

PANNERGY NYRT.

REMUNERATION POLICY

Effective from 30 April 2020

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

BACKGROUND

A new law entered into force on 17 July 2019 that facilitates the encouragement of long-term shareholder engagement over short-term risk-taking and improves transparency between public companies limited by shares and investors. In accordance with the act transposing the European Union's Shareholder Rights Directive II (SRD II), the remuneration of senior management of listed companies becomes public in Hungary, too.

This remuneration policy (hereinafter: "the Remuneration Policy") of PannErgy Nyrt. (hereinafter: "the Company" or "PannErgy") was prepared pursuant to the Act LXVII of 2019 on the Encouragement of Long-term Shareholder Engagement and the Amendment of Certain Acts with the Purpose of Legal Harmonisation (hereinafter: "the Act").

1. Fundamental principles

- 1.1 While complying with the transparency-facilitating requirements of the Act pertaining to public companies limited by shares, the Company is not obligated to disclose information that would seriously compromise its business interests or its right to trade secrets, however, the application of this provision shall not result in non-compliance with the requirements of the Act.
- 1.2 In the case of public companies limited by shares, the consultative vote on the remuneration policy falls within the exclusive competence of the General Meeting, that is the shareholders. This ensures that shareholders have an actual say in the development of the remuneration policy, because payments to the management may only be made in accordance with the remuneration policy submitted to the General Meeting for a consultative vote.
- 1.3 The Remuneration Policy shall be placed on the agenda of the General Meeting in the case of any major changes to it, or at least every four years.
- 1.4 The Company determines the Remuneration Policy for the directors (hereinafter: "the Director(s)").
For the purposes of this Remuneration Policy, the Directors of the Company include any member of the Management Board of the Company (the Company's acting CEO is a member of the Management Board). No supervisory board operates at the Company, and the post of deputy director is not occupied, either.

2. Scope of the Remuneration Policy

2.1 Substantive scope

The substantive scope of the Remuneration Policy covers PannErgy Nyrt.

2.2 Personal scope

The personal scope of the Remuneration Policy covers the Directors of the Company.

2.3 Temporal scope

This Remuneration Policy is effective as of 30 April 2020.

The Remuneration Policy shall apply for an indefinite term, with the proviso that its stipulations shall be reviewed annually, and in the case of major changes in the legislation.

3. The Company's history, business strategy, long-term interests and their sustainability

On 31 May 1991, the Company was transformed into a public company limited by shares, in line with the Act XIII of 1989 on the Transformation of Business Organizations and Companies. Until the first years following the turn of the millennium, the Company (then called Pannonplast Rt.) was a dominant corporate group of the Central and Eastern European region in the plastic processing industry, searching for a way forward in dire economic and financial straits prior to the transformation of the renewables industry.

To address this, in 2007, PannErgy set itself an ambitious goal of generating substantial volumes of thermal energy and electric power by exploiting the long-known geothermal resources of Hungary, thereby creating value for the population and institutional actors of the country as well as for PannErgy's shareholders. The increase in the demand for energy is unstoppable in the long term — in spite of temporary setbacks from time to time — however, both domestic and global resources are limited. Professional and efficient geothermal energy production is not only a form of utilisation of a hardly exploited immense source of energy, but also one of the most environmentally friendly and cleanest forms of energy generation. The European Union not only welcomes such forms of energy generation, but it is now guiding Member States, including Hungary, by way of a strictly regulated programme and a set of clear-cut objectives.

The Company has entered into a variety of cooperation agreements with a number of municipalities, primarily in order to access the heat market, of which only the ones meeting a complex set of selection criteria were chosen subsequently as project goals.

Based on its strategy, the Company accomplished its first success in 2010 with its geothermal developments by launching its commercial heat generation operation on 1 January 2011, in the framework of the Geothermal Project of Szentlőrinc.

In May 2013, production commenced at Central Europe's largest geothermal power plant, in the form of an investment project implemented by PannErgy. The Geothermal Project of Miskolc won the international GeoPower Market's "Best Heating Project 2013" award. The Company implemented the second phase of the Geothermal Project of Miskolc by September 2014, and started to supply thermal energy to the Downtown and the University heating districts as well, in addition to that of the Avas residential area.

PannErgy launched its second largest investment project — the Győr Geothermal Project — in the Kisalföld region in early 2014. 24 November 2015 marked the

inauguration of the project, a development with a total cost of HUF 10.2 billion. Geothermal energy has been delivered to a total of 24,000 homes and the heating systems of around a thousand other consumers under a long-term heat supply contract concluded with the district heating company called Győr-Szol Zrt. Moreover, the energy supplied by the Heating Centre at Bőny covers at least 60% of the heating energy requirement of the AUDI factory.

Upon putting into service the Győr project in the autumn of 2015, PannErgy revised its former investments and project-based operation at a group level. The revision was launched in the last quarter of 2015 — partly by portfolio cleansing and partly by transforming the system of operation — and is still under way. The Company assessed its funding and investment possibilities as well as the market's demand for heat supplies, identifying a substantial demand for highly competent and well-organised energy producers providing geothermal heat capacities.

The investment projects launched by PannErgy were consistent with the National Energy Strategy and with the renewable energy utilisation programme, each aimed at boosting Hungary's competitiveness. The relevant EU directive called for an annual 1.5% new energy saving in Member States' ultimate energy consumption during the period up to 2020, as its main goal to facilitate competitiveness and reliable supplies. This was more rigorous than the existing requirements, as the earlier 9% energy saving target had been raised to 20% for the entire European Union. In Hungary, the amount of energy generated from geothermal sources must be increased to 12,000 terajoules by 2020, of which the share of PannErgy is around 15%, thanks to its green energy-generating projects.

PannErgy has not only become the enterprise implementing geothermal energy projects with the most substantial competence and experience, but also one of Hungary's largest corporate groups generating and utilising geothermal energy. **This process concluded the Company's energy transformation period, ushering in the period of organic operation.**

The key short-term strategic goals include increasing the productive capacities of the Geothermal Systems of both Győr and Miskolc, together with continued system optimisation, thereby maximising the amount of heat sold.

The Company wishes to make the available free capacities of the geothermal systems — and thus the savings enabled by them — accessible for new partners as well. Industrial use requires special expertise and project management experience which the Company believes are available at the highest standards in Hungary only at PannErgy.

Dependence on fossil fuels can be reduced — or in some cases partly eliminated — by using alternative energy sources, including geothermal energy. The system of underground geothermal resources, hardly utilised so far, is one of the most significant resources of the Carpathian Basin, including Hungary, the utilisation of which enables the generation of thermal energy and power in an environmentally friendly way. Demand for energy is growing unstoppably, however, both domestic and global conventional resources are limited.

Professional and efficient geothermal energy production is not only a form of utilisation of a hitherto hardly used immense source of energy, but also one of the cleanest environmentally friendly forms of energy generation. The European Union not only welcomes such forms of energy generation, but it is now guiding Member States, including Hungary, by way of a strictly regulated programme and a set of clear-cut objectives.

The central element of PannErgy's strategy is to remain the region's dominant company in the utilisation of geothermal energy, and provide highly reliable environmentally friendly services that are free of geopolitical risks. PannErgy is committed to the utilisation of one of the most active thermal water sources of Europe for the production of energy. Geothermal heat can be utilised by households and industrial consumers in the long term, and the environmentally sound investment projects implemented by PannErgy may enable significant reductions in energy expenditures.

Adaptation to the negative consequences of climate change is in the national interest, given the fact that the phenomenon can now be proven by measurements in day-to-day life. In view of the existing atmospheric concentration of greenhouse gases, expected future emissions and authoritative scientific projections, climate change is a persistent process.

PannErgy's projects contribute to the efforts made to preserve a more liveable environment by emission cuts in CO₂, a greenhouse gas, of roughly 100,000 tonnes per year.

One of the evident effects of climate change in Hungary appears in the form of frequent volatile and extreme changes in weather conditions, including ambient temperatures, and a rise of the average temperature of the winter months from the historically cold, steadily sub-zero range to markedly over freezing point.

PannErgy aims to utilise its substantial free thermal capacities that are currently not exploited, which is expected to further reduce sensitivity to ambient temperature changes. The most important possible areas for utilising free thermal capacities include:

- Implementation of energy efficiency and optimisation projects with existing customers;
- Cold energy projects — for the utilisation of the so-called “summer” heat;
- Connection of new customers indirectly through district heating systems or directly to the geothermal systems on the primary or the secondary (return) sides.

The Company's Director remuneration characteristics reflect the Company's evolution and risk profile. While in the energy transformation period certain members of the Management Board (former Board of Directors) joined an executive stock option scheme besides the fixed remuneration of the members, the shareholders decided that only a fixed remuneration shall apply for the organic operation period. Respecting this shareholder approach, the Management Board shall continue to make remuneration proposals to the General Meeting only with respect to fixed remuneration.

The Management Board is convinced that the Company's strategic objectives are achieved mainly through the operational management, the Company's professional staff and permanent partners. Accordingly, the Company has developed a contractual relationship with its employees and strategic partners that uses fixed and performance-based incentives, thereby facilitating the Company's business strategy, long-term interests and sustainability.

4. Fixed and variable components of the Directors' remuneration

4.1 Pursuant to the Articles of Association of the Company, the powers of the Management Board include:

- appointment of the CEO, determining his or her powers and remuneration while respecting the General Meeting's relevant powers;
- determining the management's remuneration policies while respecting the relevant powers of the General Meeting, supervising the management's activities and taking the appropriate steps when necessary as well as the implementation of the stock option scheme of the Company;
- making proposals for the remuneration of the members of the Management Board.

4.2 The following fall within the exclusive competence of the General Meeting of the Company:

- determining the remuneration of the members of the Management Board (Section 19(e) of the Articles of Association);
- taking binding decisions on:
 - (i). adopting, amending and terminating the executive stock option scheme (or other option or share allotment schemes for the members of the Company's Management Board or management);
 - (ii). the framework conditions of lending by the Company to the members of the Management Board and the management; and
 - (iii). the policies and framework of the long-term remuneration and incentive scheme of the members of the Management Board and the management (Section 19(s) of the Articles of Association).

4.3 At the time of the submission of the proposed Remuneration Policy to the General Meeting, the Company's Directors are as follows:

Name	Position	Date of entry into office	End/termination of office
Balázs Bokorovics	Member, Chairman	31/08/2007	indefinite term
Dénes Gyimóthy	Member, Vice-Chairman, acting CEO	31/08/2007 (05/05/2015)	indefinite term
Katalin Gyimóthy	Member	28/04/2016	indefinite term
Lilla Martonfalvay	Member	28/04/2016	indefinite term
Csaba Major	Member	30/04/2013	indefinite term
Attila Juhász	Member	31/08/2007	indefinite term
István Töröcskei	Member	31/08/2007	indefinite term

- 4.4 The members of the Management Board receive remuneration, as set by the General Meeting.
- 4.5 For carrying out the mandate of the acting CEO, no remuneration shall be paid other than that for the membership in the Management Board. The Directors are entitled to use the assets (e.g. vehicles, mobile phones, IT equipment, etc.) owned by the Company, necessary for discharging their roles and aligned with the type of the duties of the Directors, for both official and personal purposes.
- 4.6 The Management Board only proposes fixed remuneration for the Directors for adoption by the annual General Meeting concluding the business year of 2019.

The amount of the Directors' current remuneration shall be identical with that adopted at the previous annual General Meeting, as shown below:

- Remuneration of the Chairman of the Management Board:
HUF 195,000/month
- Remuneration of the members of the Management Board: HUF
155,000/month

- 4.7 The Directors receive no other remuneration at the affiliated undertakings of the Company.

5. Taking into account the Company's employee salaries and employment conditions while developing the Remuneration Policy

- 5.1 While determining the remuneration of the Directors, the Management Board has assessed the role of the Company's employees in the sustainable success of the Company and the implementation of the Company's strategy. As a result, while formulating its proposal on the remuneration of the Directors, the Management Board has determined remuneration conditions that are typically more modest than in the case of the Company's employees, but still commensurate with the necessary work, competences and responsibilities.

6. Term of legal relationships regarding the performance of work or the mandate of the Directors or the relevant remuneration, applicable notice periods, main features of the supplementary pension plan and early retirement schemes, conditions of terminating the legal relationship, payments due upon termination

- 6.1 The Directors only perform their mandate and duties as executive officers of the Company in the form of an agency relationship with indefinite term. The Directors are not employed by the Company.
- 6.2 The remuneration of the Directors is determined by the annual General Meeting, for a fixed period of one year, effective until the next annual General Meeting.
- 6.3 No supplementary pension plan or early retirement scheme applies to the Directors.

6.4 No special remuneration or payment shall be made to the Directors upon the termination of their legal relationship.

7. Presentation of the decision-making process behind determining, reviewing and implementing the Remuneration Policy, including the measures to avoid or address conflicts of interest and, where relevant, the role of the remuneration committee or other committees concerned

7.1 The Remuneration Policy is adopted by the Management Board, following a consultative vote by the General Meeting based on the proposal of the Management Board. The implementation of the Remuneration Policy is the responsibility of the Management Board.

7.2 The Management Board reviews the Remuneration Policy annually.

Any member of the Company's Management Board may make proposals for any amendment to the Remuneration Policy, and the decision is taken by the Management Board with a simple majority of votes.

If the amendment falls within the competence of the General Meeting, the Management Board proposes to convene a General Meeting, or, if possible, places the proposal on the agenda of the annual General Meeting. In the case of any conflict of interest, the Director concerned shall not take part in the decision-making, except for the formulation of proposals that are decided on by the General Meeting.

7.3 The Company does not operate a remuneration committee.

8. Publishing the Remuneration Policy

8.1 The Company shall disclose the Remuneration Policy on its website (<http://pannergy.com>) immediately after the consultative vote by the General Meeting (or the repeated vote if the remuneration policy is rejected), together with the date and result of the vote.

8.2 The Company shall ensure that the Remuneration Policy be available free of charge on the Company's website as long as it is in effect.

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