PANNERGY NYRT.

Consolidated Financial Statements

31.12.2010

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Dénes Gyimóthy

Member of Board of Directors

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INCOME STATEMENT

	Note	2010	2009
Sales revenues	5	15,193,689	12,667,110
Cost of sales		-11,376,373	-9,242,741
Gross profit		**3,817,316**	**3,424,369**
Administrative and general costs		-2,900,287	-2,916,893
Other income	7	183,719	123,338
Other expenses	6	-344,955	-338,801
Operating profit		**755,793**	**292,013**
Result of financial transactions	8	-665,070	-239,159
Profit/loss before taxation		**90,723**	**52,854**
Income tax	25	-30,507	-44,004
After-tax profit from continued operations		**60,216**	**8,850**
Net profit/loss for the year		**18,187**	**15,247**
From the after-tax profit/loss for the year:			
To the capital holders of the parent company		**18,187**	**15,247**
To the minority holders	20	**42,029**	**-6,397**
Earnings per share (HUF)			
Basic	26	1.00	0.82
Diluted	26	1.02	0.86

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Manager of Company

BALANCE SHEET

	Note	2010 31 December	2009 31 December
Intangible assets	10	1,568,179	1,437,941
Goodwill	10	177,413	177,413
Property, plant and equipment	11	9,450,115	7,259,376
Investments	11	24,785	24,785
Receivables related to finance leases	9	0	864,772
Deferred tax assets	25	576,521	576,521
Long-term receivables	12	5,062	4,790
Total non-current assets		**11,802,075**	**10,345,598**
Inventories	13	2,246,362	1,885,857
Trade debtors	14	2,296,358	1,869,125
Other receivables	15	1,697,007	2,062,072
Receivables related to finance leases	9	0	145,240
Financial assets at fair value through profit or loss	16	554,423	891,036
Securities held to maturity	16	0	0
Cash	16	896,611	163,694
Total current assets		**7,690,761**	**7,017,024**
TOTAL ASSETS		**19,492,836**	**17,362,622**
Subscribed capital	17	421,093	421,093
Reserves	19	12,855,830	12,203,652
After-tax profit/loss for the current year		18,187	15,247
Repurchased treasury shares	18	-3,610,524	-3,677,336
Minority interest	20	809,653	497,926
Total shareholders' equity		**10,494,239**	**9,460,582**
Long-term loans	21	1,649,575	2,046,485
Provisions	23	5,745	12,000
Total long-term liabilities		**1,655,320**	**2,058,485**
Trade creditors		2,740,876	2,113,882
Short-term loans	22	3,145,153	2,407,353
Short-term portion of long-term loans	21,22	367,630	362,040
Other current liabilities	24	1,089,618	960,280
Total current liabilities		**7,343,277**	**5,843,555**
TOTAL EQUITY AND LIABILITIES		**19,492,836**	**17,362,622**

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Manager of Company

STATEMENT OF THE CHANGES TO EQUITY

Description	Subscribed capital	Reserves	Repurchased treasury shares	Share of external members	Equity
Balance as of 31 December 2008	421,093	12,332,015	- 3,205,136	649,063	10,197,035
Profit or loss for 2009	-	15,247	-	-6,397	8,850
Changes to the share of external members	-	-	-	-144,740	-144,740
Exchange difference from the consolidation	-	-128,363	-	-	-128,363
Repurchased treasury shares			-472,200		-472,200
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 difference from the consolidation	-	-17,138	-	-	-17,138
Repurchased treasury shares			-571,808		-571,808
Treasury shares sold		-156,733	638,620		481,887
Premium on 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

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Manager of Company

CASH FLOW STATEMENT

	Note	2010	2009
Cash flows from operating activities			
Profit or loss after tax		**18,187**	**15,247**
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		1,141,097	1,149,409
Impact of deferred taxes		-	-
Fair value difference		336,613	-321,420
Exchange gain/loss from loans		89,640	-74,373
Extraordinary depreciation of property, plant and equipment and goodwill		9,723	12,583
Impairment and deficit in inventories		46,858	38,802
Release/allocation of provisions		-6,255	-17,739
Increase in provisions for doubtful receivables		6,093	34,447
Net interest rate profit/loss		230,462	280,840
Profit/loss from the sales of property, plant and equipment		-9,225	-18,320
Profit/loss from the sales of investments		-	-
Changes to minority shareholdings		311,727	-151,137
Changes to working capital elements			
Increase/decrease in inventories		-407,363	5,885
Decrease/increase in receivables		76,979	855,040
Increase/decrease in liabilities		739,194	397,244
Interest rate received		55,011	100,668
Interest rate paid		-285,473	-381,508
Net cash from/used for operating activities		**2,353,268**	**1,925,668**
Cash flows from investing activities			
Purchase of investments in non-public companies		-	-
Increase in existing investments		-	-
Sales of investments		-	100,000
Purchase of property, plant and equipment and intangible assets		-3,763,343	-1,440,068
Sales of property, plant and equipment and intangible assets		300,771	159,506
Decrease in long-term receivables		864,500	130,481
Cash from investment activities		**-2,598,072**	**-1,050,081**
Financing activities			
Increase/decrease in long-term loans		-438,209	-343,577
Increase/decrease in short-term loans		73,912	-252,180
Purchase/sales of treasury shares		-89,921	-472,200
Capital increase in minority shareholdings, premium		810,802	-
Increase/decrease in the securities portfolio		-	93,150
Cash used for financing activities		**356,584**	**-974,807**

Net decrease/increase in cash and cash equivalents		**111,780**	**-99,220**
Cash and cash equivalents as of 1 January		**-5,073**	**94,147**
Cash and cash equivalents as of 31 December	28.	**106,707**	**-5,073**

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Manager of Company

1 Operations

PannErgy Nyrt. (hereinafter: the „Company" or „PannErgy") is a Hungarian company operating as a holding of a Group (hereinafter: the "Group") whose main activity is the usage of renewable, geothermal energy resources as well as asset management and the processing of plastic materials for the packaging industry. On 31 May 1991, the Company was transformed into a company limited by shares, according to Act XII of 1989 on the transformation of business organisations. In Hungary, the members of the Group perform their activities in Budapest, Debrecen and Szombathely. The Group also carries out activities abroad: in Romania, Ukraine and Serbia.

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.

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

In addition to the operating facilities, a successful drilling and a non-refundable tender aid (KEOP) are connected to our project in Miskolc.

We also started the drilling of our first well in Gödöllő.

As in the past years, in the near future we continue to take steps to prepare the divesting of the assets and activities that are related to the non-energy business besides implementing the strategy.

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 inefficient 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 Company has close connections with dozens of local governments with an intention for cooperation, primarily to ensure a thermal market along with its supply.

The basic goal of the strategy is the formation of at least 20 facilities and the generation of minimum 60-70 MW built-in electric capacity and minimum 200-300 MW thermal capacity which will ensure stable profits and cash flows as well as an increasing shareholder value on the long term.

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

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 2008, 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:

- IAS 1 (modified): Presentation of financial statements (entered into force for reporting periods starting on 1 January 2009 or later)
- IAS 23 (modified): Borrowing costs (entered into force for reporting periods starting on 1 January 2009 or later)
- IAS 27 (modified) Consolidated and separate financial statements (entered into force as of 1 January 2009)
- IAS 32 (modified): Financial instruments: Presentation (entered into force for reporting periods starting on 1 January 2009 or later)
- IFRS 2 (modified): Treasury share transactions (entered into force for reporting periods starting on 1 January 2009 or later)
- IFRS 3 (amended) Business combinations (entered into force as of 1 July 2009)
- IFRS 5 (modified) Non-current assets held for sale and discontinued operations (and as a result of this a modification to IFRS 1: First-time adoption) (enters into force as of 1 July 2009)
- IFRS 7 (modification): Financial instruments: Disclosure (entered into force for reporting periods starting on 1 January 2009 or later)
- IFRS 8 Operating segments (entered into force for reporting periods starting on 1 January 2009 or later)
- IFRIC 13 Customer loyalty programmes (entered into force for reporting periods starting on 1 July 2008 or later)
- IFRIC 15 Agreements for the construction of real estate (entered into force for reporting periods starting on 1 January 2009 or later)
- IFRIC 16 Hedges of a net investment in a foreign operation (entered into force for reporting periods starting on 1 October 2008 or later)
- IFRIC 17 Distribution of non-cash assets to owners (entered into force for reporting periods starting on 1 July 2009 or later)
- IFRIC 18 Transfers of assets from customers (entered into force for reporting periods starting on 1 January 2009 or later)

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 2010, on the accounting policy:

- 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) – (entered into force for reporting periods starting on 1 July 2010 or later)
- IFRS 7 Financial instruments (clarification of disclosures) – (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) – (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) – (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.

3 Summary of the significant elements of the accounting policy

3.1 General description

In these consolidated financial statements, the Group applied accounting principles whichare 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 3.11 and 3.16). 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 Group's 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.

3.6.1 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.

3.6.2 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.

3.6.3 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.

3.7 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.

3.7.1 The Group as a lessor

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

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

3.7.2 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.

3.8 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 Group’s 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.

3.9 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.

3.10 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.

The 2005 annual general meeting approved an option for the buying of 420,000 Pannonplast ordinary shares for the Company’s five-member Board and operative management. During 2006, each member of the management utilised the options, thus the total quantity of the options have been accounted for. At the date when the options were exercised, the difference between the market price of the shares and the option price was charged to the profit or loss but the pro rata temporis portion of the amount was accrued. As of the 2007 balance sheet date, the accrued receivable related to the options was calculated based on a fair value of THUF 94,213. As of 31 December 2008, the value of the accrued receivable was THUF 0.

3.11 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.

3.12 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 yrs
Production machinery	3-7 yrs

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.

3.13 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 yrs
Purchased software	3 yrs

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

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

3.13.1 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 of 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.

3.13.2 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.

3.14 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.

3.15 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.

3.16 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.

3.16.1 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.

3.16.2 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 includes the shares of Synergon Nyrt.

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

3.17 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.

3.18 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.

3.19 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.

3.20 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.

3.21 Comparative data

Some base data were reclassified in the 2009 consolidated financial statements so that they would comply with the form of presentation of the current year.

3.22 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.

3.23 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 based on the following criteria:

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

Sales revenues are presented by business segments in Note 35.

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

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

4.1 Material assumptions used during the application of the accounting policy

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

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

4.2 Uncertainties in the estimates

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

- Determination of the fair value of financial instruments;
- Determination of the useful life of 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:

	2010 THUF	2009 THUF
Rigid foils and packaging materials	10,767,353	9,076,592
Packaging materials	3,272,843	2,794,717
Sales of investments	0	100,000
Plastic technical products	0	0
Other	1,153,493	695,801
Total sales revenue	**15,193,689**	**12,667,110**

5.1 Geographic breakdown of sales revenues:

	2010 THUF	2009 THUF
Domestic sales revenues	5,412,991	4,934,809
Export sales revenues	9,780,698	7,732,301
Total sales revenue	**15,193,689**	**12,667,110**

5.2 Geographic breakdown of sales revenues:

	2010 THUF	2009 THUF
Domestic sales revenues	5,412,991	4,934,809
Sales revenues within the EU	7,760,730	6,188,779
of which: Romania	*1,158,510*	*919,164*
Sales revenues outside the EU	2,019,968	1,543,522
of which: Serbia and Montenegro	*612,559*	*321,980*
of which: Ukraine	*400,496*	*250,876*
Total sales revenue	**15,193,689**	**12,667,110**

The export activities mainly targeted the EU member states. Transportation costs in relation to exports totalled THUF 253,134. The value of discounts granted subsequently was accounted for as a decreasing item in an amount of THUF 60,545.

5.3 Geographic breakdown of non-current assets:

	2010 THUF	**2009 THUF**
Assets used in domestic production	9,941,765	7,437,449
Assets used in production within the EU	853,931	957,502
of which: Romania	*853,931*	*957,502*
Assets used in production outside the EU	424,796	504,564
of which: Serbia and Montenegro	*357,384*	*420,654*
of which: Ukraine	*67,412*	*83,910*
Total non-current assets	**11,220,492**	**8,899,515**

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.

In the last quarter of 2009, the N-GENE share was sold. The revenues from the sales of investments were recognised in the row of sales revenues.

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 0 in the current year while in 2009 they totalled THUF 100,000. The related direct cost of sales totalled THUF 0 in 2010 and THUF 100,000 in 2009.

6 Other expenses

	2010 THUF	2009 THUF
Fines, penalties, default interest and damages paid	19,236	28,563
Local taxes, duties, fines	125,619	127,446
Write-off of provisions for trade debtors and receivables	13,197	40,727
Impairment of inventories	46,998	39,710
Extraordinary depreciation of goodwill	-	-
Extraordinary depreciation of property, plant and equipment and intangible assets	9,723	12,583
Duties, contributions	32,985	9,270
Costs related to damages	14,736	7,116
Impairment and deficit in inventories	5,875	529
Forgiven receivables	9,952	33,910
Other	66,634	38,947
Total	**344,955**	**338,801**

7 Other income

	2010 THUF	2009 THUF
Profit from the sales of property, plant and equipment	9,225	18,320
Subsequent discount	-	-
Subsidy received for development purposes	2,279	19,903
APEH tax reimbursement	-	-
Compensation related to customer inventories	-	10,773
Other tax reimbursement	-	-
Income related to loss events	21,572	21,773
Fines, compensation received	30,405	4,085
Subsidy received	-	8,811
Reversed impairment of receivables	7,104	6,280
Use of provisions allocated for expected liabilities	-	19,149
Other	113,134	14,244
Total	**183,719**	**123,338**

8 Result of financial transactions

	2010 THUF	2009 THUF
Interest and interest-type income	55,011	100,668
Other financial income	675,984	1,422,792
Interest and interest-type expenses	-285,473	-381,508
Other financial expenses	-1,110,592	-1,381,111
Total	**-665,070**	**-239,159**

The significant items of other financial income are as follows:

- exchange gain from FX loans: THUF 137,787
- exchange gain related to receivables: THUF 286,892
- exchange gain related to liabilities: THUF 130,013
- exchange gain on forward transactions: THUF 4,795
- exchange gain on FX accounts: THUF 33,205
- exchange gain on futures shares transactions: THUF 66,920

The significant items of other financial expenses are as follows:

- exchange loss on Synergon shares: THUF 336,613
- exchange loss on FX loans: THUF 259,024
- exchange loss related to receivables: THUF 136,226
- exchange loss related to liabilities: THUF 207,169
- exchange loss on FX accounts: THUF 52,429
- financial discount related to sales revenues: THUF 54,343.

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. The instalment of the lease is defined in EUR, its full term is 60 months. The effective interest rate of the receivable is 3.85% for the full term.)

	Minimum lease fees		Present value of minimum lease fees	
	2010 THUF	**2009 THUF**	**2010 THUF**	**2009 THUF**
Due within 1 year	-	148,871	-	145,240
Due between 1-5 years	-	887,039	-	864,772
Total	-	1,035,910	-	1,010,012
Unaccounted financial profit or loss	-	-25,898	-	-
Present value of minimum lease fees	-	1,010,012	-	1,010,012
Provisions for doubtful receivables	-	-		-
	-	1,010,012	-	1,010,012
Recognised in the financial statements as:				
Current leasing receivables	-	145,240	-	145,240
Long-term leasing receivables	-	864,772	-	864,772
	-	1,010,012	-	1,010,012

10 Intangible assets

10.1 Gross value (THUF)

	Goodwill	Research & Development	Rights and concessions	Purchased software	Total
1 January 2009	269,360	1,742,282	198,492	46,563	2,256,697
Purchase	-	518,556	19,777	23,089	561,422
Sales	-	-	-19,641	-	-19,641
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
31 December 2010	269,360	1,172,255	812,921	72,843	2,327,379

10.2 Accumulated depreciation (THUF)

	Goodwill	Research & Development	Rights and concessions	Purchased Software	Total
1 January 2009	91,947	747,110	121,848	5,587	966,492
Increase	-	182,819	15,798	17,014	215,631
Sales	-	961	-	40	1,001
1 January 2010	91,947	930,890	137,646	22,641	1,183,124
Increase	-	119,117	15,352	15,944	150,413
Sales	-	-749,346	-2,404		-751,750
31 December 2010	91,947	300,661	150,594	38,585	581,787

10.3 Net value

1 January 2010	177,413	1,329,948	60,982	47,011	1,615,354
Net value 31 December 2010	177,413	871,594	662,327	34,258	1,745,592

The increase in intangible assets is the result of the preparation of geothermal power stations. The Company recognises capitalisable R+D expenses that will be recovered in the future here.

11 Property, plant and equipment

11.1 Gross value (THUF)

	Property	Machinery and vehicles	Investment	Total
1 January 2009	3,473,501	8,706,549	708,415	12,888,465
Purchase	-	-	1,580,722	1,580,722
Capitalisation	257,737	957,764	-1,215,501	-
Sales	-134,505	-852,431	-203,993	-1,190,929
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
31 December 2010	3,643,950	9,883,476	2,607,546	16,134,972

11.2 Accumulated depreciation (THUF)

	Property	Vehicles	Investment	Total
1 January 2009	513,207	4,927,623	0	5,440,830
Increase	72,333	861,446	-	933,779
Sales	-	-361,560	-	-361,560
Scrapping	5,833			5,833
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
31 December 2010	675,128	6,009,729	0	6,684,857
Net value 1 January 2010	3,005,360	3,384,373	869,643	7,259,376
Net value 31 December 2010	2,968,822	3,873,747	2,607,546	9,450,115

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

In 2009, the Company's property in the XXI[st] district was encumbered by a lien that is connected to the machine purchase aid of an external partner who has a contract with PannErgy Nyrt. 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 and Öko-Pannon Kht.: THUF 1,850.

PannErgy does not include Pannunion GmbH in its consolidation since it would not make any difference to its financial statement (or report)

12 Long-term receivables

	2010 THUF	2009 THUF
Employee home loans	5,062	4,790
Total	**5,062**	**4,790**

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 employees' homes serve as coverage for the loans. Employee home loans and other loans of THUF 2,549 are related to Pannunion Nyrt. and THUF 2,513 is connected to the activities of PannErgy Geotermikus Erőművek Zrt.

13 Inventories

	2010 THUF	2009 THUF
Materials	704,979	660,776
Work in progress and semi-finished goods	405,771	351,596
Finished products	640,251	675,748
Goods	542,219	236,539
Advance payments for inventories	-	-
	2,293,220	1,924,659
Impairment of inventories	-46,858	-38,802
Total inventories, net	**2,246,362**	**1,885,857**

Certain inventories were encumbered as collateral for some loans in 2010 (see Notes 21 and 22).

14 Trade debtors

	2010 THUF	2009 THUF
Trade debtors	2,302,451	1,903,572
Impairment allocated for and reversal of doubtful receivables	-6,093	-34,447
Net trade debtors	**2,296,358**	**1,869,125**

Certain receivables were encumbered as collateral for some loans in 2010 (see Notes 21 and 22).

15 Other receivables

	2010 THUF	2009 THUF
Bonus received: not yet received financially	218,107	-
Other taxes (mainly VAT)	528,059	445,813
Receivables from the evaluation of futures transactions	-	86,306
Prepayments and accrued income	44,080	145,880
Loans given and advances for geothermal investments	732,145	1,150,644
Other loans granted	30,261	-
Corporate tax advance	8,334	17,348
Receivables from employees	2,790	3,552
Receivables from Keler Zrt.	-	4,775
Other	133,231	207,754
Total	**1,697,007**	**2,062,072**

As of 31 December 2010, the chairman and one of the members of the PannErgy Board (the acting General and Finance Director) have conditional option buying positions for 625,000 shares, each. The options are American-type options and can be exercised by 2011, 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 grace period.

16 Financial assets at fair value through profit or loss

	2010 THUF	2009 THUF
Cost of shares	891,036	569,616
Accounted fair value difference	-336,613	321,420
Total	**554,423**	**891,036**

The Synergon Nyrt. shares owned by PannErgy Nyrt. and PMM Zrt. were recognised in the IFRS statements at a price of HUF 476/share.

The difference between the book value and the closing price is included in financial income/expenses. In line with its geothermic-focused strategy, 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.

	2010 THUF	2009 THUF
Securities held to maturity (discounted treasury bills)	0	0

17 Subscribed capital

	2010 THUF	2009 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 2,900,703 shares as of 31 December 2010.

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

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

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

18 Repurchased treasury shares

	2010	2009
Nominal value (THUF)	58, 014	54,524
Book value (THUF)	3,610,524	3,677,336

19 Reserves

Reserves can be divided based on the Company's balance sheet compiled according to the Hungarian accounting rules. The 2010 reserve that can be allocated along with the 2010 after-tax profit or loss before the payment of dividends according to PannErgy Nyrt.'s consolidated balance sheet prepared according to the Hungarian accounting rules was THUF 1,071,092 (in 2009: THUF 1,632,126).

20 Minority interest

	2010 THUF	2009 THUF
Balance as of 1 January	497,926	649,063
Minority shareholding in newly formed subsidiary	500	1,000
Current year profit or loss of subsidiaries attributable to minority shareholders	42,029	-6,397
Decrease/increase in minority shareholding due to the sales/purchase of subsidiary shares	269,198	-145,740
Balance as of 31 December	**809,653**	**497,926**

In 2007, the Company consolidated the Serbian Unionplast DOO subsidiary in which Pannunion Nyrt. has a 65% share. The portion of the subscribed capital attributable to the minority shareholders was THUF 147,535 as of 31 December 2009.

In the second half of 2009, PannErgy Nyrt. repurchased a 4.44% share from the Pannunion Nyrt. share in an amount of THUF 154,800 and the minority shareholding decreased by THUF 145,740.

In the fourth quarter of 2008, PannErgy Polifin Zrt. established the following Zrts in cooperation with three local governments, with a subscribed capital of THUF 5,000 each, where the share of the local governments is 10% (THUF 500): Tamási Geotermia Zrt., Csurgói Geotermia Zrt. and Szentlőrinci Geotermia Zrt.

During 2009, two new geothermal companies were formed with a subscribed capital of THUF 5,000 each, where the minority shareholding (the share of the local governments) was 10% i.e. THUF 500. These subsidiaries are: Kiskunhalasi PannTerm Kft. and Miskolci Geotermia Zrt.

During 2010, two new geothermal companies were formed with a subscribed capital of THUF 5,000 each, where the minority shareholding (the share of the local governments) was 10% i.e. THUF 500. This subsidiary is Gödöllői Geotermia Zrt.

In January 2010, in addition to PannErgy Nyrt., it became a new shareholder in PannErgy Geotermikus Erőművek Zrt. (formerly PannErgy Polifin Zrt.). 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 value of the minority shareholding was THUF 269,198.

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

According to this agreement, the parties wish to increase capital in several phases as a result of which ONP’s share may increase to 15% in 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.’s capital increase of HUF 1.08 billion. Later, depending on the energy requirement of the planned drillings, ONP may increase its capital further, by HUF 1.485 billion, whereby its share may increase to 15%.

The parties stipulated a pre-emption and a collective sales right, a minimum limit-price sales liability and a purchase right against each other’s share. The purchase right for each other’s business share is valid from 31 January 2011 till 31 January 2016. The minimum purchase price in respect of PannErgy’s business share was HUF 16.73 billion on 31 January 2011 which increases by 15% annually. If the current value decreased by the net loan portfolio derived from the 15th times value of the EBITDA exceeds this, the higher value should be considered as the basis of the purchase price.

21 Long-term loans

	2010 THUF	**2009 THUF**
Long-term loans	2,017,205	2,408,525
Less the short-term portion	-367,630	-362,040
Total long-term loans	**1,649,575**	**2,046,485**

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.

As of 31 December 2009, long-term loans include loans drawn in EUR at an amount of THUF 2,044,651. The basis of the interest rate for EUR loans is the 1-month EURIBOR.

Long-term investment loans are covered by property, plant and equipment as well as inventories in an amount of THUF 12,000,000.

22 Short-term loans

	2010 THUF	2009 THUF
Bank loans	2,355,249	2,238,586
Short-term portion of long-term loans	367,630	362,040
Overdraft facilities	789,904	168,767
Total short-term loans	**3,512,783**	**2,769,393**

As of 31 December 2010, short-term loans include loans drawn in EUR at an amount of THUF 3,102,487. The basis of the interest rate for EUR loans is the 1-month EURIBOR.

23 Provisions

	2010 THUF	2009 THUF
Opening balance as of 1 January	12,000	29,739
Provisioning	4,418	1,410
Release of provisions	-10,673	-19,149
Closing balance as of 31 December	5,745	12,000

The Group allocated the provisions to cover the expected liabilities. At the end of 2010, provisions of THUF 2,000 were recognised for guarantee liabilities in the records of Pannon-Effekt Kft. while PannErgy Geotermikus Erőművek Zrt. booked provisions of THUF 3,745 for other liabilities.

24 Other current liabilities

	2010 THUF	2009 THUF
Accrued expenses and deferred income	525,188	357,802
Other taxes (mainly VAT and customs payment liabilities)	77,784	55,207
Finance lease instalment due within a year	125,774	183,434
Wages and social contribution	121,245	84,225
Liability from dividends payable	7,199	7,199
Liability related to printed shares	4,775	4,775
Corporate tax payment liability	151	3,455
Advance payments received from customers	-	43,134
Loan from a shareholder	199,867	165,148
Other	27,635	55,901
Total other current liabilities	**1,089,618**	**960,280**

25 Taxation

	2010 THUF	2009 THUF
Tax liability for the current year	30,507	44,004
Impact of deferred taxes	-	-
Total	**30,507**	**44,004**

Calculation of the deferred tax asset recognised under assets:

	2010 THUF	2009 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 2007, deferred taxes were calculated with a 16% tax rate. A 4% special tax (solidarity tax) was introduced from September 2006. According to the accounting policy of the Group, the 4% special tax is accounted for each reversible deferred tax item where the tax is expected to arise upon the recovery of the item.

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

Calculation of the corporate tax:

	2010 THUF	2009 THUF
Pre-tax profit of profit-generating companies	631,473	241,135
Calculated corporate tax (2009: 20%, 2010: 10%)	63,147	48,227
Permanent difference	-32,640	-4,223
Corporate tax	30,507	44,004
The impact of deferred loss on deferred taxes	-	-
Tax payment liability	**30,507**	**44,004**

Upon the calculation of the 16% corporate tax in 2009 we also took into consideration the 4% solidarity tax. In 2010, 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:

	2010 THUF	2009 THUF
Losses of subsidiaries	6,788,433	6,097,535
Potential timely tax deferral that can be allocated for this	678,843	975,606
Provisions allocated due to the uncertainty of future profits/losses*	-102,322	-399,085
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

	2010	2009
After-tax profit (THUF)	18,187	15,247
Weighted average of issued shares during the year (number of shares)	18,099,257	18,604,616
Earnings/loss per share (HUF)	1.00	0.82
Diluted earnings/loss per share (HUF)	1.02	0.86

The fact that the Company had a stock exchange futures purchase contract representing 597,500 PannErgy Nyrt. shares as of 31 December 2009, whose maturity was 30 June 2010, was taken into consideration as a diluting factor.

27 Sales of subsidiaries

In 2010, no investments were sold at the Group.

28 Notes to the cash flow statement

Cash and cash equivalents were as follows as of 31 December 2010:

	2010 THUF	2009 THUF
Bank account and cash at hand	896,611	163,694
Overdraft facility	-789,904	-168,767
Separated deposit	-	-
Cash and cash equivalents	**106,707**	**-5,073**

29 Investment commitments

	2010 THUF	2009 THUF
Contracted but not included in the consolidated financial statements	2,862	9,404
Approved but not yet contracted	18,788	18,788

30 Contingent liabilities

30.1 Forward transactions

On 31 December 2010, the Company had a net forward purchase position of EUR 1,000,000.

30.2 Treasury share transactions

As of 31 December 2010, the Company had a stock exchange futures purchase contract representing 0 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 G. E. Zrt. have the following contingent liabilities to external partners as of the balance sheet date:

- THUF 25,000, expiry: in 2011;
- THUF 4,742, expiry: in 2012;
- THUF 2,150 + contributions, planned expiry: in 2017.
- PannErgy Nyrt. provided a securities coverage for the loans it took (Synergon and PannErgy shares).
- PannErgy Group concluded a framework contract for several years with some of its suppliers for the drilling of a total of 50 geothermal wells.
- PannErgy Nyrt. may offer its securities (PannErgy shares) 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 has four subsidiaries in total (in Romania, Ukraine Serbia and Germany). Exchange losses from the devaluation of local currencies were charged to the equity directly during the consolidation.

A significant portion of the Group’s loans bears variable interest.

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

Description	**EUR**		**USD**	
	2010	**2009**	**2010**	**2009**
Impact on the profit or loss in THUF	-557,829	-434,357	-	-

Breakdown of EUR items:

Description	2010 10% exchange rate change		2009 10% exchange rate change	
	EUR	Impact on profit/loss	EUR	Impact on profit/loss
Long-term receivables	-	-	2.982.560	80.780
Short-term receivables	3,356,045	93,607	3,728,820	103,792
Trade payables	5,878,723	-163,869	4,673,582	-127,210
Other liabilities	444,229	-12,383	676,328	-18,780
FX loan portfolio	17,068,988	-475,184	17,460,639	-472,939
Total:		**-557,829**		**-434,357**

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

Interest sensitivity analysis

The Company FX loan portfolio as of the end of the year was THUF 4,778,450 while HUF loans amounted to THUF 383,908. The 1% point growth in interest rates would mean an extra cost of THUF 47,785 to the debit of the Group's 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 BUBOR and 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	**162,718**	73,881	78,484	5,198	5,119	36
Plastic manufacturing	**2,133,640**	1,737,537	348,139	24,307	16,532	7,125
Total	**2,296,358**	**1,811,418**	**426,623**	**29,505**	**21,651**	**7,161**

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	**426,900**	331,909	24,997	23,298	2,107	44,589
Plastic manufacturing	**2,313,976**	1,835,006	360,373	79,971	11,458	27,168
Total	**2,740,876**	2,166,915	385,370	103,269	13,565	71,757

Liquidity risk

The breakdown of the Company's cash by maturity as of 31.12.2010:

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**

31.12.2009

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		93,691	-	-	-	-	93,691
Variable interest		-	-	-	-	-	-
Fixed interest	2.428	39,503	-	30,500	-	-	70,003
Total		**133,194**	**-**	**30,500**	**-**	**-**	**163,694**

32 Pension

During 2010, the Group paid a contribution of THUF 29,939 to the pension funds after its 325 employees (in 2009 it paid THUF 28,037 after 322 employees). The amount is based on the salaries. The Company does not allocate 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 perform plastic manufacturing except for Kuala Ingatlanhasznosító Kft., PannErgy Geotermikus Erőművek Zrt. (including the geothermal subsidiaries that are its majority holdings), PMM Kereskedelmi Zrt. and the geothermal Zrt's.

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

Hungary	
Almand Műanyagipari Kft.	100%
Pannunion Packaging Plc.	95.22%
Kuala Ingatlanhasznosító Kft.	100%
Pannon-Effekt Műanyagipari Kft.	100%
PMM Kereskedelmi Zrt.*	100%
PannErgy Geotermikus Erőművek Zrt.**	93.09%
Miskolc Geotermia Zrt.	90%
Tamási Geotermia Zrt.	90%
Kiskunhalasi PannTerm Kft.	90%
Szentlőrinci Geotermia Zrt.	90%
Csurgói Geotermia Zrt.	90%
Gödöllői Geotermia Zrt.	90%

* Formerly Pannonplast Műszaki Műanyagok Zrt.
** Formerly PannErgy Polifin Zrt.

Foreign subsidiaries:

Romania	
Unical SRL	100%
Ukraine	
Interagropak TOV	51%
Serbia	
Unionplast DOO	65%

34 Future operations of Pannergy and the Group

The Board of PannErgy published the Company's strategy on 28 September 2007. It states that PannErgy wishes to focus its future activities on the exploration and utilisation of geothermal energy, amongst other things in a long-term cooperation with Mannvit (formerly: VGK-Hönnun), its partner from Iceland.

In 2008, surface MT and gravity surveys were carried out and, in 2009, test drillings were also performed. The production started in January 2011 in Szentlőrinc. The geothermal companies were registered by the Company Court.

- Tamási Geotermia Zrt.
- Csurgói Geotermia Zrt.
- Miskolci Geotermia Zrt.
- Szentlőrinci Geotermia Zrt.
- Kiskunhalasi PannTerm Kft.

- Gödöllői Geotermia Zrt.

A strategic decision was made on the structural organisation of the packaging business line into Pannunion and the listing of the resultant Pannunion Group on the stock exchange. The admission to stock exchange trading took place on 2 September 2008. However, due to the global economic crisis, the stock exchange sales of shares were closed in the planned quantity range, under moderate demand.

35 Business line reports

35.1 Geothermal business line

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

In 2009, the Group had no income in connection with this business line. Costs incurred in the current year totalled THUF 25,915 which included operating costs.

In 2010, the amount of the costs totalled: THUF 94,275 and the breakdown of the non-current assets is as follows:

Capitalisation of R+D: THUF 473,440, other intangible assets (mainly rights and concessions): THUF 624,926 and the value of capitalised machinery and equipment: THUF 9,638. Assets in the course of construction totalled THUF 2,548,448 and the advances for investments were THUF 675,439.

As of the balance sheet date, the Group's liabilities in connection with the business line totalled THUF 381,860.

35.2 Sales revenues as per business segment

	2010 THUF	**2009 THUF**
Sales revenues from plastic manufacturing activities	14,799,108	12,370,372
Sales revenues from the selling of geothermal energy	-	-
Sales revenues from investment activities	394,581	296,738
Total sales revenue	**15,193,689**	**12,667,110**

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

	2010 THUF	**2009 THUF**
Sales revenues from plastic manufacturing activities	14,040,196	11,871,312
Sales revenues from the selling of geothermal energy	-	-
Sales revenues from investment activities	-	-
Total sales revenue	**14,040,196**	**11,871,312**

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.

36.1 Services

The Company's 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 2010 was THUF 93,361.

36.2 Transactions related to sales

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

		ÖKO-Pannon Kht.	Pannunion Service GmbH
Sales			
	2010	-	257,897
	2009	-	270,486
Purchase			
	2010	11,960	12,619
	2009	9,438	62,947
Receivables			
	2010	463	95,090
	2009	524	74,246
Liabilities			
	2010	-	2,230
	2009	-	23,560

36.3 Loans to related parties

	2010 THUF	**2009 THUF**
Loans to management	-	-
Loans to non-consolidated companies	-	12,416
Total	**-**	**12,416**

36.4 The management's compensation

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

	2010 THUF	**2009 THUF**
Short-term employee benefits	65,298	90,689
Long-term benefits	-	-
Termination payments	-	-
Share-based payments	-	-
Total	**65,298**	**90,689**

37 Events after the balance sheet date

On 20 January 2011, PannErgy Nyrt. informed capital market players that the purchase of the 100% share of Berekfürdő Energia Termelő és Szolgáltató Kft. was completed. As a result of the transaction, PannErgy, whose strategy is focused on renewable energy, expanded its alternative energy portfolio with a power station that burns the methane content of the thermal water and the related technological expertise. Berekfürdő Kft. produces electricity from the methane gained from geothermal sources and sells heat to local consumers. The planned electric performance of the project is 320 kW while its heat production is 450 kW. The EBITDA production capacity of the Company is HUF 55-65 million.

From 1 January 2011, the Company was included in the consolidation circle of PannErgy Nyrt.

According to the decision of the National Development Agency, Szentlőrinci Geotermia Zrt. received a non-refundable aid of THUF 441,673 in 2010 of which the amount that can be applied for in 2011 (carried forward) is THUF 287,761 (tender No. KEOP 4.2.0/B/09).

According to the decision of the National Development Agency made on 22 February 2011, Miskolci Geotermia Zrt. receives a non-refundable aid of THUF 316,000 which is related to the successful drilling in Mályi. The second phase of the two-step tender, which will include the establishment of the reinjection well(s) and the surface equipment, will likely be submitted in the first half of 2011. Its maximum value may reach HUF 1 billion.

38 Date of approval for disclosure

The Company's Board approved the financial statements on 4 April 2011 and authorised their disclosure.