



**PROPOSAL AND DRAFT RESOLUTION
CONCERNING AGENDA ITEM OF THE EXTRAORDINARY GENERAL MEETING
“DECISION ON THE ACQUISITION OF A 6.91% STAKE IN THE COMPANY’S SUBSIDIARY”**

This proposal of the Board of Directors has the purpose to make the following decision on the basis and in the context of the amendment effectuated in the previous Agenda Item.

On 9 November 2009, PannErgy Plc (“PannErgy”) signed a syndicate agreement with ONP Holdings SE, Societas Europae (“ONP”). Pursuant to the provisions of this syndicate agreement, PannErgy Geothermal Power Plants Ltd’s (“PEGE”) capital has been increased in subsequent steps, as a result of which ONP’s stake is 6.91%, whereas PannErgy holds a stake of 93.09% in PEGE.

ONP has contacted PannErgy with the intent to sell its entire business stake.

The transaction aimed at the acquisition of this participation

- requires considerable funds;
- covers decisions of strategic importance, as they are related to future trends in the geothermal business line;
- leads to the termination of a long-standing participation and business relation;
- may involve the appearance of a new investor (if PannErgy does not acquire the participation),

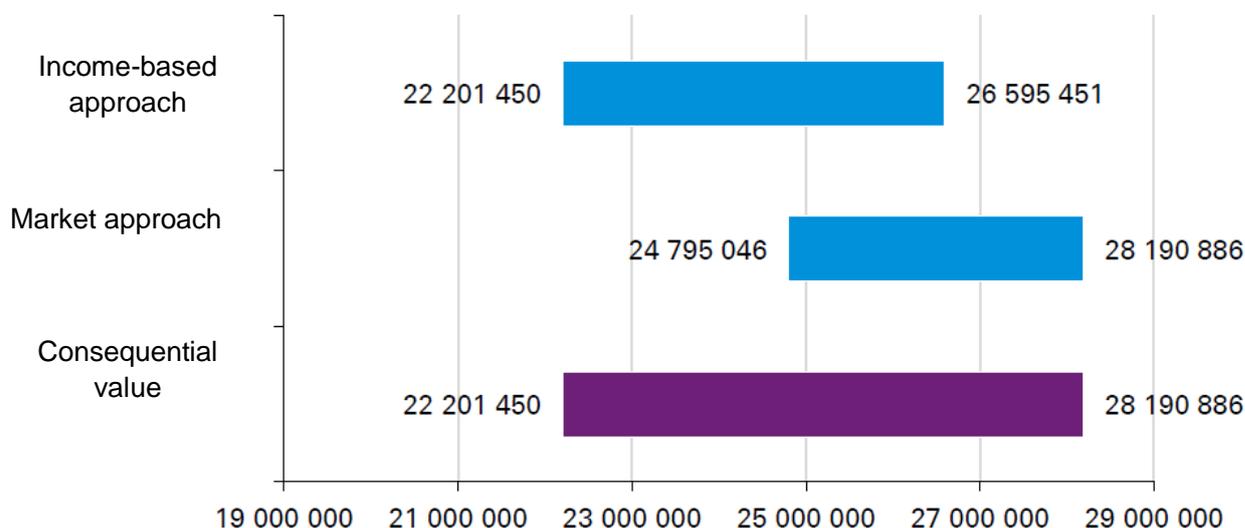
carry such significance that fundamentally affects the shareholder value, and therefore the intent to move towards the transaction necessitates decision-making by the General Meeting.

The business circumstances serving as the basis of the decision to be made on the acquisition of ONP’s entire participation detailed above are:

With respect to the asset value represented by PEGE, detailed appraisal has been made, and it can be summarized as follows.

The appraisal has been prepared by KPMG Advisory Ltd., an abstract of which has been appended to this proposal. KPMG has applied two kinds of methodologies for the combined valuation of the geothermal business lines. One has been a market-based approach that is based on the comparison of companies that are involved in industrial activities that are similar to PannErgy’s operations, whereas the other is an (income-based) model set up with respect to the discounting of free cash flows that takes management forecasts and adjustments for market conditions into consideration. In view of the two models, the total enterprise value (EV) ranges from HUF 22,201 M to HUF 28,191 M.

Indicative value of PEGE Business Lines on 31 March 2016 (HUF'000)



Source: KPMG analysis

The offer relating to the selling of the participation can be summed up as follows:

ONP sent its proposal for the selling of the participation to PEGE on 19 May 2016. During the negotiations, ONP emphasized that as PannErgy Plc's shareholder it did not intend to offer its participation in PEGE to any third person until PannErgy Plc made a declaration on the ultimate disapproval of the offer. In their opinion, the offer price should correspond to the market price of HUF 750 million, wherein they claimed to have also considered PannErgy's funding capacity. ONP has stated that they have the intention to dispose their PEGE participation due to other planned investments, but wish to keep their holding in PannErgy Plc.

It is not possible to publicly disclose further details for the protection of trade secrets.

PannErgy's Board of Directors adds the following observations to the KPMG report:

1. To the best of their knowledge, the Board of Directors is not aware of any event that would materially influence the enterprise value between 31 March 2016 as the date of the KPMG report and 30 May 2016. The binding refinancing offer that has been announced in the meantime does not affect the (income-based, FCFF) model prepared with reliance on the discounting of free cash flows used in the appraisal, because it does not calculate with the principal repayments and interest payments of the loans;
2. As of 31 May 2016, PannErgy Plc's expected Group-level net credit volume is approximately HUF 7996 M;
3. On 31 May 2016, the amount of the loans furnished by PannErgy Plc to PannErgy Geothermal Ltd is foreseen to be HUF 7570 million;
4. As it has been noted in the fourth paragraph of Page 1 of the Limiting Conditions, KPMG has not taken the fact into consideration that from among the three dominant business lines in PEGE the Miskolc business line is not owned in 100%, but just in 90%, whereas in the case of the Szentlőrinc business line the ownership share is 99.2%.

These differences do not substantially change PEGE's enterprise value, but according to the calculations made by the Board of Directors modifies, i.e. decreases the given value by approximately HUF 200–250 million;

5. From the calculation of the Weighted Average Capital Cost (WACC) of the explicit period, it can be claimed that KPMG conservatively determined the value of the average cost of market-based loans (4.61%) in spite of the fact that PannErgy Group has loan agreements covering the entire period, and has also been given a binding offer where the average value remains approximately 1% lower even after the swapping of the loan interests (i.e. swapping of the variable interest rate to a fixed interest rate). The average cost of the above swap transactions can be around 0.8%.

Based on the valuation of the PEGE business lines by KPMG and the above additions, the Board of Directors proposes the General Meeting to take the appraisal of the 6.91% participation in PEGE into account as follows:

from the price range between HUF 22.00 billion and HUF 28.19 billion

- a net amount of HUF 7.996 billion should be deducted with respect to the bank loans, i.e. PEGE's stake in the amount of the Group-level loans;
- a net amount of HUF 7.570 billion should be deducted as an amount that PEGE Group owes PannErgy Plc;
- HUF 0.250 billion should be deducted as value adjustment due to PEGE's 99% stake in the Miskolc business line and 99.2% stake in the Szentlőrinc business line (i.e. against the 100% stakes that have been taken into account).

Based on the foregoing, the selling value (capitalization) of the PEGE business lines amounts to a value in the range of approximately HUF 6.384 and HUF 12.374 billion (for PEGE's 100% stake). Therefore, in the light of the above details, the selling value (capitalization) of PEGE's 6.91% stake has a potential worth between HUF 441.1 million and HUF 855.0 million.

On the basis and in the context of the decision to be made by the General Meeting in the framework of the previous Agenda Item, the determination to proceed with the transaction described above belongs to the scope of the General Meeting's competence, because

- (i) the value of PEGE Ltd as the entity in question is at least 50% (fifty percent) of the value of the equity according to the consolidated IFRS annual report last accepted by the Company's General Meeting, and
- (ii) it affects at least 5% (five percent) of the total ownership share/voting rights.



DRAFT RESOLUTION

- 1. The General Meeting has decided that the Company shall acquire from ONP Holdings SE, Societas Europaeae its 6.91% participation in PannErgy Geothermal Power Plants Ltd with the additional condition that the purchase price should fall in the range of HUF 441.1 million and HUF 855.0 million.**
- 2. The General Meeting authorizes the Board of Directors to work out the additional conditions of and conclude the transaction for the acquisition of the said participation.**

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