PANNERGY NYRT.

Consolidated Financial Statements

31.12.2011

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Dénes Gyimóthy

Representative of the Board of Directors

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INCOME STATEMENT

	Note	2011	2010
Sales revenues	5	19,039,342	15,193,689
Cost of sales		-14,532,919	-11,376,373
Gross profit		**4,506,423**	**3,817,316**
Administrative and general costs		-2,607,708	-2,900,287
Other income	7	362,447	183,719
Other expenses	6	-824,451	-344,955
Operating profit		**1,436,711**	**755,793**
Result of financial transactions	8	-307,014	-665,070
Profit/loss before taxation		**1,129,697**	**90,723**
Income tax	25	-60,701	-30,507
After-tax profit from continued operations		**1,068,996**	**60,216**
Net profit/loss for the year		**1,014,182**	**18,187**
From the after-tax profit/loss for the year:			
To the capital holders of the parent company		**1,014,182**	**18,187**
To the minority holders	20	**54,814**	**42,029**
Total comprehensive income for the period		1,014,182	18,187
Earnings per share (HUF)			
Basic	26	55.60	1.00
Diluted	26	55.60	1.02

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BALANCE SHEET

	Note	Dec 31 2011	Dec 31 2010
Intangible assets	10	1,319,936	1,568,179
Goodwill	10	69,669	177,413
Property, plant and equipment	11	6,374,942	9,450,115
Investments	11	23,435	24,785
Receivables related to finance leases	9	0	0
Deferred tax assets	25	576,521	576,521
Long-term receivables	12	2,500	5,062
Total non-current assets		**8,367,003**	**11,802,075**
Inventories	13	548,665	2,246,362
Trade debtors	14	478,135	2,296,358
Other receivables	15	1,688,299	1,697,007
Receivables related to finance leases	9	0	0
Financial assets at fair value through profit or loss	16	266,729	554,423
Securities held to maturity	16	1,589,219	0
Cash	16	1,219,853	896,611
Total current assets		**5,790,900**	**7,690,761**
TOTAL ASSETS		**14,157,903**	**19,492,836**
Subscribed capital	17	421,093	421,093
Reserves	19	12,773,504	12,855,830
After-tax profit/loss for the current year		1,014,182	18,187
Repurchased treasury shares	18	-3,555,902	-3,610,524
Minority interest	20	283,763	809,653
Total shareholdersô equity		**10,936,640**	**10,494,239**
Long-term loans	21	1,055,375	1,649,575
Provisions	23	3,745	5,745
Total long-term liabilities		**1,059,120**	**1,655,320**
Trade creditors		584,892	2,740,876
Short-term loans	22	453,410	3,145,153
Short-term portion of long-term loans	21,22	112,364	367,630
Other current liabilities	24	1,011,477	1,089,618
Total current liabilities		**2,162,143**	**7,343,277**
TOTAL EQUITY AND LIABILITIES		**14,157,903**	**19,492,836**

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The notes form an integral part of the financial statements.

STATEMENT OF THE CHANGES TO EQUITY

Description	Subscribed capital	Reserves	Repurchased treasury shares	Share of external members	Equity
Balance as of 31 December 2009	421,093	12,218,899	- 3,677,336	497,926	9,460,582
Profit or loss for 2010	-	18,187	-	42,029	60,216
Changes to the share of external members	-	-	-	269,698	269,698
Exchange rate difference from consolidation	-	- 17,138	-	-	- 17,138
Repurchased treasury shares			-571,808		-571,808
Treasury shares sold		-156,733	638,620		481,887
Premium of shares purchased by minority		810,802			810,802
Balance as of 31 December 2010	421,093	12,874,017	-3,610,524	809,653	10,494,239
Profit or loss for 2011	-	1,014,182	-	54,814	1,068,996
Changes to the share of external members	-	-	-	-580,704	-580,704
Exchange rate difference from consolidation	-	-9,052	-	-	-9,052
Repurchased treasury shares			-171,839		-171,839
Treasury shares sold		-91,461	226,461		135,000
Premium of shares purchased by minority		-			-
Balance as of 31 December 2011	421,093	13,787,686	-3,555,902	283,763	10,936,640

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Cash flow statement

	Note	2011	2010
Cash flows from operating activities			
Profit or loss after tax		**1,014,182**	**18,187**
Adjustments in respect of the pre-tax profit or loss and the cash flows from business activities			
Depreciation of property, plant and equipment and intangible assets		1,055,074	1,141,097
Impact of deferred taxes		-	-
Fair value difference		287,694	336,613
Exchange gain/loss from loans		175,251	89,640
Extraordinary depreciation of property, plant and equipment and goodwill		607,197	9,723
Impairment and deficit in inventories		32,801	46,858
Release/allocation of provisions		-	-6,255
Increase in provisions for doubtful receivables		-7,353	6,093
Net interest rate profit/loss		187,786	230,462
Profit/loss from the sales of property, plant and equipment		-4,939	-9,225
Profit/loss from the sales of investments		1,258,304	-
Changes to minority shareholdings		-190,888	311,727
Changes to working capital elements			
Increase/decrease in inventories		77,499	-407,363
Decrease/increase in receivables		-869,949	76,979
Increase/decrease in liabilities		390,906	739,194
Interest rate received		71,519	55,011
Interest rate paid		-259,305	-285,473
Net cash from/used for operating activities		**1,309,171**	**2,353,268**
Cash flows from investing activities			
Purchase of investments in non-public companies		-119,105	-
Increase in existing investments		-120	-
Sales of investments		4,887,349	-
Purchase of property, plant and equipment and intangible assets		-3,672,006	-3,763,343
Sales of property, plant and equipment and intangible assets		100,543	300,771
Decrease in long-term receivables		13	864,500
Cash from investment activities		**1,196,674**	**-2,598,072**
Financing activities			
Increase/decrease in long-term loans		97,801	-438,209
Increase/decrease in short-term loans		-326,904	73,912
Purchase/sales of treasury shares		-36,839	-89,921
Capital increase in minority shareholdings, premium		-	810,802
Increase/decrease in the securities portfolio		-1,580,167	-

Cash used for financing activities		**-1,846,109**	**356,584**
Net decrease/increase in cash and cash equivalents		**659,736**	**111,780**
Cash and cash equivalents as of 1 January		**106,707**	**-5,073**
Cash and cash equivalents as of 31 December	28	**766,443**	**106,707**

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1 Operations

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

PannErgy Nyrt. (hereinafter: the ñCompanyò or ñPannErgyò) is a Hungarian company operating as a holding of a Group (hereinafter: the ñGroupò) whose main activity is the usage of renewable, geothermal energy resources as well as asset management. On 31 May 1991, the Company was transformed into a company limited by shares, according to Act XII of 1989 on the transformation of business organisations. The members of the Group (year-end status) perform productive activities in Budapest, SzentlĘrinc and BerekfürdĘ.

The Company sold 25,662,411 dematerialised, registered ordinary shares, with a nominal value of HUF 100 each, which totally represented 95.3% of the share capital of Pannunion Packaging Plc., with a closure on 19 October 2011, to Pannunity Kft. (registered office: 1053 Budapest, Károlyi Mihály utca 12., company registration No. 01-0-959254). PannErgy Nyrt. intends to use the relevant income for future geothermal developments primarily.

The subsidiaries are listed in Note 33.

Short description of the future strategy of PannErgy Nyrt.

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

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

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

In addition to the already operating facilities, we expect to launch our project in Miskolc in 2012, which will materially exceed those that are already in operation.

After drilling our first well in GödöllĘ, we chose to revaluate the geological conditions which lead to changes in the GödöllĘ project. The work will soon continue.

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

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

2 Introduction of new reporting standards

2.1 Impact of the new IFRS Standards and the rules of the IAS Standards, whose new modifications are in effect from 1 January 2010, on the accounting policy:

In addition to the standards and interpretations generally applied by the Company, the following standards entered into force in the current period:

- IFRS 1 (modified) First-time Adoption of International. Financial Reporting Standards (entered into force for reporting periods starting on 1 January 2011 or later)
- IFRS 2 (modified): Share-based payment (entered into force for reporting periods starting on 1 January 2010 or later)
- IFRS 3 (modified) Business combinations (Measurement of non-controlled shares) ï (entered into force for reporting periods starting on 1 July 2010 or later)
- IFRS 7 Financial instruments (clarification of disclosures) ï (entered into force for reporting periods starting on 1 January 2011 or later)
- IFRS 8 (modified): Operating Segments (entered into force for reporting periods starting on 1 January 2011 or later)
- IAS 1 Presentation of financial statements (clarifications regarding the statement of the changes to equity) ï (entered into force for reporting periods starting on 1 January 2011 or later)
- IAS 24 Related party disclosures (entered into force for reporting periods starting on 1 January 2011 or later)
- IAS 27 Consolidated and separate financial statements (modification) ï (entered into force for reporting periods starting on 1 July 2010 or later)
- IAS 34 Interim financial reporting (major events and transactions) (entered into force for reporting periods starting on 1 January 2011 or later).
- IFRIC 13 (modified) Customer loyalty programmes: market value of loyalty points (entered into force for reporting periods starting on 1 January 2011 or later)
- IFRIC 19 Extinguishing financial liabilities with equity instruments (entered into force for reporting periods starting on 1 January 2011)

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

2.2 Impact of the new IFRS Standards and the rules of the IAS Standards, the new modifications of which are in effect from 1 January 2011, on the accounting policy:

- Commission Regulation (EU) No 149/2011 (18 February 2011)

- Amendments of the International Financial Reporting Standards:
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (entered into force for reporting periods starting on 1 January 2011 or later)
- Amendments to IFRS 3 Business combinations (entered into force for reporting periods starting on 1 July 2010)
- Amendments to IFRS 7 Financial instruments: Disclosures (entered into force for reporting periods starting on 1 July 2010)
- Amendments to IAS 32 Financial instruments: Presentation (entered into force for reporting periods starting on 1 July 2010)
- Amendments to IAS 39 Financial instruments: Recognition and measurement (entered into force for reporting periods starting on 1 July 2010)
- Amendments to IAS 1 Presentation of financial statements (entered into force for reporting periods starting on 1 January 2011)
- IAS 21 The effects of changes in foreign exchange rates (entered into force for reporting periods starting on 1 July 2010)
- IAS 28 Investments in associates (entered into force for reporting periods starting on 1 July 2010)
- -Amendments to IAS 31 Interests in joint ventures (entered into force for reporting periods starting on 1 July 2010)
- Amendments to IAS 34 Interim financial reporting (entered into force for reporting periods starting on 1 January 2011)
- Amendments to IFRIC 13 Customer loyalty programmes (entered into force for reporting periods starting on 1 January 2011)
- -Commission Regulation (EU) No 1205/2011 (22.11.2011)
- -IFRS 7 Financial instruments: Disclosures ï Transfer of financial assets (entered into force for reporting periods starting on 1 July 2011)

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

3 Summary of the significant elements of the accounting policy

3.1 General description

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

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

3.2 Principles of consolidation

The attached consolidated annual financial statements include the assets and liabilities as well as the income and expenses of all the subsidiaries with a majority holding. Inter-company transactions and balances have been eliminated through the consolidation. Where the Company has a share in a jointly managed company, the principle of proportionate consolidation is applied. It means that assets, liabilities, income and expenses are consolidated row by row, in proportion of the share of the Company.

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

3.3 Accounting for the purchase of investments

Upon acquisition, subsidiaries are accounted for with the fair value method. The goodwill that is generated upon the acquisition of the subsidiaries is included in the balance sheet and is accounted for as follows.

The goodwill, which is the portion of the acquisition price that exceeds the realistic net asset value pertaining to the investor, is included in intangible assets. Before 1 January 2005, the value of the goodwill was depreciated with the straight line method over a period of 5-10 years in the consolidated income statement. As of 1 January 2005, the Group terminated the depreciation of the goodwill and de-recognised the depreciation against the value of the goodwill, according to IFRS 3 Business combinations. The goodwill that is included in the consolidated balance sheet is evaluated individually by the related investment, on an annual basis. If no return can be expected on the goodwill from the future results, the whole amount is written off.

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

3.4 Goodwill

Goodwill is generated if the amount of the assets and liabilities of the acquired subsidiary, jointly managed company or associated company measured at market value is below the countervalue of the acquired share. The goodwill is recognised under intangible assets in the consolidated balance sheet. Starting from 2005, no depreciation can be accounted for the goodwill.

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

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

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

3.5 Cash

According to the Group's accounting policy, cash includes the balances of bank deposits, fixed deposits as well as the cash portfolio as of the end of the year. The Group has an overdraft facility; the relevant contract was concluded to get access to a revolving credit. The amounts drawn from the facility generate a liability for a period that is longer than 3 months but shorter than 1 year. Based on the Groupôs accounting policy, these overdraft facilities are recognised under liabilities as short-term loans.

3.6 Sales revenues

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

3.7 Sales of products

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

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

3.8 Interest and dividends

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

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

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

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

3.9 *Sales of shares*

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

3.10 Lease transactions

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

3.11 The Group as a lessor

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

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

3.12 The Group as a lessee

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

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

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

3.13 Transactions concluded in foreign currencies

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

During the consolidation, the Groupôs assets and liabilities pertaining to the foreign operations are translated at the exchange rate valid on the balance sheet date. Revenues and expenses are translated based on the average exchange rate of the given period. Exchange rate differences derived from the translation are charged to the equity directly and are recognised under reserves.

3.14 Government subsidies

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

3.15 Share-based payments

The Group applies the requirements of IFRS 2 Share-based payments to all the options that were granted after 7 November 2002.

The Group provides share-based benefits to certain members of its management. The extent of these benefits as estimated by the Group must be evaluated at the fair value as of the date of issuance and must be expensed in the income statement as staff costs over the course of the business year, on a pro rata temporis basis.

According to the rules of IFRS 2, share-based benefits were booked at the fair value of the service, which is the fair value of the shares granted, which was booked as an expense in the consolidated financial statements. IFRS 2 Share-based payments was applied from 1 January 2005 retrospectively for the options that were granted after 7 November 2002.

3.16 Corporate tax

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

The deferred tax is defined based on the balance sheet liability method. Deferred taxes are generated if there is a time difference between the booking of an item for accounting and tax purposes. Deferred tax assets and liabilities are determined using the tax rates for the taxable income of the years when the differences derived from the time differences are expected to be recovered. Deferred tax liabilities and assets reflect the tax implications of assets and liabilities as of the balance sheet date, as determined by the Group.

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

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

3.17 Property, plant and equipment

The properties, plants and equipment of PannErgy Nyrt. were revaluated by independent appraisers on 31 May 1991. From 31 December 1992, tangible assets are recognised at the actual acquisition price (machinery, equipment) or at a remeasured value (land and buildings) after the deduction of accumulated depreciation.

The cost of tangible assets includes the purchase price, customs duties, undeductible VAT and all costs that were incurred directly for the purposes of the installation of the tangible asset. Costs incurred after the installation of the tangible asset such as costs of maintenance or repair or overhaul are charged to the profit or loss in the period when they were incurred. If these costs result in the increase of the future economic benefit through the increase in the original performance of the tangible asset, they should be capitalised as a portion of the given tangible asset.

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

The expected useful life is as follows:

Buildings	20-50 years

Production machinery	3-7 years
Geothermic equipment	8-75 years

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

Tangible assets acquired within the framework of a financial lease are depreciated over the expected useful economic life, similar to its own tangible assets, except when the term of the lease is shorter.

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

3.18 Intangible assets

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

Know-how	5 years
Purchased software	3 years

<u>Rights and concessions are depreciated over the term of the acquired right.</u>

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

3.19 Research and development

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

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

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

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

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

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

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

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

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

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

3.20 Impairment except for goodwill

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

3.21 Inventories

Inventories including work in progress are recognised at the lower of cost and the realisable value, taking into account the write-off of slowly moving and unnecessary items. The realisable value equals the market value less the costs of completion, sales and marketing. The value of the purchased goods is primarily determined based on the weighted average price. The value of self-produced inventories include the proportionate part of material costs, direct wage costs and overhead costs and their year-end value is defined based on the average production cost method. Non-realisable inventories will be written off completely.

3.22 Provisioning

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

Provisions are recognised by the Group in the amount necessary to settle all the related obligations. This amount is the best estimate of all of the necessary expenses made based on the information available as of the balance sheet date taking into account all risks and uncertainties which may arise in connection with the obligation.

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

3.23 Financial instruments

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

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

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

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

3.24 Securities held to maturity

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

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

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

3.25 Financial assets at fair value through profit or loss

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

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

3.26 Derivative financial instruments

During its normal course of business, the Group has to deal with derivative financial instruments where compared to the total contractual value a minimum initial investment is needed. Derivative financial instruments include the forward FX transactions.

Basically, derivative financial instruments are included in the books at fair value and later are also recognised at fair value. The fair value is defined based on the listed market price.

3.27 Assets held for sale

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

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

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

3.28 Cash flow statement

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

3.29 Earnings per share

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

3.30 Comparative data

Some base data were reclassified in the financial statements so that they would comply with the form of presentation of the current year.

3.31 Repurchased treasury shares

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

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

3.32 Reporting by segments

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

Business segments are separated at the Group as follows:

(a) nature of products or services;
(b) nature of production procedures;
(c) type or group of the purchaser of the products or services;
(d) methods applied for the marketing of products or the provision of services.

Sales revenues are presented by business segments in Note 35.

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

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

4.1 Material assumptions used during the application of the accounting policy

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

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

4.2 Uncertainties in the estimates

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

- Determination of the fair value of financial instruments;
- Determination of the useful life of tangible assets;
- Determination of the impairment of tangible assets and goodwill;
- Determination of the value of provisions.

5 Sales revenues

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

	2011 THUF	2010 THUF
Rigid foils and packaging materials	9,880,656	10,767,353
Packaging materials	3,101,711	3,272,843
Sales of investments: Pannunion Group	4,987,318	0
Energetics	172,118	0
Other	897,539	1,153,493
Total sales revenue	**19,039,342**	**15,193,689**

5.1 Geographic breakdown of sales revenues:

	2011 THUF	2010 THUF
Domestic sales revenues	9,706,843	5,412,991
Export sales revenues	9,332,499	9,780,698
Total sales revenue	**19,039,342**	**15,193,689**

5.2 Geographic breakdown of sales revenues:

	2011 THUF	2010 THUF
Domestic sales revenues	9,706,843	5,412,991
Sales revenues within the EU	7,478,097	7,760,730
of which: Romania	*845,216*	*1,158,510*
Sales revenues outside the EU	1,854,402	2,019,968
of which: Serbia and Montenegro	*623,582*	*612,559*
of which: Ukraine	*459,634*	*400,496*
Total sales revenue	**19,039,342**	**15,193,689**

The export activities mainly targeted the EU member states. Transportation costs in relation to exports totalled THUF 233,121. The value of discounts granted subsequently was accounted for as a decreasing item in an amount of THUF 107,415.

5.3 *Geographic breakdown of non-current assets:*

	2011 THUF	2010 THUF
Assets used in domestic production	12,980,282	9,941,765
Assets used in production within the EU	1,056,311	853,931
of which: Romania	*1,056,311*	*853,931*
Assets used in production outside the EU	613,858	424,796
of which: Serbia and Montenegro	*471,392*	*357,384*
of which: Ukraine	*142,466*	*67,412*
Total non-current assets	**14,650,451**	**11,220,492**

For the purposes of comparison, *Table 5.3* contains the assets of Pannunion Group which were sold on 19 October 2011.

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

The sales revenue of the companies operating in Romania, Ukraine and Serbia was fully recognised as export sales in the consolidated financial statements.

25,662,411 dematerialised, registered ordinary shares, with a nominal value of HUF 100 each, representing 95.3% of the share capital of Pannunion Packaging Plc. were sold in the last quarter of 2011.

The income from the sales of shares is included under sales revenues while the value of the investment is recognised under direct prime costs.

Due to the modification of the accounting policy in 2006, the impact of the sales of investments was transferred from the row including the profit or loss of financing activities in the income statement to the row of sales revenues and the direct costs of sales. Such revenues amounted to THUF 4,987,318 in the current year while in 2010 they totalled THUF 0. The related direct cost of sales totalled THUF 3,729,014 in 2011 and THUF 0 in 2010.

6 Other expenses

	2011 THUF	2010 THUF
Fines, penalties, default interest and damages paid	16,190	19,236
Local taxes, duties, fines	115,279	125,619
Write-off of provisions for trade debtors and receivables	16,026	13,197
Impairment of inventories	32,801	46,998
Extraordinary depreciation of goodwill	177,413	-
Extraordinary depreciation of property, plant and equipment and intangible assets	429,784	9,723
Duties, contributions	21,856	32,985
Costs related to damages	4,058	14,736
Impairment and deficit in inventories	1,425	5,875
Forgiven receivables	9,619	9,952
Other	-	66,634
Total	**824,451**	**344,955**

7 Other income

	2011 THUF	2010 THUF
Profit from the sales of property, plant and equipment	4,939	9,225
Subsequent discount	-	-
Subsidy received for development purposes	111,150	2,279
APEH tax reimbursement	-	-
Compensation related to customer inventories	-	-
Other tax reimbursement	-	-
Income related to loss events	128,713	21,572
Fines, compensation received	3,515	30,405
Subsidy received	-	-
Reversed impairment of receivables	-	7,104
Use of provisions allocated for expected liabilities	13,647	-
Other	100,483	113,134
Total	**362,447**	**183,719**

8 Result of financial transactions

	2011 THUF	2010 THUF
Interest and interest-type income	71,519	55,011
Other financial income	1,495,448	675,984
Interest and interest-type expenses	-259,305	-285,473
Other financial expenses	-1,614,676	-1,110,592
Total	**-307,014**	**-665,070**

The significant items of other financial income are as follows:

- exchange gain on FX loans THUF 161,552
- exchange gain related to receivables THUF 521,492
- exchange gain related to liabilities THUF 107,177
- exchange gain on forward transactions THUF 25,593
- exchange gain on FX accounts THUF 54,626
- exchange gain on investments THUF 615,008

The significant items of other financial expenses are as follows:

- exchange loss on Synergon shares THUF 287,694
- exchange loss on FX loans THUF 663,364
- exchange loss related to receivables THUF 160,330
- exchange loss related to liabilities THUF 286,438
- exchange loss on FX loans THUF 94,443
- financial discount related to sales revenues THUF 50,940

9 Receivables from lease transactions

PMM Zrt. utilised its production facilities in Székesfehérvár within the framework of a financial lease. The lessee had a purchase option in respect of the property during the term of the lease agreement. The lessee exercised its purchase option in the second quarter of 2010, the property was sold. (The lease arrangement would have expired in 2011.)

10 Intangible assets

10.1 *Gross value (THUF)*

	Goodwill	R&D	Rights and concessions	Purchased software	Total
1 January 2010	269,360	2,260,838	198,628	69,652	2,798,478
Purchase	-	311,218	653,769	3,191	968,178
Sales	-	-1,399,801	-39,476	-	-1,439,277
1 January 2011	269,360	1,172,255	812,921	72,843	2,327,379
Purchase	69,669	521,644	49,048	194	640,555
Sales	-269,360	-337,717	-813,027	28,911	-1,449,015
Impairment					
31 December 2011	69,669	1,356,182	48,942	44,126	1,518,919

10.2 Accumulated depreciation (THUF)

	Goodwill	R&D	Rights and concessions	Purchased software	Total
1 January 2010	91,947	930,890	121,848	5,587	966,492
Increase	-	119,117	15,352	15,944	150,413
Sales	-	-749,346	-2,404	-	-751,750
1 January 2011	91,947	300,661	150,594	38,585	581,787
Increase	-	75,505	15,733	16,401	107,639
Sales	-91,947	-376,166	-149,213	-10,860	-628,186
Impairment		68,074			68,074
31 December 2011	-	68,074	17,114	44,126	129,314

10.3 Net value

1 January 2011	177,413	871,594	662,327	34,258	1,745,592
Net value 31 December 2011	69,669	1,288,108	31,828	-	1,389,605

The decrease in intangible assets is the consequence of the sales of Pannunion Group.

11 Property, plant and equipment

11.1 Gross value (THUF)

	Property	Machinery and vehicles	Investment	Total
1 January 2010	3,596,733	8,811,882	869,643	13,278,258
Purchase	-	-	3,996,217	3,996,217
Capitalisation	58,352	1,376,188	-1,434,540	-
Sales	-11,135	-304,594	-823,774	-1,139,503
1 January 2011	3,643,950	9,883,476	2,607,546	16,134,972
Purchase	-	-	3,736,960	3,736,960
Capitalisation	93,619	2,543,857	-2,637,476	-
Sales	-3,238,226	-8,996,254	-579,860	-12,814,340
31 December 2011	499,343	3,431,079	3,127,170	7,057,592

11.2 Accumulated depreciation (THUF)

	Property	Machinery and vehicles	Investment	Total
1 January 2010	591,373	5,427,509	0	6,018,882
Increase	83,755	907,059	-	990,814
Sales	-	-71,543	-	-71,543
Scrapping	-	-253,296		-253,296
1 January 2011	675,128	6,009,729	0	6,684,857
Increase	54,825	1,019,201	-	1,074,026
Sales	-628,621	-6,234,958	-	-6,863,579
Scrapping	-	-212,654		-212,654
31 December 2011	101,332	581,318	0	682,650

Net value 1 January 2011	2,968,822	3,873,747	2,607,546	9,450,115
Net value 31 December 2011	398,011	2,849,761	3,127,170	6,374,942

Certain property and machinery serve as collateral for the loans (see Notes 21 and 22).

In 2009, the Company’s property in district XXI was encumbered by a lien that is connected to the machine purchase aid of PannErgy Nyrt.’s related party. The lien is still valid.

The Company recognises the book value of the non-consolidated companies in the row of investments. These are as follows: Pannunion Service GmbH: THUF 22,935 (the Companyôs share is 91%), DD Energy Kft.: THUF 500.

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

12 Long-term receivables

	2011 THUF	2010 THUF
Employee home and other loans	2,500	5,062
Total	**2,500**	**5,062**

Home loans are granted to employees free of interest. The term of the loans is 15 years but they become due and interest-bearing immediately if the employment of the borrower is terminated. The employeesô homes serve as coverage for the loans. Employee home and other loans of THUF 2,549 were eliminated with the sales of the Pannunion Nyrt.ôs shares, the remaining THUF 2,500 is connected to the activity of Pannergy Geotermikus ErŖmŤvelk Zrt.

13 Inventories

	2011 THUF	2010 THUF
Materials	-	704,979
Work in progress and semi-finished goods	-	405,771
Finished products	-	640,251
Goods	581,466	542,219
Advance payments for inventories	-	-
	581,466	2,293,220
Impairment of inventories	-32,801	-46,858
Total inventories, net	**548,665**	**2,246,362**

14 Trade debtors

	2011 THUF	2010 THUF
Trade debtors	485,488	2,302,451
Impairment allocated for and reversal of doubtful receivables	-7,353	-6,093
Net trade debtors	**478,135**	**2,296,358**

15 Other receivables

	2011 THUF	2010 THUF
Bonus received: not yet received financially	-	218,107
Other taxes (mainly VAT)	304,107	528,059
Receivables from the evaluation of futures transactions	-	-
Prepayments and accrued income	79,834	44,080
Loans given and advances for geothermal investments	50,816	732,145
Other loans granted	1,127,162	30,261
Corporate tax advance	6,029	8,334
Receivables from employees	22	2,790
Receivables from Keler Zrt.	-	-
Other	120,329	133,231
Total	**1,688,299**	**1,697,007**

As of 31 December 2011, the parties designated by the chairman and one of the members of the PannErgy Board (the acting General and Finance Director) have conditional call options for a total of 1,250,000 shares. The options are American-type options and can be exercised by 2012, with a call price of HUF 1,000/option.

Within the framework of an incentive share option program offered for external partners, a right of purchase for a total of 150,000 PannErgy treasury shares can be exercised, starting from a share price of HUF 1,000/share, with a current exercise price increased by interest. The options are American-type options and can be exercised over a period of 5 years (the maturity is in 2014 and 2015) without the specification of a grace period.

16 Financial assets at fair value through profit or loss

	2011 THUF	2010 THUF
Cost of shares	554,423	891,036
Accounted fair value difference	-287,694	-336,613
Total	**266,729**	**554,423**

The Synergon Nyrt. shares owned by PannErgy Nyrt. and PMM Zrt. were recognised in the IFRS statements at a price of HUF 229/share.

The difference between the book value and the closing price is included in financial income/expenses. PannErgy does not wish to keep its investment for the long term, however, the divesting process was tangibly slowed down by the unfavourable company sales processes that resulted from the global crisis of the past few years.

	2011 THUF	**2010 THUF**
Securities held to maturity (investment unit, government bond etc,)	1,589,219	0

17 Subscribed capital

	2011 THUF	**2010 THUF**
Subscribed capital	421,093	421,093

The subscribed capital consists of 21,054,655 voting shares with a nominal value of HUF 20 each (in 2006: 4,210,930 shares with a nominal value of HUF 100 each). Of this, the Company held 3,027,542 shares as of 31 December 2011.

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

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

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

18 Repurchased treasury shares

	2011	**2010**
Nominal value (THUF)	60,551	58,014
Book value (THUF)	3,555,902	3,610,524

19 Reserves

Reserves can be divided based on the Companyós balance sheet compiled according to the Hungarian accounting rules. The 2011 reserve that can be allocated along with the 2011 after-tax profit or loss before the payment of dividends according to PannErgy Nyrt.ós consolidated balance sheet prepared according to the Hungarian accounting rules was THUF 1,089,328 (in 2010: THUF 1,071,092).

20 Minority interest

	2011 THUF	2010 THUF
Balance as of 1 January	809,653	497,926
Minority shareholding in newly formed subsidiary	-	500
Current year profit or loss of subsidiaries attributable to minority shareholders	54,814	42,029
Decrease/increase in minority shareholding due to the sales/purchase of subsidiary shares	-580,704	269,198
Balance as of 31 December	**283,763**	**809,653**

During 2010, a new geothermal company was formed with a subscribed capital of THUF 5,000, where the minority shareholding (the share of the local government) was 10% i.e. THUF 500. This subsidiary is GödöllŖi Geotermia Zrt.

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

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

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

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

On 19 October 2011, PannErgy Nyrt. sold its share in Pannunion Packaging Plc., thus the minority shareholding of Pannunion Nyrt. and its subsidiaries (Interagropak Kft. and Unionplast Kft.) were also derecognised. (THUF 580,704 in total)

21 Long-term loans

	2011 THUF	2010 THUF
Long-term loans	1,167,739	2,017,205
Less the short-term portion	-112,364	-367,630
Total long-term loans	**1,055,375**	**1,649,575**

As of 31 December 2011, long-term loans include loans drawn in EUR at an amount of THUF 1,026,616. The basis of the interest rate for EUR loans is the 1- and 3-month EURIBOR.

As of 31 December 2010, long-term loans include loans drawn in EUR at an amount of THUF 1,649,349. The basis of the interest rate for EUR loans is the 1-month EURIBOR.

22 Short-term loans

	2011 THUF	2010 THUF
Bank loans	-	2,355,249
Short-term portion of long-term loans	112,364	367,630
Overdraft facilities	453,410	789,904
Total short-term loans	**565,774**	**3,512,783**

As of 31 December 2011, short-term loans include loans drawn in EUR at an amount of THUF 565,774. The basis of the interest rate for EUR loans is the 1- and 3-month EURIBOR.

23 Provisions

	2011 THUF	2010 THUF
Opening balance as of 1 January	5,745	12,000
Provisioning	-	4,418
Release of provisions	-2,000	-10,673
Closing balance as of 31 December	3,745	5,745

The Group allocated the provisions to cover the expected liabilities. At the end of 2011, PannErgy Geotermikus ErŖmŤvek Zrt. recognised provisions of THUF 3,745 under other liabilities.

24 Other current liabilities

	2011 THUF	2010 THUF
Accrued expenses and deferred income	819,500	525,188
Other taxes (mainly VAT and customs payment liabilities)	31,311	77,784
Short-term portion of finance leases	33,787	125,774
Wages and social contribution	7,496	121,245
Liability from dividends payable	7,199	7,199
Liability related to printed shares	4,711	4,775
Corporate tax payment liability	10,481	151
Advance payments received from customers	-	-
Loan from a shareholder	-	199,867
Other	96,992	27,635
Total other current liabilities	**1,011,477**	**1,089,618**

25 Taxation

	2011 THUF	2010 THUF
Tax liability for the current year	60,701	30,507
Impact of deferred taxes	-	-
Total	**60,701**	**30,507**

Calculation of the deferred tax asset recognised under assets:

	2011 THUF	2010 THUF
Balance as of 1 January	576,521	576,521
(Release)/allocation of deferred tax assets	-	-
Balance as of 31 December	**576,521**	**576,521**

In 2010 and 2011, the deferred tax was calculated with a 10% tax rate in light of the changes to the legal regulations.

Calculation of the corporate tax:

	2011 THUF	2010 THUF
Pre-tax profit of profit-generating companies	838,880	631,473
Calculated corporate tax (2010: 10%, 2011: 10%)	83,888	63,147
Permanent difference	-23,187	-32,640
Corporate tax	60,701	30,507
The impact of deferred loss on deferred taxes	-	-
Tax payment liability	**60,701**	**30,507**

In 2010 and 2011, we applied a 10% tax rate.

Due to the losses carried forward that can be offset against future profits, no deferred tax assets were accounted for in the current year, the calculation was prepared in light of this fact. Amounts derived from time differences did not have a significant impact on the consolidated financial statements and their future recovery cannot be defined reliably so no relevant deferred taxes were booked.

The following table shows losses that were carried forward and can be offset against future taxable income:

	2011 THUF	**2010 THUF**
Losses of subsidiaries	6,503,753	6,788,433
Potential timely tax deferral that can be allocated for this	650,375	678,843
Provisions allocated due to the uncertainty of future profits/losses*	-73,854	-102,322
Deferred tax asset	**576,521**	**576,521**

* Due to the uncertainty of future results, the Company does not allocate any deferred tax assets for losses in the current year.

26 Earnings per share

	2011	**2010**
After-tax profit (THUF)	1,014,182	18,187
Weighted average of issued shares during the year (number of shares)	18,241,730	18,099,257
Earnings/loss per share (HUF)	55.60	1.00
Diluted earnings/loss per share (HUF)	55.60	1.02

The fact that the Company had a stock exchange futures purchase contract representing 597,500 PannErgy Nyrt. shares as of 31 December 2010, whose maturity was in June 2010, was taken into consideration as a diluting factor.

27 Sales of subsidiaries

25,662,411 dematerialised, registered ordinary shares, with a nominal value of HUF 100 each, representing 95.3% of the share capital of Pannunion Packaging Plc., which was owned by PannErgy Nyrt., were sold on 19 October 2011. The separate IFRS data of the Pannunion Group are shown in the tables below noting that the 2011 balance sheet data are not included in the aggregate balance sheet table of PannErgy any more (due to the sales during the year): The presented balance sheet data are for information purposes.

INCOME STATEMENT

	19 October 2011	2010
Sales revenues	13,593,442	14,799,108
Cost of sales	-10,309,817	-11,114,508
Gross profit	**3,283,625**	**3,684,600**
Administrative and general costs	-2,222,860	-2,551,294
Other income	166,778	136,929
Other expenses	-191,362	-290,200
Operating profit	**1036,181**	**980,035**
Result of financial transactions	-463,054	-491,606
Profit/loss before taxation	**573,127**	**488,429**
Income tax	-42,882	-28,808
Profit or loss after tax	**530,245**	**459,621**
Net profit/loss for the year	**496,697**	**446,642**
From the after-tax profit/loss for the year:		
To the capital holders of the parent company	**496,697**	**446,642**
To the minority holders	**33,548**	**12,979**

BALANCE SHEET

	19 October 2011	31 December 2010
Intangible assets	522,855	479,167
Goodwill	885,646	885,646
Property, plant and equipment	6,112,109	5,884,745
Investments	1,850	1,850
Receivables related to finance leases	0	0
Deferred tax assets	0	0
Long-term receivables	2,549	2,550
Total non-current assets	**7,525,009**	**7,253,958**
Inventories	2,000,273	1,790,940
Trade debtors	2,968,389	2,133,640
Other receivables	741,365	756,303
Receivables related to finance leases	0	0
Financial assets at fair value through profit or loss	0	0
Securities held to maturity	0	0
Cash	70,024	99,969
Total current assets	**5,780,051**	**4,780,852**
TOTAL ASSETS	**13,305,060**	**12,034,810**
Subscribed capital	2,694,983	2,694,983
Reserves	710,677	217,202
After-tax profit/loss for the current year	535,072	446,642
Repurchased treasury shares	0	0
Minority interest	425,648	405,081
Total shareholdersô equity	**4,366,380**	**3,763,908**
Long-term loans	2,479,672	1,591,512
Provisions	5,600	2,000
Total long-term liabilities	**2,485,272**	**1,593,512**
Trade creditors	2,781,782	2,315,500
Short-term loans	2,370,606	2,738,931
Short-term portion of long-term loans	0	367,630
Other current liabilities	1,301,020	1,255,329
Total current liabilities	**6,453,408**	**6,677,390**
TOTAL EQUITY AND LIABILITIES	**13,305,060**	**12,034,810**

The notes form an integral part of the financial statements.

28 Notes to the cash flow statement

Cash and cash equivalents were as follows as of 31 December 2011:

	2011 THUF	2010 THUF
Bank account and cash at hand	1,219,853	896,611
Overdraft facility	-453,410	-789,904
Separated deposit	-	-
Cash and cash equivalents	**766,443**	**106,707**

29 Investment commitments

	2011 THUF	2010 THUF
Contracted but not included in the consolidated financial statements	-	2,862
Approved but not yet contracted	-	18,788

30 Contingent liabilities

30.1 Forward transactions

On 31 December 2011, the Company had a net forward purchase position of EUR 3,000,000.

30.2 Treasury share transactions

As of 31 December 2011, the Company did not have any stock exchange futures contracts representing PannErgy shares.

30.3 Commitments related to asset management transactions

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

30.4 *Other contingent liabilities*

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

- THUF 4,742, maturity: in 2012;
- PannErgy Nyrt. provided a securities coverage for the loans it took (Synergon and PannErgy shares).
- PannErgy Nyrt. may offer its securities (PannErgy shares, other securities) and other assets as a bond-type collateral for the

non-refundable aids (e.g. KEOP) given to the members of the PannErgy Group, in line with the requirements of the aid programs and the operative agencies, to cover any potential non-performance.

31 Foreign exchange and interest rate risks

Loans drawn in foreign exchanges are described in Notes 21 and 22. Other FX assets and liabilities are connected to the sales or acquisition of finished products and raw materials abroad.

The Group had four foreign subsidiaries before 19 October 2011: (in Romania, Ukraine, Serbia and Germany). Exchange losses from the devaluation of local currencies were charged to the equity directly during the consolidation. Romania, Ukraine and Serbia are not included in the list of subsidiaries as of 31 December 2011.

A significant portion of the Groupôs loans bears variable interest.

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

Description	**EUR 2011**	**EUR 2010**	**USD 2011**	**USD 2010**
Impact on the profit or loss in THUF	-175,712	-557,829	-	-

Breakdown of EUR items:

Description	**2011 10% exchange rate change EUR**	**2011 10% exchange rate change Impact on profit/loss**	**2010 10% exchange rate change EUR**	**2010 10% exchange rate change Impact on profit/loss**
Long-term receivables	-	-	-	-
Short-term receivables	346,701	10,787	3,356,045	93,607
Trade payables	819,579	-25,370	5,878,723	-163,869
Other liabilities	60,344	-1,890	444,229	-12,383
FX loan portfolio	5,136,506	-159,239	17,068,988	-475,184
Total:		**-175,712**		**-557,829**

The USD turnover is so minimal that it is not indicated above separately.

Interest sensitivity analysis

The Companyôs FX loan portfolio as of the end of the year was THUF 1,592,390 while HUF loans amounted to THUF 28,759. The 1% point growth in interest rates would mean an extra cost of THUF 15,924 to the debit of the Groupôs profit or loss, assuming that the capital does not change. In the case of a decrease, the impact is just the reverse.

Interest rates are based on EURIBOR, interest margins changed several times during the year.

Lending risk

Members of the Group with the largest turnover cover approx. 60% of their sales (export and domestic) by credit insurance (e.g. HERMES Zrt.). The loss ratio is 75-85%.

In the case of exports, the following countries are covered: Austria, Belgium, Bulgaria, the Czech Republic, the United Kingdom, Finland, France, Greece, the Netherlands, Croatia, Ireland, Poland, Lithuania, Germany, Italy, Romania, Switzerland, Serbia, Slovakia, Slovenia.

In the case of new partners, payment is arranged in advance until the liquidity situation of the companies is checked. In the case of long-time customers, if there is any delay in payment, settlement is arranged through an agreement (payment schedule etc.). In the case of liquidation or bankruptcy proceedings, impairment is charged for the liabilities. (depending on uncollectibility)

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

	Total	Within deadline	Within 90 days	Beyond 90 days	Beyond 180 days	Beyond 360 days
Other business line	**478,135**	348,359	4,884	20,147	97,864	6,881
Plastic manufacturing segment (sold)	**-**	-	-	-	-	-
Total	**478,135**	**348,359**	**4,884**	**20,147**	**97,864**	**6,881**

Breakdown of trade payables by due date:

	Total	Within deadline	Within 30 days	Within 90 days	Within 180 days	Within 360 days
Other business line	**584,892**	495,514	74,505	38	1	14,834
Plastic manufacturing segment (sold)	**-**	-	-	-	-	-
Total	**584,892**	495,514	74,505	38	1	14,834

Liquidity risk

The breakdown of the Companyŝ cash by maturity as of 31.12.2011:

Data in THUF

Conditions	Weighted average interest rate	<1 month	1-3 months	3-12 months	1-5 yrs	>5 yrs	Total
Non interest-bearing	-	617,555	-	-	-	-	617,555
Variable interest		-	-	-	-	-	-
Fixed interest	7.18	83,000	514,298	5,000	-	-	602,298
Total		**700,555**	**514,298**	**5,000**	**-**	**-**	**1,219,853**

2010.12.31 Data in THUF

Conditions	Weighted average interest rate	<1 month	1-3 months	3-12 months	1-5 yrs	>5 yrs	Total
Non interest-bearing		207,469	-	-	-	-	207,469
Variable interest		-	-	-	-	-	-
Fixed interest	2.63	658,142	-	31,000	-	-	689,142
Total		**865,611**	**-**	**31,000**	**-**	**-**	**896,611**

32 Pension

During 2011, the Group paid a contribution of THUF 2,577 to the pension funds after its 13 employees (in 2010 it paid THUF 29,939 after 325 employees). The amount is based on the salaries. The Company does not allocate a coverage for the pension of the employees and it does not have such a liability in addition to the contributions paid into the pension fund.

33 Subsidiaries

All members of the Group performed plastic manufacturing except for Kuala Ingatlanhasznosító Kft., PannErgy Geotermikus ErŖmŤvek Zrt. (including the geothermal subsidiaries that are its majority holdings), PMM Kereskedelmi Zrt., BerekfürdŖ Energia TermelŖ és Szolg. Kft., DoverDrill Kft. and the geothermal Zrt.ôs until 19 October 2011 when they were sold.

The Companyôs consolidated subsidiaries and the relevant shareholdings are as follows:

Hungarian subsidiaries:

Almand MŤanyagipari Kft.	100%	sold
Pannunion Packaging Plc.	95.22%	sold
Kuala Ingatlanhasznosító Kft.	100%	
Pannon-Effekt MŤanyagipari Kft.	100%	sold
PMM Kereskedelmi Zrt.*	100%	
PannErgy Geotermikus ErŖmŤvek Zrt.**	93.09%	
Miskolc Geotermia Zrt.	90%	
Tamási Geotermia Zrt.	90%	
Kiskunhalasi PannTerm Kft.	90%	
SzentlŖrinc Geotermia Zrt.	90%	
Csurgó Geotermia Zrt.	90%	
GödöllŖi Geotermia Zrt.	90%	
BerekfürdŖ Energia TermelŖ és Szolgáltató Kft.	100%	
DoverDrill Kft.	100%	

**Formerly Pannonplast MŤszaki MŤanyagok Zrt.*
***Formerly PannErgy Polifin Zrt.*

Foreign subsidiaries:

Romania

Unical SRL	100%	sold

Ukraine

Interagropak TOV	51%	sold

Serbia

Unionplast DOO	65%	sold

34 Future operations of Pannergy and the Group

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

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

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

In addition to the already operating facilities, we expect to launch our project in Miskolc in 2012, which will materially exceed those that are already in operation.

After drilling our first well in GödöllŖ, we chose to revaluate the geological conditions which lead to changes in the structure of the GödöllŖ project. The work will soon continue.

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

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

35 Business line reports

35.1 Energetics business line

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

SzentlŖrinc Geotermia Zrt. started its operations in 2011. The consolidated sales revenue of the geothermal group was THUF 172,118. The amount of the costs that arose currently exceeds the sales revenue (because of the drilling activities at the other units). (Direct costs: THUF 189,889, administrative costs: THUF 138,912). Breakdown of the non-current assets is as follows:

capitalisation of R+D: THUF 978,087, other intangible assets (mainly rights and concessions): THUF 100,698 and the value of capitalised machinery and equipment: THUF 1,593,728. Assets in the course of construction totalled THUF 3,008,687 and the advances for investments were THUF 133,490.

As of the balance sheet date, the Groupôs liabilities in connection with the business line totalled THUF 293,252.

The sales revenue of the business line in 2011:

35.2 Sales revenues as per business segment

	2011 THUF	**2010 THUF**
Sales revenues from plastic manufacturing activities	13,593,442	14,799,108
Sales revenue from selling the energetics business line	172,118	-
Sales revenues from investment activities	5,273,782	394,581
Total sales revenue	**19,039,342**	**15,193,689**

35.3 Sales revenues in relation to the activity of the Pannunion Group:

	2011 THUF	**2010 THUF**
Sales revenues from plastic manufacturing activities	12,982,367	14,040,196
Sales revenue from selling the energetics business line	-	-
Sales revenues from investment activities	-	-

Total sales revenue	**12,982,367**	**14,040,196**

The notes form an integral part of the financial statements.

36 Transactions with related parties

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

35.4 Services

The Companyôs management is in an ownership relationship with a company that provides certain high-level services. Based on the relevant contracts, the support for the geothermal business line is of special importance.

The invoiced amount of the services provided in 2011 was THUF 85,629.

35.5 Transactions related to sales

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

	ÖKO-Pannon Kht.	Pannunion Service GmbH
Sales		
2011	-	230,504
2010	-	257,897
Purchase		
2011	8,601	36,301
2010	11,960	12,619
Receivables		
2011	792	110,949
2010	463	95,000
Liabilities		
2011	-	20,452
2010	-	2,230

35.6 Loans to related parties

	2011 THUF	**2010 THUF**
Loans to management	-	-
Loans to non-consolidated companies	1,127,162	-
Total	**1,127,162**	**-**

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

	2011 THUF	2010 THUF
Income Statement:		
Sales revenues	2,128,353	1,666,381
Direct cost of sales	1,833,315	1,683,728
Indirect cost of sales	285,039	71,177
Other income	357,853	109,866
Other expenses	352,623	58,966
Financial income	126,220	44,010
Extraordinary income	54,199	959,747
Extraordinary expense	54,199	931,457
Elimination of balance sheet items:		
Property, plant and equipment	138,892	100,920
Inventories	2,503	-66,244
Long-term receivables	0	591,158
Other receivables	9,837,990	6,273,861
Long-term loans	600,000	771,443
Advance payments received from customers	513,365	0
Trade payables	0	430,714
Short-term loans	0	24,547
Other short-term liabilities	8,724,625	5,638,315

35.8 The management's compensation

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

	2011 THUF	2010 THUF
Short-term employee benefits	20,186	65,298
Long-term benefits	-	-
Termination payments	-	-
Share-based payments	-	-
Total	**20,186**	**65,298**

36 Number of staff and wage costs*

Number of staff and wage data: **2011**

Description	Blue-collar	White-collar	Other	Total
Average statistical number of staff	4	26	0	30
Wage costs (THUF)	7,145	96,462	8,073	111,680
Other personnel-type payments (THUF)	1,807	22,018	3,537	27,362

Number of staff and wage data: **2010**

Description	Blue-collar	White-collar	Other	Total
Average statistical number of staff	1	18	0	19
Wage costs (THUF)	303	40,107	12	40,422
Other personnel-type payments (THUF)	0	12,027	2,234	14,261

* Excluding the data of Pannunion Group because of the sales on 19 October 2011.

37 Events after the balance sheet date

The drilling of the production well was finished in Mály (MAL-PE-02).

The second thermal well drilling of the Miskolc Geothermal Project was completed earlier than expected. Over slightly more than a month, they reached the cracked water-giving layer earlier than expected and at the more shallow depth of 1,494 meters.
Based on the preliminary data, the pressure measured at the well fount is 2.8 bars, the temperature of the exploited liquid exceeds 90 ºC at the mount showing an extremely high temperature gradient.
In addition to the two operating and the back-pressing well established in the meantime, the preparation of the drilling of the fourth unit was started.
In the 2012 winter heating season, PannErgy Nyrt. will offer a cheap and environmental friendly heating solution for Miskolc.

38 Date of approval for disclosure

The Companyõs Board approved the financial statements on 5 April 2012 and authorised their disclosure.