



**PannErgy Nyrt. and its Subsidiaries
Consolidated IFRS Financial
Statements and Annual Report
2015**

with the Independent Auditor's Report

IMPORTANT DISCLAIMER:

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

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Independent Auditor's Report

For the shareholders of PANENERGY NYRT.

Report on the Consolidated Financial Statements

We have audited the accompanying 2015 consolidated financial statements of PANENERGY NYRT (hereinafter: the "Company"). The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2015, which shows the identical total amount of THUF 26,818,777 for both assets and liabilities, the consolidated income statement and the consolidated statement of comprehensive income (which contains a comprehensive profit of THUF 78,171 for the subject year), the consolidated statement of changes in equity and cash flows for the year then ended, and the notes, comprising a summary of the significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU. This responsibility includes the implementation, introduction and maintenance of internal control relevant to the preparation and true presentation of the consolidated financial statements that is free from material misstatements resulting from either fraud or error, the selection and application of a proper accounting policy as well as the accounting estimates that are sensible under the given circumstances.

The Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on the audit. We conducted our audit in accordance with the Hungarian National Auditing Standards and the laws and other legislations in effect in Hungary with respect to auditing. Those standards require that we comply with certain ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit includes performing procedures to obtain evidence supporting the amounts and disclosures in the consolidated financial statements. The applied procedures, including the assessment of the risk of material misstatements resulting from either fraud or error, depend on the auditor's judgement. Upon the assessment of such risks, the auditor reviews the internal control relevant to the preparation and fair presentation of the consolidated financial statements by management in order to plan audit procedures that are appropriate under the given circumstances, but not for the purpose of issuing an opinion on the efficiency of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting principles used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated asset and financial position of PANNERGY NYRT. and its subsidiaries as of 31 December 2015, in accordance with the International Financial Reporting Standards adopted by the EU.

Other reporting obligation regarding the consolidated business report

We have audited the accompanying 2015 consolidated business report of PANNERGY NYRT. and its subsidiaries.

Management is responsible for the preparation of the consolidated business report in line with the consolidated financial statements compiled in accordance with the International Financial Reporting Standards (IFRS) adopted by the EU.

Our responsibility is to judge whether this consolidated business report is consistent with the consolidated financial statements prepared for the same business year. Our work in relation to the consolidated business report was limited to the assessment of the consistency of the consolidated business report with the consolidated financial statements and did not include the review of any other information drawn from the non-audited accounting records of the Company. In our opinion, the 2015 consolidated business report of PANNERGY NYRT. and its subsidiaries is consistent with the data included in the 2015 consolidated financial statements of PANNERGY NYRT. and its subsidiaries.

Budapest, 23 March 2016

Mrs. István Pisták
UNION-Audit Kft.
Registration number: 001927

Mrs. Kovács, Mónika Révai
Chamber Member, Auditor
007211



PannErgy Nyrt. and its Subsidiaries

Consolidated IFRS Financial Statements

31 December 2015

Budapest, 23 March 2016

Dénes Gyimóthy

Acting CEO

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CONSOLIDATED INCOME STATEMENT

	Note	2015	2014
		THUF	THUF
Sales revenues	5	2,726,364	2,289,891
Cost of sales		-2,044,219	-1,739,304
Gross profit		682,145	550,587
Administrative and general costs	6	-1,180,000	-758,263
Other income	9	2,372,207	444,616
Other expenses	8	-1,501,421	-390,053
Operating profit		372,931	-153,113
Result of financial transactions	10-12	-156,400	-280,832
Profit/loss before taxation		216,531	-433,945
Income tax	30	-182,797	-94,817
After-tax profit from continued operations		33,734	-528,762
Net profit/loss for the year		78,171	-540,757
From the after-tax profit/loss for the year:			
To the capital holders of the parent company		78,171	-540,757
To the minority (external) holders	25	-44,437	11,995
Other comprehensive income		-	-
Total comprehensive income for the period		78,171	-540,757
Earnings per share (HUF)			
Basic	31	4.28	-29.59
Diluted	31	4.28	-29.59

CONSOLIDATED BALANCE SHEET

	Note	31 December 2015	31 December 2014
		THUF	THUF
Intangible assets	13	1,130,397	1,375,023
Goodwill	13	-	-
Tangible assets	14	20,648,444	15,375,067
Permanent investments	15	22,935	22,935
Investments available for sale	15	250,000	0
Receivables related to finance leases	17	0	0
Deferred tax assets	30	434,888	524,064
Long-term receivables	16	19,071	1,500
Total non-current assets		22,505,735	17,298,589
Inventories	18	312,113	992,683
Trade debtors	19	1,028,907	307,445
Other receivables	20	1,322,376	740,579
Income taxes paid in advance	30	28,284	20,895
Securities	21	500,737	12
Cash	32	1,120,625	357,228
Total current assets		4,313,042	2,418,842
TOTAL ASSETS		26,818,777	19,717,431
Subscribed capital	22	421,093	421,093
Reserves	24	11,593,899	12,095,317
After-tax profit/loss for the current year		78,171	-540,757
Reserve due to repurchased treasury shares	23	-3,009,223	-3,009,223
Minority interest	25	247,609	292,352
Total shareholders' equity		9,331,549	9,258,782
Total long-term loans, leases	26	9,142,588	3,886,667
Other long-term, deferred income	26	4,871,410	3,189,296
Provisions	28	13,745	15,207
Total long-term liabilities		14,027,743	7,091,170
Trade creditors	33	1,696,361	1,363,468
Short-term loans	27	857	172,865
Short-term portion of long-term loans	27	783,895	379,535
Other long-term, deferred income	26	238,300	159,428
Income taxes payable	30	20,723	4,402
Deferred tax liabilities	30	36,500	0
Other current liabilities	29	682,849	1,287,781
Total current liabilities		3,459,485	3,367,479
TOTAL EQUITY AND LIABILITIES		26,818,777	19,717,431

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2015	2014
	THUF	THUF
Retained profit/loss for the subject period	78,171	-540,757
<i>Other comprehensive income</i>		
Exchange rate difference from the conversion of the accounts of foreign subsidiaries into HUF		
Exchange rate difference from the conversion of the accounts of associates and joint ventures into HUF		
Financial assets available for sale with deferred tax		
Cash flow hedging transactions with deferred tax		
Share in the comprehensive income of associates		
<i>Other comprehensive income for the period with tax implications</i>		
Total comprehensive income for the period	78,171	-540,757

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Description	Subscribed capital	Reserves	Repurchased treasury shares	Share of external members	Equity
	THUF	THUF	THUF	THUF	THUF
Balance as of 31 December 2013	421,093	12,095,317	-3,009,223	269,608	9,776,795
Profit or loss for 2014	-	-540,757	-	11,995	-528,762
Changes to the share of external members	-	-	-	10,749	10,749
Exchange rate difference from the consolidation	-	-	-	-	-
Repurchased treasury shares	-	-	-	-	-
Treasury shares sold	-	-	-	-	-
Premium of shares purchased by minority	-	-	-	-	-
Balance as of 31 December 2014	421,093	11,554,560	-3,009,223	292,352	9,258,782
Profit or loss for 2015	-	78,171	-	-44,437	33,734
Changes to the share of external members	-	-	-	-306	-306
Exchange rate difference from the consolidation	-	-	-	-	-
Share option program	-	39,339	-	-	39,339
Treasury shares sold	-	-	-	-	-
Premium of shares purchased by minority	-	-	-	-	-
Balance as of 31 December 2015	421,093	11,672,070	-3,009,223	247,609	9,331,549

CONSOLIDATED CASH FLOW STATEMENT

	Note	2015	2014
Cash flows from operating activities		THUF	THUF
Profit/loss before taxation		216,531	-433,945
<i>Adjustments in respect of the pre-tax profit or loss and the cash flows from business activities</i>			
Depreciation of property, plant and equipment and intangible assets	13-14	1,241,071	634,747
Impact of deferred taxes	30	89,176	52,457
Income tax expense	30	-182,797	-94,817
Exchange rate loss/gain on loans	10-12	-101,893	125,813
Extraordinary depreciation of property, plant and equipment and goodwill	14	1,113,983	76,652
Impairment and deficit in inventories	18	-	168
Release/allocation of provisions	28	-1,462	-1,688
Interest payable/received	10-12	202,055	156,179
Profit/loss from the sales of property, plant and equipment	9	-1,737,756	-258,999
Share option program expense	34	39,339	-
Changes to minority shareholdings	25	-306	10,749
<i>Changes to working capital elements</i>			
Increase/decrease in inventories	18	680,570	-693,051
Income tax paid	30	45,432	57,176
Decrease/increase in receivables		-1,303,259	-67,452
Increase/decrease in liabilities		-272,039	1,152,880
Interest rate received	9	6,311	584
Interest rate paid	8	-208,366	-156,763
Net cash from/used for operating activities		-173,410	560,690
Cash flows from investing activities			
Purchase of investments in non-public companies	15	-250,000	-
Increase/decrease in existing investments	15	-	-
Sales of investments	15	-	-
Purchase of property, plant and equipment and intangible assets	13-14	-8,898,582	-3,421,917
Sales of property, plant and equipment and intangible assets	13-14	3,252,533	324,384
Other long-term and current deferred income	26	1,760,986	849,378
Decrease in long-term receivables	16	-17,571	500
Cash from investment activities		-4,152,634	-2,247,655

Financing activities			
Increase/decrease in long-term loans	26	5,350,835	1,183,405
Decrease/increase in short-term loans	27	239,331	195,776
Exchange rate difference from consolidation	41.4	-	-
Purchase/sales of treasury shares	23	-	-
Capital increase in minority shareholdings, premium	25	-	-
Increase/decrease in the securities portfolio	21	-500,725	281,505
Cash used for financing activities		5,089,441	1,660,686
Net decrease/increase in cash and cash equivalents		763,397	-26,279
Cash and cash equivalents as of 1 January		357,228	383,507
Cash and cash equivalents as of 31 December		1,120,625	357,228

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1. GENERAL INFORMATION AND NATURE OF THE ACTIVITY

PannErgy Nyrt. (hereinafter: “PannErgy Nyrt.”, “PannErgy” or the “Company”), as the legal successor of PannonPlast Nyrt., has a history of almost one hundred years. On 31 May 1991, the Company was transformed into a 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. In line with this shift in strategy, having replaced the former plastic manufacturing activity, the Company’s main activity has been the usage of renewable, geothermal energy resources and asset management since 2007. As of 31 December 2015, PannErgy Nyrt.’s subsidiaries operate geothermal projects, among others, in Miskolc, Győr, Szentlőrinc and Berekfürdő.

The subsidiaries are listed in Note 37.

The address of the Company’s registered office: Hungary, 1117 Budapest, Budafoki út 56.

2. COMPILATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements of the PannErgy Group composed of PannErgy Nyrt. and its consolidated subsidiaries (hereinafter: “PannErgy Group” or the “Group”) were prepared according to the International Financial Reporting Standards (hereinafter: the “IFRS”) adopted by the European Union. The consolidated financial statements also comply with the requirements of Act C of 2000 on Accounting regarding consolidated financial statements, which apply to the IFRS rules adopted by the EU.

The consolidated financial statements were compiled on a cost basis except for certain financial instruments that are included in the balance sheet at fair value. PannErgy Nyrt. rounded up the values of the consolidated financial statements to thousand Hungarian forints, the exceptions are indicated in the statements separately.

The accounting and other records of PannErgy Group’s members are maintained according to the currently valid Hungarian laws and the legal regulations on accounting. The members of the PannErgy Group modify the annual reports compiled according to the Hungarian rules on accounting in order to comply with the IFRS.

The consolidated financial statements of the PannErgy Group present the Group’s consolidated financial situation and the result of its activity and cash transactions as well as the changes in equity.

3. SUMMARY OF THE SIGNIFICANT ELEMENTS OF THE ACCOUNTING POLICY

3.1 General description

The most important accounting policies applied during the compilation of the consolidated financial statements are described below. PannErgy Group applied the accounting principles described and detailed herein for all the presented business years consistently, any modifications, changes of such principles compared to the former business years are indicated separately.

3.2 Principles of consolidation

These consolidated financial statements include the assets and liabilities as well as the income and expenses of all the subsidiaries of the PannErgy Group where the Company has a majority holding. 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 PannErgy Group's equity. Minority holdings include the value of these shares at the date of acquisition, 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 Application of new and modified reporting standards in the subject year

There are no such new or modified standards effective from 1 January 2015 that PannErgy Group would have applied for the first time in the financial year starting on 1 January 2015 for the compilation of the consolidated financial statements and that would be relevant for the purposes of the consolidated financial statements of the subject year.

New standards and interpretations not yet applied

The following new standards and interpretation modifications entered into force after 1 January 2015 but PannErgy Group has either not applied these during the compilation of the consolidated financial statements, or where they have been applied, they did not make a significant impact on PannErgy Group's annual statements.

IFRS 9 Financial instruments

The standard focusing on the recognition, measurement and classification of financial assets and financial liabilities was published in July 2014, replacing the relevant portions of IAS 39. IFRS 9 requires the classification and measurement of financial assets into categories of amortised cost and fair value, and this should be performed upon the initial recognition. Investments in equity instruments are measured at fair value through profit or loss. The requirements of the standard regarding the accounting for changes in fair value or credit loss-type impairment are not applied. The requirements of the standard regarding standard hedging transactions and the accounting and documentation thereof do not make an impact on the PannErgy Group because it does not have any hedging transactions. The standard will be effective for business years beginning on or after 1 January 2018, its early application is allowed. The assessment of the

total impact of IFRS 9 on the Company is in progress. The European Union has not adopted the new standard yet.

IFRS 15 Revenue from contracts with customers

IFRS 15 focuses on the recognition of revenues and implements new accounting principles regarding the amount, timing and presentation of sales revenues and cash flows arising from customer contracts in the financial statements. According to the standard, a sales revenue can be recognised when the control of goods or services is transferred to the customer i.e. the customer is able to direct the use of the goods and is entitled to the benefits from the goods or services. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts. IFRS 15 will be effective for business years beginning on or after 1 January 2018, its early application is allowed. The assessment of the total impact of IFRS 15 on the Company is in progress. The European Union has not adopted the new standard yet.

IAS 27 Separate financial statements

The modified IAS 27 allows the application of the equity method in separate financial statements in the case of subsidiaries, joint ventures and associated companies. The modification will be effective for business years beginning on or after 1 January 2016, its early application is allowed. The assessment of the total impact of IAS 27 on the Company is in progress. The European Union has not adopted the new standard yet.

There are no other IFRS's or IFRIC interpretations that have not entered into force yet and that are expected to make a significant impact on the Company.

3.4 Functional currency

The currency of the PannErgy Group is the Hungarian forint which is the currency of the primary operational environment. The Group does not pursue economic activities in an environment based on which the use of a functional currency would be justified. Accordingly, the impact of the changes in conversion rates is not explained in the consolidated financial statements.

3.5 Conversion of foreign currencies, FX transactions and balances

In the subject period, there were no profits/losses from the conversion of the financial statements of a foreign interest or profit/loss type events derived from the hedging instrument of a cash flow hedging transaction.

In the case of transactions or revaluations, FX transactions were converted into HUF at the exchange rate valid on the date of measurement. The exchange rate gains and losses from the year-end revaluation of financial assets and liabilities derived from such transactions or recorded in foreign currencies will be recognised in the income statement. Exchange rate gains and losses are presented in the "Income from financial activities" or "Expenses of financial activities" rows of the income statement.

3.6 Accounting for the purchase of investments and goodwill

Upon acquisition, investments are accounted for with the fair value method. Goodwill generated upon the acquisition of investments is included in the balance sheet and is measured individually each year. Goodwill is generated if the total of the assets and liabilities of the acquired subsidiary measured at market value is

below the consideration of the acquired share. The goodwill is recognised under intangible assets in the consolidated balance sheet.

If no return can be expected on the goodwill from the future results, the whole amount is written off. 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 Group defines a cash-generating unit as follows: A cash-generating unit is 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.”

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 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.

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.

3.7 Property, plant and equipment

In respect of the Energy segment, the category of properties in the consolidated balance sheet of the PannErgy Group includes the buildings functioning as thermal centers related to geothermal projects or consumer connection points as well as geothermal grid systems with the nature of other structures and production and injection thermal wells. In the Asset Management segment, PannErgy Nyrt. has office buildings and industrial facilities (halls) suitable for production.

Property, plant and equipment are recognised at historical cost less depreciation. Historical cost includes the costs directly related to the acquisition of the items. After initial capitalisation, subsequent costs will only be recognised as assets increasing the asset's book value or as separate assets if the Company is likely to receive from the future economic benefits that flow from the item and the cost of the item can be measured reliably. The book value of the replaced components of the assets will be derecognised. 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.

PannErgy Group does not account for any depreciation for land.

The depreciation of property, plant and equipment is calculated with the straight-line method where the cost or revalued amount of the assets is reduced to the residual value over the following estimated useful lives of the assets:

Properties (including those of the geothermal projects)	20-75 years
Production machinery (including those of the geothermal projects)	3-25 years
Other equipment	2-8 years
Vehicles	5 years

Assumptions regarding useful life, residual values and depreciation methods are reviewed annually and modified accordingly, if required.

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

Tangible assets acquired within the framework of a financial lease are depreciated over their expected useful life, similar to the Group's own tangible assets.

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.

3.8 Projects, geothermal projects

In the financial statements, the value of tangible assets includes the values of projects. These are the current costs of the geothermal, energy and other types of projects that are in progress; depreciation is accounted for after the capitalisation of the project.

During the implementation of geothermal projects, typically after a preparatory, design and permission phase, a production well is established (with a pump, a filter and a degasser) followed by an injection well that transfers the produced geothermal fluid back into the soil layer, a thermal center containing a heat exchanger and the control panel of the whole system, the consumer connection points and a grid system connecting the above elements of the complete geothermal system.

Except for the core activity of drilling, the projects are implemented by suppliers from outside the PannErgy Group. The requirements of IAS 11 Construction contracts do not make an impact on the Group because in the case of projects affecting several reporting periods, the contractual schedules are established in a way that is in harmony with the arising of the costs of implementation and the invoicing schedule.

3.9 Intangible assets

Intangible assets are carried at cost less accumulated depreciation in the consolidated balance sheet (except for goodwill).

Purchased software are capitalised at cost calculated based on the costs related to the acquisition and installation. The cost is written off over an estimated useful life of 3-5 years, according to the nature of the software.

Trademarks, licences, purchased know-how have definite useful lives and are recognised at cost less accumulated amortisation. The cost of trademarks and licences are amortised with the straight-line method over an estimated useful life of 15-20 years.

3.10 Impairment of non-financial assets

The Company does not charge any amortisation to intangible assets with an indefinite useful life or not yet suitable for use but tests them annually for impairment.

Assets, which are not charged with amortisation, will also be tested for impairment in each case when events or changed circumstances imply that the book value will not be fully recovered.

If the Company sees signs based on which there is a chance that the realisable value of tangible and intangible assets may fall below the book value, impairment will be tested. If the realisable value falls below the book value, impairment has to be charged to the profit/loss in respect of the assets treated at cost. The realisable value is the higher of an asset's value in use and its market value. The market value is the amount that can be received for an asset in a transaction between unrelated parties, while the value in use is the net present value of the cash flows derived from the continuous use of the asset and its sales at the end of its useful life. The assets related to PannErgy Group's geothermal projects, which cannot be interpreted individually only at the level of the geothermal system as a whole, do not have an active market under IAS 36, thus, for lack of a market value, their realisable value is the net present value of the cash flows derived from their continuous use.

The realisable value is determined individually for each asset, or if it is not possible, for each income-generating unit. The PannErgy Group checks at each reporting date whether the reasons for the formerly charged impairment still prevail. Any formerly charged impairment can only be reversed if there was a change in the circumstances taken into account during the establishment of the last impairment. Impairment can be reversed but the book value of the asset cannot exceed its recoverable value or its book value less depreciation which would have occurred, had no impairment been accounted for.

3.11. 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 phases, the expense incurred in relation to the project will be treated as if it had been incurred during the research phase exclusively. Intangible assets derived from research (or the research phase of an internal project) cannot be recognised, 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 each of 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 at cost (selection of 20 target regions) and expenses incurred in relation to the surface MT and gravity surveys (specification of the precise point of drilling) or the drilling permits and test drillings until these are recharged (sold as know-how) to the companies to be formed for the generation of the given energy.

3.12 Inventories

The dominant majority of the inventories recognised in the consolidated balance sheet is composed of goods (e.g. casing) as well as work in progress and semi-finished goods (materials and services used in connection with the drilling of a geothermal well). Upon the year-end valuation of inventories, measurement at the average price is applied. In the case of inventories, impairment is only accounted for if usability based on technical measurement justifies it. Inventories related to non-geothermal projects are typically the value of rechargeable services as goods, which are recognised at cost, presuming that recharging without losses is justified (the lower of cost and realisable value).

3.13 Financial instruments

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 is the difference between the book value and the present value of the expected future cash flows discounted by the original effective interest rate.

Classification

The Company classifies financial assets into financial assets at fair value through profit or loss, loans and receivables and financial assets available for sale. The classification is determined by the purpose of acquisition of the financial assets. The management defines the classification of the financial assets upon the initial recognition. In the subject year and the previous year, the Company only had financial assets classified into the category of loans and receivables.

Loans

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. The Company carries loans and receivables under current assets except for those whose maturity exceeds 12 months after the balance sheet date. The latter are recognised under non-current assets.

Recognition and measurement

The purchase or sale of financial assets is accounted for on the transaction's date of performance i.e. on the date when the Company undertakes an obligation to purchase or sell the asset. Initially, investments are recognised at fair value plus transaction costs in the case of financial assets that are not carried at fair value through profit or loss. Financial assets at fair value through profit or loss are initially recognised at fair value, while transaction costs are accounted for in the income statement. Financial assets are derecognised when the Company's right to the cash flows from the given item expired or was transferred and the Company has also transferred the material risks and rewards of the ownership.

After the initial recognition, loans and receivables are included in the books at amortised cost defined with the effective interest rate method.

Netting of financial instruments

Financial assets and liabilities are netted and recognised in the balance sheet as a single amount if the net settlement of the recognised amounts is legally permitted and the Company intends to settle the amounts net, or intends to both realise the asset and settle the liability. The PannErgy Group does not offset financial instruments.

Impairment of financial assets

At the end of each reporting period, the Company checks whether there is an objective evidence for the impairment of a financial asset or a group of financial assets. There is impairment in the case of a financial asset or a group of financial assets and the related expense is booked only if there is an objective evidence for impairment as a result of the events occurring after the initial recognition of the asset, and these events causing losses make an impact on the estimated future cash flows of the financial asset or the group of financial assets and the value of this impact can be estimated reliably. It may be an indication of impairment if customers or a group of customers face serious financial difficulties, pay interest rates or the principal instalments late or do not perform at all, are likely to become insolvent or are before other financial restructuring and the observable data indicate that the estimated future cash flows will decrease measurably e.g. economic circumstances significantly affecting the probability of insolvency change.

In the category of loans and receivables, the Company defines the amount of the loss as the difference between the asset's book value and the present value of the estimated future cash flows (without future lending losses not arisen yet) discounted with the original effective interest rate of the financial asset. The asset's book value will be decreased and the amount of the loss will be recognised in the income statement. In the case of loans with variable interest rates or held-to-maturity investments, the discount rate used for defining impairment loss is the current effective interest rate established in the contract. For practical reasons, the Company can define the impairment based on the fair value of the instrument determined based on its observable market price.

If, in a subsequent period, the amount of the impairment decreases and this decrease can be connected objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss shall be reversed in the income statement.

3.14 Trade receivables

Trade receivables include the amounts due from customers for goods sold or services provided during the ordinary course of business. If the amounts are expected to be received within a year, they will be classified into current assets, while in other cases, they will be recognised under non-current assets. Trade

receivables are initially recognised at fair value, while later they are measured at amortised cost less impairment, as defined with the effective interest rate method.

3.15 Cash and cash equivalents

In the cash flow statement, cash and cash equivalents include cash on hand, demand deposits and overdraft facilities. In the balance sheet, overdraft facilities appear under current liabilities, in the row of loans.

3.16 Subscribed capital

The Company recognises ordinary shares as equity elements. Incremental costs directly attributable to the issuance of new ordinary shares are reported as an item decreasing the equity.

3.17 Repurchased treasury shares

Repurchased treasury shares can be bought by PannErgy Group on the stock exchange or the OTC market, in line with the current authorisation of the general assembly, and are recognised in the consolidated annual financial statements as items that decrease the equity.

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

3.18 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 less repurchased treasury shares. Upon the determination of the diluted earnings per share all diluting factors must be taken into consideration.

3.19 Trade payables

Trade payables include the amounts payable for goods and services received from suppliers during the ordinary course of business. Trade payables are classified into current liabilities if their settlement is due within a year. In other cases, they are presented under long-term liabilities. Initially, trade payables are recognised at fair value, while later they are measured at amortised cost defined with the effective interest rate method.

3.20 Borrowings

Loans are initially recognised at fair value less transaction costs. Loans are later recorded at amortised cost. The difference between the borrowed amount (less transaction costs) and the repayable amount is accounted for in the income statement over the term of the loan with the effective interest rate method. The commitment fees for the credit line are recognised as transaction costs (thus, they have to be taken into account upon the calculation of the amortised cost and effective interest rate of the loan) if it is likely that the given portion of the available loan will be drawn down. In this case, the fee already paid will be re-accrued until the drawdown.

As opposed to this, if it is not likely that the given portion of the loan will be drawn down, the fee will be charged to the profit or loss during the commitment period of the credit line.

3.21 Borrowing costs

In the case of general and individual borrowing costs directly related to the acquisition, construction or production of a qualifying asset where a significant amount of time is required for the asset to be usable or marketable according to the planned goal, the items will be capitalised. Such borrowing costs will increase the cost of the given asset until it becomes usable or marketable according to the planned goal.

Revenues from the temporary investment of individual loans not yet used in connection with the qualifying asset will be deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs will be recognised in the profit or loss in the period in which they are incurred.

3.22 Current and deferred income tax

The corporate tax expense is the amount of the current corporate tax liability and the deferred tax liability. Accordingly, in the consolidated financial statements of the PannErgy Group, the extent of the corporate tax payable annually is based on the tax payment liability defined based on the laws of Hungary, which will be adjusted by the amount of the deferred tax expense.

Based on IAS 12, PannErgy Group considers corporate tax as the income tax but excludes local business tax and innovation contribution from it.

The 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.

Deferred tax assets and liabilities can be offset when the company has a legal right to offset its current tax assets and liabilities outstanding towards the same tax authority and when the Group intends to offset these assets and liabilities.

3.23 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.

3.24 Accounting for sales revenues

Sales revenues are measured at the fair value of the consideration received or due for the goods sold or the services provided and represent amounts calculated without discounts, return merchandise and VAT. The PannErgy Group recognises the sales revenue if its amount can be measured reliably, the Company is likely to receive from the future economic benefits and the conditions detailed below are fulfilled for the individual activities of the Company. The PannErgy Group provides heat sales services for a few customers only, this is the core activity of the Group's Energy segment. Revenues from heat sales are recognised when PannErgy Group aggregates for the customer the heat quantities transferred during the month based on quantity data supported by technical data and verified by both parties.

In the case of the services provided in Pannergy Group's Asset Management segment, the sales revenues from the service provision will be recognised on the accounting date of the provision of the service, and they will be measured according to the degree of completion of the given transaction and based on the ratio of the actually provided services within the total of services.

3.25 Interest income and dividend income

Interest income is recognised with the effective interest rate method. As for the impairment of loans and receivables, the Company reduces the book value to the recoverable amount which is the instrument's estimated future cash flow discounted with the original effective interest rate. Subsequently, the difference derived from the reversal of the discount appears as an interest income. Interest income from impaired loans and receivables will be recognised with the application of the original effective interest rate.

Dividend income is recognised when the Company becomes entitled to dividends.

3.26 Leases

The type of lease that does not transfer a significant portion of the risks and rewards incidental to ownership will be accounted for as an operating lease. Payments made within the framework of an operating lease (after deducting the incentives received from the lessor) will be recognised in the income statement on a straight-line basis over the lease term.

The property, plant and equipment leased by the PannErgy Group are presented as finance leases since the risk and the majority of the rewards incidental to ownership are substantially transferred. Finance leases are capitalised upon the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. All paid lease payments are divided into principal (liability) and interest rate (cost). The Company presents the related liabilities (excluding interest costs) under other long-term liabilities. The interest portion of the finance payment is recognised in the profit or loss with the permanent interest rate calculated for the outstanding lease liability in each period. Property, plant and

equipment acquired through a finance lease is depreciated over the shorter of the asset's useful life and the lease term.

The consolidated financial statements of the PannErgy Group contain lease liabilities only, with no lease receivables.

3.27 Distribution of dividends

Dividends distributable to the shareholders of the Company are recognised in the financial statements as liabilities in the period when the owners approved the dividend.

3.28 Government subsidies

Government subsidies are booked at fair value if it can be proved appropriately that PannErgy 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 life of the asset.

3.29 Share-based payments

If the Group provides share-based benefits settled in shares for some of its manager and employees, the quantity of these benefits estimated by the Group shall be measured at the fair value calculated on the date of issuance and accounted for as personnel-type expenses in the income statement on a time proportion basis over the evaluated business year.

3.30 Assets held for sale

The financial statements do not include any 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.

The consolidated financial statements of the PannErgy Group do not contain any assets held for sale.

3.31 Comparative data

Data for the base and the subject years were measured in the consolidated financial statements with the same method except for the reclassifications in the base data which are explained in Note 40.

3.32 Segment reporting

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. Based on the nature of the goods or services, the type or group of the customers of the goods or services and the methods applied for the distribution of the goods or the provision of the services, the PannErgy Group distinguishes between two segments: Energy and Asset Management. The breakdown of the data of the consolidated financial statements by segment is in Note 39.

4. MATERIAL/CRITICAL ACCOUNTING ASSUMPTIONS AND ESTIMATES DURING THE APPLICATION OF THE ACCOUNTING POLICY

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

Critical accounting estimates and assumptions

During the application of the accounting policy described in Section 3, the Company applied certain estimates and assumptions. Although the resultant accounting estimates are based on the Company's best knowledge of the current events, by definition, they rarely show the final results, the actual figures may deviate from them. Estimates and assumptions that may significantly modify the balance sheet value of assets and liabilities will be presented in the following financial year, as shown below. 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 future profit that forms an appropriate tax base against which the deferred tax assets can be applied;
- The outcome of certain contingent liabilities;
- Determination of the fair value of financial instruments;
- Determination of the useful life of tangible assets;
- Determination of the impairment of tangible assets and goodwill;
- Determination of the value of provisions.



5. SALES REVENUES

5.1. Breakdown of sales revenues by segment

	2015 THUF	2014 THUF
Energy	2,185,903	1,688,467
Asset management	540,461	601,424
Total	2,726,364	2,289,891

5.2 Breakdown of sales revenues by geographical location

	2015 THUF	2014 THUF
Domestic sales revenues	2,722,379	2,289,891
Sales revenues within the EU	3,985	-
Sales revenues outside the EU	-	-
Total	2,726,364	2,289,891

5.3 Breakdown of sales revenues by activity or service

	2015 THUF	2014 THUF
Heat sales	2,110,301	1,626,584
Mediated services recharged	579,040	600,592
Electricity sales	30,079	30,509
Rent for buildings and tangible assets	6,944	32,206
Total	2,726,364	2,289,891

5.4 Breakdown of non-current assets related to sales revenues by geographical segment

	2015 THUF	2014 THUF
Assets used in domestic production	22,051,776	16,773,025
Assets used in production within the EU	-	-
Assets used in production outside the EU	-	-
Total	22,051,776	16,773,025

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

6. ADMINISTRATIVE AND GENERAL COSTS (INDIRECT COSTS)

	2015	2014
	THUF	THUF
Indirect personnel-type costs	127,476	135,901
Expert fees, bookkeeping, audit fees	99,745	91,844
Indirect depreciation (property, plant and equipment)	617,041	167,699
Office and operating costs	257,420	312,124
Bank charges	28,439	24,208
Insurance premia	13,027	14,816
Other fees payable to authorities, duties	5,307	5,674
Public and stock exchange costs	31,545	5,997
Total	1,180,000	758,263

Compared to the previous year, the PannErgy Group decreased costs in several areas of the operating costs, the most significant decrease was achieved in the area of office and operating costs and personnel-type expenses. The increase in expert fees and bank charges compared to the previous year is related to the financing of the Győr Geothermal Project. The higher level of public and stock exchange costs was caused by social responsibility assumed in the environment of the operating projects, e.g. the costs of sport subsidies.

In the significant growth of indirect costs, the depreciation of tangible and intangible assets acquired for the production of a “final product” know-how (sold for THUF 512,000) of a development project related to the Company’s PIAC13-1-2013-0006 subsidy in line with the tender requirements showed up as a one-off item, and it caused a one-off depreciation of THUF 617,041 in relation to the sale. The related tender project had a special development nature where the depreciation of certain assets acquired for the research and development was fully accounted for until the completion of the project since the assets were acquired only for the development of the know-how, but the assets are still owned by the Company even after the completion of the project, in line with the tender’s sustainability requirements, they will not be scrapped.

As a result of the above, direct costs without depreciation fell from THUF 590,564 to THUF 562,959.

7. NUMBER OF STAFF AND WAGE COSTS

	2015	2014
Average number of staff (persons)	40	43
Wage costs (THUF)	285,391	231,219
Other personnel-type payments (THUF)	32,118	33,077
Wage contributions (THUF)	82,991	73,494
Total	400,500	337,790

In 2015, the PannErgy Group paid voluntary pension fund contributions of THUF 1,694 after 13 employees, while the same item totalled THUF 2,257 in the consolidated financial statements for 2014 in relation to 11 employees. The amounts paid into the voluntary pension funds are determined by the employees through the standard fringe benefits system that is available for all employees of the PannErgy Group, bearing in mind the limitations defined by the Group.

8. OTHER EXPENSES

	2015	2014
	THUF	THUF
Fines, penalties, default interest and damages paid	90,853	138,621
Local taxes, duties, fines	160,600	102,411
Subsidies granted to offset costs	15,927	-
Extraordinary depreciation of goodwill	-	69,669
Extraordinary scrapping, impairment of property, plant and equipment and intangible assets	1,113,983	2,203
Duties, contributions	48	501
Costs related to damages	4,214	552
Deficit in inventories, scrapping	-	168
Subsidisation of spectacular team sports recognised as tax allowance under the Act on Corporate and Dividend Tax	62,015	38,000
Other	53,781	37,928
Total	1,501,421	390,053

Out of the total of tangible and intangible assets of THUF 1,113,983, THUF 886,136 is connected to the review and related write-off of the Gödöllő Geothermal Project. Additionally, DoverDrill Mélyfúró Kft.'s write-off of the "Trial drilling" development related to the sale of a drilling machine resulted in other expenses of THUF 194,670.

In the environment of its operating projects, PannErgy Group subsidised spectacular team sports associations within the framework of social responsibility in an amount of THUF 38,000. Based on the legal regulations, at the individual PannErgy companies this subsidy counts as a recognised cost that arose in the interest of the business and it can be taken into account as tax allowance in the case of the individual corporate taxes calculated from the profit decreased this way.

9. OTHER INCOME

	2015	2014
	THUF	THUF
Profit from the sales of property, plant and equipment	1,737,756	258,999
Subsidy received for development purposes	587,528	159,428
Income related to loss events, other subsidies received/granted	2,740	23,628
Fines, compensation received	15,275	873
Use of provision	1,462	1,688
Other	27,446	-
Total	2,372,207	444,616

10. INCOME FROM FINANCIAL OPERATIONS

	2015	2014
	THUF	THUF
Interest and interest-type income	6,311	584
FX gains of negotiable securities	710	7,015
FX gains related to receivables	61,592	39,794
FX gains related to liabilities	33,461	12,565
FX gains related to FX accounts	3,922	3,019
FX gains on FX loans, borrowings	131,346	0
Other financial income	1,772	1
Total	239,114	62,978

The FX gain of negotiable securities of THUF 710 was realised on a portfolio of THUF 500,737 recognised under negotiable securities, the achieved FX gain reflects the “low risk – low return” investment principle (typically money market instruments).

11. EXPENSES OF FINANCIAL TRANSACTIONS

	2015	2014
	THUF	THUF
Interest and interest-type expenses	208,366	156,763
FX loss related to receivables	28,859	3,800
FX loss related to liabilities	87,811	18,045
FX loss related to FX accounts	4,480	52
FX loss on FX loans, borrowings	25,912	158,903
Expenses allocated in connection with a share option program	39,339	0
Other financial expenses	747	6,247
Total	395,514	343,810

12. OTHER INFORMATION RELATED TO FINANCIAL TRANSACTIONS

	2015	2014
HUF/EUR exchange rate as of 31 December of the previous year	314.89	296.91
HUF/EUR exchange rate as of 31 December of the subject year	313.32	314.89
HUF/EUR exchange rate difference	-1.57	17.98

The profit realised on year-end FX revaluations was THUF 106,525 of which THUF 94,914 was related to long-term loans and THUF 6,979 to short-term loans. The year-end FX revaluation of long-term loans was significantly influenced by a one-off item: upon the capitalisation of the Győr project in December 2015, the loss-type revaluation difference of the FX project loans that arose until the date of capitalisation increased the value of the project by THUF 102,000. The governing exchange rate was HUF/EUR 317.63 on the date of capitalisation, the difference between the higher exchange rate fixed on this date with the realisation and the year-end exchange rate caused an unrealised exchange rate gain of THUF 92,000 at these FX loans in the consolidated financial statements.

13. INTANGIBLE ASSETS

Gross value

	Goodwill	Know-how	Rights and concessions	Purchased software	Total
1 January 2014	69,669	1,265,382	277,176	44,126	1,656,353
Purchase	-	24,970	61,550	-	86,520
Sales	-	-1,000	-	-	-1,000
Reclassification, scrapping	-69,669	-	-3,904	-18	-73,591
31 December 2014	-	1,289,352	334,822	44,108	1,668,282
Purchase	-	-	208	14,395	14,603
Sales	-	-	-	-	-
Impairment, scrapping	-	310,021	-	-	310,021
Reclassification	-	-132,300	131,069	25,940	24,709
31 December 2015	-	847,031	466,099	84,443	1,397,573

Accumulated depreciation

	Goodwill	Know-how	Rights and concessions	Purchased software	Total
1 January 2014	-	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
Increase	-	23,609	104,419	5,338	133,366
Sales	-	-	-	-	-
Impairment, scrapping	-	-115,464	-	-	-115,464
Reclassification	-	-	1	-43,986	-43,985
31 December 2015	-	65,695	196,021	5,460	267,176
<i>Net value</i>					
1 January 2015	-	1,131,802	243,221	-	1,375,023
31 December 2015	-	781,336	270,078	78,983	1,130,397

The goodwill of THUF 69,669 in the base period and its full depreciation of THUF 69,669 was connected to Berekfürdő Energia Kft. and the Berekfürdő Project.

The Group included a significant development item in intangible assets, it is related to the geothermal explorations. It is justified to include this intangible asset of high value in the annual report 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 best estimate of the Group's management. After discounting, these cash flows were compared to the book values and since they exceeded those, it is not justified to recognise impairment for this intangible asset.

14. TANGIBLE ASSETS*Gross value*

	Data in THUF			
	Property	Machinery and vehicles	Project	Total
1 January 2014	7,615,876	5,248,183	1,091,694	13,955,753
Purchase	-	-	3,335,397	3,335,397
Capitalisation	1,134,813	1,115,033	-2,249,846	-
Sales	-117,091	-4,903	-	-121,994
Reclassification, scrapping	-1,000	-14,009	-304	-15,313
31 December 2014	8,632,598	6,344,304	2,176,941	17,153,843
Purchase	-	-	8,883,979	8,883,979
Capitalisation	7,728,636	1,769,671	-9,498,307	-
Sales	-572,461	-1,665,528	-518,334	-2,756,323
Impairment, scrapping	-113	-45,593	-86,136	-931,842
Reclassification	-	-3,522	-68,695	-72,217
31 December 2015	15,788,660	6,399,332	89,448	22,277,440

Accumulated depreciation

	Property	Machinery and vehicles	Project	Total
1 January 2014	196,277	1,093,515	-	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	-	1,778,776
Increase	191,549	916,156	-	1,107,705
Sales	-29,715	-1,211,831	-	-1,241,546
Scrapping, impairment	-	-12,416	-	-12,416
Reclassification	-	-3,523	-	-3,523
31 December 2015	472,197	1,156,799	-	1,628,996
Net value 1 January 2015	8,322,235	4,875,891	2,176,941	15,375,067
Net value 31 December 2015	15,316,463	5,242,533	89,448	20,648,444

Certain properties and machinery serve as collateral for the outstanding investment loans. In relation to this, the following important right limitations, pledges are valid for property, plant and equipment on 31 December 2015:

PannErgy company	Financier	Amount of collateral charged to tangible assets	Tangible assets as collaterals
PannErgy Nyrt.	SG Eszközfianzírozás Mo. Zrt.	THUF 29,816	Taking out an insurance, designating the lessor as beneficiary
Kuala Kft.	Sberbank Magyarország Zrt.	THUF 1,336,805	Limited security lien on assets (for all properties and movables)
Miskolc Geotermia Zrt.	Sberbank Magyarország Zrt.	THUF 2,258,889	Limited security lien on assets (for all properties and movables)
Arrabona Geotermia Kft. DD Energy Kft.	Magyar Export- Import Bank Zrt.	EUR 21,954,565	Joint limited security lien on assets (for all properties and movables)
Szentlőrinc Geotermia Zrt.	Széchenyi Kereskedelmi Bank Zrt.	THUF 540,000	Limited security lien on assets (for all properties and movables)
Berekfürdő Energia Kft.	Unicredit Leasing Hungary Zrt.	EUR 617,502	Pledge on the assets of the geothermal project

No tangible assets have been revalued in the subject period.

Year-end evaluation of tangible assets with a high value

Due to the special nature of geothermal projects, the Group has assets of high value in several of its subsidiaries (production and injection wells, properties, heat centers, network systems, drilling equipment etc.). The cash-generating capability of these can only be interpreted in light of all the tangible assets related to the given project due to the nature of the project. To support this, the individual projects are organised into separate economic entities, a given group of assets is only used on one specific market.

On 31 December 2015, the impairment test was performed at all PannErgy member firms where the majority of the assets of the companies are tangible assets used in or directly related to production.

The Group interpreted it as a sign of impairment that losses were generated in the previous years and the subject year, which might be the sign of the fact that the economic performance of the assets is weaker than the level required upon the installation.

Due to the special nature of the geothermal activity, instead of market comparison, cost-based evaluation and the residual goodwill method, income-generating capability based measurement was applied at the year-end measurement and impairment testing of assets of high value. During the method, the Group's

future benefits that may derive from the ownership of assets of high value were quantified and the present value of these quantified benefits as future cash flows was estimated. The income-generating capability was defined as an advantage i.e. the cash flows indicated based on the detailed model relevant for the following years was calculated. The value calculated this way during the impairment test was compared as the recoverable amount to the book value.

The model used for the calculation of the recoverable amount contains the following:

- the estimated planned extent of the future cash flows from the assets for the individual cash-generating unit companies,
- the expected potential amounts and timely performance of these future cash flows,
- the time value of money,
- other factors that are based on industrial features.

Based on the performed impairment tests and in line with the requirements of IAS 36, the assets of the Group are recorded at a value not exceeding their recoverable value i.e. their book value exceeds the amount recoverable through the use or sale of the asset.

15. INVESTMENTS

	2015	2014
	THUF	THUF
Geo-Wendung Zrt.	250,000	-
Pannunion Service GmbH.	22,935	22,935
Total	272,935	22,935

PannErgy Group recognises the book value of unconsolidated companies acquired as investments in rows “Permanent investments” and “Investments available for sale”. There were two such companies in 2015. Investments available for sale include a 40% share in Geo-Wendung Zrt. worth THUF 250,000. PannErgy Group qualified this investment as an investment available for sale based on the fact that CSRG Energia Zrt., the subsidiary holding Geo-Wendung Zrt. shares was sold in March 2016 for THUF 250,000. CSRG Energia Zrt.’s only asset element is the share package of Geo-Wendung Zrt., thus the investment is sold indirectly, this is the reason for the rating of the investment as available for sale.

Permanent investments include the Pannunion Service GmbH investment of THUF 22,935. PannErgy Group’s share in this company is 91%. PannErgy Nyrt. does not consolidate Pannunion Service GmbH because it would not make a material impact on the consolidated financial statements.

16. LONG-TERM RECEIVABLES

	2015	2014
	THUF	THUF
Other receivables	19,071	1,500

As of 31 December 2015, the PannErgy Group had long-term receivables of THUF 19,071 in the consolidated financial statements. The majority of this is related to the property sale of PannErgy Nyrt. in the subject year. They agreed with the customer in a long-term payment schedule (more than 1 year) for one portion of the sales transaction. The other long-term loan of THUF 1,000 is the loan provided by the PannErgy Group to municipalities with a joint share in the geothermal project companies.

17. LEASE RECEIVABLES

As of the end of 2015 and on the base date, PannErgy Group did not have any lease receivables.

18. INVENTORIES

	2015	2014
	THUF	THUF
Materials	-	-
Work in progress and semi-finished goods	-	285,699
Finished products	-	-
Goods	312,113	706,984
Impairment of inventories	-	-
Total	312,113	992,683

A large portion of the inventories recognised in the 2015 and 2014 IFRS financial statements is composed of goods which are goods used during the implementation of the geothermal projects (e.g. casings) and other goods. At the end of the year, according to the accounting policy, measurement at average price was applied. The charging of impairment is not justified due to the usability of inventories based on a technical evaluation. Accordingly, no impairment was charged in 2015.

19. TRADE RECEIVABLES

	2015 THUF	2014 THUF
Trade receivables	1,028,907	307,445
Impairment allocated for and reversal of doubtful receivables	-	-
Total	1,028,907	307,445

PannErgy Group sells its products to a concentrated, small number of customers in both the Energy and the Asset management segments, generally based on a long-term contractual background. Accordingly, PannErgy Group did not allocate any impairment to doubtful receivables in 2015.

Trade receivables do not bear interests and generally have 30-day terms.

The growth in trade receivables in significant excess of the base period was mainly due to the fact that in the sale of DoverDrill Mélyfúró Kft.'s injection well and certain related rights the due date of some of the purchase price of THUF 1,690,000 + VAT was beyond the balance sheet date. The related trade receivables totalled THUF 620,140 on 31 December 2015.

20. OTHER RECEIVABLES

	2015 THUF	2014 THUF
Security deposit	2,951	2,601
Other tax receivables	240,899	339,576
Items of the next period	553,957	319,800
Loans given and advances for geothermal projects	21,126	45,023
Other loans granted	470,000	2,010
Receivables from employees	256	82
Security deposit because of litigations	22,701	22,830
Other	10,486	8,657
Total	1,322,376	740,579

The total for 2014 deviates from the value presented in the previous financial statements because the corporate tax advance was taken out. Out of the amount of the items of the following period, THUF 536,254 is related to the sales revenue, THUF 17,682 to costs and THUF 21 to interest income.

The given loans are mainly connected to the sales transactions of DoverDrill Mélyfúró Kft.'s drilling equipment and injection well; out of which THUF 440,000 was settled, financially received by the date of the preparation of the consolidated financial statements.

21. SECURITIES

	2015	2014
	THUF	THUF
Securities held to maturity	500,737	12

The value of securities rose extraordinarily compared to the previous year. The reason for this is that after the completion of the Győr project, PannErgy Group placed THUF 500,000 at an investment fund in line with its cash flow plans and investment policy. The Company pursues a conservative investment policy so, accordingly, its portfolio included low-risk and (consequently) low-return investment units (money market) on 31 December 2015.

22. SUBSCRIBED CAPITAL

	2015	2014
	THUF	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 member firms as of 31 December 2015.

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:	New data:
	HU0000073440	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.

23. REPURCHASED TREASURY SHARES

	2015	2014
Nominal value (THUF)	55,508	55,508
Cost (THUF)	3,009,223	3,009,223

PannErgy Group did not have any treasury share transactions in 2015 and the base period.

24. RESERVES

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

	2015	2014
	THUF	THUF
Capital reserve	10,515,993	10,515,993
Retained earnings	1,928,622	2,430,040
Other reserves	-850,716	-850,716
Total	11,593,899	12,095,317

The capital reserve can be connected to two past events: the subscribed capital decrease performed when the company was transformed into a company limited by shares and the FX gains derived from share issuance. The amount recorded as capital reserve did not change between 2014 and 2015.

The amount under profit reserve contains PannErgy Group's accumulated profit from the previous years less the dividend paid to the owners. The approval of dividend distribution was not proposed in 2014 and 2015.

In other reserves the Company recognises the exchange rate differences derived from the consolidation of foreign subsidiaries sold in 2011 and the exchange rate losses derived from the sale of treasury shares.

The aggregate amount of the reserve for repurchased treasury shares and general reserves is indicated in a separate row of PannErgy Group's consolidated balance sheet. The methods of accounting and presentation are in line with the requirements of IAS 32 and IAS 33.

The "Repurchased treasury shares" column in the Statement of Changes in Equity shows the book value (cost) of the current treasury shares and their movements, while the amount in the "Treasury shares sold" row of the "Reserves" column includes the exchange rate difference pertaining to the sale (as accounted for compared to the book value). No profit/loss arises in the case of a sale, thus no value is indicated in the "Reserves" column.

25. MINORITY INTEREST

	2015	2014
	THUF	THUF
Balance as of 1 January	292,352	269,608
Minority shareholding in newly formed subsidiary	-	-
Current year profit or loss of subsidiaries attributable to minority shareholders (subsidiary, external)	-44,437	11,995
Decrease/increase in minority shareholding due to the sales/purchase of subsidiary shares	-306	10,749
Balance as of 31 December	247,609	292,352

In 2010, after a capital increase of HUF 1.08 billion at PannErgy Geotermikus Erőművek Zrt., a subsidiary of PannErgy Nyrt. (formerly named: PannErgy Polifin Zrt.), ONP Holdings SE obtained a share in the company.

The new shareholder's minority holding became 7.43%. Later, after another capital increase of HUF 1.08 billion performed by PannErgy Nyrt., the 7.43% share of ONP Holdings SE fell to 6.91%. The nominal value of the minority share: THUF 269,198.

Prior to the shareholding acquisition by ONP Holdings SE, PannErgy Nyrt. and ONP Holdings SE concluded a syndicated contract. According to this agreement, the parties wished to increase capital in several phases as a result of which ONP Holdings SE's share may increase to 15% in PannErgy Geotermikus Erőművek Zrt. In addition to the acquisition of the 7.43% share, which fell to 6.91% after the capital increase by PannErgy Nyrt., ONP Holdings SE may further increase the capital by HUF 1.485 billion through which its share may reach 15%.

In the syndicated contract, 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 to each other's business share was valid from 31 January 2011 till 31 January 2016. The minimum purchase price in respect of PannErgy's business share was HUF 28.7 billion on 31 January 2015 in light of the 15% straight-line growth 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 have been considered as the basis of the purchase price.

Additional movements in 2015 affecting the minority shares:

In 2015, PannErgy Geotermikus Erőművek Zrt. purchased a 10% minority share in CSRG Energia Zrt. (formerly: Csurgói Geotermia Zrt.) from the municipality of Csurgó and a 10% minority share in Gödöllő Geotermia Zrt. from the municipality of Gödöllő.

The total impact of the two transactions on the minority shareholding is THUF -306.

In 2015, the minority share in the profit/loss of the subsidiaries was THUF -44,437.

26. LONG-TERM LIABILITIES

	2015 THUF	2014 THUF
Long-term loans, borrowings, leases	9,926,483	4,266,202
- EUR-based loan secured with collateral	8,086,686	1,908,153
- HUF-based loan secured with collateral	1,708,326	2,195,161
- Finance lease liability	109,071	130,421
- HUF-based loan not covered with collateral	22,400	32,467
- Short-term portion reclassified into short-term loans	-783,895	-379,535
Total long-term loans, leases	9,142,588	3,886,667

The growth in long-term loans was caused by the investment loans disbursed by Magyar Export-Import Bank Zrt. (Eximbank) to the companies of the Győr Geothermal Project, Arrabona Geotermia Kft. and DD Energy Kft.

In addition to a normal repayment schedule, an early repayment transaction also contributed to the decrease of HUF-based loans secured by collateral; DoverDrill Mélyfúró Kft. repaid its long-term loan debt of THUF 316,700 in September 2015 from the revenues received from the sale of the drilling machine.

Weighted average interest rate of long-term loans

The basis of the interest rates of EUR loans varies by project company and funding institution, it is the 1-month, 3-month and 6-month EURIBOR. In light of these, the weighted average interest rate of EUR-based loans secured by collateral was 6.23% in 2015 and 5.41% in 2014. The weighted average interest rate of HUF-based loans secured by collateral was 3.06% in 2015 and 3.11% in 2014. The weighted average interest rate of HUF-based loans not secured by collateral did not change compared to 2014, it was 3.00%. The weighted average interest rate of finance lease liabilities was 1.16% in 2015, while the same was 2.71% in 2014.

Maturity dates of long-term loans

Out of the THUF 9,142,588 under long-term liabilities, THUF 1,653,137 expires between 1-5 years, while THUF 7,489,451 will expire after more than 5 years.

Lease liabilities included in long-term loans broken down by asset group:

2015

Description	EUR	THUF	Maturity	Book value in THUF
Vehicles	66,140	20,710	03.12.2018	60,799
Production machinery	210,967	66,058	04.01.2021	144,461

2014

Description	EUR	THUF	Maturity	Book value in THUF
Vehicle	94,686	29,816	03.12.2018.	65,499
Production machinery	253,969	79,972	04.01.2021.	159,695

Other long-term, deferred income

	2015 THUF	2014 THUF
Other long-term, deferred income	5,109,710	3,348,724
Short-term portion of long-term revenues	-238,300	-159,428
Total other long-term, deferred income	4,871,410	3,189,296

Long-term deferred income includes the long-term portion of the non-refundable subsidies won for the geothermal projects through a tender at the level of the PannErgy Group, while in the individual balance sheets they are under deferrals carried forward. The short-term portion is under current liabilities.

Data of subsidies related to deferred income (in MHUF)

Member firm	Project ID	Accountable project cost	Subsidy received	Subsidy drawn down	Subsidy – deferred income (liability)
Szentlőrinc Geotermia Zrt.	KEOP-4.2.0/B-09-2009-0026	883	442	427	382
Berekfürdő Energia Kft.	KEOP 4.4.0/A/09-2009-0009	250	125	125	86
DoverDrill Mélyfúró Kft.	GOP-1.3.1-11/A-2011-0192	232	104	104	90
Miskolc Geotermia Zrt.	KEOP 4.7.0-2010-0001	632	316	314	290
Miskolc Geotermia Zrt.	KEOP 4.2.0/B-11-2011-0007	2,856	1,000	1,000	920
Miskolc Geotermia Zrt.	GOP-1.2.1/B-12-2012-0005	323	162	148	124
Kuala Kft.	KEOP 4.7.0/11-2011-0003	619	309	309	295
Kuala Kft.	KEOP-4.10.0/B-12-2013-0012	2,836	1,000	1,000	953
DD Energy Kft.	KEOP-4.10/B-12-2013-0010	3,997	1,000	1,000	997
Arrabona Geotermia Kft.	KEOP-4.10/B-12-2013-0011	3,509	1,000	992	973
PannErgy Geotermikus Erőművek Zrt.	PIAC_13-1-2013-0006	889	442	442	0
Total subsidies in the balance sheet					5,110

The nature of all the above projects is project implementation, while the project goal is geothermal energy utilisation in the case of the KEOP tenders, and asset acquisition or system development in the case of GOP tenders. The subsidy received in connection with the PIAC_13 tender was fully accounted for as a revenue in connection with the sale of the know-how developed in relation to the subsidy and the depreciation of the assets acquired by the closing of the project in connection with the development.

27. SHORT-TERM LOANS

	2015	2014
	THUF	THUF
Short-term bank loans	-	-
Short-term portion of long-term loans	783,895	379,535
Overdraft facilities	-	-
Other short-term loans	857	172,865
Total	784,752	552,400

Short-term loans include two liabilities related to lease contracts for two groups of tangible assets, where the short-term portion is as follows:

Description	EUR	THUF	Maturity
Vehicle	28,297	8,860	03.12.2018
Production machinery	42,933	13,443	04.01.2021

Current portion of other long-term, deferred income

	2015	2014
	THUF	THUF
Short-term portion of other long-term, deferred income	238,300	159,428
Total	238,300	159,428

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.

28. PROVISIONS

	2015	2014
	THUF	THUF
Opening balance as of 1 January	15,207	16,895
Provisioning	-	-
Release of provisions	-1,462	-1,688
Closing balance as of 31 December	13,745	15,207

PannErgy Group allocated the provisions to cover liabilities expected to arise from litigations, the provision release in 2015 was also related to a closed litigation.

In its consolidated balance sheet for the subject year and the previous year, PannErgy Group did not include any provisions for environmental or recultivation-type obligations.

The Company does not allocate a coverage for costs related to staff cuts, the pension of the employees and it does not have such a liability in addition to the contributions paid into the state pension fund.

29. OTHER CURRENT LIABILITIES

	2015	2014
	THUF	THUF
Items of the next period	240,114	101,696
Tax and contribution liabilities	254,961	62,225
Lump sum of collection cost, required default interest	126,993	52,132
Wages and social contribution	1,516	2,969
Liability from dividends payable	-	-
Liability related to printed shares	4,419	4,483
KEOP subsidy advance	-	1,009,850
Other	54,846	54,426
Total other current liabilities	682,849	1,287,781

Under current liabilities, the items of the following period representing the most significant value include interest liabilities of THUF 113,908, income of THUF 106,263, while THUF 19,943 is derived from the expenses related to the ordinary course of business. VAT payment liabilities are the most significant items under tax and contribution liabilities. The rows for the lump sum of collection costs and for the required default interest included liabilities allocated in 2014 and 2015 in line with the legal regulations. These will either be paid in the following years or will be accounted for as other revenues if the partners forgive the affected liabilities.

30. TAXATION, INCOME TAX

	2015	2014
	THUF	THUF
Tax liability for the current year	93,621	42,360
Impact of deferred taxes	89,176	52,457
Total	182,797	94,817

Owing to the corporate tax payment liability of THUF 93,621 and the deferred tax impact of THUF 89,176 arising in the subject year, the amount appearing in the income statement as income tax is THUF 182,797.

The group-level corporate tax payment liability of the subject year was defined based on the taxable profit of the individual companies established based on the Hungarian rules. The applied corporate tax rate was 10% in both 2015 and 2014 for all member firms of the PannErgy Group. They did not reach the tax base necessary for the application of the 19% corporate tax rate.

In line with its accounting policy, the Company does not recognise the local business tax payable to municipalities and the innovation contribution that is built on its local business tax base under income taxes but under other expenses.

During the measurement of deferred tax assets and liabilities, the deferred tax asset recognised under assets is defined as follows:

	2015	2014
	THUF	THUF
Return due to deferred losses	176,014	314,057
Difference between accounting and tax depreciation	190	675
Depreciation difference of property, plant and equipment derived from consolidation	255,511	206,245
Provisioning	3,173	3,087
Deferred tax to be accounted for	434,888	524,064
Deferred tax accounted for in previous year	524,064	576,521
Accounted/reversal of deferred tax	-89,176	-52,457
Balance as of 31 December	434,888	524,064

Losses generated at the members of PannErgy Group and deferred according to the Hungarian accounting rules were determined in light of the limits set for the period of use, as the discounted present value of the future deferred losses used based on the operating plans of the affected companies since based on the Group's estimates, the member firms in question will have a positive taxable profit in the future against which they can use their formerly deferred negative tax base. Based on this, PannErgy Group had a deferred tax asset of THUF 434,888 on 31 December 2015. The deferred tax liability of THUF 36,500 recognised under current liabilities is related to the development reserve.

Calculation of effective income tax

The difference between the expected income tax calculated as a product of the separate pre-tax profits/losses included in the income statements of the companies of the PannErgy Group and the valid income tax rates applicable to the Companies and the actual corporate income tax recognised in the income statement is explained as follows:

	2015	2014
	THUF	THUF
Pre-tax profit/loss (separate companies)	600,974	280,372
Tax calculated based on the valid tax rates (10%), attributable to the profit/loss of the member firms	155,613	62,757
Impact of different tax rates (profit minimum tax)	8,781	2,454
Impact of tax rate change		
Tax effect of non-deductible expenses	34,815	38,442
Tax-free revenues		
Tax allowances	-44,319	-42,280
Deferred tax asset allocated in the subject year for a formerly unrecognised negative tax base	-61,583	-20,810
Write-off of a deferred tax asset formerly allocated for negative tax bases	89,176	52,457
Negative corporate tax base in the subject year for which no deferred tax asset was allocated	0	0
Change in unrecognised temporary differences	0	0
Tax effect of the modifications of previous years	314	1,797
Income tax (according to the income statement)	182,797	94,817

31. EARNINGS PER SHARE

	2015	2014
After-tax profit (THUF)	78,171	-540,757
Weighted average of issued shares less the number of treasury shares during the year (number of shares)	18,277,278	18,277,278
Earnings/loss per share (HUF)	4.28	-29.59
Diluted earnings/loss per share (HUF)	4.28	-29.59

There is no difference between the profit/loss per share and the diluted profit/loss per share because the diluted number of shares tallies with the basic number of shares, it did not have to be expanded because of options, management options and convertible bonds.

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents were as follows as of 31 December 2015:

	2015	2014
	THUF	THUF
Bank account and cash at hand	172,945	200,289
Separated, blocked cash	588,798	144,302
Fixed deposits	358,882	12,637
Overdraft facility	-	-
Cash and cash equivalents	1,120,625	357,228

Separated, blocked cash represent amounts held on current accounts at financial institutions where the precondition for use is the consent of the funding financial institution.

33. FINANCIAL INSTRUMENTS

Book value and fair value of PannErgy Group's financial instruments by category:

	2015	2014
	THUF	THUF
Financial assets		
Investments available for sale	250,000	0
Derivative transactions	0	0
Securities	500,737	12
Permanent investments	22,935	22,935
Long-term financial receivables (loans given)	19,071	1,500
Trade receivables	1,028,907	307,445
Loans given	470,000	0
Cash and cash equivalents	1,120,625	357,228
Other short-term receivables	880,660	761,474
Financial liabilities		
Trade payables	1, 696,361	1, 363,468
Long-term loans	9,142,588	3,886,667
Short-term loans	784,752	552,400
Other financial liabilities	740,072	1,292,183

The fair value of financial instruments is the amount at which an asset can be sold or a liability can be settled in an arm's length transaction.

Financial assets and liabilities were measured at fair value on 31 December 2015.

As of 31 December 2015, PannErgy Group did not have any stock exchange futures contracts representing PannErgy Nyrt. shares or FX hedging transaction positions.

Out of the investments available for sale, the most significant is PannErgy Group's 40% share acquired in Geo-Wendung Zrt. for THUF 250,000.

The given loans are mainly connected to the sales transactions of DoverDrill Mélyfűró Kft.'s drilling equipment and injection well; out of which THUF 440,000 was settled, financially received by the date of the preparation of the consolidated financial statements.

Negotiable securities are investment units purchased besides low investment risks.

34. SHARE-BASED PAYMENTS

The annual general meeting held on 30 April 2014 approved a new management share option program. Its full details are available on the Company's website.

Major terms and conditions of the share option program

The entitled persons can receive conditional call options for 2,700,000 shares from the Company when the relevant option contracts are concluded. The options are American-type options and can be exercised by 30 April 2016. The options will open at several stages when certain stock exchange share prices are achieved:

- If the stock exchange price exceeds the fixed option price of HUF 329.63 per share by 20% in the period of the option program i.e. it reaches an exchange rate of HUF 396, the call option will open for 900,000 shares;
- If the stock exchange price exceeds the fixed option price of HUF 329.63 per share by 40% in the period of the option program i.e. it reaches an exchange rate of HUF 462, the call option will open for additional 900,000 shares which will mean 1,800,000 shares in total;
- If the stock exchange price exceeds the fixed option price of HUF 329.63 per share by 60% in the indicated period i.e. it reaches an exchange rate of HUF 528, the call option will open for additional 900,000 shares which will mean 2,700,000 shares, the total quantity of the share option program.

Evaluation of the share option program

In the previous financial statements, based on the rise of the share price compared to the former periods, the evaluation was influenced by the market price and the pertaining chance for the opening of the option as a market condition during the determination of the fair value of the share option program as an equity instrument in a way where an expense and equity instrument increase of THUF 25,000 was accounted for in connection with 900,000 shares included in the first phase of the option exercise with a date of 30.09.2015, where there is a chance for option opening by the completion of the share option program.

In the fourth quarter of 2015, between 24 November 2015 and 27 November 2015, the share price reached and exceeded the option price fixed to the opening of the first phase (HUF 396).

During the fair valuation of the share option program in the fourth quarter of 2015, in addition to the opening of the first phase, the probability of the opening of the second and third phases of the share option program was also taken into account. Based on this, reaching a price of HUF 462 and HUF 528 is not likely until the closure of the share option program, in line with the timeline of the price movements reviewed since the start of the program.

According to the market conditions taken into account when defining the above fair value, having applied the Black-Scholes formula (closing share price as of 30 December 2015: HUF 364, volatility: 25.8%, risk-free interest rate: 2.00%), the fair value of the options is HUF 43.71 per share which totals THUF 39,339 in respect of the 900,000 shares that fulfill the market condition for the option provision. In the subject

period, this amount was accounted for by the Company as an expense and an increase in equity instruments.

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 ready to be exercised on the start 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 on 14 January 2015 without exercising i.e. the necessity of performance.

35. OFF BALANCE SHEET LIABILITIES AND COMMITMENTS

35.1 Contractual and project liabilities

The amount of the implemented projects totalled THUF 8,898,582 in 2015 and THUF 3,421,917 in 2014. Since the Győr project was closed, there were no additional contractual and project commitments on 31 December 2015; the Board of the Company will make decisions on additional projects later.

35.2 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.

35.3 Other contingent liabilities

Limitation of rights to and pledging of assets in connection with financial institution funding

Various types of collaterals (pledge, guarantee) were provided for the financing financial institutions in connection with the external funding contract concluded by the member firms of the PannErgy Group, in amounts of MHUF 1,708 and EUR 26.2 million. The outstanding principal of the funding contracts decreases continually due to the instalments paid in the meantime, thus the amount of the related contingent commitments is below the presented contractual values.

Contingent commitments related to tenders

Based on Government Decree No. 358/2014 (XII. 29.) and the related legal regulations, in the case of the subsidies received from the European Regional Development Fund, the European Social Fund and the Cohesion Fund, from 1 January 2015, a beneficiary is not obliged to provide collaterals if it has at least one closed full business year and is included in the database of taxpayers without outstanding public debts. Based on this, apart from one exception, PannErgy Group will be exempt from the provision of such collaterals. PannErgy Geotermikus Erőművek Zrt. established a guarantee for a tender in an amount of THUF 442,000 in connection with the tender subsidy for the PIAC_13 market-oriented research and development activity.

Other contingent commitments (joint and several guarantees)

PannErgy Geotermikus Erőművek Zrt. has a joint and several guarantee in connection with the Miskolc Geothermal Project towards one of the heat receiving customers for commitments derived from potential

future loss events, up to HUF 100 million in the case of Miskolc Geotermia Zrt. and without any value limit for Kuala Kft.

PannErgy Geotermikus Erőművek Zrt. assumed a joint and several guarantee towards the customer in connection with the sale of the injection well in the subject period and the sale of the contractual rights of the injection service for the payment of the expected revenues of the injection service and the reimbursement of missed revenues if the quantity of the injection service does not reach the quantities assumed in the contract during the ordinary course of business.

Operating leases

The following table shows the amount of the aggregate lease liability payable as a minimum in the future based on the non-cancellable operating leases by maturity:

	2015	2014
	THUF	THUF
Within 1 year	4,428	20,363
Over 1 year but within 5 years	77,129	56,693
Over 5 years	-	-
Total	81,556	77,056

36. MANAGEMENT OF FINANCIAL RISK

36.1. Factors of financial risks

Through its activities, PannErgy Group is exposed to the following financial risks: market risk (including exchange rate risks, fair value interest risk, cash flow interest risk and price risk), lending risk and liquidity risk.

PannErgy Group does not have any derivative transactions.

36.1.1. Market risk

36.1.1.1. Exchange rate risk

The Company pursues activities in foreign currencies. It has customers in both the Energy and the Asset Management segments for whom it issues invoices in EUR based on the relevant agreements. On the side of liabilities, it also has EUR-based liabilities. These are basically long-term loans used for the implementation of the geothermal projects. These assets and liabilities affected by foreign currencies have inherent risks derived from the changes of FX rates including that of the euro. PannErgy Group tries to decrease such risk to the greatest extent possible so that the aforementioned EUR-based revenues could cover the loan liabilities arising in EUR as much as possible. Owing to this, the Finance and Treasury team of the PannErgy Group did not hedge exchange rate risks in 2015.

Taking into account PannErgy Group's FX receivables and liabilities and assuming a 10% increase/decrease in the exchange rate of the Hungarian forint that serves as the functional currency valid on 31 December 2015, we summarised the increasing/decreasing impact of these on the profit or loss in the following table:

Description	EUR		USD	
	2015	2014	2015	2014
Impact on the profit or loss in THUF	841,009	241,230	-	-

Breakdown of EUR-based items (effect in THUF):

	2015		2014	
	10% exchange rate change Impact on EUR	10% exchange rate change Impact on profit/loss	10% exchange rate change Impact on EUR	10% exchange rate change Impact on profit/loss
Long-term receivables	-	-	-	-
Short-term receivables	139,543	4,369	167,422	5,272
Trade payables	708,231	25,724	709,837	22,353
Other liabilities	-	-	97,952	3,084
FX loan portfolio	26,176,993	819,654	7,020,389	221,065
Total		841,009		241,230

36.1.1.2. Price risk

The Company does not bear any price risks in connection with stock exchange commodities or financial instruments. Although in terms of its nature it is a regulatory risk, it is relevant here that at the companies generating and selling geothermal heat in PannErgy Group's Energy segment, the sales price of a dominant portion of the heat energy sold is subject to establishment by the authorities, and it is regularly and annually reviewed and even modified by the competent price establishing organisation. Through the future sales prices it may influence the profitability of the PannErgy Group.

36.1.1.3. Cash flow and fair value interest risk (interest rate sensitivity analysis)

The interest risk of the PannErgy Group is derived from long-term loans. Due to loans with variable interest rates, the Group is exposed to a cash flow interest risk which is only partially offset by financial assets with variable interest rates. Due to the loans with fixed interest rates, the Company is exposed to fair value interest risks.

The Company's long-term FX loan portfolio as of the end of 2015 totalled THUF 7,594,147 while HUF loans amounted to THUF 1,548,441. 2014. 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 interest rates of the FX loans are based on the 1-month, 3-month and 6-month EURIBOR, while the interest rates of HUF loans include 3-month BUBOR -based loans and loans drawn within the framework of the Funding for Growth Scheme of the National Bank of Hungary with a 2.5% interest rate.

PannErgy Group analyses its interest risk exposure dynamically. During the course of this, it continually simulates various financial models in light of the possibility of refinancing, the renewal of existing positions and alternative funds. The Company calculates the impact of the defined interest rate movements on the profit/loss based on these scenarios. In the individual models, the Company takes into account identical interest rate movements in respect of each currency. The models will be developed for liabilities representing the major interest-bearing positions.

The 1% growth in interest rates would make an extra cost-type impact of THUF 99,273 at the end of 2015 and THUF 44,391 at the end of 2014 on the Group's profit or loss, assuming that the capital does not change. In the case of a 1% decrease in interest rates, the impact is just the reverse.

36.1.2. Lending risk

Lending risk is the risk of financial loss derived from the situation when the customer or partner does not fulfill any of its contractual obligations. For the Company it primarily means the risk of potential non-payment by customers. It should be noted that the Company sells its products to a small number of clients which represents low diversification.

Lending risk is managed at group level. The task of the member firms of PannErgy Group is to manage and analyse the lending risk that arises in connection with their new clients prior to offering the payment and delivery conditions that are in line with the ordinary course of business.

At PannErgy Group, lending risk is derived from lending exposures to customers, derived from cash and cash equivalents, deposits made at financial institutions and sales in the Energy and Asset Management

segments, including outstanding receivables and the transactions for which the company assumed a commitment. In the case of financial institutions, only parties rated as “A” by independent credit rating agencies can be accepted.

When rating customers, the Company does not involve an independent credit rating agency directly, the customer’s creditworthiness and credit line are determined by the Finance and Treasury team of PannErgy Group in light of the customer’s financial situation, financial data, past experiences and other factors. The Company regularly monitors the usage of the credit lines. Customers always pay for their purchases by bank transfer. There were no overdrafts during the reporting period and according to the management, no loss is expected from non-performance by these parties.

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 the deadline	Within 1-90 days	Within 91-180 days	Within 181-360 days	Beyond 360 days
PannErgy Group	1,028,907	962,540	65,984	5	378	-
Total	1,028,907	962,540	65,984	5	378	-

“Due within the deadline” means trade receivables whose payment deadline indicated on the invoice has not expired yet as of the balance sheet date. In the case of items beyond the deadline, the category of “within 1-90 days” includes receivables that already expired and are due between 1-90 days and the same principle applies to the next ageing categories. The deadline means the payment deadline indicated on the invoice in each case, it will be compared to the reporting date and the individual customer or liability will be put into the maturity category that is in line with the number of days equalling the difference.

The cash of PannErgy Group as of 31.12.2015 was as follows in respect of lending risk broken down by maturity:

31.12.2015		Data in THUF					Total
Conditions	Weighted average interest rate	<1 month	1-3 months	3-12 months	1-5 years	>5 years	
Non interest-bearing or sight	-	761,836	-	-	-	-	761,836
Variable interest	1%	278,789	-	-	-	-	278,789
Fixed interest	1%	80,000	-	-	-	-	80,000
Total		1,120,625	-	-	-	-	1,120,625

31.12.2014

Data in THUF

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

36.1.3. Liquidity risk

Liquidity risk is the risk that the Company cannot perform its financial liabilities on the due dates. The goal of liquidity management is to ensure sufficient resources for the settlement of liabilities when they become due. The Company's approach to liquidity management is to provide sufficient liquidity for the fulfilment of its obligations on the due dates under both normal and tensed circumstances without incurring unacceptable losses or risking the reputation of the Company. Some of the Company's projects are in the investment or initial operating phase, thus they only generate limited revenues, therefore, the Company has to pay special attention to the continuous maintenance of liquidity. Appropriate liquidity is ensured by adjusting the term of the funds to the project's life cycle.

Cash flows are forecasted by the Finance and Treasury team of PannErgy Group and in addition to this, they monitor the rolling forecasts for the fulfilment of the Group's liquidity requirements in order to ensure the appropriate cash necessary for the operation, while they always maintain sufficient space for movement in respect of the non-drawn credit lines so that the Company would not be in overdraft or could fulfill the debt service ratios undertaken towards financial institutions. These cash flow forecasts that are built on the financial settlement of trade payables, loan repayment and the planning of contractual and other revenues take into account the financial plans of PannErgy Group, compliance with the indicators recorded in the contract and the external regulatory or legal requirements.

Breakdown of financial liabilities by due dates:

31.12.2015	In THUF					
	Value	Between 0-6 months	Between 6-12 months	Between 1-2 years	Between 3-5 years	Over 5 years
Non-derivative financial liability						
Loans	9,927,340	392,805	391,947	1,561,920	2,332,808	5,247,860
Trade creditors	1,696,361	1,459,878	9,323	227,160	-	-
Other financial liabilities	740,072	703,572	36,500		-	-
Derivative financial liabilities						
Forward transactions	-	-	-	-	-	-

The above table shows the amortised cost of the Group's financial liabilities according to their potential earliest maturity.

In addition to trade payables, other current liabilities are included in the cash flow forecasts with maturities that are in line with their nature: Taxes and contributions, liabilities related to income accounting are settled within 30 days, while other types of liabilities are settled financially on the dates included in the underlying contract or documentation but within 1 year at the latest.

36.2. Capital management

The Company's goal with the changing of the capital structure is to maintain its continuous operability, to provide benefits for its shareholders and other groups of interest and to maintain an optimal capital structure in order to decrease the cost of capital. The Company makes a decision on the amount of the dividend distributed to shareholders or any capital repayment to the owners in the interest of maintaining or adjusting the capital structure, and it can make a decision on the issuance of new shares or the sales of assets also in connection with the capital structure. The management confirms that the Company complies with the relevant regulatory capital requirements. During the evaluation of this, the Company monitors the requirements of Act V of 2013 on the Civil Code. The following table shows the equity along with its ratio to the subscribed capital. The equity is positive and exceeds the subscribed capital significantly in both years.

	2015 THUF	2014 THUF
Subscribed capital	421,903	421,903
Total shareholders' equity	9,331,549	9,258,782
Equity/Subscribed capital	2,212%	2,195%

36.3. Offsetting financial assets and financial liabilities

In the case of financial assets and liabilities subject to a mandatory offsetting agreement or any similar agreement, the agreements concluded by and between the Company and another party enable the offsetting of the given financial assets and liabilities only when both parties choose net accounting. No such agreement and decision was concluded or made at PannErgy Group, and for lack of this, the accounting for financial assets and liabilities is based on gross amounts.

36.4. Regulatory risk

As for the general regulatory risk types, it should be noted that the sales price of a dominant portion of the thermal energy sold is subject to establishment by the authorities, and it is regularly reviewed and even modified by the competent price establishing organisation, which limits the Company's profitability. Thus, there is a significant uncertainty in respect of the future sales prices.

37. SHARES

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

	Ordinary share (MHUF)	Ownership share (%)	Voting power (%)	Ratio of consolidation
PMM Zrt.	100.00	100.00	100.00	100.00
Kuala Kft.	3.00	90.00	90.00	83.78
PannErgy Geotermikus Erőművek Zrt.	1,972.70	93.09	93.09	93.09
CSRG Energia Zrt. (formerly: Csurgói Geotermia Zrt.)	5.00	100.00	100.00	93.09
TT Geotermia Zrt.	5.00	100.00	100.00	93.09
Szentlőrinc Geotermia Zrt.	5.00	99.80	99.80	92.89
Miskolc Geotermia Zrt.	5.00	90.00	90.00	83.78
PannTerm Kft.	155.00	100.00	100.00	93.09
Berekfürdő Energia Kft.	24.10	100.00	100.00	93.09
DoverDrill Mélyfúró Kft.	86.00	100.00	100.00	93.09
DD Energy Kft.	3.00	100.00	100.00	93.09
Arrabona Geotermia Kft.	3.00	100.00	100.00	93.09

The ratio of ownership rights and voting rights show the ratio of the direct ownership and voting rights of PannErgy Nyrt. and PannErgy Geotermikus Erőművek Zrt. in the subsidiaries. The difference between the ratio of consolidation and the ownership ratio is derived in light of the minority shares in PannErgy Geotermikus Erőművek Zrt., the ratio of consolidation shows the indirect ownership ratio.

Movements in the subject year affecting investments and shares

Gödöllői Geotermia Zrt. merged into DoverDrill Mélyfúró Kft. as of 30 November 2015.

In October 2015, CSRG Energia Zrt. acquired a 40% share in Geo-Wendung Zrt. that is committed to the utilisation of secondary heat. CSRG Energia Zrt. participates in the capitalisation of Geo-Wendung Zrt. as a professional investor parallel to increasing the capital of a domestic venture capital fund. The investment of CSRG Energia Zrt. amounted to MHUF 250 and since there is no control or direction, PannErgy Group does not consolidate the share acquired in Geo-Wendung Zrt.

No subsidiaries were sold in 2015.

38. SEGMENT REPORTING

38.1 Definition of segments

Based on IFRS 8, PannErgy Group can be divided into two segments: Energy and Asset Management. The Energy segment represents the Group's core activity, while member firms and activities focusing on energy production along with the activities supporting and serving energy investments are primarily related to the Group's Energy segment.

In addition to the Energy segment, the asset management activity specified as a segment in the former financial statements does not form a fully independent component any more, rather it can be considered as an integrated supplementary function. It focuses primarily on the management of the properties in Csepel and Debrecen that are not necessary for the Energy segment directly and the management and direction of the Group as a financial holding and a stock exchange issuer. However, in light of the fact that its ratio within the Company's sales revenue exceeds 10%, so far the presentation of asset management as an independent segment is justified.

38.2 Income statements by segment

	Data in THUF			
2015	Asset management	Energy	Transfer between segments	Total
Net sales revenues	614,378	11,949,877	-9,837,891	2,726,364
Profit/loss				
Trading (operating) profit/loss	-222,399	595,330		372,931
Net loss of financial transactions	-45,052	-111,348		-156,400
Profit/loss before taxation	-267,451	483,982		216,531
Taxes charged to profit/loss	-6,150	-176,647		-182,797
After-tax profit/loss for the period	-273,601	307,335		33,734
2014	Asset management	Energy	Transfer between segments	Total
Net sales revenues	659,618	5,252,749	-3,622,476	2,289,891
Profit/loss				
Trading (operating) profit/loss	-172,902	19,789		-153,113
Net loss of financial transactions	24,772	-305,604		-280,832
Profit/loss before taxation	-148,130	-285,815		-433,945
Taxes charged to profit/loss	-4,219	-90,598		-94,817
After-tax profit/loss for the period	-152,349	-376,413		-528,762

38.3 Balance sheets by segment

2015	Data in THUF			
	Asset management	Energy	Transfer between segments	Total
Assets and liabilities				
Intangible assets, net	322	1,130,075		1,130,397
Tangible assets, net	356,329	20,292,115		20,648,444
Investments	22,935	250,000		272,935
Deferred tax assets	57,623	377,265		434,888
Long-term receivables	18,071	1,000		19,071
Inventories	-	312,113		312,113
Trade receivables, net	39,001	989,906		1,028,907
Other receivables	50,232	1,272,144		1,322,376
Income taxes paid in advance	-	28,284		28,284
Securities held to maturity	500,737	-		500,737
Cash	46,498	1,074,127		1,120,625
Total assets	1,091,748	25,727,029		26,818,777
Trade payables	73,822	1,622,539		1,696,361
Long-term loans	20,710	9,121,878		9,142,588
Long-term deferred income	-	4,871,410		4,871,410
Short-term loans	8,860	775,892		784,752
Short-term deferred income	-	238,300		238,300
Provisions	-	13,745		13,745
Income tax payable	1,716	55,507		57,223
Other current liabilities	27,498	655,351		682,849
Total liabilities	132,606	17,354,622		17,487,228
Equity				9,331,549

2014	Asset management	Energy	Transfer between segments	Total
Assets and liabilities				
Intangible assets, net	374	1,374,649		1,375,023
Tangible assets, net	383,441	14,991,626		15,375,067
Investments	22,935	-		22,935
Deferred tax assets	64,598	459,466		524,064
Long-term receivables	-	1,500		1,500
Inventories	-	992,683		992,683
Trade receivables, net	63,557	243,888		307,445
Other receivables	56,915	683,664		740,579
Income taxes paid in advance	2,108	18,787		20,895
Securities held to maturity	12	-		12
Cash	31,458	325,770		357,228
Total assets				19,717,431
Trade payables	82,100	1,281,368		1,363,468
Long-term loans	29,816	3,856,851		3,886,667
Long-term deferred income	-	3,189,296		3,189,296
Short-term loans	8,079	544,321		552,400
Short-term deferred income	-	159,428		159,428
Provisions	-	15,207		15,207
Income taxes payable	-	4,402		4,402
Other current liabilities	23,812	1,263,969		1,287,781
Total liabilities				10,458,649
Equity				9,258,782

38.4 Other segment information

	Data in THUF			
2015	Asset management	Energy	Transfer between segments	Total
Other segment information				
Purchase of intangible assets	51	14,552		14,603
Purchase of tangible assets	540	8,883,439		8,883,979
Total	591	8,897,991		8,898,582
Depreciation	10,861	1,230,210		1,241,071
Impairment	-	886,136		886,136
Scrapping	-	227,847		227,847
2014				
2014	Asset management	Energy	Transfer between segments	Total
Other segment information				
Purchase of intangible assets	-	86,520		86,520
Purchase of tangible assets	317	3,335,080		3,335,397
Total	317	3,421,600		3,421,917
Depreciation and impairment	12,279	622,468		634,747
Of which:				
impairment, scrapping charged to profit/loss	31	2,172		2,203



39. EXPLANATION OF RECLASSIFICATIONS COMPARED TO THE ACCOUNTS FOR THE BASE PERIOD

PannErgy Group included the data of PMM Zrt. in the Asset Management segment in its 2014 consolidated financial statements. This classification was reviewed and modified during the preparation of the 2015 consolidated financial statements. The activity of PMM Zrt. is closely related to the Energy segment due to the implementation of geothermal projects, its core activity, consequently, the data for the subject year and base year were presented under the Energy segment. Effects of the reclassification in the base period:

	2014 Changes in Asset Management THUF	2014 Changes in Energy THUF
Income statement		
Net sales revenues	-1,682,477	1,682,477
Trading (operating) profit/loss	98,097	-98,097
Net result of financial transactions	28,715	-28,715
Profit/loss before taxation	126,812	-126,812
Taxes charged to profit/loss	55,457	-55,457
After-tax profit/loss for the period	182,269	-182,269
Balance Sheet		
Tangible assets	-4,724	4,724
Deferred tax assets	-	207,765
Inventories	-680,209	680,209
Other receivables	-	60,921
Income taxes paid in advance	-	2,839
Cash	-	6,726
Assets not allocated to any segment	-278,251	,
Total assets	-963,184	963,184
Trade payables	-874,366	874,366
Other current liabilities	-	21,607
Liabilities not allocated to any segment	-21,607	-
Total liabilities	-895,973	895,973
Other segment information		
Purchase of intangible assets	-225	225
Purchase of tangible assets	-5,676	5,676
Total	-5,901	5,901
Depreciation	-1,208	1,208

In the base data of its 2015 consolidated financial statements, PannErgy Group broke down the following information included in its 2014 consolidated financial statements in order to provide more details for investors.

	2014 Original data THUF	2014 Modified data THUF
Balance sheet – Current assets		
Other receivables	761,474	740,579
Income taxes paid in advance	-	20,895
Balance sheet – Liabilities		
Income taxes payable	-	4,402
Other current liabilities	1,292,183	1,287,781
Total modification/data breakdown	2,053,657	2,053,657
	2014 Original data THUF	2014 Modified data THUF
Cash flow statement		
Cash flows from operating activities		
After-tax profit/loss	-540,757	-
Profit/loss before taxation	-	-433,945
Income tax expense	-	-94,817
Changes to minority shareholdings	22,744	10,749
Income tax paid	-	57,176
Increase/decrease in receivables	-959	-67,452
Increase/decrease in liabilities	1,143,563	1,152,880
Total modification/data breakdown	624,591	624,591

40. TRANSACTIONS WITH RELATED PARTIES

In the case of all the consolidated subsidiaries of PannErgy Nyrt. (see Note 37), the effect of intra-group settlements and transactions was eliminated during the consolidation.

40.1 Transactions with the members of the Company's management

The management of the Group has an ownership relation with a company that provides continuous business advisory-type services and the 2015 value of these services was THUF 24,934.

40.2 Transactions with related parties

In the case of transactions concluded with the following related but non-consolidated parties, the following items showed up in the consolidated financial statements in 2015:

Elimination of income statement items:	2015 THUF	2014 THUF
Sales	-	3
Purchase	31,083	61,213
Receivables	-	-
Liabilities	34,770	33,360

All items of the above table are related to Pannunion Service GmbH, the German subsidiary of PannErgy Group from whom PannErgy Group received various services in the specified period.

40.3 Loans to related parties

PannErgy Group did not give any loans to related parties in 2015 and 2014, neither to management, nor to non-consolidated related parties.

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

Elimination of income statement items:	2015 THUF	2014 THUF
Sales revenues	9,837,891	3,622,476
Direct cost of sales	9,048,609	3,205,345
Indirect cost of sales	158,359	76,516
Other income	1,533,539	109,085
Other expenses	2,303,603	67,605
Financial profit/loss	21,679	176,107
Extraordinary income	592,120	193,700
Extraordinary expense	46,857	43,700

	2015	2014
	THUF	THUF
Elimination of balance sheet items:		
Tangible assets	1,001,107	681,790
Inventories	230	3,092
Items of the following period under other receivables	1,360,075	997,567
Long-term receivables	3,867,477	3,637,032
Other receivables	13,896,604	14,433,239
Long-term loans given	7,203,432	6,501,788
Items of the following period under other liabilities	1,160,871	965,455
Short-term loans	-	-
Other short-term liabilities	10,759,853	11,600,595

40.5 The management's compensation

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

	2015	2014
	THUF	THUF
Short-term employee benefits	17,115	22,368
Long-term benefits	-	-
Termination payments	-	-
Share-based payments	-	-
Total	17,115	22,368



41. EVENTS AFTER THE BALANCE SHEET DATE

The table includes the events that occurred after the consolidated balance sheet date. Based on the references, the whole information is available at the Company's official publication sites.

Date	Type of news	Subject, short description of contents
12 February 2016	Other information	Experiences of the initial operation of the Győr Geothermal System
19 February 2016	Other information	PannErgy's daily heat sale was outstanding on 16 February 2016
25 February 2016	Other information	Impact and management of the change of market energy prices in 2016
21 March 2016	Extraordinary information	PannErgy sells its share in CSRG Energia Zrt.

42. DATE OF APPROVAL FOR DISCLOSURE

The Company's Board approved the financial statements on 24 March 2016 and authorised their disclosure.

Dénes Gyimóthy
Representative of the Board of Directors



PannErgy Nyrt. Business Report 2015

Based on PannErgy Group's consolidated IFRS
financial statements

Budapest, 23 March 2016

Dénes Gyimóthy

Acting CEO

IMPORTANT DISCLAIMER:

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

1. EXECUTIVE SUMMARY

In 2015, PannErgy Group realised a significant consolidated heat generation and sales revenue growth besides profitable operations.

The group reached a new milestone by implementing the Győr Geothermal Project in 2015 which is the most significant climate protection project in Győr-Moson Sopron county. A few years ago, PannErgy Group decided to pioneer projects producing environmentally friendly geothermal energy, independent of the geopolitical circumstances, to serve the Hungarian population and corporate users. The success of this profile change is proven the best by the fact that after the Miskolc Geothermal Project that has been operating smoothly since 2013, the company, enjoying the trust of Győr-Szol Zrt. that provides the district heat service of the city, managed to build up and install the second largest geothermal system of Hungary and the Carpathian Basin in Győr which is the city of Audi Hungaria Motor Kft. and the most dynamically developing city of Hungary. As a result of the cooperation with the thermal heat receiving partners, some of the natural gas usage exposed to the hectic global market price changes was redeemed in Győr besides the fulfilment of the environmental policy goals.

2. MAJOR OPERATING INDICES OF THE PANNERGY GROUP IN 2015

Typical operating indices (data in THUF)	2015	2014
Total operating income	5,098,571	2,734,507
Of which: Sales revenues	2,726,364	2,289,891
Total operating costs	4,725,640	2,887,620
Operating profit/loss	372,931	-153,113
EBITDA	1,614,002	481,634
Net profit/loss for the year	78,171	-540,757
Return on equity, % (ROE)	0.84	-5.84
Return on sales, % (ROS)	2.87	-23.61
Earnings per share (EPS) HUF	4.28	-29.59

The 2015 consolidated profit/loss and balance sheet data along with the indices of profitability and the financial and capital situation are described in chapter 4.

3. GENERAL INTRODUCTION

3.1. Core activity of the PannErgy Group

PannErgy Nyrt. (the "Company" or "PannErgy") is a company listed on the Budapest Stock Exchange, included in the BUX basket. It issues a premium category share and its core activity is the energy-related utilisation, exploration and sales of renewable geothermal energy, one of the most significant

thermal water-related activities in Europe. In connection with the geothermal energy activity, the company performs production activities in Miskolc, Győr, Szentlőrinc and Berekfürdő.

PannErgy Group had 40 employees on 31 December 2015. In 2015, Pannergy Nyrt. was a member of the CEERIUS (Central and Eastern European stock exchange index) sustainability stock exchange share index. With the one-year CEERIUS membership PannErgy Nyrt.'s efforts aiming at sustainable, environmentally conscious development were recognised.

The address of PannErgy Nyrt.'s registered office: Hungary, 1117 Budapest, Budafoki út 56. The company operates in a holding structure. For the details of the subsidiaries see Chapter 6 of the Annual Report.

3.2. District heat sales prices set by the authorities

Certain project companies of PannErgy Group have district heat production licenses. Based on this, they sell thermal heat in an environment regulated by the Hungarian Energy and Public Utility Regulatory Authority (MEKH). Consequently, the price promulgated in an NFM decree by the Minister of National Development shall apply to PannErgy Group's heat sales to district heat providers between 1 October and 30 November each year. The seller's heat fee valid from 1 October 2015 is HUF 2,450/GJ in the case of Miskolci Geotermia Zrt. and Kuala Kft. in relation to the Miskolc Geothermal Project, HUF 2,650/GJ in the case of Arrabona Geotermia Kft. in relation to the Győr Geothermal Project, and HUF 3,654/GJ in the case of Szentlőrinci Közüzemi Nonprofit Kft.

3.3. Heat sales to industrial consumers

To ensure the diversification of heat sales, PannErgy Group continually seeks the opportunity to increase its geothermal heat sales to industrial partners in addition to the agreements concluded with heat providers. In connection with the Győr Geothermal Project, the Company's most significant industrial consumer partner is Audi Hungaria Motor Kft., while in the case of the Miskolc Geothermal Project, it is Takata Safety Systems Hungary Kft. and Geo-Wendung Zrt. In addition, PannErgy Group has several industrial consumer contracts concluded for smaller volumes in connection with both the Berekfürdő Geothermal Project and the Miskolc Geothermal Project and it continues to be committed to the expansion of the circle of industrial consumers.

3.4. Asset management

In addition to geothermal heat generation and sales, which represent the core activity, the Company also manages assets. Within the framework of this activity, PannErgy Nyrt. utilises its industrial properties, offices located in Csepel, Budapest and Debrecen through renting them out.

4. FULFILMENT OF PANNERGY'S MAIN GOALS FOR 2015, RISKS

The basic goal of PannErgy for 2015 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 further geothermal investments. 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 Energy business line.

4.1. Győr Geothermal Project

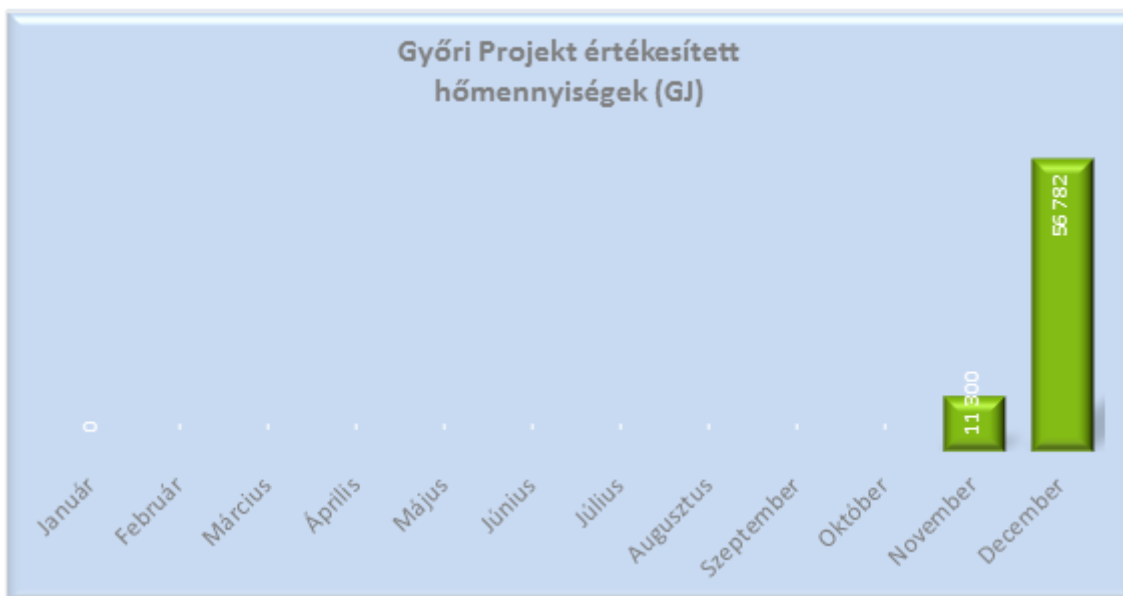
The two subsidiaries of PannErgy (DD Energy Termelő és Szolgáltató Kft. and Arrabona Geotermia Kft.) won a subsidy of HUF 1 billion each for the implementation of the Győr Geothermal Project (one for the heat supply of industrial large consumers and the other for the city's district heating system). The two subsidiaries signed a loan contract with Magyar Export-Import Bank Zrt. in a total amount of EUR 20.3 million. The long-term project funding is for the financing of the geothermal investment implemented in the environs of Győr.

DD Energy Termelő és Szolgáltató Kft. and Audit Hungaria Motor Kft. agreed on geothermal energy deliveries for a period of 17+15 years in December 2013. In September 2014, Arrabona Geotermia Kft. and GYŐR-SZOL Győri Közszolgáltató és Vagyongazdálkodó Zrt. concluded a 15-year thermal heat delivery contract.

The Győr Geothermal Project was transferred on 24 November 2015. It consists of two production and two injection wells, the Bőny Heat Center and a 17-km long geothermal heat forwarding system. The total cost of the project is HUF 10.2 billion. Currently, geothermal energy is transported to 24,266 homes and the heating system of 1,046 other subscribers and the energy provided by the Bőny Heat Center will cover at least 60% of the heating energy of the AUDI plant unit.

Short-term goals include that the Company should make the free capacities of the Győr Geothermal System and the pertaining savings advantages available for new partners. A complex, expandable service system was built up through the Győr Geothermal Project, which, besides the retail needs, is able to satisfy additional industrial and agricultural demands.

Heat quantities sold in the period changed as follows:



4.2. Miskolc Geothermal Project

The installation of the Miskolc Geothermal Project in May 2013 meant the start of the transmission of thermal energy to Miskolc town with a country rank. It meant a giant step for PannErgy Group in the achievement of its phrased strategic goals. In September 2014, the implementation of the second phase of the Miskolc Geothermal Project was completed, the heat center was opened in Tatár street. It started to provide thermal heat energy services in September 2014 for the heat centers in downtown and the university campus area along with the Avas district. With the operation of the geothermal wells deepened in the Mály-Kistokaj district (two production and three injection wells), the Miskolc Geothermal Project provided nearly 56% of the thermal energy need of MIHŐ Miskolci Hőszolgáltató Kft. in 2015.

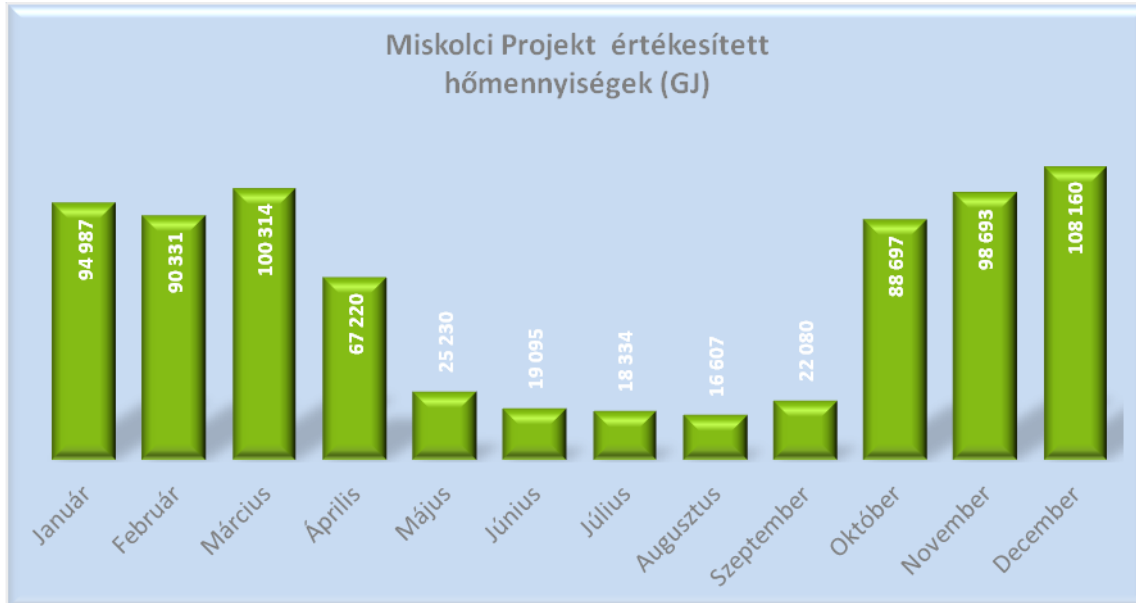
In the subject year, Miskolci Hőszolgáltató Kft. started to connect the Miskolc Semmelweis Hospital and the University's Teaching Hospital and Szent Ferenc Hospital to district heating, and this project was completed for the heating season. By connecting the hospitals to the Avas heating district, the geothermal energy fed into the Miskolc district heat network through the Miskolc Geothermal Project may grow by nearly 40,000 GJ.

In addition to supplying the district heating system of Miskolc town as a primary heat consumer, the capacity of the geothermal system enables the provision of environment friendly geothermal energy for additional consumers. The connecting of the 7,000 m² polytunnel established by Miskolc Agrokultúra Kft., a subsidiary of the municipality of Miskolc town of county rank, to the geothermal system was completed at the end of 2013 as a result of which agricultural production was connected to the geothermal energy utilisation. The capacity of the system provides continuous thermal energy for the Miskolc unit of Takata Safety Systems Hungary Kft., one of the most significant industrial consumers of Borsod-Abaúj-Zemplén county, which thus fully covers its thermal energy need from a geothermal source.

For the nearly three-year operation of the Miskolc Geothermal System, the year of 2015 was the most successful year so far with an annual heat supply of approx. 750,000 GJ.

The Miskolc Geothermal System has the opportunity to provide secondary, "waste" heat for Geo-Wendung Zrt. since the project investor implemented its geothermal energy-based district heating system, which supplies the agricultural and industrial zone surrounding Kistokaj, in November 2015. The needs of the Southern Industrial Park are being surveyed and the geothermal potentials are being precisely defined in cooperation with MIHŐ Hőszolgáltató Kft., the district heating service provider of Miskolc town, in order to develop the geothermal energy usage of the Miskolc Southern Industrial Park.

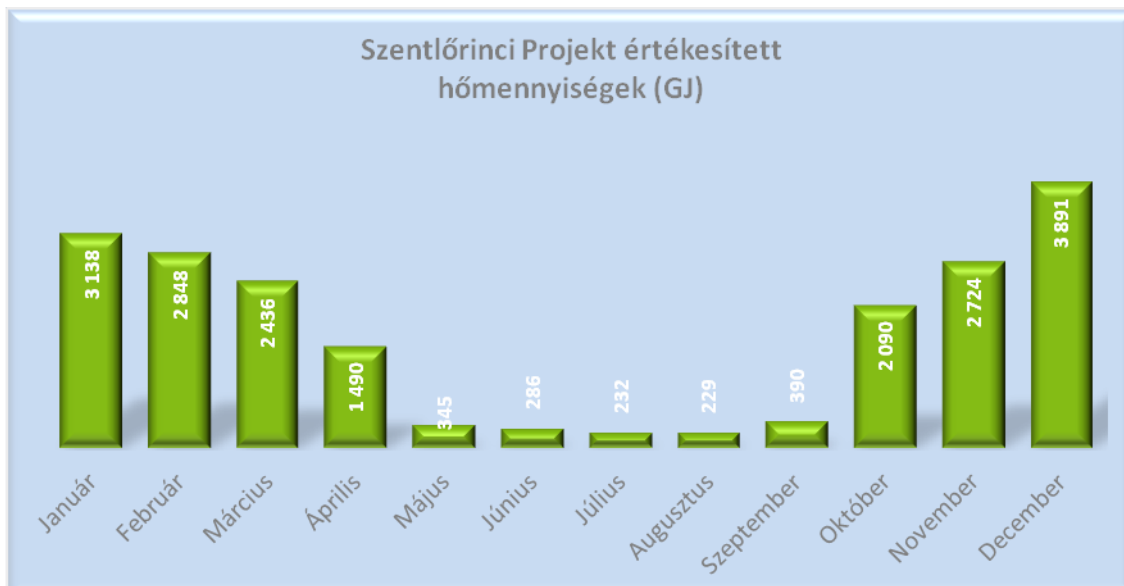
Heat quantities sold in the period changed as follows:



4.3. Geothermal heating facility in Szentlőrinc

Similar to the previous years, the Szentlőrinc geothermal heating facility was operating without any outage, with 100% availability in 2015. Owing to the measures taken in order to use unused capacities, the quantity of thermal heat sold was approximately 35% higher in the last quarter of 2015 than in the previous year.

Heat quantities sold in the period changed as follows:



4.4. Geothermal methane utilisation facility in Berekfürdő

The small power plant operating with a gas engine sold 2,350,393 kWh electricity and 2,199 GJ thermal energy in its operating period in 2015 by utilising the associated gas extracted from thermal water. Calculated from the calendar time basis, the availability of gas engines was 98.73% which meant appropriate operational safety. The Company had the mandatory inspection of the gas storage tank performed after the fifth year of the operation of the power plant in Berekfürdő.

4.5. Project in the course of development (Gödöllő)

In December 2015, PannErgy revaluated the prospects of the Gödöllő Geothermal Project. The revalued implementation risks projected onto the Gödöllő project (geological/drilling risks) and the arising commercial and business uncertainties, including the wide availability of the European Union's non-refundable subsidies, the availability of heat receiving partners of the appropriate size and the authority-defined and market price of the heat-for-sales do not support the continuation of the project with the originally planned contents.

Based on the revaluation, the Company started to investigate the implementation of a new technical concept not requiring thermal water. The new concept enables energy generation with a capacity that is materially lower than originally planned, the preliminary calculations imply a quantity of 20-30 TJ/year. PMM Kereskedelmi Zrt. was designated within PannErgy Group to carry out the tasks related to the new concept and to implement the project based on the professional competence acquired in the past years.

Gödöllői Geotermia Zrt. was merged into DoverDrill Mélyfúró Kft. as of 30 November 2015.

4.6. Asset management activity

The Company's asset management activity was relatively passive in 2015, due to the non-energy asset portfolio that narrowed down as a result of the sales processes of the former years.

5. THE 2015 PROFIT/LOSS OF PANNERGY GROUP, PROFITABILITY

Major profit/loss data (in THUF)	2015	2014
Sales revenues	2,726,364	2,289,891
Direct costs of sales	-2,044,219	-1,739,304
Gross profit	682,145	550,587
Administrative and general costs	-1,180,000	-758,263
Other income	2,372,207	444,616
Other expenses	-1,501,421	-390,053
Operating profit (EBIT)	372,931	-153,113
EBITDA	1,614,002	481,634
Result of financial transactions	-156,400	-280,832
Profit/loss before taxation	216,531	-433,945
Net profit/loss for the year	78,171	-540,757

PannErgy Group achieved a consolidated sales revenue of THUF 2,726,364 in 2015 which exceeds THUF 2,289,891, the figure for 2014, by 19%. From the sales revenue of THUF 2,726,364, THUF 2,110,301 was from thermal heat sales, THUF 30,079 from electricity sales and THUF 579,040 from mediated and re-charged sales revenues, while THUF 6,944 was from the renting out of tangible assets. The sales revenue increase was caused by two factors: the 20% growth of the heat sales of the Miskolc Geothermal Project compared to the previous period, and the launching of the Győr Geothermal Project in November 2015 which contributed to the consolidated sales revenues of PannErgy Group with a sales revenue of THUF 172,050. As for the sales revenue growth of the

Miskolc Geothermal Project, it was achieved despite the fact that the Miskolc authorities cut the price by more than 20% from 1 October 2014. From the sales revenue of the Győr Geothermal Project, the sales by Arrabona Geotermia Kft. to Győr-Szol Zrt. totalled THUF 100,696, while the sales by DD Energy Kft. to Audit Hungaria Motor Kft. amounted to THUF 69,866.

The two smaller projects of the Company in Berekfürdő and Szentlőrinc generated different sales revenues: THUF 69,866 was generated in Szentlőrinc which represents an 8% growth on the base period. At the same time, the sales revenues from heat fees and electricity sales fell by 9% in Berekfürdő, owing to which the sales revenue was THUF 35,275 in 2015. This sales revenue decrease in Berekfürdő can be explained with the reconstruction of the spa of the settlement in the subject period and the consequent loss of demand on the thermal heat market.

Compared to the THUF 601,424 recognised in the previous year, a sales revenue of THUF 540,461 was generated in connection with the management of the Company's properties in Csepel and Debrecen. The majority of the sales revenues is composed of the revenues from the recharged electricity consumption by lessees and other mediated service-type costs, while the minority is from rent. The 10% decrease on the previous year is the result of the fact that after 2014, the Company sold additional properties in 2015.

Out of the Group's fully consolidated sales revenues, two customers exceeded 10% of the sales revenues, these in total make up 79% of the sales revenues.

In the subject year, the level of direct costs rose by 17.5% from THUF 1,739,304 to THUF 2,044,209. The reason for the growth is the increase in variable costs related to the increased thermal heat sales connected to the heating season, and the higher direct amortisation value of the already capitalised geothermal projects.

In respect of the variable costs related to thermal heat sales, it is important that the thermal heat generators of the Miskolc district heating system should jointly seek the opportunity to feed the maximum amount of geothermal heat into the district heating system compared to the opportunities in the market and environmental protection. Geothermal heat feeding was accounted for as variable cost under direct costs through a compensation mechanism, where the value greatly depends on the price of electricity and natural gas.

Along the lines of the above reasons, the Group recognises THUF 682,145 under gross profit which is 24% higher than the THUF 550,587 in the same period of the previous year. The impact of amortisation under direct costs is shown by the fact that besides the 24% growth of the gross profit, gross cash flows rose by 29% compared to the same period of the previous year.

The indirect cost of sales amounted to THUF 1,180,000 in the subject period which shows a significantly higher value (by 56%) than the figure of THUF 758,263 for the base period. The Group recorded the depreciation of assets not directly related to the Energy activities, personnel-type expenses, general office and administrative costs, expert costs, bank and insurance charges and non-

capitalisable costs not pertaining to business development and new projects etc. under indirect costs.

In the significant growth of indirect costs, the depreciation of tangible and intangible assets acquired for the production of a “final product” know-how (sold for THUF 512,000) of a development project related to the Company’s PIAC13-1-2013-0006 subsidy in line with the tender requirements showed up as a one-off item, owing to which the indirect depreciation rose to THUF 617,041 as opposed to THUF 167,699 in the previous year. By eliminating this one-off depreciation, the value of indirect costs net of depreciation fell by THUF 27,605 compared to the previous year.

This decrease was caused by several factors such as the decrease of the number of projects that are in progress, the level of the insource affecting the field of accounting and personnel-type expenses that was below the level of the previous year, the optimisation of office and operating costs and the loss of the one-off items recognised in the base period.

The number of the Group’s full-time employees was 40 at the end of the subject period which is 3 persons less compared to the same period of the previous year. Staff cuts and outsourcing were behind the decrease which offset the growth in the number of people related to the operation of the Győr Geothermal Project.

The balance of other expenses and revenues totalled THUF 870,786 in the subject period which outstandingly exceeds the THUF 54,563 of the base period. The reason for the growth of THUF 816,223 in the subject period (specifically, in the third and fourth quarters) was the other income item of THUF 1,737,756 realised on the sales of assets, after the deduction of book values, which offset the extraordinary depreciation, impairment of THUF 1,113,983.

PannErgy Group performed four significant asset sales in the subject year:

- the property in Debrecen for THUF 44,000 in September 2015;
- the know-how developed within the framework of the PIAC_13 tender for THUF 512,000 in August 2015;
- the drilling machine of DoverDrill Mélyfúró Kft. for THUF 1,100,000 in September 2015;
- the injection well located in the outer area of Kistokaj and owned by DoverDrill Mélyfúró Kft. and certain rights related to its utilisation for THUF 1,690,000 in October 2015.

The significant growth of THUF 428,100 related to subsidies was caused by two items. The subsidy received in connection with the PIAC_13 tender was fully accounted for as a revenue (THUF 331,859) in relation to the sale of the developed know-how and the full depreciation of the assets during the development phase. It partially offsets the effect of the one-off depreciation growth in the subject year under indirect costs. The other significant growth was caused by the reversal of the accrued income derived from the closed tender’s subsidy of THUF 86,575 that is related to the drilling equipment.

Other expenses include extraordinary expenses of THUF 1,113,983 of which THUF 886,136 is from the aforementioned write-off of the Gödöllő Geothermal Project, while THUF 194,670 is the value of the R&D developments related to the utilisation of the drilling equipment which is written off as an extraordinary item due to the sales.

The operating profit (EBIT) was THUF 372,931 in the subject period which significantly exceeds the loss of THUF -153,113 recognised in the previous year.

The operating cash flow (EBITDA) is a cash inflow of THUF 1,614,002 which is better than the EBITDA for the previous year by THUF 1,132,368. THUF 1,241,071 was accounted for as depreciation in the subject year which is almost the double of the THUF 634,747 of the previous period and it is almost fully caused by the one-off depreciation of the PIAC_13 assets included in indirect costs.

The loss of financial transactions was THUF 156,400 in the subject period which is lower than the loss of THUF 280,832 in 2014 by THUF 124,432. It was primarily caused by the more favourable change of exchange rate gains and exchange rate losses related to FX loans and credits, offsetting the higher interest expenses paid and the expenses related to the share option program. Within this, the profit realised on year-end FX revaluations was THUF 106,525 of which THUF 94,914 was related to long-term loans and THUF 6,979 to short-term loans. The year-end FX revaluation of long-term loans was significantly influenced by a one-off item: upon the capitalisation of the Győr project in December 2015, the loss-type revaluation difference of the FX project loans that arose until the date of capitalisation increased the value of the project by THUF 102,000. The governing exchange rate was HUF/EUR 317.63 on the date of capitalisation, the difference between the higher exchange rate fixed on this date with the realisation and the year-end exchange rate caused an unrealised exchange rate gain of THUF 92,000 at these FX loans in the consolidated financial statements.

Within financial revenues, the FX gain of negotiable securities of THUF 710 was realised on a portfolio of THUF 500,737 recognised under securities; the achieved FX gain reflects the “low risk – low return” investment principle (typically money market instruments).

Based on IFRS 2, the Company accounted for an expense of THUF 39,339 in the subject period due to the evaluation of the options related to the share option program.

Based on the above, the pre-tax profit of PannErgy Group is THUF 216,531 which significantly exceeded the loss of THUF -433,945 in the previous year.

THUF 182,797 was accounted for as a corporate tax payment liability which is 92% higher than the figure of THUF 94,817 for the previous year. However, it includes the write-off of the deferred tax assets formerly allocated for the negative tax base of THUF 89,176, based on the discounted deferred tax recovery of the affected subsidiaries.

The consolidated net profit of the Company is THUF 78,171 which exceeds the loss of THUF -540,757 recognised in the same period of the previous year by THUF 618,928, due to the reasons set out above.

Major data of the asset position (data in THUF)	2015	2014
Non-current assets	22,505,735	17,298,589
Total current assets	4,313,042	2,418,842
Of which: cash	1,120,625	357,228
Total assets	26,818,777	19,717,431
Total equity	9,331,549	9,258,782

During the subject period, non-current assets rose by 30%. Within this, the value of intangible assets fell by 18% compared to the previous period, this is the impact of the extraordinary depreciation of the R&D related to the sold drilling equipment. Tangible assets rose by THUF 5,273,377 i.e. 34% and the main reason for the significant rise was the value increasing impact of the investment related to the Győr Geothermal Project.

There was no negative change in the judgement of the expected outcome of the already capitalised or started investments, therefore, the accounting for impairment is not justified.

The Company recorded deferred tax assets of THUF 434,888 under assets, and its value fell by THUF 89,176 i.e. 17% compared to the base period, based on PannErgy Group's discounted deferred tax return calculations.

Current assets rose by 78% compared to the similar value of the previous year. Within current assets, the growth of trade receivables was related to the asset sales of the third quarter. Inventories decreased in connection with the capitalisation of the Győr Geothermal Project. Other receivables rose by 78% compared to the base period, the value of the latter includes the VAT, corporate tax and other tax receivables due from the tax authority, loans given and the advances given to suppliers.

The value of held-to-maturity securities owned by the Company was THUF 500,737. This is a significant growth compared to the previous period. The reason for this is that after the completion of the Győr project, PannErgy Group invested THUF 500,737 in an investment fund in line with its cash flow plans and investment policy. The Company pursues a conservative investment policy so, accordingly, its portfolio included low-risk and (consequently) low-return investment units (money market) on 31 December 2015.

Within current assets, cash grew significantly the Company had cash of THUF 1,120,625 at the end of the period. It was mainly caused by the completion of the investment phase of the Győr Geothermal Project and the impact of the consideration from the sale of an asset of high value in the subject period.

Compared to the base data, the Company's equity rose by 1%, this is the impact of the retained profit or loss for the interim and the subject period. The equity per share (calculated with a number of shares less the treasury shares) rose to HUF 510 from 507 in the base period.

Long-term loans rose significantly, to THUF 9,142,588, compared to the previous year. Loan drawdowns according to the project schedule of the realised Győr Geothermal Project were behind it, the relevant project loans were fully drawn down. Long-term deferred income includes the long-term portion of the non-refundable subsidies won for the geothermal projects through a tender. In relation to this, THUF 4,871,410 is included in the Company's balance sheet which represents a 52% growth compared to the previous year due to the subsidies disbursed in connection with the Győr Geothermal Project.

Trade payables totalled THUF 1,696,361 within current liabilities which shows a 24% growth on the base period. The reason for the growth is the intensive investment activity related to the Győr Geothermal Project. The deferred tax liabilities are connected to the development reserve. Short-term loans together with the short-term portion of long-term loans totalled THUF 784,752 at the end of the subject period which is more than double of the data for the previous year. Other current liabilities totalled THUF 682,849 at the end of the subject period which represents a 47% decrease compared to the previous period. The main reason for this is the accounting for the subsidy advances formerly drawn for the geothermal project in the row for project closures.

Main indices	2015	2014
Profitability indices		
Return on assets, % (ROA)	0.29	-2.74
Return on equity, % (ROE)	0.84	-5.84
Return on sales, % (ROS)	2.87	-23.61
Indices of the asset position		
Ratio of invested assets, %	83.92	87.73
Equity ratio, %	34.79	46.96
Indebtedness, %	187	113
Financial indices		
Liquidity ratio	124.67	71.83
Acid test ratio	115.65	42.35
Earnings per share (EPS) HUF	4.28	-29.59

All of the Group's profitability ratios improved compared to the previous period. The indicators of the asset situation show a higher ratio of non-current assets and a growth in indebtedness after the closure of the investment phase of the Győr Geothermal Project. Financial ratios improved significantly, with the completion of the Győr project, the liquidity of Pannergy Group showed a more favourable picture compared to the similar data of the previous year. The Company had cash of THUF 1,120,625 at the end of the period. Owing to the favourable processes, earnings per share improved significantly and are now positive.

6. OVERVIEW OF THE CORE ENERGY ACTIVITY

As the legal successor of Pannonplast, PannErgy Nyrt. seeks to implement its long-term strategy concerning the utilisation 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 is unstoppable in the long run (despite the occasional temporary fall), however, domestic and global resources are 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. PannErgy Group concluded various cooperation agreements with dozens of municipalities, primarily in order to reach the heat market, out of which we selected only those that comply with our complex selection criteria.

Along the lines of the defined strategy, the Company achieved the first results with its geothermal developments in 2010 because thermal heat generation along with the sales of energy started within the framework of the Szentlőrinc Geothermal Project on 1 January 2011 in Szentlőrinc. The Company's second operating facility is in Berekfürdő which, in addition to heat, also generates electricity by utilising methane gas dissolved in geothermal water. The facility in Berekfürdő was added to the Company's portfolio through acquisition.

Three years ago, in May 2013, the largest geothermal thermal heat power plant of Central Europe was launched in Miskolc as a PannErgy Group project. The Miskolc Geothermal Project won the "Best heating project of 2013" award from the international GeoPower Market. PannErgy Group implemented the second phase of the Miskolc Geothermal Project by September 2014 and it started to provide thermal heat energy services for the heat centers in Miskolc downtown and the university campus area along with the Avas district.

In addition to supplying the district heating system of Miskolc town as a primary heat consumer, the capacity of the geothermal system enables the provision of environmentally friendly geothermal energy for additional consumers (Miskolci Agrokultúra Kft., Takata Safety Systems Hungary Kft., Geo-Wendung Zrt.).

PannErgy Group started its second largest project, the Győr Geothermal Project, at the beginning of 2014 in the Kisalföld region. The Győr Geothermal Project, whose costs totalled HUF 10.2 billion, was opened on 24 November 2015. Through its long-term thermal heat delivery contract concluded by and between PannErgy Group and the Győr-Szol Zrt. district heating service provider, currently, geothermal energy is transported to 24,266 homes and the heating system of 1,046 other subscribers in Győr, and the energy provided by the Bőny Heat Center will cover at least 60% of the heating energy of the AUDI plant unit. The annual heat quantity transmittable through the completed Győr Geothermal System is 1,100-1,200 terajoules.

The subsidiaries implementing the Győr Geothermal Project (DD Energy Termelő és Szolgáltató Kft. and Arrabona Geotermia Kft.) concluded a project loan agreement with Magyar Export Import Bank

Zrt. (Eximbank) in November 2014, for an amount of nearly EUR 18 million. The project loan contract was modified in June 2015, the available limit was approximately EUR 22 million.

7. SUBSIDIARIES OF THE PANENERGY GROUP

Out of the two subsidiaries of PannErgy Nyrt. PMM Zrt. is responsible for the implementation of the geothermal projects as the contractor, while PannErgy Geotermikus Erőművek Zrt. manages the Group professionally, this Company owns the value of the shares in the individual project companies. The Hungarian subsidiaries of PannErgy Group typically perform their economic activities in the area of Hungary.

7.1. PannErgy Group's subsidiaries, shares and degree of consolidation

PannErgy subsidiaries	Ordinary share capital (MHUF)	Ownership share (%)	Voting power (%)	Degree of consolidation
PMM Zrt.	100.00	100.00	100.00	100.00
Kuala Kft.	3.00	90.00	90.00	83.78
PannErgy Geotermikus Erőművek Zrt.	1,972.70	93.09	93.09	93.09
CSRG Energia Zrt.	5.00	100.00	100.00	93.09
TT Geotermia Zrt.	5.00	100.00	100.00	93.09
Szentlőrinc Geotermia Zrt.	5.00	99.80	99.80	92.89
Miskolc Geotermia Zrt.	5.00	90.00	90.00	83.78
PannTerm Kft.	155.00	100.00	100.00	93.09
Berekfürdő Energia Kft.	24.10	100.00	100.00	93.09
DoverDrill Mélyfúró Kft.	86.00	100.00	100.00	93.09
DD Energy Kft.	3.00	100.00	100.00	93.09
Arrabona Geotermia Kft.	3.00	100.00	100.00	93.09
Geo-Wendung Zrt.	625.00	40.00	40.00	0.00
Pannunion Service GmbH.	25.00	91.00	91.00	0.00

7.2. Major data of the PannErgy subsidiaries for 2015 based on their individual financial statements

PannErgy subsidiaries	Equity	Subscribed capital	Sales revenues	Trading profit	Profit or loss after tax	Number of staff
PannErgy Nyrt.	12,822,982	421,093	614,378	-165,885	177,572	6
PannErgy Geotermikus Erőművek Zrt.	2,806,166	1,972,682	149,599	-657,557	-492,818	21
Miskolc Geotermia Zrt.	-192,624	5,000	1,265,718	69,185	-197,898	3
Szentlőrinc Geotermia Zrt.	2,416	5,000	75,738	16,745	-2,639	2
TT- Geotermia Zrt.	-5,158	5,000	0	-6,589	-6,590	0
PannTerm Kft.	2,965	155,000	4,395	-151,576	-152,330	0
CSRG Energia Zrt.	-17,683	5,000	0	-3,918	-7,331	0
PMM Kereskedelmi Zrt.	828,048	100,000	6,408,632	495,020	578,121	1
Kuala Kft.	48,846	3,000	1,240,965	-21,481	-101,382	1
Berekfürdő Energia Kft.	-7,565	24,100	35,355	-8,652	-9,182	0
DoverDrill Kft.	847,044	86,000	2,537,919	518,574	627,588	4
DD Energy Kft.	55,060	3,000	107,037	50,586	50,276	1
Arrabona Geotermia Kft.	88,985	3,000	124,519	100,227	82,762	1

8. THE COMPANY'S OWNERSHIP STRUCTURE, SENIOR MANAGEMENT

8.1. The Company's ownership structure, shares and voting powers

Circle of owners	Total share capital = Introduced series					
	01.01.2015			31.12.2015		
	%	%	pc.	%	%	pc.
Domestic institutional	25.22	29.05	5,310,019	24.74	28.50	5,209,323
Foreign institutional	18.63	21.46	3,923,198	18.10	20.84	3,810,432
Domestic private individual	33.64	38.75	7,084,105	34.69	39.96	7,304,475
Foreign private individual	0.41	0.47	85,458	0.39	0.45	82,050
Employees, senior officers	0.94	1.08	197,253	0.94	1.08	197,253
Own holding	13.18	-	2,775,377	13.18	-	2,775,377
Owner related to the state budget	7.98	9.19	1,679,245	7.96	9.17	1,675,745
International development institutions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	100.00	100.00	21,054,655	100.00	100.00	21,054,655

8.2. Owners with more than 5% share in the Company

Name	Investor rating		Quantity (number)	Share (%)	Voting power (%)
Benji Invest Kft.	Domestic	Institutional	2,424,010	11.51	13.26
ONP Holdings SE	Foreign	Institutional	1,814,640	8.62	9.93
Nemzeti Eszközgazdálkodási Zrt.	Domestic	Budgetary	1,675,745	7.96	9.17

8.3. The Company's treasury shares in the subject year

PannErgy Group's treasury share quantities in the subject year:

	01.01.2015	30.06.2015	31.12.2015
At company level	1,840,174	1,840,174	1,840,174
Subsidiaries	935,203	935,203	935,203
Total	2,775,377	2,775,377	2,775,377

*The treasury shares of PMM Zrt. which is fully owned by the Company

8.4. Senior management of the Company

Members of the Board and their shareholdings:

Name	Position	Start date of assignment	End/termination of assignment	Shares held (pc.)
Balázs Bokorovics	Member, Chairman	31.08.2007	indefinite period	-
Dénes Gyimóthy	Member, Deputy Chairman, Acting CEO	31.08.2007	indefinite period	170,000
Gábor Briglovics	Member	31.08.2007	indefinite period	3,600
Csaba Major	Member	30.04.2013	indefinite period	-
Attila Juhász	Member	31.08.2007	indefinite period	-
István Töröcskei	Member	31.08.2007	indefinite period	-
Total number of shares held				173,600

PannErgy Group's consolidated financial statements prepared according to the International Financial Reporting Standards and its annual report are signed by Dénes Gyimóthy, Acting CEO.

9. PANNERGY GROUP'S STRATEGY

The strategy of PannErgy Group focuses on becoming the region's dominant geothermal heat utilisation company, on maintaining this position and providing an environmentally friendly service that is free from geopolitical risks and that operates safely. PannErgy Group committed itself to utilise one of Europe's most significant thermal water supplies for energy generation purposes. Geothermal heat can be supplied for retail and industrial users in the long run, energy-type expenses can be significantly decreased with PannErgy's environmentally friendly projects.

The Company considers it as its mission to become a dominant player in the Carpathian Basin in the area of geothermal energy utilisation, to invest in the future with its projects and to create value for future generations.

By installing the Győr project opened in the autumn of 2015, PannErgy revalued its investments made so far and its project-based operations at group level. The revaluation started partly with portfolio cleansing and the transformation of the operation in the last quarter of 2015. The Company assessed its financing and investment opportunities and the needs of the thermal heat service market and established that there is a strong demand for a well-organised Company that has significant competences, operates with low expenses, ensures high profits and provides and operates geothermal heat capacities.

The goal of the EU directive relevant for the member states is to achieve 1.5% additional energy savings annually by 2020 in the final energy consumption of the member states in order to ensure competitiveness and the safety of supplies. Compared to the valid requirements, it counts as a restriction since the extent of the required savings was increased to 20 percent for the whole of the European Union as opposed to the former 9% goal.

By 2020, the quantity of energy derived from geothermal energy should reach 12,000 terajoules in Hungary. With the Miskolc Geothermal Project, PannErgy Group reaches 1,100 terajoules, while the Győr Geothermal Project performs almost 10%.

In 2015, PannErgy not only became a company with the largest competence and experience in the implementation of geothermal projects but it also became one of the largest groups that utilise and operate geothermal energy.

For 2016, PannErgy Group set it as its goal to utilise the competences, know-how obtained during the projects and to pay attention to the operation, increase of the capacities and production of its existing geothermal heat services in order to achieve stable profits and cash flows and to increase the shareholders' value.

Future short-term goals specify that the Company should make the free capacities of the Győr Geothermal System and the pertaining savings advantages available for new partners. Industrial usage requires special expertise and project management that we believe is only available at the highest level at PannErgy in Hungary.

10. ENVIRONMENTAL PROTECTION

The Company considers the high-level management of environmental protection as especially important. In the area of geothermal services, it works to introduce one of the most environmentally friendly renewable energy production method in Hungary.

Subsidiaries affected by geothermal heat production prepare the impact assessments, perform the tests required by environmental requirements and comply with the relevant legal regulations.

The Company's goal of taking environmental aspects into account in economic development is in line with the energy policy of Hungary and the European Union. The precondition for this is the ever greater use of renewable energy sources, creating the harmony of society and the environment, and indirectly, the favourable influencing of the domestic energy resource funding structure by promoting the shift from traditional energy sources to renewable energy sources. Simultaneously, taking economic and technical aspects into account, the Company assumes responsibility for the continuous improvement of the environmentally friendly nature of the project locations and the environmentally friendly management of natural resources. Research and development form part of PannErgy Group's policy on environmental protection. PannErgy Group is fully committed to the continuous improvement of environmental and energy performance and to compliance with the approach of sustainability. The Company believes the social effects of its activity are special, its goal is to achieve responsible and sustainable operation.

11. EMPLOYEES

Number of staff at PannErgy Group in the subject year:

Own number of staff	31.12.2015	31.12.2014	Change
PannErgy Nyrt.	6	8	-2
Related parties	34	35	-1
Total	40	43	-3

12. DISTRIBUTION OF DIVIDENDS

Due to the Company's retained profit/loss for 2015, its extent and for the purposes of stable operations and the expected funding need of the Group's project program, the Board of Directors does not recommend to the general assembly the distribution of dividends but requests authorisation for the purchase of treasury shares with limited financial means.

13. THE COMPANY'S MAJOR RISKS AND THE PERTAINING UNCERTAINTIES

The especially high geological risk is a characteristic of the 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.

The effects of the risks and the method of their management are described in Note 36 Financial risks of the 2015 consolidated financial statements. The major risks of PannErgy Group are summarised below.

Exchange rate risk

Out of the Company's FX transactions, EUR-based transactions are the most significant. On the side of liabilities, due to the FX project loans, the Company is exposed to foreign exchange rate risks and a cash flow risk derived from the change of interest rates, which can be mitigated by the partial EUR-based revenue of the Győr Geothermal Project.

The share price risk should be considered from the perspective of the marketability of repurchased treasury shares and the value of the management's share option program.

Interest risk

The source of interest rate risk is the exposure derived from the change of the interest rate levels of the interest-bearing assets held by the Company and the loans drawn.

Credit risk

Lending risk is the risk of financial loss derived from the situation when the customer or partner does not fulfill a contractual obligation. For the Company it primarily means the risk of potential non-payment by customers. It should be noted that the Company sells its products to a small number of clients which represents low diversification.

Liquidity risk

Liquidity risk is the risk that the Company cannot perform its financial liabilities on the due dates. The goal of liquidity management is to ensure sufficient resources for the settlement of liabilities when they become due. The Company's approach to liquidity management is to provide sufficient liquidity for the fulfilment of its obligations on the due dates under both normal and tensed circumstances without incurring unacceptable losses or risking the reputation of the Company. Some of the Company's projects are in the investment phase, thus they do not generate any revenues, therefore, the Company has to pay special attention to the continuous maintenance of liquidity. Appropriate liquidity is ensured by adjusting the term of the funds to the project's life cycle.

Regulatory risk

As for the general regulatory risk types, it should be noted that the sales price of a dominant portion of the sold thermal energy is subject to establishment by the authorities, and it is regularly reviewed and even modified by the competent price establishing organisation, which limits the Company's profitability. Thus, there is a significant uncertainty in respect of the future sales prices.

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. No such transactions were concluded in 2015.

14. PUBLICITY

Regular and extraordinary information is published on the Company's website (www.pannergy.com). On its websites connected to the projects (www.miskolci-geotermia.hu, www.gyori-geotermia.hu, www.szentlorinc-geotermia.hu), PannErgy Group discloses technical information related to the implementation of the projects. These disclosures and 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.

15. 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.

16. EVENTS AFTER THE CONSOLIDATED BALANCE SHEET DATE

The table includes the events that occurred after the consolidated balance sheet date. Based on the references, the whole information is available at the Company's official publication sites.

Date	Type of news	Subject, short description of contents
12 February 2016	Other information	Experiences of the initial operation of the Győr Geothermal System
19 February 2016	Other information	PannErgy's daily heat sale was outstanding on 16 February 2016
25 February 2016	Other information	Impact and management of the change of market energy prices in 2016
21 March 2016	Extraordinary information	PannErgy sells its share in CSRG Energia Zrt.

17. DATE OF APPROVAL FOR DISCLOSURE

The Company's Board approved the financial statements on 24 March 2016 and authorised their disclosure.

Dénes Gyimóthy
Representative of the Board of Directors