



PannErgy Plc.
Half-yearly Financial Report
H1 of 2016

Report for the first half year period of
2016

2 September, 2016

IMPORTANT DISCLAIMER

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

Executive Summary

First half of 2016 has been an important period for the PannErgy Group. Primarily, because during this 6 months, both 2 major Geothermal Projects – Miskolc and Győr – were already fully operating. Following the start of the Győr Geothermal Project in the last quarter of 2015, the Group's main focus was on the operating conditions and functional fine tuning in order to maintain continuous, trouble-free and optimal operations. In May 2016, the heating season of 2015-2016. has ended, so the PannErgy Group has started maintenance and restoration works in four project locations (besides Miskolc and Győr, Szentlőrinc and Berekfürdő), as well as the preparatory works of the investment programme aiming to increase production capacities in Győr.

The Company's sales, gross and operational cash flow figures have significantly increased compared to the previous relevant period, while the Company has reported a net loss like in case of the previous half year of 2015 - mainly due to some one-off items.

During this period, the Company has concluded essential decisions regarding to the rationalisation of the portfolio elements in line with the strategic focus of the Company's resources on the operating projects and its developments. In line with the above, the Group has decided on the final shutdown of the Gödöllő Geothermal Project, furthermore the Company has concluded agreements in the sale of its 100% stake in CSR Energy Ltd. and 100% stake in PannTerm Ltd. Financial closing relating to the CSR Energy Ltd. stake selling transaction is expected to take place in the second half of 2016.

In order to increase profitability of the ongoing projects - therefore having less risk profile, project related financing conditions have been reviewed. Consequently, the two Group companies implementing the Győr Geothermal Project have concluded a refinancing loan agreement with CIB Bank Ltd. Inter alia due to the changed risk profile, more beneficial conditions shall apply, a more favourable 4% interest rate (400 basis points) compared to the previous financing conditions. Further condition of the new financing is that the borrowers are obliged to swap the floating interest rate to fixed during 2016 for the whole term of the loans. The significantly positive effects on the financial expenses will be shown in the second half of 2016.

In May 2016, ONP Holdings SE has approached PannErgy Plc. with a selling offer of its 6,91% minority stake in PannErgy Geothermal Energy Ltd. (PEGE) in the value of HUF 750 million (PannErgy stake in PEGE is 93.09%). As the following step, PannErgy has published the extract of the offer valuation – facilitating the assessment of the evaluation - prepared by KPMG as the independent advisory company. On 19 July, the Company's Extraordinary General meeting has positively decided on accepting the offer and its pricing conditions. Quota Sales and Purchase Agreement was concluded by the Parties on the 2nd of August 2016.

The Company's Annual General Meeting closing fiscal year 2015 was successfully repeated on 28 April 2016. Besides the normal decisions, the Annual General Meeting has also initiated a new management incentive share option program and also nominated new Board of Director members.

In line with the changes of the capital market regulations, the Company shall not publish interim reports, however it will publish half year and annual reports in the future.



1. Projects and operating areas

1.1 Projects in operation

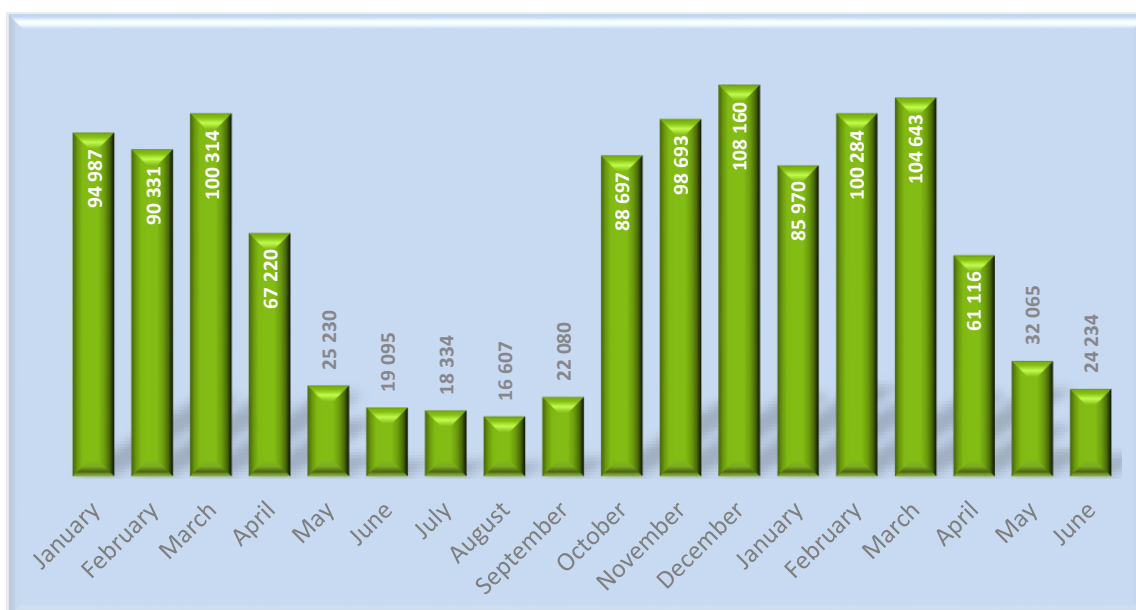
Geothermal Project of Miskolc

(Miskolc Geothermal Ltd., Kuala Ltd.)

In the first half year of 2016, the supply of Miskolc heat off-taker partners was continuous and there were no service outages was operated without operational disturbances. During the first quarter of the analysed period, the milder than average winter weather had positive impacts on the heat sales of the Miskolc Project. The heat transmission of the geothermal system has reached its peak, despite the several continuous days in January with under minus 10 Celsius degrees, which has resulted in a reduced potential of heat transmission. To balance the high recurrent temperature, in the off-heating season of 2016, the Company will carry out investments and further optimizations. In certain operating conditions, the efficiency of the geothermal heat transmitters at City of Miskolc can be enhanced. In order to achieve these goals, the Company is carrying out smaller upgrades during the summer maintenance period in cooperation with the professionals of MIHŐ Ltd. and MVM MIFŰ Ltd. The Company carries out the summer maintenance works - including system shut down - in the parallel period with the MIHŐ summer service closure. A significant operational investment to achieve a more efficient operating system has finished in June 2016, which – combined with the system management experiences – resulted a fine tuned implementation in the control and management systems. During the summer operating conditions, the newly developed geothermal control software is currently under test operation.

In the first half year of 2016, the Miskolc Geothermal Project has generated heat sales of 408 312 GJ, which is an 3% improvement compared to preliminary comparable period of 397 177 GJ.

The volume of heat sold during the period (GJ):



Geothermal Projects of Győr

(DD Energy Ltd., Arrabona Geothermal Ltd.)

In the analyzed period, the Győr Geothermal System is beyond its first full half year operation, in which the **Company has generated heat sales of 284 156 GJ. Since the start of the Győr Geothermal System (November 2015.) until the end of June 2016, 352 238 GJ geothermal heat energy had been supplied towards heat distribution partners.**

Following the investments in the last quarter of 2015, the Company has gained considerable experiences related to the geothermal investments and normal daily operations (after the successful test operations) in the first half year of 2016. Development of several technical concepts containing additional works was necessary due to the characteristics of the drilling system and the unscheduled chemical and physical features experienced at the initial operation. Besides the continuous analysis of the produced water quality, we control the impact on the fluid system in operation. In the first months of the analysed period, due to the changes in water quality and maximum load during the heating season, the intervention into the Győr Geothermal System was needed in the form of system shutdowns in order to perform the technical amendments.

The temperature of the wellheads of the production wells remain unchanged according to the test values, in the first half year of 2016 it was average 101 °C during the operation. The production wells were operating with a 670-700 m³/h free water outflow. The swallowing capacity of the reinjection wells was adequate. The secondary circulation system was operating under the maximum operation safety. The consumer endpoints were also operating flawlessly, apart from one or two minor instantaneous power outage, no service interruptions have occurred. In the first quarter of 2016, a new facility of Audi has started to be supplied with tempering heating.

The condition of the pipeline system is adequate, the shafts were checked at the entire section and the Company has carried out the maintenance of the DN500 fittings. During the analyzed period, the Company has performed wood reconstruction works in Győr substituting the trees needed to be cut during the pipeline construction. The Company planted 454 beautiful ornamental trees in various locations of the city.

In the first half year of 2016, it is to be concluded that following the winter operations, the summer system operation with less heat supply was without operational disturbances and the current operating conditions of the Geothermal System is stable. Following the commercial and operational experiences of the first six months, in May, the Company has initiated summer maintenance works. In line with that, the Company has performed the cleaning of the instruments, metering sections and the filters and the inspection and control of the pumps and electrical network together with the manufacturers and suppliers.

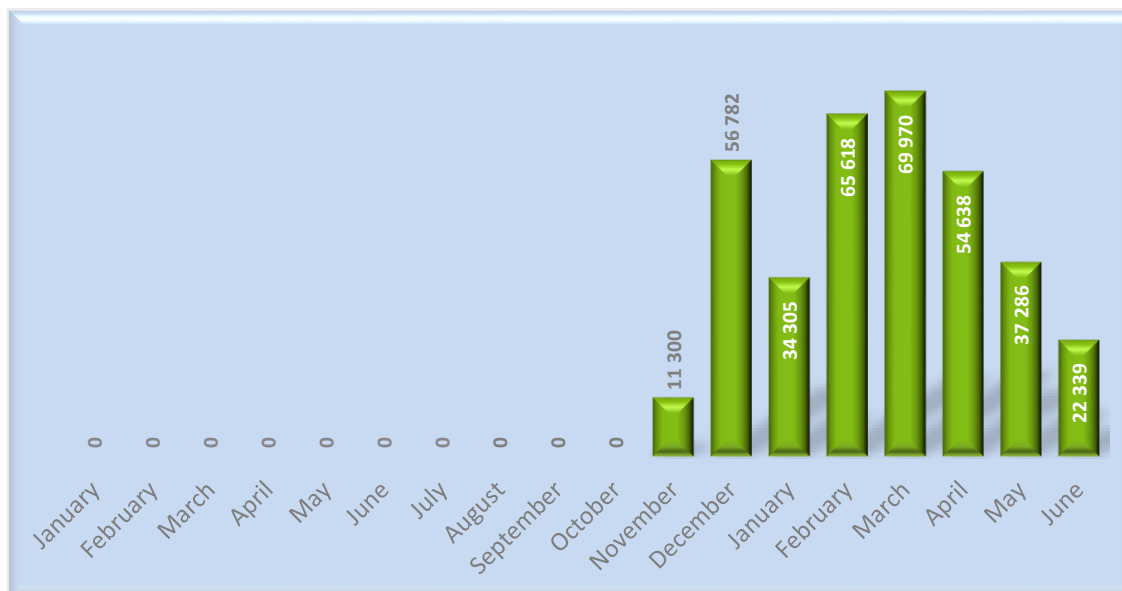
During the period under review, the Győr Geothermal Project has entered in a new phase. Parallel to the maintenance works, a new investment program was initiated. As part of this investment programme, a new well pump will be installed in the Bőny production well (BON-PE-02), production capacities will be increased, a multi stage pressure optimisation of the system will take place and a new customer connection point for the Industrial Park will be established until the commencement of the heating season.

Major amount of the investment is financed by the investment loan granted by CIB Bank Ltd., which was already drawdown at the balance sheet date. On the 11 November 2014, DD Energy Termelő és Szolgáltató Ltd. and Arrabona Geotermia Ltd. have concluded an investment loan with Magyar Export-Import Bank Ltd. in the approximate value of 18 million euro, which was refinanced by CIB Bank Ltd. The new financing conditions are more favourable, 4% interest rate (400 basis points) compared to the previous financing conditions. Further condition of the new financing is that the borrowers are obliged to swap the floating interest rate to fixed during 2016 for the whole term of the loans. The positive effects on the financial expenses will be shown in the second half of 2016.

As a result of the Agreement with CIB Bank Ltd., approximately HUF 7 billion loan was granted to the borrower. The loan tenor is 7 years, following a 10-years amortisation profile.

Beside the above, the Company is continuously seeking opportunities for secondary heat utilization, by selling secondary heat mainly by connecting companies located at the surroundings of its pipeline.

The volume of heat sold during the period (GJ):

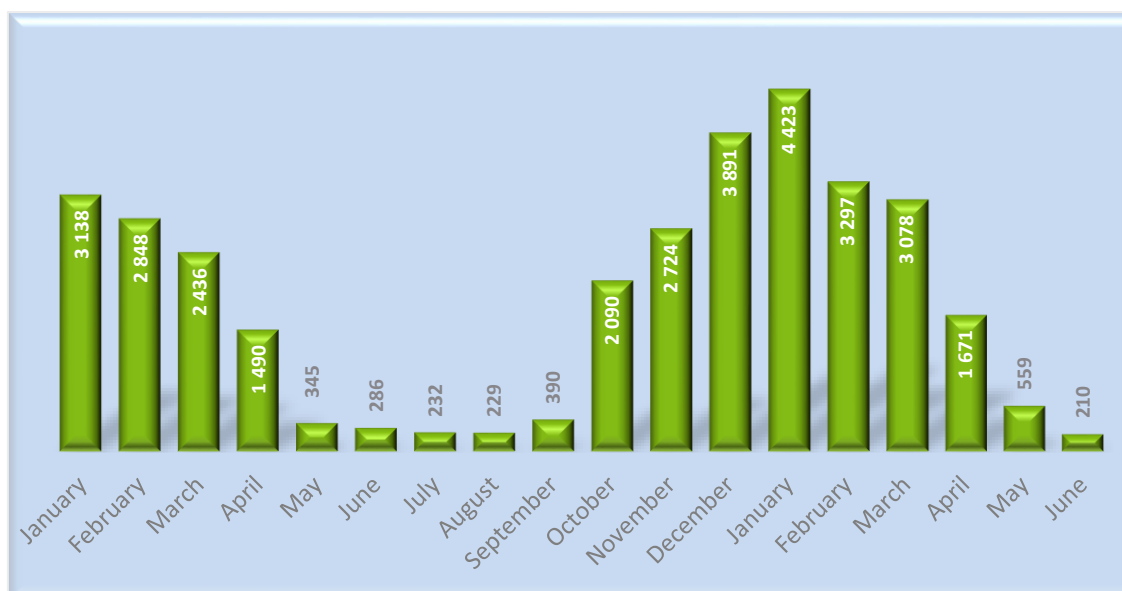


Geothermal heating facility of Szentlőrinc

(Szentlőrinc Geothermal Ltd.)

In the half year of 2016, the Szentlőrinc Geothermal heating facility was operating without problems and operated with 100% availability. In the middle of June, there was system shut down for few days, due to the malfunction of the control panel, resulted only a minimal heat sales loss. In the first half year, the heat sales was 13 238 GJ, in line with the forecasts.

The volume of heat sold during the period (GJ):



Geothermal methane utilization facility of Berekfürdő

(Berekfürdő Energy Ltd.)

In the first year of 2016, the small gas engine power plant generated a total volume of 1 167 MWh electricity and 1 164 GJ heat energy from the usage of gas utilization gained from the thermal water. From the base calendar date, the availability of the gas motors was 89 %, which was an appropriate for the operational safety, despite the a smaller malfunction of the seconder system.

Projects under construction

Geothermal Project of Gödöllő

(Gödöllő Geothermal Ltd.)

In the first quarter of 2016, following the evaluation of the Gödöllő Geothermal Project - the concept allowing lower power generating, as a result of the tests and calculations, the Company concluded that the realization of this new concept is not supported commercial and economical point of view and no positive prospective are foreseen. In line with the above, in the period under review, the PannErgy Group has decided on the final closure of the Gödöllő Investment. In the third quarter of 2016, the Company shall perform the underground re-cultivation and well operational works. Provision setting became necessary against the write-offs of the related assets and the expected cost of the re-cultivation works.

1.2 Goals and strategy

Dependence on fossil energies can be moderated and in some cases eliminated by utilizing other alternative energy resources, such as geothermal heat. One of the most significant, still unexploited treasures in the Carpathian Basin, and especially in Hungary, is a network of geothermal resources lying under the ground, the utilization of which would make heat and electric power readily available in an environmental friendly manner. The growth of demands for energy seems to be unstoppable, while the volume of both domestic and global sources is limited.

The professional and effective geothermal energy production results in the exploitation of a huge pool of resources that have just been minimally utilized so far, while being one of the cleanest and most environmental friendly ways of power generation. The European Union does not only welcomes these new forms of energy production, but also tries to orient the member states – including Hungary – by establishing strict programs and targets.

The focus of the PannErgy Group strategy is to become and maintain its position as one of the leading company in the region in the exploitation of geothermal water resource and to provide environmental friendly, geopolitical risk free and high operational safety service. PannErgy Group PannErgy is committed to the energy-related exploitation of one of Europe's largest active geothermal water resource. With the reliance on PannErgy's environmental friendly investments, geothermal heat can serve households and industrial users in the long run, thereby achieving considerable reduction in energy expenses.

By the deployment of the Győr Geothermal Project during autumn 2015, PannErgy has reevaluated its investments and project based operation on a group level. In line with that, in the last quarter of 2015, revaluation started partially with portfolio adjustment and operational transformation. The Company has assessed its financing and investment possibilities and has set out in the heat supply market needs and concluded that there is an emerging demand for a Company, which is well organized, obtaining substantial competencies, supplying and operating geothermal heat energy capacity.

The main objective of the European Directive concerning the European Union's member states is for the member states to realize an annual 1.5 per cent new energy savings in the final energy consumption until 2020, in order for the competitiveness and the security of supply. This is stricter than the regulations in force, because for the whole European Union the extent of savings required was increased to 20 per cent compared to the earlier 9 per cent target. By 2020, in Hungary the amount of energy arriving from geothermal energy should reach the level of 12 000 terra joule. According to the plans, the PannErgy Group with its currently operating projects is fulfilling around 15% of the required amount in the near future.

PannErgy has become not only the company with the highest competencies, experiences in performing geothermal investments, but turned into one of the largest company group utilizing and operating geothermal energy.



Among the short-term plans priority is dedicated to implement higher capacity pumps in the production wells both in case of Győr and Miskolc geothermal systems to increase the heat production capacity and additionally through the optimisation the sold heat volume being maximised.

The main short-term goal of the Company is the to make available to the new partners the free capacities of the Győr Geothermal System together with the saving benefits involved. The industrial usage of geothermal energy requires such a special know-how and project management experiences that we believe only PannErgy obtains on the highest level in Hungary.

2. Financial analysis

2.1 Profit & Loss Account

The PannErgy Group's consolidated sales revenue amounted to HUF 2 129 million in the first half year of 2016, which is 61% larger than the HUF 1 326 million value of the base period in the first half year of 2015, due to the fact that besides the Miskolc Geothermal System, the Győr Geothermal System – although still not reaching its planned capacity usage - was also fully operating during the entire period. Out of the total sales revenue of HUF 2 129 million, HUF 1 857 million sales revenue comes from heat sales, while the rest of the sales are mainly arriving from from re-invoicing of the electric power consumption and other mediated charges.

The Győr Geothermal Project, which was started in November 2015, contributed by HUF 819 million to the total revenue of the PannErgy Group in the first half year of 2016. From the HUF 819 million HUF 409 million arrives from the sales from Arrabona Geothermal Ltd. towards Győr-Szol Ltd., and HUF 410 million accounted for DD Energy Ltd. sales to Audi Hungaria Motor Ltd. As part of the Miskolc Geothermal Project, sales towards heat off-taker Partners accounted to HUF 987 million (out of which, sales towards MIHŐ Miskolci Hőszolgáltató Ltd. accounted to HUF 946 million) in the first half year under analysis, which represents a 1% increase compared to the respective period of the previous year.

The Company's two smaller projects in Berekfüdő and Szentlőrinc have performed in line with the previous period in terms of sales revenues, in Szentlőrinc, HUF 39 million sales revenue was realized in the first half year of 2016, whereas, in Berekfüdő HUF 14 million turnover from heating fees and electricity sales could be stated in the first half year of 2016.

When compared to the same period of the previous year with the sales of HUF 294 million, HUF 254 million sales revenue was realised in the analysed period, coming from the rental fees paid by the tenants of the real-estate properties of Csepel and Debrecen that were under the Company's management. Major portion of the sale revenues is coming mainly from re-invoicing of the electric power consumption and other "*mediated charges*", lower proportion from rental fees. As compared to the previous year, the 13% decrease in the first half year of 2016 is the result of the additional real estate sales in 2015 following the ones that were sold by the Company in 2014.



Three customers went over 10% of the total amount of the Group's consolidated sales revenues, making up a combined 83% percent of all the sales.

In the current half year, the level of direct costs increased from the base of HUF 987 million to HUF 1 680 million by 70 % as a result of the considerably rising variable costs originating from heat sales and associated with the heating season, as well as the higher direct depreciation values of the investments that had already been capitalized and reinjection costs of Miskolc are partially paid to unconsolidated companies (which individually had a negative effect of over HUF 100 million).

In association with variable costs related to the heat sales, it is important to note that the heat generators of the district heat supply system of Miskolc have been jointly looking for options to have the maximum volume of geothermal heat fed into the district heating system under the given market and environmental circumstances. In the first half year, the geothermal heat fed into the system is settled via a compensation mechanism as a variably cost item among direct costs, and its actual value is largely dependent on the market prices of electric power and natural gas.

Consequently, due to the above detailed reasons, the Group's gross profit amounted to HUF 449 million in the first half year of 2016, which indicated a level 32% higher than in the same period of the previous year of HUF 339 million. The impact of the direct amortization costs - in line with the start of the Győr Geothermal Project - is showing, that besides the increased gross margin by 32 %, the amount of the gross cash flow increased by nearly 47 % compared to the previous period.

The indirect costs of sales totalled up to HUF 475 million in the period under review, which by 107% significantly higher than the HUF 229 million figure for the base period. Such indirect costs accounted by the Group included the depreciation of assets not directly associated with energy-related activities, personnel expenditures, general office and administration costs, expert charges, baking and insurance expenses as well as non-capitalisable costs belonging to business development and new projects. Compared to the base period, personnel expenditures have increased significantly in the total value of HUF 38 million, the 60 % increase compared to the base period is mainly due to the fact that in the base period, the PIAC_13 project existed and major proportion of the personnel expenditures were project related and were activated on relevant project, while in this half year, due to lack of new projects, these costs were accounted amongst direct costs. Besides the personnel expenditures, professional and advisory fees have significantly increased by 63% compared to the previous period. The main reasons behind the increase is partially the approximately HUF 10 million one-off advisory fees related to the refinancing of the Győr Project and partially the HUF17 million one-off advisory fees linked to corporate purchase and sales.

Related to the refinancing of the Győr Project, a HUF 54 million was accounted as bank fees (credit granting fees, closing fees and legal fees). These are also one-off items.

Administrative and operational expenses have increased from HUF 64 million to HUF 100 million. This is mainly due to the basis effect of the transferred costs activated to the PIAC _13 project related to the implementation phase and partially due to closing costs



of the Gödöllő Geothermal Project and Miskolc Greenhouse Project in the total value of HUF 8 million.

The Company's public presence costs have increase compared to the base period, the PannErgy Group continuously considers social responsibilities to be important, therefore supporting sporting life and other social initiatives of the cities and its agglomeration, of which can be increased in terms of value in line with the more active business activity.

The headcount of full-time employees at the Group was 28 at the end of the reporting period, which represents a decrease of 9 employees compared to the respective same period of the previous year with the figure of 37 people. The significant decreased headcount figure is in line with the Company's headcount rationalizations within the Group - aiming to achieve a more efficient project management - following an intensive investments phase in the analysed period. This process will be terminated in the second half of 2016, generating further decrease in headcount.

The balance of other expenditures and other incomes was HUF 133 million in the period under review, which is significantly higher than the HUF 2 million value in the base period. The reason of the increase after the close of the PIAC_13 grant scheme in 2015 is the grant provided in the first quarter of 2016, which is – according to the nature of the grant – accounted as other revenues, while deferred income accounting is not related due to the write-off of the grant related assets.

In the base period, the Company has only accounted some smaller fixed asset sales, in other hand, based on the the decision on the final closure of the Gödöllő Geothermal Project a HUF 90 million other expenditures were accounted based on the full write-off of the project assets and the amount of re-cultivation expenses.

HUF 107 million profit was stated to be the operating profit (EBIT) in the first half year of 2016 – due to the above detailed mainly one-off items accounted in transferred costs and other expenditures, which is almost the same as the HUF 112 million operating profit stated for the same period of the previous year.

The business cash flow (EBITDA) indicated HUF 734 million inflow, which is HUF 264 million more favourable than the EBITDA in the same period of the previous year, which was HUF 470 million. In the current half year under review, HUF 577 million depreciation was accounted, and its value exceeded the HUF 359 million base value in the first half year of 2015 by almost 61% as the almost solely consequence of the effects of the direct depreciation of the activated geothermal projects, furthermore a HUF 50 million extraordinary depreciation of Gödöllő Geothermal Project was also accounted in the EBITDA.

The financial profit amounted to HUF 333 million loss in the period under review, which is higher than the HUF 113 million loss in the the first half year of 2015 by HUF 220 million. This is caused by higher interest rates payables and a less favourable outcome of the foreign currency loan related foreign exchange gains and losses. Interest paid on investment related loans accounted to HUF 273 million in the first half year of 2016, compared to the value of HUF 86 million before the activation of the Győr investment

project. This clearly reflects the high interest expense of Eximbank loan (priced on a higher investment risk) related to the Győr Geothermal Project as well as the importance of the linked refinancing at the end of the current period. From the beginning of 1 July 2016, the new credit facilities will result in a more favourable interest expense in the value of HUF 130 comparing with that of the first half year of 2016. Compared to the same period of the previous year, as a result of the realised and non-realised foreign exchange evaluation, a HUF 50 million additional financial loss has been accounted.

Based on the above, the consolidated net profit of the PannErgy Group for the half year under review was HUF -226 million, which is less favourable than the HUF -1 million profit in the same period of the previous year.

The Company has accounted HUF 22 million as the payable amount of its taxes, which includes a HUF 6 million deferred tax liability write-off set earlier for negative tax base, based on the return of the discounted deferred taxes of the related subsidiaries.

The consolidated net profit for the period under review was HUF -252 million, which – due to the above-detailed reasons – was HUF 194 million less favourable than the HUF -58 million loss than in the same period of the previous year.

2.2 Balance Sheet

During the period under review, the value of fixed assets increased by 9%. The value of intangible assets decreased by 14% during the period, affected by the extraordinary write-off the R&D development related to the sale of the drilling machine in second half of 2015. Whereas, the aggregate volume of tangible assets rose considerably, by HUF 1 735 million, by 10%, which mostly originated from the investments connected with the Geothermal Project of Győr.

There has not been any change in the evaluation of the expected outcomes of the started investments, and therefore it does not seem to be justified to account for impairment losses – except for the assets of the Gödöllő Geothermal Project (2.1. Profit & Loss Account).

Deferred tax receivables accounted by the Company in the amount of HUF 386 million were recognized, and thus their value decreased by 14% and HUF 119 million after the base period. Out of which HUF 82 million decrease is based on the deferred tax return calculation of the PannErgy Group. Further HUF 37 million decrease was related to R&D reserves – earlier accounted as deferred tax liabilities – in line with the accounting standards – is the result of the consolidation with deferred tax receivables.

In the first half year of 2016, the overall value of current assets has remained on the same level when compared to the corresponding value of the previous period. Within current assets, trade receivables have increased mainly due to the invoiced trade receivables related to the already operating Győr Geothermal Project and the asset sales (reinjection well) in the last quarter of the previous year.

The value of Inventories associated with the activation of the Geothermal Projects of Győr has decreased.

Other receivables have decreased by 59% in the first half year of 2016, compared to the base period, this latter category covers VAT, corporate income tax and other tax receivables from the tax authority, as well as advance payments to trade creditors.

As of the end of the period under review, the Company's securities held to expiry amounted to HUF 502 million, which is a significant increase compared the previous period under review. The reason of this increase is the investment of HUF 500 million in interest-bearing mutual funds by the PannErgy Group, following the closing of the Győr investment in line with its cash-flow plans and investment policy. In the previous reports, the Company has reported these assets as "*Securities held until maturity*", which was modified in the current report as "*Tradeable Securities*" category in line with the characteristics of the securities, as they are sellable at any time before maturity depending on the Company's financial needs.

The value of liquid assets similarly belonging to current assets has also decreased in comparison with the base period, in the first half year of 2016, the Company had HUF 1 923 million cash and cash equivalents. While, in line with the securities accounted amongst tradeable securities the balance of liquid assets practically did not change, but within cash and cash equivalents the proportion of freely usable liquid assets has increased.

The Company witnessed a nearly 1% decrease from the base value of its equity as a consequence of the results in the balance sheet belonging to the **previous** and reviewed period. The amount of equity per share (calculated from the number of shares less treasury shares) slid to HUF 501 from the HUF 504 base value

On 30 June 2016, the value of provisions was HUF 62 million, the HUF 48 million increase was mainly caused by the provision settings for the re-cultivation works related to the Gödöllő Geothermal Project in the total value of HUF 40 million. Furthermore, on 30 June 2016, HUF 22 million provisions were set in line with the evaluation of the Incentive Management Share Option Programme for 2016-2019.

After the base period, the 49% growth in long-term loans, to the amount of HUF 9 338 was driven by the project finance drawdowns simultaneously with the realisation of the Geothermal Project of Győr. The relevant project finance loans were fully drawn down during the analysed period.

Under the heading of other long-term, deferred incomes stated the long-term tranches of the non-repayable grants awarded to the geothermal projects in grant application schemes. In this respect, at 30 June 2016 an amount of HUF 4 707 million is stated in the Company's balance sheet as long term liability and HUF 280 million short term liability, which totally represents 42% increase in comparison with the same period of the previous year, due to the grants related to the Győr Geothermal Project.

Within short-term liabilities, the HUF 764 million amount of trade payables showed 69% lower balance than in the base period. This decrease was triggered by the intense

investment activities that were associated with the Geothermal Projects of Győr, which has terminated in the previous year.

The overall value of short-term loans was HUF 963 million at the end of the period under review, bringing about 78% increase after the base period due to the short term part of the investments loans related to the realized Győr Geothermal Project. Other short-term liabilities amounted HUF 445 million at the end of the first half year of 2016, which is a 76 % decrease compared to the previous period. This growth points at the amounts of advance payments on grants earlier drawn down in connection with the closing of the geothermal projects.

2.3 Segment-specific information

Based on IFRS 8, the Company can be divided into two segments: Energetics and Asset Management. The Company's core activity belongs to Energetics; the Group's Energetics segment mostly comprises group entities and activities involved in energy production, as well as operations supporting and serving energy-related investments.

Beyond the Energetics segment, the asset management activities designated as a separate segment in the earlier financial statement do not form a fully independent component any longer, but rather can be considered as an integrated complementary function.

It primarily focuses on the management of the real-estate properties in Csepel and Debrecen, which are not directly necessary for the operation of Energetics, as well as the handling and control of the Group when it operates as a financial holding company and stock exchange issuer. However, taking into consideration that its share within the Company's sales revenues exceeds 10%, the presentation of Asset Management as an independent segment is still justified.

Segment-related information is shown in Chapter 4.

3. Financial statements (balance sheet, profit & loss account, cash flow, other statements)

Consolidated balance sheet under IFRS (HUF million)				
	30.06.2016	30.06.2016	Change %	31.12.2015
Assets				
Fixed assets				
Intangible assets	1 090	1 268	86.0	1 130
Goodwill	0	0		0
Tangible assets	20 050	18 315	109.5	20 649
Investments	273	23		273
Financial lease assets	0	0		0
Receivables from deferred taxes	386	505	76.4	435
Long-term receivables	19	2		19
Total fixed assets	21 818	20 113	108.5	22 506
Current assets				
Inventories	318	679	46.8	312
Account receivables	890	238	373.9	1 029
Other receivables	178	432	41.2	1 323
Corporate tax advance payments	31	22	140.9	28
Tradable securities	502	0		501
Cash and equivalents	1 923	2 451	78.5	1 120
Total current assets	3 842	3 822	100.5	4 313
TOTAL ASSETS	25 660	23 935	107.2	26 819
Equity and liabilities				
Equity stake of the owners of the parent company				
Subscribed capital				
Treasury shares	421	421	100.0	421
Capital reserves	-2 152	-3 009	71.5	-3 009
Retained earnings & profit for the period	10 516	10 516	100.0	10 516
Treasury share incentive option reserve	1 715	1 831	93.7	1 967
Other reserves	0	0		39
Equity of the parent company	-1 753	-850	206.2	-850
Minority interests	8 747	8 909	98.2	9 084
Total equity	352	297	118.5	248
Equity and liabilities	9 099	9 206	98.8	9 332
Long-term loans	9 338	6 273	148.9	9 143
Other long-term deferred incomes	4 707	3 333	141.2	4 872
Provisions	62	14	442.9	14
Total long-term liabilities	14 107	9 620	146.6	14 029
Short-term liabilities				
Accounts payable	764	2 491	30.7	1 696
Short-term loans	963	542	177.7	785
Other long-term deferred incomes concerning one year	280	183	153.0	238
Corporate tax payable	2	19	10.53	20
Deferred tax liability	0	0		37
Other short-term liabilities	445	1 874	23.7	682
Short-term liabilities in total	2 454	5 109	48.0	3 458
TOTAL LIABILITIES AND EQUITY	25 660	23 935	107.2	26 819

Consolidated capital movements (million HUF)	Subscribed capital	Equity for the parent company			Retained earnings	Incentive option reserve	Other reserve	Total	Minority Part.	Equity total
		Treasury shares	Premium	Capital reserve						
Balance as of 31 December 2014	421	-3 009	6 266	4 250	1 889	0	-850	8 967	292	9 259
Profit after taxes of the H1 period, 2015					-58			-58	5	-53
Changes in the share of external members										
Exchange rate difference from consolidation										
Share capital increase in subsidiaries										
Treasury shares repurchased										
Effect of treasury share incentive option program										
Sale of treasury shares										
Balance as of 30 June 2015	421	-3 009	6 266	4 250	1 831	0	-850	8 909	297	9 206

Statement of changes in equity in 2016

Balance as of 31 December 2015	421	-3 009	6 266	4 250	1 967	39	-850	9 084	248	9 332
Profit after taxes of Q1 period, 2016					-252			-252	4	-248
Changes in the share of external members									100	100
Exchange rate difference from consolidation										
Share capital increase in subsidiaries										
Treasury shares repurchased			-74					-74		-74
Effect of treasury share incentive option program						-39		-39		-39
Sale of treasury shares			931				-903	28		28
Balance as of 30 June 2016	421	-2 152	6 266	4 250	1 715	0	-1 753	8 747	352	9 099



STATEMENT OF GENERAL INCOMES (HUF million)	H1 2016	H1 2015	Change %
Net income for the period	-252	-58	434.5
<i>Other general incomes</i>			
Conversion difference			
Marketable financial instruments with deferred taxes			
Cash flow hedging transactions with deferred taxes			
Share from other general incomes of associated companies			
<i>Other general incomes in the period with tax implications</i>			
Total general incomes for the period	-252	-58	434.5



Consolidated profit & loss account under IFRS (HUF million)

	H1 2016	H1 2015	Change %
Sales revenues	2 129	1 326	160.6
Direct costs of sales	-1 680	-987	170.2
Gross profit	449	339	132.4
Gross profit rate %	21.1%	25.6%	
Direct depreciation	541	336	161.0
Gross cash flow	990	675	146.7
Gross cash flow rate %	46.5%	50.9%	
Indirect costs of sales	-475	-229	207.4
Other incomes	329	77	427.3
Other expenditures	-196	-75	261.3
Operating profit	107	112	95.5
Operating profit rate (%)	5.0%	8.4%	
EBITDA	734	470	156.2
EBITDA rate (%)	34.48%	35.44%	
Financial incomes	37	46	80.4
Financial expenditures	-370	-159	232.7
Financial profit	-333	-113	294.7
Profit before taxes	-226	-1	
Corporate income tax	-22	-52	42.3
Profit after taxes	-248	-53	467.9
Minority shareholding	-4	-5	80.0
Net profit of the period	-252	-58	-434.5
From the profit after taxes:			
To capital shareholders of the parent company	-252	-58	434.5
To minority shareholders (of the subsidiaries)	4	5	80.0
Profit per equity share (HUF)			
Base	-13.78	-3.18	433.3
Diluted	-13.78	-3.18	433.3



Changes in intra-group, consolidated / screened turnovers and volumes (HUF million)

	H1 2016	H1 2015
<u>Profit & loss account items:</u>		
Sales revenues	869	3 466
Direct costs of sales	841	3 309
Indirect costs of sales	84	69
Other incomes	530	46
Other expenditures	534	93
Financial incomes/expenditures	30	49
<u>Screening of balance sheet items:</u>		
Tangible assets	0	191
Inventories	0	2
Deferred income and accrued expenses	1 228	723
Long-term loans given	3 939	3 398
Other receivables	14 027	15 387
Accrued income and deferred expenses	1 228	723
Long-term accounts payable	9 081	6 065
Other short-term liabilities	8 885	12 720

Consolidated cash flow statement under IFRS (HUF million)

	H1 2016	H1 2015
Cash from operations		
Profit before corporate tax	-226	-1
<i>Adjustments in relation to the profit before taxes and operating cash flow</i>		
Depreciation of tangible and intangible assets	577	358
Effect of deferred taxes	49	19
Corporate tax expenditures	-22	-52
Exchange gains on loans	17	33
Impairment losses of corporate holdings	0	0
Extraordinary depreciation of property, plant, goodwill	50	1
Provisions released	48	-1
Interest (gain/ loss), net	271	86
Loss on treasury share incentive option program	-39	0
Profit on the sales of tangible assets	-14	0
Changes in minority participations	0	0

<i>Changes in working capital elements</i>		
Income taxes paid	-58	14
Increase/decrease of inventories	-6	314
Increase/decrease of receivables	1 284	377
Increase/decrease of liabilities	-1 169	1 713
<hr/>		
Interests received	2	0
Interests paid	-273	-86
Net liquid assets originating from / utilized in operations	491	2 775
Cash from investments		
Acquisition of investments in private companies	0	0
Acquisition of tangible and intangible assets	-84	-3 192
Acquisition of tangible and intangible assets	110	0
Increase/decrease of long-term receivables	0	0
Other long- and short-term deferred incomes	-123	168
<hr/>		
Cash from investment activities	-97	-3 024
Financial operations		
Drawdown/repayment of long-term loans	180	2 353
Increase/decrease of short-term loans	176	-10
Exchange difference from consolidation	0	0
Capital increase, exchange premium of minority participations	100	0
Acquisition of treasury shares	-74	0
Sale of treasury shares	28	0
Increase in securities	-1	0
<hr/>		
Cash from financial operations	409	2 343
Net increase/decrease of cash and cash equivalents	803	2 094
Cash and cash equivalents as of 1 January	1 120	357
Cash and cash equivalents as of 30 June	1 923	2 451
Overdraft	0	0
Cash and cash equivalents according to the balance sheet	1 923	2 451



Other incomes and expenditures (HUF million)

	H1 2016	H1 2015
Profit on the sales of tangible assets	14	0
Non-refundable grants related income	250	60
Received fines, penalties, damage refunds	13	7
Incomes carried forward from previous years	9	6
Release of provisions	0	1
Waived collection duty and late charges	31	0
Other non-disclosed items	12	3
Total of other incomes:	329	77
Extraordinary depreciation and amortisation	50	1
Fines, penalties, damage refunds, late interest paid	3	2
Expenditures relating to previous years	8	0
Setting provision	48	0
Local taxes	47	50
Mining fee	30	14
Innovation charge	6	6
Damages	1	0
Other non-disclosed items	3	2
Total of other expenditures:	196	75
Other profit/loss	133	2

Financial profit (HUF million)

	H1 2016	H1 2015
Interest income	2	0
Gain on treasury share incentive option program	12	0
Gain on disposal of corporate investment	2	0
Foreign exchange gains on receivables	16	14
Foreign exchange gains on liabilities	0	14
Foreign exchange gains on bank deposits	3	17
Foreign exchange gains on loans	0	1
Other financial income	2	0
Total of financial income:	37	46
Interest expense	273	86
Foreign exchange gain on receivables	3	18
Foreign exchange gain on liabilities	68	18
Foreign exchange gain on bank deposits	0	1
Foreign exchange gain on loans	25	36
Loss on treasury share incentive option program	0	0
Other financial expense	1	0
Total of financial expenditures:	370	159
Financial profit/loss	-333	-113

Most relevant foreign exchange rates as of the end of the periods (HUF/EUR)

30.06.2016	Y/E 2015	30.06.2015
------------	----------	------------

	316.16	313.12	315.04
Cash and equivalents (HUF million)			
	H1 2016		H1 2015
Current bank accounts and cash		565	169
Reserve account with limited access		1 335	2 269
Deposits		23	13
Overdraft facilities		0	0
Total		1 923	2 451

Reserve accounts with limited access means such financial assets where the banks individual approval is needed to release cash from the specific bank account.

Loans (HUF million)			
	H1 2016		H1 2015
Long-term loans and leases			
Collateral secured EUR based loan		7 206	4 531
Collateral secured HUF based loan		3 020	2 037
Financial lease liability		74	119
Unsecured HUF based loans		0	0
Short-term portion of long-term loans transferred to short-term loans		-962	-414
Total		9 338	6 273

The significant increase of long-term loans is caused by the project financing issued by Hungarian EXIM Bank Ltd. to the project Győr Geothermal Project involved project companies, DD Energy Ltd. and Arrabona Geotermia Ltd. This loan facility was refinanced by CIB Bank Ltd. during the first half of 2016.

Breakdown of lease liabilities under long-term loans

30.06.2016

	EUR	HUF million	Maturity	Book value (HUF million)
Vehicles				
Machinery	188 339	60	2021	137

30.06.2015

	EUR	HUF million	Maturity	Book value (HUF million)
Vehicles	80 768	25	2018	63
Machinery	253 694	80	2021	152

	H1 2016	H1 2015
Short-term loans and leases		
Short-term bank loans	0	0
Short-term portion of long-term loans	962	414
Overdraft facilities	0	0
Other short-term loans	1	128
Total	963	542

Short-term portion of long-term lease liabilities:

	EUR	HUF million	Maturity
Machinery	44 402	14	2021

Average interest cost of loans

The EUR denominated loans bear floating interest rates of which reference rate varies by subsidiaries between 1, 3 and 6 months EURIBOR while Hungarian Forint denominated loans bear fix rate of 2.50 % or floating rate with reference rate of 1 and 3 months BUBOR. The collateral secured EUR denominated loans' mean effective interest rate was 6.00 % in the first half of 2016 and will be 2.70 % in the second half of 2016 by the refinancing of the Győr Geothermal Project – assumed with unchanged EURIBOR rate. The collateral secured HUF denominated loans' mean effective interest rate was 2.97 % in the first half of 2016.

Maturity dates of long-term loans

Out of the HUF 9 338 million under long-term liabilities, HUF 1 500 expires between 1-5 years, while HUF 7 788 million will expire after more than 5 years.

Grants and relating deferred incomes (HUF million)

	H1 2016	H1 2015
Other long-term deferred income	4 707	3 333
Short-term portion of long-term deferred income	280	183
Grant related deferred incomes	4 987	3 516

In relation to its energetic projects, under the heading of other long-term deferred incomes the Company states the long-term tranches of the non-repayable grants awarded to the geothermal projects in grant application schemes, while the short-term tranches are presented under short-term liabilities and other income in the profit and loss account proportionally to the depreciation of the affected fixed assets.

Breakdown of grants (HUF million)

Group entity	Grant scheme/ Project ID	Eligible investment costs	Grant awarded	Grant drawn down	Deferred incomes from grants (liabilities)
Szentlőrinci Geotermia Ltd.	KEOP-4.2.0/B-09-2009-0026	883	442	427	380
Berekfürdő Energia Ltd.	KEOP 4.4.0/A/09-2009-0009	250	125	125	84
DoverDrill Mélyfúró Ltd.	GOP-1.3.1-11/A-2011-0192	232	104	104	86
Miskolci Geotermia Ltd.	KEOP 4.7.0-2010-0001	632	316	314	288
Miskolci Geotermia Ltd.	KEOP 4.2.0/B-11-2011-0007	2 856	1 000	1 000	909
Miskolci Geotermia Ltd.	GOP-1.2.1/B-12-2012-0005	323	162	148	118
Kuala Ltd.	KEOP 4.7.0/11-2011-0003	619	309	309	294
Kuala Ltd.	KEOP-4.10.0/B-12-2013-0012	2 836	1 000	1 000	940
DD Energy Ltd.	KEOP-4.10/B-12-2013-0010	3 997	1 000	1 000	983
Arrabona Geotermia Ltd..	KEOP-4.10/B-12-2013-0011	3 509	1 000	992	975
PannErgy Geotermikus Erőművek Ltd.	PIAC_13-1-2013-0006	889	442	442	-
Total amount of grants stated in the balance sheet					5 057

By type, all the above projects target project implementation, whereas the project objectives for KEOP grant applications focus on the utilization of geothermal energy, whereas for GOP grants asset procurement or system development. The whole grant amount received under the PIAC_13 grant scheme was recognised as income due to the sale and write off of the developed R&D until the end of the reporting period.

As at 30 June 2016 there is no liability recorded relating to received grant based advance payments.

4. Segment-specific information

Segment-specific sales and profit information (HUF million)

H1 2016	Asset management	Energetics	Total
Net sales revenues			
Sales to non-Group customers	254	1 875	2 129
Results			
Operating profit	-123	230	107
Financial profit/loss	17	-350	-333
Profit before taxes	-106	-120	-226
Corporate income tax	-2	-20	-22
Profit after taxes	-108	-140	-248
H1 2015			
	Asset management	Energetics	Total
Net sales revenues			
Sales to non-Group customers	294	1 032	1 326
Results			
Operating profit	-122	234	112
Financial profit/loss	-3	-110	-113
Profit before taxes	-125	124	-1
Corporate income tax	-1	-51	-52
Profit after taxes	-126	73	-53

Concerning the Energetics segment as the dominant business activity, further information is provided in the other details of this report pertaining to energetics. The profit of the Asset Management segment in the period under review increased slightly in comparison with the previous period.

Costs and expenses in the Asset Management segment can be divided into two main groups:

- Firstly, costs related to the facility management of the real estate properties under the Asset Management segment, which are covered by rental income and transmitted energy and other cost related income;
- Secondly, holding management activity of the PannErgy Group, furthermore with PannErgy's public and stock exchange listed presence which are not having direct connection with energy projects.

Further other costs and expenses (in HUF million):

Audit, accounting consultancy and payroll fees, Stock Exchange and public presence	42
Personal expenses, outsourced administration cost	31
Office, administration, security services, etc.	20
Insurance fees and authority charges	6
Depreciation	2
Bank charges	2

Consultancy fees represent significant increase compared to the last year's same period.

Segment-specific balance sheet information (HUF million)

30.06.2016	Asset management	Energetics	Total
Intangible assets, net	0	1 090	1 090
Tangible assets, net	293	19 757	20 050
Investments	23	250	273
Receivables from deferred taxes	56	330	386
Long-term receivables	18	1	19
Inventories	0	318	318
Accounts receivables	107	783	890
Other receivables and assets	21	157	178
Corporate tax advance payments	0	31	31
Securities held until maturity	502	0	502
Cash and equivalence	40	1 883	1 923
Total assets	1 060	24 600	25 660
Accounts payable	104	660	764
Long-term loans	0	9 338	9 338
Long-term deferred incomes	0	4 707	4 707
Short-term loans	0	963	963
Short-term deferred incomes	0	280	280
Provisions	22	40	62
Corporate tax payable	1	1	2
Other liabilities	29	416	445
Total liabilities	156	16 405	16 561
Shareholders' equity			9 099
30.06.2015			
Intangible assets, net	0	1 268	1 268
Tangible assets, net	378	17 937	18 315
Investments	23	0	23
Receivables from deferred taxes	59	446	505
Long-term receivables	0	2	2
Inventories	0	679	679
Accounts receivables	86	152	238
Other receivables and assets	12	420	432
Corporate tax advance payments	3	19	22
Cash and equivalent	53	2 398	2 451
Total assets	614	23 321	23 935
Accounts payable	131	2 360	2 491
Long-term loans	26	6 247	6 273
Long-term deferred incomes	0	3 333	3 333
Short-term loans	9	533	542
Short-term deferred incomes	0	183	183
Provisions	0	14	14
Corporate tax payable	0	19	19

Other short-term liabilities	21	1 853	1 874
Total liabilities	187	14 542	14 729
Shareholders' equity			9 206

Other segment-specific information (HUF million)

H1 2016	Asset management	Energetics	Total
Procurement of intangible assets	0	1	1
Procurement of tangible assets	0	83	83
Procurements in total	0	84	84
Depreciation	5	572	577
Extraordinary depreciation	0	50	50
H1 2015	Asset management	Energetics	Total
Procurement of intangible assets	0	0	0
Procurement of tangible assets	0	3 192	3 192
Procurements in total	0	3 192	3 192
Depreciation	5	353	358
Extraordinary depreciation	0	1	1

5. Other, complementary information

5.1 Accounting policy

The Company's accounting policy is identical to the one applied in the previous fiscal year, i.e. the associated details described in the supplementary notes to the consolidated annual report of 2015. When preparing these financial statements, the Company followed the same accounting policy and identical calculation methodology as in the most recent annual and interim management reports, e.g. in the base period.

The reports relating to PannErgy Group, such as the interim management report, have been denominated in Hungarian forint, as rounded to million HUF.

5.2 Functional currency

The functional currency of the Company and its subsidiaries is the Hungarian forint, because for the Company and its subsidiaries the principal environment of operations is the Hungarian economy.

5.3 Deferred taxes

PannErgy Group has the following deferred tax positions as of 30 June 2016:

Deferred tax asset: HUF 386 million

The HUF 386 million deferred tax receivables recognised among fixed assets covers the 10% corporate income tax relating to the negative tax base that remained unused in association with the subsidiaries belonging to PannErgy Group, as well as other deferred tax-modifying items under IFRS; the calculation of deferred tax receivables is based on the discounted deferred tax refunds of the subsidiaries concerned which results 423 deferred tax receivable. In accordance with the actual accounting rules, this amount is reduced by HUF 37 million R&D reserve related, earlier as deferred tax recognised liability.

5.4 Calculation of the effective tax

The expected income tax established as the product of the profit before taxes in the Company's profit & loss account and the Company's corporate tax rate, as well as the corporate income tax actually stated in the profit & loss account are as follows:

Calculation of the effective tax (HUF million)

	H1 2016	H1 2015
Profit before taxes (individual companies aggregated)	-226	-1
Expected income tax calculated with the individual companies' corporate tax rate (10%, 19%)	10	37
Effect of different tax rates (minimum profit tax)	4	4
Effect of the changes in the tax rate		
Tax-related effect of non-deductible expenditures	5	8
Tax-free incomes	-1	
Tax allowances	-2	-1
Deferred tax liabilities assessed in the year under review for any negative tax base not stated earlier	-6	-15
Write-off of tax receivables assessed earlier for negative tax bases	12	19
Negative corporate income tax base on the year under review for which deferred tax receivables have not been assessed	0	0
Changes in unstated, temporary differences	0	0
Tax-related effects of modifications in the previous years	0	0
Income tax (as per the profit & loss account)	22	52

5.5 A Major risks of the business undertaking, as well as the associated changes and uncertainties

Exchange risk

From among the Company's transactions concluded in foreign currencies, euro-denominated transactions have the largest share. As for liabilities, the Company is exposed to foreign exchange risks due to the investment loans outstanding in foreign currencies, as well as cash flow risks arising from the changes of interest rates. Such exchange risk can be mitigated by the future partially EUR based cash-inflow generated by the Győr Project sales.

The share price risk is to be considered in view of the marketability of repurchased treasury shares and the value of the managerial incentive share option program.

Interest risk

The source of interest risk is the exposure originating from the changes in the interest levels of the interest-bearing assets held by the Company and the interest level of loans taken out.

Credit risk

Credit risk is the risk of financial losses arising from the potential non-performance of any contracted obligation by the customer or partner. From the perspective of the Company, it primarily means the risk associated with the non-payment of customers. It is to be noted that the Company performs sales for a concentrated group of a small number of customers, which means a low level of diversification.

Liquidity risk

Liquidity risk represent the risk that the Company becomes unable to fulfil its financial obligations in a timely manner. The purpose of liquidity management is that sufficient resources should be provided for the fulfilment of liabilities upon their respective due dates. The Company's approach to liquidity management is that as far as it is possible there should always be adequate liquidity provided for the fulfilment of liabilities at their due dates under both ordinary and stressed circumstances without suffering unacceptable losses or putting the Company's reputation at risk. Furthermore, adequate liquidity can be realized by shaping the terms of funding sources in alignment with the lifecycle of the project.

Regulatory risk

From among the general types of regulatory risks, a factor to be specifically highlighted in relation to the Company is that the selling price of a determining part of the heat energy sold by the Group is subject to official price setting, and thus is regularly reviewed by the competent price setting authority, which can potentially modify or limit the Company's profitability. Consequently, considerable uncertainties arise with respect to the future selling prices.

5.6 Acceptance of the annual report, dividends

The Company held its ordinary annual general meeting on 28 April 2018, with its resolutions published via the official media of disclosure. The annual General Meeting

approved the Company's consolidated annual report for 2015 prepared in conformance to the requirements of the International Financial Reporting Standards (IFRS) with the identical amount of assets and liabilities being HUF 26 819 million (balance sheet total) and profit according to the balance sheet being HUF 78 million (profit), as proposed by the Board of Directors. Concurrently with the acceptance of the consolidated annual report, the annual ordinary General Meeting did not approve dividend payments.

5.7 Employees

PannErgy Group headcount as at the end of the relevant periods:

Own headcount	30.06.2015	30.06.2016	Change
PannErgy Plc.	6	4	-2
Group companies	31	24	-7
Total	37	28	-9

PannErgy Group had 37 employees as at 30 June 2015 and 31 December 2015 equally. Due to the need of a tightened focus limitedly on the operation of the completed projects, significant headcount cut was executed, which caused a drop to 28 employees as at 30 June 2016. This organisation rationalisation process will be finished by the second half of 2016.

5.8 Changes in the Company's registered capital, management, organization

As of 31 December 2015, the amount of the registered capital was HUF 421 093 100, which has not changed so far in 2015. The financial reports state the amount of the registered capital in view of all the shares issued, whereas the number of shares is calculated with the deduction of repurchased treasury shares.

As of 30 June 2015, the Company had 2 897 338 pcs. PannErgy Plc. treasury shares, which exceeds by 121 961 pcs. the number of treasury shares as of 31 December 2015 and 31 March 2016.

In accordance with the Resolution 19/2016 (Apr 28, 2016) of the General Meeting, from May 2016, PannErgy Plc shall start a treasury share purchasing program. The first month of the program shall be May 2016, whereas its last month is April 2017. In the framework of the program, PannErgy Plc will purchase PannErgy shares via the Budapest Stock Exchange in an amount of at least HUF 20 million in each month, and maximally HUF 300 million in total, with the additional condition that in the course of the scheduled share repurchasing program the individual purchase price of the shares may not exceed HUF 500.

With respect to the treasury share transactions, detailed information is available in the Company's public disclosures.

Information associated with senior officers is provided in details in Form TSZ2 in Chapter 8.2.

5.9 Share based payments

The General Meeting held on 28 April 2016 closed the Management Share Option Program (Resolution 17/2016. (IV.28.)), which was ratified by the General Meeting held on 30 April 2014. Under this scheme in the first half of 2016, HUF 29 million expense was recognised of which HUF 27 million due to cash settlement and HUF 2 million as result of share based settlement as share price difference. As of the yearend 2015, HUF 39 million incentive share option reserve was recognised in the balance sheet. After closing the scheme, the difference HUF 12 million was accounted as financial income and released from reserves.

The General Meeting held on 28 April 2016 ratified the new MSOP effective for the period 2016-2019 in line with the proposal of the Supervisory Board of Directors adjusted with other shareholders' certain proposals. The new MSOP's full conditions are available at the Company's homepage.

Major terms and conditions of the share option program

The entitled persons can receive conditional call options for 900 000 shares from the Company when the relevant option contracts are concluded. The options are American-type options and can be exercised by 30 April 2019. The options will open at several stages when certain stock exchange share prices are achieved:

The option's strike price is HUF 349.02

- If the stock exchange price on each day of a consecutive 10 days period exceeds the strike price by 15% in the period of the option program, the call option will open for 300 000 shares;
- If the stock exchange price on each day of a consecutive 10 days period exceeds the strike price by 30% in the period of the option program, the call option will open for additional 300 000 shares which will mean 600 000 shares in total;
- If the stock exchange price on each day of a consecutive 10 days period exceeds the strike price by 45% in the period of the option program, the call option will open for additional 300 000 shares which will mean 900 000 shares in total, the total quantity of the share option program.

Evaluation of the share option program

When calculating the fair value of the incentive share option program, all three stages were considered.

According to the market conditions taken into account when defining the above fair value, the Black-Scholes formula was applied (closing share price as of 30 June 2016: HUF 367, volatility: 22.9%, risk-free interest rate: 2.00%), the fair value of the options is HUF 22 million in respect of the total 900 000 shares. In the reporting period, this amount was accounted for as an expense and an increase in equity instruments.



5.10 Environmental protection

The Company handles the high-standard management of environmental protection as a priority. In the field of geothermal energy, they work to introduce and broadly spread one of the most environmentally friendly way of energy production in Hungary.

The subsidiaries with geothermal operations undertake the impact assessments required by the relevant environmental regulations, as well as the performance of the necessary studies and compliance with the relevant legal regulations.

In line with the energy politics of Hungary and the European Union, the Company's objective is to enforce environmental aspects in economic development. The underlying condition is the utilization of renewable energies at the largest possible scale, the shaping of a harmonic relationship between society and nature, indirectly having a positive influence on the source structure of domestic energy carriers by facilitating progress from the direction of renewables. In parallel, considering both economic and technical aspects, the Company shoulders responsibility for the continuous improvement of the environmentally friendly characteristics of the project locations, as well as the environmentally friendly exploitation of natural resources. Research and development are part of PannErgy Group's environmental policy. PannErgy Group is fully committed to the continuous improvement of environmental and energy performance, compliance with sustainability as an attitude. The Company has a strong focus on the social impacts of its activities, and has the goal to arrive fully responsible and sustainable operations.

5.11 Relevant events after the balance sheet date (until 30 August 2016)

Of the associated events, the Company releases extraordinary information that is to be known as part of the necessary element of the judgment and evaluation of the substances of this report.

The potentially material post balance sheet date events are available in the present report at *section 9.1. "Extraordinary and other information published in the reporting period (ST1)"*. The indicated events are available at the Company's homepage in full extent.



6. Data sheets related to financial statements

Name of the Company: PannErgy Public Company Limited by Shares
(PannErgy Nyilvánosan Működő Részvénytársaság)
Address of the Company: H–1117 Budapest, Budafoki út 56.
Sectorial classification: Energetics, Asset management
Period: Q1 of 2016
Telephone: +36 1 323 23 83
Fax: +36 1 323 23 73
E-mail address: info@pannergy.com
Investor relations: Valéria Szabó

6.1 General information on the representation of the financial information (PK1.)

	Yes	No
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Consolidated	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Accounting principles	<input type="checkbox"/>	Hungarian	<input type="checkbox"/>	IFRS	<input checked="" type="checkbox"/>	Other	<input type="checkbox"/>
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6.2 Business entities under consolidation (PK2.)

Name	Capital net worth/ Share capital (HUF M)	Share (%) ³	Voting rights ¹ (%)	Rate of consolidation ⁴	Classification ²
PMM Ltd.	100.00	100.00	100.00	100.00	F
Kuala Ltd.	3.00	90.00	90.00	83.78	F
PannErgy Geothermal Power Plants Ltd.	1 972.70	93.09	93.09	93.09	F
CSRG Ltd. ⁵	7.50	60.00	60.00	55.85	F
TT Geothermal Ltd.	5.00	100.00	100.00	93.09	F
Szentlőrinc Geothermal Ltd.	5.00	99.80	99.80	92.89	F
Miskolc Geothermal Ltd.	5.00	90.00	90.00	83.78	F
Berefürdő Energy Ltd.	24.10	100.00	100.00	93.09	F
DoverDrill Ltd.	86.00	100.00	100.00	93.09	F
DD Energy Ltd.	3.00	100.00	100.00	93.09	F
Arrabona Geothermal Ltd.	3.00	100.00	100.00	93.09	F

¹ Voting rights allowing participation in decision-making at the general meeting of any business entity under consolidation

² Full (F); Joint management (J); Associated (A)

³ % values to be interpreted indirectly

⁴ *The ratios of ownership and voting rights show the ratios of direct ownership and voting rights in PannErgy Plc and PannErgy Geothermal Power Plants Ltd. The difference between the rate of consolidation and the ratio of ownership originates from the minority shareholdings in PannErgy Geothermal Power Plants Ltd when they are considered, with the rate of consolidation reflecting the direct ratio of ownership;*
⁵ *former name: Csurgói Geotermia Ltd.*

6.3 Material off-balance-sheet items, contingent liabilities (PK6)

Forward positions, transactions

As of 30 June 2016, the Company did not have forward positions.

Obligations undertaken in relation to asset management transactions

Under such asset management transactions (selling and purchasing participations, other assets), the company assumes guarantees for the economic purport of the transaction.

Such undertaking is the surety provided relating to the earlier sold deep drilling machine backed with counter collateral with an exposure of HUF 309 million as of the balance sheet date.

From these assumed guarantees, the Company's management – in view of their expectations formulated to the best of their knowledge – does not see the occurrence of substantial performance obligations to be likely.

Other contingent liabilities

As of the reporting date, PannErgy Plc and its subsidiaries had the following contingent liabilities towards external parties:

Restriction of title or right over machinery, equipment, devices, pledges in relation with bank financing transactions:

As of the date of 30 June 2016, various types of guarantees undertaken in an amount of HUF 3 095 million and EUR 22 791 thousand for external financing agreements that were made by associated companies. The outstanding principal amounts of these financing agreements consistently decreased as a result of the repayments made in the meantime, and therefore were under the presented contracted values.

Contingent liabilities related to grants:

Based on the Decree 358/2014 (XII. 29) and related regulations, from 1 January 2015, in case of grants deriving from European Regional Development Fund, European Social Fund, Cohesive Fund, beneficiaries having a minimum of one full closed business year and has no public debt according to the National Tax Authority database, are not obliged to provide security. Based on this, PannErgy Group is exempted – with only one exception – from the security provisions for such grants. PannErgy Geothermal Power Plants Ltd. has established grant suretyship related to the grant of PIAC 13 market-oriented research and development activity in the value of HUF 442 million.

Other contingent liabilities:

PannErgy Geothermal Power Plants Ltd. also contracted for an unconditional payment guarantee towards one of its heat off-taker customer involved in the Geothermal Project of Miskolc for the liabilities that may be arising from possible future damages; in Miskolc Geothermal Ltd. up to the amount of HUF 100 million and in case of Kuala Ltd. without any limits.

During previous periods PannErgy Geothermal Power Plants Ltd. undertook an unconditional guarantee related to sale of the reinjection well and the sale of the contractual rights of the reinjection services in case SPAs are not realized for some reasons; furthermore, PannErgy Geothermal Power Plants Ltd. has also undertaken unconditional guarantee towards its customer for the payment of the expected revenues and compensation for loss of income deriving from the reinjection services in case at normal operations, quantities of reinjection services does not reach the contacted quantity levels.

7. Data sheets on the shareholders and shareholder structure

7.1 Ownership structure, shareholdings and voting rights (RS1)

Classification of shareholders	Share capital total = Listed series					
	01.01.2016			30.06.2016		
	% ²	% ³	pcs	% ²	% ³	pcs
Domestic institutions	24.74	28.50	5 209 323	24.76	28.71	5 213 368
Foreign institutions	18.10	20.84	3 810 432	18.04	20.92	3 798 163
Domestic private persons	34.69	39.96	7 304 475	33.72	39.10	7 099 072
Foreign private persons	0.39	0.45	82 050	0.35	0.40	73 716
Employees. senior officers	0.94	1.08	197 253	1.41	1.64	297 253
Own holding ⁴	13.18	-	2 775 377	13.76	-	2 897 338
Shareholder belonging to the central budget ¹	7.96	9.17	1 675 745	7.96	9.23	1 675 745
International Development Institutions ³	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total	100.00	100.00	21 054 655	100.00	100.00	21 054 655

¹ State administrative body

² Ownership ratio

³ Voting rights allowing participation in decision-making at the general meeting of the issuing entity

⁴ Own property: The property of the Company or its 100 % subsidiary

7.2 Changes in the number of shares (pcs) in own holding in the reporting period (RS2)

	01.01.2016	31.03.2016	30.06.2016
At company level	1 840 174	1 840 174	1 962 135
Subsidiaries *	935 203	935 203	935 203
Total	2 775 377	2 775 377	2 897 338

* The volume held by PMM Ltd., which company is owned in 100% by PannErgy Plc.

In accordance with the Resolution 19/2016 (Apr 28, 2016) of the General Meeting, from May 2016, PannErgy Plc shall start a treasury share purchasing program. The first month of the program shall be May 2016, whereas its last month is April 2017. In the framework of the program, PannErgy Plc will purchase PannErgy shares via the Budapest Stock

Exchange in an amount of at least HUF 20 million in each month, and maximally HUF 300 million in total, with the additional condition that in the course of the scheduled share repurchasing program the individual purchase price of the shares may not exceed HUF 500. Under the framework of the a treasury share purchasing program, the treasury share stake of the company was increased by 121 961 pcs.

List and particulars of Shareholders with stakes over 5% at the end of the period (RS3.)

Name	Nationality ¹	Activity ²	Number (pcs)	Stake (%) ³	Voting right (%) ^{3,4}	Notes ⁵
Benji Invest Ltd.	B	I	2 424 010	11.51	13.35	P
ONP Holdings SE	K	I	1 814 640	8.62	9.99	P
Hungarian National Asset Management Ltd.	B	Á	1 675 745	7.96	9.23	P

¹ Domestic (D), Foreign (F)

² Trustee (T), Budget (B), International Development Institution (ID), Institutional (I), Business Entity (BE), Private (P), Employee, Senior Officer (E)

³ To be specified as rounded to two decimals

⁴ Voting rights allowing participation in decision-making at the general meeting of the issuing entity

⁵ E.g.: professional (strategic) investor, financial investor, etc.

8. Data sheets on the organization and operations of the issuer

8.1 Changes in the headcount of full-time employees (pers.) (TSZ1.)

Own headcount	30.06.2015	30.06.2016	Change
PannErgy Plc.	6	4	-2
Group companies	31	24	-7
Total	37	28	-9

see paragraph 5.7

8.2 Senior officers and (strategic) employees controlling operations of the issuing entity (TSZ2.)

Type ¹	Name	Position	Starting date of commission	End/termination date of the commission	Shareholding (pcs)
BD	Balázs Bokorovics	Member, Chairman	31.08.2007	for an undefined period of time	-
BD	Dénes Gyimóthy	Member, Deputy Chairman, acting CEO	31.08.2007	for an undefined period of time	170 000
BD	Gábor Briglovics	Member	31.08.2007	for an undefined period of time	13 600
BD	Katalin Gyimóthy	Member	28.04.2016	for an undefined period of time	-

BD	Lilla Martonfalvay	Member	28.04.2016	for an undefined period of time	100 000
BD	Csaba Major	Member	30.04.2013	for an undefined period of time	-
BD	Attila Juhász	Member	31.08.2007	for an undefined period of time	-
BD	István Töröcskei	Member	31.08.2007	for an undefined period of time	-
Total shareholding (pcs.):					283 600

¹ Employee in strategic position (SP), Member of the Supervisory Board of Directors (BD)

9. Datasheets relating to extraordinary information

9.1 Extraordinary and other information published in the reporting period (ST1) (until 30 Augustus 2016)

Date	Type of information	Subject
29 August 2016	Other information	Personal changes in the Board of Directors of PannErgy Geothermal Power Plants Ltd
29 August 2016	Extraordinary information	Treasury share transactions
25 August 2016	Extraordinary information	Treasury share transactions
23 August 2016	Extraordinary information	Treasury share transactions
20 August 2016	Extraordinary information	Treasury share transactions
17 August 2016	Extraordinary information	Treasury share transactions
15 August 2016	Extraordinary information	Treasury share transactions
11 August 2016	Extraordinary information	Treasury share transactions
11 August 2016	Extraordinary information	Owner's announcement concerning change in the ratio of voting rights
9 August 2016	Extraordinary information	Treasury share transactions
5 August 2016	Extraordinary information	Treasury share transactions
3 August 2016	Extraordinary information	Treasury share transactions
3 August 2016	Extraordinary information	PannErgy Plc increases its stake in PEGE Ltd to 100%
1 August 2016	Extraordinary information	Treasury share transactions
1 August 2016	Other information	Composition of share capital of the PannErgy Plc.
28 July 2016	Extraordinary information	Treasury share transactions
26 July 2016	Extraordinary information	Treasury share transactions
22 July 2016	Extraordinary information	Treasury share transactions
22 July 2016	Extraordinary information	Detailed description of the share repurchasing program
20 July 2016	Extraordinary information	Treasury share transactions
20 July 2016	Extraordinary information	False news published in "Világgazdaság" daily paper – correction
19 July 2016	Extraordinary information	EGM - Resolutions
18 July 2016	Extraordinary information	Treasury share transactions
18 July 2016	Extraordinary information	EGM - Proposals
18 July 2016	Extraordinary information	EGM - Proposals
18 July 2016	Extraordinary information	EGM - Proposals
15 July 2016	Extraordinary information	EGM - Proposals
15 July 2016	Extraordinary information	EGM - Proposals
15 July 2016	Extraordinary information	EGM - Proposals

14 July 2016	Extraordinary information	Treasury share transactions
12 July 2016	Extraordinary information	Treasury share transactions
8 July 2016	Extraordinary information	Treasury share transactions
6 July 2016	Extraordinary information	Treasury share transactions
6 July 2016	Extraordinary information	Owner's announcement concerning change in the ratio of voting rights
4 July 2016	Extraordinary information	Treasury share transactions
4 July 2016	Extraordinary information	EGM - Minutes
30 June 2016	Other information	Composition of share capital of the PannErgy Plc.
30 June 2016	Extraordinary information	Treasury share transactions
28 June 2016	Extraordinary information	Treasury share transactions
24 June 2016	Extraordinary information	Treasury share transactions
24 June 2016	Extraordinary information	PannErgy Plc's two subsidiaries have made a refinancing agreement with CIB Bank Ltd
22 June 2016	Extraordinary information	Treasury share transactions
20 June 2016	Extraordinary information	Treasury share transactions
17 June 2016	Extraordinary information	Treasury share transactions
15 June 2016	Extraordinary information	EGM - Proposals
15 June 2016	Extraordinary information	EGM - Proposals
15 June 2016	Extraordinary information	EGM - Proposals
15 June 2016	Extraordinary information	Final termination of Gödöllő Project
15 June 2016	Other information	Composition of share capital of the PannErgy Plc.
15 June 2016	Extraordinary information	EGM – Invitation and agenda
14 June 2016	Extraordinary information	Treasury share transactions
13 June 2016	Extraordinary information	Treasury share transactions
9 June 2016	Extraordinary information	Treasury share transactions
8 June 2016	Extraordinary information	Treasury share transactions
6 June 2016	Extraordinary information	Treasury share transactions
3 June 2016	Extraordinary information	Treasury share transactions
1 June 2016	Other information	Conclusion of contracts for the management share option program
31 May 2016	Other information	Composition of share capital of the PannErgy Plc.
31 May 2016	Extraordinary information	Treasury share transactions
30 May 2016	Extraordinary information	EGM - Proposals
30 May 2016	Extraordinary information	EGM - Proposals
30 May 2016	Extraordinary information	EGM - Proposals
30 May 2016	Extraordinary information	EGM - Proposals
30 May 2016	Extraordinary information	EGM – Invitation and agenda
27 May 2016	Extraordinary information	PannErgy is selling its stake in PannTerm Ltd.
25 May 2016	Extraordinary information	Binding offer for the refinancing of the bank loans of the Győr project accepted
18 May 2016	Extraordinary information	Q1 interim management report
18 May 2016	Extraordinary information	Treasury share transactions
13 May 2016	Extraordinary information	Treasury share transactions
12 May 2016	Extraordinary information	Treasury share transactions
11 May 2016	Extraordinary information	Treasury share transactions
9 May 2016	Extraordinary information	Treasury share transactions

4 May 2016	Extraordinary information	Treasury share transactions
3 May 2016	Extraordinary information	Treasury share transactions
1 May 2016	Other information	Composition of share capital
29 April 2016	Extraordinary information	Shareholding of the newly elected members of the Supervisory Board of Directors
28 April 2016	Extraordinary information	Changes in the volume of treasury shares
28 April 2016	Extraordinary information	CG declaration
28 April 2016	Extraordinary information	AGM Resolutions
25 April 2016	Extraordinary information	AGM Invitation
15 April 2016	Extraordinary information	AGM Invitation
5 April 2016	Other information	MARCH BRINGS ABOUT PANENERGY'S LARGEST GREEN HEAT SELLING VOLUME SO FAR
31 March 2016	Extraordinary information	Composition of share capital
24 March 2016	Extraordinary information	AGM Proposals
24 March 2016	Other information	PANENERGY GROUP INVOLVED IN TREE REPLACEMENT WORKS IN GYŐR
21 March 2016	Extraordinary information	PANENERGY IS SELLING ITS OWNERSHIP SHARE IN CSR ENERGY LTD.
11 March 2016	Extraordinary information	PRELIMINARY INFORMATION CONCERNING BUSINESS OPERATIONS IN 2015
10 March 2016	Extraordinary information	Management remuneration statement
10 March 2016	Extraordinary information	AGM Invitation
1 March 2016	Other information	Composition of share capital
25 February 2016	Other information	IMPACTS AND MANAGEMENT OF ENERGY MARKET PRICES IN 2016
19 February 2016	Other information	OUTSTANDING DAILY HEAT SALES ON 16 FEBRUARY 2016
12 February 2016	Other information	INITIAL RESULTS AND EXPERIENCES OF THE GYŐR GEOTHERMAL SYSTEM
1 February 2016	Other information	Composition of share capital
29 April 2016	Extraordinary information	Shareholding of the newly elected members of the Supervisory Board of Directors

Budapest, 2 September 2016

PannErgy Plc.
Supervisory Board of Directors

II. Declarations

This report discloses PannErgy Group's consolidated, **non-audited** figures stated in line with the requirements of the International Financial Report Standards (IFRS).

In accordance with the relevant statutory requirements, it is hereby declared that based on the applicable accounting rules this report has been made to the best of our knowledge, and does not contain such errors that would lead to any untrue or unrealistic view of the property, financial and income standing, assets, liabilities, outlook, as well as profits and losses of the Company as of 30 June 2016.

This report provides a reliable view of PannErgy Group's current situation, development and performance, and discloses the main risks and uncertainties that affect the remaining period of the financial year.

Budapest, 2 September 2016

*PannErgy Plc.
Supervisory Board of Directors*