



PannErgy Plc.
Annual Report and Business Report
(prepared in accordance with the
International Financial Reporting
Standards as adopted by the EU)
2022
Including the Independent Auditor's
Report

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

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



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PannErgy Plc.

Annual Report
for the 2022 business year
compiled in accordance with
the IFRS standards adopted by the EU
31 December 2022

Budapest, 22 March 2023

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STATEMENT OF FINANCIAL POSITION

| | Note no. | 31 December 2022 | 31 December 2021 |
|---|----------|---------------------|---------------------|
| | | HUF Th | HUF Th |
| Intangible assets | 15 | 1,180 | 1,134 |
| Tangible assets | 16 | 10,984 | 21,817 |
| Investment property | 16 | 101,176 | 113,148 |
| Marketable properties | 16 | - | - |
| Long-term investments | 17 | 4,607,949 | 4,604,949 |
| Receivables from deferred taxes | 32 | - | 8,131 |
| Long-term receivables | 18 | - | - |
| Total fixed assets | | 4,721,289 | 4,749,179 |
| Inventories | 20 | 4,223 | - |
| Trade receivables | 21 | 9,410 | 21,113 |
| Loans provided | 22 | 5,387,191 | 5,795,143 |
| Other receivables | 23 | 177,403 | 119,716 |
| Securities | 24 | 21 | 20 |
| Liquid assets | 34 | 220,199 | 297,702 |
| Total current assets | | 5,798,447 | 6,233,694 |
| TOTAL ASSETS | | 10,519,736 | 10,982,873 |
| Subscribed capital | 25 | 400,000 | 421,093 |
| Reserves | 27 | 13,565,635 | 14,047,868 |
| Net P/L for the reporting year | | 146,556 | 36,692 |
| Reserve for repurchased treasury shares | 26 | -4,085,044 | -3,872,379 |
| Total equity | | 10,027,147 | 10,633,274 |
| Long-term loans, leases | 28 | - | 9,499 |
| Deferred tax liabilities | 31 | 741 | - |
| Provisions | 29 | - | - |
| Total long-term liabilities | | 741 | 9,499 |
| Trade payables | 35 | 40,989 | 86,204 |
| Current borrowings | 30 | 339,421 | 230,000 |
| Short-term part of long-term credits and leases | 30 | 9,694 | 9,417 |
| Income taxes payable | 31 | 10,480 | - |
| Other short-term liabilities | 31 | 91,264 | 14,479 |
| Total short-term liabilities | | 491,848 | 340,100 |
| TOTAL LIABILITIES AND EQUITY | | 10,519,736 | 10,982,873 |

STATEMENT OF PROFIT OR LOSS

| | Note no. | 2022 | 2021 |
|--|----------|-----------------|-----------------|
| | | HUF Th | HUF Th |
| Revenue from sales | 6 | 96,971 | 96,020 |
| Direct cost of sales | 8 | -79,928 | -91,770 |
| Gross margin | | 11,043 | 4,250 |
| Gross margin ratio % | | 12.1 % | 4.4 % |
| Gross cash flow | | 23,015 | 16,222 |
| Gross cash flow rate % | | 25.3 % | 16.9 % |
| Indirect costs of sales | 7 | -180,757 | -167,643 |
| Other incomes | 11 | 1,121 | 29,188 |
| Other expenditures | 10 | -163,047 | -11,133 |
| Operating profit | | -331,640 | -145,338 |
| Operating profit ratio % | | -364.6 % | -151.4 % |
| EBITDA | | -307,878 | -113,348 |
| EBITDA rate % | | -338.4 % | -118.0 % |
| Financial profit | 12-13 | 508,814 | 185,556 |
| Profit before taxes | | 177,174 | 40,218 |
| Income tax | 32 | -30,618 | -3,526 |
| Net P/L for the reporting year | | 146,556 | 36,692 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the reporting period | | 146,556 | 36,692 |
| Earnings per ordinary share (HUF) | | | |
| Basic | 33 | 8.68 | 2.12 |
| Diluted | 33 | 8.68 | 2.12 |

STATEMENT OF OTHER COMPREHENSIVE INCOME

| | 2022 | 2021 |
|---|----------------|---------------|
| | HUF Th | HUF Th |
| Net P/L for the reporting year | 146,556 | 36,692 |
| <i>Other comprehensive income</i> | | |
| <i>Other comprehensive income in the period with tax implications</i> | - | - |
| Total comprehensive income for the year | 146,556 | 36,692 |
| of which: Total comprehensive income attributable to the shareholders of the Company | 146,556 | 36,692 |



STATEMENT OF CHANGES IN EQUITY

| Description | Subscribed capital | Reserves | Repurchased treasury shares | Equity |
|---------------------------------------|--------------------|-------------------|-----------------------------|-------------------|
| Balance as at 1 January 2021 | 421,093 | 13,296,480 | -2,473,623 | 11,243,950 |
| P/L for 2021 | - | 36,692 | - | 36,692 |
| Capital issue | - | - | - | - |
| Distribution of dividends | - | -252,647 | - | -252,647 |
| Other equity-related transactions | - | - | - | - |
| Repurchased treasury shares | - | 1,004,035 | -1,398,756 | -394,721 |
| Decrease in treasury shares | - | - | - | - |
| Balance as at 31 December 2021 | 421,093 | 14,084,560 | -3,872,379 | 10,633,274 |
| P/L for 2022 | - | 146,556 | - | 146,556 |
| Capital issue | - | - | - | - |
| Distribution of dividends | - | -294,033 | - | -294,033 |
| Capital reduction | -21,093 | -1,023,015 | 1,044,108 | - |
| Repurchased treasury shares | - | 798,123 | -1,256,773 | -458,650 |
| Decrease in treasury shares | - | - | - | - |
| Balance as at 31 December 2022 | 400,000 | 13,712,191 | -4,085,044 | 10,027,147 |



STATEMENT OF CASH FLOWS

| | Note no. | 2022 | 2021 |
|--|----------|-----------------|-----------------|
| Liquid assets from operations | | HUF Th | HUF Th |
| Profit before taxes | | 177,174 | 40,218 |
| <i>Adjustments in relation to the profit before taxes and the cash flow of business operations</i> | | | |
| Amortisation and depreciation of tangible and intangible assets | 15-16. | 23,762 | 31,990 |
| Effect of deferred taxes | 32 | 8,872 | 2,834 |
| Income tax expenditures | 32 | -30,618 | -3,526 |
| Exchange gain/loss on credits | 14 | - | - |
| Impairment of tangible assets, goodwill | 10, 16 | - | - |
| Changes in the fair value of properties | 11, 16 | - | - |
| P/L on the sale of tangible assets | 11 | -593 | -23,500 |
| Expenditures of the share option programme | 37 | - | - |
| <i>Changes in working capital elements</i> | | | |
| Dividends paid | 25 | -294,033 | -252,647 |
| Increase/decrease in inventories | 20 | -4,223 | - |
| Increase/decrease in receivables | 21, 22 | -57,250 | -22,763 |
| Increase/decrease in payables | 30,31,3! | 22,348 | -2,893 |
| Increase/decrease in prepaid income taxes | 23 | 21,745 | -4,750 |
| Net liquid assets originating/used from operations | | -132,816 | -235,037 |
| Liquid assets from investments | | | |
| Acquisition of investments in private companies | 17 | -3,000 | - |
| Increase/decrease in existing investments | 17 | - | - |
| Acquisition of tangible and intangible assets | 15,16 | -410 | -20,134 |
| Sales of tangible and intangible assets | 15,16 | - | 57,000 |
| Loans to related parties | 43.3 | -68,000 | -398,438 |
| Repayment of loans from related parties | 43.3 | 475,952 | 881,295 |
| Loans from related parties | 43.3 | 39,421 | - |
| Repayment of loans to related parties | 43.3 | - | - |
| Liquid assets from investment operations | | 443,963 | 519,723 |
| Financial operations | | | |
| Increase/decrease in long-term loans | 28 | - | - |
| Increase in short-term loans | 30 | 300,000 | 130,000 |
| Decrease in short-term loans | 30 | -230,000 | - |
| Purchase of treasury shares | 26 | -458,650 | -394,721 |
| Securities purchased | 24 | - | - |
| Securities sold | 24 | - | 217,592 |
| Liquid assets used for financial operations | | -388,650 | -47,129 |
| Net increase/decrease in cash and cash equivalents | | -77,503 | 237,557 |
| Cash and cash equivalents as at 1 January | | 297,702 | 60,145 |
| Cash and cash equivalents as at 31 December | | 220,199 | 297,702 |

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1. GENERAL BACKGROUND AND DESCRIPTION OF ACTIVITIES

PannErgy Plc. (hereinafter: PannErgy Plc., PannErgy or the Company), as the legal successor of Pannonplast Nyrt., has a history of almost one hundred years. On 31 May 1991, the Company was transformed into a public company limited by shares, in line with Act XII of 1989 on the transformation of economic organisations. In 2007, PannErgy set the goal to generate substantial volumes of thermal and electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutions of the country as well as for PannErgy's shareholders. In line with this shift in its strategy, since 2007 its core activities have been redirected from plastic manufacturing to the utilisation of renewable, and in particular geothermal energy resources. As at 31 December 2022, PannErgy Plc.'s subsidiaries operated projects for the utilisation of geothermal resources in Miskolc, Győr, Szentlőrinc and Berekfürdő. The subsidiaries are listed in Chapter 40.

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

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

2. BASIS OF THE COMPILATION OF THE FINANCIAL STATEMENTS

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

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

The annual report of PannErgy Plc. was compiled on a cost basis except for financial instruments, certain financial assets, liabilities and assets classified as held for sale, which are presented in the balance sheet at fair value. PannErgy Plc. states figures in its annual report in Hungarian forints rounded up to HUF thousand, with exceptions specifically indicated.

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



3. THE IMPACT OF THE RUSSIA–UKRAINE WAR AND THE PANDEMIC ON THE COMPANY’S REPORT

As in the previous period, PannErgy Plc. proceeds in the reporting period in accordance with the recommendations of the European Securities and Markets Authority (ESMA) regarding the presentation of the impacts of the Russia–Ukraine war and previously, the COVID-19 pandemic on the Company and its financial statements. Accordingly, the Company placed and continues to place special emphasis on business continuity planning, and for all critical areas of operation has emergency plans that are suitable to support the adoption of the necessary business continuity measures.

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

In conformity with the ESMA recommendation, PannErgy Plc. publishes the following information in relation to the Russia–Ukraine war and the COVID19 pandemic in its separate financial statements for 2022:

Neither the military events of the Russia–Ukraine war commenced in the reporting period, nor the pandemic events started in previous years had a material impact on the figures presented in the Company’s separate financial statements for 2022.

4. SUMMARY OF THE KEY ELEMENTS OF THE ACCOUNTING POLICIES

4.1. *General description*

The key accounting policies used in the course of the compilation of the IFRS annual report are described below. PannErgy Plc. consistently applies the accounting principles described and detailed herein in relation to all business years presented. Concurrently with their first application as of 1 January 2022, the Company presents prior year figures in the annual report also in accordance with the IFRS for the sake of comparability.

These accounting policies are in conformity with the key accounting policies used in the course of the compilation of the consolidated financial statements for 2021.

4.2. *Effects of the amended rules of the IFRS standards to be implemented on 1 January 2022 and of the introduction of new standards on the financial statements*

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

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



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

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

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

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

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

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

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

Standards and interpretations issued by the IASB, but not endorsed by the EU

Currently the IFRS endorsed by the EU are not substantively different from the regulations adopted by the International Accounting Standards Board (IASB), except for the following new standards, the amendments of existing standards and new interpretations, which had not been endorsed by the EU as of the date of publication of the financial statements.

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

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

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

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

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

4.3. Functional currency

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



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

4.4. Translation of foreign currencies, foreign exchange transactions and balances

Foreign exchange transactions are converted into HUF at the exchange rate effective on the day of the transaction or – in the case of revaluation – valuation. The exchange gains and losses originating from the year-end re-measurement of the financial assets and liabilities that arise from such transactions or recorded in foreign currencies are recognised in the statement of profit or loss. Exchange gains and losses are shown in the “Financial incomes” or “Financial expenditures” line of the statement of profit or loss.

The Company converts its FX revenues at the MNB exchange rate and uses such rate to measure them at the end of the period.

4.5. Fair value measurement

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

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

The Company’s financial statements include only “level 1” type securities.

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

4.6. Intangible assets

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

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

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

Software comprises software developed by third parties; the Company is not involved in any software development activities.



Purchased software is capitalised at cost calculated based on the costs incurred in the course of acquisition and installation. These costs are written off over an estimated useful life of 3–5 years, as appropriate for the type of the software in question.

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

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

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

4.7. 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 reviews them annually to identify potential impairment.

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

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

4.8. Recognition of research and development

When looking at the recognition of self-produced intangible assets, the Company divides the process of production into research and development phases. In the course of a project for the production of any own intangible asset the Company is unable to distinguish the research phase from the development phase, the expenditures of the project are treated as if they were incurred solely in the research phase. Intangible assets originating from research (or the research phase of



any internal project) cannot be recognised; therefore the Company recognises the expenditures associated with the research as expenditures when they are incurred.

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

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

4.9. Property, plant and equipment

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

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

4.9.1 Investment property

Based on *IAS 40*, land, buildings (or parts thereof) and structures qualify as properties. The Company treats and carries all properties held for rental to others or speculating on a value increase, which are not held for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business, as investment properties. The Company recognised as investment property its own properties geographically located at its plants in Csepel and Debrecen (land, buildings, structures) and had been acquired in the period when plastics manufacturing was its core activity before the strategic shift in the operating profile of the PannErgy Group because these properties, which are not related to its core operation – geothermy – by letting them to tenants and in view of the existing contractual background the future economic benefits relating to these investment properties are expected to be received by the Company and the cost of the investment properties can be reliably measured.

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

The Company evaluates the investment properties on the basis of the *IAS 16* cost model. Accordingly, depreciation based on the asset's useful life – and when there is evidence of

impairment, it – is recognised in accordance with *IAS 16*. The fair value has to be stated anyway, regardless of the Company's decision to use the cost model.

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

4.9.2 *Fixed assets held for sale*

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

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

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

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

4.9.3 *Tangible assets under IAS 16 Property, plant and equipment*

The Company treats all long-term assets that do not fall into the category of investment properties or fixed assets held for sale in accordance with the requirements of *IAS 16 Property, Plant and Equipment*. These are long-term tangible assets (used over more than one business period) which came under the Company's control as a result of past events and are expected to generate future



economic benefits for the Company, the costs of which can be measured reliably and which are used by the Company for production or the supply of services or administration.

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

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

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

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

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

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

The Company does not recognise depreciation for land.

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



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

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

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

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

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

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

4.9.4 Investments

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

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

4.9.5 Application of component accounting

The Company does not apply the elements of *IAS 16* relating to component accounting as it has no such assets. According to the relevant requirements of the standard, if the main components of

assets of significant value feature considerably different economic characteristics, then the main components should be recorded separately, with separate depreciation periods.

4.10. Investments

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

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

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

4.11. Goodwill

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

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

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

4.12. Inventories

Inventories are stated at cost or at net realisable value, whichever is lower. The cost of inventories consists of the cost of acquisition, the cost of conversion as well as costs incurred in moving the inventories to their present location and bringing them to their present condition. Cost may not

include expenses relating to warehousing, promotion and marketing or sale. The cost of acquisition consists of the costs incurred by the acquirer to purchase the inventories. The Company includes in this category the consideration paid for the inventories, charges related to imports, non-refundable taxes, the expenses of transportation and handling, and any other payments directly related to the item concerned. Discounts and rebates received are to be deducted from the cost of acquisition. The Company defines net realisable value as the expected selling price under normal business terms, minus the expenses relating to completion and sale expected to be incurred before the sale. Net realisable value must be re-estimated at the end of each reporting period and the amount of the write-off needs to be recalculated annually. If changes occurred in the net realisable value of an inventory item that necessitate the write-back of a previously recognised impairment, the Company may do so up to the amount of the previously recognised impairment. Both write-offs and write-backs need to be stated among other expenditures. The write-off (write-back) must be recognised in the period when it was determined.

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

4.13. Financial instruments

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

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

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

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

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

for sale' category essentially pertains only to securities, and the 'Held for trading' category to derivative transactions.

4.13.1 *Initial recognition at fair value*

Pursuant to *IFRS 9*, the Company recognises all financial instruments at fair value initially, at the time of the transaction, that is, on the day on which the Company commits itself to the purchasing or selling of the instrument. The company includes in this value the transaction costs that are directly related to the acquisition or issuance of the financial instrument. Financial assets evaluated at fair value against the profit or loss are initially presented at fair value, while transaction costs are stated in the statement of profit or loss.

The classification of financial instruments is based on the purpose of the acquisition of the financial assets, the characteristics of the financial instruments and the definitions of the categories of financial instruments under *IFRS 9*. The Company decides on the classification of financial assets at the time of their initial recognition. For subsequent presentation, financial instruments can be classified in the following categories:

4.13.2 *Receivables*

For the recognition of impairment, PannErgy Plc. – as an individual company – applies an *IFRS 9* compatible model based on expected credit losses.

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

The Company's trade receivables consist almost exclusively of receivables from domestic undertakings based on long-term contractual relations. Upon determining the ratings for the 2022 business year, we found that there was no need to establish a standard collection process for the trade receivables of the Company as its trade debtors always paid on time, observing the due dates of payment. Nevertheless, in the reporting period the Company determined impairment losses expected to occur based on the 'expected credit loss' model, meaning that an impairment provision matrix that is designed relying on past events and also considers forward-looking information is used, broken down by type of debtor based on the nature of the relationship with the partner (term of the contract, strategic nature of the contract). For the calculation of impairment losses the Company opted for the Staging method, whereby stage ratings (1–3) are clearly defined relying on portfolio impairment loss considerations and with clear reasons to justify the classification. Furthermore, the Company's size and small number of customers facilitates the use of individual rating rules.

The Company has no retail operations that would call for the use of segment-based SPPI tests. In practice, the Company does not engage in factoring; should such a situation arise, these receivables would be presented at fair value.

4.13.3 *Loans provided*

The Company grants loans to other enterprises only on a case-by-case basis, almost without exception to entities belonging to the scope of consolidation. Due to the affiliation and as the

repayment of these loans depends on the group-level cash flow planning, the Company recognises no impairment for these loans. These financial assets to be held to maturity are valued in the statements at amortised cost. The Company has performed and documented the so-called SPPI classification tests/benchmark tests with regard to loans provided to non-affiliated parties that do not belong to the scope of consolidation, taking into consideration whether or not these loans carry variable interest rates. The test revealed that the amortised cost of the loans was adequate; therefore, it became necessary to determine fair value.

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

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

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

Any other borrowing cost is recognised in the profit or loss of the period when it is incurred.

4.13.4 *Hedging and derivative transactions*

The Company applies the rules set out in *IFRS 9* regarding hedging and derivative transactions, recognising them at fair value, with separate documentation and administration.

In the course of the preparation of its IFRS financial statements, the Company relies on hedge accounting. On a one-off basis certain members of the Group conclude foreign exchange forward transactions that are of hedging character as there is a direct connection between the forward transaction and the future FX purchase of the company. The Company resorts to such one-off transactions in case of high-value foreign currency purchases, applying the specific payment deadline set out in the relevant asset purchase agreement. The Group engages in no non-hedging forward transactions. For such transactions the Group applies hedge accounting as defined in *IFRS 9*, that is, on 31 December, the end of the reporting period, the fair value of the expected gain/loss on outstanding forward transactions is determined and charged against the financial instruments (assets) as other financial income/expenditure. When the transaction is closed in the following year, the difference between the actual gain/loss realised and the amount recognised on 31 December is posted taking into account the amount established at the end of the reporting period.

In addition to forward foreign exchange transactions, the Company also has interest rate swaps fixed for the long term relating to its investment loans; in this case, the amount of expected loss recorded at the end of the interest period concerned is also recognised for transactions outstanding at the cut-off date of the statement of financial position, based on the statement received from the relevant financial institution. In such cases there is a clear economic link between the hedge and the hedged transaction, and the hedging ratio applied is the ratio used in the past for risk management purposes; these transactions will continue to be presented at fair value.

In addition, the Company targets a natural hedge strategy to cover its foreign exchange risks: its foreign currency (typically euro) denominated revenues almost fully cover its obligations to suppliers incurred in foreign currencies and the servicing of its foreign currency borrowings in the same period.

4.13.5 *Liquid assets*

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

4.13.6 *'Held to collect' financial assets*

The Company recognises its participations and securities in companies listed or not listed at stock exchanges as 'Held to collect' financial assets, and they are stated in the financial statements at fair value. For the measurement of participations in companies not listed at any stock exchange, the Company relies on independent experts to determine fair value.

The Company presents differences arising from changes of fair value in the statement of profit or loss.

4.13.7 *Credits*

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

4.13.8 *Trade payables*

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

4.13.9 *Other financial liabilities*

All other financial liabilities not carried at fair value through profit or loss are recorded under other financial liabilities. In its IFRS financial statements, the Company presents the value of other financial liabilities at amortised cost. The change in fair value has to be presented only in the notes to the financial statements. In the case of financial instruments of 'other financial liabilities' nature, the Company applies the effective interest rate method.

Interest, dividends, gains and losses related to financial instruments classified under liabilities are recognised as expenses on financial transactions in the statement of profit or loss as they are incurred. In the case of compound financial instruments, the liability component is measured first, and the equity component is defined as the residual value.

4.13.10 Deferred income

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

Any state aid that has become repayable needs to be recognised as an adjustment to the accounting estimate.

Accordingly, the long-term deferred income disclosed in a separate line in the consolidated statement of financial position of the Company encompass the over-one-year part of grants awarded in application schemes for the geothermal projects. The short-term, under-one-year part of deferred income is stated among short-term liabilities, also in a separate line.

The end of the maintenance period applicable to the projects funded from application schemes and related grants does not affect the rate of write-back of grants recorded as deferred income because they are linked to the useful life of the subsidised assets; the write-back of the deferred income in the subject period among other income in the consolidated statement of profit or loss occurs during the asset's useful life based on the depreciation of the subsidised assets in the reporting period and on aid intensity.

4.13.11 Determination of effective interest rates

The Company regards as the effective interest rate, to be used for discounting future expected cash flows, the contractual HUF- and EUR-denominated fixed interest rates for which its affiliates swapped their variable interest rates using interest rate swap transactions. Any material change in the effective interest rate results in the change of cost; no such changes have occurred. The effective interest rate applied by the Company in the reporting period is 4.5%, which is identical with the effective interest rate applied – and justified in detail – in the consolidated financial statements. The Company uses such effective interest rate as the discount rate where it performs discounted cash flow calculations, e.g. for the measurement of intangible asset, tangible assets or goodwill. The Company has no assets that would warrant discounting. In the case of long-term loans, the effective interest rate corresponds to the interest rate specified in the contract, thus no discounting is required. The long-term deferred income relating to grants need not be discounted because they had all been financially settled, and they are presented as liabilities only because of the requirement to spread the assets affected by the grant throughout the useful life of the assets.

4.13.12 Netting of financial instruments

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

4.14. Cash and cash equivalents

In the Company's consolidated IFRS financial statements, cash and cash equivalents comprise the amount of financial assets held at the end of the reporting period as the Company's HUF and FX

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

4.15. Equity, subscribed capital

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

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

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

Revaluation reserve comprises the accumulated other comprehensive income and other comprehensive income for the reporting year indicated in the statement of other comprehensive income, as defined in *IAS 1 Presentation of Financial Statements*.

After-tax profit is the aggregate amount of the net after-tax profit presented for continuing and discontinued operations and included in the profit or loss section of the statement of other comprehensive income, as defined in *IAS 1 Presentation of Financial Statements*, or in the separate statement of profit or loss.

Tied-up reserve is the amount of received supplementary payments recognised as liabilities under the IFRS plus the amount of unused development reserve less the pertaining deferred tax calculated based on *IAS 12 Income taxes*.

4.16. Repurchased treasury share

The Company may repurchase its treasury shares at the stock exchange pursuant to the authorisation of the General Meeting; these shares are presented in the IFRS annual report separately as items decreasing the equity.



The gain/loss on the sale of repurchased treasury shares and the effect of their fair measurement at the end of the reporting period is recognised directly through equity, on the 'Reserve for repurchased treasury shares' line.

The above procedure ensures that no gain or loss is recognised with regard to treasury shares in the profit or loss of the Company when any change occurs to own shares (purchase, sale, issue or cancellation).

4.17. Earnings per share

To determine earnings per share, the Company used the quotient of the P/L for the given period and the average number of shares in the given period less the number of repurchased treasury shares.

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

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

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

4.18. Current and deferred income tax

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

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

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



changes in accounting estimates. These modifications are recognised under tax expenses/revenues in the period when the modification occurs.

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

Pursuant to the relevant tax regulations, the Company is also required to pay local business tax and innovation contribution, which has a material impact on the Company's profit or loss.

Based on the interpretation of the definition of taxable profit as per IAS 12, the Company does not treat local business tax and innovation contribution as income taxes but rather as operating expenses, recognising them under other expenses. In the case of PannErgy, there was only a limited number of items that reduced the revenues used for the calculation of the tax base for the local business tax and the innovation contribution; therefore, these taxes are more like revenue-type taxes and as such, they are not subject to IAS 12 and are presented under operating expenses.

In line with the requirements of IAS 12, the Company recognises income taxes payable/recoverable in respect of future periods, the recovery of which is certain and which arose in connection with past transactions and events. The tax base of an asset is the amount attributed to that asset for tax purposes, which is deductible upon the recovery of the asset. If the economic benefits are not taxable, the tax base of the asset is equal to its carrying amount.

The tax base of a liability is the amount attributed to that liability for tax purposes i.e. the liability's carrying amount less any amount deducted subsequently for the purposes of taxes. The tax base for any deferred income equals the carrying value less non-taxable future incomes. Pursuant to IAS 12, a temporary difference is the difference between the carrying amount and the tax base which is either taxable or deductible after recovery/settlement. If the temporary difference is taxable, it is a deferred tax liability, while if it is deductible, it is a deferred tax asset.

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

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

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

Based on the above, deferred taxes arise if there is a timing difference between the booking of an item for accounting and tax purposes. Deferred tax assets and liabilities are determined using the tax rates for the taxable income of the years when the differences derived from the timing differences are expected to be reversed. Deferred tax liabilities and assets reflect the tax implications of assets and liabilities as of the end of the reporting period, as determined by the Company. Deferred tax assets can only be included in the consolidated statement of financial

position if it is probable that during its future activities, the Company will generate a profit that will form part of the tax base, against which the deferred tax asset will be offset.

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

4.19. Provisioning

The Company recognises liabilities of uncertain timing or amount as provisions if:

- the related obligation arose from past events;
- they exist on the last day of the reporting period;
- they constitute legal or constructive obligations;
- their settlement is expected to result in an outflow of resources giving rise to economic benefits;
- the amount of the obligation can be estimated reliably.

The Company recognises a contingent liability if:

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

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

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

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

Provisions are recognised by the Company in the amount necessary to settle all the related obligations. This amount is the best estimate of all of the necessary expenses made based on the

information available as of the end of the reporting period taking into account all risks and uncertainties which may arise in connection with the obligation.

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

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

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

4.20. Share option programme, share-based payments

The Company does not have a share option programme.

The Company applies the provisions of *IFRS 2 Share-based Payment* to the recognition of actual share-based payments when measuring potential future share option programmes. If share-based payments are made in equity instruments, any costs arising in connection with such payments are charged to equity while in the case of settlement in liquid assets, they are charged to financial liabilities as staff costs.

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

If the choice is given for the other party (typically, an employee of the Company), then the Company issues a compound financial instrument, which should be separated into a part to be settled in equity instruments and another part to be settled in liquid assets, and it should be recognised in the consolidated statement of profit or loss and the statement of financial position accordingly. Share-based benefits offered to employees do not give rise to an obligation for the Company immediately; instead, the right to claim the benefits becomes effective if the vesting and potential non-vesting conditions are fulfilled during a specified period (the so-called vesting period). The vesting period is usually a period of several years; accordingly, the expected costs have to be charged over the vesting period on a time-proportionate basis.

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

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

4.21. Accounting for revenue from sales

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

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

Pursuant to the standard, the Company has devised a five-step model for the recognition of revenues:

- Identification of the sales contract
- Identification of the performance obligations
- Determination of the transaction price
- Allocation of the transaction price
- Recognition of revenues

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

the transaction price. If the revenue has a significant financing component, the time value of money is also taken into consideration.

Instead of a risk/reward based revenue recognition model, revenues are recognised when control over the service/good is passed to the customer. Control is passed over time if the relevant criteria are met or at a point in time if they are not.

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

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

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

- 7) the members of the Company recognise revenues from sales when control over the asset or service sold is passed to the customer, and the customer is able to govern the use of and collect the benefits from such asset;
- 8) the Company sells no products with the right of repurchase, offers no related warranties, uses no buyer options or agency commissions.

4.22. Interest income and dividend income

The Company may realise interest income on the loans granted in connection with the operation and governance of the holding, or dividend income on its shareholder investments; in previous years, these were treated as revenue relating to the core activity of holding management. From 1 January 2021, however, in line with the requirements in *IFRS 15 Revenue from Contracts with Customers*, these are no longer considered income from ordinary course of business and accordingly, **the interest and dividend income received from related parties are presented – both in the reporting period and the base period – under income from financial transactions.** The Company does not regard such interest and dividend income as income from ordinary course of business – i.e. it does not treat them as sales revenues – but recognises them under income from financial transactions.

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

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

4.23. Leases

The Company does not act as lessor; consequently, it needs to apply *IFRS 16* exclusively as lessee. The use of *IFRS 16* removes the difference between the treatment of operating lease transactions and that of finance leases for the Company as lessee; in the statement of financial position lessees have to show an asset embodying the right of use under the transaction and a leasing liability, that is, the obligation to make the lease payments. *IFRS 16* provides that a contract is a lease contract or it includes leasing if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The costs relating to the use of the asset are shown, under the new *IFRS 16* lease standard, as depreciation of the right-of-use asset and as the interest-type expenditure of the lease liability. Moreover, upon the occurrence of certain events (e.g. the lease term is modified, the amounts payable in the way of lease fees are modified as a result of changes in indices or interest rates affecting lease fee payments) the lessee must reevaluate the lease liability. The amount by which the lease liability is modified must be presented by the lessee as a change in the right-of-use asset. The standard stipulates exceptions for presentation regarding short term leases and ones with low-value underlying assets.

At the time of the adoption of the new regime the Company has no sublease or re-lease transactions. Nor does it have right-of-use assets regarded investment property.

4.24. *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. Distributable dividends are accounted for as a direct decrease in equity.

4.25. *State aid*

State aid is recognised at fair value if the Company is reasonably certain to receive such aid because it will satisfy the relevant criteria. Based on the income approach accounting, the Company recognises aid as income in the periods, based on the principle of matching, in which the related expenses were incurred. The only exception is when the aid is based on subsequent settlement, that is, the purpose of the aid is to compensate for expenditures or losses incurred as well as immediate future financial grants given without any related costs. The Company recognises such aid as income when it opens for draw-down.

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

Any state aid that has become repayable needs to be recognised as an adjustment to the accounting estimate.

4.26. *Comparative information across periods*

Data for the base year and reporting year were subjected to measurement in the financial statements in the same manner, except for reclassifications in the base data, which are explained in Note 40. In order for the Company's IFRS annual report to comply with *IAS 1*, all of the financial statements of the Company include a comparative period.

For the purposes of the annual report for a business year, by comparative period the Company means the reporting period of the annual report prepared for the business year preceding the business year concerned.

These comparisons have to be disclosed in sufficient detail so that the users of the annual report are able to interpret significant modifications affecting the statement of financial position and the statement of profit or loss.

4.27. *Segment reporting*

In line with the relevant IFRS requirements, the Company is to present its operating segments; however, the review **identified no operating segments**. The core business of the Company is asset management and governance of the holding. In this regard, PannErgy Plc. as the legal successor of Pannonplast Nyrt. presented the utilisation of the real-estate properties, i.e. the industrial facilities and connected office premises formerly serving Pannonplast Nyrt.'s plastics manufacturing operations in District XXI of Budapest (Csepel) and Debrecen, where property utilisation primarily means the re-invoicing of electric power and other public utility fees, and to a smaller extent the collection of office rents; furthermore, it encompasses costs and expenses incurred with management and governance of the Group in the form of a financial holding company and issuer at the stock exchange.



Beyond the unnecessary of operational segmentation, the Company pursues its activities solely in the territory of Hungary, in a uniform legal, technical, economic and demographic environment; consequently, territorial segmentation is not relevant.

4.28. Gross cash flow and EBITDA definition

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

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

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

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

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

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

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

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

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



5. MATERIAL/CRITICAL ACCOUNTING ASSUMPTIONS AND ESTIMATES IN THE APPLICATION OF THE ACCOUNTING POLICY

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

The Company applies the requirements of *IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* and *IAS 10 Events After the Reporting Period* as appropriate to any material errors of prior periods, the modification of accounting estimates and the treatment of events after the end of the reporting period.

5.1. Events after the reporting date

In respect of the events between the reporting date and the date of the approval of the report, the Company reviews whether the event in question confirms the circumstances that prevailed at the reporting date and if yes, the modification of the annual report is required. If the event implies circumstances that arose after the end of the reporting date, the only requirement is a disclosure, and only in material cases.

5.2. Material error

During the preparation of the annual report, an error may arise from mathematical errors made when applying the accounting policy, from the ignoring of facts or from incorrect interpretation. The Company has adopted the principle that as long as it is possible and not technically impracticable, material errors from former periods need to be corrected retrospectively in the first financial statements or annual report compiled and approved for disclosure after the detection of the error. For the Company, impracticable means that it is impossible to apply even if the Company does everything that can reasonably be expected to ensure application.

The Company defines a material error as follows: the omissions or misstatements of items are material if separately or aggregately they are able to affect the users' decisions made based on the annual report. Materiality depends on the assessment of the extent and nature of omissions or misstatements under the given circumstances. The size and nature of an item, or a combination of the two, are the decisive factors in that assessment; as a general principle, the Company defines errors material if they exceed 1% of the total of the IFRS statement of financial position.

5.3. Critical accounting estimates and assumptions

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

- Tax allowances in the future or the realisation of a future profit that constitutes adequate taxable income against which the deferred tax assets can be set off;

- The outcome of certain pending liabilities;
- Measurement of the fair value of financial instruments;
- Determination of the useful life and impairment of tangible assets and the impairment of goodwill;
- Determination of the value of provisions.

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

6. REVENUE FROM SALES

6.1. Breakdown of sales revenues by core activity

| | 2022 HUF Th | 2021 HUF Th |
|---------------------|----------------|----------------|
| Asset management | 32,602 | 35,717 |
| Property management | 58,369 | 60,303 |
| Total | 90,971 | 96,020 |

6.2. Breakdown of sales revenues by geographical location

| | 2022 HUF Th | 2021 HUF Th |
|-----------------------------------|----------------|----------------|
| Revenue from domestic sales | 88,780 | 92,525 |
| Revenue from sales to the EU | 2,191 | 3,495 |
| Revenue from sales outside the EU | - | - |
| Total | 90,971 | 96,020 |



6.3. Breakdown of sales revenues by activity or service

| | 2022 | 2021 |
|--|---------------|---------------|
| | HUF Th | HUF Th |
| Intercompany services | 30,411 | 32,223 |
| Mediated and re-invoiced services | 34,050 | 38,056 |
| Rent for buildings and tangible assets | 25,267 | 22,507 |
| Sale of products | 1,243 | 3,234 |
| Total | 90,971 | 96,020 |

The 5% decline in revenues during the reporting period reflects the lower level of mediated and re-invoiced services.

6.4. Geographical breakdown of fixed assets related to sales revenues

| | 2022 | 2021 |
|--|------------------|------------------|
| | HUF Th | HUF Th |
| Assets used in domestic production | 4,721,289 | 4,741,048 |
| Assets used in production within the EU | - | - |
| Assets used in production outside the EU | - | - |
| Total | 4,721,289 | 4,741,048 |

6.5. Concentration of sales revenue, information regarding key customers

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

| | 2022 | as a % of total sales in 2022 | 2021 | as a % of total sales in 2021 |
|---|---------------|--------------------------------------|---------------|--------------------------------------|
| Total sales revenue from key customers | 52,194 | 57.37 % | 58,975 | 61.42 % |
| Revenue from sales | 90,971 | 100.00 % | 96,020 | 100.00 % |

The Company's sales revenues primarily derive from the mediated services and lease services related to the Debrecen site.



7. INDIRECT COSTS OF SALES

| | 2022 | 2021 |
|---|----------------|----------------|
| | HUF Th | HUF Th |
| Consultancy and audit fees | 81,749 | 72,087 |
| Costs related to public and stock exchange presence | 25,350 | 25,516 |
| Office and operating costs | 20,185 | 15,001 |
| Insurance premiums | 18,204 | 12,599 |
| Indirect personnel-type costs | 17,529 | 16,723 |
| Indirect depreciation | 11,790 | 20,018 |
| Banking costs | 5,945 | 5,623 |
| Other fees and duties payable to authorities | 5 | 76 |
| Total | 180,757 | 167,643 |

The indirect operating costs of PannErgy Plc. increased during the reporting period by 8% year-on-year. This is in line with the steep rise seen in the consumer and industrial price indices in the reporting period affecting both purchases and services.

8. DIRECT COSTS OF SALES

| | 2022 | 2021 |
|--|---------------|---------------|
| | HUF Th | HUF Th |
| Costs of goods sold, mediated services | 63,204 | 69,836 |
| Direct depreciation (real property) | 11,972 | 11,972 |
| Facility maintenance costs, rental | 3,554 | 4,427 |
| Cost of maintenance materials | 1,073 | 1,892 |
| Electricity charges | 109 | 460 |
| Other indirect costs | 16 | 3,183 |
| Total | 79,928 | 91,770 |

Direct costs of sales at PannErgy Plc. include primarily the re-invoiced utilisation costs of properties located in Debrecen. The contraction seen in the reporting period can be attributed to the lower level of mediated and re-invoiced costs; through various business decisions, the Company gradually phases out its property utilisation activity and hence, this 'pass-through' item.

9. HEADCOUNT AND WAGE COSTS

| | 2022 | 2021 |
|---|---------------|---------------|
| Average statistical headcount (persons) | - | - |
| Wage cost (HUF Th) | 13,860 | 12,958 |
| Other personnel-type payments (HUF Th) | 1,652 | 1,379 |
| Taxes and contributions on wages (HUF Th) | 2,017 | 2,386 |
| Total | 17,529 | 16,723 |

In terms of the average statistical headcount, PannErgy Plc. had no employees in the reporting period. Other personnel expenses include remuneration paid to members of the Management Board, and the amount of related taxes and contributions.

10. OTHER EXPENDITURES

| | 2022 HUF Th | 2021 HUF Th |
|--|------------------------------|------------------------------|
| Waiver of shareholder's loans to subsidiaries | 156,000 | - |
| Aids granted to offset costs | 2,700 | 2,800 |
| Cost relating to insurance events | 1,997 | 1,915 |
| Local taxes, duties, fines | 1,616 | 1,550 |
| Impairment losses of receivables | 617 | 1,096 |
| Fines, penalties, default interest, compensations paid | 116 | 40 |
| Other | 1 | 3,732 |
| Total | 163,047 | 11,133 |

Within the HUF 163,047 thousand value of other expenditures in the reporting year, the most significant items included a waiver of HUF 156,000 thousand in shareholder's loans, and various other aids provided in an amount of HUF 2,700 thousand.

11. OTHER INCOMES

| | 2022 HUF Th | 2021 HUF Th |
|---------------------------------------|------------------------------|------------------------------|
| Profit on the sale of tangible assets | - | 23,500 |
| Income from insurance events | - | 130 |
| Incomes of another nature | 1,121 | 5,558 |
| Total | 1,121 | 29,188 |

The Company's most important other income was the reversal of impairment loss recognised for receivables, which amounted to HUF 1,096 thousand.

12. FINANCIAL INCOMES

| | 2022 | 2021 |
|---|----------------|----------------|
| | HUF Th | HUF Th |
| Interest received from related parties | 580,816 | 189,228 |
| Realised and unrealised FX gains | 21,705 | 2,066 |
| Exchange gains on securities held for trading | 3 | 1 |
| Gains on derivative transactions | 597 | 3,620 |
| Other financial incomes | - | 64 |
| Total | 603,121 | 194,979 |

13. FINANCIAL EXPENDITURES

| | 2022 | 2021 |
|-------------------------------------|---------------|---------------|
| | HUF Th | HUF Th |
| Loss on derivative transactions | 73,611 | - |
| Interest and interest-type expenses | 11,962 | 5,856 |
| Realised and unrealised FX losses | 8,734 | 2,400 |
| Other financial expenditures | - | 1,167 |
| Total | 94,307 | 9,423 |

14. OTHER INFORMATION RELATING TO FINANCIAL TRANSACTIONS

| | 2022 | 2021 |
|--|-------------|-------------|
| Opening EUR/HUF exchange rate | 369.00 | 365.13 |
| EUR/HUF exchange rate on 31 December | 400.25 | 369.00 |
| Annual change in the EUR/HUF exchange rate | 31.25 | 3.87 |

The total amount of financially unrealised exchange rate differences related to FX revaluations at year-end is a total loss of HUF 2,534 thousand, related to the Company's EUR-based receivables and payables.



15. INTANGIBLE ASSETS

| | | | | | HUF Th |
|--|-----------------|------------------------|------------------------------|--------------|--------------|
| <u>Gross value</u> | Goodwill | Valuable rights | Intellectual property | Other | Total |
| 1 January 2021 | - | 523 | 1,475 | - | 1,998 |
| Purchase | - | - | - | - | - |
| Sale | - | - | - | - | - |
| Impairment, write-off | - | - | - | - | - |
| Reclassification | - | - | - | - | - |
| 31 December 2021 | - | 523 | 1,475 | - | 1,998 |
| Purchase | - | - | 410 | - | 410 |
| Sale | - | - | - | - | - |
| Impairment, write-off | - | - | - | - | - |
| Reclassification | - | - | - | - | - |
| 31 December 2022 | - | 523 | 1,885 | - | 2,408 |
| <u>Accumulated depreciation</u> | Goodwill | Valuable rights | Intellectual property | Other | Total |
| 1 January 2021 | - | 462 | 54 | - | 516 |
| Increase | - | 53 | 295 | - | 348 |
| Sale | - | - | - | - | - |
| Impairment, write-off | - | - | - | - | - |
| Reclassification | - | - | - | - | - |
| 31 December 2021 | - | 515 | 349 | - | 864 |
| Increase | - | 8 | 356 | - | 364 |
| Sale | - | - | - | - | - |
| Impairment, write-off | - | - | - | - | - |
| Reclassification | - | - | - | - | - |
| 31 December 2022 | - | 523 | 705 | - | 1,228 |
| <u>Net value</u> | | | | | |
| 1 January 2022 | - | 8 | 1,126 | - | 1,134 |
| 31 December 2022 | - | - | 1,180 | - | - |

16. TANGIBLE ASSETS

| | | | | | HUF Th |
|--|------------------------------|----------------------------|-------------------------------|-------------------|--------------|
| <u>Gross value</u> | Marketable properties | Investment property | Machinery and vehicles | Investment | Total |
| 1 January 2021 | - | 166,228 | 55,324 | - | 221,552 |
| Purchase | - | - | - | - | - |
| Capitalisation | - | - | 28,506 | - | 28,506 |
| Revenue from sales, contribution in kind | - | -33,500 | -53,782 | - | -87,282 |
| Reclassification, scrapping | - | - | - | - | - |
| IFRS 16 Lease Remeasurement | - | - | - | - | - |
| Reclassification | - | - | - | - | - |
| 31 December 2021 | - | 132,728 | 30,048 | - | 162,776 |
| Purchase | - | - | - | - | - |
| Capitalisation | - | - | - | - | - |
| Revenue from sales, contribution in kind | - | - | - | - | - |
| Reclassification, scrapping | - | - | - | - | - |
| IFRS 16 Lease Remeasurement | - | - | 593 | - | 593 |
| Reclassification | - | - | - | - | - |
| 31 December 2022 | - | 132,728 | 30,641 | - | 163,369 |
| <u>Accumulated depreciation</u> | Marketable properties | Investment property | Machinery and vehicles | Investment | Total |
| 1 January 2021 | - | 7,608 | 42,032 | - | 49,640 |
| Increase | - | 11,972 | 19,981 | - | 31,953 |
| Sale | - | - | -53,782 | - | -53,782 |
| Reclassification, scrapping | - | - | - | - | - |
| 31 December 2021 | - | 19,580 | 8,231 | - | 27,811 |
| Increase | - | 11,972 | 11,426 | - | 23,398 |
| Sale | - | - | - | - | - |
| Reclassification, scrapping | - | - | - | - | - |
| 31 December 2022 | - | 31,552 | 19,657 | - | 51,209 |

Net value

| | | | | | |
|------------------|---|---------|--------|---|---------|
| 1 January 2022 | - | 113,148 | 21,817 | - | 134,965 |
| 31 December 2022 | - | 101,176 | 10,984 | - | 112,160 |

PannErgy Plc. shows its industrial properties located in Debrecen in the category of investment properties; rather than making efforts to sell them, the Company utilises them essentially through leasing to tenants. The HUF 11,972 thousand decline in the reporting period reflects scheduled amortisation.

The majority of the HUF 10,984 thousand value of tangible assets at the end of the reporting period relates to long-term leases of motor vehicles, where the Company applies the rules governing the recognition of lease items (assets and liabilities) in the financial statements pursuant to its accounting policy based on *IFRS 16*. In the reporting period, the Company recognised depreciation charge of HUF 11,426 thousand in relation to leased assets. Owing to the change in the effective interest rate compared to the previous period, lease liabilities were remeasured. After the remeasurement of the historical cost of the assets, the historical cost of the assets concerned rose by HUF 593 thousand.

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

17. INVESTMENTS

| | 2022 | 2021 |
|---------------------------------------|------------------|------------------|
| | HUF Th | HUF Th |
| PannErgy Geothermal Power Plants Ltd. | 4,604,949 | 4,604,949 |
| Geo2Business Kft. | 3,000 | |
| Total | 4,607,949 | 4,604,949 |

18. LONG-TERM RECEIVABLES

As at 31 December 2022, PannErgy Plc. showed no long-term receivables in its annual report.

19. LEASE RECEIVABLES

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

20. INVENTORIES

| | 2022 | 2021 |
|---------------------------------|---------------|---------------|
| | HUF Th | HUF Th |
| Inventories (mediated services) | 4,223 | - |
| Total | 4,223 | - |

At the end of the reporting period, the Company holds on inventory costs incurred in the reporting period in relation to the utilisation of the real properties in Debrecen as they will be re-invoiced and settled only in 2023.

21. TRADE RECEIVABLES

| | 2022 HUF Th | 2021 HUF Th |
|-------------------|----------------|----------------|
| Trade receivables | 9,410 | 21,113 |
| Total | 9,410 | 21,113 |

PannErgy Group sells its products and services to a small number of buyers, mostly on the basis of long-term contractual arrangements. The trade receivables are non-interest earning items, generally with a 30-day term. Trade receivables were down 55% year-on-year. Based on the separate impairment provision matrix, the Company recognised impairment of HUF 617 thousand in the reporting period.

The Company's statement of its 2022 impairment provision matrix underlying the impairment charges applied in the reporting period:

| Impairment provision matrix | Balances outstanding at the beginning of 2022 | Balances outstanding at the end of 2022 | Loss from default 2022 | Default rate 2022 | Expected default rate 2023 | Expected credit loss 2023 | data in HUF millions | | |
|--|---|---|------------------------|-------------------|----------------------------|---------------------------|---------------------------------|---------------------------------|---------------------------------|
| | | | | | | | Stage 1 impairment ¹ | Stage 2 impairment ¹ | Stage 3 impairment ¹ |
| Financial assets available for sale (AFS) | - | - | - | - | - | - | - | - | - |
| Investments available for sale | - | - | - | 0% | 0% | - | - | - | - |
| Long-term investments | - | - | - | 0% | 0% | - | - | - | - |
| Other financial investments (long-term securities) | - | - | - | 0% | 0% | - | - | - | - |
| Securities (short-term) | - | - | - | 0% | 0% | - | - | - | - |
| Loans and Receivables (LAR) | - | 617 | 617 | - | - | - | - | - | 617 |
| Loans provided | - | - | - | 0% | 0% | - | - | - | - |
| Trade receivables | - | 617 | 617 | 0% | 0% | - | - | - | 617 |
| Other current receivables | - | - | - | 0% | 0% | - | - | - | - |
| Held to maturity financial assets (HTM) | - | - | - | - | - | - | - | - | - |
| Long term financial receivables | - | - | - | 0% | 0% | - | - | - | - |
| Liquid assets | - | - | - | 0% | 0% | - | - | - | - |
| Total | - | 617 | 617 | - | - | - | - | - | 617 |

¹ Loss rates applied: Stage 1: 0%, Stage 2: 25%, Stage 3: 100%

22. LOANS PROVIDED

| | 2022 | 2021 |
|-------------------------------------|------------------|------------------|
| | HUF Th | HUF Th |
| Shareholder's loans to subsidiaries | 5,387,191 | 5,795,143 |
| Total | 5,387,191 | 5,795,143 |

PannErgy Plc. provided shareholder's loans in the reporting period and in the previous year to PannErgy Geotermikus Erőművek Zrt., the company that performs the professional management of the PannErgy Group and exercises direct ownership control over the geothermal project companies.

23. OTHER RECEIVABLES

| | 2022 | 2021 |
|---|----------------|----------------|
| | HUF Th | HUF Th |
| Next period's items | 158,481 | 100,124 |
| Other tax receivables | 8,373 | 13,615 |
| Security deposits given | 4,827 | - |
| Short-term part of long-term receivables | - | 2,357 |
| Receivable relating to derivative transaction | - | 3,620 |
| Other receivables | 5,722 | |
| Total | 177,403 | 119,716 |

HUF 145,764 thousand of the items of the next period is associated with revenues, mostly interest revenues, while HUF 12,717 thousand relates to costs. Among other tax receivables, the most significant item is the VAT receivable of HUF 6,211 thousand. Other receivables are related to treasury share purchases at the end of the period.

24. SECURITIES

| | 2022 | 2021 |
|------------------------------------|---------------|---------------|
| | HUF Th | HUF Th |
| Held to maturity securities | 21 | 20 |

The Company did not alter its securities stock in the reporting period; the negligible difference relative to the previous year is from fair value difference.



25. SUBSCRIBED CAPITAL

| | 2022 | 2021 |
|---------------------------|----------------|----------------|
| | HUF Th | HUF Th |
| Subscribed capital | 400,000 | 421,093 |

After a contraction by HUF 21 million due to the capital reduction conducted on the basis of the General Meeting's resolution adopted on 29 April 2022 and registered by the competent Court of Registration on 25 July 2022, the subscribed capital amounted to HUF 400 million on 31 December 2022. During the share capital reduction to HUF 400 million, a total of 1,054,655 treasury shares were cancelled.

The subscribed capital stated in the Company's consolidated financial statements as per the IFRS and the subscribed capital registered by the competent Court of Registration are fully identical, there is no difference between the two figures.

The subscribed capital is stated in the financial reports in its total amount as issued, while the number of shares is presented net of the amount of repurchased treasury shares.

After the capital reduction conducted during the reporting period, subscribed capital comprises a total of 20,000,000 voting shares, of a nominal value of HUF 20 each. The ISIN identifier of the shares listed on the Budapest Stock Exchange: HU0000089867.

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

26. REPURCHASED TREASURY SHARE

| | 2022 | 2021 |
|---------------------------------------|-------------|-------------|
| Number of repurchased treasury shares | 3,106,497 | 3,723,441 |
| Nominal value (HUF Th) | 62,130 | 74,469 |
| Cost (HUF Th) | 2,495,272 | 3,872,379 |

On 31 December 2022 the Company held a total of 3,106,497 PannErgy Plc. treasury shares, 616,944 less than on 31 December 2021.

The change reflects the purchase of 437,711 treasury shares under the treasury share buyback programme in effect in the review period and the cancellation of 1,054,655 treasury shares under the capital reduction. A total of 166,773, and 270,938 treasury shares were repurchased in 2022 H1 and 2022 H2, respectively, under the treasury share buyback programmes.

The stock exchange closing price of PannErgy shares was HUF 1,315 per share at the end of the reporting period, compared to HUF 1,040 per share on 31 December 2021. This corresponds to an increase of 26%.

The details of the treasury share buyback programmes effective in the reporting period are explained in *Chapter 9 Dividend payment, Treasury share purchase*.

The public disclosures contain more information on the Company's treasury share transactions.

27. RESERVES

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

| | 2022 | 2021 |
|-------------------|-------------------|-------------------|
| | HUF Th | HUF Th |
| Capital reserve | 6,797,738 | 11,374,916 |
| Retained earnings | 6,767,897 | 2,672,952 |
| Total | 13,565,635 | 14,047,868 |

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

The capital reserve is associated with two historical events: firstly, the subscribed capital reduction upon the Company's transformation into a company limited by shares and secondly, the exchange gain resulting from the share issue. The amount of the profit reserve equals the total amount of the profits accumulated by the PannErgy Group in the previous years, net of the dividends paid to shareholders.

The increase in capital reserves in the reporting period and the proportionate increase in retained earnings reflect the reclassification between the two reserve components, which was intended to correct inconsistencies in the classification of some capital components during the Company's transformation into a company limited by shares and during the subsequent years. Also in the reporting period the after-tax profit of the year preceding the reporting year was transferred to retained earnings, and there were shifts in the reserve resulting from the changes in treasury shares during the reporting period.

In the reporting period the General Meeting of the Company decided that it would pay a gross amount of HUF 18.11 per share to the shareholders entitled to dividends for the year 2021 in the total amount of HUF 294 million. Dividend payments commenced on 14 July 2022, and with the exception of an amount of HUF 30 thousand, by the end of the reporting year the prescribed dividend of HUF 294 million was paid to shareholders in full. Dividend payments of the reporting year reduced the Company's retained earnings by HUF 294 million. More detailed information is provided regarding the dividend in the public disclosures. Dividend payments made during the reporting period are presented in detail in *Chapter 9. Dividend payment, treasury share movements* of the Business Report compiled on the basis of the consolidated financial statements.

In accordance with the provisions of Section 114/B of Act C of 2000 on Accounting, the Company has drawn up the Equity Correlation Table of PannErgy Plc. – as a company on its own – as at 31

December 2022, which serves as the basis for calculating dividends for 2022 as a dividend payment limitation.

| Equity figures based on the IFRS Financial Statements | 31/12/2022 (HUF Th) |
|---|--------------------------------|
| Subscribed capital | 400,000 |
| Reserves | 13,565,635 |
| – of which Capital reserves | 6,797,738 |
| – of which Retained earnings | 6,767,897 |
| Reserve for repurchased treasury shares | -4,085,044 |
| Net P/L for the reporting year | 146,566 |
| Total equity | 10,027,147 |
| | |
| Dividend payment limitation under Section 114/B of Act C of 2000 on Accounting | 31/12/2022 (HUF Th) |
| Capital registered by the Court of Registration | 400,000 |
| Subscribed, unpaid capital | - |
| Capital reserve | 6,797,738 |
| Tied-up reserve (repurchased treasury shares, other tied-up reserves) | -4,068,044 |
| Revaluation reserve | - |
| Retained earnings | 6,750,897 |
| Net P/L for the reporting year / Profit after tax | 146,556 |
| Total equity | 10,027,147 |
| | |
| Of which Capital registered by the Court of Registration (= IFRS subscribed capital) | 400,000 |
| Dividend payment limitation, retained earnings available for dividend payment | 2,829,409 |



28. LONG-TERM LIABILITIES

At the end of the reporting period, the Company recognised the following long-term liabilities:

| | 2022 | 2021 |
|-------------------------------|---------------|---------------|
| | HUF Th | HUF Th |
| Deferred tax liabilities | 741 | - |
| Non-current lease liabilities | - | 9,499 |
| Total | 741 | 9,499 |

At the end of the reporting period, PannErgy Plc. stated a deferred tax liability of HUF 741 thousand. It is related to corporate tax credit of a development reserve nature, stated in the corporate tax returns of previous years but not yet used for projects.

At the end of the reporting period, fees payable relating to long-term lease contracts of motor vehicles are recognised as liabilities – based on the Company’s accounting policy which is in line with *IFRS 16* –, and since they now mature within one year, they are stated under short-term liabilities.

29. PROVISIONS

In the reporting period the Company had no economic events relating to provisioning. In its consolidated financial statements for the reporting year and the previous year, the PannErgy Plc. discloses no provisions for environmental or re-vegetation liabilities, and it does not allocate provisions for the costs associated with redundancy programmes or employee pensions. It has no such obligations other than the contributions paid to the public pension system.

30. SHORT-TERM CREDITS, SHORT-TERM PART OF LONG-TERM CREDITS

On 31 December 2022, the Company stated the following liabilities from short-term credits:

| | 2022 | 2021 |
|---|----------------|----------------|
| | HUF Th | HUF Th |
| Short-term bank loans | 300,000 | 230,000 |
| Short-term loans to subsidiaries | 39,421 | - |
| Short-term part of long-term credits and leases | 9,694 | 9,417 |
| Closing balance on 31 December | 349,115 | 239,417 |

External funds disbursed by a creditor financial institution was stated as a short-term loan in the reporting period.

At the end of the reporting period, the Company also stated shareholder’s loans to related parties, subsidiaries as a short-term liability.

Lease fees to be incurred within one year of the cut-off date of its annual report in relation to the Company’s long-term vehicle lease contracts categorised as lease liabilities – based on its *IFRS 16*-

conform accounting policy as referred to in Chapter 28 – amounted to HUF 9,694 thousand on 31 December 2022, recognised under short-term liabilities.

31. OTHER SHORT-TERM LIABILITIES

| | 2022 | 2021 |
|---|---------------|---------------|
| | HUF Th | HUF Th |
| Next period's items | 19,010 | 7,345 |
| Tax and contribution liabilities | 10,834 | 1,423 |
| Liabilities relating to the purchase of treasury shares | 5,718 | - |
| Liabilities relating to shares | 4,419 | 4,420 |
| Wages and social security | 1,461 | 1,237 |
| Liabilities relating to dividends | 126 | 54 |
| Other short-term liabilities, total | 41,568 | 14,479 |

The most significant item within other short-term liabilities is items of the next period, at HUF 19,010 thousand; these are non-interest costs relating to the next period.

At the end of the period, the Company states short-term liabilities of HUF 5,718 thousand because of the repurchase of treasury shares; this liability relates to the settlement of purchases made on the cut-off date.

HUF 4,419 thousand of the other short-term liabilities is recognised by the Company in liabilities stemming from the earlier conversion of shares into dematerialised securities.

The most important item of tax liabilities is a receivable of HUF 10,480 thousand stated in relation to the corporate income tax.

At the end of the reporting period, the Company has liabilities related to dividends of HUF 126 thousand, which is the remaining amount of dividends after dividend payment. Based on the details it was found that the amount of as yet unpaid dividends for 2020 and for 2021 is HUF 96 thousand and HUF 30 thousand, respectively.



32. TAXATION, INCOME TAX**32.1. Income tax payable for the reporting year**

| | 2022 | 2021 |
|--|---------------|---------------|
| | HUF Th | HUF Th |
| Tax liabilities for the reporting year | 21,745 | 692 |
| Effect of deferred taxes | 8,873 | 2,834 |
| Total | 30,618 | 3,526 |

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

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

32.2. Deferred tax

Upon the measurement of deferred tax receivables and liabilities, the deferred tax stated under fixed assets or long-term liabilities were defined as follows:

| | 2022 | 2021 |
|---|---------------|---------------|
| | HUF Th | HUF Th |
| Amounts recovered from deferred losses | - | 8,872 |
| The difference between the amount of the depreciation under the Accounting Act and the corresponding amount under the Tax Act | 789 | 789 |
| <i>Receivables from deferred taxes (gross)</i> | <i>789</i> | <i>9,661</i> |
| Development reserve provision | 1,530 | 1,530 |
| <i>Deferred tax liabilities (gross)</i> | <i>1,530</i> | <i>1,530</i> |
| Deferred tax to be recognised (net) | -741 | 8,131 |
| Deferred tax recognised in previous year | 8,131 | 10,965 |
| Deferred tax recognised/reversed | -8,873 | -2,834 |
| Receivables from deferred taxes on 31 December | - | 8,131 |
| Deferred tax liabilities on 31 December | 741 | - |

The deferred tax receivable stemming from accrued and deferred losses is based on the recovery of deferred taxes. The Company decided to apply a five-year period regarding accrued and deferred losses, in accordance with the IAS 12 recommendations. As PannErgy Plc. used its negative tax base as yet unused for the purposes of its corporate income tax in the reporting year, the deferred tax liability recognised for that item was reversed.

Gross deferred tax receivables amounted to HUF 789 thousand, reflecting the 9% corporate income tax implications of other deferred tax adjustment items under IFRS rules. Gross deferred tax liabilities related to the temporary tax benefit related to the allocation of the development reserve amounted to HUF 1,530 thousand. After netting, deferred tax liabilities of HUF 741 thousand are stated in the annual report under long-term liabilities.

32.3. Calculation of the effective income tax

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

| | 2022 HUF Th | 2021 HUF Th |
|--|----------------|----------------|
| Profit before taxes | 177,174 | 40,218 |
| The tax payable on the company's profit/loss at the applicable tax rate (9%) | 15,946 | 3,620 |
| Tax implications of non-deductible expenditures, effects of tax base decreasing and increasing other items | 14,672 | -2,236 |
| Use during the reporting year of the negative tax base carried over from previous years | -8,873 | -692 |
| Tax liabilities for the reporting year | 21,745 | 692 |
| Write-off of tax receivables assessed earlier | 8,873 | 2,834 |
| Income tax (as per the profit & loss account) | 30,618 | 3,526 |

33. EARNINGS PER SHARE

| | 2022 | 2021 |
|--|-------------|-------------|
| Profit after taxes (HUF th) | 146,556 | 36,692 |
| Number of shares issued less the number of treasury shares | 16,893,503 | 17,331,214 |
| Profit/loss per share (HUF) | 8.68 | 2.12 |
| Diluted profit/loss per share (HUF) | 8.68 | 2.12 |

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

34. CASH AND CASH EQUIVALENTS

| | 2022 | 2021 |
|----------------------------------|----------------|----------------|
| | HUF Th | HUF Th |
| Bank account and cash at hand | 190,199 | 297,702 |
| Separated, blocked cash | 30,000 | - |
| Cash and cash equivalents | 220,199 | 297,702 |

35. TRADE PAYABLES

| | 2022 | 2021 |
|-------------------------------------|---------------|---------------|
| | HUF Th | HUF Th |
| Domestic and foreign trade payables | 40,989 | 86,204 |
| Total | 40,989 | 86,204 |

Trade payables declined dramatically in the reporting period.



36. FINANCIAL INSTRUMENTS

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

| | 2022 HUF Th | 2021 HUF Th |
|---|-------------------|-------------------|
| Financial assets | 10,181,974 | 10,540,941 |
| <i>Financial assets available for sale (AFS)</i> | 4,607,970 | 4,604,969 |
| Long-term investments | 4,607,949 | 4,604,949 |
| Securities | 21 | 20 |
| <i>Loans and Receivables (LAR)</i> | 5,574,004 | 5,932,352 |
| Loans provided | 5,387,191 | 5,795,143 |
| Trade receivables | 9,410 | 21,113 |
| Other current receivables, prepaid income taxes | 177,403 | 116,096 |
| <i>Financial instruments held to maturity (Held to Collect)</i> | - | - |
| Long term financial receivables | - | - |
| <i>Financial instruments, Fair Value to Profit and Loss (FVTPL)</i> | - | 3,620 |
| Derivative transactions | - | 3,620 |
| Financial liabilities | 349,599 | 349,599 |
| <i>Other financial liabilities</i> | 349,599 | 349,599 |
| Trade payables | 40,989 | 86,204 |
| Long-term loans, leases | - | 9,499 |
| Current borrowings | 339,421 | 230,000 |
| Short-term part of long-term credits and leases | 9,694 | 9,417 |
| Other financial liabilities | 41,568 | 14,479 |
| <i>Financial liabilities, Fair Value to Profit and Loss, (FVTPL)</i> | 60,176 | - |
| Derivative transactions – liabilities | 60,176 | - |

The Company shows primarily the purchased debt securities and its participations in other companies among its marketable financial assets.

The Company shows purchased debt securities among the loans and receivables and, on account of their very nature, it is also here that it can show the trade receivables and the loans it has provided. Loans are recognised by the Company among the current assets. The value of loans and receivables are initially shown at fair value, and thereafter at amortised cost, in its IFRS annual report, using the effective interest rate method.

The Company states its non-derivative financial assets with fixed or determinable payments, which it positively intends to keep and is capable of keeping, until maturity, among its financial instruments held to maturity (Held to Collect).

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

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

37. SHARE-BASED BENEFITS

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

38. OFF-BALANCE SHEET LIABILITIES AND COMMITMENTS

38.1. Contractual obligations and commitments for investment

Intangible assets and tangible assets were purchased in an amount of HUF 410 thousand in 2022, while HUF 28,195 thousand was spent on investment projects in the year preceding the reporting year.

At present the Company has no investment commitments.

38.2. Commitments relating to asset management transactions

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

38.3. Other contingent liabilities

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

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

38.3.2 Contingent commitments relating to application schemes

Pursuant to Government Decree 358/2014 (XII. 29) and other related legislation since 1 January 2015 beneficiaries with at least one full closed business year, listed in the NTCA's register of taxpayers free of tax debt obligations are no longer obliged to provide guarantees in relation to funds received from the European Regional Development Fund or the European Social Fund.



Accordingly, the PannErgy Group is relieved from the obligation to provide such guarantees in relation to applications regarding all of its applications now in the project maintenance phase.

38.3.3 Operative leases

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

| | 2022 | 2021 |
|--------------------------------|---------------|---------------|
| | HUF Th | HUF Th |
| Within 1 year | 9,694 | 9,417 |
| Over 1 year but within 5 years | - | 9,499 |
| Over 5 years | - | - |
| Total | 9,694 | 18,916 |

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

In accordance with *IFRS 16 Leases* the Company carried out an assessment of the details of its lease contracts and found that the above lease payments include no acquired valuable rights, i.e. they are lease liabilities in their entirety.

No assets are rented or leased from the Company under lease type arrangements on account of which the *IFRS 16* provisions would be applicable.

39. FINANCIAL RISK MANAGEMENT

39.1. Financial risk factors

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

39.2. Market risk

39.2.1 Exchange rate risk

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

39.2.2 Price risk

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

39.2.3 Cash flow and fair value interest risk

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

39.3. Lending risk

The lending risk is a financial risk of loss from potential non-performance of any contractual obligation by any of the Company's buyers, primarily in the form of failure to settle invoices. It should be noted in particular that the Company sells its products and services to a handful of customers, resulting in a limited degree of diversification.

Customers are rated on the basis of their creditworthiness and their credit limits are determined on the basis of their financial positions, financial data, historical performance and other factors, by the PannErgy Plc.'s Finance and Treasury group. The Company monitors draw-downs from the credit limits. Its customers always pay for their purchases by way of bank transfer. No credit limit was exceeded during the reporting period, and management does not expect losses from default on the part of the partners concerned. Buyers' debts (trade receivables) are assessed at the end of the year and actions are taken, as necessary, regarding each buyer individually.

39.4. Liquidity risk

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

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



39.5. Capital management

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

| | 2022 | 2021 |
|------------------------------------|---------------|---------------|
| | HUF Th | HUF Th |
| Subscribed capital | 400,000 | 421,093 |
| Total equity | 10,027,147 | 10,633,274 |
| Equity / Subscribed capital | 25.07 | 25.25 |

39.6. Offsetting of financial assets and financial liabilities

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

39.7. Epidemic risk

As regards the COVID-19 virus that broke out in previous years and subsequently transformed into a pandemic, the expected human and economic impacts of its various mutants will affect a wide variety of segments, areas and participants of society and the economy; since the implications can only be roughly estimated, the pandemic continues to carry a risk. The potential adverse future consequences of the pandemic will have a limited impact on the operation of the Company by nature; this is explained in more detail in *Chapter 3. The impact of the Russia–Ukraine war and the pandemic on the Company's report.*

39.8. Risk associated with the Russia–Ukraine war

On 24 February 2022 a war broke out between Russia and Ukraine. In response, the European Union and other international parties adopted wide-ranging, comprehensive economic and other legal sanctions in various areas against Russia and others. Both the war and the sanctions – those already in place and those adopted in future – have perceivable direct and indirect economic implications that may have an impact on the operating environment of PannErgy. At the time of the preparation of these consolidated financial statements, the impact of future consequences and effects cannot be estimated. Based on the information available, the potential adverse effects of the

war are expected to have a limited impact on the operation of the Company because the Company has no exposure to Russian or Ukrainian buyers, suppliers or creditors, and the Russia-Ukraine war exerts no direct, significant impact on the Company's revenues in the reporting period, on the measurement of its assets or on its investments.

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

39.9. Risk of the adverse effects of climate change

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

Moreover, it should be noted that the core element of the strategy of PannErgy Group – as the region's dominant company utilising geothermal heat – is to play a key role in countering climate change by its environmentally friendly services of high operational reliability, and to enable major reductions in energy related expenditures by implementing environment preserving capital projects. PannErgy Plc. uses clean and renewable energy solutions to build the future, giving every generation the opportunity to create value by applying the principles of environmental protection and sustainability. The Company has set itself the goal of becoming a market leader in the Central and Eastern European region through the use of geothermal energy, which provides significant economical and ecological value for now and in the future.



40. PARTICIPATIONS (DIRECT AND INDIRECT)**40.1. Consolidated subsidiaries**

On 31 December 2022, the consolidated subsidiaries of the Company as the parent company and their direct and indirect ownership rates are as follows:

| | Share capital (HUF Mn) | Ownership share (%) Indirect | Shareholding (%) Indirect | Voting rights (%) | Consolidation ratio |
|---------------------------------------|---------------------------|---------------------------------|------------------------------|-------------------|---------------------|
| PannErgy Geothermal Power Plants Ltd. | 2,072.70 | 100.00 | - | 100.00 | 100.00 |
| Geo2Busines Kft. | 3.00 | 100.00 | - | 100.00 | 100.00 |
| DoverDrill Mélyfűró Kft. | 86.00 | - | 100.00 | 100.00 | 100.00 |
| Arrabona Koncessziós Kft. | 6.10 | - | 100.00 | 100.00 | 100.00 |
| Szentlőrinci Geotermia Kft. | 5.00 | - | 100.00 | 100.00 | 100.00 |
| Miskolci Geotermia Kft. | 5.00 | - | 100.00 | 100.00 | 100.00 |
| DD Energy Kft. | 3.10 | - | 100.00 | 100.00 | 100.00 |
| Kuala Kft. | 3.00 | - | 100.00 | 100.00 | 100.00 |
| Berekfürdő Energia Kft. | 3.00 | - | 100.00 | 100.00 | 100.00 |

The ratios presented above show the respective shares of ownership and voting rights of PannErgy Plc. and PannErgy Geothermal Power Plants Ltd. in the various subsidiaries. The consolidated ratios are the same as the respective shares of ownership. PannErgy Plc., the parent company, has a 100% shareholding in PannErgy Geotermikus Erőművek Zrt. – the Group’s technical/professional leader –, which in turn is the 100% direct owner of all PannErgy project companies and group members. The only exception is Geo2Business Kft., a company established on 3 November 2022, which is owned 100% by PannErgy Plc. Other than the above consolidated subsidiaries, the Company has no controlling influence or qualified majority in any other business association under the provisions of the Civil Code on business associations.

40.2. Changes affecting investments and participations during the reporting year

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

Of the consolidated subsidiaries of the PannErgy Group, TT-Geotermia Zrt. was sold on 8 June 2022; upon the transfer of the title of ownership, TT-Geotermia Zrt. was removed from PannErgy Plc.’s scope of consolidation.

On 3 November 2022, PannErgy Plc. decided to establish Geo2Business Kft. a new business association. The purpose of this new subsidiary is to provide services to customers who/that are smaller than district heating providers and multinational companies. The Court of Registration registered Geo2Business Kft. on 8 November 2022.

In the case of Miskolci Geotermia Kft. and Szentlőrinci Geotermia Kft., based on a decision adopted by the owner PannErgy Geotermikus Erőművek Zrt., the legal form of the former Miskolci Geotermia Zrt. and Szentlőrinci Geotermia Zrt. – both covered by the PannErgy Group’s scope of consolidation – was changed from a private limited company (“Zrt.”) into a limited liability company

('Kft.') as of 31 December 2021. The restructuring took place on 31 December 2021 in the case of Miskolci Geotermia Kft., and in the case of Szentlőrinci Geotermia Zrt. the restructuring was registered with the Court of Registration on 25 January 2022.

41. SEGMENTS REPORT

In line with IFRS requirements, the Company needs to present its operating segments. PannErgy Plc. described one operating segments in its individual EU IFRS report (Assets Management), thus the Company has to fulfil disclosure obligations covering the whole of the business entity. In the case of the Company this means that the reporting year's and the basis year's data of the Asset management segment are the same as the financial information pertaining to the entirety of the business entity, which are adequately presented in this annual report.

42. EXPLANATION FOR RECLASSIFICATIONS RELATIVE TO BASIS PERIOD REPORT

The base data included in the 2022 annual report and separate financial statements of PannErgy Plc. are identical with the data included in the Company's separate financial statements and annual report for 2021.

43. TRANSACTIONS WITH AFFILIATED PARTIES

43.1. Transactions with members of the Company's management

The members of PannErgy Plc.'s management are shareholders of enterprises that provide regular business management consultancy or long-term lease of vehicle type services for PannErgy Plc. In 2022 such services amounted to HUF 78,553 thousand, of which business management consultancy services were provided in the amount of HUF 69,172 thousand, and long-term leases in the amount of HUF 9,381 thousand.

43.2. Transactions with affiliated parties

The Company performed the following transactions with related parties during 2022:

| Related party transactions | 2022 HUF Th | 2021 HUF Th |
|--|------------------------|------------------------|
| Sales to related parties ¹ | 612,796 | 214,789 |
| – To subsidiaries | 611,227 | 211,295 |
| – To entities in an ownership relationship with the Group's management | 1,569 | 3,494 |
| Purchases from related parties ² | 111,153 | 75,160 |
| From subsidiaries | 32,600 | 8,763 |
| From entities in an ownership relationship with the Group's management | 78,553 | 66,397 |
| Amounts owed by related parties | 5,541,150 | 5,896,850 |
| Amounts owed to related parties | 46,301 | 20,531 |
| To subsidiaries | 40,217 | 20,531 |
| To entities in an ownership relationship with the Group's management | 6,084 | - |

¹ Of which HUF 580,816 thousand represents interest income from related parties presented as financial income.

² Of which HUF 791 thousand represents interest payable to related parties presented as financial expenditure.

43.3. Loans to and borrowings from related parties

PannErgy Plc. provided the following loans to related parties in 2022 and 2021. No loans were disbursed to management.

| | 2022 HUF Th | 2021 HUF Th |
|---|------------------------------|------------------------------|
| Opening balance of loans granted | 5,795,143 | 6,278,000 |
| New volume of loans to related parties | 68,000 | 398,438 |
| Repayment of loans from related parties | 475,952 | 881,295 |
| Waiver of loans to related parties | - | - |
| Closing balance of loans granted | 5,387,191 | 5,795,143 |

In the reporting period the Company recognised borrowings of HUF 39,421 thousand from related parties.

Registry of the Company's borrowings from related parties at the end of the reporting period:

| | 2022 HUF Th | 2021 HUF Th |
|---------------------------------------|------------------------------|------------------------------|
| Opening balance of borrowings | - | - |
| Disbursements from related parties | 39,421 | - |
| Repayment of loans to related parties | - | - |
| Borrowings waived by related parties | - | - |
| Closing balance of borrowings | 39,421 | - |

43.4. Management's compensation

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

| | 2022 HUF Th | 2021 HUF Th |
|------------------------------|------------------------------|------------------------------|
| Short-term employee benefits | 13,860 | 12,958 |
| Total | 13,860 | 12,958 |

At the Company's General Meeting on 29 April 2022, by MB Resolution No. 7/2022 (IV. 29.) the Company set the remuneration of the Chairman of the Management Board at 195,000 HUF/month, while that of the other members of the MB at 155,000 HUF/month from 29 April 2022, i.e. management remunerations remained unchanged compared to the previous year.

Other than the above remunerations, no long-term benefits or share-based allocations were provided to members of the MB during the reporting period and the preceding base period. At

present, the Company does not recognise any liabilities to past or present executive officers in respect of pension.

44. ADDITIONAL INFORMATION

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

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

'Defined in accordance with EU IFRS, the net P/L of PannErgy Plc., as an individual entity, is a profit of HUF 146,556 thousand for the reporting year, while its total assets amount to HUF 10,519,736 thousand.

The Company publishes extraordinary and other announcements on shareholder information in accordance with the prevailing legislation, available, inter alia, at the website of the Company and the Budapest Stock Exchange.

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

In view of the anticipated investment opportunities and needs for 2023, the necessity of holding a certain level of free cash and cash equivalents required for safe and prudent operation and thus for maintaining a high level of financial and operational stability with adequate flexibility, the Management Board does not recommend the payment of dividends, and proposes that after-tax profit be transferred to retained earnings in full.'

44.2. Audit information

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

In the reporting period, the Company was audited by BLUE RIDGE AUDIT HUNGARY Kft. (address: H-1026 Budapest, Szilágyi Erzsébet fasor 79. fsz. 3, tax number: 13076858-2-41, company registration number: 01-09-717568, Chamber registration number: MKVK 004410); the audit report was signed by Gábor Merkel (Chamber registration number: MKVK 007363, address: H-2143 Kistarcsa, Király Andor utca 23).

For its audit pertaining to the reporting year, the auditor charged a fee of HUF 6,500 thousand and other than that, it received no remuneration (for any other external review, tax consultancy or other service) from the Company.

44.3. Person responsible for the preparation of the report

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

44.4. Members of the Company with controlling influence

PannErgy Plc. is a public limited company. In line with *Section 7.2 (Shareholders with over 5% shareholdings in the Company as at 31 December 2022)* of the Business Report, none of the members of the Company has a majority interest – in particular, qualified majority – in the Company; consequently, there is no need to disclose any information on the name, registered office or voting share of such members.

44.5. Persons authorised to act on behalf of the Company

Members of the Management Board are entitled to represent and act on behalf of the Company as follows; they are authorised to sign the annual report:

| Name | Position | Address | Date of taking office | Signature right |
|------------------|---------------------|---|-----------------------|-----------------|
| Dénes Gyimóthy | MB member, Chairman | 94501 Komárno, Medercská ul. 748/73. | 31/08/2007 | independent |
| Katalin Gyimóthy | Member of the MB | H-8220 Balatonalmádi, Somfa utca 4. | 28/04/2016 | joint |
| Attila Juhász | Member of the MB | H-2251 Tápiószecső, Rákóczi út 6. | 31/08/2007 | joint |
| Kálmán Rencsár | Member of the MB | H-6320 Solt, Posta utca 51. | 30/04/2020 | joint |
| Gábor Briglovics | Member of the MB | H-2483 Gárdony, Barabás Miklós utca 10. | 16/04/2021 | joint |

44.6. Other disclosure obligations of the Company

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

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

44.7. Registered office, website and contact information of the Company

PannErgy Plc. has its registered office in Hungary at H-1117 Budapest, Budafoki út 56. The Company's separate and consolidated financial statements and report are available at the Company's registered office and on its website (<https://www.pannergy.com>).

45. EVENTS AFTER THE REPORTING DATE

References to events that occurred after the cut-off date of the annual report are presented in the table below; complete information is available at the Company's official places of disclosure.

| Date | Type of news | Subject, brief content |
|------------------|---------------------------|---|
| 12 March 2023 | Extraordinary information | Treasury share transactions |
| 10 March 2023 | Extraordinary information | Invitation to the General Meeting |
| 10 March 2023 | Miscellaneous information | Modification of PannErgy Plc.'s event calendar for 2023 |
| 9 March 2023 | Extraordinary information | Detailed description of the share buyback programme |
| 5 March 2023 | Extraordinary information | Treasury share transactions |
| 28 February 2023 | Extraordinary information | Voting rights, share capital |
| 26 February 2023 | Extraordinary information | Treasury share transactions |
| 17 February 2023 | Extraordinary information | Treasury share transactions |
| 10 February 2023 | Extraordinary information | Treasury share transactions |
| 3 February 2023 | Extraordinary information | Treasury share transactions |
| 31 January 2023 | Extraordinary information | Voting rights, share capital |
| 27 January 2023 | Extraordinary information | Treasury share transactions |
| 20 January 2023 | Extraordinary information | Treasury share transactions |
| 13 January 2023 | Extraordinary information | Quarterly production report |
| 13 January 2023 | Extraordinary information | Treasury share transactions |
| 8 January 2023 | Extraordinary information | Treasury share transactions |
| 2 January 2023 | Extraordinary information | Voting rights, share capital |
| 2 January 2023 | Extraordinary information | Treasury share transactions |



46. DATE OF AUTHORISATION OF DISCLOSURE

The Company's Management Board approved the financial statements and authorised their disclosure on 21 March 2023.

Dénes Gyimóthy
On behalf of the Management Board





PannErgy Plc. Business Report 2022

Based on the EU IFRS annual report of
PannErgy Plc.

Budapest, 22 March 2023

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

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



1. EXECUTIVE SUMMARY (REGARDING THE PANENERGY GROUP)

A significant increase in EBITDA, improvement in the competitiveness of geothermal energy

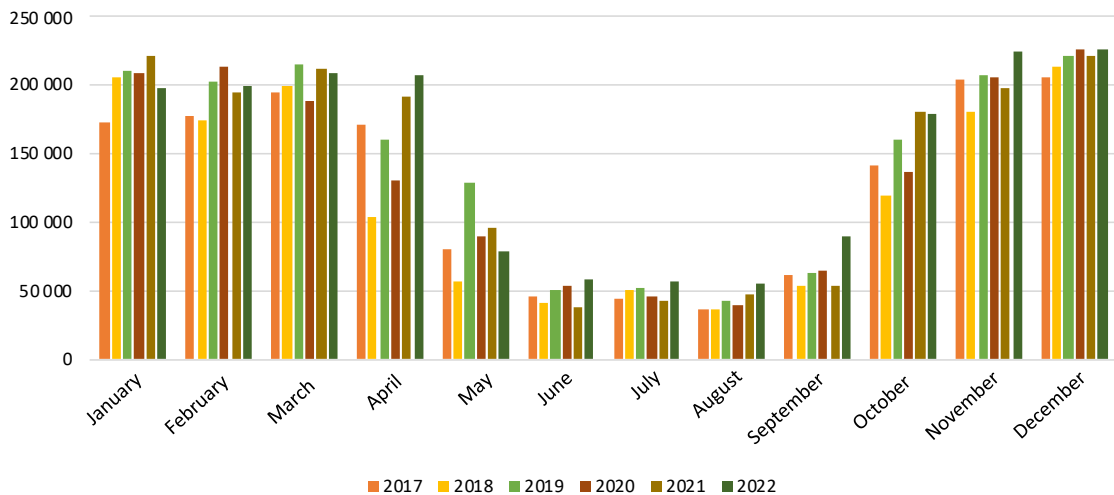
Energy market conditions changed dramatically in 2022 both globally and in Hungary. Hydrocarbon and electricity prices soared; supply uncertainties, the theretofore unprecedented volatility and unpredictability that rendered operating activity impossible, as well as surging carbon dioxide emission quota costs increased the competitiveness of geothermal energy even further. Amid growing dependence on fossil fuels during the reporting period, the uncertainties in supplies and the contribution of PannErgy Group's core operation – geothermal energy generation – to easing that dependence and its unquestionable positive impact on sustainability and environmental protection underpinned the importance of geothermal energy. **Despite the changes in the environment, the Company was able to achieve the objectives set for the reporting period in order to create value for its shareholders:** it achieved its consolidated heat sales and EBITDA targets while ensuring that **PannErgy remained one of the largest company in Hungary to produce renewable energy.** In addition to combating climate change, PannErgy also makes a **significant contribution to reducing the fossil fuel dependency of Hungary and Europe,** exacerbated even more gravely by the ongoing armed conflicts.

Thanks to optimising its operation to the prevailing weather conditions and capacities, **PannErgy Group's consolidated heat sale amounted to 1,785 TJ in 2022, which represents a 5% increase over the performance of 1,699 TJ in the base period and a 2% increase over the plan for the reporting period, 1,752 TJ.** It is partly thanks to this over-performance that the **Company's consolidated sales revenues rose to HUF 7,145 million, exhibiting a positive change of 11%.**

PannErgy Group's consolidated EBITDA amounted to HUF 3,612 million, which is consistent with the EBITDA target range published in the Quarterly Production Report – 2022 Q4 on 13 January 2023. The consolidated EBITDA achieved in the reporting year **shows a remarkable improvement relative to the previous year: not only did it outperform the EBITDA achieved in the base year (HUF 2,878 million) by 26%, but also surpassed, by far, the EBITDA target range of HUF 3,250 – 3,350 million originally set for the business year of 2022.** The high level of EBITDA performance – which surpassed expectations – was supported by several internal factors: firstly, the Company's focus on efficiency in operation and financial management, and secondly, the capacity expansion as well as efficiency and operational safety improving projects of the previous year and the reporting year.

During the reporting period, PannErgy Group's indirect subsidiary, Arrabona Koncessziós Kft. concluded an agreement with GYŐR-SZOL Zrt. – the operator of the district heating system in Győr –, whereby the parties modify their existing cooperation to give priority to the geothermal heat source over any other energy source alternatives feeding into the district heating system. The agreement primarily affects the demand for heat outside the heating season, as in the heating season PannErgy has already operated close to its maximum capacity. Benefiting both parties concerned in several regards, this agreement contributed significantly to the Company's remarkable outperformance of the 2022 consolidated IFRS target range.





Consolidated volume of heat sold (GJ)

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

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2022 TARGET | 2023 TARGET |
|---------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| January | 172,758 | 205,199 | 209,999 | 209,678 | 221,966 | 197,923 | | |
| February | 177,533 | 174,300 | 203,484 | 213,855 | 194,173 | 199,600 | | |
| March | 194,634 | 199,090 | 215,693 | 189,195 | 211,762 | 209,267 | | |
| Q1 | 544,925 | 578,589 | 629,176 | 612,728 | 627,901 | 606,790 | 646,020 | 627,429 |
| April | 171,294 | 104,033 | 160,548 | 130,407 | 192,053 | 207,861 | | |
| May | 79,700 | 56,758 | 129,300 | 89,190 | 96,333 | 78,637 | | |
| June | 45,936 | 41,641 | 50,780 | 53,394 | 38,595 | 58,955 | | |
| Q2 | 296,930 | 202,432 | 340,628 | 272,991 | 326,981 | 345,453 | 315,549 | 322,163 |
| July | 44,865 | 51,247 | 52,406 | 45,297 | 42,919 | 56,299 | | |
| August | 36,709 | 36,794 | 42,415 | 39,205 | 48,023 | 54,838 | | |
| September | 61,502 | 53,650 | 63,731 | 64,096 | 53,870 | 90,033 | | |
| Q3 | 143,076 | 141,691 | 158,552 | 148,598 | 144,812 | 201,170 | 163,654 | 193,218 |
| October | 141,270 | 119,652 | 159,888 | 136,460 | 180,427 | 179,453 | | |
| November | 204,045 | 180,263 | 206,686 | 205,417 | 197,872 | 224,871 | | |
| December | 205,251 | 213,267 | 221,248 | 225,688 | 221,198 | 226,770 | | |
| Q4 | 550,566 | 513,182 | 587,822 | 567,565 | 599,497 | 631,094 | 626,790 | 646,444 |
| ANNUAL TOTAL | 1,535,497 | 1,435,894 | 1,716,178 | 1,601,882 | 1,699,190 | 1,784,507 | 1,752,012 | 1,789,254 |

Consolidated actual and target amounts of heat sales, in GJ

The Company's consolidated sales revenues rose by 11%, while the direct costs of sales increased by 4%. As a combined result of the above, the Company's consolidated gross margin and consolidated gross cash-flow both improved. The consolidated gross margin rose by HUF 518 million, representing a more than 33% increase on nominal terms. A similarly positive, 20% improvement was reported for consolidated gross cash flow – HUF 639 million on nominal terms – compared to the base period.

As a combined result of the total indirect cost of sales and other income and expenses, indirect costs came to HUF –202 million in contrast with the HUF 297 million stated in the base period. As a net

result, the Company's operating surplus amounted to HUF 1,896 million in the reporting period, up 48% year-on-year.

The consolidated EBITDA of the PannErgy Group rose to HUF 3,612 million in 2022, up more than 25% over the previous year's HUF 2,878 million performance (an increase of HUF 734 million). The EBITDA performance of the reporting period was achieved with a 51% EBITDA ratio compared to 45% in the basis year.

The Company incurred a financial loss of HUF –480 million, which shows a HUF 161 million increase compared to the base period, primarily reflecting the impact of FX exchange rate movements on revaluation in the reporting period.

The Company achieved a consolidated net profit of HUF 1,310 million (after-tax P/L) in 2022, surpassing the consolidated profit of HUF 897 million stated in the base period by a remarkable 46%.

| Main profit/loss data (HUF million) | 2022 | 2021 |
|---|--------------|--------------|
| Revenue from sales | 7,145 | 6,439 |
| Direct cost of sales | -5,047 | -4,859 |
| Gross margin | 2,098 | 1,580 |
| Gross cash flow | 3,813 | 3,174 |
| Gross cash flow rate | 53% | 49% |
| Indirect costs of sales | -582 | -512 |
| Other revenues and expenditures | 380 | 215 |
| Operating profit (EBIT) | 1,896 | 1,283 |
| EBITDA | 3,612 | 2,878 |
| EBITDA rate | 51% | 45% |
| Financial profit | -480 | -319 |
| Profit before taxes | 1,416 | 964 |
| Consolidated net profit for the reporting period | 1,310 | 897 |
| <i>Return on Equity (ROE) %</i> | <i>12%</i> | <i>9%</i> |
| <i>Return on Sales (ROS) %</i> | <i>18%</i> | <i>14%</i> |
| <i>Earnings per ordinary share (diluted EPS) (HUF)</i> | <i>82</i> | <i>55</i> |

The Company's EBITDA projection for the coming year (2023)

For the 2023 business year, the Company's management set a consolidated IFRS EBITDA target range of HUF 3,950 – 4,150 million, which is identical with the data shown in its Quarterly production report – 2022 Q4.

The median of the above 2023 EBITDA target range represents an increase of around 15% compared to the value of the base period, which includes, inter alia, the impact of the implemented and ongoing capacity expansion and efficiency improvement projects, including the successful boring of the third production well of the Miskolc Project in 2023 and its expected commissioning by the end of the year, as well as the recognition of the change in material and staff costs in the regulated pricing.

Change in PannErgy's regulated district heating producer tariffs

In Decree No. 20/2022. (IX. 30.) TIM of the Minister for Technology and Industry, published in Volume 159 of 2022 of the Hungarian Official Journal (Magyar Közlöny), the Minister announced the regulated district heat production tariffs (heat supply tariffs) effective as from 1 October 2022 also applicable to subsidiaries subject to PannErgy's district heating price regulation, then in Decree No. 8/2022. (XII. 28.) EM of the Minister for Energy (the "Decree"), published in Volume 219 of 2022 of the Hungarian Official Journal (Magyar Közlöny), the Minister announced the regulated district heat production tariffs (heat supply tariffs) effective as from 1 January 2023 also applicable to subsidiaries subject to PannErgy's district heating price regulation, which tariffs PannErgy has presented in the form of extraordinary information at its official places of disclosure.

The Company drew the public's attention to the fact that, in addition to the date of the start of validity, no date for the end of validity has been specified in the Decree in respect of the above heat supply tariffs valid as of 1 January 2023. Therefore, in respect of the validity of the regulated heat tariffs announced, for district heating fees to separately managed institutions and other users, the Company takes as a reference period the three quarterly periods published by the Ministry for Energy, i.e. the period of validity until 30 September 2023.

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

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

Grants awarded in the reporting period

Through its member, Kuala Kft., PannErgy Plc. submitted its application No. GEOTERM-2021.2-2021-00002 in response to the tender notice entitled 'Grants for the activities of geothermal-based heat production projects' announced under the Climate and Nature Protection Action Plan, and it was awarded a grant of HUF 994 million by the donor – the Ministry for Innovation and Technology – in November 2022. The grant is related to the boring of the third geothermal production well of the Miskolc Geothermal Project. The project is expected to increase the usable capacity of the system by up to 15%–20% and the growing number of production wells will improve its operational continuity significantly, whereby the spare capacity untypical of geothermal power plants will become available. After the geothermal system of Győr, this may become PannErgy's second system with spare capacity, providing the means to restart heat production in the event of a failure by way of a few hours' of reswitching instead of a well-pump replacement that may take 7 to 12 days. The completion of the project is expected before the commencement of the 2023/2024 district heating season.

In addition, the Ministry for Innovation and Technology, as donor, awarded a grant of HUF 1,623 million to application No. GEOTERM-2021.3-2022-00001 submitted by PannErgy Geotermikus Erőművek Zrt. in response to the tender notice entitled 'Grants for the activities of geothermal-based heat production projects' announced under the Climate and Nature Protection Action Plan. The grant is related to the boring of a geothermal production well to be implemented near Budapest. After a successful implementation, the project may become part of a complex geothermal

heat supply system and participate in supplying the heating and hot water needs of potential heat-receiving partners in and around Budapest (district heating providers, industrial facilities, etc.). Boring the well is the first step of creating a possible geothermal system. A thorough analysis of the relevant data is required before the additional elements of the project may be designed. Drilling works may begin in 2024 provided that the seismic measurements preceding the drilling reconfirm the conclusions of months of preparatory efforts expended so far.

Until the publication of these financial statements, the Incentive Agreements relevant to the above grants had not been concluded and the conditions for drawing down the grants were not in place yet. At present, professional and administrative preparations are in progress preceding contract conclusion for the projects.

Treasury share buyback programmes

On 31 December 2022 the Company held a total of 4,041,700 PannErgy Plc. treasury shares, 616,944 less than it held on 31 December 2021. The change reflects the combined effect of the treasury share cancellations related to the capital reduction effected in the reporting period and the purchases of treasury shares under the treasury share buyback programmes in place during the reporting period.

During the reduction of the share capital from HUF 421 million to HUF 400 million, a total of 1,054,655 treasury shares were cancelled, with the cancellations registered on 25 July 2022 by the Court of Registration. The decrease in the number of shares in respect of shares listed on the Budapest Stock Exchange took place on 9 August 2022.

Under the treasury share buyback programmes, a total of 166,773 and 270,938 treasury shares were repurchased in 2022 H1 and H2, respectively. Taken together, 437,711 shares were repurchased in 2022.

The stock exchange closing price of PannErgy shares was HUF 1,315 per share at the end of the reporting period, compared to the closing price of HUF 1,040 per share on 31 December 2020; accordingly, on the last day of the reporting period the price was 26% higher than the closing price at the end of the previous year.

Portfolio rationalisation transformations involving member companies, purchase and sale transactions and transactions affecting the subscribed capital during the reporting period

In order to increase other components of the Company's equity, on 29 April 2022, the Company's General Meeting approved the reduction of the Company's HUF 421,093,100 share capital by HUF 21,093,100 to HUF 400,000,000. During the share capital reduction to HUF 400 million, a total of 1,054,655 treasury shares were cancelled. The competent Court of Registration registered the capital reduction on 25 July 2022.

In the case of Miskolci Geotermia Kft. and Szentlőrinci Geotermia Kft., based on a decision adopted by the owner PannErgy Geotermikus Erőművek Zrt. in 2021, the legal form of the former Miskolci Geotermia Zrt. and Szentlőrinci Geotermia Zrt. – both covered by the PannErgy Group's scope of consolidation – was changed from a private limited company ('Zrt.') into a limited liability company ('Kft.') as of 31 December 2021. In the case of Szentlőrinci Geotermia Kft. the restructuring was registered with the Court of Registration on 25 January 2022.

Of the consolidated subsidiaries of the PannErgy Group, TT-Geotermia Zrt. was sold on 8 June 2022; upon the transfer of the title of ownership, TT-Geotermia Zrt. was removed from PannErgy Plc.'s scope of consolidation. TT-Geotermia owns some, mostly rather obsolete equipment and facilities that provide conventional utility distribution to PannErgy's properties held for utilisation and sale in Debrecen, as well as to several properties owned by third parties in their vicinity. The operation of the facilities and the related services were not part of PannErgy's defined strategy for renewable energy production, nor did they generate any significant economic results. In view of this, as well as the operational risks and required resources associated with the activity and the operation of the facilities, PannErgy decided to divest the utility distribution system of Debrecen by way of selling its entire shareholding in TT-Geotermia. The sales price specified in the purchase and sale agreement concluded in the reporting period was HUF 90 million.

On 3 November 2022, PannErgy Plc. decided to establish Geo2Business Kft. a new business association. The purpose of this new subsidiary is to provide services to customers who/that are smaller than district heating providers and multinational companies. The Court of Registration registered Geo2Business Kft. on 8 November 2022.

General meeting closing the previous business year, dividend payment

On 29 April 2022, the General Meeting of the Company approved PannErgy Plc.'s audited consolidated and separate (parent company) unconsolidated annual reports for 2022, drawn up in accordance with the EU IFRS standards. Thereafter, the General Meeting approved the Management Board's proposal on the payment of dividends; namely, that PannErgy pays to shareholders entitled to dividends per ordinary share a total of HUF 294 million dividends from the after-tax profit of the reporting year and from the positive balance of retained earnings set aside after the successful operation in previous periods. The cut-off date for ownership identification for dividend payment was 30 June 2022. The Company disclosed the amount of the actual dividend on 27 June 2022. Accordingly, starting from 14 July 2022, the Company paid a gross amount of HUF 18.11 per share to shareholders as dividend for 2021, amounting to a total of HUF 294 million.



2. PROFIT OR LOSS OF PANNERGY PLC. AS AN INDIVIDUAL COMPANY IN 2022, KEY INDICATORS OF BUSINESS OPERATIONS

| Key profit/loss figures (HUF Th) | 2022 | 2021 |
|--|-----------------|-----------------|
| Revenue from sales | 90,971 | 96,020 |
| Direct cost of sales | -79,928 | -91,770 |
| Gross margin | 11,043 | 4,250 |
| Gross cash flow | 23,015 | 16,222 |
| Indirect costs of sales | -180,757 | -167,643 |
| Other incomes | 1,121 | 29,188 |
| Other expenditures | -163,047 | -11,133 |
| Operating profit (EBIT) | -331,640 | -145,338 |
| EBITDA | -307,878 | -113,348 |
| Financial profit | 508,814 | 185,556 |
| Profit before taxes | 177,174 | 40,218 |
| Net P/L for the reporting year (profit after tax) | 146,556 | 36,692 |
| <i>Return on Equity, % (ROE)</i> | <i>1.46</i> | <i>0.35</i> |
| <i>Return on Sales, % (ROS)</i> | <i>161.10</i> | <i>38.21</i> |
| Earnings per share (EPS) HUF | 8.68 | 2.12 |

Diluted earnings per share amounted to HUF 8.68. As in the previous period, there is no difference in determining diluted earnings per share as no share option programme was running with shares not called at the end of the reporting period.

Detailed description of the business operations of PannErgy Plc. as an individual company in 2022:

PannErgy Plc. earned a sales revenue of HUF 90,971 thousand in 2022, 5% below the 96,020 thousand figure posted for 2021.

The bulk of the revenue comprised revenues from the re-invoicing of power consumption by tenants of the Debrecen properties and other 'mediated service' costs, while the smaller part was made up of rental fees.

In the reporting period, rental income amounted to HUF 25,267 thousand, 12% higher than the HUF 22,507 thousand posted for the previous year, which reflects income from rental contracts for the real properties in Debrecen.

Other income declined by HUF 28,067 thousand compared to the previous year, which resulted from the sale of a property (land) in Debrecen in the base period.

Amounting to HUF 180,757 thousand in the reporting period, the Company's expenditures related to holding governance rose by 8% relative to the previous year. This increase is in line with the steep rise seen in the consumer and industrial price indices in the reporting period affecting both purchases and services.

As a result, in the reporting period the Company realised HUF –331,640 thousand operating P/L and HUF –307,879 thousand EBITDA.

Pursuant to EU IFRS, starting from the reporting period, the Company presents its interest income from related parties as financial income. In the reporting period the Company realised interest income of HUF 580,816 thousand on its asset management and holding governance operation, in contrast with the interest income of HUF 179,073 thousand of the previous year.

Thanks to this, financial profit amounted to HUF 508,814 thousand in the reporting period.

For the reasons detailed above, after an income tax expenditure of HUF 30,618 thousand, the Company realised a net P/L of HUF 146,556 thousand in the reporting period.

| Key data on the asset position (HUF Th) | 2022 | 2021 |
|---|-------------------|-------------------|
| Fixed assets | 4,721,289 | 4,749,179 |
| Total current assets | 5,798,447 | 6,233,694 |
| Of which Liquid assets | 220,199 | 297,702 |
| Total assets | 10,519,736 | 10,982,873 |
| Total equity | 10,027,147 | 10,633,274 |

The decrease in fixed assets during the reporting period was caused by the depreciation of tangible assets and intangible assets.

In the previous year the Company stated HUF 8,131 thousand as deferred tax receivables; the value of these receivables decreased in the reporting period, and based on the tax recovery calculations of PannErgy Plc., a deferred tax liability of HUF 741 thousand arose instead.

A 6% drop in the portfolio of current assets resulted primarily from repayments of loans provided for affiliated undertakings and from redeemed securities.

The Company's equity was down 6% year-on-year, primarily as a result of the equity reducing effect of the treasury shares repurchased during the reporting period.

External funds disbursed in the reporting period by a creditor financial institution relating to the treasury share buyback programme were presented as short-term loans amounting to HUF 300,000 thousand. In addition, the Company stated borrowings from affiliates in an amount of HUF 39,421 thousand, disbursed by a subsidiary at the end of the period.

| Key indicators | 2022 | 2021 |
|-------------------------------------|-------------|-------------|
| Profitability indicators | | |
| Return on assets, % (ROA) | 1.39 | 0.33 |
| Return on Equity, % (ROE) | 1.46 | 0.35 |
| Return on Sales, % (ROS) | 161.10 | 38.21 |
| Asset position indicators | | |
| Ratio of fixed assets, % | 44.88 | 43.24 |
| Ratio of equity capital, % | 95.32 | 96.82 |
| Indebtedness rate, % | 4.91 | 3.29 |
| Financial indicators | | |
| Liquidity ratio | 1,178.91 | 1,832.90 |
| Acid test ratio | 1,178.05 | 1,832.90 |
| Earnings per share (EPS) HUF | 8.68 | 2.12 |

3. INTRODUCTION TO THE COMPANY

3.1. Core activity of PannErgy Plc.

PannErgy Plc. (Company or PannErgy) is an entity listed at the Budapest Stock Exchange, included in the BUX basket, and is a premium share issuer and controller of the PannErgy Group; the core activities of the Group involve the extraction, utilisation for energy generation and selling of one of Europe's most significant thermal water resources, in particular, renewable geothermal energy. In connection with its geothermal energy generating operations the Company performs productive operations in Miskolc, Győr, Szentlőrinc and Berekfürdő.

On 31 December 2022 PannErgy Plc. had 1 employee; other than the chief executive officer, its executive officers – members of the Management Board – do not work under an employment relationship. PannErgy Plc. has its registered office in Hungary at H-1117 Budapest, Budafoki út 56.

3.2. Real property utilisation

At the end of the reporting period, in addition to its core operations comprising the production and sale of geothermal heat (Energy) the Company has industrial real properties and offices originating from before the time of the 'Pannonplast - PannErgy' strategy shift in the town of Debrecen. The PannErgy Plc. shows its industrial properties in Debrecen, which are not directly or indirectly related to the Group's core operation, that is, geothermal heat generation and sale, in its investment property portfolio, which it intends to utilise through lease arrangements. These properties were presented in the Company's consolidated statement of financial position at cost less depreciation, in an amount of HUF 101,176 thousand. Their fair value amounted to HUF 121,000 thousand at the end of the period.

4. ACHIEVEMENT OF PANNERGY PLC.'S MAIN TARGETS FOR 2022 AND THE ASSOCIATED RISKS

The main objective of the Company as the parent of the PannErgy Group for 2023 is to increase heat generation in relation to its holding governance activity as its core operation and, in this context, the improvement of the predefined group-level margin, cash flow and EBITDA. In 2023, as well, the PannErgy Group successfully achieved the objective laid down in its geothermal energy generation

and utilisation strategy – aimed at the efficient utilisation of the capacities available at the various project sites in line with the prevailing weather conditions and at the dynamic selection of the operating condition(s) best supporting this objective.

The Company's green heat sales increased by 5% from 1,699 TJ in the base period to 1,785 TJ in 2022. The Company's consolidated sales revenue of HUF 7,145 million translates to an 11% increase compared to the base period. The Company's consolidated EBITDA amounted to HUF 3,612 million, 26% up year-on-year, exceeding the planned EBITDA target range (HUF 3,250 – HUF 3,350 million) originally set for the financial year of 2022.

The high level of EBITDA performance – which surpassed expectations – was supported by several internal factors: firstly, the Company's focus on efficiency in operation and financial management, and secondly, the capacity expansion as well as efficiency and operational safety improving projects of the previous year and the reporting year.

In addition to the objectives described above, the key 2022 objective of PannErgy Plc. as an individual company was profitable financial management at group level. As in the previous year, the conditions for this were in place at the Company; the net profit in the reporting year was HUF 146,556 thousand, which is significantly higher than HUF 36,692 thousand P/L in the base period.

5. THE COMPANY'S STRATEGY, ENVIRONMENTAL GOALS

The core element of the strategy of the PannErgy Group, the region's dominant company utilising geothermal heat, is to play a key role in countering climate change by its environmentally friendly services of high operational reliability, and to enable major reductions in energy related expenditures by implementing environment preserving capital projects. PannErgy Plc. uses clean and renewable energy solutions to build the future, giving every generation the opportunity to create value by applying the principles of environmental protection and sustainability. The Company has set itself the goal of becoming a market leader in the Central and Eastern European region through the use of geothermal energy, which provides significant economical and ecological value for now and in the future.

5.1. ESG Management, ESG report

The PannErgy Group believes that is extremely important to determine the influence and impact its activities have on the environment and on society as a whole. Accordingly, it published its first ESG report in 2022 H1, ahead of the deadlines prescribed in the applicable legal regulations. In addition to presenting the data included in these consolidated financial statements, the Company described the environmental and social impacts of the operation of the PannErgy Group during the reporting period, along with the Company's sustainability and environmental strategy and actions. The purpose of the ESG report published was to enable investors and other market participants to familiarise themselves with these details. To this end, the Company provides deeper and more detailed disclosures, focusing on climate change, climate risk, and sustainable development.

As a renewable energy producer and a major contributor to carbon footprint reductions, the Company sees ESG as a significant opportunity for establishing a framework to identify non-



financial aspects that may have a material impact on the performance of an investment, including the assessment and presentation of new non-financial risks.

In 2022, in recognition of the Company's efforts in the field of renewable energy and sustainability, alongside two other issuers, PannErgy Plc. received the 'Award for Responsibility, Sustainability and Corporate Governance' at the 'BSE Legends 2021' awards ceremony of the Budapest Stock Exchange.

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

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

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

PannErgy's consolidated greenhouse gas emissions savings rate was 78% in 2022 compared to the 81% reported in the base period, which means that in the reporting period it continued to save approximately 4/5 units compared to fossil fuel emissions. The decline reflects the fact that, in addition to its greenhouse gas emissions saving activity, the Company completely neutralised the CO₂ impact of the power needs of geothermal heat generation by purchasing a Guarantee of Origin (Scope 2) in the base period, and no such guarantees were purchased during the reporting period.

Based on the greenhouse gas emissions related to energy production, the Company emitted only 22%, that is, less than one-fifth, of the GHG environmental burden of the natural gas-based power generation of 90% efficiency considered for the purpose of offsetting emissions in the reporting period.

In 2022, the Company offset (saved) approximately 80 thousand tonnes of CO₂-equivalent GHG emissions. For the calculation of the GHG emissions savings rate, in order to define the GHG emission of the Group, the Company considered the CO₂ impact of the electricity needs of geothermal heat generation (Scope 2) and the GHG emissions related to administrative central operation and project-level site operation (Scope 1). As regards savings, the Company considered the emissions of the power plant in Berekfürdő – which produces electricity and heat by burning methane gas captured from geothermal fluids – as a carbon-neutral activity due to its small size and the positive GHG impact of converting methane to carbon dioxide.



6. SUBSIDIARIES OF PANNERGY PLC.

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

| PannErgy subsidiaries | Share capital (HUF Mn) | Shareholding (%) | Voting rights (%) | Consolidation ratio |
|---------------------------------------|------------------------|------------------|-------------------|---------------------|
| PannErgy Geothermal Power Plants Ltd. | 2,072.70 | 100.00 | - | 100.00 |
| Geo2Busines Kft. | 3.00 | 100.00 | - | 100.00 |
| DoverDrill Mélyfúró Kft. | 86.00 | - | 100.00 | 100.00 |
| Arrabona Koncessziós Kft. | 6.10 | - | 100.00 | 100.00 |
| Szentlőrinci Geotermia Kft. | 5.00 | - | 100.00 | 100.00 |
| Miskolci Geotermia Kft. | 5.00 | - | 100.00 | 100.00 |
| DD Energy Kft. | 3.10 | - | 100.00 | 100.00 |
| Kuala Kft. | 3.00 | - | 100.00 | 100.00 |
| Berekfürdő Energia Kft. | 3.00 | - | 100.00 | 100.00 |

6.2. Key data of consolidated subsidiaries in the reporting period (HUF millions)

| PannErgy subsidiaries | Equity | Subscribed capital | Sales revenue | Business profit or loss | Profit after taxes | Headcount |
|---------------------------------------|--------|--------------------|---------------|-------------------------|--------------------|-----------|
| PannErgy Plc. | 10,027 | 400 | 89 | -331 | 147 | - |
| PannErgy Geothermal Power Plants Ltd. | 3,234 | 2,073 | 69 | -102 | 4 | 8 |
| Arrabona Koncessziós Kft. | 2,564 | 6 | 2,834 | 498 | 378 | 2 |
| DD Energy Kft. | 1,637 | 3 | 2,362 | 569 | 461 | 2 |
| DoverDrill Kft. | 892 | 86 | 175 | 47 | 51 | 3 |
| Miskolc Geotermia Kft. | 412 | 5 | 1,500 | 381 | 2 | 5 |
| Kuala Kft. | 249 | 3 | 1,167 | 243 | 76 | 2 |
| Szentlőrinci Geotermia Kft. | 28 | 5 | 75 | 74 | 2 | - |
| Berekfürdő Energia Kft. | | | 9 | -2 | 3 | - |
| Geo2Business Kft. | 232 | 3 | 195 | 236 | 217 | - |

7. THE COMPANY'S OWNERSHIP STRUCTURE, SENIOR OFFICERS

7.1. The Company's ownership structure as at 31 December 2022

| Shareholders | Total share capital = Introduced series | | | | | |
|--|---|---------------|-------------------|---------------|---------------|-------------------|
| | 01/01/2022 | | | 31/12/2022 | | |
| | % | % | shares | % | % | shares |
| Domestic institutions | 29.19 | 37.49 | 6,146,577 | 30.86 | 38.67 | 6,171,682 |
| Foreign institutions | 8.05 | 10.34 | 1,695,255 | 8.42 | 10.56 | 1,685,668 |
| Domestic private individuals | 30.38 | 39.01 | 6,395,910 | 30.25 | 37.92 | 6,051,532 |
| Foreign private individuals | 0.32 | 0.41 | 66,672 | 0.30 | 0.38 | 60,153 |
| Employees, senior officers | 1.94 | 2.49 | 409,505 | 1.55 | 1.94 | 309,505 |
| Own holding | 22.13 | 0.00 | 4,658,644 | 20.21 | 0.00 | 4,041,700 |
| Owner belonging to the general government system | 7.96 | 10.22 | 1,675,745 | 8.38 | 10.50 | 1,675,745 |
| International Development Institutions | - | - | - | - | - | - |
| Other | 0.03 | 0.04 | 6,347 | 0.02 | 0.03 | 4,015 |
| Total | 100.00 | 100.00 | 21,054,655 | 100.00 | 100.00 | 20,000,000 |

7.2. Shareholders with a stake of over 5% in the Company as at 31 December 2022

| Name | Investor category | | Number of shares | Shareholding (%) | Voting rights (%) |
|---------------------------------------|-------------------|---------|------------------|------------------|-------------------|
| Benji Invest Kft. / FCI Kompozit Kft. | Domestic | Company | 3,186,010 | 15.93 | 19.96 |
| MVM Energetika Zrt. | Domestic | Company | 1,675,745 | 8.38 | 10.50 |
| Soltút Kft. / Kálmán Rencsár | Domestic | Company | 1,814,241 | 9.07 | 11.37 |

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

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

| | 01/01/2022 | 30/06/2022 | 31/12/2022 |
|-----------------|------------|------------|------------|
| Treasury shares | 3,723,441 | 3,890,214 | 3,106,497 |

7.4. Executive officers of the Company

The Company's executive officers are the members of the Management Board. Data of the members of the Management Board and their respective shareholdings on 31 December 2022:

| Name | Position | Date of taking office | Mandated until | Number of shares held |
|------------------------------------|-------------------------|-----------------------|-----------------|-----------------------|
| Dénes Gyimóthy | Member, Chairman | 31/08/2007 | indefinite term | - |
| István Jaksa | Chief Executive Officer | 13/12/2022 | indefinite term | 2,505 |
| Katalin Gyimóthy | Member | 28/04/2016 | indefinite term | - |
| Attila Juhász | Member | 31/08/2007 | indefinite term | - |
| Kálmán Rencsár | Member | 30/04/2020 | indefinite term | 307,000 |
| Gábor Briglovics | Member | 16/04/2021 | indefinite term | - |
| Total number of shares held | | | | 309,505 |

The Company has had a (strategic) employee influencing its operations since December 2022 in the person of the CEO, who carries out his duties as an employee.

The EU IFRS annual report and business report of PannErgy Plc. are signed by Dénes Gyimóthy, Chairman of the Management Board.

The information and rules prescribed in Sections 95/A and 95/B of the Accounting Act are included in PannErgy Plc.'s Articles of Association. The rules on the election and removal of executive officers and on the amendment of the Articles of Association are defined in the Company's Articles of Association. Pursuant to the Articles of Association, the supreme body of the Company is the General Meeting, which is composed of all shareholders. Unless provided otherwise by the Civil Code or, based on the authorisation thereof, by the Articles of Association, the following shall fall within the exclusive competence of the General Meeting:

- decisions to approve and amend the Articles of Association;
- decisions to elect and remove members of the Company's Management Board and to determine their remuneration;
- decisions on the evaluation of the work carried out by members of the Management Board in the previous business year and on granting the discharge available to them;
- decisions to increase the share capital by the issue of new shares or by taking recourse to the assets available over and above the share capital, except where the General Meeting authorises the Management Board to increase the share capital by the issue of new shares or by taking recourse to the assets available over and above the share capital;
- decisions to acquire treasury shares or to accept a public takeover bid for treasury shares, except where the acquisition is based on the authorisation granted by the General Meeting or by the Civil Code to the Management Board;
- decisions to reduce the share capital, unless provided otherwise by the Civil Code.

In lieu of a Board of Directors and a Supervisory Board, the Company has a Management Board in order to enable a consistent system of governance. The Management Board carries out the statutory functions of both the Board of Directors and the Supervisory Board. As part of its duties, the Management Board defines the Company's strategic policies and supervises the operation of the Company's management. More details on the tasks of the Management Board are included in the Corporate Governance Report disclosed concurrently with the consolidated financial statements.

In electing the members of its administrative, management and supervisory bodies, the Company strives to consider criteria regarding age, sex, and educational and professional background, in accordance with the principle of diversity.

8. HEADCOUNT INFORMATION

In terms of average statistical headcount, as in the previous year, the Company had no employees in 2022; in both periods the report of the Company disclosed, in the category of staff costs, the remuneration paid to members of the Management Board and the amount of the related taxes and contributions.

9. DIVIDEND PAYMENT, TREASURY SHARE PURCHASE

In consideration of the Management Board's report and the Audit Committee's and the auditor's comments, by Resolution No. 2/2022 (IV. 29.) on 29 April 2022 the Company's General Meeting approved the Company's separate (parent company), unconsolidated 2021 balance sheet and profit and loss statement, prepared in accordance with the EU IFRS, with total assets of HUF 10,983 million and the same amount as total liabilities and an after-tax P/L (profit) of HUF 37 million, which figures are consistent with the proposal and the auditor's report. The General Meeting also

approved the consolidated report on the business operations of PannErgy Group in 2021, prepared in accordance with the EU IFRS, with HUF 26,883 million for assets and liabilities (total assets), and an after-tax P/L (profit) of HUF 897 million.

After the approval of the consolidated and separate reports, by its Resolution No. 3/2022 (IV. 29.) the General Meeting approved the Management Board's proposal to the effect that PannErgy pays to shareholders entitled to dividends per ordinary share as per Sections 56.3 and 58 of the Company's Articles of Association a total of HUF 294 million dividends from the after-tax profit of the reporting year and from the positive balance of retained earnings set aside after the successful operation in previous periods. The cut-off date for ownership identification for dividend payment was 30 June 2022; the Company disclosed the details of the dividend payment in its communications on 16 June and 24 June 2022.

Thereafter, on 27 June 2022 it disclosed the amount of the actual dividend. Accordingly, the Company pays a gross amount of HUF 18.11 per share to shareholders in the way of dividend for 2021, amounting to a total of HUF 294,000 thousand.

Dividend payments commenced on 14 July 2022, and with the exception of an amount of HUF 30 thousand, by 31 December 2022 the prescribed dividend of HUF 294 million was paid to shareholders in full.

Treasury share buyback programmes

On 31 December 2022 the Company held a total of 4,041,700 PannErgy Plc. treasury shares, 616,944 less than it held on 31 December 2021. The change reflects the combined effect of the treasury share cancellations related to the capital reduction effected in the reporting period and the purchases of treasury shares under the treasury share buyback programmes in place during the reporting period.

In order to increase other components of the Company's equity, by its Resolution No. 11/2022 (IV. 29.), on 29 April 2022 the Company's General Meeting approved the reduction of the Company's HUF 421,093,100 share capital by HUF 21,093,100 to HUF 400,000,000. During the share capital reduction to HUF 400 million, a total of 1,054,655 treasury shares were cancelled. The competent Court of Registration registered the capital reduction on 25 July 2022; based on the cancellation of the relevant treasury shares, the number of treasury shares changed to 3,808,162 on that day. The decrease in the number of shares in respect of shares listed on the Budapest Stock Exchange took place on 9 August 2022.

A total of 166,773, and 270,938 treasury shares were repurchased in 2022 H1 and 2022 H2, respectively, under the treasury share buyback programmes.

The stock exchange closing price of PannErgy shares was HUF 1,315 per share at the end of the reporting period, compared to the closing price of HUF 1,040 per share on the last day of the base period; accordingly, on the last day of the reporting period the price was 26% higher than the closing price at the end of the previous year.

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

Acting in the capacity of the General Meeting in accordance with Section 9(2) of Government Decree 502/2020 (XI.16.) on the repeated implementation of derogating provisions governing the

operation of partnerships and joint-stock companies during the state of emergency, the Management Board authorised the Management Board by its resolution of 16 April 2021 to purchase treasury shares up to an amount of HUF 600 million at a share rate corresponding to minimum HUF 1 and maximum HUF 950. To the extent permitted by law and considering the provisions laid down in Section 3:222(1) of the Hungarian Civil Code, the Management Board is authorised to purchase ordinary shares of a HUF 20 nominal value up to a quantity with which the portfolio of own shares does not exceed, at any time during the term of the authorisation, 25% of the total portfolio of shares issued. The treasury share buyback programme covered the period starting on 17 April 2021 and ending on 14 April 2022. The shares could only be purchased in stock exchange trading. A total of 76,573 treasury shares were purchased at an average price of HUF 909 apiece in H1 2022, between 1 January and 14 April 2022, under this treasury share buyback programme. The Company purchased a total of 535,434 treasury shares under the programme closed on 14 April 2022.

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

PannErgy Plc.'s regular annual General Meeting closing the business year 2021 – held on 29 April 2022 – authorised the Management Board by its Resolution No. 8/2022 (IV. 29.) to purchase treasury shares up to an amount of HUF 600 million (that is, six hundred million forints) at a price of minimum HUF 1 and maximum HUF 1,400 per share. To the extent permitted by law and considering the provisions laid down in Section 3:222(1) of the Hungarian Civil Code, the Management Board is authorised to purchase ordinary shares of a HUF 20 nominal value up to a quantity with which the portfolio of own shares does not exceed, at any time during the term of the authorisation, 25% of the total portfolio of shares issued. The authorisation shall be valid for the period starting on 2 May 2022 and ending on 13 April 2023. The shares may be purchased solely in trading at the stock exchange. In the context of this own share repurchase programme PannErgy Plc. aims at purchasing 2,200 PannErgy Plc. ordinary shares per trading day at the Budapest Stock Exchange until withdrawal or the last day of the term of the General Meeting's authorisation. The purchase price equals to the current market price corresponding to the prevailing bid and ask prices, and must not exceed HUF 1,400 per share according to the resolution of the General Meeting. A total of 361,138 treasury shares were purchased at an average price of HUF 1,077 per share in 2022, i.e. between 2 May 2022 and 31 December 2022, under the relevant treasury share buyback programme.

10. MAIN RISKS FACED BY THE COMPANY, ASSOCIATED UNCERTAINTIES

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

11. PUBLICITY

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

12. KEY EVENTS AFTER THE REPORTING DATE

Events that took place after the reporting date, published and accessible at the Company's official places of disclosure, are listed in detail in Note no. 44. *Events after the reporting date* in the Notes to the financial statements.

13. DATE OF AUTHORISATION OF DISCLOSURE

The Company's Management Board approved the financial statements and authorised their disclosure on 21 March 2023.

Dénes Gyimóthy
On behalf of the Management Board





PannErgy Plc. Declaration of the issuer 2022

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

Budapest, 22 March 2023

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

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



DECLARATION

On behalf of the Management Board I, Chairman Dénes Gyimóthy, hereby issue the following declaration in relation to the 2022 EU IFRS annual report and business report of PannErgy Plc., pursuant to the statutory requirement laid down in Section 2.4 of Annex 1 to Decree No. 24/2008 (VII. 15) PM of the Minister of Finance:

- the 2022 separate annual report, prepared to the best of our knowledge in accordance with the applicable accounting regulations and the EU IFRS standards, provides a true and fair view of the assets, liabilities, financial position and profit or loss of PannErgy Plc. as a public securities issuer, and;
- the business report attached to the annual report prepared in accordance with the applicable EU IFRS standards provides a fair view of the position, development and performance of PannErgy Plc. as a public securities issuer, presenting the key risks and uncertainties.

Dénes Gyimóthy
On behalf of the Management Board