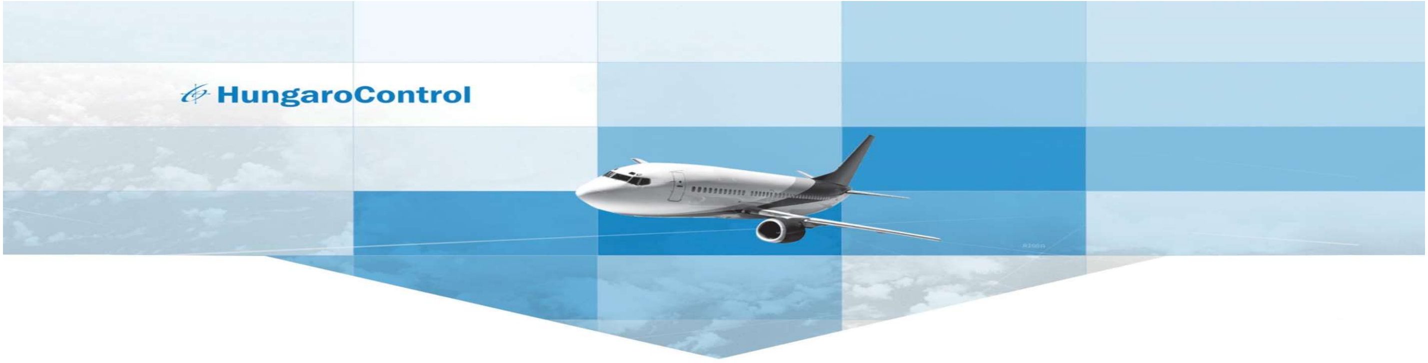

HUNGAROCONTROL Pte. Ltd.

FINANCIAL STATEMENTS

for the year ended December 31, 2018

in accordance with International Financial Reporting Standards (IFRS)

Budapest, 11 June 2019

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Chief Executive Officer

HUNGAROCONTROL
FINANCIAL STATEMENTS
DECEMBER 31, 2018

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Building a better
working world

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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 2018 financial statements of HungaroControl Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2018 - showing a balance sheet total of HUF 64,339,278 thousand and a total comprehensive income for the year of HUF 5,559,126 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 2018 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 2018 in accordance with the Hungarian Accounting Law and generally accepted accounting principles in Hungary, we have issued a separate report on those financial statements on 17 April 2019.

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
Budapest, 11 June 2019
Ernst & Young Kft.

HUNGAROCONTROL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

	Notes	December 31, 2018 thHUF	December 31, 2017 thHUF
Intangible assets	11	8 117 212	8 304 945
Property, plant and equipment	12	12 136 609	12 944 896
Investments in joint ventures	9	145 572	116 569
Invested financial assets	14.3	2 650 000	258 870
Securities	14.3	15 475 721	11 518 526
Other long term assets	14.1	299 662	357 803
Deferred tax asset	10	231 851	84 437
Non-current assets		**39 056 627**	**33 586 046**
Inventories	13	63 594	27 179
Trade receivables	14.2	5 835 141	6 098 631
Other current assets	14.2	2 340 386	2 397 014
Current tax receivable	10	25 983	0
Securities	14.3	8 109 032	12 452 273
Other financial assets	14.3	2 709 195	0
Cash and cash equivalents	14.3	6 199 320	5 840 366
Current assets		**25 282 651**	**26 815 463**
TOTAL ASSETS		**64 339 278**	**60 401 509**
Share capital	1.1	20 201 600	20 201 600
Reserves		34 084 104	29 554 699
Shareholder's equity		**54 285 704**	**49 756 299**
Long term provisions	15	28 501	28 501
Long term employee benefits	16	690 480	636 434
Other long term liabilities	14.4	1 027 737	1 226 446
Deferred tax liability	10	0	0
Non-current liabilities		**1 746 718**	**1 891 381**
Trade payables	14.5	1 837 693	2 775 718
Short term provisions	15	64 810	34 560
Short term employee benefits	16	4 469 766	3 676 242
Current tax liability	10	0	5 728
Other short-term liabilities	14.5	1 934 587	2 261 581
Current liabilities		**8 306 856**	**8 753 829**
TOTAL LIABILITIES		**10 053 574**	**10 645 210**
TOTAL EQUITY & LIABILITIES		**64 339 278**	**60 401 509**

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

HUNGAROCONTROL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	December 31, 2018 thHUF	December 31, 2017 thHUF
Revenue from air navigation services	5	39 447 241	38 647 934
Other revenue		200 685	483 233
Revenue		**39 647 926**	**39 131 167**
Personnel expense	6.1	17 958 520	17 049 465
Operating expense	6.2	10 328 563	10 109 702
Depreciation, depletion, amortization and impairment	11, 12	4 415 415	4 033 883
Other income / expense (-)	7	-182 695	-41 032
Operating expense		**32 885 193**	**31 234 082**
OPERATING PROFIT		**6 762 733**	**7 897 085**
Financial income / expense (-)	8	128 901	219 685
Profit from financial activities		**128 901**	**219 685**
Share from profit / loss of joint venture	9	**28 935**	**25 381**
PROFIT BEFORE TAX		**6 920 569**	**8 142 151**
Income tax expense	10	**1 445 390**	**1 525 174**
PROFIT FOR THE YEAR		**5 475 179**	**6 616 977**
OTHER COMPREHENSIVE INCOME			
Items reclassified subsequently to profit and loss			
Gain / loss (-) on cash flow hedges	14.7	**83 947**	**18 826**
Less tax effect		**0**	**0**
Gain / loss (-) on fair valuation of financial assets available for sale		**0**	**-14 755**
Less tax effect		**0**	**1 328**
Other comprehensive income, net of tax		**83 947**	**5 399**
TOTAL COMPREHENSIVE INCOME		**5 559 126**	**6 622 376**

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

HUNGAROCONTROL
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	Notes	Share capital	Retained earnings	Valuation reserve	Total reserves	Total shareholder's equity
		thHUF	thHUF	thHUF	thHUF	thHUF
Opening balance at 1 January, 2017		**20 201 600**	**24 062 797**	**-130 474**	**23 932 323**	**44 133 923**
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	**10, 16**	0	-79 202	84 601	**5 399**	**5 399**
Profit for 2017		0	6 616 977	0	**6 616 977**	**6 616 977**
Total comprehensive income		**0**	**6 537 775**	**84 601**	**6 622 376**	**6 622 376**
Dividends		0	-1 000 000	0	**-1 000 000**	**-1 000 000**
Closing balance, 31 December, 2017		**20 201 600**	**29 600 572**	**-45 873**	**29 554 699**	**49 756 299**
Adjustment on initial application of IFRS 9, net of tax	**14**	0	-21 819	-7 902	**-29 721**	**-29 721**
Adjusted balance at 1 January, 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 2017		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, 31 December, 2018		**20 201 600**	**34 049 556**	**34 548**	**34 084 104**	**54 285 704**

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

HUNGAROCONTROL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	December 31, 2018 thHUF	December 31, 2017 thHUF
OPERATING ACTIVITIES		
Profit before tax	**6 920 569**	**8 142 151**
Depreciation and amortization	4 400 586	4 033 882
(Gain)/Loss on sale of property, plant & equipment	-3 063	-740
Impairment/Scrapping of Fixed Assets	14 829	1
Impairment/Scrapping of Inventory	12	5
Increase/ (decrease) in provisions	30 250	-112 621
Interest income	-712 611	-564 087
Increase in provision for bad debts	98 963	236 019
Share of (income) from joint ventures	-28 935	-25 381
Unrealized foreign exchange (gains)/losses	37 412	16 468
(Gains)/losses from other non-cash transactions	244 460	166 584
Total	**4 081 903**	**3 750 130**
Changes in working capital:		
(Increase)/ decrease in Accounts receivable and other current assets	261 545	-703 697
(Increase)/ decrease in Inventory	-36 427	47 810
Increase/ (decrease) in Accounts payable, long term liabilities and accruals	253 513	519 974
Income taxes paid	-1 621 575	-1 573 072
Total	**-1 142 944**	**-1 708 985**
Net cash from operating activities	**9 859 528**	**10 183 296**
INVESTING ACTIVITES		
Purchase tangible assets and intangibles	-4 216 402	-3 871 873
Proceeds on disposal of property, plant & equipment	3 382	740
(Purchase)/ sale of financial assets	-4 982 199	-3 047 529
Additional capital paid to joint ventures	0	0
Purchase of investment	0	0
Interest paid	0	0
Interest received	695 014	582 393
Net cash used in investing activities	**-8 500 205**	**-6 336 269**
FINANCING ACTIVITIES		
Dividend paid	-1 000 000	-1 000 000
Net cash used in financing activities	**-1 000 000**	**-1 000 000**
Decrease in cash and cash equivalents	**359 323**	**2 847 027**
Cash and cash equivalents at beginning of year	5 840 366	2 996 889
Exchange rate loss on cash and cash equivalents	-369	-3 550
Cash and cash equivalents at end of year	**6 199 320**	**5 840 366**

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. 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.

Current change in accounting policies is that the first set of the Company's financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers have been applied. Changes to significant accounting policies are described in Note 5. and 14.2 in connection with IFRS 15 standard, and Note 14. in connection with IFRS 9 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
- Amendments to References to the Conceptual Framework in IFRS Standards – effective from 1 January 2020
- Amendment to IFRS 3 Business Combinations – 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

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

- IFRS 16 Leases - effective from 1 January 2019

  The standard sets out the requirements for the recognition, valuation, presentation and disclosure of a lease. It replaces existing leases guidance, including IAS 17 (Leases), IFRIC 4 (Determining whether an Arrangement contains a Lease), SIC-15 (Operating Leases-Incentives) and SIC-27 (Evaluating the Substance of Transactions Involving the Legal Form of a Lease).
  The standard requires lessees to recognise the right of use of assets and the corresponding liabilities for most leases. There are recognition exemptions for leases of low-value items and short-term leases that have a lease term of 12 months or less at the commencement date.
  The Company will recognise the cumulative effect of transition in the opening amount of Retained Earnings at the date of initial application (i.e. 1 January 2019). Based on the assessments the amount of the assets will be increased by 17 billion HUF due to the recognition of rights to use underlying assets for the lease term.

- IAS 19 Employee benefits – effective from 1 January 2019
  Adjustments regarding Plan amendment, curtailment or settlement. Based on the expectation, the standard will have no impact on the financial statements of the Company.

- IAS 28 Interests in Associates and Joint Ventures – effective from 1 January 2019
  Amendments to long-term interests in associates and joint ventures. Based on the expectation, the standard will have no impact on the financial statements of the Company.

- IFRIC 23 Uncertainty over Income Tax Treatments – effective from 1 January 2019
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affect the application of IAS 12. It will have no impact on the financial statements of the Company.

- IFRS 9 Financial instruments – effective from 1 January 2019
  Amendments to prepayment features with negative compensation. It will have no impact on the financial statements of the Company.

5. Income

Accounting policies:

<u>Revenue from Contracts with Customers</u>

The Company has initially applied IFRS 15 Standard for recognising revenues from the effective date of 1 January 2018, which is the effective date of the standard, and the day of first application for the Company. IFRS 15 (Revenue from Contracts with Customers) replaced IAS 18 (Revenue), IAS 11 (Construction Contracts) and related interpretations.

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' from 1 January 2018 instead of line 'Other income' in the financial statements. The customers of air navigation services are considered as airspace users irrespective of the financial settlement of these services (the payments are performed by defined Ministries). Without the adoption of IFRS 15 the amount of HUF 286,012 thousand would be presented as 'Other income/expense', under IFRS 15 this amount is presented 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. From 1 January 2018 the amounts are presented net of related costs among 'Other income'. Without the adoption of IFRS 15 the amount of HUF 250,563 thousand would be presented as 'Other revenue', and the related cost of good sold as 'Operating expense', under IFRS 15 this amount is presented net HUF 0 thousand in line 'Other revenue/expense'.

Other changes:

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 contracts regarding which without the adoption of IFRS 15 the amount of HUF 3,773 thousand would be presented as 'Revenue from air navigation services', HUF 32,843 thousand as 'Other revenue' and HUF – 36,615 thousand as 'Other income/expense'. Under IFRS 15 standard revenue amounts regarding these contracts can not be presented , therefore related allowances are neither recorded.

In accordance with the transition methods available in the new standard, comparative information for 2017 has not been restated, initial application has no cumulative effects that should have been recognised in opening Retained Earnings as at 1 January 2018.
The following table summarises the impacts of adopting IFRS 15 on the Company's Statement of Comprehensive Income for the year ended 31 December 2018 comparing the amounts without adopting the new standard.

amounts in thHUF

	As reported under IFRS 15 December 31, 2018	Adjustments	Amounts without adoption of IFRS 15 December 31, 2018
Revenue from air navigation services	39 447 241	-282 239	39 165 002
Other revenue	200 685	283 405	484 090
Revenue	**39 647 926**	**1 166**	**39 649 092**
Personnel expense	17 958 520	0	17 958 520
Operating expense	10 328 563	250 563	10 579 126
Depreciation, depletion, amortization and impairment	4 415 415	0	4 415 415
Other income / expense (-)	-182 695	249 397	66 702
Operating expense	**32 885 193**	**1 166**	**32 886 359**
OPERATING PROFIT	**6 762 733**	**0**	**6 762 733**
Profit from financial activities	128 901	0	128 901
Share from profit / loss of joint venture	28 935	0	28 935
PROFIT BEFORE TAX	**6 920 569**	**0**	**6 920 569**
Income tax expense	1 445 390	0	1 445 390
PROFIT FOR THE YEAR	**5 475 179**	**0**	**5 475 179**
OTHER COMPREHENSIVE INCOME	83 947	0	83 947
TOTAL COMPREHENSIVE INCOME	**5 559 126**	**0**	**5 559 126**

The application of IFRS 15 Standard has no impact on the Company's Statement of Financial Position and Statement of Cash flows. All revenue amounts fall in the scope of IFRS 15.

<u>Revenue from air navigation services:</u>

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

The Company has three main revenue segments: navigation services provided to the overflying ('en-route') air traffic over Hungary, terminal air navigation services in the approach area of Liszt Ferenc International Airport, and navigation in the upper airspace of Kosovo. From 2015 both the Hungarian en-route and terminal services 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 (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 fewer than 225,000 air transport movements per year (the Liszt Ferenc International Airport is like this, too), service providers may decide not to bear the traffic risk, that may stay on the side of the airspace users. Hungary did make the relevant reports to the European Commission, therefore, during the 5 years reference period, began in 2015, 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 over- or undercharging of the particular year 'n' is adjusted in the calculation of the charging rate of 'n+2'. The Kosovo airspace is part of the common Serbia-Montenegro-KFOR en-route charging zone. All the costs and income relating to the provision of the service are included in the cost base of Serbia-Montenegro-KFOR in alignment with the principles of the EUROCONTROL en-route charges system.

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

	December 31, 2018	December 31, 2017
Revenue from air navigation services - en route segment	32 263 637	31 599 488
Revenue from air navigation services - terminal segment	6 330 560	5 683 291
Revenue from air navigation services - Kosovo segment	1 051 960	1 441 392
Cas-flow hedge accounting reserve booked to revenues	-198 916	-76 237
Total revenue from air navigation services	**39 447 241**	**38 647 934**
Other revenue - foreign	109 796	258 131
Other revenue - domestic	90 889	225 102
Total other revenue	**200 685**	**483 233**
Total revenue	**39 647 926**	**39 131 167**

Revenues from air navigation services:

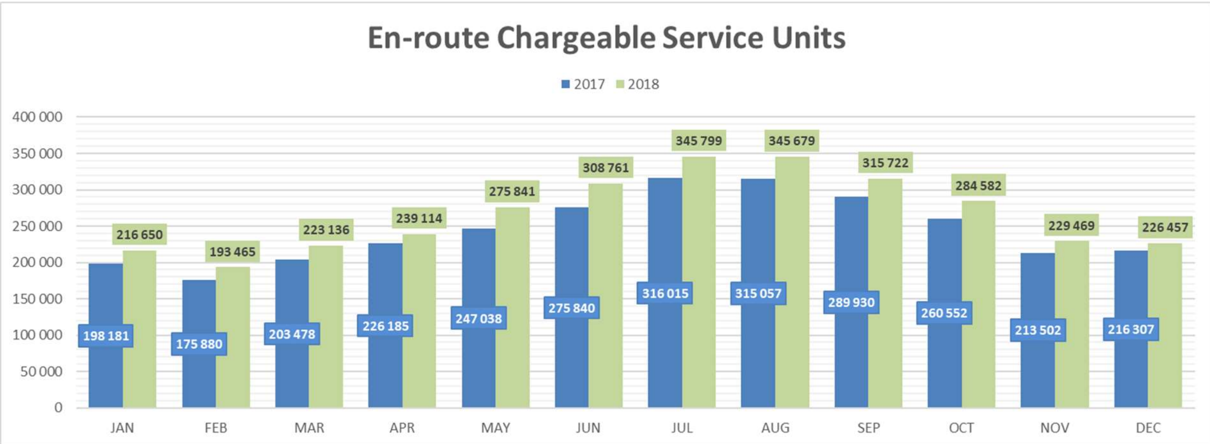
The main activity of the Company is to provide air navigation services – more than 99.5% of the revenue derives from air traffic charges in 2018. (98.8% in 2017).

81.8% of revenues derives from navigation of overflying air traffic (en route) over Hungary (81.7% in 2017), 16.0% of revenues derives from terminal air navigation services (14.7% in 2017), and 2.7% of air navigation service revenues derives from the Kosovo segment (3.7% in 2017).

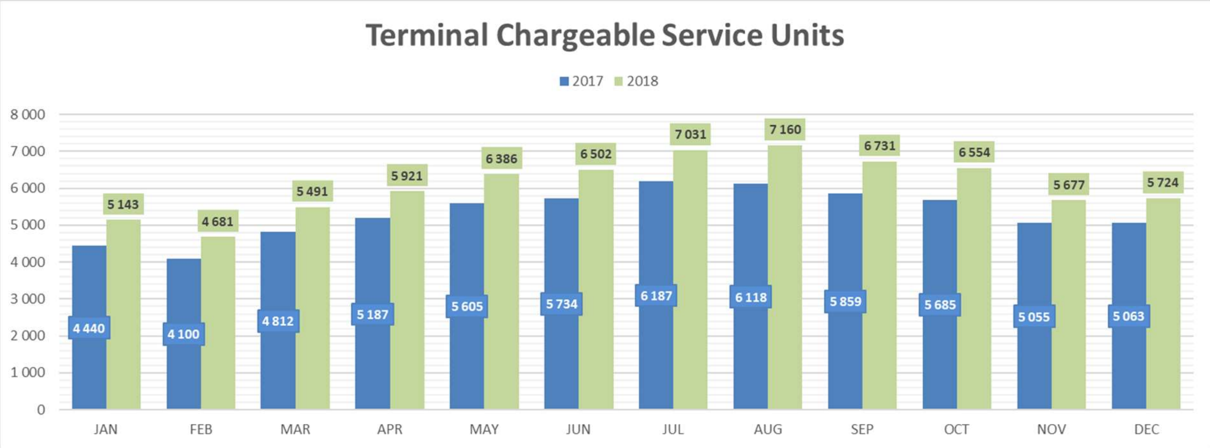
The value of revenues from air navigation services is modified by the foreign exchange result of cash flow hedge transactions concluded for hedging of foreign exchange risk on revenues.

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

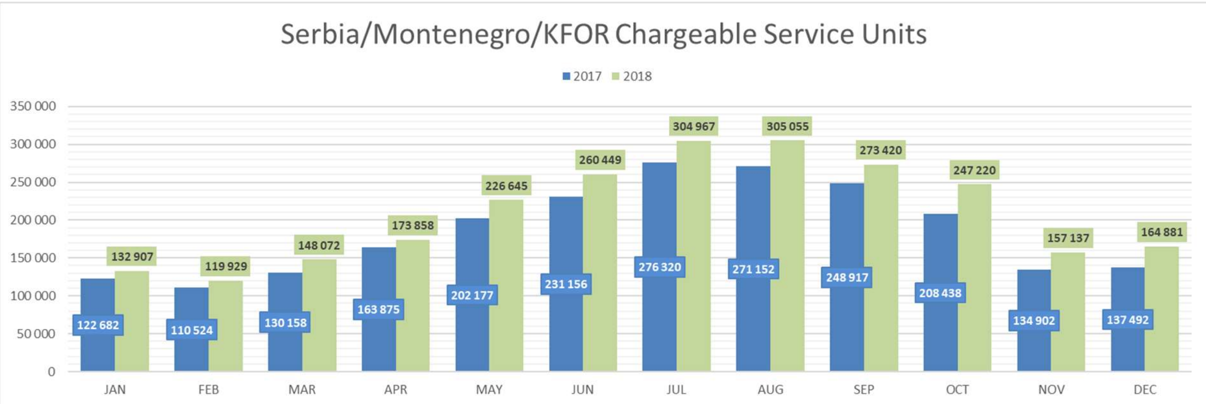
In 2018, in the en-route segment revenues grew 2% as compared to 2017 as a result of growth in traffic, while unit prices decreased by 10.4%. The increase in the number of chargeable service units was 9.1%, which is due to additional traffic avoiding the Ukrainian airspace, to the constant growth in northwest-southeast traffic, and also to the dynamic growth in the number of low cost and mainly charter flights. In 2018, the two main customers of en-route navigation services were Emirates Airlines and Turkish Airlines.



In the terminal segment, 2018 number of chargeable service units also showed a significant growth, there was a 14.4% increase as compared to 2017. The most significant factor was the dynamic increase in the number low cost flights at the Budapest terminal, most significantly the effect of new Balkan flights of Wizzair. The two most significant customers were Wizzair and Ryanair, 38% of terminal navigation revenues derived from them in 2018. In addition, the new North Atlantic flights of LOT had a significant share in the 2018 growth. The 14.5% traffic increase in the terminal segment, together with the unit rate decreased by 2.7%, resulted in total terminal revenues increased by 11.4%, as compared to 2017.



The service provided in the upper airspace over Kosovo is accounted on the basis of the common charging zone established with Serbia and Montenegro. Therefore, when analysing service units for the Kosovo service, the traffic of the whole charging zone has to be examined. Chargeable service units in the total charging zone showed an increase in each month, growing by 12.4% on a yearly basis. The reason for the increase, similarly to the increase in the Hungarian airspace, is the additional traffic avoiding the Ukrainian partially closed airspace, and the continuous increase in the number low cost and charter flights. The Serbian-Montenegro-KFOR common charging zone is operating in total cost recovery system, allocating revenues to the participants of the cost base is determined on the basis of shares in total cost base. 2018 revenues from the Kosovo segment showed a significant decrease of 27% when compared to 2017.



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 sold in cash flow hedge transactions. The reclassification from equity to comprehensive income as a reclassification adjustment of the effective amount of closed foreign currency derivatives that are used to hedge foreign currency cash flows are included in sales revenue together with the foreign exchange losses / gains realized on trade receivable.
The amount included in revenue as reclassification adjustment from equity is a loss of HUF 198,916 thousand in 2018, from which amount of HUF 273,218 thousand loss is the result of the derivatives closed, HUF 74,302 thousand gain is due to the exchange rate difference generated on trade receivables.
The total loss for 2017 was HUF 76,237 thousand, from which HUF 84,374 thousand loss was the results of the derivatives closed, HUF 8,137 thousand was the gain arisen on the exchange rate difference of trade receivables.

Further information on cash-flow hedges is included in the Note 14.6.

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. Personnel expenses

amounts in thHUF

	December 31, 2018	December 31, 2017
Wages and salaries	13 374 941	12 900 750
Social security	2 981 797	3 156 971
Other personnel expenses	1 040 401	1 189 722
Pension expenses and expenses from other long term benefits*	561 381	-197 978
Personnel expenses	**17 958 520**	**17 049 465**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

	December 31, 2018	December 31, 2017
Division of air traffic services	331	318
Division of communications, navigation and surveillance	38	57
Division of meteorological services	22	24
Division of technical development services	102	92
Support division*	264	252
Closing number of staff employed	**757**	**743**

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

Average number of employees of the Company was 721.7 in 2018 (2017: 735.6).

6.2. Operating expenses

amounts in thHUF

	December 31, 2018	December 31, 2017
Energy costs	242 543	226 983
Other materials used	125 850	166 632
Cost of materials consumed	**368 393**	**393 615**
Lease payment on state owned assets*	1 630 478	1 585 747
Eurocontrol member fees	1 347 040	1 245 659
Fees of liability insurance	854 473	955 576
Software maintenance fees	755 253	656 386
Trainings expenditure	751 351	719 627
Various other expenditures	717 927	616 803
Fees paid for authorities	609 395	611 780
Online service charges, charges for data transmission	526 666	493 796
Cost of meteorological services consumed	473 069	461 291
Maintenance fees	430 056	419 631
Expenditure on consultancy and fees of expert	400 588	449 223
Cost of advertisement and marketing campaigns	377 646	459 183
Safeguarding services	317 232	382 376
Travel and other costs incurred on missions abroad	289 175	266 579
Real estate rental fees	208 225	167 932
Rental fees of fixed assets	141 501	92 642
Charges paid for waste disposal and similar services	105 838	106 392
Other rental fees	24 257	25 464
Other expenditures	**9 960 170**	**9 716 087**
Total Operating expenses	**10 328 563**	**10 109 702**

** 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 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 classifies this contract as operative lease. The leasing fee is derived from the market value of the assets. This agreement is cancellable with a 6 months written notice.*

Accounting policies for leasing:

The determination of whether an arrangement is a lease, or contains lease elements, is based on the substance of the arrangement at inception date as to whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Company as a lessee:

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

In 2018 and 2017 the Company had no finance lease contracts.

Operating lease payments are recognized as an expense in the comprehensive income statement on a straight-line basis over the lease term.

At its foundation, HungaroControl has been appointed by the Hungarian State to fulfil air traffic control activities. For this activity the State has provided lands and buildings to the Company under an asset management contract. This agreement falls under the Leasing standard, the Company presents it as an operative lease.

Company as a lessor:

Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating lease. Initial indirect cost incurred while concluding an operating lease agreement are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

In 2018 and 2017 the Company had no finance lease contracts.

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

amounts in thHUF

	December 31, 2018	December 31, 2017
Within 1 year	230 378	230 074
1– 5 years	264 507	392 833
Over 5 years	-	22 213
Total	**494 885**	**645 120**

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

7. Other income (expense)

Accounting policies:

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.

Other income (expense) amounts in thHUF

	December 31, 2018	December 31, 2017
Deferred grants released	321 982	345 968
Other various income items	289 091	219 694
Grants related to expenses	130 044	121 182
Interest and other charges received on late payment	44 598	18 624
Costs of exempted flights reimbursable by the government authorities	0	336 386
Release of bad debt provisions	0	25 384
Total Other income	**785 715**	**1 067 238**
Expenses from charity activities and sponsorship	383 964	242 607
Reimbursement of expenses payable to Ministries	258 699	366 850
Allowances charged on bad debts*	245 459	458 489
Other various expense items	44 683	4 719
Building tax	35 605	35 605
Total Other expense	**968 410**	**1 108 270**
Total Other income / (expense)	**-182 695**	**-41 032**

** Balances of allowances charged on bad debts consist of allowances charged on trade receivables (HUF 98,963 thousand) as disclosed under Note 14.2, and the allowance on receivable from the asset management contract (HUF 146,496 thousand) as disclosed in Note 17.*

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 are available at www.hungarocontrol.hu.

The following table includes the balance sheet items from grants not closed by the balance sheet dates. Grant income is booked to income statement to the extent expenses has occurred, since the 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 liabilities in the balance sheet.

amounts in thHUF

	2018	2017
Accrued income	60 389	47 304
Advance payment received	466 094	413 521

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

amounts in thHUF

	2018	2017
Balances at January 1st	**1 521 160**	**1 712 158**
EU grants received during the year	0	154 970
Release of deferred grants	-321 982	-345 968
Balances at December 31st	**1 199 178**	**1 521 160**

The initial application of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from Contract with Customers) generated the following changes regarding Other revenues and Other expenses, as at 1 January 2018.

Presentation of Exempted flights:

The cost of Exempted flights settled by defined Ministries are presented in line 'Revenue from air navigation services' from 1 January 2018 instead of line 'Other expenses' in the financial statements as detailed in Note 5.

IFRS 9 Standard set out modified measurement requirements regarding allowance for impairment detailed in Note 14.

8. Finance result

Accounting policies:

Interest income:

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

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

Financial results amounts in thHUF

	December 31, 2018 (-) loss (+) gain	December 31, 2017 (-) loss (+) gain
Interest received and exchange difference on deposits and government bonds	169 852	216 050
Foreign exchange difference on year end revaluation	-37 411	-16 468
Swap points received on cash-flow hedges*	27 111	31 237
Ineffective part of cash-flow hedges*	9 548	27 596
Unwinding of discounts - long term employee benefits**	5	-4 535
Unwinding of discounts - other	258	1 849
Foreign exchange difference realised	-52 575	-28 152
Other various items	12 113	-7 892
Total results of financial activities	**128 901**	**219 685**

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

9. Investments in joint ventures

Accounting policies:

The 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.

The financial statements contain the amounts of HungaroControl and its joint ventures - Entry Point Central Ltd. (EPC Ltd.) and FAB CE Aviation Services Ltd. (FAB CE Ltd.) – using 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 Company is jointly controlled with the Swedish Entry Point North AB and owns 51% of the registered capital whereas HungaroControl owns 49%. The major governing policies are formed based on unanimous decisions of the quota holders. An exception is the appointment of the managing director where HungaroControl has priority quota. Based on this arrangement EPC Ltd. is considered to be a joint venture and 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. The Company is responsible for the support of the implementation of the FAB CE programme and for the professional management of various regional air navigation projects. The Company is jointly controlled by its members. FAB CE Aviation Services Ltd. is incorporated in Slovenia and keeps its books in EUR and according to the IFRS. The following table presents the data of FAB CE Aviation Services Ltd.:

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

Balances at the year ends were the following:

amounts in thHUF

	EPC Ltd.	FAB CE Ltd.	Total
Value January 1, 2017	**89 659**	**1 534**	**91 193**
Share from profit/loss for 2017	25 372	9	25 381
Other corrections	0	-5	-5
Value December 31, 2017	**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**

The assets and liabilities, income and expenses of EPC Ltd. and the Company's share thereof as at December 31, 2018 and 2017, are as follows:

EPC Ltd.'s balance sheet:

amounts in thHUF

	December 31, 2018	December 31, 2017
Non-current assets	5 665	6 064
Current assets	350 718	283 116
Non-current liabilities	0	0
Current liabilities	62 557	54 424
Equity	**293 826**	**234 756**

EPC Ltd.'s revenue and profit:

amounts in thHUF

	2018	2017
Revenue	729 542	706 755
Operating expenses	668 725	651 923
Financial income	4 095	2 137
Profit before taxes	**64 912**	**56 969**
Income tax expense	5 842	5 190
Profit for the year	**59 070**	**51 779**

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

amounts in thHUF

EPC Ltd.	
Profit of previous years	221 756
Profit for the year 2018	59 070
Total profit accumulated	280 826
Share from the realised profit (49%)	**137 605**
Impairment recognised on investment	0
Share from the results accumulated	**137 605**
Initial cost of investment	6 370
Investment value at the end of the reporting period	**143 975**

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 143,975 thousand at the end of 2018 (2017: HUF 115,031 thousand). The gain included in the 'Share from profit / loss of joint venture' line of the comprehensive income for the financial year 2018 is HUF 28,944 thousand (2017: HUF 25,372 thousand) regarding EPC Ltd.

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

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

FAB CE Aviation Ltd.'s balance sheet:

amounts in thHUF

	December 31, 2018	December 31, 2017
Non-current assets	300	133
Current assets	136 477	99 578
Current liabilities	107 944	71 841
Equity	**28 833**	**27 870**

FAB CE Aviation Ltd.'s revenue and profit:

amounts in thHUF

	2018	2017
Revenue	287 229	485 186
Other operating income	1	413
Operating expenses	287 234	485 427
Financial income	5	-16
Profit before taxes	**1**	**156**
Income tax expense	59	0
Profit for the year	**-58**	**156**

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

amounts in thHUF

FAB CE Aviation Services Ltd.	
Profit of previous years	-1 832
Profit for the year 2018	-58
Total profit accumulated	-1 890
Share from the realised profit (16.67%)	**-315**
Impairment recognised on investment	0
Share from the results accumulated	**-315**
Initial cost of investment	1 835
Revaluation of foreign operation	77
Investment value at the end of the reporting period	**1 597**

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

	December 31, 2018	December 31, 2017
Corporate tax	21 208	0
Local business tax	4 671	0
Innovation contribution	104	0
Current tax receivable	**25 983**	**0**
Corporate tax	0	5 404
Local business tax	0	252
Innovation contribution	0	72
Current tax liability	**0**	**5 728**

Income tax expense:

Current income tax and deferred tax expenses:

amounts in thHUF

	December 31, 2018	December 31, 2017
Current tax	1 585 633	1 672 965
Adjustments in respect of prior year	4 231	5 005
Deferred tax	-144 474	-152 796
Income tax expense	**1 445 390**	**1 525 174**

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

amounts in thHUF

	December 31, 2018	December 31, 2017
Profit on ordinary activities before tax	**6 920 569**	**8 142 151**
Tax on profit on ordinary activities at standard rate (9%)	622 851	732 794
Other income taxes corrected with the effect of corporate income tax rate	828 637	814 376
Total tax charge	**1 451 488**	**1 547 170**
Effect of different actual average tax rates used	-12 369	-7 842
Permanent differences	-3 224	-8 164
Effect of changes in statutory tax rates	0	0
Tax effect of prior year adjustments	4 231	5 005
Other tax effect	5 264	-10 995
Tax charge for year at an effective tax rate	**1 445 390**	**1 525 174**
Effective tax rate	**21%**	**19%**

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, 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 securities	-145	782	-76	-851
Provisions not included in tax base	401 181	2 158	64 433	334 590
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**

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

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) was 2%, whereas the rate of the innovation contribution 0.3% on the same tax base in both years.

Deferred taxes were calculated with income tax rate of 9% in 2018 and in 2017 as well.

From the balance above HUF 4,425 thousand deferred tax asset is expected to be reversed in one year, HUF 227,426 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.

Critical accounting estimates and judgements:

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

Typical amortization rules are stated as follows:

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

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

The table shows movements of intangible assets:

amounts in thHUF

	Property right	Software	Work in progress	Intangible assets
Net value at January 1, 2017	**7 451 186**	**54 502**	**124 137**	**7 629 825**
Gross value:				
January 1, 2017	24 051 255	310 002	124 137	24 485 394
Additions	0	0	2 800 951	2 800 951
Capitalization	461 258	421	-461 679	0
Disposals	-542	-3 149	-29 850	-33 541
Gross value at December 31, 2017	**24 511 971**	**307 274**	**2 433 559**	**27 252 804**
Depreciation:				
January 1, 2017	16 600 069	255 500	0	16 855 569
Additions	2 077 658	18 323	0	2 095 981
Disposals	-542	-3 149	0	-3 691
Depreciation at December 31, 2017	**18 677 185**	**270 674**	**0**	**18 947 859**
Net value at December 31, 2017	**5 834 786**	**36 600**	**2 433 559**	**8 304 945**
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**

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.

Critical accounting estimates and judgements:

The useful life and depreciation methods are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items property, plant and equipment.
The amortization period and the amortization method are reviewed annually at each financial year-end. Typical depreciation rules are stated as follows:

Type of asset	Depreciation
Assets in the course of construction	not depreciated
Land	not depreciated
Buildings	2.5 %
Other structures	2.5 %
Developments on leased property	6.0 %
Production machinery and equipment	14.5 %
Computer hardware	33.0 %
Vehicles	20 %
Furniture	10%

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

The table shows movements of property, plant and equipment:

amounts in thHUF

	Land and buildings	Technical equipment	Other equipment	Work in progress	Property, plant and equipment
Net value at January 1, 2017	**4 313 713**	**6 253 990**	**1 898 573**	**475 681**	**12 941 957**
Gross value:					
January 1, 2017	5 151 157	13 012 575	4 573 458	475 681	23 212 871
Additions	0	0	0	1 969 791	1 969 791
Capitalization	209 918	713 102	792 136	-1 715 156	0
Disposals	0	-122 946	-266 116	-29 251	-418 313
Gross value at December 31, 2017	**5 361 075**	**13 602 731**	**5 099 478**	**701 065**	**24 764 349**
Depreciation:					
January 1, 2017	837 444	6 758 585	2 674 885	0	10 270 914
Additions	240 132	1 099 290	598 179	0	1 937 601
Disposals	0	-122 946	-266 116	0	-389 062
Depreciation at December 31, 2017	**1 077 576**	**7 734 929**	**3 006 948**	**0**	**11 819 453**
Net value at December 31, 2017	**4 283 499**	**5 867 802**	**2 092 530**	**701 065**	**12 944 896**
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**

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

	December 31, 2018	December 31, 2017
Spare parts	24 734	26 938
Other materials	38 860	241
Inventories	**63 594**	**27 179**

The inventory balance for 2018 includes an impairment loss amounting of HUF 12 thousand (2017: HUF 5 thousand). No previously recognized impairment loss has been released for the years presented.

14. Financial instruments, capital and financial risk management

Accounting policies:

For financial instruments the Company applies IFRS 9 Standard from 1 January 2018. IFRS 9 replaces the requirements of IAS 39 for recognising and measuring financial assets and financial liabilities.

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 cashflows 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.

<u>Financial assets measured at fair value through other comprehensive income (FVTOCI)</u>
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.

<u>Financial assets measured at fair value through profit or loss (FVTPL)</u>
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:

<u>Financial liabilities measured at fair value through profit or loss (FVTPL)</u>
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.

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

Measurement of financial instruments under IAS 39 Standard before 1 January 2018:

Financial assets:

<u>Fair value at profit or loss (FVTPL)</u>
Financial assets are held for trading or initially designated as fair value through profit or loss, because they eliminate or significantly reduce a measurement or recognition inconsistency. Financial assets designated in this category cannot be reclassified to other category. At initial recognition they are recognised at fair value with any change in fair value in subsequent measurement are designated in profit or loss. If fair value turns into negative the financial asset must be presented in liabilities.

<u>Held to maturity investments (HTM)</u>
Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments, have fixed maturities and which the Company has the positive intention and ability to hold to maturity. After initial measurement held to maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative

amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment.

Loans and receivables (L&R)
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment.

Available-for-sale financial assets (AFS)
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available for sale financial assets are measured at fair value with unrealized gains or losses being recognized as other comprehensive income in the fair valuation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recorded as other comprehensive income is recognized in the income statement.

Financial liabilities:

Fair value through profit or loss (FVTPL)
Financial liabilities are held for trading (derivatives that are not used as hedging instruments) or financial liabilities that are irrevocably designated at fair value through profit or loss at initial recognition, because they eliminate or significantly reduce a measurement or recognition inconsistency. It is subsequently measured at fair value with any change in fair value designated in profit or loss.

Amortised cost (AC)
Other financial liabilities shall be measured at amortised cost.

The classification of the Company's financial instruments at 1 January 2018 is summarised in the following table.

amounts in thHUF

Financial assets	IAS 39	IFRS 9	Carrying amount under IAS 39	Adjustment on initial application	Carrying amount under IFRS 9
Other long term assets	L&R	AC	357 803	0	357 803
Trade receivables	L&R	AC	6 098 631	-23 977	6 074 654
Derivative financial instruments in designated hedge accounting relationships	FVTPL	FVTPL	61 052	0	61 052
Bank deposits HUF - over 3 months	L&R	AC	258 870	0	258 870
Government securities	HTM	AC	13 491 725	0	13 491 725
Government securities	AFS	AC	10 479 074	-8 684	10 470 390
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	L&R	AC	359 139	0	359 139
Cash and cash equivalents	L&R	AC	5 840 366	0	5 840 366
Total			**36 946 660**	**-32 661**	**36 913 999**

amounts in thHUF

Financial liabilities	IAS 39	IFRS 9	Carrying amount under IAS 39	Adjustment on initial application	Carrying amount under IFRS 9
Other long term liabilities	AC	AC	26 656	0	26 656
Trade payables	AC	AC	2 775 718	0	2 775 718
Derivative financial instruments in designated hedge accounting relationships	FVTPL	FVTPL	107 913	0	107 913
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	AC	AC	136 478	0	136 478
Total			**3 046 765**	**0**	**3 046 765**

Government securities (bonds) classified as AFS under IAS 39 are presented in AC category under IFRS 9, because the Company's objective is to held them in order to collect contractual cash flows and cash flows contain solely payments of principal and interest. Based on the new classification HUF -8,684 thousand is recognised in the opening Retained Earnings. Additional HUF 23,977 thousand allowance for impairment incurred in trade receivables at 1 January 2018 due to the modified approach for impairment recognition under IFRS 9 Standard.

The Company does not restate the amounts reported in previous periods, the differences arising due to the transition are presented in opening Retained Earnings at 1 January 2018. The impact on Reserves of adopting IFRS 9 Standard is the following:

amounts in thHUF

	Retained Earnings	Valuation reserve	Total reserves
Closing balance at December 31, 2017	**29 600 572**	**-45 873**	**29 554 699**
Expected credit loss under IFRS 9	-23 977	0	-23 977
Expected credit loss deferred tax	2 158	0	2 158
AFS government securities reclassification under IFRS 9	0	-8 684	-8 684
AFS government securities deferred tax	0	782	782
Adjusted balance at 1 January, 2018	**29 578 753**	**-53 775**	**29 524 978**

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.

IFRS 9 Standard requirements regarding allowance for impairment of financial instruments:
IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The Company applies the following credit qualification method based on IFRS 9 Standard for expected credit loss assessment:

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).

Cash flow hedges

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

The receivables for cost of flights exempted from charges (further on: "exempted flights") from the Hungarian State are recognised as short term and long term assets and are credited to revenue from air navigation services. 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 2018 was HUF 258 thousand (2017: HUF 1,849 thousand).

Outstanding balances of receivables from "exempted flights" and extended warranty are presented among non-current assets. The balances due are broken down:

amounts in thHUF

	December 31, 2018	December 31, 2017
Exempted flights		
Ministry of Defence	555 094	631 753
Ministry for Innovation and Technology	22 696	24 246
Ministry of Foreign Affairs	44 866	20 388
Total exempted flights	**622 656**	**676 387**
Due in one year	*336 644*	*340 001*
Due over one year	*286 012*	*336 386*
Extended warranty	**28 364**	**43 861**
Due in one year	14 714	22 444
Due over one year	13 650	21 417
Total due in one year	**351 358**	**362 445**
Total due over one year	**299 662**	**357 803**

HUF 340,001 thousand of the total outstanding balance was settled in 2018 (2017: HUF 339,057 thousand). Additional balance established for 2018 was HUF 286,012 thousand (2017: HUF 336,386 thousand).

In addition, the long-term part of the warranty extension purchased during 2018, in the value of HUF 13,650 thousand should be presented in this financial statement line. This warranty extension cannot be accounted in the cost of assets.

14.2. Trade receivables and other current assets

Accounting policies:

Trade and other receivables are recognized initially at fair value 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 from 1 January 2018.

Trade receivables can be sorted into the following four groups for which the default rates are reviewed 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. Users are classified in categories of active and inactive. The Company makes a provision of 100% for inactive users and applies the default rates defined by EUROCONTROL for active users. Default rates of the provision matrix are based on historical information. The Company computes the amounts of the default categories with given default rates from which realizes the allowances for impairment.

TNC segment: as the profile of the air space users are different in TNC and En-route segments, the default rates are determined by the Company itself in case of TNC users. Default rates are calculated as the average of last three years historical rates in case of each default category.

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

Exempted flights: The amount of trade receivables are 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

	December 31, 2018	December 31, 2017
Trade receivables	6 504 738	6 790 335
Intercompany receivable	280	385
Allowances	-669 877	-692 089
Total	**5 835 141**	**6 098 631**

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

The impact of initial application of IFRS 9 and IFRS 15 Standards regarding Trade receivables and Allowances are shown below. Under IFRS 9 expected credit loss model is applied, therefore the amount of loss allowances is increased by HUF 23,977 thousand. According to IFRS 15 standard the Company shall not recognize revenue if it is probable that the Company will not collect the consideration to which it is entitled to, that is why those receivables and the related loss allowances are derecognised in the amount of HUF 97,491 thousand.

amounts in thHUF

	Trade receivables	Allowances
Closing balance at December 31, 2017 under IAS 39 and IAS 18	**6 790 335**	**-692 089**
Adjustment on initial application of IFRS 9	0	-23 977
Adjustment on initial application of IFRS 15	-97 491	97 491
Adjusted balance at 1 January, 2018 undeer IFRS 9 and IFRS 15	**6 692 844**	**-618 575**
Movements in 2018	-188 106	-51 302
Closing balance at December 31, 2018	**6 504 738**	**-669 877**

Allowance for doubtful debts was the following:

amounts in thHUF

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	692 089	460 642
Adjustment on initial application of IFRS 9 and IFRS 15	-73 514	0
Adjusted balance at the beginning of the year	**618 575**	**460 642**
Increase in allowances	203 279	261 388
Decrease in allowances	-167 743	-29 203
Foreign exchange movement in the year	15 766	-738
Balance at end of the year	**669 877**	**692 089**

Ageing of the trade receivable balances:

amounts in thHUF

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**

amounts in thHUF

December 31, 2017	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	5 751 937	4 663 236	884 486	178 620	3 265	22 330
Under 1 months	228 645	218 206	275	9 882	282	0
Overdue, between 1 -3 months	137 013	131 550	0	5 366	97	0
Overdue, between 3-6 months	12 736	11 187	556	993	0	0
Overdue, between 6-12 months	20 322	18 348	1 309	665	0	0
Overdue, over 12 months	166 890	66 549	34 856	2 147	63 338	0
Insolvent	375 301	297 972	70 171	7 158	0	0
Total	**6 692 844**	**5 407 048**	**991 653**	**204 831**	**66 982**	**22 330**

Aged balances of allowances based on IFRS 9 Standard:

amounts in thHUF

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**	**-**	**11**

amounts in thHUF

December 31, 2017	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	8 502	7 845	354	303	0	0
Under 1 months	15 305	14 290	242	773	0	0
Overdue, between 1 -3 months	38 691	36 954	0	1 737	0	0
Overdue, between 3-6 months	5 168	4 467	209	492	0	0
Overdue, between 6-12 months	13 158	12 562	122	474	0	0
Overdue, over 12 months	162 450	63 789	33 362	1 961	63 338	0
Insolvent	375 301	297 972	70 171	7 158	0	0
Total	**618 575**	**437 879**	**104 460**	**12 898**	**63 338**	**-**

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

amounts in thHUF

	December 31, 2018	December 31, 2017
Short term receivables from exempted flights*	336 644	340 001
Value added tax	844 562	833 244
Changes in fair value of cash-flow hedges (gain)	122 985	61 052
Receivable from Eurocontrol - TNC sales	4 004	19 138
Other receivables	85 195	97 425
Bad debt allowances	-1 360	-1 376
Total other receivables	**1 392 030**	**1 349 484**
Accrued interest income on deposits fixed	7 921	472
Accrued income for grants received	60 389	47 304
Other income accrued	12 728	9 390
Total accrued income	**81 038**	**57 166**
Services prepaid	867 318	990 364
Total prepaid expenses	**867 318**	**990 364**
Other current assets	**2 340 386**	**2 397 014**

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

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

14.3. Cash and cash equivalents, other financial assets

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

amounts in thHUF

	December 31, 2018	December 31, 2017
Cash on hand	**868**	**1 243**
Current accounts HUF	940 688	1 042 053
Current accounts in foreign currency (EUR)	257 764	397 070
Fixed deposits HUF - under 3 months	5 000 000	4 400 000
Cash at banks	**6 198 452**	**5 839 123**
Cash and cash equivalents	**6 199 320**	**5 840 366**

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

amounts in thHUF

	December 31, 2018	December 31, 2017
Fixed deposits HUF - over 1 year	2 650 000	258 870
Invested financial assets	**2 650 000**	**258 870**
Financial assets held to maturity (government securities) with maturity over 1 year	15 475 721	11 518 526
Long term securities	**15 475 721**	**11 518 526**
Available for sale financial assets (government securities) with maturity above 3 months	0	10 479 074
Financial assets held to maturity (government securities) with maturity above 1 year	8 109 032	1 973 199
Short term securities	**8 109 032**	**12 452 273**
	0	0
Fixed deposits HUF - under 1 year over 3 months	2 709 195	0
Other financial assets	**2 709 195**	**0**

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.

In 2017 discount treasury bills and bonds issued by the Hungarian State in the amount of HUF 10,479 million were designated as assets available for sale at initial recognition. Other discount treasury bills and bonds were designated as held to maturity last year. Due to the transition to IFRS 9 Standard all of the securities are measured at amortised cost from 1 January 2018.

The following table shows the valuation of discount treasury bills and bonds under IAS 39 as they were designated as AFS for the year ended 31 December 2018.

amounts in thHUF

	Carrying amount	Valuation reserve
Government securities (AFS) at 1 January, 2018	**10 479 074**	**-8 684**
Government securities expired in 2018	-7 004 351	-39 747
Government securities as AFS category at 31 December, 2018 before valuation	**3 474 723**	**-48 431**
Amortisation in 2018	-28 230	0
Fair value change in 2018	-37 041	37 041
Value at 31 December, 2018 AFS under IAS 39	**3 409 452**	**-11 390**

Financial assets classified as AFS category under IAS 39 would have been presented at HUF 3,409,452 thousand at 31 December 2018, and HUF 37,041 thousand fair value loss would have been realized in other comprehensive income if the securities were not reclassified under IFRS 9 Standard.

14.4. Other long term liabilities

Balances at the dates presented were as follows:

amounts in thHUF

	December 31, 2018	December 31, 2017
EU grants received - long term part*	993 970	1 199 790
Long term liabilities payable to joint venture	4 262	4 112
Other long term liabilities	29 505	22 544
Other long term liabilities	**1 027 737**	**1 226 446**

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

14.5. Trade payables and other short term liabilities

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

amounts in thHUF

	December 31, 2018	December 31, 2017
Not due	1 827 657	2 771 765
Overdue, under 1 year	7 946	1 813
Overdue, between 1 - 5 years	2 090	2 140
Total trade payables	**1 837 693**	**2 775 718**

The Company settles trade payables within the payment term, and had no material overdue payables as of December 31, 2018 and 2017. The majority of overdue balances at the end of the periods presented are invoices of November and December paid early next year.

amounts in thHUF

	December 31, 2018	December 31, 2017
Trade payables - domestic	1 559 758	1 254 264
Trade payables - foreign	267 857	1 296 892
Intercompany payables	10 078	224 562
Total trade payables	**1 837 693**	**2 775 718**

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

	December 31, 2018	December 31, 2017
EU grants - advance payment received*	466 094	413 521
Amounts payable to pension funds and voluntary pension funds	318 277	379 309
Liabilities from social security	303 003	319 520
Personal income tax payable on behalf of the employees	244 555	260 499
Liability from enterprise licensing agreement	212 858	0
Other short term liabilities	49 272	62 711
Changes in fair value of cash-flow hedges (loss)**	11 953	107 913
Short term other liabilities towards various authorities	0	149 997
Liabilities arising on search and rescue operations	0	124 410
Total other payables	**1 606 012**	**1 817 880**
EU grants received - short term part*	205 208	321 370
Other deferred income	1 176	1 338
Total deferred income	**206 384**	**322 708**
Services, goods delivered but not invoiced till the year end	122 191	120 993
Total accrued expenses	**122 191**	**120 993**
Other short-term liabilities	**1 934 587**	**2 261 581**

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

14.6. Cash flow hedges

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

amounts in thHUF

Fair value of derivative financial instruments	December 31, 2018	December 31, 2017
Other current assets		
Derivative financial instruments in designated hedge accounting relationships		
Cash flow hedges - positive fair value	**122 985**	**61 052**
Other current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Cash flow hedges - negative fair value	**11 953**	**107 913**

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

14.7. Financial risk management

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

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

a) Fair value of financial instruments:

Financial assets:

amounts in thHUF

	Financial assets at amortised costs	Available for sale financial assets	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Other long term assets	299 662	0	0	299 662	299 662	0
Trade receivables	5 835 141	0	0	5 835 141	5 835 141	0
Derivative financial instruments in designated hedge accounting relationships	0	0	122 985	122 985	122 985	0
Bank deposits HUF - over 3 months	2 650 000	0	0	2 650 000	2 650 000	0
Government securities with maturity above 3 months	23 584 753	0	0	23 584 753	23 458 793	125 960
Other current assets excluding taxes, prepayments and accrued income,	340 648	0	0	340 648	340 648	0
Cash and cash equivalents	6 199 320	0	0	6 199 320	6 199 320	0
Total as per December 31, 2018	**38 909 524**	**0**	**122 985**	**39 032 509**	**38 906 549**	**125 960**
Other long term assets	357 803	0	0	357 803	357 803	0
Trade receivables	6 098 631	0	0	6 098 631	6 098 631	0
Derivative financial instruments in designated hedge accounting relationships	0	0	61 052	61 052	61 052	0
Bank deposits HUF - over 3 months	258 870	0	0	258 870	258 870	0
Government securities with maturity above 3 months	13 491 725	10 479 074	0	23 970 799	23 970 799	0
Other current assets excluding taxes, prepayments and accrued income,	359 139	0	0	359 139	359 139	0
Cash and cash equivalents	5 840 366	0	0	5 840 366	5 840 366	0
Total as per December 31, 2017	**26 406 534**	**10 479 074**	**61 052**	**36 946 660**	**36 946 660**	**0**

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

Financial liabilities:

amounts in thHUF

	Financial liabilities at amortised cost	Derivative financial instruments	Total carrying amount	Total fair value	Difference
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**
Other long term liabilities	26 656	0	26 656	26 656	0
Trade payables	2 775 718	0	2 775 718	2 775 718	0
Derivative financial instruments in designated hedge accounting relationships	0	107 913	107 913	107 913	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	136 478	0	136 478	136 478	0
Total as per December 31, 2017	**2 938 852**	**107 913**	**3 046 765**	**3 046 765**	**0**

Other long term liabilities line excludes government grants, furthermore the lines ‘other current assets’ and ‘other short term liabilities at amortized cost’ exclude taxes, accruals and prepayments with an amount presented under Note 14.5.

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

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

Other long term financial assets:
Other long term assets owed by government authorities 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, 2018 mainly contains the obligations from retention warranty of trade payable balances the same as of December 31, 2017. 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 the derivative financial instruments 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 2017: 98.8%). 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 ('t-1'). To mitigate the risk of movements in exchange rates between the date of determining the unit charges (average rate of 't-1') and the date on which the funds are remitted ('t+2') to HungaroControl, foreign currency forward contracts are concluded. The 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 (2018: 2.7%, 2017: 3.7%) 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:

	FX rates at year-end		Assets (in foreign currency)		Assets (in thHUF)	
	2018, December	2017, December	2018, December	2017, December	2018, December	2017, December
EUR	321.51	310.14	19 099 720	21 210 053	6 140 751	6 578 086
USD	280.94	258.82	133	57	37	15
GBP	355.25	349.48	0	415	0	145
Other					304	0

	FX rates at year-end		Liabilites (in foreign currency)		Liabilites (in thHUF)	
	2018, December	2017, December	2018, December	2017, December	2018, December	2017, December
EUR	321.51	310.14	2 318 718	5 659 937	745 491	1 755 373
USD	280.94	258.82	4 717	274	1 325	71
GBP	355.25	349.48	123	0	44	0
Other					5 113	0

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

Forward foreign exchange contracts

The 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, 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				
Expected Gain (+) Loss (-) (valuation reserve)	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

December 31, 2017	Revenue hedge (EUR sold)	Expenditure hedge (EUR bought)	Expenditure hedge (USD bought)	Total
Currency	EUR	EUR	USD	
Currency amount	-23 965 674	13 052 104	3 732 750	
HUF amount	-7 468 931	4 071 708	1 014 574	-2 382 650
Fair value of open forward contracts at year end				
Expected Gain (+) Loss (-) (valuation reserve)	33 327	-2 808	-63 803	-33 284
Ineffective part included in Profit and loss	61	-7 113	0	-7 052
Effective part included in Profit and loss	73	0	0	73
Effective part included in cost of assets	0	-4 870	0	-4 870
Interest income from swap points included in line item financial income	-1 806	0	0	-1 806
Total	31 655	-14 791	-63 803	-46 939

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 2018 and 2017:

amounts in thHUF

Amounts recognised in comprehensive income statement in relation to derivative financial instruments	December 31, 2018	December 31, 2017
Amount that was removed from equity and recognised in sales balance (- loss/ + gain)	-273 218	-84 374
FX change difference realised on hedged trade receivables and recognised in sales balance (- loss/ + gain)	74 302	8 137
Ineffective part of cash-flow hedges included in financial results (- loss/ + gain)	9 548	27 596
Interest recognised in profit and loss and included in financial results (swap points received)	27 111	31 237
Total gain (+)/loss (-) on cash-flow hedge transactions	**-162 257**	**-17 404**
Fair value change of open cash-flow forward contracts at year end included in other comprehensive income (fair value reserve at year end)	50 662	-33 285
Total result of cash-flow hedges included in equity balance	**-111 595**	**-50 689**

At year end the profit charged to other comprehensive income was HUF 83,947 thousand in 2018, while it was HUF 18,826 thousand loss in 2017.

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 (%)
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%
2017					
103%	319.44	197 343	-52 661	144 681	0.5%
100%	310.14	0	0	0	
97%	300.84	-197 343	52 661	-144 681	-0.5%

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 0.5% increase in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results in 2018 (the same figure is 0.5% as well regarding 2017) – 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 0.8% change in retained earnings for 2018, and 2017 as well.

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
2018			
103%	331.16	-78 966	-114 203
100%	321.51	0	0
97%	311.86	78 966	114 203
2017			
103%	319.44	-413	-364 161
100%	310.14	0	0
97%	300.84	413	364 368

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
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
2017				
103%	319.44	6 277 658	182 844	-39 997
100%	310.14	6 094 814	0	0
97%	300.84	5 911 970	-182 844	39 997

Year-end revaluation

The results of year end revaluation of items in the statement of financial position were as follows: HUF 37,411 thousand loss at the end of 2018 (2017: HUF 16,468 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 2019. 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:

	2018	2017
Annual Interest rate	**Amounts**	**Amounts**
HUF-deposits held	thHUF	thHUF
< 1%	10 350 000	4 650 000
Total	**10 350 000**	**4 650 000**
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 2017 or in 2018, 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, 2018 and 2017.
The table has been drawn up based on the earliest date on which the Company can be required to repay.

amounts in thHUF

	Overdue	Due within one year	Due between 1-5 years	Due over 5 years	Total
December 31, 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**
December 31, 2017					
Trade payables	3 953	2 771 765	0	0	2 775 718
Other liabilities	0	136 478	0	0	136 478
Other long term liabilities	0	0	22 544	4 112	26 656
Total	**3 953**	**2 908 243**	**22 544**	**4 112**	**2 938 852**

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	4 020	30 540	34 560
Balance as of December 31, 2017	**4 020**	**59 041**	**63 061**
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**

There were no movements in long term provisions in 2018.

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, 2017	**24 805**	**122 376**	**147 181**
Additional provisions created	4 020	30 540	34 560
Utilized during the year	-24 805	-122 376	-147 181
Balance as of December 31, 2017	**4 020**	**30 540**	**34 560**
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**

Other provisions include liabilities payable to the Ministry for Innovation and Technology and Ministry of Defence (2018: HUF 53,646 thousand, 2017: HUF 30,540 thousand), and provisions for other liabilities payable where a present obligation has arisen as a result of past event, the payment is probable and the amount can be estimated reliably.

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

16. Employee benefits

Accounting policies:

Defined benefit plans:

In 2013 the Company operated a 'Defined Benefit Plan'. 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 2018. 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 2018 HUF 4,376 thousand, in 2017 HUF 79,202 thousand was transferred to profit reserves.

Career plans:

In the Career plans within the framework of 'HungaroControl Career Plan' laid down by the Collective Agreement signed on 31 December 2013 and the 'Air Controller Career Agreement' signed on the same date, liabilities and expenses are recognized in the period in which the employee completed the services that give entitlement to the benefits from the state pension plan or from private and voluntary pension plans. With respect to these plans, the employer has assumed an obligation to make systematic contributions towards the employee's future retirement benefit but is not responsible for the future yields on the contributions made. The liabilities from Career plans are presented among other long term employee benefit plans.

Other long term employee benefit plans:

Except for the recognition of actuarial gains and losses, the initial and subsequent measurement of other long-term employee benefit plans is the same as the initial and subsequent measurement of post-employment benefit plans. Actuarial gains and losses are recognised in the statement of comprehensive income when they occur.

No specific contributions are made by the companies into a separate fund. The related future obligations should be determined in line with assumptions for inflation and wage increases, in addition to other demographical effects (such as mortality). The cash flows estimated on the basis of the previous assumptions are then discounted to the present value of the benefits and are presented in the Company's annual financial statements as a liability. Employees accumulate their entitlement from the beginning of the entitlement period until the date of payment. As a result, the Company members need to assess their liability only with respect to the period already served.

As provided in the 2013 amendment of section 132 of the Act CCV 2012 on the legal status of defence forces, the jubilee benefits of military service personnel commanded to do service at the Company , are to be borne by the 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

	December 31, 2018	December 31, 2017
Long term employee benefits	690 480	636 434
Short term employee benefits	4 469 766	3 676 242
Total employee benefits	**5 160 246**	**4 312 676**

Long term employee benefits

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

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

amounts in thHUF

	Termination benefits	Other employee benefits	Other short term employee benefits	Total
Present value at January 1, 2017	**420 140**	**2 559 634**	**1 348 321**	**4 328 095**
Current service cost	202 514	388 181	1 463 563	**2 054 258**
Interest costs	282	4 182	0	**4 464**
Used during the year	-179 931	-647 800	-1 348 321	**-2 176 052**
Change in discount rates	8 176	38 366	0	**46 542**
Net actuarial (gains)/losses	30 316	25 053	0	**55 369**
Present value at December 31, 2017	**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**
Short term part				4 469 766
Long term part				690 480

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 89,861 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 2018 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

	December 31, 2018	December 31, 2017
Actual death and turnover	15 721	18 270
Effect of changes in discount rate	-8 814	46 542
Changes in expected salary increase	10 599	11 583
Changes in the amount of expected settlements	-89 861	0
Actual exit probability versus estimated	-12 022	-105
Regulatory changes of contribution allowance	0	-3 688
Effect of changes in retiring date	0	0
Other	-19 416	29 309
Total	**-103 793**	**101 911**
Included in other comrehensive income	0	0
Included in profit and loss statement	103 793	-101 911

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 2018. 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 2018 are 0.33% regarding balances due within 1 year, in 2017 rates were around 0%, so balances within 1 year were not discounted.
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 2016 to 2017 the year end value of the obligations increased by HUF 46,542 thousand, since between 2017 and 2018 the year-end balance decreased by HUF 8,814 thousand.

Actuarial gains and losses arising from changes in assumptions

Actual versus estimated exit probability: exit assumptions for 2018 were determined by using historical data regarding the last 8 years resulting in the following rates. These are presented below broken down by categories of personnel (averages):

- 2018: Non-air navigational employees: 6.12%, air navigational employees: 0.21%.
- 2017: Non-air navigational employees: 5.68%, air navigational employees: 0.24%.

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 2023. In relation to the new scheme the effect of salary increases are very limited and are only relevant for the occupational accidents balance. Following 2023 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

	December 31, 2018	December 31, 2017
Short term part of post employment benefits and other long term employee benefits	2 720 009	2 212 679
Salaries payable for December	695 888	647 231
Bonuses payable on a short-term basis	43 444	42 699
Short-term compensated absences	102 016	77 313
Other	908 409	696 320
Total	**4 469 766**	**3 676 242**

The most significant item of Other line is the compensation for year-end performance valuation in the amount of HUF 573,949 thousand in 2018, HUF 314,872 thousand in 2017. In addition Other line contains the liability arisen from inflationary correction compensation in the amount of HUF 162,061 thousand in 2018, HUF 126,598 thousand in 2017. Other line is increased in 2018 with the amount of a so-called 'retention benefits' that is HUF 171,059 thousand; the liability did not exist in 2017. Other line contained in 2017 the liabilities regarding employment terminations in the amount of HUF 246,198 thousand; in 2018 this kind of liability did not arise.

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 from, or has obligations to pay to, are the Ministry for Innovation and Technology, Ministry of Defence, Hungarian National Asset Management Inc., the National Transport Authority, MVM Partner Energiakereskedő Ltd. and Hungarian Meteorological Service.

- The founder's and owner's rights are exercised by the Minister without portfolio for the management of national assets. The dividend paid to the ministry was HUF 1,000,000 thousand in 2018 and HUF 1,000,000 thousand in 2017.

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 decided to classify the usage right of these specified assets as operative lease. The lease payment in 2018 was HUF 1,630,478 thousand (HUF 1,585,747 thousand in 2017).
  According to the agreement the Company is obliged to keep the assets at their original nominal value by restoring, replacing and improving them counterbalancing the loss in usage values. The liability to keep the state owned assets at their original nominal value ("replacement obligation") was disclosed at the beginning among long term liabilities. The related regulation was amended with an effective date of 28 June 2013 resulting in the release of the replacement obligation. The accumulated replacement obligation was settled by agreements signed in 2017, thus the value of current year construction and renovation on state owned assets is accounted for among receivables. However, as the return of this receivable is uncertain, because the agreement necessary to settle the receivable balance is not signed yet, an allowance equal to the receivable balance was charged. (In 2018 an allowance of HUF 146,496 thousand, in 2017 an allowance of HUF 197,100 thousand was provided for, as described in Note 7.) In 2018 the Company reversed an allowance of HUF 250,563 thousand recognised in the years 2015 and 2017 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 (2018: HUF 500,000 thousand – 2017: HUF 500,000 thousand), the supervisory fee of air navigation services over Kosovo (2018: HUF 100,585 thousand, 2017: HUF 101,576 thousand), other license fees (2018: HUF 8,612 thousand, 2017: HUF 9,718 HUF), air navigation service related administration fees (2018: HUF 222,763 thousand, 2017: HUF 346,449 thousand).

Further transactions considered to be significant in terms of size:

- The Company purchases energy from **MVM Partner Energiakereskedő Ltd**. (2018: HUF 136,906 thousand, 2017: HUF 120,139 thousand).
- The Company purchases meteorological data from the **Hungarian Meteorological Service** (2018: HUF 473,069 thousand, 2017: HUF 461,291 thousand).
- Subsidiary of the Ministry of Defence, **HM EI Ltd**. provides security and cleaning services to the Company (2018: HUF 204,889 thousand, 2017: HUF 279,090 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

	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**
	Balance as per December 31, 2017	**Balance paid off**	**Credited to Financial income**	**Credited to Other income**	**Balance as per January 1, 2017**
Ministry of Defence	**631 753**	305 003	1 691	305 211	**629 854**
Ministry for Innovation and Technology	**24 246**	14 119	71	10 787	**27 507**
Ministry of Foreign Affairs	**20 388**	19 936	87	20 388	**19 849**
Total	**676 387**	**339 058**	**1 849**	**336 386**	**677 210**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2018 and in 2017 no provisions have been made for doubtful debts in respect of amounts owed by related parties.

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

Transactions with joint ventures:

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

The transactions with EPC Ltd. are disclosed fully:

amounts in thHUF

Transactions with EPC	December 31, 2018	December 31, 2017
Amounts presented in Statement of Comprehensive Income		
Sales of management services	35 529	34 293
Purchases of training services	628 882	632 287
Amounts presented in Financial Position		
Amounts owed by related parties	280	385
Amounts owed to related parties - long term	4 263	4 112
Amounts owed to related parties - short term	0	3 415

Transactions with FAB CE Aviation Ltd. include purchase of professional support and management services (2018: HUF 62,056 thousand, 2017: HUF 95,396 thousand).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2018 and in 2017 no provisions have been made for doubtful debts in respect of amounts owed by related parties.

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

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

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

Financial year 2018 - Amounts in thHUF

	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits
Remuneration of Board of Directors	31 788	0	0	0
Remuneration of the Supervisory Board	56 583	0	0	0
Remuneration of key management personnel*	341 960	582	0	218
Total	**430 331**	**582**	**0**	**218**

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

Financial year 2017 - Amounts in thHUF

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

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

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.
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, 2018	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2018
underrecoveries from 2014, Kosovo segment	17 958	-71 827	0	89 785
underrecoveries from 2016, En-route segment	67 223	-441 989	0	509 212
underrecoveries from 2016, TNC segment	0	-40 217	0	40 217
underrecoveries from 2017, En-route segment	1 010 238	0	0	1 010 238
underrecoveries from 2017, TNC segment	158 456	0	0	158 456
underrecoveries from 2018, En-route segment	1 865 661	0	1 865 661	0
underrecoveries from 2018, TNC segment	359 262	0	359 262	0
Total underrecovery carried over	**3 478 798**	**-554 033**	**2 224 923**	**1 807 908**

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, 2018	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2018
overrecoveries from 2014, En-route segment	39 368	-31 496	0	70 864
overrecoveries from 2014, TNC segment	0	-448 718	0	448 718
overrecoveries from 2014, Kosovo segment	0	-32 338	0	32 338
overrecoveries from 2015, Kosovo segment	0	-123 235	0	123 235
overrecoveries from 2016, En-route segment	500 943	-5 306 990	0	5 807 933
overrecoveries from 2016, TNC segment	178 742	-817 321	0	996 063
overrecoveries from 2016, Kosovo segment	79 799	-319 198	0	398 997
overrecoveries from 2017, En-route segment	7 641 698	-359 586	0	8 001 284
overrecoveries from 2017, TNC segment	1 261 588	0	0	1 261 588
overrecoveries from 2017, Kosovo segment	49 847	0	0	49 847
overrecoveries from 2018, En-route segment	11 024 827	0	11 024 827	0
overrecoveries from 2018, TNC segment	2 050 959	0	2 050 959	0
overrecoveries from 2018, Kosovo segment	98 152	0	98 152	0
Total overrecovery carried over	**22 925 923**	**- 7 438 882**	**13 173 938**	**17 190 867**
Contingent liability from non-controllable costs	807 971	-1 452 719	807 971	1 452 719
Contingent liability from capacity related incentive scheme	147 164	0	147 164	0
Total contingent liability from cost base mechanism	**23 881 058**	**- 8 891 601**	**14 129 073**	**18 643 586**

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	
26.06.2018-02.09.2019	17 709	bank guarantee given for rental fee payment
Guarantees given	**17 709**	
14.12.2015-29.01.2019	3 452	bank guarantee received in relation to investment projects
10.07.2018-03.03.2019	23 100	bank guarantee received in relation to investment projects
01.06.2016-01.07.2019	79 909	bank guarantee received in relation to investment projects
04.08.2016-21.08.2019	681	bank guarantee received in relation to investment projects
01.09.2017-.02.09.2019	75 000	bank guarantee received in relation to investment projects
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	1 340	maintenance bond received in relation to investment projects
08.02.2018-05.01.2023	6 172	maintenance bond received in relation to investment projects
07.12.2017-20.01.2023	6 993	maintenance bond received in relation to investment projects
15.06.2018-18.05.2023	660	bank guarantee received in relation to investment projects
Guarantees received	**234 477**	

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 2018 were HUF 234,477 thousand (2017: HUF 237,598 thousand).

19. Capital risk management

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

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

20. Events after the reporting period

The financial statements of the Company for the year ended at December 31, 2018 prepared in conformity with International Financial Reporting Standards (IFRS) are authorized in accordance with the resolution of the CEO on 11 June 2019.

Budapest, 11 June 2019

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Chief Executive Officer