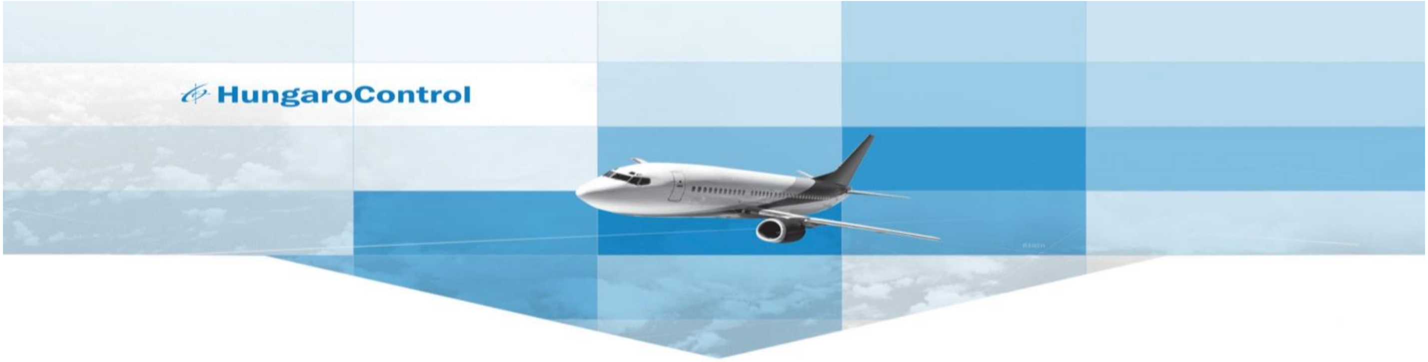

HUNGAROCONTROL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2017

in accordance with International Financial Reporting Standards (IFRS)

Budapest, 24 July 2018

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Chief Executive Officer

HUNGAROCONTROL GROUP
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Practitioner of shareholder rights

Opinion

We have audited the accompanying 2017 consolidated financial statements of HungaroControl Zrt. ("the Company"), which comprise the consolidated statement of financial position as at 31 December 2017 - showing a balance sheet total of HUF 60,401,509 thousand and a total comprehensive income for the year of HUF 6,622,376 thousand - , the related consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of the consolidated financial position of HungaroControl Zrt. as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

We conducted our audit in accordance with International Auditing Standards and with applicable laws and regulations in Hungary. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Company in accordance with the applicable ethical requirements according to relevant laws in effect in Hungary and the policy of the Chamber of Hungarian Auditors on the ethical rules and disciplinary proceedings and, concerning matters not regulated by any of these, with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Other Matters and restriction on use

The entity has prepared another set of annual financial statements as at 31 December 2017 in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary, we have issued a separate 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.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Hungarian Accounting Law, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(The original Hungarian language version has been signed.)

Bartha Zsuzsanna
Partner
Ernst & Young Kft.
Budapest, 24 July 2018

HUNGAROCONTROL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017

	Notes	December 31, 2017 thHUF	December 31, 2016 thHUF
Intangible assets	11	8 304 945	7 629 825
Property, plant and equipment	12	12 944 896	12 941 957
Investments in joint ventures	9	116 569	91 193
Invested financial assets	14.3	258 870	8 895
Securities	14.3	11 518 526	0
Other long term assets	14.1	357 803	394 508
Deferred tax asset	10	84 437	0
Non-current assets		**33 586 046**	**21 066 378**
Inventories	13	27 179	74 994
Trade receivables	14.2	6 098 631	5 840 477
Other current assets	14.2	2 397 014	2 061 399
Current tax receivable	10	0	226 444
Securities	14.3	12 452 273	21 297 669
Cash and cash equivalents	14.3	5 840 366	2 996 889
Current assets		**26 815 463**	**32 497 872**
TOTAL ASSETS		**60 401 509**	**53 564 250**
Share capital	1	20 201 600	20 201 600
Reserves		29 554 699	23 932 323
Shareholder's equity		**49 756 299**	**44 133 923**
Long term provisions	15	28 501	28 501
Long term employee benefits	16	636 434	602 681
Other long term liabilities	14.4	1 226 446	1 426 287
Deferred tax liability	10	0	69 687
Non-current liabilities		**1 891 381**	**2 127 156**
Trade payables	14.5	2 775 718	1 702 714
Short term provisions	15	34 560	147 181
Short term employee benefits	16	3 676 242	3 725 414
Current tax liability	10	5 728	4 106
Other short-term liabilities	14.5	2 261 581	1 723 756
Current liabilities		**8 753 829**	**7 303 171**
TOTAL LIABILITIES		**10 645 210**	**9 430 327**
TOTAL EQUITY & LIABILITIES		**60 401 509**	**53 564 250**

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, 2017

	Notes	December 31, 2017 thHUF	December 31, 2016 thHUF
Revenue from air navigation services	5	38 647 934	37 129 799
Other revenue	5	483 233	264 928
Revenue		**39 131 167**	**37 394 727**
Personnel expense	6.1	17 049 465	16 507 753
Operating expense	6.2	10 109 702	9 763 020
Depreciation, depletion, amortization and impairment	11, 12	4 033 883	3 846 453
Other income / expense (-)	7	-41 032	253 739
Operating expense		**31 234 082**	**29 863 487**
OPERATING PROFIT		**7 897 085**	**7 531 240**
Financial income / expense (-)	8	219 685	228 662
Profit from financial activities		**219 685**	**228 662**
Share from profit / loss of joint venture	9	**25 381**	**18 654**
PROFIT BEFORE TAX		**8 142 151**	**7 778 556**
Income tax expense	10	**1 525 174**	**2 070 621**
PROFIT FOR THE YEAR		**6 616 977**	**5 707 935**
Attributable to equity holder of the parent		**6 616 977**	**5 707 935**
OTHER COMPREHENSIVE INCOME			
Items reclassified subsequently to profit and loss			
Gain / loss (-) on cash flow hedges	14.6, 14.7	**18 826**	**-27 809**
Less tax effect		**0**	**0**
Gain / loss (-) on fair valuation of financial assets available for sale	14.3	**-14 755**	**49 525**
Less tax effect	10	**1 328**	**-7 098**
Items that will not be reclassified subsequently to profit and loss			
Actuarial gain / loss (-)		**0**	**0**
Less tax effect	10	**0**	**-8 688**
Other comprehensive income, net of tax		**5 399**	**5 930**
TOTAL COMPREHENSIVE INCOME		**6 622 376**	**5 713 865**
Attributable to equity holder of the parent		**6 622 376**	**5 713 865**

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, 2017

	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, 2016		**20 201 600**	**19 468 876**	**-250 418**	**19 218 458**	**100%**	**39 420 058**	**39 420 058**
Translation reserve		0	0	0	**0**	100%	0	**0**
Transactions recognised in other comprehensive income	**10, 16**	0	-114 014	119 944	**5 930**	100%	5 930	**5 930**
Profit for 2016		0	5 707 935	0	**5 707 935**	100%	5 707 935	**5 707 935**
Total comprehensive income		**0**	**5 593 921**	**119 944**	**5 713 865**	**100%**	**5 713 865**	**5 713 865**
Dividends		0	-1 000 000	0	**-1 000 000**	100%	-1 000 000	**-1 000 000**
Closing balance, 31 December, 2016		**20 201 600**	**24 062 797**	**-130 474**	**23 932 323**	**100%**	**44 133 923**	**44 133 923**
Translation reserve		0	0	0	**0**	100%	0	**0**
Transactions recognised in other comprehensive income	**10, 16**	0	-79 202	84 601	**5 399**	100%	5 399	**5 399**
Profit for 2017		0	6 616 977	0	**6 616 977**	100%	6 616 977	**6 616 977**
Total comprehensive income		**0**	**6 537 775**	**84 601**	**6 622 376**	**100%**	**6 622 376**	**6 622 376**
Dividends		0	-1 000 000	0	**-1 000 000**	100%	-1 000 000	**-1 000 000**
Closing balance, 31 December, 2017		**20 201 600**	**29 600 572**	**-45 873**	**29 554 699**	**100%**	**49 756 299**	**49 756 299**

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, 2017

	December 31, 2017 thHUF	December 31, 2016 thHUF
OPERATING ACTIVITIES		
Profit before tax	**8 142 151**	**7 778 556**
Depreciation and amortization	4 033 882	3 820 450
(Gain)/Loss on sale of property, plant & equipment	-740	-1 328
Impairment/Scrapping of Fixed Assets	1	26 003
Impairment/Scrapping of Inventory	5	136
Increase/ (decrease) in provisions	-112 621	59 500
Interest income	-564 087	-571 768
Increase in provision for bad debts	236 019	48 341
Share of (income) from joint ventures	-25 381	-18 654
Unrealized foreign exchange (gains)/losses	16 468	3 830
(Gains)/losses from other non-cash transactions	166 584	347 816
Total	**3 750 130**	**3 714 326**
Changes in working capital:		
(Increase)/ decrease in Accounts receivable and other current assets	-703 697	-508 057
(Increase)/ decrease in Inventory	47 810	-48 954
Increase/ (decrease) in Accounts payable, long term liabilities and accruals	519 974	-1 129 294
Income taxes paid	-1 573 072	-2 135 947
Total	**-1 708 985**	**-3 822 252**
Net cash from operating activities	**10 183 296**	**7 670 630**
INVESTING ACTIVITES		
Purchase tangible assets and intangibles	-3 871 873	-3 609 444
Proceeds on disposal of property, plant & equipment	740	592
(Purchase)/ sale of financial assets	-3 047 529	-6 846 543
Additional capital paid to joint ventures	0	0
Purchase of investment	0	0
Interest paid	0	0
Interest received	582 393	669 793
Net cash used in investing activities	**-6 336 269**	**-9 785 602**
FINANCING ACTIVITIES		
Dividend paid	-1 000 000	-1 000 000
Net cash used in financing activities	**-1 000 000**	**-1 000 000**
Decrease in cash and cash equivalents	**2 847 027**	**-3 114 972**
Cash and cash equivalents at beginning of year	2 996 889	6 114 126
Exchange rate loss on cash and cash equivalents	-3 550	-2 265
Cash and cash equivalents at end of year	**5 840 366**	**2 996 889**

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 Entry Point Central Kft. ('EPC Kft.') and FAB CE Aviation Services Ltd. ('FAB CE Ltd.') form the 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 training for air traffic controllers and flight information officers. Based on the request of the North Atlantic Council HungaroControl, on behalf of the Hungarian State, also acts as a technical enabler for the provision of certain air navigation services in the upper airspace of Kosovo. 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. Mandatory activities of the Company are laid down in Act XCVII of 1995 on Air Traffic.

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

This part describes the basis of the financial statements preparation and the applied accounting policy. The specific accounting policies, critical estimates and assumptions are presented in the relevant notes.

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.

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.

2.2. Basis of consolidation

The consolidated financial statements include the accounts of HungaroControl and its joint ventures consolidated with equity method: Entry Point Central Kft. (EPC Kft.) and FAB CE Aviation Services Ltd. (FAB CE Ltd.). The consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances. Accounting policies of the joint venture are in line with the policies adopted by the Group.

EPC Ltd. was founded to provide training for air navigation personnel. EPC Ltd. is incorporated in Hungary and keeps its books in Hungarian Forints. The Company is jointly controlled with the Swedish Entry Point North AB and owns 51% of the registered capital whereas HungaroControl owns 49%. The major governing policies are formed based on unanimous decisions of the quota holders. 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	3 000	HungaroControl 49%

FAB CE Aviation Services Ltd. was founded by the members of the Functional Airspace Block of Central Europe (FAB CE) with the participation of the ANSPs of Austria, the Czech Republic, Croatia, Hungary, Slovakia and Slovenia. The Company is responsible for the support of the implementation of the FAB CE programme and for the professional management of various regional air navigation projects. The Company is jointly controlled by its members. FAB CE Aviation Services Ltd. is incorporated in Slovenia and keeps its books in EUR and according to the IFRS. The following table presents the data of FAB CE Aviation Services Ltd.:

Joint venture	Date of foundation	Registered capital (in EUR)	Ownership
FAB CE Aviation Services Ltd.	October 17, 2014	36 000	HungaroControl 16,67%

2.3. Foreign currency translations

Functional and presentation currency:

Items presented 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) and in the case of the joint venture FAB CE Aviation Services Ltd. the Euro (EUR). 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 statement of comprehensive income.

3. Significant accounting estimates and assumptions

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 IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the disclosed amounts of assets, liabilities, income and expenses. The estimates and assumptions are outlined in detail in the notes below. Actual results may differ from these estimates.

4. Adaption of new and modified, but not yet effective standards

Standards and interpretations issued but not yet effective in the European Union up to the date of approval of the financial statements are listed below. The Group intends to adopt these standards and interpretations when they become effective.

- IAS 40 Investment property – Amendments to transfers of investment property. Effective from 1 January 2018
- IAS 28 Interests in Associates and Joint Ventures – Amendments to long-term interests in associates and joint ventures. Effective from 1 January 2019
- IFRS 2 Share-based payments – Amendments related to the classification and measurement of share-based payments. Effective from 1 January 2018
- IFRS 9 Financial instruments – Amendments to prepayment features with negative compensation. Effective from 1 January 2019
- IFRS 17 Insurance Contracts – effective from 1 January 2021
- IFRIC 22 Foreign Currency Transactions and Advance Consideration – effective from 1 January 2018
- IFRIC 23 Uncertainty over Income Tax Treatments – effective from 1 January 2019

Standards and interpretations issued in the European Union are listed below:

- IFRS 9 Financial instruments – effective from 1 January 2018
  The standard replaces IAS 39, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement of financial instruments, impairment, and hedge accounting. The Group expects the following effect of the standard on the financial statements:

amounts in thHUF

Expected impact of IFRS 9 on assets	**8 683**
Securities decrease	8 683
Expected impact of IFRS 9 on liabilities	**0**
Net impact on equity	**8 683**
Valuation reserve decrease without deferred tax	9 465
Deferred tax effect on valuation reserve	-782

- IFRS 15 Revenue from Contracts with customers – effective from 1 January 2018
  The standard establishes a new five-step model that will apply to revenue arising from contracts with customers. The principles of IFRS 15 provide a more structured approach to measuring and recognising revenue. Based on the expectation, the standard will have no material impact on the financial statements of the Group.
- IFRS 16 Leases - effective 1 from January 2019
  The standard requires lessees to recognise the right of use of assets and the corresponding liabilities for most leases. The Group expects material impact on the financial statements. The balance of assets and liabilities are expected to increase. The Group is currently considering the implications on the financial statements.
- IFRS 4 Insurance Contracts – effective from 1 January 2018
  Amendments to correspondence between IFRS 4 and IFRS 9. The standard will have no impact on the financial statements of the Group.

5. Income

Accounting policies:

<u>Revenue from air navigation services:</u>
Air navigation services are billed and the revenues earned are recognised by the Company based on a HUF unit price determined on the basis of pre-budgeted costs and planned annual turnover, and taking into account the actual chargeable service units.
Air traffic charges are determined by the number of service units calculated by using a formula with the weight of the air plane, the number of movements, and in the case on en-route services - the distance factor.

The Group has three main revenue segments: navigation services provided to the overflying ('en-route') air traffic over Hungary, terminal air navigation services in the approach area of Liszt Ferenc International Airport, and navigation in the upper airspace of Kosovo. From 2015 both the Hungarian en-route and terminal services where provided the framework of the performance scheme. From 2015 only the costs of air navigation in Kosovo upper airspace had been settled under the full cost recovery scheme.

In the Hungarian en-route and in the terminal segment, within the framework of performance plan scheme, 'reference periods' are set for determining unit prices (5 years); for which periods performance plans should be prepared including the costs and turnover expected in the reference period. This will be used by the

Company as a 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. 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.

In the terminal segment, based on the EU Regulation No. 391/2013 Member States with airports with fewer than 225 000 air transport movements per year (the Liszt Ferenc International Airport is like this, too), service providers may decide not to bear the traffic risk, that may stay on the side of the airspace users. Hungary did make the relevant reports to the European Commission in June 2013, therefore, during the 5 years reference period, began in 2015, the Group does not have to bear any traffic risk regarding the terminal navigation services.

In the Kosovo segment operating in a full cost recovery scheme the unit rates are determined by using forecasted service units and relating costs estimated previously. The actual number of service units and actual 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 in the calculation of the charging rate of 'n+2'. 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.

<u>Sale of goods:</u>
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

Revenues from service provision:

amounts in thHUF

	December 31, 2017	December 31, 2016
Revenue from air navigation services - en route segment	31 599 488	29 502 941
Revenue from air navigation services - terminal segment	5 683 291	5 832 209
Revenue from air navigation services - Kosovo segment	1 441 392	1 796 211
Cas-flow hedge accounting reserve booked to revenues	-76 237	-1 562
Total revenue from air navigation services	**38 647 934**	**37 129 799**
Other revenue - foreign	258 131	202 936
Other revenue - domestic	225 102	61 992
Total other revenue	**483 233**	**264 928**
Total revenue	**39 131 167**	**37 394 727**

Revenues from air navigation services

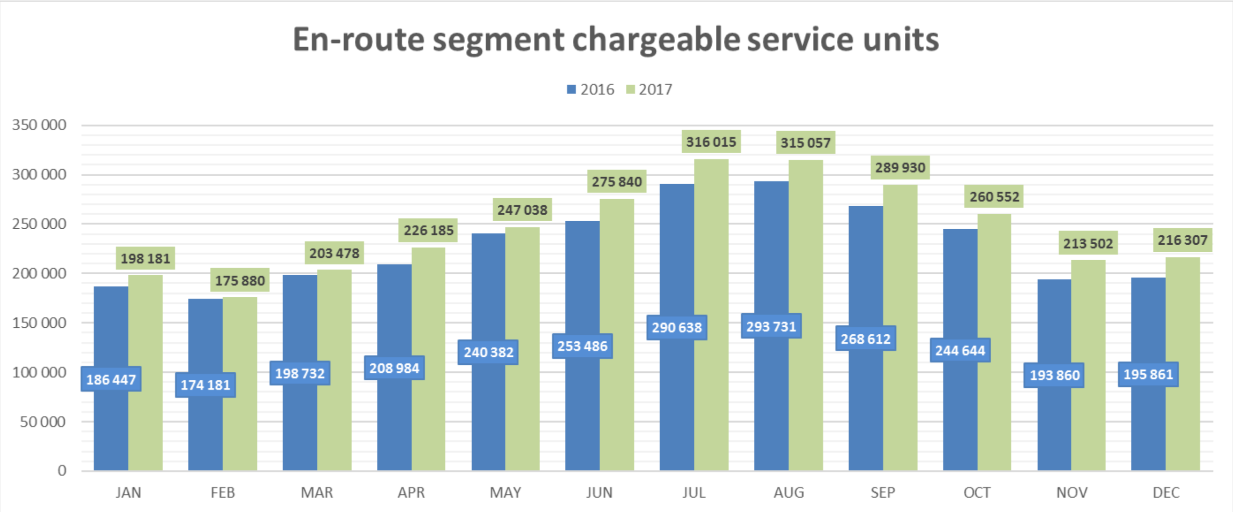
The main activity of the Group is to provide air navigation services – more than 98.8 % of the revenue derives from air traffic charges. (99.2 % in 2016).

–81.7 % of revenues derives from navigation of overflying air traffic (en route) over Hungary (79.5% in 2016), 14.7 % of revenues derives from terminal air navigation services (15.7% in 2016), and 3.7% of air navigation service revenues derives from the Kosovo segment (4.8 % in 2016).

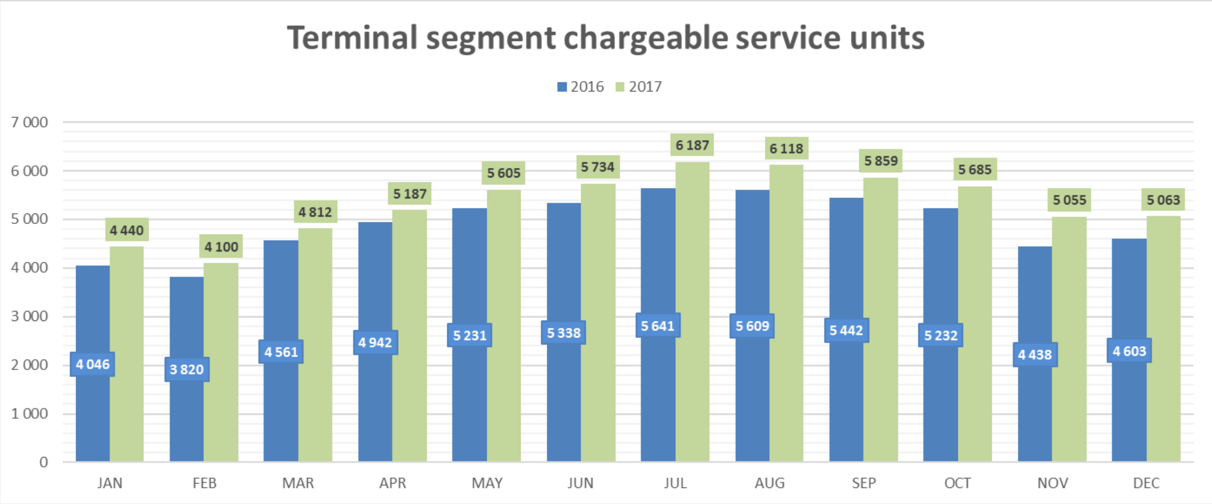
The value of revenues from air navigation services is modified by the foreign exchange result of cash flow hedge transactions concluded for hedging of foreign exchange risk on revenues.

The revenues from air navigation services are determined by size of traffic and unit fees recalculated every year. However, number of movements (number of planes navigated) is only a partial indicator of traffic. The indicator directly determining revenues is the number of „service units" (SU).

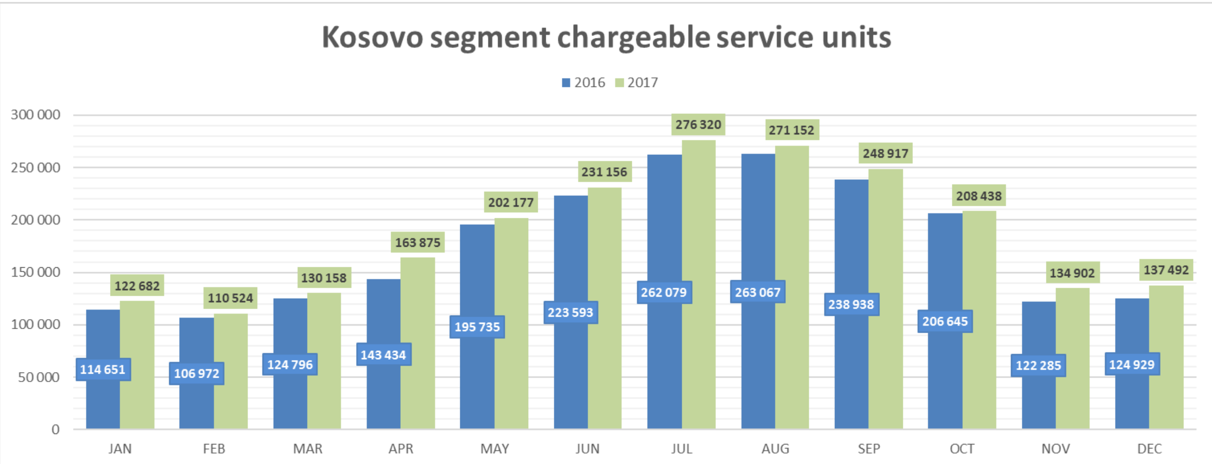
In 2017 in the en-route segment revenues grew 7% as compared to 2016 as a result of growth in traffic, by basically the same unit prices. The increase in the number of service units was 6.72%, which is due to additional traffic avoiding the Ukrainian airspace, by the constant growth in northwest-southeast traffic, and also to the dynamic growth in the number low cost flights. The two main customer of en-route navigation services were Emirates Airlines and Turkish Airlines in 2017.



In the terminal segment 2017 number of chargeable service units also showed a significant growth, there was an 8.38% increase as compared to 2016. The most significant factor was the dynamic increase in the number low cost flights at the Budapest terminal, with the opening of Balkan flights of Wizzair having the most significant effect. 37% of terminal navigation revenues derived from Wizzair and Ryanair in 2017. However, in the terminal segment, beside the growth in traffic there was a 10% decrease in unit prices, so total terminal revenues decreased 2.6%, as compared to 2016.



The service provided in the upper airspace over Kosovo is accounted on the basis of the common charging zone established with Serbia and Montenegro. Therefore, when analysing service units for the Kosovo service, the traffic of the whole charging zone has to be examined. Chargeable service units in the total charging zone showed an increase in each month, growing by 5.2% on a yearly basis. The reason for the increase, similarly to the increase in the Hungarian airspace, is the additional traffic avoiding the Ukrainian partially closed airspace, and the continuous increase in the number low cost flights. However, as the Serbian-Montenegro-KFOR common charging zone is operating in total cost recovery system, allocating revenues to the participants of the cost base is determined on the basis of shares in total cost base. That is the reason why 2017 revenues from the Kosovo segment showed 19.8% decrease compared to 2016.



Revenues from other sources:

Revenues derived from non-air navigation services do not represent a material portion of total revenues. The three most important areas: radar data services provided (HUF 46,092 thousand in 2017, HUF 46,799 thousand in 2016), fees from simulation services (HUF 211,611 thousand is 2017, HUF 148,999 thousand in 2016), and rental fees collected (HUF 34,677 thousand in 2017, HUF 33,126 thousand in 2016). Moreover, the Group had other revenues from sale of goods (HUF 152,497 thousand in 2017 and HUF 501 thousand in 2016). The significant increase in sale of goods was due to the settlements with MNV Ltd., which is explained in Note 17.

All revenue is derived from continuing operations.

Effect of cash flow hedge transaction on sales revenue:

A certain portion of the Group's revenues from the provision of air navigation services denominated in foreign currencies is sold in cash flow hedge transactions. The reclassification from equity to comprehensive income as a reclassification adjustment of the effective amount of closed foreign currency derivatives that are used to hedge foreign currency cash flows 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 a loss of HUF 76,237 thousand in 2017, from which amount HUF 84,374 thousand loss is the result of the derivatives closed, HUF 8,137 thousand gain is due to the exchange rate difference generated on trade receivables.
The total loss for 2016 was HUF 1,562 thousand, from which HUF 64,290 thousand gain was the results of the derivatives closed, HUF 65,852 thousand was the loss arisen on the exchange rate difference of trade receivables.
Further information on cash-flow hedges is included in the Note 14.6.

6. Operating expenses

Accounting policies:

If specific standards do not regulate, operating expenses are recognized at point in time or through the period basis. When a given transaction is under the scope of specific IFRS transaction is accounted for in line with those regulations.

In the followings the operating expenses are presented by category:

6.1. Personnel expenses

Breakdown of personnel expenses:

amounts in thHUF

	December 31, 2017	December 31, 2016
Wages and salaries	12 900 750	12 590 140
Social security	3 156 971	3 780 043
Other personnel expenses	1 189 722	1 277 646
Pension expenses and expenses from other long term benefits*	-197 978	-1 140 076
Personnel expenses	**17 049 465**	**16 507 753**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

	2017 No.	2016 No.
Division of air traffic services	318	315
Division of communications, navigation and surveillance	57	69
Division of meteorological services	24	21
Division of technical development services	92	87
Support divition*	252	254
Closing number of staff employed	**743**	**746**

** Support division: IT, legal, economic, security and safety, business development, comliance and internal audit.*

Average number of employees of the Group was 735.6 in 2017 (2016: 762.4).
EPC Ltd. had in average 8.75 employees in 2017 and in average 8 employees in 2016 – these data are not included in the figures above.

6.2. Operating expenses

amounts in thHUF

	December 31, 2017	December 31, 2016
Energy costs	226 983	236 943
Other materials used	166 632	126 718
Cost of materials consumed	**393 615**	**363 661**
Lease payment on state owned assets*	1 585 747	1 701 689
Eurocontrol member fees	1 245 659	1 309 773
Fees of liability insurance	955 576	886 080
Trainings expenditure	719 627	744 750
Software maintenance fees	656 386	478 208
Various other expenditures	616 803	533 219
Fees paid for authorities	611 780	611 318
Online service charges, charges for data transmission	493 796	461 849
Cost of meteorological services consumed	461 291	445 813
Cost of advertisement and marketing campaigns	459 183	196 782
Expenditure on consultancy and fees of expert	449 223	391 585
Maintenance fees	419 631	364 805
Safeguarding services	382 376	364 183
Travel and other costs incurred on missions abroad	266 579	269 141
Real estate rental fees	167 932	159 358
Charges paid for waste disposal and similar services	106 392	21 306
Rental fees of fixed assets	92 642	122 430
Other rental fees	25 464	42 089
Cost from changes in balance of state owned assets	0	294 981
Other expenditures	**9 716 087**	**9 399 359**
Total Operating expenses	**10 109 702**	**9 763 020**

** 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. The leasing fee is derived from the market value of the assets. This agreement is cancellable with a 6 months written notice.*

Accounting policies for leasing:
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 fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Group as 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.

In 2017 and 2016 the Group had no finance lease contracts.
Operating lease payments are recognized as an expense in the comprehensive income statement on a straight-line basis over the lease term.

At its foundation, HungaroControl has been appointed by the Hungarian State to fulfil 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, the Group presents it as an operative lease.

Group as a lessor:
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 2017 and 2016 the Group had no finance lease contracts.

At the balance sheet date the Group had the following outstanding total minimum lease payments from non-cancellable operating lease agreements calculated over the lease term:

amounts in thHUF

	December 31, 2017	December 31, 2016
Within 1 year	230 074	200 189
1– 5 years	392 833	380 292
Over 5 years	22 213	71 607
Total	**645 120**	**652 088**

The agreements presented include lease of properties (land leased for radars, rental fee of the control tower, leasing of parking lots and office spaces) and a car fleet leasing agreement.

7. Other income (expense)

Accounting policies:

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

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 an "operative" 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. When a "development" grant relates to an asset, the Group applies the "deferred income method", where the fair value of grant 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.

Other income (expense) — amounts in thHUF

	December 31, 2017	December 31, 2016
Deferred grants released	345 968	377 837
Costs of exempted flights reimbursable by the government authorities*	336 386	358 364
Liabilities waived	219 694	63 106
Interest and other charges received on late payment	121 182	62 915
EU grants related to expenses	25 384	19 830
Release of bad debt provision	18 624	47 018
Other various income items**	0	294 994
Total Other income	**1 067 238**	**1 224 064**
Allowances charged on bad debts***	458 489	143 326
Reimbursement of expenses payable to the Ministry of National Development	366 850	219 442
Expenses from charity activities and sponsorship	242 607	555 500
Building tax	35 605	35 605
Other various expense items	4 719	16 452
Total Other expense	**1 108 270**	**970 325**
Total Other income / (expense)	**-41 032**	**253 739**

** Balances of exempted flights and amounts credited for the financial year are disclosed under Note 17, transactions with related parties. The counterbalancing figures in the balance-sheet are disclosed under Notes 14.1 and 14.2 – in other long term assets and other receivables balances.*
*** The replacement obligation arising from the asset management agreement, and its cancellation by law are presented in a net amount from the current year among operating expenses.*
**** Balances of allowances charged on bad debts consist of allowances charged on trade receivables (HUF 261,388 thousand) as disclosed under Note 14.2, and the allowance on receivable from the asset management contract (HUF 197,100 thousand) as disclosed in Note 17.*

The Group received both "development" grants relating to assets (for example grants through the Cohesion Fund for radar reconstruction, grant received through the TEN-T EERP programme for new ANS provision centre called ANS III, and the grant received also through TEN-T for CPDLC data connection) and "operative" grants relating to expenses. Grants relating to expenses are typically received for activities carried out within the SESAR (Single European Sky ATM Research) programme.

The following table includes the balance sheet items from grants not closed by the balance sheet dates. Grant income is booked to income statement to the extent expenses has occurred, since the Group is on the opinion that it will be able to meet the relevant criteria and the amounts are going to be granted. These amounts are accounted for as income to the extent of the prefinancing received, above that against short term liabilities in the balance sheet.

amounts in thHUF

	2017	2016
Accrued income	47 304	7 586
Advance payment received	413 521	125 161

Balances of deferred government grants related to assets, the movements thereon, and the amounts released to income in the relevant business years are summarized in the table below:

amounts in thHUF

	2017	2016
Balances at January 1st	**1 712 158**	**1 701 013**
EU grants received during the year	154 970	388 982
Release of deferred grants	-345 968	-377 837
Balances at December 31st	**1 521 160**	**1 712 158**

8. Finance result

Accounting policies:

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.

Accounting policies relevant to financial instruments are presented in Note 14.

Financial results amounts in thHUF

	December 31, 2017 (-) loss (+) gain	December 31, 2016 (-) loss (+) gain
Interest received and exchange difference on deposits and government bonds	216 050	241 035
Foreign exchange difference on year end revaluation	-16 468	-3 830
Swap points received on cash-flow hedges*	31 237	95 697
Ineffective part of cash-flow hedges*	27 596	12 712
Unwinding of discounts - long term employee benefits**	-4 535	-62 965
Unwinding of discounts - other	1 849	15 482
Foreign exchange difference realised	-28 152	-58 633
Other various items	-7 892	-10 836
Total results of financial activities	**219 685**	**228 662**

** Cash flow hedges are included under Note 14.6.*
***Long term benefits are disclosed under Note 16.*

9. Investments in joint ventures

Accounting policies:
The Group consolidates its joint ventures presented in Note 2.2 using the equity method.
Under the equity method, the investment in the associate is carried at cost plus post acquisition changes in the Group's share of net assets. Investments in associates and joint ventures are assessed to determine whether there is any objective evidence of impairment. If there is evidence of impairment the recoverable amount of the investment is determined to identify any impairment loss to be recognised. Where losses were made in previous years, an assessment of the factors is made to determine if any loss may be reversed.

Balances at the year ends were the following:

amounts in thHUF

	EPC Kft.	FAB CE Ltd.	Total
Value at January 01, 2016	**69 979**	**2 573**	**72 552**
Share from profit/loss for 2016	19 680	-1 025	18 655
Other corrections	0	-14	-14
Value at December 31, 2016	**89 659**	**1 534**	**91 193**
Share from profit/loss for 2017	25 372	9	25 381
Other corrections	0	-5	-5
Value at December 31, 2017	**115 031**	**1 538**	**116 569**

The Group has a 49% interest in Entry Point Central Ltd., a joint venture as described under section 2.2.

The assets and liabilities, income and expenses of EPC Ltd. and the Group's share thereof as at December 31, 2017 and 2016, are as follows:

EPC Ltd.'s balance sheet:

amounts in thHUF

	December 31, 2017	December 31, 2016
Non-current assets	6 064	6 038
Current assets	282 786	243 854
Current liabilities	45 847	66 915
Equity	**243 003**	**182 977**

EPC Ltd.'s revenue and profit:

amounts in thHUF

	December 31, 2017	December 31, 2016
Revenue	706 755	717 560
Operating expenses	651 923	673 272
Financial income	2 137	337
Profit before taxes	**56 969**	**44 625**
Income tax expense	5 190	4 463
Profit for the year	**51 779**	**40 162**

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

amounts in thHUF

EPC Kft.	
Profit of previous years	169 977
Profit for the year 2017	51 779
Total profit accumulated	221 756
Share of the Group from the realised profit (49%)	**108 661**
Share of the Group from the impairment recognised (49%)	0
Share of the Group from the results accumulated	**108 661**
Initial cost of investment	6 370
Investment value at the end of the reporting period	**115 031**

The initial cost of the investment was HUF 6,370 thousand when acquired - which together with the accumulated profit above resulted in an investment value of HUF 115,031 thousand at the end of 2017 (2016: HUF 89,659 thousand). The gain included in the 'Share from profit / loss of joint venture' line of the comprehensive income for the financial year 2017 is HUF 25,372 thousand (HUF 19,680 thousand in 2016).

The Group did not receive or does not expect to receive dividend in respect of the financial years above. EPC Ltd. had no contingent liabilities or capital commitments at the year ends presented.

FAB CE Aviation Services Ltd. is the other joint venture of the Group. The total share capital of the joint venture is EUR 36,000.

FAB CE Aviation Ltd.'s balance sheet:

amounts in thHUF

	December 31, 2017	December 31, 2016
Non-current assets	133	41
Current assets	99 578	128 506
Current liabilities	71 841	100 656
Equity	**27 870**	**27 891**

FAB CE Aviation Ltd.'s revenue and profit:

amounts in thHUF

	December 31, 2017	December 31, 2016
Revenue	485 186	327 136
Other operating income	413	0
Operating expenses	485 427	333 396
Financial income	-16	-3
Profit before taxes	**156**	**-6 263**
Profit for the year	**156**	**-6 263**

The Group's share of the result of FAB CE Aviation Ltd.:

amounts in thHUF

FAB CE Aviation Services Ltd.	
Profit of previous years	-1 988
Profit for the year 2017	156
Total profit accumulated	-1 832
Share of the Group from the realised profit (16.67%)	**-305**
Share of the Group from the impairment recognised (16.67%)	0
Share of the Group from the results accumulated	**-305**
Initial cost of investment	1 835
Revaluation of foreign operation	8
Investment value at the end of the reporting period	**1 538**

10. Income taxes

Accounting policies:

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 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 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.

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 of the probability that future taxable profit (or reversing deferred tax liabilities) are available against which the temporary differences can be utilized. The value 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.

Critical accounting estimates and judgements

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.

Receivables and liabilities from income taxes

Income tax receivables and liabilities by categories:

amounts in thHUF

	December 31, 2017	December 31, 2016
Corporate tax	0	226 444
Current tax receivable	**0**	**226 444**
Corporate tax	5 404	0
Local business tax	252	3 384
Innovation contribution	72	722
Current tax liability	**5 728**	**4 106**

Income tax expense

Current income tax and deferred tax expenses:

amounts in thHUF

	December 31, 2017	December 31, 2016
Current tax	1 672 965	2 136 679
Adjustments in respect of prior year	5 005	6 159
Deferred tax	-152 796	-72 217
Income tax expense	**1 525 174**	**2 070 621**

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

amounts in thHUF

	December 31, 2017	December 31, 2016
Profit on ordinary activities before tax	**8 142 151**	**7 778 556**
Tax on profit on ordinary activities at standard rate (2017: 9%; 2016: 19%)	732 794	1 477 926
Other income taxes corrected with the effect of corporate income tax rate	814 376	699 448
Total tax charge	**1 547 170**	**2 177 374**
Effect of different actual average tax rates used	-7 842	-55 824
Permanent differences	-8 164	-32 037
Effect of changes in statutory tax rates	0	-61 891
Tax effect of prior year adjustments	5 005	6 159
Other tax effect	-10 995	36 840
Tax charge for year at an effective tax rate	**1 525 174**	**2 070 621**
Effective tax rate	**19%**	**27%**

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

Deferred tax asset and 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:

amounts in thHUF

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2017	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2016
Accelerated tax depreciation	-413 311	0	83 725	-497 036
Valuation reserve of available for sale financial assets	-851	1 328	88	-2 267
Provisions not included in tax base	334 590	0	20 721	313 869
Bad debt allowances not included in tax base	40 560	0	33 774	6 786
Differences between tax base and carrying amount of assets discounted	37	0	-129	166
Differences on fixed assets not yet capitalised and debited to income statement	4 425	0	232	4 193
Differences on replacement obligation of state owned assets	137 698	0	19 236	118 462
Government grants revenues which are included in tax base in the next financial year	-18 711	0	-4 851	-13 860
Total deferred tax asset (+) /liability (-)	**84 437**	**1 328**	**152 796**	**-69 687**

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2016	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2015
Accelerated tax depreciation	-497 036	0	370 318	-867 354
Valuation reserve of available for sale financial assets	-2 267	-7 098	-6 290	11 121
Provisions not included in tax base	313 869	-8 688	-443 994	766 551
Bad debt allowances not included in tax base	6 786	0	-18 358	25 144
Differences between tax base and carrying amount of assets discounted	166	0	-2 700	2 866
Differences on fixed assets not yet capitalised and debited to income statement	4 193	0	213 031	-208 838
Differences on replacement obligation of state owned assets	118 462	0	-54 111	172 573
Government grants revenues which are included in tax base in the next financial year	-13 860	0	14 321	-28 181
Total deferred tax asset (+) /liability (-)	**-69 687**	**-15 786**	**72 217**	**-126 118**

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 tax authority ('NAV') on the same entity.

The corporate income tax rate applicable in Hungary from 1 January 2017 is 9%, while it was 10% for the first HUF 500 million of the tax base, above that a rate of 19% was applicable until 31 December 2016. Corporate income tax rate applied for deferred tax calculation is based on the estimated assessable tax base and tax payable for the relevant years.

Local business tax and innovation contribution are recognized as deductible expenses in the corporate income tax base. No temporary differences arose in respect of these taxes hence they do not have any effect on deferred taxes and rates determined. Local business tax rate on its tax base (gross profit) was 2%, whereas the rate of the innovation contribution 0.3% on the same tax base in both years.

Deferred taxes were calculated with income tax rate of 9% in 2016 and in 2017 as well.

From the balance above HUF 4,425 thousand deferred tax asset is expected to be reversed in one year, HUF 80,012 thousand deferred tax asset is expected to be reversed in 5 years.

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

11. Intangible assets

Accounting policies:

Intangible assets are measured initially at cost. 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.

Critical accounting estimates and judgements

The amortization period and the amortization method are reviewed annually at each financial year-end.

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%

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. 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.

The table shows movements of intangible assets:

amounts in thHUF

	Property right	Software	Work in progress	Intangible assets
Net value at January 01, 2016	**6 903 155**	**71 416**	**1 815 776**	**8 790 347**
Gross value:				
January 01, 2016	21 550 066	363 048	1 815 776	23 728 890
Additions	0	0	843 606	843 606
Capitalization	2 533 988	1 257	-2 535 245	0
Disposals	-32 799	-54 303	0	-87 102
Gross value at December 31, 2016	**24 051 255**	**310 002**	**124 137**	**24 485 394**
Depreciation:				
January 01, 2016	14 646 911	291 632	0	14 938 543
Additions	1 985 957	18 171	0	2 004 128
Disposals	-32 799	-54 303	0	-87 102
Depreciation at December 31, 2016	**16 600 069**	**255 500**	**0**	**16 855 569**
Net value at December 31, 2016	**7 451 186**	**54 502**	**124 137**	**7 629 825**
Gross value:				
January 01, 2017	24 051 255	310 002	124 137	24 485 394
Additions	0	0	2 800 951	2 800 951
Capitalization	461 258	421	-461 679	0
Disposals	-542	-3 149	-29 850	-33 541
Gross value at December 31, 2017	**24 511 971**	**307 274**	**2 433 559**	**27 252 804**
Depreciation:				
January 01, 2017	16 600 069	255 500	0	16 855 569
Additions	2 077 658	18 323	0	2 095 981
Disposals	-542	-3 149	0	-3 691
Depreciation at December 31, 2017	**18 677 185**	**270 674**	**0**	**18 947 859**
Net value at December 31, 2017	**5 834 786**	**36 600**	**2 433 559**	**8 304 945**

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

12. Property, plant and equipment

Accounting policies:

Property, plant and equipment are stated at historical cost less accumulated depreciation, depletion and accumulated impairment loss. 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.
Depreciation is charged using the straight-line method over the estimated useful lives of the assets.

Critical accounting estimates and judgements

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 amortization period and the amortization method are reviewed annually at each financial year-end.

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 %
Developments on leased property	6.0 %
Production machinery and equipment	14.5 %
Computer hardware	33.0 %
Vehicles	20 %
Furniture	10%

The method of impairment review and impairment recognition is consistent with the method described in Note 11.

The table shows movements of property, plant and equipment:

amounts in thHUF

	Land and buildings	Technical equipment	Other equipment	Work in progress	Property, plant and equipment
Net value at January 01, 2016	**4 281 258**	**4 383 494**	**1 544 955**	**2 179 875**	**12 389 582**
Gross value:					
January 01, 2016	4 916 461	10 348 063	3 777 762	2 179 875	21 222 161
Additions	0	0	0	2 382 074	2 382 074
Capitalization	244 396	2 942 886	898 986	-4 086 268	0
Disposals	-9 700	-278 374	-103 290	0	-391 364
Gross value at December 31, 2016	**5 151 157**	**13 012 575**	**4 573 458**	**475 681**	**23 212 871**
Depreciation:					
January 01, 2016	635 203	5 964 569	2 232 807	0	8 832 579
Additions	211 941	1 072 390	545 368	0	1 829 699
Disposals	-9 700	-278 374	-103 290	0	-391 364
Depreciation at December 31, 2016	**837 444**	**6 758 585**	**2 674 885**	**0**	**10 270 914**
Net value at December 31, 2016	**4 313 713**	**6 253 990**	**1 898 573**	**475 681**	**12 941 957**
Gross value:					
January 01, 2017	5 151 157	13 012 575	4 573 458	475 681	23 212 871
Additions	0	0	0	1 969 791	1 969 791
Capitalization	209 918	713 102	792 136	-1 715 156	0
Disposals	0	-122 946	-266 116	-29 251	-418 313
Gross value at December 31, 2017	**5 361 075**	**13 602 731**	**5 099 478**	**701 065**	**24 764 349**
Depreciation:					
January 01, 2017	837 444	6 758 585	2 674 885	0	10 270 914
Additions	240 132	1 099 290	598 179	0	1 937 601
Disposals	0	-122 946	-266 116	0	-389 062
Depreciation at December 31, 2017	**1 077 576**	**7 734 929**	**3 006 948**	**0**	**11 819 453**
Net value at December 31, 2017	**4 283 499**	**5 867 802**	**2 092 530**	**701 065**	**12 944 896**

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 1 thousand (2016: HUF 26,003 thousand) were made in respect of operational assets reflecting a reassessment of certain assets, and the likelihood of benefits being realised in full.

13. Inventories

Accounting policies:

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 statement of financial position.

Balances at the year ends occurred as follows:

amounts in thHUF

	December 31, 2017	December 31, 2016
Spare parts	26 938	25 890
Other materials	241	49 104
Inventories	**27 179**	**74 994**

The inventory balance for 2017 includes an impairment loss amounting of HUF 5 thousand (2016: HUF 136 thousand). No previously recognized impairment loss has been released for the years presented.

14. Financial instruments, capital and financial risk management

Accounting policies:

Financial instruments are recognized initially at fair value (including transaction costs, for assets and liabilities not measured at fair value through profit or loss).

Subsequent measurement depends on the classification of the given financial instrument. The Group's financial assets are classified at the time of initial recognition depending on their nature and purpose.

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.

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 amortised cost using the effective interest method less any allowance for impairment.

Available-for-sale financial assets

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.

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.

Fair value measurement

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.

Derecognition of financial assets

Derecognition 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 recognises its retained interest in the asset and a liability for the amounts it may have to pay.

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.

<u>Impairment of assets carried at amortised cost</u>
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 comprehensive income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

<u>Impairment of available-for-sale financial investments</u>
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.

<u>Cash flow hedges</u>
The Group concludes cash flow hedge contracts in order to hedge foreign currency risk from foreign currency cash flows. 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 statement of comprehensive income 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.

14.1. Other long term assets

The receivables for cost of flights exempted from charges (further on: "exempted flights") from the Hungarian State are recognised as short term and long term assets and are credited to other revenues. The term of payment is two years, as defined in a government decree. As the effect of discounting is considered to be material on the balance the Group discounted these balances using yields of government bonds with two years maturity. The interest income on discounting recognized for 2017 was HUF 1,849 thousand (2016: HUF 15,482 thousand).

Outstanding balances of receivables from "exempted flights" and extended warranty are broken down:

amounts in thHUF

	December 31, 2017	December 31, 2016
Exempted flights		
Ministry of Defence	631 753	629 854
Ministry of National Development	24 246	27 507
Ministry of Foreign Affairs	20 388	19 849
Total exempted flights	**676 387**	**677 210**
Due in one year	*340 001*	*318 846*
Due over one year	*336 386*	*358 364*
Extended warranty	**43 861**	**39 332**
Due in one year	22 444	3 188
Due over one year	21 417	36 144
Total due in one year	**362 445**	**322 034**
Total due over one year	**357 803**	**394 508**

HUF 339,057 thousand of the total outstanding balance was settled in 2017 (in 2016 HUF 421,398 thousand). Additional balance established for 2017 was HUF 336,386 thousand (HUF 358,364 thousand for 2016).

In addition, the long-term part of the warranty extension purchased during 2017, in the value of HUF 21,417 thousand should be presented in this financial statement line. This warranty extension cannot be accounted in the cost of assets.

14.2. Trade receivables and other current assets

Accounting policies:

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.

Trade receivables from air space users are managed, collected and enforced by Central Route Charges Office ('CRCO') of EUROCONTROL. Users are classified in categories of active and inactive.
In 2017 depending on user information, the Group makes a provision of 50% on doubtful debts regarding active users, and a provision of 100% for inactive users. In 2016 the Group made a provision of 50% and 75% depending on user information. If the Group made provision in 2017 based on the accounting policy effective in 2016, the amount of provision in 2017 would be lower by HUF 185,700 thousand.

amounts in thHUF

	December 31, 2017	December 31, 2016
Trade receivables	6 790 335	6 288 109
Intercompany receivable	385	13 010
Allowances	-692 089	-460 642
Total	**6 098 631**	**5 840 477**

Due to invoicing policy, average outstanding balance of receivables equals to two months sales turnover.

Movement in the allowance for doubtful debts:

amounts in thHUF

	December 31, 2017	December 31, 2016
Balance at the beginning of the year	460 642	451 625
Increase in allowances	261 388	56 123
Decrease in allowances	-29 203	-44 712
Foreign exchange movement in the year	-738	-2 394
Balance at end of the year	**692 089**	**460 642**

Ageing of the trade receivable balances:

amounts in thHUF

	December 31, 2017	December 31, 2016
Not overdue	5 757 361	5 418 082
Under 3 months	387 585	301 105
Overdue, between 3-6 months	44 018	17 087
Overdue, between 6-12 months	49 711	12 882
Overdue, over 12 months	551 660	538 953
Total	**6 790 335**	**6 288 109**

Aged balances, impaired and not impaired:

amounts in thHUF

2017	Total	Not overdue, not impaired	Not overdue, impaired	Overdue, not impaired	Overdue, impaired
Receivables from airlines, en-route business	**5 502 309**	4 651 577	16 189	340 621	493 922
Receivables from airlines, terminal business	**993 864**	883 859	1 024	3 051	105 930
Receivables from airlines, Kosovo business	**204 850**	178 344	772	14 819	10 915
Domestic trade debtors, other	**66 982**	3 265	0	379	63 338
Foreign trade debtors, other	**22 330**	22 330	0	0	0
Total	**6 790 335**	**5 739 375**	**17 985**	**358 870**	**674 105**

2016	Total	Not overdue, not impaired	Not overdue, impaired	Overdue, not impaired	Overdue, impaired
Receivables from airlines, en-route business	**4 972 370**	4 281 214	3 478	360 205	327 473
Receivables from airlines, terminal business	**991 876**	899 332	0	31 832	60 712
Receivables from airlines, Kosovo business	**232 577**	207 818	74	19 238	5 447
Domestic trade debtors, other	**68 207**	3 780	0	1 030	63 397
Foreign trade debtors, other	**23 079**	22 393	0	626	60
Total	**6 288 109**	**5 414 537**	**3 552**	**412 931**	**457 089**

There is no credit risk in the Kosovo segment since full cost recovery system allows covering bad debts in future unit charges through underrecovery or overrecovery balances.

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

amounts in thHUF

	December 31, 2017	December 31, 2016
Short term receivables from exempted flights*	340 001	318 846
Value added tax	833 244	788 241
Changes in fair value of cash-flow hedges (gain)	61 052	36 140
Receivable from Eurocontrol - TNC sales	19 138	3 811
Other receivables	97 425	50 098
Bad debt allowances	-1 376	-1 825
Total other receivables	**1 349 484**	**1 195 311**
Accrued interest income on deposits fixed	472	438
Accrued income for grants received	47 304	7 586
Other income accrued	9 390	6 483
Total accrued income	**57 166**	**14 507**
Services prepaid	990 364	851 581
Total prepaid expenses	**990 364**	**851 581**
Other current assets	**2 397 014**	**2 061 399**

** For further information on Receivables from exempted flights refer to Note 14.1.*

The line Services prepaid includes expenses, which are billed in the reporting period, however effect future reporting periods. Such expenses are, among others, the magazine subscriptions, on-line services, real estate rental fees, software-support, insurance fees and membership fees.

14.3. Cash and cash equivalents, other financial assets

Balances of cash and cash equivalents at year ends are as follows:

amounts in thHUF

	December 31, 2017	December 31, 2016
Cash on hand	**1 243**	**995**
Current accounts HUF	1 042 053	305 013
Current accounts in foreign currency (EUR)	397 070	490 881
Fixed deposits HUF - under 3 months	4 400 000	2 200 000
Cash at banks	**5 839 123**	**2 995 894**
Cash and cash equivalents	**5 840 366**	**2 996 889**

Balances of other financial assets at year ends are as follows:

amounts in thHUF

	December 31, 2017	December 31, 2016
Fixed deposits HUF - over 1 year	258 870	8 895
Invested financial assets	**258 870**	**8 895**
Financial assets held to maturity (government securities) with maturity over 1 year	11 518 526	0
Long term securities	**11 518 526**	**0**
Available for sale financial assets (government securities) with maturity above 3 months	10 479 074	21 297 669
Financial assets held to maturity (government securities) with maturity above 1 year	1 973 199	0
Short term securities	**12 452 273**	**21 297 669**

The discount treasury bills and bonds issued by the Hungarian State were designated as assets available for sale in 2016, at initial recognition. The amount credited to other comprehensive income (hence to equity) at year end was HUF 14,755 thousand gain in 2017, and HUF 49,525 thousand in 2016. The discount treasury bills and bonds issued by the Hungarian State were designated as held to maturity assets in 2017, at initial recognition.

14.4. Other long term liabilities

Balances at the dates presented were as follows:

amounts in thHUF

	December 31, 2017	December 31, 2016
EU grants received - long term part*	1 199 790	1 401 138
Long term liabilities payable to joint venture	4 112	4 124
Other long term liabilities	22 544	21 025
Other long term liabilities	**1 226 446**	**1 426 287**

** Short-term liabilities relating to EU grants are disclosed under Note 14.5.*

14.5. Trade payables and other short term liabilities

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

amounts in thHUF

	December 31, 2017	December 31, 2016
Not due	2 771 765	1 692 101
Overdue, under 1 year	1 813	8 380
Overdue, between 1 - 5 years	2 140	2 233
Total trade payables	**2 775 718**	**1 702 714**

The Group settles trade payables within the payment term, and had no material overdue payables as of December 31, 2017 and 2016. The majority of overdue balances at the end of the periods presented are invoices of November and December paid early next year.

amounts in thHUF

	December 31, 2017	December 31, 2016
Trade payables - domestic	1 254 264	1 074 598
Trade payables - foreign	1 296 892	524 021
Intercompany payables	224 562	104 095
Total trade payables	**2 775 718**	**1 702 714**

The Group decided to fully separate all the balances of intercompany payables and to disclose them as intercompany payables.
The intercompany transactions are presented in Note 17.

Balances of other short term liabilities at the dates presented were as follows:

amounts in thHUF

	December 31, 2017	December 31, 2016
EU grants - advance payment received*	413 521	125 161
Changes in fair value of cash-flow hedges (loss)**	107 913	81 807
Amounts payable to pension funds and voluntary pension funds	379 309	423 645
Liabilities from social security	319 520	290 916
Personal income tax payable on behalf of the employees	260 499	237 683
Short term other liabilities towards various authorities	149 997	25 014
Liabilities arising on search and rescue operations	124 410	0
Other short term liabilities	62 711	52 581
Total other payables	**1 817 880**	**1 236 807**
EU grants received - short term part*	321 370	311 020
Other deferred income	1 338	886
Total deferred income	**322 708**	**311 906**
Services, goods delivered but not invoiced till the year end	120 993	175 043
Total accrued expenses	**120 993**	**175 043**
Other short-term liabilities	**2 261 581**	**1 723 756**

** Long-term liabilities relating to EU grants are disclosed under Note 14.4.*
*** Changes in fair value of cash-flow hedges are disclosed under Notes 14.6 and 14.7.*

14.6. Cash flow hedges

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:

amounts in thHUF

Fair value of derivative financial instruments	December 31, 2017	December 31, 2016
Other current assets		
Derivative financial instruments in designated hedge accounting relationships		
Cash flow hedges - positive fair value	**61 052**	**36 140**
Other current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Cash flow hedges - negative fair value	**107 913**	**81 807**

The expected foreign currency cash flows carrying significant exchange rate risks are hedged with forward currency exchange contracts. Fair value change of open forward contracts is recognized in the statement of financial position.

14.7. Financial risk management

Financial risk management aims to limit these risks through ongoing operational and finance activities.
The statement of financial position included comprises the following categories of financial assets and liabilities for the dates presented:

a) Fair value of financial instruments:

Financial assets:

amounts in thHUF

	Loans and receivables	Held to maturity investments	Available for sale financial assets	Derivative financial instruments	Total carrying amount	Total fair value
Other long term assets	357 803	0	0	0	357 803	357 803
Trade receivables	6 098 631	0	0	0	6 098 631	6 098 631
Derivative financial instruments in designated hedge accounting relationships	0	0	0	61 052	61 052	61 052
Bank deposits HUF - over 3 months	258 870	0	0	0	258 870	258 870
Government securities with maturity above 3 months	0	13 491 725	10 479 074	0	23 970 799	23 851 201
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	359 139	0	0	0	359 139	359 139
Cash and cash equivalents	5 840 366	0	0	0	5 840 366	5 840 366
Total as per December 31, 2017	**12 914 809**	**13 491 725**	**10 479 074**	**61 052**	**36 946 660**	**36 827 062**
Other long term assets	394 508	0	0	0	394 508	394 508
Trade receivables	5 840 477	0	0	0	5 840 477	5 840 477
Derivative financial instruments in designated hedge accounting relationships	0	0	0	36 140	36 140	36 140
Bank deposits HUF - over 3 months	8 895	0	0	0	8 895	8 895
Government securities with maturity above 3 months	0	0	21 297 669	0	21 297 669	21 297 669
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	322 657	0	0	0	322 657	322 657
Cash and cash equivalents	2 996 889	0	0	0	2 996 889	2 996 889
Total as per December 31, 2016	**9 563 426**	**0**	**21 297 669**	**36 140**	**30 897 235**	**30 897 235**

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

amounts in thHUF

	Financial liabilities at amortised cost	Derivative financial instruments	Total carrying amount	Total fair value
Other long term liabilities	26 656	0	26 656	26 656
Trade payables	2 775 718	0	2 775 718	2 775 718
Derivative financial instruments in designated hedge accounting relationships	0	107 913	107 913	107 913
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	136 478	0	136 478	136 478
Total as per December 31, 2017	**2 938 852**	**107 913**	**3 046 765**	**3 046 765**
Other long term liabilities	25 149	0	25 149	25 149
Trade payables	1 702 714	0	1 702 714	1 702 714
Derivative financial instruments in designated hedge accounting relationships	0	81 807	81 807	81 807
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	2 710	0	2 710	2 710
Total as per December 31, 2016	**1 730 573**	**81 807**	**1 812 380**	**1 812 380**

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 Note 14.5.

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 financial assets:
Other long term assets owed by government authorities was described under Note 14.1 in detail. . Tp approximate fair values the Group used 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).

Other long term liabilities:
The book value of intercompany payable as disclosed under Note 17 approximates its fair value. The balance as of December 31, 2017 mainly contains the obligations from retention warranty of trade payable balances the same as of December 31, 2016. The fair value of the obligations is determined with discounted cash-flow techniques using data as introduced below.

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, 2017 and 2016.

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).

The fair value of loans and receivables and most of the financial liabilities has 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). 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.

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 and from 2017 held-to-maturity financial assets are discount treasury bills issued by the Hungarian State with a maturity date less than one year but above 3 months and government bonds with a maturity over one year. The fair value used is provided by the banks representing unadjusted prices, i.e. binding offers determined based on the bid prices as per December 31, 2017 and 2016 of an 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 of the Group. 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.

Foreign currency risk management

The Group's principal exposure to foreign currency transaction risk is in relation to its foreign currency revenues and expenditures.

Revenue from air navigation services account for 98.77% of the Group's turnover (in 2016: 99.29%). In the Hungarian en-route and terminal navigation segments – operated in the framework of the performance scheme – foreign exchange risk is borne by the service providers, thus, borne by the Group. Fees for air navigation services are set in Hungarian Forint, but are billed and collected in Euro. The conversion rate used is the average of the daily closing Reuters-rates for the month prior to the billing period ('t-1'). To mitigate the risk of movements in exchange rates 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 concluded. The Group hedges its expected cash flow from sales revenue of the Hungarian en-route and terminal segments 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 (2017: 3.68%, 2016: 4.80%) do not represent a significant foreign exchange exposure. Furthermore, in the Kosovo segments, due to the full cost recovery mechanism the risk arising on changes of foreign exchange rates can be transferred onto the airlines, since exchange differences are included in the respective cost bases.

The Group also hedges the foreign exchange risks arising from foreign currency cash expenditures related to significant firm commitments, and also foreign currency cash flows posing other significant risks.

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)	
	2017, December	2016, December	2017, December	2016, December	2017, December	2016, December
EUR	310.14	311.02	21 210 053	20 385 876	6 578 086	6 340 415
USD	258.82	293.69	57	18	15	5
GBP	349.48	424.68	415	1 232	145	523

	FX rates at year-end		Liabilites (in foreign currency)		Liabilites (in thHUF)	
	2017, December	2016, December	2017, December	2016, December	2017, December	2016, December
EUR	310.14	311.02	5 659 937	2 153 832	1 755 373	669 885
USD	258.82	293.69	274	6 924	71	2 034
GBP	349.48	424.68	0	0	0	0

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.

Forward foreign exchange contracts

The Group concludes forward foreign exchange to hedge its significant foreign currency risk form expected cash flows. The Group designated these forward contracts as cash flow hedges. With the hedging transactions the Group aims to secure the HUF value of its firm commitments.

The following contracts were outstanding at year end:

amounts in thHUF

December 31., 2017	Currency	Currency amount	HUF amount	Expected Gain (+) Loss (-) (valuation reserve)	Ineffective part included in Profit and loss	Interest income from swap points included in line item financial income
Revenue hedge (EUR sold)	EUR	-23 965 674.21	-7 468 931	33 327	-1	-1 805
Expenditure hedge (EUR bought)	EUR	13 052 104.00	4 071 708	-2 808	-7 113	0
Expenditure hedge (USD bought)	USD	3 732 750.00	1 014 574	-63 803	0	0
Forward contracts for cash flow hedges			**-2 382 650**	**-33 284**	**-7114**	**-1 805**
December 31., 2016	**Currency**	**Currency amount**	**HUF amount**	**Expected Gain (+) Loss (-) (valuation reserve)**	**Ineffective part included in Profit and loss**	**Interest income from swap points included in line item financial income**
Revenue hedge (EUR sold)	EUR	-23 153 441.12	-7 174 541	-31 231	-159	7 190
Expenditure hedge (EUR bought)	EUR	9 985 063.00	3 166 354	-40 858	-588	0
Expenditure hedge (USD bought)	USD	3 327 100.00	949 099	19 979	0	0
Forward contracts for cash flow hedges			**-3 059 088**	**-52 110**	**-747**	**7 190**

All of the above forecast transactions hedged are expected to occur. Upon close of these forward contracts the amount deferred in equity will be realized in the statement of comprehensive income. The following amounts were recognized in the comprehensive income statement for the financial years 2017 and 2016:

amounts in thHUF

Amounts recognised in comprehensive income statement in relation to derivative financial instruments	December 31, 2017	December 31, 2016
Amount that was removed from equity and recognised in sales balance (- loss/ + gain)	-84 374	64 290
FX change difference realised on hedged trade receivables and recognised in sales balance (- loss/ + gain)	8 137	-65 852
Ineffective part of cash-flow hedges included in financial results (- loss/ + gain)	27 596	12 712
Interest recognised in profit and loss and included in financial results (swap points received)	31 237	95 697
Total gain (+)/loss (-) on cash-flow hedge transactions	**-17 404**	**106 847**
Fair value change of open cash-flow forward contracts at year end included in other comprehensive income (fair value reserve at year end)	-33 285	-52 111
Total result of cash-flow hedges included in equity balance	**-50 689**	**54 736**

At year end the profit charged to other comprehensive income was HUF 18,826 thousand in 2017, while it was HUF 27,809 thousand loss in 2016.

Foreign currency sensitivity analysis

The Group has the most significant exposure to EUR in relation to revenue and trade receivables balances as this is the billing currency. Thus, 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 five 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 the statement of comprehensive income 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.

amounts in thHUF

	EUR/HUF	Assets (+) Increase in profit (-) Reduction in profit	Liabilites (+) Increase in profit (-) Reduction in profit	Impact on profit and equity (+) Increase in profit (-) Reduction in profit	Impact on equity (%)
2017					
103%	319.44	197 343	-52 661	144 681	0.5%
100%	310.14	0	0	0	
97%	300.84	-197 343	52 661	-144 681	-0.5%
2016					
103%	320.35	190 212	-20 097	170 116	0.7%
100%	311.02	0	0	0	
97%	301.69	-190 212	20 097	-170 116	-0.7%

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 0.5% increase in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results in 2017 (the same figure is 0.7% regarding 2016) – 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 0.8% change in retained earnings for 2017, and a 1.2% change for 2016.

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

amounts in thHUF

	EUR/HUF	Effect on profit for the year (+) Increase in profit (-) Reduction in profit	Effect on equity balance (+) Increase in profit (-) Reduction in profit
2017			
103%	319.44	-413	-364 161
100%	310.14	0	0
97%	300.84	413	364 368
2016			
103%	320.35	-437	-358 858
100%	311.02	0	0
97%	301.69	394	335 902

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.

amounts in thHUF

	EUR/HUF	Trade receivables (+) Increase in profit (-) Reduction in profit	Impact on profit and equity (+) Increase in profit (-) Reduction in profit	Impact on equity with hedging reserve (+) Increase in profit (-) Reduction in profit
2017				
103%	319.44	6 277 658	182 844	-39 997
100%	310.14	6 094 814	0	0
97%	300.84	5 911 970	-182 844	39 997
2016				
103%	320.35	6 010 488	175 063	-51 989
100%	311.02	5 835 425	0	0
97%	301.69	5 660 362	-175 063	29 124

Year-end revaluation

The results of year end revaluation of items in the statement of financial position were as follows: HUF 16,468 thousand loss at the end of 2017 (2016: HUF 3,830 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 and government bonds.

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 with a maximum maturity of one year, 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 was placed by Standard & Poor's at BBB- (investment grade category) in August 2017. 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 30% limit alters to 50% when the total volume of cash and cash equivalents does not reach a HUF 6 billion threshold.

The risk exposure of the Group is determined as the follows: fixed bank deposits 100%, except the deposits at investment banks with specific liquidity reasons and with an original maturity less than 5 working days (including the cash balance held on current accounts, i.e. not tied up) where a 0% risk weight is used. In relation to the forward contracts, a risk weight of 10% is used by projecting it on the nominal value (the HUF part of the currency pairs to be delivered) of the foreign exchange derivatives. Regarding the government securities held on securities account at various investment partners a 50% weight risk has been determined.

The balances of deposits were as follows:

Annual Interest rate	2017 Amounts	2016 Amounts
HUF-deposits held	thHUF	thHUF
< 1%	4 650 000	2 200 000
1% - 2%	0	0
2% - 3%	0	0
3% - 4%	0	0
4% - 5%	0	0
Total	**4 650 000**	**2 200 000**
EUR-deposits held	EUR	EUR
< 0.5%	28 600	28 600
0.5 % - 1%	0	0
1%	0	0
1% - 2%	0	0
Total	**28 600**	**28 600**

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

The Group does not possess any credit or credit line 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.. 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 Kosovo segment and the revenue thereof where full cost recovery mechanism is applied. The profit of this segment 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 (2.4% in case of Hungary; regarding the charges of terminal navigation services a 1% risk premium is applied only, as the Group does not share any traffic risk in this segment, therefore only the risk of under-or over budgeting the costs of the reference period can be taken into account when calculating the cost of equity). This was determined in advance for the whole reference period of 2015-2019. 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 borne by airlines according to the performance scheme (en-route segment). The Kosovo segment operates in full cost recovery scheme where all the cost risk (including inflation risk as well) is transferred on to the airlines, however, only in the long term (can be collected after two years (period n+2) through the charges).
The Group intends to manage inflation risk by adjusting the highest possible level of costs to inflation. For this reason 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 on the statement of comprehensive income.

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.
In the Kosovo segment the financial effect of the risk that a counterparty will default on its contractual obligation is reduced 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.

Within the performance scheme (in the en-route and the terminal segments) the Group bears the risk of non-payment of customers.

Maturity of receivables and bad debt allowances charged are disclosed under Note 14.2. 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 has no debt at year ends; its liquidity position is stable.

Liquidity risk is either effectively manageable through the cost base (Kosovo segment, 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 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 in the relevant business year. This, however, can be collected in the Terminal and Kosovo segments after two years (period n+2) through the charges, therefore in these line of businesses the Group does not bear any substantive traffic risk - it may have liquidity risk though.

In the en-route segment the performance scheme allows a maximum of 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. The actual traffic exceeding the planned amount increases the profitability of the Group. In cases the actual traffic would not reach the assumed level, it would decrease profitability, however compensating this effect the Group is entitled to charge a higher cost of equity.

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.

In the terminal segment the risk of not reaching the traffic forecasts did not have any effect on the profitability either in 2016 or in 2017, as the Company is exempted from traffic risk sharing owning to the EU regulation applicable for airports with lower 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 enforced (for the first reference period it can be charged to users first in 2016/2017).

Risks in providing air navigation services

According to the first section of 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.

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, 2017 and 2016.
The table has been drawn up based on the earliest date on which the Group can be required to repay.

amounts in thHUF

	Overdue	Due within one year	Due between 1-5 years	Due over 5 years	Total
December 31, 2017					
Trade payables	3 953	2 771 765	0	0	2 775 718
Other liabilities	0	136 478	0	0	136 478
Other long term liabilities	0	0	22 544	4 112	26 656
Total	**3 953**	**2 908 243**	**22 544**	**4 112**	**2 938 852**
December 31, 2016					
Trade payables	10 613	1 692 101	0	0	1 702 714
Other liabilities	0	2 710	0	0	2 710
Other long term liabilities	0	0	21 025	4 124	25 149
Total	**10 613**	**1 694 811**	**21 025**	**4 124**	**1 730 573**

15. Provisions

Accounting policies:

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.

Critical accounting estimates and judgements

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, i.e. its probability is greater than 50%, the Group provides for the amount of the estimated liability.

Total balances at year end are as follows:

amounts in thHUF

Provisions	Legal provision	Other provision	Total
Long-term provisions	0	28 501	28 501
Short-term provisions	24 805	122 376	147 181
Balance as of December 31, 2016	**24 805**	**150 877**	**175 682**
Long-term provisions	0	28 501	28 501
Short-term provisions	4 020	30 540	34 560
Balance as of December 31, 2017	**4 020**	**59 041**	**63 061**

Movements in long term provisions are shown in the following table:

amounts in thHUF

Long-term	Legal provision	Other provision	Total
Balance as of January 1, 2016	**0**	**28 656**	**28 656**
Utilized during the year	0	-155	-155
Balance as of December 31, 2016	**0**	**28 501**	**28 501**
Balance as of December 31, 2017	**0**	**28 501**	**28 501**

Movements in short term provisions are shown in the following table:

amounts in thHUF

Short-term	Legal provision	Other provision	Total
Balance as of January 1, 2016	**4 947**	**82 579**	**87 526**
Additional provisions created	24 805	122 376	147 181
Utilized during the year	-4 947	-82 579	-87 526
Balance as of December 31, 2016	**24 805**	**122 376**	**147 181**
Additional provisions created	4 020	30 540	34 560
Utilized during the year	-24 805	-122 376	-147 181
Balance as of December 31, 2017	**4 020**	**30 540**	**34 560**

Other provisions include liabilities payable to the Ministry of National Development and Ministry of Defence (2017: HUF 30,540 thousand, 2016: HUF 122,376 thousand), and provisions for other liabilities payable where a present obligation has arisen as a result of past event, the payment is probable and the amount can be estimated reliably.

Long term provisions are discounted using a risk free, pre-tax discount rate derived from government bond yields.

16. Employee benefits

Accounting policies:

Defined benefit plans:

In 2013 the Group operated a "Defined Benefit Plan". From December 31, 2013, the Group decided to change its long term pension scheme from a defined benefit plan to a Career plan and introduced a scheme regulated by the agreements 'HungaroControl Career Plan' and the 'Air Controller Career Agreement'

The conversion from defined benefit scheme to Career plan was still an ongoing process in 2017. The agreement which defines the instrument, the closing balance will be paid into, was finalized with the air navigation union; however the procurement of the instrument was still ongoing in 2017. The conversion between the schemes has been closed regarding the non-air navigation personnel, the payments from the closing balance of the previous scheme are fulfilled as planned. Actuarial gains and losses in other comprehensive income at transition are booked to profit reserve proportionally with payments. In 2017 HUF 79,202 thousand, in 2016 HUF 114,014 thousand was transferred to profit reserves.

Career plans:

In the Career plans within the framework of "HungaroControl Career Plan" laid down by the Collective Agreement signed on 31 December 2013 and the "Air Controller Career Agreement' signed on the same date, liabilities and expenses 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. The liabilities from Career plans are presented among other long term employee benefit plans.

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. Actuarial gains and losses are recognised in the statement of comprehensive income when they occur.

No specific contributions are made by the companies into a separate fund. The related future obligations should be determined in line with assumptions for inflation and wage increases, in addition to other demographical effects (such as mortality). The cash flows estimated on the basis of the previous assumptions 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.

As provided in the 2013 amendment of section 132 of the Act CCV 2012 on the legal status of defence forces, the jubilee benefits of military service personnel commanded to do service at the Company , are to be borne by the Group, therefore a long term liability has been established and classified as past service cost.

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.

amounts in thHUF

	December 31, 2017	December 31, 2016
Long term employee benefits	636 434	602 681
Short term employee benefits	3 676 242	3 725 414
Total employee benefits	**4 312 676**	**4 328 095**

Long term employee benefits

Long term employee benefits include a long term liabilities from "post-employment benefits" and "other long term employee benefits". The short term liabilities from these benefits are presented among "Short term employee benefits".

Total net present value of both long and short term liabilities from "post employment benefits" (defined contribution plan and termination benefits) and "other long term employment benefits" is the following:

amounts in thHUF

	Defined benefit plan	Termination benefits	Other employee benefits	Other short term employee benefits	Total
Present value at January 1, 2016	**71 936**	**441 077**	**3 606 055**	**821 614**	**4 940 682**
Current service cost	0	120 131	409 421	1 348 321	**1 877 873**
Interest costs	603	19 058	43 974	0	**63 635**
Used during the year	-72 539	-148 574	-1 457 918	-821 614	**-2 500 645**
Change in discount rates	0	15 532	62 351	0	**77 883**
Net actuarial (gains)/losses	0	-27 084	-104 249	0	**-131 333**
Present value at December 31, 2016	**0**	**420 140**	**2 559 634**	**1 348 321**	**4 328 095**
Current service cost	0	202 514	388 181	1 463 563	**2 054 258**
Interest costs	0	282	4 182	0	**4 464**
Used during the year	0	-179 931	-647 800	-1 348 321	**-2 176 052**
Change in discount rates	0	8 176	38 366	0	**46 542**
Net actuarial (gains)/losses	0	30 316	25 053	0	**55 369**
Present value at December 31, 2017	**0**	**481 497**	**2 367 616**	**1 463 563**	**4 312 676**
Short term part					3 676 242
Long term part					636 434

The actuarial gain included in the balance arose on those parts of the obligation, however to a lesser extent only, where the period of service is not yet fulfilled by the employees. According to the Collective Agreement signed, new non-air navigation employees in the scheme have to work 5 years till they are fully authorized members. In their case the actuarial loss includes impacts like increase of salaries expected differently.

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

amounts in thHUF

	December 31, 2017	December 31, 2016
Actual death and turnover	18 270	7 266
Effect of changes in discount rate	46 542	77 883
Changes in expected salary increase	11 583	-11 893
Changes in probability of deaths caused by occupational accidents	0	-26 770
Actual exit propapility versus estimated	-105	-6 766
Regulatory changes of contribution allowance	-3 688	-22 214
Effect of changes in retiring date	0	0
Other	29 309	-70 956
Total	**101 911**	**-53 450**
Included in other comrehensive income	0	0
Included in profit and loss statement	-101 911	53 450

Actuarial gains and losses are charged to comprehensive income, since the Company takes the obligation to pay defined contribution to employees' future pension, but does not take any commitment to ensure future benefits.

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 as per 31 December 2017. The opening balance of the new scheme, i.e. the closing liability recognized in the defined benefit scheme will be paid out in the following years, therefore mainly short term discount rates have been used. Longer term discount rates have only been used in relation to the occupational accidents balance and the jubilee benefits for the military service personnel commanded to the Company (Other long term employee benefits).
Discount rates used for scheme liabilities in 2017balances due within 1 year are not discounted, as short term discount rates are around 0%, , in 2016: 0.17% for 1 year.
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 decrease in discount rates from 2015 to 2016 the year end value of the obligations increased by HUF 77,882 thousand. The change between the 2016 and 2017 rates has more impact on the year-end balance, altogether HUF 46,542 thousand.

Actuarial gains and losses arising from changes in assumptions:

Actual versus estimated exit probability: exit assumptions for 2017 were determined by using historical data regarding the last 6 years resulting in the following rates. These are presented below broken down by categories of personnel (averages):

- 2017: Non-air navigational employees: 5.68%, air navigational employees: 0.24%.
- 2016: Non-air navigational employees: 5.29%, air navigational employees: 0.28%.

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: the presumptions used in the case of military personnel commanded to do service at the Company are available until 2022. In relation to the new scheme the effect of salary increases are very limited and are only relevant for the occupational accidents balance. Following 2022 in accordance with long-term inflation policy of MNB, we calculate with an increase of 3 % in salaries.

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:

amounts in thHUF

	December 31, 2017	December 31, 2016
Short term part of post employment benefits and other long term employee benefits	2 212 679	2 349 700
Salaries payable for December	647 231	621 218
Accrual made for contribution payable in relation to the Career Plan Agreement for Air Navigation Personnel	0	83 410
Bonuses payable on a short-term basis	42 699	123 372
Short-term compensated absences	77 313	59 431
Other	696 320	488 283
Total	**3 676 242**	**3 725 414**

17. 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 which can be considered to be influential from the Groups' perspective:

- Governmental bodies appointed by law to settle the costs of flights exempted from air navigation charges are the Ministry of National Development, Ministry of Defence and Ministry of Foreign Affairs.

- Governmental organizations the Group purchases services from, or has obligations to pay to, are the Ministry of National Development, Ministry of Defence, Hungarian National Asset Management Inc., the National Transport Authority, MVM Partner Energiakereskedő Ltd. and Hungarian Meteorological Service.

- The founder's and owner's rights are exercised by the Minister of National Development. The dividend paid to the ministry was HUF 1,000,000 thousand in 2017 and HUF 1,000,000 thousand in 2016. Furthermore, the Group pays a fee settling costs of activities related to air navigation service provision of the Ministry of National Department, which was HUF 250,000 thousand in 2017 and HUF 250,000 thousand in 2016.

The following government 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 Asset 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. The lease payment in 2017 was HUF 1,585,747 thousand (HUF 1,701,689 thousand in 2016).
  According to the agreement the Company is obliged to keep the assets at their original nominal value by restoring, replacing and improving them counterbalancing the loss in usage values. The liability to keep the state owned assets at their original nominal value ("replacement obligation") was disclosed at the beginning among long term liabilities. The related regulation was amended with an effective date of 28 June 2013 resulting in the release of the replacement obligation. The accumulated replacement obligation was settled by agreements signed in 2017, thus the value of current year construction and renovation on state owned assets is accounted for among receivables. However, as the return of this receivable is uncertain, because the agreement necessary to settle the receivable balance is not signed yet, an allowance equal to the receivable balance was charged. (In 2017 an allowance of HUF 197,100 thousand, in 2016 an allowance of HUF 85,479 thousand was provided for, as described in Note 7.) In 2017 the Group reversed an allowance of HUF 152,073 thousand recognised in the years 2015 and 2016 due to settlement between the parties.

- For the **National Transport Authority** the Group pays supervisory fee (2017: HUF 500,000 thousand – same for 2016, the supervisory fee of air navigation services over Kosovo was HUF 101,576 thousand in 2017 and HUF 100,416 thousand in 2016) and other various license and permission fees (2017: HUF 9,718 thousand, 2016: HUF 13,617 thousand).

Further transactions considered to be significant in terms of size:

- The Group purchases energy from **MVM Partner Energiakereskedő Ltd**. (2017: HUF 120,139 thousand, 2016: HUF 129,491 thousand).
- The Group purchases meteorological data from the **Hungarian Meteorological Service** (2017: HUF 461,291 thousand, 2016: HUF 445,813 thousand).
- Subsidiary of the Ministry of Defence, **HM EI Ltd**. provides security and cleaning services to the Group (2017: HUF 279,090 thousand, 2016: HUF 279,039 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 14.1 and 14.2.

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

amounts in thHUF

	Balance as per December 31, 2017	Balance paid off	Credited to Financial income	Credited to Other income	Balance as per January 1, 2017
Ministry of Defence	**631 753**	305 003	1 691	305 211	**629 854**
Ministry of National Development	**24 246**	14 119	71	10 787	**27 507**
Ministry of Foreign Affairs	**20 388**	19 936	87	20 388	**19 849**
Total	**676 387**	**339 058**	**1 849**	**336 386**	**677 210**
	Balance as per December 31, 2016	**Balance paid off**	**Credited to Financial income**	**Credited to Other income**	**Balance as per January 1, 2016**
Ministry of Defence	**629 854**	358 502	14 144	325 115	**649 097**
Ministry of National Development	**27 507**	31 209	609	13 400	**44 707**
Ministry of Foreign Affairs	**19 849**	31 686	729	19 849	**30 957**
Total	**677 210**	**421 397**	**15 482**	**358 364**	**724 761**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2016 and in 2017 no provisions 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.

Transactions with joint ventures:

EPC Ltd. provides the training of air navigation personnel for the Group, and provides language courses. Sales revenues form EPC Ltd. include office rentals, training room rentals and revenues for management services.

The transactions with EPC Ltd. are disclosed fully:

amounts in thHUF

Transactions with EPC	December 31, 2017	December 31, 2016
Amounts presented in Statement of Comprehensive Income		
Sales of management services	34 293	34 260
Purchases of training services	632 287	655 545
Purchase of tangible assets	2 689	0
Amounts presented in Financial Position		
Amounts owed by related parties	385	13 010
Amounts owed to related parties - long term	4 112	4 124
Amounts owed to related parties - short term	3 415	0

Transactions with FAB CE Aviation Ltd. include purchase of professional support and management services (2017 HUF 95,396 thousand, 2016 HUF 70,233 thousand).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2016 and in 2017 no provisions have been made for doubtful debts in respect of amounts owed by related parties.

No events or transactions occurred in the years presented which the management considers to be outside the normal course of the business operation or which were carried out on non-market terms.

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.

Financial year 2017 - Amounts in thHUF

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits
Remuneration of Board of Directors	30 301	0	0	0
Remuneration of the Supervisory Board	53 815	0	0	0
Remuneration of key management personnel*	322 772	119	0	0
Total	**406 888**	**119**	**0**	**0**

** The amount includes in total HUF 24,518 thousand bonus accrual.*

December 31, 2016 - Amounts in thHUF

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits
Remuneration of Board of Directors	31 658	0	0	0
Remuneration of the Supervisory Board	49 304	7 309	0	0
Remuneration of key management personnel*	314 601	0	0	0
Total	**395 563**	**7 309**	**0**	**0**

** The amount includes in total HUF 33,795 thousand bonus payment.*

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

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

18. Commitments, contingencies

Under- and overrecovery balances from air navigation services

Under- and overrecovery balances in Kosovo segment
According to the special mechanism of the system, for charging zones applying full cost recovery method, like the Serbia-Montenegro-KFOR charging zone, 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.

Under- and overrecovery balances in en-route and terminal segments of the Hungarian charging zone
In the performance scheme under- and overrecoveries arise due to various occurrences: the risk of deviation from the traffic forecasted is shared with the airspace users. The Group does not bear the inflation risk and risk of the so called "uncontrollable costs", thus, the Group has to settle under- and overrecovery balances from these facts in the future.

The Group does not recognize these revenue settlement balances in the statement of financial position, as these balances fulfil 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:

amounts in thHUF

Underfunding from cost base mechanism	Closing balance December 31, 2017	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2017
underrecoveries from 2014, Kosovo segment	89 785	-71 827	0	161 612
underrecoveries from 2015, En-route segment	0	-41 917	0	41 917
underrecoveries from 2015, TNC segment	0	-36 894	0	36 894
underrecoveries from 2016, En-route segment	509 212	0	0	509 212
underrecoveries from 2016, TNC segment	40 217	0	0	40 217
underrecoveries from 2017, En-route segment	1 010 238	0	1 010 238	0
underrecoveries from 2017, TNC segment	158 456	0	158 456	0
Total underrecovery carried over	**1 807 908**	**- 150 638**	**1 168 694**	**789 852**

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

amounts in thHUF

Overfunding from cost base mechanism	Closing balance December 31, 2017	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2017
overrecoveries from 2014, En-route segment	70 864	-100 816	0	171 680
overrecoveries from 2014, TNC segment	448 718	-456 119	0	904 837
overrecoveries from 2014, Kosovo segment	32 338	-32 275	0	64 613
overrecoveries from 2015, En-route segment	0	-2 138 162	0	2 138 162
overrecoveries from 2015, TNC segment	0	-523 880	0	523 880
overrecoveries from 2015, Kosovo segment	123 235	-30 811	0	154 046
overrecoveries from 2016, En-route segment	5 807 933	-403 800	0	6 211 733
overrecoveries from 2016, TNC segment	996 063	0	0	996 063
overrecoveries from 2016, Kosovo segment	398 997	0	0	398 997
overrecoveries from 2017, En-route segment	8 001 284	0	8 001 284	0
overrecoveries from 2017, TNC segment	1 261 588	0	1 261 588	0
overrecoveries from 2017, Kosovo segment	49 847	0	49 847	0
Total overrecovery carried over	**17 190 867**	**- 3 685 863**	**9 312 719**	**11 564 011**
Contingent liability from non-controllable costs	1 452 719	-732 616	1 452 719	732 616
Total contingent liability from cost base mechanism	**18 643 586**	**- 4 418 479**	**10 765 438**	**12 296 627**

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

Other commitments, contingencies

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

amounts in thHUF

Maturity date	Amount	
31.08.2016-31.08.2018	17 083	bank guarantee given for rental fee payment
Guarantees given	**17 083**	
16.03.2015-20.04.2020	32 324	bank guarantee received in relation to investment projects
06.04.2016-20.04.2018	29 215	bank guarantee received in relation to investment projects
26.04.2016-24.08.2020	2 272	bank guarantee received in relation to investment projects
04.08.2016-21.08.2019	681	bank guarantee received in relation to investment projects
07.12.2017-20.01.2023	6 746	bank guarantee received in relation to investment projects
14.12.2015-17.01.2018	1 820	bank guarantee received in relation to investment projects
14.12.2015-29.01.2019	3 330	bank guarantee received in relation to investment projects
01.06.2016-01.07.2019	77 082	bank guarantee received in relation to investment projects
14.08.2015-14.08.2018	3 733	maintenance bond received in relation to investment projects
01.09.2017-02.09.2019	75 000	maintenance bond received in relation to investment projects
05.07.2017-09.06.2022	1 340	maintenance bond received in relation to investment projects
05.07.2017-09.06.2022	842	maintenance bond received in relation to investment projects
02.01.2013-05.01.2018	1 481	bank guarantee received in relation to investment projects
08.05.2017-13.05.2022	1 732	bank guarantee received in relation to investment projects
Guarantees received	**237 598**	

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 building reconstruction projects, construction or restructuring projects of the safety and communication infrastructures and systems.

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 2017 were HUF 237,598 thousand (2016: HUF 361,732 thousand).

19. Capital risk management

HungaroControl manages its capital to be able to continue as a going concern, to ensure that it meets its obligations towards its partners and to fund business development.
The Company finances its activity from equity and net working capital. 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 regulation.

20. Events after the reporting period

The consolidated financial statements of the Company for the year ended at December 31, 2017 prepared in conformity with International Financial Reporting Standards (IFRS) are authorized in accordance with the resolution of the CEO on 24 July 2018.

Budapest, 24 July 2018

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Chief Executive Officer