PANNERGY NYRT.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2007

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Gyimóthy Dénes
Appointed CFO and CEO

Budapest, April 1, 2008.

PannErgy Nyrt.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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PannErgy Nyrt.
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007
(thHUF)

CONSOLIDATED INCOME STATEMENT

	Notes	2007	2006
Sales	5	758.084	16.172.299
Cost of Sales		-529.507	-12.021.031
Gross profit		**228.577**	**4.151.268**
General and administration expenses		-866.535	-3.929.054
Other revenue	7	97.511	524.026
Other expenses	6	-79.443	-406.262
Result for the year before financial result		**-619.890**	**339.978**
Financial result	8	1.255.350	711.570
Profit for the year before taxes and minority interest		**635.460**	**1.051.548**
Income tax expense	26	-213.383	-125.249
Profit for the year from continuing operations		**422.077**	**926.299**
Result for the year from discontinued operations	17	-133.089	-
Profit for the year before minority interest		**288.988**	**926.299**
Profit for the year attributable to minority interest	21	7.407	33.283
Profit for the year		**281.581**	**893.016**
Earnings per share (Ft)			
Basic	27	51	220
Diluted	27	16	49
Earnings per share from discontinued operations (Ft)			
Basic	27	-24	-
Diluted	27	-7	-

Budapest, April 1, 2008

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CEO

PannErgy Nyrt.
CONSOLIDATED BALANCE SHEET
FOR THE YEAR ENDED DECEMBER 31, 2007
(thHUF)

CONSOLIDATED BALANCE SHEET

	Notes	31/12/07	31/12/06
Intangible assets	10	40.406	534.646
Goodwill	10	247.400	222.315
Property, plant and equipment	11	1.684.717	7.526.471
Investments in associates		124.786	123.662
Finance lease receivables	9	1.086.317	1.229.028
Non-current receivables	12	-	2.234
Deferred tax assets	26	465.509	531.119
Total non-current assets		**3.649.135**	**10.169.475**
Inventories	13	42.185	2.171.246
Trade receivables	14	522.832	2.289.783
Other receivables	15	1.689.924	1.328.331
Finance lease receivables	9	136.306	134.976
Financial assets at fair value through profit and loss	16	1.957.401	1.625.693
Securities held-to-maturity		1.071.690	45.498
Cash and bank balances	32	935.553	1.355.265
Total current assets		**6.355.891**	**8.950.792**
Non-current assets classified as held for sale	17	**12.254.142**	**-**
TOTAL ASSETS		**22.259.168**	**19.120.267**
Issued capital	18	421.093	421.093
Reserves	20	12.728.411	11.926.268
Profit for the year		281.581	893.016
Net book value of treasury shares	19	-1.283.435	-1.283.435
Minority interest	21	321.795	400.520
Total equity		**12.469.445**	**12.357.462**
Non-current borrowings	22	**346.115**	**1.020.897**
Deferred tax liability		**-**	**-**
Provisions	24	**10.943**	**35.341**
Trade payables		95.721	1.901.434
Borrowings	23	49	2.972.749
Non-current borrowings within 1 year	22,23	119.164	124.847
Other current liabilities	25	72.268	707.537
Total current liabilities		**287.202**	**5.706.567**
Liabilities directly associated with assets classified as held for sale	17	**9.145.463**	**-**
TOTAL EQUITY AND LIABILITIES		**22.259.168**	**19.120.267**

Budapest, April 1, 2008

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CEO

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Description	Issued Capital	Reserves	Treasury shares	Minority interest	TOTAL
Balance at January 1, 2006	421.093	11.992.398	-	756.029	13.169.520
Profit for the year	-	893.016	-	33.283	926.299
Buy-back of ordinary shares	-	-	(1.283.435)	-	(1.283.435)
Changes in minority interest	-	-	-	(388.792)	(388.792)
Foreign exchange difference	-	(66.130)	-	-	(66.130)
Balance at December 31, 2006	421.093	12.819.284	(1.283.435)	400.520	12.357.462
Profit for the year	-	281.581	-	7.407	288.988
Changes in reserves	-	-	-	-	-
Changes in minority interest	-	-	-	(86.132)	(86.132)
Foreign exchange difference	-	(90.873)	-	-	(90.873)
Balance at December 31, 2007	421.093	13.009.992	(1.283.435)	321.795	12.469.445

PannErgy Nyrt.
CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2007
(thHUF)

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2007	2006
Cash flows from operating activities			
Profit for the year		**281.581**	**893.016**
Adjustments to income before taxes			
Depreciation and amortization		1.128.570	1.214.209
Deferred tax		-45.402	99.070
Fair value adjustment		-505.228	-400.730
Foreign exchange (gain)/loss on loans		-13.245	-20.645
Impairment on investment in associates		-	109.612
Impairment on property, plant and equipment and goodwill		60	37.753
Impairment and scrapping of inventories		60.899	13.188
Reversal of provision		-14.856	-46.036
Provision on bad debt		-67.580	4.196
Gain on disposal of property, plant and equipment		-64.592	-282.051
Gain on sale of subsidiaries		-66	-1.061.476
Decrease in minority interest		-78.725	-355.509
Changes in working capital			
(Increase)/Decrease of inventories		-218.999	56.225
(Increase)/Decrease of receivables		-1.164.475	469.193
Increase/(Decrease) of payables		921.055	-1.343.050
Net Cash from/(used in) operating activities		**218.697**	**-613.035**
Cash flows from investing activities			
Purchase of investment in non-public entity		-100.000	-229.674
Acquisition of subsidiaries		-25.085	-
Sale of subsidiary		98.942	3.234.486
Purchase of property, plant and equipment and intangible assets		-2.474.762	-1.899.237
Sale of property, plant and equipment and intangible assets		666.967	2.380.976
Increase of non-current receivables		141.090	135.208
Net Cash (used in)/from investing activities		**-1.692.848**	**3.621.759**
Cash flows from financing activities			
Increase of non-current borrowings		2.190.515	494.919
Increase/(Decrease) of current borrowings		1.569.507	-3.599.033
Foreign exchange difference due to consolidation	29.b	-90.873	-66.130
Purchase of treasury shares		-	-1.283.435
Increase of securities		-852.672	-1.164.195
Net Cash from/(used in) financing activities		**2.816.477**	**-5.617.874**
Increase/(Decrease) in cash and cash equivalents		**1.342.326**	**-2.609.150**
Cash and cash equivalents at 1st January		**-361.203**	**2.247.947**
Cash and cash equivalents at 31st December	29.a	**981.123**	**-361.203**

1. GENERAL INFORMATION

PannErgy Nyrt. ('The Company' or `PannErgy`) is a Hungarian enterprise, acting as Holding Company for a Group ('the Group') whose principal business activity is plastic processing mainly for the packaging industry, manufacturing of composite insulator and utilization of renewable energy. On May 31, 1991, the enterprise was transformed into a company limited by shares pursuant to the Act XII of 1989 on the Transformation of Economic Organizations. The Group's operations in Hungary are located in Budapest, Debrecen and Szombathely. The Group also has operations in Romania, Ukraine and Serbia.

The subsidiaries are listed in Note 34.

Summary of the future strategy of PannErgy

As the legal successor of Pannonplast Plc. looking back on a past of nearly a hundred years, PannErgy has been founded to implement its strategy concerning the utilization of renewable energy resources.

In the near future the assets and activities not in line with the energy branch are going to be sold.

In 2007, PannErgy set a weighty objective, to generate considerable volumes of heat energy and electric power with the exploitation of the long-known Hungarian geothermal resources, thereby creating values for the population and institutional actors of the country, as well as to the shareholders of PannErgy. The rise of demands for energy seems to be unstoppable, but the quantities of both domestic and global resources are limited, or they are rather inefficient to use. The professional and efficient energy production from geothermal resources does not only mean the exploitation of huge resources that have been just minimally used so far, but one of the most environmentally friendly and cleanest ways of generating energy, as well. The professional partner of PannErgy is VGK Hönnun from Iceland "the home of geothermal energy".

The Group is signing agreements with many dozen local authorities mainly on providing heat energy and connections have been built with the biggest finance institutes of the European Union.

The essential aim of the strategy is to build at least 20 establishments and at least 60 MW capacities, what will lead in long term to stable profit and cash flows, and first of all increasing shareholders' value.

2. ADOPTION OF NEW AND REVISED STANDARDS

<u>2.1. The effect of adopting revised International Financial Reporting Standards effective from January 1, 2006 on the consolidated financial statements for the year ended December 31, 2007</u>

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (the IFRIC) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2006, especially:

- amendments to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of cash flow hedge accounting and fair value option (effective January 1, 2006);

- amendments to IAS 1 'Presentation of Financial Statements' on capital disclosures (effective January 1, 2007).

- IFRS 7 'Financial Instruments: Disclosures' (effective January 1, 2007);
- IFRIC 8 Scope of IFRS 2 `Share Based Payment` (effective May 1, 2007)
- IFRIC 9 `Reassessment of Embedded Derivatives` (effective June 1, 2006)
- IFRIC 10 `Interim Financial Reporting and Impairment` (effective November 1, 2006)

3. Significant accounting policies

3.1. General

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. IFRS as adopted by the European Union do not currently differ from IFRS as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements are prepared in accordance with the historical cost convention with the exception of certain elements of property, plant and equipment and securities (see Note 3.11 and 3.16). The consolidated income statement was prepared in accordance with accrual basis of accounting. The reporting currency of the Group is the Hungarian forint ("HUF").

3.2. Basis of consolidation

These consolidated financial statements include the assets, liabilities, revenues and expenses of all majority-owned subsidiaries. Intercom any transactions and balances are eliminated on consolidation. When the Company is an investor in a jointly controlled company, the method of proportional consolidation is used to integrate the invested company into the consolidated financial statements, whereby the Company's proportional share of the assets, liabilities, revenues and expenses are consolidated on a line-by-line basis.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3.3. Accounting for acquisition

Upon acquisition, subsidiaries are accounted for under the fair value method of accounting. Any goodwill or negative goodwill arising on acquisition is recognized in the consolidated balance sheet and accounted for as indicated below.

Goodwill, which represents the residual cost of the acquisition after recognizing the acquirer's interest in the fair value of the identifiable assets and liabilities acquired, is held as an intangible asset and before January 1, 2005 were amortized in the consolidated income statement, in anticipation of future economic benefits, on a straight-line basis over a period of five to ten years. From January 1, 2005 the Group stopped the amortization of goodwill and eliminated the accumulated amortization with the gross book value in accordance with the IFRS3 'Business Combinations'. The value of any goodwill recorded in the consolidated balance sheet is tested for impairment annually, determined on the basis of specific identification of the investment. If it is no longer probable that the goodwill will be recovered from future economic benefits, it is recognized immediately as an expense.

The interest of minority shareholders in the acquire is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

3.4. Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is recognized as an intangible asset in the consolidated balance sheet. From January 1, 2005 the amortization of goodwill is not allowed by IFRS.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5 Cash and bank balances

According to Groups accounting policy the bank accounts, the deposits and the petty cash is stated in the cash and bank balances. The Group has signed a revolving bank overdraft credit contract with its bank. The utilized amount of bank overdraft is likely to be reimbursed after 3 months but within one year. Based on its accounting policy the Group presents the bank overdraft among in the current liabilities as short term borrowings.

3.6. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced with taxes and for estimated customer returns, rebates and other similar allowances.

3.6.1. Sale of goods

Revenue from the sale of goods is recognized when all the following conditions are satisfied:

- the Group has transferred to the buyer all significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.6.2. Dividend and interest revenue

Revenue from use of assets of the Group by others is recognized when all the following conditions are satisfied:

- it is probable that the economic benefits associated with the transaction will flow to the entity; and

- The amount of revenue can be measured reliably.

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established, so when the transaction has been approved by the shareholders.

Interest revenue is accrued on a time basis, by reference to the outstanding principal and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3.6.3. Sale of investments

Trading of investment and other fixed assets has became a very important activity of the Group. Consequently the selling price and the net book value of such assets are recorded in sales, and cost of sales, respectively.

3.7. Lease

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.7.1. The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3.7.2. The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining balance of the liability.

3.8. Foreign currencies

Foreign currency transactions are converted into HUF at the exchange rate prevailing at the transaction date. Assets and liabilities denominated in foreign currencies have been converted into

HUF at the official exchange rate prevailing at the balance sheet date. Foreign exchange differences are charged or credited in determining income before income taxes.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve.

3.9. Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognized in profit or loss in the period in which they become receivable. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognized as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

3.10. Share-based payments

IFRS 2 'Share-based payments' was applied retrospectively by the Group from January 1, 2005 to options that were provided after November 7, 2002.

The Group issues equity-settled share-based compensations to certain employees. The fair value determined at the grant date of the equity-settled share-based payments is expensed in the income statement as personal type expenditure on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

In accordance with the rules of IFRS 2 the Company recorded share-based payments at the fair value of the service, which equaled the fair value of the shares provided and recognized as an expense in the consolidated financial statements. IFRS 2 'Share-based payments' was applied retrospectively from January 1, 2005 to options that were provided after November 7, 2002.

The Annual General Meeting of 2005 approved call options for a total of 420,000 ordinary Pannonplast shares to be provided to the 5 member of Board of Directors and the executive management of the Company. During 2006 each member of the management exercised his options, so the total amount was recorded. The difference between the market value and the option price at the date of they are exercised are charged to income statement, and deferred on a straight-line basis over the vesting period. At the balance sheet date of 2006 the asset deferred with respect to the option was determined on the basis of the fair value (HUF 345,445 thousands). At the balance sheet date of 2007 the asset deferred is HUF 94,213 thousands

3.11. Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. The annual taxation charge is based on the tax payable under fiscal regulation prevailing in country where the subsidiary is incorporated, adjusted for deferred taxation.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available in the future, to allow the asset to be recovered. The carrying amount of deferred tax assets and liabilities is reviewed at each balance sheet date. The Group recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Consequently, the Group reduces its deferred tax asset to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The deferred tax is presented on a gross basis in the balance sheet. The Group accounts for the deferred tax asset realized on the deferred corporate tax loss, which will be used against future years positive tax bases. The temporary differences between the accounting book value and the tax book value of the assets and liabilities, which are likely to be recovered during the futures period, are accounted as deferred tax asset/liability depending on their total net balance.

3.12. Property, plant and equipment

Property, plant and equipment of the Group were valued at May 31, 1991 by independent professional valuers. From December 31, 1992 fixed assets are stated in the consolidated balance sheet at historical cost (plant and machinery) or the revalued amount (land and buildings) less accumulated depreciation.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs (except form periodic maintenance costs), are normally charged to income in the period in which the costs are incurred. Periodic maintenance costs are capitalized as a separate component of the related assets.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method.

Estimated useful lives are as follows:

Buildings, premises	20-50 years
Machinery	3-7 years

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. Where the carrying value of property, plant and equipment is greater than the estimated recoverable amount, it is written down immediately to the estimated recoverable amount.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3.13. Intangible assets

Intangible assets are stated in the consolidated balance sheet at cost less accumulated amortization. Amortization is accounted for on the straight-line method over the estimated useful lives of the assets as follows:

Know-how	5 years
Software	3 years

Property rights are amortized over the length of the purchased right.

The Group reviews the carrying value of its intangible assets to determine if there is any indication that those assets have suffered any impairment loss.

3.13.1 Accounting for research and development

During the examination of internally generated intangible assets the Group classifies the generation of the assets into research phase and development phase. When the Group is unable to distinguish the research phase from the development phase for an internal project, the expenditure on that project is treated as if it were incurred in the research phase only

Intangible asset arisen from a research (or research phase of and internal project) cannot be capitalized according to IAS 38; such expenditure is recognized as expense when it is incurred. An intangible asset arising from development is recognized if, and only if, all of the followings criteria are fulfilled:

(a) The technical feasibility of completing the intangible asset so that it will be available for use or sale;

(b) Intention to complete the intangible asset and use or sell it;

(c) Ability to use or sell the intangible asset;

(d) How the intangible asset will generate probable future economic benefits. Among other things, the entity is required to demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) The availability of adequate technical, financial and other resources to complete the development (e.g. business plan, availability of external finance) and to use or sell the intangible asset

(f) Its ability to measure the expenditure attributable to the intangible asset during its development reliably (through a costing system)

The Group states in the books at cost the geological and geophysical research, the costs of over ground MT and gravitational experiments (marking out of the trial boring) and the expenses in connection with trial borings and its permission until it will be reinvoiced (as know-how) to the latter energy producing companies.

3.13.2 Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication in accordance with internal or external information that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of such an impairment loss (if any). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognized as an expense immediately.

3.14. Inventories

Inventories, including work-in-process are valued at the lower of cost and net realizable value, after provision for slow-moving and obsolete items. Net realizable value is the selling price in the ordinary course of business, less the costs of making the sale. Cost of purchased goods is determined primarily on the basis of weighted average cost. The cost of own produced inventory consists of direct materials, direct wages and the appropriate portion of production overhead expenses. Unrealizable inventory is fully written off.

3.15. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation.

Where discounting is used, the carrying amount of provision increases in each period to reflect the unwinding of the discount by the passage of time. This increase is recognized as interest expense.

3.16. Financial instruments

Financial instruments are recognized and presented at fair value in the financial statements.

Financial instruments are cash and cash equivalents, securities, trade and other receivables, trade and other payables, long term receivables, loans and investments in the consolidated balance sheet.

Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred. Distributions to holders of financial instruments classified as equity are charged directly to equity. In case of compound financial instruments the liability component is valued first, with the equity component being determined as a residual value.

Financial assets, other than those at fair value through profit or loss ('FVTPL'), are assessed for indicators of impairment at each balance sheet date. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

3.16.1. Securities held-to-maturity

Securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortized cost, less any impairment losses recognized to reflect irrecoverable amounts.

The annual amortization of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the investment so that the revenue recognized in each period represents a constant yield on the investments.

Held-to-maturity investments include securities, which the Group has the ability and intent to hold to maturity. Such securities comprise mainly securities issued by the Hungarian State.

3.16.2. Financial assets at fair value through profit or loss

These assets are accounted on a settlement date basis and are initially measured at fair value, and are stated at subsequent reporting dates at fair value. Any unrealized resultant gain or loss, determined in course of valuation, is recognized in profit or loss. Financial assets at fair value through profit or loss comprise shares of Synergon Nyrt.

The fair value of these assets is determined using quoted market prices.

3.17. Derivative financial instruments

In the normal course of business, the Group enters into contracts for derivative financial instruments, which represent a very low initial investment compared to the notional value of the contract. Derivative financial instruments used include currency forward agreements.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Fair values are determined using quoted market prices.

3.18 Assets held for sale

The non-current assets (or disposal groups) have been classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use.

The Group measured any non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. When the future sale is estimated to take place more than one year later, the present value of the costs to sell is taken into account. Any change in the present value of cost to sell due to the passing of time is recognized against financial income/expense.

The information in connection with assets held for sale (or disposal group) is presented at the notes where the income statement and the balance sheet items are specified.

3.19. Cash flow statement

Cash and cash equivalents comprise cash in hand and at bank, bank overdrafts and bank deposits with a maturity date of three months, or less, from the balance sheet date.

3.20. Earnings per share

Earnings per share attributable to the Company's shares are determined based on the attribution of earnings for the period divided by the weighted average number of ordinary shares during the period.

3.21. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation of consolidated financial statements for the year ended December 31, 2006.

3.22. Treasury shares

Treasury shares are purchased on the stock exchange and on OTC markets, and are presented in the consolidated balance sheet as decreasing share capital. The nominal value of treasury shares held is deducted from registered share capital. Any difference between the nominal value and the acquisition price of treasury shares is recorded directly to reserves.

The gain or loss resulting from sale of treasury shares are credited or charged directly to reserves (equity).

3.23. Segment reporting

According to IAS 14 'Segment reporting' entities whose equity or debt securities are publicly traded and by entities that are in the process of issuing equity or debt securities in public securities markets shall disclose segment information in the financial statements. IAS 14 does not apply to the Group as all assets and liabilities of the Group are from plastic industry.

The following criteria are taken into account when the segments are identified:

(a) The nature of the products and services;

(b) The nature of the production process;

(c) Characteristics or groups of the customers of products and services

(d) Method used for the sale of products or provision of services

The segment reporting of sales is stated in Note 36.

4. Critical accounting judgements and key sources of estimation uncertainty

The presentation of financial statements in conformity with IFRS requires the management of the Group to make judgement about estimates and assumptions that affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reported period.

4.1. Critical judgments in applying the accounting policies

In the process of applying the accounting policies, which are described in note 3 above, management has made the certain judgments that have significant effect on the amounts recognized in the financial statements (apart from those involving estimates, which are dealt with below). These are detailed in the respective notes, however, the most significant judgments relate to the following:

- availability of taxable income against which deferred tax assets can be recognized;

- Outcome of certain contingent liabilities.

4.2. Uncertainity on estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the amounts reported in the financial statements and the Notes thereto. Although these estimates are based on the management's best knowledge of current events and actions, actual results may defer from those estimates. These are detailed in the respective notes, however, the most significant estimates relate to the following:

- Determination the fair value of financial instruments

- Determination the useful live of tangible and intangible assets

- Impairment of non-current assets, including goodwill

- Determination the amount of provision

5. Sales

Sales by product type are as follows:

	2007 thHUF	2006 thHUF
Rigid films and packaging	8.374.876	8.388.669
Containers and crates	2.574.542	2.993.911
Sale of subsidiaries	301.100	1.657.182
Technical plastic components	189.642	1.627.229
Moulds	-	36.232
Other	2.017.875	1.469.076
TOTAL Sales	**13.458.035**	**16.172.299**

Sales from discontinued operations:

	2007 thHUF	2006 thHUF
Rigid films and packaging	8.374.876	7 915 821
Containers and crates	2.574.542	2 610 188
Other	1.750.533	1.910 189
TOTAL Sales from discontinued operations	**12.699.951**	**12 436 198**

Sales by geographical region are as follows:

	2007 thHUF	2006 thHUF
Domestic sales	5.643.325	8 057 186
Export sales	7.814.710	8 115 113
TOTAL Sales	**13.458.035**	**16 172 299**

Sales from discontinued operations by geographical region are as follows:

	2007 thHUF	2006 thHUF
Domestic sales	5.069.028	4 797 286
Export sales	7.630.923	7 638 912
TOTAL Sales from discontinued operations	**12.699.951**	**12 436 198**

Most of the export sale is to the European Union. The total sales of the subsidiaries of Romania, Ukraine and Serbia are presented as export sales in the consolidated financial statements.

During the first half of the year, the share in Prettl Kft. (49%) and during the fourth quarter 3% share of the investment in Pannunion Zrt. (fully owned subsidiary) was sold. The income from the sale of investment is presented as sales in the consolidated financial statements.

Due to the change of accounting policy in 2006 the gain on the sale of investment was reclassified from financial result to sales and cost of sales. This type of revenue of the Group was HUF 301,100 thousands and HUF 1,657,182 thousands respectively for the year ended 2007 and 2006. The related amount of cost of sales of the Group was HUF 217,679 thousands and HUF 1,055,829 thousands for the years ended 2007 and 2006, respectively.

6. Other expenses

	2007 thHUF	**2006 thHUF**
Local taxes, fees, penalties	122.607	140.609
Penalties and late interest	60.329	98.644
Impairment of intangible assets and property, plant and equipment	60	37.753
Scrap of inventories	2.346	35.129
Receivables cancelled	16.021	22.957
Cost related to loss	16.895	20.640
Impairment of inventories	58.553	13.188
Fees, contributions	17.083	11.341
Impairment of receivables	-	4.196
Settlement of APEH, VPOP account	-	1.859
Other expenses	27.984	19.946
TOTAL	**321.878**	**406.262**
Attributable to		
Continuing operations	79.443	-
Discontinued operations	242.435	-

7. Other income

	2007 thHUF	**2006 thHUF**
Gain on sale of intangible assets and property, plant and equipment	64.592	282.051
Subsidies received	30.116	63.987
Discounts	48.916	61.619
Income received due to damage	16.318	42.181
Received penalty, refund	5.185	22.463
Reversal of provisions for expected liabilities	14.400	4.284
Reversal of allowance of receivables	67.580	-
Other	44.088	47.441
Total	**291.195**	**524.026**
Attributable to		
Continuing operations	97.511	-
Discontinued operations	193.684	-

8. Financial result

	2007 thHUF	**2006 thHUF**
Interest and similar income	66.422	54.713
Other financial income	1.624.603	1.652.856
Interest expense	-317.954	-212.049
Other financial expense	-598.066	-783.950
TOTAL	**775.005**	**711.570**
Attributable to		
Continuing operations	1.255.350	-
Discontinued operations	-480.345	-

9. Finance lease receivables

PMM Zrt. entered into a finance lease agreement and uses its premises in Székesfehérvár that way. The lessee has a purchase option of the premises during the term of the agreement. The term of the lease agreement is 60 months, ending in 2011. The amount of minimum lease payments is denominated in EUR. The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate contracted is approximately 3.85% per annum.

	Minimal lease payments		Present value of minimal lease payments	
	2007 thHUF	**2006 thHUF**	**2007 thHUF**	**2006 thHUF**
Within one year	194.086	193.282	136.306	134.976
In the second to fifth year inclusive	1.150.736	1.339.249	1.086.317	1.229.028
Total	1.344.822	1.532.531	1.222.623	1.364.004
Less unearned finance income	-177.798	-168.527	-	-
Present value of minimum lease payments	1.222.623	1.364.004	1.222.623	1.364.004
Allowance for uncollectible lease payments		-		-
	1.222.623	1.364.004	1.222.623	1.364.004
Included in the financial statements as:				
Current finance lease receivables	136.306	134.976	136.306	134.976
Non-current finance lease receivables	1.086.317	1.229.028	1.086.317	1.229.028
TOTAL	**1.222.623**	**1.364.004**	**1.222.623**	**1.364.004**

10. Intangible assets

Gross value

	Goodwill	Research and development	Rights	Purchased software	Total
	thHUF	thHUF	thHUF	thHUF	thHUF
January 1, 2006	269.360	957.362	481.581	323.970	2.032.273
Purchase	-	338.642	2.258	162.041	502.941
Sale	-	-235.594	-7.961	-225.383	-468.938
January 1, 2007	269.360	1.060.410	475.878	260.628	2.066.276
Purchase	25.085	317.625	89.281	249	432.240
Sale		-98.396	-1.152	-48.926	-148.474
Reclassification to asset held for sale		-1.241.440	-543.125	-184.504	-1.969.069
December 31, 2007	294.445	38.199	20.882	27.447	380.973

Accumulated amortization:

	Goodwill	Research and development	Rights	Purchased software	Total
	thHUF	thHUF	thHUF	thHUF	thHUF
January 1, 2006	47.045	561.210	415.760	263.845	1.287.860
Increase	-	131.756	33.521	51.970	217.247
Sale	-	-85.441	-3.658	-106.693	-195.792
January 1, 2007	47.045	607.525	445.623	209.122	1.309.315
Increase	-	167.408	23.990	1.972	193.370
Sale	-	-56.444	33	-78	-56.489
Reclassification to asset held for sale	-	-718.489	-450.922	-183.618	-1.353.029
December 31, 2007	47.045	-	18.724	27.398	93.167
Net value January 1, 2007	222.315	452.885	30.255	51.506	756.961
Net value December 31, 2007	247.400	38.199	2.158	49	287.806

11. Property, plant and equipment

Gross value:

	Buildings	Machinery	Construction in progress	Total
	thHUF	thHUF	thHUF	thHUF
January 1, 2006	6.291.425	12.773.679	582.872	19.647.976
Purchase	-	-	1.523.723	1.523.723
Capitalization	128.173	1.333.740	-1.461.913	-
Sale	-1.664.255	-7.450.387	-	-9.114.642
January 1, 2007.	4.755.343	6.657.032	644.682	12.057.057
Purchase	-	-	2.383.000	2.383.000
Capitalization	369.006	1.434.086	-1.803.092	-
Sale	-789.219	-575.428	-	-1.364.647
Reclassification to asset held for sale	-2.626.195	-6.809.235	-1.205.889	-10.641.319
December 31, 2007	1.708.935	706.455	18.701	2.434.091

Accumulated depreciation

	Buildings	Machinery	Construction in progress	Total
	thHUF	thHUF	thHUF	thHUF
January 1, 2006	621.946	9.319.912	1.900	9.943.758
Increase	483.979	512.983	-	996.962
Sale	-279.800	-6.168.087	-	-6.447.887
Impairment	-	37.753	-	37.753
January 1, 2007.	826.125	3.702.561	1.900	4.530.586
Increase	92.480	842.720	-	935.200
Sale	-119.764	-419.040	-	-538.804
Impairment	-595.798	-3.579.910	-1.900	-4.177.608
Reclassification to asset held for sale	-	-	-	-
December 31, 2007	203.043	546.331	-	749.374
Net value January 1, 2007	3.929.218	2.954 471	642.782	7.526.471
Net value December 31, 2007	1.505.892	160.124	18.701	1.684.717

Certain land, buildings and machinery are pledged as security for borrowings (see Notes 22 and 23).

12. Non-current receivables

	2007 thHUF	2006 thHUF
Loans to employees	-	2.234
	-	**2.234**
TOTAL		

Loans paid to employees for housing are free of interest. The loans are repayable over periods up to fifteen years, but become immediately repayable or interest bearing in the event that the recipient ceases to be an employee of the Group. The loans are collateralized by the employees' homes. The total amount of housing loan of employees HUF 2,525 thousands are in connection with discontinued operations as of December 31, 2007.

13. Inventories

	2007 thHUF	2006 thHUF
Raw materials	946.698	1.136.046
Work in progress	512.544	441.069
Finished products	794.338	623.200
Goods	134.182	87.159
Advances given for inventories	137	662
	2.387.899	2.288.136
Impairment of inventories	-58.553	-116.890
TOTAL Inventories, net	**2.329.346**	**2.171.246**
Attributable to		
Continuing operations	42.185	-
Discontinued operations	2.287.161	-

Certain inventories are pledged as security for borrowings in 2007 (see Notes 22 and 23).

14. Trade receivables

	2007 thHUF	2006 thHUF
Trade receivables	3.092.100	2.859.109
Reversal (allowance) for doubtful debt	67.580	-569.326
TOTAL Trade receivables, net	**3.159.680**	**2.289.783**
Attributable to		
Continuing operations	522.832	-
Discontinued operations	2.636.848	-

Certain trade receivables are pledged as security for borrowings in 2007 (see Notes 22 and 23).

15. Other receivables

	2007 thHUF	2006 thHUF
Deferred expense concerning share based payments	94.213	345.445
Other taxes (mainly VAT)	407.125	296.091
Prepayments	200.721	152.071
Balance of security custody account	-	58.218
Advances paid for income tax	58.448	41.002
Receivables due from employees	5.618	6.903
Receivables due from Keler Zrt.	5.089	5.427
Receivables due from valuation of forward transaction	403.456	-
Given loans to Platinium Zrt.	106.376	-
Other	409.743	423.174
Total	**1.690.789**	**1.328.331**
Attributable to		
Continuing operations	1.689.924	-
Discontinued operations	865	-

The Annual General Meeting of 2005 approved call options for a total of 420,000 ordinary Pannonplast shares to be provided to the 5 member of Board of Directors and the executive management of the Company. During 2006 each member of the management exercised their option, so the total amount of it was recorded. The difference between the market value and the option price at the date of they are exercised are charged to income statement, and deferred on a straight-line basis over the vesting period. At the balance sheet date the asset deferred with respect to the option was determined on the basis of the fair value and was HUF 94,213 thousands and HUF 345,445 thousands for the years 2007 and 2006 respectively. The costs accounted for year 2007 was HUF 251,232 thousands.

16. Financial assets at fair value through income statements

	2007 thHUF	2006 thHUF
Initial value of shares	944.619	1.118.139
Fair value adjustment	1.012.782	507.554
Total	**1.957.401**	**1.625.693**
Attributable to		
Continuing operations	1.957.401	-
Discontinued operations	-	-

Shares of Synergon Nyrt. owned by the PannErgy Nyrt. are stated at the closing price of the stock exchange (1,820 HUF/pieces) in the consolidated financial statements. The difference between the book value and the closing price of the stock exchange is recorded as other financial income (in 2007 and 2006 it was respectively HUF 505,228 thousands and HUF 507,554 thousands).

17. Non-current assets classified as held for sale

The following table contains the Group's non-current assets held for sale as of December 31, 2007. The reasons for discontinued operations are stated in Notes 35 and 38.

Balance sheet	**2007**
Intangible assets	616.040
Property, plant and equipment	6.463.711
Non-current receivables	2.525
Total non-current assets	**7.082.276**
Deferred tax asset	**111.012**
Inventory	2.287.161
Trade receivables	2.636.848
Other receivables	865
Cash and Bank balances	135.980
Total current assets	**5.060.854**
TOTAL ASSETS	**12.254.142**
Non-current borrowings	**2.866.263**
Provisions	**9.542**
Trade payables	2.387.827
Borrowings	2.478.131
Non-current borrowings within one year	429.490
Other current liabilities	974.210
Total current liabilities	**6.269.658**
TOTAL LIABILITIES	**9.145.463**

Income statement	**2007**
Sales	12.699.951
Cost of sales	9.890.769
Gross profit	**2.809.182**
Administrative and other expense	2.506.229
Other revenues	193.684
Other expenses	242.435
Profit for the year before financial result	**254.202**
Financial result	-480.345
Profit before tax	**-226.143**
Income tax	-93.054
Profit for the period from discontinued operations	**-133.089**

18. Issued Capital

	2007 thHUF	2006 thHUF
Issued capital	421 093	421.093

Share capital as of December 31, 2007 consists of 21,054,655 ordinary shares (4,210,930 shares in 2006), at a nominal value of HUF 20 (HUF 100 in 2006). From the issued capital 2,103,280 pieces were owned by the company at the balance sheet date.

The General Manager of Budapesti Értéktőzsde Zrt. made the following changes about the data of the shares of Pannonplast Műanyagipari Nyrt. with ISIN code HU0000073440 ISIN November 11, 2007.

ISIN code	Old data: HU0000073440	New data: HU0000089867
Nominal value of security	HUF 100	HUF 20
Number of securities (db)	4 210 931	21 054 655

The resolution about the change of the nominal value and the number of the sharer was brought by the general meeting at August 31, 2007 and it was registered by the court of registration effective from October 12, 2007. The last date of trading at the stock exchange of the shares with nominal value of HUF 100 was November 20, 2007.

19. Treasury shares

	2007 thHUF	2006 thHUF
Nominal value	42.066	42.066
Book value	1.283.435	1.283.435

20. Reserves

The determination of reserves available for distribution is based on the statutory unconsolidated balance sheet of PannErgy Nyrt. prepared in accordance with the Hungarian Act on Accounting. Reserves available for distribution, including profit for the year before dividend is HUF 3,666,038 thousands (HUF 22,494 thousands in 2006).

21. Minority interest

	2007 thHUF	2006 thHUF
Balance as of January 1, 2007	400.520	756.029
Minority interests in newly founded subsidiaries	29.987	-
Dividends paid to minority interest	-	-
Minority shareholders` share of net profit of the subsidiaries for current year	7.407	33.283
Decrease of minority interest due to sale of subsidiaries	-116.119	-388.792
Balance as of December 31, 2007	**321.795**	**400.520**

Union Plast DOO, (65% owned by Pannunion Zrt.) was consolidated during 2007 at the first time. From issued capital the share of minority interest at December 31, 2007 was HUF 29,987 thousands.

The change of Pannunion Kft. into Pannunion Zrt. was registered by the regional registration court of Vas county October 15, 2007. After this PannErgy made an agreement with the general manager of Pannunion Zrt., that he can buy 3% of the shares of the fully owned subsidiary Pannunion Zrt. The selling price was HUF 202,238 thousand, minority interest was HUF 125,035 thousands.

At November 14, 2007 PannErgy Nyrt made an agreement with The Furukawa Electric Co Ltd, about the sale of the 42% share of The Furukawa Electric Co Ltd in FCI Kft. to PannErgy Nyrt. The price of the transaction was EUR 1,050,000. Minority interest decreased by HUF 241,154 thousands.

Pannonplast Nyrt. sold its interest of 68,8% in Dexter Szerszámkészítő Zrt. Following the transaction the share of the company in the latter decreased to 25,1%. The amount of minority interest decreased by HUF 1,369 thousands.

22. Non-current borrowings

	2007 thHUF	2006 thHUF
Non-current borrowings	3.761.032	1.145.744
Less maturity within one year	-548.654	-124.847
TOTAL Non-current borrowings	**3.212.378**	**1.020.897**
Attributable to		
Continuing operations	346.115	-
Discontinued operations	2.866.263	-

At December 31, 2007 non-current borrowings included borrowings denominated in EUR in value of HUF 1,044,889 thousands. The interest rate of borrowings denominated in EUR was within the range of EURIBOR + 0.8% and EURIBOR + 1.1% as of December 31, 2007.

At December 31, 2006 non-current borrowings included borrowings denominated in EUR in value of HUF 495,637 thousands. The interest rate of borrowings denominated in EUR was EURIBOR + 0.8% as of December 31, 2006.

The interest rate of borrowings denominated in HUF was within the range of 0% and BUBOR + 0.5% as of December 31, 2006, the same amounts in 2007 respectively BUBOR+0.9% and BUBOR + 2%.

Non-current investment borrowings are collateralized with property, plant and equipment and inventories in the amount of HUF 11,000,000 thousands.

23. Current borrowings

	2007 thHUF	**2006 thHUF**
Bank loans	2.387.770	1.256.281
Non-current borrowings with maturity within one year	548.654	124.847
Bank overdrafts	90.410	1.716.468
TOTAL Current borrowings	**3.026.834**	**3.097.596**
Attributable to		
Continuing operations	119.213	-
Discontinued operations	2.907.621	-

Current borrowings included borrowings denominated in EUR in value of HUF 2,019,026 thousands as of December 31, 2007. The interest rates of borrowings denominated in EUR were within the range of EURIBOR + 0.5% and EURIBOR + 1.1% at the date of December 31, 2007.

The interest rate of borrowings denominated in HUF was within the range of 0.5% and BUBOR + 0.7% as of December 31, 2007 (as of December 31, 2006 was within the range of 0% and BUBOR+0.5%).

In order to consolidate the bank financing of the Group within one credit institution, the Group entered into a loan facility agreement with OTP Bank Nyrt. in December 2005 in the amount of HUF 8,954,011 thousands. They entered into loan, overdraft and bank guarantee agreements within the scope of the aforementioned facility. During 2007, the finance of the Group was restructured in the form of a new facility in HUF 5.000.000 thousands. OTP Bank Nyrt. entered into a new loan agreement with PMM Zrt. during 2007 in the amount of HUF 900.000 thousands.

The loans are collateralized as follows:

- the total assets of the companies involved in the loan facility agreement;
- absolute joint and several guarantee for suretyship;
- mortgage on movable and immovable property in the total amount of HUF 11,000,000 thousands.

24. Provisions

	2007	**2006**
	thHUF	**thHUF**
Opening Balance	35 341	81 377
Creation of provision	-	-
Reversal of provision	14 856	46 036
Closing Balance	20 485	35 341
Attributable to		
Continuing operations	10 943	35 341
Discontinued operations	9 542	9 998

The Group creates provisions for present obligations that will probably lead in the future to outflow of economical benefits. During this financial year the whole amount of provision was reversed in connection with legal cases of PMM Zrt., due to the closure of the cases.

25. Other liabilities

	2007	**2006**
	thHUF	**thHUF**
Accruals	353.799	295.000
Wages and social security	104.572	146.926
Fair value adjustment due to purchase option of shares	-	102.000
Other taxation (mainly VAT and customs duties)	105.667	71.658
Advances received from customers	-	14.036
Balance of security custody account	-	11.881
Dividends payable	7.323	7.425
Finance lease payable within one year	10.606	6.846
Corporate income tax	65.918	6.069
Liabilities due to printed shares	5.089	5.427
Fair value adjustment of forward transactions	-	4.720
Accruals concerning share based payments	266.228	-
Other liabilities	127.276	35.549
TOTAL Other liabilities	**1.046.478**	**707.537**
Attributable to		
Continuing operations	72.268	-
Discontinued operations	974.210	-

The fair value adjustment of the open forward transaction is HUF 5,124 thousands.

26. Taxation

	2007 thHUF	**2006 thHUF**
Current year tax charge	165.731	26.179
Deferred tax (credit)/charge, net	-45.402	99.070
TOTAL	**120.329**	**125.249**
Attributable to		
Continuing operations	213.383	-
Discontinued operations	-93.054	-

Reconciliation of deferred tax asset is as follows:

	2007 thHUF	**2006 thHUF**
Balance as of January 1	531.119	630.189
Increase/(Decrease) in deferred tax asset	45.402	-99.070
Balance at the date of December 31	**576.521**	**531.119**
Attributable to		
Continuing operations	465.509	-
Discontinued operations	111.012	-

The rate of corporate income tax for 2007 is 16%. From September 2006 a new tax, the solidarity tax of 4% was introduced. According to the accounting policy of the Group, this 4% additional tax is calculated in case of every temporary deferred tax item, at the realization or settlement of which additional tax is expected to apply.

Reconciliation of the current year tax is as follows:

	2007 thHUF	**2006 thHUF**
Loss before income taxes and minority interest	426.624	85.098
Loss before income tax of loss making companies	-287.586	-321.262
Profit before income tax of profitable companies	714.210	406.360
Income tax (at 16% and 4%)	142.842	70.451
Permanent differences	22.889	-44.272
Corporate income tax	165.731	26.179
Deferred tax effect of loss carry-forward	-45.402	99.070
Current year tax charge	**120.329**	**125.249**
Attributable to		
Continuing operations	213.383	-
Discontinued operations	-93.054	-

When calculating the income tax the Group took into consideration the 16% rate of corporate income tax and 4% rate of solidarity tax.

The company capitalized deferred tax asset from deferred losses of previous years expected to be used against profit of future periods. The tax effect of temporary differences did not have material effect on the consolidated financial statements, as well as, the probability that they are expected to be realized or settled can not be estimated reliably, so the company did not recorded deferred tax arising from these differences.

The following losses carry-forward available for future offset against any future taxable income are as follows:

	2007 thHUF	**2006 thHUF**
Subsidiaries		
Losses carried forward	3.803.482	7.107.932
Potential deferred tax asset	608.557	1.137.269
Provision against uncertainty of future realization	-32.036	-606.150
Deferred tax asset	**576.521**	**531.119**
Attributable to		
Continuing operations	465.509	-
Discontinued operations	111.012	-

27. Earning per share

	2007	**2006**
Profit for the year (thHUF)	281.581	893.016
Weighted average number of issued shares for the year (pieces)	5.493.303	4.067.578
Earnings per share (HUF)	51	220
Continuing operations	77	-
Discontinued operations	-24	-
Diluted earnings per share (HUF)	16	49
Continuing operations	23	-
Discontinued operations	-7	-

As a diluting factor the Group has taken into account that at December 31, 2007 the Group had open future buying transaction of 880,000 pieces PannErgy share, with due date of June 15, 2008.

28. Sale of subsidiaries

a, Sale of interest in Dexter Zrt.

On January 31, 2006 the Group sold its interest of 68,8% in Dexter Szerszámkészítő Zrt., so it became a minority shareholder of the entity.

The results of operations of Dexter Zrt. included in the consolidated financial statements, were as follows:

	2007 thHUF	2006 thHUF
Sales	-	36.232
Cost of sales	-	-15.353
Gross profit	-	20.879
Profit for the year before financial result	-	6.911
Financial result	-	-1.105
Profit for the year	**-**	**5.806**

The carrying amounts of the assets and liabilities of Dexter Zrt. as of the date of disposal are disclosed in Note 29 .b.

b. Sale of shares in TU-PLAST Kft.

On May 2, 2006 the Group sold its interest in TU-Plast Kft.

The results of operations of TU-Plast Kft. included in the consolidated financial statements, were as follows:

	2007 thHUF	2006 thHUF
Sales	-	383.723
Cost of sales	-	-277.198
Gross profit	-	106.525
Profit for the year before financial result	-	36.331
Financial result	-	3.022
Profit for the year	**-**	**37.996**

The carrying amounts of the assets and liabilities of TU-Plast Kft. as of the date of disposal are disclosed in Note 29 .b.

c, Sale of interest in Pannonplast-Humán Kft.

On June 1, 2006 the Group disposed of its interest in Pannonplast-Humán Kft.

The results of operations of Pannonplast-Humán Kft. included in the consolidated financial statements, were as follows:

:

	2007 thHUF	2006 thHUF
Sales	-	-
Cost of sales	-	-
Gross profit	-	-
Profit for the year before financial result	-	-278
Financial result	-	26
Profit for the year	**-**	**-252**

The carrying amounts of the assets and liabilities of Pannonplast-Humán Kft. as of the date of disposal are disclosed in Note 29 .b.

In 2007 FCI Furukawa Kft and the Pannunion Group will be sold during the first half of 2008, so it is stated as discontinued operation.

29. Notes to the cash flow statement

a., Analysis of cash and cash equivalents:

Cash and cash equivalents as of December 31 consists of:

	2007 thHUF	2006 thHUF
Cash and deposits	1.071.533	1.355.265
Bank overdraft	-90.410	-1.716.468
Restricted cash	-	-
Cash and cash equivalents	**981.123**	**-361.203**
Out of this		
Continuing operations	935.553	-
Discontinued operations	45.570	-

b., Non-cash transactions

The consolidated cash flow statement for the year ended December 31, 2007 included HUF 90,873 thousands of non-cash transaction arising from foreign currency translation differences on consolidation of foreign subsidiaries. (The respective amount as of December 31, 2006 was HUF 66,130 thousands.)

30. Commitments concerning construction in progress

	2007 thHUF	2006 thHUF
Contracted for, but not included in the consolidated financial statements	710.839	128.441
Authorized, but not contracted for	-	-

31. Contingent liabilities

a., Purchase option of shares

The majority shareholder of Dexter Zrt., in which PannErgy Nyrt. is a minority shareholder with 25,1% interest, has a purchase option to the share of the company, until the date of the authorization for issue of financial statements the majority shareholder didn't exercised its right. Pannonplast Nyrt. has a purchase option to buy back the interest sold during the period for 68,8% share in Dexter Zrt., so far the company hasn't exercised its option.

b., Forward exchange rate deals

As of December 31, 2007 the Company has an open forward exchange rate position of purchase of EUR 6,000,000. Taking the maturity into consideration, the expected loss/gain was charged/credited to financial result.

c., Treasury share transactions

The Group has contracted a future buy transaction about 880,000 pieces of PannErgy Nyrt shares at December 31, 2007. The due date of the transaction is June 15, 2008 with average share price of HUF 1,695 a piece.

d., Share call option

The company entered into an agreement on October 6, 2006. According to the contact, the company has a selling obligation of 463,000 pieces of Synergon shares. The counterparty of the agreement had the right to call its option of shares till October 5, 2009. The obligation of selling the Synergon shares due to the share call option was terminated March 19, 2007.

e., Obligations related to trusteeship transactions

In trusteeship transactions (share-, other assets sale and purchase agreements) the company undertakes reasonable guarantee obligations in order to assure the economic substance of the transactions. The management of the company believes that the possibility of outflow of resources embodying economic benefits is remote.

32. Foreign exchange rate and interest rate risk

Details of borrowings of the Group in foreign currencies are disclosed in Notes 22 and 23. Other foreign currency assets and liabilities arise from export and import of finished goods and raw materials.

The Group has three subsidiaries in Romania, Ukraine and Serbia. Exchanges losses arising from the devaluation of the local currency are recorded on consolidation directly to shareholders' equity, (see Note 29. d.).

The majority of the Group's borrowings bear interest at variable interest rates.

Calculating with the receivables and liabilities in foreign currency, the effect of a 10% increase in the foreign exchange rate would have the following effect on the performance of the Group:

Description	**EUR**		**Comment**	**USD**		**Comment**
	2007	**2006**		**2007**	**2006**	
Effect on result	-193.890	47.076	Th HUF	188	1.919	Th HUF

Details of items in EUR:

Description	**2007** **10%-change of foreign exchange rate**		**2006** **10%-change of foreign exchange rate**	
	EUR	**Effect on result**	**EUR**	**Effect on result**
Non-current receivables	4.055.072	103.072	4.591.327	115.242
Current receivables	6.797.644	172.387	5.866.508	149.141
Trade payables	3.890.529	-96.397	3.485.522	-87.821
Other liabilities	2.608.595	-66.159	932.282	-23.521
Loan in foreign currency	11.769.608	-306.793	4.214.920	-105.965
Total:		**-193.890**		**47.046**

The items in USD are not material, so it is not described with more details.

Interest sensitivity

The total loan in foreign currency at the end of 2007 was HUF 3,067,926 thousands, while the total amount of loan in forint was HUF 3,171,286 thousands. Change of the interest rate of the loan changes with 1 percentage point (100 base points) it would effect the result by HUF 62,392 thousands.

The most of the interest rates are in the range of BUBOR+0,5% and BUBOR +0,7%and in case of EUR loan in the range of EURIBOR+0,5% and EURIBOR+1,1%.

Credit risk

Those affiliates of the group who realized the highest sales revenues, make credit insurance agreement and cover about 90% of total domestic and export sale. The insurance fee 0.3%, the minimum amount fee for a year is HUF 2,000 thousands and the compensation is 80-85%.

In case of foreign sales, the following countries are in the insurance contracts: Austria, Czech Republic, Germany, Romania and Slovakia.

In case of new customers, the payment is made by direct debit, until the liquidity state of the customer is analyzed. In case of regular customers, if the payments are delayed, an agreement is made with the receivable about the settling of the due amount. In case of insolvency allowance is recorded (depended on the uncertainty of the future payments).

The classification of receivables is performed individually at year end. The aging of the receivables are as follow:

	Total	Not due	Less than 90 days overdue	90-180 days overdue	181-359 days overdue	More than 360 days overdue
	thHUF	**thHUF**	**thHUF**	**thHUF**	**thHUF**	**thHUF**
Continuing operations	**522.832**	514.305	-	-	-	8.527
Discontinued operations	**2.636.848**	2.349.095	185.950	43.732	32.033	26.038
Total	**3.159.680**	**2.863.400**	**185.950**	**43.732**	**32.033**	**34.565**

The aging of the payables are as follow:

	Total	Not due	Less than 90 days overdue	90-180 days overdue	181-359 days overdue	More than 360 days overdue
	thHUF	**thHUF**	**thHUF**	**thHUF**	**thHUF**	**thHUF**
Continuing operations	**95.721**	80.551	1.714	-	-	13.456
Discontinued operations	**2.387.827**	1.871.803	461.186	54.358	480	-
Total	**2.483.548**	1.952.354	462.900	54.358	480	13.456

Liquidity Risk

The cash and bank accounts of the Group are stated in the table below

at December 31, 2007

Condition	**Weighted average interest rate**	**<1 month**	**1-3 month**	**3-12 month**	**1-5 years**	**>5 years**	**TOTAL**
	%	thHUF	thHUF	thHUF	thHUF	thHUF	thHUF
Non-interest-bearing		300.020	-	-	120.000	-	420.020
Variable-interest-bearing		-	-	-	-	-	-
Fix-interest-bearing	4,675	343.840	304.608	3.065		-	651.513
Total		**643.860**	**304.608**	**3.065**	**120.000**	**-**	**1.071.533**

at December 31, 2006

Condition	**Weighted average interest rate**	**<1 month**	**1-3 month**	**3-12 month**	**1-5 years**	**>5 years**	**TOTAL**
	%	thHUF	thHUF	thHUF	thHUF	thHUF	thHUF
Non-interest-bearing		301.588	-	-	120.000	-	421.588
Variable-interest-bearing	-	-	-	-	-	-	-
Fix-interest-bearing	3,15	-	915.011	-	-	-	915.011
Total		**301.588**	**915.011**	**-**	**120.000**	**-**	**1.336.599**

33. Pensions

The Group contributed HUF 38,287 thousands into pension funds on behalf of 463 employees in 2007. (In 2006 HUF 45,105 thousands on behalf of 777 employees). Apart from these annual contributions based on salary, the Group has no other obligations above the contributions paid into the State pension scheme.

34. Subsidiaries

All subsidiaries, with the exception of Kuala Ingatlanhasznosító Kft. and Polifin A Vagyonkezelő Kft. are engaged in manufacturing activities, primarily plastics processing.

The Company's consolidated subsidiaries, and its interest in each entity are as follows:

Hungary	**2007**	**2006**
Almand Műanyagipari Kft.	100%	100%
FCI Furukawa Kompozit Szigetelő Kft.	100%	58%
Kuala Ingatlanhasznosító Kft.	100%	100%
Pannon-Effekt Műanyagipari Kft.	100%	100%
Pannonplast Műszaki Műanyagok Zrt.*	100%	100%
Pannonplast Polifin A Vagyonkezelő Kft.	100%	100%
Pannonplast-Humán Kft.	0%	0%
Pannunion Csomagolóanyag Kft.	100%	100%
Tu-Plast Tubusgyártó Kft.	0%	0%

* Previously Moldin 2000 Rt.

<u>Foreign subsidiaries:</u>

<u>Romania</u>	**2007**	**2006**
Unical SRL.	100%	100%

<u>Ukraine</u>	**2007**	**2006**
Interagropak TOV.	51%	51%

<u>Serbia</u>	**2007**	**2006**
Unionplast DOO	65%	65%

35. Future operation of PannErgy Nyrt and the Group

The Board of Directors made public their future strategy September 28, 2007, according to which it will concentrate its activity on revealing the sources and the utilization of geothermal energy in long term cooperation with VGK-Hönnun, Iceland. The signing of cooperational agreements with many local authorities is in progress. In the first half of 2008 will be the first overground MT and gravitational experiments and latter trial boring. The building of the establishment will commence afterwards.

A strategic decision was made, that the plastic processing branch will be restructured under Pannunion Zrt., and about going public of this so called Pannunion Group during the first quarter of 2008.

36. Segment reporting

PannErgy begun the operations to explore and utilize geothermal energy in 2007 to fulfill the above described strategy. During 2007 the segment has not yet generated any revenue. The total costs incurred during 2007 are HUF 127,784 thousands, which are mainly experts and counsling fees. The Group does not have any liability in connection with this segment at the end of the year, the costs of trial drills has been capitalized as intangible assets in the amount of HUF 38,199 th HUF.

Sales according to branches

	2007 thHUF	**2006 thHUF**
Income from plastic processing	13.156.935	14.515.117
Sales of geothermal energy	-	-
Income from investing activities	301.100	1.657.182
TOTAL	**13.458.035**	**16.172.299**

Sales from discontinued operations

	2007 thHUF	**2006 thHUF**
Income from plastic processing	12.883.687	12.436.198
Sales of geothermal energy	-	-
Income from investing activities	-	-
TOTAL	**12.883.687**	**12.436.198**

37. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

37.1. Trading transactions

During the year, group entities entered into the following trading transactions with related parties that are not members of the Group:

	Sales		Purchase		Receivables		Liabilities	
	2007 thHUF	**2006 thHUF**	**2007 thHUF**	**2006 thHUF**	**2007 thHUF**	**2006 thHUF**	**2007 thHUF**	**2006 thHUF**
ÖKO-Pannon Kht.	-	-	7.943	9.916	-	-	-	-
Dexter Zrt.	2.077	1.443	26.737	91.669	45.558	378	-	6.814
Prettl Pannonplast Kft.	-	572.437	-	13.490	-	22.742	-	15.877
Pannunion Service GmbH	121.788	1.029	38.986	9.542	85.006	286	454	1.994
Unionplast d.o.o.	-	-	-	-	-	-	-	-

37.2. Loans to related parties

	2007 thHUF	**2006 thHUF**
Loans to key management personnel	-	-
Loans to a joint venture entity	91.476	356.603
TOTAL	**91.476**	**356.603**

37.3. Compensation of key management personnel

The compensation of key management personnel, such as the members of Board of Directors, members of the Supervisory Board, key employees of the company and its major subsidiaries involved in the decision-making process according to the compensation categories defined in IAS 24 'Related party Disclosures', was as follows:

	2007 thHUF	**2006 thHUF**
Short-term employee benefits	59.407	66.376
Other long-term employee benefits	-	-
Termination benefits	-	-
Share-based payments	-	695.335
TOTAL	**59.407**	**761.711**

38. Events after the balance sheet date

The Group signed selling contract with BENJI Invest Kft about selling 100% shares of FCI Furukawa Kft on January 22, 2008. The disbursement of the transaction is due March, 2008.

39. Approval of financial statements

The financial statements have been approved by the board of the directors on April 1, 2008 and authorized its publication.