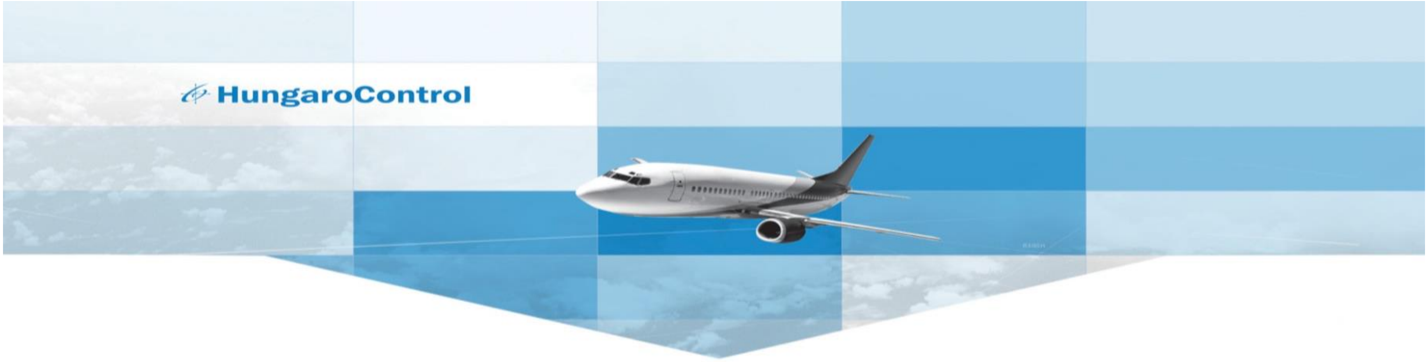

HUNGAROCONTROL GROUP

CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2016

in accordance with International Financial Reporting Standards (IFRS)

Budapest, 6 June 2017

Chief Executive Officer

HUNGAROCONTROL GROUP
CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2016

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Shareholder of HungaroControl Zrt.

Opinion

We have audited the accompanying 2016 consolidated annual financial statements of HungaroControl Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2016 - showing a balance sheet total of HUF 53,564,250 thousand and a total comprehensive income for the year of HUF 5,713,865 thousand -, the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the consolidated annual financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated annual financial statements give a true and fair view of the financial position of HungaroControl Zrt. as at 31 December 2016 and of its financial performance and its 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 annual financial statements" section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated annual financial statements in Hungary, and we have fulfilled our 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

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

The entity has prepared the consolidated annual 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 annual financial statements

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

In preparing the consolidated annual 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 annual financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated annual 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 annual 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 annual 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 annual 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 annual financial statements, including the disclosures, and whether the consolidated annual 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
Budapest, 6 June 2017
Ernst & Young Kft.

HUNGAROCONTROL GROUP
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016

	Notes	December 31, 2016 thHUF	December 31, 2015 thHUF
Intangible assets	5	7 629 825	8 790 347
Property, plant and equipment	6	12 941 957	12 389 582
Investments in joint ventures	7	91 193	72 552
Invested financial assets		8 895	0
Other long term assets	8	394 508	326 413
Deferred tax asset	9	0	0
Non-current assets		**21 066 378**	**21 578 894**
Inventories	10	74 994	26 176
Trade receivables	11	5 840 477	5 540 396
Other current assets	12	2 061 399	2 149 067
Current tax receivable	13	226 444	45 666
Financial assets available for sale	14	21 297 669	14 799 975
Other financial assets	14	0	16 658
Cash and cash equivalents	14	2 996 889	6 114 126
Current assets		**32 497 872**	**28 692 064**
TOTAL ASSETS		**53 564 250**	**50 270 958**
Share capital	1	20 201 600	20 201 600
Reserves		23 932 323	19 218 458
Shareholder's equity		**44 133 923**	**39 420 058**
Long term provisions	15	28 501	28 656
Long term employee benefits	16	602 681	1 644 530
Other long term liabilities	17	1 426 287	1 436 584
Deferred tax liability	9	69 687	126 118
Non-current liabilities		**2 127 156**	**3 235 888**
Trade payables	18	1 702 714	2 145 776
Short term provisions	15	147 181	87 526
Short term employee benefits	16	3 725 414	3 296 152
Current tax liability	13	4 106	129
Other short-term liabilities	19	1 723 756	2 085 429
Current liabilities		**7 303 171**	**7 615 012**
TOTAL LIABILITIES		**9 430 327**	**10 850 900**
TOTAL EQUITY & LIABILITIES		**53 564 250**	**50 270 958**

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, 2016

	Notes	December 31, 2016 thHUF	December 31, 2015 thHUF
Revenue from air navigation services	20	37 129 799	36 495 815
Other revenue	20	264 928	107 696
Revenue		**37 394 727**	**36 603 511**
Personnel expense	21	16 507 753	16 572 595
Operating expense	22	9 763 020	9 138 150
Depreciation, depletion, amortization and impairment	5, 6	3 846 453	2 969 890
Other income / expense (-)	23	253 739	179 734
Operating expense		**29 863 487**	**28 500 901**
OPERATING PROFIT		**7 531 240**	**8 102 610**
Financial income / expense (-)	24	228 662	344 703
Profit from financial activities		**228 662**	**344 703**
Share from profit / loss of joint venture	7	**18 654**	**23 304**
PROFIT BEFORE TAX		**7 778 556**	**8 470 617**
Income tax expense	25	**2 070 621**	**2 361 660**
PROFIT FOR THE YEAR		**5 707 935**	**6 108 957**
Attributable to equity holder of the parent		**5 707 935**	**6 108 957**
OTHER COMPREHENSIVE INCOME			
Items reclassified subsequently to profit and loss			
Gain / loss (-) on cash flow hedges	26, 29	**-27 809**	**130 739**
Less tax effect	9	**0**	**0**
Gain / loss (-) on fair valuation of financial assets available for sale		**49 525**	**27 900**
Less tax effect	9	**-7 098**	**-4 557**
Items that will not be reclassified subsequently to profit and loss			
Actuarial gain / loss (-)	16	**0**	**-4 929**
Less tax effect	9	**-8 688**	**-894**
Other comprehensive income, net of tax		**5 930**	**148 259**
TOTAL COMPREHENSIVE INCOME		**5 713 865**	**6 257 216**
Attributable to equity holder of the parent		**5 713 865**	**6 257 216**

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, 2016

	Notes	Share capital	Retained earnings	Valuation reserve	Total reserves	Owners' share of profit	Attributable to the owners of the Group	Share of non-controlling interest	Total shareholder's equity
		thHUF	thHUF	thHUF	thHUF	thHUF	thHUF	thHUF	thHUF
Opening balance at 1 January, 2015		**20 201 600**	**14 563 913**	**-599 562**	**13 964 351**	**100%**	**34 165 951**	**0**	**34 165 951**
Translation reserve		0	0	0	**0**	100%	0	0	**0**
Transactions recognised in other comprehensive income	**9, 16**	0	-200 885	349 144	**148 259**	100%	148 259	0	**148 259**
Additional capital paid out to joint venture		0	-3 109	0	**-3 109**	100%	-3 109	0	**-3 109**
Profit for 2015		0	6 108 957	0	**6 108 957**	100%	6 108 957	0	**6 108 957**
Total comprehensive income		**0**	**5 904 963**	**349 144**	**6 254 107**	**100%**	**6 254 107**	**0**	**6 254 107**
Dividends		0	-1 000 000	0	**-1 000 000**	100%	-1 000 000	0	**-1 000 000**
Closing balance, 31 December, 2015		**20 201 600**	**19 468 876**	**-250 418**	**19 218 458**	**100%**	**39 420 058**	**0**	**39 420 058**
Translation reserve		0	0	0	**0**	100%	0	0	**0**
Transactions recognised in other comprehensive income	**9, 16**	0	-114 014	119 944	**5 930**	100%	5 930	0	**5 930**
Profit for 2016		0	5 707 935	0	**5 707 935**	100%	5 707 935	0	**5 707 935**
Total comprehensive income		**0**	**5 593 921**	**119 944**	**5 713 865**	**100%**	**5 713 865**	**0**	**5 713 865**
Dividends		0	-1 000 000	0	**-1 000 000**	100%	-1 000 000	0	**-1 000 000**
Closing balance, 31 December, 2016		**20 201 600**	**24 062 797**	**-130 474**	**23 932 323**	**100%**	**44 133 923**	**0**	**44 133 923**

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, 2016

	December 31, 2016 thHUF	December 31, 2015 thHUF
OPERATING ACTIVITIES		
Profit before tax	**7 778 556**	**8 470 617**
Depreciation and amortization	3 820 450	2 967 650
(Gain)/Loss on sale of property, plant & equipment	-1 328	-38
Impairment/Scrapping of Fixed Assets	26 003	2 240
Impairment/Scrapping of Inventory	136	837
Increase/ (decrease) in provisions	59 500	51 123
Interest income	-571 768	-451 067
Increase in provision for bad debts	48 341	10 090
Share of (income) from joint ventures	-18 654	-23 304
Unrealized foreign exchange (gains)/losses	3 830	-9 717
(Gains)/losses from other non-cash transactions	347 816	18 294
Total	**3 714 326**	**2 566 107**
Changes in working capital:		
(Increase)/ decrease in Accounts receivable and other current assets	-508 057	2 053 525
(Increase)/ decrease in Inventory	-48 954	441
Increase/ (decrease) in Accounts payable, long term liabilities and accruals	-1 129 294	-1 382 625
Income taxes paid	-2 135 947	-2 078 400
Total	**-3 822 252**	**-1 407 058**
Net cash from operating activities	**7 670 630**	**9 629 666**
INVESTING ACTIVITES		
Purchase tangible assets and intangibles	-3 609 444	-6 885 980
Proceeds on disposal of property, plant & equipment	592	64
(Purchase)/ sale of financial assets	-6 846 543	674 245
Additional capital paid to joint ventures	0	-3 109
Purchase of investment	0	0
Interest paid	0	0
Interest received	669 793	401 821
Net cash used in investing activities	**-9 785 602**	**-5 812 960**
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	**-3 114 972**	**2 816 706**
Cash and cash equivalents at beginning of year	6 114 126	3 298 691
Exchange rate loss on cash and cash equivalents	-2 265	-1 271
Cash and cash equivalents at end of year	**2 996 889**	**6 114 126**

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.

Average number of employees of the Group was 740.7 in 2016 (2015: 743.7).

1.2. Governance

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

2. Accounting policies

2.1. Basis of preparation

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

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

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

2.2. Basis of consolidation

The consolidated financial statements include the accounts of HungaroControl and its joint ventures, Entry Point Central Kft. (EPC Kft.) and FAB CE Aviation Services Ltd. (FAB CE Ltd.). The consolidated financial statements are prepared in accordance with the measurement and presentation basis applied in IFRS. The consolidated financial statements are prepared using uniform accounting policies for 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 (owns 51% of the registered capital whereas HungaroControl owns 49%). The voting rights held equal to the proportion of ownership. The parties of the arrangement have rights to the net assets of the arrangement. The major governing policies are formed based on unanimous decisions of the 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% - Entry Point North 51%

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 on October 17th, 2014 with the following characteristics:

Joint venture	Date of foundation	Registered capital (in EUR)	Ownership
FAB CE Aviation Services Ltd.	October 17, 2014	36 000	HungaroControl 16.67% - same rate is applicable for the 5 other members (16.67%)

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 joint company assists the FAB CE programme and the implementation of FAB CE projects, including the common procurement of high-level professional support, project management and administrative services.

The Company is jointly controlled by its members each owning 16.67 % of the business. The major governing policies are formed based on unanimous decisions of the quota holders. All of the members contributed with EUR 6,000 to the initial capital. On December 01, 2015 an additional EUR 10 000 (HUF 3,109 thousand) capital has been paid to FAB CE Aviation Ltd. by all the members. The additional contributions did not change the extent of the quota holding nor the voting rights. FAB CE Aviation Services Ltd. is incorporated in Slovenia and keeps its books in EUR and according to the IFRS.

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.

2.4. Investments and other financial assets

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

Financial assets at fair value through profit or loss

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

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

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

Such financial assets are recorded as current, except for those instruments which are not due for settlement within 12 months from the balance sheet date and are not held with the primary purpose of being traded. In this case all payments on such instruments are classified as noncurrent. Financial assets held for trading cannot be reclassified subsequently into other categories. As at December 31, 2016 (also in 2015), no financial assets have been designated as at fair value through profit and loss.

Held-to-maturity investments

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

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

Loans and receivables

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

Available-for-sale financial investments

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

Fair value

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

2.5. Classification and de-recognition of financial instruments

Financial assets and financial liabilities carried on the consolidated financial position include cash and cash equivalents, trade and other receivables and payables and long-term receivables. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this Note. Financial instruments (including compound financial instruments) are classified as assets, liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income as incurred.

Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realize the asset and settle the liability simultaneously.

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

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

The Group did not reclassify any of its financial assets or liabilities between the above categories.

2.6. Hedging

For the purpose of hedge accounting, hedges are classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation.
The Group concludes cash flow 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.

2.7. Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

Available-for-sale financial investments

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

2.8. Cash and cash equivalents

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

2.9. Trade and other receivables

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

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

2.10. Inventories

Inventories are valued at the lower of cost and net realizable value, after provision for slow-moving and obsolete items. Net realizable value is the selling price in the ordinary course of business, less the costs of making the sale. Cost of purchased goods is determined primarily on the basis of weighted average cost. Unrealizable inventory is fully written off. Items such as spare parts, stand-by equipment and servicing equipment are recognized by the Group in inventories and are carried through profit or loss upon use. However, certain significant spare parts, stand-by equipment and servicing equipment meet the definition of property, plant and equipment if they are expected to be used during more than one period.

The Group exercises judgment, with the involvement of technical departments, to determine if a spare part qualifies as inventory or an item of property, plant and equipment. Specifically, spare parts of radar equipment qualify as long term assets and therefore are capitalized in the statement of financial position.

2.11. Property, plant and equipment

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

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to income statement in the period in which the costs are incurred.

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

Depreciation is provided using the straight-line method over the estimated useful lives of the assets. 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 %
Development on third party property	6.0 %
Production machinery and equipment	14.5 %
Computer hardware	33.0 %
Telecommunication equipment	14.5 %
Furniture	10%

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

2.12. Intangible assets

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

Typical amortization rules are stated as follows:

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

2.13. Impairment of assets

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

2.14. Leases

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement at inception date as to whether the 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.
A reassessment after inception of the lease is possible only if one of the following applies:
(a) there is a change in contractual terms, other than renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) there is a change in determination of whether fulfilment is dependent on a specific asset;
(d) there is a substantial change to the asset.

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

Group as a lessee:

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

In 2016 and 2015 the Company 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. As the ownership of the property items never passes over to the Group, the contract is for an indefinite period, and the Group does not exercise full ownership rights over the assets, this arrangement is classified as operating lease. Therefore, the property items received under the property management contract are not recognised as assets of the Group. The property management fee payable to the Hungarian National Asset Management Inc. is shown among services used.

The property management contract includes a requirement to preserve the assets held under the lease and maintain their condition. The Group recognizes a long term liability named 'Replacement obligation' for this obligation.

Group as a lessor:

Finance lease is where the Group transfers substantially all the risks and benefits of ownership of the asset. Assets held under a finance lease are presented in the statement of financial position as a receivable at an amount equal to the net investment in the lease. Finance incomes are recognized in the statement of comprehensive income.

In 2016 and 2015 the Company had no finance lease contracts.

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.

2.15. Trade and other payables

Trade and other payables (including accruals) are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

The carrying values of trade and other payables approximate their fair values due to their short maturity.

2.16. Provisions

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

2.17. Long term employee benefits

Defined benefit plans:

In 2013 the Group operated a “Defined Benefit Plan”. Contribution expenses under defined benefit plans are calculated based on the projected unit credit method and are subject to an actuarial assessment at the end of each period. The Company relies on actuarial assistance at the end of each year to establish the present value of its benefit obligations. Changes in the present value of the benefit obligation involve changes in the following factors: current service cost, past service cost, any gain or loss on settlement of pension liability, the change during the period in the net defined benefit liability that arises from the passage of time, actuarial gains and losses. From December 31, 2013, the Group decided to change its long term pension scheme from a defined benefit plan to a Career plan and introduced a scheme regulated by the agreements ‘HungaroControl Career Plan’ and the ‘Air Controller Career Agreement’ implicated in the Collective Agreement operative from 31 December 2013. There are only three employees who remained in the previous scheme, however, due to retirement in 2016 this scheme came to an end.

The conversion from defined benefit scheme to Career plan was still an ongoing process in 2016 and 2015. 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 2016. 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.

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.

2.18. Government grants

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When 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.

2.19. Income taxes

Current taxes:

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

Deferred taxes:

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

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

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

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

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

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

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

2.20. Dividend

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

2.21. Revenue recognition

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

Revenue from air navigation services:

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

Revenue is recognised as follows:
Air navigation services are billed and the revenues earned are recognised by the Company based on a HUF unit price determined on the basis of pre-budgeted costs and planned annual turnover, which is exchanged to EUR based on the average closing bid Reuters foreign exchange rates of previous month, and taking into account the actual chargeable service units.

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). In 2015 and 2016 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 case of terminal air navigation services, according to the relevant EU legislation, the business segment began to operate under the performance scheme mechanism in 2015. Based on the EU Regulation No. 391/2013 Member States with airports with fewer than 225 000 IFR air transport movements per year (the Liszt Ferenc International Airport is like this, too), after reporting to the Commission, 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'.

Further information on revenue recognition regarding all of the business segments is included under the Note 20.

Sale of goods:

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

Interest income:

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

Dividends:

Dividend income is recognized when the Group's right to receive the payment is established.
Other income (expense):

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

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

2.22. Operating profit

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

2.23. Contingencies

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

3. 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 IFRSs 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. Actual results may differ from these estimates. The estimates and assumptions that may have a risk of causing material adjustment to the carrying amounts of assets and liabilities are outlined below. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

3.1. Actuarial estimates for calculating long term employee benefits

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

3.2. Provisions

Provisions in general are highly judgmental, especially in case of legal disputes. The Group assesses the probability of an adverse event as a result of a past event and if the probability of an outflow of economic benefits is evaluated to be more probable than not, i.e. its probability is greater than 50%, the Group provides for the amount of the estimated liability.

3.3. Taxes

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

3.4. Useful life of assets

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

4. Adaption of new and modified 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.

- IFRS 16 Leases - effective 1 January 2019, not yet endorsed by the EU;
  The IASB issued IFRS 16 Leases standard, which requires lessees to recognise assets and liabilities for most leases. Early application is permitted, provided the new revenue standard, IFRS 15 Revenue from Contracts with Customers, has been applied, or is applied at the same date as IFRS 16.

- IAS 12 Income taxes – Recognition of deferred tax assets for unrealised losses – effective 1 January 2017, not yet endorsed by the EU;
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provides guidance on how an entity should determite future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

- IAS 7 Cash flow statement – Disclosure initiative - effective 1 January 2017, not yet endorsed by the EU;
  The amendments to IAS 7 require an entity to provide disclosure that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

- IFRS 17 Insurance Contracts – effective 1 January 2021, not yet endorsed by the EU
  This standard will replace IFRS 4 standard. The new standard will help investors and others better understand insurers' risk exposure, profitability and financial position. The standard has no effect on the Group.

Standards and interpretations issued and effective in the European Union are listed below. They will have no material impact on the financial statements of the Group after their adaption:

- IFRS 9 Financial instruments – effective 1 January 2018;
  In July 2014, the IASB issued the final version of IFRS 9 which replaces IAS 39, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

- IFRS 15 Revenue from Contracts with customers – effective 1 January 2018.
  In May 2014, the IASB issues IFRS 15, which 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.
  Clarifications to IFRS 15 are not yet endorsed by the EU.

5. Intangible assets

The table shows movements of intangible assets:

amounts in thHUF

	Property right	Software	Work in progress	Intangible assets
Net value at January 01, 2015	**4 339 130**	**56 660**	**2 491 941**	**6 887 731**
Gross value:				
January 01, 2015	17 555 130	334 688	2 491 941	20 381 759
Additions	0	0	3 347 887	3 347 887
Capitalization	3 994 942	29 110	-4 024 052	0
Disposals	-6	-750	0	-756
Gross value at December 31, 2015	**21 550 066**	**363 048**	**1 815 776**	**23 728 890**
Depreciation:				
January 01, 2015	13 216 000	278 028	0	13 494 028
Additions	1 430 917	14 354	0	1 445 271
Disposals	-6	-750	0	-756
Depreciation at December 31, 2015	**14 646 911**	**291 632**	**0**	**14 938 543**
Net value at December 31, 2015	**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**

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

6. Property, plant and equipment

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, 2015	**3 975 684**	**4 421 871**	**1 146 738**	**703 891**	**10 248 184**
Gross value:					
January 01, 2015	4 432 439	9 530 232	3 159 637	703 891	17 826 199
Additions	0	0	0	3 665 795	3 665 795
Capitalization	484 022	895 520	809 386	-2 188 928	0
Disposals	0	-77 689	-191 261	-883	-269 833
Gross value at December 31, 2015	**4 916 461**	**10 348 063**	**3 777 762**	**2 179 875**	**21 222 161**
Depreciation:					
January 01, 2015	456 755	5 108 361	2 012 899	0	7 578 015
Additions	178 448	933 897	411 144	0	1 523 489
Disposals	0	-77 689	-191 236	0	-268 925
Depreciation at December 31, 2015	**635 203**	**5 964 569**	**2 232 807**	**0**	**8 832 579**
Net value at December 31, 2015	**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**

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 26,003 thousand (2015: HUF 3,371 thousand) were made in respect of operational assets reflecting a reassessment of certain assets, and the likelihood of benefits being realised in full.

7. Investments in a joint ventures

Balances at the year ends were the following:

amounts in thHUF

	EPC Kft.	FAB CE Ltd.	Total
Value at January 01, 2015	**47 369**	**1 890**	**49 259**
Additions during the year	22 610	694	23 304
Disposals	0	0	0
Revaluation of foreign operation in the current year	0	-11	-11
Value at December 31, 2015	**69 979**	**2 573**	**72 552**
Additions during the year	19 680	0	19 680
Disposals	0	-1 025	-1 025
Revaluation of foreign operation in the current year	0	-14	-14
Value at December 31, 2016	**89 659**	**1 534**	**91 193**

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

The assets and liabilities, income and expenses of EPC Kft. and the Group's share thereof as at December 31, 2016 and 2015, are as follows:

EPC Ltd.'s balance sheet:

amounts in thHUF

	December 31, 2016	December 31, 2015
Non-current assets	6 038	5 961
Current assets	243 854	189 879
Current liabilities	66 915	53 025
Equity	**182 977**	**142 815**

EPC Ltd.'s revenue and profit:

amounts in thHUF

	December 31, 2016	December 31, 2015
Revenue	717 560	502 618
Operating expenses	673 272	455 837
Financial income	337	4 489
Profit before taxes	**44 625**	**51 270**
Income tax expense	4 463	5 127
Profit for the year	**40 162**	**46 143**

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

amounts in thHUF

EPC Kft.	
Profit of previous years	129 815
Profit for the year 2016	40 162
Total profit accumulated	169 977
Share of the Group from the realised profit (49%)	**83 289**
Share of the Group from the impairment recognised (49%)	0
Share of the Group from the results accumulated	**83 289**
Initial cost of investment	6 370
Investment value at the end of the reporting period	**89 659**

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 89,659 thousand at the end of 2016 (2015: HUF 69,979 thousand). The gain included in the 'Share from profit / loss of joint venture' line of the comprehensive income for the financial year 2016 is HUF 19,679 thousand (HUF 22,610 thousand in 2015).

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., the other joint venture the Group owns, was registered in the Republic of Slovenia on November 17, 2014. The total share capital of the joint venture is EUR 36,000.

FAB CE Aviation Ltd.'s balance sheet:

amounts in thHUF

	December 31, 2016	December 31, 2015
Non-current assets	41	142
Current assets	128 506	56 462
Non-current liabilities	0	22 177
Current liabilities	100 656	163
Equity	**27 891**	**34 264**

FAB CE Aviation Ltd.'s revenue and profit:

amounts in thHUF

	December 31, 2016	December 31, 2015
Revenue	327 136	67 982
Operating expenses	333 396	62 186
Financial income	-3	0
Profit before taxes	**-6 263**	**5 796**
Income tax expense	0	878
Profit for the year	**-6 263**	**4 918**

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

amounts in thHUF

FAB CE Aviation Services Ltd.	
Profit of previous years	4 275
Profit for the year 2016	-6 263
Total profit accumulated	-1 988
Share of the Group from the realised profit (16.67%)	**-331**
Share of the Group from the impairment recognised (16.67%)	0
Share of the Group from the results accumulated	**-331**
Initial cost of investment	1 835
Revaluation of foreign operation	30
Investment value at the end of the reporting period	**1 534**

8. 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 value of the balance of the receivable from flights exempted from charges are calculated based on actual service unit numbers, and the costs per service units derived from the cost base approved. 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 2016 was HUF 15,482 thousand (2015: HUF 11,432 thousand).

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

amounts in thHUF

	December 31, 2016	December 31, 2015
Exempted flights		
Ministry of Defence	629 854	649 097
Ministry of National Development	27 507	44 707
Ministry of Foreign Affairs	19 849	30 957
Total exempted flights	**677 210**	**724 761**
Due in one year	*318 846*	*398 348*
Due over one year	*358 364*	*326 413*
Extended warranty	**39 332**	**0**
Due in one year	3 188	0
Due over one year	36 144	0
Total due in one year	**322 034**	**398 348**
Total due over one year	**394 508**	**326 413**

HUF 421 million of the total outstanding balance was settled in 2016 (in 2015 HUF 824 million). Additional balance established for 2016 was HUF 358,364 thousand (HUF 326,413 thousand for 2015). The amounts of receivables for the compensation of costs of 2016 flights exempted from charges are included as long term assets in the statement of financial position.

In addition, the long-term part of the warranty extension purchased during 2016, in the value of HUF 36,144 thousand should be presented in this financial statement line. This warranty extension cannot be accounted in the cost of assets.

9. Deferred tax assets, liabilities

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

amounts in thHUF

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 included in tax base whereas accounted for as income 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**

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2015	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2014
Accelerated tax depreciation	-867 354	0	242 163	-1 109 517
Valuation reserve of available for sale financial assets	11 121	-4 557	6 132	9 546
Provisions not included in tax base	766 551	-894	-80 740	848 185
Bad debt allowances not included in tax base	25 144	0	-82 851	107 995
Differences between tax base and carrying amount of assets discounted	2 866	0	-93	2 959
Differences on fixed assets not yet capitalised and debited to income statement	-208 838	0	-323 339	114 501
Differences on replacement obligation of state owned assets	172 573	0	143 986	28 587
Government grants included in tax base whereas accounted for as income in the next financial year	-28 181	0	-8 845	-19 336
Total deferred tax asset (+) /liability (-)	**-126 118**	**-5 451**	**-103 587**	**-17 080**

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

Deferred tax assets and liabilities have been offset as the Group has legal right to settle current tax amounts on a net basis and the deferred tax amounts are levied by the same 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 projected on a tax base derived from the netting of revenue and certain expenses. These taxes 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.

Deferred taxes were calculated with income tax rate of 9% in 2016 and 17.29% in 2015.

Calculated at a tax rate of 9% the deferred tax liability of 2016 is of HUF 69,687 thousand, while if it was calculated at the average tax rate prior to the tax change, the closing value of the deferred tax liability would have been HUF 131,578 thousand. The effect of tax rate change is HUF 61,891 thousand.

From the balance above HUF 4,193 thousand deferred tax asset is expected to be reversed in one year, HUF 73,880 thousand deferred tax liability is expected to be reversed in 5 years.

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

10. Inventories

Balances at the year ends occurred as follows:

amounts in thHUF

	December 31, 2016	December 31, 2015
Spare parts	25 890	25 649
Other materials	49 104	527
Inventories	**74 994**	**26 176**

Items such as spare parts, stand-by equipment and servicing equipment are recognized among inventories and are carried through profit or loss upon use. Certain significant spare parts used at radar stations and significant navigation equipment meet the definition of property, plant and equipment, thus are recognized as items of property, plant and equipment. The inventory balance for 2016 includes an impairment loss amounting HUF 136 thousand (HUF 844 thousand in 2015). No previously recognized impairment loss has been released for the years presented.

11. Trade receivables

amounts in thHUF

	December 31, 2016	December 31, 2015
Trade receivables	6 288 109	5 989 853
Intercompany receivable	13 010	2 168
Allowances	-460 642	-451 625
Total	**5 840 477**	**5 540 396**

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

An allowance of HUF 460,642 thousand (2015: HUF 451,625 thousand) has been accounted for balances estimated irrecoverable. Full provision has been made for customer balances not expected to be recovered. The balances are assessed for credit quality and reviewed both periodically and at the end of the reporting period.
In case there is an estimated loss identified and expected to exist permanently between the carrying amount and the amount estimated recoverable the differences are provided for.

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

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

Movement in the allowance for doubtful debts

amounts in thHUF

	December 31, 2016	December 31, 2015
Balance at the beginning of the year	451 625	831 542
Increase in allowances	56 123	53 043
Decrease in allowances	-44 712	-428 724
Foreign exchange movement in the year	-2 394	-4 236
Balance at end of the year	**460 642**	**451 625**

Ageing of the trade receivable balances

amounts in thHUF

	December 31, 2016	December 31, 2015
Not overdue	5 418 082	5 209 272
Under 3 months	301 105	198 250
Overdue, between 3-6 months	17 087	25 771
Overdue, between 6-12 months	12 882	29 466
Overdue, over 12 months	538 953	527 094
Total	**6 288 109**	**5 989 853**

Aged balances impaired and not impaired

amounts in thHUF

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**

2015	Total	Not overdue, not impaired	Not overdue, impaired	Overdue, not impaired	Overdue, impaired
Receivables from airlines, en-route business	**4 762 038**	4 151 634	3 951	285 750	320 703
Receivables from airlines, terminal business	**896 799**	809 628	0	29 533	57 638
Receivables from airlines, Kosovo business	**237 952**	216 977	225	16 229	4 521
Domestic trade debtors, other	**69 403**	3 258	0	1 569	64 576
Foreign trade debtors, other	**23 661**	23 599	0	50	12
Total	**5 989 853**	**5 205 096**	**4 176**	**333 131**	**447 450**

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.

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

12. Other current assets

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

amounts in thHUF

	December 31, 2016	December 31, 2015
Short term receivables from exempted flights*	318 846	398 348
Value added tax	788 241	957 487
Changes in fair value of cash-flow hedges (gain)	36 140	25 594
Receivable from Eurocontrol - TNC sales	3 811	20 783
Other receivables	50 098	28 607
Bad debt allowances	-1 825	-100
Total other receivables	**1 195 311**	**1 430 719**
Accrued interest income on deposits fixed	438	22 908
Accrued income for grants received	7 586	9 987
Other income accrued	6 483	13 196
Total accrued income	**14 507**	**46 091**
Services prepaid	851 581	672 257
Total prepaid expenses	**851 581**	**672 257**
Other current assets	**2 061 399**	**2 149 067**

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

Other receivable balances are assessed individually for credit risk at the end of the reporting period using information on credit risk quality and other information available at that time issuing our financial statement. In case there is an estimated loss identified between the carrying amount and the amount estimated recoverable the Group provides fully for differences expected to exist permanently. The balance for 2016 is HUF 1,825 thousand, whereas HUF 100 thousand regarding 2015.

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.

13. Current tax receivables and liabilities

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

amounts in thHUF

	December 31, 2016	December 31, 2015
Corporate tax	226 444	33 250
Local business tax	0	12 416
Current tax receivable	**226 444**	**45 666**
Local business tax	3 384	0
Innovation contribution	722	129
Current tax liability	**4 106**	**129**

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

Cash and cash equivalents comprise cash on hand, cash held on current accounts and other highly liquid investments with a maturity of 3 months or less. Balances at year ends are as follows:

amounts in thHUF

	December 31, 2016	December 31, 2015
Cash on hand	**995**	**1 011**
Current accounts HUF	305 013	155 200
Current accounts in foreign currency (EUR)	490 881	216 641
Fixed deposits HUF - under 3 months	2 200 000	3 438 844
Cash at banks	**2 995 894**	**3 810 685**
Government securities with maturity under 3 month	**0**	**2 302 430**
Cash and cash equivalents	**2 996 889**	**6 114 126**

Other financial assets are presented at amortized cost. This category includes fixed bank deposits in HUF and in EUR. The maturity of the deposits is within one year, but above 3 months. Balances at year ends are as follows:

amounts in thHUF

	December 31, 2016	December 31, 2015
Fixed deposits in foreign currency - over 3 months	0	16 658
Other financial assets	**0**	**16 658**
Government securities with maturity above 3 months	21 297 669	14 799 975
Financial assets available for sale	**21 297 669**	**14 799 975**

The discount treasury bills and bonds issued by the Hungarian State were designated as available for sale assets at initial recognition. They are measured at fair value with any possible change in fair value recognized in equity. The amount credited to other comprehensive income (hence to equity) at year end was HUF 49,525 thousand gain in 2016, and HUF 26,561 thousand in 2015. The fair valuation method used and the fair value hierarchy classification are both disclosed in Note 29.

15. Provisions

Total Balances at year end are as follows:

amounts in thHUF

Provisions	Legal provision	Other provision	Total
Long-term provisions	0	28 656	28 656
Short-term provisions	4 947	82 579	87 526
Balance as of December 31, 2015	**4 947**	**111 235**	**116 182**
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**

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, 2015	**27 499**	**0**	**27 499**
Additional provisions created	0	21 791	21 791
Unused amounts reversed	-25 720	0	-25 720
Reclassification between long-term and short-term categories	-1 779	6 865	5 086
Balance as of December 31, 2015	**0**	**28 656**	**28 656**
Utilized during the year	0	-155	-155
Balance as of December 31, 2016	**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, 2015	**10 502**	**27 058**	**37 560**
Additional provisions created	0	82 579	82 579
Unused amounts reversed	0	-58	-58
Reclassification between long-term and short-term categories	1 779	-6 865	-5 086
Utilized during the year	-7 334	-20 135	-27 469
Balance as of December 31, 2015	**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**

The Group provides for possible losses from legal cases. Other provisions include liabilities payable to the Ministry of National Development and Ministry of Defence (2016: HUF 122,376 thousand, 2015: HUF 82,579 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

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, 2016	December 31, 2015
Long term employee benefits	602 681	1 644 530
Short term employee benefits	3 725 414	3 296 152
Total employee benefits	**4 328 095**	**4 940 682**

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".

The Group operates a post-employment benefit scheme where employees are entitled to certain payments receivable upon retirement. Liabilities form long term employee benefits are described in Note 2.17 in detail.

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

amounts in thHUF

	Defined benefit plan	Termination benefits	Other long term employee benefits	Total
Present value at January 1, 2015	**129 706**	**0**	**4 438 145**	**4 567 851**
Past service cost	0	0	344 222	**344 222**
Current service cost	1 117	0	16 243	**17 360**
Contribution charged to profit and loss during the year	0	441 077	324 603	**765 680**
Interest costs	1 566	0	69 787	**71 353**
Used during the year	-65 382	0	-1 692 735	**-1 758 117**
Change in discount rates	413	0	31 876	**32 289**
Net actuarial (gains)/losses	4 516	0	-39 181	**-34 665**
Present value at December 31, 2015	**71 936**	**441 077**	**3 492 960**	**4 005 973**
Current service cost	0	120 131	397 724	**517 855**
Interest costs	603	19 058	42 153	**61 814**
Used during the year	-72 539	-148 574	-1 404 974	**-1 626 087**
Change in discount rates	0	15 532	62 351	**77 883**
Net actuarial (gains)/losses	0	-27 084	-104 249	**-131 333**
Present value at December 31, 2016	**0**	**420 140**	**2 485 965**	**2 906 105**

The actuarial loss 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 major part of the actuarial loss charged in the year in relation to the Career plan, namely HUF 22 million, is due to fact of change in contribution allowance from 2017.

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, 2016	December 31, 2015
Actual death and turnover	7 266	2 690
Effect of changes in discount rate	77 883	32 289
Changes in expected salary increase	-11 893	11 567
Changes in probability of deaths caused by occupational accidents	-26 770	0
Actual exit propapility versus estimated	-6 766	192
Regulatory changes of contribution allowance	-22 214	0
Effect of changes in retiring date	0	-30 062
Other	-70 956	-19 052
Total	**-53 450**	**-2 376**
Included in other comrehensive income	0	-4 929
Included in profit and loss statement	53 450	7 305

Actuarial gains and losses arising from changes in financial assumptions:

Discount rates: the Group used the zero coupon discount rates published by Government Debt Management Agency (webpage: www.akk.hu) as per 31 December 2016. The opening balance of the new scheme, i.e. the closing liability recognized in the defined benefit scheme will be paid out till 2017 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 2016: 0.17% for 1 year, in 2015: 1.23% for 1 year and 1.75% for 2 years.
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 2014 to 2015 the year end value of the obligations increased by HUF 32 million. The change between the 2016 and 2015 rates has more impact on the year-end balance, altogether HUF 78 million.

Actuarial gains and losses arising from changes in assumptions:

Actual versus estimated exit probability: exit assumptions for 2016 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):

- 2016: Non-air navigational: 5.29% Air navigational: 0.28%.
- 2015: Non-air navigational: 4.9% Air navigational: 0.11%.

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 2021. In relation to the new scheme the effect of salary increases are very limited and are only relevant for the occupational accidents balance. Following 2021 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, 2016	December 31, 2015
Short term part of post employment benefits and other long term employee benefits	2 349 700	2 496 657
Salaries payable for December	621 218	617 721
Accrual made for contribution payable in relation to the Career Plan Agreement for Air Navigation Personnel	83 410	40 670
Bonuses payable on a short-term basis	123 372	81 635
Short-term compensated absences	59 431	45 124
Other	488 283	14 345
Total	**3 725 414**	**3 296 152**

Short term part of post-employment schemes expected to be payable in one year: HUF 2,349,700 thousand as per December 31, 2016 (2015: HUF 2,496,657 thousand).

17. Other long term liabilities

Balances at the dates presented were as follows:

amounts in thHUF

	December 31, 2016	December 31, 2015
EU grants received - long term part*	1 401 138	1 414 982
Long term liabilities payable to joint venture	4 124	4 152
Other long term liabilities	21 025	17 450
Other long term liabilities	**1 426 287**	**1 436 584**

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

Other long term liabilities are HUF 21,025 thousand in as at 31 December 2016, and HUF 17,450 thousand as at 31 December 2015, and include retention warranty obligations from trade payable balances to be settled over one year.

18. Trade payables

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

amounts in thHUF

	December 31, 2016	December 31, 2015
Not due	1 692 101	2 071 226
Overdue, under 1 year	8 380	72 468
Overdue, between 1 - 5 years	2 233	2 082
Total trade payables	**1 702 714**	**2 145 776**

The Group settles trade payables within the payment term, and had no material overdue payables as of December 31, 2016 and 2015. 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, 2016	December 31, 2015
Trade payables - domestic	1 074 598	757 585
Trade payables - foreign	524 021	1 231 828
Intercompany payables	104 095	156 363
Total trade payables	**1 702 714**	**2 145 776**

The Group decided to fully separate all the balances classified as intercompany payables.
As a state controlled entity the Company chose to apply the exemption provided in IAS 24.25, by not disclosing the balances with the Hungarian State and with other state controlled entities fully. The exemption is also applied when disclosing transactions with intercompany partners as included in Note 27, presenting only the most significant transactions.
The Group considers that the carrying amount of trade payables approximates their fair value.

19. Other short-term liabilities

amounts in thHUF

	December 31, 2016	December 31, 2015
EU grants - advance payment received*	125 161	267 184
Changes in fair value of cash-flow hedges (loss)**	81 807	33 699
Amounts payable to pension funds and voluntary pension funds	423 645	446 481
Liabilities from social security	290 916	307 488
Personal income tax payable on behalf of the employees	237 683	275 235
Liability from enterprise licensing agreement	0	84 550
Short term other liabilities towards various authorities	25 014	29 870
Other short term liabilities	52 581	58 689
Total other payables	**1 236 807**	**1 503 196**
EU grants received - short term part*	311 020	286 031
Other deferred income	886	1 137
Total deferred income	**311 906**	**287 168**
Services, goods delivered but not invoiced till the year end	175 043	295 065
Total accrued expenses	**175 043**	**295 065**
Other short-term liabilities	**1 723 756**	**2 085 429**

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

20. Revenue

Breakdown of revenues:

amounts in thHUF

	December 31, 2016	December 31, 2015
Revenue from air navigation services - en route segment	29 502 941	29 403 822
Revenue from air navigation services - terminal segment	5 832 209	5 421 320
Revenue from air navigation services - Kosovo segment	1 796 211	1 835 796
Cas-flow hedge accounting reserve booked to revenues	-1 562	-165 123
Total revenue from air navigation services	**37 129 799**	**36 495 815**
Other revenue - foreign	202 936	53 649
Other revenue - domestic	61 992	54 047
Total other revenue	**264 928**	**107 696**
Total revenue	**37 394 727**	**36 603 511**

Revenue from air navigation services:

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

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. In the Kosovo segment, full cost recovery scheme has been applied for the whole year 2015.

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

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 revenue balances for the years presented comprise adjustments for agent activity in respect of search and rescue operations carried out by the Ministry of Defence (2016: HUF 483,146 thousand and 2015: HUF 469,074 thousand). The adjustments decrease the sales revenue generated from en-route activities. The Ministry of Defence makes search and rescue capacity available and carries out search and rescue activities as necessary, and so bears the associated costs. However, the planned costs of these activities are included in a Hungarian cost base managed by HungaroControl and hence are refunded to the Company through the unit charges. The revenues thus earned and included in the cost fund, are then forwarded to the Ministry of Defence for the relevant search and rescue activities. Owing to the fact that HungaroControl pays to the Defence Ministry the amount included in the approved cost base only, it is impossible that the Company would grant and „aid” to the Ministry of Defence and the amount granted is not refunded to the Company. Determining the amount of revenue from such a transaction is beyond the Company's control as it is calculated by the Ministry of Defence based on the actual costs expected to incur.
As search and rescue costs form part of the annual performance plan, they are also reflected in the budget used to determine the annual unit charges. Through the unit charges thus calculated, the budgeted costs, if the targets are met, are refunded to the Group by its customers. In view of the above, the Group recognizes amounts granted to the Ministry of Defence as an expense netted against revenues.

Revenue from other sources:

Revenues derived from non-air navigation services do not represent a material portion of total revenues. Revenues categorised as ‘other’ amounted HUF 264,928 thousand in 2016 (HUF 107,696 thousand in 2015). The three most important areas: radar data services provided (HUF 46,799 thousand in 2016, HUF 46,869 thousand in 2015), fees from simulation services (HUF 148.999 thousand is 2016, none in 2015), and rental fees collected (HUF 33,126 thousand in 2016, HUF 25,580 thousand in 2015).

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 1,562 thousand in 2016, from which amount HUF 64,290 thousand gain is the result of the derivatives closed, HUF 65,852 thousand loss is due to the exchange rate difference generated on trade receivables.
The total loss for 2015 was HUF 165,123 thousand, from which HUF 161,075 thousand loss was the results of the derivatives closed, HUF 4,048 thousand was the loss arisen on the exchange rate difference of trade receivables.

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

21. Personnel expenses

Breakdown of personnel expenses:

amounts in thHUF

	December 31, 2016	December 31, 2015
Wages and salaries	12 590 140	11 820 797
Social security	3 780 043	3 661 223
Other personnel expenses	1 277 646	1 610 217
Pension expenses and expenses from other long term benefits*	-1 140 076	-519 642
Personnel expenses	**16 507 753**	**16 572 595**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

	2016 No.	2015 No.
Division of air traffic services*	320	319
Division of communications, navigation and surveillance	61	68
Division of air navigation control systems	42	43
Other divisions**	323	322
Closing number of staff employed	**746**	**752**

** Division of air traffic services includes the personnel of the following departments: Airspace Management Cell, Airflow Management, Budapest Air Traffic Control Centre, Air Traffic Control Centre at the Airport, Aeronautical Information Services.*
*** Other divisions comprise the following: personnel of the Technological Division, CRDS Department, Military Liaison Team and the personnel of the support divisions.*

EPC Ltd. had in average 8 employees in 2016 and in 2015 – these data are not included in the figures above.

22. Operating expenses

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

amounts in thHUF

	December 31, 2016	December 31, 2015
Energy costs	236 943	196 816
Other materials used	126 718	140 549
Cost of materials consumed	**363 661**	**337 365**
Lease payment on state owned assets*	1 701 689	1 471 700
Eurocontrol member fees	1 309 773	1 302 255
Fees of liability insurance	886 080	814 162
Fees paid for authorities	611 318	613 094
Various other expenditures	533 219	561 319
Online service charges, charges for data transmission	461 849	530 472
Trainings expenditure	744 750	521 012
Cost of meteorological services consumed	445 813	430 289
Software maintenance fees	478 208	411 191
Maintenance fees	364 805	365 760
Safeguarding services	364 183	363 033
Expenditure on consultancy and fees of expert	391 585	358 328
Travel and other costs incurred on missions abroad	269 141	320 812
Cost from changes in balance of state owned assets	294 981	218 045
Real estate rental fees	159 358	203 888
Cost of advertisement and marketing campaigns	196 782	131 140
Rental fees of fixed assets	122 430	109 489
Charges paid for waste disposal and similar services	21 306	40 328
Other rental fees	42 089	34 468
Other expenditures	**9 399 359**	**8 800 785**
Total Operating expenses	**9 763 020**	**9 138 150**

** 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.*

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, 2016	December 31, 2015
Within 1 year	200 189	156 192
1– 5 years	380 292	313 745
Over 5 years	71 607	111 231
Total	**652 088**	**581 168**

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.

23. Other income (expense)

amounts in thHUF

	December 31, 2016	December 31, 2015
Costs of exempted flights reimbursable by the government authorities*	358 364	326 413
Deferred grants released	377 837	295 683
Liabilities waived**	294 994	221 193
EU grants related to expenses	62 915	32 413
Other various income items	63 106	24 105
Interest and other charges received on late payment	47 018	15 758
Release of bad debt provision	19 830	9 388
Income from fixed assets sold	592	64
Total Other income	**1 224 656**	**925 017**
Write-off on the replacement obligation balance receivable	85 479	235 415
Expenses from charity activities and sponsorship	555 500	225 054
Reimbursement of expenses payable to the Ministry of National Development	219 442	170 450
Allowances charged on bad debts	57 847	52 739
Building tax	35 605	35 605
Unrecoverable receivables written off***	10 324	19 478
Other various expense items	7 320	5 552
Impairment charged on inventory	136	844
Tax on company car usage	0	121
Book value of fixed assets sold	-736	25
Total Other expense	**970 917**	**745 283**
Total Other income	**253 739**	**179 734**

** Balances of exempted flights and amounts credited for the financial year are disclosed under Note 27, transactions with related parties. The counterbalancing figures in the balance-sheet are disclosed under Notes 8 and 12 – in other long term assets and other receivables balances.*
*** The amount of HUF 295 million HUF (2015: HUF 221 million) has been accounted for as government grant received decreasing the year-end balance of the replacement obligation connected to state owned assets disclosed under Note 17.*
**** Balances of bad debt provision and unrecoverable amounts written off are disclosed under Notes 11 and 29.*

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

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

	2016	2015
Accrued income	7 586	9 987
Advance payment received	125 161	267 184

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

amounts in thHUF

	2016	2015
Balances at January 1st	**1 701 013**	**1 996 695**
EU grants received during the year	388 982	0
Release of deferred grants	-377 837	-295 682
Balances at December 31st	**1 712 158**	**1 701 013**

24. Financial income (expense)

amounts in thHUF

	December 31, 2016 (-) loss (+) gain	December 31, 2015 (-) loss (+) gain
Unwinding of discounts - long term employee benefits*	-62 965	-65 930
Interest received on deposits and government bonds	617 655	299 897
Amortisation of financial assets	-338 063	-18 294
Foreign exchange difference on year end revaluation	-3 830	9 717
Swap points received on cash-flow hedges**	95 697	95 193
Ineffective part of cash-flow hedges**	12 712	559
Unwinding of discounts - other	15 482	11 432
Foreign exchange difference realised	-58 633	11 768
Other various items	-49 393	361
Total results of financial activities	**228 662**	**344 703**

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

25. Income taxes

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

amounts in thHUF

	December 31, 2016	December 31, 2015
Current tax	2 136 679	2 161 522
Adjustments in respect of prior year	6 159	96 551
Deferred tax	-72 217	103 587
Income tax expense	**2 070 621**	**2 361 660**

The corporate income tax rate applicable in Hungary is 10% for the first HUF 500 million of the tax base, above that a rate of 19% is applicable in 2016. 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.

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

amounts in thHUF

	December 31, 2016	December 31, 2015
Profit on ordinary activities before tax	**7 778 556**	**8 470 617**
Tax on profit on ordinary activities at standard rate of 19%	1 477 926	1 609 417
Other income taxes corrected with the effect of corporate income tax rate	699 448	685 976
Total tax charge	**2 177 374**	**2 295 393**
Effect of differences between standard and actual tax rates used	-55 824	-55 471
Permanent differences	12 043	30 060
Effect of changes in statutory tax rates	-61 891	0
Tax effect of prior year adjustments	6 159	96 551
Other tax effect	-7 240	-4 873
Tax charge for year at an effective tax rate	**2 070 621**	**2 361 660**
Effective tax rate	**27%**	**28%**

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

26. Cash-flow hedges

Fair value of derivative financial instruments

As of December 31, 2016 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, 2016	December 31, 2015
Other current assets		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**36 140**	**25 594**
Other current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Forward foreign exchange contracts (cash flow hedges)	**81 807**	**33 699**

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. Further details on derivative financial instruments are provided in Note 29.

27. Related party disclosure

Transactions with related parties:

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

As the Company applies the exemption provided in IAS 24.25, balances with the Hungarian State and with other state controlled entities do not have to be disclosed fully. However, owing to the exemption, the Company is required to make the following disclosures regarding partners 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 2016 and HUF 1,000,000 thousand in 2015. 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 2016 and HUF 232,895 thousand in 2015.

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 taken into account that the conditions of a finance lease are not met. The lease payment in 2016 was HUF 1,701,689 thousand (HUF 1,471,700 thousand in 2015). The leasing fee based on the renewed agreement signed in 2013 is derived from the market value of the assets. According to the agreement the Company is obliged to keep a record of the assets separately and to keep the assets at their original nominal value by restoring, replacing and improving them counterbalancing the loss in usage values. The related regulation was amended with an effective date of 28 June 2013 resulting in the release of the obligation payable. In 2016 an amount of HUF 295 million (in 2015 HUF 218 million) was accounted for in the income statement as government grant received, thus, decreasing the year-end balance of the liability from replacement obligation. The investments in constructions carried out in the reporting periods further decrease the balance of the accumulated liability from replacement obligation. Thus, as at 31 December 2016 this amount showed a receivable of HUF 321 million. However, as the return of this receivable is uncertain, as the agreement necessary to settle the receivable balance is not signed yet, an allowance equal to the receivable balance has been accounted for. (In 2016 an allowance of HUF 86 million, in 2015 an allowance of HUF 235 million was provided for.)

- For the **National Transport Authority** the Group pays supervisory fee (2016: HUF 500 million – same for 2015, the supervisory fee of air navigation services over Kosovo was HUF 100.4 million in 2016 and HUF 100 million in 2015) and other various license and permission fees (2016: HUF 13.6 million, 2015: HUF 12 million).

Further transactions considered to be significant in terms of size:

- The Group purchases energy from **MVM Partner Energiakereskedő Ltd**. (2016: HUF 129,491 thousand, 2015: HUF 139,785 thousand).

- The Group purchases meteorological data from the **Hungarian Meteorological Service** (2016: HUF 445,813 thousand, 2015: HUF 430,289 thousand).

- Subsidiary of the Ministry of Defence, **HM EI Ltd**. provides security and cleaning services to the Group (2016: HUF 279,039 thousand, 2015: HUF 303,723 thousand).

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

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

amounts in thHUF

	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**
	Balance as per December 31, 2015	**Balance paid off**	**Credited to Financial income**	**Credited to Other income**	**Balance as per January 1, 2015**
Ministry of Defence	**649 097**	739 311	10 547	295 924	**1 081 937**
Ministry of National Development	**44 707**	15 570	429	13 697	**46 151**
Ministry of Foreign Affairs	**30 957**	68 649	456	16 792	**82 358**
Total	**724 761**	**823 530**	**11 432**	**326 413**	**1 210 446**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. 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:

The transactions with EPC Ltd. are disclosed fully:

amounts in thHUF

Transactions with EPC	December 31, 2016	December 31, 2015
Amounts presented in Statement of Comprehensive Income		
Sales of management services	34 260	22 609
Purchases of training services	655 545	451 747
Amounts presented in Financial Position		
Amounts owed by related parties	13 010	2 168
Amounts owed to related parties - long term	4 124	4 152
Amounts owed to related parties - short term	0	513

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

The major part of transactions with FAB CE Aviation Ltd. is the purchase of professional support and management services (2016 HUF 70,233 thousand, 2015 HUF 12,950 thousand).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. 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 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.

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.*

December 31, 2015 - Amounts in thHUF

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits
Remuneration of Board of Directors	25 391	0	0	0
Remuneration of the Supervisory Board	47 585	11 615	0	0
Remuneration of key management personnel*	247 577	0	0	5 410
Total	**320 553**	**11 615**	**0**	**5 410**

** The amount does not include any 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.

28. Commitments, contingencies

Under- and overrecovery balances from air navigation services

Based on the special EUROCONTROL cost recovery mechanism, route charges were calculated on the basis of "full cost recovery" system until 2011. From 2012 the performance scheme had been introduced in the en-route segment, then from 2015 in the terminal segment, too. Despite the changes, the settlement scheme, the special balances and the accounting mechanism itself are carried on in both systems. The Kosovo segment started in 2014, as described under Notes 2 and 20 operates under the full cost recovery scheme.

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

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

In the performance scheme under- and overrecoveries arise due to 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 deferred revenues or accrued expenses, as it is prohibited by the IFRSs to recognise costs as inventory or defer them on the grounds that these might be set off against sales revenues in latter periods (underrecovery). It is not permitted either to recognize costs relating to future periods on the grounds that such costs might be compensated in later periods when they will actually incur (overrecovery). However, these balances 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, 2016	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2016
underrecoveries from 2014, Kosovo segment	161 612	-71 827	0	233 439
underrecoveries from 2015, En-route segment	41 917	-1 141 149	0	1 183 066
underrecoveries from 2015, TNC segment	36 894	0	0	36 894
underrecoveries from 2016, En-route segment	509 212	0	509 212	0
underrecoveries from 2016, TNC segment	40 217	0	40 217	0
Total underrecovery carried over	**789 852**	**- 1 212 976**	**549 429**	**1 453 399**

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, 2016	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2016
overrecoveries from 2012, En-route segment	0	-299 892	0	299 892
overrecoveries from 2014, En-route segment	171 680	-2 483 922	0	2 655 602
overrecoveries from 2014, TNC segment	904 837	-456 119	0	1 360 956
overrecoveries from 2014, Kosovo segment	64 613	-16 137	0	80 750
overrecoveries from 2015, En-route segment	2 138 162	-1 419 122	0	3 557 284
overrecoveries from 2015, TNC segment	523 880	0	0	523 880
overrecoveries from 2015, Kosovo segment	154 046	0	0	154 046
overrecoveries from 2016, En-route segment	6 211 733	0	6 211 733	0
overrecoveries from 2016, TNC segment	996 063	0	996 063	0
overrecoveries from 2016, Kosovo segment	398 997	0	398 997	0
Total overrecovery carried over	**11 564 011**	**- 4 675 192**	**7 606 793**	**8 632 410**
Contingent liability from non-controllable costs	732 616	-658 963	732 616	658 963
Total contingent liability from cost base mechanism	**12 296 627**	**- 5 334 155**	**8 339 409**	**9 291 373**

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	17 131	bank guarantee given for rental fee payment
Guarantees given	**17 131**	
16.03.2015-20.04.2020	32 324	bank guarantee received in relation to investment projects
20.10.2015-16.11.2017	22 314	bank guarantee received in relation to investment projects
06.04.2016-20.04.2018	29 298	maintenance bond 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	maintenance bond received in relation to investment projects
14.12.2015-17.01.2018	1 825	bank guarantee received in relation to investment projects
14.12.2015-29.01.2019	3 339	bank guarantee received in relation to investment projects
01.06.2016-01.07.2019	77 301	bank guarantee received in relation to investment projects
14.08.2015-14.08.2018	3 733	maintenance bond received in relation to investment projects
01.08.2012-31.08.2017	172 417	maintenance bond received in relation to investment projects
21.11.2014-30.06.2017	14 747	bank guarantee received in relation to investment projects
02.01.2013-05.01.2018	1 481	bank guarantee received in relation to investment projects
Guarantees received	**361 732**	

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 2016 were HUF 361,732 thousand (2015: HUF 360,419 thousand).

29. Financial risks

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

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

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

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

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

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

The 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
Invested financial assets	8 895	0	0	0	8 895	8 895
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
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**
Invested financial assets	0	0	0	0	0	0
Other long term assets	326 413	0	0	0	326 413	326 413
Trade receivables	5 540 396	0	0	0	5 540 396	5 540 396
Derivative financial instruments in designated hedge accounting relationships	0	0	0	25 594	25 594	25 594
Government securities with maturity under 3 month	0	2 302 430	0	0	2 302 430	2 302 430
Fixed deposits HUF - over 3 months	16 658	0	0	0	16 658	16 658
Government securities with maturity above 3 months	0	0	14 799 975	0	14 799 975	14 799 975
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	419 131	0	0	0	419 131	419 131
Cash and cash equivalents	3 811 696	0	0	0	3 811 696	3 811 696
Total as per December 31, 2015	**10 114 294**	**2 302 430**	**14 799 975**	**25 594**	**27 242 293**	**27 242 293**

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

Financial liabilities:

amounts in thHUF

	Derivative financial instruments	Financial liabilities at amortised cost	Total carrying amount	Total fair value
Other long term liabilities	0	25 149	25 149	25 149
Trade payables	0	1 702 714	1 702 714	1 702 714
Derivative financial instruments in designated hedge accounting relationships	81 807	0	81 807	81 807
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	0	2 710	2 710	2 710
Total as per December 31, 2016	**81 807**	**1 730 573**	**1 812 380**	**1 812 380**
Other long term liabilities	0	21 602	21 602	20 822
Trade payables	0	2 145 776	2 145 776	2 145 776
Derivative financial instruments in designated hedge accounting relationships	33 699	0	33 699	33 699
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	0	86 693	86 693	86 693
Total as per December 31, 2015	**33 699**	**2 254 071**	**2 287 770**	**2 286 990**

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

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

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

Other long term assets:

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

Other long term liabilities:

The book value of intercompany payable as disclosed under Note 17 approximates its fair value.The balance as of December 31, 2016 mainly contains the obligations from retention warranty of trade payable balances the same as of December 31, 2015. 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, 2016 and 2015.

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

Fair value hierarchy

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

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

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

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

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

Available for sale financial assets are discount treasury bills issued by the Hungarian State with a maturity date less than one year but above 3 months and government bonds with a maturity over one year. The fair value used is provided by the banks representing unadjusted prices, i.e. biding offers determined based on the bid prices as per December 31, 2016 and 2015 of a highly active market where the treasury bills are quoted.

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

b) Financial risk management

The Group monitors and manages financial risks relating to its operations. The Group has clear policies and operating parameters. The Supervisory Board provides oversight 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 94.49% of the Group's turnover (in 2015: *94.6%). 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 (2016: 4.8%, 2015: 5.02%) do not represent a significant foreign exchange exposure. Furthermore, in the terminal and Kosovo segments, due to the full cost recovery mechanism the risk arising on changes of foreign exchange rates 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)	
	2016, December	2015, December	2016, December	2015, December	2016, December	2015, December
EUR	311.02	313.12	20 385 876	18 427 346	6 340 415	5 769 971
USD	293.69	286.63	18	0	5	0
GBP	424.68	424.96	1 232	368	523	156

	FX rates at year-end		Liabilites (in foreign currency)		Liabilites (in thHUF)	
	2016, December	2015, December	2016, December	2015, December	2016, December	2015, December
EUR	311.02	313.12	2 153 832	5 249 548	669 885	1 643 738
USD	293.69	286.63	6 924	154	2 034	44
GBP	424.68	424.96	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., 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**
December 31., 2015	**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**
Expenditure hedge (EUR sold)	EUR	21 790 442.00	6 827 715	-24 301	-247	16 443
Forward contracts for cash flow hedges			**6 827 715**	**-24 301**	**-247**	**16 443**

All of the above forecast transactions hedged are expected to occur, thus they are still to be recognized in the statement of financial position.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 2016 and 2015:

amounts in thHUF

Amounts recognised in comprehensive income statement in relation to derivative financial instruments	December 31, 2016	December 31, 2015
Amount that was removed from equity and recognised in sales balance (- loss/ + gain)	64 290	-161 075
FX change difference realised on hedged trade receivables and recognised in sales balance (- loss/ + gain)	-65 852	-4 048
Ineffective part of cash-flow hedges included in financial results (- loss/ + gain)	12 712	2 703
Interest recognised in profit and loss and included in financial results (swap points received)	95 697	95 193
Total gain (+)/loss (-) on cash-flow hedge transactions	**106 847**	**-67 227**
Fair value change of open cash-flow forward contracts at year end included in other comprehensive income (fair value reserve at year end)	-52 111	-24 302
Total result of cash-flow hedges included in equity balance	**54 736**	**-91 529**

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 (%)
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%
2015					
103%	322.51	173 099	-49 312	123 787	0.6%
100%	313.12	0	0	0	
97%	303.73	-173 099	49 312	-123 787	-0.6%

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 0.7% increase in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results in 2016 (the same figure is 0.6% regarding 2015) – 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 1.2% change in retained earnings for 2016, and a 1.1% change for 2015.

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

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

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
2016			
103%	320.35	-437	-358 858
100%	311.02	0	0
97%	301.69	394	335 902
2015			
103%	322.51	-1 409	-192 739
100%	313.12	0	0
97%	303.73	1 566	216 642

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
2016. év				
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
2015. év				
103%	322.51	5 701 165	166 053	-25 277
100%	313.12	5 535 112	0	0
97%	303.73	5 369 058	-166 053	49 022

Year-end revaluation

The results of year end revaluation of items in the statement of financial position were as follows: HUF 3,830 thousand gain at the end of 2016 (2015: HUF 9,717 thousand gain).

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 September 2016. 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 with a 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	2016 Amounts	2015 Amounts
HUF-deposits held	thHUF	thHUF
< 1%	2 200 000	0
1% - 2%	0	3 438 845
2% - 3%	0	0
3% - 4%	0	0
4% - 5%	0	0
Total	**2 200 000**	**3 438 845**
EUR-deposits held	EUR	EUR
< 0.5%	28 600	0
0.5 % - 1%	0	53 200
1%	0	0
1% - 2%	0	0
Total	**28 600**	**53 200**

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

The Group has deposits with maturities less than one year only. The balance of discount treasury bills and government bonds are disclosed in the fair value of financial instruments section of this Note.

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 on the one hand, and the maturity of the possessed fixed assets are short. The Group does not hold any other interest bearing asset with floating interest rate.

Other sources of interest rate risks

The Group is mainly exposed to changes in interest rates through its 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 enroute 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 11. The tables presented there give a summary about the credit risk profile of the Group arising on default by customers on settlement of trade receivables.

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

Liquidity risk management

The Group manages liquidity by maintaining adequate cash reserves and by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost. The Group 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 l 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 2015 or in 2016, 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).

Credit risk management

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

Risk of providing air navigation services

According to the 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, 2016 and 2015.
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, 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**
December 31, 2015					
Trade payables	74 550	2 071 226	0	0	2 145 776
Other liabilities	0	86 693	0	0	86 693
Other long term liabilities	0	0	17 450	4 152	21 602
Total	**74 550**	**2 157 919**	**17 450**	**4 152**	**2 254 071**

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

30. Capital risk management

HungaroControl manages its capital to be able to continue as a going concern, to ensure that it meets its obligations 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.

31. Events after the reporting period

The consolidated financial statements of the Company for the year ended at December 31, 2016 prepared in conformity with International Financial Reporting Standards (IFRS) are authorized in accordance with the resolution of the CEO on 6 June 2017.

Budapest, 6 June 2017

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Chief Executive Officer