

PANNERGY NYRT.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

PANNERGY NYRT.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2009

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Dénes Gyimóthy

Acting General and Finance Director

Budapest, 31 March 2010

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

(Data in THUF)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2009	2008
Net sales revenues	5	12,667,110	13,063,269
Cost of sales		-9,242,741	-9,871,441
Gross profit		3,424,369	3,191,828
Administrative and general costs		-2,916,893	-2,945,747
Other income	7	123,338	762,596
Other expenses	6	-338,801	-492,220
Operating profit		292,013	516,457
Result of financial transactions	8	-239,159	-3,198 940
Profit or loss before tax		52,854	-2,682,483
Income tax	26	-44,004	-27,170
After-tax profit from continued operations		8,850	-2,709,653
Profit for the subject year		8,850	-2,709,653

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

(Data in THUF)

Of which:

To the capital holders of the parent company		15,247	-2,616 675
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To the minority shareholders	21	6,397	92,978
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Earnings per share (HUF)

Basic	27	0.82	-138
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Diluted	27	0.86	-147
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31 March 2010

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Manager of Company

PANNERGY NYRT.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2009

(Data in THUF)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2009	31 December 2008
Intangible assets	10	1,437,941	1,112,792
Goodwill	10	177,413	177,413
Property, plant and equipment	11	7,259,376	7,447,635
Investments	11	24,785	124,785
Receivables related to finance leases	9	864,772	997,675
Deferred tax assets	26	576,521	576,521
Long-term receivables	12	4,790	2,368
Total non-current assets		10,345,598	10,439,189
Inventories	13	1,885,857	1,930,544
Trade debtors	14	1,869,125	2,182,988
Other receivables	15	2,062,072	2,836,229
Receivables related to finance leases	9	145,240	141,990
Financial assets at fair value through profit or loss	16	891,036	569,616
Securities held to maturity	16	0	93,150
Cash	16	163,694	342,499
Total current assets		7,017,024	8,097,016
TOTAL ASSETS		17,362,622	18,536,205

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2009

(Data in THUF)

Subscribed capital	18	421,093	421,093
Reserves	20	12,203,652	14,948,690
After-tax profit/loss for the current year		15,247	- 2,616,675
Repurchased treasury shares	19	-3,677,336	-3,205,136
Minority shareholding	21	497,926	649,063
Total shareholders' equity		9,460,582	10,197,035
Long-term loans	22	2,046,485	2,349,186
Provisions	24	12,000	29,739
Total long-term liabilities		2,058,485	2,378,925
Trade creditors		2,113,882	1,937,069
Short-term loans	23	2,407,353	2,712,827
Short-term portion of long-term loans	22,23	362,040	503,580
Other current liabilities	25	960,280	806,769
Total current liabilities		5,843,555	5,960,245
TOTAL EQUITY AND LIABILITIES		17,362,622	18,536,205

31 March 2010

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Manager of Company

PANNERGY NYRT.**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2009

(Data in THUF)**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Description	Subscribed capital	Reserves	Repurchased treasury shares	Share of external members	Equity
Balance as of 31 December 2007	421,093	14,902,509	-3,175,952	321,795	12,469,445
Profit / loss for 2008	-	-2,616,675	-	-92,978	-2,709,653
Changes to the share of external members	-	-	-	420,246	420,246
Exchange difference from the consolidation	-	16,997	-	-	16,997
Repurchased treasury shares	-	29,184	-29,184	-	-
Balance as of 31 December 2008	421,093	12,332,015	-3,205,136	649,063	10,197,035
Profit / 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

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CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2009

(Data in THUF)

CONSOLIDATED STATEMENT OF CASH FLOW

	Note	2009	2008
Cash flows from operating activities			
Profit or loss after tax		15,247	-2,616,675
<i>Adjustments in respect of the pre-tax profit or loss and the cash flows from business activities</i>			
Depreciation of property, plant and equipment and intangible assets		1,149,409	1,097,436
Impact of deferred taxes		-	-
Fair value difference		-321,420	1,497,115
Exchange gain/loss from loans		-74,373	581,206
Extraordinary depreciation of property, plant and equipment and goodwill		12,583	39,970
Impairment and deficit in inventories		38,802	45,737
Release/allocation of provisions		-17,739	9,254
Increase in provisions for doubtful receivables		34,447	35,351
Profit/loss from the sales of property, plant and equipment		-18,320	-404,081
Profit/loss from the sales of investments		-	-183,586
Changes to minority shareholdings		-151,137	327,268
<i>Changes to working capital elements</i>			
Increase/decrease in inventories		5,885	-21,677
Increase/decrease in receivables		855,040	-776,782
Increase/decrease in liabilities		397,244	-238,025
Net cash from/used for operating activities		1,925,668	-607,489

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CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2009

(Data in THUF)**Cash flows from investing activities**

Purchase of investments in non-public companies	-	-45,804
Increase in existing investments	-	-
Sales of investments	100,000	695,214
Purchase of property, plant and equipment and intangible assets	-1,440,068	-2,352,249
Sales of property, plant and equipment and intangible assets	159,506	1,443,855
Decrease in long-term receivables	130,481	88,831
Cash from investment activities	-1,050,081	-170,153

Financing activities

Increase/decrease in long-term loans	-343,577	-930,507
Increase/decrease in short-term loans	-252,180	-18,853
Purchase of treasury shares	-472,200	-29,184
Increase/decrease in the securities portfolio	93,150	869,210
Cash used for financing activities	-974,807	-109,334

Net decrease/increase in cash and cash equivalents	-99,220	-886,976
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Cash and cash equivalents as of 1 January	94,147	981,123
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Cash and cash equivalents as of 31 December	29.a. -5,073	94,147
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PANNERGY NYRT.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

1. OPERATIONS

PannErgy Nyrt. (hereinafter: the “Company” or “PannErgy”) is a Hungarian company operating as a holding of a Group whose main activity is the utilisation 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 in Romania, Ukraine and Serbia.

The subsidiaries are listed in Note 34.

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 utilisation of renewable energy resources.

As part of the implementation of the Company’s strategy, in the past few years, assets and activities not belonging to the energy business were divested on a continuous basis, and this process will continue in the near future.

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 both the population and the institutions of Hungary as well as the shareholders of PannErgy. The increase in the demand for energy seems to be unsatisfiable, 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 it is also one of the most environment friendly and cleanest method for the generation of energy. The technical partner of PannErgy in Iceland (the „land of geothermal energy”) is Manvit (formerly: VGK Hönnun).

The Company concluded and will continue to conclude cooperation agreements with dozens of local governments, primarily to ensure a thermal market for them. There are relations with the largest funding institutions of the EU for the purposes of cooperation.

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

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 financial statements:

Four standards and interpretations of the IASB and the IFRIC entered into force in the current period, which are as follows:

- IAS 39 (amendment): Financial Instruments: Recognition and measurement and IFRS 7: Reclassification of financial assets (entered into force on 1 July 2008)
- IFRIC 11: IFRS 2 – Group and treasury share transactions (entered into force in respect of reporting periods starting on 1 March 2007 or later)
- IFRIC 12: Service concession arrangements (entered into force for reporting periods starting on 1 January 2008 or later)
- IFRIC 14: IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (entered into force for reporting periods starting on 1 January 2008 or later)

The application of this modification 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, 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 (amendment): 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)

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FOR THE YEAR ENDED 31 DECEMBER 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)

Improvements of the International Financial Reporting Standards (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.

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 property, plant and equipment 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 financial statements include the assets and liabilities as well as the income and expenses of all the subsidiaries with a majority shareholding. 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 the 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 as 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 against the Group's share, except when the minority shareholder has an obligation or 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 investments, on an annual basis. If the return of the goodwill cannot be expected 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 consideration paid for 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 that 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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 as 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 without any sales-related 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:

- that 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;
- the 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

- 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 the de-recognised value of these assets are shown under sales revenues or the direct costs of sales.

3.7. Lease transactions

Lease contracts are recognised as finance 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 in the finance 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 finance lease will be accounted for over the term of the lease and, accordingly, will show 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 finance 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 their useful economic life.

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

PANNERGY NYRT.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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 against 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 accounted for 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 Company's five-member Board and operative management for the buying of 420,000 Pannonplast ordinary shares. During 2006, each member of the management exercised 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 that was 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 sum 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

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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 re-measured value (land and buildings) after the deduction of accumulated depreciation.

The cost of tangible assets includes the purchase price as well as customs duties, non-deductible 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, over the estimated remaining useful life of the assets, taking into account the residual value and excluding lands 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

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.

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FOR THE YEAR ENDED 31 DECEMBER 2009

Tangible assets acquired within the framework of a finance lease are depreciated over the expected useful economic life, similar to the Company's 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, is 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 years
Purchased software	3 years

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

Intangible assets derived from research (or the research phase of an internal project) cannot be recognised 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.

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

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

In its books, the Company carries geological and geophysical developments (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 at cost until they are recharged (sold as know-how) to the companies to be formed for the generation of the given energy.

3.13.2. Recognition of impairment except for goodwill

Upon the preparation of each balance sheet, the Group reviews the value of tangible and intangible assets in order to determine whether – based on external and internal information – there is anything that suggests the impairment of the given assets. 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 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-realizable 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 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 given 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 to hold and is 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 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.

3.17. 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 exchange contracts.

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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 beyond 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 finance 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 2008 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 financial statements as items that decrease the equity.

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

3.23. 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 as follows:

- (a) nature of products or services;
- (b) nature of production procedures;

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- (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 36.

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 financial statements (apart from the impact of the estimates which is included in the following subsection). 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 the 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 property, plant and equipment and goodwill;
- Determination of the value of provisions.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. SALES REVENUES

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

	2009	2008
	THUF	THUF
Rigid foils and packaging materials	9,076,592	8,597,516
Packaging materials	2,794,717	3,075,712
Sales of investments	100,000	1,131,478
Plastic technical products	0	146,236
Other	685,801	112,327
	<hr/>	<hr/>
Total sales revenue	12,667,110	13,063,269
	<hr/> <hr/>	<hr/> <hr/>

Geographic breakdown of sales revenues:

	2009	2008
	THUF	THUF
Domestic sales revenues	4,934,809	6,354,064
Export sales revenues	7,732,301	6,709,205
	<hr/>	<hr/>
Total sales revenue	12,667,110	13,063,269
	<hr/> <hr/>	<hr/> <hr/>

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FOR THE YEAR ENDED 31 DECEMBER 2009

Geographic breakdown of sales revenues:

	2009	2008
	THUF	THUF
Domestic sales revenues	4,934,809	6,352,234
Sales revenues within the EU	6,188,779	5,423,765
<i>of which: Romania</i>	<i>919,164</i>	<i>950,439</i>
Sales revenues outside the EU	1,543,522	1,287,270
<i>of which: Serbia and Montenegro</i>	<i>321,980</i>	<i>226,930</i>
<i>of which: Ukraine</i>	<i>250,876</i>	<i>203,103</i>
	12,667,110	13,063,269

The export activities mainly targeted the EU member states. Transportation costs in relation to exports totalled THUF 236,907. The value of discounts granted subsequently was accounted for as a decreasing item in an amount of THUF 49,606.

Geographic breakdown of non-current assets:

	2009	2008
	THUF	THUF
Assets used in domestic production	7,437,449	7,309,086
Assets used in production within the EU	957,502	994,827
<i>of which: Romania</i>	<i>957,502</i>	<i>994,827</i>
Assets used in production outside the EU	504,564	558,712
<i>of which: Serbia and Montenegro</i>	<i>420,654</i>	<i>481,972</i>
<i>of which: Ukraine</i>	<i>83,910</i>	<i>76,740</i>
<i>Total non-current assets</i>	8,899,515	8,862,625

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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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 the year N-GENE shares were 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 100,000 in the current year while in 2008 they totalled THUF 1,131,478. The related direct cost of sales totalled THUF 100,000 in 2009 and THUF 781,541 in 2008.

6. OTHER EXPENSES

	2009	2008
	THUF	THUF
Fines, penalties, default interest and damages paid	28,563	125,701
Local taxes, duties, fines	127,446	123,086
Write-off of provisions for trade debtors and receivables	40,727	55,782
Impairment of inventories	39,710	45,737
Extraordinary depreciation of goodwill	-	44,902
Extraordinary depreciation of property, plant and equipment and intangible assets	12,583	39,970
Duties, contributions	9,270	15,476
Costs related to damages	7,116	4,349
Impairment and deficit in inventories	529	925
Forgiven receivables	33,910	527
Other	38,947	35,765
Total	338,801	492,220

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7. OTHER INCOME

	2009	2008
	THUF	THUF
Profit from the sales of property, plant and equipment	18,320	383,356
Subsequent discount	-	90,972
Subsidy received for development purposes	19,903	67,306
APEH tax reimbursement	-	37,500
Compensation related to customer inventories	10,773	32,132
Other tax reimbursement	-	23,492
Income related to damages	21,773	16,759
Fines, compensation received	4,085	14,968
Subsidy received	8,811	8,811
Reversed impairment of receivables	6,280	-
Use of provisions allocated for expected liabilities	19,149	-
Other	14,244	87,300
Total	123,338	762,596

8. RESULT OF FINANCIAL TRANSACTIONS

	2009	2008
	THUF	THUF
Interest and interest-type income	100,668	164,180
Other financial income	1,422,792	1,762,251

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Interest and interest-type expenses	-381,508	-370,732
Other financial expenses	-1,381,111	-4,754,639
Total	-239,159	-3,198,940

The significant items of other financial income are as follows:

- exchange gain from FX loans: THUF 254,298;
- exchange gain related to receivables: THUF 583,236;
- exchange gain related to liabilities: THUF 217,350;
- exchange gain on forward transactions: THUF 13,488;
- exchange gain on the year-end revaluation related to Synergon shares: THUF 321,420.

The significant items of other financial expenses are as follows:

- exchange loss from forward transactions: THUF 123,807;
- exchange loss from FX loans: THUF 578,269;
- exchange loss related to receivables: THUF 308,997;
- exchange loss related to liabilities: THUF 237,064.

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FOR THE YEAR ENDED 31 DECEMBER 2009

9. RECEIVABLES FROM LEASE TRANSACTIONS

PMM Zrt. utilises its production facilities in Székesfehérvár within the framework of a finance lease. The lessee has a purchase option in respect of the property during the term of the lease agreement. The lease arrangement expires 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	
	2009	2008	2009	2008
	THUF	THUF	THUF	THUF
Due within 1 year	148,871	143,871	145,240	141,990
Due between 1-5 years	887,039	1,010,932	864,772	997,651
	<hr/>		<hr/>	
Total	1,035,910	1,154,803	1,010,012	1,139,641
Unaccounted financial profit or loss	-25,898	-15,162	-	-
Present value of minimum lease fees	1,010,012	1,139,641	1,010,012	1,139,641
Provisions for doubtful receivables	-	-	-	-
	<hr/>		<hr/>	
	1,010,012	1,139,641	1,010,012	1,139,641
	<hr/>		<hr/>	
Recognised in the financial statements as:				
Current leasing receivables	145,240	141,990	145,240	141,990
Long-term leasing receivables	864,772	997,651	864,772	997,651
	<hr/>		<hr/>	
	1,010,012	1,139,641	1,010,012	1,139,641
	<hr/>		<hr/>	

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

10. INTANGIBLE ASSETS

Gross value:

	Goodwill	Research & development	Rights and concessions	Purchased software	Total
	THUF	THUF	THUF	THUF	THUF
1 January 2008	294,445	1,279,639	564,007	211,951	2,350,042
Purchase	-	669,966	7,037	47,007	724,010
Sales	-25,085	-207,323	-372,552	-212,395	-817,355
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
31 December 2009	269,360	2,260,838	198,628	69,652	2,798,478

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Accumulated depreciation:

	Goodwill	Research & development	Rights and concessions	Purchased software	Total
	THUF	THUF	THUF	THUF	THUF
1 January 2008	47,045	718,489	469,646	211,016	1,446,196
Increase	44,902	196,179	13,671	6,948	261,700
Sales	-	-167,558	-361,469	-212,377	-741,404
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
31 December 2009	91,947	930,890	137,646	22,641	1,183,124
Net value					
1 January 2009	177,413	995,172	76,644	40,976	1,290,205
Net value	177,413	1,329,948	60,982	47,011	1,615,354
31 December 2009					

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

11. PROPERTY, PLANT AND EQUIPMENT

Gross value:

	Property	Machinery and vehicles	Investment	Total
	THUF	THUF	THUF	THUF
1 January 2008	4,335,130	7,515,690	1,224,590	13,075,410
Purchase	-	-	1,798,896	1,798,896
Capitalisation	557,224	1,757,847	-2,315,071	-
Sales	-1,418,853	-566,988	-	-1,985,841
1 January 2009	<u>3,473,501</u>	<u>8,706,549</u>	<u>708,415</u>	<u>12,888,465</u>
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
31 December 2009	<u><u>3,596,733</u></u>	<u><u>8,811,882</u></u>	<u><u>869,643</u></u>	<u><u>13,278,258</u></u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Accumulated depreciation:

	Property	Machinery and vehicles	Investment	Total
	THUF	THUF	THUF	THUF
1 January 2008	798,841	4,126,241	1,900	4,926,982
Increase	67,477	801,382	-	868,859
Sales	-353,111	-	-1,900	-355,011
1 January 2009	513,207	4,927,623	0	5,440,830
Increase	72,333	861,446	-	933,779
Sales	-	-361,560	-	-361,560
Scrap	5,833			5,833
31 December 2009	591,373	5,427,509	0	6,018,882
<i>Net value</i>				
1 January 2009	2,960,294	3,778,926	708,415	7,447,635
Net value	3,005,360	3,384,373	869,643	7,259,376
31 December 2009				

Certain property and machinery serve as collateral for the loans (see Notes 22 and 23).

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 kkt.: THUF 1,850.

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FOR THE YEAR ENDED 31 DECEMBER 2009

12. LONG-TERM RECEIVABLES

	2009	2008
	THUF	THUF
Employee home loans	4,790	2,368
Total	4,790	2,368

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 of THUF 2,277 are related to Pannunion Nyrt. and THUF 2,513 is connected to the activities of Polifin Kft.

13. INVENTORIES

	2009	2008
	THUF	THUF
Materials	660,776	694,959
Work in progress and semi-finished goods	351,596	337,426
Finished products	675,748	871,809
Goods	236,539	72,087
Advance payments for inventories	-	-
	1,924,659	1,976,281
Impairment of inventories	-38,802	-45,737
Total inventories, net	1,885,857	1,930,544

Certain inventories were encumbered as collateral for some loans in 2009 (see Notes 22 and 23).

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14. TRADE DEBTORS

	2009	2008
	THUF	THUF
Trade debtors	1,903,572	2,218,339
Impairment allocated for and reversal of doubtful receivables	-34,447	-35,351
Net trade debtors	1,869,125	2,182,988

Certain receivables were encumbered as collateral for some loans in 2009 (see Notes 22 and 23).

15. OTHER RECEIVABLES

	2009	2008
	THUF	THUF
Loans to foreign legal entities	-	1,607,215
Other taxes (mainly VAT)	445,813	348,043
Receivables from the evaluation of forward transactions	86,306	292,030
Prepayments and accrued income	145,880	247,172
Loans given and advances for geothermal investments	1,150,644	136,164
Loan to Platinum Zrt.	-	108,641
Corporate tax advance	17,348	27,816
Receivables from employees	3,552	7,917
Receivables from Keler Zrt.	4,775	4,840

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Other	207,754	56,391
	<hr/>	<hr/>
Total	2,062,072	2,836,229

The 2005 annual general meeting approved an option for the Company's five-member Board and operative management for the buying of 420,000 Pannonplast ordinary shares. During 2006, each member of the management exercised 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 that was related to the options was calculated based on a fair value of THUF 345,445 as at the end of 2006. The cost accounted for during 2007 was THUF 251,232 and the accrual as of 31 December 2007 was THUF 94,213. The cost charged during 2008 was THUF 94,213, the accrual amounted to THUF 0.

As of 31 December 2009, 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 110,000 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.

The Group granted loans to foreign legal entities and the open balance as of 31 December 2008 was THUF 1,607,215 which amount was repaid in the first six months of 2009.

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16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2009	2008
	THUF	THUF
Cost of shares	1,053,906	1,053,949
Accounted fair value difference	-162,870	-484,333
Total	891,036	569,616

The Synergon Nyrt. shares owned by PannErgy Nyrt. and PMM Zrt. were recognised in the IFRS statements at the stock exchange closing price (HUF 765/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.

Securities held to maturity include discounted treasury bills in an amount of THUF 93,150 in 2008 and THUF 0 at the end of 2009.

17. SUBSCRIBED CAPITAL

	2009	2008
	THUF	THUF
Subscribed capital	421,093	421,093

The subscribed capital consists of 21,054,655 voting shares with a nominal value of HUF 20 each (in 2006: 4,210,930 shares with a nominal value of HUF 100 each). Of this, the Company held 2,726,203 shares as of 31 December 2009.

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:

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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 decrease of the nominal value of the shares issued by the Company, which does not affect the subscribed capital of the Company. The last stock exchange trading day of the shares with a nominal value of HUF 100 was 20 November 2007.

18. REPURCHASED TREASURY SHARES

	2009	2008
	THUF	THUF
Nominal value	54,524	42,524
Book value	3,677,336	3,205,136

19. RESERVES

Reserves can be divided based on the Company's balance sheet compiled according to the Hungarian accounting rules. The 2009 reserve that can be allocated along with the 2009 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 1,632,126 (in 2008: THUF 2,875,401).

20. MINORITY INTEREST

	2009	2008
	THUF	THUF
Balance as of 1 January	649,063	321,795
Minority shareholding in newly formed subsidiary	1,000	167,119

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Current year profit or loss of subsidiaries attributable to minority shareholders	-6,397	-92,978
Decrease/increase in minority shareholding due to the sales/purchase of subsidiary shares	-145,740	253,127
	<hr/>	<hr/>
Balance as of 31 December	497,926	649,063

In 2007, the Company consolidated the Serbian Unionplast DOO subsidiary where Pannunion Zrt. has a 65% share. The portion of the subscribed capital attributable to the minority shareholders was THUF 158,751 as of 31 December 2008 and THUF 147,535 as of 31 December 2009.

The transformation of Pannunion Kft. (from Kft. into a Zrt.) was registered by the Vas County Court as the Court of Registration on 15 October 2007. After this, the General Manager of Pannunion Zrt. concluded a contract with PannErgy Nyrt. to purchase a 3% share from the share which is fully owned by PannErgy Nyrt. The sales price was THUF 202,238, the wealth pertaining to the minority share was THUF 125,035.

By 30 September 2008, a further 6.22% share was sold from PannErgy Nyrt's 97% share in Pannunion Nyrt. The sales price was THUF 419,478, the wealth pertaining to the minority share was THUF 253,127.

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 Kft. 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 Geotermiai Zrt., Csurgói Geotermiai Zrt. and Szentlőrinci Geotermiai 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. LONG-TERM LOANS

	2009	2008
	THUF	THUF
Long-term loans	2,408,525	2,852,766
Less the short-term portion	-362,040	-503,580
	<hr/>	<hr/>
Total long-term loans	2,046,485	2,349,186

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

As of 31 December 2008, long-term loans include loans drawn in EUR at an amount of THUF 2,342,858. The interest rate of EUR loans was between EURIBOR + 0.9% and EURIBOR + 1.1% on 31 December 2008.

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

	2009	2008
	THUF	THUF
Bank loans	2,238,586	2,564,475
Short-term portion of long-term loans	362,040	503,580
Overdraft facilities	168,767	148,352
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Total short-term loans	2,769,393	3,216,407

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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As of 31 December 2009, short-term loans include loans drawn in EUR at an amount of THUF 2,684,766. The base of interest rate for loans taken in EUR is the 1-month EURIBOR.

23. PROVISIONS

	2009	2008
	THUF	THUF
Opening balance as of 1 January	29,739	20,485
Provisioning	1,410	9,254
Release of provisions	-19,149	-
Closing balance as of 31 December	<u>12,000</u>	<u>29,739</u>

The Group allocated the provisions to cover the expected liabilities. At the end of 2009, provisions of THUF 2,000 were recognised for guarantee liabilities in the records of Pannon Effekt Kft. while PannErgy Polifin Kft. booked provisions of THUF 10,000 for other liabilities.

24. OTHER CURRENT LIABILITIES

	2009	2008
	THUF	THUF
Accruals and deferred income	357,802	328,149
Other taxes (mainly VAT and customs payment liabilities)	55,207	193,792
Finance lease instalment due within a year	183,434	112,236
Wages and social contribution	84,225	90,487
Liability from dividends payable	7,199	7,211
Liability related to printed shares	4,775	4,840
Corporate tax payment liability	3,455	2,761
Advance payments received from customers	43,134	-
Other	55,901	67,293

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Loan from a shareholder	165,148	-
Total other current liabilities	960,280	806,769

25. TAXATION

	2009	2008
	THUF	THUF
Tax liability for the current year	44,004	27,170
Impact of deferred taxes	-	-
Total	44,004	27,170

Calculation of deferred tax assets recognised under assets:

	2009	2008
	THUF	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.

Calculation of the corporate tax:

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	THUF	THUF
Pre-tax profit of profit-generating companies	241,135	200,321
Calculated corporate tax (2009: 20%, 2008: 20%)	48,227	40,064
Permanent difference	-4,223	-12,944
Corporate tax	44,004	27,170
The impact of deferred loss on deferred taxes	-	-
	<hr/>	<hr/>
Tax payment liability	44,004	27,170

Upon the calculation of the 16% corporate tax we also took into consideration the 4% solidarity tax.

Due to the losses carried forward, which 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:

	2009	2008
	THUF	THUF
Losses of subsidiaries	6,097,535	5,069,153
Potential timely tax deferral that can be allocated for this	975,606	811,064
Provisions allocated due to the uncertainty of future profits/losses*	-399,085	-234,543
	<hr/>	<hr/>
Deferred tax asset	576,521	576,521

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

* 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

	2009	2008
	THUF	THUF
After-tax profit (THUF)	15,247	-2,616,675
Weighted average of issued shares during the year (number of shares)	18,604,616	18,938,769
Earnings/loss per share (HUF)	0.82	-138
Diluted earnings/loss per share (HUF)	0.86	-147

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

27. SALES OF SUBSIDIARIES

In 2009 there were no sale of any subsidiary.

28. NOTES TO THE STATEMENT OF CASH FLOW

Cash and cash equivalents were as follows as of 31 December 2009:

	2009	2008
	THUF	THUF
Bank account and cash at hand	163,694	342,499

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Overdraft facility	-168,767	-248,352
Separated deposit	-	-
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Cash and cash equivalents	-5,073	94,147

29. INVESTMENT COMMITMENTS

	2009	2008
	THUF	THUF
Contracted but not included in the consolidated financial statements	9,404	120,000
Approved but not yet contracted	18,788	-

30. CONTINGENT LIABILITIES

a. Forward transactions

On 31 December 2009, the Company had not got a net forward selling position.

b. Treasury share transactions

On 31 December 2009, the Company had a stock exchange forward purchase contract for 597,500 PannErgy Nyrt. shares with a maturity of 30 June 2010 and an average transaction price of HUF 845/share.

c. 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 liabilities would arise.

31. FOREIGN EXCHANGE AND INTEREST RATE RISKS

Loans drawn in foreign currencies are described in Notes 22 and 23. Other FX assets and liabilities are connected to the sales or acquisition of finished products and raw materials abroad.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

The Group has three subsidiaries in Romania, Ukraine and Serbia. Exchange losses from the devaluation of local currencies were charged to the equity directly during the consolidation (see Note 29 d).

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	
	2009	2008	2009	2008
Impact on profit/loss in THUF	-434,357	461,857	-	2,615

Breakdown of EUR items:

Description	2009		2008	
	10% exchange rate change		10% exchange rate change	
	EUR	Impact on profit/loss	EUR	Impact on profit/loss
Long-term receivables	2,982,560	80,780	3,518,816	93,171
Short-term receivables	3,728,820	103,792	4,540,832	155,410
Trade payables	4,673,582	-127,210	5,718,227	-150,890
Other liabilities	676,328	-18,780	1,473,753	-39,056
FX loan portfolio	17,460,639	-472,939	10,982,047	-520,492
Total:		-434,357		-461,857

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 4,730,941 while HUF loans amounted to THUF 84,937. The 1% point growth in interest rates would mean an extra cost of THUF

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47,309 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. 60-65% of their sales (export and domestic) by credit insurance (e.g. HERMES Zrt.). The loss ratio is 75-80%.

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	69,508	24,399	34,720	4,804	5,585	-
Plastic business line	1,799,617	1,487,451	271,218	32,800	4,682	3,466
Total	1,869,125	1,511,850	305,938	37,604	10,267	3,466

Breakdown of trade payables by due date:

	Total	Within deadline	Within 30 days	Within 90 days	Within 180 days	Within 360 days
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FOR THE YEAR ENDED 31 DECEMBER 2009

Other business line	209,989	23,427	146,768	9,406	18,073	12,315
Plastic business line	1,903,893	1,514,366	356,062	30,847	2,618	-
Total	2,113,882	1,537,793	502,830	40,253	20,691	12,315

Liquidity risk

The breakdown of the Company's cash by maturity as at 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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

Total - **133,194** - **30,500** - - **163,694**

31.12.2008

Data in THUF

Conditions	Weighted average interest rate	<1 month	1-3 months	3-12 month s	1-5 yrs	>5 yrs	Total
Non interest-bearing		136,415	-	-	-	-	136,415
Variable interest	2,31	42,484	-	-	-	-	42,484
Fixed interest	3,791	-	133,600	30,000	-	-	163,600
Total		178,899	133,600	30,000	-	-	342,499

32. PENSION

During 2009, the Group paid a contribution of THUF 28,037 to the pension funds after its 322 employees (in 2008 it paid THUF 41,532 after 431 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 subsidiaries perform plastic manufacturing except for Kuala Ingtatlanhasznosító Kft., PannErgy Polifin Kft. and geotermical Zrt-s.

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

	2009	2008
<i>Hungary</i>		
Almand Műanyagipari Kft.	100%	100%

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Pannunion Csomagolóanyag Nyrt.	95.22%	90.78%
Kuala Ingatlanhasznosító Kft.	100%	100%
Pannon-Effekt Műanyagipari Kft.	100%	100%
Pannonplast Műszaki Műanyagok Zrt.*	100%	100%
PannErgy Polifin Kft.	100%	100%
Miskolci Geotermia Zrt.	90%	-
Tamási Geotermia Zrt.	90%	90%
Kiskunhalasi PannTerm Kft.	90%	-
Szentlőrinci Geotermia Zrt.	90%	90%
Csurgói Geotermia Zrt.	90%	90%

* Formerly: Moldin 2000 Rt.

Foreign subsidiaries:

<u>Romania</u>	2009	2008
Unical SRL	100%	100%
<u>Ukraine</u>	2009	2008
Interagropak TOV	51%	51%
<u>Serbia</u>	2009	2008
Unionplast DOO	65%	65%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

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, 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 geothermal companies were registered by the Company Court.

These are: Tamási, Csurgói, Miskolci and Szentlőrinci Geotermia Zrts and Kiskunhalasi PannTerm Geotermiai Kft.

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

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 include operating costs. As of the balance sheet date, the Group's liabilities in connection with the business line totalled THUF 167,423. The costs of test drillings were capitalised under assets in an amount of THUF 396,382 as intangible assets derived from research activities along with the assets under construction totalling THUF 255,974.

The breakdown of sales revenues by business segments is as follows:

	2009	2008
	THUF	THUF
Sales revenue from the plastic business line	12,370,372	11,931,791
Sales revenues from the selling of geothermal energy	-	-
Sales revenues from investment activities	296,738	1,131,478
Total sales revenue	12,667,110	13,063,269

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	THUF	THUF
Sales revenue from plastic business line	11,871,312	11,673,228
Sales revenues from the selling of geothermal energy	-	-
Sales revenues from investment activities	-	-
Total sales revenue	11,871,312	11,673,228

36. TRANSACTIONS WITH RELATED PARTIES

The transactions with subsidiaries were eliminated during the consolidation, therefore, in this note these are not presented. Below we described the transactions within the group and with other related parties.

36.1. Services

Exploring the possibilities related to the establishment of the renewable energy business line and its introduction in the international arena, creating a clientele and continuous contact with the customers.

The Group management own a company who provide high quality and special services. The amount of the services for the year 2009 was 94,996 THUF.

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	2009	-	270,486
	2008	1,485	319,271
Purchases	2009	9,438	62,947
	2008	9,643	72,580

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Receivables	2009	524	74,246
	2008	633	100,225
Liabilities	2009	-	23,560
	2008	-	477

36.3. Loans to related parties

	2009	2008
	THUF	THUF
Loans to management	-	-
Loans to non-consolidated companies	12,416	60,220
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Total	12,416	60,220
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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 process were as follows according to the compensation categories included in IAS 24 (the table contains the amounts paid in the given year):

	2009	2008
	THUF	THUF
Short-term employee benefits	90,689	58,583
Long-term benefits	-	-
Termination payments	-	-
Share-based payments	-	-
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FOR THE YEAR ENDED 31 DECEMBER 2009

Total	90,689	58,583
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37. EVENTS AFTER THE BALANCE SHEET DATE

As of 30 December 2009, Polifin was transformed into a Zrt. In January 2010, PannErgy Nyrt. increased its capital significantly as a result of which the subscribed capital of Polifin rose to THUF 1,700,000.

In January 2010, a new investor purchased a share in Polifin in addition to PannErgy. The new investor increased the capital by THUF 1,080,000 as part of a program aimed at increasing the capital in several phases. The main content elements of the program were published by PannErgy Nyrt. in an extraordinary disclosure (www.pannergy.com). During the capital increase, ONP Holdings SE acquired 136,341 registered dematerialised shares with a nominal value of HUF 1,000 each against a contribution in cash, which meant a 7.43% share in Polifin.

38. DATE OF APPROVAL FOR DISCLOSURE

The Company's Board approved the financial statements on 31 March 2010 and authorised their disclosure.