2023 the one-day (O/N) quote was 18.00%, the 1-month quote was 16.87%, the 6-month quote was 15.75%, the 1-year quote was 15.25%, the 5-year quote was 11.09%, the 10-year quote was 9.6% and the 20-year quote was 9.43%, which declined significantly by the end of the year as follows: O/N: 10.75%, 1-month: 10.60%, 6-month: 9.59%, 1-year: 9.05%, 5-year: 5.68%, 10-year: 5.79% and 20-year: 5.71%.



Source: MNB, PannErgy

EURIBOR

The Euro Interbank Offered Rate, that is, the EURIBOR, increased until the middle of 2023; thereafter it stagnated and then declined. The increase at the beginning of the year reflected a tighter monetary policy environment in the eurozone, driven by changes in the inflationary pressures. From September 2023 on the ECB introduced no tightening measures and did not change the policy rates.



Source: Euribor-rates.eu, PannErgy

The impacts of the changes in the interest environment on the Company

The interest burden on the Company's debt portfolio – including in year 2023 – is only marginally affected by changes in the interest rate environment. Although the Company's loans borrowed in the market are tied to the EURIBOR, the potentially negative effects of variable interest rates have been managed by hedging the interest rate risk at the time of borrowing, by way of interest rate swaps (IRS). Only a very small portion of the Company's total HUF loans is tied to the BUBOR – the majority are subsidised fixed rate loans. Another reason why the changes in the BUBOR in 2023 did not impact the Company's interest payments was that Government Decree 415/2022. (X.26.) introduced an interest rate stop in November 2022, as a result of which a rate below the BUBOR was in effect.

To make use of the positive opportunities offered by the environment of high inflation in 2023 the Company made particular efforts to increase its financial profits by investing its uncommitted cash and liquid assets with the aim of earning interests (purchasing government securities, fixing bank deposits, other interest earning facilities).

42. PARTICIPATIONS

42.1. *Consolidated subsidiaries*

	Share capital (HUF Mn)	Shareholding (%)	Voting rights (%)	Consolidation ratio
PannErgy Geothermal Power Plants Ltd.	2,072.70	100.00	100.00	100.00
DoverDrill Mélyfúró Ltd.	86.00	100.00	100.00	100.00
Arrabona Koncessziós Ltd.	6.10	100.00	100.00	100.00
Szentlőrinci Geotermia Ltd.	5.00	100.00	100.00	100.00
Miskolci Geotermia Ltd.	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
Berekfürdő Energia Ltd.	3.00	100.00	100.00	100.00
Geo2Business Ltd.	3.00	100.00	100.00	100.00

The ratios presented above show the respective shares of ownership and voting rights of PannErgy Plc. and PannErgy Geothermal Power Plants Ltd. in the various subsidiaries. The consolidated ratios are the same as the respective shares of ownership. PannErgy Plc., the parent company, has a 100% share of ownership in PannErgy Geotermikus Erőművek CPlc. the Group's technical/professional leader company, which in turn is 100% direct owner of all PannErgy project companies and group member companies.

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

The PannErgy Group's consolidated companies remained unchanged in comparison to the base period. No transactions affecting investments or shareholdings took place during the reporting period.

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. As in the base period, the Company identified a single operating segment during the reporting 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. As in the base period, PannErgy Group, the legal successor of Pannonplast Plc., does not identify the utilisation – as property management – of industrial facilities and related office premises formerly used by Pannonplast Plc. in its plastics manufacturing operation as a separate operating segment in the reporting period for the following reasons:

- under the requirements of *IFRS 8 Operating Segments*, based on the management approaches applied to segments and the criteria for the presentation of operating segments, the asset management and property utilisation activity performed beyond the Energy segment does not form a fully independent component. This should be regarded as an 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;
- the performance assessment of the utilisation of the aforesaid properties is a negligible part of the work of the Company's operative management and supreme bodies; the internal control reporting system does not focus on information regarding the utilisation of properties as they are considered 'pass-through' items;
- In view of the principles detailed in Section *4.29 Segment Reports* of these consolidated financial statements, 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 maximising the efficiency of the Energy segment; the utilisation 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.

Notwithstanding the above, the Company examined the limit values of the property utilisation activity linked to the identification of operating segments. The HUF 36 million revenue of this activity (including

HUF 2 million in rent) in the reporting period accounted for less than 1% of the HUF 9,668 million revenue realised by PannErgy Group in the reporting period. Accordingly, the asset management and property utilisation 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 divestment of the real property portfolio in Debrecen during the base period.

Based on the above, only one operating segment can be identified at PannErgy Group (Energy); consequently, the Company has to fulfil disclosure obligations covering the entity as a whole. 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.

Statement of profit or loss 2023 (data in HUF million)	**Győr**	**Miskolc**	**Szentlőrinc**	**Holding governance, other activities**	**Total**
Revenue from sales	**5,721**	**3,401**	**115**	**431**	**9,668**
Revenues among segments	-	-	-	-	-
Direct cost of sales	**-3,888**	**-2,402**	**-54**	**-281**	**-6,625**
Gross margin	**1,833**	**999**	**61**	**150**	**3,043**
Gross profit ratio %	***32%***	***29%***	**53%**	***35%***	***31%***
Indirect costs of sales	-133	-170	-5	-380	-688
Other revenues	81	158	10	71	320
Other expenditures	-266	-284	-12	-35	-597
Operating profit	**1,515**	**703**	**54**	**-194**	**2,078**
Operating profit ratio %	**26%**	**21%**	**47%**	**-45%**	**21%**
Direct depreciation	1,018	575	**35**	212	1,840
Indirect depreciation	5	-	**-**	-	5
Total depreciation	**1,023**	**575**	**35**	**212**	**1,845**
Extraordinary depreciation	2	1	**-**	4	7
EBITDA	**2,540**	**1,279**	**89**	**22**	**3,930**
EBITDA rate %	**44%**	**38%**	**77%**	**5%**	**41%**
Financial profit	44	-57	-	--228	-241
Profit before taxes	**1,559**	**646**	**54**	**-422**	**1,837**
Income tax	27	20	**-**	74	121
Net profit for the year	**1,532**	**626**	**54**	**-496**	**1,716**

Statement of financial position 2023 (data in HUF million)	Győr	Miskolc	Szentlőrinc	Holding governance, other activities	Total
Goodwill	251	395	32	-	678
Other intangible assets	294	103	1	1,263	1,661
Tangible assets	9,561	8,704	958	305	19,528
Investment properties	-	-	-	89	89
Marketable properties	-	-	-	-	-
Other invested financial assets	-	-	-	-	-
Financial assets (concession assets)	-	-	-	-	-
Receivables from deferred taxes	31	69	7	13	120
Long-term receivables	-	-	-	-	-
Total fixed assets	**10,137**	**9,271**	**998**	**1,670**	**22,076**
Inventories	2	8	20	-	30
Trade receivables	1,045	904	18	91	2,058
Other receivables	304	201	1	-216	290
Securities	188	96	-	-	284
Liquid assets	1,224	102	19	169	1,514
Total current assets	**2,763**	**1,311**	**58**	**44**	**4,176**
TOTAL ASSETS	**12,900**	**10,582**	**1,056**	**1,714**	**26,252**
Subscribed capital	-	-	-	400	400
Reserves net of profit/loss of the reporting period	2,830	4,405	679	7,308	15,222
Net P/L of the reporting year	1,532	626	54	-496	1,716
Reserve for repurchased treasury shares	-	-	-	-5,880	-5,880
Minority shareholdings	-	-	-	-	-
Total shareholders' equity	**4,362**	**5,031**	**733**	**1,332**	**11,458**
Long-term loans, leases	5,308	2,608	-	247	8,163
Other long-term deferred income	1,075	1,580	290	242	3,187
Provisions	131	197	8	-	336
Total long-term liabilities	**6,514**	**4,385**	**298**	**489**	**11,686**
Trade payables	494	265	6	39	804
Short-term credits	-	-	-	9	9
Short-term part of long-term credits	887	435	-	37	1,359
Short-term part of other long-term deferred revenues	104	99	10	62	275
Other short-term liabilities	539	367	9	-254	661
Total short-term liabilities:	**2,024**	**1,166**	**25**	**-107**	**3,108**
LIABILITIES AND EQUITY	**12,900**	**10,582**	**1,056**	**1,714**	**26,252**

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 consolidated financial statements for the base period, with one exception; the basis data presented in these financial statements are the same as those in the 2022 consolidated financial statements, except for the modification detailed below.

Due to the change in accounting policy detailed in *Chapter 4.13. Accounting Policy change – Financial assets related to concession agreements (IFRIC 12) (SIGNIFICANT POLICY)*, the financial assets (concession assets) recorded in the base period have been reclassified to Intangible assets and Tangible assets, according to their nature.

This reclassification affects the following parts of the consolidated financial statements for the base period:

CONSOLIDATED STATEMENT OF FINANCIAL POSITION:

	31 December 2022 ORIGINAL DATA HUF Mn	31 December 2022 MODIFIED DATA HUF Mn	CHANGE
Other intangible assets	1,661	1,724	63
Tangible assets	19,081	20,053	972
Financial assets (concession assets)	1,035	-	-1,035

15. Intangible assets notes

	31 December 2022 ORIGINAL DATA HUF Mn	31 December 2022 MODIFIED DATA HUF Mn	CHANGE
Know-how – gross value	2,463	2,574	111
Know-how – accumulated depreciation	819	867	48
Know-how – net value	1,644	1,111	63

16. Tangible assets notes

	31 December 2022 ORIGINAL DATA HUF Mn	31 December 2022 MODIFIED DATA HUF Mn	CHANGE
Properties – gross value	17,293	18,378	1,085
Properties – accumulated depreciation	4,123	4,243	120
Properties – net value	13,170	14,135	965

Machinery and vehicles – gross value	12,033	12,044	11
Machinery and vehicles – accumulated depreciation	6,428	6,432	4
Machinery and vehicles – net value	5,605	5,612	7

18. Financial assets (concession assets) notes

	31 December 2022 ORIGINAL DATA HUF Mn	31 December 2022 MODIFIED DATA HUF Mn	CHANGE
The project of Arrabona Koncessziós Ltd. in the region of Győr	1,035	-	-1,035

The above adjustment to the base period only affects the presentation of the consolidated financial position statement and the balance sheet, and does not in any way affect profits, losses, or equity.

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 vehicle lease services to PannErgy Plc. – in 2023 such services amounted to HUF 134 million in total, of which business management consultancy services were provided in the amount of HUF 80 million, and long-term vehicle leases in the amount of HUF 54 million. Corresponding services amounted to HUF 113 million in the base period, of which business management consultancy services represented HUF 69 million and long-term vehicle lease services represented HUF 44 million. The increase of HUF 21 million (representing a 19% increase) in transactions with members of the Company's management is in line with the market price movements for similar services during the reporting period.

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	**2023 HUF Mn**	**2022 HUF Mn**
Revenue from sales	1	2
Costs of goods and services	134	113
Receivables at the end of the reporting period	-	-
Liabilities at the end of the reporting period	7	7

All of the transactions – during the reporting period and during the base period – with affiliated but not consolidated parties involve entities related through ownership to the Group's management.

45.3. *Loans to affiliated parties*

Neither in 2023 nor in 2022 did the PannErgy Group provide loans to affiliated but not consolidated parties, and no loans were disbursed to members of the Group's management.

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

Elimination of profit & loss account items:	**2023 HUF Mn**	**2022 HUF Mn**
Revenue from sales	3,486	1,933
Direct cost of sales	3,447	1,904
Indirect cost of sales	32	30
Other revenues	438	583
Other expenditures	438	504
Finance incomes	2,187	1,171
Finance costs	2,187	1,171

Elimination of statement of financial position items:	**2023 HUF Mn**	**2022 HUF Mn**
Tangible assets	1,741	1,715
Intangible assets	10	36
Next period's items among other receivables	1,468	939
Other receivables, short-term loans	10,490	8,949
Long-term loans granted	3,518	3,837
Long-term liabilities	3,518	3,837
Next period's items among other liabilities	1,468	939
Other short-term liabilities	10,490	8,949

45.5. *Remuneration of key executives*

	2023 HUF Mn	**2022 HUF Mn**
Short-term employee benefits	10	13
Termination benefits	-	-
Share-based benefits	-	-
Total	**10**	**13**

At the Company's General Meeting on 28 April 2023, by MB Resolution No. 7/2023 (IV.28.) the Company set the remuneration of the Chairman of the Management Board at 195,000 HUF/month, while that of the other members of the MB at 155,000 HUF/month from 29 April 2023, i.e. management remunerations remained unchanged compared to the previous year.

Other than the above remunerations, no long-term benefits or share-based allocations were provided to members of the MB during the reporting period and the preceding base period. At present, the Company does not recognise any liabilities to past or present executive officers in respect of pension.

46. ADDITIONAL INFORMATION

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

46.1. *Proposal on the use of P/L of the reporting year and on the approval of dividend payment*

The proposal adopted by the Management Board on the use of the reporting year's P/L and on dividends, as put forward to the General Meeting, is the following:

'Defined in accordance with EU IFRS, the net P/L of PannErgy Plc., as an individual entity, is a profit of HUF 344,723 thousand for the reporting year, while its total assets amount to HUF 10,107,706 thousand.
The Company publishes extraordinary and other announcements on shareholder information in accordance with the prevailing legislation, available, inter alia, at the website of the Company and the Budapest Stock Exchange.

The Audit Committee at the Company has examined the Company's financial statements and the auditor's reports as well as the financial reporting processes in place at the Company, and deemed them acceptable.

In view of the anticipated investment opportunities and needs for 2024, the necessity of holding a certain level of free cash and cash equivalents required for safe and prudent operation and thus for maintaining a high level of financial and operational stability with adequate flexibility, the Management Board does not recommend the payment of dividends, and proposes that after-tax profit be transferred to retained earnings in full.'

46.2. *Audit information*

Pursuant to the relevant provisions of Act C of 2000 on Accounting, PannErgy Plc. is subject to mandatory audit; the separate and consolidated financial statements (report) of the Company drawn up in accordance with the IFRS standards are also audited by an independent auditor.

In the reporting period, the Company was audited by BLUE RIDGE AUDIT HUNGARY Ltd. (address: H-1026 Budapest, Sodrás utca 5. 2. em. 1, tax number: 13076858-2-41, company registration number: 01-09-717568, Chamber registration number: MKVK 004410); the audit report was signed by Gábor Merkel (Chamber registration number: MKVK 007363, address: H-1138 Budapest, Jakab József str. 21. 2nd floor, door 7.).

For its audit pertaining to the reporting year, the auditor charged a fee of HUF 9 million for the PannErgy Plc. level audit and HUF 19 million for the Group-level audit, and received no other remuneration (for any other external review, tax consultancy or other service) from the Company.

46.3. *Person responsible for the preparation of the report*

The person responsible for governing and managing the book-keeping tasks of PannErgy Plc. and the preparation of the report is József Ivánka – as head of accounting at PannErgy Plc. / PannErgy Group – chartered accountant registered in IFRS and Business (licence number: 168953, address: H-1163 Budapest, Bronz utca 31/A).

46.4. *Members of the Company with controlling influence*

PannErgy Plc. is a public limited company. In line with *Section 8.2 (Shareholders with over 5% shareholdings in the Company as at 31 December 2023)* of the Business Report, none of the members of the Company has a majority interest – in particular, qualified majority – in the Company; consequently, there is no need to disclose any information on the name, registered office or voting share of such members.

46.5. *Persons authorised to act on behalf of the Company*

Members of the Management Board are entitled to represent and act on behalf of the Company as follows; they are authorised to sign the annual report at the date of publication of the current consolidated financial statements:

Name	Position	Address	Mandated from	Signature right
Dénes Gyimóthy	MB member, Chairman	94501 Komárno, Medercská ul. 748/73.	31/08/2007	independent
Katalin Gyimóthy	Member of the MB	H-8220 Balatonalmádi, Somfa utca 4.	28/04/2016	joint
Attila Juhász	Member of the MB	H-2251 Tápiószecső, Rákóczi út 6.	31/08/2007	joint
Kálmán Rencsár	Member of the MB	H-6320 Solt, Posta utca 51.	30/04/2020	joint
Gábor Briglovics	Member of the MB	H-2483 Gárdony, Barabás Miklós utca 10.	16/04/2022	joint
István Jaksa	Other employee, Chief Executive Officer	H-1222 Budapest, Nap utca 28-30. 2. a.	13/02/2024	joint

46.6. *Other disclosure obligations of the Company*

PannErgy Plc., as an entity compiling its annual report in accordance with the IFRS standards, is not subject to 'Reporting on payments to governments' under Section 114/I (3) of Act C of 2000 on Accounting ("Accounting Act"), as its activity does not fall within the category of undertakings active in the extractive industry within the meaning of Regulation (EC) No. 1893/2006 and Directive 2013/34/EU of the European Parliament and of the Council referred to in the Act.

Pursuant to Section 114/I (3) of the abovementioned Accounting Act and Chapter VI/B referred therein, the company is required to prepare a report containing corporate income tax information. PannErgy Plc., as the undertaking compiling the highest level, consolidated financial statements of the PannErgy Group, prepares and – concurrently with the publication and depositing of the annual report – publishes the above report.

46.7. *Registered office, website and contact information of the Company*

PannErgy Plc. has its registered office in Hungary at H–1112 Budapest, Boldizsár utca 2. The Company's separate and consolidated financial statements and report are available at the Company's registered office and on its website (https://www.pannergy.com).

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

No material events or significant developments that would have an impact on the Company's 2023 financial year, or the reported results and balance sheet figures for that period in the consolidated financial statements occurred after the reporting date for the consolidated financial statements.

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
12 March 2024	Extraordinary information	Invitation to the General Meeting
3 March 2024	Extraordinary information	Treasury share transactions
29 February 2024	Extraordinary information	Number of voting rights at PannErgy Plc.
23 February 2024	Extraordinary information	Treasury share transactions
18 February 2024	Extraordinary information	Treasury share transactions
11 February 2024	Extraordinary information	Treasury share transactions
4 February 2024	Extraordinary information	Treasury share transactions
1 February 2024	Extraordinary information	Voting rights, share capital
28 January 2024	Extraordinary information	Treasury share transactions
21 January 2024	Extraordinary information	Treasury share transactions
15 January 2024	Extraordinary information	Quarterly production report
14 January 2024	Extraordinary information	Treasury share transactions
6 January 2024	Extraordinary information	Treasury share transactions

48. Date of authorisation of disclosure

The Company's Board approved the financial statements and authorized their disclosure on 26 March 2024.

Dénes Gyimóthy
On behalf of the Management Board

PannErgy Plc.
Business and Management Report
2023

Based on the PannErgy Group's IFRS consolidated financial statements

Budapest, 27 March 2024

THIS ANNOUNCEMENT IS PUBLISHED IN HUNGARIAN (MANDATORY, OFFICIAL) AND ENGLISH LANGUAGES. IN CASE OF ANY CONTRADICTION BETWEEN THESE TWO VERSIONS, THE OFFICIAL HUNGARIAN VERSION SHALL PREVAIL.

The attached pdf report is not the official report of the Company; the official report will be drawn up and published in ZIP (specifically XHTML-XBRL) format as required by applicable legislation. The contents of the attached pdf report are fully identical with those of the report published in ZIP (specifically XHTML-XBRL) format.

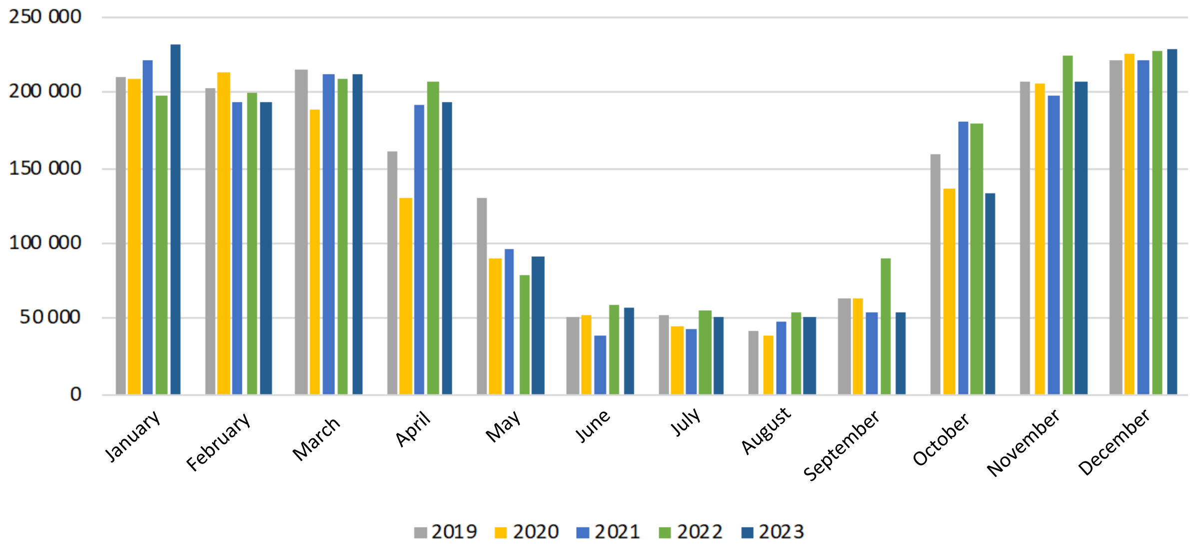
1. Executive Summary

Consolidated EBITDA at the objective level – despite adverse weather conditions

During the reporting period, the energy market situation has eased in terms of supply uncertainty, price movements and volatility. Nevertheless, the year 2023 has brought new challenges for PannErgy as a renewable energy producer and a company with significant emissions savings. Weather conditions proved highly unfavourable for heating potential compared to the base period and the average weather conditions in previous years, especially during the transitional periods, which were considered critical for the annual performance. This had a negative impact on consolidated heat sales. Revenue was also negatively impacted by the postponement of the expansion of the Miskolc Project with a third production well until 2024. The Company had already included the extra capacity that would have been represented by this expansion in the calculations for the last months of the reporting period. **Despite the unfavourable weather conditions and investment developments, the Company came close to achieving the objectives set for the reporting period, aiming to create value for its shareholders: these objectives included achieving its consolidated heat sales and EBITDA targets in the reporting period as well.**

The recent extreme weather anomalies which are now also evident in Hungary have served to further emphasize the importance of sustainability and environmental concerns to the wider public. In the future, all economic actors are expected to focus more on these areas than they have in the past.
The positive impacts of the Company's green energy production activities on sustainability and environmental protection have underpinned the importance of PannErgy Group's core operation: geothermal energy generation. In addition, the supply uncertainties of recent years have made it clear that the geothermal energy produced by PannErgy could be an excellent way to reduce Hungary's dependence on fossil fuels, in addition to helping meet sustainability and environmental goals.

Thanks to optimising its operation to the prevailing unfavourable weather conditions and capacities, **PannErgy Group's consolidated heat sale amounted to 1,705 TJ in 2023, which represents a mere 4% decrease compared to the performance of 1,785 TJ in the base period, and only a 5% decrease compared to the plan for the reporting period, 1,790 TJ.**



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.

	2019	2020	2021	2022	2023	2023 TARGET	2024 TARGET
January	209,999	209,678	221,966	197,923	232,696		
February	203,484	213,855	194,173	199,600	193,989		
March	215,693	189,195	211762	209,267	211,365		
Q1	**629,176**	**612,728**	**627,901**	**606,790**	**638,050**	**627,259**	**634,509**
April	160,548	130,407	192,053	207,861	192,834		
May	129,300	89,190	96,333	78,637	92,125		
June	50,780	53,394	38,595	58,955	56,645		
Q2	**340,628**	**272,991**	**326,981**	**345,453**	**341,604**	**322,084**	**340,612**
July	52,406	45,297	42,919	56,299	50,385		
August	42,415	39,205	48,023	54,838	50,659		
September	63,731	64,096	53,870	90,033	53,905		
Q3	**158,552**	**148,598**	**144,812**	**201,170**	**154,949**	**193,174**	**166,451**
October	159,888	136,460	180,427	179,453	133,450		
November	206,686	205,417	197,872	224,871	208,031		
December	221,248	225,688	221,198	226,770	229,190		
Q4	**587,822**	**567,565**	**599,497**	**631,094**	**570,671**	**647,180**	**631,543**
ANNUAL TOTAL	**1,716,178**	**1,601,882**	**1,699,190**	**1,784,507**	**1,705,275**	**1,789,697**	**1,773,116**

Consolidated actual and target amounts of heat sales, in GJ

Despite lower heat sales figures, the Company's consolidated sales revenues rose to HUF 9,668 million, mostly due to increased producer heat prices, exhibiting a positive change of 35%.

The breakdown of sales revenue by activities and services reveals that income from the sale of heat rose by 48% year-on-year to HUF 2,992 million, primarily as a result of the recognition, through regulated pricing, of the significantly increased electricity costs – as justified costs associated with district heat generation – relating to the base period and certain periods of the reporting period.

With an outstanding 45% increase in the consolidated gross margin, it should be noted that provisioning costs for the reporting year has been accounted for as other expenses, rather than as gross margin. A similarly exceptional, 28% improvement was reported for consolidated gross cash flow – HUF 1,070 million on nominal terms – compared to the base period.

As a combined result of the **total indirect cost of sales and other income and expenses**, costs came to HUF –965 million, in contrast with the HUF –202 million stated in the base period. The negative change between the two periods is mainly the result of non-recurring income in the base period (sales of tangible assets and significant compensations received) and provisioning in the reporting year. **After eliminating these items, the total for the reporting year and the base period represents an organic change.**

The Company's operating surplus amounted to HUF 2,078 million in the reporting period, up 10% year-on-year.

PannErgy Group's consolidated EBITDA amounted to HUF 3,930 million, which is consistent with the 2023 EBITDA target range published in the Quarterly Production Report – 2023 Q4 on 15 January 2024, which projected financial results close to the lower end of the EBITDA plan range of HUF 3,950 – 4,150 million. The consolidated EBITDA achieved in the reporting year **shows a 9% improvement relative to**

the previous year, outperforming the EBITDA achieved in the base year (HUF 3,612 million) by HUF 318 million. The EBITDA performance of the reporting period was achieved with a 41% EBITDA ratio.

This high EBITDA performance, closely approaching the EBITDA plan and continuing the growth of the past years, was supported by the capacity expansion, efficiency and safety investments of the previous periods and the reporting period, as well as by the operational and management-level focus on efficiency, which significantly offset the more unfavourable weather conditions and consequent lower Group-level heating potential for PannErgy during the period under review, as well as the completion of the third production well in Miskolc, which was already included in operational capacity calculations for the end of 2023.

The Company incurred a financial loss of HUF –241 million, which shows a HUF 239 million improvement compared to the HUF –480 million loss incurred during the base period. This improvement primarily reflects the impact of FX exchange rate movements on revaluation in the reporting period, as well as by exchange-rate and interest income from short-term low-risk investments in line with Group-level cash flow processes.

The Company achieved a consolidated net profit of HUF 1,716 million (after-tax P/L) in 2023, surpassing the consolidated profit of HUF 1,310 million stated in the base period by a remarkable 31%.

Main profit/loss data (HUF million)	2023	2022
Revenue from sales	9,668	7,145
Direct cost of sales	-6,625	-5,047
Gross margin	**3,043**	**2,098**
Gross cash flow	**4,883**	**3,813**
Gross cash flow rate	**51%**	**53%**
Indirect costs of sales	-688	-582
Other revenues and expenditures	-277	380
Operating profit (EBIT)	**2,078**	**1,896**
EBITDA	**3,930**	**3,612**
EBITDA rate	**41%**	**51%**
Financial profit	-241	-480
Profit before taxes	**1,837**	**1,416**
Consolidated net profit for the reporting period	**1,716**	**1,310**
Return on Equity (ROE) %	*15%*	*12%*
Return on Sales (ROS) %	*18%*	*18%*
Earnings per ordinary share (diluted EPS) (HUF)	*112*	*82*

<u>The Company's EBITDA projection for the coming year (2024)</u>

For the 2024 business year, the Company's management set a consolidated IFRS EBITDA target range of HUF 3,900 – 4,100 million, which is identical to the data shown in its Quarterly production report – 2023 Q4.

The target ranges in the 2024 EBITDA plan include the successful boring of the Miskolc Project's third production well in 2024 Q2 and its expected connection by the start of the 2024/2025 district heating season. The midpoint of the consolidated EBITDA target range of HUF 3,900 – 4,100 million under the IFRS represents a moderate, 2% increase in the median value compared to the results of the 2023 business year (HUF 3,930 million).

Change in PannErgy's regulated district heating producer tariffs

In Decree No. 20/2023. (IX.29.) TIM of the Minister of Energy, published in Volume 139 of 2023 of the Hungarian Official Journal (Magyar Közlöny), the Minister of Energy announced the regulated district heat production tariffs (heat supply tariffs) effective from 1 October 2023 to 30 September 2024, also applicable to subsidiaries subject to PannErgy's district heating price regulation, which tariffs PannErgy has presented in the form of extraordinary information at its official places of disclosure on 30 September 2023.

The material decrease in regulated heat tariffs is mainly due to the official recognition of the reduction in the price of electricity required for geothermal heat generation compared to the base period, thus these have a limited impact on changes in the Company's profitability.

The regulated prices defined for the district heating companies of the PannErgy Group in the reporting period and the base period are described in detail in *Section* 3.2 *Regulated district heating tariffs.*

Ongoing projects

Enhancement of the Miskolc Geothermal Project

On 18 November 2022 the Ministry of Technology and Industry – as Grant Provider – awarded a grant of up to HUF 994 million for Application no. GEOTERM-2022.2-2022-00002 submitted by Kuala Ltd. a member of the PannErgy Group. The grant is related to the boring of the third geothermal production well of the Miskolc Geothermal Project.

In the wake of the processes of preparation for the conclusion of the contract the Ministry for Energy issued the Grant Instrument, dated 24 August 2023, for the above-mentioned grant to KUALA Ltd., the Company's subsidiary implementing the project concerned.

The project is expected to be completed by the commencement of the 2024/2025 district heating season – licensing and preparatory works were taking place during the period under review and the preparation of the report. In relation to this a HUF 382 million investment in progress appears among tangible assets as at 31 December 2023; none of the grant has been drawn down, in line with the nature of the grant instrument and the ex-post financing type financial schedule contained in it. The remaining total contractual cost of the project is – in relation to well drilling and the construction of the surface system that is partly related to the well – over HUF 2 billion according to information currently at our disposal.

Budapest environs project

Also during the previous period the Company submitted a successful application for a project relating to the drilling of a geothermal production well to be implemented in the vicinity of Budapest. The envisaged project is to be implemented in a partly unexplored area therefore it entails considerable risks. The grant contracts (Incentive Agreements) relating to this application scheme project were not concluded yet and the conditions for drawing down the grants were not met either.

The Company informed the participants of the capital market on 4 October 2023 that the Ministry of Energy rejected the above application under an amendment to the grant award decision. According to the justification attached to the decision the condition stipulated as a prerequisite for the provision of a grant for the project was not met because at least 1 (one) reinjection well has to be implemented from the awardee's own costs during the implementation (grant funding) period.

Accordingly, the drilling preparation works, originally scheduled for 2024, may only be started later on in case the application conditions and the technical and financial requirements stipulated in similar application schemes make it possible to implement the project and ensure its returns. The Company continues to be committed to the implementation of further explorations in connection with the project.

In relation to the project's preparation and the obtaining of the necessary licences an amount of HUF 55 million investment in progress appears among tangible assets as at 31 December 2023.

Treasury share buyback programmes

On 31 December 2023 the Company held a total of 4,704,132 PannErgy Plc. treasury shares, 662,432 more than the number of treasury shares it held on 31 December 2022. The increase resulted from the acquisition of treasury shares in the framework of the treasury share buyback program taking place during the reporting period; the treasury share portfolio did not decrease.

Under the treasury share buyback programmes, a total of 277,628 and 384,804 treasury shares were repurchased in 2023 H1 and H2, respectively. Taken together, a total of 662,432 shares were repurchased in 2023.

The stock exchange closing price of PannErgy shares was HUF 1,250 per share at the end of the reporting period, compared to HUF 1,315 on 31 December 2022.

General meeting closing the previous business year, dividend payment

On 28 April 2023, the General Meeting of the Company approved PannErgy Plc.'s audited consolidated and separate (parent company) unconsolidated annual reports for 2023, drawn up in accordance with the EU IFRS standards. The General Meeting subsequently approved the Management Board's proposal regarding dividends, on the basis of which no dividend was paid.

2. PannErgy Group's profit or loss in 2023, key indicators of its business operations

In 2023, PannErgy Group continued its activities aimed at accomplishing its geothermal energy production and utilisation strategy laid down in the preceding years. Its operations continued to focus on boosting its sales revenue and EBITDA through increased heat output through continued improvements in the operational conditions and the continuous efficiency of the operation of its geothermal projects, as well as by aiming for capacity enhancements. PannErgy Group only partially met the technical and financial targets set for the reporting period, mainly due to delays in the expansion of the Miskolc Project, and the adverse weather conditions. Thanks to effective and efficient geothermal operation and maintenance, as well as supportive operations, the PannErgy Group's consolidated gross margin and gross cash-flow as well as its consolidated EBITDA increased during the reporting period, in accordance with the Company's plans.

Key profit/loss figures (in HUF million)	2023	2022
Revenue from sales	**9,668**	**7,145**
Direct cost of sales	-6,625	-5,047
Gross margin	**3,043**	**2,098**
Gross margin ratio %	*31%*	*29%*
Gross cash flow	**4,883**	**3,813**
Gross cash flow rate %	*51%*	*53%*
Indirect costs of sales	-688	-582
Other revenues	320	748
Other expenditures	-597	-368
Operating profit (EBIT)	**2,078**	**1,896**
Operating profit rate %	*21%*	*27%*
EBITDA	**3,930**	**3,612**
EBITDA rate %	*41%*	*51%*
Financial profit	-241	-480
Profit before taxes	**1,837**	**1,416**
Consolidated net earnings in the reporting year, as profit after taxes	**1,716**	**1,310**
Return on Equity, % (ROE)	15%	12%
Return on Sales, % (ROS)	18%	18%
Earnings per share (EPS), in HUF	112	82

Diluted earnings per share also amounted to HUF 112. Unlike in the previous period, there is no difference in determining diluted earnings per share.

<u>Detailed description of the Company's business operations in 2023:</u>

The Company's HUF 9,668 million consolidated sales revenue was up 35% year-on-year.
A breakdown of heat sale by project shows that the Geothermal Project of Győr contributed revenues of HUF 5,717 million to the PannErgy Group's business performance in 2022, up 43% over the HUF 4,011 million revenues recorded in 2022. Arrabona Koncessziós Ltd.'s sales to Győr-Szol CPlc. amounted to HUF 3,643 million of the total figure above, while DD Energy Ltd.'s sales to its automotive industry customer amounted to HUF 2,071 million (compared to HUF 2,425 million and HUF 1,493 million, respectively, in the previous year). Sales to heat-receiving partners realised within the framework of the Geothermal Project of Miskolc added up to HUF 3,375 million in the reporting period, of which HUF 3,303 million was sold to MIHŐ Miskolci Hőszolgáltató Ltd. These sales figures surpass the revenues of HUF 2,102 million from the Miskolc project, and the HUF 2,705 million revenue from MIHŐ Miskolci Hőszolgáltató Ltd. Regarding the Miskolc project alone, this represents a sales revenue increase of 61% year-on-year.

The Company's two smaller volume projects – of Berekfürdő and Szentlőrinc – overall exceeded their revenue from heat sales in the previous period. The sales revenue of the Szentlőrinc operation increased by 4% from HUF 82 million in the previous year to HUF 115 million in the reporting period. The revenue of Berekfürdő from heat tariffs amounted to HUF 15 million, which is unchanged from its revenue in the previous year.

The revenue from the sale of electricity dropped by 46% during the period concerned, in line with market price movements, along with, however, an increase in the margin.

HUF 341 million of the HUF 342 million revenue from electricity sales derives from the sale of electricity relating to the Company's project in Berekfürdő, which surpasses the HUF 177 million revenue of the base period significantly, thanks to the higher level of the volume sold as a result of efficiency improving projects on the one hand, and to the steep increase in electricity prices typical during the reporting period on the other hand. The significantly higher level of revenue contributed to the consolidated gross margin of the Group with a substantial margin content in the reporting period.

Within the HUF 342 million revenue from electricity sales, the HUF 1 million above the revenue realised from the sale of electricity through the Berekfürdő project consists of items unrelated to the Group's core activity, Energy – these are pass-through items with no material margin. This sales revenue was generated by reinvoicing electricity charges relating to the operation of PannErgy Plc.'s properties in Debrecen to co-owners of the property concerned, which is in undivided joint ownership. The significant decrease from the previous year's HUF 454 million in the revenues from these pass-through items can be attributed to the Company's divestment of the Debrecen utility distribution system during the base period.

The decrease in the revenues from mediated and other services from HUF 100 million in the reporting period to HUF 68 million was also related to the above divestment. HUF 27 million rental income was generated from the utilisation of the properties not related to the Company's geothermal operations, which is a similar value to the previous year. Moreover, the Company recognised HUF 1 million as revenue from the sale of intangible assets and tangible assets stated in its books as assets held for sale.

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 93% of the total sales of PannErgy Group in the reporting period. This exceeds the base period rate of 84%, as a consequence of higher official heat prices during the period.

In the reporting period, direct costs of sales rose by 31% to HUF 6,625 million from the previous year's level of HUF 5,047 million, and since this did not exceed the growth in sales revenues in the reporting period, it had a positive effect on the change in the consolidated gross margin stated for the reporting period.

Looking at the detailed direct costs, the largest increase was in the cost of electricity for heat production and transport. Their value during the reporting period is 2,826 million HUF, a significant increase of 163% compared to the base period, which was caused by a massive price increase in the electricity market. These impacts had not yet occurred during the base period because during that period the Company was still able to purchase electricity under terms and conditions laid down in fixed-price electricity purchase contracts concluded under the earlier 'normalised' market conditions.

The electricity costs, which have increased significantly in comparison to the prices that prevailed during the base period will be recognised in the regulatory pricing of heat in the coming periods – similarly to other justified costs associated with district heat generation – therefore they will be recovered from the sales revenue of coming periods.

The Company keeps monitoring the spot and futures electricity market and concluding periodical electricity supply contracts adapted to the sales pricing structure to mitigate the risks manifested in the unpredictability of the energy market environment during the base period and part of the reporting period and in the price levels surpassing those of the preceding period several times over.

As a result of the higher level of efficiency and operational safety improving projects implemented in the reporting year and in the previous year, the amount of direct depreciation rose by 7% year-on-year; compared to the HUF 1,715 million recorded in the base period, the Company booked HUF 1,840 million as the direct cost of the amortisation of assets used directly in geothermal heat generation in the reporting period.

The 18% increase in maintenance and operating costs and the 19% rise in facility management costs are attributable primarily to the price increases aligned to the price index changes – affecting both procurements and services – during the reporting period. The increase is also linked to the steadily expanding assets of geothermal projects, the additional operational and maintenance tasks resulting from the efficiency and capacity improving projects and higher operational-efficiency requirements. Maintenance and operating costs amounted to HUF 1,328 million during the reporting period, while facility maintenance and rental costs amounted to HUF 501 million.

The significant decrease in the figure shown in the Costs of goods sold, mediated services line during the period under review affected the mediated services relating to pass-through items. The substantial decrease year-on-year was a result of the divestment of the Debrecen utility distribution system during the base period.

Accordingly, the Group shows a gross margin of HUF 3,043 million and a gross cash flow of HUF 4,883 million in 2023, both showing exceptional increases compared to the base period.

With an outstanding 45% increase in the consolidated gross margin, it should be noted that provisioning costs for the reporting year has been accounted for as other expenses, rather than as gross margin.

The PannErgy Group's administrative and overhead costs – that is, indirect operating costs – increased by 18% during the reporting period year-on-year, essentially in line with the changes in producer and service price indices.

Indirect staff costs were up 33% year-on-year, in line with the labour market processes typical in the reporting period and the increased headcount during the same period. The Company experienced significant turnover during the reporting period, primarily as a consequence of the preparations for the geothermal projects of the coming periods.

At the end of the period the headcount of the PannErgy Group was up 21% year-on-year: by 31 December 2023 the actual number of employees had increased to 17 from the 14 recorded on 31 December 2022. The average statistical staff number for the whole year was 22 in the reporting period, the same as in the preceding reporting period.

Costs of experts incurred in the reporting period include legal and consulting costs relating to the bank 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. Consultancy costs increased by 27% during the reporting period.

The office and operating costs grew 7% during the reporting period year-on-year, falling short of the increase in the generator and supplier price index, thanks to the energy efficiency measures affecting operations during the reporting period (including moving into a new, highly energy efficient office building and replacing the fleet with electric motor vehicles).

The costs of public and stock exchange presence, stated as indirect costs, decreased by 29% during the reporting period, primarily because no dividend payment took place during the period concerned, as a result of which the associated auxiliary costs were not incurred. 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.

The balance of other revenues and expenditures during the reporting period is a loss of HUF – 277 million, in contrast to the amount of HUF 380 million recorded in the base period. The negative change between the two periods is mainly the result of non-recurring income in the base period (sales of tangible assets and significant compensations received) and provisioning in the reporting year. **After**

eliminating these items, the total for the reporting year and the base period represents an organic change.

Within the HUF 320 million other income in the reporting year, the most significant item is development aid received, in the amount of HUF 252 million, comprising the write-back of deferred income in proportion to the depreciation charge for the reporting year relating to non-repayable investment and development grants.

Compensations and penalties relating to insured events that occurred and projects that were implemented in earlier periods, as well as discounts received subsequently together amounted to HUF 33 million in the category of 'other incomes' during the reporting period, in a significantly smaller amount 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 or equipment failures and service interruptions as well as ex-post discounts based on agreements.

Another reason for the significant year-on-year decrease in other revenues is that no single tangible asset sale transaction the like of which took place in the previous year occurred in 2023.

The most substantial (HUF 336 million) items within the HUF 597 million portfolio of other expenses are specific provisions generated, which are related to the regulatory heat pricing linked to district heat generation in coming periods, as (primarily electricity) costs relating to heat generation during the period under review that will be incurred in the coming period as direct settlement obligations.

Another substantial (HUF 166 million) item that can be highlighted within the HUF 597 million portfolio of other expenses is made up of local taxes, most notably the local business tax paid to the municipalities 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 71 million, which is identical with the level recorded in the base period.

As a result of the above factors, the Company's operating surplus amounted to HUF 2,078 million in the reporting period, up 10% year-on-year.

The business cash-flow (EBITDA) was an inflow of HUF 3,930 million with a 41% EBITDA ratio, HUF 318 million higher than the HUF 3,612 million EBITDA recorded for the corresponding period of the previous year.

Scheduled and extraordinary depreciation was recognised during the reporting period in a total amount of HUF 1,852 million, up 8% over the HUF 1,716 million stated in 2022. In calculating the EBITDA the Company takes account of the extraordinary depreciation recognised among intangible assets and tangible assets as well; the amount of extra depreciation items was below one million forints during the reporting period.

The PannErgy Group recognised a loss of HUF 241 million for the reporting period as profit/loss on financial transactions, which shows an improvement of HUF 239 million relative to the losses on financial transactions reported in the previous period.

One of the most important items among these financial expenditures is the interest paid on credit and loan liabilities. HUF 402 million was booked for the reporting period under this heading, HUF 95 million more than the corresponding amount booked in the base period.

HUF 27 million of the increase in the period under review was linked to the costs of financing incurred in the first half of the reporting period in connection with working capital loans relating to electricity purchases, while HUF 68 million was made up of additional interest costs of long-term loans with variable interest rates.

To mitigate the interest rate risk entailed by these investment loans, the Company replaced the interest bases applying to its 6M EURIBOR-based variable-rate loans by fixed interest rates for the entire remaining term of each loan via interest rate swap (IRS) transactions. As a result, during the reporting period it generated HUF 68 million in revenues from interest swap transactions – in contrast to the above HUF 68 million additional financial expenditure – whereby it eliminated the impact of the change in the interest environment during the period concerned.

The HUF 200 million FX loss on derivative transactions in the reporting year resulted from forward FX transactions concluded by the PannErgy Group to manage the foreign exchange exposure of its trade payables incurred in foreign currencies, primarily in relation to electricity purchases (as an item accepted in regulatory generator price fixing).

A total amount of HUF 226 million was recognised as exchange rate loss on various other foreign currency items, and HUF 296 million was recognised as in exchange rate profit.

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 net profit of HUF 50 million 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 translated to HUF at the exchange rate prevailing at the end of the period, and the (financially unrealised) exchange rate differences resulting from such translations are recognised in the statement of profit or loss under financial transactions. The loss on the period-end revaluations is the result of a decline in the HUF/EUR exchange rate relative to the previous periods.

Thanks to its a significant natural currency hedge position the Company has only a moderate exposure to long-term foreign exchange risk in its operations, other than the momentary unrealised impact of the above revaluation. This is because its foreign currency revenues largely cover its costs incurred in the same currency and its contractual bank debt servicing obligations, denominated in foreign currency, towards financial institutions disbursing investment loans. In the case of the Company, the currency of the FX items mentioned above is always EUR.

In the reporting period the Company invested its uncommitted cash and liquid assets in low-risk short term instruments in accordance with the Group’s cash-flow plan, taking advantage of the favourable short-term money market return opportunities in the period under review. As a result it generated significant income compared to the base period: HUF 185 million in returns on securities held for sale (discount treasury bills, other short-term government securities) and HUF 27 million in interest on bank deposits, for a total of HUF 212 million.

Of the HUF 95 million interests received and other interest type revenues, besides the HUF 27 million in interest revenue detailed above, an amount of HUF 68 million was received in relation to interest swap transactions in long-term loans.

As a combined result of the above, PannErgy Group's 2023 P/L before taxation amounted to a profit of HUF 1,837 million, surpassing the HUF 1.416 million profit posted for the previous year significantly by 30%, thanks to the circumstances described above.

The Company recognised HUF 121 million as corporate income tax liability in the reporting period; therefore, **its consolidated net profit after taxes (net P/L) amounted to HUF 1,716 million in the reporting period,** significantly higher than the HUF 1,310 million profit recognised for in the previous year.

Key data on the asset position (HUF million)	2023	2022
Fixed assets	**22,076**	**22,695**
Total current assets	4,176	4,636
Of which Liquid assets	*1,514*	*629*
Total assets	**26,252**	**27,331**
Total shareholders' equity	**11,458**	**10,534**

At the end of the reporting period, the net stock of fixed assets was 2% below the base period value. This represents the asset value reducing effect of the scheduled amortisation of intangible assets and tangible assets, which exceeded the asset value increasing effect of the capacity increasing and efficiency improving projects and the associated tangible asset procurements carried out in the reporting period.

The production wells and related assets developed as a result of the Company's concession drilling in Győr were accounted for as concession financial assets in the amount of HUF 1,035 million in the previous period, as per IFRIC 12 regulations. In the reporting period, these assets were subject to an accounting review, as a result of which the Company no longer assesses them in accordance with IFRIC 12, but instead as tangible and intangible assets under IAS 16. The amortised cost of these assets on 31 December 2023 is HUF 984 million, booked under fixed assets. All of the corresponding reclassifications have been made for the base period.

The Company stated HUF 678 million as goodwill, similarly to the preceding period, For the most part, this is related to the minority interest acquired earlier in PannErgy Geotermikus Erőművek CPlc. in the amount of HUF 517 million. Another HUF 160 million increase in the value of goodwill is related to the purchase in 2020 of the minority shareholdings in the Company's Miskolc project companies, while HUF

1 million goodwill is related to the acquisition of the minority shareholding in Szentlőrinci Geotermia Ltd. (formerly known as Szentlőrinci Geotermia CPlc.).

Deferred tax receivables in the amount of HUF 120 million were recognised among assets, the value of which decreased by 14% compared to the base period in view of PannErgy Group's calculations relating to deferred tax recovery.

The portfolio of current assets dropped by 10% year-on-year, primarily as a consequence of a decrease in the amount of trade receivables and other receivables.

At the end of the reporting period, the Company stated inventories – maintenance materials and goods for use in the operation of the geothermal projects – in an amount of HUF 30 million.

Among its current assets the Company had liquid assets in an amount of HUF 1,514 million at the end of the period in contrast to the HUF 629 million stated at the end of the previous year. The increase was mainly due to the aforementioned changes in trade and other receivables.

The amount stated in Other receivables decreased significantly year-on-year. The HUF 291 million decrease in the amount of other tax receivables was related to the value added tax receivable position resulting from the increased intensity of investment activities during the last quarter of the reporting period. At the end of the previous period the Company stated HUF 571 million in prepayments given; these receivables are related to the electricity purchases of coming periods and cover advances paid to suppliers and deposits made. Such advance amounts were cleared and settled during the period under review.

The Company's equity increased by 9% year-on-year, as a result of a combined effect of the taxed profit generated during the reporting period which increased the equity and the purchase of treasury shares during the same period, which reduced the equity. **The equity per share (calculated for the number of shares less the portfolio of treasury shares) grew by 13%**, from the previous year's HUF 660 **to HUF 749**.

The portfolio of long-term credits dropped 10% year-on-year to HUF 8,163 million, which primarily reflects the effect of repayments made during the reporting period.

The over-year part of the non-repayable grants won in the context of application schemes for the geothermal projects is shown in the other long-term deferred incomes line. In connection with this an amount of HUF 3,187 million is shown in the Company's statement of financial position, after a decline of 7% year-on-year, as a result of reversals recognised during the period concerned in proportion to amortisation.

Within short-term liabilities the balance of trade payables stood at HUF 804 million, up 3% year-on-year.

The portfolio of short-term credits together with the short-term part of long-term credits amounted to HUF 1,368 million at the end of the reporting period, representing a 45% decrease relative to the corresponding data of the previous year (HUF 2,477 million). The primary reason for the increase is the expiry of a short-term working capital loan related for electricity purchases contracted in the base period.

Other short-term liabilities amounted to HUF 661 million at the end of the reporting period, of which the items due in the next period amount to HUF 253 million and the tax and contribution liabilities of HUF 366 million are the largest items.

Key indicators	2023	2022
Profitability indicators		
Return on assets, % (ROA)	6%	5%
Return on Equity, % (ROE)	15%	12%
Return on Sales, % (ROS)	18%	18%
Asset position indicators		
Ratio of fixed assets, %	84%	83%
Ratio of equity capital, %	44%	39%
Indebtedness rate, %	67%	99%
Financial indicators		
Liquidity ratio	134%	112%
Acid test ratio	133%	112%
Earnings per share (EPS), in HUF	**112**	**82**

The PannErgy Group's profit after taxes was significantly higher in the reporting year than in the preceding year. Accordingly, all of the Company's profitability indicators and asset ratios improved year-on-year. Of the asset ratios, the ratio of fixed assets decreased, primarily as a result of amortisation in the reporting year. Despite the repurchase of treasury shares, the equity ratio increased thanks to the Company's profits, the amount of which is significantly higher than in the previous year. The indebtedness ratio is below 100, which means that the value of long-term and short-term bank debts less cash and long-term and short-term securities is lower than the value of equity. Liquidity indicators improved compared to the previous period, and continue to exhibit adequate values above 100%.

3. INTRODUCTION OF 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, utilisation for energy generation and selling of one of Europe's most significant thermal water resources, in particular, renewable geothermal energy. In connection with its geothermal energy generating operations the Company performs productive operations in Miskolc, Győr, Szentlőrinc and Berekfürdő. On 31 December 2023, PannErgy Group had 17 employees, while the annual average statistical headcount for 2023 is 22.

PannErgy Plc. has its registered office in Hungary at H–1112 Budapest, Boldizsár utca 2. During the reporting period, the registered office of the Company was changed from the previous registered office (H-1117 Budapest, Budafoki út 56) to the new premises, which were registered by the Commercial Court of the Metropolitan Court of Budapest on 15 June 2023.

The Company is operating in a holding structure, under the control of PannErgy Plc. For the subsidiaries' detailed data see Chapter 7.

3.2. *Regulated district heating tariffs*

The PannErgy Group companies involved in the Miskolc, Győr and Szentlőrinc projects have district production licenses, and sell heat to district heating companies. Accordingly, they sell heat in a an environment regulated by the Hungarian Energy and Public Utility Regulatory Authority (MEKH). In this arrangement the heat sold by PannErgy Group to district heating companies is subject to the regulated tariffs announced for a pre-defined period in the EM Decree of the Minister for Energy.

In general, official price setting is carried out for the period from 1 October to 30 September. If necessary, it is also possible to resort to interim price-setting, as happened in the base period due to the high volatility of the energy market observed in the base and reporting periods.

Official heat prices for the reporting period

In Decree No. 8/2022. (IX.28.) TIM of the Minister of Energy, published in Volume 219 of 2022 of the Hungarian Official Journal (Magyar Közlöny), the Minister of Energy announced the regulated district heat production tariffs (heat supply tariffs) effective from 1 January 2023 to 30 September 2023, also applicable to subsidiaries subject to PannErgy's district heating price regulation, which tariffs PannErgy has presented in the form of extraordinary information at its official places of disclosure on 29 December 2022.

In addition to disclosing the heat tariffs for district heating, the Company also informed the public that the material increase in regulated heat tariffs is mainly due to the official recognition of the more than 4.5-fold increase in the price of electricity required for geothermal heat generation and, therefore, these have a limited impact on the improvement of the Company's profitability.

In Decree No. 20/2023. (IX. 29.) TIM of the Minister of Energy, published in Volume 139 of 2023 of the Hungarian Official Journal (Magyar Közlöny), the Minister of Energy announced the regulated district heat production tariffs (heat supply tariffs) effective from 1 October 2023, also applicable to subsidiaries subject to PannErgy's district heating price regulation, which tariffs PannErgy has presented in the form of extraordinary information at its official places of disclosure on 30 September 2023.
In line with the above, the regulated prices defined for the district heating companies of the PannErgy Group in the reporting period and in the base period are the following (data in HUF/GJ):

Company	01/10/2021–30/09/2022	01/10/2022–31/12/2022	01/01/2023–30/09/2023	01/10/2023–30/09/2024
Arrabona Koncessziós Ltd.	3,397	4,023	6,225	4,494
Kuala Ltd.	2,650	3,176	5,211	3,703
Miskolci Geotermia Ltd.	2,650	3,176	5,211	3,703
Szentlőrinci Geotermia Ltd.	3,791	4,620	6,715	4,737

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 opportunities to boost its sales of geothermal heat to industrial partners as well, in the form of primary or secondary heat utilisation, 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 utilisation*

Besides its core operations comprising the production and sale of geothermal heat (Energy) at the end of the reporting period the Company only had industrial real properties, offices and land – originating from before the time of the 'Pannonplast - PannErgy' strategy shift – in the town of Debrecen.

The PannErgy Group presents its industrial properties in Debrecen – which are not directly or indirectly related to the Group's core operation, i.e. geothermal heat generation and sale – in its investment property portfolio. The Company intends to utilise them through lease arrangements. The Company's revenue from letting these properties amounted to HUF 27 million in 2023.

At the end of the period, the properties were presented in the Company's consolidated statement of financial position in an amount of HUF 89 million. Due to amortisation recognised for the reporting period, the value of these investment properties declined year-on-year.

4. ACHIEVEMENT OF PANNERGY'S MAIN TARGETS SET FOR 2023, AND THE ASSOCIATED RISKS

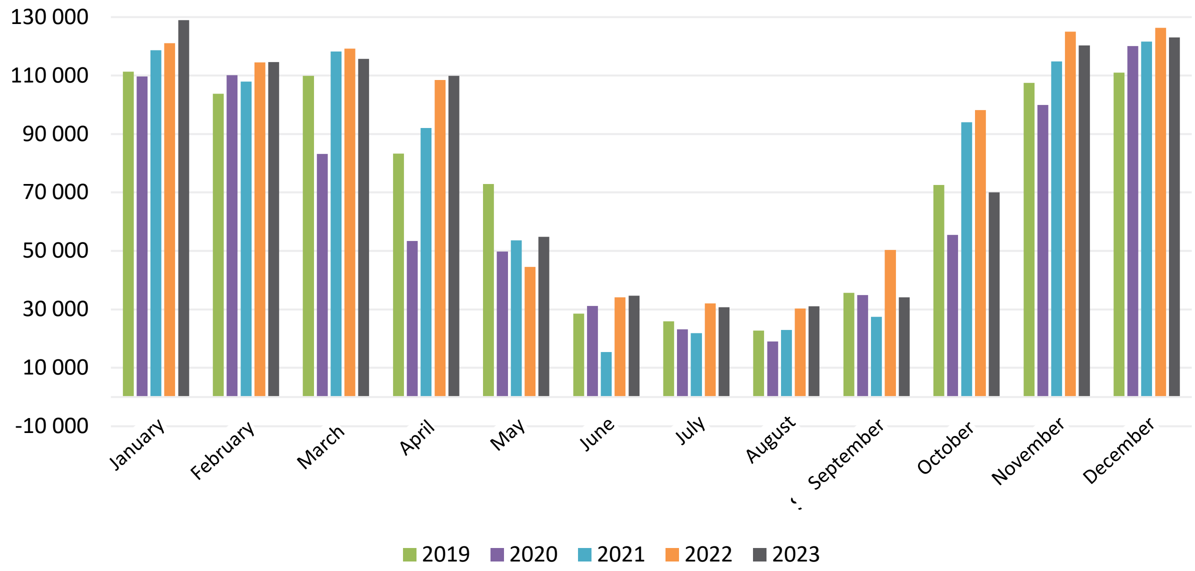
4.1. *Győr Geothermal Project (DD Energy Ltd., Arrabona Koncessziós Ltd.)*

The Geothermal System of Győr sold a historic seasonal record volume of thermal energy during the base period, exceeding 1 million GJ (1,004,165 GJ).

This higher base value could not be achieved in the period under review, mainly due to less favourable weather conditions than in the previous period.

Sales of 359,251 GJ in 2023 Q1 and 199,360 GJ in 2023 Q2 were 1% and 7% higher, respectively, than in the same period of the base year. Subsequently, however, the third and fourth quarters saw a decrease in sales due to the aforementioned unfavourable weather conditions, the late onset of the colder weather period and the heating season. Thus, the Q3 sales of 95,915 GJ and Q4 sales of 313,436 GJ of thermal energy were 15% and 10% lower, respectively, compared to the corresponding periods of the base year.

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



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

The Geothermal System of Miskolc sold a total of 269,345 GJ thermal energy in 2023 Q1, up 11% year-on-year. The increase primarily reflects weather conditions more conducive to geothermal heat input.

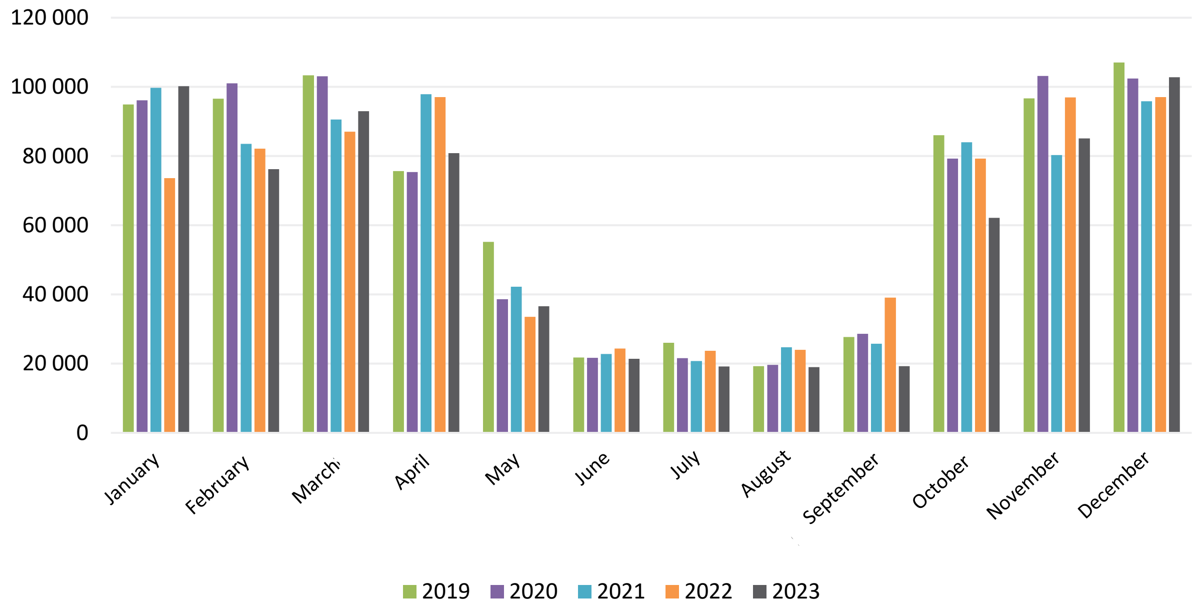
Subsequently in 2023 Q2, 138,873 GJ of thermal energy was sold, down 10% compared to the heat sold in 2022. The main reason for the contraction is the significantly less favourable weather conditions in May relative to the base period, as well as a shorter heating season.

The Geothermal System of Miskolc sold a total of 57,505 GJ thermal energy in 2023 Q3, down 34% compared to the thermal energy sales of the same period in 2022. Operational efficiency remained at a high level, with no outages. Nevertheless, the negative variation was caused by the much less favourable weather than in the base period, with September being much warmer than average.

These unfavourable trends caused by weather conditions continued through 2023 Q4, when the Geothermal System of Miskolc sold a total of 250,086 GJ thermal energy, 9% less than the corresponding value achieved in the base period.

On the whole, the Company realised 715,809 GJ in heat sales in the commercial operations of the Geothermal System of Miskolc in 2023, down 6% from the 758,127 GJ of heat sold during the previous year. This was due to the aforementioned unfavourable weather conditions for a significant part of the year compared to the base period, as well as the specifics of the heat production market structure in Miskolc.

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

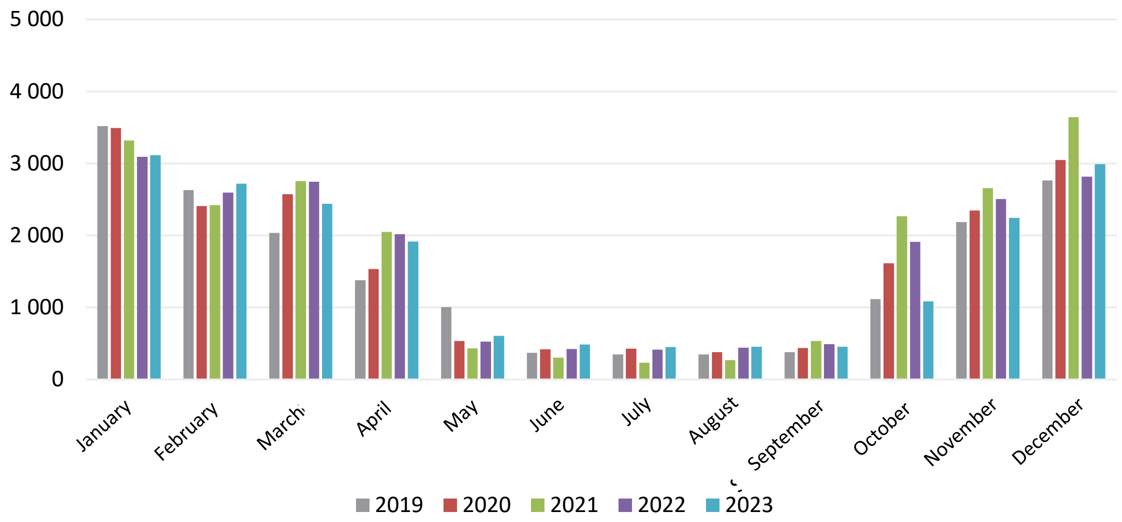


4.3. *The geothermal heating facility of Szentlőrinc (Szentlőrinci Geotermia Ltd.)*

In Szentlőrinc, compared to 19,985 GJ sold in the previous year, the volume of heat sold – 18,969 GJ – was 5% less 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 contraction observed in the reporting period can also be attributed to these reasons.

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



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

The Geothermal Methane Utilisation Small Power Plant of Berekfürdő sold a total of 2,084 MWh electricity during the reporting period, exceeding the 1,844 MWh sold in the previous year.

A total of 2,534 GJ of heat was sold in 2023, 14% more than the 2,230 GJ sold in the previous year.

The increase of 13% in electricity sales and 14% in heat sales was driven by investments in gas engine efficiency, made in the previous period.

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

These days, environmental protection and sustainability are becoming increasingly important. Regulators and market players are beginning to fully recognise the vital importance of these areas, and their role in shaping the future. It is evident that PannErgy was well ahead of its time in recognising the importance of this segment over 15 years in advance.

In 2007, when formulating its new corporate strategy to shareholders, the Company's management opted to focus on renewable energy production as a core activity, while scaling back plastics manufacture, which was more harmful to the environment.

The PannErgy Group is still committed to implementing its long-term strategy focusing on the utilisation of renewable energy sources. The focus of the strategy is to become the region's dominant company in the utilisation of geothermal energy, to maintain this position and to provide highly reliable environmentally friendly services that are free of geopolitical risks to the Hungarian population, as well as to the industrial and institutional market in Hungary, while continuing to create shareholder value. The Company is fully committed to the utilisation of one of the most active thermal water sources in Europe for the production of energy. Since geothermal heat can be utilised by households and industrial consumers in the long-term, the environmentally sound investment projects implemented by PannErgy could enable significant reductions in expenditures relating to energy and greenhouse gas emission quotas.

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 either in terms of volume or accessibility. Professional, effective and efficient geothermal energy production is not only a form of utilisation 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 programme and clear-cut objectives as well.

That said, it is important to note that the production of renewable energy from deep geothermal wells is involves numerous professional challenges hindering the implementation of projects and their safe and efficient operation. PannErgy enjoys a strong competitive advantage in this specialised field, with decades of experience and a proven track record of success in financial, operational and environmental projects.

Main milestones in the Company's history:

Year	Event
1922	PannErgy's legal predecessor is established.
1991	On 31 May 1991, the company – still a plastics company at the time – becomes a joint-stock company
1994	Among the first issuers to list shares on the Budapest Stock Exchange
2007	In November 2007, the Company changed its name to PannErgy and announced its new strategy already under the new name. The production and utilisation of energy from geothermal sources are at the heart of the new strategy.
2010	Acquisition of sole (100%) ownership of Berekfürdő Energia Termelő és Szolgáltató Ltd. This acquisition allows PannErgy to expand its alternative energy portfolio with a power plant fuelled with methane obtained from thermal water, which would otherwise be significantly damaging to the environment, as well as the associated technological expertise.
2011	Boring of a geothermal well in Szentlőrinc, construction of a surface system. Commercial geothermic heat generation and the sale of energy go live on 1 January 2011 in Szentlőrinc. The project fully replaced Szentlőrinc's district heating system, which was previously based on crude oil, then on natural gas.
2013	In May 2013, production commenced at Central Europe's largest geothermal power plant, in the form of an investment project implemented by PannErgy. Geotermia CPlc.'s Miskolc project supplying the Avas district of Miskolc won the international GeoPower Market's 'Best Heating Project 2013' award.
2014	PannErgy had also implemented the second phase of the Geothermal Project of Miskolc by September 2014. The system – implemented by Kuala Plc. – then began to supply thermal energy in the town of Miskolc to the Downtown and the University heating districts as well.
2014	In addition to the district heating system of Miskolc, its primary heat consumer, the capacity of the Miskolc Geothermal System allowed the company to supply further consumers with environmentally friendly geothermal energy. This is how heating supply was established towards the Company's first industrial customer partner, Joyson (formerly Takata) Safety Systems Hungary Ltd.
2014	PannErgy launched its second largest investment project – the Győr Geothermal Project – in the Kisalföld region in early 2014, by deepening four geothermal wells (two production and two reinjection wells) in the villages of Bőny and Pér.
2015	November 2015 saw the inauguration of Győr-Moson-Sopron County's most significant and important energy investment – and not only among geothermal projects –, the Győr Geothermal Project. This project allowed PannErgy to significantly offset fossil fuel emissions by selling heat to Győr-Szol CPlc. and Audi.
2016	In 2016, the Company successfully completed its first major development investment programme for existing geothermal systems; as a result, its existing competences expanded significantly. Thanks to this development, the system became more resilient to the chemical and physical challenges of the well system in Győr; owing to the capacity upgrade, the maximum thermal water yield capacity of the Győr Geothermal System increased to 960 m^3/h.
2017	PannErgy concluded a concession contract in February 2017 with the Hungarian State for the exploration, extraction and utilisation of geothermal energy in the region of Győr, for a period of 35 years. The Company examined the specificities of the geothermal resources over 2,500 metres below the surface, in the zone specified by the concession rights acquired under the concession contract. In order to increase its thermal capacity further, the Company decided to drill a new geothermal well.
2018	The third production well in Bőnyi, BON-PE-03, was bored under the concession won the year before. PannErgy begins to use the additional quantity of heat supplied by its increased capacity for selling additional green energy to its existing customers.
2019	On 28 June 2019, the Company acquired sole (100%) ownership in Well Research Ltd., owner of the reinjection well (ID: KIS-PE-01B) at Kistokaj connected to the Geothermal System of Miskolc.
2020-2021	Reliable heat production during the pandemic, investing in new capacity expansion and efficiency improvement programmes. By 2022, these will enable the company to reach a consolidated annual EBITDA level of HUF 3,250 – 3,350 million.
2022	The planned projects of PannErgy – the third production well of the Miskolc expansion and the Budapest project – were awarded state grants (the grant for the Budapest project was later revoked). Total annual heat sold in Győr in 2022 exceeded 1 million GJ (1,004,165 GJ) for the first time in PannErgy's history.

2023	**The Company's consolidated annual EBITDA performance is close to HUF 4 billion, and its consolidated turnover is close to HUF 10 billion.** **PannErgy's consolidated greenhouse gas emissions savings rate was 76% in 2023; it saved almost 4/5 units compared to fossil fuel emissions.**

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. PannErgy Plc. uses clean and renewable energy solutions to build the future, giving every generation the opportunity to create value by applying the principles of environmental protection and sustainability. The Company has set itself the goal of becoming a market leader in the Central and Eastern European region through the use of geothermal energy, which provides significant economic and ecological value for now and in the future.

6.1. *Sustainability management and environmental, social and governance (ESG) performance summary and report*

The PannErgy Group believes that is extremely important to determine the influence and impact its activities have on the environment and on society as a whole. Accordingly, it published its first ESG report in 2021, ahead of the deadlines prescribed in the applicable legal regulations. Subsequently, the ESG Report 2023 ***("Sustainability Management and Environmental, Social and Governance (ESG) Performance Summary and Report")*** **will also be issued simultaneously with the publication of the ESG Report 2022 and the current consolidated financial statements.**

PannErgy will prepare these non-financial reports **in accordance with the GRI Global Reporting Initiative** (one of the most recognised ESG standards worldwide) **specifically the GRI Universal Standards 2021**. **The completed ESG reports, including the ESG report for the reporting period 2023, will be evaluated and validated for standards compliance by the GRI Global Reporting Initiative.**

In addition to presenting the data included in these consolidated financial statements, the ESG reports describe the environmental and social impacts of the operation of the PannErgy Group during the reporting period, along with the Company's sustainability and environmental strategy and actions. The purpose of the ESG report – to be issued simultaneously with these consolidated financial statements – will be to enable investors and other market participants to familiarise themselves with these details, to which end the Company provides deeper and more detailed disclosures, focusing on climate change, climate risk, and sustainable development.

As a renewable energy producer and a major contributor to carbon footprint reductions, the Company sees ESG as a significant opportunity for establishing a framework to identify non-financial aspects that may have a material impact on the performance of an investment, including the assessment and presentation of new non-financial risks.

6.2. *PannErgy for the prevention of climate change, carbon saving operation*

The ESG report referred to in Section 6.1 also presented, inter alia, the greenhouse gas emission savings balance of PannErgy Group.

Since PannErgy's core business is renewable geothermal energy production with minimal emissions, the Company's business is based on emission savings instead of emissions.

The Company has defined the total annual emissions savings and the savings rate as key indicators for its overall strategic environmental objectives. Total annual emissions savings is the amount of emissions (in tonnes) saved by the Company during the relevant business period from its direct and indirect heat-transfer partners, as a result of its core green energy production activity. The emissions savings rate is the ratio between the greenhouse gas emissions of the energy used in the production and sale of the geothermal energy produced and theoretical greenhouse gas emissions calculated for a hypothetical production using an alternative fossil fuel source typical of the region.

PannErgy’s consolidated greenhouse gas emissions savings rate was 76% in 2023, almost identical to the base period value, which means that in the reporting period it continued to save approximately 4/5 units compared to fossil fuel emissions.

Based on the greenhouse gas emissions related to energy production, the Company emitted only 24%, that is, less than one-quarter, of the GHG environmental burden of the natural gas-based power generation of 90% efficiency considered for the purpose of offsetting emissions in the reporting period.

In 2023, the Company offset (saved) 76 thousand tonnes of CO_2-equivalent GHG emissions. For the calculation of the GHG emissions savings rate, in order to define the GHG emission of the Group, the Company considered the CO_2 impact of the electricity needs of geothermal heat generation (Scope 2) and the GHG emissions related to administrative central operation and project-level site operation (Scope 1). As regards savings, the Company considered the emissions of the power plant in Berekfürdő – which produces electricity and heat by burning methane gas captured from geothermal fluids – as a carbon-neutral activity due to its small size and the positive GHG impact of converting methane to carbon dioxide.

7. The PannErgy Group's subsidiaries

PannErgy Plc., the parent company, has a 100% share of ownership in PannErgy Geotermikus Erőművek 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 Ltd.	2,073	100.00	100.00	100.00
DoverDrill Mélyfúró Ltd.	86	100.00	100.00	100.00
Arrabona Koncessziós Ltd.	6	100.00	100.00	100.00
Szentlőrinci Geotermia Ltd.	5	100.00	100.00	100.00
Miskolci Geotermia Ltd.	5	100.00	100.00	100.00
DD Energy Ltd.	3	100.00	100.00	100.00
Kuala Ltd.	3	100.00	100.00	100.00
Berekfürdő Energia Ltd.	3	100.00	100.00	100.00
Geo2Business Ltd.	3	100.00	100.00	100.00

7.2. *Key 2023 data of PannErgy's consolidated subsidiaries based on their separate, unconsolidated reports (HUF millions)*

PannErgy subsidiaries	Equity	Subscribed capital	Sales revenue	Business profit or loss	Profit after taxes	Headcount
PannErgy Plc.	9,562	400	67	-246	345	-
PannErgy Geothermal Power Plants Ltd.	3,239	2,073	203	163	5	8
Arrabona Koncessziós Ltd.	2,902	6	4,254	413	338	2
DD Energy Ltd.	2,019	3	3,740	413	381	2
DoverDrill Ltd.	973	86	173	45	81	3
Miskolci Geotermia Ltd.	419	5	2,398	479	7	5
Kuala Ltd.	381	3	1,848	264	132	2
Szentlőrinci Geotermia Ltd.	29	5	115	61	1	-
Berekfürdő Energia Ltd.	515	3	356	280	283	-
Geo2Business Ltd.	3	3	-	-	-	-

8. THE COMPANY'S OWNERSHIP STRUCTURE, SENIOR OFFICERS

8.1. *The Company's ownership structure as at 31 December 2023*

Shareholders	Total share capital = Introduced series					
	01/01/2023			31/12/2023		
	%	%	shares	%	%	shares
Domestic institutions	30.86	38.67	6,171,682	30.69	40.11	6,138,577
Foreign institutions	8.43	10.56	1,685,668	8.10	10.58	1,619,185
Domestic private individuals	30.25	37.92	6,051,532	27.40	35.80	5,480,107
Foreign private individuals	0.30	0.38	60,153	0.39	0.52	78,945
Employees, senior officers	1.55	1.94	309,505	1.55	2.02	309,505
Own holding	20.21	0.00	4,041,700	23.47	0.00	4,694,132
Owner belonging to the general	8.38	10.50	1,675,745	8.38	10.95	1,675,745
International Development Institutions	-	-	-	-	-	-
Other	0.02	0.03	4,015	0.02	0.02	3,804
Total	**100.00**	**100.00**	**20,000,000**	**100.00**	**100.00**	**20,000,000**

8.2. *Shareholders with a stake of over 5% in the Company as at 31 December 2023*

Name	Investor category		Number of shares	Shareholding (%)	Voting rights (%)
Benji Invest Ltd./FCI Kompozit Ltd.	Domestic	Company	3,186,010	15.93	20.82
MVM Energetika CPlc.	Domestic	Company	1,675,745	8.38	10.95
Soltút Ltd. / Kálmán Rencsár	Domestic	Company	1,814,241	9.07	11.85

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:

	01/01/2023	30/06/2023	31.12.2023
At company level	3,106,479	3,376,525	3,758,929
Subsidiaries [1]	935,203	935,203	935,203
Total	**4,041,700**	**4,311,728**	**4,694,132**

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

[2] The difference of 10,000 shares between the Company's portfolio of 4,694,132 treasury shares as of 31 June 2023 (as disclosed in the share register above) and the portfolio of 4,704,132 treasury shares published in the annual report stems from the purchase and sale of treasury shares on the stock exchange that took place at the end of the period, as a transaction that was concluded but not yet accounted.

8.4. *Executive officers of the Company*

The Company's executive officers are the members of the Management Board. Data of the members of the Management Board and their respective shareholdings on 31 December 2023:

Name	Position	Date of taking office	Mandated until	Number of shares held
Dénes Gyimóthy	Member, Chairman	31/08/2007	indefinite term	-
István Jaksa	Chief Executive Officer	13/12/2022	indefinite term	2,505
Katalin Gyimóthy	Member	28/04/2016	indefinite term	-
Attila Juhász	Member	31/08/2007	indefinite term	-
Kálmán Rencsár	Member	30/04/2020	indefinite term	307,000
Gábor Briglovics	Member	16.04.2021	indefinite term	-
Total number of shares held				**309.505**

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, Chairman of the Management Board, as authorised by the Management Board.

The information and regulations specified in Sections 95/A and 95/B of the Accounting Act listed in PannErgy Plc.'s Articles of Association. The Company's Articles of Association set out the rules governing the appointment and removal of executive officers, as well as the amendment of the Articles of Association themselves. As per the Articles of Association, the supreme body of the Company is the General Meeting, which is composed of all shareholders. The General Meeting shall be solely but not exclusively responsible for the following, unless otherwise provided for by the Civil Code or the Articles of Association as authorised by the Civil Code:

- establishing and amending the Articles of Association,
- the election, removal and remuneration of the members of the Company's Management Board,
- adopting a decision on the evaluation of the work carried out by the members of the Management Board in the previous financial year and on granting the discharge they are entitled to.
- making decisions about increasing share capital by issuing new shares or raising the share capital via assets exceeding the share capital – with the exception of decisions about issuing new shares or raising the share capital via assets exceeding the share capital based on authorisation granted by the General Meeting to the Management Board,
- making decisions about the acquisition of treasury shares – with the exception of treasury share acquisition on the basis of an authorisation granted by the General Meeting or the Civil Code to the Management Board – and about accepting public tender offers received for treasury shares,
- reducing the share capital, unless otherwise provided for in the Civil Code.

In lieu of a Board of Directors and a Supervisory Board, the Company has a Management Board in order to enable a consistent system of governance. The Management Board carries out the statutory functions of both the Board of Directors and the Supervisory Board. As part of its duties as the Board of Directors,

the Management Board defines the Company's strategic policies and supervises its management. More information on the detailed responsibilities of the Management Board can be found in the Responsible Corporate Governance Report, issued at the same time as the consolidated financial statements.
The Company shall endeavour to take into account age, gender, educational and professional backgrounds in the composition of its management, executive and supervisory boards, in accordance with the principles of diversity.

9. Headcount information

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

Own staff	31/12/2023	31/12/2022	Change
PannErgy Plc.	1	-	1
Affiliated entities	21	22	-1
Total	**22**	**22**	**-**

PannErgy Group's 2023 average statistical headcount was 22, which is unchanged from the headcount of the preceding year (22). On 31 December 2023 the number of staff working for the PannErgy Group was 17; the difference between the average statistical headcount and the number of employees at the end of the period is attributable to part-time employment across group members and the increased headcount during the year.

10. Distribution of dividends

In consideration of the Management Board's report and the Audit Committee's and the auditor's comments, by Resolution No. 2/2023 (IV.28.) on 28 April 2023 the Company's General Meeting approved the Company's separate (parent company), unconsolidated 2023 balance sheet and profit and loss statement, prepared in accordance with the EU IFRS, with total assets of HUF 10,520 million and the same amount as total liabilities and an after-tax P/L (profit) of HUF 147 million, which figures are consistent with the proposal and the auditor's report. The General Meeting also approved the consolidated report on the business operations of PannErgy Group in 2023, prepared in accordance with the EU IFRS, with HUF 27,331 million for assets and liabilities (total assets), and an after-tax P/L (profit) of HUF 1.310 million.

After the approval of the consolidated and separate reports, by its Resolution No. 3/2023 (IV.28.) the General Meeting approved the Management Board's proposal to the effect that PannErgy shall not pay dividends for the year 2022.

Before making this decision, the Management Board carefully considered the anticipated investment possibilities and needs for the year 2023, as well as the necessity of holding free cash and cash equivalent assets required for safe and prudent operation. Based on the investigation, they decided that in order to maintain financial and operational stability, the Company would transfer its entire after-tax profit to retained earnings instead of paying dividends.

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

On 31 December 2023 the Company held a total of 4,704,132 PannErgy Plc. treasury shares, 662,432 more than the stock of treasury shares held on 31 December 2022.
The increase resulted from the acquisition of treasury shares in the framework of the treasury share buyback program taking place during the reporting period; the treasury share portfolio did not decrease.

Under the treasury share buyback programmes, a total of 277,628 and 384,804 treasury shares were repurchased in 2023 H1 and H2, respectively. Taken together, a total of 662,432 shares were repurchased in 2023.

The stock exchange closing price of PannErgy shares was HUF 1,250 per share at the end of the reporting period, compared to HUF 1,315 on 31 December 2022.

<u>The treasury share buyback programme concluded during the reporting period</u>

PannErgy Plc.'s regular annual General Meeting closing the business year 2021 – held on 29 April 2022 – authorised the Management Board by its Resolution No. 8/2022 (IV. 29.) to purchase treasury shares up to an amount of HUF 600 million (that is, six hundred million forints) at a price of minimum HUF 1 and maximum HUF 1,400 per share, given that the ratio of the treasury share portfolio to the total number of shares issued does not exceed 25% at any time during the term of the authorisation. The authorisation covered the period starting from 2 May 2022 and ending on 13 April 2023 and was strictly limited to share purchases on the stock exchange. In the context of this treasury share buyback programme PannErgy Plc. aimed at purchasing up to 2,200 PannErgy Plc. ordinary shares per trading day and subsequently, up to 3,000 shares per trading day on the Budapest Stock Exchange until the withdrawal or the last day of the term of the General Meeting's authorisation. The purchase price equals to the current market price corresponding to the prevailing bid and ask prices, and must not exceed HUF 1,400 per share according to the resolution of the General Meeting.

Under this current treasury share buyback programme, a total of 170,100 treasury shares were purchased at an average price of HUF 1,237 apiece in H1 2023, between 1 January and 13 April 2023. The Company purchased a total of 531,238 treasury shares under the programme closed on 13 April 2023.

<u>The treasury share buyback programme commenced during the reporting period</u>

PannErgy Plc.'s regular annual General Meeting closing the business year 2022 – held on 28 April 2023 – authorised the Management Board by its Resolution No. 8/2023 (IV. 28.) to purchase treasury shares up to an amount of HUF 900 million (that is, nine hundred million forints) at a price of minimum HUF 1 and maximum HUF 1,670 per share, provided that the ratio of the treasury share portfolio to the total number of shares issued does not exceed 25% at any time during the term of the authorisation. The authorisation covers the period starting from 2 May 2023 and ending on 13 April 2024 and is strictly limited to share purchases on the stock exchange. In the context of this treasury share buyback programme PannErgy Plc. aimed at purchasing up to 2,000 PannErgy Plc. ordinary shares per trading day and subsequently, up to 3,800 or 5,000 shares per trading day on the Budapest Stock Exchange until the withdrawal or the last day of the term of the General Meeting's authorisation. The purchase price equals to the current market price corresponding to the prevailing bid and ask prices, and must not exceed HUF 1,670 per share according to the resolution of the General Meeting.

A total of 492,332 treasury shares were purchased at an average price of HUF 1,217 per share in the reporting period, i.e. between 2 May 2023 and 31 December 2023, under the relevant treasury share buyback programme.

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 2023 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.

Information regarding the expected developments of the Company can be found in the Business and Management Report, in *Chapter 1. Executive summary* and *Chapter 6. The PannErgy Group's strategy, environmental objectives*, with details about the Company's expected financial results, investment activity and sustainability activities and development in the upcoming periods. The effects of the economic environment on these developments will be explored in *Chapter 41.11. Macroeconomic environment of the reporting period* of the consolidated financial statement, detailing the effects of the GDP, the inflation environment and the interest rate environment forecasts for the upcoming periods.

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

No material events or significant developments that would have an impact on the Company's 2023 financial year, or the reported results and balance sheet figures for that period in the consolidated financial statements occurred after the reporting date for the consolidated financial statements.

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

Date	Type of news	Subject, brief content
12 March 2024	Extraordinary information	Invitation to the General Meeting
3 March 2024	Extraordinary information	Treasury share transactions
29 February 2024	Extraordinary information	Number of voting rights at PannErgy Plc.
23 February 2024	Extraordinary information	Treasury share transactions
18 February 2024	Extraordinary information	Treasury share transactions
11 February 2024	Extraordinary information	Treasury share transactions
4 February 2024	Extraordinary information	Treasury share transactions
1 February 2024	Extraordinary information	Voting rights, share capital
28 January 2024	Extraordinary information	Treasury share transactions
21 January 2024	Extraordinary information	Treasury share transactions
15 January 2024	Extraordinary information	Quarterly production report
14 January 2024	Extraordinary information	Treasury share transactions
6 January 2024	Extraordinary information	Treasury share transactions
31 December 2023	Extraordinary information	Voting rights, share capital
31 December 2023	Extraordinary information	Treasury share transactions
29 December 2023	Miscellaneous information	PannErgy Plc.'s event calendar for 2024
24 December 2023	Extraordinary information	Treasury share transactions
18 December 2023	Extraordinary information	Detailed description of the share buyback programme
17 December 2023	Extraordinary information	Treasury share transactions
10 December 2023	Extraordinary information	Treasury share transactions
3 December 2023	Extraordinary information	Treasury share transactions
30 November 2023	Extraordinary information	Treasury share transactions
26 November 2023	Extraordinary information	Treasury share transactions
19 November 2023	Extraordinary information	Treasury share transactions
12 November 2023	Extraordinary information	Treasury share transactions
5 November 2023	Extraordinary information	Treasury share transactions
1 November 2023	Extraordinary information	Voting rights, share capital
29 October 2023	Extraordinary information	Treasury share transactions
23 October 2023	Extraordinary information	Treasury share transactions
15 October 2023	Extraordinary information	Treasury share transactions
13 October 2023	Extraordinary information	Quarterly production report
8 October 2023	Extraordinary information	Treasury share transactions
4 October 2023	Extraordinary information	PannErgy's Budapest environs project tender rejected
1 October 2023	Extraordinary information	Number of voting rights at PannErgy Plc.
1 October 2023	Extraordinary information	Treasury share transactions

30 September 2023	Extraordinary information	Regulated heat tariffs in effect from 1 October 2023
24 September 2023	Extraordinary information	Treasury share transactions
17 September 2023	Extraordinary information	Treasury share transactions
15 September 2023	Extraordinary information	Semi-annual report
10 September 2023	Extraordinary information	Treasury share transactions
3 September 2023	Extraordinary information	Treasury share transactions
31 August 2023	Extraordinary information	Number of voting rights at PannErgy Plc.
27 August 2023	Extraordinary information	Treasury share transactions
25 August 2023	Extraordinary information	The Grant Instrument for the third Miskolc geothermal production well has been issued
20 August 2023	Extraordinary information	Treasury share transactions
13 August 2023	Extraordinary information	Treasury share transactions
11 August 2023	Extraordinary information	Suspension of the purchase of treasury shares
6 August 2023	Extraordinary information	Treasury share transactions
31 July 2023	Extraordinary information	Voting rights, share capital
30 July 2023	Extraordinary information	Treasury share transactions
23 July 2023	Extraordinary information	Treasury share transactions
16 July 2023	Extraordinary information	Treasury share transactions
14 July 2023	Extraordinary information	Quarterly production report
9 July 2023	Extraordinary information	Treasury share transactions
1 July 2023	Extraordinary information	Number of voting rights at PannErgy Plc.
1 July 2023	Extraordinary information	Treasury share transactions
25 June 2023	Extraordinary information	Treasury share transactions
19 June 2023	Extraordinary information	Articles of Association
19 June 2023	Extraordinary information	Court of Registration order on PannErgy Plc.'s change of registered office
18 June 2023	Extraordinary information	Treasury share transactions
13 June 2023	Extraordinary information	Detailed description of the share buyback programme
13 June 2023	Extraordinary information	Rescheduling of the boring of the third Miskolc geothermal production well
11 June 2023	Extraordinary information	Treasury share transactions
4 June 2023	Extraordinary information	Treasury share transactions
2 June 2023	Extraordinary information	Articles of Association
1 June 2023	Extraordinary information	Number of voting rights at PannErgy Plc.
29 May 2023	Extraordinary information	Treasury share transactions
24 May 2023	Miscellaneous information	Relocation of PannErgy Plc.
19 May 2023	Extraordinary information	Treasury share transactions
14 May 2023	Extraordinary information	Treasury share transactions
7 May 2023	Extraordinary information	Treasury share transactions
3 May 2023	Extraordinary information	ESG Report
28 April 2023	Extraordinary information	Detailed description of the share buyback programme
28 April 2023	Extraordinary information	Voting rights, share capital
28 April 2023	Extraordinary information	Annual Report 2
28 April 2023	Extraordinary information	Annual Report 1
28 April 2023	Extraordinary information	FT Report
28 April 2023	Extraordinary information	Remuneration report
28 April 2023	Extraordinary information	General Meeting Resolutions

20 April 2023	Miscellaneous information	Record Amount of Heat Energy Produced in the Győr Geothermal System in 2022
14 April 2023	Extraordinary information	Quarterly production report
14 April 2023	Extraordinary information	Treasury share transactions
14 April 2023	Extraordinary information	Information on General Meeting
10 April 2023	Extraordinary information	Treasury share transactions
1 April 2023	Extraordinary information	Voting rights, share capital
1 April 2023	Extraordinary information	Treasury share transactions
26 March 2023	Extraordinary information	Treasury share transactions
23 March 2023	Extraordinary information	Interpretative information for the proposal of the Management Board to the General Meeting
22 March 2023	Extraordinary information	Voting rights, share capital
22 March 2023	Extraordinary information	Proposals to the General Meeting 2
22 March 2023	Extraordinary information	Proposals to the General Meeting 1
19 March 2023	Extraordinary information	Treasury share transactions
12 March 2023	Extraordinary information	Treasury share transactions
10 March 2023	Extraordinary information	Invitation to the General Meeting
10 March 2023	Miscellaneous information	Modification of PannErgy Plc.'s event calendar for 2023
9 March 2023	Extraordinary information	Detailed description of the share buyback programme
5 March 2023	Extraordinary information	Treasury share transactions
28 February 2023	Extraordinary information	Voting rights, share capital
26 February 2023	Extraordinary information	Treasury share transactions
17 February 2023	Extraordinary information	Treasury share transactions
17 February 2023	Obituary	Dr. Erzsébet Fehér, former CEO of Pannonplast Rt. passed away
10 February 2023	Extraordinary information	Treasury share transactions
3 February 2023	Extraordinary information	Treasury share transactions
31 January 2023	Extraordinary information	Voting rights, share capital
27 January 2023	Extraordinary information	Treasury share transactions
20 January 2023	Extraordinary information	Treasury share transactions
13 January 2023	Extraordinary information	Quarterly production report
13 January 2023	Extraordinary information	Treasury share transactions
8 January 2023	Extraordinary information	Treasury share transactions
2 January 2023	Extraordinary information	Voting rights, share capital
2 January 2023	Extraordinary information	Treasury share transactions

15. DATE OF AUTHORISATION OF DISCLOSURE

The Company's Board approved the financial statements and authorized their disclosure on 26 March 2024.

Dénes Gyimóthy
On behalf of the Management Board

PannErgy Plc. H-1112 Budapest, Boldizsár u. 2.; ° +36 1 323-2383 ° fax: +36 1 323-2373
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PannErgy Plc.
Declaration of the issuer 2023

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

THIS ANNOUNCEMENT IS PUBLISHED IN HUNGARIAN (MANDATORY, OFFICIAL) AND ENGLISH LANGUAGES. IN CASE OF ANY CONTRADICTION BETWEEN THESE TWO VERSIONS, THE OFFICIAL HUNGARIAN VERSION SHALL PREVAIL.

Budapest, 27 March 2024

The attached pdf report is not the official report of the Company; the official report will be drawn up and published in ZIP (specifically XHTML-XBRL) format as required by applicable legislation. The contents of the attached pdf report are fully identical with those of the report published in ZIP (specifically XHTML-XBRL) format.

DECLARATION

I, Dénes Gyimóthy, acting CEO, issue the following declaration on behalf of the Management Board in relation to the 2023 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 Annex 1 to Decree No. 24/2008 (VII.15.) of the Minister of Finance:

- prepared to the best of our knowledge and in accordance with the applicable accounting regulations and the IFRS rules, the 2023 separate IFRS annual report of PannErgy Plc. disclosed simultaneously with the consolidated financial statements and business and management report provides a true and fair view of the assets, liabilities, financial position, profit or loss of PannErgy Plc. as a public securities issuer, and;

- the business report attached to the annual report provides a fair view of the position, development and performance of PannErgy Plc. as a public securities issuer, presenting the key risks and uncertainties;

- the 2023 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 fair view of the assets, liabilities, financial position, profit or loss of PannErgy Plc. as a public securities issuer, and the consolidated entities; and,

- the business and management report attached to the 2023 consolidated financial statements (aggregated consolidated management report), prepared in accordance with the applicable IFRS requirements, provides a fair view of the position, development and performance of PannErgy Plc. – as a public securities issuer – and the consolidated entities, while also presenting the key risks and uncertainties.

Dénes Gyimóthy
On behalf of the Management Board