PannErgy Nyrt.
2014
Consolidated Financial Statements and Independent Auditor's Report

27 March 2015

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INCOME STATEMENT

	Note	2014	2013
		THUF	THUF
Sales revenues	5	2,289,891	1,279,784
Cost of sales		-1,739,304	-1,105,479
Gross profit		**550,587**	**174,305**
Administrative and general costs		-758,263	-934,514
Other income	7	444,616	356,757
Other expenses	6	-390,053	-155,956
Operating profit		**-153,113**	**-59,408**
Result of financial transactions	8	-280,832	-245,886
Profit/loss before taxation		**-433,945**	**-805,294**
Income tax	25	-42,360	-34,382
After-tax profit from continued operations		**-476,305**	**-839,676**
Net profit/loss for the year		**-488,300**	**-825,848**
From the after-tax profit/loss for the year:			
To the capital holders of the parent company		**-488,300**	**-825,848**
To the minority (external) holders	20	**11,995**	**-13,828**
Other comprehensive income		-	-
Total comprehensive income for the period		**-488,300**	**-825,848**
Earnings per share (HUF)			
Basic	26	-26.72	-45.25
Diluted	26	-26.72	-45.25

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BALANCE SHEET	Note	2014 31 December 2014	2013 31 December 2013
		THUF	THUF
Intangible assets	10	1,375,023	1,369,327
Goodwill	10	-	69,669
Property, plant and equipment	11	15,375,067	12,665,961
Investments	11	22,935	22,935

Receivables related to finance leases	9	0	0
Deferred tax assets	25	576,521	576,521
Long-term receivables	12	1,500	2,000
Total non-current assets		**17,351,046**	**14,706,413**
Inventories	13	992,683	299,800
Trade debtors	14	307,445	726,432
Other receivables	15	761,474	341,528
Receivables related to finance leases	9	0	0
Financial assets at fair value through profit or loss	16	0	0
Securities held to maturity	16	12	281,517
Cash	16	357,228	383,507
Total current assets		**2,418,842**	**2,032,784**
TOTAL ASSETS		**19,769,888**	**16,739,197**
Subscribed capital	17	421,093	421,093
Reserves	19	12,095,317	12,921,165
After-tax profit/loss for the current year		-488,300	-825,848
Reserve for repurchased treasury shares	18	-3,009,223	-3,009,223
Minority interest	20	292,352	269,608
Total shareholders' equity		**9,311,239**	**9,776,795**
Long-term loans	21	3,886,667	2,598,422
Other long-term, deferred income	21	3,189,296	2,303,049
Provisions	23	15,207	16,895
Total long-term liabilities		**7,091,170**	**4,918,366**
Trade creditors		1,363,468	793,983
Short-term loans	22	172,865	172,864
Short-term portion of long-term loans	21, 22	379,535	162,787
Other long-term, deferred income	21, 22	159,428	196,297
Other current liabilities	24	1,292,183	718,105
Total current liabilities		**3,367,479**	**2,044,036**
TOTAL EQUITY AND LIABILITIES		**19,769,888**	**16,739,197**

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STATEMENT OF THE CHANGES TO EQUITY

Description	Subscribed capital	Reserves	Repurchased treasury shares	Share of external members	Equity
	THUF	THUF	THUF	THUF	THUF
Balance as of 31 December 2012	421,093	12,967,255	-3,275,743	283,436	10,396,041

Profit or loss for 2013	-	-825,848	-	-13,828	-839,676
Changes to the share of external members	-	-	-	-	-
Exchange rate difference from consolidation	-	6	-	-	6
Repurchased treasury shares	-	-	-	-	-
Treasury shares sold	-	-46,096	266,520	-	220,424
Premium of shares purchased by minority	-	-	-	-	-
Balance as of 31 December 2013	421,093	12,095,317	-3,009,223	269,608	9,776,795
Profit or loss for 2014	-	-488,300	-	11,995	-476,305
Changes to the share of external members	-	-	-	10,749	10,749
Exchange rate difference from consolidation	-	-	-	-	-
Repurchased treasury shares	-	-	-	-	-
Treasury shares sold	-	-	-	-	-
Premium of shares purchased by minority		-			-
Balance as of 31 December 2014	421,093	11,607,017	-3,009,223	292,352	9,311,239

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CASH FLOW STATEMENT

	Note	2014	2013
Cash flows from operating activities		**THUF**	**THUF**
Profit or loss after tax		**-488,300**	**-825,848**
Adjustments in respect of the pre-tax profit or			

loss and the cash flows from business activities		
Depreciation of property, plant and equipment and intangible assets	634,747	446,624
Impact of deferred taxes	-	-
Fair value difference	-	510,162
Exchange rate loss/profit of loans	125,813	-1
Extraordinary depreciation of property, plant and equipment and goodwill	75,436	7,806
Impairment and deficit in inventories	168	61,166
Release/allocation of provisions	-1,688	3,150
Increase in provisions for doubtful receivables	-	-12,969
Interests payable/received	156,179	117,960
Profit/loss from the sales of property, plant and equipment	-258,999	-2,551
Profit/loss from the sales of investments	-	-
Changes to minority shareholdings	22,744	-13,828
Changes to working capital elements		
Increase/decrease in inventories	-693,051	909,566
Decrease/increase in receivables	-959	95,474
Increase/decrease in liabilities	1,143,563	-638,176
Interest rate received	584	11,189
Interest rate paid	-156,763	-129,149
Net cash from/used for operating activities	**559,474**	**540,575**
Cash flows from investing activities		
Purchase of investments in non-public companies	-	-
Increase/decrease in existing investments	-	1,000
Sales of investments	-	-
Purchase of property, plant and equipment and intangible assets	-3,420,701	-3,045,058
Sales of property, plant and equipment and intangible assets	324,384	46,793
Other long-term and current deferred income	849,378	1,153,191
Decrease in long-term receivables	500	0
Cash from investment activities	**-2,246,439**	**-1,844,074**
Financing activities		
Decrease/increase in long-term loans	1,183,405	2,003,280
Decrease/increase in short-term loans	195,776	-618,960
Exchange rate difference from consolidation	-	6
Purchase/sales of treasury shares	-	220,424
Capital increase in minority shareholdings, premium	-	-

Decrease/increase in the securities portfolio		281,505	-245,048
Cash used for financing activities		**1,660,686**	**1,359,702**
Net decrease/increase in cash and cash equivalents		**-26,279**	**56,203**
Cash and cash equivalents as of 1 January		**383,507**	**327,304**
Cash and cash equivalents as of 31 December		**357,228**	**383,507**

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NOTES TO THE FINANCIAL STATEMENTS

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1. Operations

PannErgy Nyrt. is a public company that is listed on the Budapest Stock Exchange and publishes, inter alia, regular and extraordinary announcements on its website (www.pannergy.com). This public information may significantly facilitate the understanding and assessment of the Company's operations and economic situation, thus they supplement the information disclosed in these financial statements with material data.

PannErgy Nyrt. (hereinafter: the „Company" or „PannErgy") is a Hungarian company operating as a holding of a Group (hereinafter: the "Group") whose main activity is the usage of renewable, geothermal energy resources as well as asset management. As of 31 December 2014, the members of the Group perform productive activities, inter alia, in Budapest, Szentlőrinc, Miskolc and Berekfürdő.

The subsidiaries are listed in Note 33.

Key events in Pannergy Plc.'s operation in 2014, short description of future strategy

As the legal successor of Pannonplast Nyrt., PannErgy can boast of nearly a hundred years of experience, while it is seeking to implement its strategy concerning the utilization of renewable energy resources.

On 31 May 1991, the Company was transformed into a company limited by shares, according to Act XII of 1989 on the transformation of business organisations. In 2007, PannErgy set it as a goal to generate a significant amount of thermal and electric energy by utilising the well-known Hungarian geothermal resources, thus creating value for the population and institutions of Hungary as well as the shareholders of PannErgy. The increase in the demand for energy seems to be unstoppable, however, domestic and global resources are either limited or hard to reach. Geothermal energy production has not only been utilised to a minimum extent so far but also it is one of the most environment friendly and cleanest method for the generation of energy.

The year of 2010 was a milestone in the geothermal developments of PannErgy since heat production and energy sales started in Szentlőrinc on 1 January 2011. Our second operating facility is in Berekfürdő which, in addition to heat, also generates electricity by utilising methane gas dissolved in geothermal water. The latter facility was added to the Company's portfolio by acquisition.

The largest geothermal power station of Central Europe started its operations in Miskolc in May 2013, it has been in continuous operation since the month of July. In connection with this, the Group implemented the second phase of the Miskolc Geothermal Project in 2014. They started to provide thermal energy for the downtown and university campus heat districts in Miskolc, in addition to the Avas district, from September 2014. They also began to provide geothermal heat for the Miskolc plant of Takata Safety Systems Hungary Kft.

The second phase of the Miskolc Geothermal Project was financed by KUALA Kft., a subsidiary of the Company, as the project investor from the non-refundable subsidy of HUF one billion granted in September 2013 through the "Geothermal expertise in the service of the economy" tender submitted for the tender invitation titled "Satisfying local heating and/or cooling demand with renewable energies" announced within the New Széchenyi Plan Environment and Energy Operational Program. The rest of the funds was provided through the loan contract concluded with Sberbank Hungary Zrt. (a financing limit of HUF 1.5 billion provided for projects).

After drilling the first well in Gödöllő, PannErgy chose to revaluate the geological conditions which lead to changes in the structure of the Gödöllő project. The schedule of the project's continuation will be defined based on the availability of PannErgy Group's resources and the phases of the rest of the projects. The Company continually searches for tender opportunities in order to obtain further financing for the project.

The drilling of the first well started in the framework of the Geothermal Project in Győr, in June 2014. DD Energy Termelő és Szolgáltató Kft., a subsidiary of the Company, started to drill well No. PER-PE-01. In the course of the project launched in the environs of Pér village, it turned out that the well provides outstanding water flows and high temperatures, exceeding the Company's former expectations in all aspects. The thermal water from the reached layer is capable of a free flow of 100-110 litre/second, with a temperature of 100.5 Celsius at a depth of 2,300 meters (almost 97-98 Celsius when brought up to the surface).

In connection with the project, Arrabona Geotermia Kft., a subsidiary of the Company concluded a heat supply contract with GYŐR-SZOL Zrt. in September 2014 for 15 years. According to the contract, the Company as a heat generator will supply thermal energy for GYŐR-SZOL Győri Közszolgáltató és Vagyongazdálkodó Zrt. from a geothermal source.

In connection with the Győr Geothermal Project, the two project implementing subsidiaries (DD Energy Termelő és Szolgáltató Kft. and Arrabona Geotermia Kft.) agreed with Magyar Export Import Bank Zrt-vel (Eximbank) on a project loan contract in November 2014, for an amount of nearly EUR 18 million. The long-term project financing limit is for the financing of the remaining phases of the geothermal projects implemented in the environs of Győr.

The Company's future strategy:

PannErgy is committed to utilise one of the most significant thermal water activity of Europe for energy generation purposes. Geothermal heat can serve retail and industrial users on the long run, energy-type expenses may be decreased significantly with PannErgy's environment-friendly projects.

The Company considers it as its mission to acquire a dominant role in the Carpathian basin in the utilisation of geothermal energy, to invest in the future and create values for future generations.

PannErgy plans to perform 2-3 geothermal drillings each year in order to realise its strategic goals. Through the implementation of the projects, the Company plans to sell approx. 2,400-3,300 TJ (Tera Joule) green heat annually, partly for retail and partly for industrial usage. For retail usage, PannErgy developed a legally and economically stable business and financing model for the utilisation of the generated energy in the local district heating systems. The Company typically builds partnerships with the cooperating local governments and creates joint project companies with them, which enables the contracting parties to implement the project and subsequently operate it with mutual advantages.

Industrial usage requires special expertise and project management experience that we believe is only available at the highest level at PannErgy in Hungary in terms of geothermal energy usage. The Company utilises the drilling base it owns and the experience gained during the building and planning of system pipes indispensable for the implementation of geothermal energy projects by creating partnerships with the agricultural and machine industry companies.

The future is about the environment-friendly geothermal energy used responsibly. In Hungary, it is offered by PannErgy Nyrt.

In the medium term, the basic goal of the strategy is to create a capacity that is suitable for the generation of minimum 120-160 GWh electricity and 2.4-3.3 PJ heat annually, with nearly 10 facilities.

2. Introduction of new reporting standards

2.1 Impact of the new IFRS Standards and the rules of the IAS Standards, the new modifications of which are in effect from 1 January 2013, on the accounting policy:

- Commission Regulation (EU) No 183/2013 (4 March 2013)
- Amendments of the International Financial Reporting Standards:
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (entered into force for reporting periods starting on 1 January 2013 or later)
- Commission Regulation (EU) No 313/2013 (04.04.2013)
- Amendments to IFRS 10 Consolidated financial statements (enters into force for reporting periods starting on 1 January 2014)
- IFRS 11 Joint arrangements (enters into force for reporting periods starting on 1 January 2014)
- Amendments to IFRS 12 Disclosure of interests in other entities (enters into force for reporting periods starting on 1 January 2014)
- Commission Regulation (EU) No 1174/2013 (20.11.2013)
- Amendments to IFRS 10 Consolidated financial statements (enters into force for reporting periods starting on 1 January 2014)
- Amendments to IFRS 12 Disclosure of interests in other entities (enters into force for reporting periods starting on 1 January 2014)
- Amendments to IFRS 27 Separate financial statements (enters into force for reporting periods starting on 1 January 2014)
- Commission Regulation (EU) No 1374/2013 (19 December 2013)
- Amendments to IFRS 36 Impairment of assets (enters into force for reporting periods starting on 1 January 2014)
- Commission Regulation (EU) No 1375/2013 (19 December 2013)
- Amendments to IFRS 39 Financial instruments: Recognition and measurement (enters into force for reporting periods starting on 1 January 2014)

The application of these modifications and the new interpretations did not have a significant impact on the consolidated financial statements of the Company.

2. 2 Impact of the new IFRS Standards and the rules of the IAS Standards, the new modifications of which are in effect from 1 January 2014, on the accounting policy

- Commission Regulation (EU) No 634/2014 (13 June 2014) Amendments of the International Accounting Standards:
- IFRIC 21 Levies (for reporting periods starting on 17 June 2014 or later)
- Commission Regulation (EU) No 2015/29 (17 December 2014)
- Amendments to the International Accounting Standards:

- Amendments to IAS 19 Employee benefits (from 1 February 2015 or the start date of the first financial year after this date)
- Commission Regulation (EU) No 2015/28 (17 December 2014)
- Amendments to IFRS 2 Share-based payment (for reporting periods starting on 1 February 2015)
- Amendments to IFRS 3 Business combinations (for reporting periods starting on 1 February 2015)
- Amendments to IFRS 8 Operating segments (for reporting periods starting on 1 February 2015)
- Amendments to IFRS 16 Property, plant and equipment (for reporting periods starting on 1 February 2015)
- Amendments to IAS 24 Related party disclosures (for reporting periods starting on 1 February 2015)
- Amendments to IAS 38 Intangible assets (for reporting periods starting on 1 February 2015)
- Commission Regulation (EU) No 1361/2014 (18.12.2014)
- Amendments to the IFRS and the IAS:
- Amendments to IFRS 3 Business combinations (for reporting periods starting on 1 July 2014)
- Amendments to IFRS 13 Fair value measurement (for reporting periods starting on 1 July 2014)
- Amendments to IAS 40 Investment property (for reporting periods starting on 1 July 2014)

The application of these modifications and the new interpretations did not have a significant impact on the consolidated financial statements of the Company.

3. Summary of the significant elements of the accounting policy

3.1 General description

In these consolidated financial statements, the Group applied accounting principles that are in line with the International Financial Reporting Standards as accepted by the European Union. The IFRS accepted by the European Union does not deviate from the IFRS published by the International Accounting Standards Board (IASB).

The consolidated financial statements were compiled on a cost basis except for certain property, plant and equipment and securities (see Notes 3.23 and 3.25). The items of the income statement were accounted for on the basis of the principle of accruals. The data of the consolidated statements are in HUF, rounded to thousands.

The Group's currency is the Hungarian forint; it does not perform economic activities in an environment where the usage of a functional currency would be justified. Accordingly, the impact of the changes in the conversion rates is not presented in the financial statements.

3.2 Principles of consolidation

The attached consolidated annual financial statements include the assets and liabilities as well as the income and expenses of all the subsidiaries with a majority holding (exceptions can be made on a materiality basis). Inter-company transactions and balances have been eliminated through the consolidation.

Minority (external) holdings in the net assets of the consolidated subsidiaries (except for goodwill) are separated within the Group's equity. Minority holdings include the value of these shares as of the date of acquisition (i.e. the date of the original business combination) and the value of the changes to the minority holdings after the acquisition. Losses in excess of the minority share in the subsidiary, which can be connected to the minority holding, are charged to the Group's share, except when the minority (external) shareholder has an obligation and an opportunity to make further investments to cover the losses.

3.3 Accounting for the purchase of investments

Upon acquisition, subsidiaries are accounted for with the fair value method. The goodwill generated upon the purchase of subsidiaries is included in the balance sheet and is evaluated individually each year. If no return can be expected on the goodwill from the future results, the whole amount is written off.

The share of minority (external) shareholders in the acquired company is recognised upon the date of acquisition, in proportion to the market value of the net assets, liabilities and contingent liabilities of the subsidiary.

3.4 Goodwill

Goodwill is generated if the amount of the assets and liabilities of the acquired subsidiary measured at market value is below the consideration for the acquired share. The goodwill is recognised under intangible assets in the consolidated balance sheet.

For the purposes of impairment testing, the value of the goodwill is divided among those cash-generating units of the Group which are expected to utilise the synergy that is derived from the combination. The cash-generating units to which the relevant value of the goodwill was allocated must be tested annually, or even more frequently, for the purposes of impairment, if something suggests that the value of the unit decreased. If the book value is higher than the recoverable value of the cash-generating unit, the amount of impairment will first of all decrease the book value of the goodwill allocated to the given unit, and the amount in excess of it will be accounted for in the value of the other assets, in proportion to the book value of the assets of the unit. The booked impairment cannot be reversed in the following years.

The profit or loss of the subsidiaries acquired or sold during the year is included in the consolidated income statement from the date of the acquisition or up to the date of the sales.

The value of the goodwill accounted for the sold subsidiaries will be included in the result of the sales.

The Group defines a cash-generating unit as follows: *the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets*.

3.5 Cash

According to the Group's accounting policy, cash includes the balances of bank deposits, fixed deposits as well as the cash amount as of the end of the year.

3.6 Sales revenues

The value of the revenues is the market value of the considerations received or due in the future. The value of the sales revenue is accounted for before any sales taxes and discounts.

3.7 Product and service sales

The Group will only account for the revenue due for the sales of the products and services if all of the following conditions are fulfilled:

- the material risks and benefits that are connected to the ownership of the products were transferred to the customer;
- the seller does not continue to have any rights of management or control that generally pertain to the ownership;
- the amount of the revenue can be measured reliably;
- the inflow of economic benefits as a result of the transaction is probable;
- costs that were or will be incurred in relation to the transaction can be measured reliably.

3.8 Interest and dividends

The Group accounts for the income derived from the use of its assets by others if:

- the inflow of economic benefits as a result of the transaction is probable;
- the amount of the revenue can be measured reliably.

Dividends are accounted for by the Group in the year when they were approved by the owners.

Interest income is recognised on a pro rata temporis basis, based on the effective interest rate method, reflecting the actual yield on the related asset.

3.9 Sales of shares

Asset management related to company shareholdings and other non-current assets has become a dominant part of the activities of the PannErgy Group. Therefore, the sales and de-recognised value of these assets are shown under the sales revenue or the direct costs of sales.

3.10 Lease transactions

Lease contracts are recognised as financial leases if the majority of the risks and benefits that pertain to the ownership of the leased asset are transferred to the lessee during the lease term.

3.11 The Group as a lessor

Amounts generated during the financial lease and due from the lessee are recognised as receivables to the extent of the Group's net investment in the lease. The result from the financial lease will be accounted for over the term of the lease and, accordingly, it shows the permanent return on the Group's net current investment in the lease.

The leasing fees received from an operating lease will be credited to the profit with the straight-line method, over the full term of the lease.

These financial statements do not include any leasing receivables, we only described the accounting methodology above.

3.12 The Group as a lessee

Assets acquired within the framework of a financial lease (which provide the same rights and obligations as if the assets were owned by the Company) are capitalised at fair value and depreciated over the useful economic life of the assets.

The principal portion of the leasing fee is recognised as a decrease in the leasing liability while the interest portion is charged to the profit or loss. Thus, the current liability is decreased over the term of the lease proportionally.

The leasing fees paid in an operating lease will be debited to the profit with the straight-line method, over the full term of the lease. If the operating lease is terminated before the end of the term, any amount paid to the lessor as a termination fee will be charged as an expense in the year of the termination.

3.13 Transactions concluded in foreign currencies

Foreign currency transactions are translated at the exchange rate valid on the date of the transaction. FX assets and liabilities are translated into HUF using the official exchange rate as of the balance sheet date. The exchange rate differences are charged to the pre-tax profit or loss.

3.14 Government subsidies

Government subsidies are booked at fair value if it can be proved appropriately that the Group receives the subsidy. Government subsidies related to the expense are accounted for the periods when the costs to be compensated by the subsidies were incurred. The Group recognises government subsidies related to an asset as deferred income and charges the subsidies to the profit or loss in equal portions over the useful economic life of the asset.

3.15 Share-based payments

No share-based payments were made during the reporting period.

If the Group provides share-based benefits to certain members of its management, the estimated quantity of these benefits has to be evaluated at the fair value calculated on the date of issuance, and the result should be recognised as a personnel-type expense on a pro rata temporis basis over the course of the business year.

3.16 Corporate tax

The corporate tax expense is the amount of the current corporate tax liability and the deferred tax liability. Accordingly, the extent of the corporate tax payable annually is based on the tax payment liability defined based on the laws of the given country which will be adjusted by the amount of the deferred tax liability.

Deferred tax is defined based on the balance sheet liability method. Deferred taxes are generated if there is a time 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 time differences are expected to be recovered. Deferred tax liabilities and assets reflect the tax implications of assets and liabilities as of the balance sheet date, as determined by the Group.

Deferred tax assets can only be included in the balance sheet if it is probable that during its future activities, the Group will generate a profit that will form part of the tax base, against which the deferred tax asset will be offset. As of the balance sheet date, the Group will take into consideration its non-recovered tax assets and liabilities and will take into account that portion of the formerly unrecognised asset which is expected to be recovered as a decrease in the tax of a future profit. Accordingly, the Group will decrease its deferred tax receivables by an amount for which a taxable profit expected to cover the recovery of the given amount will not be available.

Deferred taxes are recognised in the balance sheet in gross amounts. Within the framework of deferred taxation, deferred assets are accounted for as the tax implications of the losses carried forward from the previous years which can be offset against the positive tax bases of the following years. The Group accounts for the time differences that arise from the different measurement of assets and liabilities from accounting and tax perspectives, based on the tax rate as of the balance sheet date, according to their aggregate value as expected to be incurred or recovered in the future.

3.17 Property, plant and equipment

Based on IAS 16, the cost of property, plant and equipment contains the purchase price, the customs costs, the non-deductible VAT and all costs incurred directly in connection with putting the tangible asset into use as well as the expenses related to the taking out of a loan directly for the acquisition and production of the assets. The latter can be the interest rate accounted for and charged to the period until the installation of the asset, and the exchange rate difference of the FX liability related to the project and accounted for the period until the installation of the asset. Costs incurred after the installation of the tangible asset such as costs of maintenance or repair or overhaul are charged to the profit or loss in the period when they were incurred. If these costs result in the increase of the future economic benefit through the increase in the original performance of the tangible asset, they should be capitalised as a portion of the given tangible asset.

Depreciation was calculated based on the acquisition price or the revalued amount with the straight-line method, for the estimated remaining useful life of the assets, taking into account the residual value and excluding the land and the projects because no depreciation is charged on these.

The expected useful life is as follows:

Property	20-50 years
Production machinery	3-7 years
Geothermic equipment	8-75 years

Assumptions regarding useful life, residual values and depreciation methods are reviewed annually and modified accordingly, if required. In addition, if the book value of the property, plant and equipment is permanently higher than their market value, depreciation is recognised up to their market value.

Property, plant and equipment acquired within the framework of a financial lease are depreciated by the Group over the expected useful economic life, similar to its own property, plant and equipment.

The profit or loss generated or incurred upon the sales of the assets, which will be determined based on the book value and the sales price, are recognised under other expenses and income.

In the financial statements, the value of property, plant and equipment includes the value of projects also. These are the current costs of the geothermal energy projects that are in progress, the thermal and reinjection wells and the expenses of the preparation of projects at several project scenes.

Typically, during the implementation of the projects, after a preparatory, planning-authorisation phase, a pumping well (with a pump, a filter and a degasser), a reinjection well, a thermal water pipe system between the pumping well and the heat center, and a reinjection pipe system will be built.

Except for the core activity of drilling, the projects are implemented with suppliers from outside the PannErgy Group. The requirements of IAS 11 Construction contracts do not affect the Group since in the case of projects spanning over several reporting periods, the contractual schedules are harmonised with the incurring of the implementation costs and the invoicing schedule.

3.18 Intangible assets

Intangible assets are carried at cost less accumulated depreciation in the consolidated balance sheet (except for goodwill). Depreciation is charged using the straight-line method for the estimated useful life, in the following manner:

Know-how	5
Purchased software	3

Rights and concessions are depreciated over the term of the acquired right.

The cost of certain intangible assets is reviewed annually and is modified if it becomes necessary due to permanent impairment.

3.19 Research and development

During the review of the recognition of self-manufactured intangible assets, the Group divides the process of the asset generation into research and development phases. If within the framework of the project aimed at the self-reliant manufacturing of the intangible asset, the Group cannot distinguish between the research and the development phase, the expense incurred by the unit in relation to the project will be treated as if it had been incurred during the research phases exclusively.

Intangible assets derived from research (or the research phase of an internal project) cannot be recognised under IAS 38, thus expenses incurred in relation to the research will be expensed by the Group when they arise.

Intangible assets derived from development (or the development phase of an internal project) are recognised under non-current assets if they comply with the following criteria:

(a) the technical feasibility of the production of the intangible asset so that it would be suitable for use or sales;

(b) the intention of the unit to complete, use or sell the intangible asset;

(c) the capability of the unit to use or sell the intangible asset;

(d) the way in which the intangible asset will generate economic benefits. Amongst other things, the unit must prove the existence of the product derived from the intangible asset or the market of the intangible asset or, if it is used internally, the usefulness of the intangible asset.

(e) the availability of the proper technical, financial or other resources that are needed for the completion of the development or the use or sales of the intangible asset;

(f) the capability of the unit to measure the expense that can be attributed to the asset during the development of the intangible asset in a reliable way.

In its books, the Company carries geological and geophysical developments (selection of 20 target regions), surface MT and gravity surveys (specification of the precise point of drilling) and the expenses incurred in relation to the drilling permits and test drillings at the acquisition price until these are recharged (sold as know-how) to the companies to be formed for the generation of the given energy.

3.20 Impairment except for goodwill

Upon the preparation of each balance sheet, the Group reviews the value of property, plant and equipment and intangible assets in order to determine whether there is any reason based on the external and internal information which suggest that the given assets should be impaired. If there is an indication of impairment, the expected recoverable amount of the asset must be estimated in order to establish the necessary impairment, if any. If the expected recoverable value of the asset is lower than the book value, the book value of the asset must be decreased up to the expected recoverable amount. Impairment is recognised as an expense.

3.21 Inventories

Almost 70% of the inventories presented in the 2013 and 2014 IFRS financial statements is made up of goods, specifically, drill pipes used for the implementation of the geothermal projects. According to the accounting policy, we performed an evaluation with the average price at the end of the year. Due to the usability of the drill pipes that is based on a technical evaluation, no impairment is justified to be accounted for. Inventories not related to drill pipes typically represent the value of rechargeable services which are recognised at cost provided that loss-free recharging is verified (the lower out of cost and the realisable value).

3.22 Provisioning

Provisions can be allocated when the Company has a current legal or expected obligation as a result of past events and the outflow of resources embodied in economic benefits to settle the obligation is likely; and the amount of the obligation can be estimated reliably.

Provisions are recognised by the Group 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 balance sheet date taking into account all risks and uncertainties which may arise in connection with the obligation.

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

3.23 Financial instruments

Financial instruments are measured and recognised in the financial statements at fair value.

Cash, securities, trade and other receivables, trade and other payables, long-term receivables, loans and borrowings granted and received as well as investments qualify as financial instruments in the consolidated balance sheet.

Financial instruments (including compound financial instruments) will become an asset, a liability or an equity element based on the real content of the underlying contractual obligations. Interest, dividends, profits and losses related to the financial instruments listed under liabilities will be recognised in the income statement as they are generated or incurred. Benefits to the owners of the financial instruments shown in the equity are charged against the equity. In the case of compound financial instruments, first the liability component is evaluated and the equity component will be defined at the residual value.

Financial assets apart from assets recognised in the income statement and carried at market value are tested at each balance sheet date for the purposes of impairment. The amount of the impairment of financial assets carried at amortised cost is the difference of the book value and the present value of the expected future cash flows discounted by the original effective interest rate.

3.24 Securities held to maturity

Upon the preparation of the consolidated financial statements, securities investments, in the case of which the Group expressed its willingness and capability to hold them until maturity (Securities held to maturity), are measured at amortised book value less accounted depreciation.

The annual amortisation of the premium or discount generated upon the acquisition of the securities held to maturity will be added to the interest income of those investments. Thus, the profit or loss recognised in the individual periods will mean a permanent yield on these investments.

Investments held to maturity include securities which the Group is willing and capable of holding until maturity. Typically, such securities are the ones issued by the State of Hungary.

3.25 Financial assets at fair value through profit or loss

These assets are booked at fair value on the date of fulfilment (value date) and are also recognised in the financial statements at the same value. The unrealised profit or loss accounted for during the evaluation is recognised in the income statement directly. The fair value of financial assets through the profit or loss included the shares of Synergon Nyrt. in the base period.

The revaluation of these assets to fair value takes place based on the price listed on the securities markets.

3.26 Derivative financial instruments

The financial statements do not include any derivative financial instruments. The following description refers to the accounting methodology.

If during its normal course of business, the Group deals with derivative financial instruments, they are basically booked at fair value and later presented at fair value. The fair value is defined based on the listed market price.

Derivative financial instruments include the forward FX transactions.

3.27 Assets held for sale

The financial statements do not include assets held for sale.

The Group will qualify a non-current asset (or disposal group) as held for sale if its book value will primarily be recovered through a sales transaction and not during continuous use.

The Group measures non-current assets (or disposal groups) classified as held for sale at the lower of its book value or the fair value less costs of sales. If the sales transaction is expected to take place after one year, the cost of sales will be evaluated at the present value. Any increase in the present value of the cost of sales that occurs over time will be recognised in the profit or loss as a financing charge.

Information on the assets held for sale will be presented in the notes to the rows of the income statement and the balance sheet.

3.28 Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents include cash, bank accounts, overdraft facilities and bank deposits where the maturity is within three months of the balance sheet date.

3.29 Earnings per share

To determine the earnings per share, the Company used the ratio of the profit or loss for the period and the average number of shares for the period. Upon the determination of the diluted earnings per share all diluting factors must be taken into consideration.

3.30 Comparative data

Data for the base and the current years have been evaluated identically.

3.31 Repurchased treasury shares

Repurchased treasury shares can be bought by the Group on the stock exchange or the OTC market and are recognised in the consolidated annual financial statements as an item that decreases the equity.

The result of the sales of the repurchased treasury shares is charged against the consolidated reserves (equity) directly.

3.32 Reporting by segments

Based on IAS 14 Segment reporting, enterprises whose issued shares or debt securities are publicly traded or where the IPO is in progress must present segment information.

Business segments are separated at the Group as follows:

(a) nature of products or services;

(b) nature of production procedures;

(c) type or group of the purchaser of the products or services;

(d) methods applied for the marketing of products or the provision of services.

Sales revenues are presented by business segments in Note 35.

4. Material accounting assumptions and estimates during the application of the accounting policy

According to the requirements of the IFRS, the preparation of the financial statements requires the application of estimates and assumptions which will influence the amounts included in the consolidated financial statements and the related notes.

4.1 Material assumptions used during the application of the accounting policy

During the application of the accounting policy described in Section 3, the management of the Group applied certain assumptions which may influence the amounts that are included in the consolidated annual financial statements (apart from the impact of the estimates which is included in the following sub-section). These assumptions are explained in detail in the related notes but the most important ones are relevant for the following:

- Tax allowances in the future or the realisation of a profit that forms an appropriate tax base against which the deferred tax asset can be applied;
- The outcome of certain contingent liabilities.

4.2 Uncertainties in the estimates

The preparation of consolidated financial statements in accordance with the IFRS standards requires the application of estimates which will influence the amounts that are included in the consolidated financial statements and the related notes. These estimates are based on the management's information on the current events, however, actual results can deviate from this. These assumptions are explained in detail in the related notes but the most important ones are as follows:

- Determination of the fair value of financial instruments;
- Determination of the useful life of property, plant and equipment;
- Determination of the impairment of property, plant and equipment and goodwill;
- Determination of the value of provisions.

5. Sales revenues

The breakdown of sales revenues by product types is as follows:

	2014 THUF	2013 THUF
Energetics	1,659,638	684,673
Asset management	630,253	595,111
Total sales revenue	**2,289,891**	**1,279,784**

5.1 Geographic breakdown of sales revenues:

	2014 THUF	2013 THUF
Domestic sales revenues	2,289,891	1,279,784
Sales revenues within the EU	-	-
Sales revenues outside the EU	-	-
Total sales revenue	**2,289,891**	**1,279,784**

5.2 Sales-related non-current assets by geographical segments

	2014 THUF	2013 THUF
Assets used in domestic production	16,773,025	14,127,892
Assets used in production within the EU	-	-
Assets used in production outside the EU	-	-
Total non-current assets	**16,773,025**	**14,127,892**

The table of non-current assets does not contain deferred tax assets and long-term receivables.

Breakdown of indirect costs (administrative and general costs):

Cost categories	2014 THUF	2013 THUF
Personnel costs	135,901	229,656
Expert fees, bookkeeping, audit fees	91,844	170,440
Depreciation (plant, property, equipment)	167,699	237,579
Office and operational costs	312,124	189,491
Banking costs	24,208	19,290
Insurance premia	14,816	23,666
Other fees due to authorities, duties	5,674	4,157
Costs of public nature and stock exchange presence	5,997	60,235
Total	**758,263**	**934,514**

6. Other expenses

	2014 THUF	2013 THUF
Fines, penalties, default interest and damages paid	138,621	3,347
Local taxes, duties, fines	102,411	41,710
Write-off of provisions for trade debtors and receivables	-	-
Impairment of inventories	-	-
Extraordinary depreciation of goodwill	69,669	-
Extraordinary depreciation of property, plant and equipment and intangible assets	2,203	7,806
Duties, contributions	501	1,117
Costs related to damages	552	-
Impairment and deficit in inventories	168	61,166
Sport subsidies	38,000	-
Other	37,928	40,810
Total	**390,053**	**155,956**

7. Other income

	2014 THUF	2013 THUF
Profit from the sales of property, plant and equipment	258,999	2,551
Subsequent discount	-	-
Subsidy received for development purposes	159,428	108,825
Forgiven receivables	-	-
Compensation related to customer inventories	-	-
Other tax reimbursement	-	-
Income related to loss events	50,451	203,272
Fines, compensation received	873	17,057
Other subsidy received / granted	-26,823	12,083
Reversed impairment of receivables	-	12,969
Use of provisions allocated for expected liabilities	1,688	-
Other	-	-
Total	**444,616**	**356,757**

8. Result of financial transactions

	2014 THUF	2013 THUF
Interest and interest-type income	584	11,189
Other financial income	62,394	77,768
Interest and interest-type expenses	-156,763	-129,149
Other financial expenses	-187,047	-205,694
Total	**-280,832**	**-245,886**

The significant items of other financial income are as follows:

- FX gains (receivables-liabilities) THUF 55,378
- exchange gain on securities THUF 7,015

The significant items of other financial expenses are as follows:

- exchange loss on securities THUF 135
- FX losses (receivables-liabilities) THUF 180,800

9. Receivables from lease transactions

As of the end of 2014, PannErgy Group did not have any leasing receivables.

10. Intangible assets

10.1 Gross value (THUF)

	Goodwill	R&D	Rights and concessions	Purchased software	Total
1 January 2013	69,669	1,265,382	50,378	132,830	1,518,259
Purchase	-	-	231,390	-	231,390
Sales	-	-	-	-	-
Reclassification, scrapping		-	-4,592	-88,704	-93,296
31 December 2013	69,669	1,265,382	277,176	44,126	1,656,353
Purchase	-	24,970	61,550	-	86,520
Sales	-	-1,000	-	-	-1,000
Impairment, scrapping	-69,669	-	-3,904	-18	-73,591
31 December 2014	-	1,289,352	334,822	44,108	1,668,282

10.2 Accumulated depreciation (THUF)

	Goodwill	R&D	Rights and concessions	Purchased software	Total
1 January 2013	-	97,731	25,853	44,126	167,710
Increase	-	29,697	24,544	-	54,241
Sales	-	-	-	-	-
Impairment, scrapping	-	-	-4,594	-	-4,594
31 December 2013	-	127,428	45,803	44,126	217,357
Increase	-	30,122	49,699	-	79,821
Sales	-	-	-	-	-
Impairment, scrapping		-	-3,901	-18	-3,919
31 December 2014	-	157,550	91,601	44,108	293,259

10.3 Net value

1 January 2014	**69,669**	**1,137,954**	**231,373**	**-**	**1,438,996**

Net value					
31 December 2014	**-**	**1,131,802**	**243,221**	**-**	**1,375,023**

The impairment of THUF 69,669 under goodwill is related to Berekfürdő Energia Kft. Upon the year-end review of the impairment of goodwill, the carrying value of the cash-generating unit was compared to its recovery value (in light of the expected legal changes) and based on this, 100% impairment was established. The impairment was justified by the lag in the efficiency of the Berekfürdő project compared to the plans, the unsuccessful attempts to acquire new markets and new customers and the pricing dictated by the legal regulations.

Intangible assets include two significant developments: one of them is the research and development related to the geothermal well drilling, while the other is the know-how connected to the geothermal excavation.

The inclusion of these high-value developments in the financial statements is justified since specific future benefits attributable to the given asset can be connected to them. The future cash flows derived from the utilisation of the developments included in the balance sheet can be quantified based on the year-end calculations prepared with the Group management's best estimates. Having discounted them, the cash flows are compared to the book values and since they exceeded them, no impairment was justified to be recognised under these intangible assets.

There was no revaluation of intangible assets in the subject period.

11. Property, plant and equipment

11.1 Gross value (THUF)

	Property	**Machinery and vehicles**	**Project**	**Total**
1 January 2013	559,203	3,469,009	7,143,508	11,171,720
Purchase	-	-	3,045,058	3,045,058
Capitalisation	7,056,891	1,893,373	-8,950,264	-
Sales	-218	-104,430	-	-104,648
Reclassification, scrapping	-	-9,769	-146,608	-156,377
1 January 2014	7,615,876	5,248,183	1,091,694	13,955,753
Purchase	-	-	3,390,427	3,390,427
Capitalisation	1,134,813	1,115,033	-2,249,846	-
Sales	-117,091	-4,903	-30,597	-152,591
Reclassification, scrapping	-1,000	-14,009	-24,737	-39,746
31 December 2014	8,632,598	6,344,304	2,176,941	17,153,843

11.2 Accumulated depreciation (THUF)

	Property	Machinery and vehicles	Project	Total
1 January 2013	114,542	849,156	0	963,698
Increase	81,782	315,161	-	396,943
Sales	-47	-60,360	-	-60,407
Scrapping, reclassification	-	-10,442		-10,442
1 January 2014	196,277	1,093,515	0	1,289,792
Increase	170,136	384,790	-	554,926
Sales	-55,050	-664	-	-55,714
Scrapping, reclassification	-1,000	-9,228		-10,228
31 December 2014	310,363	1,468,413	0	1,778,776
Net value 1 January 2014	7,419,599	4,154,668	1,091,694	11,665,961
Net value 31 December 2014	8,322,235	4,875,891	2,176,941	15,375,067

Certain properties and machinery serve as collaterals for the existing project loans. In relation to this, the following title limitations, pledging are valid for property, plant and equipment as of 31 December 2014:

PannErgy Company	Financier	Amount of security charged to property, plant and equipment	Property, plant and equipment as collateral
PannErgy Nyrt.	SG Eszközfinanszírozás Mo. Zrt.	THUF 29,816	Taking out insurance specifying the lessor as the beneficiary
DoverDrill Mélyfúró Kft.	OTP Bank Nyrt.	THUF 881,893	Lien on movables (rig)
Kuala Kft.	Sberbank Magyarország Zrt.	THUF 1,336,805	Floating charge on assets (all properties and movables)
Miskolc Geotermia Zrt.	Sberbank Magyarország Zrt.	THUF 2,258,889	Floating charge on assets (all properties and movables)
Szentlőrinc Geotermia Zrt.	Széchenyi Kereskedelmi Bank Zrt.	THUF 540,000	Floating charge on assets (all properties and movables)
Berekfürdő	Unicredit Leasing	EUR 617,502	Pledge on the assets of the geothermal

Energia Kft.	Hungary Zrt.	project

The Company recognises the book value of the non-consolidated company in the row of investments: Pannunion Service GmbH at THUF 22,935. The Company has a 91% share in it.

PannErgy Nyrt. does not consolidate Pannunion Service GmbH because it would not make a material impact on the financial statements (or the accounts).

There was no revaluation of property, plant and equipment in the current period.

Year-end evaluation of property, plant and equipment of high value

Due to the special nature of geothermal projects, the Group has high-value assets in several of its subsidiaries (pumping and reinjection wells, properties, heat centers, pipes, drilling equipment etc.). The cash-generating capability of these can only be interpreted when projected onto all the properties, plant and equipment that are related to the given project because of the project type scheme. To support this, the individual projects are organised in separate economic units, a specific asset group will only be used on a given market.

The impairment test was performed at the Companies where the majority of the Companies' assets are property, plant and equipment used in or directly related to production, and the financial data of the previous years and the subject year show losses. The property, plant and equipment of Miskolci Geotermia Zrt., Szentlőrinci Geotermia Zrt. and DoverDrill Mélyfúró Kft. were evaluated based on this.

The fact that losses were generated in the previous years and the current year was interpreted by the Group as a sign of impairment. But it can also indicate that the economic performance of the assets is weaker than the required level specified upon the installation.

Due to the special nature of geothermal activities, the year-end evaluation and impairment test of high-value assets was based on the income-generating capability instead of the CUP and cost-based evaluations or the residual method used for goodwill. The future advantages that can be derived from the ownership of high-value assets were quantified with the method and we estimated the present value of these quantified advantages. As a basis, the income-generating capacity was defined as an advantage i.e. the present value of the cash flows indicated based on the detailed model relevant for the following years was calculated. The value calculated during the impairment test as the recovery value was compared to the book value.

The model used for the calculation of the recovery value includes the following:

- the estimated planned future cash flows from the assets for the individual cash-generating unit Companies;
- the expectations of the potential variations regarding the amount and timely realisation of these future cash flows;
- the time value of money;
- the factors that are based on other, industrial characteristics.

Based on the performed impairment tests, in line with the requirements of IAS 36, the assets of the Group are recorded at a value not exceeding their recovery value i.e. their book value exceeds the amount recovered through the asset's usage or sales.

12. Long-term receivables

	2014 THUF	2013 THUF
Other loans	1,500	2,000
Total	**1,500**	**2,000**

The above "Other loans" item of THUF 1,500 includes the loans provided by PannErgy Geotermikus Erőművek Zrt. for the local governments that are co-owners in the geothermal project companies.

13. Inventories

	2014 THUF	2013 THUF
Materials	-	-
Work in progress and semi-finished goods	285,699	-
Finished products	-	-
Goods	706,984	299,800
Advance payments for inventories	-	-
	992,683	299,800
Impairment of inventories	-	-
Total inventories, net	**992,683**	**299,800**

The majority of the inventories presented in the 2013 and 2014 IFRS financial statements is made up of goods, specifically, drill pipes used for the implementation of the geothermal projects. According to the accounting policy, we performed an evaluation with the average price at the end of the year. Due to the usability of the drill pipes that is based on a technical evaluation, no impairment is justified to be accounted for.

Work in progress and semi-finished goods include the value of materials and services used during the drilling in connection with the Győr Geothermal Project as included in the books of DoverDrill Mélyfúró Kft.

Goods not related to drill pipes typically represent the value of rechargeable services which are recognised at cost provided that loss-free recharging is verified (the lower out of cost and the realisable value).

No impairment was accounted for inventories in 2014.

14. Trade debtors

	2014 THUF	2013 THUF
Trade debtors	307,445	713,463
Impairment allocated for and reversal of doubtful receivables	-	12,969
Net trade debtors	**307,445**	**726,432**

15. Other receivables

	2014 THUF	2013 THUF
Security deposit	2,601	11,576
Other taxes (mainly VAT)	339,576	162,608
Receivables from the evaluation of futures transactions	-	-
Prepayments and accrued income	319,800	13,907
Loans given and advances for geothermal projects	45,023	3,802
Other loans granted	2,010	2,010
Corporate tax advance	20,895	87,388
Receivables from employees	82	-
Security deposit because of litigations	22,830	21,526
Other	8,657	38,711
Total	**761,474**	**341,528**

16. Financial assets at fair value through profit or loss

	2014 THUF	2013 THUF
Cost of shares	-	-
Accounted fair value difference	-	-
Total	**-**	**-**

The Synergon Nyrt. shares owned by PannErgy Nyrt. and PMM Zrt. were sold in 2013.

	2014 THUF	2013 THUF
Securities held to maturity (investment unit, government bond, other share etc.)	12	281,517

17. Subscribed capital

	2014 THUF	2013 THUF
Subscribed capital	421,093	421,093

The subscribed capital consists of 21,054,655 voting shares, with a nominal value of HUF 20 each. Out of these, 2,775,377 shares were held by the Company and its consolidated associate companies as of 31 December 2014.

The CEO of the Budapest Stock Exchange Ltd. modified the data of the product list as of 21 November 2007 in respect of Pannonplast Műanyagipari Nyrt.'s ordinary shares with the ISIN code HU0000073440:

ISIN number	**Old data: HU0000073440**	**New data: HU0000089867**
Nominal value of the security:	HUF 100	HUF 20
Number of listed securities (shares)	4,210,931	21,054,655

With an effect of 12 October 2007, the Court of Registration registered the resolutions of the general meeting held on 31 August 2007 on the stock-split procedure in respect of the nominal value of the shares issued by the Company which does not affect the extent of the subscribed capital. The last stock exchange trading day of the shares with a nominal value of HUF 100 was 20 November 2007.

18. Repurchased treasury shares

	2014	2013
Nominal value (THUF)	55,508	55,508
Cost (THUF)	3,009,223	3,009,223

19. Reserves

Reserves can be divided based on the Company's balance sheet compiled according to the Hungarian accounting rules. The 2014 reserve that can be allocated along with the 2014 after-tax profit or loss before the payment of dividends according to PannErgy Nyrt.'s consolidated balance sheet prepared according to the Hungarian accounting rules was THUF 1,949,894 (in 2013: THUF 1,626,083).

The balance sheet of the financial statements includes the reserves for repurchased treasury shares and the aggregate value of general reserves in separate rows. The accounting and presentation were in line with the requirements of IAS 32 and IAS 33.

In the Statement of Changes to the Equity, the "Repurchased treasury shares" column shows the book value (cost) of the current treasury share portfolios and movements, while the amount in row "Treasury shares sold" of column "Reserves" includes the exchange rate difference pertaining to the sales, calculated compared to the book value. No profit arises from a purchase, thus no value is indicated in the "Reserves" column.

20. Minority interest

	2014 THUF	2013 THUF
Balance as of 1 January	269,608	283,436
Minority shareholding in newly formed subsidiary	-	-
Current year profit or loss of subsidiaries attributable to minority shareholders	11,995	-13,828
Decrease/increase in minority shareholding due to the sales/purchase of subsidiary shares	10,749	-
Balance as of 31 December	**292,352**	**269,608**

In January 2010, in addition to PannErgy Nyrt., ONP Holdings SE became a new shareholder in PannErgy Geotermikus Erőművek Zrt. (formerly PannErgy Polifin Kft.). Its minority holding is 7.43%. Later, during the new capital increase of PannErgy, this proportion decreased from 7.43% to 6.91%. The nominal value of the minority shareholding was THUF 269,198.

On 9 November 2009, PannErgy Nyrt. (PannErgy) and ONP Holdings SE (ONP) signed a syndicated contract.

According to this agreement, the parties wish to increase capital in several phases as a result of which ONP's share may increase to 15% in PannErgy Geotermikus Erőművek Zrt. In the first phase, ONP may acquire a 7.43% share in PannErgy Nyrt. with a capital increase of HUF 1.08 billion, which may be followed by PannErgy Nyrt.'s capital increase of HUF 1.08 billion. Later, depending on the energy requirement of the planned drillings, ONP may increase its capital further, by HUF 1.485 billion, whereby its share may increase to 15%.

The parties stipulated a pre-emption and a collective sales right, a minimum limit-price sales liability and a purchase right against each other's share. The purchase right for each other's business share is valid from 31 January 2011 till 31 January 2016. The minimum purchase price in respect of PannErgy's business share was HUF 18.9 billion on 31 January 2012 which increases by 15% annually (straight-line, projected onto the original amount). If the current value decreased by the net loan portfolio derived from the 15th times value of the EBITDA exceeds this, the higher value should be considered as the basis of the purchase price.

Additional movements in 2014 affecting minority shares:

During the year, the Municipality of Tamási town sold its 10% minority holding, while MIHŐ Miskolci Hőszolgáltató Kft. became a 10% shareholder in Kuala Kft. (the aggregate impact on the minority (external) holding is THUF 10,749).

In 2014, the amount of the minority shareholding increased by THUF 11,995 which is the ratio from the profit of the subsidiaries allocated to the minority shareholders.

21. Long-term loans

	2014 THUF	2013 THUF
Long-term loans	4,266,202	2,761,209
Less the short-term portion	-379,535	-162,787
Total long-term loans	**3,886,667**	**2,598,422**

As of 31 December 2014, long-term loans include loans drawn in EUR at the amount of THUF 1,837,113 as opposed to the THUF 1,903,261 as of 31 December 2013. The basis of the interest rate for EUR loans is the 1- and 3-month EURIBOR.

Long-term loans include a leasing liability for two groups of property, plant and equipment, and the data are as follows:

2014

Description	EUR	THUF	Expiry	Book value THUF
Vehicles	94,686	29,816	03.12.2018	65,499
Production machinery	253,969	79,972	04.01.2021	159,695

2013

Description	EUR	THUF	Expiry	Book value THUF
Vehicle	120,592	35,805	03.12.2018	70,199
Production machinery	295,004	87,590	04.01.2021	174,863

Other long-term, deferred income

	2014 THUF	2013 THUF
Other long-term, deferred income	3,348,724	2,499,346
Less the short-term portion	-159,428	-196,297
Total other long-term, deferred income	**3,189,296**	**2,303,049**

This deferred income includes the long-term portion of the non-refundable subsidies won through tenders for the geothermal projects (it is under deferrals carried forward in the separate balance sheets).

22. Short-term loans

	2014 THUF	2013 THUF
Bank loans	-	-
Short-term portion of long-term loans	379,535	162,787
Overdraft facilities	-	-
Other short-term loans	172,865	172,864
Total short-term loans	**552,400**	**335,651**

Short-term loans include credits taken in EUR in an amount of THUF 373,538 as of 31 December 2014 and THUF 264,469 as of 31 December 2013. The basis of the interest rate for EUR loans is the 1- and 3-month EURIBOR.

Short-term loans include a liability under a leasing contract for two groups of property, plant and equipment, and its short-term instalment is the following:

Description	EUR	THUF	Expiry
Vehicle	25,656	8,079	03.12.2018
Production machinery	39,866	12,554	04.01.2021

Current portion of other long-term, deferred income

	2014 THUF	2013 THUF
Short-term portion of other long-term, deferred income	159,428	196,297
Total	**159,428**	**196,297**

The portion of the subsidies won for the geothermal projects through tenders, which should be used within a year. It is recognised under other revenues in the income statement, in proportion to amortisation.

23. Provisions

	2014 THUF	2013 THUF
Opening balance as of 1 January	16,895	13,745
Provisioning	-	3,150
Release of provisions	-1,688	-
Closing balance as of 31 December	15,207	16,895

The Group allocated the provisions to cover the expected liabilities.

24. Other current liabilities

	2014 THUF	2013 THUF
Accrued expenses and deferred income	101,696	41,641
Other taxes (VAT and other taxes)	62,225	88,642
Foreclosure lump-sum, default interest	52,132	-
Wages and social contribution	2,969	11,159
Liability from dividends payable	-	-
Liability related to printed shares	4,483	4,483
Corporate tax payment liability	4,402	13,719
Other loans received	-	-
KEOP subsidy advance	1,009,850	537,975
Other	54,426	20,486
Total other current liabilities	**1,292,183**	**718,105**

25. Taxation

	2014 THUF	2013 THUF
Tax liability for the current year	42,360	34,382
Impact of deferred taxes	-	-
Total	**42,360**	**34,382**

Calculation of the deferred tax asset recognised under assets:

	2014 THUF	2013 THUF
Deferred tax recovery	370,062	424,696
Difference between accounting and tax depreciation	675	-1,411
Depreciation difference of property, plant and equipment due to consolidation	206,265	162,974
Provisioning	3,087	315
Deferred tax to be accounted for	580,399	586,574
Deferred tax accounted for in the previous year	576,521	576,521
Difference (not material for the purposes of the financial statements)	3,568	10,053
Balance as of 31 December	**576,521**	**576,521**

A 10% corporate tax rate was taken into account in both the base and the current year.

26. Earnings per share

	2014	2013
After-tax profit (THUF)	-488,300	-825,848
Weighted average of issued shares during the year (number of shares)	18,277,278	18,251,541
Earnings/loss per share (HUF)	**-26.72**	**-45.25**
Diluted earnings/loss per share (HUF)	**-26.72**	**-45.25**

27. Sales of subsidiaries

No subsidiaries were sold in 2014.

28. Notes to the cash flow statement

Cash and cash equivalents were as follows as of 31 December 2014:

	2014 THUF	2013 THUF
Bank account and cash at hand	357,228	383,507
Overdraft facility	-	-
Separated deposit	-	-
Cash and cash equivalents	**357,228**	**383,507**

29. Project commitments

	2014 THUF	2013 THUF
Contracted and/or approved but not included in the consolidated financial statements	2,000,000	2,000,000

The above project commitment of THUF 2,000,000 is the estimated amount of the project plan defined by the Group management for the following year. The amount of the implemented projects totalled THUF 3,045,058 in 2013 and THUF 3,420,701 in 2014.

30. Contingent liabilities

30.1 Forward transactions

On 31 December 2014, the Company did not have any forward positions.

30.2 Treasury share transactions

As of 31 December 2014, the Company did not have any stock exchange futures contracts representing PannErgy Nyrt. shares.

The annual general meeting held on 30 April 2014 approved a new management option program. The details are available on the Company's website and their presentation herein can only be evaluated appropriately in light of the whole program.

The entitled persons can receive conditional call options for 2,700,000 shares (these will open at several stages when certain stock exchange share prices are achieved) from the Company when the relevant option contracts are concluded. The entitled parties or the third parties designated by them exercised their contract conclusion rights for 315,200 shares. The options are American-type options and can be exercised by 30 April 2016. The call price is HUF 329.63 per share. Applying the Black-Scholes formula (share price as of balance sheet date: HUF 309, volatility: 23.7%, risk-free interest rate: 2.0%), the fair value of the options is HUF 28.1 per share, which gives THUF 8,857 if projected onto the whole contracted portfolio. The value cannot be considered material for the purposes of the financial statements.

Within the framework of an incentive share option program offered for external partners, a right of purchase for a total of 40,000 PannErgy treasury shares was exercisable on the date of the financial statements, starting from a share price of HUF 1,000/share, with a current exercise price increased by interest. The options expired by the balance sheet date (14 January 2015) without being exercised, thus no payments had to be made. In line with this and in light of the fact that the option price is the multiple of the current stock exchange (market) price, the value of the options as of the balance sheet date was taken into account as zero.

30.3 Commitments related to asset management transactions

In these asset management transactions (sales of shares and other assets), the Company undertakes reasonable guarantees to ensure the economic content of the transaction. According to its best knowledge, the management of the Company does not believe that as a result of the guarantees undertaken any significant fulfilment liabilities would arise.

30.4 Other contingent liabilities

PannErgy Nyrt. and its subsidiary, PannErgy Geotermikus Erőművek Zrt. have the following contingent liabilities to external partners as of the balance sheet date:

- PannErgy Nyrt. can provide a securities collateral for the loans it took (PannErgy shares). Based on this, PannErgy Nyrt. provided a security for the project loan taken by its subsidiary, Szentlőrinci Geotermia Zrt., for the Szentlőrinc Geothermal Project in 2010. The security applies to 441,673 PannErgy shares.
- PannErgy Nyrt. may offer its securities (PannErgy shares, other securities) and other assets as a bond-type collateral for the non-refundable aids (e.g. KEOP) given to the members of the PannErgy Group, in line with the requirements of the aid programs and the operative agencies, to cover any potential non-performance.

31. Foreign exchange and interest rate risks

Taking into account the Group's receivables and liabilities and assuming a 10% increase in exchange rates, we summarised the impact of these on the profit or loss in the following table.

Description	**EUR**		**USD**	
	2014	**2013**	**2014**	**2013**
Impact on the profit or loss in THUF	-241,230	-219,125	-	-

Breakdown of EUR items:

Description	**2014 10% exchange rate change**		**2013 10% exchange rate change**	
	EUR	**Impact on profit/loss**	**EUR**	**Impact on profit/loss**
Long-term receivables	-	-	-	-
Short-term receivables	167,422	5,272	174,023	5,167
Trade payables	709,837	-22,353	253,239	-7,519
Other liabilities	97,952	-3,084	-	-
FX loan portfolio	7,020,389	-221,065	7,300,967	-216,773
Total:		**-241,230**		**-219,125**

Interest sensitivity analysis

The Company's FX loan portfolio as of the end of 2014 was THUF 2,210,651 while HUF loans amounted to THUF 2,228,416. The Company's FX loan portfolio as of the end of 2013 was THUF 2,167,730, while HUF loans amounted to THUF 766,343. The 1% point increase of interest rates would affect the Group's profits by THUF 44,391 as of the end of 2014, and would make a surplus cost type effect of THUF 29,341 at the end of 2013, assuming unchanged capital. In the case of a decrease, the impact is just the reverse.

The interest rate for FX loans is the EURIBOR.

Lending risk

Trade debtors (receivables) are evaluated at year-end and measures are taken in the case of each customer separately. Trade receivables broken down by maturity are as follows:

Data in THUF

	Total	Within deadline	Within 1-90 days	Within 91-180 days	Within 181-360 days	Beyond 360 days
PannErgy Group	**307,445**	232,303	73,247	0	52	1,843
Total	**307,445**	**232,303**	**73,247**	**0**	**52**	**1,843**

Breakdown of trade payables by due date: Data in THUF

	Total	Within deadline	Within 1-30 days	Within 31-90 days	Within 91-180 days	Within 360 days
PannErgy Group	**1,363,468**	779,836	150,836	161,794	47,961	5,942
Total	**1,363,468**	779,836	150,836	161,794	47,961	5,942

The debt that is 360 days past due totals THUF 217,099.

Trade receivables and payables are not yet due if their payment deadline indicated on the invoice has not yet expired as of the balance sheet date. The “Within 1-90 days” category contains expired receivables and liabilities that were due within 1-90 days. The deadline always means the payment deadline on the invoice. It is compared to the date of the financial statements and the given trade receivables or liabilities will be put into the expiry category that is in line with the number of days of the difference.

Liquidity risk

The breakdown of the Company's cash by maturity as of 31.12.2014:

31.12.2014 Data in THUF

Conditions	**Weighted average interest rate**	**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 yrs**	**Total**
Non interest-bearing	-	344,591	-	-	-	-	344,591
Variable interest	1.25	12,637	-	-	-	-	12,637
Fixed interest		-	-	-	-	-	-
Total		**357,228**	**-**	**-**	**-**	**-**	**357,228**

31.12.2013 Data in THUF

Conditions	**Weighted average interest rate**	**<1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**>5 yrs**	**Total**
Non interest-bearing	-	191,051	-	-	-	-	191,051
Variable interest	-	-	-	-	-	-	-
Fixed interest	1.25-2.00	192,456	-	-	-	-	192,456
Total		**383,507**	**-**	**-**	**-**	**-**	**383,507**

32. Pension

In 2014, the Group paid voluntary pension fund contributions of THUF 2,257 to pension funds after 11 employees, while the same figure was THUF 1,909 in 2013 for 12 employees. The amount paid is based on the salaries. The Company does not allocate a coverage for the pension of the employees and it does not have such a liability in addition to the contributions paid into the pension fund.

33. Other revaluations

The following events did not occur in the current period:

- revaluation of benefit plans,

- profit/loss from the recalculation of the financial statements of a foreign interest,
- profit/loss from the hedging instrument of the cash flow hedging transaction.

34. Subsidiaries

The Company's consolidated subsidiaries and the relevant shareholdings are as follows:

Hungarian subsidiaries	Real shareholder ratio	Consolidation ratio *
Kuala Kft.	90.00 %	83.78 %
PMM Kereskedelmi Zrt.**	100.00 %	100.00 %
PannErgy Geotermikus Erőművek Zrt.***	93.09 %	93.09 %
Miskolc Geotermia Zrt.	90.00 %	83.78 %
Szentlőrinc Geotermia Zrt.	99.80 %	92.89 %
TT-Geotermia Zrt.****	100.00 %	93.09 %
PannTerm Kft.*****	100.00 %	93.09 %
DoverDrill Kft.	100.00 %	93.09 %
Csurgó Geotermia Zrt.	90.00 %	83.78 %
Gödöllői Geotermia Zrt.	90.00 %	83.78 %
Berekfürdő Energia Termelő és Szolgáltató Kft.	100.00 %	93.09 %
DD Energy Kft.	100.00 %	93.09 %
Arrabona Geotermia Kft.	100.00 %	93.09 %

***Formerly Pannonplast Műszaki Műanyagok Zrt.*
****Formerly PannErgy Polifin Zrt.*
*****Formerly Tamási Geotermia Zrt.*
******Formerly Kiskunhalasi PannTerm Kft.*

The difference between the consolidation ratio and the real shareholder ratio is derived from taking minority shares into account.

35. Future operations of Pannergy and the Group

The Board of PannErgy published the Company's strategy on 28 September 2007. It states that PannErgy wishes to focus its future activities on the exploration and utilisation of geothermal energy.

The year of 2010 was a milestone in the geothermal developments of PannErgy since heat production and energy sales started in Szentlőrinc on 1 January 2011. Our other operating facility is in Berekfürdő which, in addition to heat, also generates electricity by utilising methane gas dissolved in geothermal water. The latter facility was added to the Company's portfolio by acquisition.

Since 25 August 2011, DoverDrill Kft. (deep drilling activity) has been fully owned by PannErgy Geotermikus Erőművek Zrt.

In addition to the operating facilities, our Miskolc Geothermal Project was launched in the second quarter of 2013, as a result of which the transportation of thermal energy to Miskolc City of County Rank was started. Thus, the largest geothermal power station of Central Europe started its operations.

The second phase of the Miskolc Geothermal Project was completed in September 2014. The project providing geothermal heat for Miskolc downtown and the university campus heat districts was implemented after the laying down of the pipes of the second phase and the building of the heat center in Tatár utca that was necessary for the system expansion.

The first well drilling of the Győr Geothermal Project started in June 2014. DD Energy Termelő és Szolgáltató Kft., a subsidiary of PannErgy Nyrt. started the drilling of well No. PER-PE-01 within the framework of the Győr Geothermal Project. The drilling was performed by DoverDrill Kft. owned by PannErgy Nyrt. on behalf of DD Energy Kft. The drilling of the well was finished in September 2014, the Company announced that well No. PER-PE-01 near Győr provides outstanding water flow and high temperatures.

Subsequently, the drilling of well No. BON-PE-01 representing the second well of the project started in December 2014. These works are in progress according to the specified schedule.

After drilling the first well in Gödöllő, the Company's management chose to revaluate the geological conditions which lead to changes in the structure of the Gödöllő project. The schedule of the project's continuation will be defined based on the availability of PannErgy Group's resources and the phases of the rest of the projects. The Company continually searches for tender opportunities in order to obtain further financing for the project.

The Company has close connections with several local governments and entities with an intention for cooperation, primarily to ensure a thermal market along with its supply.

In the medium term, the basic goal of the strategy is to create a capacity that is suitable for the generation of minimum 120-160 GWh electricity and 2.4–2.6 PJ heat annually, with nearly 10 facilities.

36. Business line reports

36.1 Energetics business line

Pursuant to the above strategy, PannErgy started the activity that is necessary for the exploration and utilisation of geothermal energy in 2007.

In 2014, Szentlőrinci Geotermia Zrt. and Berekfürdő Energia Kft. continued their production activities, while besides the production activity of Miskolci Geotermia Zrt., the Miskolc Geothermal Project was expanded with a second phase from September 2014, with the cooperation of Kuala Kft. Detailed segment data (property management and energetics):

36.2 Sales revenues by segments

Data in THUF

2014	**Asset management**	**Energetics**	**Transfer between segments**	**Total**
Net sales revenues				
Sales for customers outside the Group	630,253	1,659,638		2,289,891
Sales between segments	1,711,842	1,910,634	3,622,476	
Total net sales revenues	2,342,095	3,570,272	-3,622,476	2,289,891
Profit/loss				
Operating profit/loss	-270,999	117,886		-153,113
Net loss on financial transactions	-3,943	-276,889		-280,832
Profit/loss before taxation	-274,942	-159,003		-433,945
Taxes charged to the profit	7,219	35,141		42,360
After-tax profit for the period	-282,161	-194,144		-476,305

2013	**Asset management**	**Energetics**	**Transfer between segments**	**Total**
Net sales revenues				
Sales for customers outside the Group	595,111	684,673		1,279,784
Sales between segments	2,615,234	515,348	3,130,582	
Total net sales revenues	3,210,345	1,200,021	-3,130,582	1,279,784
Profit/loss				
Operating profit/loss	-131,150	-428,258		-559,408
Net loss on financial transactions	-93,468	-152,418		-245,886
Profit/loss before taxation	-224,618	-580,676		-805,294
Taxes charged to the profit	5,257	29,125		34,382
After-tax profit for the period	-229,875	-609,801		-839,676

36.3 Balance sheet data by business segments

Data in THUF

2014	Asset management	Energetics	Transfer between segments	Total
Assets and liabilities				
Intangible assets, net	374	1,374,649		1,375,023
Property, plant and equipment, net	388,165	14,986,902		15,375,067
Inventories	680,209	312,474		992,683
Trade receivables, net	63,557	243,888		307,445
Assets not allocated to segments				1,719,670
Total assets				**19,769,888**
Trade payables	956,466	407,002		1,363,468
Long-term loans	29,816	3,856,851		3,886,667
Long-term deferred income	0	3,189,296		3,189,296
Short-term loans	8,079	544,321		552,400
Short-term deferred income	0	159,428		159,428
Liabilities not allocated to segments				1,307,390
Total liabilities				**10,458,649**

2013	Asset management	Energetics	Transfer between segments	Total
Assets and liabilities				
Intangible assets, net	469	1,438,527		1,438,996
Property, plant and equipment, net	457,351	12,208,610		12,665,961
Inventories	278,032	21,768		299,800
Trade receivables, net	118,743	607,689		726,432
Assets not allocated to segments				1,608,008
Total assets				**16,739,197**
Trade payables	569,212	224,771		793,983
Long-term loans	35,805	2,562,617		2,598,422
Long-term deferred income	0	2,303,049		2,303,049
Short-term loans	22,108	313,543		335,651
Short-term deferred income	0	196,297		196,297
Liabilities not allocated to segments				735,000
Total liabilities				**6,962,402**

36.4 Other data by business segments

Data in THUF

2014	Asset management	Energetics	Transfer between segments	Total
Other segment information				
Acquisition of intangible assets	225	86,295		86,520
Acquisition of property, plant and equipment	5,993	3,384,434		3,390,427
Total	6,218	3,470,729		3,476,947
Depreciation and impairment	13,456	621,291		634,747
Of which:				
Impairment scrapping charged to profit	31	2,172		2,203

2013	Asset management	Energetics	Transfer between segments	Total
Other segment information				
Acquisition of intangible assets	48	231,342		231,390
Acquisition of property, plant and equipment	47,959	2,997,099		3,045,058
Total	48,007	3,228,441		3,276,448
Depreciation and impairment	18,549	432,635		451,184
Of which:				
Impairment scrapping charged to profit	10	4,550		4,560

The operating profit includes the profit from external sales. The sales between segments are related partly to the projects connected to the implementation of the geothermal project and partly to the recharging of services. The internal transfer prices are based on the current market prices, defined based on the CUP or the resale price method. The segment profits contain the profits of the fully consolidated subsidiaries.

37. Transactions with related parties

All the subsidiaries of PannErgy Nyrt. were included in the consolidation (see Note 33), the impact of the inter-company settlements and transactions has been eliminated during the consolidation.

37.1 Services

The Company's management is in an ownership relationship with a company that provides continuous services. Based on the relevant contracts, the support for the geothermal business line is of special importance. The invoiced amount of the services was THUF 52,560 in 2013 and THUF 52,560 in 2014.

37.2 Transactions related to sales

During the year, the Group arranged the following transactions with related parties (THUF):

		Pannunion Service GmbH
Sales	2014	3
	2013	11
Purchase	2014	61,213
	2013	66,663
Receivables	2014	-
	2013	-
Liabilities	2014	33,360
	2013	4,305

37.3 Loans to related parties

	2014 THUF	**2013 THUF**
Loans to management	-	-
Loans to non-consolidated companies	-	-
Total	**-**	**-**

37.4 *Development of intra-group, consolidated/eliminated turnover and portfolios:*

Income Statement:	**2014 THUF**	**2013 THUF**
Sales revenues	3,622,476	3,130,582
Direct cost of sales	3,205,345	2,832,190
Indirect cost of sales	76,516	45,751
Other income	109,085	-
Other expenses	67,605	-
Financial income	176,107	348,987
Extraordinary income	193,700	82,801

Extraordinary expense	43,700	82,801

Elimination of balance sheet items:

Property, plant and equipment	681,790	601,628
Inventories	3,092	-
Prepayments and accrued income	997,567	377,552
Long-term receivables	3,637,032	3,619,612
Other receivables	14,433,239	14,502,621
Long-term loans given	6,501,788	3,619,612
Advance payments received from customers	-	-
Accrued expenses and deferred income	965,455	377,552
Short-term loans	-	-
Other short-term liabilities	11,600,595	14,502,621

37.5 The management's compensation

The payments to key members of management and the Board and the employees who participate in the Company's and the significant subsidiaries' strategic decision-making processes were as follows according to the compensation categories included in IAS 24 (the table contains the amounts paid in the given year):

	2014 THUF	**2013 THUF**
Short-term employee benefits	22,368	20,688
Long-term benefits	-	-
Termination payments	-	-
Share-based payments	-	-
Total	**22,368**	**20,688**

38 Number of staff and wage costs

Number of staff and wage data: (by primary cost types) **2014**

Description	Blue-collar	White-collar	Other	Total
Average statistical number of staff	21	40	-	61
Wage costs (THUF)	44,004	187,215	-	231,219
Other personnel-type payments (THUF)	1,612	30,335	1,130	33,077
Wage contributions	15,664	57,830	-	73,494
Total	**61,280**	**275,380**	**1,130**	**337,790**

Number of staff and wage data: **2013**

Description	Blue-collar	White-collar	Other	Total
Average statistical number of staff	1	32	-	33
Wage costs (THUF)	-	174,872	-	174,872
Other personnel-type payments (THUF)	-	34,359	875	35,234
Wage costs (THUF)	-	54,284	96	54,380
Total (THUF)	**-**	**263,515**	**971**	**264,486**

39. Events after the balance sheet date

The table contains references to the relevant events. Based on the references, the whole information is available at the Company's official publication sites.

Date	Method of disclosure	Subject, short description of contents
01.01.2015	Other information	Number of voting rights at PannErgy Nyrt.
01.02.2015	Other information	Number of voting rights at PannErgy Nyrt. as of 31 January 2015.
17.02.2015	Extraordinary information provision	Changes in the Board of Directors of PannErgy Nyrt., Zsolt Perlaki resigns.
19.02.2015	Extraordinary information provision	Preliminary information on the operations in 2014
01.03.2015	Extraordinary information provision	Number of voting rights at PannErgy Nyrt. as of 28 February 2015.

40. Date of approval for disclosure

The Company's Board of Directors approved the financial statements on ... April 2015 and authorised their disclosure.

Péter Tóth
Representative of the Board of Directors

2014

Business and Management Report

based on the Consolidated Financial Statements of the PannErgy Group prepared according to the International Financial Reporting Standards

Budapest, 27 March 2015

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I. Background

Registered office of Pannergy Plc.:	1117 Budapest, Budafoki út 56.
Sites:	1221 Budapest, Dunalejáró u. 1. 4031 Debrecen, Kishegyesi út 263.

The list of related companies is included in Appendix 1.

Person signing the annual financial statements: Péter Tóth CEO, Member of the Board of Directors

II. Achievement of major objectives, risks

The basic goal of PannErgy for 2014 was to carry forward the strategy of the Company and its subsidiaries regarding geothermal energy resources as a result of which a considerable sales revenue is realised from energy sales, which may provide a stable strategic and economic basis for the establishment of further geothermal projects. The other special goal of the Company was to carry out such share and asset sales transactions (asset management transactions) which create shareholder values and provide additional sources for the energetic business line.

Miskolc Geothermal Project

By launching the operation of the Miskolc Geothermal Project in May 2013, the supply of thermal energy for Miskolc City of County Rank began. It meant a huge step forward in the achievement of the defined strategic goals.

The heat center in Tatár street, the second phase of the Miskolc Geothermal Project was completed in September 2014. The project was financed by KUALA Kft. partly from the non-refundable subsidy of HUF one billion granted in September 2013 through the “Geothermal expertise in the service of the economy” tender submitted for the tender invitation titled “Satisfying local heating and/or cooling demand with renewable energies” announced within the New Széchenyi Plan Environment and Energy Operational Program. The rest of the funds was provided through the loan contract concluded with Sberbank Hungary Zrt. (a financing limit of HUF 1.5 billion provided for projects).

KUALA Kft. concluded a heat supply contract with Takata Safety Systems Hungary Kft. on 30 September 2014 for 5+5 years. According to the contract, Kuala Kft. as a heat generator provides heat energy for the Miskolc plant of Takata Safety Systems Hungary Kft. from geothermal sources.

MIHŐ Miskolci Hőszolgáltató Kft. acquired a 10% share in Kuala Kft. on 31 July 2014.

Miskolci Geotermia Zrt. contributed to the economic growth of Borsod-Abaúj-Zemplén county significantly. The Chamber of Trade and Industry of Borsod-Abaúj-Zemplén county granted the “Outstanding Economic Association of BOKIK” award for the work of the subsidiary and its favourable impact on the region.

At the GeoPower Global Congress held in Amsterdam in December 2013, the PannErgy Group won the “Best heating project of 2013” international title for the implementation of the Miskolc Geothermal Project, the largest Hungarian geothermal heating project.

Szentlőrinc geothermal heating facility

The annual sold heat quantity was 16,654 GJ which, mainly due to the mild weather, was 11% lower than the figure in the same period of the previous year. Owing to the reprogramming of the control system, the unit cost of electricity was 40% lower in the last three months of the year. In order to utilise the available, unused capacities and the secondary heat energy, the Company continues to search for potential heat consumers in the environs of the system.

Geothermal methane user facility in Berekfürdő

The small power plant with a gas engine sold 2,391,353 kWh electricity and 2,643 GJ heat energy in the 2014 operating period by utilising 794,099 m3 accompanying gas extracted from thermal water. The operational safety of electricity and heat generation clearly improved, there was no idle time due to breakdowns in the closing month apart from the six hour-long planned maintenance. The reconstruction, development of the settlement's spa affected heat market revenues adversely. The sales revenue from the sales of electricity are influenced by the low market prices.

Projects under development (disclosed):

Győr Geothermal Project

The other two subsidiaries of PannErgy (DD Energy Termelő és Szolgáltató Kft. and Arrabona Geotermia Kft.) won a subsidy of HUF 1 billion each for the implementation of the Győr Geothermal Project (heat supply for industrial large consumers and the city's heating system). The first well was deepened in the first half of 2014, while the drilling of the second well started at the beginning of December. The two subsidiaries signed a loan contract with Magyar Export-Import Bank Zrt. for the project for a total amount of EUR 18 million. The long-term project financing limit is for the financing of the remaining phases of the geothermal projects implemented in the environs of Győr.

In December 2013, DD Energy Kft. and AUDI HUNGARIA MOTOR Kft. agreed on the supply of geothermal energy for a period of 17+15 years. Based on the contract, annually minimum 367,200 GJ heat will be transferred to the company with the second largest sales revenue in Hungary.

Arrabona Geotermia Kft. and GYŐR-SZOL Győri Közszolgáltató és Vagyongazdálkodó Zrt. concluded a contract for the supply of heat in September 2014, for a period of 15 years. According to the contract, the Company as a heat generator will supply thermal energy for GYŐR-SZOL Zrt. from a geothermal source.

PIAC-13 project

PannErgy Geotermikus Erőművek Zrt., a subsidiary of PannErgy Nyrt. won a non-reimbursable subsidy of HUF 442 million in 2013 with its bid submitted to the tender titled "*Subsidisation of market-oriented research and development activities*" (PIAC-13), which was issued within the framework of the New Széchenyi Plan.

The objective of the project is develop a system, based on the Miskolc Geothermal Project, which optimises the geothermal system based on the parameters of the flowing fluid in real time, for the purposes of sustainable long-term operation safety. The implementation of the project started after the signing of the subsidy contract in December and it is expected to end in the first half of 2015.

Kistokaj Greenhouse Development Project

The planning process of the Kistokaj Greenhouse Project, the consultations about its heat energy supply and the preparatory works necessary for the implementation all took place in 2014.

Gödöllő Geothermal Project

In Gödöllő, the Company initiated further geological surveys based on the experience of the first trial drilling, which resulted in certain shifts in the concept. Consequently, the project and the development of the first well aiming to enable the appropriate energy supply continues later than planned, depending on the availability of the EU funds and other resources.

Asset management

The Company's asset management activity was relatively passive in 2014, due to the non-energetic asset portfolio that narrowed down as a result of the sales processes of the former years. Within the framework of the announced profile cleansing, the sales transaction of the Synergon shares was closed in 2013. The former major goal of the concentrated sales of treasury shares was not realised in 2014 and the exchange rate fall seen since then does not support a transaction in the near future.

As for the **market environment and risks** of the Company's strategy, we can establish that the banks' lending activity and, consequently, the financing market have only started to revive since the global economic crisis that started in 2008. However, it is important to note here that two subsidiaries of the PannErgy Group signed loan contracts with Sberbank Magyarország Zrt. and Magyar Export-Import Zrt. for significant amounts for the projects that are in progress.

The especially high geological risk is a characteristic of geothermal developments, and the Group tries to mitigate it by obtaining wide-ranging geological and other professional or scientific information along with their integrated processing.

PannErgy Nyrt. will be a member of the CEERIUS (Central and Eastern European Stock Exchange Index) sustainability stock exchange index in 2015. PannErgy Nyrt.'s efforts for sustainable, environmentally conscious development were awarded with the one-year CEERIUS membership.

Main strategic area, history of Geotermia:

In 2007, PannErgy set it as a goal to generate a significant amount of thermal and electric energy by utilising the well-known Hungarian geothermal resources, thus creating value for the population and institutions of Hungary as well as the shareholders of PannErgy. The increase in energy demand is unstoppable on the long run despite the temporary decreases seen sometimes, however, both domestic and global sources is limited. Professional and efficient geothermal energy production is not only the utilisation of a giant source of energy that has only been utilised to a minimum extent so far but it is also one of the most environment friendly and cleanest methods for the generation of energy. By now, the European Union does not only welcome this kind of energy production but also guides the member states, including Hungary, with strict programs and target systems. The Company concluded various cooperation agreements with several municipalities, primarily in order to reach the heat market, out of which we selected only those that comply with our complex selection criteria. The Company has relations with the largest EU funding institutions for the purposes of cooperation. The basic goal of our current strategy is the generation of 120-160 GWh electricity and 2.4-2.6 PJ thermal energy annually in the medium term, which may mean stable profits and cash flows and, first of all, an increasing shareholder value.

PannErgy Group's retained profit for the year and balance sheet data

1. The profits of Pannergy Group

The data of profitability and profits are included in Appendix 2.

The data of the consolidated income statement are included in Appendix 3.

The (individual) major financial data of the consolidated economic associations are included in Appendix 4.

The Group's net sales revenue in THUF, broken down by activities:

Net sales revenue:	**2014**	**2013**
Energetics	1.659.638	684.673
Asset management	630.253	595.111
Total:	2.289.891	1.279.784

The Group's net sales revenue for 2013-2014 was a domestic sales revenue in full.

The significant growth (178.9%) of the sales revenue was the result of the launching of the second phase of the Miskolc Geothermal Project (Miskolc downtown and university campus heat districts) whose sales revenue from thermal energy production was THUF 1,208,966 in 2014 and THUF 571,336 in 2013.

The Group's other revenues totalled THUF 444,616 in 2014. Of this, THUF 159,428 is related to a subsidy received for development goals, while the amount of the revenue from the sales of property, plant and equipment is THUF 258,999.

From the other revenues of THUF 356,757 (2013) of the base period, the subsidy received for development purposes was THUF 108,825, while the amount of the compensation related to damages was THUF 203,272.

Other expenses totalled THUF 390,053 in 2014, which mainly includes the growth of local taxes in respect of sales revenues, goodwill depreciation and compensation for damages. In 2013, other expenses arose at THUF 155,956.

In 2014, the consolidated total costs of the PannErgy Group amounted to THUF 2,497,567, while in 2013, it was THUF 2,039,993. The cost increase was partly derived from the direct costs that are related to thermal energy production and the arising of the one-off costs that are related to the installation of the projects.

Financial transactions resulted in a loss of THUF 280,832 in 2014, while in 2013, there was a loss of THUF 245,886. The amount of the increase is the result of the impact of the adversely changed EUR exchange rate.

The Group's retained profit/loss for the year: in 2014, a loss of THUF 488,300 and in 2013, a loss of THUF 825,848, as a result of the above.

2. The balance sheet of Pannergy Group

The data of the consolidated balance sheet are included in Appendix 5.

The balance sheet total increased by 18.1 % compared to the previous year.

The 18.0% increase in the row of non-current assets was the result of the geothermal projects (mainly in Miskolc and Győr).

The great increase in inventories within current assets was caused by the goods purchased for the projects (drill pipes and other services to be recharged).

The significant increase in other receivables (more than double of the figure for the previous year) is the result of the VAT receivables related to the projects and the prepayments (sales revenue and other items).

Cash amounts to THUF 357,228 which is nearly of the same extent as last year (at the end of 2013: THUF 383,507).

The equity of PannErgy Group fell by THUF 465,556 which is due to the increase of the loss for the current year (THUF 488,300) and the shares of minority (external) shareholders (THUF 22,744).

The THUF 3,030,691 growth of liabilities was partly the sum of the long-term and short-term loans that are related to the projects, and the long-term and short-term deferred income (non-refundable subsidies) that are related to the project investments and the subsidy advances.

The indices illustrating the changes to the financial, income and asset situation of the Company and the changes to the equity are included in Appendix 6.

III. Environment protection

PannErgy Group considers the high-level management of environmental protection as especially important. Currently, energy production activities are carried out in Miskolc, Berekfürdő and Szentlőrinc, which does not have any foreseeable inherent material environmental load or risks.

IV. Shares, share price changes, dividend policy

The share capital of PannErgy Nyrt. was HUF 421,093,100.

The current ISIN ID of the dematerialised shares is: HU0000089867

As of the balance sheet date, the price of the PannErgy Nyrt. shares was HUF 309/share, while as of 31 December 2013, it was HUF 344/share.

The price of the shares fluctuated throughout the whole year:

31 March	HUF 340/share
30 June	HUF 324/share
30 September	HUF 350/share

The changes to the ownership structure as of 31 December 2014 are illustrated in Appendix 7.

The number of shares held by persons in senior positions and strategic employees who influence the operations of the issuer are included in Appendix 8.

Due to the retained profit/loss for the year and the financial funding need of the Group's expected project program and based on its strategy, the Board of Directors does not recommend any dividend distribution.

V. Utilisation of financial instruments

The PannErgy Group planned FX forward transactions, stock exchange futures treasury share transactions and other transactions involving money and capital market instruments (even with leverage) in order to cover the Group's FX and other exposures, on the one hand, and to achieve an exchange rate gain, on the other hand. (There were no such transactions in 2014.) The Company does not have any risk management or collateral policies. The decisions needed for these transactions are made by the Company's professionals based on the current evaluation of their own situation and the situation of their environment.

VI. Main events after the balance sheet date

The table contains references to the relevant events. Based on the references, the whole information is available at the Company's official publication sites.

Date	Method of disclosure	Subject, short description of contents
01.01.2015	Other information	Number of voting rights at PannErgy Nyrt.
01.02.2015	Other information	Number of voting rights at PannErgy Nyrt. as of 31 January 2015.
17.02.2015	Extraordinary information provision	Changes in the Board of Directors of PannErgy Nyrt., Zsolt Perlaki resigns.
19.02.2015	Extraordinary information provision	Preliminary information on the operations in 2014
01.03.2015	Extraordinary information provision	Number of voting rights at PannErgy Nyrt. as of 28 February 2015.

VII. Date of approval for disclosure

The Company's Board of Directors approved the financial statements on ... April 2015 and authorised their disclosure.

Péter Tóth
Representative of the Board of Directors