PannErgy Plc.
Annual Report and Business Report
(prepared in accordance with International Financial Reporting Standards as adopted by the EU) 2021

including Independent Auditor's Report

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

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Independent Auditor's Report

(Free translation)

To the Shareholders of PannErgy Nyrt.

Opinion

We have audited the financial statements of PannErgy Nyrt. (the „Company") for the year 2021 which comprise the statement of financial position as at December 31, 2021 – which shows a total assets of thHUF 10,982,873 –, and the related statement of recognized income, statement of comprehensive income – which shows a net profit for the year of thHUF 36,692 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2021 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS"), and the financial statements were prepared in all material respects in accordance with the provisions of the effective Hungarian Act C of 2000 on Accounting (hereinafter: "the Accounting Act") relevant to the entities preparing financial statements in accordance with EU IFRS.

Basis for Opinion

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

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

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

Key Audit Matters

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

Key Audit matters	Related audit procedures
Revenue recognition	
(Details in notes 4.21 and 6 of the notes to the financial statements) In 2021 the revenue of the Company is thHUF 96,020 and the revenue is a key performance indicator of the Company which may influence management to make sales contracts with non-ordinary, exceptional conditions. Due to the above we consider this area as a key audit matter.	Our audit procedures included: - we considered the appropriateness of Company's revenue recognition accounting policies, - we interviewed the management, - we tested the design and operational effectiveness of Company's internal controls over sales cycle of the Company, - we gathered third party confirmations for receivables, - we tested the post-balance sheet events.

Other Information

Other information comprises the information included in the business report of the Company for 2021, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date, but does not include the financial statements and our auditor's report thereon. Management is responsible for the other information and for the preparation of the business report in accordance with the relevant provisions of the Accounting Act and other regulations. Our opinion on the financial statements provided in the section of our independent auditors' report entitled *"Opinion"* does not apply to the other information.

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

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

In our opinion, the business report of the Company for 2021 corresponds to the financial statements of the Company for 2021 and the relevant provisions of the Accounting Act in all material respects. The information referred to in Section 95/B. (2) a)-d), g) and h) of the Accounting Act has been provided.

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

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

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

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

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

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

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

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

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

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

We also:

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 16 April 2021 and our uninterrupted engagement has lasted since 28 April 2017.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the the Company, which we issued on 17 March 2022 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

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

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

Budapest, 22 March 2022

Free translation Hungarian version is signed

Venilia Vellum Könyvvizsgáló és Adótanácsadó Kft.
Company registration no: 01-09-566797
Auditor registration no: 000340
IFRS qualification: IFRS000115
Issuer qualification: K000045
Address: 1026 Budapest, Szilágyi Erzsébet fasor 79.
Name of Authorized representative: Bukri Rózsa
on behalf of Venilia Vellum Ltd. and as a statutory registered auditor
Registration number of statutory registered auditor: 001130
IFRS qualification: IFRS000042
Issuer qualification: K000002

This is a translation of Hungarian original – in case of any differences the Hungarian original is prevails.

PannErgy Plc.

Annual report for the 2021 business year prepared in accordance with International Financial Reporting Standards as adopted by the EU

31 December 2021

Budapest, 22 March 2022

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

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BALANCE SHEET

	Note no.	31 December 2021	31 December 2020
		HUF Th	**HUF Th**
Intangible assets	15	1,134	1,482
Tangible assets	16	21,817	13,292
Investment properties	16	113,148	158,620
Marketable properties	16	-	-
Long-term investments	17	4,604,949	4,604,948
Receivables from deferred taxes	32	8,131	10,965
Long-term receivables	18	-	2,294
Total fixed assets		**4,749,179**	**4,791,601**
Trade receivables	21	21,113	16,893
Loans provided	22	5,795,143	6,278,000
Other receivables	23	119,716	94,130
Securities	24	20	217,612
Liquid assets	34	297,702	60,145
Total current assets		**6,233,694**	**6,666,780**
TOTAL ASSETS		**10,982,873**	**11,458,381**
Subscribed capital	25	421,093	421,093
Reserves	27	14,047,868	13,293,165
Comprehensive income for the year		36,692	3,315
Reserve for repurchased treasury shares	26	-3,872,379	-2,473,623
Total shareholders' equity		**10,633,274**	**11,243,950**
Long-term loans, leases	28	9,499	4,026
Provisions	29	-	-
Total long-term liabilities		**9,499**	**4,026**
Trade payables	35	86,204	89,166
Short-term credits	30	230,000	100,000
Short-term part of long-term credits and leases	30	9,417	6,829
Income taxes payable	31	-	-
Other short-term liabilities	31	14,479	14,410
Total short-term liabilities		**340,100**	**210,405**
TOTAL LIABILITIES AND EQUITY		**10,982,873**	**11,458,381**

PROFIT AND LOSS STATEMENT

	Note no.	2021	2020
		HUF Th	**HUF Th**
Revenue from sales	6	96,020	94,209
Direct cost of sales	8	-91,770	-81,386
Gross margin		**4,250**	**12,823**
Gross profit ratio %		**4.4 %**	**13.6 %**
Gross cash flow		**16.222**	**19.215**
Gross cash flow rate %		**16.9%**	**20.4%**
Indirect costs of sales	7	-167,643	-142,667
Other revenues	11	29,188	219
Other expenditures	10	-11,133	-97,487
Operating profit		**-145,338**	**-227,112**
Operating profit rate %		**-151.4%**	**-241.1%**
EBITDA		**-113,348**	**-202,417**
EBITDA rate %		**-118.0%**	**214.9%**
Financial profit	12-13	185,556	237,591
Profit before taxes		**40,218**	**10,479**
Income tax	32	-3,526	-7,164
Net profit for the year		**36,692**	**3,315**
Other comprehensive income		-	-
Total comprehensive income for the reporting period		**36,692**	**3,315**
Earnings per ordinary share (HUF)			
Basic	33	2.12	0.19
Diluted	33	2.12	0.19

STATEMENT OF OTHER COMPREHENSIVE INCOME

	2021	2020
	HUF Th	HUF Th
Net profit for the year	**36,692**	**3,315**
Other comprehensive income		
Exchange difference from the HUF conversion of the reports of foreign subsidiaries	-	-
Exchange difference from the HUF conversion of affiliated companies and companies under common management	-	-
Marketable financial assets with deferred taxes	-	-
Cash flow hedging transactions with deferred taxes	-	-
Share from the comprehensive income of affiliated companies	-	-
Other comprehensive incomes in the period with tax implications	-	-
Total comprehensive income for the year	**36,692**	**3,315**
of which: Total comprehensive income attributable to the shareholders of the Company	**36,692**	**3,315**

STATEMENT OF CHANGES IN THE EQUITY

Description	Subscribed capital	Reserves	Treasury shares	Equity
Balance as of 31 December 2019	**421,093**	**13,215,785**	**-1,665,098**	**11,971,780**
Profit for 2020	-	3,315	-	3,315
Capital issue	-	-	-	-
Dividends	-	-	-	-
Other equity-related transactions	-	-52,713	-	-52,713
Treasury shares	-	130,093	-808,525	-678,432
Decrease in treasury shares	-	-	-	-
Balance as of 31 December 2020	**421,093**	**13,296,480**	**-2,473,623**	**11,243,950**
Profit for 2021	-	36,692	-	36,692
Capital issue	-	-	-	-
Dividends	-	-252,647	-	-252,647
Other equity-related transactions	-	-	-	-
Treasury shares	-	1,004,035	-1,398,756	-394,721
Decrease in treasury shares	-	-	-	-
Balance as of 31 December 2021	**421,093**	**14,084,560**	**-3,872,379**	**10,633,274**

STATEMENT OF CASH FLOWS

	Note no.	2021	2020
Liquid assets from operations		**HUF Th**	**HUF Th**
Profit before taxes		**40,218**	**10,479**
Adjustments in relation to the profit before taxes and the cash flow of business operations			
Amortization and depreciation of tangible and intangible assets	15-16.	31,990	24,695
Effect of deferred taxes	32	2,834	1,533
Income tax expenditures	32	-3,526	-7,164
Exchange gain/loss on credits	14	-	-
Impairment of tangible assets, goodwill	10, 16	-	-
Changes in the fair value of properties	11, 16	-	-
Interest payable/received	12-13	-	3,691
Profit on the sales of tangible assets	11	-23,500	-
Expenditures of the share option programme	37	-	-
Changes in working capital elements			
Dividends paid	25	-252,647	-
Increase/decrease of receivables	21, 22	-22,763	73,444
Increase/decrease of payables	30, 31, 35	-2,893	3,620
Increase/decrease of prepaid income taxes	23	-4,750	-9,201
Interests received	6, 12	-	-
Interests paid	13	-	-3,691
Net liquid assets originating from/used in operations		**-235,037**	**97,406**
Liquid assets from investments			
Acquisition of investments in private companies	17	-	-
Increase/decrease of existing investments	17	-	1,000
Acquisition of tangible and intangible assets	15-16	-20,134	-53,257
Sales of tangible and intangible assets	15-16	57,000	2,756
Loans to related parties	43,3	-398,438	-243,500
Repayment of loans from related parties	43,3	881,295	1,243,747
Loans from related parties	43,3	-	-
Repayment of loans to related parties	43,3	-	-
Liquid assets from investment operations		**519,723**	**950,746**
Financial operations			
Increase/decrease of long-term loans	28	-	-5,540
Increase/decrease of short-term loans	30	130,000	-103,415
Purchase/sale of treasury shares	26	-394,721	-678,432
Increase/decrease in securities	24	217,592	-217,589
Liquid assets used for financial operations		**-47,129**	**-1,004,976**
Net increase/decrease of cash and cash equivalents		**237,557**	**43,176**
Cash and cash equivalents as of 1 January		**60,145**	**16,969**
Cash and cash equivalents as of 31 December		**297,702**	**60,145**

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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., has a history of almost one hundred years. On 31 May 1991, the Company was transformed into a public company limited by shares, in line with Act XII of 1989 on the transformation of economic organizations. In 2007, PannErgy set the goal to generate substantial volumes of thermal and electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutions of the country as well as for PannErgy's shareholders. In line with this shift in its strategy, since 2007 its core activities have been redirected from plastic manufacturing to the utilization of renewable, and in particular geothermal energy resources. As of 31 December 2021, PannErgy Plc.'s subsidiaries operated projects for the utilization of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő, inter alia.
The subsidiaries are listed in Chapter 40.

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

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

2. BASIS OF THE COMPILATION OF THE FINANCIAL STATEMENTS

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

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

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

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

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

PannErgy Plc. proceeds 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 COVID-19 pandemic on the Company and its financial statements. Accordingly, the Company places emphasis on business continuity planning and has emergency plans for all critical areas at operation. The Company is prepared for using their emergency plans as and when necessary. This should include taking and implementing business continuity measures to ensure to ensure operational continuity in line with regulatory obligations.

In accordance with the disclosure recommendations of ESMA, the Company, as a securities' issuer discloses, as promptly as possible, in accordance with its transparency obligations under the market abuse regulations, all relevant data and information on the effects and impacts of the pandemic on the Company' assets, income and financial position, operational activities, perspectives and plans. The Company provides market participants with information on their best estimates of the actual and possible impacts of the COVID-19 pandemic according to qualitative and quantitative assessments of their own business activities, financial position and performance.

<u>In conformity with the ESMA recommendation PannErgy Plc. publishes the following information in its consolidated year financial report on 2021:</u>

The COVID-19 pandemic has no material impact on the figures presented in the Company's consolidated year financial report on 2021. This is also confirmed by the fact that despite the uncertainties and economic and other difficulties experienced in the entire reporting period in connection with the pandemic the Company managed to tackle the challenges. On the one hand, the Company supplied to its heat-receiving partners at a high level of operational safety; and on the other hand, it managed to keep up and even increase its EBITDA, its key operational metric, over and above the budgeted level relative to the preceding year.

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

The sales revenue generating capability of the Company's core operation, geothermal heat generation and sale, is exposed to the negative impacts of the COVID-19 pandemic as detailed below:
The Company sells its output to a small number of customers. Its direct partners are district heating service providers and manufacturing companies. In the reporting period there were no incidents at the heat-receiving partners that would have resulted in a material decrease in the year 2021 sales revenue as a consequence of the COVID-19 pandemic.

Besides the above Group-level impacts it should also be noted that the COVID-19 pandemic had no material impacts on the data shown in PannErgy Nyrt's 2021 unconsolidated financial statements either.

4. Summary of the key elements of the accounting policies

4.1. *General description*

The key accounting policies used in the course of the compilation of the IFRS annual report are described below. PannErgy Plc. consistently applies the accounting principles described and detailed herein consistently in relation to all the presented business years. Concurrently with their first application as at 1st January 2021, the Company presents prior year figures in the financial statement in accordance with the IFRS as well to facilitate comparability.
These accounting policies are in conformity with the key accounting policies used in the course of the compilation of the consolidated financial statements for 2020.

4.2. *Effects of the amended rules of the IFRS standards to be implemented as of 1 January 2021 an of the introduction of new standards on the financial statements*

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

Amendments of IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark reform – Phase 2; adopted by the EU as of 13 January 2021 (to be applied to reporting periods beginning on or after 1 January 2021),

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

IFRS 16 "Leases" – Covid-19 related rent concessions of terms ending beyond 30 June 2021 (entering into force as of 1 April 2021, and in rent concessions starting thereafter).

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

<u>New and amended standards and interpretations issued by the IASB, endorsed by the EU but not yet effective</u>

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

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

<u>Standards and interpretations issued by the IASB, but not endorsed by the EU</u>

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 of IAS 1 Presentation of financial statements – Classification of Liabilities as

Current or Non-current (to be applied to reporting periods beginning on or after 1 January 2023);

Amendments of 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);

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 of 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 of 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);

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

IFRS 14 Regulatory Deferral Accounts (to be applied for reporting periods beginning on or after 1 January 2016) – The European Commission adopted a decisions that it will not apply the endorsement process to the present interim standard and to 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 Group's consolidated/unconsolidated financial statements.

4.3. *Functional currency*

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

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

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

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

4.5. *Fair value measurement*

The Company uses fair value measurement in the case of "Held to collect" items. For the establishment of fair value, the following hierarchy is applied:

- level 1: price listed on a regulated market,
- level 2: calculated price based on input data available on essentially regulated markets,
- level 3: calculated price based on input data not available on major regulated markets

The Company's financial statements include only "level 1" type securities.

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

4.6. *Intangible assets*

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

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

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

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

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

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

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

4.7. *Impairment of non-financial assets*

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

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

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

4.8. *Recognition of research and development*

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

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

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

- the ability of the unit to reliably measure the expenditures that can be attributed to the asset in the course of the development of the intangible asset.

4.9. *Property, plant and equipment*

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

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

4.9.1 Investment property

Based on IAS 40, 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.
The Company recognized as investment property its own properties geographically located at its plants in Csepel and Debrecen (land, buildings, structures) and had been acquired in the period when plastics manufacturing was its core activity before the strategic shift in the operating profile of the PannErgy Group because these properties, which are not related to its core operation – geothermy – by letting them 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.
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 in a separate line of the statement of financial position in an IFRS financial statement. 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.

4.9.2 Non-current assets held for sale

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

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

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

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

4.9.3 Tangible assets under IAS 16 Property, plant and equipment

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

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

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

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

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

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

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

The Company does not recognize depreciation for land.

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

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

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

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

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

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

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

4.9.4 Investments

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

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

4.9.5 Application of component accounting

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

4.10. *Investments*

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

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

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

4.11. *Goodwill*

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

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

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

4.12. *Inventories*

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

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

4.13. *Financial instruments*

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

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

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

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

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

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

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

4.13.1 Initial recognition at fair value

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

value against the profit or loss are initially presented at fair value, while transaction costs are stated in the statement of profit or loss.
The classification of financial instruments is based on the purpose of the acquisition of the financial assets, the characteristics of the financial instruments and the definitions of the categories of financial instruments under IFRS 9. The Company decides on the classification of financial assets at the time of their initial recognition. For subsequent presentation, financial instruments can be classified in the following categories:

4.13.2 Receivables

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

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

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

The Company has no retail operations that would call for the use of segment-based SPPI tests. On the other hand, the Company makes use of the portfolio impairment loss module, where it allocates the rating of receivables into a separate category.
In practice, the Company does not engage in factoring; should such a situation arise, these receivables would be presented at fair value.

4.13.3 Loans provided

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

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

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

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

4.13.4 Hedging and derivative transactions

The Company applies the rules set out in IFRS 9 regarding hedging and derivative transactions, recognizing them at fair value, with separate documentation and administration.
In the course of the preparation of its IFRS financial statements, the Company relies on hedge accounting. On a one-off basis certain members of the Group conclude foreign exchange forward transactions that are of hedging character as there is a direct connection between the forward transaction and the future FX purchase of the company. The Company resorts to such one-off transactions in case of high-value foreign currency purchases, applying the specific payment deadline set out in the relevant asset purchase agreement. The Group engages in no non-hedging forward transactions. For such transactions the Group applies hedge accounting as defined in IFRS 9, that is, on 31 December, the end of the reporting period, the fair value of the expected gain/loss on outstanding forward transactions is determined and charged against the financial instruments (assets) as other financial income/expenditure. When the transaction is closed in the following year, the difference between the actual gain/loss realized and the amount recognized on 31 December is posted taking into account the amount established at the end of the reporting period.
In addition to forward foreign exchange transactions, the Company also has interest rate swaps fixed for the long term relating to its investment loans; in this case, the amount of expected loss recorded at the end of the interest period concerned is also recognized for transactions outstanding

at the end of the reporting period, based on the statement received from the relevant financial institution. In such cases there is a clear economic link between the hedge and the hedged transaction, and the hedging ratio applied is the ratio used in the past for risk management purposes; these transactions will continue to be presented at fair value.
In addition, the Company targets a natural hedge strategy to cover its foreign exchange risks: its foreign currency (typically euro) denominated revenues almost fully cover its obligations to suppliers incurred in foreign currencies and the servicing of its foreign currency borrowings in the same period.

4.13.5 Liquid assets

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

4.13.6 „Held to collect" financial assets

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

4.13.7 Credits

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

4.13.8 Trade payables

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

4.13.9 Other financial liabilities

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

4.13.10 Deferred income

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

4.13.11 Determination of effective interest rates

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

4.13.12 Netting of financial instruments

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

4.14. *Cash and cash equivalents*

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

4.15. *Equity, subscribed capital*

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

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

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

Revaluation reserve comprises the accumulated other comprehensive income and other comprehensive income for the reporting year indicated in the statement of other 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 Presentation of financial statements*, or in the separate statement of profit or loss.
Tied-up reserve is the amount of received supplementary payments recognized as liabilities under the IFRS plus the amount of unused development reserve less the pertaining deferred tax calculated based on *IAS 12 Income taxes*.

4.16. *Treasury shares*

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

4.17. *Earnings per share*

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

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

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

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

4.18. *Current and deferred income tax*

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

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

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

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

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

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

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

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

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

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

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

4.19. *Provisioning*

The Company recognizes liabilities of uncertain timing or amount as provisions if:
- the related obligation arose from past events;
- they exist on the last day of the reporting period;

- they constitute legal or constructive obligations;
- their settlement is expected to result in an outflow of resources giving rise to economic benefits;
- the amount of the obligation can be estimated reliably.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4.21. *Accounting for revenue from sales*

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

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

Pursuant to the standard, the Company has devised a five-step model for the recognition of revenues:
- Identification of the sales contract
- Identification of the performance obligations
- Determination of the transaction price
- Allocation of the transaction price
- Recognition of revenues

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

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

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

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

4.22. *Interest income and dividend income*

The Company may also realize interest income on its loans related to the operation and management of the holding company and dividend income on its owner-occupied investments. According to the standard requirements for income from income, it does not qualify as income from ordinary activities, so interest and dividend income from related parties is recognized as income from financial operations.
The Company does not classify interest and dividend income from unrelated parties as income from ordinary activities, it is not treated as sales revenue, it is recognized as income from financial operations.

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

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

4.23. *Leases*

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

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

- The lease liability is valued at the present value of the remaining lease fees, discounting them with the lessee's incremental borrowing rate of interest prevailing on the day of IFRS transition.
- The right-of-use asset presented upon first application is shown at a value equalling that of the lease liability adjusted with the pre-paid or deferred lease fees shown in relation to the given lease arrangement right before the date of first application in the statement pertaining to the Company's financial position;
- The Company uses a single discount rate to the portfolio of lease transactions of essentially similar parameters (e.g. similar remaining lease terms, underlying assets of similar categories, similar economic environment);
- The Company makes use of the simplification allowed by the standard in the case of leases with shorter than 12-month remaining terms on the day of transition. Such leases are recognised by the Company as short term leases;
- The Company applies the simplification allowed by the standard to leases with low-value underlying assets;
- When first applying the standard the Company does not factor in the initial direct costs in right-of use asset valuation;
- The Company applies retrospection, for example in determining the lease term, if the contract offers lease term extension or termination options.

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

4.24. *Distribution of dividends*

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

4.25. *State aid*

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

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

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

4.26. *Comparative information across periods*

Data for the base year and reporting year were subjected to measurement in the financial statements in the same manner, except for reclassifications in the base data, which are explained in

Note 40. In order for the Company's IFRS financial statements to comply with *IAS 1*, all the statements include a comparative period.

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

4.27. *Segment reporting*

In line with the relevant IFRS requirements, the Company is to present its operating segments; however, the review **identified no operating segments**. The core business of the Company is asset management and management of the holding. In this regard, PannErgy Plc. as the legal successor of Pannonplast Plc. presented the utilization of the real-estate properties, i.e. the industrial facilities and connected office premises formerly serving Pannonplast Plc.'s plastics manufacturing operations in District XXI of Budapest (Csepel) and Debrecen, where property utilization primarily means the re-invoicing of electric power and other public utility fees, and to a smaller extent the collection of office rents; furthermore, it encompasses costs and expenses incurred with management and governance of the Group in the form of a financial holding company and issuer at the stock exchange.
Beyond the unnecessity of operational segmentation, the Company pursues its activities solely in the territory of Hungary, in a uniform legal, technical, economic and demographic environment; consequently, territorial segmentation is not relevant.

4.28. *Gross cash flow and EBITDA definition*

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

Consolidated quantity of heat sold (GJ), Gross cash-flow, EBITDA

Of these indicators the Company identifies the consolidated quantity of heat sold as both a quantitative and a key quantitative 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.

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

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

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

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

5.1. *Events after the financial statement's date*

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

5.2. *Material error*

During the preparation of the annual report, an error may arise from mathematical errors made when applying the accounting policy, from the ignoring of facts or from incorrect interpretation. The Company has adopted the principle that as long as it is possible and not technically

impracticable, material errors from former periods need to be corrected retrospectively in the first financial statements or annual report compiled and approved for disclosure after the detection of the error. For the Company, impracticable means that it is impossible to apply even if the Company does everything that can reasonably be expected to ensure application.
The Company defines a material error as follows: the omissions or misstatements of items are material if separately or aggregately they are able to affect the users' decisions made based on the annual report. Materiality depends on the assessment of the extent and nature of omissions or misstatements under the given circumstances. The size and nature of an item, or a combination of the two, are the decisive factors in that assessment; as a general principle, the Company defines errors exceeding 1 percent of the IFRS statement of financial position total.

5.3. *Critical accounting estimates and assumptions*

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

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

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

6. Revenue from sales

6.1. *Breakdown of sales revenues by core activity*

	2021 HUF Th	2020 HUF Th
Asset management	35,717	35,191
Property management	60,303	59,018
Total	**96,020**	**94,209**

6.2. *Breakdown of sales revenues by geographical location*

	2021 HUF Th	2020 HUF Th
Revenue from domestic sales	92,525	92,382
Revenue from sales to the EU	3,495	1,827
Revenue from sales outside the EU	-	-
Total	**96,020**	**94,209**

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

	2021 HUF Th	2020 HUF Th
Intercompany services (to related parties)	32,223	32,750
Mediated and re-invoiced services	38,056	36,492
Rent for buildings and tangible assets	22,507	22,763
Electricity resale	-	5
Sale of products	3,234	2,199
Total	**96,020**	**94,209**

The 2% increase in sales revenue in the current period is due to the higher level of intermediated and re-invoiced services.

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

	2021 HUF Th	2020 HUF Th
Assets used in domestic production	4,741,048	4,789,984
Assets used in production within the EU	-	-
Assets used in production outside the EU	-	-
Total	**4,741,048**	**4,789,984**

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

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

	2021	as a % of total sales in 2021	2020	as a % of total sales in 2020
Total sales revenue from key customers	**58,975**	**61.42 %**	**56,886**	**60.38 %**
Revenue from sales	**96,020**	**100.00 %**	**94,209**	**100.00 %**

The major part of the Company's sales revenue comes from intermediated services and rental services related to the Debrecen site.

7. INDIRECT COSTS OF SALES

	2021 HUF Th	2020 HUF Th
Expert and audit fees	72,087	66,499
Costs related to public and stock exchange presence	25,516	15,150
Indirect depreciation	20,018	18,303
Indirect personnel-type costs	16,723	16,163
Insurance premiums	12,599	10,705
Office and operating costs	15,001	10,268
Banking costs	5,623	5,574
Other fees and duties payable to authorities	76	5
Total	**167,643**	**142,667**

The indirect operating costs of PannErgy Plc. increased during the reporting period by 18% year-on-year. The most significant item in this category was observed in the costs relating to presence in public and the exchange, caused by the costs of services related to dividend payments.

8. Direct costs of sales

	2021 HUF Th	2020 HUF Th
Costs of goods sold, mediated services	69,836	68,672
Direct depreciation (real property)	11,972	6,392
Facility maintenance costs, rental	4,427	4,873
Electricity charges	460	399
Cost of maintenance materials	1,892	0
Other indirect costs	3,183	1,050
Total	**91,770**	**81,386**

Direct costs of sales at PannErgy Plc. include primarily the re-invoiced utilization costs of properties located in Debrecen. The increase in the reporting period is due to the amortisation of the increase in the value of tangible fixed assets, including the real estate in Debrecen, over the base period, the full effect of which was already felt in the reporting period.

9. Headcount and wage costs

	2021	2020
Average statistical headcount (persons)	-	-
Wage cost (HUF Th)	12,958	12,820
Other personnel-type payments (HUF Th)	1,379	885
Taxes and contributions on wages (HUF Th)	2,386	2,458
Total	**16,723**	**16,163**

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

10. Other expenditures

	2021 HUF Th	2020 HUF Th
Subsidies granted to offset costs	2,800	650
Cost relating to insurance events	1,915	2,232
Local taxes, duties, fines	1,550	2,085
Impairment losses of receivables	1,096	238
Fines, penalties, default interest, compensations paid	40	57
Remission of shareholder's loans to subsidiaries	-	88,000
Other	3,732	4,225
Total	**11,133**	**97,487**

Within the HUF 11,133 thousand value of other expenditures in the reporting year, the most significant items are the grants given in the reporting period, which amounted to HUF 2,800 thousand.

11. Other incomes

	2021 HUF Th	2020 HUF Th
Profit on the sales of tangible assets	23,500	-
Income relating to insurance events	130	-
Other	5,558	219
Total	**29,188**	**219**

In the reporting period, the Company sold one of its investment properties in Debrecen, a land property, realising a profit of HUF 23,500 thousand on the sale.

12. Financial incomes

	2021 HUF Th	2020 HUF Th
Interest income from intercompany asset management	189,228	218,414
Gains on derivative transactions	3,620	2,408
Realized and non-realized FX gains	2,066	21,155
Gains arising from dealing securities	1	295
Other financial incomes	65	118
Total	**194,979**	**242,390**

13. Financial expenditures

	2021 HUF Th	2020 HUF Th
Interest and interest-type expenses	5,856	3,691
Realized and non-realized FX losses	2,400	1,102
Other financial expenditures	1,167	6
Total	**9,423**	**4,799**

14. Other information relating to financial transactions

	2021	2020
Opening EUR/HUF exchange rate	365.13	330.52
EUR/HUF exchange rate on 31 December	369.00	365.13
Annual change in the EUR/HUF exchange rate	3.87	34.61

The total amount of financially unrealised exchange rate differences related to FX revaluations at year-end is a loss of HUF 1,301 thousand, related to the Company's EUR-denominated receivables and payables.

15. INTANGIBLE ASSETS

Gross value

HUF Th

	Goodwill	Valuable rights	Intellectual property	Other	Total
1 January 2020	-	523	70	-	593
Purchase	-	-	1,475	-	1,475
Sale	-	-	-	-	-
Impairment, write-off	-	-	-70	-	-70
Reclassification	-	-	-	-	-
31 December 2020	-	523	1,475	-	1,998
Purchase	-	-	-	-	-
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification	-	-	-	-	-
31 December 2021	-	523	1,475	-	1,998

Accumulated depreciation

	Goodwill	Valuable rights	Intellectual property	Other	Total
1 January 2020	-	410	70	-	480
Increase	-	52	54	-	106
Sale	-	-	-	-	-
Impairment, write-off	-	-	-70	-	-70
Reclassification	-	-	-	-	-
31 December 2020	-	462	54	-	516
Increase	-	53	295	-	348
Sale	-	-	-	-	-
Impairment, write-off	-	-	-	-	-
Reclassification	-	-	-	-	-
31 December 2021	-	515	349	-	864

Net value

1 January 2021	-	61	1,421	-	1,482
31 December 2021	-	8	1,126	-	1,134

16. TANGIBLE ASSETS

HUF Th

Gross value	Marketable properties	Properties for investment purposes	Machinery and vehicles	Investment	Total
1 January 2020	2,565	115,279	54,491	-	172,335
Purchase	-	-	-	51,782	51,782
Capitalization	-	50,949	833	-51,782	-
Revenue from sales, contribution in kind	-2,756	-	-	-	-2,756
Reclassification, write-offs	-	-	-	-	-
Effect of fair value measurement	-	-	-	-	-
Reclassification	191	-	-	-	191
31 December 2020	-	166,228	55,324	-	221,552
Purchase	-	-	-	-	-
Capitalization	-	-	28,506	-	28,506
Revenue from sales, contribution in kind	-	-33,500	-53,782	-	-87,282
Reclassification, write-offs	-	-	-	-	-
Effect of fair value measurement	-	-	-	-	-
Reclassification	-	-	-	-	-
31 December 2021	-	132,728	30,048	-	162,776
Accumulated depreciation	**Marketable properties**	**Properties for investment purposes**	**Machinery and vehicles**	**Investment**	**Total**
1 January 2020	-191	1,322	23,729	-	24,860
Increase	-	6,286	18,303	-	24,589
Sale	-	-	-	-	-
Reclassification, write-offs	191	-	-	-	191
31 December 2020	-	7,608	42,032	-	49,640
Increase	-	11,972	19,981	-	31,953
Sale	-	-	-53,782	-	-53,782
Reclassification, write-offs	-	-	-	-	-
31 December 2021	-	19,580	8,231	-	27,811
Net value					
1 January 2021	-	158,620	13,292	-	171,912
31 December 2021	-	113,148	21,817	-	134,965

The Company stated no properties held for sale as at 31 December 2021.

PannErgy Plc. shows its industrial properties located in Debrecen in the category of investment properties; rather than making efforts to sell them, the Company utilises them essentially through leasing to tenants. The decrease in the current period was caused by depreciation and the sale of one of the land-type properties.

The majority of the HUF 21,817 thousand value of tangible assets at the end of the reporting period relates to long-term leases of motor vehicles, where the Company applies the rules governing the recognition of lease items (assets and liabilities) in the statement of financial position pursuant to its accounting policy based on IFRS 16.

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

17. Investments

	2021 HUF Th	2020 HUF Th
PannErgy Geothermal Power Plants Ltd.	4,604,949	4,604,948
Total	**4,604,949**	**4,604,948**

18. Long-term receivables

	2021 HUF Th	2020 HUF Th
Other receivables	-	2,294

As at 31 December 2021, PannErgy Plc. showed no long-term receivables in its annual accounts.

19. Lease receivables

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

20. Inventories

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

21. Trade receivables

	2021 HUF Th	2020 HUF Th
Trade receivables	21,113	16,893
Total	**21,113**	**16,893**

PannErgy Group sells its products and services to a small number of buyers, mostly on the basis of long-term contractual arrangements. In the light of the steady nature of customer relations, no impairment losses were recognized for trade receivables at PannErgy Plc. The trade receivables are non-interest earning items, with a 30-day term for the most part. Trade receivables increased by 25% year-on-year.

22. Loans provided

	2021 HUF Th	2020 HUF Th
Intercompany loans to subsidiaries	5,795,143	6,278,000
Total	**5,795,143**	**6,278,000**

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

23. Other receivables

	2021 HUF Th	2020 HUF Th
Next period's items	100,124	59,575
Other tax receivables	13,615	31,412
Short-term part of long-term receivables	2,357	3,143
Receivable relating to derivative transaction	3,620	-
Total	**119,716**	**94,130**

HUF 90,823 thousand of the items of the next period is associated with revenues, mostly interest revenues, while HUF 9,301 thousand relates to costs. Among other tax receivables, the most significant item is the corporate tax receivable of HUF 11,265 thousand.

24. Securities

	2021 HUF Th	2020 HUF Th
Securities held until maturity	**20**	**217,612**

During the reporting period, the Company's securities portfolio decreased significantly as previously purchased investment units and bonds were redeemed.

25. Subscribed capital

	2021 HUF Th	2020 HUF Th
Subscribed capital	**421,093**	**421,093**

On 31 December 2021 the subscribed capital amounted to HUF 421,093 thousand, unchanged relative to 2020. The subscribed capital is stated in the financial reports in its total amount as issued, while the number of shares is presented net of the amount of treasury shares.

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

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

26. Treasury shares

	2021	2020
Treasury shares (number)	3,723,441	3,254,767
Nominal value (HUF Th)	74,469	65,095
Cost (HUF Th)	3,872,379	2,473,623

On 31 December 2021 the Company held a total of 3,723,441 PannErgy Plc. treasury shares, 468,674 more than the stock of treasury shares held on 31 December 2020. The change resulted from the purchase of treasury shares in the framework of the treasury share buyback program taking place during the reporting period; the treasury share portfolio decrease occurred during the reporting period. A total of 188,313, and 280,361, treasury shares were bought back in the first half and in the second half of 2021, respectively, under the treasury share buyback programs.

The stock exchange closing price of PannErgy shares was HUF 1,040 per share at the end of the reporting period, compared to HUF 760 on 31 December 2020. This corresponds to an increase of 37%.

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

27. Reserves

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

	2021 HUF Th	2020 HUF Th
Capital reserve	11,374,916	10,306,500
Retained earnings	2,672,952	2,986,665
Total	**14,047,868**	**13,293,165**

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

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

28. Long-term liabilities

The Company had long-term financial obligations in an amount of HUF 9,499 thousand at the end of the reporting period. These are fees relating to long-term lease contracts of motor vehicles payable at maturities over one year, which the Company recognises as obligations pursuant to its accounting policy in line with IFRS 16.

29. Provisions

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

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

The Company has the following obligations from short-term credits on 31 December 2021:

	2021 HUF Th	2020 HUF Th
Short-term bank loans	230,000	100,000
Short-term part of long-term credits and leases	9,417	6,829
Closing balance as of 31 December	**239,417**	**106,829**

External funds disbursed by a funding financial institution was stated in the way of short-term loans in the reporting period.
The amount of lease fees to be incurred within one year of the annual accounts cut-off date in relation to the Company's long term car lease contracts categorised as liabilities on the basis of its accounting policy referred to in Chapter 28 was HUF 9,417 thousand on 31 December 2021 and was recognized under short-term liabilities.

31. OTHER SHORT-TERM LIABILITIES

	2021 HUF Th	2020 HUF Th
Next period's items	7,345	6,512
Liabilities relating to shares	4,420	4,420
Tax and contribution liabilities	1,423	209
Wages and social security	1,237	1,019
Liabilities relating to dividends	54	-
Liability relating to the treasury share buyback program	-	2,250
Other short-term liabilities, total	**14,479**	**14,410**

The most significant item within other short-term liabilities is items of the next period, at HUF 7,345 thousand; these are non-interest costs relating to the next period.

HUF 4,420 thousand of the other short-term liabilities is recognized by the Company in liabilities stemming from the earlier conversion of shares into dematerialized securities.

At the end of the reporting period, the Company has liabilities related to dividends of HUF 54 thousand, which is the amount of dividends remaining after the payment of dividends in the reporting period but not yet paid.

32. TAXATION, INCOME TAX

32.1. *Income tax payable for the reporting year*

	2021 HUF Th	2020 HUF Th
Tax liabilities for the reporting year	692	5,631
Effect of deferred taxes	2,834	1,533
Total	**3,526**	**7,164**

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

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

32.2. *Receivables from deferred taxes*

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

	2021 HUF Th	**2020 HUF Th**
Amounts recovered from deferred losses	8,872	8,956
The difference between the amount of the depreciation under the Accounting Act and the corresponding amount under the Tax Act	789	2,009
Receivables from deferred taxes (gross)	*9,661*	*10,965*
Development reserve provision	1,530	
Deferred tax liabilities (gross)	*1,530*	-
Deferred tax to be recognized (net)	**8,131**	**10,965**
Deferred tax recognized in previous year	10,965	12,498
Deferred tax recognized/reversed	-2,834	-1,533
Receivables from deferred taxes as of 31 December	**8,131**	**10,965**

The deferred tax receivable of HUF 8,131 thousand stated among fixed assets includes the 9% corporate income tax payable, on the one hand, for the unused negative tax bases of PannErgy Plc., and on the other hand, for other deferred tax modifying items under the IFRS rules. The deferred tax receivable stemming from accrued and deferred losses is based on the recovery of deferred taxes. The Company decided to apply a five-year period regarding accrued and deferred losses, in accordance with the IAS 12 recommendations.

The total gross amount of the deferred tax receivable is HUF 9,661 thousand. The gross deferred tax liability related to the temporary tax benefit related to the provision of the development reserve is HUF 1,530 thousand. A deferred tax receivable of HUF 8,131 thousand is included in the annual accounts as the net amount of these.

32.3. *Calculation of the effective income tax*

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

	2021 HUF Th	2020 HUF Th
Profit before taxes	**40,218**	**10,479**
The tax payable on the company's profit/loss at the applicable tax rate (9%)	3,620	943
Tax implications of non-deductible expenditures, effects of tax base decreasing and increasing other items	-2,236	10,318
Use during the reporting year of the negative tax base carried over from previous years	-692	-5,631
Tax liabilities for the reporting year	**692**	**5,631**
Write-off of tax receivables assessed earlier	**2,834**	**1,533**
Income tax (as per the profit & loss account)	**3,526**	**7,164**

33. EARNINGS PER SHARE

	2021	2020
Profit after taxes (HUF th)	36,692	3,315
Number of shares issued less the number of treasury shares	17,331,214	17,799,888
Profit/loss per share (HUF)	**2.12**	**0.19**
Diluted profit/loss per share (HUF)	**2.12**	**0.19**

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

34. LIQUID ASSETS AND CASH EQUIVALENTS

	2021 HUF Th	2020 HUF Th
Bank account and cash at hand	297,702	60,145
Separated, blocked cash	-	-
Cash and cash equivalents	**297,702**	**60,145**

35. TRADE PAYABLES

	2021 HUF Th	2020 HUF Th
Domestic and foreign trade payables	86,204	89,166
Total	**86,204**	**89,166**

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

36. FINANCIAL INSTRUMENTS

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

	2021 HUF Th	2020 HUF Th
Financial assets	**10,540,941**	**11,213,877**
Financial assets available for sale (AFS)	***4,604,969***	***4,822,560***
Long-term investments	4,604,949	4,604,948
Securities	20	217,612
Loans and Receivables (LAR)	***5,932,352***	***6,389,023***
Loans provided	5,795,143	6,278,000
Trade receivables	21,113	16,893
Other short term receivables, prepaid income taxes	116,096	94,130
Financial instruments held to maturity (Held to Collect)	***-***	***2,294***
Long term financial receivables	-	2,294
Financial instruments, Fair Value to Profit and Loss (FVTPL)	***3,620***	***-***
Derivative transactions	3,620	-
Financial liabilities	**349,599**	**214,431**
Other financial liabilities	***349,599***	***214,431***
Trade payables	86,204	89,166
Long-term loans, leases	9,499	4,026
Short-term credits	230,000	100,000
Short-term part of long-term credits and leases	9,417	6,829
Other financial liabilities	14,479	14,410
Financial liabilities, Fair Value to Profit and Loss, (FVTPL)	***-***	***-***
Derivative transactions – liabilities	-	-

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

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

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

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

37. Share-based benefits

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

38. Off-balance sheet liabilities and commitments

38.1. *Contractual and investment obligations*

Investments implemented in the reporting period amount for HUF 28,195 thousand in 2021, as opposed to the investments of the previous period in the amount of HUF 53,257 thousand. Investments during the current year mainly consisted of the recording of leased assets classified as leases under IFRS 16.
The Company has no investment commitments currently.

38.2. *Commitments relating to asset management transactions*

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

38.3. *Other contingent liabilities*

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

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

38.3.2 Contingent commitments relating to application schemes

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

38.3.3 Operative leases

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

	2021 HUF Th	**2020 HUF Th**
Within 1 year	9,417	9,698
Over 1 year but within 5 years	9,499	6,272
Over 5 years	-	-
Total	18,916	15,970

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

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

39. FINANCIAL RISK MANAGEMENT

39.1. *Financial risk factors*

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

39.2. *Market risk*

39.2.1 Exchange rate risk

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

39.2.2 Price risk

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

39.2.3 Cash flow and fair value interest risk

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

39.3. *Lending risk*

The lending risk is a financial risk of loss from potential non-performance of any contractual obligation by any of the Company's buyers, primarily in the form of failure to settle invoices. It should be noted in particular that the Company sells its products and services to a handful of customers, resulting in a limited degree of diversification.
Customers are rated on the basis of their creditworthiness and their credit limits are determined on the basis of their financial positions, financial data, historical performance and other factors, by the PannErgy Plc.'s Finance and Treasury group. The Company monitors draw-downs from the credit limits. Its customers always pay for their purchases by way of bank transfer. No credit limit was exceeded during the reporting period, and management does not expect losses from default on the part of the partners concerned. Buyers' debts (trade receivables) are assessed at the end of the year and actions are taken, as necessary, regarding each buyer individually.

39.4. *Liquidity risk*

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

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

39.5. *Capital management*

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

	2021 HUF Th	2020 HUF Th
Subscribed capital	421,093	421,093
Total equity capital	10,633,274	11,243,950
Equity / Subscribed capital	**25.25**	**26.70**

39.6. *Offsetting of financial assets and financial liabilities*

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

39.7. *Epidemic risk*

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

39.8. *Risk associated with the Russian – Ukrainian war*

On February 24, 2022, a war broke out between Russia and Ukraine. In response, the European Union and other international actors have imposed wide-ranging, comprehensive economic and other legal sanctions on Russia in various areas. Both the war and the sanctions imposed and imposed in the future could have significant direct and indirect economic consequences for PannErgy's operating environment. Their determination cannot be estimated at the time of preparation of these consolidated financial statements. Based on the available information, the Company's operations are expected to be affected only to a limited extent by the possible negative consequences of the war. The Company has no exposure to Russian or Ukrainian customers, suppliers or financiers.

In addition to the above, it is important to emphasize that the Company's geothermal heat generation activities directly contribute to reducing Hungary's energy dependence on external market participants and conditions.

40. PARTICIPATIONS (DIRECT AND INDIRECT)

40.1. *Consolidated subsidiaries*

The consolidated subsidiaries of the Company as the parent company and their direct and indirect ownership rates on 31 December 2021 are as follows:

	Share capital (HUF Mn)	Ownership share (%) Indirect	Shareholding (%) Direct	Voting rights (%)	Consolidated ratio
PannErgy Geotermikus Erőművek CPlc.	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
TT Geotermia CPlc.	6.00	-	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

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.

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

The following transactions involving/affecting investments and participations took place during the reporting period:

Of the consolidated members of the PannErgy Group Well Research Ltd. merged into Miskolci Geotermia CPlc. as of 30 June 2021, whereby it was terminated, and Miskolci Geotermia CPlc. (currently Ltd.) became its general legal successor.

The subscribed capital of Berekfürdő Energia Ltd. was decreased during the reporting period, from HUF 24 million to HUF 3 million, as of 31 September 2021.

Based on a decision adopted by the owner PannErgy Geotermikus Erőművek CPlc., the legal form of Miskolci Geotermia CPlc. and Szentlőrinci Geotermia CPlc. – both covered by the PannErgy Group's scope of consolidation – was changed as of 31 December 2021 from private limited company into limited liability company. Szentlőrinci Geotermia Ltd's and Miskolci Geotermia Ltd's restructuring was registered with the Court of Registration on 25 January 2022 and on 31 December 2021, respectively.

41. SEGMENTS REPORT

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

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

42. EXPLANATION FOR RECLASSIFICATIONS RELATIVE TO BASIS PERIOD REPORT

PannErgy Plc. did not change the figures in the 2020 annual report; except for the items below. The base figures of this report are identical with the data in the year 2020 annual report.

For changes to the base data below, see *Section 4.22. Interest and Dividend Income*. This reclassification is in accordance with the related change in the accounting policy detailed in the section. The change resulted in a reclassification of HUF 218,414 thousand between sales revenue and revenue from financial operations. The Company's net profit of the year in the profit and loss statement and the data in statement of financial position have not changed.

PROFIT AND LOSS STATEMENT	**2020. Modified HUF Th**	**2020. Original HUF Th**
Revenue from sales	94,209	312,623
Gross margin	12,823	231,237
Gross cash flow	19,215	237,629
Operating profit	-227,112	-8,698

EBITDA	-202,417	15,997
Financial profit	237,591	19,177

6.1. Breakdown of sales revenues by core activity	**2020. Modified HUF Th**	**2020. Original HUF Th**
Property management	35,191	253,605
Total	**94,209**	**312,623**

6.2. Breakdown of sales revenues by geographical location	**2020. Modified HUF Th**	**2020. Original HUF Th**
Revenue from domestic sales	92,382	310,796
Total	**94,209**	**312,623**

6.3. Breakdown of sales revenues by activity or service	**2020. Modified HUF Th**	**2020. Original HUF Th**
Interest income from intercompany asset management	-	218,415
Total	**94,209**	**312,623**

6.5. Concentration of sales revenue, information regarding key customers	**2020. Modified HUF Th**	**2020. Original HUF Th**
Total sales revenue from key customers	56,886	261,014
Revenue from sales	**94,209**	**312,623**

12. Financial incomes	**2020. Módosult eFt**	**2020. Eredeti eFt**
Interest income from intercompany asset management	218,414	-
Összesen	**242,390**	**23,976**

43. Transactions with affiliated parties

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

The members of PannErgy Plc.'s management are shareholders of enterprises that provide regular business management consultancy or long-term lease of vehicle type services for PannErgy Plc. In

2021 such services amounted to HUF 66,397 thousand, of which business management consultancy services were provided in the amount of HUF 51,101 thousand, and long-term leases in the amount of HUF 15,296 thousand.

43.2. *Transactions with affiliated parties*

The Company performed the following transactions with related parties during 2021:

Data of transactions with related parties	**2021 HUF Th**	**2020 HUF Th**
Sales to related parties [1]	214,789	253,559
- *Of this, from subsidiaries*	*211,295*	*251,732*
- *Of which from enterprises in which members of the Group's management have shareholdings*	*3,494*	*1,827*
Purchases from related parties	75,160	93,793
- *Of this, from subsidiaries*	*8,763*	*33,279*
- *Of which from enterprises in which members of the Group's management have shareholdings*	*66,397*	*60,514*
Receivables from related parties	5,896,850	6,288,953
Liabilities to related parties	20,531	24,090
- *Of this, to subsidiaries*	*20,531*	*20,293*
- *Of which to enterprises in which members of the Group's management have shareholdings*	-	*3,797*

[1] Of this, HUF 179,073 thousand interest income from related parties presented as sales revenue.

43.3. *Loans to and from related parties*

PannErgy Plc. provided the following loans to related parties in 2021 and 2020. No loans were disbursed for management.

	2021 HUF Th	**2020 HUF Th**
Opening balance of loans granted	6,278,000	7,278,248
New volume of loans to related parties	398,438	243,500
Repayment of loans from related parties	881,295	1,155,748
Remission of loan to related parties	-	88,000
Closing balance of loans granted	5,795,143	6,278,000

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

43.4. *Management's compensation*

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

	2021 HUF Th	2020 HUF Th
Short-term employee benefits	12,958	12,820
Total	**12,958**	**12,820**

No long term benefits or share-based allocations were provided for the members of the BoD, other than the above remunerations, during the reporting period or the base period.
By its BoD Resolution No. 2021.04.16./5. the Company set the remuneration of the Chairman of the Board of Directors at 195,000 HUF/month, while that of the other members of the BoD at 155,000 HUF/month, from 17 April 2021, i.e. the directors' remunerations remained unchanged. The Board of Directors acted in the capacity of the General Meeting in accordance with Section 9 (2) of Government Decree 102/2020 (IV. 10.) on derogating provisions governing the operation of partnerships and joint-stock companies during the state of danger.

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

44. Events after the end of the financial statement's date

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

Date	Type of news	Subject, brief content
6 March 2022	Extraordinary information	Treasury share transactions
3 March 2022	Extraordinary information	Changes to the implementation of the share-buyback program
28 February 2022	Extraordinary information	Voting rights, share capital
25 February 2022	Extraordinary information	Treasury share transactions
23 February 2022	Other information	PannErgy wins prestigious ESG award
17 February 2022	Extraordinary information	Amendment to the 2022 EBITDA plan
31 January 2022	Extraordinary information	Voting rights, share capital
14 January 2022	Extraordinary information	Quarterly production report

45. DATE OF AUTHORIZATION OF DISCLOSURE

The Company's Management Board approved the financial statements and authorized their disclosure on 22 March 2022.

Dénes Gyimóthy
Representing the Board of Directors

PannErgy Plc.
Business Report
2021

Based on the EU IFRS annual report of PannErgy Plc.

Budapest, 22 March 2022

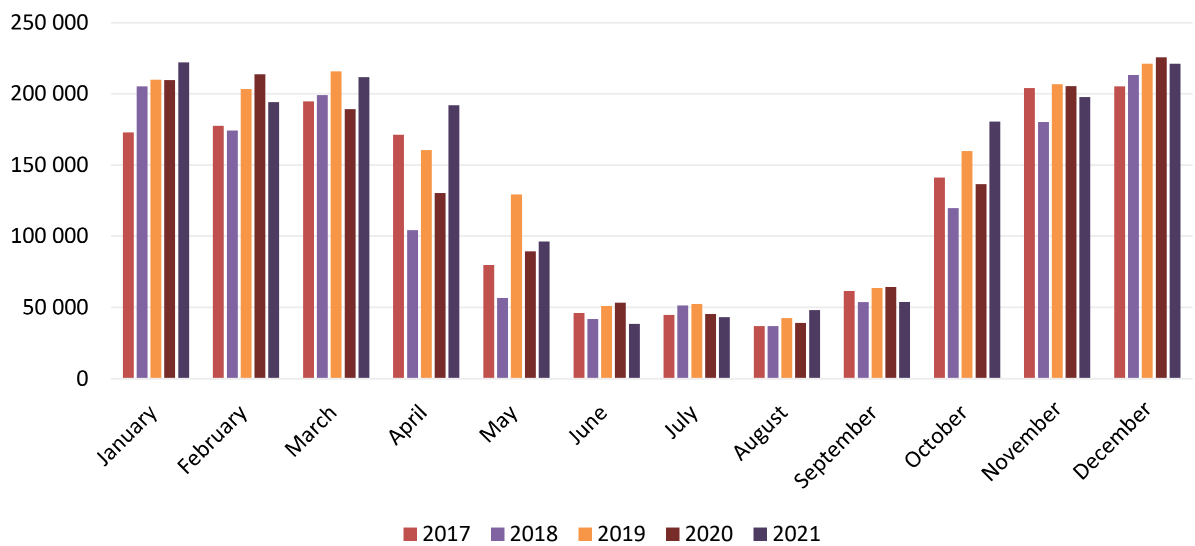
This announcement is published in Hungarian and English languages. In case of any contradiction between these two versions, the Hungarian version shall prevail.

1. Executive Summary (regarding the PannErgy Group)

Thermal energy generation during the reporting period, ensuring the fulfilment of the 2021 EBITDA plans and operational and investment activities enabling growth

The business year 2021 brought about a substantially changed economic and social environment for all market participants as a consequence of the pandemic which broke out earlier but still dominated the reporting period as well. The events – in price increases and volatility in the energy (primarily electricity and gas) market – which became sharper in the reporting period, posed major challenges for all economic operators, but especially companies in the energy sector. The Company managed to overcome the obstacles even in the prevailing more complicated circumstances, and accomplished its objectives laid down in its geothermal energy generation and utilisation strategy aimed at efficient utilisation of the capacities tailored to customer needs available at the various project sites in line with the prevailing weather conditions and at dynamically choosing the operating condition(s) most effectively contributing to the accomplishment of this aim. The implementation of the strategy not only supports the Company's business results, but also the significant reduction of emissions, including a sustainable and environmentally friendly energy supply.

The Company's green heat sales increased by 6% from 1,602 TJ in 2020 to 1,699 TJ in 2021. In spite of that the Company fell short of the 2021 target amount of 1,733 TJ by as little as 2%. The Company's HUF 6,439 million consolidated sales revenue was up 9% year-on-year, in which the sales revenue of the geothermal business line also increased by a similar rate. The Company's consolidated EBITDA amounted to HUF 2,878 million, 5% up year-on-year, essentially achieved to the high end of the planned EBITDA range (HUF 2,800 – HUF 2,880) for the financial year 2021. The steady strong EBITDA performance, in line with the plans, was enabled by operations and financial management geared for efficiency and effectiveness, and the positive impacts in 2021 of the capacity increasing and efficiency and operational safety improving projects started in earlier years and continued in the reporting period.



Consolidated volume of heat sold (GJ)

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

	2017	2018	2019	2020	2021	2021 TARGET	2022 TARGET
January	172,758	205,199	209,999	209,678	221,966		
February	177,533	174,300	203,484	213,855	194,173		
March	194,634	199,090	215,693	189,195	211,762		
Q1	**544,925**	**578,589**	**629,176**	**612,728**	**627,901**	**660,769**	**646,020**
April	171,294	104,033	160,548	130,407	192,053		
May	79,700	56,758	129,300	89,190	96,333		
June	45,936	41641	50,780	53,394	38,595		
Q2	**296,930**	**202,432**	**340,628**	**272,991**	**326,981**	**290,438**	**315,549**
July	44,865	51247	52,406	45,297	42,919		
August	36,709	36,794	42,415	39,205	48,023		
September	61502	53,650	63,731	64,096	53,870		
Q3	**143,076**	**141,691**	**158,552**	**148,598**	**144,812**	**160,683**	**163,654**
October	141270	119,652	159,888	136,460	180,427		
November	204,045	180,263	206,686	205,417	197,872		
December	205,251	213,267	221,248	225,688	221,198		
Q4	**550,566**	**513,182**	**587,822**	**567,565**	**599,497**	**620,679**	**626,790**
ANNUAL TOTAL	**1,535,497**	**1,435,894**	**1,716,178**	**1,601,882**	**1,699,190**	**1732,569**	**1,752,012**

Consolidated actual and target amounts of heat sales, in GJ

The Company's consolidated sales revenues and the direct costs of sales increased by 9% and 8%, respectively. Both the Company's consolidated gross margin and its consolidated gross cash-flow improved as a result of the above: the consolidated gross cash-flow grew by HUF 115 million or 4%.

The combined result of the administrative and overhead costs as well as other revenues and expenditures, was a HUF 297 million direct cost, as a consequence of which the Company's operating profit amounted to HUF 1,260 million, 17% more than in the preceding year.

The PannErgy Group's year 2021 consolidated EBITDA amounted to HUF 2,878 million. The HUF 143 million compared to the EBITDA performance of HUF 2,735 million in the previous year was achieved during the reporting period with the proportion of the EBITDA remaining nearly unchanged at 45%.

The Company booked HUF 319 million in the way of financial loss, improved by almost half a billion forints compared to the base period, mainly due to the more favorable euro / forint cross-rate exchange rate in the period under review. The financial result mainly covers the revaluation effect of interest paid on external financing and exchange rate movements on items in the financial statements.

The Company's consolidated net profit – profit after taxes – amounted to HUF 897 million in 2021, significantly exceeding the HUF 237 million consolidated profit booked in 2020.

Main profit/loss data (HUF million)	2021	2020
Revenue from sales	**6,439**	**5,923**
Direct costs of sales	-4,859	-4,479
Gross margin	**1,580**	**1,444**
Gross cash-flow	**3,174**	**3,059**
Gross cash flow rate	**49%**	**52%**
Indirect costs of sales	-512	-501
Other revenues and expenditures	215	132
Operating profit (EBIT)	**1,283**	**1,075**
EBITDA	**2,878**	**2,735**
EBITDA rate	**45%**	**46%**
Profit/loss on financial transactions	-319	-813
Profit before taxes	**964**	**262**
Consolidated net profit for the reporting period	**897**	**237**
Return on Equity (ROE) %	8.99	2.42
Return on Sales (ROS) %	13.93	3.99
Earnings per ordinary share (diluted EPS) (HUF)	54.71	14.01

The Company's EBITDA projections for 2022 and 2023

In respect of the 2022 business year, the Company's management confirms the updated and published consolidated EBITDA target as early as February 17, 2022 in the range of HUF 3,150 – 3,250 million under the IFRS.

The abovementioned EBITDA target range for 2022 represents an increase of approximately 12-13% compared to the target range of the base period, primarily reflecting the effect of completed or in-progress capacity expansion and efficiency improving projects, and, secondarily, changes in the energy market environment and conditions in the energy market.

In terms of the EBITDA forecast for 2023, in accordance with the amendment to 2022, the Company also confirms the update of the previously published preliminary consolidated EBITDA target in the range of HUF 3,150 – 3,250 million to the consolidated EBITDA plan of HUF 3,350 – 3,450 million, under the IFRS. One of the essential preconditions for achieving the revised EBITDA plan for 2023 is the deepening and commissioning of the third production well of the Miskolc Project this year. In the event of a failure to deepen the well, the plan level of HUF 3,300 - 3,400 million for the year 2023 is currently applicable.

Treasury share buyback programs

On 31 December 2021 the Company held a total of 4,658,644 PannErgy Plc. treasury shares, 468,674 more than the 4,189,970 treasury shares held on 31 December 2020. The change resulted from the purchase of treasury shares in the framework of the treasury share buyback program taking place during the reporting period.

A total of 188,313 and a total of 280,361 treasury shares were bought back in the first half and in the second half of 2021, respectively, under the above treasury share buyback programs. The portfolio of treasury shares did not decrease and there was no share option program in place during the period concerned.

The stock exchange closing price of PannErgy shares was HUF 1,040 per share at the end of the review period, to be compared to HUF 760 on 31 December 2020, up 37% year-on-year.

Financing agreement for the reporting period

On 27 September 2021 the companies belonging to the PannErgy Group concluded a HUF 2.85 billion investment credit facility agreement with the financing consortium formed by CIB Bank CPlc. and UniCredit Bank Hungary CPlc. Under the credit facility, financing will primarily be provided for priority development and expansion investment projects currently underway or planned to be implemented over the course of the next two years.

Under the credit facility, the Company and the financing parties can select the loan product best suited to the particular investment project – if currently available – from among the "NHP Hajrá" (FGS Go!) loan programme launched by the Magyar Nemzeti Bank, the loan programmes of Magyar Export-Import Bank CPlc. and various market loans. The maximum maturity of the loans to be drawn down as part of the credit facility is 2030. The loans are made available to borrowers by the financing entities after the appropriate own resources have been employed and other normal conditions are met.

The loans for the most part are denominated in HUF, and to a lesser extent in EUR. The average effective fixed annual interest rate on the loans is expected to be in the 2.00% to 2.50% range.

Transformations involving the member companies and transactions during the reporting period

The following portfolio rationalisation transformations, and transactions affecting the subscribed capital, took place in the PannErgy Group during the period concerned:

Well Research Ltd. merged into Miskolci Geotermia CPlc. as of 30 June 2021, whereby it was terminated, and Miskolci Geotermia CPlc. (currently Ltd.) became its general legal successor.

The subscribed capital of Berekfürdő Energia Ltd. was decreased during the reporting period, from HUF 24 million to HUF 3 million, as of 31 September 2021.

Based on a decision adopted by the owner PannErgy Geotermikus Erőművek CPlc. during the reporting period, the legal form of Miskolci Geotermia Ltd. and Szentlőrinci Geotermia Ltd. – both covered by the PannErgy Group's scope of consolidation – was changed as of 31 December 2021 from private limited company into limited liability company. Szentlőrinci Geotermia Ltd's restructuring was registered with the Court of Registration on 25 January 2022.

Pursuant to Act XVIII of 2005 on District Heating Services the Hungarian Energy and Public Utility Regulatory Authority granted its preliminary approval for the registration by the court of registration of the above changes affecting Miskolci Geotermia CPlc. and Szentlőrinci Geotermia CPlc. as licensees generating thermal energy for district heating.

General meeting closing the previous business year, dividend payment

On 16 April 2021 the Company informed the investors of the resolutions adopted by the Management Board on the same day in exercise of its power granted for the period of the state of emergency. These included the No. 2021.04.16./1. Board resolution whereby the Management Board – proceeding in the scope of power of the General Meeting, owing to the emergency situation – acknowledged and approved the Company's individual (parent company), non-consolidated balance sheet, profit & loss account for 2020 as prepared in conformance to the EU IFRSs, in line with the associated proposal and the auditor's report, with an identical total value of HUF 11,458 million for assets and liabilities, and profit after taxes in an amount of HUF 3 million (profit). The Company's consolidated report relating to PannErgy Plc.'s business operations in 2020, as prepared in conformance to the EU IFRS, with an identical total value of HUF 26,733 million for assets and liabilities (balance sheet total), and profit/loss (profit) in an amount of HUF 237 million has been accepted.

Acting under the authority of the General Meeting, the Management Board adopted the Management Board's proposal for the payment of a dividend of HUF 15 per ordinary share, but not more than a total of HUF 253 million, to shareholders entitled to dividend payment under Sections 56.3 and 58 of the Company's Articles of Association, from the reporting year's net profit and the positive retained earnings from previous periods' profitable operations. The total amount of net profit for the year under review will be utilised for the payment of dividends. Based on the proposal the first day of dividend payment was 14 July 2021, while the cut-off date for shareholder verification for the purpose of dividend payment was 30 June 2021.

The Company disclosed details on the payment of dividends in its public communication dated 23 June 2021 on the regime of dividend payment for business year 2020. Thereafter, on 29 June 2021 it disclosed the amount of the actual dividend. Accordingly, the Company pays a gross amount of HUF 15.15 to shareholders in the way of dividend for 2020, amounting to a total of HUF 252,768,236 thousand.

Dividends were paid with a starting date of 14 July 2021, and a dividend of HUF 252,714,324 was paid until 31 December 2021. HUF 53,912 as unpaid dividend liability is included in current liabilities at the end of the period.

2. PannErgy Plc. as an individual company's profit or loss in 2021, key indicators of business operations

Key profit/loss figures (HUF Th)	2021	2020
Revenue from sales	**96,020**	**94,209**
Direct costs of sales	-91,770	-81,386
Gross margin	**4,250**	**12,823**
Gross cash-flow	**16,222**	**19,215**
Indirect costs of sales	-167,643	-142,667
Other revenues	29,188	219
Other expenditures	-11,133	-97,487
Operating profit (EBIT)	**-145,338**	**-227,112**
EBITDA	**-113,348**	**-202,417**
Profit/loss on financial transactions	185,556	237,591
Profit before taxes	**40,218**	**10,479**
Net profit for the year (profit after tax)	***36,692***	***3,315***
Return on Equity, % (ROE)	*0.35*	*0.03*
Return on Sales, % (ROS)	13.34	1.06
Earnings per share (EPS) HUF	**2.12**	**0.19**

The diluted earnings per share amounted to HUF 2.12. Like in the previous period, there is no difference in determining the diluted earnings per share as there was no share option program running with shares not called at the end of the reporting period.

Detailed description of the business operations of PannErgy Plc. as an individual company in 2021:

PannErgy Plc. earned HUF 96,020 thousand in terms of consolidated sales revenue in 2021, 2% above the 94,209 thousand figure posted for 2020. The Company has amended the data for the base period as detailed in Chapter 42 of the Supplementary Notes. The change resulted in a reclassification of HUF 218,414 thousand between sales revenue and revenue from financial operations.

The bulk of this sales revenue resulted from the re-invoicing of power consumption and other "mediated service" types of costs, with the smaller part of the total sales revenue being made up of rental fees.

Rental revenues amounted during the reporting period to HUF 22,507 thousand, 1% less than the HUF 22,763 thousand posted for the previous year. These are revenues from rental contracts for real estate in Debrecen.

Other income increased by HUF 28,969 thousand compared to the previous year, related to the sale of a property (land) in Debrecen.

The holding control related expenditures of the Company increased by 18% relative to the previous year; in the reporting period; they amounted to HUF 167,643 thousand.

As a result, in the reporting period the Company realized HUF -145,338 thousand operating profit and HUF -113,348 thousand EBITDA.

Based on the accounting in accordance with the EU IFRS, the Company recognizes the interest income from the related party as financial income from the current period. In the period under review, the Company realized interest income of HUF 179,073 thousand in the course of its asset management and holding management activities, compared to HUF 218,414 thousand in the previous year.

As a result, the result of financial operations was HUF 185,556 thousand in the period under review.

Consequently, the Company had income tax expenditure of HUF 3,526 thousand and generated HUF 36,692 thousand net profit in the reporting year.

Key data on the asset position (HUF Th)	2021	2020
Fixed assets	**4,749,179**	**4,791,601**
Total current assets	6,233,694	6,666,780
Of which Liquid assets	297,702	60,145
Total assets	**10,982,873**	**11,458,381**
Total shareholders' equity	**10,633,274**	**11,243,950**

The decrease in the non-current assets during the reporting period was caused partly by the depreciation or sale of tangible assets and intangible assets.

The Company stated HUF 8,131 thousand as deferred tax receivable among its assets, a decrease on a year-on-year basis, as a result of PannErgy Plc.'s deferred tax recovery calculations. A 6% drop in the portfolio of current assets resulted primarily from repayments of loans provided for affiliated undertakings and from redeemed securities.

The Company's equity decreased by 5% year-on-year, primarily as a result of the equity decreasing effect of the treasury shares repurchased during the reporting period.

In the reporting period external finance granted by a financing financial institution relating to treasury share buyback programmes was disclosed as short-term loans, at HUF 230,000 thousand as compared to the HUF 100,000 thousand in the previous year.

Key indicators	2021	2020
Profitability indicators		
Return on assets, % (ROA)	0.33	0.03
Return on Equity, % (ROE)	0.35	0.03
Return on Sales, % (ROS)	38.21	1.06
Asset position indicators		
Ratio of fixed assets, %	43.24	41.82
Ratio of equity capital, %	96.82	98.13
Indebtedness rate, %	3.29	1.91
Financial indicators		
Liquidity ratio	1,832.90	3,168.55
Acid test ratio	1,832.90	3,168.55
Earnings per share (EPS) HUF	**2.12**	**0.19**

3. Introduction to the Company

3.1. *Core activity of PannErgy Plc.*

PannErgy Plc. ("Company" or "PannErgy") is an entity listed at the Budapest Stock Exchange, included in the BUX basket, and is a premium share issuer and controller of the PannErgy Group; the core activities of the Group involve the extraction, utilization for energy generation and selling of one of Europe's most significant thermal water resources, in particular, renewable geothermal energy. In connection with its geothermal energy generating operations the Company performs productive operations in Miskolc, Győr, Szentlőrinc and Berekfürdő. On 31 December 2021 PannErgy Plc. has no employees; it senior officers do not work under an employment relationship. PannErgy Plc. has its registered office in Hungary at H–1117 Budapest, Budafoki út 56.

3.2. *Real property utilization*

At the end of the reporting period, 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 PannErgy Plc. shows its industrial properties in Debrecen, which are not directly or indirectly related to the Group’s core operation, that is, geothermal heat generation and sale, in its investment property portfolio, which it intends to utilise through lease arrangements. Such properties appeared in the Company’s consolidated statement of financial position in an amount of HUF 113,148 thousand.
The decrease in the reporting period was due to depreciation and the sale of one land property.

4. Achievement of PannErgy Plc.'s main targets set for 2021, and the associated risks

The main objective of the Company as the parent of the PannErgy Group for 2021 is to increase heat generation relating to its holding control as its core operation and, in this context, the improvement of the predefined group-level margin, cash flow and EBITDA. The PannErgy Group managed to accomplish its objective laid down in its geothermal energy generation and utilisation strategy – aimed at efficient utilisation of the capacities available at the various project sites in line with the prevailing weather conditions and at dynamically choosing the operating condition(s) best supporting this aim – even in business year 2021.

The Company's green heat sales increased by 6% from 1,602 TJ in 2020 to 1,699 TJ in 2021. The Company fell short of the 2021 target amount of 1,733 TJ by as little as 2%. The Company's HUF 6,439 million consolidated sales revenue was up 9% year-on-year, in which the sales revenue of the geothermal business line also increased by a similar rate. The Company's consolidated EBITDA amounted to HUF 2,878 million, 5% up year-on-year, close to the high end of the planned EBITDA range (HUF 2,800 – HUF 2,880) for the financial year 2021. The steady strong EBITDA performance, in line with the plans, was enabled by operations and financial management geared for efficiency and effectiveness, and the positive impacts in 2021 of the capacity increasing and efficiency improving projects started in earlier years and continued in the reporting period.

The key 2021 objective of PannErgy Plc. as a separate company is profitable financial management on the group level, in addition to the objectives described above. The conditions for this were present at the Company, just as in the previous year; the net profit in the reporting year was HUF 36,692 thousand, which is significantly higher than the result of HUF 3,315 thousand in the base period.

5. The Company's strategy, environmental goals

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

5.1. *ESG Management, ESG 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 will release its first ESG report by 31 March 2022 – ahead of the deadlines prescribed in the applicable legal regulations – showing, in addition to the data presented in these consolidated financial statements, 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 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.

In recognition of the Company's efforts in the field of renewable energy and sustainability, PannErgy Plc. was awarded the "Award for Responsibility, Sustainability and Corporate Governance" at the BSE Legek 2021 awards ceremony, in addition to two other issuers.

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

The ESG report referred to in section 5.1 also includes, among other things, the PannErgy Group's greenhouse gas emission savings balance.

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 green house gas emissions of the energy used in the production and sale of the geothermal energy produced and theoretical green house 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 in the reporting year was 81%, meaning that, in environmental terms, it saved approximately 4/5 units compared to fossil fuel emissions.

Based on these greenhouse gas emissions related to energy production, the Company emitted only 19.4%, that is, less than one-fifth, 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 2021, the Company will have offset (saved) approximately 79 thousand tonnes of CO_2-equivalent GHG emissions. The CO_2 impact associated with the electric power demand of geothermal power generation has been fully offset by the Company through the purchase of a Guarantee of Origin (Scope 2) representing 23,000 MWh of electric power generation (Chapter 5.7.2). Therefore, the GHG emissions from the electricity consumption associated with power generation were considered as carbon-neutral in the present calculation. Similarly, 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.

The Company is proud that, since the implementation of its geothermal strategy, it has been able to replace the emission of more than 500 thousand tons of carbon dioxide with green heat production.

6. Subsidiaries of PannErgy Plc.

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

PannErgy 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
TT Geotermia CPlc.	6.00	100.00	100.00	100.00
Szentlőrinci Geotermia CPlc.	5.00	100.00	100.00	100.00
Miskolci Geotermia CPlc.	5.00	100.00	100.00	100.00
DD Energy Ltd.	3.10	100.00	100.00	100.00
Kuala Ltd.	3.00	100.00	100.00	100.00
Berekfürdő Energia Ltd.	3.00	100.00	100.00	100.00

6.2. *Key data of PannErgy's consolidated subsidiaries based on individual, non-consolidated financial statements (in HUF thousand)*

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

7. The Company's ownership structure, Senior officers

7.1. *The Company's ownership structure as of 31 December 2021*

Shareholders	Total share capital = Introduced series					
	01.01.2021			31.12.2021		
	%	%	shares	%	%	shares
Domestic institutions	34.70	43.32	7,306,202	29.19	37.49	6,146,577
Foreign institutions	8.11	10.13	1,708,161	8.05	10.34	1,695,255
Domestic private individuals	27.00	33.70	5,684,997	30.38	39.01	6,395,910
Foreign private individuals	0.41	0.51	85,580	0.32	0.41	66,672
Employees, senior officers	1.93	2.41	407,000	1.94	2.49	409,505
Own holding	19.89	0.00	4,186,970	22.13	0.00	4,658,644
Owner belonging to the general government system	7.96	9.93	1,675,745	7.96	10.22	1,675,745
International Development Institutions	-	-	-	-	-	-
Other	-	-	-	0.03	0.04	6,347
Total	**100.00**	**100.00**	**21,054,655**	**100.00**	**100.00**	**21,054,655**

7.2. *Shareholders with over 5% shareholdings in the Company as of 31 December 2021*

Name	Investor category		Number of shares	Shareholding (%)	Voting rights (%)
Benji Invest Ltd. FCI Kompozit Ltd.	Domestic	Company	3,174,010	15.08	19.36
MVM Energetika CPlc.	Domestic	Company	1,675,745	7.96	10.22
Soltút Ltd. / Kálmán Rencsár	Domestic	Company	1,151,240	5.47	7.02

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

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

	01.01.2021	30.06.2021	31.12.2021
Treasury shares	3,254,767	3,443,080	3,723,441

7.4. *Senior officers of the Company*

The Company's senior officers are the members of the Board of Directors. Data of the members of the Management Board, and their respective shareholdings as of 31 December 2021:

Name	Position	Date of entry into office	Mandated until	Number of shares held
Balázs Bokorovics	Member, Chairman	31/08/2007	indefinite term	-
Dénes Gyimóthy	Member, Vice-Chairman Acting Chief Executive Officer	31.08.2007 (05.05.2015)	indefinite term	-
Katalin Gyimóthy	Member	28/04/2016	indefinite term	-
Lilla Martonfalvay	Member	28/04/2016	indefinite term	100,000
Attila Juhász	Member	31/08/2007	indefinite term	-
Kálmán Rencsár	Member	30/04/2020	indefinite term	307,000
Gábor Briglovics	Member	16.04.2021	indefinite term	
Total number of shares held				**407,000**

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

8. HEADCOUNT INFORMATION

In 2021 the Company had no employees, similarly to the prior year; in both periods the report of the Company disclosed, as personnel-type expenditure, the remuneration paid to members of the Board of Directors and the amount of related taxes and contributions.

9. DIVIDEND PAYMENT, TREASURY SHARE PURCHASE

On 16 April 2021 the Company informed the investors of the resolutions adopted by the Management Board on the same day in exercise of its power granted for the period of the state of emergency. These included the No. 2021.04.16./1. Board resolution whereby the Management Board – proceeding in the scope of power of the General Meeting, owing to the emergency situation – acknowledged and approved the Company's individual (parent company), non-consolidated balance sheet, profit & loss account for 2020 as prepared in conformance to the EU IFRSs, in line with the associated proposal and the auditor's report, with an identical total value of HUF 11,458 million for assets and liabilities, and profit after taxes in an amount of HUF 3 million (profit). The Company's consolidated report relating to PannErgy Plc.'s business operations in 2020, as prepared in conformance to the EU IFRS, with an identical total value of HUF 26.733 million for assets and liabilities (balance sheet total), and profit/loss (profit) in an amount of HUF 237 million has been accepted.

Acting under the authority of the General Meeting, the Management Board adopted the Management Board's proposal for the payment of a dividend of HUF 15 per ordinary share, but not more than a total of HUF 253 million, to shareholders entitled to dividend payment under Sections 56.3 and 58 of the Company's Articles of Association, from the reporting year's net profit and the positive retained earnings from previous periods' profitable operations. The total amount of net profit for the year under review will be utilised for the payment of dividends. Based on the proposal the first day of dividend payment was 14 July 2021, while the cut-off date for shareholder verification for the purpose of dividend payment was 30 June 2021.

The Company disclosed details on the payment of dividends in its public communication dated 23 June 2021 on the regime of dividend payment for business year 2020. Thereafter, on 29 June 2021 it disclosed the amount of the actual dividend. Accordingly, the Company pays a gross amount of HUF 15.15 to shareholders in the way of dividend for 2020, amounting to a total of HUF 252,768,236 thousand.

Dividends were paid with a starting date of 14 July 2021, and a dividend of HUF 252,714,324 was paid until 31 December 2021. HUF 53,912 as unpaid dividend liability is included in current liabilities at the end of the period.

Treasury share buyback programs

On 31 December 2021 the Company held a total of 3,723,441 PannErgy Plc. treasury shares, 468,674 more than the stock of treasury shares held on 31 December 2020. The change resulted from the purchase of treasury shares in the framework of the treasury share buyback program taking place during the reporting period; the treasury share portfolio decrease occurred during the reporting period.

A total of 188,313 and a total of 280,361 treasury shares were bought back in the first half and in the second half of 2021, respectively, under the above treasury share buyback programs. The portfolio of treasury shares did not decrease and there was no share option program in place during the period concerned.

The stock exchange closing price of PannErgy shares was HUF 1,040 per share at the end of the review period, to be compared to HUF 760 on 31 December 2020, up 37% year-on-year.

Details of the treasury share buyback program concluded during the reporting period:

By its resolution No. 2020.04.30./5. of 30 April 2020 the Board of Directors—acting in the capacity of the General Meeting in accordance with Section 9(2) of Government Decree 102/2020 (April 10) on derogating provisions governing the operation of partnerships and joint-stock companies during the state of danger—authorized the Board of Directors to purchase own shares up to an amount of HUF 1,000,000,000 (that is one billion Hungarian forints) at a share price amounting to at least HUF 1 and up to HUF 750 as the maximum. Under the program so adopted the Management Board was authorised to purchase as many shares as will make sure that the portfolio of treasury shares does not, at any time during the period covered by the authorisation, exceed 25% of the total portfolio of shares the Company has issued. The authorization was valid during the period starting on 1 May 2020 and ending on 29 April 2021, providing that treasury shares may only be purchased on the exchange. By its resolution 3./2020 (VIII.7.) the General Meeting held on 7 August 2020 approved – Pursuant to Sections 113 (4)-(6) of Act LVIII of 2020 on the Transitional Rules and Epidemiological Preparedness related to the Cessation of the State of Danger – resolution 2020.04.30./5. adopted by the Management Board in its scope of competence as general meeting concerning the purchase of treasury shares based on Management Board's authorisation.

The Company had purchased 9,813 shares by 29 April 2021 in the framework of this treasury share buyback programme; together with the 585,537 shares purchased in 2020 a total of 595,350 treasury shares were purchased under the program closed on 27 April 2020.

Details of the treasury share buyback program commenced during the reporting period:

Acting in the capacity of the General Meeting in accordance with Section 9(2) of Government Decree 502/2020 (XI.16.) on the repeated implementation of derogating provisions governing the operation of partnerships and joint-stock companies during the state of emergency, the Management Board authorized the Management Board by its decision of 16 April 2021 to purchase treasury shares up to an amount of HUF 600 million at a share rate corresponding to at least HUF 1 and up to HUF 950 as the maximum. To the extent permitted by law and considering the provisions laid down in Section 3:222(1) of the Hungarian Civil Code, the Management Board is authorized to purchase ordinary shares of a HUF 20 nominal value up to a quantity with which the portfolio of own shares does not exceed, at any time during the term of the authorization, 25% of the total portfolio of shares issued. The treasury share buyback program covers the period starting on 17 April 2021 and ending on 14 April 2022. The shares may be purchased solely in trading at the stock exchange.

In the first half of 2021 – between 17 April and 30 June 2021 – a total of 178,500, and in the second half of the same year a total of 280,361 treasury shares were purchased under the treasury share buyback programme, at an average price of HUF 842 per share.

10. Main risks faced by the Company, associated uncertainties

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

11. Publicity

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

12. Key events after the financial statement's date

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

13. Date of authorization of disclosure

The Company's Management Board approved the financial statements and authorized their disclosure on 22 March 2022.

Dénes Gyimóthy
Representing the Board of Directors

PannErgy Plc.
Declaration of the issuer
2021

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

Budapest, 22 March 2022

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

DECLARATION

I, Dénes Gyimóthy, acting CEO, representative of the Board of Directors, issue the following declaration in relation to the 2021 EU IFRS annual report and business reports of PannErgy Plc., pursuant to the statutory requirement laid down in Section 2.4 of Appendix 1 to Decree 24/2008 (VII.15,) of the Minister of Finance:

- the 2021 individual annual report of PannErgy Plc., prepared in accordance with the applicable accounting regulations and the EU IFRS rules to the best of our knowledge, provides a true and reliable picture of the assets, liabilities, financial position, profit and loss of PannErgy Plc. as a public securities issuer, and;

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

Dénes Gyimóthy
Representing the Board of Directors