

**Annual Report 2013**  
**AS Tallinna Lennujaam**



TALLINN  
AIRPORT



**AS Tallinna Lennujaam** operates and develops airports. The main objective is to ensure the provision of ground handling services for aircraft, passengers and cargo in the airports of Tallinn, Tartu, Pärnu, Kuressaare and Kärdla and also in Kihnu and Ruhnu airfields.

Shares of AS Tallinna Lennujaam are owned by **the Republic of Estonia**.

The company belongs to the administrative field of Ministry of Economic Affairs and Communications.

The Tallinna Lennujaam group comprises the parent **AS Tallinna Lennujaam** and subsidiary **AS Tallinn Airport GH**.

In 2013, the group employed a total of **573** people.

Close to **2,500** people work in the Tallinn Airport community.

The group's busiest international airport is **the Lennart Meri Tallinn Airport**.

In 2013, it served **1,958,801** passengers.

There were a total of **44,288** passengers in the regional airports.

### Summary of key consolidated financials for 2013 and comparison with 2012

Passengers at Tallinn Airport	1,958,801	11%
Flight operations at Tallinn Airport	37,856	22%
Passengers at regional airports	44,288	13%
Flight operations at regional airports	11,330	9%
Cargo volume	20.9 thousand tons	12%
Revenue	EUR 30.3 million	+3%
Total income	EUR 40.4 million	+3%
Net profit	EUR 5 million	+36%
Balance sheet total	EUR 150.6 million	+3%
Capital expenditures	EUR 14.2 million	4%

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## Introduction

*For the first time, AS Tallinna Lennujaam publishes an integrated management report including an economic and management report, environmental report and corporate social responsibility report.*

### Report overview and structure

The purpose of the broad-based annual report of AS Tallinna Lennujaam is to publish the key operating results of 2013, as well as economic, social, environmental and organisational data. We have presented the information based on the principle of transparency and good business practices. The report presents the developments of 2013 of the airport and compares its results with prior years or periods.

#### A broad-based report enables us to:

- be an open and transparent organisation;
- establish a trustworthy basis for potential new partnership relations;
- establish trust between the company and interest groups and stakeholder groups interested in the company's activities;
- provide an overview to the public of changes in the organisation and future prospects;
- present and promote the bases of sustainable development and responsible business.



#### The basis for the integrated report is:

- Accounting Act;
- International Financial Reporting Standards (IFRS) as adopted by the European Union;
- Guidelines for the preparation of EMAS and ISO 140001 environmental reports.

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## Statement of the Chairman of the Management Board

The year 2013 was stable and positive for AS Tallinna Lennujaam. Despite the conservative forecast made at the start of the year, all times highest revenue and profit were achieved. Contribution from all group employees has enabled the company to achieve good results.

After the change in strategy of Estonian Air in 2012, we forecasted a significant decline in the number of passengers for 2013. Despite a decline in the passenger numbers of the flag carrier Estonian Air of close to 40%, the number of Tallinn Airport passengers only declined 11%. Finnair, Air Baltic, Lufthansa and Aeroflot significantly increased their passenger numbers and market share in Tallinn. In 2013, Turkish Airlines was added as a new airline and the Tallinn-Istanbul route was opened for scheduled flights.

Consolidated revenue increased to EUR 30 million and profit amounted to EUR 5 million. Much effort was expended on increasing non-aviation revenue. Lease of commercial space in the passenger terminal and elsewhere on airport premises, concession paid by retailers, advertising income and sale of own services today accounts for 59% of the group's revenue base, reaching EUR 18 million.

The airport has received remarkable recognition in recent years. The group values all of the employees' contribution to the achievement of common goals and naturally to sustainable development because as an infrastructure company we must consider our impact on the environment, society and economy. At the end of the year, the company was awarded a silver award for responsible business practices, which reaffirms our efforts to achieve our goals.

The addition of new destinations in the 2014 aviation portfolio and the addition of new products to the business portfolio give rise to optimism and present challenges for the new year. We forecast a 6% growth in passenger numbers and estimate that we will once again reach the two million level in 2014. We are pleased to state that regional airports have also found their market niche and are serving an average of 44,000 passengers per annum.

During the next years, the airport's capital expenditure will increase markedly. We are planning to invest a total of in excess of EUR 100 million over the next five years. The most important investment is the reconstruction of the runway infrastructure. As a result, the runway will be extended by 420 metres and the top surface and lighting system will be renovated. The project is being planned on the basis of co-financing by the European Cohesion Fund.

Rein Loik, Chairman of the Management Board





## Group timeline

<b>1936</b>	Ülemiste Airport was opened. Runways 40 metres in width and 300 metres in length enabled aircraft to take off and land in six directions.
<b>1954</b>	passenger terminal was completed.
<b>1980</b>	in preparation of the Tallinn Olympic Regatta of the Moscow Olympic Games, the Tallinn Airport runway is extended and a new passenger terminal is built.
<b>1945–1989</b>	Tallinn Airport is used exclusively by Aeroflot. All flights are within the Soviet Union.
<b>1992</b>	1992 a state-owned enterprise Eesti Lennujaamad is formed.
<b>1997</b>	the following companies are formed: AS Tallinna Lennujaam, AS Tartu Lennujaam, AS Kuressaare Lennujaam, AS Kärdla Lennujaam and AS Pärnu Lennujaam.
<b>1999</b>	President Lennart Meri formally opened the reconstructed passenger terminal of Tallinn Airport.
<b>2004</b>	joined the European Union Treaty on Open Skies, which provided an opportunity for a significant expansion of flight operations.
<b>2005</b>	AS Pärnu Lennujaam, AS Tartu Lennujaam, AS Kuressaare Lennujaam and AS Kärdla Lennujaam are merged with AS Tallinna Lennujaam. Tallinn Airport became a “million-passenger airport”. The subsidiary AS Tallinn Airport GH was formed.
<b>2008</b>	completed Tallinn Airport’s reconstructed air traffic area and passenger terminal extension.
<b>2009</b>	Tallinn Airport was named Lennart Meri Tallinn Airport after the Estonian President
<b>2010</b>	Tallinn Airport got an updated visual identity. Ryanair started flying from and to Tallinn.
<b>2011</b>	first cruise ship turnaround took place. A total of 5 turnarounds took place during which Tallinn Airport served 7,100 passengers and 80 tons of luggage. Blue 1, UTair and Flybe started flights from Tallinn.
<b>2012</b>	for the first time in history, the number of passengers at Tallinn Airport exceeded the two million threshold, reaching 2.2 million by the end of the year. AS Tallinna Lennujaam organised a conference Routes Europei, bringing to Tallinn 900 European and Asian aviation decision-makers from 40 different countries. Airport Council International (ACI) Europe accepted Lennart Meri Tallinn Airport into the membership of the Airport Carbon Accreditation Programme.  Tallinn Airport completed its biggest hangar yet (11,360 m2) where Air Maintenance Estonia repairs and maintains planes.

## Important events and recognitions of 2013

Launch of the Tallinn Airport **traffic area development project** with the goal of improving aviation safety, the efficiency of the airport's operations and the environmental status of the airport.

**Passengers' route design** is the focus: new catering venues are opened in the passenger terminal, a "from passenger to passenger" type library, Lottemaa for children, automatic border control.

Lufthansa recognised Tallinn Airport GH as the Best Ground Handling Provider 2013 in the world. Additionally, the aviation giant awarded our ground service the **Shooting Star** title.

Implementation of the **"Cosiest airport"** concept.

**A new entrance** was completed, improving the throughput of the transport servicing the airport area.

**A plane servicing hangar-office building** (Lennujaamatee 13) was acquired.

Construction of **a hangar for servicing corporate aircraft began**. The hangar will be completed in the spring of 2014.

**Turkish Airlines** started its flights to Tallinn.

**The number of parking spots increased by 227** due to an extension to the extended stay car park.

Tallinn Airport was rewarded with **the annual logistics award for its route development**.

**Erik Sakkov**, Member of the Management Board at AS Tallinna Lennujaam, is elected the **tourism promoter of the year**.

Tallinn Airport receives the international recognition **The Routes Airport Marketing Awards For Excellence in Airport Marketing**.

Tallinna Airport is awarded the international design management recognition **DME Award 2013**.

AS Tallinna Lennujaam was awarded a silver **award for responsible business practices**.



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← EST



**LENNART MERI** 1914-2006  
Eesti Vabariigi president 1994-2001  
Pühakivi 88, Pärnu linna muuseumi hoone, Pärnu  
Lennart Meri on Eesti Vabariigi esimene president, kes valiti Eesti Vabariigi presidendiks 1994. aastal. Lennart Meri oli Eesti Vabariigi esimene president, kes valiti Eesti Vabariigi presidendiks 1994. aastal. Lennart Meri oli Eesti Vabariigi esimene president, kes valiti Eesti Vabariigi presidendiks 1994. aastal.

## Group strategy and values

The recession of 2009-2010 brought the civil society into focus and increased awareness of the social aspects of society. As a result of the changed environment and expectations, company values were updated in the autumn of 2013. In addition to the values already adopted by the company culture, such as customer focus, willingness to cooperate and service quality, new ones were specified: responsibility, foresight, innovation and cosiness.

### The following are important for us:

- responsible operation;
- customer friendly, cooperative and cosy airport;
- profitable operation.

### Responsible operation

We will develop sustainably. We will consider our impacts on the environment, society and economy. We deal transparently and ethically. Our activities always conform to the interests of the airport community and other stakeholders.

### Customer friendly, cooperative and cosy airport

We value cooperation. We communicate with customers in a friendly manner, truthfully and professionally. We create a clean, beautiful, cosy and logical service environment. We always exceed customer expectations. We value internal customers. We are the world's cosiest airport.

### Profitable operation

The company's business operations are profitable for the owner, the internal and external customers and the society as a whole. The company contributes to the development of the country's economic environment.

### Foresighted and innovative operation

We invest in new technologies and solutions. We partner with scientific establishments to make considered and reasoned decisions. We are open to change, notice new trends, are flexible and adaptable. We implement ideas, notifying of both the process and results.

### Quality operation

We provide a fast and quality service in an agreed manner and time. We ensure a safe and secure environment for passengers, business partners, airport community members and employees.

The company's strategic objectives are directly built on values. This ensures the values are not merely nice words on a website but reflect the whole company's objectives, budget and day-to-day operation. Our review of annual goals is based on stakeholders - the owner, passenger, business customer, partner/supplier, employee and society as a whole. We mapped their expectations with regard to the airport. In setting the objectives, we studied the options as to how to respond to them. Based on expectations, we worded the strategic objectives. Based on these, each division developed their objectives for the years 2014-2018.

Goals set for 2013 were substantially exceeded because risks of very high probability, principally related to the sustainability of the flag carrier, did not materialize.

## Implementation of objectives set for the period

### Objectives set

#### Quality service

Services of Tallinn Airport are always available. The service of regional airports is available depending on government grants.

#### Efficient and profitable operations

Group's return on equity of 3% and profit margin of 5.8% with 1.75 million passengers.

#### Northern Europe's air transport hub

From Tallinn Airport, one can travel to 25 international destinations, there are 1.75 million passengers and 20 thousand tons of cargo. Regional airports have 38,000 passengers.

#### Guaranteeing safety

No serious aviation accidents or incidents occurred. Minimization of number of ground incidents.

#### Responsible and green organisation

Adoption of a responsible corporate philosophy on the strategic and operating level of the company.

### Implementation of objectives

#### Quality service

The service is available at Tallinn Airport 365 days a year and 24/7. Services are available at regional airports depending on the service ordered and need.

#### Efficient and profitable operations

Return on equity of AS Tallinna Lennujaam is 10.8% and profit margin is 17.7%.

#### Northern Europe's air transport hub

From Tallinn Airport, one can travel to 25 international destinations in summer, there are 1.96 million passengers and 20.9 thousand tons of cargo. Regional airports have 44,000 passengers.

#### Guaranteeing safety

No aviation accidents or incidents occurred. The number of incidents recorded was higher than in 2012 but this was caused by an improvement in safety culture.

#### Responsible and green organisation

Tallinn Airport was awarded a silver award for responsible business practices. An environmental report is published as part of an integrated report of the financial year.



## YEAR 2013 FINANCIAL RESULTS

*In the year that ended, Estonia's economy only grew by 0.8% compared to prior year. However, studies indicate that both in Estonia and in the EU, consumers' and most businesses are feeling more secure in the last half-year. The European Commission is forecasting 2.3% as Estonia's economic growth rate for the current year and 3.6% for 2015.*

The global aviation market grew by an average of 5.2% compared to 2012. This is on par with the last 30 years. The European market grew by 3.8%. On the back of the global economic recovery and increase in consumer confidence, the global aviation market is forecasted to grow by 6% in 2014 and 4.7% in Europe (International Air Transport Association)

The economic condition of the flag carrier Estonian Air was weak and there was doubt about its ability to continue as a going concern. We forecasted that the number of passengers would decline from 2.2 million to 1.75 million. The owner of Estonian Air decided that the airline will continue operating. A passenger market driven by demand supported the owner's decision, enabling all airlines to raise ticket prices without reducing their capacity utilisation. Airlines were profitable.

## Key sales and financial data

		000 €	2013	2012	
<b>Lennart Meri Tallinn Airport</b>	Passengers		1,958,801	2,206,791	-11%
	Flight operations	qty	37,856	48,531	-22%
	Cargo volume	t	20,941	23,921	-12%
<b>Total regional airport</b>	Passengers		44,288	50,895	13%
	Flight operations	qty	11,330	12,450	9%
<b>Group</b>	Revenue		30,288	29,299	3%
	<i>incl. aviation revenue</i>		12,296	11,501	7%
	<i>incl. non-aviation revenue</i>		17,992	17,797	1%
	Other income		10,203	10,098	1%
	Operating profit before depreciation*		12,216	10,865	12%
	Net profit		5,044	3,706	36%
	Investments		14,023	14,673	4%
	Assets (year-end)		150 612	146 618	3%
	Assets excl. grant liability (year-end)		92 230	85 432	8%
	Equity (year-end)		54 879	49 834	10%
	Borrowing (year-end)		30 642	27 707	11%
	Equity/assets (year-end)*	%	60%	58%	
	Net debt/operating profit before depreciation *		2,5	2,6	
	Employees		574	584	-2%

\* excluding government grants for property plant and equipment

The revenue of AS Tallinna Lennujaam group was EUR 30.3 million (2012: EUR 29.3 million). Revenue growth was 3%. Aviation revenue was 40.6% and non-aviation revenue 59.4% of total revenue (2012: 39% and 61%, respectively). Aviation revenue amounted to EUR 12.3 million (2012: EUR 11.5 million), up 7%. The number of passengers declined by 11% (6.4% attributable to transit passengers and 4.6% to point-to-point passengers). The passenger fee increased because the proportion of new destinations subsidised with marketing support declined in the total aviation portfolio.

Non-aviation revenue amounted to EUR 18.0 million (2012: EUR 17.8 million), up 1%. Tallinn Airport's non-aviation revenue increased by 20%. Tal-

linn Airport's increase in revenue was attributable to increased rent from real estate and retail concessions of the passenger terminal. The average buying basket per enplaned passenger increased by an average of 5.8%, from EUR 10.9 to EUR 11.5. The non-aviation revenue of subsidiary Tallinn Airport GH declined by 20.3%. This was attributable by the decline in flight operations by 22% and decrease in weather-related de-icing revenue by 33% compared to the prior year.

Other income amounted to EUR 10.2 million (2012: EUR 10.1 million), up 1%. Government grants for covering the operating expenses of regional airports (EUR 1.4 million) and aviation security and rescue expenses (EUR 4.7 million) were unchanged from 2012.

## Income statement indicators

	000 €	2013	2012	2013-2012	2013-2012, %
<b>Group</b>					
Revenue		30 287,7	29 298,7	989,0	3%
Total income		40 490,6	39 396,4	1 094,2	3%
Expenses:					
goods, raw materials, services		11 444,8	11 490,7	-45,9	0%
labour costs		11 900,9	11 993,2	-160,6	-1%
Total expenses excl. depreciation		24 390,8	24 744,1	-353,2	-2%
Operating profit before depreciation and interest (EBITDA)		12 215,6	10 865,4	1 350,2	12%
Depreciation		10 798,5	9 939,4	859,1	9%
Operating profit (EBIT)		5 301,3	4 712,9	588,4	12%
Profit for the accounting period		5 044,2	3 706,0	1 338,2	36%



The consolidated profit of AS Tallinna Lennujaam was EUR 5.0 million. It was up 36% year-on-year (2012: EUR 3.7 million). Consolidated operating expenses, incl. depreciation and amortisation were EUR 35.2 million (2012: EUR 34.7 million), increase of 1.4%.

The decline in passengers and flight operations directly impacted the profit of AS Tallinn Airport GH, revenue was down by 21% (from EUR 9.8 million to EUR 7.7 million) and expenses declined by 16.1% (from EUR 9 million to EUR 7.5 million). As the decrease in revenue was not offset by the decrease in expenses, the subsidiary's profit declined from EUR 0.8 million to EUR 0.2 million.

Operating expenses of AS Tallinna Lennujaam increased 6% (from EUR 27.5 million to EUR 29.2 million). The most significant component in the increase in operating expenses was an increase in depreciation of 9%.

The group invested a total of EUR 14.1 million. The biggest investments were the acquisition of an aircraft hangar-office building for EUR 7.5 million and the construction of an aircraft hangar for EUR 2.7 million (construction is in progress).

AS Tallinna Lennujaam repaid loans totalling EUR 4.55 million and borrowed EUR 7.5 million. The aircraft hangar-office building was financed using debt.



# Air traffic

## Lennart Meri Tallinn Airport's catchment area

The catchment area is used to measure the size of the airport market or the potential number of passengers. Calculation methodologies may differ, from simple ones such as distance from the airport to complex, accounting for regions' social economic data and route network details.

The whole of Estonia - 1.3 million people - can be deemed the catchment area of Tallinn Airport. At the same time, most of Estonia is also located within the catchment area of other international airports -Helsinki, Riga and St. Petersburg. Therefore, competition is quite high.

People generally prefer a domestic or their nearest airport for travel. The biggest competitor is the Riga Airport, which takes some of the residents in our catchment area.

In order to ensure adequate comparison with other airports, market size must also be accounted for. The generally used ratio is number of flights per resident.

	residents in country (000)	passengers (000)	flights per resident
Vilnius	3 053	2 662	0,9
<b>Tallinn</b>	<b>1 340</b>	<b>1 959</b>	<b>1,5</b>
Stockholm Arlanda	9 416	20 682	2,2
Riga	2 075	4 793	2,3
Helsinki Vantaa	5 375	15 279	2,8

Table 1: Flights per resident in 2013



Figure 1: Tallinn Airport's catchment area (source: Final report. Strategic Development Concept for the Tallinn Airport. Airport Consulting Vienna)

## Air traffic in 2013

In 2013, Lennart Meri Tallinn Airport served 1,958,801 passengers, which is the second best result in history. 20 routes were operated all year round, incl. the start of Turkish Airlines flights to Istanbul. In total, 13 different airlines performed scheduled flights.

Air traffic was substantially affected by the change in Estonian Air's business model: the prior growth strategy was terminated and instead of 11 planes, 5 remained to service the main routes. Therefore, the number of transfer passengers experienced a notable decline but the decline in service volumes as a whole was less than forecasted. Due to the stability

of the Estonian economy, passenger demand for air transport remained high. This presented other airlines an opportunity to increase their supply and market share.

For the first time, Frankfurt rose to the top among scheduled routes. Helsinki and Riga, comparable in terms of volume, reaffirmed their position as a hub airport. One scheduled route was added: Turkish Airlines started flights from Istanbul. 20 routes were serviced all year round (2012: 21 routes). The number of primarily seasonal and/or regional routes declined in the route network, e.g. flights to Finnish small towns ceased. Passengers on scheduled flights accounted for 87% of all passengers.

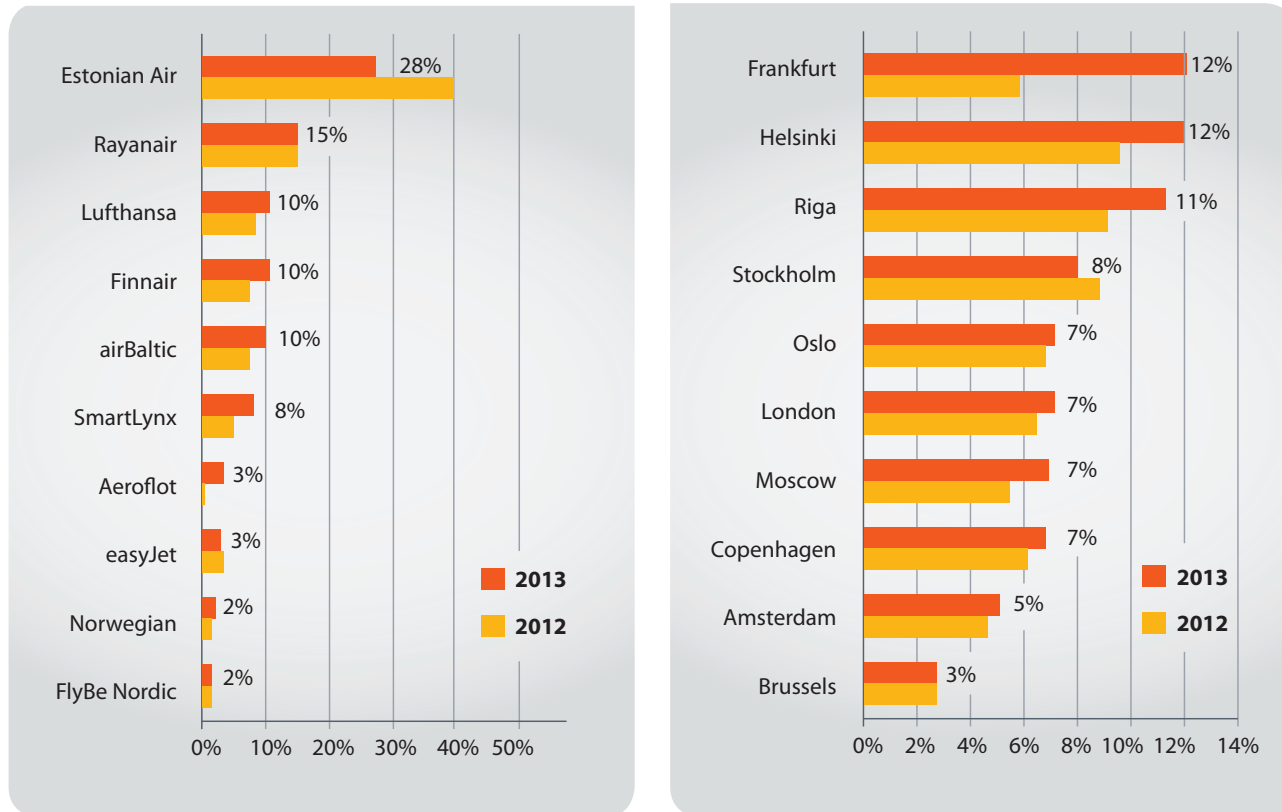


Figure 2. Market share for airlines and destinations 2012-2013



Figure 3. Map of route network. Summer 2013

The number of charter passengers grew by 13% year-on-year, reaching the highest level of the last 5 years. Estonians' most popular holiday destinations continued to be Turkey and Egypt. Charter passengers entering Estonia arrived mainly from Spain via cruise turnaround. 5 turnarounds took place in partnership with the cruise line Pullmantur Cruises during which a total of 14,687 passengers were served who started or finished their Baltic Sea cruise in Tallinn. In addition to the airport and port, turnarounds were organised by the tour operator DenEesti and the ship agency Worldwide.

The majority of cargo volumes served was attributable to non-scheduled cargo flights. Postal and courier cargo have steadily increased in recent years. The rate of cargo carried on scheduled passenger flights has been continuously declining.

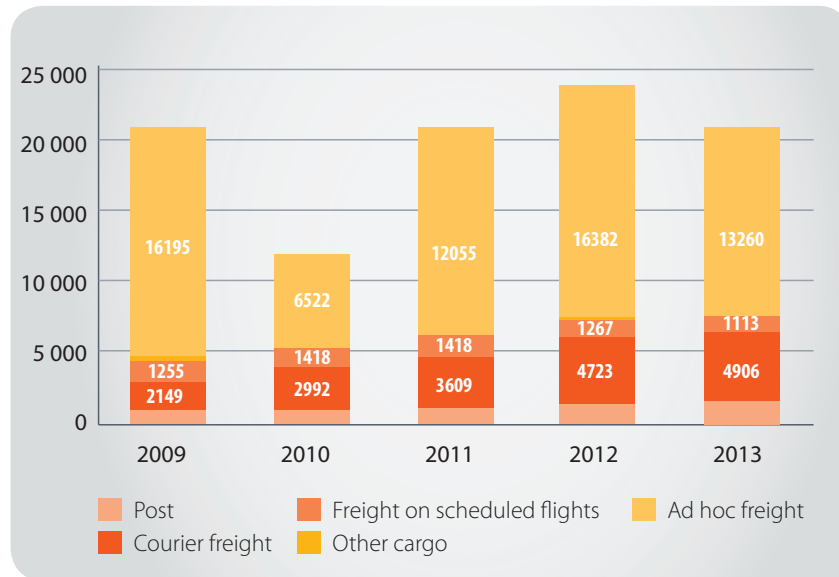


Figure 4. Cargo and post 2009-2013



## Competitiveness

Aviation in Estonia and Europe as a whole has become more dynamic in the last decade. Passengers have more options to choose from and they are more sensitive to changes in price and quality. Airlines on the other hand are flexibly reacting to passenger demand and acting more aggressively in negotiations with airports. Countermeasures must be taken against this trend in the competitive situation. The most conventional ones are changes in airport charges, marketing activities and route development.

Due to the similar structure of airport charges, Tallinn Airport can be compared to other airports. It could be said that Tallinn Airport is among the cheapest in the Baltic Sea region, price level is comparable to Riga. (source: [www.airportcharges.com](http://www.airportcharges.com)). However, there is no comparable information on the route development programmes and discounts used by various airports.

	Charges per aircraft in EUR	Charges per passenger in EUR	Total charges
<b>Tallinn</b>	<b>710</b>	<b>766</b>	<b>1 476</b>
Riga	421	1 077	1 498
Vilnius	861	748	1 609
Helsinki	530	1 522	2 052
St. Petersburg	1 183	1 754	2 937

Table 2: Per-aircraft and per-passenger airport charges for an A320 aircraft

Based on research, 96% of European airports are actively marketing to airlines and in the last decade airports' marketing and route development expenses have more than doubled. (source: [http://www.seo.nl/uploads/media/2012-47\\_Airport\\_Competition\\_in\\_Europe.pdf](http://www.seo.nl/uploads/media/2012-47_Airport_Competition_in_Europe.pdf)).

In 2013, Tallinn Airport was rewarded with the annual logistics award and annual tourism promotion award for its route development, as well as the international recognition The Routes Airport Marketing Awards For Excellence in Airport Marketing.



## Regional airports

The objective of AS Tallinna Lennujaam is to operate regional airports for supporting the development of these regions. In addition to grants, we also use the group's own resources to do this.

The number of passengers at the Kärdla Airport has been stable in recent years, averaging approximately 10,000 passengers. The number of passengers served at Kuressaare Airport has also remained almost the same. The number of passengers declined the most in Tartu. The record 23,500 passengers reached in 2010 declined in 2013 to 13,700 passengers. The decline was attributable to the exit of one airline from the market. In 2013, only FlyBe's scheduled flights to Helsinki departed from Tartu. A year earlier, Estonian Air's scheduled route between Tartu and Tallinn was also in operation.

Passengers	2013	2012	2011	2010	2009
Tartu	13 717	20 302	18 583	23 504	9 707
Kuressaare	13 163	11 421	17 822	19 702	19 519
Kärdla	10 222	9 700	10 695	10 551	9 255
Pärnu	3 538	5 634	3 863	5 148	4 025
Kihnu	2 434	2 474	2 257	2 215	1 513
Ruhnu	1 214	1 364	1 468	3 086	3 373
<b>Total</b>	<b>44 288</b>	<b>50 895</b>	<b>54 688</b>	<b>64 206</b>	<b>47 392</b>

Table 3: Number of passengers in regional airports 2009-2013

The number of flight operations in regional airports depends to a great extent on regional policy. Compared to other airports, the number of operations in Tartu Airport is substantially increased by the training flights of the Aviation Academy. Tartu is also the only regional airport with a scheduled international flight.

Flight operations	2013	2012	2011	2010	2009
Tartu airport	5 159	6 356	4 971	4 809	4 596
Kuressaare airport	2 073	1 817	1 915	2 036	2 086
Kärdla airport	1 340	1 512	1 426	1 352	1 420
Pärnu airport	1 465	1 562	1 490	1 716	1 344
Kihnu airfield	753	648	656	634	420
Ruhnu airfield	540	555	554	847	970
<b>Total</b>	<b>11 330</b>	<b>12 450</b>	<b>11 012</b>	<b>11 394</b>	<b>10 836</b>

Table 4: Number of flight operations in regional airports

## Aero-navigation services

AS Tallinna Lennujaam provides air traffic, communication, navigation, monitoring and aviation meteorological services under a certificate issued by the Civil Aviation Administration at the airfields of Kuressaare, Kärdla, Pärnu and Tartu.

The company's Management Board evaluates the level of provided services to be good. Customers were also satisfied with the flexibility and quality of air traffic services provided.

We have disclosed the conditions for using the services on our website [www.tallinn-airport.ee](http://www.tallinn-airport.ee). In order to provide official advisory services to customers, we have formed a committee of users of AS Tallinna Lennujaam.

## The regional airport development project was implemented

An important period for regional airports ended - the ERDF3 2008-2013 project was implemented. Tartu, Kuressaare, Kärdla and Ruhnu airports received funds from the European Regional Development Fund (ERDF) for improving passenger service, aviation safety and security. By the end of the period, all three airports and the Ruhnu Airfield have been modernised.

The total cost of the regional airport development project was EUR 15,466,619. During the preparation and studies of several projects, EUR 128,462 of funds from AS Tallinna Lennujaam were used.

The total cost of the Tartu Airport development project was EUR 7,698,218. The Tartu runway was reconstructed to 1,800 metres, a new control tower, terminal, rescue depot, garage complex and aircraft hangar were built. An instrument landing system was acquired, new navigation, meteorological and security equipment and equipment necessary for servicing and maintaining the airport and aircraft were acquired.

The total cost of the Kuressaare Airport development project was EUR 5,784,121. Renovation work at Kuressaare Airport already began as part of ERDF2 (2007-2008). The Kuressaare Airport built a new terminal, the control tower was modernised, the runway was extended to 2,000 metres, an instrumental landing system was acquired, necessary buildings were constructed and necessary maintenance equipment was acquired.

The total financing for the Kärdla Airport development project was EUR 1,523,955. The approach lighting system was replaced, the terminal and equipment shed were renovated. Security equipment, runway maintenance equipment and a rescue boat were acquired. A new garage complex was built, accommodating all of the equipment and good working conditions were provided to employees. The Ruhnu Airfield received a new runway surface, drainage system, terminal and equipment hangar during renovation.



## Aircraft and passenger service

### Ground handling service

AS Tallinn Airport GH started organising the ground service of passengers and aircraft in Tallinn Airport in 2006. Currently, the company provides ground handling services also in the Tartu and Pärnu airports. The founder and owner of the company is AS Tallinna Lennujaam.

AS Tallinn Airport GH serves legal and natural persons using the airport in the field of aviation, leases out transport equipment and special equipment, provides cashier and intermediation services and sells and prepares passenger and cargo transport documents.

#### Key financial indicators of AS Tallinn Airport GH in 2013 (EUR million):

Total income from operations	7,7	-21%
EBITDA	0,7	-42%
Profit for financial year	0,2	-71%
Balance sheet total	7,4	-6%
Investments	0,05	-97%

The decline in flight operations also caused a relative decline in luggage handling. In 2013, 17.4 t of luggage was handled (19.1 t in the previous year) and 6,587.6 t of cargo and post (5,948.9 t in the previous year). The number of flights served was 29,739 (39,787 in the previous year).

The average aircraft turnaround in Tallinn is 30 minutes. After the start of the luggage unloading, the first luggage will arrive on the passengers' baggage claim carousel in an average of 4.6 minutes, in container-loaded aircraft it takes an average of 8.3 minutes. The last baggage reaches the baggage claim carousel for ordinary planes 9.7 minutes after the start of baggage unloading, for container planes in an average of 14.8 minutes.

AS Tallinn Airport GH won once again after 5 years the virtual award called Shooting Star issued by Lufthansa. The title is awarded to the airport where passengers prefer to check in at self-service kiosks, online or through mobile phones. The indicator was the highest in Tallinn Airport with 92.4%. In 2013, Lufthansa recognised Tallinn Airport as the most punctual in the world and Tallinn Airport GH as the world's best ground service provider. Finland's national carrier Finnair recognised our ground service as the world's most punctual from the start of the year through autumn. Until the end of the year, the company remained second and third placed behind various Asian airports on the punctuality ladder.

### Increase in the proportion of non-aviation revenue in airport management

Today's airports are under constant pressure to lower airport fees charged to airlines. In order to avoid losses, other opportunities must be sought. The general trend of European airports is to increase the share of non-aviation revenue. Such revenue comprises rent income, concessions paid by lessees and from sale of other airport services.

At Tallinn Airport, non-aviation revenue comprises the rent on passenger terminal commercial space, concessions paid by retailers, advertising revenue and the rent income on other commercial spaces located on the territory of Tallinn Airport. Non-aviation revenue accounts for 59% of the consolidated revenue and totals EUR 18.0 million.

### A wide selection of restaurants and shops

The passenger terminal of Tallinn Airport has 13 shops and 7 restaurants. 3 restaurants were added during the financial year. The ones added to the passenger terminal were the homely Mamma bistro, Subway for fans of fast food, wine bar Rosin and several shops.

## Advertising at the airport

A positive reputation and flexible options make the airport an excellent advertising space. By skilfully leveraging this, we have grown the revenue from sale of advertising and thus increased the volume of non-aviation revenue. At the same time, we have offered additional value to passengers.

A good example is the design of waiting areas. The Leibur library is brand advertising but also a cosy place for passengers to spend time and read. The Elion gate enables passengers to wait for their flight in comfortable armchairs and sofas and discover smart home devices and opportunities. Enterprise Estonia advertises Estonian locations to domestic and international tourists, enables to use Skype to make calls and offers children an opportunity to have a good time at the Lotte playhouse. At Samsung Tab Bar, passengers can use tablet computers for free, which is also excellent advertising for tablets. The partnership is also more broad-based because their televisions are in the VIP and business class lounges. The latter is branded by Nordea Bank.

## Commercial spaces at the airport and on airport territory

All airports have a combined 102,515 m<sup>2</sup> of buildings with various purposes (incl 79,961 m<sup>2</sup> in Tallinn). The space related to the airport's main activity has a floor area of 60,239 m<sup>2</sup> and commercial space has a floor area of 42,276 m<sup>2</sup> (incl. 39,887 m<sup>2</sup> in Tallinn).

Tallinn Airport leases commercial space to companies in two main categories. The passenger terminal accommodates retail, catering and office space. The territory of the airport accommodates light buildings, hangars, warehouses and offices.

Rental income has increased 59% compared to the previous year, accounting for 14% of total revenue in the financial year. The growth is related to the acquisition of an aircraft servicing complex, which added approximately 9,000 m<sup>2</sup> of commercial space.

The largest lessees on the airport territory are Air Maintenance Estonia AS, TNT Express Worldwide Eesti AS, DHL Estonia AS and AS Essenta Logistics.

Continued growth in rent income is forecasted for the next year because an aircraft garage and maintenance hangar with a total area of 5,219 m<sup>2</sup> is due to be completed. The hangar's long-term tenant is Panaviatic AS.

## Servicing of disabled passengers and passengers with reduced mobility

In the financial year, the number of passengers with reduced mobility grew by 4%. In the previous year 3,028, now 3,151 passengers with reduced mobility were served. Considering the general decline in the number of passengers at Tallinn Airport, the number of passengers with reduced mobility per 100,000 passengers has increased by 14.7%. The same growth trend has been observed in Europe. The number of passengers with reduced mobility, accounting for the change in the number of passengers, has continued to grow in recent years: 2010 +10%, 2011 +10.8% and 2012 +13%. The growth is related to the ageing of the population and the expansion of the rights of passengers with reduced mobility. Tallinn Airport has 13 specially trained service personnel who assist such passengers. The work of the service personnel is coordinated by 6 shift supervisors.

In the summer of 2013, the first training was held for people suffering from fear of flying, passengers with reduced mobility and others who need to get comfortable with the airport's environment and operations in advance. Mainly families participated whose concern was the unpredictable behaviour of an autistic family member in new situations. In the training, we played out flight check-in, passed security, terminal waiting areas, boarding and pre-flight operations. The training lasted 3.5 hours, 18 people participated. So far we have trained people who have contacted us themselves, the actual need is much greater.

### Good service

The objective of Tallinn Airport is to offer a wide selection of quality services to passengers. We highly value feedback and suggestions from passengers but also from partners and employees. We conduct a satisfaction survey twice per year in order to discover potential bottlenecks and in order to find ways of further improving passengers' airport experiences.

Passengers are very active in offering positive and negative feedback. We receive good observations and ideas from customers on how to make the airport even customer-friendlier.

The objectives of service relate to the cleanliness, atmosphere, parking, waiting times, security control, convenience and ensuring service quality. We have fulfilled the objectives and are pleased because the trend of results continues to be positive. It is a day-to-day challenge for the airport community to maintain and increase the level, requiring joint effort.

Information availability and simplicity of orientation in the terminal are an important aspect of service in order to guarantee customer satisfaction. Designing the passenger's route always starts with an extensive and clear signage system. Tallinn Airport is consistently developing its signage system.

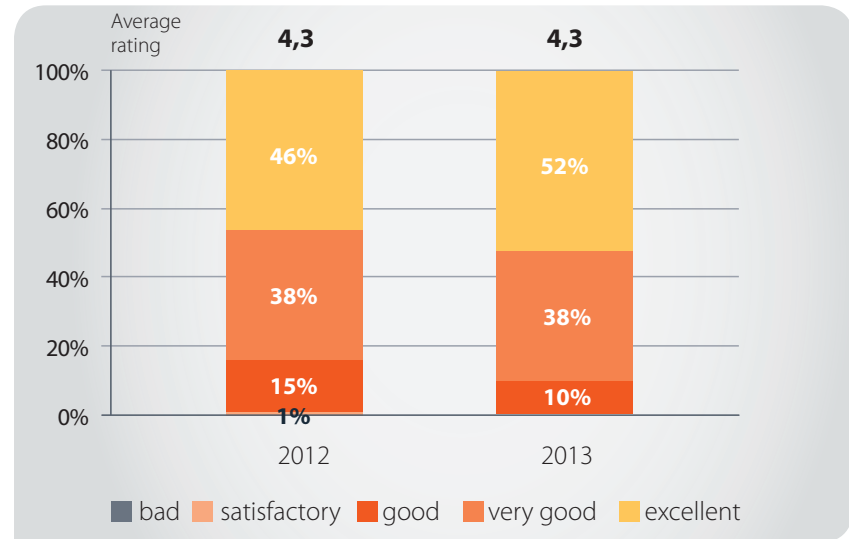


Figure 5: The cleanliness of the airport.

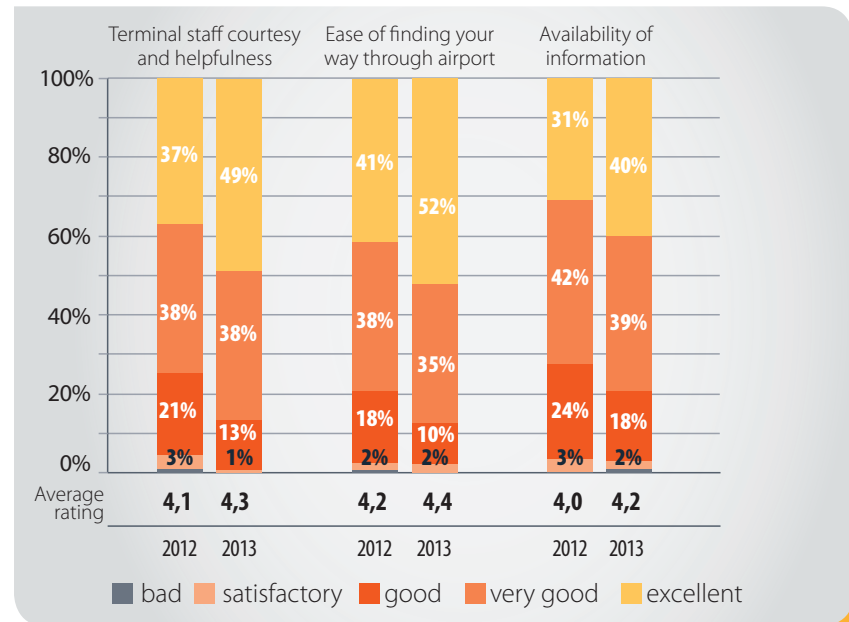


Figure 6: Information and overall service

### Important keywords of service

Small details are important in Tallinn Airport becoming the cosiest airport. It is important to have the courage to show that we care about our customers. We are taking steps to make time spent at the airport more pleasant for passengers. For example, we have acquired pushchairs in various sizes for children of different ages, the terminal has many information telephones, waiting areas have different types of comfortable seating. We believe that friendly announcements in parts of the passenger terminal help ease flight anxiety. Opening of a library received the most attention in 2013, which was carried out in collaboration with passengers. The postcard campaign was launched successfully - passengers are sending greeting cards from exciting destinations of the airport. All cards are put on display. The business card wall is also gaining interest where people can leave their business card and receive contacts who are of interest to them. The wall is being added to every day.

### New and interesting solutions in passenger route design

Passenger route design has a major role in the cosiest airport concept. Its objective is to make the visit to the passenger terminal pleasant and offer various options for spending time. The broader objective is to reduce travel anxiety, make the start and end of a trip pleasant and thus improve the entire travel experience. The more satisfied the customer, the more understanding they will be toward mandatory operations and queues and the fewer problems are caused by travel anxiety, such as leaving behind personal items.

In the open area of the terminal, in developing services and amenities, we are thinking about both the passenger as well as their friends and family who have come to drop them off or pick them up. We have built a bus shelter with glass walls where it is convenient and warm to wait for public transport. In the interests of passengers we placed a ticket vending machine there. Based on passenger feedback, we added a snack vending machine.

On the 2nd floor of the passenger terminal we opened a gallery with changing exhibitions where all our guests are welcome, both people arriving and departing, both people dropping someone off or people picking someone up. According to feedback, the departures area, in particular the check-in hall, had a lack of seating. We installed additional seating there. In the interests of cosiness and to emphasise the cosiest airport message, seating was covered by fabric with national patterns. We established the

Linda corner in the same waiting area. The story about the heroine Linda of the national epic is written on its wall. The reader will be directed to look out the window of the terminal and look for the Linda stone. The statue of Linda by Tauno Kangro is located there. The message on the wall promises that the departing traveller is going to have luck travelling if they touch the statue.

The list of restaurants in the terminal's closed area has added Mamma Bistro, Subway and wine shop Rosin. Take Off One and Take Off Two have been updated. Sky High Sushi became Sky High Sushi & Smoothie after the addition of a smoothie bar. Because we serve both full-service as well as low-cost airlines, the passenger profile is very diverse. By offering a wide selection of restaurants with different products and prices we demonstrate to each passenger that we care about their needs.

### A library and Lotte play area were opened in the airport

The library located at gate 3 of the passenger terminal has received a lot of positive feedback both from passengers and the media. Several international airports have promised to follow our example and open a similar library. The library functions on the passenger-to-passenger principle. One can choose a book of one's choice from the shelf to provide entertainment while waiting. Passengers are permitted to take the book with them on their trip and return it when they come back. If they have not finished the book during their trip, they can also take it home with them and return it the next time. The library works on the principle of trust, there is no service staff or supervision.

Enterprise Estonia opened a gate introducing Estonia, on one side of which there are several engaging materials and design. The other side of the gate is devoted to Estonian children's favourite character, Leiutajateküla Lotte (Lotte from Gadgetville). The waiting area wall is designed using Lotte imagery. A children's attraction towers in the middle of the area - a three-story playhouse. Lotte films are running on the screens of its walls. Desks and chairs have been placed in the area for colouring Lotte colouring sheets.

From December 2013, the area outside the Schengen Area also contains a children's play corner. As many charter flights depart from there, there are usually many families with children. The play corner helps ease travelling anxiety and gives children an opportunity to have fun.

### Automatic border control system

In cooperation with the Police and Border Guard Board, an automatic border control system was installed in the passenger terminal. The fully automatic border control system consists of two automatic gates and six registration kiosks. The system was installed for passengers exiting the Schengen Area and passengers entering it. The automatic border control system can be used by citizens aged 15 and over of the European Union, European Economic Community or Schengen member countries with biometric passports.



## Safety is important

*The main objective of AS Tallinna Lennujaam is to provide safe and secure airport services regardless of the season, time of day or weather conditions, in compliance with all international and national regulations and norms.*

The area of Tallinn Airport is approximately 270 ha, of which asphalt paved areas account for 60 ha. Maintenance of the territory is mainly important for ensuring aviation safety and the maintenance service of the airport makes sure that the runway is open for aircraft regardless of weather conditions. The maintenance service has a fleet of machinery comprising 150 different machines at their disposal, which they use to maintain the runway and other sections of the airport territory.

AS Tallinna Lennujaam holds two different certificates that we regularly administer and renew. Each airport has a separate airport certificate and the aero-navigation service provider's certificate is group-based. The Civil Aviation Administration performs oversight of compliance with certificate conditions.

### Safety and security

#### Aviation security

The purpose of aviation security is to ensure the safety of passengers, crew members, employees and the public by preventing any unlawful interventions into civil aviation. In all airports passengers pass security control before boarding their flight. In the Tallinn, Tartu and Pärnu airports, the contracted partner G4S Eesti AS check the passengers. In the Kärdla, Kuressaare, Kihnu and Ruhnu airports, passengers are checked by airport employees. One of the main objectives is to detect prohibited items/substances in the luggage of passengers. In 2013, a total of 7,396 items included in the list of prohibited items/substances were detected in the course of security screening at Tallinn Airport. A year earlier the number was 5,750.

Each year, the airport is subject to several international audits. During the financial year, we successfully passed the audit of the European Civil Aviation Conference, as well as inspection by the European Commission. Additionally, there were inspections and tests by the Civil Aviation Administration.

We included our partner G4S Eesti and the shops of the airport's security-restricted area into the preparation of the first stage of the elimination of the restrictions on liquids beginning in 2014. Transition to the first stage necessitated large resource outlays in the form of equipment purchases and employee training.

During the financial year, the aviation security department conducted 98 training courses (119 in the previous year) where 801 people related to aviation were trained (1,207 in the previous year).

#### Crisis management and rescue training

The airport must always be prepared to react in emergency situations. In addition to knowing the emergency handbook and preparation and development of plans, this also means real rescue training. These are organised in cooperation with various partners, such as the Police and Border Guard Board, Rescue Board, ambulance, etc. The rescue service of Tallinn Airport frequently organises exercises and training courses because our reaction speed and skills must be outstanding at all times.

#### Rescue training

In the summer of 2013, AS Tallinna Lennujaam held a rescue training in Tartu. In addition to the divisions of the organiser, Lennuliiklusteeninduse AS (Estonian Air Navigation Services), the Rescue Board, the Police and Border Guard Board, the Civil Aviation Administration and the ambulance of Tartu were involved. The goal was to practice and verify the preparedness of the rescue team of Tartu Airport, the air traffic service, the air traffic control unit of Tartu and other participants in the event of an emergency and to manage search and rescue operations in the event of an aviation accident. An additional goal was to practice cooperation between different agencies. The goals were met successfully. Cooperation between different agencies and companies was generally smooth and effective.

In cooperation with AS Tallinna Vesi, a drill was organised on the Ülemiste lake. During the year, the airport's rescue service and several representatives of AS Tallinna Lennujaam participated in various drills.

## Safety

All operations on the airport's territory are based on the principle of safety. In order to prevent accidents and protect people, the environment and property, we have established a safety management system involving all employees and partners. Its elements are the company's safety policy, safety measures programme, risk management, general culture of safety and safety-related processes and operations that are described in the form of policies, procedures and guidelines.

All employees and community members (employees of partner companies operating on airport territory) pass safety training. Safety documents are made available to everyone. The safety team performs observations, analyses and inspections every day on the territory in order to detect any irregularities or sources of danger.

In addition to safety measures, we have established an irregularities notification system. Its ideology is based on describing the irregularities that took place and the analysis of its causes and root causes. This enables to more effectively determine the root causes of similar cases and prevent them in the future.

No aviation accidents or serious aviation incidents took place in the airports of AS Tallinna Lennujaam in 2013. In total 241 safety-related incidents were recorded in Tallinn Airport (17 in Tartu, 9 in Pärnu, 7 in Kuressaare, 9 in Kärdla and no incidents took place in Kihnu and Ruhnu). Compared to 2012, the number of recorded incidents decreased by 16%. There were 37,856 flight operations (48,976 in the previous year). 65 incidents per 10,000 flight operations were recorded (59 in the previous year). The rise in the incidents related to flight operations is attributable to better movement of aviation safety-related information. The notification system was improved at Lennart Meri Tallinn Airport. A campaign of promoting safety to employees was carried out. As a result, the number of notifications increased in 2013 and the community's culture of safety improved. Electronic flight safety information notification and administration system is being implemented.

Incidents impacting safety are divided into 13 categories. The main violations are related to motor vehicle traffic in the air traffic area of the airports and the servicing of aircraft.

Category	2013	2012
1 Technical failures recorded on aircraft	34	3
2 Fire/explosion	1	1
3 F.O.D (foreign object debris in air traffic area)	4	7
4 Fuel spill/oil spill/other pollution	19	6
5 Ground handling of aircraft	15	9
6 Ground equipment	6	4
7 Runway incursion	2	4
8 Violations and incidents in the traffic area committed by employees/passengers	14	7
9 Violations by motor vehicles in the traffic area	54	108
10 Bird/animal strike	32	64
11 System failures	6	9
12 Surface damage	8	9
13 Other	46	55
<b>Total number of incidents recorded</b>	<b>241</b>	<b>286</b>
<b>Number of flight operations</b>	<b>37 856</b>	<b>48 976</b>

Table 5. Incidents impacting aviation safety at Tallinn Airport

The Lennart Meri Tallinn Airport has formed a safety committee connecting the companies that operate there. Its purpose is to collect and share information about potential flight safety factors in all fields and to give recommendations as to reducing and eliminating hazards.

### The main safety development activities in 2013 of AS Tallinna Lennujaam

- The safety management system was updated, new categories of flight safety incidents and subcategories were developed.
- The notification system was improved and a campaign of promoting safety to employees was carried out. As a result, the number of notifications increased and the community's culture of safety improved.
- Implementation of aircraft approach procedures based on satellite navigation systems at Tartu Airport.
- Development and implementation of jet blast deflector walls at Lennart Meri Tallinn Airport.
- Implementation of remote-controlled bird control systems based on gas equipment at Tallinn and Tartu airports.
- Electronic flight safety information notification and administration system is being implemented.

### Incidents related to birds

Aircraft bird strikes can have very serious consequences. In 2013, 32 bird-related incidents were recorded at Tallinn Airport. The extraordinarily high number of incidents in 2012 was caused by a colony of swallows who were on airport territory.

Investments must be made in prevention and in the land use of the airport, conditions preventing the nesting of birds must be created (grass must be cut, puddles and wet areas must be drained). The contracted ornithologists of Tallinn Airport are observing the movements and migration of birds. The information received is transmitted to air traffic controllers who in turn send it to aircraft crews. Ornithologists help develop measures for controlling various bird species. The remote-controlled bird control system acquired in 2013 has been effective in Tallinn Airport.





## Employees

Our team holds the key to our future. We have a vision about the future of airports but we will undertake a journey there as a team. Therefore, we devote time and resources to assemble and develop a tight-knit team. The team will achieve the desired result if each employee is happy, cared for and valued both as an individual and as a team member. Everyone is important.

At the end of 2013, the group employed 574 employees, the average number of employees in 2013 was 573, of whom an average of 325 worked at airports and 211 employees worked at Tallinn Airport GH.

The change in the number of group employees compared to 2012 was 1.7%. The number of positions at Tallinn Airport GH declined 6.1%, which was caused by the reduced work load due to the decline in flight operations and restructuring of operations processes.

The starting point for planning the number of job positions is the employment of a sufficient number of competent employees to provide services to customers in order to ensure the quality of services provided, minimise safety risks involved in overtime work and provide employees with a work-life balance. In order to improve the efficiency of labour planning, we initiated the development of a working time management information system which will be implemented at the start of 2014.

Labour costs totalled EUR 11.9 million in 2013 and remained flat compared to the previous year. Changes in the number of employees resulted in changes in labour costs. Labour costs of Tallinn Airport increased by EUR 0.4 million. The costs of regional airports remained flat. Costs of Tallinn Airport GH declined by EUR 0.6 million or 13.6%.

In designing the compensation policy, we take into account compensation levels and the extent of labour supply on the labour market in order to maintain the company's competitiveness. Internally we follow the internal fairness principle with respect to the same positions and ratios of different job groups within the company. The monetary rewarding of employees is conditional upon the achievement of the company's financial objectives and consideration of each employee's individual contribution.

In order to raise employee motivation and recognise their contribution, each year Tallinn Airport GH awards a *Kuldvara* colleague award, the group's most outstanding employees are rewarded with an Airport gold symbol. In the "Praise the service staff" section of the Airport Intranet that was launched in 2013, we publish positive customer and colleague feedback and recognise all employees who have received praise. Through that we communicate good work practices, value everyone's work and also value the providers of feedback for their contribution.

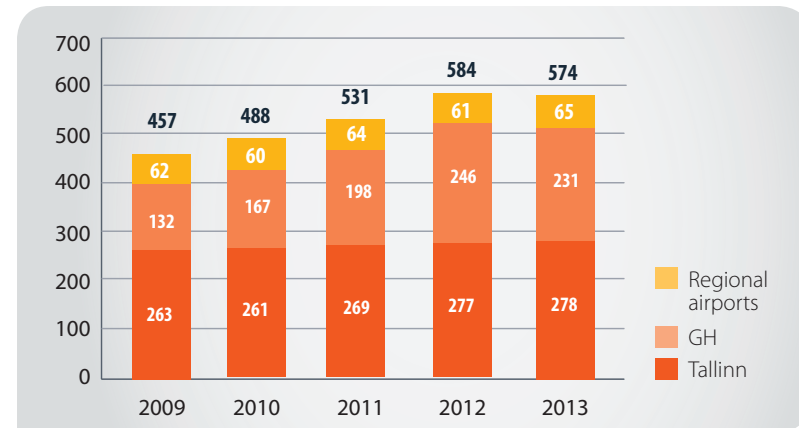


Figure 7. The group's employees at the end of each year.

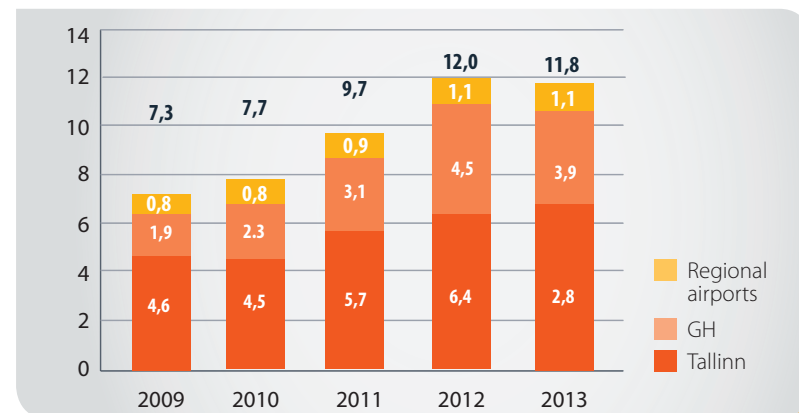


Figure 8. Consolidated labour costs, incl. employer's liabilities, million EUR

We value a sports friendly and healthy lifestyle. The active and popular activity of the Tallinn Airport sports club has also received wider recognition: we achieved third place among the companies in Estonia most engaged in sports in 2013 after Eesti Post and Swedbank.

In order to promote health and support recreational sports, the company reimburses employees' sports expenses each month up to a certain limit. Traditional sports events have been established, such as a winter sports day and orienteering competition, into which also include the airport community and family members.

### Employee training and development

Competent human resources are the basis of our personnel policy. Therefore, we wish to constantly develop and train our employees. We offer training courses to both employees and partners. All partners' employees participate in an initial training where in addition to security preparedness we also introduce agreements on good service practices and general requirements of flight safety. The training day that is longer than before and new topics have helped reduce incidents at Tallinn Airport, increase employees' awareness and improve the culture of safety. Specific additional programmes have been created for positions. Occupational safety training is conducted according to the need. If a job group's work operations, e.g. airport informers, meteorological employees, maintenance service employees, depend on the season, the necessary training will be organised each year before the start of the new season.

#### The focus for 2013 of training and development was on:

- Maintaining the competence related to aero-navigation services of engineering personnel.
- Supporting management and key specialists through a project updating the objectives and business plan.
- Introducing new learning technologies to in-house training staff.
- Teaching good service practices to all employees, incl. the community (all employees of companies operating on the Tallinn Airport territory).
- Promotion of safety culture at the initial training for new employees all newcomers of the company and airport community pass a short training course in flight safety.
- Updating the learning management system and creation of competency model database.

In order to encourage the use of contemporary learning tools and to support constant personal development, we have created an opportunity to use computers with internet connections in subdivisions. Thus, all employees are able to use the Intranet or engage in computer-based learning.

We developed a digital administration module of certificates of competency in the Edutizer learning management system. The module enables to store group employees' certificates of competency in a single digital repository. Thus, we can obtain an overview of employee competencies in a timely and environmentally conscious manner.

Initial training in the fields of occupational health and safety and additional training are conducted constantly. Additionally, all new employees pass initial training in flight safety and security and get to know good service practices.

## Information flow in the company and community

Internal communication makes information available to all employees and airport community members. A new Intranet was implemented in 2013. We considered a two-way communication channel important in creating the solution. Now employees are able to initiate discussions and participate in them, propose suggestions, etc. We constantly send news, overviews of business results, operational information on work and employees, overviews of joint activities and summaries. The Intranet has received a lot of positive feedback from employees and partners. The system has been further developed to accommodate users' wishes.



## Ensuring sustainability

We would like passengers to know how airports operate. We would also like to introduce the airport as a potential workplace. We organise visits by school students to the passenger terminal and airport premises. We were visited by ca 600 students last year.

In addition to establishing the image of a good employer, we also value long-term partnership with scientific and educational institutions. In addition to short-term traineeships, for the first time we offered Aviation Academy students an opportunity for a longer summer traineeships. 14 students participated in the programme. AS Tallinna Lennujaam awards scholarships to students of the Aviation Academy in the studies of navigation systems operation and aviation company operation.

Each year, we also present employment opportunities in the airport to students of the Estonian School of Hotel & Tourism Management. We offer career planning visits to high school students. To the extent possible we offer individual trainee positions to students of various vocational and higher education institutions.

## Open and responsible

### Airport community

We refer to employees of companies operating on airport premises as the airport community. In 2013, there were 80 such companies and they employed approximately 2,500 people. The regional airport community has a total of 191 employees and 10 companies. Each of them strives to ensure comfort and safety to passengers and airlines. We have understood that it is increasingly important to work together for a common goal. Therefore, we have joined the companies on the airport premises, their teams and employees together as one airport community. We actively make sure our community members' interests are protected, that problems get resolved, that information is exchanged and that we can all work well together.

### Impact on society

The company has a substantial impact on the economy of the capital and Estonia as a whole. Research confirms that for every 100,000 passengers enplaned or deplaned by Tallinn Airport, the airport's catchment area adds an average of 134 new jobs. This generates EUR 12 million of wage income (including social tax) and increases the country's gross domestic product by EUR 28 million. The total impact (direct, indirect, induced) of the air transport sector on Estonia's GDP in 2012 was 3.2% or EUR 538 million. (Study by Maris Lauri titled "Impact of passengers of Tallinn Airport on the Estonian economy", 2013).

This is one of the reasons why the airport is continuously searching for new potential aviation partners and destinations.

In order to create an attractive economic environment to airlines operating in Estonia, the state has decided to bear the security charge instead of the airline and will ensure that costs related to rescue capacity are covered.

### Communication with stakeholders

The airport's activities affect and concern many stakeholders from employees and community members to the state and society. We are open communicators because this is the only way to establish and maintain trust in our activities.

At the same time, we will get to know the stakeholder expectations and link them to our decision-making process and long-term strategic objectives. Based on stakeholder expectations we have developed our objectives for 2014.

#### We use the following measures to best organise communication:

- Customer satisfaction surveys and feedback system.
- Public meetings to involve the society and residents within proximity.
- An external network targeted to the community where all companies and partners operating on airport premises can exchange information and provide feedback and where community members have access to requirements and guidelines for operating on the premises.
- In addition to the regular forum environment on the intranet, we offer employees an opportunity to create their personal blog there. This is a good way to involve people and encourage them to create web content on their own. The intranet collaboration rooms and option to form groups among colleagues with similar interests and needs support the same objective. This way, a network-based community is formed that promotes knowledge management.

**Work meetings and training courses in their regular format. Employees make suggestions that are discussed and implemented if possible and feasible.**

- For improving information sharing, we have established a terminal user committee and airport user committee that hold regular meetings. The committees discuss problems, solution possibilities and development needs. We have proposed co-operation ideas to our business partners to increase passenger convenience. The results include ticket machines and bus stops at the airport of Sebe bus lines.
- Supervisory Board and audit committee meetings.
- We successfully communicate with stakeholders through social media and obtain feedback from there. That way we can talk to customers quickly and directly. Of all the channels of the Lennart Meri Tallinn Airport, the Facebook page is the most active. We also use Twitter, Google+, Instagram and Foursquare.

**Good service practices**

In 2012, the “Good customer service practices of AS Tallinna Lennujaam and its community” were established. This establishes our joint values and principles of operation in connection to our service. All of our people have read the practices and adopted its provisions in their day-to-day work. If community members notice any deviation from the good customer service practices, they are immediately able to provide feedback, helping their colleague notice his or her mistake and correct it. We have resolved several concerns precisely thanks to employee activism and their suggestions on how to improve service.

**Terminal user committee**

In order to distribute information to service-related community members in the passenger terminal, we hold a work meeting for terminal users once per quarter. There, managers of airport partners and employees responsible for service, meet. It is a good place for collective discussions on concerns that have arisen. We can find solutions and agree on future actions. There is also an opportunity to introduce new employees and businesses to partners.

**Air field user committee**

The Tallinn Air Field User Committee unites air field users and partners operating on its grounds. The committee meets once per quarter and more frequently if needed. The goal is to ensure the uninterrupted, safe operation of the air field in consideration of all parties’ interests.

## Environmental protection

Environmental protection is a major focus area for AS Tallinna Lennujaam. Our strategy and long-term objectives reflect our goals related to the environment. We have persistently monitored environmental parameters and reduced environmental impacts. Environmentally friendly operations have now become an even more important strategic guideline. In 2013, we started adding to our environmental policy. We set forth the environmental goals, principles and directions of Tallinn Airport in the following areas: increase in the use of renewable energy; reduction of waste generation and increase of waste recycling; reduction of carbon emissions and water usage and the promotion of a green airport mindset.

### The group's environmental policy is based on the following principles:

- We operate on the basis of a management system compliant with the requirements of ISO 14001 and ISO 9001 standards.
- In our day-to-day activities we comply with requirements arising from Estonian and European Union legislation, conventions and agreements.
- We identify and evaluate the environmental impacts of our activities on surrounding areas and employ necessary measures to prevent and reduce the environmental pollution hazard.
- We promote the principles of sustainable development: we consume natural resources economically and generate less waste.
- We value open and honest communication with authorities, local residents and other stakeholders.
- We monitor and calculate our CO<sup>2</sup> and other emissions to air and find ways to reduce the release of emissions that cause global warming.

### The principal activities with a potentially negative environmental impact in the operation of airfields are:

- refuelling and handling of fuels;
- movement of ground transport on airfields;
- de-icing;
- aircraft handling and passenger servicing;
- maintenance and development on airfields;
- noise and pollution caused by aircraft.

The main environmental impacts occur in resource usage, incl. energy and water usage, emissions to air, noise levels, wastewater quality and waste generation.

### The principal focus areas with regard to the environment in 2013 were:

- We assessed the environmental impacts related to the Tallinn Airport expansion project.
- We prepared a report on carbon and joined the Airport Carbon Accreditation scheme.
- We upgraded the noise monitoring system.
- We cleaned up the summer house area located in the airport protective zone and the lands of Kanali tee 40.

## Resource use

*The airport's objective is to consume environmental resources, electricity and water economically and in a manner that saves the environment.*

### **We promote sustainable use of environmental resources through the following actions:**

- we have replaced diesel buses for transporting passengers with buses running on natural gas;
- we have replaced ground service vehicles running on diesel with electric vehicles;
- the airports of Kärdla and Tartu are heated by a geothermal heating system.
- a ventilation system incorporating a rotary heat exchanger has been installed in the passenger terminal whereby the outgoing air heats the incoming air and minimises loss.
- we have reduced de-icing water usage;
- a bicycle parking station was completed.



## Electricity consumption

The largest consumers of electricity of Tallinn Airport are the passenger terminal and the runway's navigation and approach lighting system.

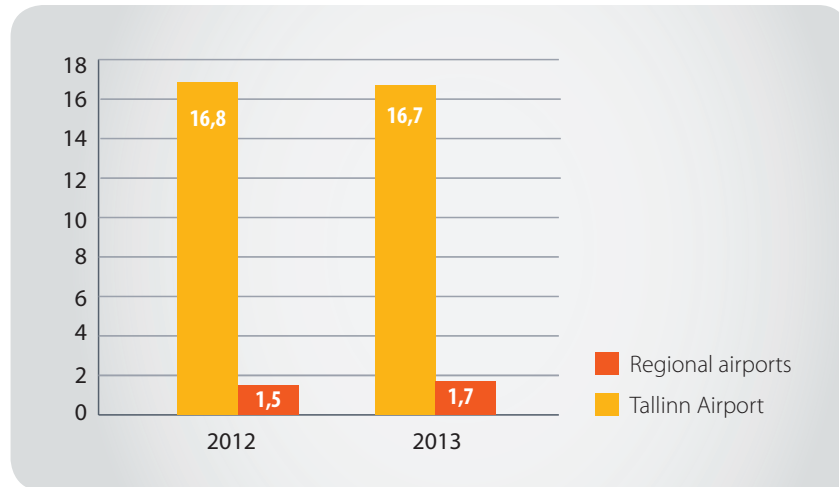


Figure 9. Electricity use of AS Tallinna Lennujaam 2012-2013, GWh

We conducted a feasibility study on the implementation of LED lighting in the approach lighting system. LED lights consume an average of 50% less energy compared to conventional lights and their life span is an average of 30 times longer. New lights would save the airport approximately 100,000 kWh of electricity consumption per year. Therefore, one of the goals of the Tallinn runway expansion project is to replace the current navigation and approach lighting system with LED-based technology.

Additionally, we want to reduce the annual electricity consumption of the passenger terminal of Tallinn Airport by 2%. At the same time, we would like to make consumption more environmentally friendly by increasing the annual consumption of renewable sources by 1%. By targeting energy consumption as a goal, we will lay the foundation to its systematic and deliberate management.

## Water consumption

The group's total water consumption in 2013 was 23.8 thousand m<sup>3</sup> (23.0 thousand m<sup>3</sup> in the previous year). Consumption slightly increased in regional airports from 16.5 thousand m<sup>3</sup> to 17.3 thousand m<sup>3</sup>. This was principally attributable to increased de-icing volumes due to a long and cold winter.

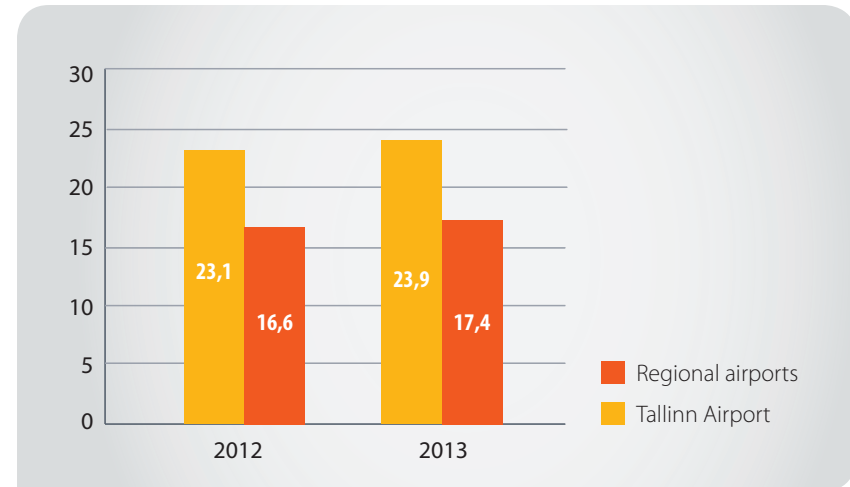


Figure 10. Water consumption of AS Tallinna Lennujaam 2012-2013, thousand m<sup>3</sup>

### We have implemented the following measures to reduce water consumption:

- We send aircraft that have ordered de-icing to pre-scraping. As a result, the following spraying will use up less de-icing fluid and the water consumption is lower.
- We will gradually replace mixer taps in the passenger terminal with touch-free taps.



## Use of de-icing supplies and waste water

De-icing is performed on the asphalt surfaces of airports in order to ensure safe take-off, landing and ground traffic of aircraft.

The use of granular de-icing products on asphalt surfaces in regional airports declined substantially in 2013 from 83 tons to 51 tons. In Tallinn, it increased from 149 tons to 170. Liquid de-icer was applied to asphalt surfaces only in Tallinn Airport. Its consumption declined by 45% compared to 2012, from 190 tons to 105. The consumption of aircraft de-icers also declined, the reason was a long autumn with warm weather. In Tallinn, it declined from 397 m<sup>3</sup> to 227 m<sup>3</sup>, in regional airports 6 m<sup>3</sup> of consumption declined to 1 m<sup>3</sup>.

For the purpose of maintaining waste water quality, Tallinn Airport in 2012 replaced its de-icing products with ones more environmentally friendly towards the soil. We are planning to construct areas for ploughing snow into in the eastern part of the airport. We are trying to further reduce the amount of chemicals released into the environment by doing this.

## Ambient air quality

The potential consequences of climate change are a joint concern for all of us. Even while the airports' contribution to climate protection is limited, it is our responsibility and duty to monitor the impacts of our activities and do everything we can to reduce negative environmental impacts.

The monitoring and reduction of greenhouse gases must be well thought out and systematic. For that purpose we joined the programme "Airport Carbon Accreditation". Airports Council International (ACI) awarded a carbon accreditation to Tallinn Airport. This serves as recognition of our efforts in the battle for reducing climate change and greenhouse gases. We were awarded the first or mapping level of accreditation. At that level, the airport's energy consumption and carbon emissions are extensively mapped and the airport's carbon footprint is identified.

### The emissions to air of AS Tallinna Lennujaam are derived from two principal point source of pollution:

- The Tallinn Airport boiler plant with a boiler using natural gas as its source of heat and heating all of the airport's buildings.
- The Tartu Airport natural gas boiler plant and refuelling station of the airport ground transport and aircraft fuel.

Aircraft begin to be considered a source of contamination at the height of 1,000 metres and 8 kilometres from the airport. Aircraft as moving sources of contamination are not deemed sources of ambient air contamination at Tallinn Airport because compared to the total length of flights the amount of pollutants generated by take-off and landing is small.

Tallinn Airport continuously monitors the carbon footprint of service processes. In 2011, Tallinn Airport generated 12.6 tons, a year later it was only 10.5 tons of carbon dioxide. At the time of this report, the 2013 data have not yet been received.

The principal emissions are carbon dioxide (CO<sup>2</sup>) and methane (CH<sup>4</sup>).

## Noise level

The noise level of Tallinn Airport is measured at two measuring stations located at a distance of 1 km from the end of the runway. The measured noise level mainly characterises the surrounding area of the airport. Both average night-time noise as well as daytime noise remain below the maximum permissible thresholds. The noise level depends on the number of flights and types of aircraft. Some of them cause more noise, e.g. aircraft types CRJ9, ATR725, E170 and A320. The average 24-hour noise level in 2013 grew from 54.4 decibels to 55.4.

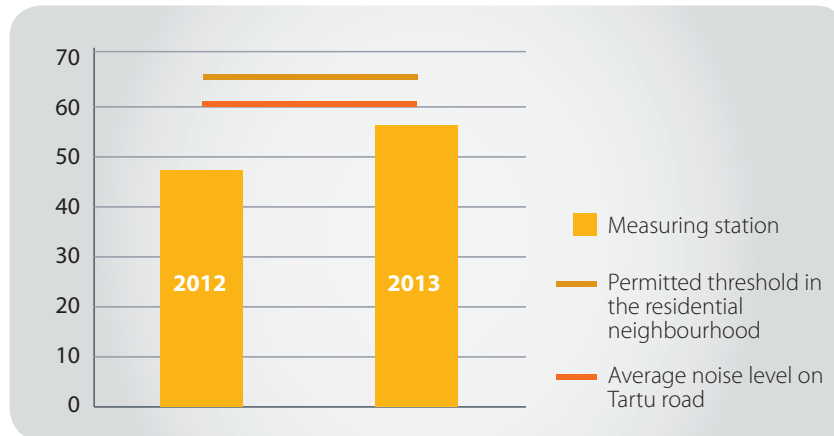


Figure 11. The average daytime noise level at Tallinn Airport measuring station and the maximum permitted threshold in the residential neighbourhood.

Estonian Air Navigation Services is monitoring the environmental aspects provided by Aeronautical Information Publication (AIP) in directing air traffic, such as noise reduction measures (runway preference of 08 for take-off and 26 for landing). They attempt to follow them if weather and traffic conditions permit.

The testing of engines and systems and maintenance run-ups of aircraft engines are avoided from 10 pm to 6 am and on Sundays.

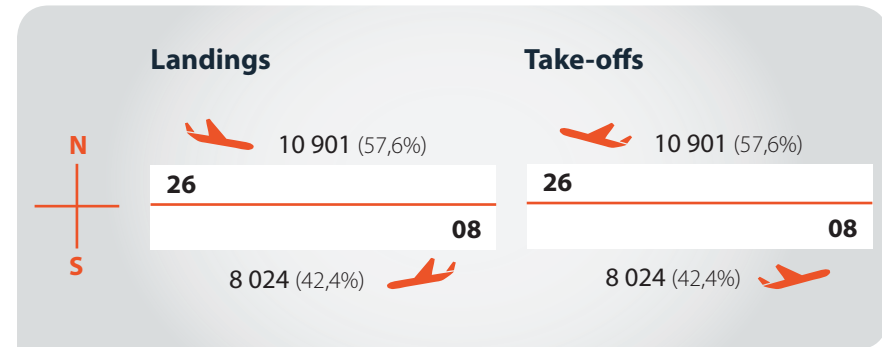


Figure 12. Numerical breakdown of 2013 landings and take-offs based on the used runway (08 or 26).

## Waste

Multiple types of waste are generated in the course of airport operation. In 2013, Tallinn Airport generated a total of 677 tons of waste. Of that 43% was construction waste, 33% was mixed urban waste and 22% was waste for recovery. There were 2% of hazardous and biodegradable waste.

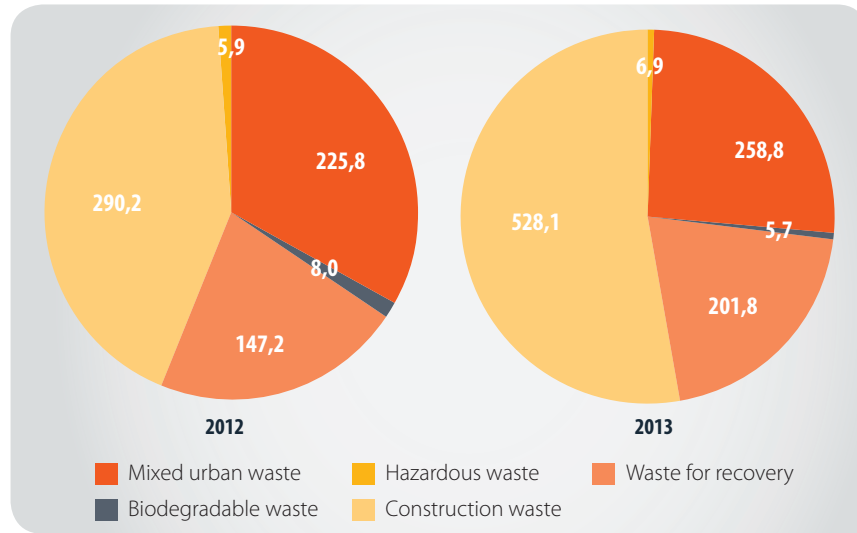


Figure 13. The breakdown of waste volumes by category in Tallinn Airport, 2012 and 2013.

Compared to 2012, the waste volumes of the airport have declined by approximately 300 tons. The volume of construction waste has declined. We transport the waste to Tallinn Waste Recovery Centre and ATI Grupp OÜ.

Due to the reduction of flights and passenger numbers the volumes of mixed urban waste have also declined by approximately 30 tons compared to last year.

The volumes of biowaste have increased. This has been caused on the one hand by new catering businesses of the passenger terminal but also more efficient collection of waste by type.

It is our objective to reduce the volume of mixed urban waste and to increase waste for recovery.



## A look into the future

Our development activities are based on a long-term view because large developments are long-term in nature and require substantial resources. Compared to 2013, the total revenue of AS Tallinna Lennujaam will increase by 6% in 2014 from EUR 30.3 million to EUR 32 million. Aviation revenue will only increase by 1% and non-aviation revenue will grow by 9%. Non-aviation revenue will grow substantially due to the launch of the operation of the new aircraft service hangar/office building in 2014. Concession revenue will increase due to the increase in the number of passengers and growth in the average spend.

Expenses will increase by a total of 8%. Due to inflation and growth in minimum wage, services and goods will become more expensive. The most substantial price increase will take place in the field of labour-intensive services where prices will increase by up to 40% with a year. The group expects to earn EUR 3.9 million in profit. Over the 2013-2020 period, the group is planning to invest a total of EUR 114.1 million. The most important investment is the reconstruction and expansion of the runway infrastructure.

### Group's key sales and financial forecasts

		2014	2013	
<b>Lennart Meri Tallinn Airport</b>				
Number of passengers		2 085 960	1 958 801	6%
Number of flight operations	qty	35 359	37 856	7%
Cargo volume	tons	20 941	20 941	0%
<b>Total regional airport</b>				
Number of passengers		44 633	44 288	1%
Number of flight operations	qty	10 832	11 330	4%
<b>Group</b>	000 €			
Revenue		31 949	30 260	6%
incl. aviation revenue		12 404	12 296	1%
incl. non-aviation revenue		19 545	17 964	9%
Other income		10 234	10 203	0%
Operating profit before depreciation*		11 841	12 216	-3%
Net profit		3 897	5 044	-23%
Investments		9 652	14 023	-31%
<b>Assets (year-end)</b>		<b>148 615</b>	<b>150 612</b>	<b>-1%</b>
<b>Assets excluding government grants* (year-end)</b>		<b>95 067</b>	<b>92 230</b>	<b>3%</b>
<b>Equity (year-end)</b>		<b>59 841</b>	<b>54 879</b>	<b>9%</b>
<b>Borrowing (year-end)</b>		<b>31 517</b>	<b>30 642</b>	<b>3%</b>

\* excluding government grants for property plant and equipment

## Tallinn Airport air traffic area development project

AS Tallinna Lennujaam is preparing for another major project for upgrading airport infrastructure. The goal is to improve the efficiency of the airport's environmentally sound and effective operation and improve aviation safety. By mitigating the unfavourable environmental impact of the infrastructure, we are helping to improve the condition of the environment.

To achieve the goal, we are planning to construct infrastructure systems and structures for the protection of the environment in the eastern and southern direction of the air traffic area, which in addition to the preservation of the environment will substantially improve the safety of the airport work.



### The development project includes the following:

- A new aircraft de-icing area in compliance with environmental regulations will be constructed in the eastern part of the airport.
- Designated snow melting areas and snow melt water drainage systems in compliance with environmental regulations will be constructed.
- An engine testing area in compliance with noise and environmental regulations will be constructed.
- An environmentally sound rain water and de-icing fluid drainage system will be constructed in the eastern and southern parts of the airport.
- The navigation lighting system of the runway and taxiway are reconstructed for the implementation of a higher category navigation system (CAT II). Energy efficient and environmentally sound LED lighting systems will be implemented.
- The runway will be moved and the taxiway will be extended in accordance with the moved runway. This enables take-offs and landings to be directed further from the edge of the Ülemiste lake and to increase the height of descending aircraft above the city of Tallinn and Ülemiste lake.
- The existing taxiway will be extended, which will ensure aircraft access to the new de-icing area.
- In some parts, new access and maintenance roads will be built and the perimeter fence and perimeter security systems will be extended around the new structures.
- A new taxiway will be built in the southern part and additional aircraft areas will be built.
- An area for runway maintenance equipment will be built in the eastern part of the airport.
- In 2013, we were devoted to design work that will continue in 2014. The air traffic area development project of Tallinn Airport will be implemented in multiple phases. Construction is planned for 2015 - 2018. During construction, Tallinn Airport will ensure safe operation as usual.
- Tallinn Airport intends to apply for funding from the European Cohesion Fund for implementing the project.

## REPORT OF THE Corporate governance CODE

*AS Tallinna Lennujaam group operates and develops airports owned by the company, provides ground service to aircraft, passengers and goods and provides aero-navigation services. The company manages the Lennart Meri Tallinn Airport and the airports of Tartu, Pärnu, Kuressaare, Kärdla, Kihnu and Ruhnu. The operation of airports is an activity requiring certification. The certificate is issued and compliance is supervised by the Civil Aviation Administration.*

Shares of AS Tallinna Lennujaam are owned by the Republic of Estonia. The company reports to the Ministry of Economic Affairs and Communications. The Tallinna Lennujaam group comprises the parent AS Tallinna Lennujaam and subsidiary AS Tallinn Airport GH.

The business activities of AS Tallinna Lennujaam are guided by the company's articles of association and national legislation.

### Management structure

The governing bodies of AS Tallinna Lennujaam are the general meeting of shareholders, the supervisory board and the management board.

### General meeting

The general meeting of shareholders is the highest governing body of AS Tallinna Lennujaam. General meetings are regular and extraordinary.

The regular general meeting of shareholders is held once annually within the first four months after the end of the financial year.

If necessary, the management board will call an extraordinary general meeting.

### Supervisory Board

The supervisory board supervises the activities of the management and participates in making important decisions. The supervisory board acts independently in the best interests of the group and shareholder.

The supervisory board determines the group's strategy, general plan of action, risk management policies and the annual budget.

The chairman of the management board will notify the chairman of the supervisory board immediately of any circumstances that may impact the development and management of the group. The chairman of the supervisory board will notify the members of the supervisory board and call an extraordinary meeting of the supervisory board if necessary.

Meetings of the supervisory board are held as needed but not less than once per quarter. A meeting has quorum if more than half of the members of the supervisory board attend. Each member has one vote. A decision will pass if more than half of the members voting at the meeting were in favour.

### Conflicts of interests

Members of the supervisory board will avoid any conflict of interests. Members of the supervisory board will put the group's interests ahead of their own personal interests or those of a third party in their activities as members of the supervisory board. Members of the supervisory board will not use business proposals directed to the group in their personal interests.

Members of the supervisory board will declare data on related parties to the auditor when the annual report is prepared.

The corporate governance report will contain any conflicts of interest occurring during the financial year together with resolutions.

### Membership and compensation

The supervisory board has six members in accordance with the articles of association. The Minister of Economic Affairs and Communications will appoint three members proposed by the Minister of Finance and three at his or her discretion. Members are appointed for a five-year term. Their compensation is set by the general meeting.

## Management Board

The management board represents and manages the group's day-to-day operations in compliance with laws and the articles of association. The management board must act in the most economically purposeful manner.

The management board makes decisions taking into consideration the best interests of the company and the shareholder and ensures the company's sustainable development in accordance with set objectives and strategy. The management board ensures the functioning of risk management and internal control system.

Management board meetings are generally held weekly.

### Conflicts of interests

Members of the management board will avoid any conflict of interests. Members of the management board will not make decisions based on personal interest.

Members of the management board will report a conflict of interest to the supervisory board and to other management board members before entering into an employment contract and upon its subsequent occurrence.

Members of the management board will strictly adhere to the non-competition provision of the Commercial Code and will immediately notify members of the supervisory board of the intent to directly or indirectly take part in a business that is in the same or related field as the group.

Members of the management board may only have other duties besides the fulfilment of their duties as members of the management board upon the supervisory board's approval.

Members of the management board will not accept for personal gain money or other benefits from third parties in relation to their work. Members of the management board will not offer unlawful or undue benefits to third parties on behalf of the group.

### Composition and compensation

Based on the articles of association AS Tallinna Lennujaam has a four-member management board who are appointed by the supervisory board for five years. The supervisory board may recall a member of the management board.

The supervisory board will appoint the chairman of the management board who organises the management board's activities. AS Tallinna Lennujaam may be represented in any legal acts by its chairman of the management board or by two members of the management board.

Management board compensation policies are regulated by the State Assets Act. On that basis the supervisory board will decide the compensation. The members of the management board are paid a fee for fulfilling their official duties.

### Audit committee

The audit committee is an advisory body in the fields of accounting, audit, risk management, internal control audit, supervision and budgeting.

The audit committee reports to the supervisory board that appoints and recalls members of the committee. The committee comprises three members who have terms of five years. The audit committee members are paid compensation on the basis of a decision by the state as the sole shareholder.

Meetings of the audit committee are held in accordance with the schedule but not less than once per quarter.

The auditor must provide an overview to the audit committee of the services provided and the most important observations made and make proposals regarding the risk management and control systems.

The subsidiary does not have an audit committee. The group's internal auditors also audit the subsidiary.

## Subsidiary

The authorisations and responsibility of the subsidiary's supervisory board are based on the company's articles of association. Members of the supervisory board are appointed by the management board of AS Tallinna Lennujaam. Meetings of the subsidiary's supervisory board are held as needed but not less than once per quarter. Meetings are called based on internal rules of the group, articles of association of the subsidiary and legislation.

The management board is appointed and compensation of management board members is set by the supervisory board of the subsidiary.

### Conflicts of interests

Members of the management board will avoid any conflict of interests. Members of the management board will not make decisions based on personal interest.

Members of the management board will report a conflict of interest to the supervisory board and to other management board members before entering into an employment contract and upon its subsequent occurrence.

Members of the management board will strictly adhere to the non-competition provision of the Commercial Code and will immediately notify members of the supervisory board of the intent to directly or indirectly take part in a business that is in the same or related field as the group.

Members of the management board may only have other duties besides the fulfilment of their duties as members of the management board upon the supervisory board's approval.

Members of the management board will not accept for personal gain money or other benefits from third parties in relation to their work. Members of the management board will not offer unlawful or undue benefits to third parties on behalf of the group.

## Objectives

The group's objectives are results-oriented. This includes all processes, management levels and airports.

Objectives are set for group companies for at least three years. The company's supervisory board confirms them and publishes the major objectives on the website.

The objectives of subdivisions are approved by the management board with the budget. Based on objectives, departments' annual action plans are prepared, incl. a procurement plan.

Objectives and the report on their implementation are approved by the supervisory board once per year and they are disclosed as part of the management report.

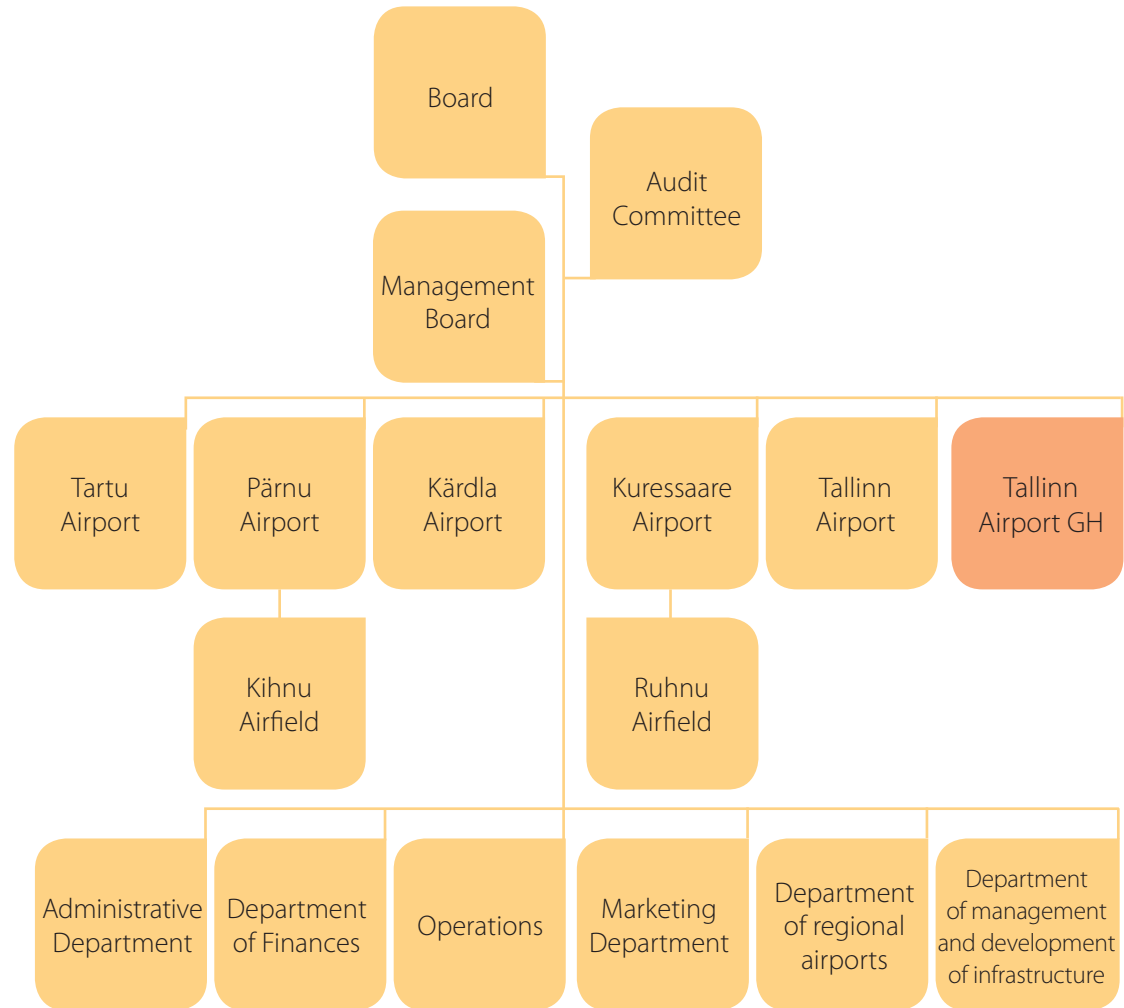


## Organisational structure

*In the interests of more effective operation, the support functions of the organisation are centralised.*

**The group and AS Tallinna Lennujaam organises in a centralised manner:**

- Administration and document management
- Financial management
- Information technology systems and developments management
- Security management
- Environmental management
- Quality management
- Safety management
- Personnel management
- Risk management and internal audit
- Marketing and sales management
- Infrastructure developments management
- Legal services



## Reporting

The management board prepares the group's annual financial statements in compliance with internationally recognised financial reporting policies as adopted by the European Union.

The financial statements are reviewed by the auditor and the supervisory board. A separate chapter of the management report describes the group's management practices and their adherence to corporate governance. In case of differences, the management board will add explanations.

The annual report discloses transactions with related parties. The compensation paid to members of the management and supervisory boards is presented in the financial statements as a total amount, not divided into components. Compensation includes social tax.

The management board submits to the supervisory board monthly financial and operational progress reports.

### Information disclosure

The composition of the management board and supervisory board and details about the auditor are disclosed on the website. The company's annual report is published by 1 May.

## Supervision

Internal auditors supervise the group's activities related to quality, the environment and risks, incl. safety and security and verify them.

The risk management system analyses, assesses and manages the entire company's, incl. regional airports, aviation safety, operational, project, work environment and financial risks. The basis of operations is an integrated risk management policy. Each company and airport of the group must ensure that established objectives can be achieved by managing risks. The risk management report is prepared annually. The target group is the management board, internal auditor and audit committee. The internal auditor's activities are planned based on the risk management report.

The internal audit function is based on international standards based on which internal audit is organised and internal procedures.

The functioning of the internal audit of the main processes is the responsibility of the internal auditor who has a duty to report to the audit committee and supervisory board.

Management system audits are conducted according to the annual schedule. Reviews by management are conducted periodically. The quality manager is responsible for the audit and reports to the management board.

The management system includes environmental, safety and security functions. These audits are organised and conducted by specialists of the relevant fields who report to the management board.

In addition to internal audits, airlines, the Civil Aviation Administration and international organisations continuously conduct quality and risk management audits and on-the-spot inspections.

### Risk management

The management board is responsible for the internal control system of AS Tallinna Lennujaam. In order to improve the internal control system, a multi-step system has been created whereby the first level risks are mitigated by the quality management system, long-term strategy, management by objectives, timely management procedures, chain of command and reporting measures.

The second level line of defence is risk management. It supports the achievement of business targets and is ready to act if risks whose impact cannot be reduced materialise.

For that reason we identify, assess, analyse and manage strategic, financial and operational risks internally and externally that may disrupt the achievement of objectives. By identifying and analysing them, we develop the personnel's risk awareness. As a result both employees and managers improve their understanding of risks and are able to manage them more effectively.

Full risk analysis takes place once per year in parallel with the company's planning cycle. Decisions of the management board and structural unit managers regarding risk management are reflected in the next year's plans and budget.

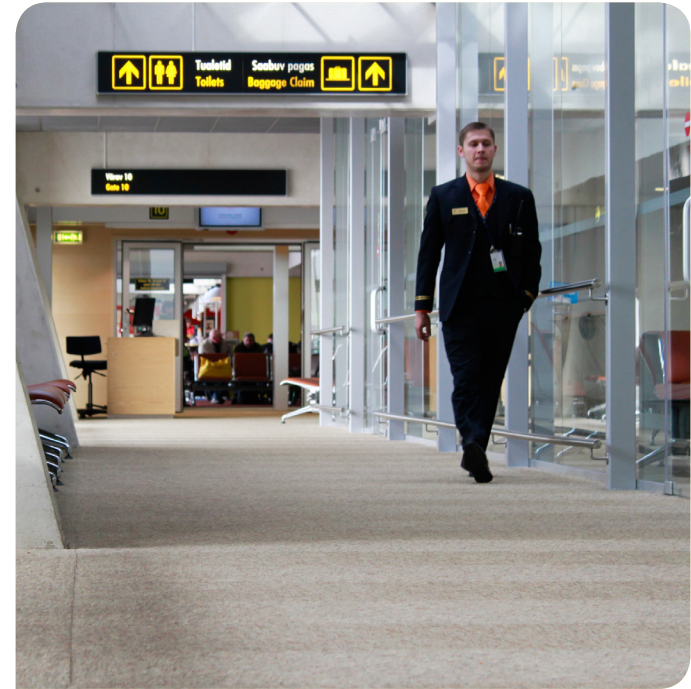
## Related parties

The related parties of the group are the members of the Management and Supervisory Board of the parent and entities over which these persons have significant influence.

Organisations and companies where the state has control or significant influence are deemed related parties. The annual report discloses transactions with aviation companies where the state has significant influence.

Our treatment of related parties is guided by the principles of the Anti-corruption Act.

It is our objective to avoid conflicts of interest, prevent fraud, avoid monetary losses and damage to reputation and avoid deterioration in customer relationships, as well as theft of business secrets and property.



The background features several overlapping, organic shapes in shades of yellow and orange. The shapes are layered, with some appearing more prominent than others, creating a sense of depth and movement. The colors range from a bright, sunny yellow to a deep, warm orange.

# **Consolidated Financial Statements**

## CONSOLIDATED FINANCIAL STATEMENTS

### CONTACT DATA

<b>Business name:</b>	AS Tallinna Lennujaam
<b>Commercial registry number:</b>	10349560
<b>Legal address:</b>	Lennujaama tee 12 11101 Tallinn Republic of Estonia
<b>Phone:</b>	+372 6 058 701
<b>Fax:</b>	+372 6 058 333
<b>E-mail:</b>	administration@tll.aero www.tallinn-airport.ee
<b>Auditor:</b>	AS PricewaterhouseCoopers
<b>Beginning of financial year:</b>	01.01.2013
<b>End of financial year:</b>	31.12.2013

### GENERAL INFORMATION

The Group operates Lennart Meri Tallinn Airport, Kärđla Airport, Kuresaare Airport, Tartu Airport, Pärnu Airport, Ruhnu Airfield and Kihnu Airfield in the Republic of Estonia.

The Group's main activity is operation and development of airports, and provision of ground handling services for aircraft and passengers. The Group employed 573 people on average in 2013.

The owner of the shares of AS Tallinna Lennujaam is the Republic of Estonia and the Company belongs to the administrative field of the Ministry of Economic Affairs and Communications of the Republic of Estonia.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR thousand	Note	31.12.2013	31.12.2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	Note 5	117,862	122,913
Intangible assets	Note 6	271	289
Investment property	Note 7	19,325	10,056
<b>Total non-current assets</b>		<b>137,458</b>	<b>133,259</b>
<b>Current assets</b>			
Inventories	Note 9	196	133
Receivables and prepayments	Note 10	3,303	3,581
Cash	Note 12	9,654	9,645
<b>Total current assets</b>		<b>13,153</b>	<b>13,359</b>
<b>TOTAL ASSETS</b>		<b>150,612</b>	<b>146,618</b>
<b>EQUITY</b>			
	Note 20		
Share capital		24,361	24,361
Statutory reserve capital		2,436	2,436
Retained earnings		28,082	23,038
<b>TOTAL EQUITY</b>		<b>54,879</b>	<b>49,834</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	Note 13	25,917	22,972
Government grants	Note 15	58,381	61,186
Derivative instruments	Note 16	880	1,365
<b>Total non-current liabilities</b>		<b>85,178</b>	<b>85,523</b>
<b>Current liabilities</b>			
Borrowings	Note 13	4,726	4,735
Payables and prepayments	Note 17	5,830	6,525
<b>Total current liabilities</b>		<b>10,555</b>	<b>11,260</b>
<b>TOTAL LIABILITIES</b>		<b>95,733</b>	<b>96,783</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>150,612</b>	<b>146,618</b>

The notes to the financial statements presented on pages 58-90 form an integral part of the consolidated financial statements

## Consolidated statement of comprehensive income

in EUR thousand	Note	2013	2012
Revenue	Note 21	30,288	29,298
Other income	Note 22	10,203	10,107
Goods, materials and services	Note 23	-11,445	-11,486
Other operating expenses	Note 24	-974	-1,120
Staff costs	Note 25	-11,901	-12,051
Depreciation, amortisation and impairment	Note 5, Note 6, Note 7	-10,798	-9,939
Other expenses		-71	-97
OPERATING PROFIT		5,301	4,713
Finance income and costs	Note 26	-257	-1,007
<b>Net profit for the year</b>		<b>5,044</b>	<b>3,706</b>
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,044</b>	<b>3,706</b>

The notes to the financial statements presented on pages 58-90 form an integral part of the consolidated financial statements

## Consolidated statement of cash flows

in EUR thousand	Note	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Collections from customers		33,514	34,223
Payments to suppliers and employees		-28,107	-27,980
Interest received	Note 26	6	12
Interest paid		-757	-821
Government grants received from state budget	Note 15	6,148	6,148
Other grants related to income received	Note 15	60	79
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>10,863</b>	<b>11,662</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Paid for acquisition of intangible assets, property, plant and equipment and investment property	Notes 5,6,7	-14,023	-14,678
Proceeds from sale of property, plant and equipment	Note 5	26	14
Government grants received for non-current assets		199	35
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>-13,799</b>	<b>-14,629</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayments of borrowings	Note 13	-4,556	-5,267
Borrowings received and bonds issued	Note 13	7,500	10,000
Repayments of finance lease liabilities	Note 13	0	-14
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>2,944</b>	<b>4,719</b>
<b>NET CASH FLOWS</b>		<b>8</b>	<b>1,752</b>
Cash and cash equivalents at beginning of the period		9,645	7,894
Cash and cash equivalents at end of the period		9,654	9,645
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>Note 12</b>	<b>8</b>	<b>1,752</b>

The notes to the financial statements presented on pages 58-90 form an integral part of the consolidated financial statements



## Consolidated statement of changes in equity

in EUR thousand	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Balance as at 31.12.2011</b>	<b>24,360</b>	<b>2,300</b>	<b>19,468</b>	<b>46,128</b>
Increase of statutory reserve capital	0	136	-136	0
<b>Comprehensive income for 2012</b>	<b>0</b>	<b>0</b>	<b>3,706</b>	<b>3,706</b>
<b>Balance as at 31.12.2012</b>	<b>24,360</b>	<b>2,436</b>	<b>23,038</b>	<b>49,834</b>
<b>Comprehensive income for 2013</b>	<b>0</b>	<b>0</b>	<b>5,044</b>	<b>5,044</b>
<b>Balance as at 31.12.2013</b>	<b>24,360</b>	<b>2,436</b>	<b>28,082</b>	<b>54,879</b>

More detailed information about share capital is disclosed in Note 20.

The notes to the financial statements presented on pages 58-90 form an integral part of the consolidated financial statements

## Notes to the consolidated financial statements

### NOTE 1. General information

The parent company AS Tallinna Lennujaam is a fully state-owned company registered at 30.12.1997 in the Republic of Estonia.

The consolidated financial statements of AS Tallinna Lennujaam Group for the year ended 31 December 2013 comprise AS Tallinna Lennujaam (parent company) and its fully owned subsidiary AS Tallinn Airport GH, engaged in provision of ground services for aircraft and passengers and the shares of which are registered in Estonia.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report including the consolidated financial statements prepared by the Management Board and approved by the Supervisory Board shall be authorised by the General Meeting of Shareholders for issue.

The Management Board authorised the Group's consolidated financial statements for issue at 18 March 2014.

### NOTE 2. Overview of key accounting and reporting policies

An overview of the key accounting and reporting policies applied to the preparation of the consolidated financial statements is presented below. These accounting and reporting policies have been applied consistently to all reporting periods, other than the cases for which information has been disclosed separately.

#### (A) BASIS OF PREPARATION

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

The financial information presented in the consolidated financial statements is mostly based on historical cost, other than financial assets and liabilities (incl. derivative instruments) carried at fair value through profit or loss. Certain accounting estimates have been used for preparation of the consolidated financial statements, as well as management judgement has been used to apply several accounting and reporting principles. The areas in which the accounting estimates and assumptions have had the

greatest effect on the information presented in the financial statements are disclosed in the consolidated financial statement. The consolidated financial statements of the Group are presented in thousands of euros, if not indicated otherwise.

#### (B) Changes in accounting and disclosure policies

Adoption of new or revised standards and interpretations

New or revised standards and interpretations which became effective in the financial year beginning at 1 January 2013.

IFRS 13, Fair Value Measurement, effective for annual periods beginning on or after 1 January 2013; the standard aims to improve consistency and reduce complexity, therefore it provides a revised definition of fair value, and sources of fair value measurement and disclosure requirements, which can be used across IFRSs. The standard does not have a material impact on the measurement of fair value of group financial statements but the additional information related to the change is disclosed in the financial statements.

**The other new or revised standards or interpretations effective from the annual periods beginning on or after 1 January 2013 are not expected to have a material impact on the Group.**

The other new or revised standards or interpretations that are not yet effective are not expected to have a material impact on the Group.

## **(C) Preparation of consolidated financial statements**

### **Principles of consolidation**

The consolidated financial statements include the financial information of the parent AS Tallinna Lennujaam and its subsidiary AS Tallinn Airport GH consolidated line-by-line. The receivables, liabilities, income, expenses, and unrealised gains and loss on the transactions between the parent company and its subsidiary have been eliminated. If necessary, the accounting policies of the subsidiary have been changed to bring them into compliance with the Group's accounting policies.

### **Subsidiaries**

A subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent has power to govern the financial and operating policies of the investee and as a rule, it owns more than 50% of the voting power of the subsidiary. The existence and probable effect of potential voting rights currently in use or convertible is taken into account for the purpose of evaluation of the existence of control. The subsidiary is included in the consolidated financial statements from the time control arises until it ceases.

### **Parent company's separate financial statements**

Pursuant to the Accounting Act of Estonia, the separate primary financial statements of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. The primary financial statements of the parent have been prepared using the same accounting policies as those that have also been used for the preparation of the consolidated financial statements, except for accounting policies for recognition of subsidiaries which have been changed in the parent's separate primary financial statements in accordance with the

requirements of IAS 27 *Consolidated and Separate Financial Statements* and investments in the shares of subsidiaries have been recognised at cost less any impairment losses (see Note 29).

## **(D) Foreign currency transactions and financial assets and liabilities denominated in a foreign currency**

### **Functional and presentation currency**

For accounting purposes, group entities use the currency of their primary economic environment which is their functional currency. The consolidated financial statements have been prepared in euros (EUR) which is the functional currency of the parent and the presentation currency of the Group.

### **Foreign currency transactions and assets and liabilities denominated in a foreign currency**

Foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. The exchange rate differences which arise in case of differences between the exchange rates at the cash transfer date and the transaction date are taken to profit or loss. Monetary assets and liabilities denominated in foreign currencies are translated on the basis of the official exchange rate of the European Central Bank prevailing at the balance sheet date, or when the European Central Bank does not provide the official exchange rate for this currency, using the official euro exchange rate of the central bank of the country that issues the currency. Gains and losses on translation of borrowings, and cash and cash equivalents are included within finance income and costs in the statement of comprehensive income; other changes arising from exchange rates are included within other income or other expenses.

## **(E) Classification of assets and liabilities as current and non-current**

Assets and liabilities are classified as current and non-current in the balance sheet. The assets expected to be realised in the next financial year or during the Group's normal business cycle are considered to be current.

Liabilities are classified as short-term when they fall due within 12 months after the balance sheet date or the Group does not have an unconditional right to defer payment for the liability for later than 12 months after the balance sheet date.

Borrowings that are due within 12 months after the balance sheet date, but that are refinanced as long-term after the balance sheet date but before the annual report is authorised for issue, are also recognised as short-term. Also, borrowings are classified as short-term if at the balance sheet date, the lender had the contractual right to demand immediate payment of the borrowing due to the breach of conditions set forth in the contract.

The remaining assets and liabilities are classified as non-current.

### **(F)property, plant and equipment**

Property, plant and equipment are tangible assets with a useful life of over one year when it is probable that future benefits attributable to them will flow to the Group. Assets with a useful life of over 1 year and a cost of less than EUR 2,000 are recorded as low-value items and are fully expensed when the asset is taken into use. Low-value items that have been expensed are accounted for off-balance sheet.

#### **Cost**

Items of property, plant and equipment are carried in the balance sheet at the carrying amount, calculated by subtracting the accumulated depreciation and impairment losses from its cost. In addition to the purchase price, the cost of the asset also includes expenditures on transportation and installation, as well as other expenditures directly attributable to their acquisition and use.

When an item of property, plant and equipment consists of components with significantly different useful lives, these components are recognised as separate items of property, plant and equipment, and separate depreciation rates are attributed to them depending on their useful lives.

When an item of property, plant and equipment takes a longer period of time to be completed and it is financed with a loan or another debt instrument, the borrowing costs (interest) attributable to it are capitalised in the cost of the asset under construction. Capitalisation of borrowing costs commences at the time when borrowing costs and expenditures attributable to the asset have been incurred and the construction of the asset has been launched. Capitalisation of borrowing costs is terminated when the asset is ready or its use has been suspended for a longer period of time.

#### **Depreciation**

Depreciation is calculated on cost, using the straight-line method over the estimated useful life of the asset. Land as an exception is not subject to depreciation.

The depreciation methods, norms and residual values of items of property, plant and equipment are reviewed at least at the end of each financial year and when new estimates differ from the previous ones, the changes are recognised as changes in accounting estimates, i.e. prospectively. The estimated useful lives are reviewed during the annual stocktaking, in case of recognition of subsequent expenditures and significant changes in development plans. When the asset's estimated useful life differs considerably from the previous estimate, it is recognised as a change in the accounting estimate, changing the remaining useful life of the asset, as a result of which the depreciation calculated for the asset changes in subsequent periods.

#### **Assessment of useful lives of items of property, plant and equipment**

The useful lives of items of property, plant and equipment are determined on the basis of management estimates in respect of the period of the actual use of the asset. Prior experience has demonstrated that the actual time of use of the assets has been somewhat longer than the estimated useful lives of the assets.

## The Group uses the following estimated useful lives for items of property, plant and equipment:

### Buildings and facilities:

Aprons, runways	50 years
Buildings	5 - 50 years
Other facilities (sewerage and other utility lines)	10 - 25 years
Small facilities (hangars)	2 - 7 years

### Machinery and equipment:

Miscellaneous systems	3 - 20 years
Runway maintenance machinery and equipment	6 - 10 years
Other machinery	2 - 15 years

### Other fixtures, tools, fittings:

Furniture and fixtures at terminals	2 - 10 years
Computers and network equipment	3 - 5 years
Other assets	3 - 10 years

### Subsequent expenditures

Subsequent expenditures incurred for items of property, plant and equipment are added to the cost of the asset or are accounted for as separate assets only when it is probable that the future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. When a component of an item of property, plant and equipment is replaced, the cost of the new component is added to the cost of the asset and the replaced component or a proportionate share thereof is taken off the balance sheet. Ongoing maintenance and repair costs are charged to expenses in the statement of comprehensive income.

### Derecognition

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains and losses on derecognition of items of property, plant and

equipment are recognised in the statement of comprehensive income line *Other income* or *Other expenses* of the period in which the asset was derecognised.

### Impairment of assets

Assets are written down to their recoverable amount when their recoverable amount is lower than the carrying amount – see paragraph *Impairment of non-financial assets*.

### (G) Intangible assets

An intangible asset is initially recognised at cost, comprising its purchase price and any directly attributable expenditure. An intangible asset is carried in the statement of financial position at cost less any accumulated amortisation and any impairment losses. Intangible assets include acquired software which has a limited useful life. The Group did not have any intangible assets with indefinite useful lives in the reporting period and in the comparative period.

### Software

The costs related to the ongoing maintenance of software are charged to expenses on an accrual basis. Software development costs which are directly related to the development of such software items that can be distinguished from one another and are controlled by the Group are recognised as intangible assets when the following conditions are met:

- making software available for use is technically possible;
- the Management Board intends to complete the software and use it;
- it is possible to use the software;
- it is possible to demonstrate how future economic benefits attributable to the software will flow to the Group;
- there are sufficient technical, financial and other means to complete the development of the software and to start using it;
- the development costs related to the software can be measured reliably.

Capitalised software expenditure includes staff costs and other expenses directly attributable to development. Development costs which do not meet the conditions above are expensed. The expenditures which had initially been expensed are not capitalised as intangible assets in subsequent periods. Software costs are amortised under the straight-line method over the estimated useful life which is between 3 and 5 years.

### **(H) investment property**

Investment property includes properties that the Group holds for the purpose of earning rental income or for the purpose of capital appreciation, and that are not used at the Group's own operating activities. The Group uses the cost method, i.e. the same accounting policies are used for recognition of investment properties as for recognition of items of property, plant and equipment.

The useful life of investment property used at the Group (building) is 20-50 years.

### **(I) Impairment of non-financial assets**

The Group's management reviews once a year whether there is any indication of possible impairment of assets. At a minimum, the following circumstances are taken into consideration when assessing possible indication of impairment:

External indicators of possible impairment:

- Market value of similar assets has fallen;
- Overall economic environment and market situation have deteriorated as a result of which it is possible that the income generated by the assets will fall;
- Market interest rates have increased as a result of which the return on assets may fall below the interest rate;
- Carrying amount of assets is higher than the entity's market capitalisation.

Internal indicators of possible impairment:

- Physical condition of assets has sharply deteriorated;
- Revenue generated by assets is lower than planned;
- Results in certain operating areas are worse than expected;
- Activities of a certain cash-generating unit are planned to be terminated.

Whenever there is any indication of impairment, an impairment test is performed for an asset or a group of assets which are likely to be impaired. The recoverable amount is determined. The recoverable amount of the asset is the higher of the two indicators:

- fair value of the asset less costs to sell;
- asset's value in use.

Assets are written down to the recoverable amount whenever the recoverable amount of the assets is lower than their carrying amount.

When it is not possible to determine the fair value of the asset less costs to sell, the asset's value in use is considered as its recoverable amount. The asset's value in use is determined as the present value of future cash flows generated by the asset (or a group of assets).

When it is not possible to determine the recoverable amount of a certain asset, it is determined for a group of assets (cash-generating unit) this asset belongs to. The smallest separately identifiable group of assets is selected, the cash flows of which can be forecast to a great extent, independent of the cash flows generated by the remaining assets.

An impairment loss is immediately charged to expenses in the statement of comprehensive income. For non-current assets acquired with government grants, their impairment is assessed on a net basis, which is the difference between the total investment and the part acquired with the government grant.

The assets that have been written down are evaluated at each following balance sheet date to determine whether their recoverable amount has increased. Depending on the test results, the impairment loss may be reversed.

## (J) Financial assets

### Classification

Financial assets are classified on the basis of the objective for which they were acquired. The Management Board determines the category of a financial asset at its initial recognition.

### The financial assets of the Group have been classified in the following categories:

- Financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss are financial assets acquired for the purpose of trading which are intended to be sold in the near future. Derivative instruments are also recognised at fair value through profit or loss except for those derivative instruments which have been designed and are effective as hedging instruments. All assets in this category are included within current assets in the statement of financial position, except for those derivative instruments whose due date is later than 12 months.
- Loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Loans and receivables are included within current assets except for those loans and receivables whose due date is later than 12 months as at the end of the reporting period. In this case, they are included within non-current assets. The following financial assets are included within the category of loans and receivables: Cash and cash equivalents, Deposits held at banks with maturities greater than 3 months, Trade and other receivables.

### Recognition and measurement

Purchases and sales of financial assets which are concluded at regular market conditions are recognised or derecognised using settlement date accounting. Financial assets not recognised at fair value through profit or loss are initially recognised at fair value, including transaction costs. Financial assets recognised at fair value through profit or loss are initially recognised at fair value and the transaction costs attributable to the acquisition are charged to expenses in the statement of comprehensive income. The Group derecognises financial assets when the contractual rights to the cash flows attributable to the financial asset expire or are transferred, and most of the risk and rewards relating to the financial asset are also transferred. Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Loans and receivables are subsequently measured at amortised cost, using the effective interest rate method.

Gains and losses on revaluation of financial assets recognised at fair value through profit or loss are carried in the statement of comprehensive income line *Finance income and costs* in the period in which they are incurred. Interest income on available-for-sale financial assets, loans and receivables are carried in the statement of comprehensive income line *Finance income*. In the reporting period and the previous period, the Group has not earned any interest or dividend income on financial assets recognised at fair value through profit or loss.

Gains and losses on fair value adjustments of available-for-sale financial assets are included within other comprehensive income.

## (K) Impairment of Financial assets

Financial assets recognised at amortised cost. At the end of each reporting period it is assessed whether there is any objective evidence of impairment of a financial asset or a group of financial assets. A financial asset and a group of financial assets is impaired and impairment losses are incurred then and only then when one or several events (loss events) have occurred after the initial recognition of the asset and this loss event (or events) will impact the estimated future cash flows attributable to the financial asset or a group of financial assets which can be determined reliably.

The circumstances indicating an impairment loss may include bankruptcy or major financial difficulties of the debtor or a group of debtors, their inability to make payments or insolvency with regard to interest or principal payments, a probability of bankruptcy or financial reorganisation, and a considerable decrease in future cash flows which can be assumed on the basis of available information, such as changes in payables or economic conditions related to non-fulfilment of obligations.

For the category of loans and receivables, the impairment loss is the difference between the carrying amount of assets and the present value of future estimated cash flows (other than future credit losses not yet incurred), discounted at the initial effective interest rate of the financial asset. The carrying amount of the financial asset is reduced and the resulting loss is charged to the statement of comprehensive income. If a loan or an available-for-sale financial asset has a variable interest rate, the effective interest rate as specified in the agreement is used to determine the impairment loss.

For practical considerations, the Group may also use fair value to determine an impairment loss, calculated on the basis of observable market prices. If in a subsequent period, the amount of the impairment loss decreases and this decrease can be related to an event which occurred after the impairment loss was recognised (e.g. improvement in the debtor's credit rating), the impairment loss is reversed in the statement of comprehensive income.

## (L) Derivative instruments

Derivative instruments are initially recognised at their fair value at the date of concluding a derivative contract. After initial recognition, they are revalued to their fair value at each balance sheet date. The method for recognising a gain or loss attributable to a change in value depends on whether the derivative is designated as a hedging instrument and if it is, on the nature of the hedged item.

Of derivative instruments, the Group uses interest rate swap contracts to cover the risks related to interest rates. Such derivative instruments are initially recognised at their fair value at the date of concluding the contract and subsequently revalued in accordance with the changes in the fair value of the instrument. When the fair value is positive, the derivative is recognised as an asset, when it is negative, as a liability.

Gains and losses from changes in the fair value of a derivative instrument are recognised in the statement of comprehensive income of the reporting period, except for such derivative instruments which qualify for hedge accounting rules applied to instruments acquired for the purpose of hedging. The Group did not have any such instruments in the reporting and comparative period. The fair value of an interest rate swap is determined on the basis of future cash flows based on 6-month Euribor.

## (M) Inventories

Inventories are recorded in the balance sheet at their cost, which consists of the purchase costs, production costs, transportation and other costs incurred in bringing the inventories to their present location and condition.

Purchase costs include the purchase price, customs duties and other non-refundable taxes and direct transportation costs related to the purchase, less discounts and subsidies.

Inventories are expensed using the FIFO (first-in, first-out) method. When using the FIFO method, the closing balance of inventories is recognised at the cost of goods arriving last and not yet sold. Inventories are recorded in the balance sheet at the lower of cost and net realisable value.



Net realisable value is determined by subtracting the estimated expenditures necessary for preparing the product for sale and complete the sale from the estimated sales price.

### **(N) trade receivables**

Trade receivables are accounts receivable incurred in the ordinary course of business for goods sold or services provided. Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of the receivables. The circumstances indicating impairment include bankruptcy or major financial difficulties of the debtor and non-adherence to payment terms (more than 90 days overdue). Receivables are assessed individually. The carrying amount of receivables is reduced by the amount of the impairment loss of doubtful receivables and the impairment loss is recognised in profit or loss within Other operating expenses. If the receivable is deemed irrecoverable, the receivable and the impairment loss are taken off the consolidated statement of financial position. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables and is recognised as the decrease of the statement of comprehensive income line Other operating expenses. Receivables due in less than one year are considered as short-term receivables, and the remaining receivables are considered as long-term receivables. Long-term trade receivables are carried at the present value of the collectible receivable. The difference between the nominal value and the present value of the collectible receivable is recognised as interest income until the due date of the receivable, using the effective interest rate method.

### **(O) cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents are cash on hand, bank account balances and term deposits with maturities of 3 months and less.

### **(P) Share capital and statutory reserve capital**

Ordinary shares are included within equity. The Group has not issued any preference shares. The transaction costs attributable to the issue of new shares are subtracted from equity under the assumption that they can be treated as unavoidable additional expenses directly attributable to the transaction.

Pursuant to the requirements of the Commercial Code, the parent company shall form statutory reserve capital out of the net profit, the minimum amount of which is 1/10 of share capital. The amount of annual statutory reserve capital is 1/20 of the net profit for the financial year until it reaches the limit set for reserve capital.

By the decision of the General Meeting, reserve capital may be used to cover losses if they cannot be covered from the available equity of the public limited company, as well as to increase share capital. No payments can be made from reserve capital to shareholders.

### **(Q) trade payables**

Trade payables are payables incurred in the ordinary course of business to pay suppliers for goods or services purchased. For classification of trade payables as current and non-current see section (E). Trade payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method

### **(R) borrowings**

Borrowings are initially recognised at fair value less transaction costs and are subsequently measured at amortised cost. The difference between the cost and the redemption value is recognised as an expense in the statement of comprehensive income during the period of the duration of the borrowing, using the effective interest rate method. The service fees payable upon conclusion of loan agreements are recognised as borrowing costs to the extent it is probable that the Group will take out the loan. Such service fees are included within accrued expenses in the statement of financial position and are recognised as borrowing costs when the loan is taken out. For classification of borrowings as current and non-current see section (E).

## (S) borrowing costs

General purpose and specific purpose borrowing costs directly attributable to acquisition or construction of qualifying assets, i.e. those which take a long time to get ready for their use or sale, are added to the cost of the assets until the assets are ready for their intended use or sale.

## (T) Financial liabilities

All financial liabilities recognised at amortised cost (trade payables, loans taken, accrued expenses) are initially recognised at their cost, including all direct transaction costs incurred.

The amortised cost of the current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the balance sheet at their redemption value. To calculate the amortised cost of non-current financial liabilities, they are initially recognised at fair value of the proceeds received (net of transaction costs incurred) and an interest cost is calculated on the liability in subsequent periods using the effective interest rate method.

## (U) taxation

### Income tax on dividends in Estonia

According to the Income Tax Act of Estonia, corporate profits are not taxed in Estonia but dividends payable and certain payment and expenses, outlined in the Income Tax Act are. The tax rate on dividends paid until 31 December 2013 was 21/79 (in effect since 1 January 2008). In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. An income tax liability is due on the 10th day of the month following the payment of dividends.

As it is the dividends and not corporate profits that are taxed, then there are no differences between the tax bases of assets and liabilities and their carrying amounts on which deferred income tax receivables or liabilities would arise.

In the balance sheet, a potential income tax liability is not recognised for the Group's available equity which would accompany the payment of available equity as dividends. The maximum income tax liability which would accompany the payment of retained earnings as dividends is disclosed in the notes to the financial statements.

Social security payments also include payments into mandatory funded pension funds. The Group has neither a legal nor factual obligation to make other pension or similar payments in addition to the social security tax.

### Other taxes in Estonia

**The following taxes have a material impact on the Group's expenses:**

<b>Social security tax</b>	33% on the payroll and fringe benefits paid to the employees
<b>Unemployment insurance tax</b>	1.0% (2012: 1.4%) on the payroll paid to employees
<b>Fringe benefit income tax</b>	21/79 on fringe benefits paid to the employees
<b>Land tax</b>	0.6%–2.5% on the land's taxable price p.a.
<b>Heavy goods vehicle tax</b>	EUR 3.5–EUR 232.6/quarter per truck
<b>Income tax on expenses not related to business activities</b>	21/79 on expenses not related to business activities
<b>Excise duty on electricity</b>	EUR 4.47 per MWh of electricity
<b>Environmental charges (emission charges)</b>	Emission charges apply when emissions are released to ambient air, a water body, ground water or soil or waste is disposed of and tax rates are set forth in the Environmental Charges Act.

## (V) employee benefits

Employee short-term benefits include wages and salaries and social security taxes, benefits related to temporary suspension of employment contracts (holiday pay or other similar fees), when it is assumed that the temporary suspension of the employment contract takes place within 12 months after the end of the period in which the employee worked

and other benefits payable after the end of the period in which the employee worked. If an employee has performed other services during the reporting period for which payment of compensation is assumed, the Group shall recognise an undiscounted liability (accrued expense) in the amount of the forecast benefit, from which all amounts already paid will be subtracted.

### **(W) provisions and contingent liabilities**

Provisions are recognised when the Group has a legal or factual obligation related to past events, which require giving up of resources and the amount of the obligation can be measured reliably. Provisions are recognised at the present value of the expenditures necessary for fulfilment of obligations, using the interest rate which reflects the time value of money by the market and risks characteristic of obligations. The increase of provisions due to the approaching of the settlement date is recognised as an interest expense in the statement of comprehensive income. Provisions are evaluated using management's estimates, experience and if necessary, opinions of independent experts.

Provisions are not recognised to cover future operating losses.

In case there are several similar obligations, the probability of a decline in resources necessary for fulfilment of obligations is determined by viewing the class of obligations as a whole. Although the probability of a decline in resources for each item may be insignificant, certain depletion of resources is probable for the class of obligations as a whole. In such a case, a provision shall be recognised (when other recognition criteria have been met).

Provisions are reviewed at the end of each reporting period and are revised using the best estimate at the time. The cost related to the recognition of provisions is included within other operating expenses or in the cost of non-current assets in the statement of comprehensive income, when the recognition of a provision is related to a dismantling, relocation or restoring obligation which has arisen upon acquisition of the asset or as a consequence of the use of the asset during a certain period of time.

Provisions are only used to cover those expenses which they had been set up for.

If there is an assumption that the other party compensates for some or all expenditures necessary for the settlement of the provision, the compensation is recognised then and only then, when the receipt of the compensation after settlement of the obligation by the Group is practically certain. Compensation is treated as a separate asset. The amount recognised as compensation shall not exceed the amount of the provision.

Other possible or existing obligations, the settlement of which is improbable or the related expenditures of which cannot be determined with sufficient reliability but which may become obligations in the future, are disclosed in the notes to the financial statements as contingent liabilities.

### **(X) revenue recognition**

The fair value of the consideration received or receivable for the sale of goods and provision of services in the normal course of business is recognised as revenue. Revenue is determined net of value-added tax, less discounts after elimination of intragroup transactions. Revenue is recognised only when the amount of revenue can be measured reliably, it is probable that future economic benefits attributable to the transaction will flow to the Group, significant risks and rewards of ownership have been transferred from the seller to the buyer and the additional criteria presented below have been met. The amount of revenue is considered to be reliably measureable only when all circumstances related to the transaction are unambiguous.

The Group's main activity is provision of air transportation and passenger services. In addition, revenue is generated by leasing of available premises, provision and intermediation of utility services to tenants.

#### **Revenue**

Revenue from the provision of services is recognised in the month in which the service was provided and using the principle of matching revenue with expenses as the basis. Revenue on fines for delay is recognised at the time it is collected and in the collection amount.

#### **Interest income**

Interest income is recognised when its collection is probable and the amount of revenue can be measured reliably. Interest income is recognised using the effective interest method.

## (Y) government grants

Income from government grants is recognised at its fair value when it is sufficiently certain that the Group meets the conditions of the government grant and that it will be granted.

### Government grants related to assets

Government grants are recognised under the gross method. Assets acquired with government grants are initially recognised at cost in the balance sheet; the amount received as a government grant is recognised as deferred income from the government grant within non-current liabilities in the balance sheet. The acquired asset is depreciated and the grant as deferred income is recognised in profit on a systematic basis over the useful life of the asset.

### Grants related to income

Income from government grants is recognised in the period in which the respective costs are recognised. Government assistance which cannot be reliably measured (e.g. free consultations) is not recognised as government grants. Information about such assistance is disclosed in the notes to the financial statements.

Income from government grants is recognised in the line *Other income* in the statement of comprehensive income.

## (Z) leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease is a lease which transfers all significant risks and rewards incidental to ownership to the lessee. Other leases are classified as operating leases.

The assets acquired with a finance lease are initially recognised at the lower of the fair value of the leased asset in the balance sheet and the present value of lease payments. The liability is reduced by principal payments. Interest expenses related to the finance lease are included within finance costs in the statement of comprehensive income.

Operating lease payments made are recognised as operating expenses on a straight-line basis over the lease period and the operating lease payments received are recognised as operating income on a straight-line basis.

The Group leases out commercial premises to companies. Concession agreements granting a right to concessionaires to operate on the territory of Tallinn Airport are considered to be contingent lease agreements. There are two types of concession payments:

- (a) Base amount adjusted by annual growth in the number of passengers;
- (b) A certain share of revenue which the concessionaire has received while operating on the premises of Tallinn Airport.

There are also concession agreements under which the change in concession fees depends on the CPI.

### (AA) Dividends

Dividends are recognised at the time they are declared as a reduction of retained earnings and as an obligation to the shareholder.

### (BB) cash flow statement

Cash flows are classified as cash flows from operating, investing and financing activities. For preparation of the statement of cash flows, the cash flows from operating, investing and financing activities are recognised under the direct method.

### (CC) events after the balance sheet date

Adjusting events – those that provide evidence of conditions that existed at the balance sheet date, are recognised in the consolidated statements of financial position and comprehensive income for the year ended.

Non-adjusting events – those that are not related to the conditions that existed at the balance sheet date, are disclosed in the notes to the financial statements.

## NOTE 3. Management of financial risks

### (A) Financial risks

The Group's activities expose it to a variety of financial risks: market risk (includes foreign currency risk, cash flow and fair value interest rate risk, and price risk), credit risk and liquidity risk. The overall risk management programme of the Group focuses on the unpredictability of the financial markets and attempts to minimise possible unfavourable effects on the Group's financial activities. The Group uses derivative instruments to hedge certain risk exposures.

The goal of the management of financial risks is to mitigate financial risks and lower the volatility of financial performance. The Group's financial risks are managed in accordance with the principles approved by the Management Board at the Group level.

### (B) market risks

**Foreign currency risk** is the risk that the fair value or cash flows of financial instruments fluctuate due to the changes in exchange rates in the future. The assets and liabilities denominated in euros are considered to be neutral assets and liabilities in relation to the foreign currency risk. In order to avoid foreign currency risk, transactions are concluded primarily in euros. In 2013 and 2012, the Group's receivables exposed to foreign currency were insignificant.

**Price risk** is the risk that the fair value or cash flows of financial instruments fluctuate in the future for other reasons than the changes in market prices due to interest rate risk or foreign currency risk. The Group does not have any financial instruments that are exposed to price risk.

**Interest rate risk** is the risk that the fair value of financial instruments or cash flows fluctuates in the future due to the changes in market interest rates.

Overnight deposits have fixed interest rates and do not expose the Group to cash flow interest rate risk.

Cash flow interest rate risk arises for the Group from borrowings with floating interest rates and represents the risk that finance costs increase when interest rates increase.

The Group's borrowings have floating interest rates; they depend on fluctuations in Euribor. Average interest rates declined in 2013 compared to 2012.

The group has entered into derivative contracts with SEB and Nordea Bank to hedge its interest rate risk arising from the Nordic Investment Bank loan (Note 16).

If the market interest rate (6-month Euribor) had been 50 basis points higher as at 31 December 2013, the change in the Group's profit for the reporting period (with all other variables remaining unchanged) would have been immaterial. The effect of the increase in the interest expense on borrowings with a floating base rate is immaterial on the statement of comprehensive income and the interest on a loan where it has been fixed in a swap transaction is not exposed to changes in Euribor.

Changes in interest rates also lead to the changes in the fair value of derivatives. If interest rates increase, the market value of derivatives decreases, which has an impact on the profit for the financial year. The price of derivatives is based on the supply and demand forming on the basis of forecasts of the behaviour of interest rates by market participants and hence, a potential gain or loss is difficult to forecast.

### (C) Credit risk

Credit risk represents a loss for the Group due to the inability of the other party to the financial instrument to fulfil its obligations. Cash in bank, trade receivables and other receivables are exposed to credit risk.

As at the balance sheet date, the Group was not aware of any major risks related to its accounts receivable (other than the amounts deemed as doubtful receivables).

**The following measures have been applied to mitigate credit risk:**

- One-month prepayment is required for new lease agreements to be concluded.
- Prepayment equalling the cost of one forecast flight is required for airlines which have not concluded an aviation contract with AS Tallinna Lennujaam (including airlines arranging charter flights).
- Bank guarantees are required from the airlines when aviation contracts are concluded with companies which are not well-known in the EU aviation market.

The accounting and marketing department is daily engaged in processing overdue receivables of customers. If the invoices that have been submitted to customers are overdue, repeat invoices, reminders and warnings are sent to them, upon non-collection of debt, the provision of the service is cancelled in accordance with the conditions laid down in the contract. There are also conditions in place requiring collection of debt through court or the collection of debt is transferred to a collection agency.

The allowance for doubtful receivables has been subtracted from trade receivables. Although economic factors may impact the collection of receivables, the management is of opinion that the risk of a major loss is non-existent, exceeding the amount of the allowance for doubtful receivables already recognised. No allowances have been recognised for the remaining types of receivables.

In accordance with the risk management principles of the Group, the Group's short-term available funds may be deposited into overnight and term deposits of credit institutions as well as into interest and money market funds.

**The following principles are followed when depositing short-term available funds:**

- ensuring of liquidity;
- capital preservation;
- revenue generation.

Additional information about credit risk is disclosed in Note 11.

**(D) Liquidity risk**

Liquidity risk is the risk that the Group is unable to meet its financial obligations due to the cash flow shortage. Liquidity risk is hedged with the help of various financial instruments such as loans.

As at the end of the financial year, the Group had available financial resources in the amount of EUR 9,654 thousand (31.12.2012: EUR 9,645 thousand).

In order to hedge liquidity risk, the Group uses various sources of financing, such as bank loans, overdraft facilities and ongoing monitoring of accounts receivable. As at the balance sheet date, the Group's current assets exceeded current liabilities by EUR 2,598 thousand (31.12.2012: EUR 2,102 thousand).

The following liquidity analysis shows the allocation of the Group's current and non-current liabilities by due date. All amounts presented in the table are undiscounted cash flows payable on the basis of contracts.

**Distribution of liabilities by due date****in EUR thousand**

<b>As at 31.12.2013</b>	<b>Up to 1 month</b>	<b>Between 1 and 3 months</b>	<b>Between 3 months and 1 year</b>	<b>Between 1 and 5 years</b>	<b>Later than 5 years</b>	<b>Total undiscounted cash flows</b>	<b>Carrying amount</b>
Borrowings (Note 13) <sup>1</sup>	106	2,011	2,700	22,856	3,840	31,512	30,642
Derivative instruments (Note 16)	0	0	0	880	0	880	880
Trade payables <sup>2</sup> (Note 17)	2,604	6	0	0	0	2,610	2,610
<b>Total</b>	<b>2,711</b>	<b>2,017</b>	<b>2,700</b>	<b>23,735</b>	<b>3,840</b>	<b>35,002</b>	<b>34,132</b>
<b>As at 31.12.2012</b>							
Borrowings (Note 13) <sup>3</sup>	102	1,980	2,682	18,716	4,887	28,368	27,707
Derivative instruments (Note 16)	0	0	0	1,365	0	1,365	1,365
Trade payables (Note 17) <sup>4</sup>	3,115	185	0	0	0	3,300	3,300
<b>Total</b>	<b>3,217</b>	<b>2,165</b>	<b>2,682</b>	<b>20,081</b>	<b>4,887</b>	<b>33,033</b>	<b>32,372</b>

1 For determining the undiscounted cash flows, the interest rate at the year-end 2013 has been used

2 Total trade payables less prepayments.

3 For determining the undiscounted cash flows, the interest rate at the year-end 2012 has been used

4 Trade payables less prepayments..

## (E) capital risk management

AS Tallinna Lennujaam is fully owned by the Republic of Estonia which makes all decisions in respect of dividend distribution and increase or decrease of share capital (through the Ministry of Economic Affairs and Communications).

During the past years, the Group has been using debt to finance its capital expenditures.

As at 31.12.2013 and 31.12.2012, the Company's equity was in compliance with the requirements of the Commercial Code.

Ratio of debt to equity and the ratio of net debt to total capital

in EUR thousand	31.12.2013	31.12.2012
Borrowings (Note 13)	30,642	27,707
Less : cash and cash equivalents and term deposits with maturities greater than 3 months (Note 12)	-9,654	-9,645
Net debt (borrowings-cash and cash equivalents)	20,988	18,062
Equity (Note 20)	54,879	49,834
Total capital (net debt + equity)	75,867	67,896
Debt to equity	40%	41%
Net debt to total capital	28%	27%

## (F) Fair value estimates

The Group estimates that the fair values of financial assets recognised at amortised cost do not materially differ from the carrying amounts reported in the consolidated balance sheet of the Group as at 31.12.2013 and 31.12.2012. As most of the Group's long-term borrowings carried a floating interest rate which changes according to the changes in the money market interest rates, their fair values do not materially differ from their carrying amounts. The carrying amount of short-term receivables from customers and accounts receivable is estimated to equal their fair value.

The Group has classified long-term borrowings at level 3 of the fair value hierarchy and the derivative instruments carried at fair value at level 2. The fair value of financial instruments not traded in an active market (e.g. exchange-traded derivative instruments) is determined using the valuation methods. Valuation methods maximise the use of observable market data wherever it is available, and rely as little as possible on specific estimates. When all major inputs to determine the fair value of an instrument are observable, the instruments are accounted for at level 2 and when information about inputs is unobservable, the instruments are accounted for at level 3.

### Specific valuation methods to estimate the value of financial instruments include:

- Quoted market prices or bid prices of traders for similar instruments.
- Fair value of changes in interest rates is calculated as the present value of estimated future cash flows, based on observable interest rate curves.



## NOTE 4. Key accounting estimates

Several estimates and assumptions have been used to prepare the consolidated financial statements which have an effect on the assets and liabilities reported in the financial statements. Although these estimates are based on the management's best knowledge of current events and actions, actual results may differ ultimately from those estimates. Changes in management's estimates are reported in the statement of comprehensive income of the period of the change. The following estimates have the most significant effect on the financial information presented in these financial statements.

### Determination of the useful lives of items of property, plant and equipment and investment property

Management estimates about the actual period of use of the asset are used to determine the useful lives of items of property, plant and equipment. Prior experience has shown that the actual usage time of assets has turned out to be sometimes longer than their estimated useful lives (see Note 5 Cost of non-current assets in use with carrying amount of zero).

As at 31 December 2013, the carrying amount of the Group's property, plant and equipment was EUR 117,862 thousand (31 December 2012: EUR 122,913 thousand), the depreciation charge for the reporting period was EUR 9,843 thousand (2012: EUR 9,722 thousand) (see Note 5). If the useful lives of all assets were changed by one year, the profit would change by EUR 592 thousand (2012: EUR 1,069 thousand).

As at 31 December 2013, the carrying amount of the Group's investment property was EUR 19,325 thousand (31 December 2012: EUR 10,056 thousand) (see Note 7). If the useful lives of investment property were changed by one year, the profit would change by EUR 61 thousand (2012: EUR 34 thousand).

### Valuation of doubtful receivables

When valuing receivables, the management uses the best available information and historical experience as the basis. Allowances for receivables

are recognised when it is reasonable to assume that the Group may not collect all amounts due according to the original terms of receivables. Indication of impairment of receivables includes significant financial difficulties of the debtor, probability of its bankruptcy or financial reorganisation, and failure to make payments or delay them.

The amount of doubtful receivables is adjusted at each balance sheet date, using information based on prior experience about how many of the doubtful receivables will be collected in a later period and how many of the receivables less than 90 days overdue as at the balance sheet date will not be collected in a later period. As at 31 December 2013, the Group had doubtful receivables in the amount of EUR 8 thousand (31 December 2012: EUR 229 thousand) (Note 10).

### Estimation of the recoverable amount of items of property, plant and equipment and investment property

IAS 36 specifies indications for estimating impairment losses of assets. There are no such indications in the Group's business.

The operations of regional airports depend on the national policy. The regional policy with regard to airports specifies that state grants to AS Tallinna Lennujaam need to cover the necessary expenditure for the daily use of infrastructure. The state will create an opportunity for the landing of aircraft and will also support local airlines in order to ensure an airline connection between the islands and the mainland. The assets will need to be valued from the point of view of the regional policy. Assets will be evaluated through the benefits created for the region and the Company's profitability is thus assumed to be irrelevant.

The Group's Management Board assessed the existence of indications of impairment losses and determined that there were no indications in 2013 to conclude that the assets had lost a major share of their cash generation ability and no impairment test was performed (similarly to 2012).

## NOTE 5. Property, plant and equipment

in EUR thousand	Construction in progress and prepayments	Land	Buildings and facilities	Machinery and equipment	Other inventory	Total
<b>Balance as at 31.12.2011</b>						
Cost	2,216	4,933	121,597	62,131	4,257	195,133
Accumulated depreciation	0	0	-36,722	-26,976	-3,305	-67,003
<b>Carrying amount 31.12.2011</b>	<b>2,216</b>	<b>4,933</b>	<b>84,875</b>	<b>35,155</b>	<b>952</b>	<b>128,130</b>
<b>Changes occurred in 2012</b>						
Acquisitions and improvements	942	0	358	3,376	446	4,524
Depreciation charge	0	0	-4,242	-5,051	-430	-9,722
Carrying amount of assets disposed	0	0	0	-14	0	-14
Carrying amount of assets written off	0	0	0	-2	-3	-5
Reclassifications	-597	0	72	521	4	0
<b>Balance as at 31.12.2012</b>						
Cost	2,560	4,933	121,955	65,335	4,596	199,379
Accumulated depreciation	0	0	-40,964	-31,872	-3,631	-76,466
<b>Carrying amount 31.12.2012</b>	<b>2,560</b>	<b>4,933</b>	<b>80,991</b>	<b>33,463</b>	<b>966</b>	<b>122,913</b>
<b>Changes occurred in 2013</b>						
Acquisitions and improvements	777	0	1,665	2,524	730	4,940
Depreciation charge	0	0	-4,058	-5,321	-464	-9,843
Carrying amount of assets disposed	0	0	0	-3	0	-3
Carrying amount of assets written off	0	0	0	-5	-17	-23
Reclassifications	-756	0	184	572	0	0
Reclassification to investment property <sup>5</sup> (Note 7)	-121	0	0	0	0	-121
<b>Balance as at 31.12.2013</b>						
Cost	2,460	4,933	123,616	67,491	5,132	203,632
Accumulated depreciation	0	0	-45,018	-36,833	-3,918	-85,769
<b>Carrying amount 31.12.2013</b>	<b>2,460</b>	<b>4,933</b>	<b>78,598</b>	<b>30,658</b>	<b>1,214</b>	<b>117,862</b>

<sup>5</sup> In 2012, the company started designing an aircraft hangar for a specific tenant. In 2013, the non-current assets under construction were reclassified as investment property.

In 2013 the Group has not capitalised borrowing costs, in 2012 borrowing costs were capitalised in the amount of EUR 17 thousand.

As at 31.12.2013 (as well as at 31.12.2012) the Group had no assets acquired under the finance lease terms.

The carrying amount of the assets partly used in business operations and partly for earning rental income was EUR 27,016 thousand as at 31.12.2013 (31.12.2012: EUR 28,268 thousand).

The assets leased out are included within the group of non-current assets Buildings and facilities (see Note 8).

### Capital expenditures by airport and subsidiary

in EUR thousand	2013	2012
Tallinn Airport	3,785	1,579
Kärdla Airport	970	17
Pärnu Airport	67	26
Tallinn Airport GH	52	1,664
Tartu Airport	48	895
Kuessaare Airport	18	0
<b>Total purchases and improvements</b>	<b>4,940</b>	<b>4,180</b>

The purchases of non-current assets of regional airports have been financed from the ERDF funds. Information about the liabilities for government grants to purchase non-current assets is disclosed in Note 15.

### Property, plant and equipment in use with the carrying amount of zero in acquisition cost

in EUR thousand	31.12.2013	31.12.2012
Tallinn Airport	15,817	12,426
Pärnu Airport	1,683	1,338
Tartu Airport	1,286	1,092
Kuessaare Airport	919	1,003
Kärdla Airport	530	402
Tallinn Airport GH	375	350
<b>Total non-current assets in use with the carrying amount of zero</b>	<b>20,611</b>	<b>16,610</b>

## NOTE 6. Intangible assets

### SOFTWARE

in EUR thousand	2013	2012
<b>Cost as at 01.01.</b>	<b>1,304</b>	<b>1,268</b>
Accumulated amortisation as at 01.01.	-1,127	-1,068
Carrying amount as at 01.01.	177	200
Prepayments for non-current assets as at 01.01.	112	32
<b>Total intangible assets as at 01.01.</b>	<b>289</b>	<b>233</b>
<b>Movements in intangible assets in the period</b>		
Purchases and improvements	138	36
Amortisation charge	-100	-59
Reclassification of prepayments	-56	80
	<b>1,016</b>	<b>1,304</b>
<b>Cost as at 31.12.</b>		
Accumulated amortisation as at 31.12.	-802	-1,127
Carrying amount as at 31.12.	214	177
Prepayments for non-current assets as at 31.12.	57	112
<b>Total intangible assets as at 31.12.</b>	<b>271</b>	<b>289</b>

## NOTE 7. Investment property

in EUR thousand	2013	2012
<b>Cost as at 01.01.</b>	<b>11,514</b>	<b>1,301</b>
Accumulated depreciation as at 01.01.	-1,458	-1,278
<b>Carrying amount of investment property as at 01.01.</b>	<b>10,056</b>	<b>23</b>
<b>Movements in investment property in the period</b>		
Purchases and improvements	7,500	10,213
Depreciation charge	-832	-180
Investment property under construction	2,479	0
Reclassification from property, plant and equipment under construction (Note 5)	121	0
<b>Cost as at 31.12.</b>	<b>20,426</b>	<b>11,514</b>
Accumulated depreciation as at 31.12.	-1,101	-1,458
<b>Carrying amount of investment property as at 31.12.</b>	<b>19,325</b>	<b>10,056</b>

The majority of lease agreements for investment property have a short cancellation notice except for the maintenance hangar completed in 2012 which has been leased out for 30 years. All contractual obligations related to the development, repairs and maintenance of investments properties are the responsibility of the Group as the lessor. The rental income from investment properties totalled EUR 1,504 thousand (2012: EUR 472 thousand) and direct operating expenses were EUR 368 thousand (2012: EUR 163 thousand).

### Material capital expenditures in 2013 were:

- Office building, hangar and garage acquired from Estonian Air for EUR 7.5 million. Bonds in the amount of EUR 7.5 million were issued to raise funds for the real estate (see Note 13).
- Property investment under construction - aircraft hangar, estimated cost of construction: EUR 3.6 million (as at 31.12.2013 accounted for as assets under construction: EUR 2.6 million), date of completion: April 2014. The company has entered into a 15-year lease with the tenant that will be using the building.

The management estimates that the fair values of the office building, hangar and garage acquired in 2013 do not differ from their carrying amount because the assets were acquired by way of public tender at regular market conditions. The management believes that the fair value of the aircraft maintenance hangar completed in 2012 does not materially differ from its carrying amount.

## NOTE 8. Operating lease

Rental income has been earned from the leasing of premises, hangars and land (see Notes 7, 21).

Concessions are recognised as contingent leases. In case of service concession arrangements, AS Tallinna Lennujaam grants a right to the recipient of the concession to provide services on its premises during the concession term. Contingent lease payments depend on the sale of the services provided on the airport premises and the number of passengers travelling through the airport during the year.

### Rental income

in EUR thousand	2013	2012
Concessions	3,295	2,596
Buildings and facilities	3,281	2,025
Infrastructure fees	75	83
<b>Total rental income</b>	<b>6,651</b>	<b>4,704</b>

### Future rental income under non-cancellable lease agreements<sup>6</sup>

in EUR thousand	2013	2012
< 1 year	2,890	2,156
1 - 5 years	9,259	4,926
> 5 years	7,485	7,501
<b>Total rental income</b>	<b>19,634</b>	<b>14,583</b>

The figures provided above include rental income from property, plant and equipment as well as investment properties.

<sup>6</sup> This does not include contingent rent (concession), because the rental rate is not fixed but depends on the sales of the customer, number of passengers and the CPI.

### Rental expense

in EUR thousand	2013	2012
Passenger cars	66	79
<b>Total rental expense</b>	<b>66</b>	<b>79</b>

Future operating lease payments under non-cancellable lease agreements

in EUR thousand	2013	2012
< 1 year	30	30
1 - 5 years	48	50
<b>Total rental expense</b>	<b>78</b>	<b>80</b>

The operating lease agreements of all vehicles are denominated in euros. The agreements set no restrictions on the Group's dividends and financing policies. The leased assets have not been subleased.

## NOTE 9. Inventories

in EUR thousand	31.12.2013	31.12.2012
De-icing materials of aircraft	127	78
Fuel	33	28
Runway maintenance materials	16	13
Rescue service extinguishing foam	7	7
Food	12	5
Marketing materials	1	1
<b>Total inventories</b>	<b>196</b>	<b>133</b>

No inventory write-downs were recognised during the period or in 2012.

## NOTE 10. Receivables and prepayments

### Trade receivables

in EUR thousand	31.12.2013	31.12.2012
Accounts receivable	2,456	3,164
Allowance for doubtful receivables	-8	-229
<b>Total trade receivables</b>	<b>2,448</b>	<b>2,935</b>

### Other receivables and prepayments

in EUR thousand	31.12.2013	31.12.2012
VAT receivable	526	461
Government grants receivable	159	17
Prepayments	166	165
Other receivables	4	2
Accrued income	0	1
Total other receivables and prepayments	855	646
<b>Total receivables</b>	<b>3,303</b>	<b>3,581</b>

The fair values of receivables and prepayments do not materially differ from their carrying amounts. The collection of receivables and the receipt of services and goods for prepayments are not secured by collateral. All Group's receivables and prepayments are denominated in euros, see Note 3.

### Changes in doubtful receivables

in EUR thousand	2013	2012
Allowance for doubtful receivables at beginning of the period	-229	-126
Receivables deemed doubtful during the reporting period	-39	-139
Receivables deemed uncollectible	166	21
Receivables deemed doubtful collected during the reporting period	95	15
<b>Allowance for doubtful receivables at end of the period</b>	<b>-8</b>	<b>-229</b>

## NOTE 11. Financial instruments

### (A) FINANCIAL INSTRUMENTS BY CATEGORY

Items of financial assets in the statement of financial position

in EUR thousand	31.12.2013	31.12.2012
Trade receivables, government grant related to non-currents not received and other receivables (Note 10)	2,611	2,954
Cash and cash equivalents (Note 12)	9,654	9,645
<b>Total items of financial assets in the balance sheet</b>	<b>12,265</b>	<b>12,599</b>

Items of financial liabilities in the statement of financial position

in EUR thousand	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
<b>As at 31.12.2013</b>			
Borrowings (Note 13)	0	30,642	30,642
Trade and other payables (Note 17)	0	2,610	2,610
Derivative instruments (Note 16)	880	0	880
<b>Total items of financial liabilities in the balance sheet</b>	<b>880</b>	<b>33,253</b>	<b>34,132</b>
<b>As at 31.12.2012</b>			
Borrowings (Note 13)	0	27,707	27,707
Trade and other payables (Note 17)	0	3,300	3,300
Derivative instruments (Note 16)	1,365	0	1,365
<b>Total items of financial liabilities in the balance sheet</b>	<b>1,365</b>	<b>31,007</b>	<b>32,372</b>

**(B) Financial instruments by credit quality**

Analysis of accounts receivable

in EUR thousand	2013	2012
Accounts receivable from new customers (less than 12 month relationship) that are not overdue as at 31.12.	3	18
Accounts receivable from new customers (less than 12 month relationship) that are overdue as at 31.12.	48	47
Accounts receivable from existing customers (over 12 month relationship) that are not overdue as at 31.12.	1,960	2,405
Accounts receivable from existing customers (over 12 month relationship) that are overdue as at 31.12.	445	694
<b>Total accounts receivable</b>	<b>2,456</b>	<b>3,164</b>

in EUR thousand	31.12.2013	31.12.2012
Not overdue	2,008	2,452
Overdue by up to 30 days	331	353
Overdue by up to 60 days	58	54
Overdue by more than 60 days	59	305
<b>Total accounts receivable</b>	<b>2,456</b>	<b>3,164</b>

Of the accounts receivable as at 31.12.2013, a total of EUR 37 thousand had not been collected by 13.03.2014 (13.03.2013: EUR 266 thousand).

**Allocation of bank accounts and deposits by banks with different credit ratings**

in EUR thousand	31.12.2013	31.12.2012
Banks with Moody's credit rating of A1	1,777	6,840
Banks with Moody's credit rating of A2	7,081	2,724
Banks with Moody's credit rating of Aa2	728	0
Banks with Moody's credit rating of Aa3	0	1
<b>Total amounts exposed to credit risk</b>	<b>9,586</b>	<b>9,565</b>

**NOTE 12. Cash and cash equivalents**

in EUR thousand	31.12.2013	31.12.2012
Cash on hand	67	79
Bank accounts	2,530	6,845
Overnight deposit	7,057	2,721
<b>Total cash and cash equivalents</b>	<b>9,654</b>	<b>9,645</b>

**NOTE 13. Borrowings**

in EUR thousand	31.12.2013	31.12.2012
<b>Long-term borrowings</b>		
Long-term bank loans	18,417	22,972
Bonds issued	7,500	0
<b>Total long-term borrowings</b>	<b>25,917</b>	<b>22,972</b>
<b>Short-term borrowings</b>		
Repayments of long-term bank loans in the next period	4,556	4,556
Interest payable related to long-term bank loans at 31.12	170	179
<b>Total short-term borrowings</b>	<b>4,726</b>	<b>4,735</b>
<b>TOTAL BORROWINGS</b>	<b>30,642</b>	<b>27,707</b>

**Principal of long-term bank loans, bonds (at nominal value) and conditions**

	Date of entry into contract	Due date	Security	Loan amount
<b>Nordic Investment Bank</b>	31.01.2008	5.12.2017	See Note 14	32,000,000
<b>Pohjola Bank</b>	28.11.2011	30.09.2022	See Note 14	10,000,000
<b>Pohjola Bank bonds</b>	28.03.2013	2.04.2018	Unsecured	7,500,000

All loans are denominated in euros.



The management estimates that the fair value of loans does not differ significantly from their carrying amount.

<b>in EUR thousand</b>					
<b>As at 31.12.2013</b>	<b>NIB</b>	<b>Pohjola</b>	<b>Pohjola bonds</b>	<b>TOTAL</b>	
Loan balance at beginning of the period	17,778	9,750	0	27,528	
Loan received during the period	0	0	7,500	7,500	
Paid off during the period	-3,556	-1,000	0	-4,556	
<b>Loan balance at end of the period</b>	<b>14,222</b>	<b>8,750</b>	<b>7,500</b>	<b>30,472</b>	
Loan interest payable	145	0	25	170	
<b>Interest rate</b>	<b>6-month Euribor +0.12%</b>	<b>3-month Euribor +1.0%</b>	<b>3-month Euribor +1.1%</b>		
<b>As at 31.12.2012</b>	<b>NIB</b>	<b>Pohjola</b>	<b>EIB</b>	<b>NORDEA</b>	<b>TOTAL</b>
Loan balance at beginning of the period	21,333	0	500	961	22,795
Loan received during the period	0	10,000			10,000
Paid off during the period	-3,556	-250	-500	-961	-5,267
<b>Loan balance at end of the period</b>	<b>17,778</b>	<b>9,750</b>	<b>0</b>	<b>0</b>	<b>27,528</b>
Loan interest payable	179	0	0	0	179
<b>Interest rate</b>	<b>6-month Euribor +0.12%</b>	<b>3-month Euribor +1.0%</b>	<b>Average for the period 1.24%</b>	<b>6-month Euribor +0.3%</b>	

## BONDS

During the financial year, Tallinn Airport issued 75 unsecured bonds at par of EUR 100 thousand maturing in 2018. The bonds are denominated in euros. The bonds carry an interest rate of 3 month Euribor + 1.1% margin. The bond issuance costs were 0.1% of the transaction amount.

## NOTE 14. Loan collateral and pledged assets

No assets have been pledged as collateral for the loan received from Nordic Investment Bank and Pohjola Bank, the loan contracts stipulate that without a prior written consent from the bank, AS Tallinna Lennujaam Group shall not:

- transfer, lease out, rent out or give its assets to a third party on another contractual basis when it is outside the scope of its daily economic activities;
- pledge its assets or encumber them with any other real rights.

## NOTE 15. Government grants

### Government grants related to income

in EUR thousand	2013	2012
Allocation for a specific purpose from state budget <sup>7</sup>	6,148	6,148
Tartu City Government	23	14
Enterprise Estonia	14	21
Foreign financing	55	4
<b>Government grants related to income recognised as income (Note 22)</b>	<b>6,240</b>	<b>6,188</b>

<sup>7</sup> The grant is for operation of regional airports (Kärdla, Kuressaare, Tartu and Pärnu Airport), from 2011, an additional government grant is received for rescue and security activities.

### Government grants related to assets

in EUR thousand	2013	2012
Long-term government grants received as at beginning of the period	61,186	64,862
<b>Grants received</b>		
Domestic government grant received	8	14
Received from the European Regional Development Fund (ERDF)	1,071	97
<b>Total grants received</b>	<b>1,079</b>	<b>111</b>
<b>Recognised as income</b>		
Grants related to assets	-269	-273
Cohesion Fund (ISPA)	-2,082	-2,082
European Regional Development Fund (ERDF)	-1,461	-1,431
Write-off of assets acquired with government grants and government grant liability (from ERDF)	-72	-1
<b>Total recognised as income (Note 22)</b>	<b>-3,884</b>	<b>-3,786</b>
<b>Total long-term government grants received as at end of the period</b>	<b>58,381</b>	<b>61,186</b>

With the amendment no. 57 dated 18 March 2005 to the regulation no. 81 of the Government of the Republic Appointment of Intermediate Bodies and Final Beneficiaries for Structural Assistance and Approval of the List of Measures for Investment by the State and Local Governments dated 22 March 2004, AS Tallinna Lennujaam was included in the list of final beneficiaries. The final beneficiary was established with the goal of ensuring legal use of European structural assistance.

The final beneficiary is within AS Tallinna Lennujaam, i.e. the Ministry of Economic Affairs and Communications has granted a right to arrange the management and implementation of government grants to AS Tallinna Lennujaam as a final beneficiary. The final beneficiary pays the funds from government grants transferred directly from the ERDF to the

State Treasury to its suppliers, as a result of which government grants received for acquisition of non-current assets are not included within the cash flows from investment activities in the statement of cash flows (see Paid for acquisition of intangible assets, and property, plant and equipment in the consolidated statement of cash flows).

AS Tallinna Lennujaam has no control over the funds of the final beneficiary.

#### Key acquisitions funded by the ERDF in 2013:

- Tartu Airport - perimeter fence was upgraded and a mower was acquired;
- Kärdla Airport - garage complex was completed and a mower was acquired;
- Kuressaare Airport - a mower and trailer were acquired;
- Pärnu Airport - a mower and snow blower were acquired.

#### Key acquisitions funded by the ERDF in 2012:

- Tartu Airport – reconstruction of aircraft and warehouse hangar was completed and runway maintenance equipment was acquired;
- Kärdla Airport – design of a garage complex and transition to ground heating at Kärdla Airport was launched.

#### Cost of assets acquired with the government grant of ERDF by airport

in EUR thousand	2013	2012
Kärdla airport	951	0
Kuressaare airport	12	0
Pärnu airport	49	0
Tartu airport	84	507
<b>Total airports</b>	<b>1,096</b>	<b>507</b>

In 2013, the cost of assets acquired with the grants received from the ERDF has been funded 98% by the ERDF (in 2012, the cost of assets acquired with the grants received from the ERF was funded 96% by the ERDF).

## NOTE 16. Derivative instruments

Interest rate swap	1. Interest-rate swap on a floating rate loan from Nordic Investment Bank	2. Interest-rate swap on a floating rate loan from Nordic Investment Bank
Contract was entered into at	16.03.2007;	30.01.2012
Opening date:	17.09.2007;	16.03.2012
Closing date:	15.09.2017;	15.09.2017
Nominal amount:	EUR 18,000,000	EUR 13,222,222
<b>Fixed SWAP rate</b>	<b>4.015%</b>	<b>2.395%</b>
<b>Floating interest base rate</b>	<b>6-month Euribor</b>	<b>6-month Euribor</b>

#### Changes in interest rate swaps

in EUR thousand

<b>Fair value as at 31.12.2013 (negative market value)</b>	<b>880</b>
Incl. non-current portion	880
<b>Change in fair value in 2013 (Note 26)</b>	<b>-485</b>
Fair value as at 31.12.2012 (negative market value)	1,365
<b>Change in fair value in 2012 (Note 26)</b>	<b>156</b>
Fair value as at 31.12.2012 (negative market value)	1,209

## NOTE 17. Payables and prepayments

### Trade payables

in EUR thousand	31.12.2013	31.12.2012
Payables for non-current assets	1,201	877
Payables for goods and services	1,409	2,423
<b>Total trade payables</b>	<b>2,610</b>	<b>3,300</b>

### Other payables and prepayments

in EUR thousand	31.12.2013	31.12.2012
Payables to employees (Note 19)	1,827	2,229
Tax liabilities (Note 18)	1,195	898
Prepayments for products and services	142	85
Other accrued expenses	55	13
<b>Total other payables and prepayments</b>	<b>3,219</b>	<b>3,225</b>
<b>Total payables and prepayments</b>	<b>5,830</b>	<b>6,525</b>

## NOTE 18. Tax liabilities

### Tax liabilities

in EUR thousand	31.12.2013	31.12.2012
Social security taxes on wages and salaries, and fringe benefits	558	524
Income tax on wages and salaries, and fringe benefits	312	290
Land tax	242	0
Unemployment insurance tax	46	52
Pension insurance	28	25
Excise tax	6	6
Corporate income tax	2	1
Other taxes	1	0
<b>Total tax liabilities</b>	<b>1,195</b>	<b>898</b>

## NOTE 19. Accrued expenses to employees

### Accrued expenses

In EUR thousand	31.12.2013	31.12.2012
<b>Bonus reserve liability</b>	<b>937</b>	<b>1,294</b>
Wages and salaries accrued but not yet paid	599	583
Holiday pay liability	287	350
Other payables to employees	4	3
<b>Total accrued expenses</b>	<b>1,827</b>	<b>2,229</b>

## NOTE 20. Equity

All shares of AS Tallinna Lennujaam belong to the Republic of Estonia. Their administrator and the entity exercising shareholder rights is the Ministry of Economic Affairs and Communications, represented by the Minister of Economic Affairs and Communications at the General Meeting of Shareholders.

	31.12.2013	31.12.2012
Share capital	EUR 24,360,500	EUR 24,360,500
Number of shares	2,436,050 pcs	2,436,050 pcs
Nominal value of shares	EUR 10	EUR 10

As at 31.12.2013, the share capital of the Group's parent consisted of 2,436,050 ordinary shares (31.12.2012: 2,436,050) with nominal value of EUR 10 each.

As at 31 December 2013, the retained earnings of the Group were EUR 28,082 thousand (31 December 2012: EUR 23,038 thousand). In case of payment of dividends to shareholders, the income tax expense is 21/79 of the amount paid out as net dividends. As at the balance sheet date, it is possible to pay out dividends to the shareholders in the amount of EUR 22,185 thousand (31 December 2012: EUR 18,200 thousand) and the corresponding income tax would amount to EUR 5,897 thousand (31 December 2012: EUR 4,840 thousand).

## NOTE 21. Revenue

### Aviation revenue

in EUR thousand	2013	2012
Passenger fees	6,637	5,650
Landing fees	5,326	5,509
Parking fees	305	317
Navigation fees	21	20
Take-off fees	6	5
<b>Total aviation revenue</b>	<b>12,296</b>	<b>11,501</b>

### Non-aviation revenue

in EUR thousand	2013	2012
Aircraft handling and passenger servicing revenue	8,126	10,118
<b>Rental income (Note 8)</b>		
Concessions	3,295	2,596
Rent for premises and hangars	3,281	2,025
Infrastructure fees	75	83
<b>Total rental income</b>	<b>6,651</b>	<b>4,704</b>
<b>Other services sold</b>		
Parking services for cars	1,307	1,169
Services provided to tenants	890	893
Advertising services	537	383
Aviation related services	368	375
Other services provided and intermediated	114	155
<b>Total other services sold</b>	<b>3,215</b>	<b>2,975</b>
<b>Total non-aviation revenue</b>	<b>17,992</b>	<b>17,797</b>
<b>TOTAL REVENUE</b>	<b>30,288</b>	<b>29,298</b>

## NOTE 22. Other income

in EUR thousand	2013	2012
Government grants related to operating expenses (Note 15)	6,240	6,188
Government grants related to assets recognised as income (Note 15)	3,884	3,787
Other income	44	123
Gain from disposal of machinery and equipment	35	9
<b>Total other income</b>	<b>10,203</b>	<b>10,107</b>

## NOTE 23. Goods, materials and services

in EUR thousand	2013	2012
Security, safety and rescue	3,266	3,082
Utilities expenses	2,528	2,542
Maintenance expenses of buildings and facilities	1,498	1,329
Vehicle operation expenses	1,347	1,583
IT and communication expenses	1,132	738
Maintenance of runways	930	1,275
Cost of provision of services to passengers and aircraft	744	937
<b>Total goods, materials and services</b>	<b>11,445</b>	<b>11,486</b>

## NOTE 24. Other Operating expenses

in EUR thousand	2013	2012
Marketing and public relations	337	328
Training costs	252	228
Administrative expenses	216	190
Special clothing and uniforms	128	163
Business trips	97	86
Costs related to doubtful receivables (Note 10)	-56	124
<b>Total other operating expenses</b>	<b>974</b>	<b>1,119</b>

## NOTE 25. Staff costs

in EUR thousand	2013	2012
Wages and salaries, performance pay, holiday pay, bonuses	7,987	7,831
Average monthly salary in EUR	1,242	1,210
Benefits and allowances	34	42
Other remuneration fees paid to super-numeraries	68	53
Staff costs classified as fringe benefits	68	57
Taxes calculated on staff costs	3,051	2,773
Accrued expenses related to employees	693	1,294
<b>Total staff costs</b>	<b>11,901</b>	<b>12,051</b>

Staff count	2013	2012
Number of employees at beginning of the period	539	531
Number of employees at end of period	574	584
<b>Average number of employees</b>	<b>536</b>	<b>539</b>

## NOTE 26. Financial income and costs

in EUR thousand	2013	2012
Interest income on deposits	6	12
Change in fair value of derivative instruments (Note 16)	485	-156
Interest expense on loans secured by derivatives	-472	-542
Interest expense on loans with floating interest rates	-193	-292
Interest expense on bonds	-75	0
Other finance income and costs	-8	-29
<b>Total finance income and costs</b>	<b>-257</b>	<b>-1,007</b>

## NOTE 27. Contingent liabilities and commitments

### Potential liabilities arising from tax inspection

Tax authorities have neither launched nor performed tax inspections or single case reviews at group entities. The tax authorities have the right to verify the Company's tax records up to 5 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. The management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Company.

## NOTE 28. Related party transactions

The shares of AS Tallinna Lennujaam are fully owned by the Republic of Estonia. In preparing the financial statements of the Group, the related parties include the members of the Management and Supervisory Board of the parent and other entities over which these persons have significant influence.

All entities which the state has control or significant influence over are also considered to be related parties. The Group's Management Board considers it important to disclose the transactions with airline companies, over which the state has control or significant influence. In 2013, the Group provided services to such entities for EUR 6,812 thousand (2012: EUR 7,675 thousand). The volumes of services purchased are immaterial.

In 2013, an office building, hangar and garage accounted for as investment property (see Note 7) were acquired from AS Estonian Air for EUR 7,500 thousand.

### Management and Supervisory Boards

In 2013, the remuneration of the Supervisory and Management Boards, including social security taxes totalled EUR 452 thousand (2011: EUR 462 thousand).

AS Tallinna Lennujaam has provided cars for the members of the Management Board to be used for business purposes; the contract for services does not stipulate payment of termination benefits.

Transactions with related parties have been concluded at market prices and no allowance has been recognised for the receivables from related parties.

## NOTE 29. Financial information on the parent company

### Separate statement of financial position

in EUR thousand	31.12.2012	31.12.2011
<b>Assets</b>		
<b>Non-current assets</b>		
Long-term financial investments	1,028	1,028
Property, plant and equipment	115,119	119,714
Intangible assets	267	274
Investment property	19,325	10,056
<b>Total non-current assets</b>	<b>135,739</b>	<b>131,072</b>
<b>Current assets</b>		
Inventories	62	55
Payables and prepayments	2,481	2,408
Cash	6,208	6,747
<b>Total current assets</b>	<b>8,751</b>	<b>9,210</b>
<b>TOTAL ASSETS</b>	<b>144,490</b>	<b>140,282</b>
<b>EQUITY</b>		
Share capital	24,361	24,361
Statutory reserve capital	2,436	2,436
Retained earnings	22,871	18,051
<b>TOTAL EQUITY</b>	<b>49,668</b>	<b>44,848</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Borrowings	25,917	22,972
Government grants	58,381	61,186
Derivative instruments	880	1,365
<b>Total non-current liabilities</b>	<b>85,178</b>	<b>85,523</b>
<b>Current liabilities</b>		
Borrowings	4,725	4,735
Payables and prepayments	4,919	5,176
<b>Total current liabilities</b>	<b>9,644</b>	<b>9,911</b>
<b>TOTAL LIABILITIES</b>	<b>94,822</b>	<b>95,434</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>144,490</b>	<b>140,282</b>

### Separate statement of comprehensive income

in EUR thousand	2013	2012
Revenue	24,054	21,375
Other income	10,197	10,051
Goods, materials and services	-10,036	-9,588
Other operating expenses	-837	-914
Staff costs	-7,951	-7,486
Depreciation, amortisation and impairment	-10,281	-9,497
Other expenses	-68	-54
<b>OPERATING PROFIT</b>	<b>5,079</b>	<b>3,887</b>
Finance income and costs (net)	-259	-1,011
<b>Net profit for financial year</b>	<b>4,820</b>	<b>2,876</b>
<b>COMPREHENSIVE INCOME FOR FINANCIAL YEAR</b>	<b>4,820</b>	<b>2,876</b>



## Separate statement of cash flows

in EUR thousand	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Collections from customers	26,724	26,967
Paid to suppliers and employees	-21,912	-21,825
Interest received	4	8
Interest paid	-757	-821
Government grant received from the state budget	6,148	6,148
Government grants related to income	60	56
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>10,266</b>	<b>10,533</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Paid for purchase of property, plant and equipment, and intangible assets	-13,972	-13,430
Proceeds from sale of property, plant and equipment	23	14
Government grant related to non-current assets	199	35
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>-13,749</b>	<b>-13,382</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of borrowings	-4,556	-5,267
Loan received	7,500	10,000
Repayments of finance lease liabilities	0	-14
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>2,944</b>	<b>4,719</b>
<b>NET CASH FLOWS</b>	<b>-539</b>	<b>1,870</b>
Cash and cash equivalents at beginning of year	6,747	4,876
Cash and cash equivalents at end of year	6,208	6,747
<b>NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>-539</b>	<b>1,870</b>

## Separate statement of changes in equity

in EUR thousand	Share capital	Statutory reserve capital	Retained earnings	Total
<b>Balance as at 31.12.2011</b>	<b>24,360</b>	<b>2,300</b>	<b>15,311</b>	<b>41,972</b>
Statutory reserve capital	0	136	-136	0
<b>Net profit for 2012</b>	<b>0</b>	<b>0</b>	<b>2,876</b>	<b>2,876</b>
<b>Balance as at 31.12.2012</b>	<b>24,360</b>	<b>2,436</b>	<b>18,051</b>	<b>44,848</b>
<b>Net profit for 2013</b>	<b>0</b>	<b>0</b>	<b>4,820</b>	<b>2,876</b>
<b>Balance as at 31.12.2013</b>	<b>24,360</b>	<b>2,436</b>	<b>22,871</b>	<b>49,668</b>

## Restated statement of equity of AS Tallinna Lennujaam (parent company)

in EUR thousand	2013	2012
Unconsolidated equity of the parent	49,668	44,848
Carrying amount of subsidiaries in the separate balance sheet of the parent (minus)	-1,028	-1,028
Value of subsidiary under the equity method (plus)	6,239	5,933
<b>Total</b>	<b>54,879</b>	<b>49,753</b>

# INDEPENDENT AUDITOR'S REPORT

## Profit allocation proposal

Retained earnings as at 31.12.2012	EUR 23,038 thousand
Net profit for 2013	EUR 5,044 thousand
Total distributable profit as at 31.12.2013	EUR 28,082 thousand

### The Management Board proposes to distribute the net profit for 2013 in the amount of EUR 5,044 thousand as follows:

not to distribute EUR 5,044 thousand and transfer it to retained earnings.

Balance of retained earnings after profit allocation	EUR 28,082 thousand
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Rein Loik	Chairman of the Management Board	/signed/	March 18, 2014
Einari Bambus	Member of the Management Board	/signed/	March 18, 2014
Anneli Turkin	Member of the Management Board	/signed/	March 18, 2014
Erik Sakkov	Member of the Management Board	/signed/	March 18, 2014

## SIGNATURES TO THE ANNUAL REPORT

The Management Board of AS Tallinna Lennujaam has prepared the management report and financial statements for the year 2013. The Management confirms the correctness of information presented in the annual report.

### Management Board:

Rein Loik	Chairman of the Management Board	/signed/	March 18, 2014
Einari Bambus	Member of the Management Board	/signed/	March 18, 2014
Anneli Turkin	Member of the Management Board	/signed/	March 18, 2014
Erik Sakkov	Member of the Management Board	/signed/	March 18, 2014

The Supervisory Board has reviewed the annual report prepared by the Management Board and which consists of the management report, financial statements, profit allocation proposal and independent auditor's report and approved it for presentation at the General Meeting of Shareholders. The Supervisory Board confirms the correctness of the information presented in the annual report.

### Supervisory Board:

Toivo Jürgenson	Chairman of the Supervisory Board	/signed/	..... 2014
Arto Aas	Member of the Supervisory Board	/signed/	..... 2014
Väino Linde	Member of the Supervisory Board	/signed/	..... 2014
Kalle Palling	Member of the Supervisory Board	/signed/	..... 2014
Cinzia Siig	Member of the Supervisory Board	/signed/	..... 2014
Tiit Riisalo	Member of the Supervisory Board	/signed/	..... 2014

## Revenue of AS Tallinna Lennujaam according to EMTAK 2008

<b>in EUR thousand</b>	<b>2013</b>	<b>2012</b>
EMTAK code		
35131 Distribution of electricity	577	588
52231 Operation of airports and airport passenger terminals	21,551	18,560
52239 Other support activities for air transportation	8,126	10,118
85599 Other education	34	32