HungaroControl

FINANCIAL STATEMENTS

for the year ended December 31, 2020

in accordance with International Financial Reporting Standards (IFRS)

HUNGAROCONTROL
FINANCIAL STATEMENTS
DECEMBER 31, 2020

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Practitioner of shareholder rights of HungaroControl Zrt.

Opinion

We have audited the accompanying 2020 financial statements of HungaroControl Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2020 - showing a balance sheet total of HUF 67,084,471 thousand and a total comprehensive loss for the year of HUF 17,306,095 thousand - , the related statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of the Company as at 31 December 2020 and of its financial performance and its cash flows for the financial year then ended in accordance with International Financial Reporting Standards as adopted by the EU ("EU IFRSs").

Basis for opinion

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

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

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

Other Matters and restriction on use

The entity has prepared another set of annual financial statements as at 31 December 2020 in accordance with the Hungarian Accounting Law and, we have issued a separate report on those financial statements on 3 June 2021.

The entity has prepared the financial statements for the purpose to comply with the Regulation (EC) No 550/2004 of the European Parliament and of the Council of 10 March 2004. Our auditor's report should not be used for any other purposes.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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

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

(The original Hungarian language version has been signed.)

Bartha Zsuzsanna Éva
Budapest, 9 June 2021
Ernst & Young Kft.

HUNGAROCONTROL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020

amounts in thHUF

	Notes	December 31, 2020	December 31, 2019
Intangible assets	11	11 796 771	9 555 608
Property, plant and equipment	12	27 210 945	26 792 295
Investments in joint ventures	9	56 159	65 126
Invested financial assets	14.3	0	3 850 000
Long term securities	14.3	2 188 528	5 963 550
Other long term assets	14.1	688 050	403 150
Deferred tax asset	10	560 151	399 976
Non-current assets		**42 500 604**	**47 029 705**
Inventories	13	45 712	63 038
Trade receivables	14.2	4 203 654	5 978 651
Other current assets	14.2	2 773 373	2 900 702
Current tax receivable	10	232 480	207 750
Short term securities	14.3	7 635 614	14 937 229
Other financial assets	14.3	4 299 943	7 659 453
Cash and cash equivalents	14.3	5 393 091	4 541 604
Current assets		**24 583 867**	**36 288 427**
TOTAL ASSETS		**67 084 471**	**83 318 132**
Share capital	1.1	20 201 600	20 201 600
Reserves		18 496 790	36 802 885
Shareholder's equity		**38 698 390**	**57 004 485**
Long term provisions	15	255 437	6 711
Long term employee benefits	16	2 839 114	3 352 941
Other long term liabilities	14.4	15 319 126	15 364 131
Deferred tax liability	10	0	0
Non-current liabilities		**18 413 677**	**18 723 783**
Trade payables	14.5	2 934 167	1 845 286
Short term provisions	15	0	48 540
Short term employee benefits	16	2 192 581	2 389 679
Current tax liability	10	0	27 530
Other short-term liabilities	14.5	4 845 656	3 278 829
Current liabilities		**9 972 404**	**7 589 864**
TOTAL LIABILITIES		**28 386 081**	**26 313 647**
TOTAL EQUITY & LIABILITIES		**67 084 471**	**83 318 132**

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

HUNGAROCONTROL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

amounts in thHUF

	Notes	2020	2019
Revenue from air navigation services	**5**	15 699 840	38 451 129
Other revenue		144 578	191 760
Revenue		**15 844 418**	**38 642 889**
Personnel expense	**6.1**	17 353 761	18 772 358
Operating expense	**6.2**	9 310 262	8 853 637
Depreciation, depletion, amortization and impairment	**11, 12**	5 523 793	5 203 621
Other income / expense (-)	**7**	176 567	-85 471
Operating expense		**32 011 249**	**32 915 087**
OPERATING PROFIT		**-16 166 831**	**5 727 802**
Financial income / expense (-)	**8**	-1 020 804	-826 563
Profit from financial activities		**-1 020 804**	**-826 563**
Share from profit / loss of joint venture	**9**	15 325	22 704
PROFIT BEFORE TAX		**-17 172 310**	**4 923 943**
Income tax expense	**10**	196 793	1 261 725
PROFIT FOR THE YEAR		**-17 369 103**	**3 662 218**
Attributable to equity holder of the parent		**-17 369 103**	**3 662 218**
OTHER COMPREHENSIVE INCOME			
Items reclassified subsequently to profit and loss			
Gain / loss (-) on cash flow hedges	**14.7**	63 008	56 563
Less tax effect		0	0
Items that will not be reclassified subsequently to profit and loss			
Actuarial gain / loss (-)		0	0
Less tax effect		0	0
Other comprehensive income, net of tax		**63 008**	**56 563**
TOTAL COMPREHENSIVE INCOME		**-17 306 095**	**3 718 781**
Attributable to equity holder of the parent		**-17 306 095**	**3 718 781**

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

HUNGAROCONTROL
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

amounts in thHUF

	Notes	Share capital	Retained earnings	Valuation reserve	Total reserves	Total shareholder's equity
Opening balance at 1 January, 2019		20 201 600	34 049 556	34 548	34 084 104	54 285 704
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	10, 16, 14.7	0	-3	56 566	**56 563**	**56 563**
Profit for 2019		0	3 662 218	0	**3 662 218**	**3 662 218**
Total comprehensive income		0	3 662 215	56 566	3 718 781	3 718 781
Dividends		0	-1 000 000	0	**-1 000 000**	**-1 000 000**
Closing balance, 31 December, 2019		20 201 600	36 711 771	91 114	36 802 885	57 004 485
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	10, 16, 14.7	0	16 112	46 896	**63 008**	**63 008**
Profit for 2020		0	-17 369 103	0	**-17 369 103**	**-17 369 103**
Total comprehensive income		0	-17 352 991	46 896	-17 306 095	-17 306 095
Dividends			-1 000 000		**-1 000 000**	**-1 000 000**
Closing balance, 31 December, 2020		20 201 600	18 358 780	138 010	18 496 790	38 698 390

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

HUNGAROCONTROL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020

amounts in thHUF

	2020	2019
OPERATING ACTIVITIES		
Profit before tax	**-17 172 310**	**4 923 943**
Depreciation and amortization	5 503 164	5 201 094
(Gain)/Loss on sale of property, plant & equipment	-538	-1 762
Impairment/Scrapping of Fixed Assets	49 347	2 527
Short-term lease payments, payments for leases of low-value assets	17 954	71 577
Impairment/Scrapping of Inventory	12 413	8 282
Increase/ (decrease) in provisions	200 186	-38 060
Interest income	-111 435	-204 103
Increase in provision for bad debts	94 291	258 442
Share of (income) from joint ventures	-15 325	-22 704
Unrealized foreign exchange (gains)/losses	59 840	56 775
(Gains)/losses from other non-cash transactions	-728 823	312 353
Total profit before tax	**5 081 074**	**5 644 421**
Changes in working capital:		
(Increase)/ decrease in Accounts receivable and other current assets	1 794 723	-1 052 140
(Increase)/ decrease in Inventory	4 913	-7 726
Increase/ (decrease) in Accounts payable, long term liabilities and accruals	1 691 432	2 216 184
Income taxes paid	-652 285	-1 570 722
Total changes in working capital	**2 838 783**	**-414 404**
Net cash from operating activities	**-9 252 453**	**10 153 960**
INVESTING ACTIVITES		
Purchase tangible assets and intangibles	-7 673 572	-5 552 520
Proceeds on disposal of property, plant & equipment	756	2 196
(Purchase)/ sale of financial assets	19 356 397	-3 753 504
Dividend received	24 500	103 204
Interest received	116 166	175 660
Net cash used in investing activities	**11 824 247**	**-9 024 964**
FINANCING ACTIVITIES		
Cash payments for the principal portion of the lease liability	-612 274	-622 357
Interest paid	-1 120 479	-1 164 228
Dividend paid	0	-1 000 000
Net cash used in financing activities	**-1 732 753**	**-2 786 585**
Increase/(decrease) in cash and cash equivalents	**839 041**	**-1 657 589**
Cash and cash equivalents at beginning of year	4 541 604	6 199 320
Exchange rate loss on cash and cash equivalents	12 446	-127
Cash and cash equivalents at end of year	**5 393 091**	**4 541 604**

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

1. General information

1.1. Company background

HungaroControl is the organization appointed by law to provide air navigation services in the Hungarian airspace and training for air traffic controllers and flight information officers. Based on the request of the North Atlantic Council HungaroControl, on behalf of the Hungarian State, also acts as a technical enabler for the provision of certain air navigation services in the upper airspace of Kosovo. As an integrated civil air navigation service provider, its mission is to deliver safe and reliable air navigation services in an efficient, environmentally aware, customer-focused and unbiased manner in the designated airspaces: in en-route traffic in the Hungarian airspace and in the upper airspace over Kosovo, as well as at the Budapest Liszt Ferenc International Airport. Mandatory activities of the Company are laid down in Act XCVII of 1995 on Air Traffic.

HungaroControl Hungarian Air Navigation Services Private Limited Company (the ‘Company‘ or ’HungaroControl‘) was established on November 22, 2006. The share capital (authorized and fully paid) of the Company is HUF 20,201,600 thousand, comprising 20,200 Series “A” stocks of HUF 1,000,000 face value each and 16 Series “B” stocks of HUF 100,000 face value each. The registration number of the Company is Cg. 01-10-045570. Registered seat of the Company is H-1185 Budapest, Igló u. 33-35., Hungary. Webpage: www.hungarocontrol.hu.

1.2. Governance

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

2. Accounting policies

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

2.1. Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as endorsed by the European Union.

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

2.2. Foreign currency translations

Functional and presentation currency:

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

Transactions and balances:

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

3. Significant accounting estimates and assumptions

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

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

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

- IFRS 17 'Insurance Contracts' – effective from 1 January 2023. The standard will have no impact on the Financial Statements of the Company.
- Amendments to IAS 1 'Presentation of Financial Statements': Classification of Liabilities as Current or Non-current – effective from 1 January 2023. The amendment is not expected to have a material impact on the Financial Statements of the Company.
- Amendments to IFRS 3 'Business Combinations': Reference to the Conceptual Framework – effective from 1 January 2022. The effect of the amendment on the Financial Statements of the Company can not be determined.
- Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use – effective from 1 January 2022. The amendment is not expected to have a material impact on the Financial Statements of the Company.

- Amendments to IAS 37 ‘Provisions, Contingent Liabilities and Contingent Assets’: Onerous Contracts – Costs of Fulfilling a Contract: effective from 1 January 2022. The effect of the amendment on the Financial Statements of the Company can not be determined.
- Annual Improvements to IFRS Standards 2018-2020: IFRS 1‘First-time Adoption of International Financial Reporting Standards’, IFRS 9 ‘Financial Instruments’ and IAS 41 ‘Agriculture’ – effective from 1 January 2022. The amendment is not expected to have a material impact on the Financial Statements of the Company.
- Amendments to IAS 1 ‘Presentation of Financial Statements’ and IFRS Practice Statement 2 ‘Making Materiality Judgements’: Disclosure of Accounting Policies – effective from 1 January 2023. The amendment is not expected to have a 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 is not expected to have a material impact on the Financial Statements of the Company.
- Amendments to IFRS 16 ‘Leases’: COVID-19-Related Rent Concessions beyond 30 June 2021 – effective from 1 April 2021. The effect of the amendment on the Financial Statements of the Company can not be determined.

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

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform – Phase 2 – effective from 1 January 2021. The effect of the amendment on the Financial Statements of the Company can not be determined.
- Amendments to IFRS 4 ‘Insurance Contracts’ – deferral of IFRS 9 – effective from 1 January 2021. The standard will have no impact on the Financial Statements of the Company.
- Amendments to IFRS 16 ‘Leases’: COVID-19-Related Rent Concessions – effective from 1 June 2020. The amendment has no effect on the Financial Statements of the Company, lease discounts are not received in relation to COVID-19.
- Amendments to IFRS 3 ‘Business Combinations’ – effective from 1 January 2020. The amendment has no effect on the Financial Statements of the Company.
- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform – effective from 1 January 2020. The amendment has no effect on the Financial Statements of the Company.

5. Income

Accounting policies:

Revenue from Contracts with Customers:

The Company applies IFRS 15 Standard for recognising revenues.

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

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

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

Cost of flights exempted from charges:

The cost of exempted flights are presented in line 'Revenue from air navigation services' since the customers of air navigation services are airspace users, irrespective of the financial settlement of these services (the payments are performed by defined Ministries). In 2020 the amount of HUF 622,994 thousand is presented as 'Cost of exempted flights' in line 'Revenue from air navigation services'. The amount of Receivables is presented in 'Other current assets' and 'Other long term assets' as shown in Note 14.1 and 14.2.

Sale of constructions performed on state owned property:

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

Other revenues not meeting presentation requirements:

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

Revenue from air navigation services:

Air navigation services are billed and the revenues earned are recognised by the Company based on a HUF unit price determined on the basis of pre-budgeted costs and planned annual turnover, and taking into

account the actual chargeable service units.
Air traffic charges are determined by the number of service units calculated by using a formula with the weight of the air plane, the number of movements, and in the case on en-route services - the distance factor.

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

In the Hungarian En Route and in the terminal segment, within the framework of performance plan scheme, 'reference periods' are set for determining unit prices (for 5 years); for which periods performance plans should be prepared including the costs and turnover expected in the reference period. This will be used by the Company as a basis to calculate the annual unit prices, based on which the revenues will be realized. The performance scheme transfers part of the cost- and traffic risks on air navigation service providers. Revenue adjustments due to traffic risk sharing, inflation adjustments, uncontrollable costs, or terminal navigation under- or overrecoveries do not have an immediate impact on the Company's revenues as the differences will be reflected in the new unit prices charged to airspace users in later aviation years.

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 must be submitted until 1 October 2021 for the period of 2020-2024. At this time the full year of 2020 and main part of year 2021 will be qualified as actual periods, that is why in 2020 and mainly in 2021 the traffic risk is beared by the airspace users. Along with this, unit rates also must be recalculated to cover the expected actual costs that is lower than previously planned.

In the Kosovo segment operating in a full cost recovery scheme the unit rates are determined by using forecasted service units and relating costs estimated previously. The actual number of service units and actual costs might differ which differences are then compensated via a rectifying method; as a main rule the under- or 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.

<u>Sale of goods:</u>

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

Revenues from service provision:

amounts in thHUF

Revenue	2020	2019
Revenue from air navigation services - en route segment	12 896 633	30 532 263
Revenue from air navigation services - terminal segment	2 466 305	6 945 698
Revenue from air navigation services - Kosovo segment	619 771	1 223 830
Cash-flow hedge accounting reserve booked to revenues	-282 869	-250 662
Total revenue from air navigation services	**15 699 840**	**38 451 129**
Other revenue - foreign	62 135	112 110
Other revenue - domestic	82 443	79 650
Total other revenue	**144 578**	**191 760**
Total revenue	**15 844 418**	**38 642 889**

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 method. 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’.

However, as per the EU Regulation No. 1627/2020 on the COVID-19 pandemic, new performance plan must be submitted until 1 October 2021 for the period of 2020-2024, and this regulation also stipulates that the differences that occur from 2020 and 2021 will not be recognized in the period ’n+2’, but allocated equally into at least 5 years, commencing in 2023.

The amount of revenue for 2020 is HUF 15,844,418 thousand while it was HUF 38,642,889 thousand for 2019.

The revenue variance between 2020 and 2019 comes from the following main items:

amounts in thHUF

Deviation of the Revenue	
Revenue for 2020	**15 844 418**
Overrecoveries of prior years before 2018 resulting in revenue decrease in 2020	9 044 276
Uncovered costs of 2020 to be recharged during 2022-2027	8 062 496
Overrecoveries of 2019 meaning a higher base period figure	2 237 850
Other (eg. change of cost of capital)	3 453 849
Revenue for 2019	**38 642 889**

The decline in revenue in 2020 compared to 2019 are due to the following main reasons:

- HUF 9,044,276 thousand overrecoveries of pre-2018 years, which were taken into account in the 2020 unit price (as per the adjustment method described above).

- HUF 8,062,496 thousand revenues after costs not covered by airspace users in 2020, that can be recognised only in the coming years. It is to be noted, that this significant amount of underrecoveries in 2020, mainly due to the fall in traffic, cannot be recognised as revenue as per IFRS in the current year. Revenues after these eligible costs that are not covered in this way will be recognised through the unit prices in the following years as follows:
  - HUF 634,956 thousand in 2022
  - HUF 7,427,540 thousand in 2023-2027 period (HUF 1,485,508 thousand / year)
- The revenue for 2019 includes the amount of overrecoveries of HUF 2,237,850 thousand resulted in higher revenue figure in the base period.
- Other items include the difference in revenues recognised in line with the rules of the performance scheme due to the different level of the 2019 and 2020 cost bases (i.e. that 2020 costs are lower than in 2019). Taken into account that revenues for the Company will have to be determined on the basis of actual costs in 2020 under EU Regulation 1627/2020, therefore a lower level of actual costs (e.g. cost of capital) will result in any case in lower level of revenues –independently of the decline in traffic.

Revenues from air navigation services:

The main activity of the Company is to provide air navigation services, 99.1% of the revenue derives from air traffic charges in 2020. (99.5% in 2019).

In 2020 81% of revenues from air navigation services derives from navigation of overflight traffic (En Route) over Hungary (79% in 2019), 15% derives from terminal air navigation services at Liszt Ferenc International Airport (18% in 2019), and 4% derives from the navigation of air traffic in the upper airspace over Kosovo (3% in 2019).

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

In 2020 the total number of air traffic movements in Hungary was significantly decreased as compared to 2019 being a record year, primarily due to COVID-19 pandemic. The total of 424,508 flights navigated in the Hungarian air space represents 45% of the flights in 2019. According to CRCO figures the number of movements navigated in the controlled airspace amounted to 391,244 from which 343,412 movements belong to En Route segment, and 47,832 movements belong to terminal segment. It represents 43% of regarding movements in 2019.

The global pandemic and its direct effects basically determined the traffic volume of the aviation industry in 2020. The air traffic was influenced first by the decreased travelling intention of people, later than by government measures aimed to decelerate the spread of infections. The traffic volume reached its record low in April after a continuous decrease started on 10 March. In the middle of April, on the minimum level of operation, the number of En Route Service Units dropped to 13% of the previous year. In this period almost only repatriate flights and cargo traffic was operating.

From June a slow, continuous recovery period started as the general emergency state was released and relieved entry restrictions came into force. As a result in August the traffic volume increased to 46 % of the volume in the same period of 2019 .

From the end of the summer the situation has further deteriorated in most countries and the second surge of pandemic was also developed. The load factor hardly exceeded the 50% level, that is why additional flights were cancelled and the intercontinental operation stagnated on an exceptionally limited level. In September-October the overall European air transport operated only on the 45-50% level of 2019, consumer confidence was not recovered. The travelling intention of the people was significantly decreased by the fear from infection and by quarantine-measures. From November additional decrease started, the air traffic stagnated on the 37-38% level of the previous year.

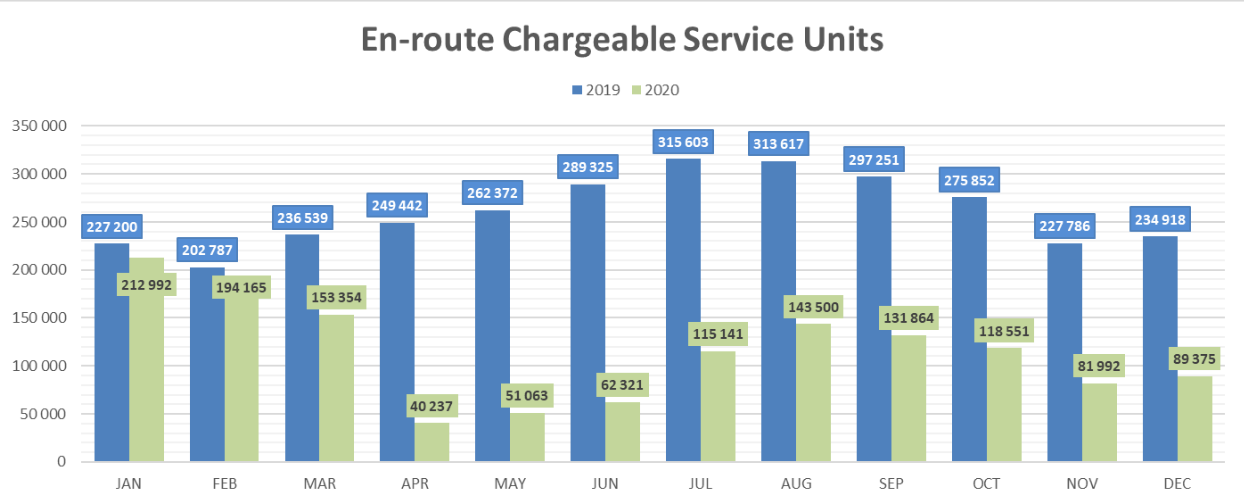
The downturn in the terminal segment began later but finally took a greater proportion than the downturn in the En Route segment. On some days in the middle of April only 6% of the previous year (regarding movements), and only 8% of 2019 (regarding Service Units) were registered. In July – except Emirates - almost all of the significant airlines started again their operation with limited flights, but in August the recovery stopped in this segment also.

In September the air traffic showed an outstanding drop in the terminal segment because the entry conditions regarding Hungary became more restrictive from 1 September, that conditions were sustained also for the remaining part of the year. Independently from the entry restrictions appeared also a cease in the recovery, primarily because consumer confidence was not restored. In December the air traffic showed some improvement as a consequence of the winter holiday, but this seasonal improvement was also blocked by the restrictions applied to flights departed from Great-Britain (since a virus variant appeared there).

From 3 April 2014 the air navigation services are provided in the upper air space over Kosovo (KFOR segment) by HungaroControl. Air traffic controlled by HungaroControl in the Kosovo segment was also affected by the pandemic, where the number of flights navigated dropped to the 2016 year's level (63,642). The volume represents 45% of the previous year in this air space.

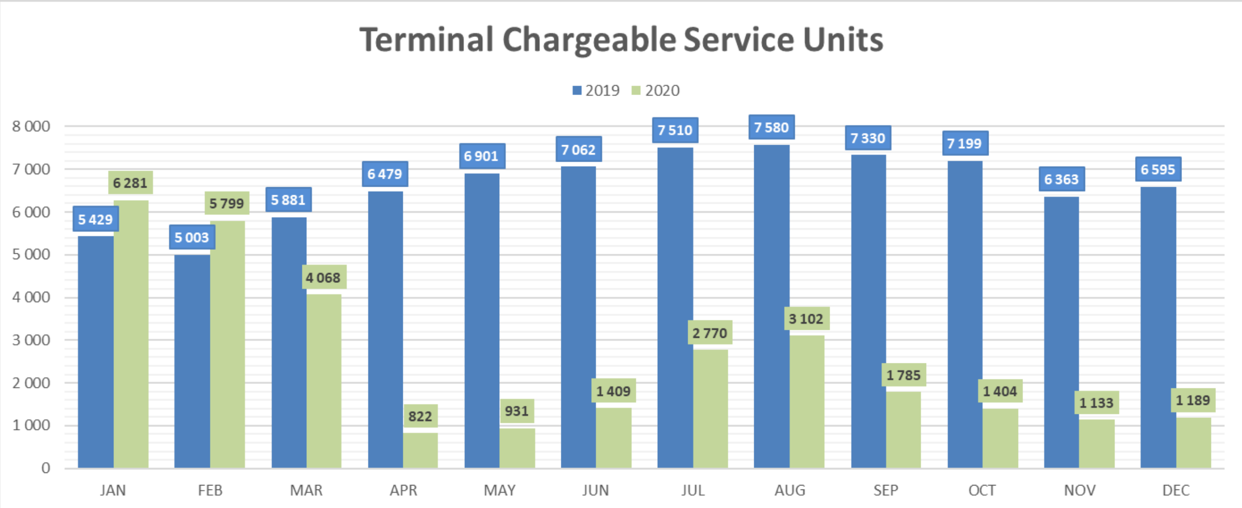
En Route Chargeable Service Units

In 2020 the total number of En Route Service Units decreased to 45% of the previous year due to the reasons described above regarding number of movements. In 2020 the number of En Route Service Units amounted to 1,423,059, from which 28,504 units (2%) relate to exempted flights. The number of chargeable En Route service units, being the indicator of the revenue, dropped to 45% of the previous year to 1,394,555 SU.



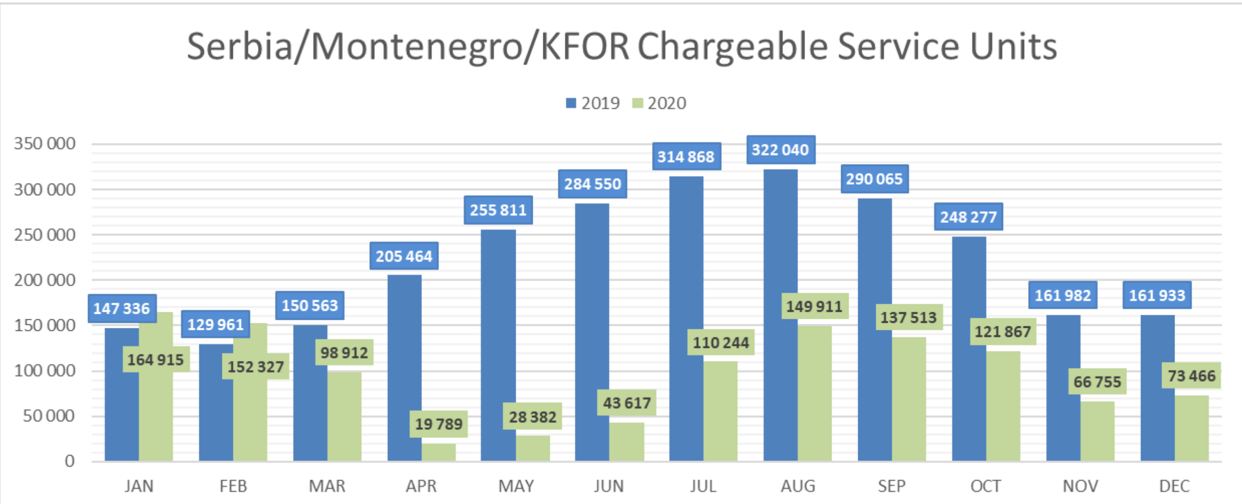
Terminal Chargeable Service Units

In 2020 the total number of terminal Service Units decreased to 39% of the previous year due to the reasons described above regarding number of movements. In 2020 the total number of terminal Service Units amounted to 31,109 from which 417 units (1%) relate to exempted flights. The number of chargeable service units, being an indicator of the revenue, dropped to 39% of the previous year, to 30,692 SU.



Kosovo Chargeable Service Units

The service provided in the upper airspace over Kosovo is accounted on the basis of the common charging zone established with Serbia and Montenegro. Therefore, when analysing service units for the Kosovo service, the traffic of the whole charging zone has to be examined. Chargeable service units for the total charging zone represent 44% of the last year's figures.



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 is covered by cash flow hedge transactions. The reclassification from equity to comprehensive income as a reclassification adjustment of the effective amount that are used to hedge foreign currency cash flows are included in sales revenue together with the foreign exchange losses / gains realized on trade receivable at the recognition date of trade receivables .

The amount included in revenue as reclassification adjustment from equity is a loss of HUF 282,869 thousand in 2020.The total loss for 2019 was HUF 365,924 thousand.

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 thHUF

Personnel expenses	2020	2019
Wages and salaries	13 452 336	14 160 635
Social security	2 601 394	3 035 934
Other personnel expenses	1 358 448	1 316 861
Pension expenses and expenses from other long term benefits*	-58 417	258 928
Personnel expenses	**17 353 761**	**18 772 358**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

Number of staff employed	2020	2019
Division of air traffic services	363	354
Division of communications, navigation and surveillance	35	36
Division of meteorological services	22	22
Division of technical development services	103	106
Support division*	276	278
Closing number of staff employed	**799**	**796**

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

Average number of employees of the Company was 766.9 in 2020 (2019: 741.1).

6.2. Components of Operating expenses

amounts in thHUF

Operating expenses	2020	2019
Energy costs	290 176	303 692
Other materials used	134 002	99 479
Cost of materials consumed	**424 178**	**403 171**
Eurocontrol member fees	1 376 346	1 469 105
Fees of liability insurance	1 081 345	949 668
Software maintenance fees	964 402	784 862
Trainings expenditure	943 516	853 124
Various other expenditures	755 753	529 287
Fees paid for authorities	611 816	612 827
Online service charges, charges for data transmission	600 749	562 326
Maintenance fees	541 621	492 229
Cost of meteorological services consumed	531 927	488 661
Cost of advertisement and marketing campaigns	495 281	369 517
Safeguarding services	365 810	355 209
Expenditure on consultancy and fees of expert	361 738	406 407
Charges paid for waste disposal and similar services	127 824	105 918
Travel and other costs incurred on missions abroad	40 447	294 311
Real estate rental fees	33 905	104 052
Other rental fees	22 686	25 223
Lease payment on state owned assets*	16 751	30 936
Rental fees of fixed assets	14 167	16 804
Other expenditures	**8 886 084**	**8 450 466**
Included: Short-term lease related expenditures	11 092	66 551
Included: Low-value asset lease related expenditures (excluding short-term leases)	6 862	5 026
Total Operating expenses	**9 310 262**	**8 853 637**

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

amounts in thHUF

Other income and expense	2020	2019
Operative grants related to expenses	242 729	166 937
Deferred development grants released	181 328	218 821
Other various income items	131 078	345 456
Interest and other charges received on late payment	17 439	41 167
Liabilities waived	55	0
Total Other income	**572 629**	**772 381**
Expenses from charity activities and sponsorship	187 960	242 707
Allowances charged on bad debts*	90 735	250 198
Building tax	52 431	35 605
Reimbursement of expenses payable to Ministries	44 520	281 091
Other various expense items	16 860	48 251
Written value of bad debts	3 556	0
Total Other expense	**396 062**	**857 852**
Total Other income / (expense)	**176 567**	**-85 471**

** 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.

The following table includes the balance sheet items from grants not closed at the balance sheet date. 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 balance sheet.

amounts in thHUF

Balances of ongoing government grants	December 31, 2020	December 31, 2019
Accrued income	58 746	29 690
Advance payment received	1 080 825	892 811

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

amounts in thHUF

Movements of government grants	2020	2019
Balances at January 1st	**980 358**	**1 199 178**
Release of deferred grants	-181 328	-218 820
Balances at December 31st	**799 030**	**980 358**
Due in one year	164 056	209 347
Due over one year	634 974	771 011

8. Financial result

Accounting policies:

Interest income:

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

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

amounts in thHUF

Financial results	2020 (+) gain (-) loss	2019 (+) gain (-) loss
Interest received and exchange difference on deposits and government bonds	166 868	185 008
Foreign exchange difference on year end revaluation	-139 382	-56 776
Interest recognised in profit and loss and included in financial results (swap points received)*	54 531	43 893
Ineffective part of cash flow hedges included in financial results (loss)/gain*	-329 266	-61 063
Ineffective part of fair value hedges included in financial results (loss)/gain*	2 651	0
Interest on lease liabilities***	-1 120 479	-1 164 228
Unwinding of discounts on long term employee benefits**	0	-9 516
Unwinding of discounts on other items	25	2 607
Foreign exchange difference realised	344 248	139 111
Other various items	0	94 401
Total results of financial activities	**-1 020 804**	**-826 563**

** 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.*

9. Investments in joint ventures

Accounting policies:

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

This financial statements include the data of HungaroControl and its joint ventures - Entry Point Central Ltd. (EPC Ltd.) and 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 quota holders. An exception is the appointment of the managing director where HungaroControl has priority quota. Based on this arrangement EPC Ltd. is considered to be a joint venture and presented in the financial statement using equity method. The table below shows the details of EPC Ltd.:

Joint venture	Date of foundation	Registered capital (in thHUF)	Ownership
Entry Point Central Ltd.	May 26, 2011	3 000	HungaroControl 49%

FABCE Aviation Services, 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 Aviation Services, Ltd. is incorporated in Slovenia and keeps its books in EUR and according to the IFRS. The following table presents the data of FABCE Aviation Services, 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:

amounts in thHUF

Investments	EPC Ltd.	FABCE, Ltd.	Total
Value January 1, 2019	**143 975**	**1 597**	**145 572**
Share from profit/loss for 2019	22 699	5	22 704
Dividend received	-103 204	0	-103 204
Other corrections	0	54	54
Value December 31, 2019	**63 470**	**1 656**	**65 126**
Share from profit/loss for 2020	15 325	0	15 325
Dividend received	-24 500	0	-24 500
Other corrections	0	208	208
Value December 31, 2020	**54 295**	**1 864**	**56 159**

Investment in EPC Ltd.

The assets and liabilities, income and expenses of EPC Ltd. and the Company's share thereof as at December 31, 2020 and 2019, are as follows:

amounts in thHUF

EPC Ltd.'s Statement of Financial Position	December 31, 2020	December 31, 2019
Non-current assets	708	5 600
Current assets	170 758	186 147
Non-current liabilities	0	0
Current liabilities	60 659	62 216
Equity	**110 807**	**129 531**

amounts in thHUF

EPC Ltd.'s Statement of Comprehensive Income	2020	2019
Revenue	862 036	798 439
Operating expenses	840 874	746 529
Financial income	13 410	-1 002
Profit before taxes	**34 572**	**50 908**
Income tax expense	3 296	4 583
Profit for the year	**31 276**	**46 325**

amounts in thHUF

The Company's share of the profit of EPC Ltd.	
Profit of previous years	327 151
Profit for the year 2020	31 276
Total profit accumulated	358 427
Share from the realised profit (49%)	**175 629**
Impairment recognised on investment	0
Share from the results accumulated	**175 629**
Dividend received	-127 704
Initial cost of investment	6 370
Investment value at the end of the reporting period	**54 295**

The initial cost of the investment was HUF 6,370 thousand when acquired - which together with the accumulated profit above resulted in an investment value of HUF 54,295 thousand at the end of 2020 (2019: HUF 63,470 thousand). The gain included in the 'Share from profit / loss of joint venture' line of the comprehensive income for the financial year 2020 is HUF 15,325 thousand (2019: HUF 22,699 thousand) regarding EPC Ltd. In 2020 dividend was received from EPC Ltd. in the amount of HUF 24,500 thousand which reduced the Investment value in EPC Ltd. of the Company.

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

Investment in FABCE Aviation Services, Ltd.

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

amounts in thHUF

FABCE Aviation Services, Ltd.'s Statement of Financial Position	December 31, 2020	December 31, 2019
Non-current assets	381	127
Current assets	103 724	103 670
Non-current liabilities	0	0
Current liabilities	71 330	74 130
Equity	**32 775**	**29 667**

amounts in thHUF

FABCE Aviation Services, Ltd.'s Statement of Comprehensive Income	2020	2019
Revenue	218 232	264 977
Other operating income	1 369	-1
Operating expenses	219 570	264 944
Financial income	6	-6
Profit before taxes	**37**	**26**
Income tax expense	36	0
Profit for the year	**1**	**26**

amounts in thHUF

The Company's share of the result of FABCE Aviation Services, Ltd.	
Profit of previous years	-1 963
Profit for the year 2020	1
Total profit accumulated	-1 962
Share from the realised profit (16.67%)	**-327**
Impairment recognised on investment	0
Share from the results accumulated	**-327**
Initial cost of investment	1 835
Revaluation of foreign operation	356
Investment value at the end of the reporting period	**1 864**

10. Income taxes

Accounting policies:

The Company classified the following taxes as income taxes: corporate income tax, local business tax and innovation contribution.
Corporate income tax and innovation contribution are payable to the Hungarian central tax authority, and local business tax is payable to the local governments. The basis of the corporate income tax is the taxable entities' accounting profit adjusted for non-deductible and non-taxable items. The basis of the local business

tax and innovation contribution is the taxable entities' revenue reduced by cost of materials, cost of goods sold and cost of services transmitted.

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

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

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

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

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

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

Critical accounting estimates and judgements:

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

Receivables and liabilities from income taxes:

Income tax receivables and liabilities by categories:

amounts in thHUF

Income taxes	December 31, 2020	December 31, 2019
Corporate tax	116 562	186 300
Local business tax	101 219	21 450
Innovation contribution	14 699	0
Current tax receivable	**232 480**	**207 750**
Innovation contribution	0	27 530
Current tax liability	**0**	**27 530**

Income tax expense:

Current income tax and deferred tax expenses:

amounts in thHUF

Income tax expense	2020	2019
Current tax	360 059	1 427 522
Adjustments in respect of prior year	-3 091	2 328
Deferred tax	-160 175	-168 125
Total income tax expense	**196 793**	**1 261 725**

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

amounts in thHUF

Effective income tax rate	2020	2019
Profit on ordinary activities before tax	**-17 172 310**	**4 923 943**
Tax on profit on ordinary activities at standard rate (9%)	-1 548 560	443 155
Other income taxes corrected with the effect of corporate income tax rate	327 615	806 165
Total tax charge	**-1 220 945**	**1 249 320**
Unrecognised deferred tax asset on negative tax base	1 401 425	0
Effect of different actual average tax rates used	0	0
Permanent differences	12 821	5 544
Tax effect of prior year adjustments	3 272	2 328
Other tax effect	220	4 533
Tax charge for year at an effective tax rate	**196 793**	**1 261 725**
Effective tax rate	**-1%**	**26%**

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

Deferred tax asset and liabilities:

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

amounts in thHUF

Reason for differences between tax rules and accounting treatment under IFRS	Balance at December 31, 2020	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2019
Accelerated tax depreciation	-200 503	0	48 065	-248 568
Valuation reserve of securities	-14	0	-12	-2
Provisions not included in tax base	463 480	0	37 914	425 566
Debt allowances not included in tax base	68 959	0	17 212	51 747
Differences between tax base and carrying amount of assets discounted	376	0	374	2
Differences on fixed assets not yet capitalised and debited to income statement	4 496	0	547	3 949
Differences regarding state owned assets	214 146	0	44 568	169 578
Right-of-use assets related to other lease contracts	10 442	0	8 916	1 526
Government grants revenues which are included in tax base in the next financial year	-1 231	0	2 591	-3 822
Total deferred tax asset (+) /liability (-)	**560 151**	**0**	**160 175**	**399 976**

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

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 2020 and in 2019 as well.

From the balance above HUF 4,496 thousand deferred tax asset is expected to be reversed in one year, HUF 555,655 thousand deferred tax asset is expected to be reversed in 5 years.

The Company had deferred tax loss in 2020, however, it is uncertain that it will be available for use against future taxable profit, therefore the Company does not recognize a deferred tax asset after the negative tax base (it did not have deferred tax loss in 2019).

11. Intangible assets

Accounting policies:

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

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

Critical accounting estimates and judgements:

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

Typical amortization rules are stated as follows:

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

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

The table shows movements of intangible assets:

amounts in thHUF

Intangible assets	Property right	Software	Work in progress	Intangible assets
Net value at January 01, 2019	**4 396 553**	**23 905**	**3 696 754**	**8 117 212**
Gross value:				
January 01, 2019	25 235 704	312 248	3 696 754	29 244 706
Additions	0	0	3 288 751	3 288 751
Capitalization	4 295 240	36 147	-4 331 387	0
Disposals	-36	-1 079	0	-1 115
December 31, 2019	**29 530 908**	**347 316**	**2 654 118**	**32 532 342**
Accumulated amortisation:				
January 01, 2019	20 839 151	288 343	0	21 127 494
Additional amortisation	1 825 892	24 464	0	1 850 356
Disposal of accumulated amortisation	-36	-1 080	0	-1 116
December 31, 2019	**22 665 007**	**311 727**	**0**	**22 976 734**
Net value at December 31, 2019	**6 865 901**	**35 589**	**2 654 118**	**9 555 608**
Gross value:				
January 01, 2020	29 530 908	347 316	2 654 118	32 532 342
Additions	0	0	4 250 560	4 250 560
Capitalization	713 767	16 735	-730 502	0
Disposals	-3	0	-5 233	-5 236
December 31, 2020	**30 244 672**	**364 051**	**6 168 943**	**36 777 666**
Accumulated amortisation:				
January 01, 2020	22 665 007	311 727	0	22 976 734
Additional amortisation	1 993 211	10 953	0	2 004 164
Additional impairment loss	0	0	5 233	5 233
Disposal of accumulated amortisation	-3	0	0	-3
Disposal of accumulated impairment loss	0	0	-5 233	-5 233
December 31, 2020	**24 658 215**	**322 680**	**0**	**24 980 895**
Net value at December 31, 2020	**5 586 457**	**41 371**	**6 168 943**	**11 796 771**

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

From the business year 2020, 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 balance sheet date of the business year – that is expected to be recovered in the future. The most significant research and development is the ongoing development of the application with novelty content, which displays the testing and evaluation of the MATIAS air traffic control system, in the amount of HUF 183 million.

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 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 undelying asset is low of value (recognition exemptions).

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

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

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

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

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

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

Critical accounting estimates and judgements:

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

Typical depreciation rules are stated as follows:

Type of asset	Depreciation
Buildings	2.5%
Other structures	2.5%
Production machinery and equipment	14.5%
Computer hardware	33.0%
Vehicles	20%
Furniture	10%

Depreciation is not accounted for Lands and Assets under constructions.

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

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

amounts in thHUF

Property, plant and equipment	Land and buildings	Technical equipment	Other equipment	Work in progress	Property, plant and equipment
Net value at January 1, 2019	**4 233 100**	**5 155 946**	**2 079 299**	**668 264**	**12 136 609**
Gross value:					
Property, plant and equipment owned by Company	**5 640 842**	**15 172 885**	**6 678 692**	**182 533**	**27 674 952**
January 1, 2019	5 545 786	13 877 884	5 647 704	668 264	25 739 638
Additions	0	0	0	2 172 990	2 172 990
Capitalization	96 256	1 371 482	1 189 715	-2 657 453	0
Disposals	-1 200	-76 481	-158 727	-1 268	-237 676
Property, plant and equipment leased by Company	**15 543 895**	**67 226**	**225 276**	**0**	**15 836 397**
Initial presentation January 1, 2019	15 537 373	67 226	214 794	0	15 819 393
Additions	6 522	0	10 482	0	17 004
Gross value at December 31, 2019	**21 184 737**	**15 240 111**	**6 903 968**	**182 533**	**43 511 349**
Accumulated depreciation:					
Property, plant and equipment owned by Company	**1 664 278**	**9 928 794**	**4 095 053**	**0**	**15 688 125**
January 1, 2019	1 312 686	8 721 938	3 568 405	0	13 603 029
Additional depreciation	351 786	1 283 189	684 836	0	2 319 811
Additional impairment loss	1 006	148	105	1 268	2 527
Disposal of accumulated depreciation	-194	-76 333	-158 188	0	-234 715
Disposal of accumulated impairment loss	-1 006	-148	-105	-1 268	-2 527
Property, plant and equipment leased by Company	**941 198**	**17 266**	**72 465**	**0**	**1 030 929**
Additional depreciation	941 198	17 266	72 465	0	1 030 929
Accumulated depreciation at December 31, 2019	**2 605 476**	**9 946 060**	**4 167 518**	**0**	**16 719 054**
Net value at December 31, 2019	**18 579 261**	**5 294 051**	**2 736 450**	**182 533**	**26 792 295**
Gross value:					
Property, plant and equipment owned by Company	**5 463 032**	**15 189 463**	**8 071 833**	**2 045 730**	**30 770 058**
January 1, 2020	5 640 842	15 172 885	6 678 692	182 533	27 674 952
Additions	0	0	0	3 799 329	3 799 329
Capitalization	89 904	391 827	1 446 785	-1 928 516	0
Disposals	-267 714	-375 249	-53 644	-7 616	-704 223
Property, plant and equipment leased by Company	**15 683 250**	**52 351**	**228 349**	**0**	**15 963 950**
January 1, 2020	15 543 895	67 226	225 276	0	15 836 397
Additions	151 544	106	3 073	0	154 723
Disposals	-12 189	-14 981	0	0	-27 170
Gross value at December 31, 2020	**21 146 282**	**15 241 814**	**8 300 182**	**2 045 730**	**46 734 008**
Accumulated depreciation:					
Property, plant and equipment owned by Company	**1 747 086**	**10 709 097**	**4 968 029**	**0**	**17 424 212**
January 1, 2020	1 664 278	9 928 794	4 095 053	0	15 688 125
Additional depreciation	345 485	1 153 177	926 033	0	2 424 695
Additional impairment loss	5 037	2 372	371	7 616	15 396
Disposal of accumulated depreciation	-262 677	-372 874	-53 057	0	-688 608
Disposal of accumulated impairment loss	-5 037	-2 372	-371	-7 616	-15 396
Property, plant and equipment leased by Company	**1 922 093**	**30 256**	**146 502**	**0**	**2 098 851**
January 1, 2020	941 198	17 266	72 465	0	1 030 929
Additional depreciation	983 698	16 570	74 037	0	1 074 305
Disposal of accumulated depreciation	-2 803	-3 580	0	0	-6 383
Accumulated depreciation at December 31, 2020	**3 669 179**	**10 739 353**	**5 114 531**	**0**	**19 523 063**
Net value at December 31,2020	**17 477 103**	**4 502 461**	**3 185 651**	**2 045 730**	**27 210 945**

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

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

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

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

13. Inventories

Accounting policies:

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

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

Balances at the year ends occurred as follows:

amounts in thHUF

Inventories	December 31, 2020	December 31, 2019
Spare parts	12 947	23 389
Other materials	32 765	39 649
Inventories	**45 712**	**63 038**

Inventory balance at the end of 2020 includes an impairment loss amounting of HUF 12,413 thousand (2019: HUF 8,282 thousand). No previously recognized impairment loss was released for the years presented.

14. Financial instruments, capital and financial risk management

Accounting policies:

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

Financial assets:

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

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

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

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

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

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

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

Financial liabilities:

Financial liabilities can be categorised as follows:

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

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

Subsequent measurement of financial instruments:

Fair value measurement

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

Derecognition of financial assets

Derecognition of a financial asset takes place when the Company no longer controls the contractual rights that comprise the financial asset, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. When the Company neither transfers nor retains all the risks and rewards of the financial asset and continues to control the transferred asset, it recognises its retained interest in the asset and a liability for the amounts it may have to pay.

Impairment of financial assets

The financial asset or the group of financial assets are reviewed for impairment at each balance sheet date. Impairment losses on financial assets are presented in line ‘Impairment’ in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the comprehensive income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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

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

A financial asset qualifies as credit –impaired when information is observed by the Company that estimated future cash flows of the financial asset are not expected to be received.
The ECL model under IFRS 9 applies to financial assets measured at amortised cost, debt investments measured at fair value through other comprehensive income, contract assets under IFRS 15, financial guarantee contracts and financial lease receivables.

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

Cash flow hedges
The Company concludes cash flow hedge contracts in order to hedge foreign currency risk from foreign currency cash flows. A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge. At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

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

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

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

14.1. Other long term assets

Receivables for cost of flights exempted from charges (further on: exempted flights) from the Hungarian State are recognised as short term and long term assets and are credited to revenue from air navigation services (Note 5.). The term of payment is two years, as defined in a government decree. These balances are discounted by yields of government bonds with two years maturity. The interest income on discounting recognized for 2020 was HUF 25 thousand (2019: HUF 2,607 thousand).

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

amounts in thHUF

Other long term assets	December 31, 2020	December 31, 2019
Exempted flights		
Ministry of Defence	848 712	528 173
Ministry for Innovation and Technology	43 446	27 877
Ministry of Foreign Affairs	23 098	26 837
Total exempted flights	**915 256**	**582 887**
Due in one year	292 262	263 788
Due over one year	622 994	319 099
Extended warranty	**4 831**	**18 514**
Due in one year	3 790	14 871
Due over one year	1 041	3 643
Constructions performed on state owned assets	**269 772**	**178 486**
Due in one year	205 757	98 078
Due over one year	64 015	80 408
Total due in one year	**501 809**	**376 737**
Total due over one year	**688 050**	**403 150**

HUF 290,650 thousand of the total outstanding balance of Receivables from exempted flights was settled in 2020 (2019: HUF 361,475 thousand). Additional balance established for 2020 was HUF 622,994 thousand (2019: HUF 319,099 thousand).

In addition, the long-term part of the warranty extension purchased regarding intangible assets and fixed assets is presented in this financial statement line with the amount of HUF 1,041 thousand. This warranty extension cannot 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 2020 HUF 205,757 thousand is presented in line ‘Other short term assets’ (in 2019: HUF 98,078 thousand), and HUF 64,015 thousand is presented in line ‘ Other long term assets’ (in 2019: HUF 80,408 thousand).

14.2. Trade receivables and other current assets

Accounting policies:

Trade and other receivables are recognized initially at fair value based on IFRS 15 and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established in the amount of lifetime expected credit loss calculated by a provision matrix.

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

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

TNC segment: Allowance for provision is determined by the same methodology as applied in En Route segment.

Kosovo segment: Allowance for provision is determined by the same methodology as applied in En Route segment.

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

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

amounts in thHUF

Receivables	December 31, 2020	December 31, 2019
Trade receivables	5 337 557	6 925 930
Intercompany receivable	2 206	194
Allowances	-1 136 109	-947 473
Total	**4 203 654**	**5 978 651**

Due to invoicing policy, average outstanding balance of receivables equals to two months sales turnover. An increase in the En Route and KFOR business is resulted, because the payment deadline of receivables from flights in March, April and May 2020 had to be postponed to February, May, August 2021, that is why the components of the amount differs from the usual. At the same time, there is no significant difference in trade receivables between the two years, because the trade receivables of November-December represent a lower amount in the total portfolio.

Allowance for doubtful debts was the following:

amounts in thHUF

Allowance for doubtful debts	2020	2019
Balance at the beginning of the year	947 473	669 877
Increase in allowances	169 293	358 320
Decrease in allowances	-78 661	-99 942
Foreign exchange movement in the year	98 004	19 218
Balance at end of the year	**1 136 109**	**947 473**

Ageing of the trade receivable balances:

amounts in thHUF

December 31, 2020	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	3 977 096	3 631 374	171 383	143 550	4 500	26 289
Under 1 months	190 782	168 663	11 268	10 394	457	0
Overdue, between 1 -3 months	69 400	65 713	774	2 905	3	5
Overdue, between 3-6 months	12 201	8 811	2 464	449	477	0
Overdue, between 6-12 months	14 739	8 242	5 078	654	765	0
Overdue, over 12 months	396 383	298 624	89 316	8 445	0	-2
Insolvent	676 956	607 372	40 471	29 113	0	0
Total	**5 337 557**	**4 788 799**	**320 754**	**195 510**	**6 202**	**26 292**

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

Aged balances of allowances based on IFRS 9 Standard:

amounts in thHUF

December 31, 2020	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	11 038	10 395	86	557	0	0
Under 1 months	12 961	11 601	704	656	0	0
Overdue, between 1 -3 months	26 397	24 644	285	1 468	0	0
Overdue, between 3-6 months	6 293	4 812	1 226	255	0	0
Overdue, between 6-12 months	9 159	5 108	3 717	334	0	0
Overdue, over 12 months	393 305	296 970	88 027	8 308	0	0
Insolvent	676 956	607 372	40 471	29 113	0	0
Total	**1 136 109**	**960 902**	**134 516**	**40 691**	**0**	**0**

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

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

amounts in thHUF

Other current assets	December 31, 2020	December 31, 2019
Short term receivables from exempted flights*	292 262	263 788
Value added tax	801 807	729 067
Changes in fair value of cash-flow hedges (gain)	221 492	167 545
Receivable from Eurocontrol - TNC sales	1 776	36 639
Other receivables**	81 335	365 742
Receivable from investments on state owned assets	205 757	98 078
Bad debt allowances	-1 279	-1 358
Total other receivables	**1 603 150**	**1 659 501**
Accrued interest income on deposits fixed	17 626	22 415
Accrued income for grants received	58 746	29 690
Other income accrued	5 031	2 350
Total accrued income	**81 403**	**54 455**
Services prepaid	1 088 820	1 186 746
Total prepaid expenses	**1 088 820**	**1 186 746**
Other current assets	**2 773 373**	**2 900 702**

** For further information on Receivables from exempted flights refer to Note 14.1.*
*** Other receivables contain Advances given in the amount of HUF 31,314 thousand in 2020 (HUF 300,931 thousand in 2019).*

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

14.3. Cash and cash equivalents, other financial assets

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

amounts in thHUF

Cash and cash equivalents	December 31, 2020	December 31, 2019
Cash on hand	**1 221**	**1 338**
Current accounts HUF	3 762 786	3 573 802
Current accounts in foreign currency (EUR)	778 637	66 464
Fixed deposits HUF - under 3 months	850 447	900 000
Cash at banks	**5 391 870**	**4 540 266**
Cash and cash equivalents	**5 393 091**	**4 541 604**

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

amounts in thHUF

Other financial items	December 31, 2020	December 31, 2019
Fixed deposits HUF - over 1 year	0	3 850 000
Invested financial assets	**0**	**3 850 000**
Financial assets held to maturity (government securities) with maturity over 1 year	2 188 528	5 963 550
Long term securities	**2 188 528**	**5 963 550**
Financial assets held to maturity (government securities) with maturity above 1 year	7 635 614	14 937 229
Short term securities	**7 635 614**	**14 937 229**
Fixed deposits HUF - under 1 year over 3 months	4 299 943	7 659 453
Other financial assets	**4 299 943**	**7 659 453**

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

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

During 2020, the Company made investments in connection with the obligations included in the Air Controller Career Agreement (ACCA). The maturity structure is adjusted to the expected settlement date of the undertaken obligations. The table below shows the investments regarding Air Controller Career Agreement:

amounts in thHUF

Investment of Air Controller Career Agreement (ACCA)	December 31, 2020	December 31, 2019
ACCA - Financial assets held to maturity (government securities) with maturity over 1 year	2 132 193	0
ACCA - Fixed deposits HUF - under 1 year over 3 months	139 500	0
ACCA - Cash and cash equivalents	55 226	0
Total	**2 326 919**	**0**

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

14.4. Other 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, applying the exemption of short-term leases and exemption of leases for which undelying asset is low of value (recognition exemptions).

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

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

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

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

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

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

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

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

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

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

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

amounts in thHUF

Other long term liabilities	December 31, 2020	December 31, 2019
EU grants received - long term part*	634 974	771 011
Lease liabilities - long-term part**	14 011 307	14 550 858
Long term liabilities payable to joint venture	0	4 383
Other long term liabilities	672 845	37 879
Other long term liabilities	**15 319 126**	**15 364 131**

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

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

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

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

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

14.5. Trade payables and other short term liabilities

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

amounts in thHUF

Ageing of trade payables	December 31, 2020	December 31, 2019
Not due	2 931 991	1 826 868
Overdue, within 1 year	139	16 325
Overdue, between 1 - 5 years	2 037	2 093
Total trade payables	**2 934 167**	**1 845 286**

The Company settles trade payables within the payment term, and had no material overdue payables as of December 31, 2020 and 2019.

amounts in thHUF

Trade payables	December 31, 2020	December 31, 2019
Trade payables - domestic	1 724 912	1 489 005
Trade payables - foreign	1 006 821	347 212
Intercompany payables	202 434	9 069
Total trade payables	**2 934 167**	**1 845 286**

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

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

amounts in thHUF

Other short-term liabilities	December 31, 2020	December 31, 2019
Lease liabilities - short-term part***	1 490 050	652 622
EU grants - advance payment received*	1 080 825	892 811
Liabilities to parent company	1 000 000	0
Liabilities from social security	310 190	440 821
Amounts payable to pension funds and voluntary pension funds	261 611	438 606
Personal income tax payable on behalf of the employees	250 927	370 304
Short term other liabilities towards various authorities	150 667	0
Changes in fair value of hedges (loss)**	85 891	24 949
Other short term liabilities	49 912	54 748
Total other payables	**4 680 073**	**2 874 861**
EU grants received - short term part*	164 056	209 347
Other deferred income	1 055	1 052
Total deferred income	**165 111**	**210 399**
Services, goods delivered but not invoiced till the year end	472	193 569
Total accrued expenses	**472**	**193 569**
Other short-term liabilities	**4 845 656**	**3 278 829**

** 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.*
****Long-term part relating to Lease liabilities are disclosed under Notes 14.4.*

In 2020 the ‘Liabilities to parent company’ line includes the dividend approved on the basis of the 2019 financial statements, which is expected to be paid in 2021.

14.6. Hedges

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

amounts in thHUF

Fair value of derivative financial instruments	December 31, 2020	December 31, 2019
Other current assets		
Derivative financial instruments in designated hedge accounting relationships		
Hedges - positive fair value	**221 492**	**167 545**
Other current liabilities		
Derivative financial instruments in designated hedge accounting relationships		
Hedges - negative fair value	**85 891**	**24 949**

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

14.7. Financial risk management

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

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

a) Fair value of financial instruments:

Financial assets:

amounts in thHUF

Financial assets	Financial assets at amortised costs	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Other long term assets	688 050	0	688 050	688 050	0
Trade receivables	4 203 654	0	4 203 654	4 203 654	0
Derivative financial instruments in designated hedge accounting relationships	0	221 492	221 492	221 492	0
Fixed deposits HUF - under 1 year over 3 months	4 299 943	0	4 299 943	4 299 943	0
Government securities with maturity above 3 months	9 824 142	0	9 824 142	9 734 682	89 460
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	499 795	0	499 795	499 795	0
Cash and cash equivalents	5 393 091	0	5 393 091	5 393 091	0
Total as per December 31, 2020	**24 908 675**	**221 492**	**25 130 167**	**25 040 707**	**89 460**
Other long term assets	403 150	0	403 150	403 150	0
Trade receivables	5 978 651	0	5 978 651	5 978 651	0
Derivative financial instruments in designated hedge accounting relationships	0	167 545	167 545	167 545	0
Bank deposits HUF - over 3 months	3 850 000	0	3 850 000	3 850 000	0
Fixed deposits HUF - under 1 year over 3 months	7 659 453	0	7 659 453	7 659 453	0
Government securities with maturity above 3 months	20 900 779	0	20 900 779	20 863 168	37 611
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	398 505	0	398 505	398 505	0
Cash and cash equivalents	4 541 604	0	4 541 604	4 541 604	0
Total as per December 31, 2019	**43 732 142**	**167 545**	**43 899 687**	**43 862 076**	**37 611**

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

Financial liabilities:

amounts in thHUF

Financial liabilities	Financial liabilities at amortised cost	Derivative financial instruments	Total carrying amount	Total fair value	Difference
Other long term liabilities	672 846	0	672 846	672 846	0
Trade payables	2 934 167	0	2 934 167	2 934 167	0
Derivative financial instruments in designated hedge accounting relationships	0	85 891	85 891	85 891	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	49 909	0	49 909	49 909	0
Total as per December 31, 2020	**3 656 922**	**85 891**	**3 742 813**	**3 742 813**	**0**
Other long term liabilities	42 262	0	42 262	42 262	0
Trade payables	1 845 286	0	1 845 286	1 845 286	0
Derivative financial instruments in designated hedge accounting relationships	0	24 949	24 949	24 949	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	215 025	0	215 025	215 025	0
Total as per December 31, 2019	**2 102 573**	**24 949**	**2 127 522**	**2 127 522**	**0**

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

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

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

Other long term financial assets:
Other long term assets owed by government authorities were described under Note 14.1 in detail. For discounted cash flow method the Company used risk free interest rate (zero coupon rates derived from the yield curve of government bonds as published by the Government Debt Management Agency, webpage: www.akk.hu).

Other long term liabilities:
The book value of intercompany payable as disclosed under Note 17 approximates its fair value. The balance as of December 31, 2020 mainly contains the obligations from retention warranty of trade payable balances the same as of December 31, 2019. The fair value of the obligations is determined with discounted cash flow techniques using data as introduced below.

The fair value of forward exchange contracts:
The fair value of forward exchange contracts represents the unrealized gain or loss on revaluation of the contracts to year end exchange rates and is expected to be realized within one year. The fair values used are the mark-to market values calculated by the partner banks.

Fair value hierarchy

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

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

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

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

HungaroControl 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 99.1% 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 (2020: 4%, 2019: 3%) 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 thHUF)	
	2020, December	2019, December	2020, December	2019, December	2020, December	2019, December
EUR	365.13	330.52	13 666 559	18 413 562	4 990 071	6 086 050
USD	297.36	294.74	3 237	143	963	42

Currency	FX rates at year-end		Liabilites (in foreign currency)		Liabilites (in thHUF)	
	2020, December	2019, December	2020, December	2019, December	2020, December	2019, December
EUR	365.13	330.52	5 969 780	3 795 615	2 179 746	1 254 527
USD	297.36	294.74	5 503	17 197	1 636	5 069

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

Forward foreign exchange contracts

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

The following contracts were outstanding at year end:

amounts in thHUF

December 31, 2020	Revenue hedge (EUR sold)	Expenditure hedge (EUR bought)	Expenditure hedge (USD bought)	Total
Currency	EUR	EUR	USD	
Currency amount	-12 269 174	16 082 316	1 580 400	
HUF amount	-4 438 449	5 720 107	487 332	**1 768 990**
Fair value of open forward contracts at year end				
Valuation reserve (expected Gain /(Loss))	-29 540	201 787	-17 193	**155 054**
Ineffective part included in Profit and loss	-45 300	1 969	0	**-43 331**
Effective part included in Profit and loss	1 641	0	0	**1 641**
Effective part included in cost of assets	0	2 035	0	**2 035**
Interest income from swap points included in line item financial income	20 202	0	0	**20 202**
Total	**-52 997**	**205 791**	**-17 193**	**135 601**
December 31, 2019	**Revenue hedge (EUR sold)**	**Expenditure hedge (EUR bought)**	**Expenditure hedge (USD bought)**	**Total**
Currency	EUR	EUR	USD	
Currency amount	-23 093 532	15 023 684	2 778 760	
HUF amount	-7 673 404	4 900 163	786 731	**-1 986 510**
Fair value of open forward contracts at year end				
Valuation reserve (expected Gain /(Loss))	-1 576	85 405	23 397	**107 226**
Ineffective part included in Profit and loss	26	-2 645	0	**-2 619**
Effective part included in Profit and loss	32 782	0	0	**32 782**
Effective part included in cost of assets	0	2 771	0	**2 771**
Interest income from swap points included in line item financial income	2 436	0	0	**2 436**
Total	**33 668**	**85 531**	**23 397**	**142 596**

All of the above forecast transactions hedged are expected to occur. Upon close of these forward contracts the amount deferred in equity will be realized in the statement of comprehensive income.
The following amounts were recognized in the comprehensive income statement for the financial years 2020 and 2019:

amounts in thHUF

Amounts recognised in comprehensive income statement in relation to derivative financial instruments	December 31, 2020	December 31, 2019
Amount that was removed from equity and recognised in sales balance (loss)/gain	-282 869	-365 924
Ineffective part of cash flow hedges included in financial results (loss)/gain	-329 266	54 199
Ineffective part of fair value hedges included in financial results (loss)/gain	2 651	0
Interest recognised in profit and loss and included in financial results (swap points received)	54 531	43 893
Total gain/(loss) on cash flow hedge transactions	**-554 953**	**-267 832**
Fair value change of open cash flow forward contracts at year end included in other comprehensive income (fair value reserve at year end)	170 233	107 225
Total result of cash flow hedges included in equity balance	**-384 720**	**-160 607**

At year end the profit charged to other comprehensive income was HUF 63,008 thousand in 2020, while it was HUF 56,563 thousand in 2019.

Foreign currency sensitivity analysis

The Company has the most significant exposure to EUR in relation to revenue and trade receivables balances as this is the billing currency. Thus, the sensitivity analysis is focused on this currency.

The following table details the Company’s sensitivity to a 3% increase or decrease in the value of HUF against EUR. The Company considered movements in EUR over the last five years and concluded that 3% is the sensitivity rate that represents a reasonably possible change and benchmark in EUR-rates against HUF. A positive number below indicates an increase in profit and equity and a negative number a reduction in profit and equity. There would be an equal and opposite impact on profit and equity if EUR devalues by 3% against HUF.

The sensitivity analysis for balance-sheet items includes foreign currency cash balances, trade receivables, trade payables, other short term liabilities, receivables denominated in EUR and foreign exchange forward contracts, and adjusts their translation at the period end for a 3% change in EUR rate. We disclose the effect on the statement of comprehensive income and equity at the end of the reporting period assuming that a reasonably possible change in the relevant risk variable had occurred at that date.

amounts in thHUF

	EUR/HUF	Assets (+) Increase in profit (-) Reduction in profit	Liabilites (+) Increase in profit (-) Reduction in profit	Impact on profit and equity (+) Increase in profit (-) Reduction in profit	Impact on equity (%)
2020					
103%	376.08	149 702	-65 392	84 310	0.2%
100%	365.13	0	0	0	
97%	354.18	-149 702	65 392	-84 310	-0.2%
2019					
103%	340.44	182 582	-37 636	144 946	0.4%
100%	330.52	0	0	0	
97%	320.60	-182 582	37 636	-144 946	-0.4%

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 0.2% increase in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results in 2020 (the same figure is 0.4% as well regarding 2019) – supposing that all other factors remain unchanged. This means that the exposure of the Company against EUR is relatively significant and financial results are considerably sensitive for the change in HUF/EUR rates.
A similar examination using 5% change in rates would result in a 0.4% change in retained earnings for 2020, and 0.7% for 2019 .

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

amounts in thHUF

	EUR/HUF	Effect on profit for the year (+) Increase in profit (-) Reduction in profit	Effect on equity balance (+) Increase in profit (-) Reduction in profit
2020			
103%	376.08	-75 056	116 810
100%	365.13	0	0
97%	354.18	75 056	-116 810
2019			
103%	340.44	-78 445	1 701
100%	330.52	0	0
97%	320.60	78 445	-1 701

The following table represents the results of an assumed devaluation and appreciation of trade receivables balance off-set by the hedge reserve balance at year end using the same assumptions for both of the balances.

amounts in thHUF

	EUR/HUF	Trade receivables	Impact on profit and equity (+) Increase in profit (-) Reduction in profit	Impact on equity with hedging reserve (+) Increase in profit (-) Reduction in profit
2020				
103%	376.08	4 323 870	125 938	72 403
100%	365.13	4 197 932	0	0
97%	354.18	4 071 994	-125 938	-72 403
2019				
103%	340.44	6 152 647	179 203	28 566
100%	330.52	5 973 444	0	0
97%	320.60	5 794 241	-179 203	-28 566

Year-end revaluation

The results of year end revaluation of items in the statement of financial position were as follows: HUF 59,840 thousand loss at the end of 2020 (2019: HUF 56,776 thousand loss).

Interest rate risk management

Interest rate risk from interest bearing assets and liabilities

The Company possesses substantial free cash surplus which is tied up in fixed interest bank deposits or invested in discount treasury bills and government bonds.

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

The Company intends to invest into bank deposits with institutions holding a high long-term minimum credit rating. The credit rating of discount treasury bills and government bonds issued or guaranteed by the Hungarian State are the same as the credit rating of the country which was placed by Standard & Poor's at BBB- (investment grade category) in February 2021. The level of fixed deposits hold in one financial institution is limited to a maximum of 30% of total cash and cash equivalents at the time, when an investment decision is made. The 30% limit alters to 50% when the total volume of cash and cash equivalents does not reach a HUF 6 billion threshold.

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

The balances of deposits were as follows:

Annual Interest rate	2020 Amounts	2019 Amounts
HUF-deposits held	thHUF	thHUF
< 1%	4 289 500	12 400 000
Total	**4 289 500**	**12 400 000**
EUR-deposits held	EUR	EUR
< 0.5%	28 600	28 600
Total	**28 600**	**28 600**

Investments in the above table show a slight increase in market interest rates.

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

Other sources of interest rate risks

The Company is mainly exposed to changes in interest rates through its Kosovo segment and the revenue thereof where full cost recovery mechanism is applied. The profit of this segment is mostly dependent on the cost of equity (return on capital tied up), the calculation of which is based on the yield of risk-free 10-year government bonds and is included in the cost base reimbursed by the airlines.
In respect of the En Route 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 cannot affect the profit of the segment. However, because it is not allowed to include interest bearing assets in the net asset balance which is used to calculate cost of equity, the investment activity of the Company effects the profitability of the segment. In this manner, 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 planned financing potential (involving external sources of finance). However related conditions of the external source of finance will determine what kind of interest rate risk will arise. The Company intends to involve external finance with fixed interest rate conditions.

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. The Company does not bear any risk of inflation in En Route and terminal segments in 2020 and in the main part of 2021 due to the retrospective submission procedure of the performance plan.

The Company does not hold any financial assets or liabilities in its books where a possible change in inflation rate would alter their value and could have significant effect on equity and on the statement of comprehensive income.

Credit risk management

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

Within the performance scheme in the En Route and the terminal segments the Company bears the risk of non-payment of customers, that may become significant due to COVID-19 pandemic (however it did not lead to a substantive increase in 2020).

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

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

Liquidity risk management

The Company manages liquidity by maintaining adequate cash reserves and by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost. The Company currently has no debt at the year end; its liquidity position is stable, but in the future involvement of external sources of finance becomes justified due to the remarkable decrease in the air traffic.

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 substantional 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 cannot be passed on to users. It can be passed on to airlines in the very limited cases of uncontrollable costs, but this however might take up more time to be enforced. It can be charged to users only after the end of actual reference period. Based on EU Regulation No. 1627/2020 special treatment is required in the cost-transfer mechanism regarding the year 2020 and main part of the year 2021, because this (near) two years long period will contain actual figures at the date of submission of the performance plan. That is why the costs will be recorded retrospectively in the performance plan.

Risks in providing air navigation services

According to the first section of paragraph No.69 of Act XCVII of 1995 (regarding services provided in Hungary) and according to the Act CCXLVIII of 2013, furthermore according to the paragraph No. 3 of the Government Decree No. 510/2013 (regarding services provided in Kosovo) HungaroControl is required to establish a liability insurance in order to be entitled to provide air traffic control services. The Company met this criteria in each year presented.

Maturity profile of financial liabilities

The table below summarizes the maturity profile of non-derivative financial liabilities based on contractual undiscounted payments as of December 31, 2020 and 2019.
The table has been drawn up based on the earliest date on which the Company can be required to repay.

amounts in thHUF

Ageing of financial liabilities	Overdue	Due within one year	Due between 1-5 years	Due over 5 years	Total
December 31, 2020					
Trade payables	2 176	2 931 991	0	0	2 934 167
Lease liabilities	778 579	1 785 427	6 720 850	19 914 170	29 199 026
Other liabilities	1 430	49 909	0	0	51 339
Other long term liabilities	0	0	672 846	0	672 846
Total	**782 185**	**4 767 327**	**7 393 696**	**19 914 170**	**32 857 378**
December 31, 2019					
Trade payables	18 418	1 826 868	0	0	1 845 286
Lease liabilities	323	1 765 570	6 715 598	21 515 389	29 996 880
Other liabilities	0	215 025	0	0	215 025
Other long term liabilities	0	0	37 879	4 383	42 262
Total	**18 741**	**3 807 463**	**6 753 477**	**21 519 772**	**32 099 453**

In 2020, the amount of overdue lease liabilities contains the asset management fee for the second half-year of 2020 against Hungarian National Asset Management Inc. regarding managed state owned assets, which payment will be made in 2021 .

15. Provisions

Accounting policies:

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

Critical accounting estimates and judgements:

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

Total balances at year end are as follows:

amounts in thHUF

Provisions	Legal provision	Other provision	Total
Long-term provisions	0	6 711	6 711
Short-term provisions	4 020	44 520	48 540
Balance as of December 31, 2019	**4 020**	**51 231**	**55 251**
Long-term provisions	0	255 437	255 437
Short-term provisions	0	0	0
Balance as of December 31, 2020	**0**	**255 437**	**255 437**

The following table shows the movements in long term provisions:

amounts in thHUF

Long-term	Legal provision	Other provision	Total
Balance as of January 1, 2019	**0**	**28 501**	**28 501**
Utilized during the year	0	-21 790	-21 790
Balance as of December 31, 2019	**0**	**6 711**	**6 711**
Additional provisions created	0	248 726	248 726
Balance as of December 31, 2020	**0**	**255 437**	**255 437**

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

amounts in thHUF

Short-term	Legal provision	Other provision	Total
Balance as of January 1, 2019	**11 164**	**53 646**	**64 810**
Additional provisions created	0	44 520	44 520
Utilized during the year	-7 144	-53 646	-60 790
Balance as of December 31, 2019	**4 020**	**44 520**	**48 540**
Utilized during the year	-4 020	-44 520	-48 540
Balance as of December 31, 2020	**0**	**0**	**0**

The long-term other provisions include liabilities payable to the Ministry for Innovation and Technology (2020: HUF 255,437 thousand, 2019: HUF 6,711 thousand), where a present obligation has arisen as a result of past event, the payment is probable and the amount can be estimated reliably. The short-term part of other provision was released in 2020.

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

16. Employee benefits

Accounting policies:

Career plans:

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

The Company operates a Career plan as a long term pension scheme regulated by the agreements 'HungaroControl Career Plan' and the 'Air Controller Career Agreement'. A defined part of the Career plan are invested in retirement related financial instruments. Amounts regulated by the Air Controller Career Agreement are invested in a separate financial instrument, that will be only available for the air-navigation personnel after concluding their air controller position.The 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 with the amount of HUF 16,112 thousand in 2020.

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

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

amounts in thHUF

Employee benefits	December 31, 2020	December 31, 2019
Long term employee benefits	2 839 114	3 352 941
Short term employee benefits	2 192 581	2 389 679
Total employee benefits	**5 031 695**	**5 742 620**

Long term employee benefits

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

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

amounts in thHUF

Employee benefits	Termination benefits	Other employee benefits	Other short term employee benefits	Total
Present value at January 1, 2019	**549 662**	**2 860 827**	**1 749 757**	**5 160 246**
Past service cost	-6 812	-1 144	0	**-7 956**
Current service cost	57 380	347 227	2 063 688	**2 468 295**
Interest costs	180	9 336	0	**9 516**
Used during the year	-209 318	-44 161	-1 749 757	**-2 003 236**
Change in discount rates	7 552	86 665	0	**94 217**
Net actuarial (gains)/losses	6 673	14 865	0	**21 538**
Present value at December 31, 2019	**405 317**	**3 273 615**	**2 063 688**	**5 742 620**
Past service cost	-4 544	-889	0	**-5 433**
Current service cost	131 625	353 628	1 411 179	**1 896 432**
Interest costs	0	0	0	**0**
Used during the year	-146 472	-140 992	-2 063 688	**-2 351 152**
Change in discount rates	-343	12 979	0	**12 636**
Net actuarial (gains)/losses	-119 260	-144 148	0	**-263 408**
Present value at December 31, 2020	**266 323**	**3 354 193**	**1 411 179**	**5 031 695**
Short term part				2 192 581
Long term part				2 839 114

The actuarial gain included in the balance arose on those parts of the obligation, however to a lesser extent only, where the period of service is not yet fulfilled by the employees. According to the Collective Agreement signed, new non-air navigation employees in the scheme have to work 5 years till they are fully authorized members. In their case the actuarial gain/loss includes impacts like increase of salaries expected differently. Actuarial gain arose on one hand due to the reverse of expected settlements in the amount of HUF 65,949 thousand. The reason of this change is that some of the air –navigation employees will be retired on a different date as it was previously planned. Additional gain arose in the amount of HUF 109,606 thousand due to the change in the employee benefit model, because the payment was made into the financial instrument based on the Air Controller Career Agreement. In 2020 the amount of Actuarial gains/losses line shows a gain result.

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

amounts in thHUF

Financial and actuarial variables and assumptions	December 31, 2020	December 31, 2019
Actual exit and death probability versus estimated	-15 682	-531
Effect of changes in discount rate	12 636	94 217
Changes in expected salary increase	-41 152	70 057
Changes in the amount of expected settlements	-65 949	-110 220
Changes in Employee Benefit Model	-109 606	0
Other	-31 019	62 231
Total	**-250 772**	**115 754**
Included in other comprehensive income	0	0
Included in profit and loss statement	-250 772	115 754

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 2020. 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 2020 was 0.4% regarding balances due within 1 year, in 2019 balances within 1 year were not discounted due to the discount rate was near 0%.
Among all the actuarial assumptions the change in discount rates has significant impact on the net present value of the liability balance. From 2018 to 2019 the year end value of the obligations increased by HUF 94,217 thousand, since between 2019 and 2020 the year-end balance increased by HUF 12,636 thousand.

Actuarial gains and losses arising from changes in assumptions

Actual versus estimated exit probability: exit assumptions for 2020 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):

- 2020: Non-air navigational employees: 5.4%, air navigational employees: 0.2%.
- 2019: Non-air navigational employees: 5.9%, air navigational employees: 0.2%.

Mortality index: mortality indices used are derived from the statistics published by the Hungarian Statistical Office: the published maximum 10% caused by work place accident has been decreased by 50% considering the actual historical data of the Company from the last years.

Increase in salaries: the presumptions used in the case of military personnel commanded to do service at the Company are available until 2024. In relation to the new scheme the effect of salary increases are very limited and are only relevant for the occupational accidents balance. Following 2024 in accordance with long-term inflation policy of MNB, we calculate with an increase of 3% in salaries.

The Company does not expect any reasonable possible change in the actuarial assumptions which would materially affect the year end balances of the liabilities hence there is no need to disclose sensitivity analyses regarding the main actuarial assumptions used.

Short term employee benefits

Short term employee benefits comprise the following items:

amounts in thHUF

Short term employee benefits	December 31, 2020	December 31, 2019
Short term part of post employment benefits and other long term employee benefits	781 402	325 992
Salaries payable for December	709 573	734 595
Bonuses payable on a short-term basis	53 948	43 709
Short-term compensated absences	99 102	116 271
Other	548 556	1 169 112
Total	**2 192 581**	**2 389 679**

The most significant item of Other line is the compensation for year-end performance valuation in the amount of HUF 402,293 thousand in 2020, HUF 585,335 thousand in 2019. In addition Other line contains the liability arisen from inflationary correction compensation in the amount of HUF 143,181 thousand in 2020, HUF 408,666 thousand in 2019. Other line was increased with the amount of a so-called ‘retention benefits’ that was HUF 171,059 thousand in previous years and –due to settlement is made - it was released in 2020.

17. Related party disclosure

Transactions with related parties:

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

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

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

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

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

- The founder's and owner's rights are exercised by the Minister without portfolio for the management of national assets. Dividend to be paid to the Ministry based on the 2019 financial statements in the amount of HUF 1,000,000 thousand in 2020, which is expected to be paid in 2021 (2019: dividend was paid in the amount of HUF 1,000,000 thousand).

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. The asset management fee in 2020 was HUF 1,567,059 thousand (HUF 1,581,245 thousand in 2019) of which the Company managed HUF 1,550,308 thousand as lease payments in both years.
  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.

- For the **Ministry for Innovation and Technology** the Company pays the following amounts: supervisory fee of air navigation services over Hungary (2020: HUF 500,000 thousand – 2019: HUF 500,000 thousand), the supervisory fee of air navigation services over Kosovo (2020: HUF 104,565 thousand, 2019: HUF 99,997 thousand), other license fees (2020: HUF 7,119 thousand, 2019: HUF 7,610 HUF), air navigation service related administration fees (2020: HUF 284,863 thousand, 2019: HUF 265,012 thousand).

Further transactions considered to be significant in terms of size:

- The Company purchases energy from **MVM Partner Energiakereskedő Ltd**. and **NKM Energy Ltd.** (2020: HUF 167,663 thousand, 2019: HUF 158,847 thousand).
- The Company purchases meteorological data from the **Hungarian Meteorological Service** (2020: HUF 531,927 thousand, 2019: HUF 488,661 thousand).
- The Company leases properties from **Ministry of Defence** (2020: HUF 1,811 thousand, 2019: HUF 1,751 thousand)
- Properties are leased from **Antenna Hungária Plc.** (2020: HUF 10,797 thousand, 2019: HUF 10,446 thousand)
- Properties leased from **Directorate General of Public Procurement** (2020: HUF 8,129 thousand, 2019: HUF 8,129 thousand)
- Properties leased from **MFK Magyar Fejlesztési Központ Nonprofit Ltd.** (2020: 5,364 thousand, 2019: 3,694 thousand that represents lease fee of three quarters)

- Cost of flights exempted from charges and settled with the Hungarian State are recognized as short term and long term assets and are credited into revenues from air navigation services – refer to Notes 5., 14.1 and 14.2.

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

amounts in thHUF

Exempted flights	Balance as per December 31, 2020	Balance paid off	Credited to Financial income	Credited to Revenue	Balance as per January 1, 2020
Ministry of Defence	**848 712**	251 809	24	572 324	**528 173**
Ministry for Innovation and Technology	**43 446**	12 004	1	27 572	**27 877**
Ministry of Foreign Affairs	**23 098**	26 838	0	23 098	**26 838**
Total	**915 256**	**290 651**	**25**	**622 994**	**582 888**
Exempted flights	**Balance as per December 31, 2019**	**Balance paid off**	**Credited to Financial income**	**Credited to Revenue**	**Balance as per January 1, 2019**
Ministry of Defence	**528 173**	305 588	2 279	276 388	**555 094**
Ministry for Innovation and Technology	**27 877**	10 800	107	15 874	**22 696**
Ministry of Foreign Affairs	**26 838**	45 086	221	26 837	**44 866**
Total	**582 888**	**361 474**	**2 607**	**319 099**	**622 656**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2020 and in 2019 no provisions have been made for doubtful debts in respect of amounts owed by related parties.

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

Transactions with joint ventures:

EPC Ltd. provides the training of air navigation personnel for the Company, and provides language courses. Sales revenues from EPC Ltd. include office rentals, training room rentals and revenues for management services. The amount of long term liabilities contained caution received according to the office rental agreement which was reclassified to short term liabilities, because it was repaid in 2021 according to the modification of the relevant contract. Short term liabilities are fully settled at the year end.

The transactions with EPC Ltd. are disclosed fully:

amounts in thHUF

Transactions with EPC	December 31, 2020	December 31, 2019
Amounts presented in Statement of Comprehensive Income		
Sales of management services	37 209	35 921
Dividend received	24 500	103 204
Purchases of training services	749 435	683 808
Amounts presented in Financial Position		
Amounts owed by related parties	2 206	194
Amounts owed to related parties - long term	0	4 383
Amounts owed to related parties - short term	61 686	0

Transactions with FABCE Aviation Services, Ltd. include purchase of professional support and management services (2020: HUF 51,244 thousand, 2019: HUF 58,347 thousand).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2020 and in 2019 no provisions have been made for doubtful debts in respect of amounts owed by related parties.

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

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

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

Financial year 2020 amounts in thHUF

Remuneration of key personnel	Short-term employee benefits	Post-employment benefits	Other long-term benefits	Termination benefits
Remuneration of Board of Directors	24 625	0	0	0
Remuneration of the Supervisory Board	72 806	0	0	0
Remuneration of Chief Executive Officer and Directors of the Company*	276 735	0	0	0
Total	**374 166**	**0**	**0**	**0**

** The amount includes in total HUF 28,219 thousand bonus accrual.*

Financial year 2019 amounts in thHUF

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

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

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

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

18. Commitments, contingencies

Under- and overrecovery balances from air navigation services

Under- and overrecovery balances in Kosovo segment:
According to the special mechanism of the system, for charging zones applying full cost recovery method, like the Serbia-Montenegro-KFOR charging zone, the difference between income and chargeable costs for year ‘n’ resulted in underrecovery or over-recovery balances. Over- and underrecoveries are calculated as a difference between charges billed to users, other income and actual chargeable costs. Underrecovery or

overrecovery balances are settled through the “adjustment mechanism”, when balances of year ’n’ are carried over to year ‘n+2’ (earliest) and taken into account in the calculation of the chargeable unit rates.

Under- and overrecovery balances in en-route and terminal segments of the Hungarian charging zone:
In the performance scheme under- and overrecoveries arise due to various occurrences: the risk of deviation from the traffic 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 thHUF

Underfunding from cost base mechanism	**Closing balance December 31, 2020**	**Amounts reimbursed (reversals)**	**Amounts generated during the financial year**	**Opening balance January 1, 2020**
underrecoveries from 2016, En-route segment	67 224	0	0	67 224
underrecoveries from 2018, En-route segment	0	-1 836 307	0	1 836 307
underrecoveries from 2018, TNC segment	0	-359 262	0	359 262
underrecoveries from 2019, En-route segment	1 696 561	0	0	1 696 561
underrecoveries from 2019, TNC segment	283 551	0	0	283 551
underrecoveries from 2019, Kosovo segment	23 009	0	0	23 009
underrecoveries from 2020, En-route segment	6 286 798	0	6 286 798	0
underrecoveries from 2020, TNC segment	1 191 872	0	1 191 872	0
underrecoveries from 2020, Kosovo segment	634 957	0	634 957	0
Total underrecovery carried over	**10 183 972**	**-2 195 569**	**8 113 627**	**4 265 914**

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

amounts in thHUF

Overfunding from cost base mechanism	Closing balance December 31, 2020	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance January 1, 2020
overrecoveries from 2014, En-route segment	0	-7 874	0	7 874
overrecoveries from 2016, En-route segment	500 943	0	0	500 943
overrecoveries from 2016, TNC segment	178 742	0	0	178 742
overrecoveries from 2017, En-route segment	549 380	0	0	549 380
overrecoveries from 2017, TNC segment	188 557	0	0	188 557
overrecoveries from 2018, En-route segment	650 576	-9 960 158	0	10 610 734
overrecoveries from 2018, TNC segment	192 901	-1 858 058	0	2 050 959
overrecoveries from 2018, Kosovo segment	0	-98 152	0	98 152
overrecoveries from 2019, En-route segment	8 861 311	-555 951	0	9 417 262
overrecoveries from 2019, TNC segment	2 348 287	0	0	2 348 287
overrecoveries from 2020, En-route segment	1 084 556	0	1 084 556	0
overrecoveries from 2020, TNC segment	206 922	0	206 922	0
Total overrecovery carried over	**14 762 175**	**-12 480 193**	**1 291 478**	**25 950 890**
Contingent liability from non-controllable costs	0	-805 322	0	805 322
Contingent liability from capacity related incentive scheme	0	-140 695	0	140 695
Total contingent liability from cost base mechanism	**14 762 175**	**-13 426 210**	**1 291 478**	**26 896 907**

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

Other commitments, contingencies

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

amounts in thHUF

Maturity date	Amount	
14.08.2020-31.08.2023	20 111	bank guarantee given for rental fee payment
Guarantees given	**20 111**	
18.11.2020-18.05.2021	20 138	bank guarantee received in relation to investment projects
08.05.2017-13.05.2022	1 732	bank guarantee received in relation to investment projects
05.07.2017-09.06.2022	1 341	maintenance bond received in relation to investment projects
05.07.2017-09.06.2022	842	maintenance bond received in relation to investment projects
08.02.2018-05.01.2023	6 173	bank guarantee received in relation to investment projects
07.12.2017-20.01.2023	7 942	bank guarantee received in relation to investment projects
15.06.2018-18.05.2023	660	bank guarantee received in relation to investment projects
21.10.2020-31.08.2025	2 068	bank guarantee received in relation to investment projects
Guarantees received	**40 895**	

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 2020 were HUF 40,895 thousand (2019: HUF 70,760 thousand).

19. Capital risk management

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

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

20. Events after the reporting period

1) Liquidity position

In 2020 HungaroControl Plc. held stable liquidity position. The resources are derived decisively from the settlements of air navigation services provided. However the revenues (calculated by the determined unit rates based on the performance plan submitted at the end of 2019) from both En Route and terminal segments are significantly decreased due to the decline in the air traffic as a consequence of the outbreak of Coronavirus pandemic at the beginning of 2020 and related restrictive measures. During 2020 the sum of the available cash and investment stock of the Company is decreased with HUF 20 billion to the balance of HUF 17 billion (investments regarding the obligations engaged in Air Controller Career Agreement are not included).

EU Regulation No. 1627/2020 on exceptional measures of performance and charging scheme due to the COVID-19 pandemic (effective from November 2020) contains favourable measures: as disclosed above, the costs of the air navigaton services are substantionally funded based on the modified measures. As a result, decreased revenues from the operation in 2020 (and in 2021 as expected) represents only (temporary) liquidity problems instead of sustainability/efficiency questions. The Company took the first preparatory actions in this connection and intends to introduce further measures as well.

The Business Plan and the long-term financial plan of the Company are prepared taken into account air traffic forecasts and several cost-efficiency measures after supervision of the justification and the timing of constructions. According to the planned baseline, the investment balances will be depleted and HUF 8.6 billion loan may be needed by the end of the year.

Considering these processes the Company launched a loan tender in the autumn of 2020, and in January 2021 the Company entered into contracts with three commercial Banks providing favourable credit facility conditions for a total of HUF 10 billion, that expire in January 2023. The financing of the Company is expected to be ensured until the end of 2021.

In addition consultations have taken place at the beginning of 2021 with the ministry of the owner's rights about additional funding in the total of HUF 25 billion for financing future constructions. The Company entered into negotiations also with market and other participants about the optimal way of the provision of necessary financial resources.

In light of the regulatory environment, statutory guarantees for the designated business and prudent operation of the Company, also the commitment of the state-owner and currently available market responses, the financing of the Company is considered to be secured in the following years.

2) Development of regulatory environment

At the meeting of the Appeals Committee on 11 May 2021, the EU Member States approved the revised EU performance targets for the European Commission for the reference period 2020-2024. Based on this, at the pan-European level - compared to the real cost level in 2019 - the cost targets are the following: 97% in 2020 and 2021 years, 94% in 2022, 96% in 2023 and 97% in 2024. In this context the European Commission has set the framework within which national performance plans need to be developed.

The financial statements of the Company for the year ended at December 31, 2020 prepared in conformity with International Financial Reporting Standards (IFRS) are approved in accordance with the resolution of the CEO on 8 June 2021.

Budapest, 9 June 2021

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Chief Executive Officer