FINANCIAL STATEMENTS

for the year ended December 31, 2021

in accordance with International Financial Reporting Standards (IFRS)

HUNGAROCONTROL
FINANCIAL STATEMENTS
DECEMBER 31, 2021

CONTENTS

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This is a translation of the Hungarian Report

Independent Auditor's Report

To the Shareholder of HungaroControl Zrt.

Opinion

We have audited the accompanying 2021 financial statements of HungaroControl Zrt. ("the Company"), which comprise the statement of financial position as at 31 December 2021 - showing a balance sheet total of HUF 57,688,994 thousand and a total comprehensive loss for the year of HUF 10,642,207 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 2021 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 of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (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 Company has prepared another set of annual financial statements as at 31 December 2021 in accordance with the Hungarian Accounting Law and we have issued a separate report on those financial statements on 28 April 2022.

The Company 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.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

(The original Hungarian language version has been signed.)

Bartha Zsuzsanna Éva
Budapest, 19 July 2022
Ernst & Young Kft.

HUNGAROCONTROL
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021

amounts in thHUF

Description	Notes	December 31, 2021	December 31, 2020
Intangible assets	11	12 205 543	11 796 771
Property, plant and equipment	12	26 090 250	27 210 945
Investments in joint ventures	9	58 953	56 159
Invested financial assets	14.3	0	0
Long term securities	14.3	2 448 962	2 188 528
Other long term assets	14.1	634 973	688 050
Deferred tax asset	10	782 358	560 151
Non-current assets		**42 221 039**	**42 500 604**
Inventories	13	37 160	45 712
Trade receivables	14.2	4 685 979	4 203 654
Other current assets	14.2	3 489 129	2 773 373
Current tax receivable	10	62 300	232 480
Short term securities	14.3	0	7 635 614
Other financial assets	14.3	313 553	4 299 943
Cash and cash equivalents	14.3	6 879 834	5 393 091
Current assets		**15 467 955**	**24 583 867**
TOTAL ASSETS		**57 688 994**	**67 084 471**
Share capital	1.1	20 201 600	20 201 600
Reserves		7 654 583	18 496 790
Shareholder's equity		**27 856 183**	**38 698 390**
Long term provisions	15	6 711	255 437
Long term employee benefits	16	3 143 607	2 839 114
Other long term liabilities	14.4	14 773 945	15 319 126
Deferred tax liability	10	0	0
Non-current liabilities		**17 924 263**	**18 413 677**
Trade payables	14.5	2 558 662	2 934 167
Short term provisions	15	729 174	0
Short term employee benefits	16	2 605 424	2 192 581
Current tax liability	10	0	0
Other short-term liabilities	14.5	6 015 288	4 845 656
Current liabilities		**11 908 548**	**9 972 404**
TOTAL LIABILITIES		**29 832 811**	**28 386 081**
TOTAL EQUITY & LIABILITIES		**57 688 994**	**67 084 471**

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

HUNGAROCONTROL
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021

amounts in thHUF

Description	Notes	2021	2020
Revenue from air navigation services	5	21 845 148	15 699 840
Other revenue		109 992	144 578
Revenue		**21 955 140**	**15 844 418**
Personnel expense	6.1	17 427 161	17 353 761
Operating expense	6.2	8 418 865	9 310 262
Depreciation, depletion, amortization and impairment	11, 12	6 254 584	5 523 793
Other income / expense (-)	7	672 756	176 567
Operating expense		**31 427 854**	**32 011 249**
OPERATING PROFIT		**-9 472 714**	**-16 166 831**
Financial income / expense (-)	8	-856 644	-1 020 804
Profit from financial activities		**-856 644**	**-1 020 804**
Share from profit / loss of joint venture	9	2 770	15 325
PROFIT BEFORE TAX		**-10 326 588**	**-17 172 310**
Income tax expense	10	276 045	196 793
PROFIT FOR THE YEAR		**-10 602 633**	**-17 369 103**
Attributable to equity holder of the parent		**-10 602 633**	**-17 369 103**
OTHER COMPREHENSIVE INCOME			
Items reclassified subsequently to profit and loss			
Gain / loss (-) on cash flow hedges	14.7	-39 574	63 008
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		**-39 574**	**63 008**
TOTAL COMPREHENSIVE INCOME		**-10 642 207**	**-17 306 095**
Attributable to equity holder of the parent		**-10 642 207**	**-17 306 095**

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

HUNGAROCONTROL
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021

amounts in thHUF

Description	Notes	Share capital	Retained earnings*	Valuation reserve**	Total reserves	Total shareholder's equity
Opening balance at 1 January, 2020		**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**
Translation reserve		0	0	0	**0**	**0**
Transactions recognised in other comprehensive income	**10, 16, 14.7**	0	0	-39 574	**-39 574**	**-39 574**
Profit for 2021		0	-10 602 633	0	**-10 602 633**	**-10 602 633**
Total comprehensive income		**0**	**-10 602 633**	**-39 574**	**-10 642 207**	**-10 642 207**
Dividends* **			-200 000		**-200 000**	**-200 000**
Closing balance, 31 December, 2021		**20 201 600**	**7 556 147**	**98 436**	**7 654 583**	**27 856 183**

** Retained earnings include accumulated net profit or loss less dividends paid.*
*** The change in the fair value attributable to the effective portion of cash flow hedges is recognized in other comprehensive income as hedge reserve. At the closing of the transaction, the change in fair value recognized in other comprehensive income has been transferred to the appropriate line in the income statement.*
**** The amount of dividend per share is HUF 990 in 2021 (HUF 4 950 in 2020).*

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

HUNGAROCONTROL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021

amounts in thHUF

Description	Notes	2021	2020
OPERATING ACTIVITIES			
Profit before tax		**-10 326 588**	**-17 172 310**
Depreciation and amortization	11, 12	6 241 027	5 503 164
(Gain)/Loss on sale of property, plant & equipment	11, 12	-32 603	-538
Impairment/Scrapping/Transfer free of charge/Subsadisation of Fixed Assets	11, 12	-106 203	49 347
Short-term lease payments, payments for leases of low-value assets	6.2	11 795	17 954
Impairment/Scrapping of Inventory	13	7 426	12 413
Increase/ (decrease) in provisions	15	480 448	200 186
Interest income	14.3, 14.6	-169 335	-111 435
Increase in provision for bad debts	14.2	-52 152	94 291
Share of (income) from joint ventures	9	-2 770	-15 325
Unrealized foreign exchange (gains)/losses	14.7	-32 440	59 840
(Gains)/losses from other non-cash transactions	14.3, 14.6	52 768	-728 823
Total profit before tax		**6 397 961**	**5 081 074**
Changes in working capital:			
(Increase)/ decrease in Accounts receivable and other current assets	14.2	-959 779	1 794 723
(Increase)/ decrease in Inventory	13	970	4 913
Increase/ (decrease) in Accounts payable, long term liabilities and accruals	14.5	2 625 952	1 691 432
Income taxes paid	10	-438 073	-652 285
Total changes in working capital		**1 229 070**	**2 838 783**
Net cash from operating activities		**-2 699 557**	**-9 252 453**
INVESTING ACTIVITES			
Purchase tangible assets and intangibles	11, 12	-5 902 800	-7 673 572
Proceeds on disposal of property, plant & equipment	7	319 863	756
(Purchase)/ sale of financial assets	14.3	11 392 360	19 356 397
Dividend received	9	0	24 500
Interest received	14.3, 14.6	177 807	116 166
Net cash used in investing activities		**5 987 230**	**11 824 247**
FINANCING ACTIVITIES			
Cash payments for the principal portion of the lease liability		-725 335	-612 274
Interest paid	8, 14.4	-1 077 077	-1 120 479
Dividend paid	14.5	0	0
Net cash used in financing activities		**-1 802 412**	**-1 732 753**
Increase/(decrease) in cash and cash equivalents		**1 485 261**	**839 041**
Cash and cash equivalents at beginning of year		5 393 091	4 541 604
Exchange rate loss on cash and cash equivalents		1 482	12 446
Cash and cash equivalents at end of year	14.3	**6 879 834**	**5 393 091**

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 National Defence Industrial Innovation Plc. The Hungarian State has direct ownership over the National Defence Industrial Innovation Plc. and thereby has indirect ownership over HungaroControl Plc.
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.

- Amendments to IFRS 17 ‘Insurance Contracts’: Initial application of IFRS 17 and IFRS 9 – Comparative informations – effective from 1 January 2023. The standard will have no impact on the Financial Statements of the Company.
- Amendments to IAS 12 ‘Income Taxes’: Deferred Tax related to assets and liabilities arising from a single transaction – effective from 1 January 2023. The amendment is not expected to have a material impact on the Financial Statements of the Company.
- Amendments to IAS 1 ‘Presentation of Financial Statements’: Classification of Liabilities as Current or Non-current – effective from 1 January 2023. The amendment is not expected to have a material impact on the Financial Statements of the Company.

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

- Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2': Disclosure of accounting policies – effective from 1 January 2023. The amendment is not expected to have a material impact on the Financial Statement 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 Statement of the Company.
- IFRS 17 'Insurance Contracts' – effective from 1 January 2023. The standard will have no 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 amendment has no 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 Statement 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.
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 according to 'Interest Rate Benchmark Reform – Phase 2' – effective from 1 January 2021. The amendment has no effect on the Financial Statements of the Company.
- Amendments to IFRS 4 'Insurance Contracts' – deferral of IFRS 9 – effective from 1 January 2021. The amendment has no impact on the Financial Statements of the Company.
- Annual improvements 2018-2020: Amendments to 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 Statement 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 Company recognises revenue when it has satisfied the performance obligation by delivering the promised service (or goods) to the customer. The service (or goods) is considered to be delivered when the buyer obtains control over that. The Company specifies for each performance obligation whether it is to be satisfied continuously (over a period of time) or at a specific time.
The 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 2021 the amount of HUF 589,524 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. The cost of exempted flights is settled approximately in two years, so the related financing component is adjusted by applying a discount rate.

Sale of constructions performed on state owned property:

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

Other revenues not meeting presentation requirements:

In accordance with the contract if it is not probable that the Company will collect the consideration to which it is entitled in change for goods or services that is transferred to the customers, the revenue 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 are earned by the Company based on a HUF unit rate determined on the basis of pre-budgeted costs and planned annual traffic taking into account the actual chargeable service units.
Air traffic charges are determined by the number of service units calculated by using a formula with the maximum take off weight of the air plane, and in the case on en-route services - the distance factor.

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

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

Based on the EU Regulation No. 317/2019, the Company and the airspace users bear together any traffic risk in the En Route and terminal segments during the third reference period effective between 2020-2024 due to the traffic risk sharing mechanism. As required by the EU Regulation No. 1627/2020 on the COVID-19 pandemic, new performance plan was submitted on 1 October 2021 for the period of 2020-2024. In the revised version of this performance plan, submitted in February 2022, the 2020-2021 traffic is already actual data and therefore no traffic risk is expected in 2020 and 2021.

In the Kosovo segment operating in a full cost recovery scheme the unit rates are determined by using forecasted service units and relating costs estimated previously. The actual number of service units and actual costs might differ from the planned ones which differences are then compensated via an adjustment mechanism; as a main rule the under- or overrecoveries of the particular year 'n' is adjusted in the calculation of the charging rate of 'n+2'. The Kosovo airspace is part of the common Serbia-Montenegro-KFOR En Route charging zone. All the costs and income relating to the provision of the service are included in the cost base of Serbia-Montenegro-KFOR in alignment with the principles of the EUROCONTROL En Route charges system.

Sale of goods:

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

Revenues from service provision:

amounts in thHUF

Revenue	2021	2020
Revenue from air navigation services - en route segment	17 754 111	12 896 633
Revenue from air navigation services - terminal segment	2 946 033	2 466 305
Revenue from air navigation services - Kosovo segment	1 246 905	619 771
Cash-flow hedge accounting reserve booked to revenues	-101 901	-282 869
Total revenue from air navigation services	**21 845 148**	**15 699 840**
Other revenue - foreign	58 849	62 135
Other revenue - domestic	51 143	82 443
Total other revenue	**109 992**	**144 578**
Total revenue	**21 955 140**	**15 844 418**

Analysis of revenue changes:

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

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

Analysis of revenue change between 2021-2020:

The amount of revenue for 2021 is HUF 21,955,140 thousand while it was HUF 15,844,418 thousand for 2020.
The revenue variance between 2021 and 2020 comes from the following main items:

amounts in thHUF

Deviation of the Revenue	
Revenue for 2021	**21 955 140**
Lower overrecoveries of n-2 year resulting in revenue increase in 2021	2 204 036
Higher determined cost of the applicable unit rate resulting in revenue increase in 2021	5 282 052
Despite the higher traffic, the higher base of the applicable unit rate resulting in a higher uncovered amount to be partially recharged during 2023-2027	-1 147 923
Other	-227 443
Revenue for 2020	**15 844 418**

The increase in revenue in 2021 compared to 2020 are due to the following main reasons:

- HUF 2,204,036 thousand represents an overrecovery difference between the years. Overrecoveries reduced the revenue for 2020 by HUF 10,799,843 thousand, while reduced the revenue for 2021 just by 8,595,807 thousand (according to the adjustment mechanism described above).
- HUF 5,282,052 thousand represents a revenue increase due to the difference in determined costs, which were the basis of applicable unit rates and also the revenues. The determined cost was HUF 51,599,622 thousand in 2020, and HUF 56,881,674 thousand in 2021.
- HUF 1,147,923 thousand decrease in revenue resulted due to the difference in non-realized, planned income beacuse of the fall in turnover. The difference between the planned and actual income was HUF 24,928,689 thousand in 2020 and HUF 26,076,612 thousand in 2021, because a higher traffic volume of 2021 was counteracted by a higher base of the applicable unit rates, and it finally resulted a higher uncovered amount. Since the performance plan proposed for adoption contains a lower cost plan than the determined costs underlying the applied unit rates, underrecoveries to be reimbursed in the following years will only be applied to the value in the performance plan regarding costs not covered by airspace users in 2021. It is to be noted, that this significant amount of underrecoveries in 2021, 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 220,492 thousand in 2023 in the charge of Serbia / Montenegro / KFOR, due to the KFOR cost and traffic deviation in 2021
    - HUF 6,680,526 thousand in the en-route and terminal charges in 2023-2027 period (HUF 1,336,105 thousand / year)

Revenues from air navigation services:

The main activity of the Company is to provide air navigation services, 99.5% of the revenue derives from air traffic charges in 2021 (99.1% in 2020).

In 2021 81% of revenues from air navigation services derives from navigation of overflight traffic (En Route) over Hungary (81% in 2020), 13% derives from terminal air navigation services at Liszt Ferenc International Airport (15% in 2020), and 6% derives from the navigation of air traffic in the upper airspace over Kosovo (4% in 2020).

The performance obligations of providing air navigation services are fulfilled continuously and therefore revenues are recognised over a period of time. The value of revenues from air navigation services is modified by the foreign exchange result of cash flow hedge transactions concluded for hedging of foreign exchange risk on revenues.
On average, more than 90% of the revenue from air navigation services – for a given flight month- is settled in the last half of second month following the flight month, managed by EUROCONTROL's Central Route Charges Office (CRCO).

Development of air traffic

Hungary's total 2021 traffic is significantly below the record year of 2019, due to travel restrictions caused by the COVID-19 pandemic. Since 2019 was the last year not affected by the pandemic, we also consider it as a reference year, and therefore in our statements we compare the non-financial data not only to the previous year but also to the level of the reference year. Based on the data extracted from our own ATM system, in 2021 HungaroControl ATS services handled a total of 538,689 aircraft in Hungarian airspace (controlled and uncontrolled), representing 57% of the 2019 traffic. The 2021 traffic represents a 27% increase compared to the previous year.

According to CRCO data, the number of movements in the controlled airspace was 507,653 of which 453,005 were overflights and 54,648 were terminal movements. The figure is 56% of 2019, which represents a 30% increase in traffic compared to 2020. As our revenues are accounted on the basis of CRCO data, CRCO data are presented in the following analysis.

The development of traffic in 2021 was largely determined by the pandemic and its impact on the aviation industry. While the first five months of the year were still characterised by widespread travel restrictions across Europe, a significant increase in vaccination levels led to a positive trend in air traffic in the summer of 2021, which, albeit to a lesser extent, continued into the autumn, excluding the seasonal decline seen in previous years. The difference between the first and second half of the year was significant. In en-route traffic, following the stagnation in the first five months of the year, the upturn in traffic in the summer months resulted in a recovery of 69% of 2019 traffic in July and 76% in August. The highest percentage of recovery was recorded in December, when overflights reached 77% of 2019.

Similar trends were observed in 2021 for the traffic at Budapest Liszt Ferenc International Airport, with the difference that with the introduction of the winter schedule at the end of October, the airport's arrivals/departures traffic did not stop but continued to increase. At the largest domestic international airport, the difference in traffic recovery rates between the first and second halves of the year was even greater. By the end of June, only 24% of 2019 traffic had returned, while in the second half of the year, the ratio was 62%. On an annual basis, the overall decline in traffic at Budapest Liszt Ferenc International

Airport was slightly higher than the decline in overflying traffic, turning the trend started in 2014. The total of 55,000 arrivals/departures handled at our largest international airport in 2021 represents a level of traffic comparable to that of the late 1980s.

Under an agreement between NATO and the Hungarian State, HungaroControl has been managing civil air traffic over Kosovo (KFOR sector) since 2014. The drop in traffic due to the COVID-19 pandemic was of course also felt in the KFOR sector, especially in the first half of the year. From July onwards, there was a huge turnaround in traffic and the recovery in traffic in this airspace was the highest in the summer season, reaching 90%.

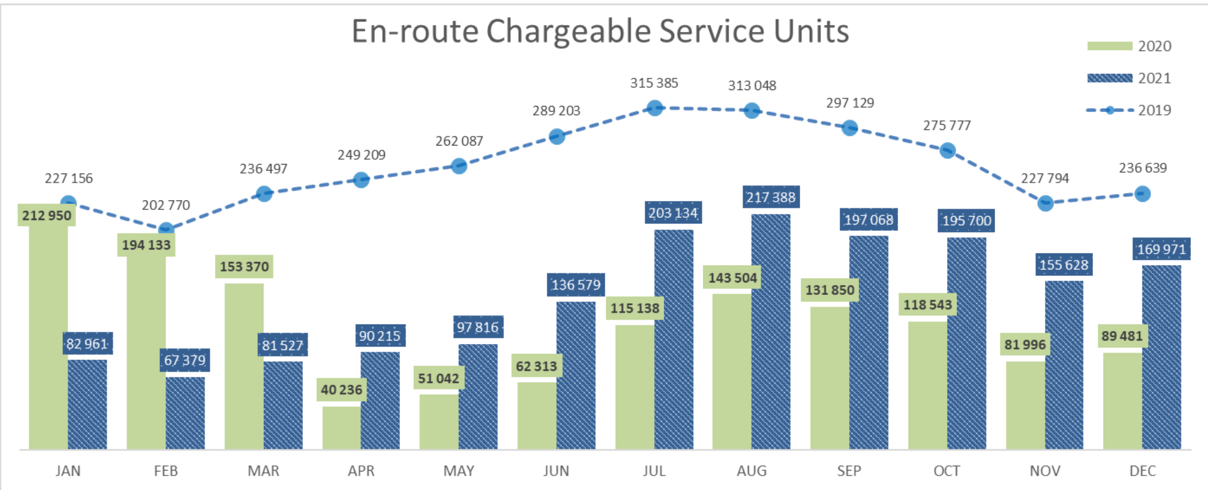
On an annual basis, the number of flights handled (95,098) was 49.4% higher than the previous year, but fell back to 2017 levels. Here, the recovery of traffic was faster than in the Hungarian en-route, 2021 traffic was 66.7% of 2019 (for example, in October 2021, the volume of traffic was 8% higher than in October 2019).

Development of Chargeable Service Units

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

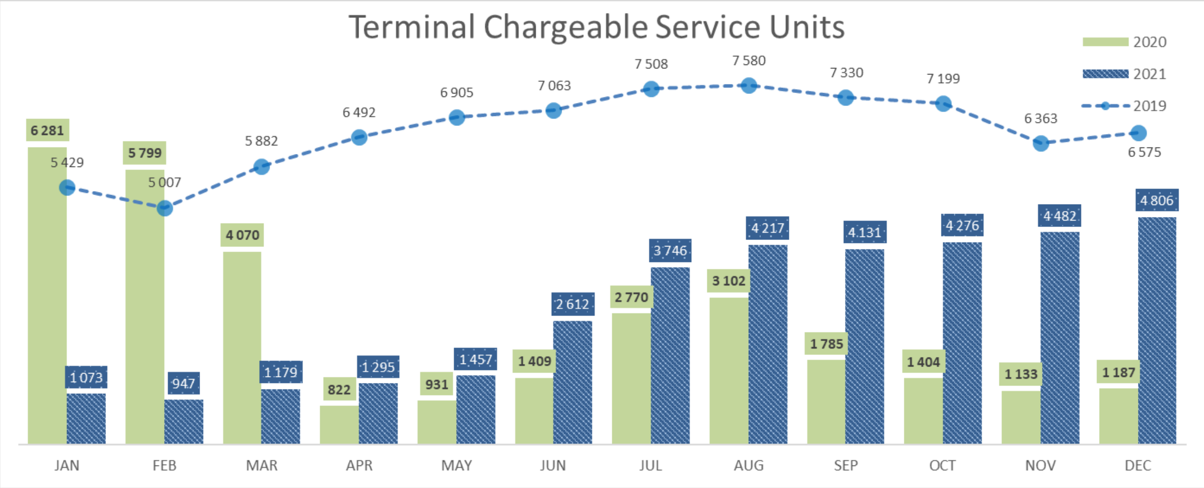
En Route Chargeable Service Units

In 2021 the total number of En Route Service Units increased by 21% compared to the previous year, however this traffic is still only 55% of 2019 (the reference year) due to the reasons described above regarding number of movements. In 2021, the number of En Route Service Units amounted to 1,726,646 of which 31,280 units (2%) relate to exempted flights. The number of chargeable En Route service units, being the indicator of the revenue amounted to 1,695,366 SU, increased by 22% compared to the previous year, however represents only 54% of the reference year (2019).



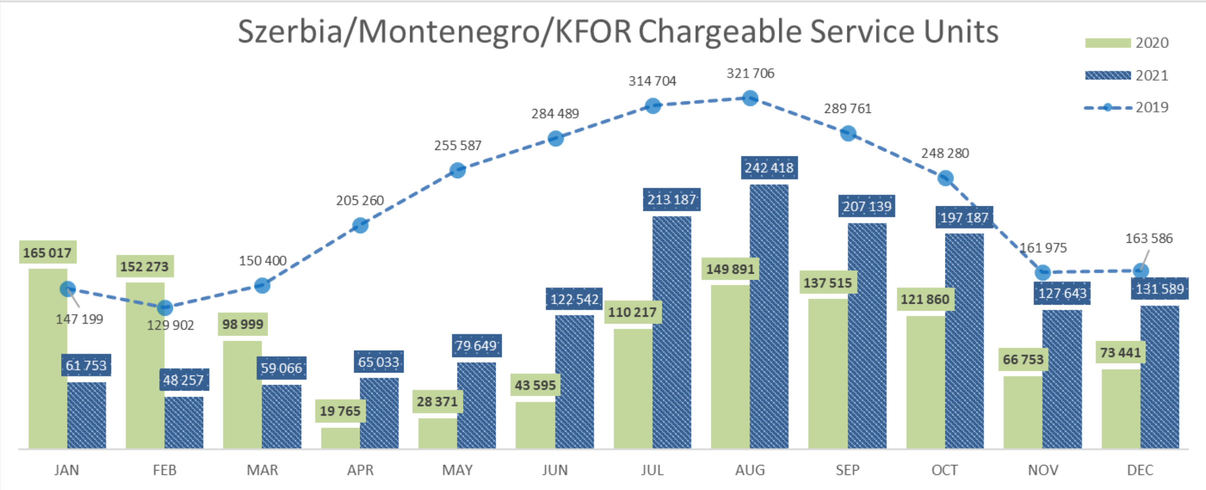
Terminal Chargeable Service Units

In 2021, the total number of terminal Service Units increased by 12% compared to the previous year, however this traffic is still only 44% of 2019 (the reference year) due to the reasons described above regarding number of movements. In 2021 the total number of terminal Service Units amounted to 34,804 of which 583 units (1.7%) relate to exempted flights. The number of chargeable terminal service units, being the indicator of the revenue amounted to 34,221 SU, increased by 12% compared to the previous year, however represents only 43% of the reference year (2019).



Kosovo Chargeable Service Units

The service provided in the upper airspace over Kosovo is accounted on the basis of the common charging zone established with Serbia and Montenegro. Therefore, when analysing service units for the Kosovo service, the traffic of the whole charging zone has to be examined. Chargeable service units for the total charging zone represent a 33% increase compared to the previous year. 2021 traffic however, is still only 58% of the reference year (2019).



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 gains/losses 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 101,901 thousand in 2021.The total loss for 2020 was HUF 282,869 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	2021	2020
Wages and salaries	13 560 330	13 452 336
Social security	2 345 235	2 601 394
Other personnel expenses	1 272 463	1 358 448
Pension expenses and expenses from other long term benefits*	249 133	-58 417
Personnel expenses	**17 427 161**	**17 353 761**

** Further information is disclosed under Note 16.*

Staff numbers for HungaroControl – closing figures:

Number of staff employed	2021	2020
Division of air traffic services	352	363
Division of communications, navigation and surveillance	35	35
Division of meteorological services	18	22
Division of technical development services	103	103
Support division*	256	276
Closing number of staff employed	**764**	**799**

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

Average number of employees of the Company was 743.9 in 2021 (2020: 766.9).

6.2. Components of Operating expenses

amounts in thHUF

Operating expenses	2021	2020
Energy costs	274 740	290 176
Other materials used	118 620	134 002
Cost of materials consumed	**393 360**	**424 178**
Eurocontrol member fees	1 581 905	1 376 346
Software maintenance fees	1 152 950	964 402
Fees of liability insurance	1 124 296	1 081 345
Various other expenditures	1 056 240	755 753
Fees paid for authorities	608 319	611 816
Maintenance fees	597 353	541 621
Online service charges, charges for data transmission	592 598	600 749
Safeguarding services	375 874	365 810
Expenditure on consultancy and fees of expert	274 292	361 738
Trainings expenditure	199 863	943 516
Cost of advertisement and marketing campaigns	183 697	495 281
Charges paid for waste disposal and similar services	147 901	127 824
Travel and other costs incurred on missions abroad	34 619	40 447
Cost of meteorological services consumed	23 754	531 927
Real estate rental fees	21 099	33 905
Rental fees of fixed assets	18 395	14 167
Lease payment on state owned assets*	16 751	16 751
Other rental fees	15 599	22 686
Other expenditures	**8 025 505**	**8 886 084**
Included: Short-term lease related expenditures	116	11 092
Included: Low-value asset lease related expenditures (excluding short-term leases)	11 679	6 862
Total Operating expenses	**8 418 865**	**9 310 262**

** 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	2021	2020
Deferred development grants released	593 442	181 328
Operative grants related to expenses	160 130	242 729
Other various income items	81 387	131 078
Release of bad debt provisions*	52 152	0
Interest and other charges received on late payment	28 366	17 439
Liabilities waived	0	55
Total Other income	**915 477**	**572 629**
Expenses from charity activities and sponsorship	168 279	187 960
Building tax	52 431	52 431
Other various expense items	14 541	16 860
Reimbursement of expenses payable to Ministries	7 470	44 520
Allowances charged on bad debts*	0	90 735
Written value of bad debts	0	3 556
Total Other expense	**242 721**	**396 062**
Total Other income / (expense)	**672 756**	**176 567**

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

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

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

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

amounts in thHUF

Balances of ongoing government grants	December 31, 2021	December 31, 2020
Accrued income	439 621	58 746
Advance payment received	696 566	1 080 825

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	2021	2020
Balances at January 1st	**799 030**	**980 358**
EU grants newly introduced during the year	1 433 360	0
Release of deferred grants	-593 442	-181 328
Balances at December 31st	**1 638 948**	**799 030**
Due in one year	345 482	164 056
Due over one year	1 293 466	634 974

8. Financial result

Accounting policies:

In accordance with IFRS, the effects of financial income and financial expenses are presented on a net basis. The financial result includes gains and losses on the valuation of financial instruments and the effects of the valuation of monetary assets.

Interest income:

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

Other financial income and expenses:

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

amounts in thHUF

Financial results	**2021 (+) gain (-) loss**	**2020 (+) gain (-) loss**
Foreign exchange difference realised	121 465	344 248
Interest received and exchange difference on deposits and government bonds	105 178	166 868
Interest recognised in profit and loss and included in financial results (swap points received)*	74 587	54 531
Foreign exchange difference on year end revaluation	25 299	-139 382
Interest on lease liabilities***	-1 077 077	-1 120 479
Ineffective part of cash flow hedges included in financial results (loss)/gain*	-78 996	-329 266
Ineffective part of fair value hedges included in financial results (loss)/gain*	-21 927	2 651
Unwinding of discounts on long term employee benefits**	-4 365	0
Unwinding of discounts on other items	-808	25
Total results of financial activities	**-856 644**	**-1 020 804**

** 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, 2020	**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**
Share from profit/loss for 2021	2 749	22	2 771
Dividend received	0	0	0
Other corrections	0	23	23
Value December 31, 2021	**57 044**	**1 909**	**58 953**

Investment in EPC Ltd.

The assets and liabilities, income and expenses of EPC Ltd. and the Company's share thereof as at December 31, 2021 and 2020, are as follows:

amounts in thHUF

EPC Ltd.'s Statement of Financial Position	December 31, 2021	December 31, 2020
Non-current assets	217	708
Current assets	129 301	170 758
Non-current liabilities	0	0
Current liabilities	13 102	60 659
Equity	**116 416**	**110 807**

amounts in thHUF

EPC Ltd.'s Statement of Comprehensive Income	2021	2020
Revenue	67 385	862 036
Operating expenses	62 413	840 874
Financial income	988	13 410
Profit before taxes	**5 960**	**34 572**
Income tax expense	351	3 296
Profit for the year	**5 609**	**31 276**

amounts in thHUF

The Company's share of the profit of EPC Ltd.	
Profit of previous years	358 427
Profit for the year 2021	5 609
Total profit accumulated	364 036
Share from the realised profit (49%)	**178 378**
Impairment recognised on investment	0
Share from the results accumulated	**178 378**
Dividend received	-127 704
Initial cost of investment	6 370
Investment value at the end of the reporting period	**57 044**

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 57,043 thousand at the end of 2021 (2020: HUF 54,295 thousand). The gain included in the 'Share from profit / loss of joint venture' line of the comprehensive income for the financial year 2021 is HUF 2,748 thousand (2020: HUF 15,325 thousand) regarding EPC Ltd. In 2021 dividend was not received from EPC Ltd. (in 2020 the amount of dividend was 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, 2021	December 31, 2020
Non-current assets	184	381
Current assets	79 807	103 724
Non-current liabilities	0	0
Current liabilities	46 735	71 330
Equity	**33 256**	**32 775**

amounts in thHUF

FABCE Aviation Services, Ltd.'s Statement of Comprehensive Income	2021	2020
Revenue	176 023	218 232
Other operating income	-1	1 369
Operating expenses	175 842	219 570
Financial income	-36	6
Profit before taxes	**144**	**37**
Income tax expense	15	36
Profit for the year	**129**	**1**

amounts in thHUF

The Company's share of the result of FABCE Aviation Services, Ltd.	
Profit of previous years	-1 962
Profit for the year 2021	129
Total profit accumulated	-1 833
Share from the realised profit (16.67%)	**-306**
Impairment recognised on investment	0
Share from the results accumulated	**-306**
Initial cost of investment	1 835
Revaluation of foreign operation	380
Investment value at the end of the reporting period	**1 909**

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 National Tax and Customs Administration, and local business tax is payable to the responsible local governments. The basis of the

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

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

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

Deferred tax is charged or credited in the 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 Statement of Financial Position 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, 2021	December 31, 2020
Corporate tax	6 050	116 562
Local business tax	51 652	101 219
Innovation contribution	4 598	14 699
Current tax receivable	**62 300**	**232 480**
Innovation contribution	0	0
Current tax liability	**0**	**0**

Income tax expense:

Current income tax and deferred tax expenses:

amounts in thHUF

Income tax expense	2021	2020
Current tax	498 778	353 696
Adjustments in respect of prior year	-526	3 272
Deferred tax	-222 207	-160 175
Total income tax expense	**276 045**	**196 793**

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

amounts in thHUF

Effective income tax rate	2021	2020
Profit on ordinary activities before tax	**-10 326 588**	**-17 172 310**
Tax on profit on ordinary activities at standard rate (9%)	-928 881	-1 548 560
Other income taxes corrected with the effect of corporate income tax rate	452 959	327 615
Total tax charge	**-475 922**	**-1 220 945**
Unrecognised deferred tax asset on negative tax base	719 692	1 401 425
Permanent differences	33 893	12 821
Tax effect of prior year adjustments	-526	3 272
Other tax effect	-1 092	220
Tax charge for year at an effective tax rate	**276 045**	**196 793**
Effective tax rate	**-3%**	**-1%**

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, 2021	Credit/ (charge) to equity	Credit/ (charge) to income	Balance at December 31, 2020
Accelerated tax depreciation	-149 077	0	51 426	-200 503
Valuation reserve of securities	-163	0	-149	-14
Provisions not included in tax base	575 484	0	112 004	463 480
Debt allowances not included in tax base	92 913	0	23 954	68 959
Differences between tax base and carrying amount of assets discounted	2 978	0	2 602	376
Differences on fixed assets not yet capitalised and debited to income statement	3 949	0	-547	4 496
Differences regarding state owned assets	258 951	0	44 805	214 146
Right-of-use assets related to other lease contracts	10 426	0	-16	10 442
Government grants revenues which are included in tax base in the next financial year	-13 103	0	-11 872	-1 231
Total deferred tax asset (+) / liability (-)	**782 358**	**0**	**222 207**	**560 151**

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**

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 2021 and in 2020 as well.

From the balance above HUF 295,905 thousand deferred tax asset is expected to be reversed in one year, HUF 486,453 thousand deferred tax asset is expected to be reversed in 5 years.

The Company had deferred tax loss in 2021, 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 had deferred tax loss in 2020).

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	Total
Net value at January 01, 2020	**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**
Gross value:				
January 01, 2021	30 244 672	364 051	6 168 943	36 777 666
Additions	0	0	3 093 175	3 093 175
Capitalization	6 763 635	187 637	-6 951 272	0
Disposals	-177 314	-84 258	-863	-262 435
December 31, 2021	**36 830 993**	**467 430**	**2 309 983**	**39 608 406**
Accumulated amortisation:				
January 01, 2021	24 658 215	322 680	0	24 980 895
Additional amortisation	2 617 696	26 536	0	2 644 232
Additional impairment loss	0	0	863	863
Disposal of accumulated amortisation	-138 006	-84 258	0	-222 264
Disposal of accumulated impairment loss	0	0	-863	-863
December 31, 2021	**27 137 905**	**264 958**	**0**	**27 402 863**
Net value at December 31, 2021	**9 693 088**	**202 472**	**2 309 983**	**12 205 543**

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

The Company capitalizes the costs of experimental development in accordance with IAS 38, in the value of the direct costs of the experimental development started but not completed by the date of Statement of Financial Position of the business year – that is expected to be recovered in the future. The most significant research and development is the ongoing development of the backup management system with novelty content, which operates under MATIAS air traffic control system, in the amount of HUF 38 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 residual value, useful life and the depreciation method are reviewed annually at each financial year-end.

Typical depreciation rules are stated as follows:

Type of asset	Depreciation
Buildings	2.5%
Other structures	2.5%
Investment on leased property	6.0%
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 Company applies the component measurement, i.e. it examines whether an asset contains a significant component that has a useful life that differs from the useful life of the other parts of the asset. In such a case, the Company recognizes depreciation separately for the significant component in accordance with IAS 16.43.

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

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**	**Total**
Net value at January 1, 2020	**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**

amounts in thHUF

Property, plant and equipment	Land and buildings	Technical equipment	Other equipment	Work in progress	Total
Net value at January 1, 2021	**17 477 103**	**4 502 461**	**3 185 651**	**2 045 730**	**27 210 945**
Gross value:					
Property, plant and equipment owned by Company	**5 942 839**	**17 182 423**	**8 581 155**	**524 016**	**32 230 433**
January 1, 2021	5 463 032	15 189 463	8 071 833	2 045 730	30 770 058
Additions	0	0	0	2 565 504	2 565 504
Capitalization	605 932	2 719 751	756 604	-4 082 287	0
Disposals	-126 125	-726 791	-247 282	-4 931	-1 105 129
Property, plant and equipment leased by Company	**15 794 570**	**52 504**	**230 521**	**0**	**16 077 595**
January 1, 2021	15 683 250	52 351	228 349	0	15 963 950
Additions	198 950	153	34 435	0	233 538
Disposals	-87 630	0	-32 263	0	-119 893
Gross value at December 31, 2021	**21 737 409**	**17 234 927**	**8 811 676**	**524 016**	**48 308 028**
Accumulated depreciation:					
Property, plant and equipment owned by Company	**1 887 016**	**11 455 426**	**5 773 030**	**0**	**19 115 472**
January 1, 2021	1 747 086	10 709 097	4 968 029	0	17 424 212
Additional depreciation	258 946	1 231 992	1 044 648	0	2 535 586
Additional impairment loss	762	49	6 952	4 931	12 694
Disposal of accumulated depreciation	-119 016	-485 663	-239 647	0	-844 326
Disposal of accumulated impairment loss	-762	-49	-6 952	-4 931	-12 694
Property, plant and equipment leased by Company	**2 866 949**	**45 421**	**189 936**	**0**	**3 102 306**
January 1, 2021	1 922 093	30 256	146 502	0	2 098 851
Additional depreciation	974 031	15 165	72 013	0	1 061 209
Disposal of accumulated depreciation	-29 175	0	-28 579	0	-57 754
Accumulated depreciation at December 31, 2021	**4 753 965**	**11 500 847**	**5 962 966**	**0**	**22 217 778**
Net value at December 31,2021	**16 983 444**	**5 734 080**	**2 848 710**	**524 016**	**26 090 250**

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 Hungarian Meteorological Service (OMSZ) hereinafter performs the meteorological activity in the area of Budapest Liszt Ferenc International Airport as an independent budgetary institute, therefore all leased equipments and premises are returned and are derecognised in the financial statements at 31 December 2021, that were used exclusively by OMSZ or were shared with HungaroControl.

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, 2021	December 31, 2020
Spare parts	11 819	12 947
Other materials	25 341	32 765
Inventories	**37 160**	**45 712**

Inventory balance at the end of 2021 includes an impairment loss amounting of HUF 7,426 thousand (2020: HUF 12,413 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 date of Statement of Financial Position without any deduction for transaction costs. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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 Statement of Financial Position 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 2021 was HUF 2,831 thousand (2020: HUF 25 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, 2021	December 31, 2020
Exempted flights		
Ministry of Defence	1 095 710	848 712
Ministry for Innovation and Technology	63 709	43 446
Ministry of Foreign Affairs	32 677	23 098
Total exempted flights	**1 192 096**	**915 256**
Due in one year	602 572	292 262
Due over one year	589 524	622 994
Extended warranty	**19 224**	**4 831**
Due in one year	983	3 790
Due over one year	18 241	1 041
Constructions performed on state owned assets	**335 564**	**269 772**
Due in one year	308 356	205 757
Due over one year	27 208	64 015
Total due in one year	**911 911**	**501 809**
Total due over one year	**634 973**	**688 050**

HUF 315,515 thousand of the total outstanding balance of Receivables from exempted flights was settled in 2021 (2020: HUF 290,650 thousand). Additional balance established for 2021 was HUF 589,524 thousand (2020: HUF 622,994 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 18,241 thousand in 2021 (2020: 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 2021 HUF 308,356 thousand is presented in line 'Other short term assets' (in 2020: HUF 205,757 thousand), and HUF 27,208 thousand is presented in line ' Other long term assets' (in 2020: HUF 64,015 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 based on IFRS 9.

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

<u>En Route segment:</u> Trade receivables from air space users are managed, collected and enforced by Central Route Charges Office ('CRCO') of EUROCONTROL. Based on the qualification of EUROCONTOL users are classified in categories of active and 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.

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

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

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

The 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, 2021	December 31, 2020
Trade receivables	5 782 056	5 337 557
Intercompany receivable	0	2 206
Allowances	-1 096 077	-1 136 109
Total	**4 685 979**	**4 203 654**

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

Allowance for doubtful debts was the following:

amounts in thHUF

Allowance for doubtful debts	2021	2020
Balance at the beginning of the year	1 136 109	947 473
Increase in allowances	73 201	169 293
Decrease in allowances	-126 377	-78 661
Foreign exchange movement in the year	13 144	98 004
Balance at end of the year	**1 096 077**	**1 136 109**

Ageing of the trade receivable balances:

amounts in thHUF

December 31, 2021	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	4 544 525	3 477 399	761 025	213 664	65 869	26 568
Under 1 months	132 934	121 406	1 084	10 296	148	0
Overdue, between 1 -3 months	37 561	35 234	831	1 496	0	0
Overdue, between 3-6 months	4 003	3 080	543	375	5	0
Overdue, between 6-12 months	12 658	10 899	718	1 038	3	0
Overdue, over 12 months	447 303	346 928	88 934	10 214	1 229	-2
Insolvent	603 072	532 353	41 477	29 242	0	0
Total	**5 782 056**	**4 527 299**	**894 612**	**266 325**	**67 254**	**26 566**

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**

Aged balances of allowances based on IFRS 9 Standard:

amounts in thHUF

December 31, 2021	Total	En-route business	Terminal business	Kosovo business	Other domestic	Other foreign
Not overdue	16 553	13 819	1 008	1 726	0	0
Under 1 months	10 448	9 281	171	996	0	0
Overdue, between 1 -3 months	13 273	12 703	-203	773	0	0
Overdue, between 3-6 months	1 678	1 367	69	242	0	0
Overdue, between 6-12 months	8 937	7 962	247	728	0	0
Overdue, over 12 months	442 116	344 658	87 461	9 997	0	0
Insolvent	603 072	532 353	41 477	29 242	0	0
Total	**1 096 077**	**922 143**	**130 230**	**43 704**	**0**	**0**

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**

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

amounts in thHUF

Other current assets	December 31, 2021	December 31, 2020
Short term receivables from exempted flights*	602 572	292 262
Value added tax	759 035	801 807
Changes in fair value of cash-flow hedges (gain)	192 032	221 492
Receivable from Eurocontrol - TNC sales	17 191	1 776
Other receivables**	524 752	81 335
Receivable from investments on state owned assets	308 356	205 757
Bad debt allowances	-1 279	-1 279
Total other receivables	**2 402 659**	**1 603 150**
Accrued interest income on deposits fixed	8 943	17 626
Accrued income for grants received	0	58 746
Other income accrued	1 042	5 031
Total accrued income	**9 985**	**81 403**
Services prepaid	1 076 485	1 088 820
Total prepaid expenses	**1 076 485**	**1 088 820**
Other current assets	**3 489 129**	**2 773 373**

** For further information on Receivables from exempted flights refer to Note 14.1.*
*** Other receivables contain Advances given in the amount of HUF 35,062 thousand in 2021 (HUF 31,314 thousand in 2020).*

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, 2021	December 31, 2020
Cash on hand	**1 335**	**1 221**
Current accounts HUF	1 082 993	3 762 786
Current accounts in foreign currency (EUR)	433 791	778 637
Fixed deposits HUF - under 3 months	5 361 715	850 447
Cash at banks	**6 878 499**	**5 391 870**
Cash and cash equivalents	**6 879 834**	**5 393 091**

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

amounts in thHUF

Other financial items	**December 31, 2021**	**December 31, 2020**
Financial assets held to maturity (government securities) with maturity over 1 year	2 448 962	2 188 528
Long term securities	**2 448 962**	**2 188 528**
Financial assets held to maturity (government securities) with maturity above 1 year	0	7 635 614
Short term securities	**0**	**7 635 614**
Fixed deposits HUF - under 1 year over 3 months	313 553	4 299 943
Other financial assets	**313 553**	**4 299 943**

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 .

The Company made separate investments in connection with the obligations included in the Air Controller Career Agreement (ACCA) and performs annual reviews and adjustments on the necessary accounts. The maturity structure of the investments are 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, 2021**	**December 31, 2020**
ACCA - Financial assets held to maturity (government securities) with maturity over 1 year	2 400 491	2 132 193
ACCA - Fixed deposits HUF - under 1 year over 3 months	303 000	139 500
ACCA - Cash and cash equivalents	93 718	55 226
Total	**2 797 209**	**2 326 919**

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 Statement of Financial Position dates presented were as follows:

amounts in thHUF

Other long term liabilities	**December 31, 2021**	**December 31, 2020**
EU grants received - long term part*	1 293 466	634 974
Lease liabilities - long-term part**	13 444 755	14 011 307
Other long term liabilities	35 724	672 845
Other long term liabilities	**14 773 945**	**15 319 126**

** 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.

The Company is committed to the following lease agreement not yet commenced at the preparation date of the Financial Statements:

- A contract was concluded with Budapest Airport Plc. for the lease of an optical cable ring constructed on the territory of Budapest Liszt Ferenc International Airport. The lease starts in 2022.

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

Accounting policy:

The trade payables and other short-term liabilities are presented at amortised cost.

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

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

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

amounts in thHUF

Ageing of trade payables	December 31, 2021	December 31, 2020
Not due	2 549 548	2 931 991
Overdue, within 1 year	7 077	139
Overdue, between 1 - 5 years	2 037	2 037
Total trade payables	**2 558 662**	**2 934 167**

The Company settles trade payables within the payment term, and had no material overdue payables as of December 31, 2021 and 2020.

amounts in thHUF

Trade payables	December 31, 2021	December 31, 2020
Trade payables - domestic	1 565 841	1 724 912
Trade payables - foreign	901 484	1 006 821
Intercompany payables	91 337	202 434
Total trade payables	**2 558 662**	**2 934 167**

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, 2021	December 31, 2020
Lease liabilities - short-term part***	1 698 989	1 490 050
Liabilities arising on search and rescue operations	1 288 172	0
Liabilities to parent company	1 200 000	1 000 000
EU grants - advance payment received*	696 566	1 080 825
Personal income tax payable on behalf of the employees	167 217	250 927
Short term other liabilities towards various authorities	150 076	150 667
Liabilities from social security	129 951	310 190
Changes in fair value of hedges (loss)**	112 497	85 891
Amounts payable to pension funds and voluntary pension funds	98 444	261 611
Liability from enterprise licensing agreement	78 408	0
Other short term liabilities	40 690	49 912
Total other payables	**5 661 010**	**4 680 073**
EU grants received - short term part*	345 482	164 056
Other deferred income	1 054	1 055
Total deferred income	**346 536**	**165 111**
Services, goods delivered but not invoiced till the year end	7 742	472
Total accrued expenses	**7 742**	**472**
Other short-term liabilities	**6 015 288**	**4 845 656**

** 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 2021 the ‘Liabilities to parent company’ line includes the dividend approved on the basis of the 2019 and 2020 financial statements, which is expected to be paid in 2022.

The liabilities arising from search and rescue operations consist of the two following items:

- HUF 642,508 thousand short-term liability reclassified from long-term liability regarding 2020
- HUF 645,664 thousand short-term liability regarding 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, 2021	December 31, 2020
Other current assets		
Derivative financial instruments in designated hedge accounting relationships Hedges - positive fair value	**192 032**	**221 492**
Other current liabilities		
Derivative financial instruments in designated hedge accounting relationships Hedges - negative fair value	**112 497**	**85 891**

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	634 973	0	634 973	634 973	0
Trade receivables	4 685 979	0	4 685 979	4 685 979	0
Derivative financial instruments in designated hedge accounting relationships	0	192 032	192 032	192 032	0
Fixed deposits HUF - under 1 year over 3 months	313 553	0	313 553	313 553	0
Government securities with maturity above 3 months	2 448 962	0	2 448 962	1 796 540	652 422
Other current assets excluding taxes, prepayments and accrued income, receivables from employees	928 119	0	928 119	928 119	0
Cash and cash equivalents	6 879 834	0	6 879 834	6 879 834	0
Total as per December 31, 2021	**15 891 420**	**192 032**	**16 083 452**	**15 431 030**	**652 422**

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**

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	35 724	0	35 724	35 724	0
Trade payables	2 558 662	0	2 558 662	2 558 662	0
Derivative financial instruments in designated hedge accounting relationships	0	112 497	112 497	112 497	0
Other short-term liabilities excluding taxes, payables to employees, accruals and deferred income	40 688	0	40 688	40 688	0
Total as per December 31, 2021	**2 635 074**	**112 497**	**2 747 571**	**2 747 571**	**0**
Other long term liabilities	672 846	0	672 846	672 845	1
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**	**3 742 812**	**1**

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 Statement of Financial Position dates presented.

<u>Other long term financial assets:</u>
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).

<u>Other long term liabilities:</u>
The book value of intercompany payable as disclosed under Note 17 approximates its fair value. The balance as of December 31, 2021 mainly contains the obligations from retention warranty of trade payable balances. The fair value of the obligations is determined with discounted cash flow techniques using data as introduced below.

<u>The fair value of forward exchange contracts:</u>
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 99.5% of the Company's turnover. In the Hungarian En Route and terminal navigation segments – operated in the framework of the performance scheme – foreign exchange risk is borne by the service providers, thus, borne by the Company. Fees for air navigation services are set in Hungarian Forint, but are billed and collected in Euro. The conversion rate used is the average of the daily closing Reuters-rates for the month prior to the billing period ('n-1'). To mitigate the risk of movements in exchange rates between the date of determining the unit charges (average rate of 'n-1') and the date on which the funds are remitted ('n+2') to HungaroControl, foreign currency forward contracts are concluded. The Company hedges its expected cash flow from sales revenue of the Hungarian en-route and terminal segments based on hedging limits set in its foreign currency risk hedging policy.

In respect of air navigation services provided in Kosovo airspace the charges are set in Serbian dinar. These revenue streams are not hedged but as these represent a relatively small portion of revenue (2021: 6%, 2020: 4%) 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)	
	2021, December	2020, December	2021, December	2020, December	2021, December	2020, December
EUR	369.00	365.13	14 823 869	13 666 559	5 470 007	4 990 071
USD	325.71	297.36	608	3 237	198	963

Currency	FX rates at year-end		Liabilites (in foreign currency)		Liabilites (in thHUF)	
	2021, December	2020, December	2021, December	2020, December	2021, December	2020, December
EUR	369.00	365.13	4 245 415	5 969 780	1 566 558	2 179 746
USD	325.71	297.36	11 970	5 503	3 899	1 636

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, 2021	Revenue hedge (EUR sold)	Expenditure hedge (EUR bought)	Expenditure hedge (USD bought)	Total
Currency	**EUR**	**EUR**	**USD**	
Currency amount	-17 809 226	21 954 089	1 738 440	
HUF amount	-6 549 815	8 154 382	540 811	**2 145 378**
Fair value of open forward contracts at year end				
Valuation reserve (expected Gain /(Loss))	18 156	109 966	32 447	**160 569**
Ineffective part included in Profit and loss	-41 633	-1 930	0	**-43 563**
Effective part included in Profit and loss	-55 910	0	0	**-55 910**
Effective part included in cost of assets	0	9 258	0	**9 258**
Interest income from swap points included in line item financial income	9 181	0	0	**9 181**
Total	**-70 206**	**117 294**	**32 447**	**79 535**

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**

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 2021 and 2020:

amounts in thHUF

Amounts recognised in comprehensive income statement in relation to derivative financial instruments	December 31, 2021	December 31, 2020
Amount that was removed from equity and recognised in sales balance (loss)/gain	-101 901	-282 869
Ineffective part of cash flow hedges included in financial results (loss)/gain	-78 996	-329 266
Ineffective part of fair value hedges included in financial results (loss)/gain	-21 927	2 651
Interest recognised in profit and loss and included in financial results (swap points received)	74 587	54 531
Total gain/(loss) on cash flow hedge transactions	**-128 237**	**-554 953**
Fair value change of open cash flow forward contracts at year end included in other comprehensive income (fair value reserve at year end)	130 659	170 233
Total result of cash flow hedges included in equity balance	**2 422**	**-384 720**

At year end the loss charged to other comprehensive income was HUF 39,574 thousand in 2021, while it was HUF 63,008 thousand gain in 2020.

Foreign currency sensitivity analysis

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

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

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

amounts in 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 (%)
2021					
103%	380.07	164 100	-46 997	117 103	1.5%
100%	369.00	0	0	0	
97%	357.93	-164 100	46 997	-117 103	-1.5%
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%

Without derivative contracts a 3% devaluation in HUF against EUR would cause a 1.5% increase in the fair value of the net position of items denominated in EUR i.e. in retained earnings and the financial results in 2021 (the same figure is 0.2% as well regarding 2020) – supposing that all other factors remain unchanged. This means that the exposure of the Company against EUR is not significant and financial results are moderately sensitive for the change in HUF/EUR rates.
A similar examination using 5% change in rates would result in a 2.6% change in retained earnings for 2021, and 0.4% for 2020.

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
2021			
103%	380.07	-58 719	104 603
100%	369.00	0	0
97%	357.93	58 719	-104 603
2020			
103%	376.08	-75 056	116 810
100%	365.13	0	0
97%	354.18	75 056	-116 810

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
2021				
103%	380.07	4 734 166	137 888	1 732
100%	369.00	4 596 278	0	0
97%	357.93	4 458 389	-137 889	-1 733
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

Year-end revaluation

The results of year end revaluation of items in the Statement of Financial Position were as follows: HUF 32,441 thousand loss at the end of 2021 (2020: HUF 59,840 thousand loss).

Interest rate risk management

Interest rate risk from interest bearing assets and liabilities

The Company invested a significant part of the funds not required for short-term financing in fixed interest rate bank deposits, discount treasury bills and government bonds. The Company realised significantly lower sales revenue than planned at the unit rates specified in the performance plan submitted before the pandemic, that is why a significant part of the previous investmens are forced to use.

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 2022. 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	2021 Amounts	2020 Amounts
HUF-deposits held	thHUF	thHUF
< 1%	0	4 289 500
2% - 3%	303 000	0
Total	**303 000**	**4 289 500**
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.

In January 2021, the Company entered into overdraft facility agreements with three commercial banks in a total amount of HUF 10 billion, maturing in January 2023. Furthermore in the autumn of 2021, the Company issued a loan tender, and in January 2022 concluded revolving working capital credit agreements with two commercial banks mostly with fixed interest rate conditions in the total amount of HUF 17.5 billion, maturing at the end of 2025. The contracts will ensure the financing of the Company at a favourable and predictable cost level until at least the end of 2025. No drawdown was made from the overdraft facility during 2021.

All financial liabilities that have floating interest rate conditions in relation to the described loan agreements, sensitivity analysis has not been enclosed, because during the year 2021 the Company did not use the opportunity of a drawdown from the overdraft facility. The Company did 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.

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, although after the submission developed a 1.6 percentage point excess between the actual and planned inflation, which will be enforced in the 2023 unit rates.

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

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company’s exposure to credit risk arises from the risk of default by customers on settlement of trade receivables and from the risk of a failure of a financial institution in which

funds are invested for return or held for trading purposes or with whom derivative contracts are entered into.
In the Kosovo segment the 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. Despite state rescue programs many airlines may get into difficulties due to the COVID-19 pandemic extremely weighting the aviation sector. However, in view of the specific rules due to the pandemic, only those bankruptcies represent a real risk that were not known during the preparation of the new performance plan which has to be submitted by October 2021.

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

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

Liquidity risk management

The Company manages liquidity by maintaining adequate cash reserves and by monitoring actual and forecast cash flows and ensuring funding is diversified by source and maturity and available at competitive cost.

Liquidity risk is mainly influenced by the traffic: if traffic fails to produce the expected level it might cause underfunding in the relevant business year. This, however, can be collected in Kosovo segment after two years (period ‘n+2’) through the charges, therefore in this line of business the Company does not bear any substantive traffic risk - it may have liquidity risk though.
In the En Route and terminal segments the performance scheme allows a maximum of 4.4% traffic risk in terms of the revenue, this however in a gradual manner: up to ±0 - 2% change in traffic compared to the planned value, the full effect of traffic change has to be borne by the Company, whereas between 2% -10% change in traffic compared to the planned value only 30% of the difference above 2% points has to be borne by the Company. Above 10%, all of the additional effect will be taken by airlines. The actual traffic exceeding the planned amount increases the profitability of the Company. In cases the actual traffic would not reach the assumed level, it would decrease profitability, however compensating this effect the Company is entitled to charge a higher cost of equity.

Notwithstanding this, the immediate liquidity effect of the traffic change has to be managed by the Company, since the part borne by the airlines can be probated after two years first.

Based on the EU Regulation No. 1627/2020 through a different process, underrecoveries - as a result of decreased revenue in 2020 and in 2021 - are not collected in the period ’n+2’, but are allocated equally into 5 years started in 2023. In contrast, the 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 contains actual figures at the date of submission of the performance plan. That is why the costs were recorded retrospectively in the performance plan.

Despite the decline in turnover, the operation of HungaroControl Plc. is marked by a stable liquidity position in 2021.

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, 2021 and 2020.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, 2021					
Trade payables	9 114	2 549 548	0	0	2 558 662
Lease liabilities	985 560	1 746 498	6 674 479	18 381 540	27 788 077
Other liabilities	1 613	40 688	0	0	42 301
Other long term liabilities	0	0	35 724	0	35 724
Total	**996 287**	**4 336 734**	**6 710 203**	**18 381 540**	**30 424 764**
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**

In 2021, the amount of overdue lease liabilities contains the asset management fee for the second half-year of 2021 against Hungarian National Asset Management Inc. regarding managed state owned assets, which payment will be made in 2022 .

15. Provisions

Accounting policies:

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

Critical accounting estimates and judgements:

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

Total balances at year end are as follows:

amounts in thHUF

Provisions	Legal provision	Other provision	Total
Long-term provisions	0	255 437	255 437
Short-term provisions	0	0	0
Total as per December 31, 2020	**0**	**255 437**	**255 437**
Long-term provisions	0	6 711	6 711
Short-term provisions	0	729 174	729 174
Total as per December 31, 2021	**0**	**735 885**	**735 885**

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, 2020	**0**	**6 711**	**6 711**
Additional provisions created	0	248 726	248 726
Balance as of December 31, 2020	**0**	**255 437**	**255 437**
Reclassification between long-term and short-term categories	0	-248 726	-248 726
Balance as of December 31, 2021	**0**	**6 711**	**6 711**

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

amounts in thHUF

Short-term	Legal provision	Other provision	Total
Balance as of January 1, 2020	**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**
Additional provisions created	0	479 429	479 429
Reclassification between long-term and short-term categories	0	248 726	248 726
Discount on provision	0	1 019	1 019
Balance as of December 31, 2021	**0**	**729 174**	**729 174**

The other provisions include liabilities where present obligations have arisen as a result of past events, the payments are probable and the amounts can be estimated reliably. The amount of the provision created in 2020 in Other long-term provisions was reclassified into Other short-term provisions (long-term part of Other provisions 2021: HUF 6,711 thousand, 2020: HUF 255,437 thousand). Furthermore the effect of the discount is presented in Other short-term provisions line. In addition, new provisions were made in 2021 which are expected to be settled in 2022, so they are presented also in the Other short-term provisions (HUF 729,174 thousand as at 31 December 2021).

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.

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, 2021	December 31, 2020
Long term employee benefits	3 143 607	2 839 114
Short term employee benefits	2 605 424	2 192 581
Total employee benefits	**5 749 031**	**5 031 695**

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, 2020	**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**
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**
Past service cost	-8 423	-953	0	**-9 376**
Current service cost	199 061	524 152	1 875 018	**2 598 231**
Interest costs	337	4 028	0	**4 365**
Used during the year	-163 401	-124 153	-1 411 179	**-1 698 733**
Change in discount rates	-7 886	-78 030	0	**-85 916**
Net actuarial (gains)/losses	-48 055	-43 180	0	**-91 235**
Present value at December 31, 2021	**237 956**	**3 636 057**	**1 875 018**	**5 749 031**
Short term part				2 605 424
Long term part				3 143 607

The actuarial gain included in the balance arose on those parts of the obligation, however to a lesser extent only, where the period of service is not yet fulfilled by the employees. According to the Collective Agreement signed, new non-air navigation employees in the scheme have to work 5 years till they are fully authorized members. In their case the actuarial gain/loss includes impacts like increase of salaries expected differently or the difference between the estimated and actual impact of exit and death. Actuarial gain arose on one hand due to the reverse of expected settlements in the amount of HUF 57,880 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. According to the Air Controller Carrer Agreement, there is no effect in 2021 on the model change due to the payment to the investment instrument in 2020 (HUF 109,606 thousand gain). In 2021 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, 2021**	**December 31, 2020**
Actual exit and death probability versus estimated	-46 896	-15 682
Effect of changes in discount rate	-85 916	12 636
Changes in expected salary increase	-62 158	-41 152
Changes in the amount of expected settlements	-57 880	-65 949
Changes in Employee Benefit Model	0	-109 606
Other	75 699	-31 019
Total	**-177 151**	**-250 772**
Included in other comprehensive income	0	0
Included in profit and loss statement	-177 151	-250 772

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 2021. 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 2021 was 3.2% regarding balances due within 1 year, in 2020 balances within 1 year the discount rate was near 0.4%.
Among all the actuarial assumptions the change in discount rates has significant impact on the net present value of the liability balance. From 2019 to 2020 the year end value of the obligations increased by HUF 12,636 thousand, since between 2020 and 2021 the year-end balance decreased by HUF 85,916 thousand.

Actuarial gains and losses arising from changes in assumptions

Actual versus estimated exit probability: exit assumptions for 2021 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):

- 2021: Non-air navigational employees: 5.7%, air navigational employees: 0.3%.
- 2020: Non-air navigational employees: 5.4%, 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 2026. In relation to the new scheme the effect of salary increases are very limited and are only relevant for the occupational accidents balance. Following 2026 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, 2021	December 31, 2020
Short term part of post employment benefits and other long term employee benefits	730 407	781 402
Salaries payable for December	753 730	709 573
Bonuses payable on a short-term basis	25 969	53 948
Short-term compensated absences	14 811	99 102
Payables regarding performance and financial target achievements	725 528	402 293
Other	354 979	146 263
Total	**2 605 424**	**2 192 581**

The most significant item of Other line is the liability arising from inflationary compensation in 2021 in the amount of HUF 228,597 thousand (2020: HUF 143,181 thousand). In addition Other line contains the liability arisen from benefits for 2021 but settled in 2022 in the amount of HUF 124,899 thousand (2020: HUF 1,165 thousand).

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 Next Energiakereskedő Plc., MFK Hungarian Development Center Nonprofit Ltd., Antenna Hungária Plc., National Waste Management Coordination and Asset Management Ltd. and Hungarian Meteorological Service.

- Dividend is payable to the Hungarian State based on the 2019 financial statements in the amount of HUF 1,000,000 thousand regarding 2020, and HUF 200,000 thousand based on the 2020 financial statements regarding 2021.

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 2021 was HUF 1,567,059 thousand (HUF 1,567,059 thousand in 2020) 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 (2021: HUF 742,700 thousand – 2020: HUF 500,000 thousand), the supervisory fee of air navigation services over Kosovo (2021: HUF 100,000 thousand, 2020: HUF 104,565 thousand), other license fees (2021: HUF 7,870 thousand, 2020: HUF 7,119 HUF), air navigation service related administration fees (2021: HUF 215,386 thousand, 2020: HUF 284,863 thousand).
  Furthermore the grant received from Ministry for Innovation and Technology for the development of MyDroneSpace (UTM) in 2021 is HUF 120,005 thousand.

Further transactions considered to be significant in terms of size:

- The Company purchases energy from **MVM Next Energiakereskedő Plc**. (2021: HUF 188,141 thousand, 2020: HUF 167,663 thousand).
- The Company purchases meteorological data from the **Hungarian Meteorological Service (OMSZ)** (2021: HUF 23,768 thousand, 2020: HUF 531,927 thousand). From 2021 onwards, OMSZ accounts for its revenues covering the flight meteorological costs directly with Eurocontrol, so the Company has only a minimal liability to OMSZ.
- The Company leases properties from **Ministry of Defence** (2021: HUF 1,811 thousand, 2020: HUF 1,811 thousand)

- Properties are leased from **Antenna Hungária Plc.** (2021: HUF 11,156 thousand, 2020: HUF 10,797 thousand)
- Properties leased from **Directorate General of Public Procurement** (2021: HUF 8,129 thousand, 2020: HUF 8,129 thousand)
- Properties leased from **MFK** Hungarian Development Center **Nonprofit Ltd.** (2021: HUF 5,477 thousand, 2020: HUF 5,364)
- Waste collection service used from **National Waste Management Coordination and Asset Management Ltd.** (2021: HUF 4,202 thousand, 2020: HUF 3,841 thousand),
- Cost of flights exempted from charges and settled with the Hungarian State are recognized as short term and long term assets and are credited into revenues from air navigation services – refer to Notes 5., 14.1 and 14.2.

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

amounts in thHUF

Exempted flights	Balance as per, December 31, 2021	Balance paid off	Credited to Financial income	Credited to Revenue	Balance as per, January 1, 2021
Ministry of Defence	**1 095 710**	276 388	2 553	520 833	**848 712**
Ministry for Innovation and Technology	**63 709**	15 874	123	36 014	**43 446**
Ministry of Foreign Affairs	**32 677**	23 253	155	32 677	**23 098**
Total	**1 192 096**	**315 515**	**2 831**	**589 524**	**915 256**
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**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2021 and in 2020 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. Short term liabilities are fully settled at the year end.
During 2021, the training of air controllers has been suspended due to the pandemic.

The transactions with EPC Ltd. are disclosed fully:

amounts in thHUF

Transactions with EPC	December 31, 2021	December 31, 2020
Amounts presented in Statement of Comprehensive Income		
Sales of management services	0	37 209
Dividend received	0	24 500
Purchases of training services	59 257	749 435
Amounts presented in Statement of Financial Position		
Amounts owed by related parties	0	2 206
Amounts owed to related parties - short term	2 435	61 686

Transactions with FABCE Aviation Services, Ltd. include purchase of professional support and management services (2021: HUF 27,096 thousand, 2020: HUF 51,244 thousand).

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been received. In 2021 and in 2020 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 2021

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	29 523	0	0	0
Remuneration of the Supervisory Board	69 605	0	0	0
Remuneration of Chief Executive Officer and Directors of the Company*	291 785	0	0	0
Total	**390 913**	**0**	**0**	**0**

** The amount includes in total HUF 38,557 thousand bonus accrual.*

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.*

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, 2021	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance, January 1, 2021
underrecoveries from 2016, En-route segment	67 224	0	0	67 224
underrecoveries from 2019, En-route segment	0	-1 696 561	0	1 696 561
underrecoveries from 2019, TNC segment	0	-283 551	0	283 551
underrecoveries from 2019, Kosovo segment	0	-23 009	0	23 009
underrecoveries from 2020, En-route segment	11 541 321	0	5 254 523	6 286 798
underrecoveries from 2020, TNC segment	2 141 787	0	949 915	1 191 872
underrecoveries from 2020, Kosovo segment	634 957	0	0	634 957
underrecoveries from 2021, En-route segment	9 612 755	0	9 612 755	0
underrecoveries from 2021, TNC segment	2 211 270	0	2 211 270	0
underrecoveries from 2021, Kosovo segment	220 513	0	220 513	0
Total underrecovery carried over	**26 429 827**	**-2 003 121**	**18 248 976**	**10 183 972**

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, 2021	Amounts reimbursed (reversals)	Amounts generated during the financial year	Opening balance, January 1, 2021
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	0	0	650 576
overrecoveries from 2018, TNC segment	192 901	0	0	192 901
overrecoveries from 2019, En-route segment	613 930	-8 247 381	0	8 861 311
overrecoveries from 2019, TNC segment	206 056	-2 142 231	0	2 348 287
overrecoveries from 2020, En-route segment	6 198 384	-140 695	5 254 523	1 084 556
overrecoveries from 2020, TNC segment	1 156 838	0	949 916	206 922
overrecoveries from 2021, En-route segment	4 005 466	0	4 005 466	0
overrecoveries from 2021, TNC segment	1 140 704	0	1 140 704	0
Total overrecovery carried over	**15 582 477**	**-10 530 307**	**11 350 609**	**14 762 175**
Contingent liability from non-controllable costs	221 283	0	221 283	0
Contingent liability from other unit rate related differences	219 013	0	219 013	0
Contingent liability from differences of Actual vs. Planned	502 268	0	502 268	0
Total contingent liability from cost base mechanism	**16 525 041**	**-10 530 307**	**12 293 173**	**14 762 175**

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	20 325	bank guarantee given for rental fee payment
Guarantees given	**20 325**	
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	8 026	bank guarantee received in relation to investment projects
15.06.2018-18.05.2023	660	bank guarantee received in relation to investment projects
21.12.2021-30.11.2023	322 395	bank guarantee received in relation to investment projects
24.03.2021-12.04.2024	5 524	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	**348 760**	

As part of the tendering process regarding new projects and contracts, the Company may require performance or advance payment guarantees. These guarantees are mostly connected to building reconstruction projects, construction or restructuring projects of the safety and communication infrastructures and systems.
These guarantees vary in length depending on the life of the contract and may run until the expiry of the contract. The total guarantees received in these respects at 31 December 2021 were HUF 348,760 thousand of which HUF 322,395 thousand guarantee belongs to the purchase of the Modular Intergrated Remote Tower (mitTWR) system (2020: HUF 40,895 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 own capital. Although the Company entered into loan agreements to manage liquidity risk, it was not drawn down in 2021.

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 2021 HungaroControl Plc. held stable liquidity position. The revenues 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 2021 the sum of the available cash and investment stock of the Company is decreased with HUF 10.3 billion from HUF 17.1 billion to the balance of HUF 6.8 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: the costs of the air navigaton services are substantionally funded based on the modified measures. As a result, decreased revenues from the operation in 2020-2021 represents only (temporary) liquidity problems instead of sustainability/efficiency questions. To address the liquidity situation, in January 2021 the Company entered into a two-year credit facility for a total of HUF 10 billion. In addition, in autumn 2021, the Company launched a credit tender, as a result in January 2022, the Company arranged revolving credit facilities with two commercial banks with mainly fixed rate conditions for a total of HUF 17.5 billion, maturing at the end of 2025.

Furthermore, from January 2022 onwards based on the new performance plan submitted in October 2021, revenues from air navigation services will be invoiced at much higher unit rates than it was determined in 2020-2021. It ensures that the Company can realize revenues in line with operating costs, which has a favourable impact on liquidity.

2) Development of regulatory environment

An important development regarding the preparation of 2021 financial statements is, that the European Commission proposed the adoption of the revised Hungarian performance plan proposal at the Single Sky Committee meeting on 22 March 2022. In accordance with this, a decision is adopted on the consistency of the Hungarian performance plan with the EU targets on 13 April 2022. Although this fact became known after the date of Statement of Financial Position, it makes the assumption on which the Company has based its revenue figures in preparing 2021 financial statements indisputable.

3) Impact of the Russian-Ukrainian conflict on the operation of the Company

The Russian-Ukrainian conflict erupted on 24 February 2022 has a direct impact on the turnover of the Company and therefore on the development of revenue. The change in traffic is the balance of several different effects: On one hand the airspace closures of 24 February resulted in a loss of air navigation revenue from/to Ukrainian, Moldovan and Belarusian destinations. On the other hand, it has a traffic-increasing effect as well, because flights to northern Europe and Poland avoid Ukraine over the eastern parts of Hungary. From 26/27 February EU countries (then the US and Canada as well) banned Russian airlines from European airspace, to which Russia responded also by announcing a flight ban. As a result, EU-Russia flights have been cancelled that led to a loss of traffic, while the number of non-EU-Russian flights have increased (e.g. Turkish and Serbian airlines have entered the market as intermediaries). In addition, the ban on Siberian overflights has forced some Western European (mainly British and Northern European) airlines to avoid their flights to the Far East, often to Hungary. Taken together, these effects represent additional traffic in the Hungarian airspace for the period up to 2022: currently, the growth of en-route traffic is on average 10 percentage points higher than for the whole network, which is clearly a consequence of the effects of the conflict.

The airlines with a significant impact on the Company's revenue are Russian, Belarusian, Ukrainian and Moldovan companies, as mentioned above. Their share of the 2021 traffic is 2.2% (combined en-route, terminal, KFOR as well). After 24 February 2022, their turnover will be lost, but it does not represent a significant operational risk, because the additional traffic over Hungary avoiding the closed airspace will compensate for these effects several times.

With regard to the trade receivables in view of the outbreak of the conflict, additional services for these customers has provided only until the escalation of the conflict in 2022 (due to airspace closures), so based on current informations, the amount of about HUF 165 million trade receivables became uncertain, which can be fully managed within the planned operational framework in 2022.
Overall, based on analyses performed at the time of preparation of financial statements, the Russian-Ukrainian conflict does not pose a material negative financial risk to the operation of HungaroControl.

The financial statements of the Company for the year ended at December 31, 2021 prepared in conformity with International Financial Reporting Standards (IFRS) are approved in accordance with the resolution of the CEO on 19 July 2022.

Budapest, 19 July 2022

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Chief Executive Officer