HungaroControl

FINANCIAL STATEMENTS

for the year ended December 31, 2019

in accordance with International Financial Reporting Standards (IFRS)

HUNGAROCONTROL
FINANCIAL STATEMENTS
DECEMBER 31, 2019

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Practitioner of shareholder rights

Opinion

We have audited the accompanying 2019 financial statements of HungaroControl Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2019 - showing a balance sheet total of HUF 83,318,132 thousand and a total comprehensive income for the year of HUF 3,718,781 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 financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019 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 financial statements" section of our report.

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

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

Other Matters and restriction on use

The entity has prepared another set of annual financial statements as at 31 December 2019 in accordance with the Hungarian Accounting Law and we have issued a separate report on those financial statements on 20 April 2020.

The entity has prepared the 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 financial statements

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

In preparing the 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 financial statements

Our objectives are to obtain reasonable assurance about whether 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 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 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 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 financial statements, including the disclosures, and whether the 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 Éva
Budapest, 19 May 2020
Ernst & Young Kft.

HUNGAROCONTROL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

	Notes	December 31, 2019 thHUF	December 31, 2018 thHUF
Intangible assets	**11**	9 555 608	8 117 212
Property, plant and equipment	**12**	26 792 295	12 136 609
Investments in joint ventures	**9**	65 126	145 572
Invested financial assets	**14.3**	3 850 000	2 650 000
Securities	**14.3**	5 963 550	15 475 721
Other long term assets	**14.1**	403 150	299 662
Deferred tax asset	**10**	399 976	231 851
Non-current assets		**47 029 705**	**39 056 627**
Inventories	**13**	63 038	63 594
Trade receivables	**14.2**	5 978 651	5 835 141
Other current assets	**14.2**	2 900 702	2 340 386
Current tax receivable	**10**	207 750	25 983
Securities	**14.3**	14 937 229	8 109 032
Other financial assets	**14.3**	7 659 453	2 709 195
Cash and cash equivalents	**14.3**	4 541 604	6 199 320
Current assets		**36 288 427**	**25 282 651**
TOTAL ASSETS		**83 318 132**	**64 339 278**
Share capital	**1.1**	20 201 600	20 201 600
Reserves		36 802 885	34 084 104
Shareholder's equity		**57 004 485**	**54 285 704**
Long term provisions	**15**	6 711	28 501
Long term employee benefits	**16**	3 352 941	690 480
Other long term liabilities	**14.4**	15 364 131	1 027 737
Deferred tax liability	**10**	0	0
Non-current liabilities		**18 723 783**	**1 746 718**
Trade payables	**14.5**	1 845 286	1 837 693
Short term provisions	**15**	48 540	64 810
Short term employee benefits	**16**	2 389 679	4 469 766
Current tax liability	**10**	27 530	0
Other short-term liabilities	**14.5**	3 278 829	1 934 587
Current liabilities		**7 589 864**	**8 306 856**
TOTAL LIABILITIES		**26 313 647**	**10 053 574**
TOTAL EQUITY & LIABILITIES		**83 318 132**	**64 339 278**

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

HUNGAROCONTROL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	December 31, 2019 thHUF	December 31, 2018 thHUF
Revenue from air navigation services	5	38 451 129	39 447 241
Other revenue		191 760	200 685
Revenue		**38 642 889**	**39 647 926**
Personnel expense	6.1	18 772 358	17 958 520
Operating expense	6.2	8 853 637	10 328 563
Depreciation, depletion, amortization and impairment	11, 12	5 203 621	4 415 415
Other income/expense (-)	7	-85 471	-182 695
Operating expense		**32 915 087**	**32 885 193**
OPERATING PROFIT		**5 727 802**	**6 762 733**
Financial income/expense (-)	8	-826 563	128 901
Profit from financial activities		**-826 563**	**128 901**
Share from profit/loss of joint venture	9	**22 704**	**28 935**
PROFIT BEFORE TAX		**4 923 943**	**6 920 569**
Income tax expense	10	**1 261 725**	**1 445 390**
PROFIT FOR THE YEAR		**3 662 218**	**5 475 179**
Attributable to equity holder of the parent		**3 662 218**	**5 475 179**
OTHER COMPREHENSIVE INCOME			
Items reclassified subsequently to profit and loss			
Gain/loss (-) on cash flow hedges	14.7	**56 563**	**83 947**
Less tax effect		**0**	**0**
Items that will not be reclassified subsequently to profit and loss			
Actuarial gain/loss (-)		**0**	**0**
Less tax effect		**0**	**0**
Other comprehensive income, net of tax		**56 563**	**83 947**
TOTAL COMPREHENSIVE INCOME		**3 718 781**	**5 559 126**
Attributable to equity holder of the parent		**3 718 781**	**5 559 126**

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

HUNGAROCONTROL
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2019

	Notes	Share capital	Retained earnings	Valuation reserve	Total reserves	Total shareholder's equity
		thHUF	thHUF	thHUF	thHUF	thHUF
Opening balance at January 1, 2018		**20 201 600**	**29 578 753**	**-53 775**	**29 524 978**	**49 726 578**
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	**10, 16**	0	-4 376	88 323	**83 947**	**83 947**
Profit for 2018		0	5 475 179	0	**5 475 179**	**5 475 179**
Total comprehensive income		**0**	**5 470 803**	**88 323**	**5 559 126**	**5 559 126**
Dividends		0	-1 000 000	0	**-1 000 000**	**-1 000 000**
Closing balance at December 31, 2018		**20 201 600**	**34 049 556**	**34 548**	**34 084 104**	**54 285 704**
Opening balance at 1 January, 2019		**20 201 600**	**34 049 556**	**34 548**	**34 084 104**	**54 285 704**
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	**10, 16**	0	-3	56 566	**56 563**	**56 563**
Profit for 2019		0	3 662 218	0	**3 662 218**	**3 662 218**
Total comprehensive income		**0**	**3 662 215**	**56 566**	**3 718 781**	**3 718 781**
Dividends		0	-1 000 000	0	**-1 000 000**	**-1 000 000**
Closing balance at December 31, 2019		**20 201 600**	**36 711 771**	**91 114**	**36 802 885**	**57 004 485**

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

HUNGAROCONTROL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

	December 31, 2019 thHUF	December 31, 2018 thHUF
OPERATING ACTIVITIES		
Profit before tax	**4 923 943**	**6 920 569**
Depreciation and amortization	5 201 094	4 400 586
(Gain)/Loss on sale of property, plant & equipment	-1 762	-3 063
Impairment/Scrapping of Fixed Assets	2 527	14 829
Short-term lease payments, payments for leases of low-value assets	71 577	0
Impairment/Scrapping of Inventory	8 282	12
Increase/(decrease) in provisions	-38 060	30 250
Interest income	-204 103	-712 611
Increase in provision for bad debts	258 442	98 963
Share of (income) from joint ventures	-22 704	-28 935
Unrealized foreign exchange (gains)/losses	56 775	37 412
(Gains)/losses from other non-cash transactions	312 353	244 460
Total profit before tax	**5 644 421**	**4 081 903**
Changes in working capital:		
(Increase)/decrease in Accounts receivable and other current assets	-1 052 140	261 545
(Increase)/decrease in Inventory	-7 726	-36 427
Increase/(decrease) in Accounts payable, long term liabilities and accruals	2 216 184	253 513
Income taxes paid	-1 570 722	-1 621 575
Total changes in working capital	**-414 404**	**-1 142 944**
Net cash from operating activities	**10 153 960**	**9 859 528**
INVESTING ACTIVITIES		
Purchase tangible assets and intangibles	-5 552 520	-4 216 402
Proceeds on disposal of property, plant & equipment	2 196	3 382
(Purchase)/sale of financial assets	-3 753 504	-4 982 199
Dividend received	103 204	0
Interest received	175 660	695 014
Net cash used in investing activities	**-9 024 964**	**-8 500 205**
FINANCING ACTIVITIES		
Cash payments for the principal portion of the lease liability	-622 357	0
Interest paid	-1 164 228	0
Dividend paid	-1 000 000	-1 000 000
Net cash used in financing activities	**-2 786 585**	**-1 000 000**
Increase/(decrease) in cash and cash equivalents	**-1 657 589**	**359 323**
Cash and cash equivalents at beginning of year	6 199 320	5 840 366
Exchange rate loss on cash and cash equivalents	-127	-369
Cash and cash equivalents at end of year	**4 541 604**	**6 199 320**

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

1. General information

1.1. Company background

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.

HungaroControl Hungarian Air Navigation Services Private Limited Company (the 'Company' or '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. The registration number of the Company is Cg. 01-10-045570. Registered seat of the Company is H-1185 Budapest, Igló u. 33-35., Hungary. Webpage: www.hungarocontrol.hu.

1.2. Governance

HungaroControl is 100% owned by the Hungarian State. The founder's and owner's rights are exercised by the Minister without Portfolio for the management of national assets. The Company is directed by the Board of Directors.
The operations of the Company are supervised by the Supervisory Board composed of six members: four representatives of the Owner and two representatives of the employees.

2. Accounting policies

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

2.1. Basis of preparation

The financial statements of the Company 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.

In 2019 accounting policies changed in line with changes in IFRS Standards. The Company applies IFRS 16 'Leases' Standard from 1 January 2019. Changes to the accounting policies are described in Note 6.2, 12 and 14.4 in connection with IFRS 16 Standard.

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

2.2. Foreign currency translations

Functional and presentation currency:

Items presented in the financial statements of the Company is measured using the currency of the primary economic environment in which the Company operates ('the functional currency'), which is the Hungarian Forint (HUF). The financial statements are presented in thousands of HUF.

Transactions and balances:

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

3. Significant accounting estimates and assumptions

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the disclosed amounts of assets, liabilities, income and expenses. The estimates and assumptions are outlined in detail in the notes below. Actual results may differ from these estimates.

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

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

- IFRS 17 'Insurance Contracts' – effective from 1 January 2021,
- Amendment to IFRS 3 'Business Combinations' – effective from 1 January 2020,
- Amendments to IAS 1 'Presentation of Financial Statements': Classification of Liabilities as Current or Non-current – issued on 23 January 2020.

Standards, amendments and interpretations endorsed in the European Union are listed below:

- Amendments to IFRS 9 'Financial Instruments' , IAS 39 'Financial Instruments: recognition and measurement', and IFRS 7 'Financial Instruments: disclosures': Interest rate benchmark reform – effective from 1 January 2020,

- Amendments to References to the Conceptual Framework in IFRS Standards – effective from 1 January 2020,
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors': Definition of Material – effective from 1 January 2020.

5. Income

Accounting policies:

Revenue from Contracts with Customers:

The Company applies IFRS 15 Standard for recognising revenues.

In accordance with IFRS 15 revenue is recognised as income arising in the course of the Company's ordinary activities. Revenue from contracts with customers is identified in accordance with the five-step model of the standard:
1. Identification of contract
2. Identification of performance obligations
3. Determination of transaction price
4. Allocation of price to performance obligations
5. Recognition of revenue

The following accounting treatments are affected by the application of IFRS 15.

Cost of flights exempted from charges:

The cost of exempted flights are presented in line 'Revenue from air navigation services' since the customers of air navigation services are airspace users, irrespective of the financial settlement of these services (the payments are performed by defined Ministries). In 2019 the amount of HUF 319,099 thousand is presented as 'Cost of exempted flights' in line 'Revenue from air navigation services'. The amount of Receivables is presented in 'Other current assets' and 'Other long term assets' as shown in Note 14.1 and 14.2.

Sale of constructions performed on state owned property:

Based on related regulations, the constructions performed by the Company on the state owned property are sold to Hungarian National Asset Management Inc., in this way they become part of state property. The sale of the developments are not part of the Company's ordinary activities under IFRS 15, that is why the amounts are not recognised as sales revenue. The amounts of sale of constructions are presented net of related costs among 'Other income/Other revenues'.

Other revenues not meeting presentation requirements:

In accordance with the contract if it is not probable that the Company will collect the consideration to which it is entitled in change for goods or services that is transferred to the customers, the revenue cannot be recorded. The Company has some service contracts on the basis of which revenue amounts can not be presented, therefore related allowances are neither recorded.

Revenue from air navigation services:

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

The Company has three main revenue segments: navigation services provided to the overflight traffic (‘en-route’) over Hungary, terminal air navigation services in the approach area of Liszt Ferenc International Airport, and navigation in the upper airspace of Kosovo. From 2015 both the Hungarian en-route and terminal services were provided within 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 (for 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 Company’s revenues as the differences will be reflected in the new unit prices charged to airspace users in later aviation years.

In the terminal segment, based on the EU Regulation No. 391/2013 Member States with airports with less than 225,000 air transport movements per year (Liszt Ferenc International Airport, the largest airport in Hungary is in this category), service providers may decide not to bear the traffic risk, that may stay on the side of the airspace users. Hungary submitted the relevant reports to the European Commission in June 2013, therefore, during the second reference period effective between 2015-2019, the Company 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 under- or overcharging of the particular year ‘n’ is adjusted in the calculation of the charging rate of ‘n+2’. The Kosovo airspace is part of the common Serbia-Montenegro-KFOR en-route charging zone. All the costs and income relating to the provision of the service are included in the cost base of Serbia-Montenegro-KFOR in alignment with the principles of the EUROCONTROL en-route charges system.

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.

Revenues from service provision:

amounts in thHUF

Revenue	December 31, 2019	December 31, 2018
Revenue from air navigation services - en route segment	30 532 263	32 263 637
Revenue from air navigation services - terminal segment	6 945 698	6 330 560
Revenue from air navigation services - Kosovo segment	1 223 830	1 051 960
Cash-flow hedge accounting reserve booked to revenues	-250 662	-198 916
Total revenue from air navigation services	**38 451 129**	**39 447 241**
Other revenue - foreign	112 110	109 796
Other revenue - domestic	79 650	90 889
Total other revenue	**191 760**	**200 685**
Total revenue	**38 642 889**	**39 647 926**

Revenues from air navigation services:

The main activity of the Company is to provide air navigation services, 99.5% of the revenue derives from air traffic charges in 2019. (99.5% in 2018).

In 2019 79.4% of revenues from air navigation services derives from navigation of overflight traffic (en-route) over Hungary (81.8% in 2018), 18.1% derives from terminal air navigation services at Liszt Ferenc International Airport (16.0% in 2018), and 3.2% derives from the navigation of air traffic in the upper airspace over Kosovo (2.7% in 2018).

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

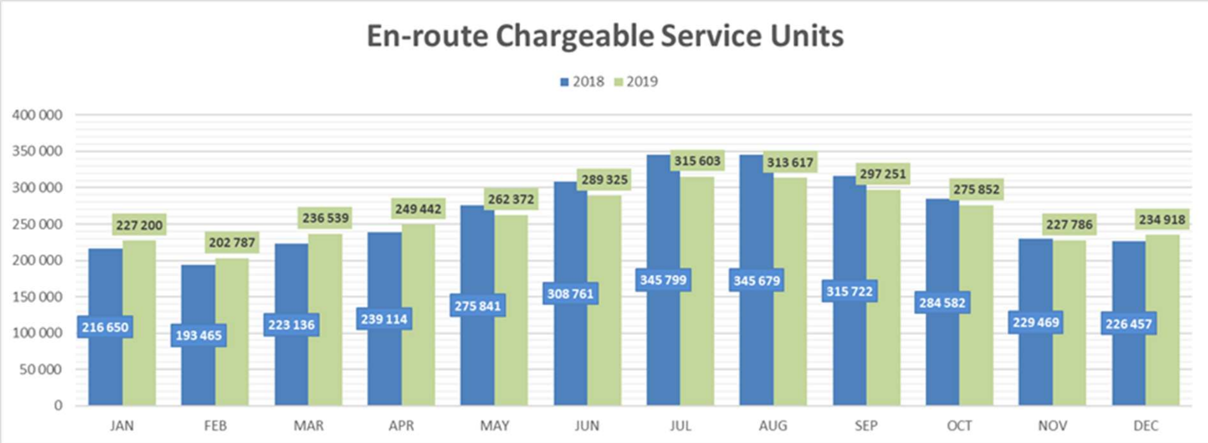
In 2019, in the en-route segment revenues fell by 5.4% as compared to 2018 as a result of decreasing traffic and unit prices decreasing by 3%. The 8.7% traffic increase in the terminal segment, together with the increase in unit rate by 0.8%, resulted in that terminal revenues increased by 9.7%, as compared to 2018. 2019 revenues from the Kosovo segment showed an increase of 16.3% as compared to 2018, which was a combined effect of traffic growth and the increase of the average annual unit revenue allocated to HungaroControl (partly because there was an exceptional unit rate decrease for the last four months of the base year).

The revenues from air navigation services are determined by volume of traffic and by unit rates that are recalculated every year. However, the traffic volume is only partly indicated by the number of movements (number of planes navigated). The indicator directly determining revenues is the number of 'service units' (SU), which is determined by the distance flown and the maximum takeoff weight of an airplane.

En-route Chargeable Service Units

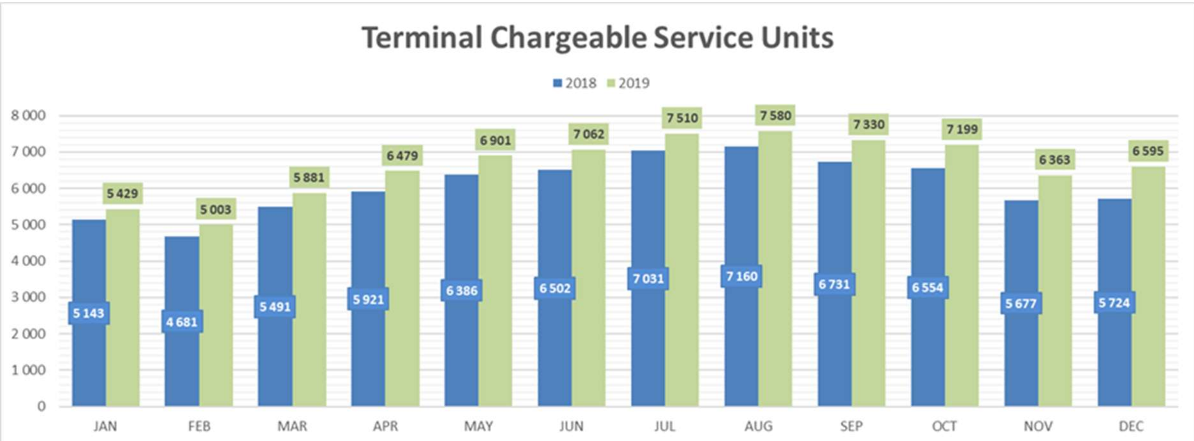
The number of chargeable service units regarding 2019 decreased by 2.3%, which is due to the following two main reasons: partly due to the decreased capacity in air traffic controllers' (ATCO) availability (by the end of 2018, the continuous significant traffic growth that Hungary is exposed to since 2014, consumed all the capacity increase that was planned up until the end of PR2); and partly due to the Network Manager measures that caused significant re-routings aiming to divert traffic from congested central areas, such as Germany-Karlsruhe. In 2019, the two main customers of en-route navigation services were Emirates

Airlines and Turkish Airlines. However regarding en-route and terminal segment combined, with its strong presence at Budapest Airport, Wizzair is our number one customer.



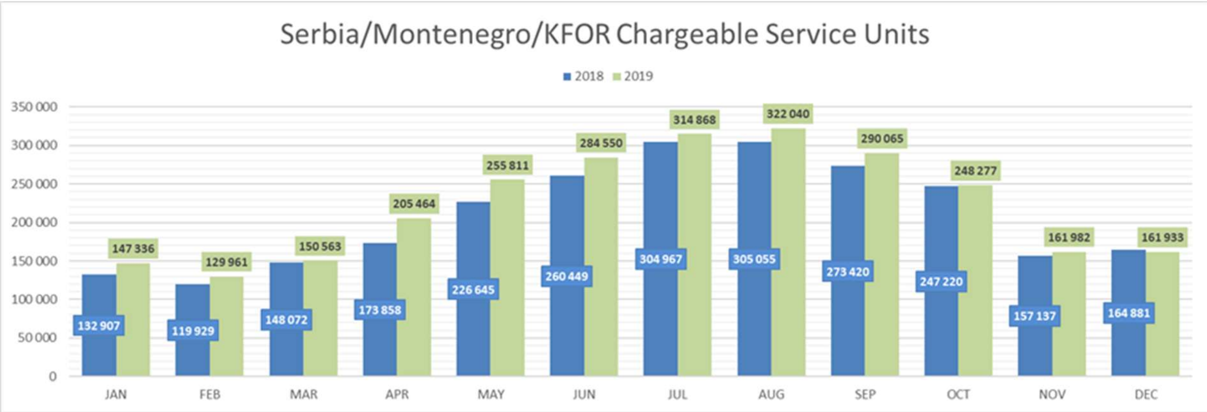
Terminal Chargeable Service Units

In the terminal segment, in 2019 the number of chargeable service units also showed a significant growth, there was a 8.7% increase as compared to 2018. The most significant factor was the continuous increase in the number of low cost flights at the Budapest terminal, and the growing long-haul operation of LOT is also remarkable. Average aircraft size is still increasing hence the growth of SU exceeds the growth of movements. 39% of revenues derived from Wizzair and Ryanair in total in 2019.



Kosovo Chargeable Service Units

The service provided in the upper airspace over Kosovo is accounted on the basis of the common charging zone established with Serbia and Montenegro. Therefore, when analysing service units for the Kosovo service, the traffic of the whole charging zone has to be examined. Chargeable service units in the total charging zone showed an increase in each month (with the exception of December), growing by 6.3% on a yearly basis. The reason for the increase is extra traffic rerouted from the Romania-Hungary-Slovakia axis. The Serbia-Montenegro-KFOR common charging zone is operating in total cost recovery system, where allocating revenues to the participants of the cost base is determined on the basis of shares in total cost base.



Effect of cash flow hedge transaction on sales revenue:

A certain portion of the Company's revenues from the provision of air navigation services denominated in foreign currencies is covered by 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 250,662 thousand in 2019, from which amount of HUF 365,924 thousand loss is the result of the derivatives closed, HUF 115,262 thousand gain is due to the exchange rate difference generated on trade receivables.
The total loss for 2018 was HUF 198,916 thousand, from which HUF 273,218 thousand loss was the results of the derivatives closed, HUF 74,302 thousand was the gain arisen on the exchange rate difference of trade receivables.

Further information on cash flow hedges is included in the Notes 14.6 and 14.7. b).

No operations were discontinued, all revenue is derived from continuing operations.

6. Operating expenses

Accounting policies:

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

In the followings the operating expenses are presented by category.

6.1. Breakdown of personnel expenses

amounts in thHUF

Personnel expenses	December 31, 2019	December 31, 2018
Wages and salaries	14 160 635	13 374 941
Social security	3 035 934	2 981 797
Other personnel expenses	1 316 861	1 040 401
Pension expenses and expenses from other long term benefits*	258 928	561 381
Personnel expenses	**18 772 358**	**17 958 520**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

Number of staff employed	December 31, 2019	December 31, 2018
Division of air traffic services	354	331
Division of communications, navigation and surveillance	36	38
Division of meteorological services	22	22
Division of technical development services	106	102
Support division*	278	264
Closing number of staff employed	**796**	**757**

** Support division: IT, legal, finance and HR, maintenance, security and safety, business development, compliance and internal audit.*

Average number of employees of the Company was 741.1 in 2019 (2018: 721.7).

6.2. Components of Operating expenses

amounts in thHUF

Operating expenses	December 31, 2019	December 31, 2018
Energy costs	303 692	242 543
Other materials used	99 479	125 850
Cost of materials consumed	**403 171**	**368 393**
Eurocontrol member fees	1 469 105	1 347 040
Fees of liability insurance	949 668	854 473
Trainings expenditure	853 124	751 351
Software maintenance fees	784 862	755 253
Fees paid for authorities	612 827	609 395
Online service charges, charges for data transmission	562 326	526 666
Various other expenditures	529 287	717 927
Maintenance fees	492 229	430 056
Cost of meteorological services consumed	488 661	473 069
Expenditure on consultancy and fees of expert	406 407	400 588
Cost of advertisement and marketing campaigns	369 517	377 646
Safeguarding services	355 209	317 232
Travel and other costs incurred on missions abroad	294 311	289 175
Charges paid for waste disposal and similar services	105 918	105 838
Real estate rental fees	104 052	208 225
Lease payment on state owned assets*	30 936	1 630 478
Other rental fees	25 223	24 257
Rental fees of fixed assets	16 804	141 501
Other expenditures	**8 450 466**	**9 960 170**
Included: Short-term lease related expenditures	66 551	0
Included: Low-value asset lease related expenditures (excluding short-term leases)	5 026	0
Total Operating expenses	**8 853 637**	**10 328 563**

** In September 2007, the Company signed an asset management agreement with the authority responsible for national property (Treasury Property Directorate legal predecessor 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 Company represents this contract from 1st January 2019 based on IFRS 16 Standard as right-of-use assets and lease liabilities. In 2019 the expenses above are not in relation to any right-of-use assets. The leasing fee is derived from the market value of the assets. This agreement is cancellable with a 6 months written notice.*

Accounting policies for leasing:

From 1 January 2019 the Company applies IFRS 16 ‘Leases’ Standard. Based on the requirements the Company recognises the lease contracts as right-of-use assets and lease liabilities in its Financial Statements, applying the exemption of short-term leases and exemption of leases for which undelying asset is low of value (recognition exemptions).

The Company applies IFRS 16 Standard using the modified retrospective approach, with the cumulative effect of initial application recognised at the date of initial application, and therefore comparative information has not been restated.

Lease payments associated with recognition exemptions (leases with a lease term of 12 months or less and leases with low-value underlying assets) are recognised as expenses on a straight-line basis or on another systematic basis over the lease term.

Due to the change in presentation the amount of expenses related to rentals is significantly decreased.

7. Other income (expense)

Accounting policies:

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 Company 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.

amounts in thHUF

Other income and expense	December 31, 2019	December 31, 2018
Other various income items	345 456	289 091
Deferred grants released	218 821	321 982
Grants related to expenses	166 937	130 044
Interest and other charges received on late payment	41 167	44 598
Total Other income	**772 381**	**785 715**
Reimbursement of expenses payable to Ministries	281 091	258 699
Allowances charged on bad debts*	250 198	245 459
Expenses from charity activities and sponsorship	242 707	383 964
Other various expense items	48 251	44 683
Building tax	35 605	35 605
Total Other expense	**857 852**	**968 410**
Total Other income / (expense)	**-85 471**	**-182 695**

** Balances of allowances charged on bad debts consist of allowances charged on trade receivables (HUF 258,442 thousand) as disclosed under Note 14.2. The allowance correction on receivable from the asset management contract HUF -8,244 thousand.*

The Company received both development grants relating to assets 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. Further information in connection with grants are available at https://www.hungarocontrol.hu/eu-tamogatasok.

The following table includes the balance sheet items from grants not closed by the balance sheet date. Grant income is booked to income statement to the extent expenses have occurred, since the Company 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 receivables in the balance sheet.

amounts in thHUF

Balances of ongoing government grants	2019	2018
Accrued income	29 690	60 389
Advance payment received	892 811	466 094

The following table shows the balances of deferred government grants related to assets and the movements thereon in connection with already closed settlements. The amounts released to income in the relevant business years are summarized in the table below:

amounts in thHUF

Movements of government grants	2019	2018
Balances at January 1st	**1 199 178**	**1 521 160**
Release of deferred grants	-218 820	-321 982
Balances at December 31st	**980 358**	**1 199 178**
Due in one year	209 347	205 208
Due over one year	771 011	993 970

8. Financial result

Accounting policies:

Interest income:

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

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

amounts in thHUF

Financial results	December 31, 2019 (-) loss (+) gain	December 31, 2018 (-) loss (+) gain
Interest received and exchange difference on deposits and government bonds	185 008	169 852
Foreign exchange difference on year end revaluation	-56 776	-37 411
Swap points received on cash-flow hedges*	43 893	27 111
Ineffective part of cash-flow hedges*	-61 063	9 548
Interest on lease liabilities***	-1 164 228	0
Unwinding of discounts on long term employee benefits**	-9 516	5
Unwinding of discounts on other items	2 607	258
Foreign exchange difference realised	139 111	-52 575
Other various items	94 401	12 113
Total results of financial activities	**-826 563**	**128 901**

** Cash flow hedges are disclosed under Note 14.6.*
***Long term benefits are disclosed under Note 16.*
**** Lease liabilities are disclosed under Note 14.4.*

9. Investments in joint ventures

Accounting policies:

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

This financial statements include the data of HungaroControl and its joint ventures - Entry Point Central Ltd. (EPC Ltd.) and FAB CE Aviation Services Ltd. (FAB CE Ltd.) – calculated using the equity method.

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 EPC Ltd. is jointly controlled with the Swedish Entry Point North AB and owns 51% of the registered capital whereas HungaroControl owns 49%. The major governing policies are formed based on unanimous decisions of the quota holders. An exception is the appointment of the managing director where HungaroControl has priority quota. Based on this arrangement EPC Ltd. is considered to be a joint venture and presented 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 Ltd.	May 26, 2011	3 000	HungaroControl 49%

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

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

Balances at the year ends were the following:

amounts in thHUF

Investments	EPC Ltd.	FAB CE Ltd.	Total
Value January 1, 2018	**115 031**	**1 538**	**116 569**
Share from profit/loss for 2018	28 944	-9	28 935
Other corrections	0	68	68
Value December 31, 2018	**143 975**	**1 597**	**145 572**
Share from profit/loss for 2019	22 699	5	22 704
Dividend received	-103 204	0	-103 204
Other corrections	0	54	54
Value December 31, 2019	**63 470**	**1 656**	**65 126**

Investment in EPC Ltd.

The assets and liabilities, income and expenses of EPC Ltd. and the Company's share thereof as at December 31, 2019 and 2018, are as follows:

amounts in thHUF

EPC Ltd.'s balance sheet	December 31, 2019	December 31, 2018
Non-current assets	5 600	5 665
Current assets	186 147	350 718
Non-current liabilities	0	0
Current liabilities	62 216	62 557
Equity	**129 531**	**293 826**

amounts in thHUF

EPC Ltd.'s revenue and profit	2019	2018
Revenue	798 439	729 542
Operating expenses	746 529	668 725
Financial income	-1 002	4 095
Profit before taxes	**50 908**	**64 912**
Income tax expense	4 583	5 842
Profit for the year	**46 325**	**59 070**

amounts in thHUF

The Company's share of the profit of EPC Ltd.	
Profit of previous years	280 826
Profit for the year 2019	46 325
Total profit accumulated	327 151
Share from the realised profit (49%)	**160 304**
Impairment recognised on investment	0
Share from the results accumulated	**160 304**
Dividend received	-103 204
Initial cost of investment	6 370
Investment value at the end of the reporting period	**63 470**

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 63,470 thousand at the end of 2019 (2018: HUF 143,975 thousand). The gain included in the 'Share from profit / loss of joint venture' line of the comprehensive income for the financial year 2019 is HUF 22,699 thousand (2018: HUF 28,944 thousand) regarding EPC Ltd. In 2019 dividend was received from EPC Ltd. in the amount of HUF 103,204 thousand which reduced the Investment value in EPC Ltd. of the Company.

EPC Ltd. had no contingent liabilities or capital commitments at the year ends presented.

Investment in FAB CE Aviation Services Ltd.

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

amounts in thHUF

FAB CE Aviation Ltd.'s balance sheet	December 31, 2019	December 31, 2018
Non-current assets	127	300
Current assets	103 670	136 477
Non-current liabilities	0	0
Current liabilities	74 130	107 944
Equity	**29 667**	**28 833**

amounts in thHUF

FAB CE Aviation Ltd.'s revenue and profit	2019	2018
Revenue	264 977	287 229
Other operating income	-1	1
Operating expenses	264 944	287 234
Financial income	-6	5
Profit before taxes	**26**	**1**
Income tax expense	0	59
Profit for the year	**26**	**-58**

amounts in thHUF

The Company's share of the result of FAB CE Aviation Ltd.	
Profit of previous years	-1 890
Profit for the year 2019	26
Total profit accumulated	-1 864
Share from the realised profit (16.67%)	**-311**
Impairment recognised on investment	0
Share from the results accumulated	**-311**
Initial cost of investment	1 835
Revaluation of foreign operation	132
Investment value at the end of the reporting period	**1 656**

10. Income taxes

Accounting policies:

The Company classified the following taxes as income taxes: corporate income tax, local business tax and innovation contribution.

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

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

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

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

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

Deferred tax is also provided on taxable temporary differences arising on the joint venture, except where the timing of the reversal of the temporary difference is controlled by the Company 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 Company intends to settle its current tax assets and liabilities on a net basis.

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

Receivables and liabilities from income taxes:

Income tax receivables and liabilities by categories:

amounts in thHUF

Income taxes	December 31, 2019	December 31, 2018
Corporate tax	186 300	21 208
Local business tax	21 450	4 671
Innovation contribution	0	104
Current tax receivable	**207 750**	**25 983**
Innovation contribution	27 530	0
Current tax liability	**27 530**	**0**

Income tax expense:

Current income tax and deferred tax expenses:

amounts in thHUF

Income tax expense	December 31, 2019	December 31, 2018
Current tax	1 427 522	1 585 633
Adjustments in respect of prior year	2 328	4 231
Deferred tax	-168 125	-144 474
Total income tax expense	**1 261 725**	**1 445 390**

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

amounts in thHUF

Effective income tax rate	December 31, 2019	December 31, 2018
Profit on ordinary activities before tax	**4 923 943**	**6 920 569**
Tax on profit on ordinary activities at standard rate (9%)	443 155	622 851
Other income taxes corrected with the effect of corporate income tax rate	806 165	828 637
Total tax charge	**1 249 320**	**1 451 488**
Effect of different actual average tax rates used	0	-12 369
Permanent differences	5 544	-3 224
Tax effect of prior year adjustments	2 328	4 231
Other tax effect	4 533	5 264
Tax charge for year at an effective tax rate	**1 261 725**	**1 445 390**
Effective tax rate	**26%**	**21%**

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

Deferred tax asset and liabilities:

The following are the major deferred tax assets and liabilities recognized by the Company, 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, 2019	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2018
Accelerated tax depreciation	-248 568	0	85 373	-333 941
Valuation reserve of securities	-2	0	143	-145
Provisions not included in tax base	425 566	0	24 385	401 181
Debt allowances not included in tax base	51 747	0	6 323	45 424
Differences between tax base and carrying amount of assets discounted	2	0	-235	237
Differences on fixed assets not yet capitalised and debited to income statement	3 949	0	-476	4 425
Differences regarding state owned assets	169 578	0	26 533	143 045
Right-of-use assets related to other lease contracts	1 526	0	1 526	0
Government grants revenues which are included in tax base in the next financial year	-3 822	0	24 553	-28 375
Total deferred tax asset (+) /liability (-)	**399 976**	**0**	**168 125**	**231 851**

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2018	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2017
Accelerated tax depreciation	-333 941	0	79 370	-413 311
Valuation reserve of available for sale financial assets	-145	782	-76	-851
Provisions not included in tax base	401 181	2 158	64 433	334 590
Bad debt allowances not included in tax base	45 424	0	4 864	40 560
Differences between tax base and carrying amount of assets discounted	237	0	200	37
Differences on fixed assets not yet capitalised and debited to income statement	4 425	0	0	4 425
Differences on replacement obligation of state owned assets	143 045	0	5 347	137 698
Government grants revenues which are included in tax base in the next financial year	-28 375	0	-9 664	-18 711
Total deferred tax asset (+) /liability (-)	**231 851**	**2 940**	**144 474**	**84 437**

Deferred tax assets and liabilities have been offset as the Company 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 is 9%. Corporate income tax rate applied for deferred tax calculation is based on the estimated assessable tax base and tax payable for the relevant years.

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

Deferred taxes were calculated with income tax rate of 9% in 2019 and in 2018 as well.

From the balance above HUF 3,949 thousand deferred tax asset is expected to be reversed in one year, HUF 396,027 thousand deferred tax asset is expected to be reversed in 5 years.

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

11. Intangible assets

Accounting policies:

Intangible assets are measured initially at cost. Intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses. Intangible assets are amortized on a straight-line basis over the best estimate of their useful lives.

The Company has elected not to apply IFRS 16 'Leases' Standard for the leases of intangible assets.

Critical accounting estimates and judgements:

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

Typical amortization rules are stated as follows:

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

Assets that are subject to amortization or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years.

The table shows movements of intangible assets:

amounts in thHUF

Intangible assets	Property right	Software	Work in progress	Intangible assets
Net value at January 1, 2018	**5 834 786**	**36 600**	**2 433 559**	**8 304 945**
Gross value:				
January 1, 2018	24 511 971	307 274	2 433 559	27 252 804
Additions	0	0	2 094 359	2 094 359
Capitalization	725 034	5 806	-730 840	0
Disposals	-1 301	-832	-100 324	-102 457
Gross value at December 31, 2018	**25 235 704**	**312 248**	**3 696 754**	**29 244 706**
Depreciation:				
January 1, 2018	18 677 185	270 674	0	18 947 859
Additional depreciation	2 163 267	18 501	0	2 181 768
Additional impairment loss	0	0	100 324	100 324
Disposal of accumulated depreciation	-1 301	-832	0	-2 133
Disposal of accumulated impairment loss	0	0	-100 324	-100 324
Depreciation at December 31, 2018	**20 839 151**	**288 343**	**0**	**21 127 494**
Net value at December 31, 2018	**4 396 553**	**23 905**	**3 696 754**	**8 117 212**
Gross value:				
January 1, 2019	25 235 704	312 248	3 696 754	29 244 706
Additions	0	0	3 288 751	3 288 751
Capitalization	4 295 240	36 147	-4 331 387	0
Disposals	-36	-1 079	0	-1 115
Gross value at December 31, 2019	**29 530 908**	**347 316**	**2 654 118**	**32 532 342**
Depreciation:				
January 1, 2019	20 839 151	288 343	0	21 127 494
Additional depreciation	1 825 892	24 464	0	1 850 356
Disposal of accumulated depreciation	-36	-1 080	0	-1 116
Depreciation at December 31, 2019	**22 665 007**	**311 727**	**0**	**22 976 734**
Net value at December 31, 2019	**6 865 901**	**35 589**	**2 654 118**	**9 555 608**

The intangible assets are free of all liens, claims and encumbrances. Carrying amounts of intangible assets are reviewed by the Company on a yearly basis.

12. Property, plant and equipment

Accounting policies:

Property, plant and equipment are stated at historical cost less accumulated depreciation, depletion and accumulated impairment loss. The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use, such as borrowing costs. Changes in estimates thereof adjust the carrying amount of assets. Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhead costs, are normally charged to income statement in the period in which the costs are incurred.
Depreciation is charged using the straight-line method over the estimated useful lives of the assets.

From 1 January 2019 the Company recognises right-of-use assets and lease liabilities in its Financial Statements under IFRS 16 ‘Leases’ Standard regarding lease contracts, applying the exemption of short-term leases and exemption of leases for which undelying asset is low of value (recognition exemptions).

Right-of -use assets are measured at cost at the lease commencement date, the value comprises the following items:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee, and
- an estimate of costs to dismantle and remove the underlying asset, to restore the site or restore the asset required by the terms and conditions of the lease, unless the cots are incurred to produce inventories.

After the commencement date right-of-use assets are measured applying the cost model:

- less any accumulated depreciation and any accumulated impairment losses; and
- adjusted for any remeasurement of the lease liability.

The depreciation requirements in IAS 16 'Property, Plant and Equipment' Standard is applied in depreciating right-of-use assets. Right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life or the end of the lease term.

IAS 36 'Impairment of Assets' Standard is applied to account for any impairment loss identified regarding to the right-of-use assets.

Critical accounting estimates and judgements:

The determination of the useful life of property, plant and equipment is based on experience with similar assets and expected technological developments.
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**
Buildings	2.5%
Other structures	2.5%
Production machinery and equipment	14.5%
Computer hardware	33.0%
Vehicles	20%
Furniture	10%

Depreciation is not accounted for Lands and Assets in the course of constructions.

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

The table shows movements of property, plant and equipment, which includes the movements of right-of-use assets regarding leased items in 2019 separately:

amounts in thHUF

Property, plant and equipment	Land and buildings	Technical equipment	Other equipment	Work in progress	Property, plant and equipment
Net value at January 1, 2018	**4 283 499**	**5 867 802**	**2 092 530**	**701 065**	**12 944 896**
Gross value:					
January 1, 2018	5 361 075	13 602 731	5 099 478	701 065	24 764 349
Additions	0	0	0	1 362 490	1 362 490
Capitalization	190 411	461 193	698 376	-1 349 980	0
Disposals	-5 700	-186 040	-150 150	-45 311	-387 201
Gross value at December 31, 2018	**5 545 786**	**13 877 884**	**5 647 704**	**668 264**	**25 739 638**
Depreciation:					
January 1, 2018	1 077 576	7 734 929	3 006 948	0	11 819 453
Additional depreciation	236 002	1 171 603	710 892	0	2 118 497
Additional impairment loss	4 808	1 446	395	8 177	14 826
Disposal of accumulated depreciation	-892	-184 594	-149 435	0	-334 921
Disposal of accumulated impairment loss	-4 808	-1 446	-395	-8 177	-14 826
Depreciation at December 31, 2018	**1 312 686**	**8 721 938**	**3 568 405**	**0**	**13 603 029**
Net value at December 31, 2018	**4 233 100**	**5 155 946**	**2 079 299**	**668 264**	**12 136 609**
Gross value:					
Property, plant and equipment owned by Company	**5 640 842**	**15 172 885**	**6 678 692**	**182 533**	**27 674 952**
January 1, 2019	5 545 786	13 877 884	5 647 704	668 264	25 739 638
Additions	0	0	0	2 172 990	2 172 990
Capitalization	96 256	1 371 482	1 189 715	-2 657 453	0
Disposals	-1 200	-76 481	-158 727	-1 268	-237 676
Right-of-use assets leased by the Company	**15 543 895**	**67 226**	**225 276**	**0**	**15 836 397**
Initial presentation January 1, 2019	15 537 373	67 226	214 794	0	15 819 393
Additions	6 522	0	10 482	0	17 004
Gross value at December 31, 2019	**21 184 737**	**15 240 111**	**6 903 968**	**182 533**	**43 511 349**
Depreciation:					
Property, plant and equipment owned by Company	**1 664 278**	**9 928 794**	**4 095 053**	**0**	**15 688 125**
January 1, 2019	1 312 686	8 721 938	3 568 405	0	13 603 029
Additional depreciation	351 786	1 283 189	684 836	0	2 319 811
Additional impairment loss	1 006	148	105	1 268	2 527
Disposal of accumulated depreciation	-194	-76 333	-158 188	0	-234 715
Disposal of accumulated impairment loss	-1 006	-148	-105	-1 268	-2 527
Right-of-use assets leased by the Company	**941 198**	**17 266**	**72 465**	**0**	**1 030 929**
Additional depreciation	941 198	17 266	72 465	0	1 030 929
Depreciation at	**2 605 476**	**9 946 060**	**4 167 518**	**0**	**16 719 054**
Net value at	**18 579 261**	**5 294 051**	**2 736 450**	**182 533**	**26 792 295**

Leased assets are required for the uninterrupted operation of the Company.

The most significant amount (appr. 93%) in the value of right-of-use assets recognised by the Company consists of asset management rights over state owned properties. The assets are intended to be used until the end of the properties' useful lives with lease terms between 10 and 35 years.

The rest of the value of right-of-use assets consists of leased cars (typically with lease terms of 4 years), leased equipments and premises at the area of Budapest Liszt Ferenc International Airport (with lease terms of 5 to 15 years), and leases of other equipments and premises.

The above assets are free of all liens, claims and encumbrances.
The Company conducts annual reviews of the carrying values of its property, plant, equipment and intangible assets.

13. Inventories

Accounting policies:

Inventories are valued at the lower of cost and net realizable value, after provision for slow-moving and obsolete items. Net realizable value is the selling price in the ordinary course of business, less the costs of making the sale. Cost of purchased goods is determined primarily on the basis of weighted average cost. Unrealizable inventory is fully written off. Items such as spare parts, stand-by equipment and servicing equipment are recognized by the Company 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 Company exercises judgment, with the involvement of technical departments, to determine if a spare part qualifies as inventory or an item of property, plant and equipment. Specifically, spare parts of radar equipment qualify as long term assets and therefore are capitalized in the statement of financial position.

Balances at the year ends occurred as follows:

amounts in thHUF

Inventories	December 31, 2019	December 31, 2018
Spare parts	23 389	24 734
Other materials	39 649	38 860
Inventories	**63 038**	**63 594**

Inventory balance at the end of 2019 includes an impairment loss amounting of HUF 8,282 thousand (2018: HUF 12 thousand). No previously recognized impairment loss was released for the years presented.

14. Financial instruments, capital and financial risk management

Accounting policies:

For recognition and measurement of financial instruments IFRS 9 Standard is applied.

Financial assets:

At initial recognition financial assets are classified on the basis of the objective of the business model and the contractual cash flow characteristics. The business models are the following:

Debt instruments “Held To Collect” (HTC): The objective is to hold financial assets to collect contractual cash flows.

Debt instruments “Held To Sell” (HTS): The objective is both collecting contractual cash flows and sale of the financial asset.

Financial instruments are recognized initially at fair value. On the basis of business model and contractual cash flows the classification of financial instruments according to IFRS 9 Standard is the following:

Financial assets measured at amortised cost (AC)
Financial assets measured at amortised cost are held in order to collect contractual cash flows (HTC) and the cash flows contain solely payments of principal and interest on the principal amount outstanding. The financial assets are recognised initially at fair value. Subsequently they are carried at amortised cost, which is initial amount less principal payments and any allowance for impairment. Amortised costs are calculated by effective interest method.

Financial assets measured at fair value through other comprehensive income (FVTOCI)
Financial assets measured at fair value through other comprehensive income are held in order to both collect contractual cash flows and sale (HTS) and the cash flows contain solely payments of principal and interest. The financial assets are recognised initially at fair value adjusted by transaction costs that are directly attributable to the acquisition. Any change in fair value at subsequent measurement are designated in other comprehensive income, any allowance for impairment is recognised in profit or loss.

Financial assets measured at fair value through profit or loss (FVTPL)
Financial asset shall be measured at fair value through profit or loss unless it is measured at AC or FVTOCI. However at initial recognition the Company can make an irrevocable election for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI. Any change in fair value at subsequent measurement are recognised in profit or loss; if fair value turns into negative the financial assets must be recognised among liabilities.

Financial liabilities:

Financial liabilities can be categorised as follows:

Financial liabilities measured at fair value through profit or loss (FVTPL)
Financial liabilities are held to sale or at initial recognition are irrevocably designated at fair value at profit or loss, because they eliminate or significantly reduce a measurement or recognition inconsistency. Any change in fair value are recognised in profit or loss at subsequent measurement.

Financial liabilities measured at amortised cost (AC)
All financial liabilities shall be measured at amortised cost except for financial liabilities measured at FVTPL.

Subsequent measurement of financial instruments:

Fair value measurement
For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the balance sheet date without any deduction for transaction costs. For investments where there is no quoted market price, fair value is determined by

reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Derecognition of financial assets

Derecognition of a financial asset takes place when the Company 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 Company neither transfers nor retains all the risks and rewards of the financial asset and continues to control the transferred asset, it recognises its retained interest in the asset and a liability for the amounts it may have to pay.

Impairment of financial assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. Impairment losses on financial assets are presented in line 'Impairment' in profit or loss. 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.

The Company applies the following credit qualification method for expected credit loss assessment based on the 'expected credit loss' (ECL) model described IFRS 9 Standard:

Stage	Credit quality	Amount of expected credit loss
Stage 1	Financial instruments at initial recognition	12-month expected credit losses
Stage 2	Financial instruments that have significant increase in credit risk	Lifetime expected credit loss
Stage 3	Modified financial assets	Lifetime expected credit loss
	Purchased or originated credit-impaired financial assets	Lifetime expected credit loss

All financial instruments are qualified as Stage 1 at initial recognition. The financial instrument will be qualified as Stage 2, if a significant increase in credit risk is determined since initial recognition. The Company determines the significant increase in credit risk after considering the reasonable and supportable information that is relevant and available without undue costs. If the instrument is considered to be in default, it falls under Stage 3. Lifetime expected credit loss is measured in case of 'purchased or originated credit-impaired' (POCI) financial assets.

Default occurs when the financial asset is more than 90 days past due. If information becomes available that demonstrates that another default definition is more appropriate, the Company considers its presumption about default criterion.

A financial asset qualifies as credit –impaired when information is observed by the Company that estimated future cash flows of the financial asset are not expected to be received.

The new ECL model under IFRS 9 applies to financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets under IFRS 15, financial guarantee contracts and financial lease receivables.

The Company applies lifetime expected credit loss measurement for trade receivables by using a provision matrix which is described in Note 14.2.

As an exception to the general model, the Company measures 12-month expected credit loss for securities and fixed deposits based on low credit risk (detailed in Note 14.3).

<u>Cash flow hedges</u>
The Company 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 Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

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

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

14.1. Other long term assets

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 revenue from air navigation services (Note 5.). 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 Company discounted these balances using yields of government bonds with two years maturity. The interest income on discounting recognized for 2019 was HUF 2,607 thousand (2018: HUF 258 thousand).

Outstanding balances of receivables from exempted flights, extended warranty on assets and receivables from construction performed on state owned assets are presented among non-current assets. The balances due are broken down:

amounts in thHUF

Other long term assets	December 31, 2019	December 31, 2018
Exempted flights		
Ministry of Defence	528 173	555 094
Ministry for Innovation and Technology	27 877	22 696
Ministry of Foreign Affairs	26 837	44 866
Total exempted flights	**582 887**	**622 656**
Due in one year	263 788	336 644
Due over one year	319 099	286 012
Extended warranty	**18 514**	**28 364**
Due in one year	14 871	14 714
Due over one year	3 643	13 650
Constructions performed on state owned assets	**178 486**	**0**
Due in one year	98 078	0
Due over one year	80 408	0
Total due in one year	**376 737**	**351 358**
Total due over one year	**403 150**	**299 662**

HUF 361,475 thousand of the total outstanding balance of Receivables from exempted flights was settled in 2019 (2018: HUF 340,001 thousand). Additional balance established for 2019 was HUF 319,099 thousand (2018: HUF 286,012 thousand).

In addition, the long-term part of the warranty extension purchased regarding intangible assets and fixed assets is presented in this financial statement line with the amount of HUF 3,643 thousand. This warranty extension cannot be accounted in the cost of assets.

Due to changes in assessment regarding the recovery of receivables from construction in progress performed by the Company on state owned assets, HUF 98,078 thousand is presented in line 'Other short term assets', and HUF 80,408 thousand is presented in line 'Other long term assets' as at 31 December 2019. The constructions will be transferred to MNV Plc only after completion.

14.2. Trade receivables and other current assets

Accounting policies:

Trade and other receivables are recognized initially at fair value based on IFRS 15 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 in the amount of lifetime expected credit loss calculated by a provision matrix.

Trade receivables can be sorted into the following four groups for which the default rates are reviewed by the Company on a yearly basis:

En-route segment: Trade receivables from air space users are managed, collected and enforced by Central Route Charges Office ('CRCO') of EUROCONTROL. Based on the qualification of EUROCONTOL users are classified in categories of active and inactive. The Company makes a provision of 100% for inactive users and determines the default rates for each ageing group regarding active users. Default rates of the provision matrix are based on historical information. The default rates are calculated as the average of last three years' historical rates in case of each default category.The Company computes the amounts of the default categories with given default rates from which realizes the allowances for impairment.

TNC segment: Allowance for provision is determined by the same methodology as applied in en-route segment.

Kosovo segment: Allowance for provision is determined by the same methodology as applied in en-route segment.

Exempted flights: The amount of trade receivables from the Hungarian State is settled approximately in two years. The Company recognises the discounted amount of receivables in case of exempted flights taking into account the time value of the money.

The allowance for provision is recognised when there is objective evidence about the significant increase in credit risk of the partner and the Company will not be able to collect all amounts due according to the underlying arrangement.

amounts in thHUF

Receivables	December 31, 2019	December 31, 2018
Trade receivables	6 925 930	6 504 738
Intercompany receivable	194	280
Allowances	-947 473	-669 877
Total	**5 978 651**	**5 835 141**

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

Allowance for doubtful debts was the following:

amounts in thHUF

Allowance for doubtful debts	December 31, 2019	December 31, 2018
Balance at the beginning of the year	669 877	618 575
Increase in allowances	358 320	203 279
Decrease in allowances	-99 942	-167 743
Foreign exchange movement in the year	19 218	15 766
Balance at end of the year	**947 473**	**669 877**

Ageing of the trade receivable balances:

amounts in thHUF

December 31, 2019	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	5 717 702	4 458 145	1 071 234	149 179	4 924	34 220
Under 1 months	179 547	166 011	5 976	7 415	145	0
Overdue, between 1 -3 months	103 279	93 138	7 776	2 365	0	0
Overdue, between 3-6 months	21 368	12 750	7 988	630	0	0
Overdue, between 6-12 months	6 469	4 685	1 628	153	3	0
Overdue, over 12 months	324 893	240 207	79 697	4 978	0	11
Insolvent	572 672	512 136	35 631	24 905	0	0
Total	**6 925 930**	**5 487 072**	**1 209 930**	**189 625**	**5 072**	**34 231**

December 31, 2018	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	5 575 907	4 554 425	960 942	6 769	28 339	25 432
Under 1 months	198 113	194 015	3 570	344	99	85
Overdue, between 1 -3 months	98 097	95 186	1 046	1 829	0	36
Overdue, between 3-6 months	21 613	18 774	1 377	1 462	0	0
Overdue, between 6-12 months	5 442	3 730	1 368	333	0	11
Overdue, over 12 months	231 682	173 012	55 095	3 575	0	0
Insolvent	373 884	304 949	55 486	13 449	0	0
Total	**6 504 738**	**5 344 091**	**1 078 884**	**27 761**	**28 438**	**25 564**

Aged balances of allowances based on IFRS 9 Standard:

amounts in thHUF

December 31, 2019	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	6 720	5 793	644	283	0	0
Under 1 months	3 536	2 927	489	120	0	0
Overdue, between 1 -3 months	30 675	26 758	3 261	656	0	0
Overdue, between 3-6 months	9 190	4 743	4 239	208	0	0
Overdue, between 6-12 months	3 742	2 491	1 178	70	3	0
Overdue, over 12 months	320 938	237 670	78 451	4 806	0	11
Insolvent	572 672	512 136	35 631	24 905	0	0
Total	**947 473**	**792 518**	**123 893**	**31 048**	**3**	**11**

December 31, 2018	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	8 136	7 740	385	11	0	0
Under 1 months	15 851	15 476	349	26	0	0
Overdue, between 1 -3 months	29 496	28 357	548	591	0	0
Overdue, between 3-6 months	11 217	9 481	999	737	0	0
Overdue, between 6-12 months	3 975	2 663	1 065	236	0	11
Overdue, over 12 months	227 318	170 506	53 364	3 448	0	0
Insolvent	373 884	304 949	55 486	13 449	0	0
Total	**669 877**	**539 172**	**112 196**	**18 498**	**0**	**11**

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

amounts in thHUF

Other current assets	December 31, 2019	December 31, 2018
Short term receivables from exempted flights*	263 788	336 644
Value added tax	729 067	844 562
Changes in fair value of cash-flow hedges (gain)	167 545	122 985
Receivable from Eurocontrol - TNC sales	36 639	4 004
Other receivables**	365 742	85 195
Receivable from investments on state owned assets	98 078	0
Bad debt allowances	-1 358	-1 360
Total other receivables	**1 659 501**	**1 392 030**
Accrued interest income on deposits fixed	22 415	7 921
Accrued income for grants received	29 690	60 389
Other income accrued	2 350	12 728
Total accrued income	**54 455**	**81 038**
Services prepaid	1 186 746	867 318
Total prepaid expenses	**1 186 746**	**867 318**
Other current assets	**2 900 702**	**2 340 386**

** For further information on Receivables from exempted flights refer to Note 14.1.*
*** Other receivables contain Advances given in the amount of HUF 300,931 thousand in 2019 (HUF 15,248 thousand in 2018).*

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

14.3. Cash and cash equivalents, other financial assets

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

amounts in thHUF

Cash and cash equivalents	December 31, 2019	December 31, 2018
Cash on hand	**1 338**	**868**
Current accounts HUF	3 573 802	940 688
Current accounts in foreign currency (EUR)	66 464	257 764
Fixed deposits HUF - under 3 months	900 000	5 000 000
Cash at banks	**4 540 266**	**6 198 452**
Cash and cash equivalents	**4 541 604**	**6 199 320**

Balances of invested financial assets, securities and other financial assets at year ends are as follows:

amounts in thHUF

Other financial items	December 31, 2019	December 31, 2018
Fixed deposits HUF - over 1 year	3 850 000	2 650 000
Invested financial assets	**3 850 000**	**2 650 000**
Financial assets held to maturity (government securities) with maturity over 1 year	5 963 550	15 475 721
Long term securities	**5 963 550**	**15 475 721**
Financial assets held to maturity (government securities) with maturity above 1 year	14 937 229	8 109 032
Short term securities	**14 937 229**	**8 109 032**
Fixed deposits HUF - under 1 year over 3 months	7 659 453	2 709 195
Other financial assets	**7 659 453**	**2 709 195**

Long term bank deposits are considered to have low credit risk, the loss allowance regarding instruments are measured at an amount equal to 12-month expected credit loss. The investment banks of the Company are determined with regard to specific conditions detailed in Note 14.7 b). Based on historical information the Company considers the expected credit loss for fixed deposits as 0% and no loss allowance is recognized. The rate of expected credit loss is reviewed regularly by the Company and will be adjusted if information becomes available about any expected credit loss increase.

All of the securities are measured at amortised cost under IFRS 9 Standard .

14.4. Other long term liabilities

Accounting policy:

Lease liabilities:

Based on the requirements of IFRS 16 'Leases' Standard applied by the Company initially from 1 January 2019 the lease contracts are recognised as right-of-use assets and lease liabilities in the Financial Statements, applying the exemption of short-term leases and exemption of leases for which undelying asset is low of value (recognition exemptions).
At the date of initial application the Company reviewed all of the contracts whether it is a lease or contains a lease.
Based on guidance of IFRS 16.9 a contract contains a lease, if:

- the contract identifies the asset(s)
- the contract conveys the right to control the use of an identified asset for a period of time
- in exchange for consideration.

For a contract that contains more lease components, the consideration in the contract has to be allocated to each lease component on the basis of their relative stand-alone price. The Company allocated the consideration of the lease contracts to components according to the requirements.
For a contract that contains lease components and one or more non-lease components (e.g. maintenance, recharged utility expenses), the consideration has to be allocated on the basis of stand-alone price of lease components and the aggregate the stand-alone price of non-lease components. The aggregated price of non-lease components are expensed to the Statement of Comprehensive Income accordingly.
The Company elected the practical expedient allowed under IFRS 16.5 only regarding lease of vehicles. Under this practical expedient the Company do not separate non-lease components from lease components, instead accounts for the non-lease components as part of the lease component.

The Company determines the lease term as the non-cancellable period of a lease, together with both:

- periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option; and
- periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

At the commencement date the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the incremental borrowing rate (regarding the right-of-use of state owned assets the Company applies a discount factor that equals the cost of capital, regarding other right-of-use assets the zero coupon rates are used derived from the yield curve of government bonds).

At commencement date, lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments, less any lease incentives receivable,
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option,
- payments of penalties for terminating the lease, if the lease term reflects exercising an option to terminate the lease.

After the commencement date, the lease liability is measured by:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Balances of Other long term liabilities at the balance sheet dates presented were as follows:

amounts in thHUF

Other long term liabilities	December 31, 2019	December 31, 2018
EU grants received - long term part*	771 011	993 970
Lease liabilities - long-term part**	14 550 858	0
Long term liabilities payable to joint venture	4 383	4 262
Other long term liabilities	37 879	29 505
Other long term liabilities	**15 364 131**	**1 027 737**

** Short-term liabilities relating to EU grants are disclosed under Note 14.5.*
*** Short-term part of Lease liabilities based on IFRS 16 Standard are disclosed under Note 14.5.*

The most significant part of lease liabilities (approximately 93% of liabilities) recognised by the Company under IFRS 16 Standard is represented by the asset management rights of state owned properties.

Lease liabilities of state owned properties are discounted by the related cost of capital used in the calculation of the asset management fee. The cost of capital is determined in the Hungarian Performance Plan validated by the EU and calculated according to the relevant EU Regulation (391/2013). The cost of capital is calculated by a method determined in CAPM (Capital Asset Pricing Model). The cost of capital is set for the actual performance period covering 5 years. For the succeeding periods it is recalculated.
The lease fees of the state owned assets qualify as variable lease payments, because they are determined by a particular method specified in the asset management contract. Due to the yearly modification of lease fees the lease liabilities are also recalculated on a yearly basis.

Lease liabilities that are not associated with state owned assets, are discounted by the yield of long-term government bond denominated in HUF as publicated with the nearest maturity to the lease term.

There is no lease agreement not yet commenced to which the Company is committed at the preparation date of the Financial Statements. The Company is not exposed to additional extension or termination options that are not included in the measurement of lease liabilities, and does not own agreements that contain residual value guarantee exposure.

14.5. Trade payables and other short term liabilities

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

amounts in thHUF

Ageing of trade payables	December 31, 2019	December 31, 2018
Not due	1 826 868	1 827 657
Overdue, under 1 year	16 325	7 946
Overdue, between 1 - 5 years	2 093	2 090
Total trade payables	**1 845 286**	**1 837 693**

The Company settles trade payables within the payment term, and had no material overdue payables as of December 31, 2019 and 2018. 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

Trade payables	December 31, 2019	December 31, 2018
Trade payables - domestic	1 489 005	1 559 758
Trade payables - foreign	347 212	267 857
Intercompany payables	9 069	10 078
Total trade payables	**1 845 286**	**1 837 693**

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

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

amounts in thHUF

Other short-term liabilities	December 31, 2019	December 31, 2018
EU grants - advance payment received*	892 811	466 094
Changes in fair value of cash-flow hedges (loss)**	24 949	11 953
Amounts payable to pension funds and voluntary pension funds	438 606	318 277
Liabilities from social security	440 821	303 003
Personal income tax payable on behalf of the employees	370 304	244 555
Liability from enterprise licensing agreement	0	212 858
Lease liabilities - short-term part***	652 622	0
Other short term liabilities	54 748	49 272
Total other payables	**2 874 861**	**1 606 012**
EU grants received - short term part*	209 347	205 208
Other deferred income	1 052	1 176
Total deferred income	**210 399**	**206 384**
Services, goods delivered but not invoiced till the year end	193 569	122 191
Total accrued expenses	**193 569**	**122 191**
Other short-term liabilities	**3 278 829**	**1 934 587**

** Amounts related to EU grants are disclosed under Note 7.*
*** Changes in fair value of cash-flow hedges are disclosed under Notes 14.6 and 14.7.*
****Long-term part relating to Lease liabilities are disclosed under Notes 14.4.*

14.6. Cash flow hedges

The fair value of open transactions designated as cash flow hedge with a corresponding adjustment of the fair valuation reserve in other comprehensive income were as follows:

amounts in thHUF

Fair value of derivative financial instruments	December 31, 2019	December 31, 2018
Other current assets		
Derivative financial instruments in designated hedge accounting relationships		
Cash flow hedges - positive fair value	**167 545**	**122 985**
Other current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Cash flow hedges - negative fair value	**24 949**	**11 953**

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 among other short term receivables or liabilities.

14.7. Financial risk management

Financial risk management aims to limit these risks through ongoing operational and finance activities.

The statement of financial position included comprises the following categories of financial assets and liabilities for the dates presented:

a) Fair value of financial instruments:

Financial assets:

amounts in thHUF

Financial assets	Financial assets at amortised costs	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Other long term assets	403 150	0	403 150	403 150	0
Trade receivables	5 978 651	0	5 978 651	5 978 651	0
Derivative financial instruments in designated hedge accounting relationships	0	167 545	167 545	167 545	0
Bank deposits HUF - over 3 months	3 850 000	0	3 850 000	3 850 000	0
Government securities with maturity above 3 months	20 900 779	0	20 900 779	20 863 168	37 611
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	398 505	0	398 505	398 505	0
Cash and cash equivalents	4 541 604	0	4 541 604	4 541 604	0
Total as per December 31, 2019	**36 072 689**	**167 545**	**36 240 234**	**36 202 623**	**37 611**
Other long term assets	299 662	0	299 662	299 662	0
Trade receivables	5 835 141	0	5 835 141	5 835 141	0
Derivative financial instruments in designated hedge accounting relationships	0	122 985	122 985	122 985	0
Bank deposits HUF - over 3 months	2 650 000	0	2 650 000	2 650 000	0
Government securities with maturity above 3 months	23 584 753	0	23 584 753	23 458 793	125 960
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	340 648	0	340 648	340 648	0
Cash and cash equivalents	6 199 320	0	6 199 320	6 199 320	0
Total as per December 31, 2018	**38 909 524**	**122 985**	**39 032 509**	**38 906 549**	**125 960**

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

Financial liabilities:

amounts in thHUF

Financial liabilities	Financial liabilities at amortised cost	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Other long term liabilities	42 262	0	42 262	42 262	0
Trade payables	1 845 286	0	1 845 286	1 845 286	0
Derivative financial instruments in designated hedge accounting relationships	0	24 949	24 949	24 949	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	215 025	0	215 025	215 025	0
Total as per December 31, 2019	**2 102 573**	**24 949**	**2 127 522**	**2 127 522**	**0**
Other long term liabilities	33 767	0	33 767	33 767	0
Trade payables	1 837 693	0	1 837 693	1 837 693	0
Derivative financial instruments in designated hedge accounting relationships	0	11 953	11 953	11 953	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	215 025	0	215 025	215 025	0
Total as per December 31, 2018	**2 086 485**	**11 953**	**2 098 438**	**2 098 438**	**0**

Government grants, taxes, accruals and prepayments are presented under Note 14.5.

The book values of trade receivables dereased by impairment charged and trade payables 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 (at the end of 2019 the Company did not own discount treasury bills), other currents assets and other short term liabilities have short term maturities, therefore their carrying amount approximate to their fair values at the balance-sheet dates presented.
Other long term financial assets:
Other long term assets owed by government authorities were described under Note 14.1 in detail. For discounted cash flow method the Company used risk free interest rate (zero coupon rates derived from the yield curve of government bonds as published by the Government Debt Management Agency, webpage: www.akk.hu).

Other long term liabilities:
The book value of intercompany payable as disclosed under Note 17 approximates its fair value. The balance as of December 31, 2019 mainly contains the obligations from retention warranty of trade payable balances the same as of December 31, 2018. 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.

Fair value hierarchy

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

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

The fair value of financial assets measured at amortised cost and most of the financial liabilities has been identified by using Level 3 information and discounted cash flow valuation techniques if applicable. The estimated cash flow streams are based on the contractual terms, whereas the discounts rates are the risk-free, before tax rates (zero coupon rates derived from the yield curve of government bonds). The financial instruments denominated in foreign currencies are revalued by using the foreign exchange rate issued by the Central Bank of Hungary.

The Company 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 derivative financial instruments and government securities are identical to the mark-to-market valuations received from the banks at each month end.

There were not any transfers between Level 1 and Level 2 in case of financial instruments that are measured at fair value.

b) Financial risk management

The Company monitors and manages financial risks relating to its operations. The Company has clear policies and operating parameters. The Supervisory Board provides oversight of the Company. 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 Company's activities include market risk (including currency risk, interest rate risk and inflation risk), credit risk and liquidity risk.

Market risk:

The Company'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 Company'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 99.5% of the Company's turnover. 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 Company. 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 ('n-1'). To mitigate the risk of movements in exchange rates between the date of determining the unit charges (average rate of 'n-1') and the date on which the funds are remitted ('n+2') to HungaroControl, foreign currency forward contracts are concluded. The Company 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 (2019: 3.2%, 2018: 2.7%) do not represent a significant foreign exchange exposure. Furthermore, in the Kosovo segments, due to the full cost recovery mechanism the risk arising on changes of foreign exchange rates can be transferred onto the airlines, since exchange differences are included in the respective cost bases.

The Company 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 Company 's monetary assets and monetary liabilities denominated in foreign currency were as follows:

Currency	FX rates at year-end		Assets (in foreign currency)		Assets (in thHUF)	
	2019, December	2018, December	2019, December	2018, December	2019, December	2018, December
EUR	330.52	321.51	18 413 562	19 099 720	6 086 050	6 140 751
USD	294.74	280.94	143	133	42	37
GBP	387.82	355.25	0	0	0	0
Other					0	304

Currency	FX rates at year-end		Liabilites (in foreign currency)		Liabilites (in thHUF)	
	2019, December	2018, December	2019, December	2018, December	2019, December	2018, December
EUR	330.52	321.51	3 795 615	2 318 718	1 254 527	745 491
USD	294.74	280.94	17 197	4 717	5 069	1 325
GBP	387.82	355.25	0	123	0	44
Other					0	5 113

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

The following contracts were outstanding at year end:

amounts in thHUF

December 31, 2019	Revenue hedge (EUR sold)	Expenditure hedge (EUR bought)	Expenditure hedge (USD bought)	Total
Currency	EUR	EUR	USD	
Currency amount	-23 093 532	15 023 684	2 778 760	
HUF amount	-7 673 404	4 900 163	786 731	**-1 986 510**
Fair value of open forward contracts at year end				
Valuation reserve (expected Gain /(Loss))	-1 576	85 405	23 397	**107 226**
Ineffective part included in Profit and loss	26	-2 645	0	**-2 619**
Effective part included in Profit and loss	32 782	0	0	**32 782**
Effective part included in cost of assets	0	2 771	0	**2 771**
Interest income from swap points included in line item financial income	2 436	0	0	**2 436**
Total	**33 668**	**85 531**	**23 397**	**142 596**
December 31, 2018	**Revenue hedge (EUR sold)**	**Expenditure hedge (EUR bought)**	**Expenditure hedge (USD bought)**	**Total**
Currency	EUR	EUR	USD	
Currency amount	-24 004 403	6 006 308	3 350 000	
HUF amount	-7 754 306	1 894 226	888 383	**-4 971 697**
Fair value of open forward contracts at year end				
Valuation reserve (expected Gain /(Loss))	15 344	36 502	-1 183	**50 663**
Ineffective part included in Profit and loss	241	0	40	**281**
Effective part included in Profit and loss	16 106	0	0	**16 106**
Effective part included in cost of assets	0	0	44 779	**44 779**
Interest income from swap points included in line item financial income	-797	0	0	**-797**
Total	**30 894**	**36 502**	**43 636**	**111 032**

All of the above forecast transactions hedged are expected to occur. Upon close of these forward contracts the amount deferred in equity will be realized in the statement of comprehensive income.

The following amounts were recognized in the comprehensive income statement for the financial years 2019 and 2018:

amounts in thHUF

Amounts recognised in comprehensive income statement in relation to derivative financial instruments	December 31, 2019	December 31, 2018
Amount that was removed from equity and recognised in sales balance (loss)/gain	-365 924	-273 218
FX change difference realised on hedged trade receivables and recognised in sales balance (loss)/gain	115 262	74 302
Ineffective part of cash flow hedges included in financial results (loss)/gain	-61 063	9 548
Interest recognised in profit and loss and included in financial results (swap points received)	43 893	27 111
Total gain/(loss) on cash flow hedge transactions	**-267 832**	**-162 257**
Fair value change of open cash flow forward contracts at year end included in other comprehensive income (fair value reserve at year end)	107 225	50 662
Total result of cash flow hedges included in equity balance	**-160 607**	**-111 595**

At year end the profit charged to other comprehensive income was HUF 56,563 thousand in 2019, while it was HUF 83,947 thousand in 2018.

Foreign currency sensitivity analysis

The Company 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 Company's sensitivity to a 3% increase or decrease in the value of HUF against EUR. The Company 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 (%)
2019					
103%	340.44	182 582	-37 636	144 946	0.4%
100%	330.52	0	0	0	
97%	320.60	-182 582	37 636	-144 946	-0.4%
2018					
103%	331.16	184 223	-22 365	161 858	0.5%
100%	321.51	0	0	0	
97%	311.86	-184 223	22 365	-161 858	-0.5%

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 0.4% increase in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results

in 2019 (the same figure is 0.5% as well regarding 2018) – supposing that all other factors remain unchanged. This means that the exposure of the Company against EUR is relatively significant and financial results are considerably sensitive for the change in HUF/EUR rates.
A similar examination using 5% change in rates would result in a 0.7% change in retained earnings for 2019, and 0.8% for 2018 .

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
2019			
103%	340.44	-78 445	1 701
100%	330.52	0	0
97%	320.60	78 445	-1 701
2018			
103%	331.16	-78 966	-114 203
100%	321.51	0	0
97%	311.86	78 966	114 203

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
2019				
103%	340.44	6 152 647	179 203	28 566
100%	330.52	5 973 444	0	0
97%	320.60	5 794 241	-179 203	-28 566
2018				
103%	331.16	5 980 761	174 197	21 520
100%	321.51	5 806 564	0	0
97%	311.86	5 632 367	-174 197	-21 520

Year-end revaluation

The results of year end revaluation of items in the statement of financial position were as follows: HUF 56,776 thousand loss at the end of 2019 (2018: HUF 37,411 thousand loss).

Interest rate risk management

Interest rate risk from interest bearing assets and liabilities

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

The Company 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 February 2020. The level of fixed deposits hold in one financial institution is limited to a maximum of 30% of total cash and cash equivalents 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 Company is determined as the follows: fixed bank deposits 100%, except the deposits at investment banks with specific liquidity reasons and with an original maturity less than 5 working days (including the cash balance held on current accounts, i.e. not tied up) where a 0% risk weight is used. In relation to the forward contracts, a risk weight of 10% is used by projecting it on the nominal value (the HUF part of the currency pairs to be delivered) of the foreign exchange derivatives. Regarding the government securities held on securities account at various investment partners a 50% weight risk has been determined.

The balances of deposits were as follows:

	2019	2018
Annual Interest rate	Amounts	Amounts
HUF-deposits held	thHUF	thHUF
< 1%	12 400 000	10 350 000
Total	**12 400 000**	**10 350 000**
EUR-deposits held	EUR	EUR
< 0.5%	28 600	28 600
Total	**28 600**	**28 600**

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

The Company does not possess any credit or credit line or any interest bearing financial liabilities.
Sensitivity analysis has not been enclosed based on exposure to interest rates as none of the assets above are floating rate assets. The Company does not hold any other interest bearing asset with floating interest rate.

Other sources of interest rate risks

The Company 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 Company 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 Company effects the profitability of the segment. In this manner, the Company 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 Company intends to manage inflation risk by adjusting the highest possible level of costs to inflation. For this reason the Company introduced a system where payroll costs, being the most significant cost item, are adjusted with inflation.

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

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

Maturity of receivables and bad debt allowances charged are disclosed under Note 14.2. The tables presented there give a summary about the credit risk profile of the Company arising on default by customers on settlement of trade receivables.

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

Liquidity risk management

The Company 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 Company has no debt at year ends; its liquidity position is stable.

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

Liquidity risk is mainly influenced by the traffic: if traffic fails to produce the expected level it might cause underfunding in the relevant business year. This, however, can be collected in the Terminal and Kosovo segments after two years (period ‘n+2’) through the charges, therefore in these line of businesses the Company 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 Company, 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 Company. Above 10%, all of the additional effect will be taken by airlines. The actual traffic exceeding the planned amount increases the profitability of the Company. In cases the actual traffic would not reach the assumed level, it would decrease profitability, however compensating this effect the Company 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 Company, 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 2018 or in 2019, 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. It can be charged to users only after the end of actual reference period).

Risks in providing air navigation services

According to the first section of paragraph No.69 of Act XCVII of 1995 (regarding services provided in Hungary) and according to the Act CCXLVIII of 2013, furthermore according to the paragraph No. 3 of the Government Decree No. 510/2013 (regarding services provided in Kosovo) HungaroControl is required to establish a liability insurance in order to be entitled to provide air traffic control services. The Company 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, 2019 and 2018.
The table has been drawn up based on the earliest date on which the Company can be required to repay.

amounts in thHUF

Ageing of financial liabilities	Overdue	Due within one year	Due between 1-5 years	Due over 5 years	Total
December 31, 2019					
Trade payables	18 418	1 826 868	0	0	1 845 286
Lease liabilities	323	1 765 570	6 715 598	21 515 389	29 996 880
Other liabilities	0	215 025	0	0	215 025
Other long term liabilities	0	0	37 879	4 383	42 262
Total	**18 741**	**3 807 463**	**6 753 477**	**21 519 772**	**32 099 453**
December 31, 2018					
Trade payables	10 036	1 827 657	0	0	1 837 693
Other liabilities	0	215 025	0	0	215 025
Other long term liabilities	0	0	29 505	4 262	33 767
Total	**10 036**	**2 042 682**	**29 505**	**4 262**	**2 086 485**

15. Provisions

Accounting policies:

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

Critical accounting estimates and judgements:

Provisions in general are highly judgmental, especially in case of legal disputes. The Company 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 Company provides for the amount of the estimated liability.

Total balances at year end are as follows:

amounts in thHUF

Provisions	Legal provision	Other provision	Total
Long-term provisions	0	28 501	28 501
Short-term provisions	11 164	53 646	64 810
Balance as of December 31, 2018	**11 164**	**82 147**	**93 311**
Long-term provisions	0	6 711	6 711
Short-term provisions	4 020	44 520	48 540
Balance as of December 31, 2019	**4 020**	**51 231**	**55 251**

The following table shows the movements in long term provisions:

amounts in thHUF

Long-term	Legal provision	Other provision	Total
Balance as of January 1, 2018	**0**	**28 501**	**28 501**
Balance as of December 31, 2018	**0**	**28 501**	**28 501**
Utilized during the year	0	-21 790	-21 790
Balance as of December 31, 2019	**0**	**6 711**	**6 711**

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, 2018	**4 020**	**30 540**	**34 560**
Additional provisions created	7 144	53 646	60 790
Utilized during the year	0	-30 540	-30 540
Balance as of December 31, 2018	**11 164**	**53 646**	**64 810**
Additional provisions created	0	44 520	44 520
Utilized during the year	-7 144	-53 646	-60 790
Balance as of December 31, 2019	**4 020**	**44 520**	**48 540**

Other provisions include liabilities payable to the Ministry for Innovation and Technology and to the Ministry of Defence (2019: HUF 44,520 thousand, 2018: HUF 53,646 thousand), and provisions for other liabilities payable where a present obligation has arisen as a result of past event, the payment is probable and the amount can be estimated reliably.

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

16. Employee benefits

Accounting policies:

Career plans:

As long term employee benefits the Company operated a 'Defined Benefit Plan' by the end of 2013. From December 31, 2013, the Company decided to replace it by a 'Career plan'.

The Company operates a Career plan as a long term pension scheme regulated by the agreements 'HungaroControl Career Plan' and the 'Air Controller Career Agreement'. A defined part of the Career plan are invested in retirement related financial instruments. Amounts regulated by the Air Controller Career Agreement are invested in a separate financial instrument, that will be only available for the air-navigation personnel after concluding their air controller position.
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 2019. The amounts of these contributions will not be paid into a separate fund in 2020. Due to this change of the assumption on the maturity dates, these amounts are not reclassified into 'Short term liabilities'. The proportion of short

term and long term liabilities of employee benefits is changed accordingly and these liabilities are presented in details in the following tables. The conversion between the schemes has been closed regarding the non-air navigation personnel, the payments from the closing balance of the previous scheme are fulfilled as planned. Actuarial gains and losses in other comprehensive income at transition are booked to profit reserve proportionally with payments. In 2019 HUF 3 thousand, in 2018 HUF 4,376 thousand was transferred to profit reserves.

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 liabilities need to be assessed 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 Company, therefore a long term liability has been established and classified as past service cost.

The Company assigned long term benefit arrangements with the representative labour parties as an acknowledgement for 2018 year's performance and as a response to labour market trends. The timing of the settlements will be determined by the finalisation of the signature procedure so provision is recognised regarding these certain future engagements.

The employee benefits according to IAS 19 Employee benefits presented under this note has been accounted for by using the evaluation of an independent, qualified actuary.

amounts in thHUF

Employee benefits	December 31, 2019	December 31, 2018
Long term employee benefits	3 352 941	690 480
Short term employee benefits	2 389 679	4 469 766
Total employee benefits	**5 742 620**	**5 160 246**

Long term employee benefits

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

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

amounts in thHUF

Employee benefits	Termination benefits	Other employee benefits	Other short term employee benefits	Total
Present value at January 1, 2018	**481 497**	**2 367 616**	**1 463 563**	**4 312 676**
Past service cost	0	368 603	0	**368 603**
Current service cost	332 793	345 025	1 749 757	**2 427 575**
Interest costs	0	-5	0	**-5**
Used during the year	-208 898	-172 349	-1 463 563	**-1 844 810**
Change in discount rates	-625	-8 189	0	**-8 814**
Net actuarial (gains)/losses	-55 105	-39 874	0	**-94 979**
Present value at December 31, 2018	**549 662**	**2 860 827**	**1 749 757**	**5 160 246**
Past service cost	-6 812	-1 144	0	**-7 956**
Current service cost	57 380	347 227	2 063 688	**2 468 295**
Interest costs	180	9 336	0	**9 516**
Used during the year	-209 318	-44 161	-1 749 757	**-2 003 236**
Change in discount rates	7 552	86 665	0	**94 217**
Net actuarial (gains)/losses	6 673	14 865	0	**21 538**
Present value at December 31, 2019	**405 317**	**3 273 615**	**2 063 688**	**5 742 620**
Short term part				2 389 679
Long term part				3 352 941

The actuarial gain included in the balance arose on those parts of the obligation, however to a lesser extent only, where the period of service is not yet fulfilled by the employees. According to the Collective Agreement signed, new non-air navigation employees in the scheme have to work 5 years till they are fully authorized members. In their case the actuarial gain/loss includes impacts like increase of salaries expected differently. Actuarial gain arose due to the reverse of expected settlements in the amount of HUF 110,220 thousand. The reason of the change is that some of the air –navigation employees will be retired on a different date as it was previously planned. In 2019 the amount of Actuarial gain/loss line shows a gain result.

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

Financial and actuarial variables and assumptions	December 31, 2019	December 31, 2018
Actual exit and death probability versus estimated	-531	3 699
Effect of changes in discount rate	94 217	-8 814
Changes in expected salary increase	70 057	10 599
Changes in the amount of expected settlements	-110 220	-89 861
Other	62 231	-19 416
Total	**115 754**	**-103 793**
Included in other comrehensive income	0	0
Included in profit and loss statement	115 754	103 793

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

Actuarial gains and losses arising from changes in financial assumptions

Discount rates: the Company used the zero coupon discount rates published by Government Debt Management Agency as per 31 December 2019. The opening balance of the new scheme, i.e. the closing liability recognized in the defined benefit scheme will be paid out in the following years, therefore mainly short term discount rates have been used. Longer term discount rates have only been used in relation to the occupational accidents balance and the jubilee benefits for the military service personnel commanded to the Company (Other long term employee benefits).
Short term discount rates used for scheme liabilities in 2019 are near 0% regarding balances due within 1 year, so balances are not discounted, in 2018 balances within 1 year were discounted by 0.33%.
Among all the actuarial assumptions the change in discount rates has the most significant impact on the net present value of the liability balance. From 2017 to 2018 the year end value of the obligations decreased by HUF 8,814 thousand, since between 2018 and 2019 the year-end balance increased by HUF 94,217 thousand.

Actuarial gains and losses arising from changes in assumptions

Actual versus estimated exit probability: exit assumptions for 2019 were determined by using historical data regarding the last 9 years resulting in the following rates. These are presented below broken down by categories of personnel (averages):

- 2019: Non-air navigational employees: 5.88%, air navigational employees: 0.24%.
- 2018: Non-air navigational employees: 6.12%, air navigational employees: 0.21%.

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 Company 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 2024. In relation to the new scheme the effect of salary increases are very limited and are only relevant for the occupational accidents balance. Following 2024 in accordance with long-term inflation policy of MNB, we calculate with an increase of 3% in salaries.

The Company 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

Short term employee benefits	December 31, 2019	December 31, 2018
Short term part of post employment benefits and other long term employee benefits	325 992	2 720 009
Salaries payable for December	734 595	695 888
Bonuses payable on a short-term basis	43 709	43 444
Short-term compensated absences	116 271	102 016
Other	1 169 112	908 409
Total	**2 389 679**	**4 469 766**

The most significant item of Other line is the compensation for year-end performance valuation in the amount of HUF 585,335 thousand in 2019, HUF 573,949 thousand in 2018. In addition Other line contains the liability arisen from inflationary correction compensation in the amount of HUF 408,666 thousand in 2019, HUF 162,061 thousand in 2018. Other line is increased with the amount of a so-called ‘retention benefits’ that is HUF 171,059 thousand in 2018.

17. Related party disclosure

Transactions with related parties:

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

As the Company applies the exemption provided in IAS 24.25, balances with the Hungarian State and with other state controlled entities do not have to be disclosed fully.

However, owing to the exemption, the Company is required to make the following disclosures regarding partners which can be considered to be influential from the Company’ perspective:

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

- Governmental organizations the Company purchases services or leases assets from, or has obligations to pay to, are the Ministry for Innovation and Technology, Ministry of Defence, Hungarian National Asset Management Inc., the Directorate General of Public Procurement, MVM Partner Energiakereskedő Ltd., MFK Magyar Fejlesztési Központ Nonprofit Ltd., Antenna Hungária Plc., and Hungarian Meteorological Service.

- The founder’s and owner’s rights are exercised by the Minister without portfolio for the management of national assets. The dividend paid to the ministry was HUF 1,000,000 thousand in 2019 and HUF 1,000,000 thousand in 2018.

The following government bodies have no direct control over the Company or reversed, however, the management of the Company 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 Company 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 Company classifies the contract as leases under IFRS 16 'Leases' Standard. Right-of-use assets and lease liabilities in the Financial Statements are presented according to the requirements. The lease payment in 2019 was HUF 1,581,245 thousand (HUF 1,630,478 thousand in 2018).
  According to the agreement the Company is obliged to keep the assets at their original nominal value by restoring, replacing and improving them counterbalancing the loss in usage values. The liability to keep the state owned assets at their original nominal value ('replacement obligation') was disclosed at the beginning among long term liabilities. The related regulation was amended with an effective date of 28 June 2013 resulting in the release of the replacement obligation. The accumulated replacement obligation was settled by agreements signed, thus the value of current year construction and renovation on state owned assets is accounted for among receivables. In 2019 the Company reversed an allowance of HUF 244,874 thousand recognised in the years 2015 - 2018 due to settlement between the parties.

- For the **Ministry for Innovation and Technology** the Company pays the following amounts: supervisory fee of air navigation services over Hungary (2019: HUF 500,000 thousand – 2018: HUF 500,000 thousand), the supervisory fee of air navigation services over Kosovo (2019: HUF 99,997 thousand, 2018: HUF 100,585 thousand), other license fees (2019: HUF 7,610 thousand, 2018: HUF 8,612 HUF), air navigation service related administration fees (2019: HUF 265,012 thousand, 2018: HUF 222,763 thousand).

Further transactions considered to be significant in terms of size:

- The Company purchases energy from **MVM Partner Energiakereskedő Ltd**. (2019: HUF 158,847 thousand, 2018: HUF 136,906 thousand).
- The Company purchases meteorological data from the **Hungarian Meteorological Service** (2019: HUF 488,661 thousand, 2018: HUF 473,069 thousand).
- The Company leases properties from **Ministry of Defence** (2019: HUF 1,751 thousand, 2018: HUF 1,703 thousand)
- Properties are leased from **Antenna Hungária Plc.** (2019: HUF 10,446 thousand, 2018: HUF 10.153 thousand)
- Properties leased from **Directorate General of Public Procurement** (2019: HUF 8,129 thousand, 2018: HUF 8,129 thousand)
- Properties leased from **MFK Magyar Fejlesztési Központ Nonprofit Ltd.** with the amount of HUF 3,694 thousand in 2019 that contains lease fee for three quarter, and further HUF 1,051 thousand was settled to the Ministry for Innovation and Technology as the proper lessor (In 2018 the total amount of the lease fee was transferred to the Ministry for Innovation and Technology with the amount of HUF 4,213 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 revenues from air navigation services – refer to Notes 5., 14.1 and 14.2.

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

amounts in thHUF

Exempted flights	Balance as per December 31, 2019	Balance paid off	Credited to Financial income	Credited to Revenue	Balance as per January 1, 2019
Ministry of Defence	**528 173**	305 588	2 279	276 388	**555 094**
Ministry for Innovation and Technology	**27 877**	10 800	107	15 874	**22 696**
Ministry of Foreign Affairs	**26 838**	45 086	221	26 837	**44 866**
Total	**582 888**	**361 474**	**2 607**	**319 099**	**622 656**
Exempted flights	**Balance as per December 31, 2018**	**Balance paid off**	**Credited to Financial income**	**Credited to Revenue**	**Balance as per January 1, 2018**
Ministry of Defence	**555 094**	326 542	234	249 649	**631 753**
Ministry for Innovation and Technology	**22 696**	13 459	8	11 901	**24 246**
Ministry of Foreign Affairs	**44 866**	0	16	24 462	**20 388**
Total	**622 656**	**340 001**	**258**	**286 012**	**676 387**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2019 and in 2018 no provisions have been made for doubtful debts in respect of amounts owed by related parties.

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

Transactions with joint ventures:

EPC Ltd. provides the training of air navigation personnel for the Company, and provides language courses. Sales revenues from EPC Ltd. include office rentals, training room rentals and revenues for management services. The amount of long term liabilities contains caution received according to the office rental agreement. Short term liabilities are fully settled at the year end.

The transactions with EPC Ltd. are disclosed fully:

amounts in thHUF

Transactions with EPC	December 31, 2019	December 31, 2018
Amounts presented in Statement of Comprehensive Income		
Sales of management services	35 921	35 529
Dividend received	103 204	0
Purchases of training services	683 808	628 882
Amounts presented in Financial Position		
Amounts owed by related parties	194	280
Amounts owed to related parties - long term	4 383	4 263

Transactions with FAB CE Aviation Ltd. include purchase of professional support and management services (2019: HUF 58,347 thousand, 2018: HUF 62,056 thousand).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2019 and in 2018 no provisions have been made for doubtful debts in respect of amounts owed by related parties.

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

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

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

Financial year 2019 — amounts in thHUF

Remuneration of key personnel	Short-term employee benefits	Post-employment benefits	Termination benefits
Remuneration of Board of Directors	28 617	0	0
Remuneration of the Supervisory Board	63 108	0	0
Remuneration of Chief Executive Officer and Directors of the Company*	345 824	0	0
Total	**437 549**	**0**	**0**

** The amount includes in total HUF 33,131 thousand bonus accrual.*

Financial year 2018 — amounts in thHUF

Remuneration of key personnel	Short-term employee benefits	Post-employment benefits	Termination benefits
Remuneration of Board of Directors	31 788	0	0
Remuneration of the Supervisory Board	56 583	0	0
Remuneration of Chief Executive Officer and Directors of the Company*	341 960	582	218
Total	**430 331**	**582**	**218**

** The amount includes in total HUF 35,288 thousand bonus accrual.*

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 Company did not undertake guarantees in their names.

18. Commitments, contingencies

Under- and overrecovery balances from air navigation services

Under- and overrecovery balances in Kosovo segment:
According to the special mechanism of the system, for charging zones applying full cost recovery method, like the Serbia-Montenegro-KFOR charging zone, the difference between income and chargeable costs for year ‘n’ resulted in underrecovery or over-recovery balances. Over- and underrecoveries are calculated as a difference between charges billed to users, other income and actual chargeable costs. Underrecovery or overrecovery balances are settled through the “adjustment mechanism”, when balances of year ’n’ are carried over to year ‘n+2’ (earliest) and taken into account in the calculation of the chargeable unit rates.

Under- and overrecovery balances in en-route and terminal segments of the Hungarian charging zone:

In the performance scheme under- and overrecoveries arise due to various occurrences: the risk of deviation from the traffic forecasted is shared with the airspace users. The Company does not bear the inflation risk and risk of the so called "uncontrollable costs", thus, the Company has to settle under- and overrecovery balances from these facts in the future. Under-and overrecovery balances may arise simultaneously in the same period and for the same segment due to different risk sharing rules.

The Company does not recognize these revenue settlement balances in the statement of financial position, as these balances fulfil the criteria of contingent assets and liabilities and have a significant impact on future cash flows and operations, therefore are disclosed hereinafter with amounts measured in accordance with the requirements for measuring provisions.

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

amounts in thHUF

Underfunding from cost base mechanism	Closing balance December 31, 2019	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2019
underrecoveries from 2014, Kosovo segment	0	-17 958	0	17 958
underrecoveries from 2016, En-route segment	67 224	0	0	67 224
underrecoveries from 2017, En-route segment	0	-1 010 237	0	1 010 237
underrecoveries from 2017, TNC segment	0	-158 456	0	158 456
underrecoveries from 2018, En-route segment	1 836 307	-29 354	0	1 865 661
underrecoveries from 2018, TNC segment	359 262	0	0	359 262
underrecoveries from 2019, En-route segment	1 696 561	0	1 696 561	0
underrecoveries from 2019, TNC segment	283 551	0	283 551	0
underrecoveries from 2019, Kosovo segment	23 009	0	23 009	0
Total underrecovery carried over	**4 265 914**	**-1 216 005**	**2 003 121**	**3 478 798**

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, 2019	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2019
overrecoveries from 2014, En-route segment	7 874	-31 495	0	39 369
overrecoveries from 2016, En-route segment	500 943	0	0	500 943
overrecoveries from 2016, TNC segment	178 742	0	0	178 742
overrecoveries from 2016, Kosovo segment	0	-79 799	0	79 799
overrecoveries from 2017, En-route segment	549 380	-7 092 318	0	7 641 698
overrecoveries from 2017, TNC segment	188 557	-1 073 031	0	1 261 588
overrecoveries from 2017, Kosovo segment	0	-49 846	0	49 846
overrecoveries from 2018, En-route segment	10 610 734	-414 093	0	11 024 827
overrecoveries from 2018, TNC segment	2 050 959	0	0	2 050 959
overrecoveries from 2018, Kosovo segment	98 152	0	0	98 152
overrecoveries from 2019, En-route segment	9 417 262	0	9 417 262	0
overrecoveries from 2019, TNC segment	2 348 287	0	2 348 287	0
Total overrecovery carried over	**25 950 890**	**-8 740 582**	**11 765 549**	**22 925 923**
Contingent liability from non-controllable costs	805 322	-807 971	805 322	807 971
Contingent liability from capacity related incentive scheme	140 695	-147 164	140 695	147 164
Total contingent liability from cost base mechanism	**26 896 907**	**-9 695 717**	**12 711 566**	**23 881 058**

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 Company had the following bank guarantees given or received at the year ends presented:

amounts in thHUF

Maturity date	Amount	
15.08.2019-02.09.2020	18 205	bank guarantee given for rental fee payment
Guarantees given	**18 205**	
16.03.2015-20.04.2020	32 324	bank guarantee received in relation to investment projects
26.04.2016-24.08.2020	2 272	bank guarantee received in relation to investment projects
08.05.2017-13.05.2022	1 732	bank guarantee received in relation to investment projects
05.07.2017-09.06.2022	842	maintenance bond received in relation to investment projects
05.07.2017-09.06.2022	1 341	maintenance bond received in relation to investment projects
08.02.2018-05.01.2023	6 173	bank guarantee received in relation to investment projects
07.12.2017-20.01.2023	7 189	bank guarantee received in relation to investment projects
15.06.2018-18.05.2023	660	bank guarantee received in relation to investment projects
25.11.2019-18.11.2020	18 229	bank guarantee received in relation to investment projects
Guarantees received	**70 760**	

As part of the tendering process regarding new projects and contracts, the Company 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 2019 were HUF 70,760 thousand (2018: HUF 234,477 thousand).

19. Capital risk management

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

The Company monitors its equity structure continually to be able to comply with the Hungarian legislation which prescribes a certain level of issued capital/equity attributable to the owners' ratio. The Company fulfilled the defined requirements as enacted by the regulation.

20. Events after the reporting period

In March 2020 the volume of the European air traffic significantly decreased due to the pandemic effect of Coronavirus. Thus, several airlines are facing liquidity difficulties. Paralel to the approval of Financial Statements prepared according to IFRS requirements, the European Commission liaising with wide range of industry participants is considering possible measurements for crisis management in order to help industry participants to handle the effects of the crisis, and in order to help European air traffic recover to its preceeding operation in the post-crisis period. As far as the Company is concerned there are no going concern issues arising in the present situation. Due to the Company's favourable liquidity position, financing its operations in 2020 is ensured. Furthermore, based on the Chicago Convention, it is the duty of states to provide safe navigation services to civil aviation, and the Hungarian Law on Air Traffic designates the Company as the exclusive air navigation service provider. As enacted by both the Chicago Convention and the Commission Implementing Regulation (EU) 2019/317 -being the current applicable law in Europe-, the cost of air navigation services performed should be funded.

The financial statements of the Company for the year ended at December 31, 2019 prepared in conformity with International Financial Reporting Standards (IFRS) are approved in accordance with the resolution of the CEO on 19 May 2020.

Budapest, 19 May 2020

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Chief Executive Officer