HUNGAROCONTROL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2014

in accordance with International Financial Reporting Standards (IFRS)

Budapest, 25 June 2015

Chief Executive Officer

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This is a translation of the Hungarian Report

Independent Auditors' Report

To the Shareholder of HungaroControl Zrt.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of HungaroControl Zrt. ("the Company"), which comprise the consolidated statements of financial position as at 31 December 2014, the consolidated statements of comprehensive income, the consolidated statement of changes in shareholders' equity, the consolidated statement of cash flows for the year then ended and the notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by EU and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the consolidated financial statements give a true and fair view of the financial position of HungaroControl Zrt. as at 31 December 2014 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Other matters

The entity has prepared another set of financial statements in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary and we have issued a report on those financial statements.

The entity has prepared the consolidated financial statements for the purpose to comply with the Regulation (EC) No 550/2004 of the European Parliament and of the Council of 10 March 2004. Our auditor's report should not be used for any other purposes.

(The original Hungarian language version has been signed.)

Bartha Zsuzsanna
Budapest, 25 June 2015
Ernst & Young Kft

HUNGAROCONTROL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2014
(all amounts in thousands HUF unless otherwise stated)

	Notes	December 31, 2014 thHUF	December 31, 2013 thHUF
Intangible assets	5	6 887 731	6 121 060
Property, plant and equipment	6	10 248 184	10 617 345
Investments in joint ventures	7	49 259	28 508
Invested financial assets		16 842	28 620
Other long term assets	8	375 400	415 779
Deferred tax asset	9	0	137 731
Non-current assets		**17 577 416**	**17 349 043**
Inventories	10	27 454	27 807
Trade receivables	11	6 463 360	4 883 358
Other current assets	12	3 178 910	2 282 301
Current tax receivable	13	118 168	9 876
Financial assets available for sale	14	9 048 543	0
Other financial assets	14	6 366 900	0
Cash and cash equivalents	14	3 298 691	15 212 458
Current assets		**28 502 026**	**22 415 800**
TOTAL ASSETS		**46 079 442**	**39 764 843**
Share capital	1	20 201 600	20 201 600
Reserves		13 964 351	6 807 677
Shareholder's equity		**34 165 951**	**27 009 277**
Long term provisions	15	27 499	13 987
Long term employee benefits	16	2 860 474	2 624 903
Other long term liabilities	17	2 071 346	2 961 546
Deferred tax liability	9	17 080	0
Non-current liabilities		**4 976 399**	**5 600 436**
Trade payables	18	2 314 961	2 093 094
Short term provisions	15	37 560	56 153
Short term employee benefits	16	2 603 051	2 194 555
Current tax liability	13	22	116 607
Other short-term liabilities	19	1 981 498	2 694 721
Current liabilities		**6 937 092**	**7 155 130**
TOTAL LIABILITIES		**11 913 491**	**12 755 566**
TOTAL EQUITY & LIABILITIES		**46 079 442**	**39 764 843**

The accompanying notes form an integral part of the consolidated financial statements.

HUNGAROCONTROL GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts in thousands HUF unless otherwise stated)

	Notes	December 31, 2014 thHUF	December 31, 2013 thHUF
Revenue from air navigation services	20	36 775 798	30 231 075
Other revenue	20	361 798	116 234
Revenue		**37 137 596**	**30 347 309**
Personnel expenses	21	15 765 833	16 709 404
Operating expenses	22	8 682 955	8 585 389
Depreciation, depletion, amortization and impairment	5, 6	2 778 088	3 139 545
Other income / expense (-)	23	589 270	597 943
Operating expense		**26 637 606**	**27 836 395**
OPERATING PROFIT		**10 499 990**	**2 510 914**
Financial income / expense (-)	24	470 676	565 195
Profit from financial activities		**470 676**	**565 195**
Share from profit / loss of joint venture	**7**	**18 861**	**10 075**
PROFIT BEFORE TAX		**10 989 527**	**3 086 184**
Income tax expense	**25**	**2 634 621**	**1 027 849**
PROFIT FOR THE YEAR		**8 354 906**	**2 058 335**
Attributable to equity holder of the parent		**8 354 906**	**2 058 335**
OTHER COMPREHENSIVE INCOME			
Items reclassified subsequently to profit and loss			
Gain / loss (-) on cash flow hedges	26, 29	**-167 414**	**186 884**
Less tax effect	9	**0**	**-30 627**
Gain / loss (-) on fair valuation of financial assets available for sale		**-53 987**	**0**
Less tax effect		**9 546**	**0**
Items that will not be reclassified subsequently to profit and loss			
Actuarial gain / loss (-)	16	**15 959**	**-8 806**
Less tax effect	9	**-2 336**	**1 546**
Other comprehensive income, net of tax		**-198 232**	**148 997**
TOTAL COMPREHENSIVE INCOME		**8 156 674**	**2 207 332**
Attributable to equity holder of the parent		**8 156 674**	**2 207 332**

The accompanying notes form an integral part of the consolidated financial statements.

HUNGAROCONTROL GROUP
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts in thousands HUF unless otherwise stated)

	Notes	Share capital	Retained earnings	Valuation reserve	Total reserves	Owners' share of profit	Attributable to the owners of the Group	Total shareholder's equity
		thHUF	thHUF	thHUF	thHUF	thHUF	thHUF	thHUF
Opening balance at 1 January, 2013		**20 201 600**	**6 650 672**	**-550 327**	**6 100 345**	**100%**	**26 301 945**	**26 301 945**
Transactions recognised in other comprehensive income	**9, 16**	0	0	148 997	**148 997**	100%	148 997	**148 997**
Profit for 2013		0	2 058 335	0	**2 058 335**	100%	2 058 335	**2 058 335**
Total comprehensive income		**0**	**2 058 335**	**148 997**	**2 207 332**	**100%**	**2 207 332**	**2 207 332**
Dividends		0	-1 500 000	0	**-1 500 000**	100%	-1 500 000	**-1 500 000**
Closing balance, 31 December, 2013		**20 201 600**	**7 209 007**	**-401 330**	**6 807 677**	**100%**	**27 009 277**	**27 009 277**
Transactions recognised in other comprehensive income	**9, 16**	0	0	-198 232	**-198 232**	100%	-198 232	**-198 232**
Profit for 2014		0	8 354 906	0	**8 354 906**	100%	8 354 906	**8 354 906**
Total comprehensive income		**0**	**8 354 906**	**-198 232**	**8 156 674**	**100%**	**8 156 674**	**8 156 674**
Dividends		0	-1 000 000	0	**-1 000 000**	100%	-1 000 000	**-1 000 000**
Closing balance, 31 December, 2014		**20 201 600**	**14 563 913**	**-599 562**	**13 964 351**	**100%**	**34 165 951**	**34 165 951**

The accompanying notes form an integral part of the consolidated financial statements.

HUNGAROCONTROL GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(all amounts in thousands HUF unless otherwise stated)

	December 31, 2014 thHUF	December 31, 2013 thHUF
OPERATING ACTIVITIES		
Profit before tax	**10 989 527**	**3 086 184**
Depreciation and amortization	2 710 988	3 117 551
(Gain)/Loss on sale of property, plant & equipment	12 483	100
Impairment/Scrapping of Fixed Assets	67 100	21 994
Impairment/Scrapping of Inventory	617	0
Increase/ (decrease) in provisions	-5 081	-181 205
Interest income	-514 993	-772 212
Increase in provision for bad debts	58 803	56 242
Share of (income) from joint ventures	-18 861	-10 075
Unrealized foreign exchange (gains)/losses	-70 056	23 840
Total	**2 241 000**	**2 256 235**
Changes in working capital:		
(Increase)/ decrease in Accounts receivable and other current assets	-2 731 974	485 112
(Increase)/ decrease in Inventory	-264	314
Increase/ (decrease) in Accounts payable, long term liabilities and accruals	-603 477	2 636 951
Income taxes paid	-2 638 546	-691 147
Total	**-5 974 261**	**2 431 230**
Net cash from operating activities	**7 256 266**	**7 773 649**
INVESTING ACTIVITES		
Purchase tangible assets and intangibles	-3 377 765	-2 019 178
Proceeds on disposal of property, plant & equipment	53 348	-100
Purchase of financial assets	-15 394 737	-1 703
Purchase of investment	-1 890	0
Interest paid	-86	0
Interest received	550 832	722 213
Net cash used in investing activities	**-18 170 298**	**-1 298 768**
FINANCING ACTIVITIES		
Dividend paid	-1 000 000	-1 500 000
Net cash used in financing activities	**-1 000 000**	**-1 500 000**
Decrease in cash and cash equivalents	**-11 914 032**	**4 974 881**
Cash and cash equivalents at beginning of year	15 212 458	10 238 400
Exchange rate loss on cash and cash equivalents	265	-823
Cash and cash equivalents at end of year	**3 298 691**	**15 212 458**

The accompanying notes form an integral part of the consolidated financial statements.

1. General information

1.1. Company background

HungaroControl Hungarian Air Navigation Services Private Limited Company (the "Company" or “HungaroControl”) with its joint ventures form HungaroControl Group (“the Group”).

HungaroControl and its joint venture, Entry Point Central Ltd. are incorporated under the laws of Hungary. The joint venture of FAB CE Aviation Services Ltd. is established under the laws of the Republic of Slovenia. Court registration number of HungaroControl is Cg. 01-10-045570. Registered address of the Company is H-1185 Budapest, Igló u. 33-35., Hungary. Webpage: www.hungarocontrol.hu.

HungaroControl was established on November 22, 2006. The share capital (authorized and fully paid) of the Company is HUF 20,201,600 thousand, comprising 20,200 Series “A” stocks of HUF 1,000,000 face value each and 16 Series “B” stocks of HUF 100,000 face value each.

HungaroControl is the organization appointed by law to provide air navigation services in the Hungarian airspace and in the upper airspace over Kosovo and training for air traffic controllers and flight information officers. As an integrated civil air navigation service provider, its mission is to deliver safe and reliable air navigation services in an efficient, environmentally aware, customer-focused and unbiased manner in the designated airspaces: in en-route traffic in the Hungarian airspace and in the upper airspace over Kosovo, as well as at the Budapest Liszt Ferenc International Airport. The shareholder of the Company is the Hungarian State, and founder’s and owner’s rights are exercised by the Ministry of National Development. Mandatory activities of the Company are laid down in Act XCVII of 1995 on Air Traffic.

Average number of employees of the Group was 719.8 in 2014 (2013: 715.4).

1.2. Governance

HungaroControl is 100% owned by the Hungarian State. The founder’s and owner’s rights are exercised by the Ministry of National Development. The Company is directed by the Board of Directors.
The operations of the Group are supervised by the supervisory board composed of six members: four representatives of the Owner and two representatives of the employees.

2. Accounting policies

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union. Therefore, the present financial statements comply with Article 4 of the EU IAS Regulation and with the Article 12 of the Regulation (EC) No. 550/2004.

For all periods up to and including the year ended December 31, 2012, the Company prepared its financial statements only in accordance with the Hungarian Accounting Law (Local GAAP). The financial statements for the year ended December 31, 2013 were the first the Group has prepared in accordance with IFRS.

The consolidated financial statements are prepared under the historical cost convention on going concern basis. The consolidated financial statements are presented in thousands Hungarian Forints (HUF) as this is the currency of the primary economic environment in which the Group operates. All values are rounded to the nearest thousand except when otherwise indicated.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.
The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

(all amounts in thousands HUF unless otherwise stated)

2.2. Basis of consolidation

The consolidated financial statements include the accounts of HungaroControl and its joint venture, Entry Point Central Kft. (EPC Ltd.). EPC Ltd. was founded to provide training for air navigation personnel. The Company is jointly controlled with the Swedish Entry Point North AB (owns 51% of the registered capital). The voting rights held equal to the proportion of ownership. The parties of the arrangement have rights to the net assets of the arrangement. The major governing policies are formed based on unanimous decisions of the quotaholders. An exception is the appointment of the managing director where HungaroControl has priority quota. Based on this arrangement EPC Ltd. is considered to be a joint venture and consolidated in the financial statement using equity method.

The table below shows the details of EPC Ltd.:

Joint venture	Date of foundation	Registered capital (in thHUF)	Ownership
Entry Point Central Kft.	May 26, 2011	1 000	HungaroControl 49% - Entry Point North 51%

EPC Ltd. is incorporated in Hungary and keeps its books in Hungarian Forints.

The consolidated financial statements are prepared in accordance with the measurement and presentation basis applied in IFRS.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Unrealized gains on transactions between the companies are eliminated (such elimination adjustment was zero for both of the years). Accounting policies of the joint venture are adjusted to ensure consistency with the policies adopted by the Group.

In 2014 the Group gained another member, FAB CE Aviation Services Ltd. which was established with the participation of the ANSPs of Austria, the Czech Republic, Croatia, Hungary, Slovakia and Slovenia. Executives of the air navigation service providers of the Functional Airspace Block of Central Europe (FAB CE) signed it’s the foundation deed on October 17th, 2014.

Joint venture	Date of foundation	Registered capital (in EUR)	Ownership
FAB CE Aviation Services Ltd.	October 17, 2014	36 000	HungaroControl 16,66% - same rate is applicable for the 5 other members

The Company will be responsible for the support of the implementation of the FAB CE programme and for the professional management of various regional air navigation projects. The joint company will foster implementation of already existing FAB CE projects, facilitate the exchange of services and assist the FAB CE programme, including the common procurement of high-level professional support, project management and administrative services.

The Company is jointly controlled by its members each owning 16.66% of the business. The major governing policies are formed based on unanimous decisions of the quotaholders. All of the members contributed with EUR 6,000 to the initial capital. At December 31., 2014 the value of HungaroControls' shareholding is HUF 1,889 thousand. FAB CE Aviation Services Ltd. is incorporated in Slovenia and keeps its books in EUR.

2.3. Foreign currency translations

Functional and presentation currency:

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"), which is the Hungarian Forint (HUF). The consolidated financial statements are presented in thousands of HUF.

Transactions and balances:

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of these transactions or the date of measurement. Foreign exchange gains and losses resulting from the settlement of such transactions and on the year-end revaluation of financial assets and liabilities held in foreign exchange are recognized in the income statement.

2.4. Investments and other financial assets

Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in case of acquisition of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the entity first becomes a party to it. Purchases and sales of investments and other financial assets are recognized on settlement date which is the date when the asset is delivered to the counterparty. The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose. Financial assets include cash and short-term deposits, trade receivables, loans and other receivables, and derivative financial instruments.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the short term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. Other investments are investments acquired for trading and therefore do not qualify as related parties. Gains or losses on investments held for trading are recognized as finance income or finance expense in the income statement.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Such financial assets are recorded as current, except for those instruments which are not due for settlement within 12 months from the balance sheet date and are not held with the primary purpose of being traded.
In this case all payments on such instruments are classified as noncurrent. Financial assets held for trading cannot be reclassified subsequently into other categories. As at December 31, 2014 (also in 2013), no financial assets have been designated as at fair value through profit and loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments, have fixed maturities and which the Group has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

Regarding securities the Group decided that only securities that mature over three months from the date of purchase can be recognised in this category, provided that the Group is both willing and able to hold them to maturity.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the income statement when the loans and receivables are derecognized or impaired, as well as through the amortization process. The following balance sheet items classify as loans and receivables: long-term debt securities, borrowings granted, receivables, debtors, other current receivables, debt securities, cash and cash equivalents.

Available-for-sale financial investments

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized as other comprehensive income in the fair valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded as other comprehensive income is recognized in the income statement.
After initial recognition available-for-sale financial assets are evaluated on the basis of existing market conditions and management intent to hold on to the investment in the foreseeable future. In rare circumstances when these conditions are no longer appropriate, the Group may choose to reclassify these financial assets to loans and receivables or held-to-maturity when this is in accordance with the applicable IFRS.

Fair value

For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date without any deduction for transaction costs. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

2.5. Classification and de-recognition of financial instruments

Financial assets and financial liabilities carried on the consolidated balance sheet include cash and cash equivalents, trade and other receivables and payables and long-term receivables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note. 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. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

The de-recognition of a financial asset takes place when the Group no longer controls the contractual rights that comprise the financial asset, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

When the Group neither transfers nor retains all the risks and rewards of the financial asset and continues to control the transferred asset, it recognizes its retained interest in the asset and a liability for the amounts it may have to pay.

The Group did not reclassify any of its financial assets or liabilities in 2014, or in 2013.

2.6. Hedging

For the purpose of hedge accounting, hedges are classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation.
The Group concludes cash flow hedges. A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows: cash flow hedges is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the income statement. The effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income, while the ineffective portion is recognized in the income statement as financial income or expense.

Amounts taken to other comprehensive income are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a nonfinancial asset or liability, the amounts previously taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognized in other comprehensive income are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in other comprehensive income remain in other comprehensive income until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

2.7. Impairment of financial assets

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Impairment losses on a financial asset or group of financial assets are recognized only if there is an objective evidence of impairment due to a loss event and this loss event significantly impacts the estimated future cash flows of the financial asset or group of financial assets.

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognized in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for financial assets, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Available-for-sale financial investments

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in the income statement, is transferred from other comprehensive income to the income statement. Impairment losses recognized on equity instruments classified as available for sale are not reversed; increases in their fair value after impairment are recognized directly in other comprehensive income. Impairment losses recognized on debt instruments classified as available for sale are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the income statement.

2.8. Cash and cash equivalents

Cash and cash equivalents include cash on hand and in the bank, short-term bank deposits with less than three months to maturity and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.9. Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the underlying arrangement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments as well as historical collections are considered indicators that the trade receivable may have been impaired.

Trade receivables from air space users are managed, collected and enforced by Central Route Charges Office of EUROCONTROL. Users are classified in categories of active and inactive.
Depending on user information, the Group makes a provision of 50% on doubtful debts regarding active users, a provision of 75% for inactive users, and 100% provision when there is solid information that the debtor is definitely not able or willing to settle its debt in the future.

2.10. Inventories

Inventories 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. Unrealizable inventory is fully written off.

Items such as spare parts, stand-by equipment and servicing equipment are recognized by the Group in inventories and are carried through profit or loss upon use. However, certain significant spare parts, stand-by equipment and servicing equipment meet the definition of property, plant and equipment if they are expected to be used during more than one period.
The Group exercises judgment, with the involvement of technical departments, to determine if a spare part qualifies as inventory or an item of property, plant and equipment. Specifically, spare parts of radar equipment qualify as long term assets and therefore are capitalized in the balance sheet.

2.11. Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation, depletion and accumulated impairment loss. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

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. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to income statement in the period in which the costs are incurred.

Construction in progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant asset is available for use.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets.

Typical depreciation rules are stated as follows:

Type of asset	Depreciation
Assets in the course of construction	not depreciated
Land	not depreciated
Buildings	2.5 %
Other structures	2.5 %
Development on third party property	6.0 %
Production machinery and equipment	14.5 %
Computer hardware	33.0 %
Telecommunication equipment	14.5 %
Furniture	10%

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items property, plant and equipment.
The Group estimates residual value of assets when the expected useful life of the asset is less then its technically possible useful life, and when revenues are expected from the sale of the asset at the end of its useful life. Residual values are not depreciated.

2.12. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognized if it is probable that the future economic benefits that are attributable to the asset will accrue; and the cost of the asset can be measured reliably. Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives. The amortization period and the amortization method are reviewed annually at each financial year-end.

Amortization is provided on a straight-line basis over the estimated useful lives of these assets.

Typical amortization rules are stated as follows:

Type of asset	Amortization
Licenses purchased for core activity	16.67% - 20%
Licenses purchased for other activities	33%
Software purchased for core activity	20%
Software purchased for other activities	33%

2.13. Impairment of assets

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the assets' fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years.

2.14. Leases

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement at inception date as to whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.
A reassessment after inception of the lease is possible only if one of the following applies:
(a) there is a change in contractual terms, other than renewal or extension of the arrangement;

(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in determination of whether fulfillment is dependent on a specific asset; or
(d) there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

Group as a lessee:

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

HungaroControl has contracted with the State in the past to fulfill the air traffic control activities. For this activity the State has provided lands and buildings to the Group under an asset management contract. This agreement falls under the Leasing standard. As the ownership of the property items never passes over to the Group, the contract is for an indefinite period, and the Group does not exercise full ownership rights over the assets, this arrangement is classified as operating lease. Therefore, the property items received under the property management contract are not shown among assets of the Group. The property management fee payable to the Hungarian National Asset Management Inc. is shown among Other Operating Expenses.

The property management contract includes a requirement to bring the assets held under the lease back to their original configuration and states, so the Group recognizes a liability for the cost of returning the asset to its original state.

Group as a lessor:

Finance lease is where the Group transfers substantially all the risks and benefits of ownership of the asset. Assets held under a finance lease are presented in the balance sheet as a receivable at an amount equal to the net investment in the lease. Finance incomes are recognized in the income statement.
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Initial indirect cost incurred while concluding an operating lease agreement are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.
In 2014 and 2013 the Company had no finance lease contracts.

2.15. Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.
The carrying values of trade and other payables approximate their fair values due to their short maturity.

2.16. Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will occur in order to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured and recorded as the best estimate of the expenditure required to settle the present obligation at the balance sheet date.

2.17. Long term employee benefits

Defined benefit plans:

In 2013 the Group operated a “Defined Benefit Plan”.
Contribution expenses under defined benefit plans are calculated based on the projected unit credit method and are subject to an actuarial assessment at the end of each period. The Company relies on actuarial assistance at the end of each year to establish the present value of its benefit obligations. Changes in the present value of the benefit obligation involve changes in the following factors:

a) current service cost
b) past service cost
c) any gain or loss on settlement of pension liability
d) the change during the period in the net defined benefit liability that arises from the passage of time
e) actuarial gains and losses.

From December 31, 2013, the Group decided to change its long term pension scheme from a defined benefit plan to a defined contribution plan and introduced a scheme regulated by the agreements ‘HungaroControl Career Plan’ and the ‘Air Controller Career Agreement’ implicated in the Collective Agreement operative from 31 December 2013. There are only three employees who remained in the previous scheme.

The conversion from defined benefit scheme to defined contribution scheme was still an ongoing process in 2014. The agreement which defines the instrument the closing balance will be paid into is still to be agreed upon and signed by the air navigation personnel and also still to be procured. The conversion between the schemes had been finalized regarding the non-air navigation personnel, the payments from the closing balance of the previous scheme had been fulfilled as planned.

Other long term employee benefit plans:

Except for the recognition of actuarial gains and losses, the initial and subsequent measurement of other long-term employee benefit plans is the same as the initial and subsequent measurement of post-employment benefit plans.

No specific contributions are made by the companies into a separate fund. The related future obligations should be determined based on factors such as employee turnover and mortality. The estimated cash flows are then discounted to the present value of the benefits and are presented in the Company's annual financial statements as a liability. Employees accumulate their entitlement from the beginning of the entitlement period until the date of payment. As a result, the Group members need to assess their liability only with respect to the period already served.

Defined contribution plans:

The benefit liability and expense are recognized in the period in which the employee completed the services that give entitlement to the benefits from the state pension plan or from private and voluntary pension plans. With respect to these plans, the employer has assumed an obligation to make systematic contributions towards the employee's future retirement benefit but is not responsible for the future yields on the contributions made.

2.18. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the years necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

2.19. Income taxes

Current taxes:

The Group classified the following taxes as income taxes: corporate income tax, local business tax and innovation contribution.
Corporate income tax and innovation contribution are payable to the Hungarian central tax authority, and local business tax is payable to the local governments. The basis of the corporate income tax is the taxable entities' accounting profit adjusted for non-deductible and non-taxable items. The basis of the local business tax and innovation contribution is the taxable entities' revenue reduced by cost of materials, cost of goods sold and cost of services transmitted.

Deferred taxes:

Deferred tax is recognized applying the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit.

Deferred tax is determined using income tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Where the items associated with effective and deferred taxes would be recognized directly in comprehensive income in the same or another period when the taxes are recognised are credited or charged directly to comprehensive income.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit (or reversing deferred tax liabilities) will be available against which the temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is also provided on taxable temporary differences arising on the joint venture, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

2.20. Dividend

Dividends payable to the Company's owner are recorded as a liability and debited against equity in the period in which the dividends are approved by the owner.

2.21. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, net of discounts, rebates, and sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Revenue from air navigation services:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of VAT and other sales related taxes.

Revenue is recognised as follows:
Air navigation services are billed and the revenues earned are recognised by the Company based on a unit price determined on the basis of pre-budgeted costs and planned annual turnover corrected by the average closing bid Reuters fx rates of previous month and by taking into account the actual chargable service units. Two main categories of air navigation services are en-route navigation (over Hungary and Kosovo) and terminal navigation services.

In the Hungarian en-route segment for determining unit prices ‘reference periods’ are set (initially 3 years and then 5 years) for which performance plans should be prepared including the costs and turnover expected in the reference period. This will be used by the Company as basis to calculate the annual unit prices, based on which the revenues will be realized. The performance scheme transfers part of the cost- and traffic risks on air navigation service providers.
Terminal and Kosovo segments still operate in a full cost recovery scheme meaning that the unit rates determined are based on service units and relating costs estimated previously. The actual number of service units and costs might differ which differences are then compensated via a rectifying method; as a main rule the over- or undercharging of the particular year ‘n’ is adjusted back in the calculation of the charging rate of ‘n+2’.

Revenue adjustments due to traffic risk sharing, inflation adjustments, uncontrollable costs, or terminal navigation under- or overrecoveries do not have an immediate impact on the Group’s revenues as the differences will be reflected in the new unit prices charged to airspace users in later aviation years.
Further information on revenue recognition regarding all of the business segments is included under the Note 20.

Sale of goods:
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Interest income:

Interest income is recognized on a time proportion basis using the effective interest method. Interest income is included in financial results in the income statement.

Dividends:

Dividends income is recognized when the Group’s right to receive the payment is established.

Other income (expense):

Income from agency agreements (search and rescue operations), where the Group acts as an agent, is shown as other income (expense) in the income statement together with directly related expenditures (net).

Income from settlement of costs of flights exempted from paying air navigation charges is receivable from the government, thus, reported among other income.

2.22. Operating profit

Operating profit is defined as revenues less operating expenses and other income (expense).

2.23. Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless they are acquired in a business combination. They are disclosed in the Notes unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

3. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and assumptions that may have a risk of causing material adjustment to the carrying amounts of assets and liabilities are outlined below. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3.1. Actuarial estimates for calculating long term employee benefits

The cost of long term employee benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality or fluctuation rates. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.
Refer to Note 16 of the notes to the consolidated accounts for a summary of the main assumptions. Actual outcomes may differ materially from the assumptions used and may result in volatility in the pension scheme liability and in the liability of other long term employee benefits.

3.2. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Group assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more probable than not, the Group provides for the amount of the estimated liability.

3.3. Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws and the amount and timing of future taxable income. Differences may arise between the actual results and assumptions made, or future changes to such assumptions could necessitate future adjustments to tax income and expense already recorded.

3.4. Useful life of assets

The useful life of assets is based on past experience gained from the usage of other similar assets and the expected technological development. In case there are significant changes in the circumstances assumed the useful lives will be reassessed.

4. Standards issued, but not yet effective

Standards and interpretations issued but not yet effective up to the date of issuance of the financial statements are listed below. The Group intends to adopt these standards and interpretations when they become effective. These standards will have no material impact on the financials:

- IFRS 9 Financial instruments – effective 1 January 2018, not yet endorsed by the EU;
- IFRS 15 Revenue from Contracts with Customers – effective 1 January 2017, not yet endorsed by the EU;
- IFRS 2 Share-based payment: definition of vesting condition – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IFRS 3 Business combinations: accounting for contingent consideration in a business combination, scope exceptions for joint ventures – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IFRS 8 Operating segments: aggregation of operating segments, reconciliation of the total of the reportable segments' assets to the entity's assets – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IFRS 13 Fair value measurement: short-term receivables and payables, scope of paragraph 52 portfolio exception – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IAS 16 Property, plant and equipment: revaluation method – proportionate restatement of accumulated depreciation – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IAS 24 Related party disclosures: key management personnel services – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IAS 38 Intangible assets: revaluation method – proportionate restatement of accumulated amortization – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IAS 19 Defined Benefit Plans: Employee contributions – effective 1 July 2014, endorsed by the European Union, the effective date applicable is 9 January 2015;
- IFRS 11 Accounting of Acquisitions of Interests in Joint Operations – effective 1 January 2016, not yet endorsed by the EU;
- IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortization – effective 1 January 2016, not yet endorsed by the EU;

- IAS 27 Equity method in Separate Financial Statements – effective 1 January 2016, not yet endorsed by the EU;
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – effective 1 January 2016, but this is to be amended, not yet endorsed by the EU;
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: changes in methods of disposal – effective 1 January 2016, not yet endorsed by the EU;
- IFRS 7 Financial Instruments: Disclosures: Servicing contracts, applicability of the amendments of IFRS 7 to condensed interim financial statements – effective 1 January 2016, not yet endorsed by the EU;
- IAS 19 Employee Benefits: Discount rate: regional market issue – effective 1 January 2016, not yet endorsed by the EU;
- IAS 34 Interim Financial Reporting: disclosure of information 'elsewhere in the interim financial report' – effective 1 January 2016, not yet endorsed by the EU;
- IFRS 10, IFRS 12 and IAS 28 Investments entities: Applying the Consolidated Exception – effective 1 January 2016, not yet endorsed by the EU;
- IAS 1 Disclosure Initiative – effective 1 January 2016, not yet endorsed by the EU.

(all amounts in thousands HUF unless otherwise stated)

5. Intangible assets

The table shows movements of intangible assets:

	Property right	Software	Work in progress	Intangible assets
Net value at January 01, 2013	**6 011 581**	**34 223**	**29 650**	**6 075 454**
Gross value:				
January 01, 2013	16 514 963	658 856	29 650	17 203 469
Additions	0	0	1 704 225	1 704 225
Capitalization	585 766	0	-585 766	0
Disposals	-28 932	-10 404	0	-39 336
December 31, 2013	**17 071 797**	**648 452**	**1 148 109**	**18 868 358**
Depreciation:				
January 01, 2013	10 503 382	624 633	0	11 128 015
Additions	1 647 658	10 950	0	1 658 608
Disposals	-28 921	-10 404	0	-39 325
December 31, 2013	**12 122 119**	**625 179**	**0**	**12 747 298**
Net value at December 31, 2013	**4 949 678**	**23 273**	**1 148 109**	**6 121 060**
Gross value:				
January 01, 2014	17 071 797	648 453	1 148 109	18 868 359
Additions	0	0	2 086 171	2 086 171
Capitalization	704 559	37 780	-742 339	0
Disposals	-221 226	-351 545	0	-572 771
December 31, 2014	**17 555 130**	**334 688**	**2 491 941**	**20 381 759**
Depreciation:				
January 01, 2014	12 122 119	625 180	0	12 747 299
Additions	1 315 107	4 393	0	1 319 500
Disposals	-221 226	-351 545	0	-572 771
December 31, 2014	**13 216 000**	**278 028**	**0**	**13 494 028**
Net value at December 31, 2014	**4 339 130**	**56 660**	**2 491 941**	**6 887 731**

The intangible assets are free of all liens, claims and encumbrances.

(all amounts in thousands HUF unless otherwise stated)

6. Property, plant and equipment

The table shows movements of property, plant and equipment:

	Land and buildings	Technical equipment	Other equipment	Work in progress	Property, plant and equipment
Net value at January 01, 2013	**4 175 232**	**5 649 051**	**919 816**	**270 942**	**11 015 041**
Gross value:					
January 01, 2013	4 294 189	9 441 429	2 688 447	270 942	16 695 007
Additions	0	0	0	1 089 663	1 089 663
Capitalization	29 318	218 130	616 951	-864 399	0
Disposals	0	-263 787	-109 903	0	-373 690
December 31, 2013	**4 323 507**	**9 395 772**	**3 195 495**	**496 206**	**17 410 980**
Depreciation:					
January 01, 2013	118 957	3 792 378	1 768 631	0	5 679 966
Additions	167 172	993 683	302 373	0	1 463 228
Disposals	0	-251 529	-98 030	0	-349 559
December 31, 2013	**286 129**	**4 534 532**	**1 972 974**	**0**	**6 793 635**
Net value at December 31, 2013	**4 037 378**	**4 861 240**	**1 222 521**	**496 206**	**10 617 345**
Gross value:					
January 01, 2014	4 323 507	9 395 772	3 195 496	496 205	17 410 980
Additions	0	0	0	1 144 768	1 144 768
Capitalization	108 932	520 805	307 345	-937 082	0
Disposals	0	-386 345	-343 204	0	-729 549
December 31, 2014	**4 432 439**	**9 530 232**	**3 159 637**	**703 891**	**17 826 199**
Depreciation:					
January 01, 2014	286 129	4 534 531	1 972 974	0	6 793 634
Additions	170 626	940 893	361 229	0	1 472 748
Disposals	0	-367 063	-321 304	0	-688 367
December 31, 2014	**456 755**	**5 108 361**	**2 012 899**	**0**	**7 578 015**
Net value at December 31, 2014	**3 975 684**	**4 421 871**	**1 146 738**	**703 891**	**10 248 184**

The above assets are free of all liens, claims and encumbrances.

The Group conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets. During the year, impairment charges of HUF 67,100 thousand (2013: HUF 22,036 thousand) were made in respect of operational assets reflecting a reassessment of certain assets, and the likelihood of benefits being realised in full.

(all amounts in thousands HUF unless otherwise stated)

7. Investments in a joint venture

The Group has a 49% interest in Entry Point Central Kft., a joint venture as described under section 2.2.
The results, assets and liabilities of EPC Ltd. are incorporated in these financial statements using the equity method of accounting. The investment is carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets, less any impairment in the value of the investment.

The assets and liabilities, income and expenses of EPC KFt. and the Group's share thereof as at December 31, 2014 and 2013, are as follows:

EPC Ltd's balance sheet:

	December 31, 2014	December 31, 2013
Current assets	140 672	93 587
Non-current assets	4 899	4 489
Current liabilities	48 899	39 896
Non-current liabilities	0	0
Equity	**96 672**	**58 180**

EPC Ltd's revenue and profit:

	December 31, 2014	December 31, 2013
Revenue	539 948	519 857
Operating expenses	503 182	501 209
Financial income	6 003	4 216
Profit before taxes	**42 769**	**22 864**
Income tax expense	4 277	2 303
Profit for the year	**38 492**	**20 561**

(all amounts in thousands HUF unless otherwise stated)

The Group's share of the profit of EPC Ltd.:

EPC KFt.	thHUF
Profit for the year 2011	13 230
Profit for the year 2012	11 389
Profit for the year 2013	20 561
Profit for the year 2014	38 492
Total profit accumulated	83 672
Share of the Group from the realised profit (49%)	**40 999**
Share of the Group from the impairment recognised (49%)	0
Share of the Group from the results accumulated	**40 999**
Initial cost of investment	6 370
Investment value at the end of the reporting period	**47 369**

The initial cost of the investment was HUF 6,370 thousand - which together with the accumulated profit above resulted in an investment value of HUF 47,369 thousand at the end of the reporting period (2013: HUF 28,508 thousand).
The gain included in the comprehensive income for the financial year 2014 is HUF 18,861 thousand (10,075 in 2013).

The Group has not received or will receive dividend in respect of the financial years above.

EPC Ltd. had no contingent liabilities or capital commitments as at December 31, 2014 and 2013.

FAB CE Aviation Services Ltd., the other joint venture the Group owns, was registered in the Republic of Slovenia on November 17, 2014. The Company did not have any other transactions till December 31, 2014 then the receipt of the initial capital from the members. The total share capital of the joint venture is EUR 36,000.

(all amounts in thousands HUF unless otherwise stated)

8. Other long term assets

Balances at period ends are as follows:

	December 31, 2014	December 31, 2013
Exempted flights	375 400	415 779
Total other long term assets	**375 400**	**415 779**

The cost of flights exempted from charges settled with the Hungarian State are recognised as short term and long term assets and are credited to other revenues.

The figures are calculated based on actual service unit numbers, and the costs per service units derived from the cost base approved.

The term of payment agreed with the relevant government bodies is two years. As the effect of discounting considered to be material on the balance the Group discounted these over two years using zero coupon rates derived from the yield curve of government bonds.

The interest income recognized for 2014 was HUF 29,375 thousand (2013: 32,727).

Outstanding balances broken down per partners:

	December 31, 2014	December 31, 2013
Ministry of Defence	1 081 937	1 126 826
Ministry of National Development	46 151	31 528
Ministry of Foreign Affairs	82 358	101 552
Total	**1 210 446**	**1 259 906**
Due in one year	*835 046*	*844 127*
Due over one year	*375 400*	*415 779*

HUF 464 million of the total outstanding balance has been settled in 2014 (HUF 512 million in 2013). Additional balance established for 2014 was HUF 375,400 thousand (HUF 415,779 thousands for 2013). The amounts of receivables for the compensation of costs of 2014 flights exempted from charges are included as long term assets in the financial position.

(all amounts in thousands HUF unless otherwise stated)

9. Deferred tax assets, liabilities

The following are the major deferred tax assets and liabilities recognized by the Group, and movements thereon during the current and prior reporting periods:

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2014	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2013
Accelerated tax depreciation	-969 103		-133 207	-835 896
Consolidation of joint venture with equity method	0		0	0
Valuation reserve of available for sale financial assets	9 546	9 546	0	0
Inventory capitalised as fixed assets whereas treated as inventory according to tax rules	16 591		-5 613	22 204
Provisions not included in tax base	848 185	-2 336	35 751	814 770
Bad debt allowances not included in tax base	107 995		-37 344	145 339
Differences between tax base and carrying amount of assets discounted	2 959		-5 018	7 977
Depreciation included in tax base on assets from development reserve	-157 006		18 512	-175 518
Fixed assets not yet capitalised and debited to income statement (future state owned assets capitalised according to tax rules)	114 501		112 339	2 162
Forward foreign exchange transactions	0		0	0
Replacement obligation on state owned assets	28 587		-137 083	165 670
Government grants included in tax base whereas accounted for as income in the next financial year	-19 336		-10 359	-8 977
Total deferred tax asset/liability	**-17 080**	**7 210**	**-162 021**	**137 731**

(all amounts in thousands HUF unless otherwise stated)

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2013	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at January 1, 2013
Accelerated tax depreciation	-835 896		-290 843	-545 053
Consolidation of joint venture with equity method	0		2 117	-2 117
Valuation reserve of available for sale financial assets	0		0	0
Inventory capitalised as fixed assets whereas treated as inventory according to tax rules	22 204		-366	22 570
Provisions not included in tax base	814 770	1 546	255 528	557 696
Bad debt allowances not included in tax base	145 339		9 298	136 041
Differences between tax base and carrying amount of assets discounted	7 977		19 256	-11 279
Depreciation included in tax base on assets from development reserve	-175 518		-87 768	-87 750
Fixed assets not yet capitalised and debited to income statement (future state owned assets capitalised according to tax rules)	2 162		2 162	0
Forward foreign exchange transactions	0	-30 627	30 787	-160
Replacement obligation on state owned assets	165 670		112 624	53 047
Government grants included in tax base whereas accounted for as income in the next financial year	-8 977		4 773	-13 751
Total deferred tax asset/liability	**137 731**	**-29 081**	**57 568**	**-13 751**

Deferred tax regarding valuation reserve of available for sale financial assets and remeasurements on post-employment liability is included in the relevant reserve line item and therefore presented in the statement of other comprehensive income.

Deferred tax assets and liabilities have been offset as the Group has legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same taxing authority ('NAV') on the same entity.

The corporate tax rate applicable in Hungary is 10% for the first HUF 500 million of the tax base – above that a rate of 19% is applicable. Corporate tax rate applied for deferred tax calculation is based on the estimated assessable profit for the relevant years. The report used for tax planning purposes and assessed by the key management personnel is the same one used for calculation of the tax rate applicable for deferred tax calculation.

Local business tax and innovation tax are projected on a tax base derived from the netting of revenue and certain expenses. These taxes are recognized as deductible expenses in the corporate tax base. No temporary differences arose in respect of these taxes hence they do not have any effect on deferred taxes and rates determined.

(all amounts in thousands HUF unless otherwise stated)

Deferred taxes were calculated with income tax rate of 17,65% in 2014 and 17,55% in 2013.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
From the balance above HUF 49,900 thousand deferred tax asset is expected to be reversed in one year, HUF – 66,980 thousand deferred tax liability is expected to be reversed in 5 years.

The Group had no tax loss carry forward balances at the year ends presented.

10. Inventories

Balances at the year ends occurred as follows:

	December 31, 2014	December 31, 2013
Spare parts	26 522	27 047
Other materials	932	760
Inventories	**27 454**	**27 807**

Items such as spare parts, stand-by equipment and servicing equipment are recognized among inventories and are carried through profit or loss upon use. Certain significant spare parts used at radar stations and significant navigation equipments meet the definition of property, plant and equipment, thus are recognized as items of property, plant and equipment. The inventory balance for 2014 includes an impairment loss amounting HUF 617 thousand. No impairment loss has been charged on inventories for financial year 2013. No previously recognized impairment loss has been released for the years presented.

11. Trade receivables

	December 31, 2014	December 31, 2013
Trade receivables	7 286 276	5 713 072
Intercompany receivable	8 626	1 692
Allowances	-831 542	-831 406
Total	**6 463 360**	**4 883 358**

Due to the invoicing policy, the average outstanding balance for receivables equals the amount of two months sales.

An allowance of HUF 831,542 thousand (2013: 831,406) has been made for balances estimated irrecoverable. Full provision has been made for customer balances not expected to be recovered.

(all amounts in thousands HUF unless otherwise stated)

The balances are assessed for credit quality and reviewed both periodically and at the end of the reporting period.
In case there is an estimated loss identified and expected to exist permanently between the carrying amount and the amount estimated recoverable the differences are provided for.

The receivables from services rendered to airlines are maintained, calculated, invoiced and collected by the Central Route Charges Office (CRCO). The Group assesses these balances individually based on recommendations received from CRCO. Doubtful balances of active customers are provided for up to 50% of the balance outstanding. Balances of customers under liquidation, or in administration are provided for up to 75% of the balance outstanding. On balances considered irrecoverable and classified as bad debts the Group makes a provision amounting 100%. Receivables from en-route and terminal customers are written off consistently with the information received from EUROCONTROL.

All other balances outstanding are assessed individually and are provided for using information on customer credit quality and other information available. Receivables estimated to be irrecoverable are provided fully.

Movement in the allowance for doubtful debts

	December 31, 2014	December 31, 2013
Balance at the beginning of the year	831 406	775 164
Increase in allowance recognised in the income statement	68 249	134 820
Release of provision	-113 750	-78 578
Foreign exchange movement in the year	45 637	0
Balance at end of the year	**831 542**	**831 406**

Ageing of the trade receivable balances

	December 31, 2014	December 31, 2013
Not overdue	5 812 422	4 448 670
Under 3 months	506 247	318 988
Overdue, between 3-6 months	32 647	26 475
Overdue, between 6-12 months	35 147	39 277
Overdue, over 12 months	899 813	879 662
Total	**7 286 276**	**5 713 072**

(all amounts in thousands HUF unless otherwise stated)

Aged balances impaired and not impaired

2014	Total	Not overdue, not impaired	Not overdue, impaired	Overdue, not impaired	Overdue, impaired
Receivables from airlines, en-route business	**5 472 867**	4 568 109	8 239	573 911	322 608
Receivables from airlines, terminal business	**1 431 766**	957 011	180	55 166	419 409
Receivables from airlines, Kosovo business	**173 817**	149 667	732	21 099	2 319
Domestic trade debtors, other	**83 848**	4 763	0	1 264	77 821
Foreign trade debtors, other	**123 978**	123 721	0	23	234
Total	**7 286 276**	**5 803 271**	**9 151**	**651 463**	**822 391**

2013	Total	Not overdue, not impaired	Not overdue, impaired	Overdue, not impaired	Overdue, impaired
Receivables from airlines, en-route business	**4 313 355**	3 612 618	11 174	232 404	457 159
Receivables from airlines, terminal business	**1 294 179**	799 525	0	61 370	433 284
Domestic trade debtors, other	**83 100**	3 372	0	1 907	77 821
Foreign trade debtors, other	**22 438**	22 057	0	162	219
Total	**5 713 072**	**4 437 572**	**11 174**	**295 843**	**968 483**

The balance of the material, individually impaired items changed as the follows between the years:

	December 31, 2014	December 31, 2013
Malév	351 048	387 271
MIL Canada	76 665	33 654
Total	**427 713**	**420 925**

There is no credit risk in the terminal navigation and Kosovo segments since full cost recovery system allows covering bad debts in future unit charges through underrecovery or overrecovery balances. (Please refer to Note 28 and Note 29 for further information.)

The management believes that the carrying amount of trade receivables approximates their fair value after the above provisions made and no further credit provision is required.

(all amounts in thousands HUF unless otherwise stated)

12. Other current assets

Balances at the end of the reporting periods occurred as follows:

	December 31, 2014	December 31, 2013
Short term receivables from exempted flights*	835 046	844 127
Value added tax	1 343 010	405 005
Changes in fair value of cash-flow hedges (gain)	6 802	44 102
Receivable from Eurocontrol - TNC sales	36 223	32 139
Other receivables	35 719	14 763
Bad debt allowances	-220	0
Total other receivables	**2 256 580**	**1 340 136**
Accrued interest income on deposits fixed	53 572	113 832
Payment receivable from employee's inflation allowance	183 291	88 542
Accrued income for EU grants received	10 192	52 098
Interest on late payment invoiced after year end	0	1 510
Accrued interest on government securities	1 971	0
Other income accrued	21 667	8 832
Total accrued income	**270 693**	**264 814**
Services prepaid	651 637	677 351
Total prepaid expenses	**651 637**	**677 351**
Other current assets	**3 178 910**	**2 282 301**

**For further information on Receivables from exempted flights refer to Note 8.*

Other receivable balances are assessed individually for credit risk at the end of the reporting period using information on credit risk quality and other information available at that time issuing our financial statement. In case there is an estimated loss identified between the carrying amount and the amount estimated recoverable the Group provides fully for differences expected to exist permanently. HUF 220 thousand provision was charged to profit or loss regarding 2014, whereas none for 2013.

(all amounts in thousands HUF unless otherwise stated)

13. Current tax receivables and liabilities

In accordance with IAS 12, the Group classifies taxes calculated based on taxable profit as income taxes. These taxes are presented after the pre-tax profit line in the profit and loss account. In view of prevailing legislation, the Group considered the following taxes as income taxes: corporate tax, local business tax (municipality tax), innovation contribution.

	December 31, 2014	December 31, 2013
Corporate tax	117 468	0
Local business tax	700	9 876
Innovation contribution	0	0
Current tax receivable	**118 168**	**9 876**
Corporate tax	0	88 874
Local business tax	0	0
Innovation contribution	22	27 733
Current tax liability	**22**	**116 607**

14. Cash and cash equivalents, other financial assets and financial assets available for sale

Balances at year ends are as follows:

	December 31, 2014	December 31, 2013
Cash on hand	**1 181**	**1 205**
Current accounts HUF	225 165	377 857
Current accounts in foreign currency (EUR)	9 680	50 386
Fixed deposits HUF - under 3 months	1 580 000	14 690 000
Fixed deposits in foreign currency - under 3 months (EUR)	0	93 010
Cash at banks	**1 814 845**	**15 211 253**
Government securities with maturity under 3 months (discount treasury bills)	1 482 665	0
Cash and cash equivalents	**3 298 691**	**15 212 458**

Cash and cash equivalents comprise cash on hand, cash held on current accounts and other highly liquid investments (with a maturity of 3 months or less) that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(all amounts in thousands HUF unless otherwise stated)

	December 31, 2014	December 31, 2013
Other financial assets	**6 366 900**	**0**
Fixed deposits HUF - over 3 months	6 366 900	0
Fixed deposits in foreign currency - over 3 months	0	0
Financial assets available for sale	**9 048 543**	**0**
Government securities with maturity above 3 months (discount treasury bills)	9 048 543	0

Other financial assets comprise fixed bank deposits in HUF. The maturity of the deposits is within one year, but above 3 months. The deposits are measured at amortized cost.

The discount treasury bills issued by the Hungarian State were designated as available for sale assets at initial recognition. They are measured at fair value with any possible change in fair value recognized in equity. The amount debited to other comprehensive income, hence to equity at year end was HUF 53,987 thousand loss. The fair valuation method used and the fair value hierarchy classification are both disclosed in Note 29.

The Group considers that the carrying amount of these assets approximates to their fair value.
Refer to cash-flow statements and Note 29 Financial risk management for further information.

(all amounts in thousands HUF unless otherwise stated)

15. Provisions

Balances at year end are as follows:

Long-term	Legal provision	Other provision	Total
Balance as of January 1, 2013	25 051	0	**25 051**
Additional provisions created	13 987	0	**13 987**
Unused amounts reversed	0	0	**0**
Reclassification between long-term and short-term categories	-25 051	0	**-25 051**
Utilized during the year	0	0	**0**
Balance as of December 31, 2013	**13 987**	**0**	**13 987**
Balance as of January 1, 2014	13 987	0	**13 987**
Additional provisions created	28 532	0	**28 532**
Unused amounts reversed	-15 020	0	**-15 020**
Reclassification between long-term and short-term categories	0	0	**0**
Utilized during the year	0	0	**0**
Balance as of December 31, 2014	**27 499**	**0**	**27 499**

Short-term	Legal provision	Other provision	Total
Balance as of January 1, 2013	226 294	0	**226 294**
Additional provisions created	58 707	47 473	**106 180**
Unused amounts reversed	-301 372	0	**-301 372**
Reclassification between long-term and short-term categories	25 051	0	**25 051**
Utilized during the year	0	0	**0**
Balance as of December 31, 2012	**8 680**	**47 473**	**56 153**
Balance as of January 1, 2013	8 680	47 473	**56 153**
Additional provisions created	1 822	26 846	**28 669**
Unused amounts reversed	0	-830	**-830**
Reclassification between long-term and short-term categories	0	0	**0**
Utilized during the year	0	-46 431	**-46 431**
Balance as of December 31, 2014	**10 502**	**27 058**	**37 560**

The Group provides for possible losses from legal cases. Other provision includes liabilities payable to Ministry of National Development where a present obligation has arisen as a result of past event (HUF 20,135 thousand as per December 31, 2014 and HUF 47,473 thousand as per December 31, 2013), the payment is probable and the amount can be estimated reliably. Other provision balance comprises also the amount payable to the Ministry for the bad debt allowance charged on receivables arising before 2007 (HUF 6,711 thousand) which amount has been included in the national cost base previously; further information is disclosed under Note 27.

Long term provisions are discounted using a risk free, pre-tax discount rate derived from government bond yields. The unwinding of discounts debited to profit or loss was HUF 1,354 thousand (2013: HUF 16,532 thousand).

(all amounts in thousands HUF unless otherwise stated)

16. Employee benefits

The employee benefits according to IAS19: Employee benefits presented under this note has been accounted for by using the evaluation of an independent, qualified actuary.

On transition to IFRS the Group did not chose to adopt the corridor approach permitted previously by IAS19: Employee benefits. Hence the full actuarial gains/losses have been recognized.

	December 31, 2014	December 31, 2013
Long term employee benefits	2 860 474	2 624 903
Short term employee benefits	2 603 051	2 194 555
Total employee benefits	**5 463 526**	**4 819 459**

Long term employee benefits

Net present value of long term employee benefits

	Defined benefit obligation	Other long term employee benefits	Defined contribution obligation	Total
Present value at January 1, 2013	**1 380 695**	**1 425 148**	**0**	**2 805 843**
Past service cost	0	0	0	**0**
Current service cost	109 525	92 656	0	**202 181**
Interest costs	75 524	76 103	0	**151 627**
Used during the year	-229 540	-240 711	0	**-470 251**
Gains/Losses on settlement /curtailment	-1 207 015	-1 325 903	4 052 913	**1 519 995**
Net actuarial (gains)/losses	8 806	-26 696	0	**-17 890**
Present value at December 31, 2013	**137 995**	**597**	**4 052 913**	**4 191 505**
Past service cost	0	0	0	**0**
Current service cost	3 338	68 559	0	**71 897**
Contribution charged to profit and loss during the year	0	0	511 148	**511 148**
Interest costs	4 332	1 077	138 660	**144 069**
Used during the year	0	0	-438 584	**-438 584**
Gains/Losses on settlement /curtailment	0	0	0	**0**
Change in discount rates	3 937	11 434	117 674	**133 045**
Net actuarial (gains)/losses	-19 896	-8 321	-17 012	**-45 229**
Present value at December 31, 2014	**129 706**	**73 346**	**4 364 799**	**4 567 851**

The Group operates a post-employment benefit scheme where employees are entitled to certain payments receivable upon retirement.
Until 31 December 2013 this scheme has been operated as a defined benefit scheme; however aiming to mitigate rising pension costs and encourage retirement for air navigation personnel turning 60 years old the Group introduced some reforms regarding its pension scheme. Thus, the Group entered into a new Collective Agreement and a new Career Plan Agreement for Air Navigation Personnel with an effective date of 31 December 2013. The new scheme is a defined contribution scheme partly with an annual contribution dependent on the annual basis salary of the employees, partly with a fixed annual contribution.

The conversion from defined benefit scheme to defined contribution scheme was still an ongoing process in 2014. The agreement which defines the instrument the closing balance will be paid into is still to be agreed upon and signed by the air navigation personnel and also still to be procured. The conversion between the schemes had been finalized regarding the non-air navigation personnel, the payments from the closing balance of the previous scheme had been fulfilled as planned.

The former scheme has been ceased for all the members except three air navigation controllers aged over 60 years where the Group retained its obligation without unchanged terms representing immaterial part comparing to the whole defined benefit pension scheme obligation (2014: HUF 129,706 thousand, 2013: HUF 137,995 thousand).

Defined benefit plan:

The scheme does not require payments to be made into separately administered funds. The cost of providing benefits under this plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized in other comprehensive income. Past service costs, resulting from the introduction of, or changes to the defined benefit scheme are recognized as an expense on a straight-line basis over the average period until the benefits become vested.
The obligation is discounted to the present value of benefits.

Other long term employee benefits:

Other long-term employee benefit plan includes payment for occupational accidents. No specific contributions are made by the Group into a separate fund. The amount of the liability has been determined using the projected unit credit method, based on financial and actuarial variables and assumptions that reflect relevant official statistical data and are in line with those incorporated in the business plan of the Group. The estimated cash flows are discounted to the present value of the benefits.

None of these plans have separately administered funds; therefore there are no plan assets recognizable.

Defined contribution scheme:

The actual settlement of the contribution scheme balance carried forward from the previous scheme will take place on several agreed dates in the future, therefore the liability is discounted and the effect of change in discount rates is charged to profit and loss. The Group has no further obligation remained from the previous pension benefit scheme.

(all amounts in thousands HUF unless otherwise stated)

The actuarial loss included in the balance arose on those part of the obligation where the period of service is not yet fulfilled by the employees – this is applicable for newly entered non-air navigation personnel only. According to the agreement signed new members of the scheme has to serve 5 years till they will be fully authorized members. The actuarial loss accounted for is the change in the number of these members as some of them became non air navigational employees or vice versa.

The following table summarizes the main financial and actuarial variables and assumptions based on which the amount of the above liability balances were determined:

	December 31, 2014	December 31, 2013	Portion from total 2014	Portion from total 2013
Actual death and turnover	2 085	-62 214	2%	348%
Effect of changes in discount rate	133 045	3 723	152%	-21%
Salary increase	-5 406	0	-6%	0%
Actual exit probability versus estimated	-1 523	4 537	-2%	-25%
Other	-40 385	36 064	-46%	-202%
Total	**87 816**	**-17 890**	**100%**	**100%**

From the above amounts, 2014: HUF 87,816 thousand loss, 2013: HUF 17,890 thousand gain, the following were included in other comprehensive income: HUF 15,959 thousand gain for 2014 and HUF 8,806 thousand loss for 2013. The remaining amounts (2014: HUF 103,775 thousand and 2013: HUF 26,696 thousand) are included in the profit and loss statement.

Actuarial gains and losses arising from changes in financial assumptions

Discount rates:
The Group used the zero coupon discount rates published by Government Debt Management Agency (webpage: www.akk.hu) as per 31 December 2014. The opening balance of the new scheme, i.e. the liability recognized regarding the defined contribution scheme will be paid out till 2017 therefore discount rates have been used on short and middle terms only. This also applies to the defined benefit scheme balance. Longer term discount rates have only been used in relation to the occupational accidents balance (Other long term employee benefits).

Discount rates used for scheme liabilities in 2014:

1 year	2 years	3 years
1,67%	2,07%	2,52%

Discount rates used for scheme liabilities in 2013:

1 year	2 years	3 years	4 years	5years
3,11%	3,51%	3,99%	4,44%	4,81%

(all amounts in thousands HUF unless otherwise stated)

Among all the actuarial assumptions the change in discount rates has the most significant impact on the net present value of the liability balance. Due to the significant decrease in discount rates from 2013 to 2014 the year end value of the obligations increased by HUF 133 million.

Actuarial gains and losses arising from changes in demographic assumptions

Actual versus estimated Exit probability:
Exit assumptions for 2014 were determined by using historical data regarding the last 4 years resulting in the following rates. These are presented below broken down by categories of personnel (averages):
2014: Non-air navigational: 5,27%   Air navigational: 0,14%.
2013: Other: 5%; Administrative: 3,3%;   Air navigational: 0,2%.

Mortality index:
Mortality indices used are derived from the statistics published by the Hungarian Statistical Office: the published maximum 10% caused by work place accident has been decreased by 50% considering the actual historical data of the Group from the last years.

Increase in salaries:
For valuation purposes 2,5% has been used for the three members remaining in the old scheme. In relation to the new scheme the effect of the increase in salaries are very limited and are only relevant for the occupational accidents balance.

The Group does not expect any reasonable possible change in the actuarial assumptions which would materially affect the year end balances of the liabilities hence there is no need to disclose sensitivity analyses regarding the main actuarial assumptions used.

Short term employee benefits

Short term employee benefits comprise the following items:

	December 31, 2014	December 31, 2013
Short term part of post employment benefits	1 707 377	1 566 602
Salaries payable for December	547 079	496 949
Accrual made for contribution payable in relation to the Career Plan Agreement for Air Navigation Personnel	173 358	0
Bonuses payable within 12 months	81 635	81 635
Compensation payable for overtime occurred in 2014	56 715	0
Short-term compensated absences	35 006	42 818
Other	1 881	6 551
Total	**2 603 051**	**2 194 555**

(all amounts in thousands HUF unless otherwise stated)

Short term part of post-employment schemes expected to be payable in one year: HUF 1,707,377 thousand as per December 31, 2014 (2013: HUF 1,566,602 thousand). The accrual made in an amount of HUF 173 million is one of the obligations payable to air navigation personnel based on the Career Plan Agreement entered into and therefore is part of the new defined contribution plan. The item has been paid at the beginning of 2015 with the same amount.

17. Other long term liabilities

Balances at the dates presented were as follows:

	December 31, 2014	December 31, 2013
Replacement obligation on state owned assets	269 297	947 707
EU grants received - long term part*	1 713 323	2 009 902
Long term liabilities payable to joint venture	4 175	3 937
Other long term liabilities	84 551	0
Other long term liabilities	**2 071 346**	**2 961 546**

** Liabilities relating to EU grants are disclosed under Note 23.*

Replacement obligation on state owned assets:

In September 2007, the Group signed an asset management agreement with the authority responsible for national property (Treasury Property Directorate legal successor of Hungarian National Asset Management Inc.). According to the agreement, the Company acquired asset management rights over state owned land, buildings, structures and related property rights.
As a result of the agreement, the Company is obliged to maintain the assets in its original condition by restoring, replacing and improving them. The obligation to keep the asset in its original condition – difference between the initial values recognized and the amortized values - is recognized among long term liabilities as presented in the table above. The balance of replacement obligation also depends on the value of investments made regarding state owned assets and assets withdrawn from asset management counterbalancing the amortization charged. The assets management right is classified as operative leasing further described under Notes 2 and 27.

The regulation was amended with an effective date of June 28, 2013 resulting in the release of the obligation payable. The amount of HUF 297 million (2013: HUF 134 million) was accounted for as government grant received decreasing the year-end balance of the obligation above with a counterbalancing figure included in other income line.

Other long term liabilities line includes the contractual obligation due to an enterprise license agreement entered into during the year; the balance is expected to be settled in 2 years' time.

(all amounts in thousands HUF unless otherwise stated)

18. Trade payables

Presentation of aging of payables is as follows at the year ends:

	December 31, 2014	December 31, 2013
Not due	2 298 874	1 976 428
Overdue, under 1 year	14 035	116 666
Overdue, between 1 - 5 years	2 052	0
Total trade payables	**2 314 961**	**2 093 094**

The Group settles trade payables within the payment term, and had no material overdue payables as of December 31, 2014 and 2013. The majority of overdue balances at the end of the periods presented are invoices of November and December paid early next year.

	December 31, 2014	December 31, 2013
Trade payables - domestic	1 156 949	897 497
Trade payables - foreign	915 333	1 066 264
Intercompany payables	242 679	129 333
Total trade payables	**2 314 961**	**2 093 094**

The classification in the table above differs from the one included in the Notes prepared as part of the 2013 Financial Statements. Instead of excluding the balance of the joint venture, Entry Point Central Kft. from the Trade payables – domestic line only and showing this separately as intercompany payables, the Group decided to fully separate all the balances classified as intercompany payables.
As a state controlled entity the Company could apply the exemption provided in IAS 24.25, by not disclosing the balances with the Hungarian State and with other state controlled entities fully. However, owing to the fact that the balance as of December 31, 2014 is significant, the Group opted for the full disclosure option. The exemption is still used when disclosing transaction with intercompany partners as included in Note 27.

The management considers that the carrying amount of trade payables approximates their fair value.

(all amounts in thousands HUF unless otherwise stated)

19. Other short-term liabilities

	December 31, 2014	December 31, 2013
Liabilities arising on search and rescue operations	0	302 355
EU grants - advance payment received*	167 338	0
Changes in fair value of cash-flow hedges (loss)**	159 820	16 182
Amounts payable to pension funds and voluntary pension funds	524 625	648 645
Liabilities from social security	289 000	353 108
Personal income tax payable on behalf of the employees	254 658	319 341
Liability from enterprise licensing agreement	84 550	0
Short term other liabilities towards various authorities	83 744	101 483
Other short term liabilities	59 892	80 061
Total other payables	**1 623 627**	**1 821 175**
EU grants received - short term part*	283 372	284 403
Other deferred income	279	687
Total deferred income	**283 651**	**285 090**
Services, goods delivered but not invoiced till the year end	74 220	588 456
Total accrued expenses	**74 220**	**588 456**
Other short-term liabilities	**1 981 498**	**2 694 721**

** Liabilities relating to EU grants are disclosed under Note 23.*
*** Changes in fair value of cash-flow hedges are disclosed under Notes 26 and 29.*

Liabilities arising on search and rescue operation:
The amount payable is collected from the air space users on behalf of the Defense Ministry responsible for providing search and rescue services. The amount was paid by the airlines through the en-route unit charges but waited to be settled with the Ministry at the year end. The amount is settled against revenues as the Group is considered to be an agent in respect of these operations. No such liability was due at the end of 2014 – all the obligations had been settled.

Liability from enterprise licensing agreement:
The balance arose from the contractual obligation due to a software enterprise license agreement entered into during the year; the balance is expected to be settled in 2 years' time. One half is payable above one year and is disclosed as other long term liability included in Note17. The other half of the obligation is expected to be payable within one year.

(all amounts in thousands HUF unless otherwise stated)

Services and goods delivered but invoiced after year end:
The balance for 2014 includes telecommunication service fees (HUF 15 million), software maintenance fees (HUF 24 million), legal and other expertise fees (HUF 20 million) and various other cost items. The balance at the end of 2013 is comprised mainly of leasing fee on state owned assets (HUF 331 million) and consultancy fees (HUF 165 million).

20. Revenue

Breakdown of revenues:

	December 31, 2014	December 31, 2013
Sales from air navigation services - en route	29 522 618	25 066 265
Sales from air navigation services - terminal	6 075 862	5 472 820
Sales from air navigation services - Kosovo	1 292 493	0
Hedge accounting reserve reclassified from equity to revenue	-115 175	-308 010
Total revenue from air navigation services	**36 775 798**	**30 231 075**
Other sales - foreign	259 503	46 266
Other sales - domestic	102 295	69 968
Total other revenue	**361 798**	**116 234**
Total revenue	**37 137 596**	**30 347 309**

A portion of the Group’s revenue from the provision of air navigation services denominated in foreign currencies is cash flow hedged. The reclassification from equity to profit or loss as a reclassification adjustment of the effective amount of foreign currency derivatives that are used to hedge foreign cashflows are included in sales revenue together with the foreign exchange losses / gains realized on trade receivable. The amount included in revenue as reclassification adjustment from equity is HUF 250 million loss (2013: HUF 304 million loss).
The amounts from foreign exchange differences included in the reclassification adjustment line in the table above are HUF 134,938 thousand gain and HUF 3,437 thousand loss for 2014 and 2013 respectively.

Further information on cash-flow hedges is included in the Notes 26 and 29.

The balances for the years presented comprise adjustments (en-route revenue line is decreased) for agent activity in respect of search and rescue operations carried out by the Ministry of Defence (2014: HUF 414,236 thousand and 2013: 403,140 thousand).

It is the Defense Ministry that makes search and rescue capacity available and carries out search and rescue tasks as necessary and so bears the associated costs. However, the planned costs of these activities are included in a national cost base managed by HungaroControl and hence are refunded to the Company through the unit charges. The revenues thus earned and included in the cost fund, are then forwarded to the Defense Ministry for the relevant search and rescue activities.
HungaroControl does not have an inventory risk in relation to the above transaction, as it is the Ministry's responsibility to make search and rescue capacities available and making inventories for such operations is conceptionally impracticable. Owing to the fact that HungaroControl pays to the Defense Ministry the amount included in the approved cost base only, it is impossible that the Company would grant and „aid" to the Defense Ministry and the amount granted is not refunded.
Determining the amount of revenue from such a transaction is beyond the Company's control as it is calculated by the Defense Ministry based on the actual costs expected to incur.
As search and rescue costs form part of the annual performance plan, they are also reflected in the budget used to determine the annual unit charges. Through the unit charges thus calculated, the budgeted costs, if the targets are met, are refunded to the Group by its customers.
In view of the above, the Group recognizes amounts granted to the Defense Ministry as an expense netted against revenues.

Further information is disclosed under Note 19.

All revenue is derived from continuing operations.

Revenue from air navigation services:

The main activity of the Group is to provide air navigation services – more than 99% of the revenue derives from air traffic charges. The two main segments of air navigation services: are navigation services provided for air traffic over Hungary (en-route segment) and terminal navigation services provided for traffic of Liszt Ferenc International Airport in Budapest (terminal segment).

There is a newly established, third business segment. On 3 April 2014, the upper airspace over Kosovo was re-opened for civilian traffic overflights. The re-opening of the airspace is based on a decision by the North Atlantic Council to accept an offer by the Government of Hungary to act as a technical enabler through its air navigation service provider, HungaroControl Pte. Ltd. In line with UNSCR 1244 and the 1999 Military Technical Agreement, the airspace will remain under NATO/KFOR authority and HungaroControl will act as technical enabler for the provision of some of the air navigation services and relating tasks to the overflying civilian air traffic.

The Kosovo airspace is part of the common Serbia-Montenegro-KFOR en-route charging zone. All the costs and income relating to the provision of the service are included in the cost base of Serbia-Montenegro-KFOR in alignment with the principles of the EUROCONTROL en-route charges system. Similarly to the terminal charging method, full cost recovery scheme has been applied for the whole year 2014.

Further information on the charging schemes is included in Note 2.

(all amounts in thousands HUF unless otherwise stated)

Air traffic charges are driven by the number of service units which takes into account the weight of the air plane, the number of movements and the distance factor.

Revenue from other sources:

The three most important segments in this category are the radar data services provided (HUF 46,647 thousand in 2014, HUF 44,259 thousand in 2013), fees from simulation services (HUF 215,718 thousand in 2014, none in 2013) and the various rental fees collected (HUF 30,434 thousand in 2014, HUF 26,721 thousand in 2013). However, revenue not derived from air navigation services represents an immaterial portion from the total.

21. Personnel expenses

Breakdown of personnel expenses:

	December 31, 2014	December 31, 2013
Wages and salaries	10 624 772	10 620 074
Social security	3 894 633	3 993 399
Other personnel expenses	998 192	870 700
Pension expenses and expenses from other long term benefits*	248 236	1 225 231
Personnel expenses	**15 765 833**	**16 709 404**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

	2014 No.	2013 No.
Division of air traffic services	311	292
Division of communications, navigation and surveillance	65	64
Division of air navigation control systems	42	40
Other	294	296
Closing number of staff employed	**712**	**692**

EPC Ltd. had in average 9 employees in 2014 and 6 in 2013 – these data are not included in the figures above.

(all amounts in thousands HUF unless otherwise stated)

22. Operating expenses

Operating expenses in the years presented are summarized in the following table:

	December 31, 2014	December 31, 2013
Energy costs	209 041	273 110
Other materials used	118 584	113 273
Cost of materials consumed	**327 625**	**386 383**
Lease payment on state owned assets*	1 841 995	1 717 777
Trainings expenditure	454 862	500 136
Expenditure on consultancy and fees of expert	317 956	419 023
Cost of meteorological services consumed	410 983	387 814
Safeguarding services	361 665	352 687
Maintenance fees	356 983	305 728
Software maintenance fees	265 315	247 729
Travel and other costs incurred on missions abroad	241 731	221 892
Real estate rental fees	180 620	155 242
Online service charges, charges for data transmission	270 898	131 551
Charges paid for waste disposal and similar services	75 964	81 256
Rental fees of fixed assets	110 556	80 831
Cost of advertisement and marketing campaigns	80 579	63 392
Other rental fees	40 599	48 595
Cost from changes in balance of state owned assets	297 021	835 458
Various other expenditures	505 516	412 323
Eurocontrol member fees	1 344 605	1 319 680
Fees paid for authorities	585 354	511 228
Fees of liability insurance	612 128	406 664
Other expenditures	**8 355 330**	**8 199 006**
Total Operating expenses	**8 682 955**	**8 585 389**

** In September 2007, the Group signed an asset management agreement with the authority responsible for national property (Treasury Property Directorate legal successor of Hungarian National Property Management Inc.). According to the agreement, the Company acquired asset management rights over state owned land, buildings, structures and related property rights. The Group classifies the usage right of these specified assets as operative lease taken into account that the conditions of a finance lease are not met as described under Note 2. The lease payment in 2014 was HUF 1,841,995 thousand (HUF 1,717,777 thousand in 2013).*
The leasing fee based on the renewed agreement signed in 2013 is derived from the market value of the assets. This agreement is cancelable.

(all amounts in thousands HUF unless otherwise stated)

Total minimum lease payments from the operating lease agreements the Group had at the balance sheet date as outstanding, non-cancelable commitments calculated over the lease term are as follows:

	December 31, 2014	December 31, 2013
Within 1 year	184 394	215 464
1– 5 years	423 476	558 872
Over 5 years	132 227	159 071
Total	**740 097**	**933 407**

The agreements presented include lease of properties (land leased for radars; leasing of parking lots and office spaces) and a car fleet leasing agreement.

(all amounts in thousands HUF unless otherwise stated)

23. Other income (expense)

	December 31, 2014	December 31, 2013
Deferred grants released	297 609	383 229
Costs of exempted flights reimbursable by the government authorities*	375 400	415 779
Liabilities waived**	297 020	134 903
Income from fixed assets sold	53 348	21 501
Release of bad debt provision	19 525	19 745
Release of provision made	47 261	0
Interest and other charges received on late payment	17 409	17 273
Change in discount rates used	10 347	0
EU grants related to expenses	63 351	0
Other various income items	39 785	16 212
Total Other income	**1 221 055**	**1 008 642**
Allowances charged on bad debts	66 604	117 047
Reimbursement of expenses payable to the Ministry of National Development	168 465	0
Expenses from charity activities and sponsorship	275 224	209 851
Provision charged for the year	1 502	0
Building tax	35 605	33 917
Book value of fixed assets sold	40 865	21 601
Unrecoverable receivables written off	11 725	18 271
Tax on company car usage	1 219	6 857
Impairment charged on inventory	616	0
Other various expense items	29 960	3 155
Total Other expense	**631 785**	**410 699**
Total Other income	**589 270**	**597 943**

** Balances of exempted flights and amounts credited for the financial year are disclosed under Note 27, transactions with related parties. The counterbalancing figures in the balance-sheet are disclosed under Notes 8 and 12 – in other long term assets and other receivables balances.*
*** The amount of HUF 297 million (2013: HUF 134 million) has been accounted for as government grant received decreasing the year-end balance of the replacement obligation connected to state owned assets disclosed under Note 17.*

(all amounts in thousands HUF unless otherwise stated)

Balances of bad debt provision and unrecoverable amounts written off are disclosed under Notes 11 and 29.

Balances of deferred government grants related to assets and the movements thereon are summarized in the table below:

	December 31, 2014	December 31, 2013
Balances at January 1st	**2 294 305**	**1 760 748**
EU grants received - releasable in 1 year	284 403	179 588
EU grants received - releasable over one year 1 year	2 009 902	1 581 160
Release of deferred grants	**297 610**	**383 229**
Depreciation of assets purchased from Cohesion Fund	84 321	179 264
Depreciation of assets purchased from TEN-T EERP	209 430	201 459
Release of 'PARAT' - VAT	3 859	2 506
EU grants received during the year	**0**	**916 786**
TEN-T-EERP	0	890 664
Foreign exchange difference on advance payment received (+ loss/ - gain) TEN-T-EERP	0	26 122
Balances at December 31st	**1 996 695**	**2 294 305**
- releasable in 1 year	*283 372*	*284 403*
- releasable over one year 1 year	*1 713 323*	*2 009 902*

Accounting policies adopted for government grants are disclosed under Note 2.

Balances broken down per projects:

	December 31, 2014				December 31, 2013		
	Advance payment received	Accrued income	Short term liability deferred grants	Long term liability deferred grants	Accrued income	Short term liability deferred grants	Long term liability deferred grants
TEN-T EERP, ANS III Project - related to assets	0	0	202 559	1 171 964	0	201 205	1 382 749
Cohesion Fund, Radar Project - related to assets	0	0	77 621	523 846	0	79 414	606 374
PARAT' - VAT - related to assets	0	0	3 192	17 513	0	3 784	20 779
FABCE II - related to expenses	0	0	0	0	52 098	0	0
Budapest 2.0 - related to expenses	0	3 998	0	0	0	0	0
CPDLC - related to expenses	167 338	0	0	0	0	0	0
React+ - related to expenses	0	6 194	0	0	0	0	0
Balances at December 31st	**167 338**	**10 192**	**283 372**	**1 713 323**	**52 098**	**284 403**	**2 009 902**

Grants received – TEN-T EERP, ANS III Project

As part of the ANS III complex development plan, a new high-tech air traffic control center has been established. The purpose of the investment was to extend the existing capacities of the Hungarian air traffic control and maintain its high level of efficiency, technological standards and reliability in line with the EU's integration plans and performance objectives. The project received an EU funding of EUR 5,964 thousand in the framework of the TEN-T (Trans European Network – Transport) plan.

The Group received the final approval and decision of the Commission in July 2013. The advance payment together with the payment received after the closure of Action (No. 2009-HU-40043-E) was deferred among long term liabilities in an amount expected to be released over one year. The amount is estimated to be released, i.e. depreciation charged based on the useful life of assets next financial year is disclosed under other short term liabilities.

Grants received – Cohesion Fund, Radar Project

Grants of EUR 14,917 thousand received from the Cohesion Fund covered 50% of the project aiming to modernize the radars used by the Group on three geographical locations and the software-upgrade of the automated air control navigation system (MATIAS). The last stage of the implementation of the upgraded software and the installment of the new radar equipments were finished in November 2008.
The amounts recognized as income in profit or loss accounts are in line with the depreciation charged of the assets granted over their useful life. The amount deferred at the end of 2014 is HUF 601 million (from that HUF 77,6 million recognized as short term part expected to be released in one year time) – 2013: HUF 685 million including an amount of HUF 79 million separated as short term part expected to be released into profit or loss within one year.

Grants received – FABCE II

Austrocontrol, HungaroControl Ltd., Rizeni letového provozu Ceské republiky, Kontrola zracnega prometa Slovenije, d.o.o tendered together as a consortium for EUR 1,447,390 as a compensation for expenses occurred on establishing the operation of the functional air space block in Central-Europe. The final approval and decision of the Commission was issued in 2014; the project had been closed at the end of 2012. As the expenses already incurred with no further future costs the grant had been recognized in profit and loss of the period in which it became receivable. In 2014 the Group received the final payment hence the balance accrued was derecognized.

Grants received – Budapest 2.0

In the framework of the Budapest 2.0 project, a six-member international consortium (HungaroControl and the Spanish Pildo Labs., Wizz Air Hungary Airlines Ltd., JetStream Légiforgalmi és Légiszolgáltató Kft, SLOT Consulting and the Polytechnic University of Cataloniais) is setting up a demonstration environment for the purpose of testing and demonstrating the air navigation developments closely related to the SESAR research and development programe. The aim of the project is to present the technological innovations and procedures that specifically improve the operations of low- and medium-traffic airports, as they help to schedule aircraft arrivals more efficiently, to reduce the number of delayed flights, more economically operate planes and reduce the environmental impact. The project budget is nearly EUR 2.5 million, 50 percent of which is provided by the European Union's Single European Sky (SES) program through its SESAR Joint Undertaking tender (EUR 1,2 million). From that HungarControl expects to receive 532,038 EUR grant amount. The amount showed as income accrued is in line with the cost occurred during the year. Up to the expenses already incurred the grant had been recognized in profit and loss as the Group believes it will fulfill relating obligations in the future and the grant became receivable.

Grants received – CPDLC

The implementation of CPDLC is mandated by the provisions in the Regulation (EC) 29/2009, containing requirements for data link service implementation. It is hoped that CPDLC will enhance flight safety and reduce congestion of voice communication frequencies. The Group received EUR 1,366 thousand EU-grant via the Trans-European Transport Network (TEN-T) budget which equals a 20% funding, the remaining 80% of the budget is self-funded. Work involves an upgrade to the legacy Magyar Automated and Integrated Air Traffic System (MATIAS).

The Group received EUR 683 thousand prepayment which is deferred as income. Up to the expenses already incurred (HUF 47,620 thousand) the grant had been recognized in profit and loss as the Group believes it will fulfill relating obligations in the future and the grant became receivable.

Grants received – React+

REACT-Plus project intends to undertake the necessary actions towards the implementation of Continuous Descent Operations (CDO) and Continuous Climb Operations (CCO) at and from Budapest airport, respectively. The consortium is formed by the following companies: PILDO Labs, HungaroControl, Wizzair. 50% of the project is funded by EU as part of the SESAR Joint Undertaking tender. HungaroControl expects to receive EUR 28 thousand from the total grant.
As the expenses already incurred with no further future costs the grant shall be recognized in profit and loss (HUF 8,848 million) of the period in which it becomes receivable. The income accrued is the amount of the grant not yet paid.

The management does not possess any knowledge about unfulfilled conditions and other contingencies attaching to government assistance that has been recognized.

(all amounts in thousands HUF unless otherwise stated)

24. Financial income (expense)

	December 31, 2014 (- loss / + gain)	December 31, 2013 (- loss / + gain)
Foreign exchange difference realised	-12 124	-44 394
Unwinding of discounts - long term employee benefits*	-144 069	-151 627
Interest received on deposits	390 824	493 556
Foreign exchange difference on year end revaluation	70 214	-22 834
Swap points received on cash-flow hedges**	124 255	278 656
Ineffective part of cash-flow hedges**	13 064	-4 606
Unwinding of discounts - other	28 022	16 195
Other various items	490	249
Total results of financial activities	**470 676**	**565 195**

** Long term benefits are disclosed under Note 16.*
***Cash flow hedges are included under Note 26.*

25. Income taxes

In accordance with IAS 12, the Group classifies taxes calculated based on taxable profit as income taxes. These taxes are presented after the pre-tax profit line in the profit and loss account. In view of prevailing legislation, the Group considered the following taxes as income taxes: corporate tax, local business tax (municipality tax), innovation contribution. Current income taxes and deferred tax assets and liabilities resulted in the following tax balances under IFRS:

	December 31, 2014	December 31, 2013
Current tax	2 468 586	1 085 417
Adjustments in respect of prior year	4 014	0
Deferred tax (receivable - / payable +)	162 021	-57 568
Income tax expense	**2 634 621**	**1 027 849**

The corporate tax rate applicable in Hungary is 10% for the first HUF 500 million of the tax base – above that a rate of 19% is applicable. Local business tax rate was 2%, whereas the innovation tax rate was 0,3% on the tax base (gross profit) in both of the years.

(all amounts in thousands HUF unless otherwise stated)

The effective income tax rate varied from the statutory income tax rate due to the following items:

	December 31, 2014	December 31, 2013
Profit on ordinary activities before tax	**10 989 527**	**3 086 184**
Tax on profit on ordinary activities at standard rate of 19% (2013: 19%)	2 088 010	586 375
Effect of differences between standard and actual tax rates used	-56 142	-123 447
Permanent differences	-96 896	-125 757
Other income taxes corrected with the effect of corporate income tax rate	693 447	681 707
Tax effect of prior year adjustments	4 014	0
Tax loss carry forward had not been recognised as deferred tax asset but used up as decreasing item in the tax base	-5 158	0
Other tax effect	7 346	8 971
Tax charge for year at an effective tax rate	**2 634 621**	**1 027 849**
Effective tax rate	**24%**	**33%**

The effective tax rate is largely influenced by the local business and innovation tax expense, which is calculated on a gross margin basis.

(all amounts in thousands HUF unless otherwise stated)

26. Cash-flow hedges

Fair value of derivative financial instruments

As of December 31, 2014 the fair value of open transactions designated as cash flow hedge with a corresponding adjustment of the fair valuation reserve in other comprehensive income were as follows.

Fair value of derivative financial instruments	December 31, 2014	December 31, 2013
Other current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**6 802**	**44 102**
Other current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**159 820**	**16 182**
Derivative financial instruments at fair value through profit or loss designated as such upon initial recognition		
Forward foreign exchange contracts	0	0

Contracts are settled either in one, two or three months from the year end. Fair value change of open forward contracts is recognized on the balance sheet. Further details on derivative financial instruments are provided in Note 29.

27. Related party disclosure

Transactions with related parties:

Transactions with the Hungarian State and with other state controlled entities:

As the Company applies the exemption provided in IAS 24.25, balances with the Hungarian State and with other state controlled entities do not have to be disclosed fully. However, owing to the exemption, the Company is required to make the following disclosures regarding partners considered to be influential from the Groups' perspective:

Governmental bodies involved in settlement of air navigation charges of exempted flights are the Ministry of National Development, Ministry of Defence and Ministry of Foreign Affairs.

Governmental organizations the Group purchases services from are the Ministry of National Development, Ministry of Defence, Hungarian National Asset Management Inc., the National Transport Authority, MVM Ltd. and Hungarian Meteorological Service.

The founder's and owner's rights are exercised by the Minister of National Development. The major transactions with the ministry are the following: payment of dividend (HUF 1,000,000 thousand in 2014; 1,500,000 in 2013).

The following governments bodies have no direct control over the Group or reversed, however, the management of the Group considers these transactions to be significant in terms of size and are disclosed to regulatory authorities and also reported to senior management hence are disclosed hereinafter.

In September 2007, the Group signed an asset management agreement with the authority responsible for national property (Treasury Property Directorate legal successor of Hungarian National Property Management Inc.). According to the agreement, the Company acquired asset management rights over state owned land, buildings, structures and related property rights. The Group decided to classify the usage right of these specified assets as operative lease taken into account that the conditions of a finance lease are not met. The lease payment in 2014 was HUF 1,841,995 thousand (HUF 1,717,777 thousand in 2013).
The leasing fee based on the renewed agreement signed in 2013 is derived from the market value of the assets.
As a result of the agreement the Company is obliged to keep a record of the assets separately and to keep the assets in its original condition by restoring, replacing and improving them counterbalancing the amounts of the occurring amortization costs ('replacement obligation').

The obligation to keep the asset at its original value – difference between the initial values recognized and the amortized values - is recognized among long term liabilities (HUF 269,297 thousand in 2014, HUF 947,707 thousand in 2013). (Refer to Note 17)

(all amounts in thousands HUF unless otherwise stated)

For the **National Transport Authority** the Group pays supervisory fee (2014: HUF 500 million – same for 2013) and other various license and permission fees (2014: HUF 93 million, 2013: HUF 19 million).

Further transactions considered to be significant in terms of size:

The Group purchases energy from **MVM Partner Energiakereskedő Ltd.** (2014: HUF 135,451 thousand, 2013: HUF 139,386 thousand) and meteorological data from the **Hungarian Meteorological Service** (2014: HUF 410,983 thousand, 2013: HUF 387,814 thousand).

Subsidiary of the Ministry of Defence, **HM EI Ltd.** provides safeguarding and cleaning services to the Group (2014: HUF 331,971 thousand, 2013: HUF 330,471 thousand).

Cost of flights exempted from charges and settled with the Hungarian State are recognized as short term and long term assets and are credited into other revenues – refer to Notes 8 and 12.

The total amounts of reimbursement claims for flights exempted from charges were as follows:

	Balance as per December 31, 2014	Balance paid off	Credited to Financial income	Credited to Other income	Balance as per December 31, 2013
Ministry of Defence	**1 081 937**	429 892	27 212	357 791	**1 126 826**
Ministry of National Development	**46 151**	0	1 076	13 547	**31 528**
Ministry of Foreign Affairs	**82 358**	34 690	1 087	14 409	**101 552**
Total	**1 210 446**	**464 582**	**29 375**	**385 747**	**1 259 906**
	Balance as per December 31, 2013	**Balance paid off**	**Credited to Financial income**	**Credited to Other income**	**Balance as per December 31, 2012**
Ministry of Defence	**1 126 826**	453 598	29 049	381 704	**1 169 671**
Ministry of National Development	**31 528**	58 803	1 713	16 470	**72 148**
Ministry of Foreign Affairs	**101 552**	0	1 965	17 605	**81 982**
Total	**1 259 906**	**512 401**	**32 727**	**415 779**	**1 323 801**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No provisions (2013: nil) have been made for doubtful debts in respect of amounts owed by related parties.

There were not any events or transactions occurred in the years presented which ones the management considers to be outside the normal day-to-day business operation or which were carried out on non-market terms.

(all amounts in thousands HUF unless otherwise stated)

Transactions with joint ventures:

The transactions with EPC Ltd. are disclosed fully:

Transactions with EPC	December 31, 2014	December 31, 2013
Sales to related parties	33 752	33 358
Purchases from related parties	477 575	453 061
Amounts owed by related parties	3 091	1 692
Amounts owed to related parties - long term	4 175	3 937
Amounts owed to related parties - short term	3 552	114

EPC Ltd. (refer to Note 2.2) provides training for air traffic controllers and language courses. The sales realized with EPC are comprised mostly of the rental fee charged for office space used and rooms rented for training purposes.

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. No provisions (2013: nil) have been made for doubtful debts in respect of amounts owed by related parties.

There were not any events or transactions occurred in the years presented which ones the management considers to be outside the normal day-to-day business operation or which were carried out on non-market terms.

(all amounts in thousands HUF unless otherwise stated)

Remuneration of the Supervisory Board, compensation of key management personnel:

The remuneration of key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures.

December 31, 2014 - Data in thHUF

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits
Remuneration of the Supervisory Board*	42 426	0	400	0
Remuneration of the CEO and the Directors**	195 415	0	0	0
Total	**237 841**	**0**	**400**	**0**

* The amount includes in total HUF 6,168 thousands fix remuneration fee for the Supervisory Board members.

** The amount does not include any bonus payment.

December 31, 2013 - Data in thHUF

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits
Remuneration of the Supervisory Board*	64 848*	4 686	5 910	8 911
Remuneration of the CEO and the Directors**	272 525**	0	0	4 533
Total	**337 373**	**4 686**	**5 910**	**13 444**

* The amount includes in total HUF 6,234 thousands fix remuneration fee for the Supervisory Board members.

** The amount includes in total HUF 68,037 thousands bonus payment for financial year 2012.

Key management personnel include the Chief Executive Officer, the Directors of the Company and the members of the Supervisory Board.

No loans or advance payments were granted to the members of the Supervisory Board or the key management personnel, and the Group did not undertake guarantees in their names.

(all amounts in thousands HUF unless otherwise stated)

28. Commitments, contingencies

Under- and overrecovery balances from air navigation services

Based on the special EUROCONTROL cost recovery mechanism, route charges were calculated on the basis of “full cost recovery” system until 2011. From 2012 on, the full cost recovery method was retained exclusively in the terminal activity; however the settlement scheme, the special balances and the accounting mechanism itself are carried on in both systems. The newly established Kosovo segment, as described under Notes 2 and 20 also operate under the full cost recovery scheme.

According to the special mechanism of the system, for States applying full cost recovery method, the difference between income and chargeable costs for year „n” resulted in underrecovery or over-recovery balances. Over- and underrecoveries are calculated as a difference between charges billed to users, other income and actual chargeable costs.

Underrecovery or overrecovery balances are settled through the “adjustment mechanism”, when balances of year „n” are carried over to year „n+2” (earliest) and taken into account in the calculation of the chargeable unit rates.

In the performance scheme under- and overrecoveries arise due to risk sharing: turnover risk, inflation risk and risk of uncontrollable costs are shared with users, thus, the Group has to settle under- and overrecovery balances from these facts in the future.

The Group does not recognize these revenues settlement balances- in the balance sheet as deferred revenues or accrued expenses, as it is prohibited by the IFRSs to recognise costs as inventory or defer them on the grounds that these might be set off against sales revenues in later periods (underrecovery). It is not permitted either to recognize costs relating to future periods on the grounds that such costs might be compensated in later periods when they will actually incur (overrecovery).

However, these balances fulfill the criteria of contingent assets and liabilities and have a significant impact on future cash-flows and operations, therefore are disclosed hereinafter with amounts measured in accordance with the requirements for measuring provisions.

Estimates of financial effects - Contingent assets arising from underrecovery balances due to EUROCONTROL’s adjustment mechanism:

Underfunding from cost base mechanism	Opening balance December 31, 2013	Amounts reimbursed (reversals)	Amounts generated during the financial year	Amounts reclassified from 2014	Closing balance December 31, 2014
underrecoveries from 2012, En-route segment	937 370	-1 237 262	0	299 892	0
underrecoveries from 2012, TNC segment	543 898	-543 898	0	0	0
underrecoveries from 2013, En-route segment	336 027	0	0	0	336 027
underrecoveries from 2014, Kosovo segment	0	0	305 230	0	305 230
Total underrecovery carried over	**1 817 295**	**- 1 781 160**	**305 230**	**299 892**	**641 257**

(all amounts in thousands HUF unless otherwise stated)

Estimates of financial effects - Contingent liabilities arising from overrecovery balances due to EUROCONTROL's adjustment mechanism:

Overfunding from cost base mechanism	Opening balance December 31, 2013	Amounts reimbursed (reversals)	Amounts generated during the financial year	Amounts reclassified from 2014	Closing balance December 31, 2014
overrecoveries from 2012, En-route segment	0	0	0	299 892	299 892
overrecoveries from 2013, TNC segment	508 132	0	0	0	508 132
overrecoveries from 2013, En-route segment	737 429	-714 910	0	0	22 519
overrecoveries from 2014, En-route segment	0	0	3 264 587	0	3 264 587
overrecoveries from 2014, TNC segment	0	0	1 361 089	0	1 361 089
overrecoveries from 2014, Kosovo segment	0	0	167 403	0	167 403
Total overrecovery carried over	**1 245 561**	**- 714 910**	**4 793 079**	**299 892**	**5 623 622**
Contingent liability from non-controllable costs	0	0	673 107	0	673 107
Total contingent liability from cost base mechar	**1 245 561**	**- 714 910**	**5 466 186**	**299 892**	**6 296 729**

The possible assets and obligations are expected to be realized, however the exact amounts and the timing of the realization depends on uncertain future events not wholly within the control of the entity (future traffic, approval of stake-holders).

(all amounts in thousands HUF unless otherwise stated)

Other commitments, contingencies

Among Other commtiments and contingencies the Group had the following bank guarantees given at the year ends presented:

Maturity date	Amount (thHUF)	
01.07.2014 - 29.09.2015	15 745	bank guarantee given for rental fee payment
14.08.2014 - 31.08.2015	17 344	bank guarantee given for rental fee payment
18.09.2014 - 14.01.2015	2 251	bank guarantee given for rental fee payment
18.09.2014 - 14.01.2015	2 251	bank guarantee given for rental fee payment
Guarantees given	**37 591**	
01.08.2012 - 31.08.2017	172 417	maintenance bond received in relation to investment projects
02.06.2014 - 19.05.2015	32 324	bank guarantee received in relation to investment projects
02.07.2014 - 31.03.2015	41 051	bank guarantee received in relation to investment projects
26.03.2009 - 24.03.2016	25 093	bank guarantee received in relation to investment projects
14.05.2013 - 31.01.2016	31 424	bank guarantee received in relation to investment projects
10.07.2013 - 27.06.2016	16 532	bank guarantee received in relation to investment projects
26.06.2013 - 27.06.2016	8 365	bank guarantee received in relation to investment projects
21.11.2014 - 30.06.2017	14 931	bank guarantee received in relation to investment projects
03.08.2012 - 30.07.2015	12 264	bank guarantee received in relation to investment projects
02.01.2013 - 05.01.2018	1 481	bank guarantee received in relation to investment projects
07.07.2011 - 30.08.2015	30 702	bank guarantee received in relation to investment projects
Guarantees received	**386 584**	

As part of the tendering process regarding new projects and contracts, the Group may require performance or advance payment guarantees. These guarantees are mostly connected to investment or restructuring projects regarding the communication infrastructure and system.

These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees received in these respects at 31 December 2014 were HUF 386,584 thousand (2013: HUF 378,656 thousand).

Uncertain tax positions

On the basis of the decision of the National Tax and Customs Administration (‘NAV’) it is expected that a fine would be imposed on the Group in relation to an investigation on import VAT connected to a 2014 fixed asset purchase, as per 27 April, 2015. The expected fine indicated by the tax authority is HUF 12,653 thousand. The Group appealed against the decision and expects a smaller amount to be payable after the final decision.

29. Financial risks

The Group is exposed to risks from changes in market and financial conditions that affect its results, assets and liabilities. Financial risk management aims to limit these risks through ongoing operational and finance activities.

Financial assets, other than hedging instruments, can be divided into the following categories: loans and receivables; financial assets at fair value through the profit and loss; available for sale financial assets; and held to maturity investments.

Financial assets are assigned to different categories on initial recognition. The classification depends upon the nature and purpose of the financial asset. A financial instrument's category is relevant to the way it is measured and whether the resulting income is recognized through the income statement or directly in equity.
Subsequent to initial recognition financial assets are measured at either fair value or at amortized cost according to the category in which they are classified.

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the time frame established by the market concerned, and are initially measured at fair value plus transaction costs.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Financial liabilities are either financial liabilities at 'fair value through the profit and loss' or 'other financial liabilities'.

The summary of significant accounting policies, the measurement basis used in preparing the financial statement and other accounting policies used which are relevant to understanding of the financial instruments presented are disclosed under Note 2 in respect of each class of financial asset, financial liability.

The balance sheet included comprises the following categories of financial assets and liabilities for the dates presented:

(all amounts in thousands HUF unless otherwise stated)

a) Fair value of financial instruments:

Financial assets:

	Loans and receivables	Held to maturity investments	Available for sale financial assets	Financial assets at fair value	Financial assets at fair value through profit and loss	Total carrying amount	Total fair value
Invested financial assets	16 842	0	0	0	0	16 842	16 842
Other long term assets	375 400	0	0	0	0	375 400	375 400
Trade receivables	6 463 360	0	0	0	0	6 463 360	6 463 360
Derivative financial instruments in designated hedge accounting relationships	0	0	0	6 802	0	6 802	6 802
Government securities with maturity under 3 month (discount treasury bills)	1 482 665	0	0	0	0	1 482 665	1 482 665
Fixed deposits HUF - over 3 months	6 366 900	0	0	0	0	6 366 900	6 366 900
Government securities with maturity above 3 months (discount treasury bills)	0	0	9 048 543	0	0	9 048 543	9 048 543
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	871 269	0	0	0	0	871 269	871 269
Cash and cash equivalents	1 816 026	0	0	0	0	1 816 026	1 816 026
Total as per December 31, 2014	**17 392 462**	**0**	**9 048 543**	**6 802**	**0**	**26 447 807**	**26 447 807**
Invested financial assets	28 620	0	0	0	0	28 620	28 620
Other long term assets	415 779	0	0	0	0	415 779	415 779
Trade receivables	4 883 358	0	0	0	0	4 883 358	4 883 358
Derivative financial instruments in designated hedge accounting relationships	0	0	0	44 102	0	44 102	44 102
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	876 466	0	0	0	0	876 466	876 466
Cash and cash equivalents	15 212 458	0	0	0	0	15 212 458	15 212 458
Total as per December 31, 2013	**21 416 681**	**0**	**0**	**44 102**	**0**	**21 460 783**	**21 460 783**

The financial assets are free of all liens, claims and encumbrances.

(all amounts in thousands HUF unless otherwise stated)

Financial liabilities:

	Financial liability at fair value	Financial liabilities at fair value through profit and loss	Financial liabilities at amortised cost	Total carrying amount	Total fair value
Other long term liabilities	0	0	358 023	358 023	355 528
Trade payables	0	0	2 314 961	2 314 961	2 314 961
Derivative financial instruments in designated hedge accounting relationships	159 820	0	0	159 820	159 820
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	0	0	89 313	89 313	88 144
Total as per December 31, 2014	**159 820**	**0**	**2 762 297**	**2 922 117**	**2 918 453**
Other long term liabilities	0	0	951 644	951 644	951 644
Trade payables	0	0	2 093 094	2 093 094	2 093 094
Derivative financial instruments in designated hedge accounting relationships	16 182	0	0	16 182	16 182
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	0	0	308 233	308 233	308 233
Total as per December 31, 2013	**16 182**	**0**	**3 352 971**	**3 369 153**	**3 369 153**

Other long term liabilities line excludes government grants, furthermore the lines 'other current assets' and 'other short term liabilities at amortized cost' exclude taxes, accruals and prepayments with an amount presented under Notes 12 and 19.

The book values of trade receivables and trade payables decreased by impairment charged approximate to their fair values due to their short maturities.

Cash and cash equivalents, fixed deposits, discount treasury bills with a maturity less than 3 month, other currents assets and other short term liabilities have short term maturities, therefore their carrying amount approximate to their fair values at the balance-sheet dates presented.

Other long term assets:
Other long term assets owed by government authorities - as described under Note 8 -, are discounted at the balance sheet date to include time value of money into the carrying amounts. By using risk free interest rate (zero coupon rates derived from the yield curve of government bonds as published by the Government Debt Management Agency (webpage: www.akk.hu)) over the term of maturity the book values disclosed above approximate to their fair value.

Other long term liabilities:
The book value of intercompany payable as disclosed under Note 17 approximates its fair value.

The fair value of obligation arose from a licensing agreement (also included in Note 17) was determined using discounted cash-flow techniques using the data described below.

Replacement obligation payable on government owned assets (part of Other long term liabilities):
The Group expects this liability to be covered mostly by non-financial assets (i.e. by purchasing property plant and equipment), however, this portion cannot be measured reliably nor can the maturity date, as these decisions are beyond the Group's authority, hence, the Group decided to include the amount as financial liability. The book value of the liability approximates its fair value.

The fair value of forward exchange contracts:
The fair value of forward exchange contracts represents the unrealized gain or loss on revaluation of the contracts to year end exchange rates and is expected to be realized within one year. The fair values used are the mark-to market values calculated by the partner banks.

The fair value of available for sale financial assets:
The fair values used are provided by the partner banks and represent unadjusted prices, i.e. the biding offers determined based on the bid prices of the active market where the instruments were traded as per December 31, 2014.

There were no reclassifications of financial assets between the individual categories in the years presented.

Fair value hierarchy

The fair values used can be grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Loans and receivables and most of the financial liabilities are measured at amortized cost but the fair values of these instruments are also disclosed in the tables above. These fair values have been identified by using Level 3 information and discounted cash flow valuation techniques if applicable. The estimated cash flow streams are based on the contractual terms, whereas the discounts rates are the risk-free, before tax rates (zero coupon rates derived from the yield curve of government bonds) issued by the Government Debt Management Agency Plc. (ÁKK Zrt.).
The financial instruments denominated in foreign currencies are revalued by using the foreign exchange rate issued by the Central Bank of Hungary.

The Group does not possess any financial assets or liabilities measured at fair value where fair values were identified based on Level 3 information.

(all amounts in thousands HUF unless otherwise stated)

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	December 31, 2014			December 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Derivative financial instruments in designated hedge accounting relationships	0	6 802	0	0	44 102	0
Available for sale financial assets	0	9 048 543	0	0	0	0
Financial liabilities						
Derivative financial instruments in designated hedge accounting relationships	0	159 820	0	0	16 182	0

HungaroControl had instruments valued at Level 2 – valuation derived from market prices. The fair values used for valuation of the derivative financial instruments are identical to the mark-to-market valuations received from the banks at each month end.

Available for sale financial assets are discount treasury bills issued by the Hungarian State with a maturity date less than one year but above 3 months. The fair value used is provided by the banks representing unadjusted prices, i.e. biding offers determined based on the bid prices as per December 31, 2014 of a highly active market where the treasury bills are quoted.

There were not any transfers between Level 1 and Level 2 financial instruments.

b) Financial risk management

The Group monitors and manages financial risks relating to its operations. The Group has clear policies and operating parameters. The Supervisory Board provides oversight. The Treasury function does not operate as a profit centre and the undertaking of speculative transactions is not permitted. The principal financial risks arising from the Group's activities include market risk (including currency risk, interest rate risk and inflation risk), credit risk and liquidity risk.

Market risk:
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and inflation rates. There is a special risk arising from the provision of air navigation services. These risks and the methods they are managed by are explained below.

(all amounts in thousands HUF unless otherwise stated)

Foreign currency risk management

The Group's principal exposure to foreign currency transaction risk is in relation to the revenue from air navigation services provided in the Hungarian airspace, accounting for 95,5% of the Group's turnover (2013: 99,6%). Charges for this service are set in Hungarian Forint, but are billed and collected in Euro by applying a conversion rate determined monthly by EUROCONTROL, who administer the revenue collection. The conversion factor used is the average of the daily closing Reuters-rates for the month prior to the billing period ('t-1'). To mitigate the risk that exchange rates move between the date of determining the unit charges (average rate of 't-1') and the date on which the funds are remitted ('t+2') to HungaroControl, foreign currency forward contracts are entered into. The Group hedges its expected cash flow from sales revenue (relating to the Hungarian en-route and terminal segments only) based on hedging limits set in its foreign currency risk hedging policy.

In respect of air navigation services provided in Kosovo airspace the charges are set in Serbian dinar. These revenue streams are not hedged but as these represent a relatively small portion of revenue (3,4%) do not represent a significant foreign exchange exposure. Furthermore, in the terminal and Kosovo segments, due to the full cost recovery mechanism the risk arising on changes of foreign exchange rates is transferred onto the airlines, since exchange differences are included in the respective cost bases.
In en-route segment – under the performance scheme – currency risk is generally borne by the service providers (only related to the uncontrollable costs can be passed on to the users), thus the risk remains at the Group.

The amount of trade receivables denominated in foreign currency exceeds the amount of trade payables denominated in foreign currency. The carrying amount of the Group's monetary assets and monetary liabilities denominated in foreign currency were as follows:

	FX rates at year-end		Assets (in foreign currency)		Assets (in thHUF)	
	2014, December	2013, December	2014, December	2013, December	2014, December	2013, December
EUR	314,89	296,91	20 576 379	16 969 901	6 479 296	5 038 533
USD	259,13	215,67	0	0	0	0
GBP	403,75	356,76	202	759	82	271
Other*			*0*	*0*	*0*	*0*

	FX rates at year-end		Liabilites (in foreign currency)		Liabilites (in thHUF)	
	2014, December	2013, December	2014, December	2013, December	2014, December	2013, December
EUR	314,89	296,91	4 278 968	3 511 999	1 347 404	1 042 748
USD	259,13	215,67	717	13 059	186	2 816
GBP	403,75	356,76	0	0	0	0
Other*			*0*	*0*	*0*	*630*

**Various currencies in total having no material effect on the balance-sheet and profit and loss line items of the financial statement.*

Foreign currency assets include cash and cash equivalents, trade receivables and other short term receivables. Liabilities presented comprised of trade payables and other short term liability items.

(all amounts in thousands HUF unless otherwise stated)

Forward foreign exchange contracts

Based on the EUROCONTROL cost recovery mechanism, route charges were calculated on the basis of "full cost recovery" regime until 2011. From 2012 on, the full cost recovery method was retained exclusively regarding the terminal activities hence foreign exchange risks in en-route navigation segment became a risk carried by the Group.

The Group entered into forward foreign exchange contracts to sell Euro and buy HUF on the basis of forecasted revenues of both en-route and terminal segments. The Group designated these forward contracts as cash flow hedges. With the hedging transactions the Group aims to secure the HUF value of sales revenues received in EUR from airlines. The basis for the amounts contracted is 90% of the estimated service units i.e. the forecast sales transaction.

The following contracts were outstanding at year end:

December 31., 2014	EUR sold	Average exchange rate	HUF bought (in thHUF)	Maturity date	Expected Gain (+)/ Loss (-) in th HUF (valuation reserve)	Ineffective part included in Profit and loss	Interest income from swap points included in line item financial income
November sales, 2014	8 417 890	308,53	2 597 158	22. 01. 2015	-61 993	-2 397	3 851
December sales, 2014	7 754 069	307,86	2 387 139	25. 02. 2015	-63 464	0	1 782
January sales, 2015	6 528 210	311,37	2 032 699	25. 03. 2015	-29 584	0	-1 213
Derivative financial instruments in designated hedge accounting relationships	**22 700 169**	**309,25**	**7 016 996**	**-**	**-155 041**	**-2 397**	**4 420**
December 31., 2013	**EUR sold**	**Average exchange rate**	**HUF bought (in thHUF)**	**Maturity date**	**Expected Gain (+)/ Loss (-) in th HUF (valuation reserve)**	**Ineffective part included in Profit and loss**	**Interest income from swap points included in line item financial income**
November sales, 2013	6 852 624	296,66	2 032 867	23. 01. 2014	-13 520	-15	9 277
December sales, 2013	6 295 602	299,47	1 885 344	27. 02. 2014	4 689	6	5 617
January sales, 2014	6 432 533	301,66	1 940 435	27. 03. 2014	21 204	0	662
Derivative financial instruments in designated hedge accounting relationships	**19 580 759**	**299,26**	**5 858 646**	**-**	**12 373**	**-9**	**15 556**

All of the above forecast transactions hedged are expected to occur, thus they are still to be recognized in the balance sheet.

These contracts will mature within the first three months of the next financial year at which stage the amount deferred in equity will be realized in the income statement.

(all amounts in thousands HUF unless otherwise stated)

The following amounts were recognized in the comprehensive income statement for the financial years 2014 and 2013:

Amounts recognised in comprehensive income statement in relation to derivative financial instruments	December 31, 2014	December 31, 2013
Amount that was removed from equity and recognised in sales balance (- loss/ + gain)	-250 113	-304 573
FX change difference realised on hedged trade receivables and recognised in sales balance (- loss/ + gain)	134 938	-3 437
Ineffective part of cash-flow hedges included in financial results (- loss/ + gain)	13 064	-4 606
Interest recognised in profit and loss and included in financial results (swap points received)	124 255	278 656
Total gain (+)/loss (-) on cash-flow hedge transactions	**22 144**	**-33 960**
Fair value change of open cash-flow forward contracts at year end included in other comprehensive income (fair value reserve at year end)	-155 041	12 373
Total result of cash-flow hedges included in equity balance	**-132 897**	**-21 587**

The structure of the table slightly differs from the one included in the Financial Statement prepared for 2013. The Group decided that disclosing the results of both the open and disclosed transactions in one table format only is more transparent then the disclosure from last year where these two categories were partly separated and supplemented with a written explanation.

Foreign currency sensitivity analysis

The Group has significant exposure to EUR in relation to revenue and trade receivables balance as this is the billing currency hence the sensitivity analysis is focused on this currency.

The following table details the Group’s sensitivity to a 3% increase or decrease in the value of HUF against EUR. The Group considered movements in EUR over the last four years and concluded that 3% is the sensitivity rate that represents a reasonably possible change and benchmark in EUR-rates against HUF. A positive number below indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be an equal and opposite impact on profit and equity if EUR devalues by 3% against HUF.

The sensitivity analysis for balance-sheet items includes foreign currency cash balances, trade receivables, trade payables, other short term liabilities, receivables denominated in EUR and foreign exchange forward contracts and adjusts their translation at the period end for a 3% change in EUR rate. We disclose the effect on profit and loss and equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at that date.

(all amounts in thousands HUF unless otherwise stated)

	EUR/HUF	Assets	Liabilites	Impact on profit and equity
2014				*data in thHUF*
103%	324,34	194 379	-40 422	153 957
100%	314,89	0	0	0
97%	305,44	-194 379	40 422	-153 957
2013				
103%	305,82	151 156	-31 282	119 873
100%	296,91	0	0	0
97%	288,00	-151 156	31 282	-119 873

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 1% decrease in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results in 2014 (the same figure is 2% regarding 2013) – supposing that all other factors remain unchanged. This means that the exposure of the Group against EUR is relatively significant and financial results are considerably sensitive for the change in HUF/EUR rates.

A similar examination using 5% change in rates would result in a 2% change in retained earnings for 2014, and a 3% change for 2013.

The Group has its biggest exposure to EUR through its trade receivable balances which can be effectively reduced by entering into hedging transactions as showed below.

Same assumptions as introduced above would result in the following fair value changes in the value of derivative contracts open at the year end.

	EUR/HUF	Effect on profit for the year	Effect on equity balance
2014			*data in thHUF*
103%	324,34	-2 825	-207 480
100%	314,89	0	0
97%	305,44	3 167	221 403
2013			
103%	305,82	-193	-173 998
100%	296,91	0	0
97%	288,00	195	174 826

(all amounts in thousands HUF unless otherwise stated)

The following table represents the results of an assumed devaluation and appreciation of Trade receivables balance off-set by the hedge reserve balance at year end using the same assumptions for both of the balances.

	EUR/HUF	Trade receivables	Impact on profit and equity	Impact on equity with hedging reserve
2014				*data in thHUF*
103%	324,34	6 644 614	193 532	-11 122
100%	314,89	6 451 082		
97%	305,44	6 257 549	-193 532	24 704
2013				
103%	305,82	5 047 217	147 006	-26 798
100%	296,91	4 900 211		
97%	288,00	4 753 204	-147 006	27 625

Year-end revaluation

The results of year end revaluation were as follows: HUF 70,214 thousand gain at the end of 2014 (2013: HUF 22,834 thousand, loss).

Interest rate risk management

Interest rate risk from interest bearing assets and liabilities
The Group possesses substantial free cash surplus which is tied up in fixed interest bank deposits or invested in discount treasury bills.

The main aim of the Group is to assure its liquidity; investment of free cash to obtain yields is a secondary objective only. Therefore the possible investment options are limited to fixed bank deposits in HUF or EUR, discount treasury bills and government bonds issued by the Hungarian State, or financial instruments issued by the Central Bank of Hungary. Hence the exposure of the Group towards changes in interest rates via financial assets owned is practically very limited.

The Group intends to invest into bank deposits with institutions holding a high long-term minimum credit rating. The credit rating of discount treasury bills and government bonds issued or guaranteed by the Hungarian State are the same as the credit rating of the country which has been upgraded by Standard & Poor's to BB+ from BB in March 2015.

(all amounts in thousands HUF unless otherwise stated)

The level of fixed deposits hold in one financial institution is limited to a maximum of 30% at the time, when an investment decision is made.

The balances of deposits were as follows:

Annual Interest rate	2014 Amounts	2013 Amounts
HUF-deposits held	thHUF	thHUF
1% - 2%	2 146 900	6 000
2% - 3%	5 800 000	6 000
3% - 4%		8 250 000
4% - 5%		6 440 000
Total	**7 946 900**	**14 702 000**
EUR-deposits held	EUR	EUR
< 0,5%	0	55 080
0,5 % - 1%	32 880	0
1%	0	300 000
1% - 2%	28 000	0
2,00%	0	13 260
Total	**60 880**	**368 340**

Investments in the above table show the general decrease in market interest rates.

As disclosed under this Note and Note 14 the Group has deposits with maturities less than one year only.

The average amount of cash tied up on short term was HUF 15,065 million in 2014 (2013: HUF 10,522 million). The average level of cash tied up was around 97% in both of the years. Interest received on deposits in 2014 was HUF 390,824 thousand (2013: HUF 493,556 thousand). The average interest level dropped from 4,75% to 2,62% between 2013 and 2014.
The balance of discount treasury bills is disclosed in the fair value of financial instruments section of this Note.

The Group does not possess any credit or credit limits or any interest bearing financial liabilities.

Sensitivity analysis has not been enclosed based on exposure to interest rates as none of the assets above are floating rate assets on the one hand, and the maturity of the possessed fixed assets are short. The Group does not hold any other interest bearing asset with floating interest rate.

Other sources of interest rate risks

The Group is mainly exposed to changes in interest rates through its terminal and Kosovo segments and the revenue thereof where full cost recovery mechanism is applied. The profit of these segments is mostly dependent on the cost of equity (return on capital tied up), the calculation of which is

based on the yield of risk-free 10-year government bonds and is included in the cost base reimbursed by the airlines.
In respect of the en-route business the performance scheme allows to include a risk premium above the risk free rate when calculating cost of equity included in the cost base (3% in case of Hungary). This has been determined in advance for the whole reference period of 2012-2014. Therefore, although changes in interest rates within this period might differ from the real cost of equity, they cannot affect the profit of the segment.
However, because it is not allowed to include interest bearing assets in the net asset balance which is used to calculate cost of equity, the investment activity of the Group effects the profitability of the segment. In this manner, the Group is exposed to interest rate risk to the extent that it holds large amount of interest bearing assets.

Inflation rate risk management

The risk of changes in inflation rate is born by airlines according to the performance scheme (en-route segment). The other two segments operate in full cost recovery scheme where all the cost risk (including inflation risk as well) is transferred on the airlines, however in the long term (can be probated after two years (period n+2) through the charges).
The Group intends to manage inflation risk by gearing the highest possible level of costs to inflation. As part of this tenor the Group introduced a system where payroll costs, being the most significant cost item, are adjusted with inflation.

The Group does not hold any financial assets or liabilities in its books where a possible change in inflation rate would alter their value and could have significant effect on equity and profit or loss.

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group’s exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which funds are invested for return or held for trading purposes or with whom derivative contracts are entered into.
The risk that a counterparty will default on its contractual obligation are reduced in the terminal and Kosovo segments practically to zero by the fact that the bad debt allowances are allowed to be included in the cost base (hence can be probated through charges) under the full cost recovery mechanism.

In the performance scheme the Group bears the risk of non-payment of customers.

Maturity of receivables and bad debt allowances charged are disclosed under Note 11. The tables presented there give a summary about the credit risk profile of the Group arising on default by customers on settlement of trade receivables.

The management believes that the Group is not highly dependent on any of its customers.

Liquidity risk management

The Group manages liquidity by maintaining adequate cash reserves and by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost. The Group had no debt at year ends; its liquidity position is stable.

Liquidity risk is either effectively manageable through the cost base (terminal and Kosovo businesses, or in limited (serious) cases even under the performance scheme); or there is also an option to amend charges during the financial year if necessary (terminal business) or involve external sources of finance.

Liquidity risk is mainly influenced by the traffic: if traffic fails to produce the expected level it might cause underfunding. This however can be fully probated after two years (period n+2) through the charges in the full cost recovery scheme.
In en-route business the performance scheme allow a maximum 4,4% traffic risk in terms of the revenue, this however in a gradual manner: up to ±0 - 2% change in traffic compared to the planned value, the full effect of traffic change has to be borne by the Group, whereas between 2% -10% change in traffic compared to the planned value only 30% of the difference above 2% points has to be borne by the Group. Above 10%, all of the additional effect will be taken by airlines.

Notwithstanding this, the immediate liquidity effect of the traffic change has to be managed by the Group, since the part borne by the airlines can be probated after two years first.

Under the full cost recovery system, this is however only a temporary effect, like in case of the traffic.
Under the performance scheme larger than planned cost generally cannot be passed on to users. It can be passed on to airlines in the very limited cases of uncontrollable costs, but this however might take up more time to be probated (for the first reference period it can be charged to users first in 2016/2017).

External capital management

The Group possesses sufficient amount of working capital and demand deposits and does not require external capital involvement. The Group does not expect to involve external capital for the near future and does not identify any risks related to its capital structure. Consequently the Group does not seek to maintain a target gearing level or determine targets for gearing. Overall expectance towards the Group is to cover its investments from internal financial sources.
For further information on capital risk management refer to Note 30.

Risk of providing air navigation services

According to the paragraph No.69 of Act XCVII. of 1995 (regarding services provided in Hungary) and according to the Act CCXLVIII. of 2013, furthermore according to the paragraph No. 3 of the Government Decree No. 510/2013 (regarding services provided in Kosovo) HungaroControl is required to establish a liability insurance in order to be entitled to provide air traffic control services. The Group met this criteria in each year presented.

(all amounts in thousands HUF unless otherwise stated)

Maturity profile of financial liabilities

The table below summarizes the maturity profile of non-derivative financial liabilities based on contractual undiscounted payments as of December 31, 2014 and 2013.
The table has been drawn up based on the earliest date on which the Group can be required to repay.

	Overdue	Due within one year	Due between 1-5 years	Due over 5 years	Total
December 31, 2014					
Trade payables	16 087	2 298 874	0	0	2 314 961
Other liabilities	0	89 313	0	0	89 313
Other long term liabilities	0	0	84 551	273 472	358 023
Total	**16 087**	**2 388 187**	**84 551**	**273 472**	**2 762 297**
December 31, 2013					
Trade payables	116 666	1 976 428	0	0	2 093 094
Other liabilities	0	308 233	0	0	308 233
Other long term liabilities	0	0	0	951 644	951 644
Total	**116 666**	**2 284 661**	**0**	**951 644**	**3 352 971**

The maturity profile for the derivate financial liabilities is disclosed under this Note.

30. Capital risk management

HungaroControl manages its capital to be able to continue as a going concern, to ensure that it meets its obligations, to fulfill its obligations to its customers and to fund business development.
The Company finances its activity from equity and trade payables. It does not possess long or short term credits or borrowings.

The Company monitors its equity structure continually to be able to comply with the Hungarian legislation which prescribes a certain level of issued capital/equity attributable to the owners' ratio. The Company fulfilled the defined requirements as enacted by the law at the end of the financial years 2014 and 2013 respectively.

31. Events after the balance sheet date

On 24 February 2015 the amended Articles of Association put into force a new corporate governance structure introducing the Board of Directors as the managing body of the Company. The Board of Directors consists of five members appointed by the Shareholder. The Shareholder shall entrust one of the directors to perform the tasks of the managing director. The Managing Director is entitled to use the title of Chief Executive Officer. As of 24 February 2015 the Shareholder newly appointed Kornél Szepessy as the Chief Executive Officer of the Company and four other members to the Board of Directors.

In May 2015, the Shareholder declared an annual dividend of HUF 1 000 000 thousand for the year ended December 31, 2014.

The consolidated financial statements of the Company for the year ended December 31, 2014 prepared in conformity with International Financial Reporting Standards (IFRS) are authorized in accordance with the resolution of the CEO on 25 June 2015.

Budapest, 25 June 2015

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Chief Executive Officer