FINANCIAL STATEMENTS

for the year ended December 31, 2023

in accordance with International Financial Reporting Standards (IFRS)

Budapest, 12 June 2024

HUNGAROCONTROL
FINANCIAL STATEMENTS
DECEMBER 31, 2023

CONTENTS

Liability Declaration

The Company records and prepares its financial statements primarily in accordance with Hungarian Accounting Standards.

In addition, pursuant to Article 12 (1) of Regulation (EC) No 550/2004 of the European Parliament and of the Council (10 March 2004) on the provision of air navigation services in the single European sky (the service provision Regulation), regardless of the ownership or legal form, the air navigation service providers are also required to prepare, submit for audit and publish their financial accounts in accordance with International Financial Reporting Standards (IFRS) adopted by the Community, as required by Regulation (EC) No 1606/2002 of the European Parliament and of the Council (19 July 2002) on the application of international accounting standards.

The IFRS Financial Statements of HungaroControl Plc. for the year 2023 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), thereby complying with the above-mentioned regulations of the European Parliament and of the Council.

On behalf of HungaroControl Plc., I declare that the Financial Statements for the year 2023 prepared in accordance with IFRS as adopted by the EU, contains true and fair view and does not omit any material facts relevant to the assessment of the Company's position.

The Financial Statements for the year 2023, prepared to our best knowledge in accordance with the applicable accounting standards, give a true and fair view of the Company's assets, liabilities, financial position and profit or loss. In addition, informations published give a true and fair view of the Company's position, developments and performance, together with a description of the main risks and uncertainties.

Budapest, 12 June 2024

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Chief Executive Officer

Deloitte.

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Registered by the Capital Court of Registration
Company Registration Number: 01-09-071057

translation of the Hungarian original

INDEPENDENT AUDITOR'S REPORT

To the Shareholder of HungaroControl Hungarian Air Navigation Services Plc.

Opinion

We have audited the financial statements in accordance with International Financial Reporting Standards (IFRS) of HungaroControl Hungarian Air Navigation Services Plc. (the „Company") for the year 2023 which comprise the statement of financial position as at December 31, 2023 – which shows a total assets of mHUF 105,977 –, and the related statement of recognized income, statement of comprehensive income – which shows a comprehensive income for the year of mHUF 17,704 –, statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2023 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (the „EU IFRS).

Basis for Opinion

We conducted our audit in accordance with the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits. Our responsibilities under these standards are further described in the "*The Auditor's Responsibilities for the Audit of the Financial Statements*" section of our report.

We are independent of the Company in compliance with the relevant effective Hungarian regulations and the "Rules of conduct (ethical rules) of the auditor profession and the disciplinary process" of the Chamber of Hungarian Auditors and, in respect of matters not regulated therein, the Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the same ethical requirements.

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

Other Information

The previous year's financial statements were audited by another auditor. The auditor's report issued on May 31, 2023, contained an unqualified audit opinion.

The Company prepared the attached financial statements to comply with Regulation (EC) No 550/2004 of the European Parliament and of the Council of 10 March 2004. Our auditor's opinion is prepared only for this purpose and may not be used for other purposes.
To comply with its disclosure obligation under Hungarian Act C of 2000 on Accounting (hereinafter: "Accounting Act"), the Company also prepared the financial statements in accordance with the Accounting Act for the reporting date of December 31, 2023, for which we issued an unqualified auditor's report on May 2, 2023.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with EU IFRSs and for the preparation of the financial statements in accordance with provisions of the Accounting Act relevant to entities preparing financial statements in accordance with EU IFRSs, 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.

The Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives during the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue, on the basis of the above, 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits will always detect a material misstatement when it exists. Misstatements can arise from fraud or error, and they 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 the Hungarian National Standards on Auditing and the effective Hungarian laws and other regulations on audits, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the 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 the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the 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 the Company's internal control that we identify during the audit.

Budapest, 12 June 2024

The Hungarian original has been signed.

Attila Molnár
on behalf of Deloitte Auditing and Consulting Ltd.
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.
1068 Budapest, Dózsa György út 84/C.
Registration number: 000083

Registration number of statutory registered auditor: 007379

HUNGAROCONTROL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2023

amounts in million HUF

Description	Notes	December 31, 2023	December 31, 2022
Intangible assets	11	18,152	15,655
Property, plant and equipment	12	28,083	28,060
Investments in joint ventures	9	28	73
Long term securities	14.3	3,608	2,465
Long term trade receivables	14.1	374	377
Other long term assets	14.1	67	301
Deferred tax asset	10	1,092	972
Non-current assets		**51,404**	**47,903**
Inventories	13	22	29
Trade receivables	14.2	9,755	10,460
Other current assets	14.2	4,010	5,571
Current tax receivable	10	59	0
Short term securities	14.3	23,692	45
Other financial assets	14.3	15	6,811
Cash and cash equivalents	14.3	17,020	10,516
Current assets		**54,573**	**33,432**
TOTAL ASSETS		**105,977**	**81,335**
Share capital	1.1	20,202	20,202
Reserves		38,845	29,141
Shareholder's equity		**59,047**	**49,343**
Long term provisions	15	7	7
Long term employee benefits	16	5,905	4,579
Long term leases	14.4	10,483	11,181
Other long term liabilities	14.4	1,289	1,149
Non-current liabilities		**17,684**	**16,916**
Short term credits	14.5	14,000	0
Short term leases	14.5	952	573
Trade payables	14.5	4,034	4,465
Short term provisions	15	81	760
Short term employee benefits	16	4,258	3,716
Current tax liability	10	532	2,012
Other short-term liabilities	14.5	5,389	3,550
Current liabilities		**29,246**	**15,076**
TOTAL LIABILITIES		**46,930**	**31,992**
TOTAL EQUITY & LIABILITIES		**105,977**	**81,335**

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

HUNGAROCONTROL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2023

amounts in million HUF

Description	Notes	2023	2022
Revenue from air navigation services	5	59,470	60,072
Other revenue	5	235	307
Revenue		**59,705**	**60,379**
Personnel expense	6.1	24,133	20,909
Operating expense	6.2	12,732	10,222
Depreciation, depletion, amortization and impairment	11, 12	6,344	6,292
Other income	7, 14.2	903	858
out of this: Release of bad debt provisions		*202*	*0*
Other expense	7, 14.2	950	1,158
out of this: Allowances charged on bad debts		*238*	*303*
Loss from other activities		**(47)**	**(300)**
Operating expense		**43,256**	**37,723**
OPERATING PROFIT		**16,449**	**22,656**
Financial income	8	5,827	2,879
out of this: Interest revenue calculated using the effective interest method		*3,809*	*1,423*
Financial expense	8	1,713	1,261
Profit from financial activities		**4,114**	**1,618**
Share from profit / loss of joint venture	9	16	14
PROFIT BEFORE TAX		**20,579**	**24,288**
Income tax expense	10	2,197	2,323
PROFIT FOR THE YEAR		**18,382**	**21,965**
Attributable to equity holder of the parent		**18,382**	**21,965**
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to Comprehensive income			
Gain / loss (-) on cash flow hedges	14.7	(678)	322
Other comprehensive income, net of tax		**(678)**	**322**
TOTAL COMPREHENSIVE INCOME		**17,704**	**22,287**
Attributable to equity holder of the parent		**17,704**	**22,287**

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

HUNGAROCONTROL
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2023

amounts in million HUF

Description	Notes	Share capital	Retained earnings*	Valuation reserve**	Total reserves	Total shareholder's equity
Opening balance at 1 January, 2022		**20,202**	**7,556**	**98**	**7,654**	**27,856**
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	**10, 16, 14.7**	0	0	322	**322**	**322**
Profit for 2022		0	21,965	0	**21,965**	**21,965**
Total comprehensive income		**0**	**21,965**	**322**	**22,287**	**22,287**
Dividends***			(800)		**(800)**	**(800)**
Closing balance, 31 December, 2022		**20,202**	**28,721**	**420**	**29,141**	**49,343**
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	**10, 16, 14.7**	0	0	(678)	**(678)**	**(678)**
Profit for 2023		0	18,382	0	**18,382**	**18,382**
Total comprehensive income		**0**	**18,382**	**(678)**	**17,704**	**17,704**
Dividends***			(8,000)	0	**(8,000)**	**(8,000)**
Closing balance, 31 December, 2023		**20,202**	**39,103**	**(258)**	**38,845**	**59,047**

** Retained earnings include accumulated net profit or loss less dividends paid.*
*** The change in the fair value attributable to the effective portion of cash flow hedges is recognized in other comprehensive income as hedge reserve. At the closing of the transaction, the change in fair value recognized in other comprehensive income has been transferred to the appropriate line in the comprehensive income statement.*
**** The amount of dividend per share is HUF 39,601 in 2023 (HUF 3,960 in 2022).*

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

HUNGAROCONTROL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

amounts in million HUF

Description	Notes	2023	2022
OPERATING ACTIVITIES			
Profit before tax		**20,579**	**24,288**
Depreciation and amortization	**11, 12**	6,339	6,267
(Gain)/Loss on sale of property, plant & equipment	**11, 12**	(10)	(9)
Impairment/Scrapping/Transfer free of charge/Subsidisation of Fixed Assets	**11, 12**	6	25
Short-term lease payments, payments for leases of low-value assets	**6.2**	26	36
Impairment/Scrapping of Inventory	**13**	8	7
Increase/ (decrease) in provisions	**15**	(679)	31
Interest income	**14.3, 14.6**	(5,474)	(2,591)
Increase in provision for bad debts	**14.2**	(63)	303
Share of (income) from joint ventures	**9**	(17)	(14)
Unrealized foreign exchange (gains)/losses	**14.7**	(123)	240
(Gains)/losses from other non-cash transactions	**14.3, 14.6**	(93)	33
Total pre-tax profit-modifying items		**(80)**	**4,328**
Changes in working capital			
(Increase)/ decrease in Accounts receivable and other current assets	**14.2**	3,150	(7,428)
(Increase)/ decrease in Inventory	**13**	(2)	1
Increase/ (decrease) in Accounts payable, long term liabilities and accruals	**14.5**	5,093	2,933
Income taxes paid	**10**	(3,856)	(438)
Total changes in working capital		**4,385**	**(4,932)**
Net cash from operating activities		**24,884**	**23,684**
INVESTING ACTIVITES			
Purchase tangible assets and intangibles	**11, 12**	(9,737)	(10,439)
Proceeds on disposal of property, plant & equipment	**7**	10	10
Purchase of financial assets	**14.3**	(24,797)	(6,564)
Sale of financial assets	**14.3**	6,796	0
Dividend received	**9**	61	0
Interest received	**14.3, 14.6**	4,753	2,536
Net cash used in investing activities		**(22,914)**	**(14,457)**
FINANCING ACTIVITIES			
Cash payments for the principal portion of the lease liability	**14.4**	(371)	(3,782)
Drawdown of borrowings	**14.5**	34,438	15,019
Repayment of borrowings	**14.5**	(20,438)	(15,019)
Interest paid	**8, 14.4**	(1,097)	(991)
Dividend paid	**14.5**	(8,000)	(800)
Net cash used in financing activities		**4,532**	**(5,573)**
Increase/(decrease) in cash and cash equivalents		**6,502**	**3,654**
Cash and cash equivalents at beginning of year		10,516	6,880
Exchange rate loss on cash and cash equivalents		2	(18)
Cash and cash equivalents at end of year	**14.3**	**17,020**	**10,516**

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 20,202 million, comprising 20,200 Series 'A' stocks of HUF 1,000,000 face value each and 16 Series 'B' stocks of HUF 100,000 face value each. The registration number of the Company is Cg. 01-10-045570. Registered seat of the Company is H-1185 Budapest, Igló u. 33-35., Hungary. Webpage: https://www.hungarocontrol.hu.

1.2. Governance

HungaroControl is 100% owned by the N7 Holding National Defence Industrial Innovation Plc. The Hungarian State has direct ownership over the N7 Holding National Defence Industrial Innovation Plc. and thereby has indirect ownership over HungaroControl Plc.
N7 Holding National Defence Industrial Innovation Plc. prepares consolidated financial statements in accordance with IFRS from 2023 onwards in which the financial data of HungaroControl Plc. are fully included. The consolidated financial statements are available at the following location of the parent company: 1113 Budapest, Dávid Ferenc Street 4-6.
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.

The financial statements are prepared under the historical cost convention on going concern basis. The financial statements are presented in million 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 million except when otherwise indicated.

The Financial Statements contain:
- Statement of Financial Position,
- Statement of Comprehensive Income,
- Statement of Changes in Shareholder's Equity,
- Statement of Cash flows, and an integral part in addition
- The accompanying Notes to the Financial Statements.

2.2. The relationship between domestic legislation and IFRS regulation

The Company records and prepares its financial statements primarily in accordance with Hungarian Accounting Standards. Some of the principles prescribed by Hungarian legislation differ from the principles adopted by the Europen Union under IFRS. In order to present the Company's financial position and results of operation in accordance with the standards and interpretations approved by the International Accounting Standards Board (IASB), the following adjustments have been made to the financial statements prepared in accordance with Hungarian standards.

amounts in million HUF

Differences between Hungarian and international financial statements	Reserves 1 January 2023	Profit for the year 2023	Dividend	Movements in Reserves directly	Reserves 31 December 2023
Financial statements according to Hungarian Accounting Standards	**29,663**	**15,314**	**(8,000)**	**(1,029)**	**35,948**
Impact of deferred tax	1,037	120	0	0	1,157
Differences arising from recognition of short-term employee benefits and provisions	699	2,503	0	0	3,202
Differences arising from the discounting of long-term employee benefits	352	294	0	0	646
Other differences arising from discounting and recognition requirements	48	(103)	0	0	(55)
Differences arising from hedge accounting	0	(1,029)	0	1,029	0
Differences arising from intangible and tangible items	(245)	(427)	0	0	(672)
Contingent receivables and liabilities - Differences arising from Under- and overrecovery balances	(1,147)	1,561	0	0	414
Differences arising from requirements under Lease standard	(1,266)	(529)	0	0	(1,795)
Financial statements according to International Accounting Standards	**29,141**	**17,704**	**(8,000)**	**0**	**38,845**

2.3. 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 million 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 judgements 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.

Significant accounting judgements, estimates and assumptions:

- Business model assessment: Financial assets are classified and measured on the basis of business model and contractual cash flow characteristics (Note 14 Accounting policy). The Company monitors whether there has been a change in the business model and whether a change in the classification of a financial asset is necessary. In the periods presented there was not required any change in the classification.
- Significant increase in credit risk: In respect of the financial instruments presented under Note 14.3, the Company has determined the recognition of 12-month expected credit loss according to low credit risk. The Company monitors on an ongoing basis whether credit risk has increased significantly, as explained under Note 14 Accounting policy section. In the periods presented there was not required any adjustment.
- Judgement in identifying whether a contract is a lease: The Company examines each lease contract to determine whether the contract is a lease, as described under Note 14.4. Lease contracts are accounted for in accordance with IFRS 16 standard.
- Determination of discount rates: Regarding lease contracts, the value of the implicit interest rate can not be easily determined, therefore the Company applies incremental interest rates based on IFRS 16 standard, taking into account the factors described under Note 14.4.
  Receivables from flights exempted are discounted by risk-free interest rates as described under Note 5 and 14.1.
  For the determination of the discounted value of employee benefits (Note 16), the Company uses external actuarial services, and uses forward rates calculated from the following resources: reference yields published by the National Bank of Hungary (MNB), risk-free interest rates and government bond reference yields published by the Government Debt Management Agency Plc. (ÁKK).
- Impairment test: When assessing intangible assets for impairment, the Company determines whether an impairment loss should be recognised based on technological and business considerations of past and future factors. No impairment loss has been recognised in the periods presented.
  The right-of-use assets are fully utilised, therefore no impairment loss has been recognised.
  In case of trade receivables the Company calculates the amount of loss allowance as described under Note 14.2.

- Significant influence over Associate: As described under Note 9., the Company has a 49% ownership in EPC Ltd. and has a priority right to elect the managing director, so EC Ltd. is qualified as an associated company.
- Capitalisation of borrowing costs: The Company did not capitalize any borrowing cost for the years presented because the amounts borrowed were not related to acquisition of qualifying assets. If future borrowings relate to acquisition of a qualifying asset, borrowing costs will be capitalised.

The effect of a change in an accounting estimate, shall be recognised in the period of the change or in future periods, depending on whether the change affects only the current financial year or also affects profit/loss in future periods.

4. Regulatory environment

4.1. Application of IFRS (IAS) standards and interpretations

New and amended IFRS Accounting Standards that are effective for the current year:

- Amendments to IFRS 17 'Insurance Contracts': Initial application of IFRS 17 and IFRS 9 – Comparative informations – effective from 1 January 2023. The amendment has no material impact on the Financial Statements of the Company.
- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2': Disclosure of accounting policies – effective from 1 January 2023. The amendment has no material impact on the Financial Statements of the Company.
- Amendments to IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors': Definition of accounting estimates – effective from 1 January 2023. The amendment has no material impact on the Financial Statements of the Company.
- Amendments to IAS 12 'Income Taxes': Deferred Tax related to assets and liabilities arising from a single transaction – effective from 1 January 2023. The amendment has no material impact on the Financial Statements of the Company.
- Amendments to IAS 12 'Income Taxes': International Tax Reform – Pillar Two Model Rules – effective from 1 January 2023. The amendment has no material impact on the Financial Statements of the Company.

The following new and revised IFRS Accounting Standards are issued and adopted by the European Union that are not yet effective.:

- Amendments to IFRS 16 'Lease': Lease Liability in a Sale and Leaseback - effective from 1 January 2024. The amendment has no material impact on the Financial Statements of the Company.
- Amendments to IAS 1 'Presentation of Financial Statements': Classification of Liabilities as Current or Non-Current and Non-Current Liabilities with Covenants- effective from 1 January 2024. The amendment has no material impact on the Financial Statements of the Company.

Standards and interpretations are in issue but not adopted by 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.

- Amendments to IAS 7 'Statement of Cash Flows' and IFRS 17 'Insurance Contracts' – Disclosures: Supplier Finance Arrangements – effective from 1 January 2024 - The amendment is not expected to have material impact on the Financial Statements of the Company.
- Amendments to IAS 21 'The effects of changes in foreign exchange rates' – Lack of Exchangeability – effective from 1 January 2025 - The amendment is not expected to have material impact on the Financial Statements of the Company.

4.2. ESG – Environmental, Social and Governance

HungaroControl has always been committed to environmentally friendly and sustainable operations. In addition, a Corporate Social Responsibility (CSR) policy has already been implemented. However, there are new requirements to fulfil in order to ensure ESG compliance.
In Hungary, the new, ESG-related obligations are set out in Act CVIII of 2023 (ESG Act). According to the ESG Act, HungaroControl will have to comply with the respective requirements from the financial year 2025 and the first ESG reports – including the ESRS accounting sustainability report - will have to be submitted in 2026.
In order to ensure compliance with the ESG Act from 2025, HungaroControl has already started the necessary preparations:

- all tasks set out in the ESG Act have been identified;
- the departments and employees responsible for the identified tasks have also been identified;
- a draft action plan has been prepared, which defines the relevant quarters, in which the tasks are to be completed;
- furthermore, the training of the responsible employees has begun.

For the sake of completeness, it should be noted that HungaroControl defines its ESG strategy and the necessary tasks by taking into account that ESG compliance is an ongoing obligation.

5. Income

Accounting policies:

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

The Company applies IFRS 15 Standard for recognising revenues.

In accordance with IFRS 15 revenue is recognised as income arising in the course of the Company's ordinary activities. Revenue from contracts with customers is identified in accordance with the five-step model of the standard:

1. Identification of contract
2. Identification of performance obligations
3. Determination of transaction price
4. Allocation of price to performance obligations
5. Recognition of revenue

The Company recognises revenue when it has satisfied the performance obligation by delivering the promised service (or goods) to the customer. The service (or goods) is considered to be delivered when the buyer obtains control over that. The Company specifies for each performance obligation whether it is to be satisfied continuously (over a period of time) or at a specific time.

The Company's revenue derives mainly from its air navigation activities. Air navigation services are billed and the revenues are earned by the Company based on a HUF unit rate determined on the basis of pre-budgeted costs and planned annual traffic 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 maximum take-off weight of the air plane, and in the case on en-route services - the distance factor.

Revenue from air navigation services:

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

In the Hungarian En Route and in the terminal segment, within the framework of performance plan scheme, 'reference periods' are set for determining unit prices (for 5 years); for which periods performance plans should be prepared including the costs and traffic expected in the reference period. This will be used by the Company as a basis to calculate the annual unit rates, 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 do not have an immediate impact on the Company's revenues as the differences will be reflected in the new unit rates charged to airspace users in later aviation years.

Based on the EU Regulation No. 317/2019, the Company and the airspace users bear together any traffic risk in the En Route and terminal segments during the third reference period effective between 2020-2024 due to the traffic risk sharing mechanism. As required by the EU Regulation No. 1627/2020 on the COVID-19 pandemic, new performance plan was submitted on 1 October 2021 for the period of 2020-2024. In 13 April 2022 the European Commission adopted the revised performance plan. The Commission Decision on adoption was published in the Official Journal of the European Union in 18 May 2022 as No. (EU) 2022/775. In the performance plan the planned traffic for years 2020-2021 was the actual traffic, therefore there was no traffic risk in years 2020 and 2021. However, there was a significant deviation in traffic. Most of the additional revenue due to the traffic surplus of 2023 should be reimbursed to users in 2025, but the remaining part of the surplus has a positive impact on the profit of the Company.

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 from the planned ones which differences are then compensated via an adjustment mechanism; as a main rule the under- or overrecoveries 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.

Accounting for flights exempted:

The cost of exempted flights is presented in line 'Revenue from air navigation services' since the customers of air navigation services are airspace users, irrespective of the financial settlement of these services (the payments are performed by defined Ministries). In 2023 the amount of HUF 363 million (of which HUF 372 million is presented as trade receivables and HUF 9 million as a payable amount to OMSZ) is presented as 'Cost of exempted flights' in line 'Revenue from air navigation services'. The amount of trade receivables is presented in 'Long term trade receivables' and 'Trade receivables' as shown in Note 14.1 and 14.2. The cost of exempted flights is settled approximately in two years, so the related financing component is adjusted by applying a discount rate.

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 is not part of the Company's ordinary activities under IFRS 15, that is why the amounts are not recognised as sales revenue.

Other revenues not meeting presentation requirements:

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

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. The amount of sale of goods includes the negligible amount of sale of textbooks and resale of utility charges.

Revenues from service provision:

amounts in million HUF

Revenue	2023	2022
Revenue from air navigation services - en route segment	48,233	49,402
Revenue from air navigation services - terminal segment	9,060	8,597
Revenue from air navigation services - Kosovo segment	1,974	2,881
Cash-flow hedge accounting reserve booked to revenues	203	(808)
Total revenue from air navigation services	**59,470**	**60,072**
Other revenue - domestic	173	196
Other revenue - foreign	62	111
Total other revenue	**235**	**307**
Total revenue	**59,705**	**60,379**

Analysis of revenue changes:

The costs of air navigation services are recovered under the performance scheme.
Within the framework of performance scheme, 'reference periods' are set for determining the expected unit prices and relevant costs for 5 years.
This will be used by the Company as a basis to calculate the annual unit prices, based on which the revenues will be realized.
However, the actual turnover and costs differ from the planned ones each year, which results – according to the performance scheme rules – to under- or overrecoveries. These deviations are settled via an adjustment mechanism. As a main rule the under- or overrecoveries of the particular year 'n' is adjusted in the calculation of the charging rate for the period of 'n+2'.

Analysis of revenue change between 2023-2022:

The amount of revenue for 2023 is HUF 59,705 million while it was HUF 60,379 million for 2022.
The revenue variance between 2023 and 2022 comes from the following main items:

amounts in million HUF

Deviation of the Revenue	
Revenue for 2023	**59,705**
Decrease in underrecoveries of n-2 year in the applicable unit rate resulting in revenue decrease in 2023	(501)
Higher determined cost of the applicable unit rate resulting in revenue increase in 2023	2,306
Decrease of traffic deviation from plan resulting in revenue decrease in 2023	(1,511)
Other	(968)
Revenue for 2022	**60,379**

In the analysis of revenue, the main components are separated that cause the variance (size of determined cost, size of balances, deviation of turnover from planned).

The decrease in revenue in 2023 compared to 2022 are due to the following main reasons:

- HUF 501 million decrease in revenue was due to the fact, that the revenue-increasing effect of the underrecovery, that could be applied in 2023 (i.e. the part of the unit rates in the current year's rates that is linked to the balances of the previous years), was no longer as high as it could be applied in 2022 (and even became overrecovery in en route segment). The underrecovery resulted in a revenue increase of HUF 693 million in 2022, while in 2023 it only resulted in an increase of HUF 192 million.
- HUF 2,306 million increase in revenue resulted from the increase in determined cost, which make up the bulk of the unit rates. It led to an increase in revenue of HUF 46,286 million in 2022 and HUF 48,592 million in 2023.
- HUF 1,511 million decrease in revenue has resulted from the fact, that deviation of turnover from planned is now less, whereas previously the deviation of turnover from the plan was greater. Less amount of revenue earned on top of the planned is being received, most of which is reimbursable to the airspace users. The revenue earned on top of the planned was HUF 13,151 million in 2022, while in 2023 it was only HUF 11,640 million.
- In the Other category, the decrease in income related to search and rescue, as well as the effect of the exchange rate difference appear.

Revenues from air navigation services:

The main activity of the Company is to provide air navigation services, 99.6% of the revenue derives from air traffic charges in 2023 (99.5% in 2022).

In 2023 82% of revenues from air navigation services derives from navigation of overflight traffic (En Route) over Hungary (81% in 2022), 15% derives from terminal air navigation services at Liszt Ferenc International Airport (14% in 2022), and 3% derives from the navigation of air traffic in the upper airspace over Kosovo (5% in 2022).

The performance obligations of providing air navigation services are fulfilled continuously and therefore revenues are recognised over a period of time. 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.
On average, more than 90% of the revenue from air navigation services – for a given flight month- is settled in the last half of second month following the flight month, managed by EUROCONTROL's Central Route Charges Office (hereinafter CRCO).

Development of air traffic

In 2023 HungaroControl's air traffic services managed the safe flight of 1,231,452 aircraft in the Hungarian controlled, uncontrolled and Kosovo airspace combined, 13% more than the previous record year 2022. The share of overflight traffic in the total traffic handled by HungaroControl in the Hungarian airspace remains very significant, it represents 88% of the total traffic in 2023. The traffic in uncontrolled airspace remains below the record year of 2019, and is 8% below the level of 2022.

In terms of the volume of air traffic controlled in the Hungarian and KFOR sectors, Budapest ACC (Area Control Centre) was the 5th largest ACC in Europe for several months in 2023, which is an outstanding achievement.

According to CRCO data, the number of movements in controlled Hungarian airspace was 1,065,019, of which 958 thousand were overflights and 107 thousand were terminal movements. As the revenue of the Company is recorded based on CRCO data, CRCO data will be presented in the further analysis.

While the performance of the European air traffic network in 2023 could not match the performance of the last year before the pandemic COVID-19, the number of aircraft in Hungarian airspace continued to increase. In 2023 the total traffic in the Hungarian airspace reached a record high of 1,000,000 for the first time, mainly due to the unprecedented volume of overflight traffic. The significant increase in traffic is due to several factors. On one hand all airlines that used to fly through the closed Ukrainian airspace move to a westerly direction and fly through Hungarian airspace. On second hand, as a consequence of sanctions imposed by the European Commission and other countries, the vast majority of airlines recovering after COVID, which destination is usually in China, the Far East and India (e.g. Japan Airlines or Asiana Airlines), avoid Russian airspace and a significant number of these flights have also entered Hungarian airspace. Thirdly, traffic on the South-East axis grew faster that the European average, mainly due to Turkish airlines.

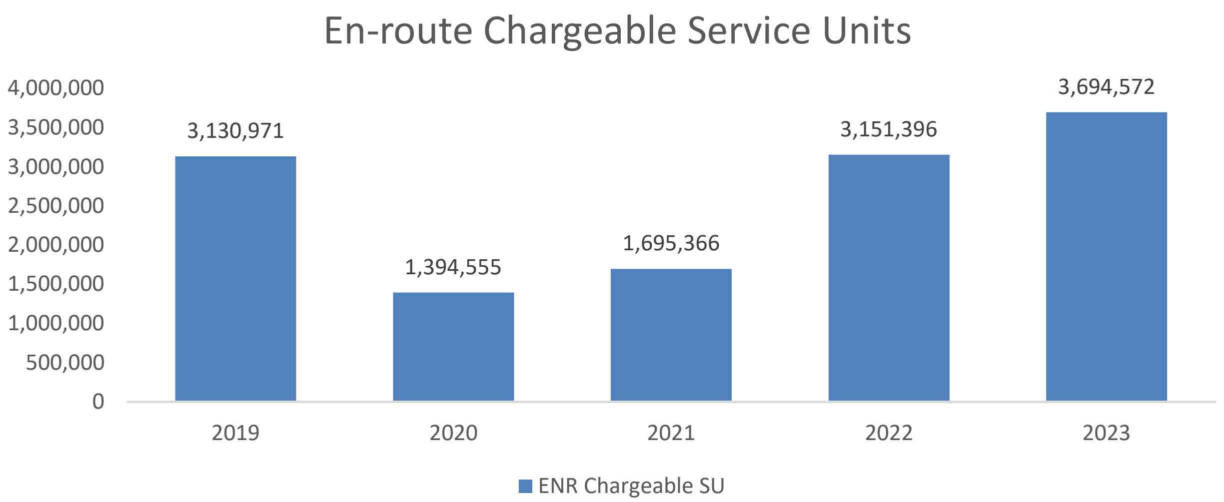
The 107 thousand arrivals/departures at Budapest Liszt Ferenc International Airport in 2023 represents 88% of the traffic in 2019. The rate of post-COVID traffic recovery at the largest Hungarian international airport is very similar to the European ATM network, and despite that this is still below the 2019's traffic, a 10% increase was observed compared to the figures in 2022. Due to the closure of Ukrainian airspace and sanctions, air traffic between Hungary and cities in Ukraine and Russia remains suspended, but these flights have been replaced by new flights from Budapest Liszt Ferenc International Airport responding to the huge demand after COVID. However, many regions (e.g. North America) are still missing from the list of destinations directly accessible from Budapest.

Development of Chargeable Service Units

The revenues of HungaroControl Plc. (en-route, terminal fees) are only indirectly determined by the number of the movements. The indicator directly generating revenue is the so-called Service Unit (SU). Its value depends on the maximum take off weight of the aircraft in the terminal segment, and depends on the maximum take off weight of the aircraft and the distance flown between the entry and exit point of the aircraft in the en-route segment.

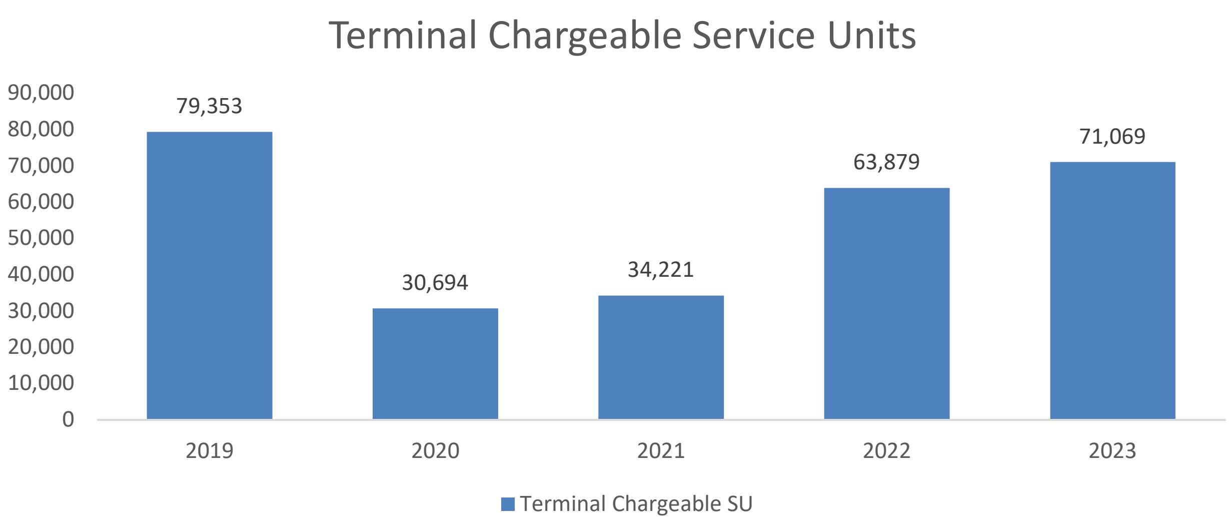
En Route Chargeable Service Units

In 2023, the total number of en-route service units was 18% higher than in 2019 and 17% higher than in the previous year. In 2023, the total number of en-route service units was 3,725,594, of which 31,023 (0.8%) were in the exempted category. The total number of chargeable en-route service units forming the basis of revenue was 3,694,572 SU.



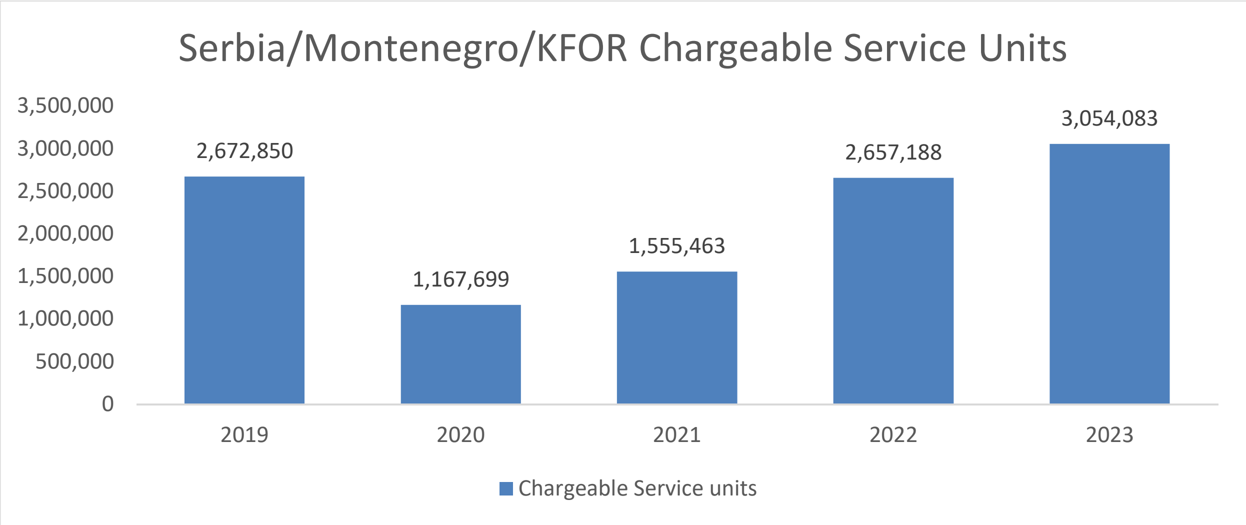
Terminal Chargeable Service Units

In 2023, the number of terminal service units was 11% higher than in the previous year, but still only 90% of the 2019 figures, which is a consequence of the movement figures described above. In 2023, the number of service units in the terminal business was 71,692, of which 623 units (0.9%) were in the exempt category. The number of chargeable terminal service units that formed the basis of revenue was 71,069 SU.



Kosovo Chargeable Service Units

The financial accounting for the service provided in the high airspace over Kosovo is based on the common charging zone with Serbia and Montenegro. Therefore, for the Kosovo business, the analysis of the service unit figures should be based on the traffic of the entire charging zone. The number of chargeable service units was 114% of the traffic in 2019, an increase of 15% compared to 2022.



Effect of hedge transaction on sales revenue:

A certain portion of the Company's revenues from the provision of air navigation services denominated in foreign currencies are involved as hedged item into cash flow hedge relationship. In this hedge relationship, Company uses FX forward and FX swap deals as hedging instruments. As long as a cash flow hedge meets the qualifying criteria the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e. the portion that is offset by the change in the cash flow hedge reserve calculated in accordance with separate component of equity associated with the hedged item (in accordance with IFRS 9.6.5.11) is recognised in other comprehensive income. The amount formerly recognised in other comprehensive income is reclassified from the cash flow hedge reserve to revenue (as hedged category) as a reclassification adjustment in the same period during which the hedged expected future cash flows affect revenue.

The amount included in revenue as reclassification adjustment from equity is a gain of HUF 203 million in 2023.The total loss for 2022 was HUF 808 million.

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

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

6. Operating expenses

Accounting policies:

If specific standards do not regulate, operating expenses are charged when they incur, or in the period with which they are associated. When a given transaction is under the scope of specific IFRS, the transaction is accounted for in line with those regulations.

In the followings the operating expenses are presented by category.

6.1. Breakdown of personnel expenses

amounts in million HUF

Personnel expenses	2023	2022
Wages and salaries	17,473	15,588
Social security	2,534	2,282
Other personnel expenses	2,418	1,597
Pension expenses and expenses from other long term benefits*	1,708	1,442
Personnel expenses	**24,133**	**20,909**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

Number of staff employed (head)	2023	2022
Division of air traffic services	377	361
Division of communications, navigation and surveillance	40	41
Division of technical development services	88	84
Support division*	270	273
Closing number of staff employed	**775**	**759**

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

Average number of employees of the Company was 747.8 in 2023 (2022: 723.5).

6.2. Components of Operating expenses

amounts in million HUF

Operating expenses	2023	2022
Energy costs	1,861	416
Other materials used	260	180
Cost of materials consumed	**2,121**	**596**
Eurocontrol member fees	1,947	1,621
Software maintenance fees	1,593	1,415
Fees of liability insurance	1,375	1,132
Fees paid for authorities	1,327	1,025
Trainings expenditure	1,041	954
Online service charges, charges for data transmission	655	612
Maintenance fees	534	672
Safeguarding services	499	403
Expenditure on consultancy and fees of expert	440	314
Various other expenditures	348	573
Cost of advertisement and marketing campaigns	319	374
Travel and other costs incurred on missions abroad	258	243
Charges paid for waste disposal and similar services	158	147
Rental fees of fixed assets	43	38
Real estate rental fees	29	57
Cost of meteorological services consumed	23	24
Other rental fees	22	20
Lease payment on state owned assets*	0	2
Other expenditures	**10,611**	**9,626**
Included: Short-term lease related expenditures	15	23
Included: Low-value asset lease related expenditures (excluding short-term leases)	11	13
Total Operating expenses	**12,732**	**10,222**

** In September 2007, the Company signed an asset management agreement with the authority responsible for national property (Treasury Property Directorate legal predecessor of Hungarian National Property Management Inc.). According to the agreement, the Company acquired asset management rights over state owned land, buildings, structures and related property rights. The Company represents this contract based on IFRS 16 Standard as right-of-use assets and lease liabilities. The expenses above are not in relation to any right-of-use assets. The leasing fee is derived from the market value of the asset.*

Accounting policies for leasing:

The Company applies IFRS 16 ‘Leases’ Standard. Based on the requirements the Company recognises the lease contracts as right-of-use assets and lease liabilities in its Financial Statements, applying the exemption of short-term leases and exemption of leases for which the underlying asset is of low value (recognition exemptions). Lease payments associated with recognition exemptions (leases with a lease term of 12 months or less and leases with low-value underlying assets) are recognised as expenses on a straight-line basis or on another systematic basis over the lease term.

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 comprehensive income statement over the expected useful life of the relevant asset.

amounts in million HUF

Other income and expense	2023	2022
Deferred development grants released	325	367
Release of bad debt provisions	202	0
Discount received from EPC afterwards	182	190
Operative grants related to expenses	122	239
Interest and other charges received on late payment	40	15
Other various income items	30	47
Liabilities waived	2	0
Total Other income	**903**	**858**
Reimbursement of expenses payable to Ministries	248	642
Written value of bad debts	248	0
Allowances charged on bad debts*	238	303
Expenses from charity activities and sponsorship	130	112
Building tax	59	52
Other various expense items	27	49
Total Other expense	**950**	**1,158**
Total	**(47)**	**(300)**

** Balances of allowances charged on bad debts are disclosed under Note 14.2.*

The Company received both development grants relating to assets and operative grants relating to expenses. Grants relating to expenses are typically received for activities carried out within the SESAR (Single European Sky ATM Research) programme. Further information in connection with grants are available at https://www.hungarocontrol.hu/eu-tamogatasok.

In case of Unmanned Traffic Management (UTM) the Company received both government and EU grants. The amount of the government grant is HUF 120 million (for the development of website and mobile application to support the use of unmanned aerial vehicles). Details of the EU funding are available at the link above. The purpose of the grants is to demonstrate and validate air traffic control services (e.g. registration, identification, virtual geo-fencing, dynamic airspace management, flight approval, etc.) in relation to unmanned aerial vehicles. It also aims to develop new procedures and tools that will allow ATC to fully integrate IFR RPAS with aviation and to demonstrate and validate the exchange of UTM data through a single SWIM platform. The developed website is available at: https://mydronespace.hu

The following table includes the Statement of Financial Position items from grants not closed at the date of Statement of Financial Position. The balance includes the income to the extent expenses have been occurred. Regarding with these expenses the Company can prove that relevant requirements are going to be satisfied and the amounts are expected to be granted. These amounts are accounted for as income to the extent of the prefinancing received, above that against short term receivables in the Statement of Financial Position.

amounts in million HUF

Balances of ongoing government grants	December 31, 2023	December 31, 2022
Advance payment received	2,515	1,508
Accrued income	70	266

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

amounts in million HUF

Movements of government grants	2023	2022
Balances at January 1st	**1,394**	**1,639**
EU grants newly introduced during the year	401	122
Release of deferred grants	(326)	(367)
Balances at December 31st	**1,469**	**1,394**
Due in one year	323	293
Due over one year	1,146	1,101

8. Financial result

Accounting policies:

The effects of financial income and financial expenses are presented on a gross basis. The financial result includes gains and losses on the valuation of financial instruments and the effects of the valuation of monetary assets.

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 statement of comprehensive income.

Interest expense:

The Company has overdrafts and revolving credit facilities. Due to the specific nature of the loans – where no predetermined repayment schedule can be established, which forms the basis for accounting using the effective interest method – the Company has accounted for the interest paid on the amounts drawn down during the year in line with the bank statements as an interest expense.

Other financial income and expenses:

Accounting policies relevant to financial instruments and leases are presented in Note 14. Details of long-term employee liabilities are provided in Note 16.

amounts in million HUF

Financial results	2023	2022
Realized interest income on term deposits and government securities valued at amortized cost	3,809	1,423
Interest recognised in comprehensive income and included in financial results (swap points received)*	1,666	1,167
Exchange rate gains realized on term deposits and government securities valued at amortized cost	170	2
Foreign exchange gains on year end revaluation	123	0
Interest income due to discount breakdown of other items	59	23
Foreign exchange gains realised	0	144
Ineffective gains of cash flow hedges included in financial results*	0	92
Ineffective gains of fair value hedges included in financial results*	0	28
Profit from financial activities	**5,827**	**2,879**
Interest on lease liabilities***	814	837
Interest paid on borrowings according to effective interest method****	283	155
Ineffective loss of cash flow hedges included in financial results*	253	0
Ineffective loss of fair value hedges included in financial results*	140	0
Foreign exchange loss realised	122	0
Interest expense due to discount breakdown of other items**	91	23
Exchange rate loss realized on term deposits and government securities valued at amortized cost	6	6
Impairment of securities accounted for at amortized cost	4	0
Foreign exchange loss on year end revaluation	0	240
Loss from financial activities	**1,713**	**1,261**
Total results of financial activities	**4,114**	**1,618**

** Hedges are disclosed under Note 14.6 and Note 14.7 b)*
*** Long term benefits are disclosed under Note 16.*
**** Lease liabilities are disclosed under Note 14.4.*
***** The amount of the overdraft taken during the year was repaid by the Company by the end of the year.*

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 joint ventures is carried at cost plus post acquisition changes in the Company's share of net assets. Investments in 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 impairment tests are performed by the Company annually based on the approved business plans of the joint ventures during the preparation of financial statements.

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

EPC Ltd. was founded to provide training for air navigation personnel. EPC Ltd. is incorporated in Hungary and keeps its books in Hungarian Forints. The EPC Ltd. is jointly controlled with the Swedish Entry Point North AB and owns 51% of the registered capital whereas HungaroControl owns 49%. The major governing policies are formed based on unanimous decisions of the quotaholders. The managing director is nominated by HungaroControl and elected by the quotaholder's meeting, in respect to election HungaroControl's quota provide priority rights. 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 million HUF)	Ownership
Entry Point Central Ltd.	May 26, 2011	3	HungaroControl 49%

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

Joint venture	Date of foundation	Registered capital (in EUR)	Ownership
FABCE Aviation Services Ltd.	October 17, 2014	36,000	HungaroControl 16.67%

Balances at the year ends were the following in case of investments in joint ventures :

amounts in million HUF

Investments	EPC Ltd.	FABCE, Ltd.	Total
Value January 1, 2022	**57**	**2**	**59**
Share from profit/loss for 2022	14	0	14
Value December 31, 2022	**71**	**2**	**73**
Share from profit/loss for 2023	16	0	16
Dividend received	(61)	0	(61)
Value December 31, 2023	**26**	**2**	**28**

Investment in EPC Ltd.

The assets and liabilities, income and expenses of EPC Ltd. and the Company's share thereof as at December 31, 2023 and 2022, are as follows:

amounts in million HUF

EPC Ltd.'s Statement of Financial Position	December 31, 2023	December 31, 2022
Non-current assets	5	5
Current assets*	96	179
Current liabilities**	47	40
Net assets	**54**	**144**

** The amount of cash and cash equivalents presented under current assets is HUF 93 million in 2023 (HUF 176 million in 2022).*
*** The amount of current liabilities includes non-financial liabilities, except for trade payables.*

amounts in million HUF

EPC Ltd.'s Statement of Comprehensive Income	2023	2022
Revenue	926	837
Operating expenses*	888	824
Financial result**	(1)	18
Profit before taxes	**37**	**31**
Income tax expense	3	3
Profit for the year	**34**	**28**

** The amount of depreciation presented among operating expenses is HUF 0.2 million in 2023 (HUF 0.5 million in 2022).*
*** The amount of received interest presented in the financial result is HUF 0.01 million in 2023 (HUF 0.02 million in 2022), while there was no interest paid in either year.*

The initial cost of the investment was HUF 6 million when acquired - which together with the accumulated profit above resulted in an investment value of HUF 26 million at the end of 2023 (2022: HUF 71 million). The gain included in the 'Share from profit / loss of joint venture' line of the comprehensive income for the financial year 2023 is HUF 16 million (2022: HUF 14 million) regarding EPC Ltd. In 2023 HUF 61 million dividend is received from EPC Ltd. (in 2022 EPC Ltd. did not pay dividend).

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

EPC Ltd. being a joint venture of HungaroControl Plc. does not have any risks or exposures that would be disclosed according to IFRS 12.20 requirements.

Investment in FABCE Ltd.

FABCE Ltd. is the other joint venture of the Company. The total share capital of the joint venture is EUR 36,000.

amounts in million HUF

FABCE Aviation Services, Ltd.'s Statement of Financial Position	December 31, 2023	December 31, 2022
Non-current assets	0	1
Current assets*	97	103
Current liabilities**	62	68
Net assets	**35**	**36**

** The amount of cash and cash equivalents presented under current assets is HUF 10 million in 2023 (HUF 45 million in 2022).*
*** The amount of current liabilities except for trade payables, includes HUF 0.3 million short-term financial liabilities in 2023 (HUF 0.6 million in 2022).*

amounts in million HUF

FABCE Aviation Services, Ltd.'s Statement of Comprehensive Income	2,023	2,022
Revenue	212	190
Operating expenses*	212	190
Profit for the year	**0**	**0**

** The amount of depreciation presented among operating expenses is HUF 0.2 million in 2023 (HUF 0.2 million in 2022).*

10. Income taxes

Compared to the income tax rate set by the Tax Act (9%), the effective tax rate was 11% in 2023 (10% in 2022). The difference between the income tax rate under Tax Act and the effective tax rate is mainly influenced by the additional tax expenditures to be taken into account (local business tax and innovation tax).

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 National Tax and Customs Administration, and local business tax is payable to the responsible 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 date of Statement of Financial Position 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 statement of comprehensive income on the line of Income tax expense, 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 Statement of Financial Position date and modified 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 million HUF

Income taxes	December 31, 2023	December 31, 2022
Local business tax	59	0
Current tax receivable	**59**	**0**
Corporate tax	437	1,111
Local business tax	0	759
Innovation contribution	95	142
Current tax liability	**532**	**2,012**

Income tax expense:

Current income tax and deferred tax expenses:

amounts in million HUF

Income tax expense	2023	2022
Current tax	2,317	2,525
Adjustments in respect of prior year	0	(13)
Deferred tax	(120)	(189)
Total income tax expense	**2,197**	**2,323**

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

amounts in million HUF

Effective income tax rate	2023	2022
Profit on ordinary activities before tax	**20,579**	**24,288**
Tax on profit on ordinary activities at standard rate (9%)	1,852	2,199
Other income taxes corrected with the effect of corporate income tax rate	1,204	1,263
Total tax charge	**3,056**	**3,462**
Permanent differences	(859)	(1,126)
Tax effect of prior year adjustments	0	(13)
Tax charge for year at an effective tax rate	**2,197**	**2,323**
Effective tax rate	**11%**	**10%**

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 million HUF

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2023	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2022
Provisions not included in tax base	756	0	71	685
Differences regarding state owned assets	351	0	68	283
Debt allowances not included in tax base	106	0	6	100
Right-of-use assets related to other lease contracts	6	0	(2)	8
Differences between tax base and carrying amount of assets discounted	6	0	(1)	7
Valuation reserve of securities	3	0	3	0
Investments in joint ventures	(2)	0	(2)	0
Government grants revenues which are included in tax base in the next financial year	(3)	0	5	(8)
Accelerated tax depreciation	(131)	0	(28)	(103)
Total deferred tax asset (+) /liability (-)	**1,092**	**0**	**120**	**972**

amounts in million HUF

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2022	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2021
Provisions not included in tax base	685	0	109	576
Differences regarding state owned assets	283	0	24	259
Debt allowances not included in tax base	100	0	7	93
Right-of-use assets related to other lease contracts	8	0	(2)	10
Differences between tax base and carrying amount of assets discounted	7	0	4	3
Valuation difference of fixed assets not yet capitalized	0	0	(4)	4
Government grants revenues which are included in tax base in the next financial year	(8)	0	5	(13)
Accelerated tax depreciation	(103)	0	46	(149)
Total deferred tax asset (+) /liability (-)	**972**	**0**	**189**	**783**

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

The corporate income tax rate applicable in Hungary is 9%. Corporate income tax rate applied for deferred tax calculation is based on the estimated assessable tax base and tax payable for the relevant years.

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

Deferred taxes were calculated with income tax rate of 9% in 2023 and in 2022 as well.

From the balance above HUF 223 million deferred tax asset is expected to be reversed in one year, HUF 869 million deferred tax asset is expected to be reversed in 5 years.

Global minimum tax

The purpose of global minimum tax regulation is to raise the effective tax rate to a minimum of 15 % level of the groups of companies regulated by the act, by requiring the member or members of the group to pay additional tax when the effective tax burden of the group is low. For the groups that are subject to global minimum tax, the effective tax rate determines whether the group is considered to have a low tax burden and whether it is required to pay additional tax.
The effective tax rate is determined by the adjusted covered tax expenses divided by recognised net profit of the members of a group resident in the jurisdiction. The content and modifying items of covered tax expenses and recognised net profit are regulated by law.
If the company becomes liable to pay additional tax, the tax expense must be recognised in the same way as for as corporate tax and must be paid in HUF, USD or EUR.
As a member of the N7 Holding Group the Company reviews the requirements for the application of the global minimum tax in accordance with the parent company's guidelines. The application of the global minimum tax depends on whether the annual turnover of the parent company is above EUR 750 million in at least two of the four financial years under review, as reported in the consolidated financial statements, this criterion determines the group's liability to pay global minimum tax. The N7 Holding Group will prepare its financial consolidated statements under IFRS for the year 2023, so the determination of whether turnover exceeds the required threshold is currently unknown.
The global minimum tax will be subject to annual reporting obligations starting in 2024, and to declaration and payment obligations in 2026 at the earliest. The tasks and processes in relation to the global minimum tax are under development.

11. Intangible assets

Accounting policies:

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

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

Critical accounting estimates and judgements:

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

Typical amortization rules are stated as follows:

Type of asset	Useful life
Licenses purchased for core activity	5-6 years
Licenses purchased for other activities	3 years
Software purchased for core activity	5 years
Software purchased for other activities	3 years

Carrying amounts of intangible assets that are already capitalised or not yet available for use are reviewed by the Company on a yearly basis. Assets that are subject to amortization 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.

During the impairment review, the Company did not identify any technical or business considerations that led to recognise any impairment loss on intangible assets among capitalised or not yet available for use items.

The Company does not have any intangible assets with indefinite useful lives to be managed in accordance with IFRS.

The table shows movements of intangible assets:

amount in million HUF

Intangible assets	Internally generated			Other				Intangible assets total
	Software	Work in progress	Internally generated total	Property right	Software	Work in progress	Other total	
Net value at January 01, 2022	**192**	**78**	**270**	**9,693**	**11**	**2,232**	**11,936**	**12,206**
Gross value:								
January 01, 2022	234	78	312	36,831	233	2,232	39,296	39,608
Previous year's correction	0	0	0	129	(129)	0	0	0
Additions	0	409	409	0	0	5,696	5,696	6,105
Capitalization	36	(36)	0	1,075	0	(1,075)	0	0
Disposals	0	(9)	(9)	(16)	(70)	(13)	(99)	(108)
December 31, 2022	**270**	**442**	**712**	**38,019**	**34**	**6,840**	**44,893**	**45,605**
Amortisation:								
January 01, 2022	42	0	42	27,138	223	0	27,361	27,403
Previous year's correction	0	0	0	129	(129)	0	0	0
Additional amortisation	36	0	36	2,594	3	0	2,597	2,633
Additional impairment loss	0	0	0	0	0	22	22	22
Disposal of accumulated amortisation	0	0	0	(16)	(70)	0	(86)	(86)
Disposal of accumulated impairment loss	0	0	0	0	0	(22)	(22)	(22)
December 31, 2022	**78**	**0**	**78**	**29,845**	**27**	**0**	**29,872**	**29,950**
Net value at December 31, 2022	**192**	**442**	**634**	**8,174**	**7**	**6,840**	**15,021**	**15,655**
Gross value:								
January 01, 2023	270	442	712	38,019	34	6,840	44,893	45,605
Previous year's correction	0	0	0	448	0	(748)	(300)	(300)
Additions	0	84	84	0	0	5,357	5,357	5,441
Capitalization	199	(199)	0	5,437	0	(5,437)	0	0
Disposals	0	0	0	(10,280)	0	0	(10,280)	(10,280)
December 31, 2023	**469**	**327**	**796**	**33,624**	**34**	**6,012**	**39,670**	**40,466**
Amortisation:								
January 01, 2023	78	0	78	29,846	26	0	29,872	29,950
Previous year's correction	0	0	0	247	0	0	247	247
Additional amortisation	58	0	58	2,336	3	0	2,339	2,397
Disposal of accumulated amortisation	0	0	0	(10,280)	0	0	(10,280)	(10,280)
December 31, 2023	**136**	**0**	**136**	**22,149**	**29**	**0**	**22,178**	**22,314**
Net value at December 31, 2023	**333**	**327**	**660**	**11,475**	**5**	**6,012**	**17,492**	**18,152**

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

The Company capitalizes the costs of experimental development in accordance with IAS 38, in the value of the direct costs of the experimental development started but not completed by the date of Statement of Financial Position of the business year – that is expected to be recovered in the future.

HungaroControl considers the MATIAS air traffic control system to be the most significant and material item among its intangible assets. The MATIAS system is set of several individual elements that, through continuous development, meet the requirements of European legislation.
The most significant increase in the year was the MATIAS Build 13 system development component, in the amount of HUF 4,100 million.

The assets of the MATIAS system with carrying value at 31 December 2023 are distributed as follows.

Intangible assets	Net value amount in million HUF	Remaining amortisation period year
Property right	1,233	2
Property right	3,358	4
Property right	4,047	7
Property right total	**8,638**	
Software	312	6
Software	1	0
Software total	**313**	
Intangible assets total	**8,951**	

12. Property, plant and equipment

Accounting policies:

Property, plant and equipment are stated at historical cost less accumulated depreciation, 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 comprehensive 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.

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

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

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

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

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

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

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

Critical accounting estimates and judgements:

The determination of the useful life of property, plant and equipment is based on experience with similar assets and expected technological developments.
The residual value, useful life and the depreciation method are reviewed annually at each financial year-end.

Typical depreciation rules are stated as follows:

Type of asset	**Useful life**
Buildings	40 years
Other structures	40 years
Investment on leased property	17 years
Production machinery and equipment	7 years
Computer hardware	3 years
Vehicles	5 years
Furniture	10 years

Depreciation is not accounted for Lands and Assets under constructions.

The Company applies the component measurement, i.e. it examines whether an asset contains a significant component that has a useful life that differs from the useful life of the other parts of the asset. In such a case, the Company recognizes depreciation separately for the significant component in accordance with IAS 16.43.

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

No borrowing costs were recognised as part of the initial cost in 2023 and in 2022.

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

amounts in million HUF

Property, plant and equipment	Land and buildings	Technical equipment	Other equipment	Work in progress	Property, plant and equipment
Net value at January 1, 2022	**16,983**	**5,733**	**2,849**	**523**	**26,088**
Property, plant and equipment owned by Company	**4,056**	**5,726**	**2,808**	**523**	**13,113**
Property, plant and equipment leased by Company	**12,927**	**7**	**41**	**0**	**12,975**
Gross value:					
Property, plant and equipment owned by Company	**6,106**	**17,503**	**10,129**	**2,915**	**36,653**
January 1, 2022	5,943	17,181	8,581	523	32,228
Additions	0	0	0	5,236	5,236
Capitalization	174	969	1,700	(2,843)	0
Disposals	(11)	(647)	(152)	(1)	(811)
Property, plant and equipment leased by Company	**13,465**	**2,026**	**157**	**0**	**15,648**
January 1, 2022	15,795	53	230	0	16,078
Additions	682	1,975	149	0	2,806
Disposals	(3,012)	(2)	(222)	0	(3,236)
Gross value at December 31, 2022	**19,571**	**19,529**	**10,286**	**2,915**	**52,301**
Depreciation:					
Property, plant and equipment owned by Company	**2,163**	**12,030**	**6,731**	**0**	**20,924**
January 1, 2022	1,887	11,455	5,773	0	19,115
Additional depreciation	286	1,221	1,108	0	2,615
Additional impairment loss	0	1	1	1	3
Disposal of accumulated depreciation	(10)	(646)	(150)	0	(806)
Disposal of accumulated impairment loss	0	(1)	(1)	(1)	(3)
Property, plant and equipment leased by Company	**3,133**	**149**	**35**	**0**	**3,317**
January 1, 2022	2,867	46	190	0	3,103
Additional depreciation	866	105	48	0	1,019
Disposal of accumulated depreciation	(600)	(2)	(203)	0	(805)
Depreciation at December 31, 2022	**5,296**	**12,179**	**6,766**	**0**	**24,241**
Net value at December 31, 2022	**14,275**	**7,350**	**3,520**	**2,915**	**28,060**
Property, plant and equipment owned by Company	**3,943**	**5,473**	**3,398**	**2,915**	**15,729**
Property, plant and equipment leased by Company	**10,332**	**1,877**	**122**	**0**	**12,331**

amounts in million HUF

Property, plant and equipment	Land and buildings	Technical equipment	Other equipment	Work in progress	Property, plant and equipment
Net value at January 1, 2023	**14,275**	**7,350**	**3,520**	**2,915**	**28,060**
Property, plant and equipment owned by Company	**3,943**	**5,473**	**3,398**	**2,915**	**15,729**
Property, plant and equipment leased by Company	**10,332**	**1,877**	**122**	**0**	**12,331**
Gross value:					
Property, plant and equipment owned by Company	**6,325**	**18,356**	**11,151**	**3,293**	**39,125**
January 1, 2023	6,106	17,503	10,129	2,915	36,653
Previous year's correction	0	0	0	57	57
Additions	0	0	0	3,642	3,642
Capitalization	219	1,684	1,418	(3,321)	0
Disposals	0	(831)	(396)	0	(1,227)
Property, plant and equipment leased by Company	**13,431**	**1,919**	**150**	**0**	**15,500**
January 1, 2023	13,465	2,026	157	0	15,648
Additions	258	6	2	0	266
Disposals	(292)	(113)	(9)	0	(414)
Gross value at December 31, 2023	**19,756**	**20,275**	**11,301**	**3,293**	**54,625**
Depreciation:					
Property, plant and equipment owned by Company	**2,456**	**12,363**	**7,527**	**0**	**22,346**
January 1, 2023	2,163	12,030	6,731	0	20,924
Additional depreciation	293	1,159	1,192	0	2,644
Additional impairment loss	0	5	0	0	5
Disposal of accumulated depreciation	0	(826)	(396)	0	(1,222)
Disposal of accumulated impairment loss	0	(5)	0	0	(5)
Property, plant and equipment leased by Company	**3,901**	**222**	**73**	**0**	**4,196**
January 1, 2023	3,133	149	35	0	3,317
Additional depreciation	873	136	42	0	1,051
Disposal of accumulated depreciation	(105)	(63)	(4)	0	(172)
Depreciation at December 31, 2023	**6,357**	**12,585**	**7,600**	**0**	**26,542**
Net value at December 31,2023	**13,399**	**7,690**	**3,701**	**3,293**	**28,083**
Property, plant and equipment owned by Company	**3,869**	**5,993**	**3,624**	**3,293**	**16,779**
Property, plant and equipment leased by Company	**9,530**	**1,697**	**77**	**0**	**11,304**

Leased assets are required for the uninterrupted operation of the Company.
Regarding lease assets that fall within the recognition exemption under IFRS 16 (short-term leases and leases for which the underlying asset is low of value) the Company presents the relevant informations under Note 6.2, in ‘Cost of materials’ section.
HungaroControl has no expenses related to variable lease payments that are not included in the measurement of lease obligations.
The total cash outflows for lease liabilities are shown in the table under Note 14.7 ‘Changes in liabilities due to financing activities’.

The most significant amount (appr. 78%) in the value of right-of-use assets recognised by the Company consists of asset management rights over state owned properties. The assets are intended to be used until the end of the properties' useful lives with lease terms between 10 and 35 years. The asset management rights over state owned properties were revalued at the beginning of the reference period on the basis of the revised residual cash flows and cost of capital, which resulted in a decrease in the value of the right-of-use assets.

The rest of the value of right-of-use assets consists of leased cars (typically with lease terms of remaining 2 years), leased equipments and premises at the area of Budapest Liszt Ferenc International Airport (with lease terms of 5 to 15 years), leases of other equipments and premises. On the territory of Budapest Liszt Ferenc International Airport a 15 years long lease of an optical cable ring started in 2022.

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.

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 the statement of comprehensive income 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, critical spare parts of radar equipment qualify as long term assets and therefore are capitalized in the Statement of Financial Position.

Balances of Inventories at the year ends occurred as follows:

amounts in million HUF

Inventories	December 31, 2023	December 31, 2022
Spare parts	12	11
Other materials	10	18
Inventories	**22**	**29**

Inventory balance at the end of 2023 includes an impairment loss amounting of HUF 7 million (2022: HUF 7 million). No previously recognized impairment loss was released for the years presented.
In addition, in 2023, the unused protective clothing was scrapped in the amount of HUF 0.5 million.

Spare parts line item contains those slow-moving inventories that serve the operation for more than one year, but the type of these inventories does not justify their treatment as fixed assets (such as office supplies, work clothes, protective clothes and other materials such as light bulbs, button batteries, insulating tapes). The net value of these inventories in 2023 is HUF 2 million (in 2022 HUF 4 million).

14. Financial instruments, capital and financial risk management

Accounting policies:

IFRS 9 standard is applied for recognition and measurement of hedging transactions and for all other financial instruments.The Company presents financial assets on a settlement date basis for each category.

Financial assets:
The Company recognises among financial instruments the following items, for which measurement category and value are presented in the table of Financial assets under Note 14.7 a) ‘Fair value of financial instruments’:

- long term deposits and short term deposits with a maturity of more than 90 days (AC),
- long term securities and short term securities with a maturity of more than 90 days (government bonds, discount treasury bills) (AC)
- trade receivables, (including trade receivables regarding flights exempted) (AC)
- derivative financial instruments designated as hedging instruments (FTVPL),
- other non-current and current assets (Extended guarantees and Constructions performed on state owned assets, and receivables from Eurocontrol arising from TNC settlements) (AC)
- cash and cash equivalents (including bank deposits and securities with a maturity of less than 90 days) (AC).

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 Collect and Sell’ (HTCS)
The objective is both collecting contractual cash flows and sale of the financial asset.

Financial instruments – trade receivables excluded - are recognized initially at fair value, which is the fair value of the consideration given for the item. If there is a difference between amount paid/received and fair value, the day-one profit/loss shall be recognized (depending on fair value level).

On the basis of business model and contractual cash flows the classification of financial instruments is the following:

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

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

Financial assets measured at fair value through profit or loss (FVTPL)
Financial asset shall be measured at fair value through profit or loss unless it is measured at AC or FVTOCI. However, at initial recognition the Company can make an irrevocable election for particular investments in equity instruments that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI. Any change in fair value at subsequent measurement related to derivatives, positive changes in fair value are recognised in comprehensive income.

Financial liabilities:

The Company recognises as financial liabilities the following items:

- trade payables,
- derivative financial instruments designated as hedges,
- bank loans and lease liabilities,
- other long-term and short-term liabilities (including liabilities related to leases and grants received).

Financial liabilities can be categorised as follows:

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

Financial liabilities measured at amortised cost (AC)
All financial liabilities shall be measured at amortised cost using the effective interest method except for financial liabilities measured at FVTPL.

Subsequent measurement of financial instruments:

Fair value measurement
For investments that are actively traded in organized financial markets, fair value is determined by reference to quoted market prices at the close of business on the date of Statement of Financial Position 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 discounted at the expected rate of return.

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

At each reporting date, the Company measures the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. Impairment losses on financial assets are presented in line ‘Impairment’ in profit or loss. If the Company has measured the loss allowance for a financial instrument at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that those terms and conditions no longer met, the Company measures the loss allowance at an amount equal to 12-month expected credit losses at the current reporting date. The Company recognises in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognised. Any subsequent reversal of an impairment loss is recognized in the comprehensive income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

Stage	Credit quality	Amount of expected credit loss
Stage 1	Financial instruments at initial recognition	12-month expected credit losses
Stage 2	Financial instruments that have significant increase in credit risk	Lifetime expected credit loss
Stage 3	Non-performing 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.

Significant increase in credit risk:
The Company prepares a full review of the investment partners as necessary, but at least once a year as required by the Investment Rules and Regulations of the Company (BFSZ). In the course of the review, the Company solicit proposals from those the credit institutions, that are deemed suitable for investment based on qualitative informations. The qualitative informations cover a broad range of management approaches, including market behaviour, capital market valuation, profitability, asset quality, liquidity and capital adequacy, non-performance and bankruptcy risk, furthermore examines and values data based on the ratings of internationally recognised by credit rating agencies. In addition, the qualitative analysis also includes an examination of the MNB's (Hungarian National Bank) Financial Stability Report, which examines the state of the banking system as a whole. The assessment of the cooperation with each counterparty includes all relevant circumstances that have a significant influence on the cooperation. On the basis of the assessment, the Company decides, if necessary, on the modification of the investment partner structure and the application of any restrictions.

Between the period of the annual reviews the Company monitors the quality criteria of the investment partners on an ongoing basis . The Company prepares a weekly liquidity report, which assesses published news on investment partners, flash reports, credit ratings and changes in capital market valuations. If the Company observes a change in the risk assessment based on the mentioned sources of information, the Company may decide to carry out a full qualitative review of the investment partner, that can lead to an exclusion from the partnership, or the Company can reduce the investment limit on a partner-specific basis, or can introduce any other restrictions.

Default occurs when the financial asset is more than 90 days past due.

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

The Company applies lifetime expected credit loss measurement for trade receivables by using a provision matrix which is described in Note 14.2.
As an exception to the general model, the Company measures 12-month expected credit loss for securities and fixed deposits based on low credit risk (detailed in Note 14.3).

<u>Low credit risk</u>
Based on the Investment Rules and Regulations of the Company, a very narrow range of financial instruments can be invested in, which are all characterised by a very low level of market risk. The expected return on financial instruments should be well predictable and the price of the investments should show only limited volatility by their nature. Based on internal rules, the Company invests its free cash exclusively in debt securities issued by the Hungarian State (that are primary and preferred investment instruments). In addition to, if the Company's liquidity profile requires so, it invests in bank deposits that are provided by the investment partners (that are secondary investment instruments). The investment partners are considered safe up to the investment limit/sub-limit set for them at the time of review, i.e. any form of investment - described by the Investment Rules and Regulations - can be made up to the maximum limit/sub-limit.

The debt securities issued by the Hungarian State have an investment grade rating (according to Moody's at least Baa3, S&P at least BBB-, Fitch at least BBB-) and the Company bears the risk of default to the Hungarian State. The above mentioned debt securities belong to the lowest risk category according to the Markets in Financial Instruments Directive (MiFID).

Investments on bank deposits are unavoidable for the Company's operations and their usage is linked to the liquidity profile. In the case of bank deposits, the Company bears the risk of default to its partner banks. The purpose of the annual investment partner review and the mid-year continuous review is to ensure that the Company has the most up-to-date available information to review and, if necessary, adjust the risk assessment of the investment partners. Thereby the Company regulates its maximum exposure to the investment partners. Short-term bank deposits at partner banks are also included in the lowest risk category under the MiFID Directive.

<u>Cash flow hedges</u>
When accounting for hedging transactions, the Company acts in accordance with the IFRS 9 standard. The Company concludes cash flow hedge contracts in order to hedge foreign currency risk from foreign currency cash flows. 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 hedge 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 comprehensive 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 statement of comprehensive income when the hedged transaction affects the comprehensive income, 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 statement of comprehensive income. 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 statement of comprehensive income.

Fair value Hedges

The Company designates the hedge as a fair value hedge in the following cases:

- the hedged item - that was related to a cash flow hedge transaction - is terminated,
- in the event of termination of that hedged item that was related to a cash flow hedge, the offsetting (closing) transaction (foreign exchange sale or purchase) of the original transaction,
- when the hedged item related to the cash flow hedge is recognised in the statement of financial position, the difference in fair value at the settlement date is recognised as an adjustment (increase or decrease) to the cost of the asset (investment) or inventory. Subsequently, the transaction is measured as a fair value hedge until maturity of the transaction.

For fair value hedges, the revaluation difference is recognised as income or expense from financial activities. When there is a change in fair value, the revaluation difference is increased or decreased against income or expense from financial activities depending on the nature of the change. Valuation differences on the statement of financial position are eliminated against profit or loss on the date of maturity.

14.1. Long term trade receivables and other long term assets

Long term trade receivables

Receivables for cost of flights exempted from charges (further on: flights exempted) from the Hungarian State are recognised as short term and long term assets and are credited to revenue from air navigation services (Note 5.). The term of payment is two years, as defined in a government decree. These balances are discounted by yields of government bonds with two years maturity. The interest income on discounting recognized for 2023 was HUF 59 million (2022: HUF 23 million).

Outstanding balances of long term trade receivables from flights exempted are presented among non-current assets. The balances due are broken down:

amounts in million HUF

Long term trade receivables	December 31, 2023	December 31, 2022
Ministry of Defence	659	860
Ministry of Construction and Transport	71	69
Ministry of Foreign Affairs	33	26
Total exempted flights	**763**	**955**
Due in one year	391	578
out of this: provision	*(2)*	*0*
Due over one year	376	377
out of this: provision	*(2)*	*0*

HUF 618 million of the total outstanding balance of Receivables from exempted flights was settled in 2023 (2022: HUF 638 million). Additional balance established for 2023 was HUF 376 million (2022: HUF 377 million).

Other long term assets

The balances of other long term assets due are broken down

amounts in million HUF

Other long term assets	December 31, 2023	December 31, 2022
Extended warranty	**18**	**18**
Due in one year	1	0
Due over one year	17	18
Constructions performed on state owned assets	**313**	**422**
Due in one year	263	139
Due over one year	50	283
Total due in one year	**264**	**139**
Total due over one year	**67**	**301**

The long-term part of the warranty extension purchased regarding intangible assets and fixed assets is presented in this financial statement line with the amount of HUF 17 million in 2023 (2022: HUF 18 million). This warranty extension can not be accounted in the cost of assets.

The constructions performed on state owned assets are transferred to MNV Plc after the completion, that is why in 2023 HUF 263 million is presented in line 'Other short term assets' (in 2022: HUF 139 million and HUF 50 million is presented in line ' Other long term assets' (in 2022: HUF 283 million). The change in the short-term part is due to the settlement of the investments constructed in 2021-2022 with MNV Plc., however the amount of capitalisation in 2023 showed a significant increase. The decrease in the long-term part is due to decreased amount of new investments constructed in 2023.

14.2. Trade receivables and other current assets

Accounting policies:

Trade and other receivables are recognized initially at their transaction price based on IFRS 15 if the trade and other receivables do not contain a significant financing component and subsequently measured at amortized cost using the effective interest method, less loss allowances. A loss allowance of trade and other receivables is established in the amount of lifetime expected credit loss calculated by a provision matrix based on IFRS 9.

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

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

<u>TNC segment:</u> Loss allowance is determined by the same methodology as applied in En Route segment.

<u>Kosovo segment:</u> Loss allowance is determined by the same methodology as applied in En Route segment.

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

The loss allowance for provision is also 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.
Due to invoicing policy, average outstanding balance of receivables equals to two months sales turnover.

Classification of assets as non-current and current in the financial statements

The Company classifies an asset as current when:

- it expects to realise the asset, or intends to sell or consume it, in its normal operating cycle;
- it holds the asset primarily for the purpose of trading;
- it expects to realise the asset within twelve months after the reporting period; or
- the asset is cash or a cash equivalent unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Company classifies all other assets as non-current.

The following table shows the breakdown of trade receivables by Stage:

amounts in million HUF

Receivables	Stage 2	Stage 3	Total
Trade receivables	9,642	1,562	11,204
Intercompany receivable	17	0	17
Allowances	(52)	(1,414)	(1,466)
Total December 31, 2023	**9,607**	**148**	**9,755**
Trade receivables	10,241	1,700	11,941
Intercompany receivable	11	0	11
Allowances	(102)	(1,390)	(1,492)
Total December 31, 2022	**10,150**	**310**	**10,460**

The increase in trade receivables is due to the significant increase in the number of service units (SU) of the payable traffic compared to the previous year and the increase in the annual unit rates used for invoicing. The increase was slightly offset by the change in euro exchange rate used for the year-end valuation, which was lower in the vast majority of cases compared to the exchange rate used for invoicing.

Loss allowance for doubtful debts was the following by Stage:

amounts in million HUF

Loss allowance for doubtful debts	Stage 2	Stage 3	Total
Balance at the beginning of the year	102	1,390	1,492
Increase in loss allowances	98	138	236
Decrease in allowances	(71)	(131)	(202)
Foreign exchange movement in the year	0	(60)	(60)
Balance December 31, 2023	**129**	**1,337**	**1,466**
Balance at the beginning of the year	14	1,082	1,096
Increase in loss allowances	103	252	355
Decrease in allowances	0	(52)	(52)
Foreign exchange movement in the year	(16)	109	93
Balance December 31, 2022	**101**	**1,391**	**1,492**

Ageing of the trade receivable balances by Stages:

amounts in million HUF

December 31, 2023	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	9,462	7,285	1,471	252	426	28
Within 1 month	197	175	11	11	0	0
Total Stage 2	**9,659**	**7,460**	**1,482**	**263**	**426**	**28**
Overdue, between 1 -3 months	152	137	7	8	0	0
Overdue, between 3-6 months	26	14	11	1	0	0
Overdue, between 6-12 months	11	7	3	1	0	0
Overdue, over 12 months	589	463	112	13	1	0
Insolvent	784	721	31	32	0	0
Total Stage 3	**1,562**	**1,342**	**164**	**55**	**1**	**0**
Total	**11,221**	**8,802**	**1,646**	**318**	**427**	**28**

amounts in million HUF

December 31, 2022	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	9,658	7,900	1,330	373	25	30
Within 1 month	594	556	4	34	0	0
Total Stage 2	**10,252**	**8,456**	**1,334**	**407**	**25**	**30**
Overdue, between 1 -3 months	338	304	4	22	8	0
Overdue, between 3-6 months	99	92	3	4	0	0
Overdue, between 6-12 months	75	68	6	1	0	0
Overdue, over 12 months	530	412	104	13	1	0
Insolvent	658	588	40	30	0	0
Total Stage 3	**1,700**	**1,464**	**157**	**70**	**9**	**0**
Total	**11,952**	**9,920**	**1,491**	**477**	**34**	**30**

Aged balances of loss allowances by Stage:

amounts in million HUF

December 31, 2023	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	45	41	1	1	2	0
Within 1 month	7	6	0	1	0	0
Total Stage 2	**52**	**47**	**1**	**2**	**2**	**0**
Overdue, between 1 -3 months	24	20	2	2	0	0
Overdue, between 3-6 months	11	7	4	0	0	0
Overdue, between 6-12 months	8	6	2	0	0	0
Overdue, over 12 months	587	463	110	13	1	0
Insolvent	784	721	31	32	0	0
Total Stage 3	**1,414**	**1,217**	**149**	**47**	**1**	**0**
Total	**1,466**	**1,264**	**150**	**49**	**3**	**0**

amounts in million HUF

December 31, 2022	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	48	44	1	3	0	0
Within 1 month	54	43	8	3	0	0
Total Stage 2	**102**	**87**	**9**	**6**	**0**	**0**
Overdue, between 1 -3 months	90	80	1	9	0	0
Overdue, between 3-6 months	57	53	1	3	0	0
Overdue, between 6-12 months	60	57	2	1	0	0
Overdue, over 12 months	525	408	103	13	1	0
Insolvent	658	588	40	30	0	0
Total Stage 3	**1,390**	**1,186**	**147**	**56**	**1**	**0**
Total	**1,492**	**1,273**	**156**	**62**	**1**	**0**

Applied loss allowance rates:

Loss Allowance rate	Segment	December 31, 2023	December 31, 2022
Not overdue	En-route	0.59%	0.57%
Within 1 month	En-route	7.66%	3.44%
Overdue, between 1 -3 months	En-route	26.42%	14.64%
Overdue, between 3-6 months	En-route	57.27%	45.28%
Overdue, between 6-12 months	En-route	84.18%	83.43%
Overdue, over 12 months	En-route	95.31%	98.51%
Insolvent	En-route	100.00%	100.00%
Not overdue	Terminal	0.72%	0.50%
Within 1 month	Terminal	9.56%	5.06%
Overdue, between 1 -3 months	Terminal	41.98%	20.78%
Overdue, between 3-6 months	Terminal	70.34%	52.74%
Overdue, between 6-12 months	Terminal	86.25%	79.71%
Overdue, over 12 months	Terminal	97.82%	98.36%
Insolvent	Terminal	100.00%	100.00%
Not overdue	Kosovo	0.11%	0.09%
Within 1 month	Kosovo	4.13%	1.84%
Overdue, between 1 -3 months	Kosovo	30.91%	27.64%
Overdue, between 3-6 months	Kosovo	38.99%	36.27%
Overdue, between 6-12 months	Kosovo	40.65%	61.66%
Overdue, over 12 months	Kosovo	96.23%	94.33%
Insolvent	Kosovo	100.00%	100.00%

Balances of other current assets at the end of the reporting periods occurred as follows:

amounts in million HUF

Other current assets	December 31, 2023	December 31, 2022
Value added tax	1,336	1,516
Advances given	593	500
Receivable from investments on state owned assets	263	139
Other receivables	155	303
Changes in fair value of cash-flow hedges (gain)	89	998
Receivable from Eurocontrol - TNC sales	35	223
Amounts receivable from pension funds and voluntary pension funds	0	62
Bad debt allowances	(1)	(1)
Total other receivables	**2,470**	**3,740**
Accrued interest income on deposits fixed	16	60
Other income accrued	1	8
Total accrued income	**17**	**68**
Services prepaid	1,523	1,763
Total prepaid expenses	**1,523**	**1,763**
Other current assets	**4,010**	**5,571**

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

14.3. Cash and cash equivalents, other financial assets

Cash is carried at cost in the financial statements. Cash denominated in foreign currency is revalued at the end of the reporting period. The exchange rate used by the Company is the closing rate of the Hungarian National Bank (MNB) at the Statement of Financial Position date, unrealised gains and losses are recognised in the financial result.

The following items are classified as cash and cash equivalents:

- Bank deposits: The Company's bank accounts held in local and foreign currency, and short-term deposits. Bank overdrafts are not part of cash, they are recognised as short-term loans among liabilities.
- Cash equivalents: In practice, these are securities with a maturity not longer than 3 months from the date of purchase and have a minimal risk of value fluctuations (e.g. discount treasury bills). The credit risk of bank balances is measured by the Company through a risk review of the investment partner banks.

Balances of cash and cash equivalents at year ends are as follows in the order of liquidity:

amounts in million HUF

Cash and cash equivalents	December 31, 2023	December 31, 2022
Current accounts HUF	1,549	307
Current accounts in foreign currency	703	956
Fixed deposits HUF - within 3 months	14,768	0
Cash at banks	**17,020**	**1,263**
Government securities with maturity under 3 month	**0**	**9,253**
Cash and cash equivalents	**17,020**	**10,516**

Balances of invested financial assets, securities and other financial assets at year ends are as follows in the order of Statement of Financial Position lines:

amounts in million HUF

Other financial items	December 31, 2023	December 31, 2022
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity over 1 year	3,608	2,465
Long term securities	**3,608**	**2,465**
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity within 1 year	23,692	45
Short term securities	**23,692**	**45**
Fixed deposits HUF - within1 year over 3 months	0	6,800
Fixed deposits foreign currency - within 1 year over 3 months	15	11
Other financial assets	**15**	**6,811**

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 based on Expected Credit Loss model. The investment banks of the Company are determined with regard to specific conditions detailed in Note 14.7 b). Based on the informations the amount of loss allowance is not significant and therefore it is not 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.

The Company made separate investments in connection with the obligations included in the Air Controller Career Agreement (ACCA) and performs annual reviews and adjustments on the necessary accounts. The maturity structure of the investments is adjusted to the expected settlement date of the undertaken obligations. The table below shows the investments regarding Air Controller Career Agreement:

amounts in million HUF

Investment of Air Controller Career Agreement (ACCA)	December 31, 2023	December 31, 2022
ACCA - Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity over 1 year	3,608	2,465
ACCA - Cash and cash equivalents	868	753
ACCA - Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity within 1 year	0	45
Total	**4,476**	**3,263**

Detailed information about Air Controller Career Agreement are disclosed under Note 16.

14.4. Long term liabilities

Accounting policy:

Lease liabilities:

Based on the requirements of IFRS 16 'Leases' Standard applied by the Company, the lease contracts are recognised as right-of-use assets and lease liabilities in the Financial Statements (in Other long-term and short-term liabilities), applying the exemption of short-term leases and exemption of leases for which underlying asset is low of value (recognition exemptions). Right-of-use assets are presented separately in tangible assets, it is detailed in Chapter 12.

Based on guidance of IFRS 16.9 a contract contains a lease, if:

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

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

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

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

At the commencement date the Company measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted using the incremental borrowing rate
In determining the interest rate, the Company takes into account the reference yield of the Zero-coupon rate of GDMA (Government Debt Management Agency) according to the term of the liability, and adjusts it by market informations of MNB's (Hungarian National Bank) statistics, that are align with the currency of the lease; and in addition to the Company adjusts the rate with the company specific lending spread according to the latest available bank offer, that is the nearest to the date of recognition of the lease.
Changes in the interest rates used for discounting purposes are reviewed annually by the Company as necessary.
At commencement date, lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

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

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

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

The amounts of lease liabilities at the Statement of Financial Position dates presented were as follows regarding Intercompany and third party breakdown:

amounts in million HUF

Lease liabilities	December 31, 2023	December 31, 2022
Intercompany - Asset management	9,780	10,471
Intercompany - Other	62	116
Third party	641	594
Total long-term lease	**10,483**	**11,181**
Intercompany - Asset management	772	404
Intercompany - Other	26	23
Third party	154	146
Total short-term lease	**952**	**573**
Total lease liabilities	**11,435**	**11,754**

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

Lease liabilities of state owned properties are determined based on the asset management fee. The asset management fee is determined in the Hungarian Performance Plan validated by the EU and calculated according to the relevant EU Regulation (No. 317/2019). The cost of capital used to determine asset management fee is calculated by a method determined in CAPM (Capital Asset Pricing Model). The cost of capital is set for the actual performance period covering 5 years. For the succeeding periods it is recalculated.
The lease fees of the state owned assets qualify as variable lease payments, because they are determined by a particular method specified in the asset management contract. Due to the yearly modification of lease fees the lease liabilities are also recalculated on a yearly basis.

The Company is not committed to any lease agreement not yet commenced at the preparation date of the Financial Statements. The Company is not exposed to additional extension or termination options that are not included in the measurement of lease liabilities, and does not own agreements that contain residual value guarantee exposure.

Other long term liabilities
The balances of other long term liabilities at the reporting date is as follows:

amounts in million HUF

Other long term liabilities	December 31, 2023	December 31, 2022
EU grants received - long term part*	1,146	1,101
Liabilities recognised on other long term items	100	13
Long term trade liabilities	38	30
Long term liabilities payable to joint venture	5	5
Total	**1,289**	**1,149**

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

Detailed information on the grants received is presented under Note 7.

14.5. Trade payables and other short term liabilities

Accounting policy:

Other short-term liabilities include, inter alia, the following items:

- Liabilities to central and local government,
- Grant advances received,
- Liabilities to employees (non-financial instrument),
- Liabilities to pensions, mutual- and health funds (non-financial instrument),
- Other liabilities to banks,
- Other liabilities not specified,
- Liabilities arising from income taxes are recognized in a separate Statement of Financial Position line (non-financial instrument),
- Short-term part of lease liabilities presented in accordance with IFRS 16.

Items that qualify as non-financial instruments are not subject to disclosure requirements of IFRS 7.

Classification of liabilities as non-current and current in the financial statements

The Company classifies a liability as current when:

- it expects to settle the liability in its normal operating cycle;
- it holds the liability primarily for the purpose of trading;
- the liability is due to be settled within twelve months after the reporting period; or
- it does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

The Company classifies all other liabilities as non-current.

Loans:

The balances of loan liabilities at the reporting dates were as follows:

amounts in million HUF

Loans liabilities	December 31, 2023	December 31, 2022
Bank loans	14,000	0
Short-term loans at amortised cost	**14,000**	**0**

At the reporting date, the Company had only revolving credit facilities, which are due to be repaid in 2024. The overdraft facility at year-end was zero, it has been repaid in full by the Company.
Further details on the loans are presented under Note 14.7 ‘Credit risk management’.

Trade payables:

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

amounts in million HUF

Ageing of trade payables	December 31, 2023	December 31, 2022
Not due	3,844	3,949
Overdue, within 1 year	190	514
Overdue, between 1 - 5 years	0	2
Total trade payables	**4,034**	**4,465**

The Company settles trade payables within the payment term, and had no material overdue payables as of December 31, 2023 and 2022. The vast majority of trade payables of overdue, within 1 year category were settled in January 2024.
The amount of overdue trade payable between 1 and 5 years presented in 2022 is derecognised in 2023.

amounts in million HUF

Trade payables	December 31, 2023	December 31, 2022
Trade payables - domestic	2,622	2,257
Trade payables - foreign	976	2,115
Intercompany payables	436	93
Total trade payables	**4,034**	**4,465**

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 million HUF

Other short-term liabilities	December 31, 2023	December 31, 2022
EU grants - advance payment received*	2,515	1,508
Liabilities to parent company	1,200	1,200
Short term other liabilities towards various authorities	329	255
Personal income tax payable on behalf of the employees	261	62
Liabilities from social security	259	94
Changes in fair value of hedges (loss)**	256	97
Liability from enterprise licensing agreement	90	0
Other short term liabilities	90	36
Total other payables	**5,000**	**3,252**
EU grants received - short term part*	323	293
Other deferred income	1	1
Total deferred income	**324**	**294**
Services, goods delivered but not invoiced till the year end	65	4
Total accrued expenses	**65**	**4**
Total	**5,389**	**3,550**

** 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.*

In 2023 the ‘Liabilities to parent company’ line includes the dividend approved on the basis of the 2019 and 2020 financial statements, the financial settlement will be decided later by the parties.

14.6. Hedge accounting

The fair value of open transactions designated as hedge were as follows:

amounts in million HUF

Fair value of derivative financial instruments	December 31, 2023	December 31, 2022
Other current assets **Derivative financial instruments in designated hedge accounting relationships** Hedges - positive fair value	89	998
Other current liabilities **Derivative financial instruments in designated hedge accounting relationships** Hedges - negative fair value	256	97

The expected foreign currency cash flows carrying significant exchange rate risks are hedged with forward currency exchange contracts. Fair value of open forward contracts is recognized in the Statement of Financial Position among other short term receivables or liabilities.

14.7. Financial risk management

Financial risk management aims to limit the 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 according to Statement of Financial Position lines:

amounts in million HUF

Financial assets	Financial assets at amortised costs	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Long term trade receivables	374	0	374	374	0
Other long term assets	67	0	67	67	0
Trade receivables	9,755	0	9,755	9,755	0
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity above 1 year	23,692	0	23,692	23,720	(28)
Fixed deposits - within 1 year over 3 months	15	0	15	15	0
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity over 1 year	3,608	0	3,608	2,701	907
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	298	0	298	298	0
Derivative financial instruments in designated hedge accounting relationships	0	89	89	89	0
Cash and cash equivalents	17,020	0	17,020	17,020	0
Total as per December 31, 2023	**54,829**	**89**	**54,918**	**54,039**	**879**

amounts in million HUF

Financial assets	Financial assets at amortised costs	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Long term trade receivables	377	0	377	377	0
Other long term assets	301	0	301	301	0
Trade receivables	10,460	0	10,460	10,460	0
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity above 1 year	45	0	45	40	5
Fixed deposits - within 1 year over 3 months	6,811	0	6,811	6,811	0
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity over 1 year	2,465	0	2,465	1,184	1,281
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	939	0	939	939	0
Derivative financial instruments in designated hedge accounting relationships	0	998	998	998	0
Cash and cash equivalents	10,516	0	10,516	10,516	0
Total as per December 31, 2022	**31,914**	**998**	**32,912**	**31,626**	**1,286**

The difference between the fair value and the book value of securities is resulted from a decrease in the exchange rate due to increased yields, which is also reflected in the amount of the fair value of the bank.
The financial assets are free of all liens, claims and encumbrances.
The Company's best estimate of the carrying amount of Other long term assets and Trade receivables is the same as their fair value.

amounts in million HUF

Financial liabilities	Financial liabilities at amortised cost	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Other long term liabilities excluding liability of government grants	105	0	105	105	0
Long term trade liabilities	38	0	38	38	0
Loans	14,000	0	14,000	14,000	0
Trade payables	4,034	0	4,034	4,034	0
Derivative financial instruments in designated hedge accounting relationships	0	256	256	256	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	25	0	25	25	0
Total as per December 31, 2023	**18,202**	**256**	**18,458**	**18,458**	**0**
Other long term liabilities excluding liability of government grants	17	0	17	17	0
Long term trade liabilities	30	0	30	30	0
Trade payables	4,465	0	4,465	4,465	0
Derivative financial instruments in designated hedge accounting relationships	0	97	97	97	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	37	0	37	37	0
Total as per December 31, 2022	**4,549**	**97**	**4,646**	**4,646**	**0**

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

The book values of trade receivables decreased by loss allowances and trade payables approximate to their fair values.

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 Statement of Financial Position 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, 2023 mainly contains the obligations from retention warranty of trade payable balances. 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.

Changes in liabilities due to financing activities

amounts in million HUF

Liabilities	January 1, 2023	Cash flow from Financing activities	Lease increase	Foreign exchange movement	Interest	Other*	December 31, 2023
Short term loans	**0**	13,716	0	0	284	0	**14,000**
Lease liabilities	**11,754**	(1,184)	266	(23)	814	(192)	**11,435**
Dividend payable	**1,200**	(8,000)	0	0	0	8,000	**1,200**
Other liabilities from non-financing activities	**3,499**	0	0	0	0	1,979	**5,478**
Total	**16,453**	**4,532**	**266**	**(23)**	**1,098**	**9,787**	**32,113**

** The Other category includes lease derecognition, and reclassification items that do not involve cash flow.*

amounts in million HUF

Liabilities	January 1, 2022	Cash flow from Financing activities	Lease increase	Foreign exchange movement	Interest	Other*	December 31, 2022
Short term loans	**0**	(154)	0	0	154	0	**0**
Lease liabilities	**15,143**	(4,619)	2,806	37	837	(2,450)	**11,754**
Dividend payable	**1,200**	(800)	0	0	0	800	**1,200**
Other liabilities from non-financing activities	**4,445**	0	0	0	0	(946)	**3,499**
Total	**20,788**	**(5,573)**	**2,806**	**37**	**991**	**(2,596)**	**16,453**

** The Other category includes lease derecognition, and reclassification items that do not involve cash flow.*

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

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

b. Financial risk management

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

Market risk:

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

Foreign currency risk management

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

Revenue from air navigation services account for 99.6% of the Company's turnover. In the Hungarian En Route and terminal navigation segments – operated in the framework of the performance scheme – foreign exchange risk is borne by the service providers, thus, borne by the Company. Fees for air navigation services are set in Hungarian Forint, but are billed and collected in Euro. The conversion rate used is the average of the daily closing Reuters-rates for the month prior to the billing period ('n-1'). To mitigate the risk of movements in exchange rates between the date of determining the unit charges (average rate of 'n-1') and the date on which the funds are remitted ('n+2') to HungaroControl, foreign currency forward contracts are concluded. The Company hedges its expected cash flow from sales revenue of the Hungarian en-route and terminal segments based on hedging limits set in its foreign currency risk hedging policy.

In respect of air navigation services provided in Kosovo airspace the charges are set in Serbian dinar. These revenue streams are not hedged but as these represent a relatively small portion of revenue (2023: 3%, 2022: 5%) 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. For these foreign currency cash flows, the hedging period is a maximum of 18 months that is adjusted to the Company's planning cycle.

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

Currency	FX rates at year-end		Assets (in foreign currency)		Assets (in million HUF)	
	2023, December	2022, December	2023, December	2022, December	2023, December	2022, December
EUR	382.78	400.25	26,360,694	26,953,846	10,090	10,789
USD	346.44	375.68	7,383	735	3	0

Currency	FX rates at year-end		Liabilities (in foreign currency)		Liabilities (in million HUF)	
	2023, December	2022, December	2023, December	2022, December	2023, December	2022, December
EUR	382.78	400.25	12,669,040	8,798,484	4,850	3,521
USD	346.44	375.68	996,405	731,183	345	275

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.

EUR forward sale contracts to hedge revenues expire within 4 months, while EUR and USD forward purchase contracts to hedge trade payables expire within a maximum 18 months.

The following contracts were outstanding at year end:

amounts in million HUF

December 31, 2023	Revenue hedge (EUR sold)	Expenditure hedge (EUR bought)	Expenditure hedge (USD bought)	Total
Currency	**EUR**	**EUR**	**USD**	-
Currency amount	(30,906,000)	9,242,136	3,172,754	-
HUF amount	(11,997)	3,711	1,249	**(7,037)**
Fair value of open forward contracts at year end				
Valuation reserve (fair value Gain/ (Loss))	(257)	85	(131)	**(303)**
Ineffective part included in Comprehensive Income	22	(3)	0	**19**
Effective part included in Other Comprehensive Income	203	0	0	**203**
Effective part included in cost of assets	0	(171)	0	**(171)**
Interest income from swap points included in line item financial income	85	0	0	**85**
Total	**53**	**(89)**	**(131)**	**(167)**

amounts in million HUF

December 31, 2022	Revenue hedge (EUR sold)	Expenditure hedge (EUR bought)	Expenditure hedge (USD bought)	Total
Currency	**EUR**	**EUR**	**USD**	-
Currency amount	(30,806,070)	22,326,432	2,094,215	-
HUF amount	(13,074)	8,964	813	**(3,297)**
Fair value of open forward contracts at year end				
Valuation reserve (fair value Gain /(Loss))	(47)	385	15	**353**
Ineffective part included in Comprehensive Income	182	(21)	0	**161**
Effective part included in Other Comprehensive Income	170	0	0	**170**
Effective part included in cost of assets	0	50	0	**50**
Interest income from swap points included in line item financial income	167	0	0	**167**
Total	**472**	**414**	**15**	**901**

All of the above forecast transactions hedged are expected to occur. In connection with these forward contracts the amount deferred in equity will be realized in the statement of comprehensive income when the hedged transaction has an impact on the result.

The following amounts were recognized in the statement of comprehensive income for the financial years 2023 and 2022:

amounts in million HUF

Amounts recognised in statement of comprehensive income in relation to derivative financial instruments	December 31, 2023	December 31, 2022
Interest recognised in Comprehensive Income and included in financial results (swap points received)	1,666	1,167
Amount that was removed from equity and recognised in sales balance gain/ (loss)	203	(808)
Ineffective part of fair value hedges included in financial results gain/(loss)	(140)	28
Ineffective part of cash flow hedges included in financial results gain/ (loss)	(253)	92
Total gain/(loss) on cash flow hedge transactions	**1,476**	**479**
Fair value change of open hedge forward contracts at year end included in other comprehensive income (fair value reserve at year end)	(226)	452
Total result of cash flow hedges included in equity balance	**1,250**	**931**

At year end the loss charged to other comprehensive income was HUF 678 million in 2023, while it was HUF 322 million gain in 2022.

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 Statement of Financial Position 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 million HUF

Percentage	HUF/EUR	Assets (+) Increase in profit (-) Reduction in profit	Liabilities (+) Increase in profit (-) Reduction in profit	Impact on profit and equity (+) Increase in profit (-) Reduction in profit	Impact on equity (%)
2023					
103%	394.26	303	(145)	158	0.4%
100%	382.78	0	0	0	0.0%
97%	371.30	(303)	145	(158)	-0.4%
2022					
103%	412.26	324	(106)	218	0.7%
100%	400.25	0	0	0	0.0%
97%	388.24	(324)	106	(218)	-0.7%

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 0.4% increase in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results in 2023 (the same figure is 0.7% as well regarding 2022) – supposing that all other factors remain unchanged. This means that the exposure of the Company against EUR is not significant and financial results are moderately sensitive for the change in HUF/EUR rates.
A similar examination using 5% change in rates would result in a 0.7% change in retained earnings for 2023, and 1.2% for 2022.

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 million HUF

Percentage	HUF/EUR	Effect on profit for the year (+) Increase in profit (-) Reduction in profit	Effect on equity balance (+) Increase in profit (-) Reduction in profit
2023			
103%	394.26	(248)	47
100%	382.78	0	0
97%	371.30	248	(47)
2022			
103%	412.26	(240)	138
100%	400.25	0	0
97%	388.24	240	(138)

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 million HUF

Percentage	HUF/EUR	Trade receivables	Impact on profit and equity (+) Increase in profit (-) Reduction in profit	Impact on equity with hedging reserve (+) Increase in profit (-) Reduction in profit
2023				
103%	394.26	9,612	280	184
100%	382.78	9,332	0	0
97%	371.30	9,052	(280)	(184)
2022				
103%	412.26	10,116	295	194
100%	400.25	9,821	0	0
97%	388.24	9,527	(295)	(194)

Year-end revaluation

The results of year end revaluation of items in the Statement of Financial Position were as follows: HUF 123 million gain at the end of 2023 (2022: HUF 240 million loss).

Interest rate risk management

Interest rate risk from interest bearing assets and liabilities

The Company invested a significant part of the funds not required for short-term financing in fixed interest rate bank deposits, 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 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 20% weight risk has been determined.

The balances of deposits were as follows:

Annual Interest rate	2023 Amounts	2022 Amounts
HUF-deposits held	million HUF	million HUF
6% - 7%	14,768	0
<15%	0	4,600
15% - 16%	0	8,970
16% - 17%	0	2,483
Total	**14,768**	**16,053**
EUR-deposits held	EUR	EUR
<0.5%	28,600	28,600
Total	**28,600**	**28,600**

The interest rate increase in the banking market was significant in 2022.

The Company has overdraft facility agreements with three commercial banks for a total amount of HUF 9.5 billion, which are priced at 1 month BUBOR + interest margin or ON BUBOR + interest margin. The maturity of the contracts varies. One committed loan matures in December 2024 and one uncommitted loan mature in January 2025. The third uncommitted loan agreement is for an indefinite period. During 2023, the overdraft facility was drawn down on an ad hoc basis to fund operational payments, with short outstanding balances of 1-7 days. High interest rates did not result in significant additional interest expense for the Company.

In 2022, the Company entered into revolving credit facility agreements with two domestic commercial banks, mostly at fixed interest rates, expiring in 2025, for a total of HUF 17.5 billion. The amount drawn down under these credit facilities was HUF 14 billion at 31 December 2023, while at the end of 2022 the Company had no loan liability. Based on the revolving nature, these loans are included in current liabilities.

The following assumptions are used in interest rate sensitivity analysis:

- for the investments (deposits and securities): if the average amount of investments in 2023 would have been invested for one year at the yield realised in 2023, and the realised yield percentage would have been in line with the basis point deviations indicated,
- for the fixed-rate loan portfolio: if the balance of the loans at 31 December 2023 would have been drawn down continuously throughout the year at the same amount, and the interest payable percentage would have been determined according to the basis point deviations indicated,
- for the variable-rate overdrafts: if the overdrafts – that were drawn down on a case-by-case basis in 2023 - would have been drawn down daily in the average annual amount of the portfolio, at the average annual interest rate, and the interest percentage payable would have been the same as the basis point deviations indicated.

The effect on the Statement of Comprehensive Income are as follows when all other assumptions remain unchanged:

amounts in million HUF

Increase/decrease in basis points	Effect on profit for the year (+) Increase in profit (-) Reduction in profit
Bank deposits, securities	
+100	297
-100	(297)
+150	445
-150	(445)
Revolving loans	
+100	(140)
-100	140
+150	(210)
-150	210

The Company has no other significant interest-bearing liabilities.

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 and terminal businesses the performance scheme allows to include a risk premium above the risk-free rate when calculating cost of equity included in the cost base. The expected return was determined partly in advance for the period of 2020-2024. Therefore, although changes in interest rates within this period might differ from the real cost of equity, they can not 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, after the submission of adopted performance plan, the Company would be exposed to a significant interest rate risk, if it holds large amount of interest-bearing assets. This kind of risk is not considered significant according to the financing potential (involving external sources of finance). However related conditions of the external source of finance determine what kind of interest rate risk will arise.

Inflation rate risk management

The risk of changes in inflation rate is borne partly by airlines according to the performance scheme (En Route and terminal segments). Inflationary differences can not be transferred to airlines if they relate to depreciation, cost of capital or costs payable for authorities as part of the cost base. 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 (in the year ‘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. Airspace users bear significant risk of inflation in En Route and terminal segments in 2023 due to the 13.7 percentage point excess between the actual and planned inflation, which will be recovered in the 2025 unit rates.

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 Company does not bear credit risk based on expected credit loss of the counterparty by the fact, that loss allowances recognised for expected credit losses 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 credit risk of default of the customers, that has increased due to COVID-19 pandemic and the Russian war in Ukraine. Losses incurred in relation to customer impairments are chargeable costs under the relevant EU regulations, and accordingly the Company has included a flat-rate cost in RP3 performance plan based on the impairments of previous years, that may be used for incurred impairment losses. The actual risk is that the amount of impairment losses would increase constantly and would therefore differ materially from the planned amount. For the year 2023, the amount planned in the performance plan has provided sufficient coverage for the impairment losses incurred.

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 December 2023. 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.

Based on the outcome of the revolving current asset loan limit tender at the end of 2021, the Company believes that it has a favourable bank assessment. The renewal of the overdraft facilities in 2023 and the substantive elements of these facilities (e.g. that are indefinitely maintained) also can support a favourable assessment of the Company.

The Company's investment policy, details of the investment partner review and guidelines on the investigation of growth in credit risk are described Under Note 14 'Accounting policies'.

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.

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 Kosovo segment after two years (period 'n+2') through the charges, therefore in this line of business the Company does not bear any substantive traffic risk - it may have liquidity risk though.
In the En Route and terminal segments 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.

Based on the EU Regulation No. 1627/2020 through a different process, underrecoveries - as a result of decreased revenue in 2020 and in 2021 - are not collected in the period 'n+2', but are allocated equally into 5 years started in 2023. In contrast, the substantial amount of the overrecoveries - as a result of intense air traffic in 2018 and 2019 - which resulted high cash balances at the Company, must be taken into account in the charges in the year 'n+2'.
Under the performance scheme larger than planned cost generally can not be passed on to users. It can be passed on to airlines in the very limited cases of uncontrollable costs, but the validation varies by cost types and it can be charged to users in the year 'n+2' or after the end of the actual reference period. During the year 2023 the difference in investment costs was registered as uncontrollable cost, but during the whole reference period – which is the base of the reporting for this item - this difference is expected to decrease.

The operation of HungaroControl Plc. is marked by a stable liquidity position in 2023.

Maturity profile of financial receivables according to Statement of Financial Position lines

As part of the liquidity risk analysis, the table below shows the maturity structure of non-derivative financial instruments at 31 December 2023 and 2022, based on the undiscounted values of contractual cash flows. The table has been prepared taking into account the earliest date on which the inflow of the receivable could occur.

amounts in million HUF

Ageing of financial receivables	Not overdue	Overdue within one year	Overdue between 1-5 years	Overdue over 5 years	Total
Long term trade receivables	374	0	0	0	374
Other long term assets	67	0	0	0	67
Trade receivables	9,416	336	1	2	9,755
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity over 1 year	3,608	0	0	0	3,608
Fixed deposits - within 1 year over 3 months	15	0	0	0	15
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity within 1 year	23,692	0	0	0	23,692
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	298	0	0	0	298
Cash and cash equivalents	17,020	0	0	0	17,020
Total December 31, 2023	**54,490**	**336**	**1**	**2**	**54,829**
Long term trade receivables	377	0	0	0	377
Other long term assets	301	0	0	0	301
Trade receivables	9,611	844	3	2	10,460
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity over 1 year	2,465	0	0	0	2,465
Fixed deposits - within 1 year over 3 months	6,811	0	0	0	6,811
Based on business model, Financial assets held to collect contractual cash flows (government securities) with maturity within 1 year	45	0	0	0	45
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	939	0	0	0	939
Cash and cash equivalents	10,516	0	0	0	10,516
Total December 31, 2022	**31,065**	**844**	**3**	**2**	**31,914**

Maturity profile of financial liabilities according to Statement of Financial Position lines

As part of the liquidity risk analysis, the table below illustrates the maturity profile of non-derivative financial liabilities based on contractual undiscounted payments as of December 31, 2023 and 2022.The table has been drawn up based on the earliest date on which the Company can be required to repay.

amounts in million HUF

Ageing of financial liabilities	Overdue	Due within one year	Due between 1-5 years	Due over 5 years	Total
Other long term liabilities excluding liability of government grants	0	0	100	5	105
Long term trade liabilities	0	0	38	0	38
Loans	0	14,000	0	0	14,000
Lease liabilities	3	1,335	5,883	12,468	19,689
Trade payables	190	3,844	0	0	4,034
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	0	25	0	0	25
Total December 31, 2023	**193**	**19,204**	**6,021**	**12,473**	**37,891**
Other long term liabilities excluding liability of government grants	0	0	13	5	18
Long term trade liabilities	0	0	30	0	30
Lease liabilities	3	1,284	5,628	13,816	20,731
Trade payables	516	3,949	0	0	4,465
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	0	37	0	0	37
Total December 31, 2022	**519**	**5,270**	**5,671**	**13,821**	**25,281**

The Company is in a net inflow position for both years presented. Cash flows from receivables cover cash outflows due on payables.

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 these criteria in each year presented.

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 date of Statement of Financial Position.

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. The Company has not made any provision for legal matters.

Total balances at year end are as follows:

amounts in million HUF

Provisions	Other provision
Long-term provisions	7
Short-term provisions	760
Total as per December 31, 2022	**767**
Long-term provisions	7
Short-term provisions	81
Total as per December 31, 2023	**88**

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

amounts in million HUF

Short-term	Other provision
Balance as of January 1, 2022	**729**
Additional provisions created	496
Utilized during the year	(465)
Balance as of December 31, 2022	**760**
Additional provisions created	53
Utilized during the year	(732)
Balance as of December 31, 2023	**81**

The other provisions include liabilities where present obligations have arisen as a result of past events, the payments are probable and the amounts can be estimated reliably. The ‘Other provisions’ recognised in 2023 are short-term, that is why discounting is not applied. They are settled in cash within one year, at the same time the provision is released.

The other short-term provisions include the following items.

amounts in million HUF

Short-term other provision	Closing balance	Amounts utilized during the year	Additional amount generated	Opening balance
2023	**81**	**(732)**	**53**	**760**
Public administration fees and supervisory license fees	54	(269)	53	270
FAB CE subsidy reimbursement	27	0	0	27
Solidarity contribution	0	(453)	0	453
Penalties regarding energy service contract	0	(10)	0	10
2022	**760**	**(465)**	**496**	**729**
Public administration fees and supervisory license fees	270	(465)	27	708
FAB CE subsidy reimbursement	27	0	6	21
Solidarity contribution	453	0	453	0
Penalties regarding energy service contract	10	0	10	0

- Provision for FAB CE subsidy reimbursement (the subsidy received for the costs of the FAB CE FRA simulation should be returned to the FAB members to avoid multiple funding).
- Provision for public administration fees and supervisory license fees, for which the amount of 2022 provision is released and new provision is created in 2023.
- Provision for solidarity contribution (due to the Russian war in Ukraine, EUROCONTROL Member States decided in 2022 to provide a non-refundable subsidy to the Ukrainian and Moldovan air navigation service providers and to support Polish and Baltic air navigation service providers to address liquidity problems caused by traffic diversion. Based on information available at the reporting date, the Hungarian State intends to make the Hungarian contribution through HungaroControl Plc. at the expense of the Company's assets). The amount of the provision is released in 2023.
- Provision for penalties for failure to meet the contractual minimum value of energy services was created in 2022 and released in 2023.

The long-term part of Other provisions has remained unchanged (2023: HUF 7 million, 2022: HUF 7 million).

16. Employee benefits

Accounting policies:

Career plans:

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

The Company operates a Career plan as a long term pension scheme regulated by the agreements ‘HungaroControl Career Plan’ and the ‘Air Controller Career Agreement’. A defined part of the Career plan is 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 the end of their air controller position. The contributions regarding the air controllers are invested into a separate fund in 2020 according to the agreement which defines the instrument, and the closing balance was paid into that. The conversion between the schemes has been closed regarding the non-air navigation personnel as well, the payments from the closing balance of the previous scheme are fulfilled as planned. Actuarial gains and losses in other comprehensive income at transition was transferred to profit reserves.

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

Other long term employee benefit plans:

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

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

As provided in the 2013 amendment of paragraph No. 132 of the Act CCV of 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 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 million HUF

Employee benefits	December 31, 2023	December 31, 2022
Long term employee benefits	5,905	4,579
Short term employee benefits	4,258	3,716
Total employee benefits	**10,163**	**8,295**

Short term employee benefits

Short term employee benefits include wages, salaries, social security contributions, and non-monetary benefits, that are expected to be settled wholly before 12 months after the end of the annual reporting period. The following table include in addition the short-term part of termination benefits and other long-term employee benefits.

amounts in million HUF

Short term employee benefits	December 31, 2023	December 31, 2022
Short term part of other long term employee benefits	1,100	636
Payables regarding performance and financial target achievements	1,035	1,214
Salaries payable for December	974	847
Payables regarding security and traffic related targets	780	621
Short-term compensated absences	169	144
Short term part of termination benefits	132	123
Bonuses payable on a short-term basis	66	128
Other	2	3
Total	**4,258**	**3,716**

Post employment benefits:

The Company does not provide post-employment benefits to employees.

Termination benefits and Other long term employee benefits

The Company provides, in addition to termination benefits, those benefit items that are described in accounting policy section. The short term part of these benefits are presented among ‘Short term employee benefits’.

The amount of the employee benefits are the following:

amounts in million HUF

Employee benefits	Other employee benefits	Termination benefits	Other short term employee benefits	Total
Present value at January 1, 2023	**4,940**	**398**	**2,957**	**8,295**
Current service cost	1,791	664	3,026	**5,481**
Change in discount rates	114	62	0	**176**
Interest costs	70	20	0	**90**
Net actuarial (gains)/losses	(98)	(66)	0	**(164)**
Past service cost	(233)	0	0	**(233)**
Used during the year	(304)	(221)	(2,957)	**(3,482)**
Present value at December 31, 2023	**6,280**	**857**	**3,026**	**10,163**
Short term part	1,100	132	3,026	4,258
Long term part	5,180	725	0	5,905

amounts in million HUF

Employee benefits	Other employee benefits	Termination benefits	Other short term employee benefits	Total
Present value at January 1, 2022	**3,636**	**238**	**1,875**	**5,749**
Past service cost	978	0	0	**978**
Current service cost	537	329	2,957	**3,823**
Net actuarial (gains)/losses	28	(95)	0	**(67)**
Interest costs	18	4	0	**22**
Change in discount rates	(109)	(20)	0	**(129)**
Used during the year	(148)	(58)	(1,875)	**(2,081)**
Present value at December 31, 2022	**4,940**	**398**	**2,957**	**8,295**
Short term part	636	123	2,957	3,716
Long term part	4,304	275	0	4,579

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 million HUF

Financial and actuarial variables and assumptions	December 31, 2023	December 31, 2022
Effect of changes in discount rate	176	(129)
Effect of changes in expected salary increase	147	121
Effect of changes in exit probability	(7)	1
Other	(39)	11
Effect of changes in assumed exits	(265)	(200)
Total	**12**	**(196)**
Included in other comprehensive income	0	0
Included in comprehensive income statement	12	(196)

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 or the difference between the estimated and actual impact of exit and death. In 2023 the amount of Actuarial gains/losses line shows a loss result.
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 2023. 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 rate used for scheme liabilities in 2023 was 6.6% regarding balances due within 1 year, in 2022 balances within 1 year the discount rate was near 13%.
Among all the actuarial assumptions the change in discount rates has significant impact on the net present value of the liability balance. From 2021 to 2022 the year end value of the obligations decreased by HUF 129 million, since between 2022 and 2023 the year-end balance increased by HUF 176 million.

Actuarial gains and losses arising from changes in demographic assumptions

Actual versus estimated exit probability: exit assumptions for 2023 have been determined based on historical data for the last 10 years, taking into account the fact that there is a detectable relationship between the length of time worked at the Company and the probability of leaving. These are presented below broken down by categories of personnel (averages):

- 2023: Non-air navigational employees: 5.9%, air navigational employees: 0.4%.
- 2022: Non-air navigational employees: 5.9%, air navigational employees: 0.3%.

Mortality index: mortality indices used are derived from the statistics published by the Central Statistical Office assuming the mortality rate equal to 50% of the population mortality rate, with one in ten deaths being considered as work place accidents taking into account actual historical data of the Company from the last years.

Increase in salaries: wage increase assumption was used in one hand for occupational accidents, the amount of expected payments of this benefit element is affected only to a small extent by the assumptions. In addition, we used wage increase assumptions for the anniversary bonuses of military personnel based on data available until 2028. After 2028 we assumed a wage increase of 6% in line with the long-term inflation target of the Central Bank.

Sensitivity analysis of actuarial assumptions is based on a change in one significant assumption, with all other assumptions held constant. Sensitivity analyses are not necessarily represents the actual change in the benefit obligation because it is unlikely that changes in assumptions will occur separately.

The sensitivity analysis carried out on the main actuarial assumptions used in the valuation shows the following:

amounts in million HUF

Assumptions	Impact on Employee Benefit Obligation
Effect of changes in assumed exits	
+10 %	(6)
-10 %	6
Effect of changes in discount rate	
+0.25 %	(18)
-0.25 %	19
Effect of changes in expected salary increase	
+1 %	62
-1 %	(58)

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 of Construction and Transport, Ministry of Defence and Ministry of Foreign Affairs.
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 million HUF

Flights exempted	Balance as per, December 31, 2023	Balance paid off	Impairment	Credited to Financial income	Credited to Revenue	Balance as per, January 1, 2023
Ministry of Defence	**659**	550	3	49	303	**860**
Ministry of Construction and Transport	**71**	39	0	5	36	**69**
Ministry of Foreign Affairs	**33**	31	0	5	33	**26**
Total	**763**	**620**	**3**	**59**	**372**	**955**
Exempted flights	**Balance as per, December 31, 2022**	**Balance paid off**	**Impairment**	**Credited to Financial income**	**Credited to Revenue**	**Balance as per, January 1, 2022**
Ministry of Defence	**860**	576	0	20	320	**1,096**
Ministry of Construction and Transport	**69**	28	0	1	32	**64**
Ministry of Foreign Affairs	**26**	34	0	2	26	**32**
Total	**955**	**638**	**0**	**23**	**378**	**1,192**

Governmental organizations from whom the Company purchases services, leases assets from, has other obligations to pay to, or sale products and provide services are presented below.

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 predecessor of **Hungarian National Asset Management Inc**.). According to the agreement, the Company acquired asset management rights over state owned land, buildings, structures and related property rights. The Company classifies the contract as leases under IFRS 16 'Leases' Standard. Right-of-use assets and lease liabilities in the Financial Statements are presented according to the requirements. According to the agreement the Company is obliged to keep the assets at their original nominal value by restoring, replacing and improving them counterbalancing the loss in usage values. The liability to keep the state owned assets at their original nominal value ('replacement obligation') was disclosed at the beginning among long term liabilities. The related regulation was amended with an effective date of 28 June 2013 resulting in the release of the replacement obligation. The accumulated replacement obligation was settled by agreements signed, thus the value of current year construction and renovation on state owned assets is accounted for among receivables.

amounts in million HUF

Related parties	Services used	2023	2022
Hungarian National Asset Management Inc.	Asset management fee payable according to an asset management agreement over state owned land and buildings	947	1,450
	- Of which Lease fee	946	1,448
Ministry of Construction and Transport	Supervisory fee payable of air navigation services over Hungary	1,218	901
	Air navigation service related administration fees payable	225	146
	Supervisory fee payable of air navigation services over Kosovo	100	120
	Other payable license fees	9	5

Further transactions considered to be **significant** in terms of size:

amounts in million HUF

Related parties	Services used	2023	2022
MVM Next Energiakereskedő Plc.*	Electricity expenses	1,560	0
	Gas expenses	138	84
Hungarian Meteorological Service (OMSZ)	Purchase of meteorological data	25	24
Digital Government Agency	Public procurement procedure fee	19	27
Directorate General of Public Procurement	Lease of properties	8	8
National Waste Management Coordination and Asset Management Plc.	Waste collection services used	2	4
Ministry of Defence	Lease of properties	2	2
MFK Hungarian Development Centre Nonprofit Ltd.**	Lease of properties	0	1

** The electricity service is provided by a non-affiliated company in 2022.*
*** The leased property was returned.*

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2023 HUF 4 million loss allowance is accounted for flights exempted, while in 2022 no loss allowance 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 the partner having direct control over the Company:

amounts in million HUF

Transactions with N7 Holding Plc.	December 31, 2023	December 31, 2022
Amounts presented in Statement of Comprehensive Income*		
Sales of IT services	(38)	(10)
Sales of intermediated services	(11)	(2)
Amounts presented in Statement of Financial Position**		
Amounts owed by parent company	17	11

** Revenues (-)/Expenses (+)*
*** Receivables (+)/Liabilities (-)*

Transactions with joint ventures:

EPC Ltd. provides the training of air navigation personnel for the Company, and provides language courses. Sales revenues from EPC Ltd. include office rentals, training room rentals and revenues for management services. Short term liabilities are fully settled at the year end.

The transactions with EPC Ltd. are disclosed fully:

amounts in million HUF

Transactions with EPC	December 31, 2023	December 31, 2022
Amounts presented in Statement of Comprehensive Income*		
Sales of management services	(14)	(13)
Purchases of training services	738	803
Amounts presented in Statement of Financial Position**		
Amounts owed to related parties - long term	(5)	(5)

** Revenues (-)/Expenses (+)*
*** Receivables (+)/Liabilities (-)*

Transactions with FABCE Aviation Services, Ltd. include purchase of professional support and management services (2023: HUF 46 million, 2022: HUF 41 million).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2023 and in 2022 no provisions have been made for doubtful debts in respect of amounts owed by joint ventures.

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 2023

amounts in million HUF

Remuneration of key personnel	Short-term employee benefits**	Post-employment benefits	Other long-term benefits***	Termination benefits
Remuneration of Board of Directors	38	0	0	0
Remuneration of the Supervisory Board	108	0	6	0
Remuneration of Chief Executive Officer and Directors of the Company*	528	0	12	0
Total	**674**	**0**	**18**	**0**

** The amount includes in total HUF 48 million bonus accrual.*
***Short-term employee benefits include among others: Salary, Benefits based on performance evaluation, Premium, Cafeteria, etc.*
****Other long-term benefits include the amounts granted under Air Controller Career Agreement and Collective Agreement.*

Financial year 2022

amounts in million HUF

Remuneration of key personnel	Short-term employee benefits**	Post-employment benefits	Other long-term benefits***	Termination benefits
Remuneration of Board of Directors	80	0	0	0
Remuneration of the Supervisory Board	97	0	3	0
Remuneration of Chief Executive Officer and Directors of the Company*	402	0	9	17
Total	**579**	**0**	**12**	**17**

**The amount includes in total HUF 18 million bonus accrual.*
***Short-term employee benefits include among others: Salary, Benefits based on performance evaluation, Premium, Cafeteria, etc.*
****Other long-term benefits include the amounts granted under Air Controller Career Agreement and Collective Agreement.*

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

<u>Under- and overrecovery balances in Kosovo segment:</u>
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 and inflation forecasted is shared with the airspace users. The Company does not bear the risk of the so called 'uncontrollable costs', thus, the Company has to settle under- and overrecovery balances from these facts in the future. Under-and overrecovery balances may arise simultaneously in the same period and for the same segment due to different risk sharing rules.

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

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

amounts in million HUF

Underfunding from cost base mechanism	Closing balance, December 31, 2023	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance, January 1, 2023
underrecoveries from 2016, En-route segment	58	(9)	0	67
underrecoveries from 2020, En-route segment	9,236	(2,305)	0	11,541
underrecoveries from 2020, TNC segment	1,713	(429)	0	2,142
underrecoveries from 2021, En-route segment	7,430	(2,183)	0	9,613
underrecoveries from 2021, TNC segment	1,716	(495)	0	2,211
underrecoveries from 2021, Kosovo segment	0	(221)	0	221
underrecoveries from 2022, En-route segment	3,887	(86)	0	3,973
underrecoveries from 2022, TNC segment	815	(17)	0	832
underrecoveries from 2023, En-route segment	7,851	0	7,851	0
underrecoveries from 2023, TNC segment	1,664	0	1,664	0
Total underrecovery carried over	**34,370**	**(5,745)**	**9,515**	**30,600**

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

amounts in million HUF

Overfunding from cost base mechanism	Closing balance, December 31, 2023	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance, January 1, 2023
overrecoveries from 2016, En-route segment	429	(72)	0	501
overrecoveries from 2016, TNC segment	153	(26)	0	179
overrecoveries from 2017, En-route segment	471	(78)	0	549
overrecoveries from 2017, TNC segment	162	(27)	0	189
overrecoveries from 2018, En-route segment	558	(93)	0	651
overrecoveries from 2018, TNC segment	165	(28)	0	193
overrecoveries from 2019, En-route segment	516	(98)	0	614
overrecoveries from 2019, TNC segment	172	(34)	0	206
overrecoveries from 2020, En-route segment	4,717	(1,481)	0	6,198
overrecoveries from 2020, TNC segment	937	(220)	0	1,157
overrecoveries from 2021, En-route segment	2,889	(1,116)	0	4,005
overrecoveries from 2021, TNC segment	913	(228)	0	1,141
overrecoveries from 2022, En-route segment	10,866	(1,344)	(62)	12,272
overrecoveries from 2022, TNC segment	753	(136)	0	889
overrecoveries from 2022, Kosovo segment	745	0	36	709
overrecoveries from 2023, En-route segment	10,204	0	10,204	0
overrecoveries from 2023, TNC segment	119	0	119	0
overrecoveries from 2023, Kosovo segment	15	0	15	0
Total overrecovery carried over	**34,784**	**(4,981)**	**10,312**	**29,453**
Contingent liability from non-controllable costs	3,109	0	2,356	753
Contingent liability from other unit rate related differences	371	(44)	196	219
Total contingent liability from cost base mechanism	**38,264**	**(5,025)**	**12,864**	**30,425**

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 million HUF

Maturity date	Amount	
30.08.2023-30.08.2024	29	bank guarantee given for rental fee payment
Guarantees given	**29**	
06.12.2023-31.03.2024	335	bank guarantee received in relation to investment projects
24.03.2021-12.04.2024	6	bank guarantee received in relation to investment projects
08.08.2023-04.07.2024	17	bank guarantee received in relation to investment projects
20.01.2022-21.01.2025	1	bank guarantee received in relation to investment projects
21.07.2023-27.01.2025	94	bank guarantee received in relation to investment projects
21.10.2020-31.08.2025	2	bank guarantee received in relation to investment projects
31.03.2022-08.04.2026	1	bank guarantee received in relation to investment projects
18.01.2022-30.01.2027	2	bank guarantee received in relation to investment projects
13.12.2022-30.11.2027	12	bank guarantee received in relation to investment projects
Guarantees received	**470**	

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 2023 were HUF 470 million of which HUF 335 million guarantee belongs to the purchase of the Modular Integrated Remote Tower (mirTWR) system.

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's capital is in majority represented in tangible assets and intangible assets, that largely serve the core business. In addition, due to the settlement mechanism that governs the Company's operations, the proportion of cash and cash equivalents was significant in 2023. Liabilities financed by foreign funds contain loans and lease liabilities to be presented in accordance with IFRS 16.

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.

The equity is presented in the following table:

amounts in million HUF

Equity items	December 31, 2023	December 31, 2022
Non-current assets	51,404	47,903
Current assets without cash	37,553	22,916
Cash and cash equivalents	17,020	10,516
Total assets	**105,977**	**81,335**
Liabilities financed by own funds	21,495	20,238
Liabilities financed by foreign funds	25,435	11,754
Total liabilities	46,930	31,992
Shareholder's equity *	**59,047**	**49,343**

** HungaroControl considers as equity the assets which were made available by the owner and which were left with the Company from the profit after tax. Equity includes the part of the reserves which were realised through the results of cash flow hedges as well.*

20. Events after the reporting period

The Company has assessed the impact on the financial statements of the information that becomes available after the date of Statement of Financial Position but before the financial statements are authorised for issue in accordance with IFRS Accounting Policies. On this basis, we are not aware of any significant events that would have an impact on the financial statements.

The financial statements of the Company for the year ended at December 31, 2023 prepared in conformity with International Financial Reporting Standards (IFRS) are approved in accordance with the resolution of the CEO on 30 May 2024 and with the resolution of the Board of Directors on 12 June 2024.

Budapest, 12 June 2024

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Chief Executive Officer