



# Annual report 2019

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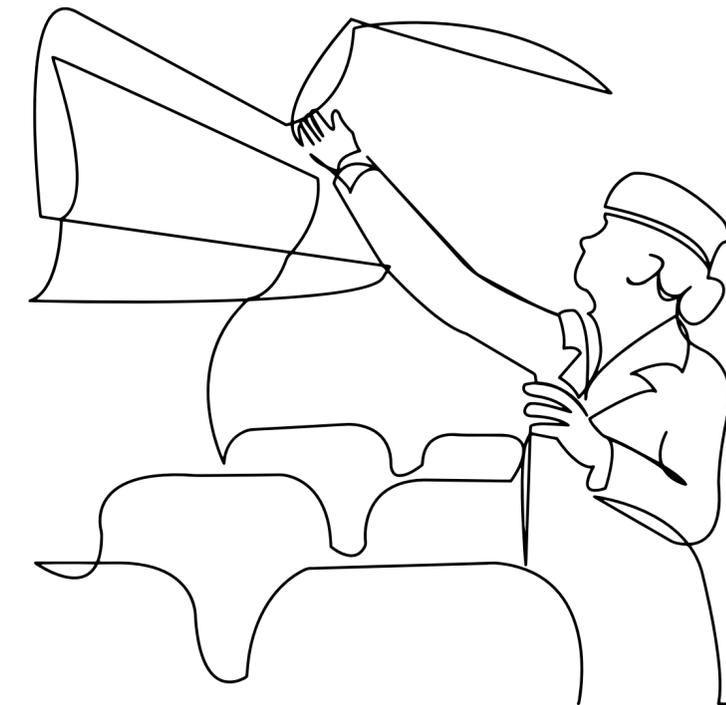
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# Dear reader!

Estonia had a good year in 2019. Despite initial modest forecasts and fears of an economic slowdown, the economy kept growing. Last year, one of the economic growth drivers was tourism: the number of tourists staying in Estonia increased by 5.3% as compared to 2018.

The fact that CNN selected Estonia as one of the world's top travel destinations in 2020 is an excellent example of Estonia's continued attractiveness to our close neighbours, distant visitors, specialists and foreign investors.

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## One of the cornerstones of the Estonian economy is Tallinn Airport. We connect Estonia with the world.

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The year 2019 was a good year for Tallinn Airport: the number of passengers continued to reach new highs. In 2018, we had more than three million passengers for the first time and we forecast 3.15 million passengers for 2019. However, by the end of the year we exceeded all expectations and reached the highest number of passengers ever for Tallinn Airport: 3.27 million. The growth as compared to the previous year was 8.7%.

The factors contributing to attainment of the 3.27 million passenger threshold included new routes launched in 2019 and a high load factor of aircraft that increased by 5% as compared to the previous year, reaching 75% at the year-end. In 2019, we made solid progress in attaining a better connection with Europe. In 2019, our home carrier Nordica changed its business strategy, no longer operating direct flights and focusing on outsourced services. Although other airlines also cut their costs, demand stayed strong. Our route network has increased. The frequency of flights to key hubs makes a wide range of destinations available for Estonian passengers while also bringing more tourists and business travellers to Estonia.

Tallinn Airport is one of the fastest growing airports in Europe. Higher income, increasingly cheaper airline tickets and growth in departing flight connections will propel this growth even further. Considering the outbreak of the COVID-19 virus that started in China at the year-end 2019, the forecasts

may change because the final extent of the virus pandemic on air traffic will only be known by the end of 2020. We believe that the designated new routes to Rome, Zurich, Hamburg and Nice will be launched but later than planned. We estimate that the number of passengers at Tallinn Airport will be 4.5 million by the year 2025.

In 2019, the number of passengers also increased in all regional airports, where the total number of passengers was 67,077. In these airports, we plan to open new routes departing from Kuressaare or Tartu.

If Tallinn Airport keeps growing, it is much easier to implement our plans and invest in the future. Among other things, this will be backed by strong financial results achieved in 2019, as we were able to increase our profits by 30%. Top-level management and a strong financial position are very important to us, because this is the only way for us to implement our short-term capital expenditure plan.

In 2020, we plan to invest EUR 41.8 million in infrastructure, equipment and IT systems, which will help us become an even more modern and efficient airport. The volume of capital expenditures for the next five years will EUR 188 million, the major share of which will be invested in the gradual expansion of the passenger terminal of Tallinn Airport.

We took our first steps to launching terminal expansion in 2019. According to the company's vision, Tallinn Airport will have to be able to serve 4.5 million passengers in 2024. The airport passenger terminal has been built for 2.6 million passengers and it is already operating close to its capacity. Due to our professional team, we have managed to do well despite confined space and ensured a high quality of services. However, infrastructure problems should not hinder the growth of the airport and the number of passengers.

We will soon launch the first design phase of the passenger terminal extension, followed by construction in 2021–2023 according to the plan. As a consequence, the airport's capacity and quality of services will considerably be improved. By the end of the first phase, the size of the passenger terminal of Tallinn Airport should be ca 45,000 square metres and by then, we will have reconstructed the passenger terminal and expanded it by ca 50% as compared to the current square area. In 2020, we will

launch the extension of the baggage sorting area, increase the number of passenger terminal waiting lounges and expand their square area, and we will make other, minor works that will improve the quality of services for passengers.

In 2019, we prepared ourselves for the works of the second phase of the development project relating to the airside area of Tallinn Airport. One of their key goals is to resolve the rainwater quality assurance issue so that the environment would be protected and air traffic safe.

In 2020–2021, the second construction phase of the development of Tallinn Airport's airside will commence. In this phase, we will build aircraft stands on the airfield and a southern taxiway system as well as continue construction of the support facilities that would alleviate the environmental impact. The estimated cost of the second phase is EUR 30 million, of this amount EUR 11 million will be spent in 2020.

Our largest project in 2020 will be a complete overhaul of Pärnu Airport, after which we will be able to receive Airbus 320 type aircraft there. We place great value on the satisfaction of our passengers, customers and cooperation partners, and thus our growth needs to be subtle.

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## **We care for the surrounding natural environment. We are dedicating to reducing the negative environmental impact arising from our operations.**

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Of the amount of CO<sub>2</sub> emitted by our company, 80% is caused by electricity consumption at Tallinn Airport. Therefore, when making capital expenditures, we pay great attention to the reduction of electricity consumption and transition to more environmentally-friendly sources of energy. In 2020, we plan to build solar parks in the key airports to reduce our CO<sub>2</sub> footprint even further. In addition, we will gradually start using the auxiliary power units of aircraft that run on batteries in order to save 2.4 tonnes of diesel fuel annually.

In 2019, we evaluated the CO<sub>2</sub> footprint of our company. We attained the first level of the Airport Carbon Accreditation system of airports, which is our first step towards climate neutrality.

The goal of Tallinn Airport is to continue being the world's cosiest airport in the future. We also conducted a passenger satisfaction survey in 2019, using the airport service quality (ASQ) parameters of the global airport passenger survey organised by the ACI as the basis. Our score was

4.5 and this places us among the best airports in Europe. In the coming years, and prior to major construction and development works, our keyword is passenger driven service design, because our goal is to remain among the best airports in Europe.

Our team has a great honour to work for Estonia. As the surveys demonstrate, Tallinn Airport continues to be the most attractive employer in Estonia. Based on the results of the survey by Kantar Emor on employer reputation that was carried out in spring, Tallinn Airport is the most attractive employer for the people of Estonia. According to the survey by Instar, Tallinn Airport is the preferred employer among senior employees. It is a great honour for us.

We invest not only in concrete but also in our organisation. The sports club and mixed choir of Tallinn Airport will continue to be important to us also in 2020. We believe in employee involvement: we are developing such an organisational culture where employee involvement and cooperation are highly valued. The thoughts and ideas of our people are invaluable for accomplishing our mission and we value them. Our values include openness, thoughtfulness and integrity and we will uphold them also in 2020.

At the beginning of 2020, the existence of a new coronavirus (COVID-19) was confirmed. The virus quickly spread throughout the world, including Estonia, causing problems for companies and their economic activities. The state of emergency in Europe has led to a sharp decrease in passengers and flight operations. According to various estimates, the period of restrictions related to the virus may last from March until May and the air traffic may not be restored at the level of 2019. Our activities related to the virus outbreak have several stages. The first stage was protection of the Group's employees and the second stage involves adjustment of the activities of the Group due to lower air traffic. The third stage will be evaluation of the economic impact and minimisation of losses, and the activities of the fourth stage will be targeted at restoring the air traffic.

We connect Estonia with the world and help you fly around the world as conveniently and easily as possible!

### **Riivo Tuvike**

Chairman of the Management Board



# Company overview

Tallinn Airport is the operator and developer of airports in Estonia. Tallinn Airport Ltd together with its subsidiary Tallinn Airport GH Ltd make up Tallinn Airport Group.

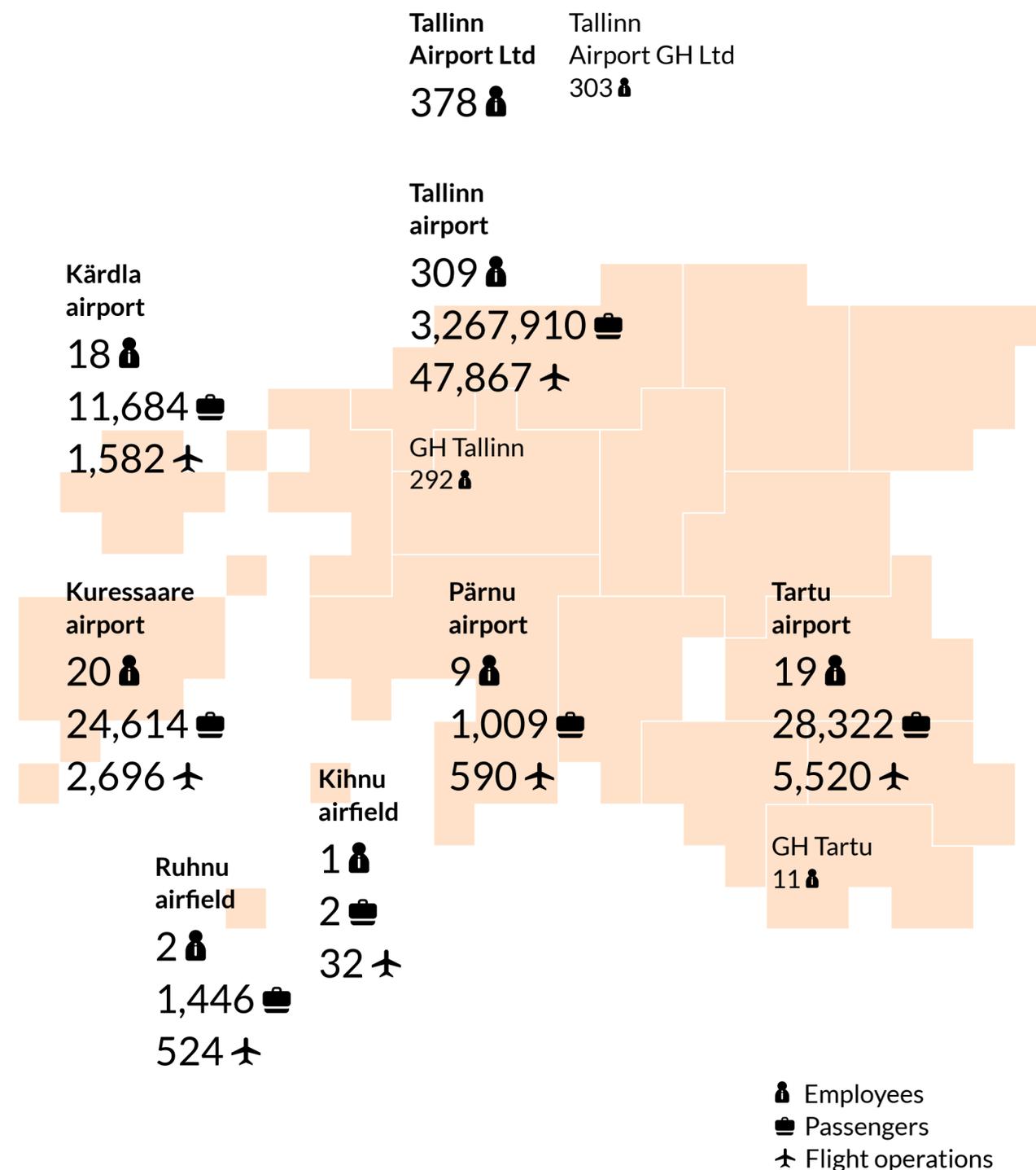
The Group's head office is located in Tallinn. The shares in Tallinn Airport Ltd are held by the Republic of Estonia and the company operates within the jurisdiction of the Ministry of Economic Affairs and Communications. The founder and shareholder of Tallinn Airport GH Ltd is Tallinn Airport Ltd. As at the end of the financial year, the Group had 681 employees.

**The Group's areas of operation include:**

- management of airport infrastructure – the airports of Tallinn, Kuressaare, Kärdla, Pärnu and Tartu as well as the airfields of Kihnu and Ruhnu;
- provision of the airport and air navigation services;
- provision of ground handling services to international and domestic scheduled and general aviation aircraft, passengers and cargo;
- real estate sale and development.

**The most important performance indicators of the Group in 2018 and 2019**

|                                 | 2019        | 2018        | Change % |
|---------------------------------|-------------|-------------|----------|
| Passengers at Tallinn Airport   | 3,267,910   | 3,007,644   | 9        |
| Passengers at regional airports | 67,077      | 61,507      | 9        |
| Revenue                         | 47.1 mln €  | 43.8 mln €  | 8        |
| Total operating revenue         | 60.4 mln €  | 53.9 mln €  | 12       |
| Net profit                      | 9.7 mln €   | 7.5 mln €   | 30       |
| Balance sheet total             | 226.1 mln € | 189.7 mln € | 19       |
| Investment volume               | 10.2 mln €  | 22.7 mln €  | -55      |



# Events in 2019





### New routes:

- Ryanair started flying to Berlin.
- Belavia started flying to Minsk.
- Wizz Air started flying to Khuthaisi.
- airBaltic started flying to Brussels, Malaga, Kopenhagen and Salzburg.
- Lufthansa reopens the Munich route.

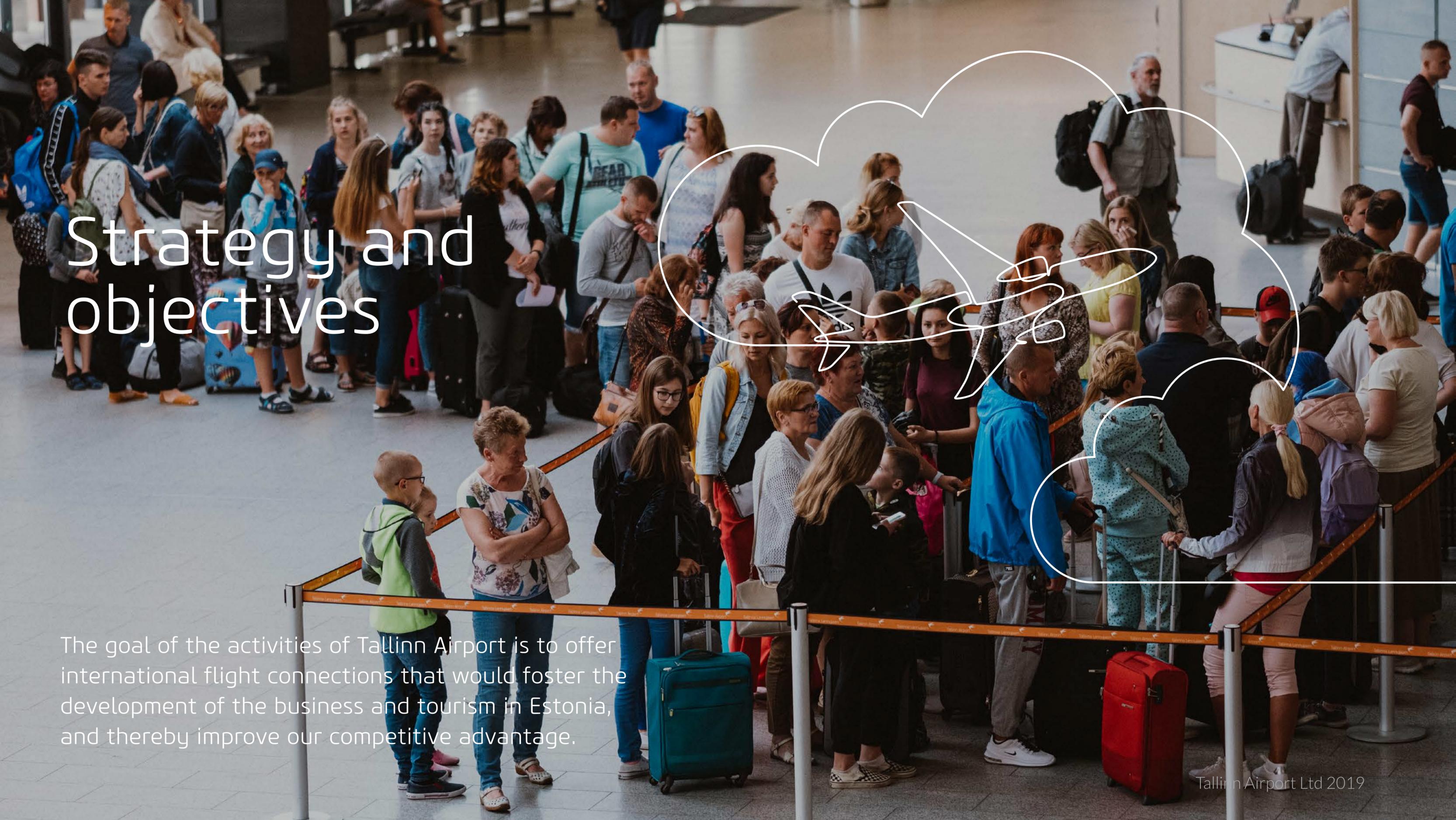
### Acknowledgements

- Tallinn Airport was named as the Visionary of the Year by the Estonian Chamber of Disabled People.
- In the employer survey by CV-Online, Tallinn Airport Ltd ranked first in spring and second in autumn in the transport and logistics sector.
- According to the reputation survey of Kantar Emor, Tallinn Airport ranked as the most attractive employer.
- According the survey by Instar, Tallinn Airport Ltd was the most attractive employer in Estonia among senior employees.
- At the congress of the Airports Council International (ACI) Europe, the best airports in Europe were announced. Tallinn Airport ranked third after the airports of Cork and London City.

### Community events

- Environmental month "There Is Only One Planet EARTH".
- Cybersecurity month.
- Donor days and training courses on resuscitation to the members of the community.
- Celebration of the birthday of Tallinn Airport with the community and plane spotters.
- Scooter ride around the perimeter.
- Car orienteering.
- Movie night at Lennuliiklusteeninduse AS.





# Strategy and objectives

The goal of the activities of Tallinn Airport is to offer international flight connections that would foster the development of the business and tourism in Estonia, and thereby improve our competitive advantage.



We create opportunities so that you can travel from Tallinn Airport to the most important destinations in Europe with a reasonable frequency and time. At the regional airports, we wish to ensure good regional flight connections and efficient management of airports.

The safety and security of passengers and services is important. We want to be a reliable, open and caring company. We manage the effects of our activities on the natural environment and implement measures to reduce the negative effects.

The strategic quality objective of Tallinn Airport GH Ltd is to grow into a company with highest quality of ground handling in Northern Europe. We wish to provide timely delivery of services to all airlines at a minimum rate of 97.5% and to be among the top five companies in the quality assessment of airline service stations.

## Mission

### Unite Estonia with the world

**For the airline**  
Every flight counts!

- Growing number of passengers and destinations
- Balanced portfolio of airlines
- Services with best value for money
- 24/7 efficient and safe operations on a modern infrastructure

**Implementation of solutions and digitalization of work processes to improve performance**

**Trustworthy team with common vision who appreciates teamwork**

## Vision

### The most attractive airport in Europe

**For travelers**  
Positively surprising the world's most domestic airport!

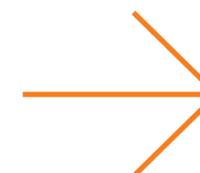
- The region's best service quality, punctuality and passenger capacity
- Excellent customer experience
- A portfolio of services and products that meets passengers' expectations

**For partners**  
Attractive business environment!

- Growth in the performance of business partnership and productivity of commercial real estate
- Expansion into new business areas

**RESPONSIBLE ORGANISATION AND CARING EMPLOYEES**

**Result oriented ambitions and continuously developing team**



In the autumn of 2019, the Republic of Estonia as the sole shareholder laid down the expectations of the owner for Tallinn Airport Ltd. The company was defined as a business undertaking with primarily public objectives.

The objectives set for the company by its owner include:

- The company will maintain and increase air traffic.
- Different focus groups will be able to travel from Tallinn Airport to the main European destinations with a reasonable frequency and travel time.
- The company's operations will be profitable and efficient.
- The company's business will bring economic benefits to its owners, internal and external clients as well as the society at large. With its operations, the company will contribute to the development of the country's economic environment.
- The company will operate in a sustainable and responsible manner (safety and environmental sustainability).
- The company will create a safe and sustainable operating environment. It will guarantee the compliance of the operations of airfields as well as the level of services provided to aircraft, passengers and cargo with international and local regulations and mutually agreed terms and conditions.
- The company will manage the effect of its operations on the natural and economic environment as well as its stakeholders, and will apply measures to reduce negative impacts.
- The company will operate regional airports to support the development of the economic environment in various regions of Estonia using the grants received from the state.

## Vision of Group Tallinn Airport until 2024

In aviation, our underlying principles are always security and safety and we also place great value on responsibility, innovation and our people.

- **By 2024, Tallinn Airport will have direct connections with the most important European business centres and the first direct intercontinental flight routes.** Our goal is to

increase the number of year-round flight destinations from 28 to 40 and the number of seasonal destinations from 37 to 50. We will have opened the first flight route to the Middle East, although the flights to Asia and America will still pass through the European hubs. The mission of Tallinn Airport is to connect Estonia with the world. Thus, our task is to help increase the frequency of flight connections with the key European hubs where connecting flights would be as fast and convenient as possible from the point of view of time and logistics.

- Household income will grow and the growth in the number of flight connections will also lead to the growth in the number of passengers. **By the year-end 2024, the number of passengers will be 4.5 million** whose impact on Estonian tax collections will be approximately EUR 300 million, thereby supporting the Estonian economy as a whole.

- **Tallinn Airport will be the world's cosiest airport** where the passenger journey will be based on the logic of the design of the service. Due to the convenient services created for passengers in the security check, shops and dining areas, they will be happy and satisfied with the airport. Our goal will be to maintain the top-level quality in our services and we will constantly rank among the top five European airports. According to the ASQ survey measure, we will receive 4.5 points out of the possible 5 points.

- **We will have deployed the most modern technological solutions at the passenger terminal of Tallinn Airport**, ensuring the highest security and making the passenger journey more convenient, smoother and faster so that passengers can enjoy their flights even more. This will be possible if the entire passenger journey (from smart parking solutions to the luggage check-in, personal identification and automation of the gate service) is supported by the mobile e-airport designed according to modern standards.

- **Tallinn Airport will become the new business-friendly centre of the City of Tallinn.** By 2024, we will have launched the construction of the business city - Airport City - at the airport to become an even more attractive business environment for the entrepreneurs, investors, and business and conference tourists visiting Estonia or continuing their travel from here.

The complex of hangars and buildings necessary for serving cargo flights and providing maintenance for aircraft will have been completed on the southern territory of the airport. The air cargo volume will have increased to 50 tonnes per year (2019:10 tonnes).

- **We will care for the environment and sustainable development.** The aim of our activities and future plans will be reducing our environmental footprint. We will build solar parks in all our airports and we will reduce consumption of outsourced electricity. Be it small or big, each step to reduce the footprint will be important to us. Flight security and safety will be part of our DNA, where we will not make any compromises.
- **Tallinn Airport Group will be a valued employer.** We will value a professional work environment and management. We will act in a professional and efficient manner and keep our promises; we will always be open to cooperation and care about passengers, customers, partners and employees. Our team will be close-knit, reliable and innovative and this will enable us to perform great deeds. We will reduce bureaucracy and use convenient intuitive information systems, where the data concerning decision-making will be readily available.
- **Regional airports will be important from the point of view of regional development and sustainable operations.** Pärnu Airport will be completely renovated and ready for international air traffic. We will have opened flight routes from Pärnu and Kuressaare Airports.

We follow the sustainable development goals (SDG) of the United Nations Organisation. Our activities help us fulfil these goals – good health and well-being, decent work and economic growth, industry, innovation and infrastructure, responsible consumption and production, and climate action.

We submit the corporate governance report about our operations, compiled on the basis of the global reporting initiative (GRI) guidelines.

Tallinn Airport Ltd is the member of the Responsible Business Forum. Since 2013, we have participated in the evaluation of a responsible business organised by this non-profit organisation. Tallinn Airport Ltd was recognised with the silver award for its responsible business activities in 2013 and the gold award for the years 2015, 2017 and 2018.

In 2019, the consulting company Sustinere once again analysed the annual reports of 100 most influential companies in Estonia. The topics assessed included the extent to which companies describe the sustainability of the social and environmental impact of their activities, corporate governance principles and their broader role in the society. The score given to Tallinn Airport Ltd for the quality of corporate social responsibility disclosure as well as the extent and depth of covering issues in the 2018 annual report was 87% (2017: 89%). Tallinn Airport Ltd ranked second among the 100 companies that were reviewed.

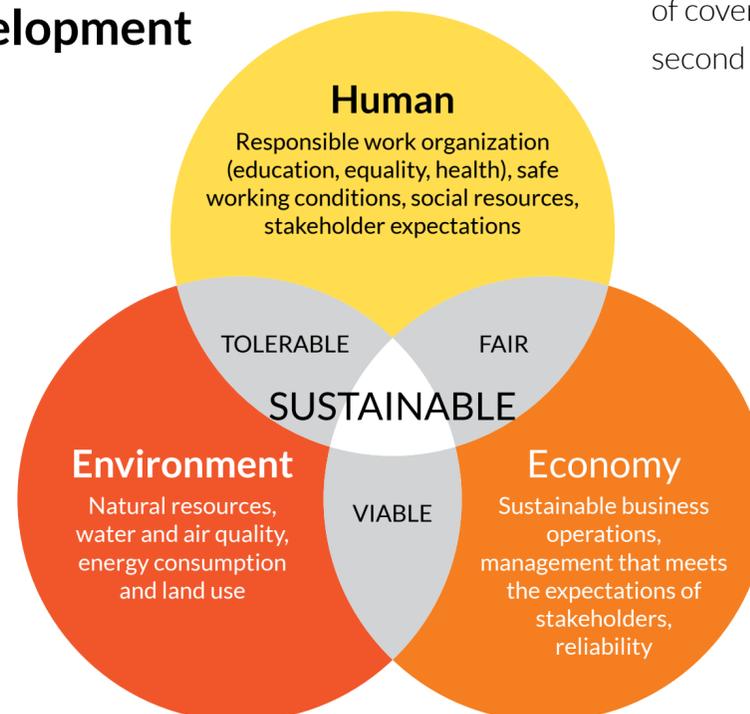


**RESPONSIBLE  
BUSINESS INDEX  
GOLD LEVEL 2019**

## Key objectives of sustainable development

In its business operations, Tallinn Airport follows the principles of sustainable development.

We have taken into account the economic, social and environmental impact of our business.



## Achievement of targets

### Airfield service

| Target   | Measure 2019   | Achievement                          |
|--|--|--------------------------------------|
| <b>Our activity or inactivity does not cause the stoppage of flight activity</b>       | No more than 30 minutes of flight stoppage in absolute terms per airport   | <b>0 minutes at all airfields</b>    |
|  | All certificates issued to Tallinn Airport Ltd are valid   | <b>Certificates are valid</b>        |
|  | There is no violation of the concept of uniform principles of aviation security established by the European Union, and the European Union has not imposed any sanctions on Tallinn Airport for the violation of aviation security requirements | <b>Target achieved</b>               |
| <b>No aircraft accidents or serious incidents occur because of our fault</b>           | No aircraft accidents or serious incidents   | <b>0 / 0</b>                         |
| <b>We serve all aircraft wishing to land at Tallinn Airport</b>                        | Number of unserved aircraft: 0 (scheduled flights, regular charter and cargo flights)  | <b>0 (all flights served)</b>        |
| <b>Regional airports' residual income growth</b>                                       | EUR 0 (2018 contribution margin: EUR -0.4 million)   | <b>Target achieved</b>               |
| <b>Aviation revenue growth (in absolute terms)</b>                                     | EUR 17.1 million (2018: EUR 16.2 million, growth 5.7%)   | <b>EUR 17.5 million, growth 8.3%</b> |
| <b>Punctuality of scheduled and charter flights of Tallinn Airport GH Ltd is ≤2.5%</b> |  | <b>Punctuality is below 2.5%</b>     |

### Passenger service

| Target   | Measure 2019   | Achievement   |
|--|--|---|
| <b>Total number of passengers in all airports</b>  | 3.118 million passengers   | <b>3.335 million passengers</b>   |
| <b>Increase of Tallinn Airport's passenger satisfaction as per ASQ</b>   | 4.45 on a 5-point scale  | <b>4.50</b>   |
| <b>Increase in number of year-round direct flight destinations</b>   | At least 27 destinations   | <b>28 destinations</b>  |
| <b>We offer excellent passenger experience at critical junctions of Tallinn Airport passenger terminal during peak hours</b> | Service level agreements have been concluded and monitoring has been arranged:   |   |
|  | <ul style="list-style-type: none"> <li>• Waiting for and completion of the security check under 30 min</li> </ul>  | <b>Average for the year: 16 min</b>                                       |
|  | <ul style="list-style-type: none"> <li>• 95% of arriving passengers pass border checks in less than 30 minutes</li> <li>• Baggage arrives in less than 15 min</li> </ul> | <b>No measurement solution</b>  |
|  | <ul style="list-style-type: none"> <li>• Taxi waiting time is less than 15 min</li> </ul>  | <b>Baggage arrives in less than 15 min (average for the year: 10 min)</b> |
|  |  | <b>Taxi waiting time is less than 15 min</b>                              |

**Partners and sales**

| Target  | Measure 2019   | Performance                          |
|---|--|--------------------------------------|
| <b>Tallinn Airport Group's non-aviation revenue growth</b>                                    | EUR 28.6 million (2018: EUR 27.6 million), growth 3.4% | <b>EUR 29.6 million, growth 7.1%</b> |
| <b>Growth of passenger satisfaction with trade and catering at Tallinn Airport as per ASQ</b> | Catering 4.3 on a 5-point scale                        | <b>4,09</b>                          |
|   | Trade 4.2 on a 5-point scale                           | <b>4,05</b>                          |

**Organisation**

| Target   | Measure 2019   | Performance  |
|--|--|--|
| <b>Tallinn Airport Group's EBITDA growth</b>                           | EUR 16.7 million (consolidated) (2018: EUR 15.1 million, growth 10.8%) | <b>EUR 17.9 million, growth 19%</b>  |
|  |  | <b>We manage the impact of our activities on the natural and economic</b>  |
| <b>We increase the commitment of Tallinn Airport Group's employees</b> | TRI*M Index 78 points  | <b>TRI*M Index 72 points</b>   |
| <b>We maintain the company's open and reliable image</b>               | In top 10 of Estonia's most attractive employers                       | <b>No 1 employer among employed persons according to the Instar survey. In top 5 among higher education and vocational schools students.</b> |
|  | 80% of the Group's media coverage is objective and positive            | <b>87% positive coverage according to Kantar Emor employers' reputation survey</b>   |

**Organisation**

| Target   | Measure 2019   | Performance   |
|--|--|---|
| <b>We improve business continuity of Tallinn Airport Group</b>   | Availability of mission-critical systems and services 100%   | <b>100%</b>   |
|  | Availability of business-critical systems and services 92%   | <b>98,7%</b>  |
|  | Severe accidents at work 0, mild accidents 5   | <b>At Tallinn Airport Ltd, 1 severe accident at work; 3 mild accidents<br/>At Tallinn Airport GH Ltd, 0 severe accidents at work, 19 mild accidents</b> |
| <b>We manage the impact of our activities on the natural and economic environment, and our stakeholders.</b> | Activities of the environmental programme have been implemented  | <b>Activities are implemented as agreed</b>   |
|  | • Carbon neutral airport level I, i.e. the airport joined the CO <sup>2</sup> carbon accreditation programme at 30 June 2019 | <b>Level I certificate valid until 11 October 2020</b>  |
| <b>We apply measures to reduce negative effects.</b>   | • Gold level in the category of responsible companies  | <b>Gold level achieved</b>  |
| <b>We reduce the ecological footprint</b>  | • Business ethics incidents 0  | <b>Incidents: 0</b>   |
|  | • Personal injury incidents (employees, partners, customers) less than in 2018   | <b>Incidents 23 (2018: 35)</b>  |

\* The report presents the most important strategic goals of Tallinn Airport Ltd and Tallinn Airport GH Ltd

# Management of the company

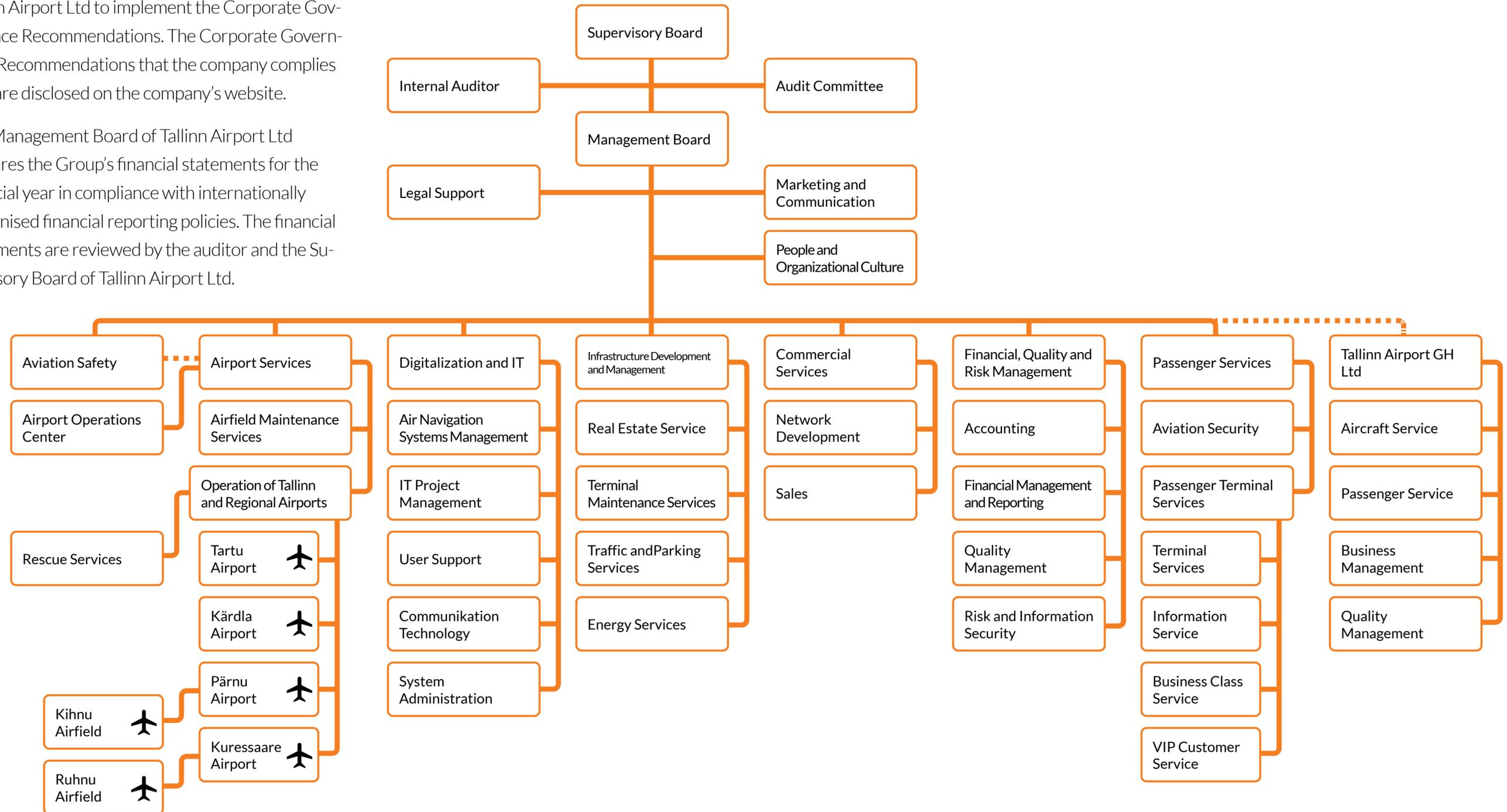
Tallinn Airport is guided by three core values:  
to be an open, responsible and reliable company  
that meets high ethical standards.

## Corporate governance report

As a state-owned enterprise, it is mandatory for Tallinn Airport Ltd to implement the Corporate Governance Recommendations. The Corporate Governance Recommendations that the company complies with are disclosed on the company's website.

The Management Board of Tallinn Airport Ltd prepares the Group's financial statements for the financial year in compliance with internationally recognised financial reporting policies. The financial statements are reviewed by the auditor and the Supervisory Board of Tallinn Airport Ltd.

### Organisational structure of Tallinn Airport Group



**The General Meeting**

The General Meeting of shareholders of Tallinn Airport Ltd held at 4 April 2019 approved the audited annual report for 2018, the profit allocation proposal and the auditor’s report.

**Supervisory Board of Tallinn Airport Ltd**

According to the Company’s articles of association, the Supervisory Board has five members. The members of the Supervisory Board are appointed for a term of three years. The remuneration is determined by the General Meeting.

Members of the Supervisory Board in 2019

**Chairman** Märten Vaikmaa (since 31.08.2017)

**Members** Piret Aava (since 17.08.2017)  
 Indrek Gailan (until 21.11.2019)  
 Toivo Jürgenson (since 17.08.2017)  
 Kadri Land (since 17.08.2017)  
 Jaanus Uiga (since 21.11.2019)



In 2019, the Supervisory Board convened 14 times (2018: 10 times). The remuneration of the members of the Supervisory Board (remuneration exclusive of social taxes) totalled EUR 38 thousand (2018: EUR 39 thousand).

**Audit Committee**

Members of the Audit Committee in 2019

**Chairman** Toivo Jürgenson      **Members** Piret Aava  
 Indrek Gailan

The Audit Committee convened six times (2018: also six). It reviewed and approved the 2018 annual report of the airport and the results of the 2019 interim audit, and elected the auditor for the new period. It also discussed the issue of the liberalisation of the market of ground handling services. At 19 February 2020, the composition of the auditing committee was changed when Jaanus Uiga replaced Indrek Gailan as the member of the Audit Committee.

**Management Board of Tallinn Airport Ltd**

There was a change in the membership of the Management Board in 2019: Piret Mürk-Dubout stepped down at 12 April 2019 and from 1 June 2019, the Chairman of the Management Board is Riivo Tuvike.

**Chairman** Piret Mürk-Dubout (until 12.04.2019)  
 Riivo Tuvike (since 01.06.2019)

**Members** Einari Bambus  
 Anneli Turkin

In 2019, the Management Board held 73 meetings (2018: 76). The remuneration of the members of the Management Board (fee for service contract, vacation and bonus accrual) amounted to EUR 347 thousand (2018: EUR 333 thousand), excluding social taxes.

Riivo Tuvike



Anneli Turkin



Einari Bambus



Tallinn Airport is the category of airports with 3-5 million passengers and it requires a different management model with increased centralisation as well as more specific and defined responsibilities. In 2019, we carried out an extensive change in the company's management structure. Part of this change was increasing the role of the management. The management is the company's governing body, which manages and organises the company's activities according to the set goals. All decisions concerning the company's operations are made by the management. From the second half of 2019, the Management Board and the management started to hold joint meetings.

Members of the management

- Riivo Tuvike, Chairman of the Management Board
- Anneli Turkin, Member of the Management Board, Financial, Quality and Risk Management
- Einari Bambus, Member of the Management Board, Airfield Services
- Katrin Hagel, Passenger Services
- Andrus Järg, Digitalisation and IT
- Tiit Kepp, Chairman of the Management Board of Tallinn Airport GH Ltd (since 31 January 2020)
- Anneli Lille, Human Resources and Organisational Culture
- Tõnu Mühle, Infrastructure Development and Management
- Eero Pärasmäe, Commercial Services

#### **Supervisory Board of Tallinn Airport GH Ltd**

The powers and the responsibility of the Supervisory Board are laid down in the company's articles of association. The members of the Supervisory Board are elected by the Management Board of Tallinn Airport Ltd.

**Chairman** Einari Bambus

**Members** Anneli Turkin  
Martin Männik  
Tõnu Ader

In 2019, the Supervisory Board held seven meetings (2018: nine). The membership of the Supervisory Board changed at 1 February 2020 when Supervisory Board members Martin Männik and Tõnu Ader were replaced by Katrin Hagel and Jukka Rahko. Einari Bambus and Anneli Turkin continued as members of the Supervisory Board.

The members of the Management Board of Tallinn Airport Ltd do not receive any fee for the membership in the Supervisory Board of the company's subsidiary. The remuneration of the members of the Supervisory Board (fee without social taxes) amounted to EUR 7 thousand (2018: EUR 7 thousand).

#### **Management Board of Tallinn Airport GH Ltd**

The membership of the Management Board changed in 2019: Management Board member Age Vanajuur stepped down at 19 August 2019. The Management Board continued activities with two members.

**Chairman** Tiit Kepp (until 31.01.2020)

**Members** Indrek Nõlvak  
Age Vanajuur (until 19.08.2019)

The Management Board has one member since 1 February 2020. Indrek Nõlvak remains as the only member of the Management Board. In 2019, the Management Board held 42 meetings (2018: 21). The remuneration of the members of the Management Board (fee for service contract, vacation and bonus accrual) amounted to EUR 191 thousand (2018: EUR 120 thousand), excluding social taxes.

#### **Supervision**

The risk management system supports the achievement of the company's safety and business objectives. Using uniform risk management principles, we analyse, assess and manage the operational, business, work, environment and financial risks of the entire company.

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 the Supervisory Board of Tallinn Airport Ltd. In 2019 the internal auditor analysed the work organisation of regional airports, the use of the government grant allocated to Pärnu Airport, and reviewed risk and environmental management topics.

In addition, we oversee the compliance of our activities and services in the course of regular internal and external audits. The objective of internal reviews is by self-control to assess the

compliance of activities and services to the requirements. External reviews and audits are performed by our customers, aviation regulators and certification bodies.

Tallinn Airport GH Ltd has also implemented a compliance monitoring system in order to check the compliance of the services with the requirements. During the course of compliance monitoring, 35 to 40 flight operations and during the course of service activities, compliance with 1,051 procedural requirements were reviewed in one calendar month.

### **Ethics**

Tallinn Airport proceeds from its three core principles – to be open, caring and reliable, which correspond to high ethical standards.

We follow the principle of zero tolerance for all forms of corruption. All the employees at the airport must behave ethically, responsibly and by obeying the law and protect the Groups good name and reputation. The members of the company's management boards and supervisory boards submit a declaration of financial interests to the external auditor once a year, and the employees who organize procurements and / or are responsible budget implementers submit a declaration of conflict of interest once a year.

In order to prevent corruption and agree on rules for ethical conduct, the company has developed internal regulations on the prevention of risk of corruption and introduced a Code of Business Ethics. Each employee is able to anonymously report potential ethics violations, corruption or similar cases through the organization's internal network. No cases of ethics or corruption were reported to the case formation commission in 2019 (nor in 2018). A few observations were made on the organization of work.

### **Participation in the industry's promotion, and membership**

In 2019, Tallinn Airport actively participated in the creation of the Estonian aviation cluster. The goal of the cluster is to develop aviation as an industry and use the value chain approach for this purpose. The cluster provides strategic know-know to the State of Estonia in development of the aviation industry, export of services and products and an entry for new companies



into Estonia or their expansion here. The cluster comprises 14 companies and the goal is to increase the number of companies year-after-year.

In 2019, another focus point for Tallinn Airport was air cargo volume growth. For this purpose, a cooperation network was launched under the umbrella of the Estonian Aviation Cluster by the name of ACCE100, whose longer term goal is to increase air cargo volume tenfold, i.e. to 100,000 tonnes per year.

Tallinn Airport actively participates both in the aviation cluster and the cooperation network so as to operate and find opportunities together in Europe and elsewhere in the world. For the airport, it would create an opportunity to develop both aviation and non-aviation fields which in turn are important to ensure the sustainable operations of Tallinn Airport in the future.

Since 2018, Tallinn Airport Ltd is an active member of the Estonian Association for Environmental Management (EAEM) and since 2019, also a member of the board of the EAEM. With our knowledge and skills, we will promote environmental activities in Estonia, and help find a balance between the environmental protection and business development.

Tallinn Airport Ltd is also a member of the Nordic Working Group for Environmental Issues in Aviation (N-ALM). The representatives of the Nordic aviation authorities are members of the working group and its participation is voluntary for the representatives of ministries, environmental agencies, airport operators and airlines.

The objective of the N-ALM is to create the best conditions for the aviation industry, operating as a mutual channel of information, and promoting awareness among aviation and environmental authorities about environmental issues in order to attain this objective. In spring 2019, Tallinn Airport Ltd hosted the meeting of the N-ALM that took place for the first time in Estonia.

Tallinn Airport Group is a member in the following organisations:

- Airports Council International (ACI) Europe committee,
- Airport Services Association,
- International Civil Aviation Organization (ICAO),
- Estonian Association of Civil Engineers (MTÜ Eesti Ehitusinseneride Liit),
- Estonian Chamber of Commerce and Industry (Eesti Kaubandus-Tööstuskoda),

- Estonian Association for Environmental Management (Eesti Keskkonnajuhtimise Assotsiatsioon),
- Estonian Conference Bureau (MTÜ Eesti Konverentsibüroo),
- Estonian Quality Association (MTÜ Eesti Kvaliteediühing),
- Estonian Taxpayers' Association (Eesti Maksumaksjate Liit),
- Estonian Travel and Tourism Association (Eesti Turismifirmade Liit),
- Estonian Employers' Confederation (Eesti Tööandjate Keskliit),
- Estonian Aviation Cluster (MTÜ Estonian Aviation Cluster),
- coalition for sustainable development,
- Saaremaa Association of Entrepreneurs (MTÜ Saaremaa Ettevõtjate Liit),
- Saaremaa Tourism Foundation (SA Saaremaa Turism),
- Responsible Business Forum (MTÜ Vastutustundliku Ettevõtluse Foorum).

## Committees and their members

### **Tallinn Airfield's safety committee**

Meetings of the Tallinn Airfield's Safety Committee, held once a quarter, are attended by representatives of all the companies operating at the Tallinn Airfield. At meetings, we share safety experiences and information about future changes in infrastructure and procedures, analyse incidents and improvements to prevent them in the future. We also exchange experiences between companies operating at the airport.

### **Tallinn Airport users' committee**

In 2019, three (four in 2018) meetings of the Tallinn Airport Users' Committee were held. They were attended by representatives of Tallinn Airport Ltd, Tallinn Airport GH Ltd and airlines operating scheduled and charter flights in Tallinn. Issues related to airport operation and pricing of services were discussed.

### **Terminal users' committee of Tallinn Airport**

In the Terminal Users' Committee, we present to our tenants and partners working in the passenger terminal projects related to the improvement of the passenger customer experience



and the development of the passenger terminal. In addition, we discuss everyday work organisation issues and listen to suggestions from users at the passenger terminal.

The Passenger Terminal Users' Committee met twice in 2019 (three times in 2018). We reviewed aviation and passenger forecasts, looked at catering and trade sales trends, and talked about the airport's commercial activities and construction projects. It has also become customary to present the results of an airport service quality (ASQ) survey. Environmentally conscious consumption is becoming increasingly important at Tallinn Airport, which is why we also addressed this issue.

### **Environmental steering group**

The purpose of the environmental steering group is more efficient organisation of environmental management. The tasks of the key persons participating in the work of the steering committee are to:

- participate in the preparation process of the environmental programme, approve it and organise its fulfilment;
- make proposals to prepare and/or change the environmental policy and documentation;
- solve environmental issues and set priorities;
- increase general environmental awareness and approve study programmes.

Regular meetings of the steering group take place at least four times a year. When making decisions, the steering group takes into account possible risks and potential impacts accompanying their realisation on the operations of the airports and compliance with the requirements arising from legislation.

### **Safety and quality groups at regional airports**

Safety and quality groups meet at Kuressaare, Kärdla, Pärnu and Tartu airports at least once a quarter. Their purpose is to provide initial control over the performance of the safety management system, to receive feedback on improvement activities and to promote safety. The meetings will address current airport operation, safety and quality issues, customer feedback and deficiencies identified during airport audits. Companies operating on airport sites will be involved in the meetings.

## **Risk management**

Risk management is an integral part of the corporate governance process. Its purpose is to support attainment of safety and business goals, identify, evaluate and analyse the risks arising from operations and develop risk-conscious behaviour of the company's employees. All areas need to cooperate when performing risk assessment, analysis and identification of mitigation measures.

The risk management activities of Tallinn Airport Group may be described as follows:

- Assessment of the Company's strategic risks
- Risk assessment of the Company's fields of business
- Mandatory risk assessment resulting from external requirements
- Assessment of project risks.

The company's strategic risks are evaluated once a year. We identify potential critical and high-importance risks that impact the company's strategic goals. Many critical risks depend on the economic environment and being aware of them enables us to be ready for potential changes. The major risks continue to be pressure on wage growth and structural unemployment which is not expected to subside in the coming years.

Once a year, we also assess the risks in various areas, focusing primarily on the operational and staff risks in a particular area and on the risks impacting the sustainability of the provision of services.

### **Number of risks**

In 2019, we carried out **29** risk analyses and identified **531** risks. The majority of the risks were related to aviation safety: **44**. We identified **157** risks in regional airport and **25** in the financial area.

### **Types of risk**

By type, the company had primarily **operational risks** (296), **technical failure risks** (67), **staff risks** (49), **environmental risks** (26) and **financial risks** (14).

### **Risk levels**

The majority of the Company's risks were **medium-level risks** (231). There were 153 **high-level**, 135 **low-level** and 12 **critical risks**.

**Business risks**

By nature, the aviation market is directly related to the economic environment. Success comes from effective sales activities, constant development of routes together with knowledge of the airline companies' expectations and needs, and management of business partnerships. The record high number of passengers in 2019 was another proof of the favourable business environment.

The business partners operating on the territory of Tallinn Airport also depend on the economic environment. The shortage of tenants or their departure may lead to a temporary decline in profitability. We mitigate business risks using additional guarantees, insurance and contracts.

**Operational risks**

The Company's priority is to sustainably provide airport service at all the airports that we operate. Prevention of aviation safety risks and ensuring of security are part of this. The reputation of a safe airport requires constant work, as the burden on the staff involved in both security and flight safety increases with the increase in the number of passengers. We need to ensure compliance with the requirements of certificates, work of crucial systems without any disruptions to continuous operations, minimisation of incidents occurring in the air traffic area and maintenance of an acceptable aviation safety level.

To mitigate operational risks, we have established procedures and strictly monitor the implementation of safety policy.

**Information security and data protection**

In 2019, we paid more attention to assessment of the risks of information systems and data processing processes, and performed risk analysis for three information systems, digital services and cloud services. We updated the company's risk management system with the requirement to perform risk analyses of the information system, cloud services and data processing processes so as to assess and lower cyber threats.

We continued to organise cyber hygiene e-training courses – 200 employees of Tallinn Airport completed the second round of training courses. As a result of the training courses, the employees' general awareness has improved. There were no major cyber incidents at Tallinn Airport in 2019.



We arranged a cyber security month for the first time at Tallinn Airport. Besides various activities, there were also four training courses on the topics of personal data protection, cybersecurity of mobile phones and cloud services, and outsourcing the cybersecurity service. A total of 70 employees participated in training courses.

Tallinn Airport places great importance on cyber security related international and national cooperation. In 2018, we participated in the meetings of the European Airport Council's cybersecurity working group and hosted a course on the protection of critical information infrastructure of the NATO Cyber Security Centre. We regularly participate in the meetings of the transportation sector of the Information System Authority.

### **Environmental risks**

To perform its daily operations, Tallinn Airport Ltd needs to hold the environmental permits that follow the Estonian legislative acts. The environmental permits and the requirements set therein create both the opportunities as well as set restrictions for the company's growth.

When making construction plans, we consider the environmental impact prior to the launch of any construction activities in order to use measures to mitigate or prevent any potential negative environmental impacts. When operating the airport we need to ensure that the chemicals used on the runways as well as on aircraft are environmentally safe and the means of transportation have passed technical inspection.

In case of a chemical leakage, we need to ensure that it would not cause environmental pollution. For prevention of environmental pollution, we have established internal rules and regulations, and we are constantly monitoring the environmental status of the soil and rainwater. Besides monitoring the processes taking place at the company, we also oversee that our partners operate on our territory as required and in an environmentally-sustainable manner.

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**In 2019, there were no chemical pollution incidents in any of our airports that would have caused environmental pollution.**

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### **Crisis readiness**

In order to ensure the safe and compliant operation of all the airfields operated by Tallinn Airport Ltd, we have described the actions of the company in various crisis or emergency situations. The preparedness of the rescue services provides the Tallinn Airfield with Category 8 for rescue and firefighting. Regional airports are also completely ready to react and take actions in case of various crises and emergency situations.

In 2019, there were no aircraft accidents or serious incidents.

In 2019, we acquired a crane equipment set for immobile aircraft to ensure a safe and fast relocation of an immobile aircraft from the airfield's manoeuvring area, thereby minimising the time of the runway being out of service and incurring a financial loss. We acquired the set within the framework of the airside development project, co-funded by the EU Cohesion Fund.

In 2019, we arranged 14 field exercises for various events differing in scope. The largest ones of them occurred in Tartu and Kuressaare. In September, an aviation rescue exercise was held in Tartu together with the Police and Border Guard Board, Tartu Emergency Medical Service, the Rescue Board and Lennuliiklusteeninduse AS. In Kuressaare Airport, we arranged an exercise to resolve an event with the features of a sudden attack in collaboration with the Police and Border Guard Board, the Rescue Board and Kuressaare Hospital.

### **Staff risks**

People-related risks arise from low unemployment and continued wage growth related to the economic growth, impacting the willingness of employees to leave the company and recruitment of new employees with necessary competencies.

The Company's internal environment is characterised by a high degree of regulation, the importance of mitigating the risks related to aviation safety, the need to certify competency requirements, and the background checks of the candidates and employees. Internal risks are related to the working time (24-hour work cycle) and the nature of the work (physical work, impact of weather conditions, work intensity and time pressure on the provision of services), as well as the ability to ensure succession and fill key management positions and staff vacancies.



### **Occupational health and safety**

The Company has established an occupational safety and health management system. In 2019, Tallinn Airport GH Ltd successfully passed the initial certification in accordance with the occupational health and safety management system ISO 45001 standard.

We regularly evaluate the risks related to the working environment and occupational safety, during which we review and update the risk assessment of the working environment. We regularly evaluate the adequacy and timeliness of occupational safety instructions and organise training courses on occupational safety. We also review occupational safety and health aspects during management system audits.

In 2019, we continued to train and retrain first aid providers. We launched chemical safety training courses with the Health Board, the first people to pass it were the maintenance and rescue workers of Tallinn Airport. In 2020, we will also arrange training courses in regional airports.

There were three minor occupational accidents at Tallinn Airport Ltd (2018: one), and one serious occupational accident (2018: none).

There were 19 minor occupational accidents in Tallinn Airport GH Ltd (12 in 2018). On 17 occasions, the injured employees remained on the certificate of incapacity for work. The accident was mainly due to limited space or cramped conditions when performing work tasks (eg aircraft hold, aircraft service points).

### **Working environment councils**

Tallinn Airport Ltd and Tallinn Airport GH Ltd have established working environment councils. The purpose of both councils is to analyse the level of occupational safety at the companies, and oversee that all occupational health and safety requirements are complied with. They also make recommendations to the management boards of these companies to develop and improve the area. In the meetings of the working environment councils, the topics analysed include the occupational accidents that have taken place, the results of the risk analysis and the fulfilment of the action plan, as well as working environment topics.

Tallinn Airport Ltd has ten working environment officers, including six at Tallinn Airport and one in each regional airport. They represent all subunits and they have been elected by employees.

In 2019, Tallinn Airport GH Ltd reorganised the working environment council that now has ten representatives of Tallinn Airport GH Ltd, one representative of subcontractors and one representative of Tallinn Airport Ltd. The Company's employees have elected five working environment officers and the employer has appointed five working environment specialists.

### **Management of risks in purchase processes**

Since Tallinn Airport Ltd lacks a supply chain in the classical sense, procurements are organised, the rules and procedures of which are governed by the regulation of the organisation of procurements. The contracting authority has to comply with the good public procurement practice, use the funds expediently, reasonably and economically, and achieve the objective of a public procurement at reasonable cost, ensuring, in the event of competition, that the best possible price to quality ratio is compared among various offers. Public procurements are carried out in a transparent and verifiable manner.

One of the qualification criteria for our subcontractors includes a quality system. If possible, we set environmental sustainability requirements for the items we purchase (e.g. de-icing and cleaning devices).

In 2019, we organised 197 procurement procedures (2018: 191), including 38 (2018: 38) carried out through the public procurement register, of which 13 (2018: 11) were above the international threshold, 21 (2018: 26) were simplified procurement procedures and three were negotiated procedures without prior publication of a contract notice (2018: 1). Of all the procurements, three procurement procedures were terminated without a contract (2018: 3). Of the procurements carried out in the electronic public procurement register, 38 (2018: 38) were e-procedures.

The key issue in the coming years will be evaluation of the supply chain responsibility and development of evaluation criteria for carrying out procurement procedures in accordance with it.

An aerial photograph of the Tallinn Airport terminal and tarmac. The terminal building has a prominent blue roof and orange accents. Several aircraft are parked at gates, including Finnair, LOT, and Nordica planes. The tarmac is marked with yellow and white lines. In the background, there are green fields, a road, and a body of water under a clear sky.

# The Group's financial results of 2019

As Tallinn Airport grows, it will be much easier to implement plans and invest in the future. Top management and a strong financial position is very important to us, because that is the only way we can implement a short-term investment plan.

**The Group's key sales and financial figures**

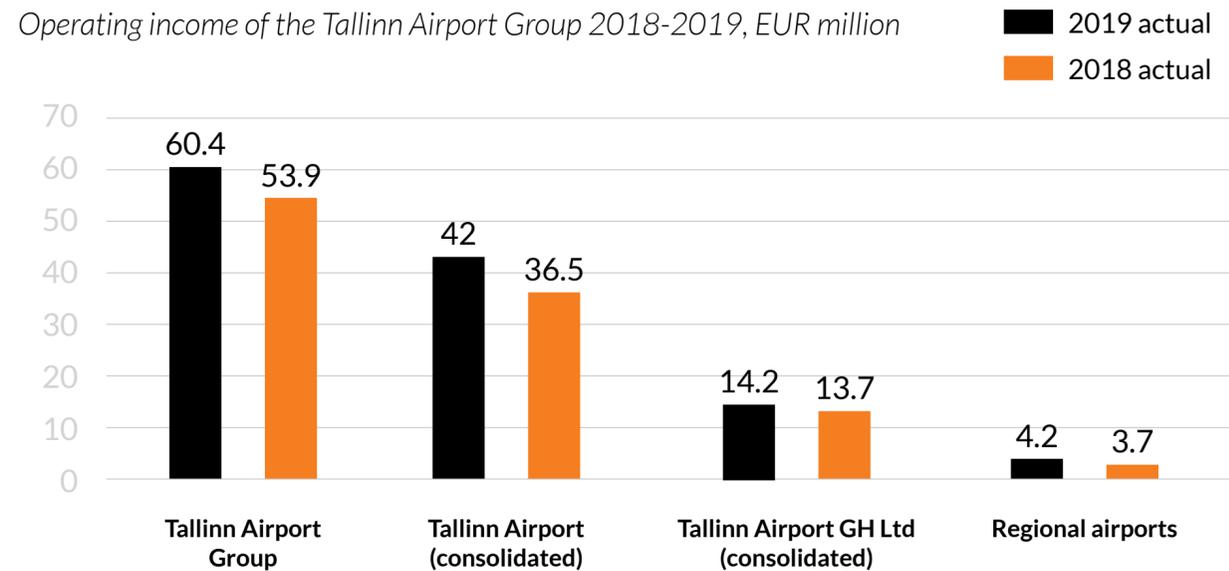
| Thousand EUR   | 2019          | 2018   | Variance % |
|--|---------------|--------|------------|
| <b>Operating income total</b>                            | <b>60,386</b> | 53,868 | 12         |
| <b>Sales revenue</b>                                     | <b>47,120</b> | 43,801 | 8          |
| incl. aviation revenue                                   | 17,497        | 16,152 | 8          |
| incl. non-aviation revenue                               | 29,623        | 27,649 | 7          |
| <b>Other income</b>                                      | <b>13,266</b> | 10,067 | 32         |
| incl. government grants for assets                       | 3,763         | 3,946  | -5         |
| incl. government grants for security and rescue expenses | 6,995         | 4,135  | 69         |
| incl. government grants for regional air-ports           | 2,200         | 1,615  | 36         |
| incl. other income                                       | 308           | 371    | -17        |
| <b>Operating profit before depreciation (EBITDA)*</b>    | <b>17,927</b> | 15,067 | 19         |
| <b>Net profit</b>  | <b>9,718</b>  | 7,482  | 30         |
| <b>Cash flows from main activity</b>                     | <b>17,262</b> | 15,450 | 12         |
| <b>Investments</b>                                       | <b>10,189</b> | 22,695 | -55        |

| Thousand EUR   | 2019           | 2018    | Variance % |
|--|----------------|---------|------------|
| <b>Total assets at the year end</b>                            | <b>226,149</b> | 189,736 | 19         |
| <b>Assets as at the year-end excluding government grants *</b> | <b>149,010</b> | 128,834 | 16         |
| <b>Equity as at the year end</b>                               | <b>95,457</b>  | 85,739  | 11         |
| <b>Borrowings as at the year end</b>                           | <b>45,619</b>  | 33,762  | 35         |
| <b>Equity/assets at the year-end*</b>                          | 64%            | 67%     |            |
| <b>Debt/operating profit before depreciation*</b>              | 2.54           | 2.24    |            |
| <b>Operating expenses total</b>                                | <b>50,467</b>  | 46,216  | 9          |
| incl. goods, materials and services                            | 15,734         | 14,035  | 12         |
| incl. other operating expenses                                 | 1,902          | 1,580   | 20         |
| incl. staff costs  | 20,949         | 19,031  | 10         |
| incl. other expenses   | 111            | 209     | -47        |
| incl. depreciation, amortisation and impairment                | 11,771         | 11,361  | 4          |

\* Does not include government grants for fixed assets.

## Sales revenue

In 2019, the Group's revenue increased by EUR 6.5 million as compared to the previous year (12%). Sales revenue accounted for 78% and other income 22% of the total revenue (2018: 81% and 19%, respectively).



In 2019, the Group's sales revenue was EUR 47.1 million which is 8% higher than last year (2018: EUR 43.8 million). Aviation revenue accounted for 37% and non-aviation revenue accounted for 63% of the sales revenue (2018: 37% and 63%, respectively).

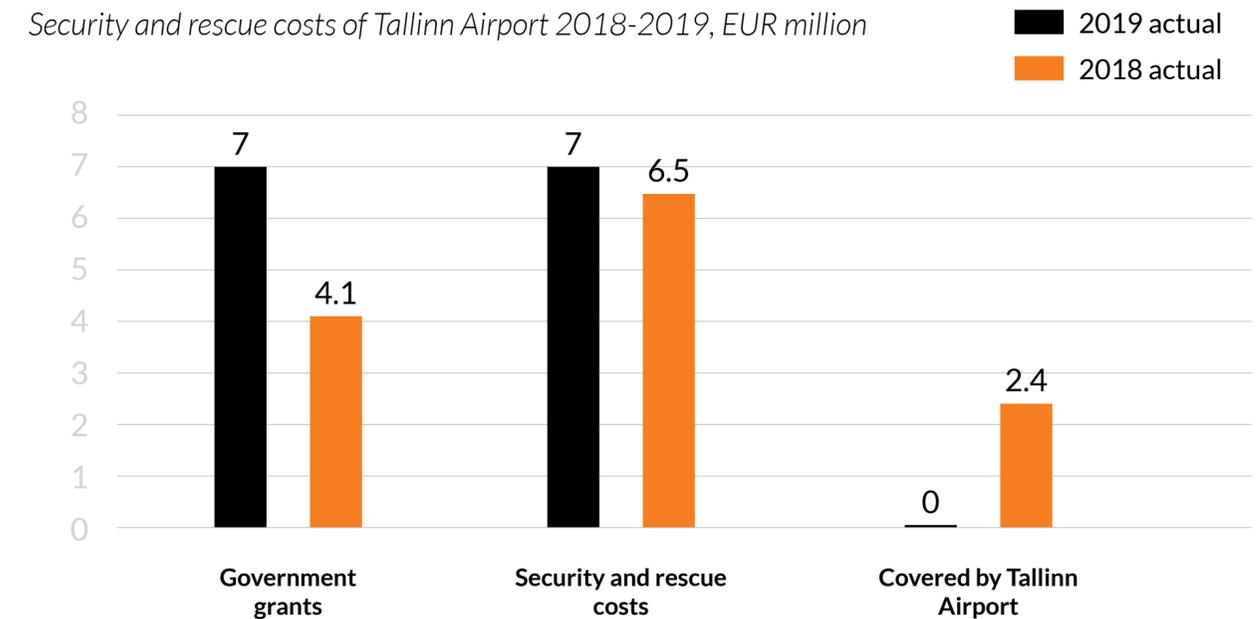
The Group's aviation revenue totalled EUR 17.5 million (2018: EUR 16.2 million), which is EUR 1.3 million (8%) higher than in the previous year. The number of passengers of Tallinn Airport was 9% higher and the number of flight operations was 1% lower than in 2018. This demonstrates that aircraft were bigger and had a better load factor. The average aviation revenue per departing passenger was 1% lower than in 2018: (2019: EUR 10.34 and 2018: EUR 10.39). The five-year route support programme was established at the beginning of 2016.

The number of passengers at regional airports was 9% higher than in 2018 (2019: 67,077 and 2018: 61,507). The aviation revenue of the regional airports decreased by EUR 0.03 million as compared to 2018, i.e. by 9% (2019: EUR 0.315 million and 2018: EUR 0.345 million).

In 2019, the Group's non-aviation revenue totalled EUR 29.6 million (2018: EUR 27.6 million), which is 7% higher than in the previous year. The unconsolidated non-aviation revenue of Tallinn Airport GH Ltd increased by 3% (2019: EUR 14.3 million and 2018: EUR 13.8 million) and the unconsolidated non-aviation revenue of Tallinn Airport Ltd increased by 11%.

Of non-aviation revenue, parking income increased by 22%, advertising revenue by 46%, retail concession income by 12% and food concession income by 8% as compared to the previous year. Revenue growth is primarily related to the growth in the number of passengers.

In 2019, other income was EUR 13.3 million (2018: EUR 10.1 million), i.e. 32% higher than in the previous year. Government grants for covering security and rescue expenses increased by EUR 2.9 million (2019: EUR 7 million and 2018: EUR 4.1 million).



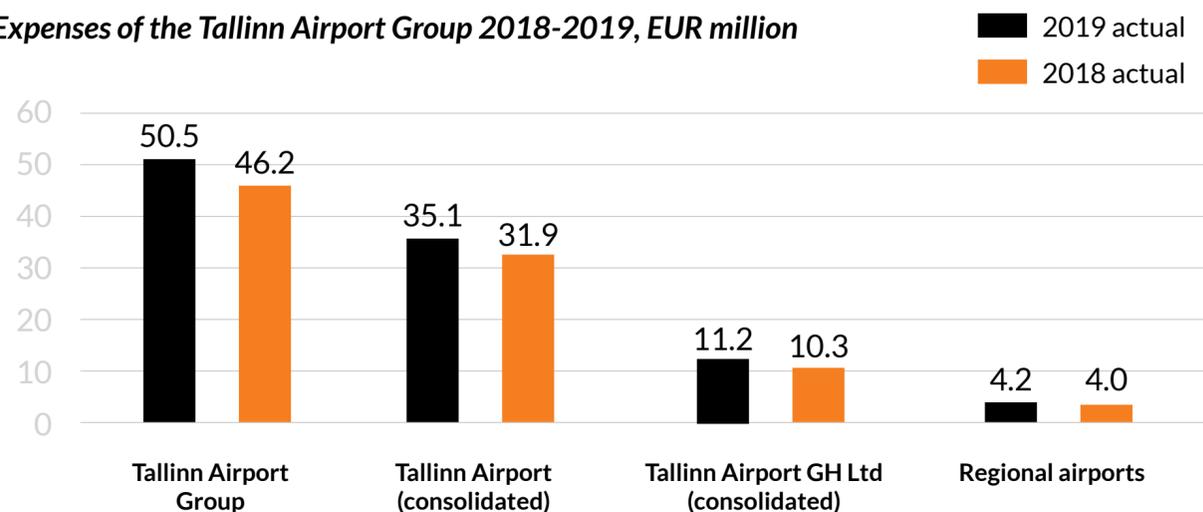
Government grants for the operating expenses of the regional airports increased by EUR 0.6 million (2019: EUR 2.2 million and 2018: EUR 1.6 million). In 2019, government grants for assets were EUR 0.1 million lower (2019: EUR 3.8 million and 2018: EUR 3.9 million).

## Expenses

The Group's expenses totalled EUR 50.5 million (2018: EUR 46.2 million), growing by EUR 4.3 million (9%). Staff costs increased by EUR 1.8 million, i.e. 10% (2019: EUR 20.9 million and 2018: EUR 19.1 million).

In 2019, depreciation and amortisation were EUR 11.8 million (2018: EUR 11.4 million), increasing by EUR 0.4 million (4%) as compared to the previous year. Costs of goods sold increased by EUR 1.7 million as compared to 2018 (2019: EUR 15.7 million and 2018: EUR 14.0 million), including outsourced aviation security costs of EUR 4 million (2018: EUR 3.6 million) which increased by EUR 0.4 million (12%). Other income totalled EUR 0.1 million (2018: EUR 0.2 million).

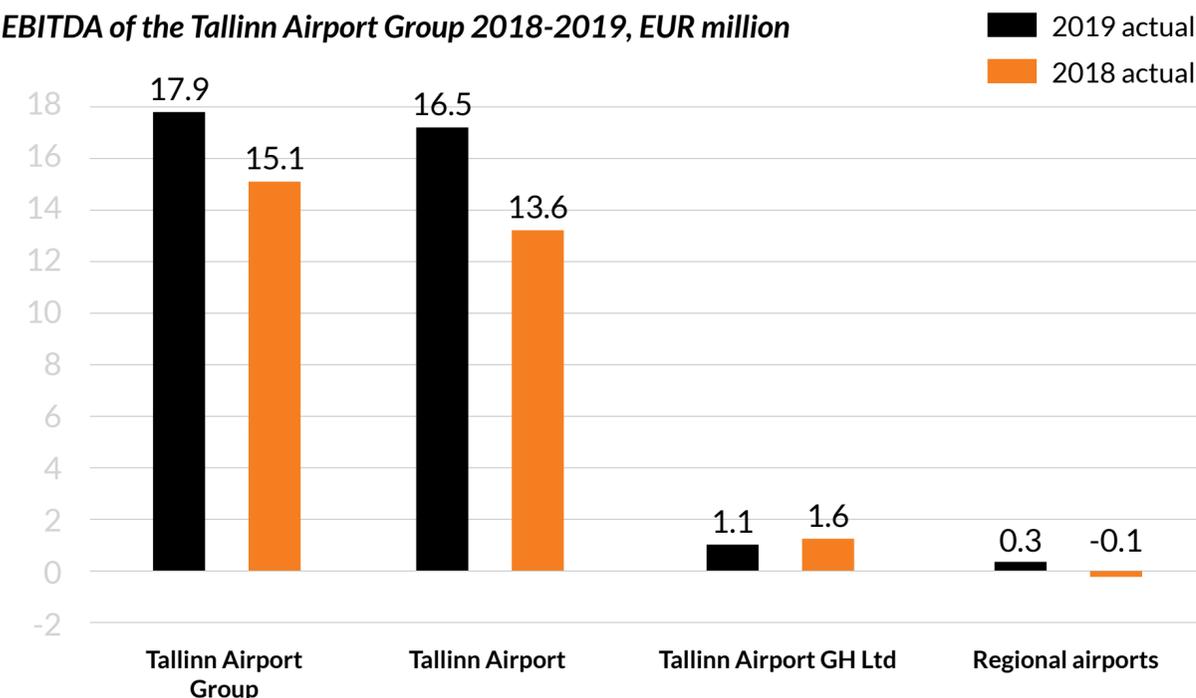
Expenses of the Tallinn Airport Group 2018-2019, EUR million



## Profit

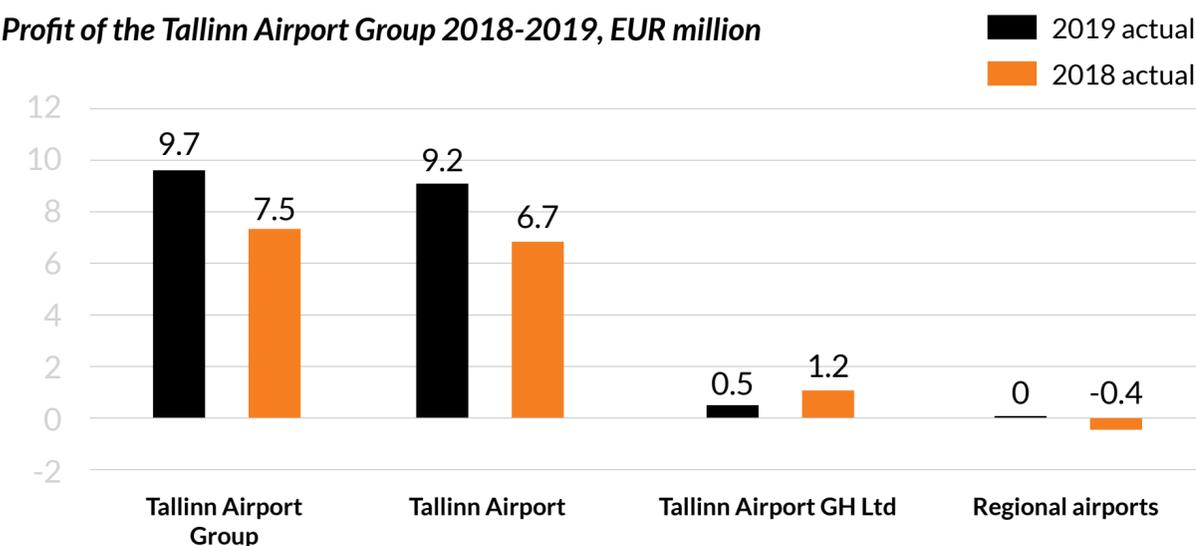
Operating profit before depreciation and amortisation (EBITDA) was EUR 17.9 million which is EUR 2.8 million (+19%) higher than in the previous year. In 2019, operating profit (EBIT) was EUR 9.9 million (2018: EUR 7.6 million), increasing by EUR 2.3 million (30%). Operating income increased by EUR 6.5 million and operating expenses increased by EUR 4.3 million.

EBITDA of the Tallinn Airport Group 2018-2019, EUR million



In 2019, total finance income and costs were EUR 0.2 million (2018: EUR 0.2 million). In 2019, the Group's profit was EUR 2.2 million (30%) higher than in 2018.

Profit of the Tallinn Airport Group 2018-2019, EUR million



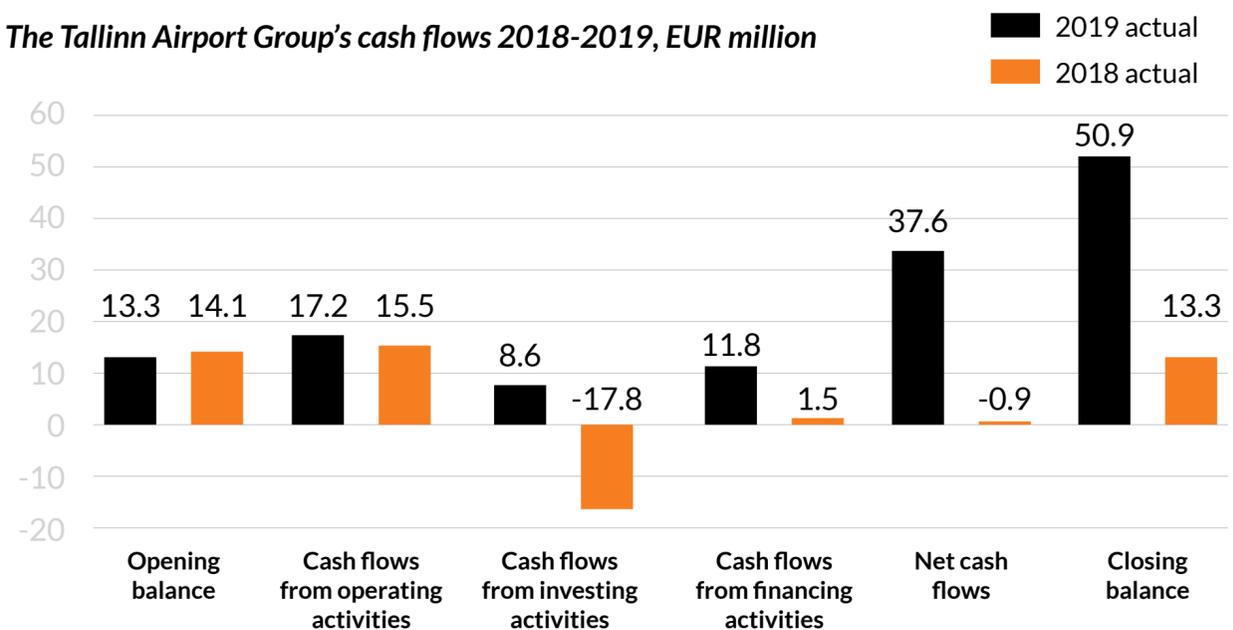
## Balance sheet

As at 31 December 2019, the assets totalled EUR 226.1 million (2018: EUR 189.7 million). This, the assets have grown by EUR 36.4 million (19%). Of the assets, the cash and cash equivalents have grown the most, i.e. by EUR 37.6 million and non-current assets have decreased by EUR 1.5 million. Liabilities have increased by EUR 26.7 million (26%) and equity has increased by EUR 9.7 million (11%). Equity growth is attributable to the inclusion of the net profit for 2019. Liabilities account for 58% (2018: 55%) and equity accounts for 42% (2018: 45%) of the total liabilities and equity.

## Cash flows

At the beginning of 2019, the Group's cash balance was EUR 13.3 million. In 2019, cash flows from operating activities amounted to EUR 17.2 million, cash flows from investing activities to EUR 8.6 million and cash flows from financing activities to EUR 11.8 million. The Group's cash balance as at 31 December 2019 was EUR 50.9 million, thus the cash balance increased by EUR 37.6 million.

The Tallinn Airport Group's cash flows 2018-2019, EUR million



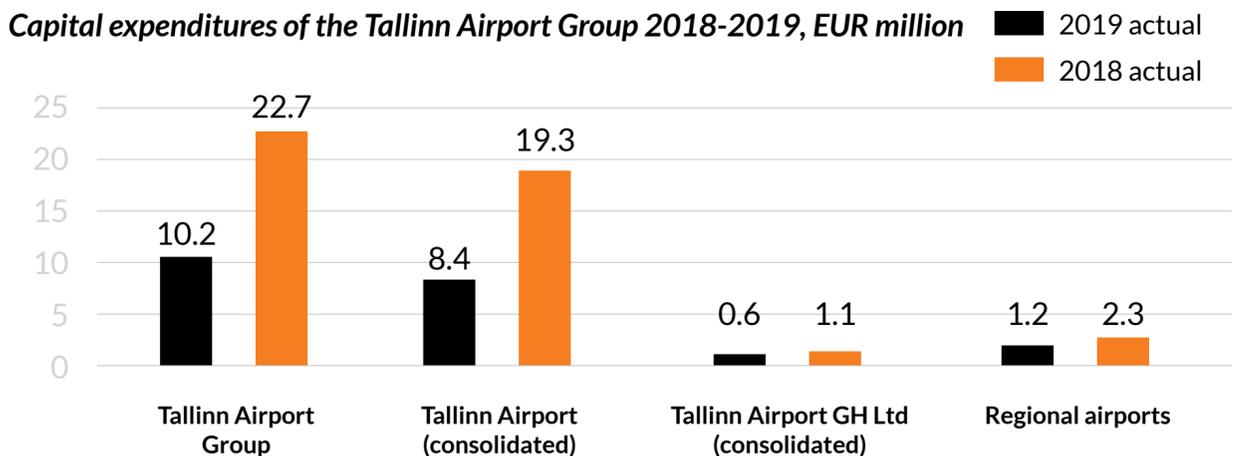
The Group repaid loans in the amount of EUR 2.1 million. In 2019, Tallinn Airport took a loan in the amount of EUR 14 million from the Nordic Investment Bank (NIB). As at the year-end, the

outstanding loan balance was EUR 45.6 million, including the loan from Pohjola in the amount of EUR 2.7 million, the loan from the NIB in the amount of EUR 22.9 million and the loan from the European Investment Bank (EIB) in the amount of EUR 20 million. The first payment of the loan received from the NIB was made in the amount of EUR 1.1 million in December 2019.

## Capital expenditures

In 2019, the Group's capital expenditures totalled EUR 10.2 million, including EUR 8.4 million by Tallinn Airport, EUR 1.2 million by the regional airports and EUR 0.6 million by Tallinn Airport GH.

Capital expenditures of the Tallinn Airport Group 2018-2019, EUR million



In 2016-2018, we invested EUR 34.2 million in the airside development project of Tallinn Airport that was launched in 2016. The project continued in 2019 with preparations for the second phase of the project and technology procurements. The capital expenditures totalled EUR 5.1 million. In 2019, the grant received from the Cohesion Fund totalled EUR 2.7 million (2016-2018: EUR 18.1 million).

The key capital expenditures in 2019:

- Preparation for the reconstruction of Pärnu Airport, investment of EUR 0.76 million;
- Tallinn Airport passenger terminal passenger bridge elevators, gangway and escalator, investment of EUR 0.4 million;
- Purchase of two apron buses for Tallinn Airport, investment of EUR 0.4 million;
- Construction and furnishing of the coordination centre of Tallinn Airport, investment of EUR 0.3 million.

# Tallinn Airport Group's operations

In 2019, the growth cycle in aviation in Estonia and Europe was somewhat more modest, but still strong.

The consumption of travel services is supported by steadily increasing income and cheap plane tickets due to the competition between airlines.

## Air traffic

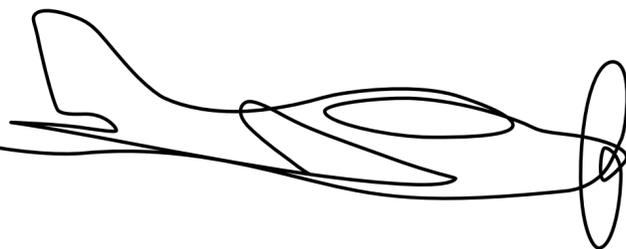
### Tallinn Airport

The number of passengers flying through Tallinn Airport was 260,000 higher than in the previous year and the total number increased by 8.7%. Charter flight passengers made up 11% (2018: 12%) and scheduled flight passengers 88% (2018: 88%) of the total number of airport passengers.

The biggest change in the flight network is attributable to the change in the business strategy of Nordica, as result of which the airline no longer operated direct flights from Tallinn and focused on subcontracted services. Only direct flights to Stockholm, Warsaw and Brussel remained, but starting with the winter season, Nordica's strategic partner LOT started to fly on these routes.

Despite the cuts made by several airlines (incl. Nordica, British Airways and EasyJet) in their flight schedules, the number of seats added to the network changed a little (average annual growth of 2%), and the demand remained strong. Hence, the growth in the number of passengers was 9%. The load factor of scheduled flights reached 75% (2018: 70%).

Of the total cargo volume, the largest share (62%) was made up by courier flights (2018: 77%). Air mail cargo accounted for 27% and cargo transported on scheduled flights accounted for 10% of the total volume of cargo flights.



### Flight operations, number of passengers, cargo (including post) in Tallinn Airport 2015–2019

| <b>Flight operations</b>            | <b>2019</b>      | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|-------------------------------------|------------------|-------------|-------------|-------------|-------------|
| Incl. passenger flights             | 38,808           | 39,892      | 36,856      | 32,230      | 32,058      |
| Incl. cargo                         | 1,538            | 1,597       | 1,662       | 1,810       | 1,803       |
| Incl. non-commercial flights        | 7,521            | 7,079       | 6,807       | 6,898       | 7,652       |
| <b>Total</b>                        | <b>47,867</b>    | 48,568      | 45,325      | 40,938      | 41,513      |
| <b>Number of passengers</b>         |                  |             |             |             |             |
| Incl. domestic flights              | 31,768           | 28,709      | 25,255      | 18,079      | 20,271      |
| Incl. international flights         | 3,236,142        | 2,645,716   | 2,345,240   | 2,203,536   | 2,146,549   |
| Incl. connecting flights            | 13,334           | 50,392      | 43,945      | 25,678      | 55,960      |
| <b>Total</b>                        | <b>3,267,910</b> | 3,007,644   | 2,648,361   | 2,221,615   | 2,166,820   |
| <b>Cargo (incl. post) in tonnes</b> |                  |             |             |             |             |
| Incl. post                          | 2,932            | 2,535       | 2,096       | 1,886       | 1,762       |
| Incl. air cargo                     | 7,984            | 8,984       | 9,249       | 12,054      | 14,394      |
| <b>Total</b>                        | <b>10,916</b>    | 11,518      | 11,345      | 13,940      | 16,156      |

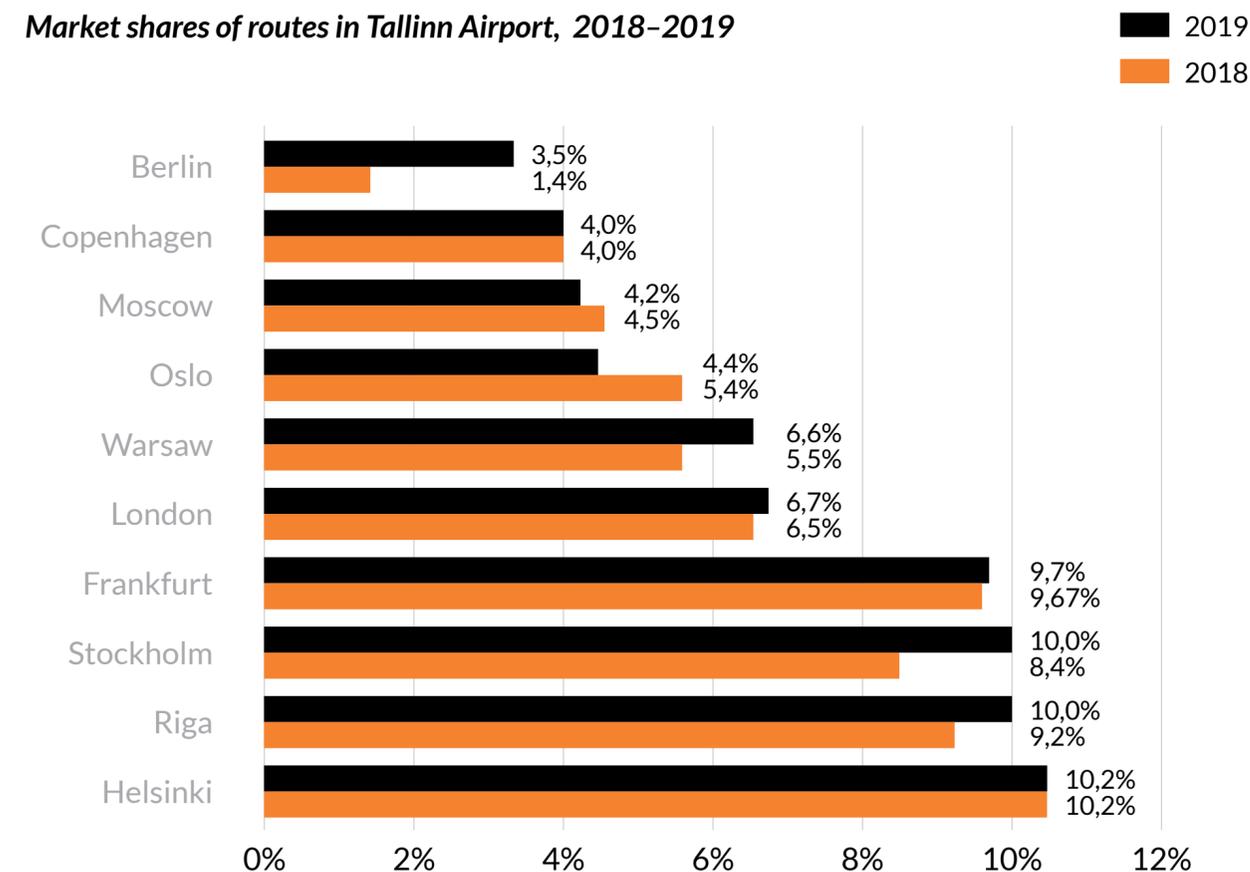
In 2019, a total of 16 airlines operated scheduled flights at Tallinn Airport. The largest carrier was airBaltic that served 21% of all passengers. In May 2019, the Byelorussian airline Belavia became the new carrier at the airport.



Market shares of airlines in Tallinn Airport, 2018-2019

|               | 2019   | 2018   |
|---------------|--------|--------|
| other         | 5.4 %  | 5.4 %  |
| easyJet       | 3 %    | 2.8 %  |
| Turkish       | 3.4 %  | 0.8 %  |
| Wizz Air      | 3.6 %  | 3.9 %  |
| Aeroflot      | 3.7 %  | 3.3 %  |
| Norwegian     | 4 %    | 6.5 %  |
| SAS           | 6.3 %  | 9.2 %  |
| SmartLynx     | 7.6 %  | 8.8 %  |
| Lufthansa     | 8.7 %  | 9 %    |
| Finnair       | 9.1 %  | 9 %    |
| Ryanair       | 10.2 % | 23.8 % |
| LOT / Nordica | 14 %   | 14.8 % |
| airBaltic     | 21 %   |        |

Market shares of routes in Tallinn Airport, 2018-2019



In total, scheduled flights were made to 36 destinations (2018: 41), incl. 28 year-round destinations (2018: 27). The top three destinations for scheduled flights included Stockholm, where in addition to Scandinavian Airlines and Nordica also airBaltic and Norwegian started to fly. In addition, there were more than 40 destinations available for charter flights, the most popular of which were Turkey, Greece and Bulgaria in the summer and mostly the resorts of Egypt and the Canary Islands in the winter.

Wizz Air made the biggest leap forward, adding flights to Kiev route and launching of flights to Khuthaisi Airport in Georgia, thereby more than doubling its number of passengers in a year. Besides new flights to Minsk by Belavia, airBaltic launched new flights to Malaga and seasonal flights to Salzburg in 2019. Lufthansa revived the flights to Munich.





## Regional airports

The task of Tallinn Airport Ltd is to ensure safe operation of the airports of Kärdla, Kuressaare, Tartu and Pärnu as well as the airfields of Kihnu and Ruhnu to be able to continue the provision of public regular services and if necessary, provision of services to other flights. Regional airports are operated to support the development of the economic environment in various regions in Estonia, using the grant received from the State and also the own funds of the Group.

### Number of flight operations and passengers at regional airports 2015–2019

| <b>Flight operations</b> | <b>2019</b> | <b>2018</b> | <b>2017</b> | <b>2016</b> | <b>2015</b> |
|--------------------------|-------------|-------------|-------------|-------------|-------------|
| Tartu                    | 5,520       | 4,788       | 5,074       | 4,727       | 5,052       |
| Kuressaare               | 2,696       | 2,813       | 2,222       | 1,883       | 2,148       |
| Kärdla                   | 1,582       | 1,354       | 1,528       | 1,233       | 1,460       |
| Ruhnu                    | 524         | 470         | 487         | 518         | 470         |
| Pärnu                    | 590         | 626         | 1,066       | 1,017       | 1,326       |
| Kihnu                    | 32          | 48          | 74          | 198         | 400         |
| <b>Passengers</b>        |             |             |             |             |             |
| Tartu                    | 28,322      | 26,092      | 30,292      | 29,594      | 21,117      |
| Kuressaare               | 24,614      | 23,166      | 19,231      | 13,289      | 14,458      |
| Kärdla                   | 11,684      | 9,943       | 9,170       | 7,547       | 8,029       |
| Ruhnu                    | 1,446       | 1,345       | 1,329       | 1,415       | 1,239       |
| Pärnu                    | 1,009       | 920         | 856         | 1,196       | 2,067       |
| Kihnu                    | 2           | 41          | 0           | 319         | 1,188       |

Additional information about regional airlines is provided in the chapters:

- “Committees and their members”,
- “Risk management”,
- “Aviation safety”,
- “Provision of air navigation services”,
- “Incidents caused by birds and animals”,
- “Overview of the environment” and
- “Infrastructure development”.

### Tartu Airport

Tartu Airport is the only regional airport in Estonia where an airline operates a scheduled international route.

The Electronic Warfare equipment exhibition and live demonstration “2019 EW Live” was held on the airfield on 9-10 April 2019. More than 260 people from 26 countries participated in it and 240 presentations were made.

The traditional aviation days were once again held in June.

### Kärdla Airport

We served the scheduled route Tallinn-Kärdla without any major incidents, and the airfield and air navigation service was available to all flights. The number of flight operations increased primarily due to the adoption of the instrumental approach procedures of the Global Navigation Satellite System (GNSS) at the beginning of 2019 that lead to a reduction in the number of flight cancellations due to poor weather conditions (2019: 22 and 2018: 42 flights). The GNSS enables aircraft to land with fewer disturbances in case of a fog, low clouds and other weather conditions obstructing vertical visibility.

**Pärnu Airport**

Scheduled flights on Ruhnu-Kuressaare route were operated at Pärnu airfield from 1 October to 30 April. In the summer months, private pilots used the airport the most. There were no flight cancellations or delays due to the factors related to the airport. However, the flights were impacted by the weather. Of 1,009 passengers who passed through Pärnu airport, 854 passengers flew on scheduled flights to Ruhnu.

Due to the initiation of a court case, the preparation of the reconstruction of the airfield movement area was postponed. However, the first procurements were carried out during the reconstruction.

**Kihnu Airfield**

Kihnu Rural Municipality has planned to build a helicopter landing site for medical emergency flights on the island on Kihnu and a successfully construction procurement was carried out. The first phase of construction works was carried out at the end of 2019 and the work is planned to be completed in spring 2020.

**Kuressaare Airport**

From 13 to 21 July, the Estonian Parachuting Club organised the international parachuting camp Parasummer whose participants used Kuressaare Airport. Its 160 participants made 177 parachute jumps.

**Ruhnu Airfield**

A new subcontractor Diamond Sky OÜ started to operate on Pärnu-Ruhnu-Kuressaare route.



# Customer experience

We place great importance on positive customer experience and take passenger expectations into consideration, valuing the uniqueness of Estonia and the unity of Europe.

Our greatest wish is that the passengers would feel good at our airport, that their trip would be as pleasant as possible and that they would have direct access to everything they need.



## Customers' feedback on Tallinn Airport

In 2019, we registered 378 cases of customer contact which is comparable to 2018 (389), including both praise as well as suggestions for improvement. Most the feedback was related to the work processes and requirements of the airport, which frequently require additional explanation. The cases also included suggestions as to how to improve the passenger amenities.

Break-down of customer feedback on Tallinn Airport in 2019:

- Ground handling and airlines (30%) – this year, several airlines changed their luggage rules. People also made inquiries about travel documents;
- Security control (27%) – the number of cases of feedback decreased by 9% as compared to the previous year primarily due to the outstanding operations of our partner G4S Eesti in training the service area's employees;
- Infrastructure (21%) – most of the feedback was in the form of suggestions about how to make our cosy terminal even cosier and more comfortable.

In 2019, we installed real time feedback measurement devices in the airport border control area and key dining areas, where it is possible to rate customer experience with one press of a button. In the dining areas, satisfaction with services was 96% and with the choice of food, 84%. In the border control area, the general satisfaction was 84%. Since the level of satisfaction in the border control area is primarily related to the length of waiting lines, we will install automated control devices in the border control area in collaboration with the Police and Border Guard Board in 2020. They should significantly reduce the lines.

In 2020, we will map out in detail all the important stages of the passenger journey, including the bottlenecks and our key passenger profiles in order to provide more customer-centred solutions and give even more reasons for our customers to arrive at the airport early.

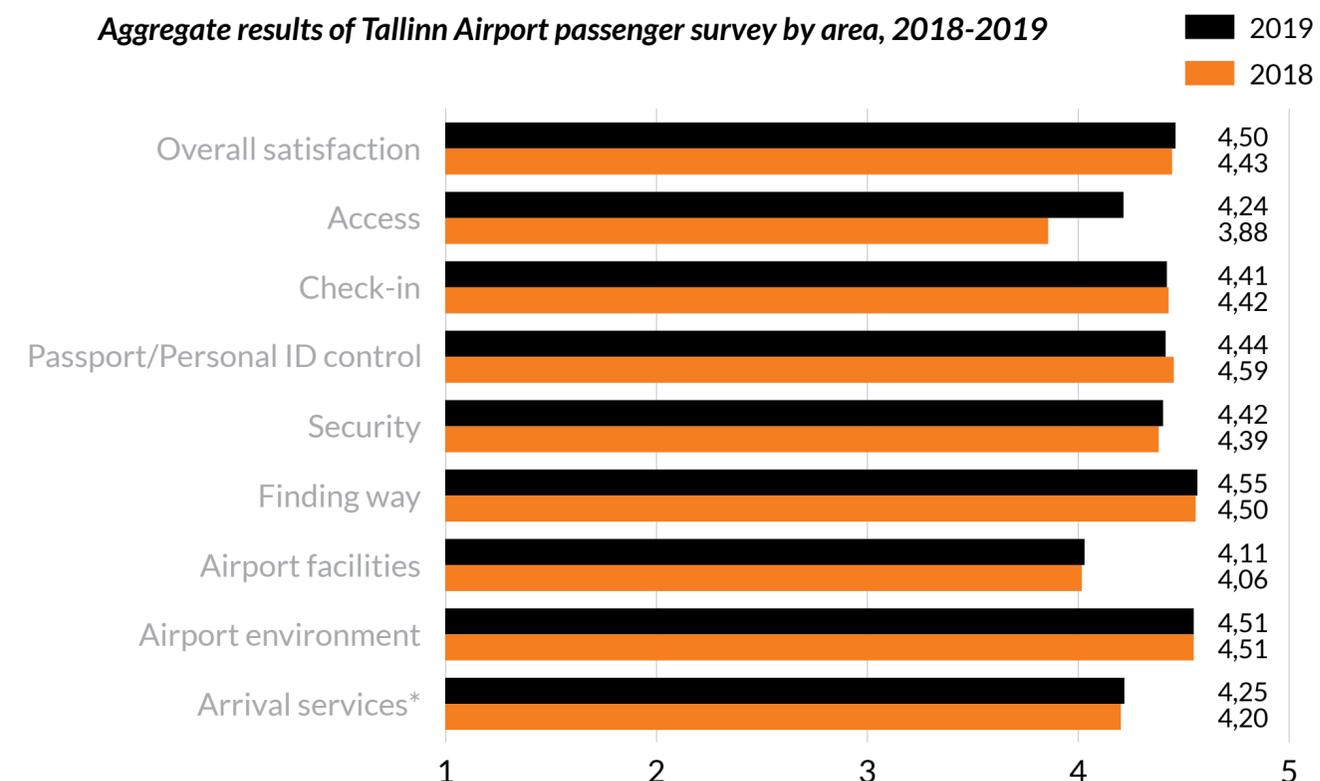
## Passenger survey at Tallinn Airport

For the third consecutive year, Tallinn Airport together with more than 360 airports around the world (incl. 110 European airports) participated in the passenger survey on airport service quality (ASQ) of the Airport Council International (ACI). The survey enables us to analyse our strengths and development opportunities, and compare ourselves with other airports. We questioned slightly more than 1,400 departing passengers during the year.

The overall satisfaction score of 4.5 points (on a five-point scale) places us among the absolute best in Europe. The passenger satisfaction score improved by 0.07 points as compared to 2018. The main positive change came from the fact that we completed construction of the parking house and passengers warmly welcomed this new quality service. The satisfaction with the general atmosphere of the passenger terminal and the overall concept remain high.

Despite the growth in the number of passengers, we have managed to maintain a high level of satisfaction with both the check-in as well as the security control.

**Aggregate results of Tallinn Airport passenger survey by area, 2018-2019**



\* Departing travellers were asked to recall their last arrival experience.

## Shopping environment at Tallinn Airport

The shops and dining areas in the passenger terminal are an important part of the passenger experience. Everyone is able to find a suitable place from among the dining areas at the airport, where to spend time and enjoy something delicious prior to the flight departure.

In March, we opened a food street for passengers that offers various dishes to satisfy everyone's taste and also meets the expectations of a serious food-lover. It is possible to eat delicious Mexican and Italian dishes, but also health food to take on board the plane.

With regard to provision of services, the key focus was on the development of a self-service cashier system and opening of the cash registers so that passengers can quickly and conveniently pay for their purchases. At the year-end, we organised a competition to open yet another restaurant, the KFC that will start its operations there.

**At the year-end 2019, the passenger terminal had ten shops and nine dining areas.**

The average retail shopping cart value increased to EUR 7.9 (2018: EUR 7.5) while the food cart value decreased slightly due to the construction of the food street with its average being EUR 2.94 (2018: EUR 3.51).

## The business lounge

The business lounge of Tallinn Airport provides a comfortable and private environment where passengers can use the pre-flight waiting time to work, make travel plans or just relax.

In 2019, 70,248 passengers visited the lounge (2018: 64,172 passengers). The number of visitors increased by 10% as compared to 2018 (2018: 15%).

In 2019, we concluded five new sales agreements, our partners include both travel bureaus as well as airline carriers. In addition we conducted collaboration agreements with "Loyalty Services" SIA, representing the PINS programme.

## VIP service

We offer ready-made VIP service packages at Tallinn Airport for both business and private travellers who value privacy and personal service. We always try to solve even the most complex special requests and make the airline procedures as smooth and stress-free as possible.

In 2019, we provided VIP- and Express-services on 1,196 occasions (2018: 1,267) to 5,658 passengers (2018: 6,826).

We provided services to 16 national and four state visits. Besides national visitors and regular customers, the VIP services were also provided to football players and film stars.

Customers have rediscovered the conference rooms of our VIP complex: in 2019, we leased the rooms on 101 occasions (2018: 88).

## Provision of services to passengers with reduced mobility

In 2019, there were 7,236 (2018: 6,179) requests to assist passengers with reduced mobility at Tallinn Airport, increasing by 17% as compared to 2018 (2018: 19%). 80% of the requests were received 12-24 hours in advance, 3% of the requests were received 2-12 hours in advance and 17% of the requests were received less than 2 hours in advance.

The most typical persons needing assistance are travellers who are unable to walk unassisted long distances and need a wheelchair ramp (WCHR). They accounted for 45% of the total number passengers. They are followed by passengers who in addition to being unable to walk unassisted long distances cannot also climb the stairs (WCHS), accounting for 20% of the total number passengers, and passengers who are immobile and need assistance with boarding and exiting the aircraft (WCHC), accounting for 20% of the total number passengers. The remaining 5% include other passengers with special needs.

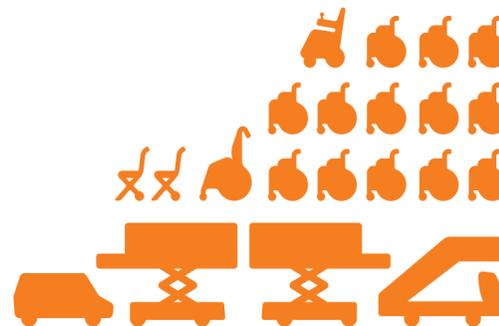
In 2019, 29 employees of Tallinn Airport received training for provision of services to passengers with special needs and 60 employees completed an e-learning refresher training programme.

In 2019, three customer service assistants worked at the passenger terminal of Tallinn Airport at night (20.00-08.00) and between five and eight assistants during the day (08.00-20.00). In

addition, the assistant to the manager of the terminal, who also has expertise in dealing with passengers with special needs, is always present.

**Tallinn airport has:**

- 13 wheelchairs
- electric wheelchair
- two car seats
- XXL wheelchair
- mobile passenger staircase with a lift
- two Ambulifts
- disabled bus



New and modern equipment make the service provided to the passengers with reduced mobility more comfortable, private and safer.

In 2019, the feedback received from passengers with reduced mobility was positive. However, there was once incident with a passenger at Tallinn Airport whose wheelchair was not fastened as required in a vehicle. The passenger was not hurt.

There were 55 requests by passengers with reduced mobility at regional airports: four in Kärdla, 39 in Tartu, 12 in Kuressaare and 0 in Pärnu.

At regional airports, all employees who provide services to passengers with special needs have also undergone respective training, and the customer service assistants are present during the working hours of the airport.

**Stakeholders**

The activities of airports influence many stakeholders, ranging from staff and community members, airlines and business partners to travellers, taxpayers, owners and the society at large. In addition, we can impact all people who live either close by or farther away through our activities.

To make economic, social and environmental decisions, we identified the stakeholders that are either directly or indirectly related to Tallinn Airport as well as their expectations of the company that we need take into account when setting or reviewing the company's strategic goals.

When making decisions, we take into account both internal and external factors impacting the company that may give rise to various opportunities and risks. If we have an open dialogue with the stakeholders and consider various interests in the company's strategy, we can create and maintain trust in our activities.

**Company stakeholders and their expectations.**

**Social expectations:**

- honest and transparent management
- stakeholder involvement
- compliance with legal and other requirements and society's expectations
- customer satisfaction with services
- safety and security

**Stakeholders:**

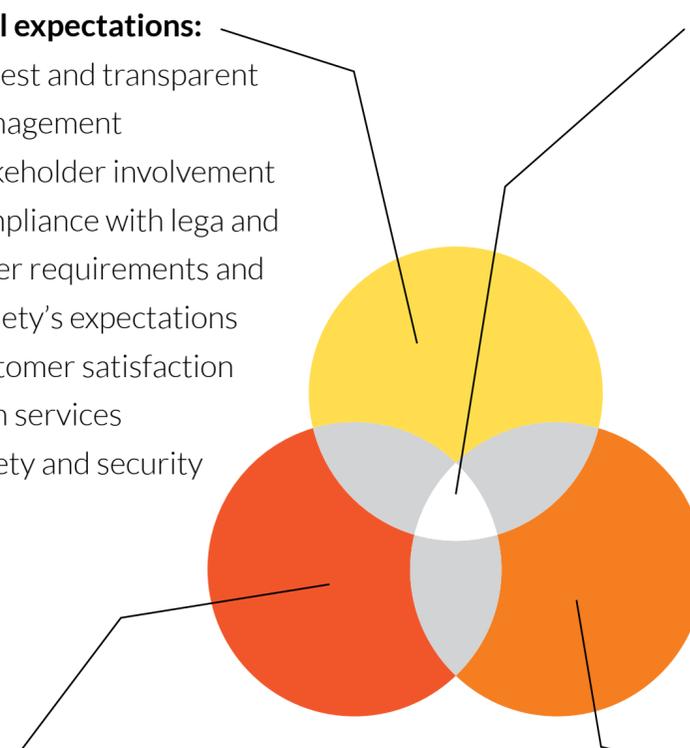
- Group employees
- owner
- partners: passengers, airlines, partners, public sector
- international partners: Airports Council International, International Civil Aviation Organization, European Aviation Safety Agency, European Union institutions

**Environmental expectations:**

- focus on environmental investments
- optimization of environmental activities
- risk assessment
- raising people's environmental awareness
- energy efficiency of operations

**Economic expectations:**

- fair competition
- efficient economic activity
- flexible operating environment
- safety and security of services
- economic contribution
- development of services and infrastructure
- development of freight transport



## Airport community

The airport community is made up of nearly 2,800 employees from almost 100 companies that operate on the territory of our airports, but also nearby aviation-related companies.

We value our community and we try to make all airport employees feel that they are part of it. To foster a sense of belonging, we organise events for the community and help people connect with each other by means of social media.

## Economic impact

Tallinn Airport has a strong impact on the economy of Tallinn as well as the entire economy of Estonia. We have analysed our economic impact based on the input-output framework.

To date, a study has been carried out on the basis of three periods: in 2012 based on the 2005 input-output framework, in 2018 based on the 2010 framework and in 2019, based on the 2015 framework.

The results of the 2019 survey confirmed that every group of 100,000 passengers who departs from or arrives at Tallinn Airport adds 76 new jobs to the airport's catchment area (2018: 113). This increases wage income and the volume of domestic economy.

In 2019, the estimated total impact of the air transport sector on Estonia's gross domestic product was 1.6% (2018: 2.6%), i.e. EUR 400 million (2018: EUR 600 million). Thus, a total of 2,280 jobs (2018: 3,390 jobs) were created per 3 million airline passengers. This assessment is based on the methodology developed by Annika Lentso in her survey "Impact of passengers at Tallinn Airport on the Estonian economy" conducted in 2018 and 2019.

While comparing the models of the economic impact in different years, it can be concluded that the economic effect of Tallinn Airport and its related operations is in the range of 1.6%-2.6%, which also matches the results of earlier surveys (incl. the data of other countries).



# Operation of airports

● In order to achieve the objectives of all areas of activity, it is essential to ensure safety, regular and uninterrupted operation of all the company's airports and customer service at any time and in any weather, in compliance with international aviation safety requirements and standards.

**Tallinn Airport Ltd certificates**

ISO 9001:2015

ISO 14001:2015

Provision of air navigation services certificate

All airfields have aerodrome certificates

**Tallinn Airport GH Ltd certificates**

ISO 9001:2015

ISO 14001:2015

ISO 45001:2018

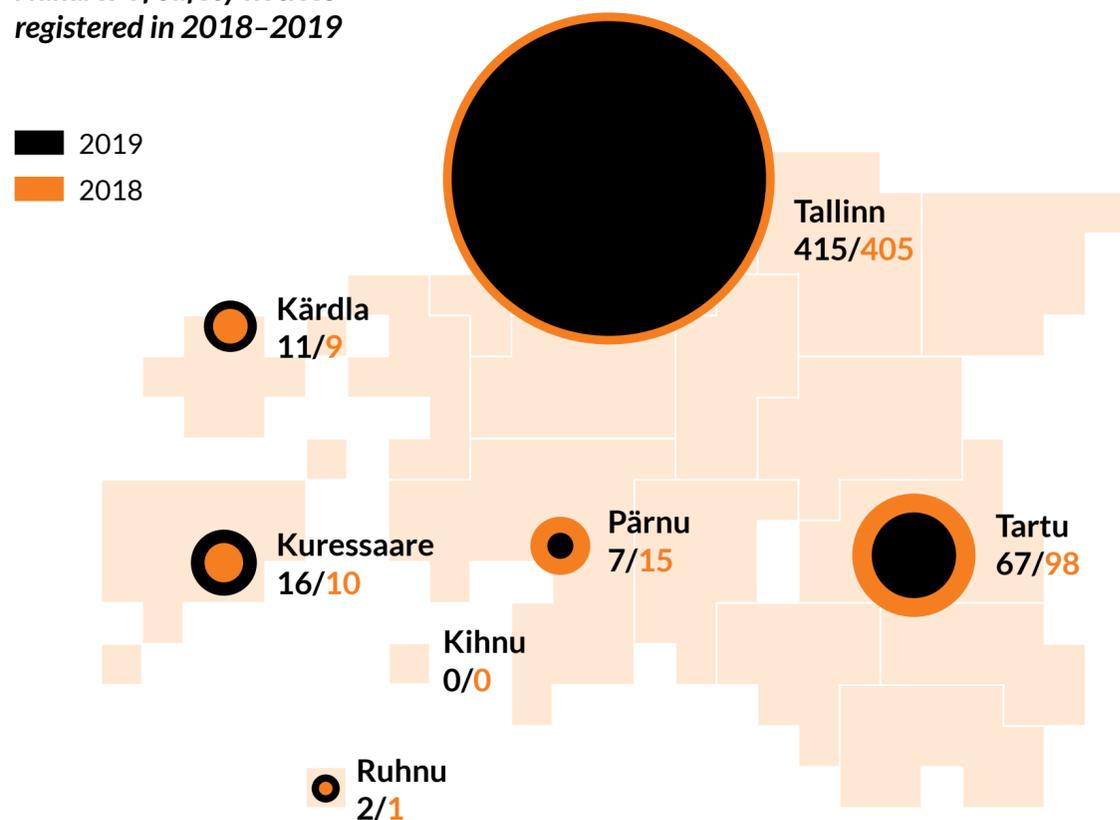
As an operator, we are responsible for the safe operation and maintenance of the Company's airfields, and provisions of air navigation services that are in compliance with the requirements.

In 2019, the coordination centre launched its operations on Tallinn airfield, ensuring a smooth provision of passenger and airfield services under normal circumstances and punctuality of flights. The centre also supports restoration of services in emergency and crisis situations.

**Aviation safety**

We have a well-functioning safety management system and an engaging, open and transparent organisational culture in place, due to which safety information is transmitted promptly. The safety management system enables notification of all cases affecting aviation safety that have been encountered in work in order to investigate what has happened and ensure that it will not occur again. In 2019, a total of 518 safety notices were registered on all airfields.

**Number of safety notices registered in 2018-2019**



We are constantly improving the safety culture and increasing the safety awareness. For this, we share safety information through newsletters and safety training courses.

In 2019, we implemented various measures to improve air safety at Tallinn Airport:

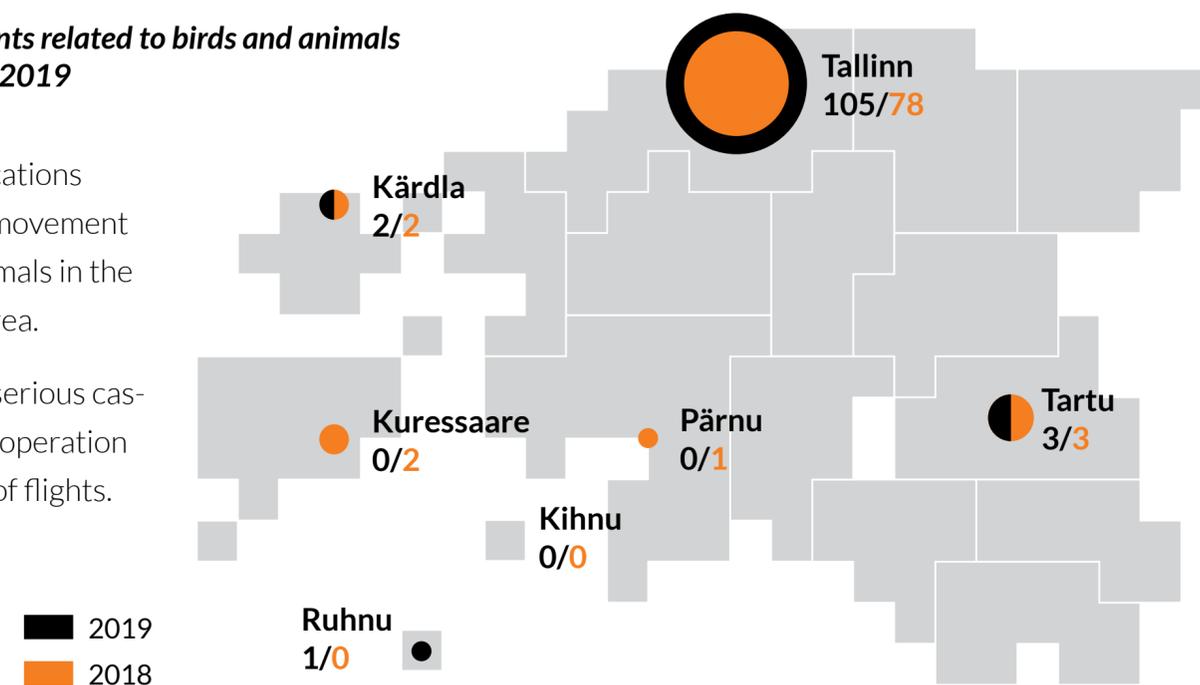
- installed speed displays to improve the traffic culture of motor vehicles on the airfield's traffic area;
- in cooperation with Estonian Air Navigation Services Ltd, reapplied low visibility procedures for take-off (LVPTO);
- increased the share of online flight safety training sessions;
- launched transmission of the airfield's air navigation information through the work flow management, WFM
- solved the demagnetisation problem of the apron's standing of Tallinn airfield (see chapter "Infrastructure development").

Birds and animals may cause extensive damage to aircraft. To repel them, the company uses bird control systems based on gas cannons, audio-visual and pyrotechnical measures as well as the activities related to the use of land. Additionally, Tallinn airfield employs a professional ornithologist to evaluate and monitor the ornithological situation.

**Incidents related to birds and animals 2018-2019**

The main notifications concerned the movement of birds and animals in the airport traffic area.

There were no serious cases affecting the operation or cancellation of flights.



**Air navigation services**

Tallinn Airport Ltd provides communication, navigation, meteorological and flight information services. The type of the air navigation service depends on the airport:

- we provide flight information services in Kärdla, Kuressaare and Pärnu;
- we provide communication and navigation services in Tallinn, Kärdla, Kuressaare and Pärnu;
- we provide meteorological services in Tallinn, Tartu, Kärdla, Kuressaare and Pärnu.

**Incidents related to the provision of air navigation services 2018-2019**

| Airfield   | Flight information service |              | Communication and navigation service |      | Meteorological service |      |
|------------|----------------------------|--------------|--------------------------------------|------|------------------------|------|
|            | 2018                       | 2019         | 2018                                 | 2019 | 2018                   | 2019 |
| Tallinn    | Not provided               | Not provided | 4                                    | 5    | 0                      | 0    |
| Kuressaare | 1                          | 4            | 0                                    | 1    | 0                      | 0    |
| Kärdla     | 1                          | 2            | 0                                    | 0    | 0                      | 0    |
| Pärnu      | 2                          | 1            | 1                                    | 0    | 4                      | 3    |
| Tartu      | Not provided               | Not provided | Not provided                         | 1    | 0                      | 0    |

In Tartu Airport, we additionally applied the localiser performance with vertical guidance (LPV) procedures on aircraft. These are environmentally-friendly and alternative solutions to ensure the use of the airfield under various meteorological weather conditions.

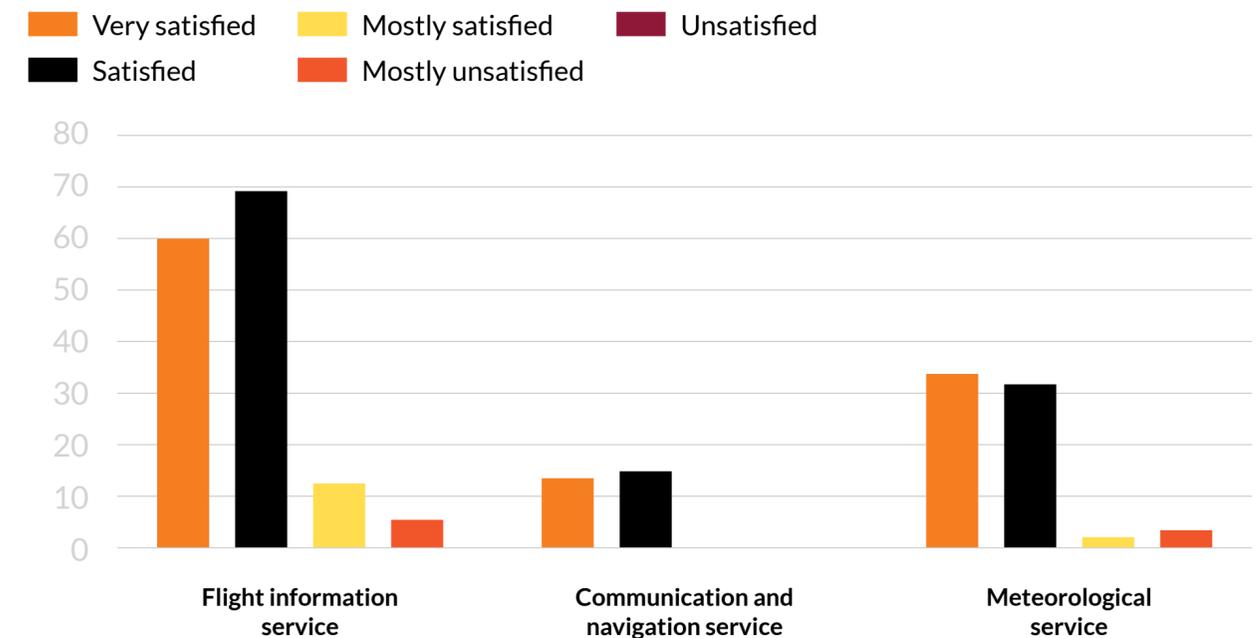
In 2019, the cooperation with Estonian Air Navigation Services Ltd continued concerning the remote tower project for the purpose of providing the flight management service of all regional airfields from one control centre.

In 2019, in cooperation with the Environmental Agency, the Aviation Authority and Estonian Air Navigation Services Ltd, we launched the project for reorganising the aviation meteorological service. Its purpose is to transfer the aviation meteorological service of the airfields of

Tallinn Airport Ltd to the Environmental Agency in 2020, in order to organise the provision of the service more efficiently and with higher quality in Estonia.

In 2019, we conducted a customer satisfaction survey for the second time, relating to the air navigation service on all our airfields. The survey's results were positive: the users are more satisfied with our services than not.

**Customer satisfaction with air navigation services at all airports of Tallinn Airport Ltd in 2019**



**Aviation security at Tallinn Airport**

In 2019, security checks were performed for 1.6 million departing passengers (2018: 1.4 million) and the contents of 3.2 million (2018: 3 million) bins of passengers' personal belongings were analysed. Due to the improperly packaged liquids, 228,863 pieces of luggage (2018: 223,713) were selected for additional screening, i.e. an average of 44% (2018: 39%) of the number of the pieces of luggage selected for additionally screening.

The European Commission and the Aviation Board inspected the implementation of aviation security measures at Tallinn Airport. Feedback on our activities was still very good - no serious shortcomings were identified.

An increasing challenge is also to keep the waiting time in the pre-flight security control area as short as possible in spite of the growing number of passengers, but we generally managed it well. During the year, we tried out various solutions of serving passengers in order to be able to ensure outstanding and fast services in 2020 to even higher number of passengers, while ensuring their safety.

The territory of Tallinn Airport has also been expanded due to the addition of the patrolled parking house. Therefore, we partly replaced patrol vehicles by electric scooters.

In 2019, we arranged 113 training courses to increase aviation security awareness (2018: 108), that were attended by 1,323 employees involved in aviation (2018: 1,301).

## Ground services

Tallinn Airport GH Ltd organises the ground handling services for passengers, cargo and aircraft at Tallinn Airport. The company serves all airlines and types of aircraft, ranging from small private planes to larger passenger and cargo jets. The services include everything necessary from the arrival of the plane at the airport until its departure.

List of services provided

- passenger services
- apron services
- aircraft services
- cargo handling
- training courses

In order to provide higher quality ground handling services, we are constantly upgrading our quality management system. We proceed from the requirements of the standard developed by the International Safety Audit for Ground Operations (ISAGO) and regularly analyse the

feedback for the purpose of developing service standards to better meet our customers' expectations. We also conduct internal training courses where we analyse the target levels of the Company's performance measures, the factors that may potentially impact these measures and we apply measures to reduce negative impacts.

In 2019, Tallinn Airport GH Ltd handled 47,538 flight operations. During handling activities, deviations were reported in 261 cases, classified as follows:

- quality related 168,
- safety related 81,
- security related 12.

Taking into account the measures that have been established, of the types of deviations, the target levels were exceeded only in case of compliance with security procedures. The reason for this was primarily the use of personal permits issued to employees that did not comply with requirements. Based on the severity of the registered deviations, 99% were on the level of "Minor" or "Non-significant".

In 2019, the punctuality of Tallinn Airport GH Ltd while serving the flights was 99.1% (2018: 97.6%).

# Infrastructure development

One of the activities of Tallinn Airport is management of the airfield infrastructure.

We manage and develop the airports of Tallinn, Kuressaare, Kärdla, Pärnu and Tartu as well as the airfields of Kihnu and Ruhnu.



## Tallinn Airport

### **Main indicators of Tallinn Airport infrastructure**

- area of the administrative territory 371.5 ha
- 3,480 m long and 45 m wide east-west runway
- 34 stands on the M-apron (Class C)
- 2 stands on the Y3-apron
- Y5-apron
- 2 stands (C-class) on the K-apron
- passenger terminal area 34,456 m<sup>2</sup>, capacity up to 2.6 million passengers per year
- 4 cargo terminals with a total area of 11,600 m<sup>2</sup>
- aerodrome category for rescue and firefighting CAT VIII, incl. water rescue capacity
- 4 aircraft maintenance hangars with a total area of 22,200 m<sup>2</sup> and 4 tents with a total area of 4,000 m<sup>2</sup>
- 33 buildings
- total area of buildings 101,500 m<sup>2</sup>

## Tallinn Airport air traffic development project



### **Phase II of the air traffic development project co-financed by the European Union Cohesion Fund (2018-2020)**

The goal of the air traffic development project is to improve environmentally sustainable and efficient operations, and mitigate the negative impact of the airport's infrastructure on the environment by means of improving the airport's environmental status.

Project construction works and acquisition of maintenance and rescue equipment is co-funded by the EU Cohesion Fund, and the European Commission has issued a state aid permit to the project. The eligible total cost of the development project is EUR 70 million, of which 50% is co-funded by the Cohesion Fund.

Airside construction works will be carried out in two phases, in 2016–2017 and 2019–2020.

In 2019, the key activity was preparation of the studies and the preliminary and main project for the second construction phase. At the year-end, we announced the procurement for the construction contract for services relating to the second construction phase.

### **The second phase of the airside area development project 2019–2021**

The second phase of the airside area development project will be carried out in 2020–2021. During this phase, we will build aircraft stands on the airfield and a southern taxiway system, as well as build support structures for mitigation of the environmental impact.

Engineering works: 2018–2019

Procurement of construction works: December 2019 – February 2020

Construction works: March 2020 – December 2021

The construction works of the second phase include the following:

- construction of southern taxiways TWY Z and T, expansion of the southern K apron;
- improvement of the environmental status by solving excess rainwater problems and building rain-water cleaning and monitoring systems using the rainwater system analysis as the basis;
- repair and improvement of rainwater systems, reconstruction of apron rainwater gutters, repair and expansion of trenches, construction of the pump station, installation of oil collectors;
- construction of sewage areas and fire hydrants;
- seasonal separation of meltwater on snow collection areas and its discharge into the sewage system;
- improvement of de-icing opportunities on the eastern side, channelling of de-icing liquids in accordance with the environmental requirements;
- building of noise barriers around the engine testing area;
- extension of the navigation systems on new taxiways, the RWY 26 de-icing area and stands on the K apron;
- development of the perimeter systems (patrol, maintenance and access roads, perimeter fence) and upgrading of the apron systems;
- deforestation of the protected area to reduce restriction surfaces.

### **Acquisition of maintenance and rescue equipment**

Under the airside development project of Tallinn Airport, the acquisition of maintenance and rescue equipment for the airfield is co-funded by the EU Cohesion Fund.

In 2019, we acquired the following of maintenance and rescue equipment:

- maintenance equipment for runways (6 sets), manufacturers UAB Alwark and Overaasen AS;
- self-propelled snow mill-blower, supplier OÜ Alniest;
- chemical dispenser, supplier OÜ Alniest;
- a set of removal equipment for aircraft, manufacturer RESQTEC Zumro B.V.

In 2020, the following equipment will be delivered:

- fire-rescue engine, manufacturer EMPL Fahrzeugwerk Ges.m.b.H.;
- set of runway vacuum cleaners, supplier OÜ Alniest;
- mobile measurement device for the intensity of runway lights (procurement will take place in 2020).

### **Reagent warehouse**

The purpose of the construction of a reagent warehouse is to build a modern building that meets the needs of the airfield and that has equipment for storing and handling de-icing chemicals, and warehouse for storing maintenance equipment and devices. In addition, in this way we can increase the capacity of the warehouse of de-icing devices so as to reduce the expiration risk of materials, accelerate the loading process and increase the safety of material handling.

We announced the procurement for the construction of a reagent warehouse in autumn 2019. It represents an output indicator of the airside development project that is co-funded by the Cohesion Fund.

### **Development of passenger terminal and apron areas**

In the current main building of the passenger terminal of Tallinn Airport, we are able to guarantee passenger capacity of 2.6 million a year. Over the last several years, the number of airline passengers has increased sharply and the terminal is operating at close to full capacity. In 2019, a total of 3.27 million passengers passed through the airport, thus the passenger terminal is



operating at full capacity. For safe and proper provision of services to an increasing number of airline passengers and flight operations, it would be necessary to launch expansion of the passenger terminal and apron area.

In 2019, a feasibility study was performed to prepare the development plan for the passenger terminal and apron area. In the course of the study, we devised a long-term plan of 25 years for the passenger terminal, apron areas, areas necessary for provision of ground handling services to aircraft, open area's access roads and parking areas on the basis of the Level of Service Optimum requirements of the International Air Transport Association (IATA). A long-term forecast of passengers and flight operations up to the year 2045 demonstrates strong growth.

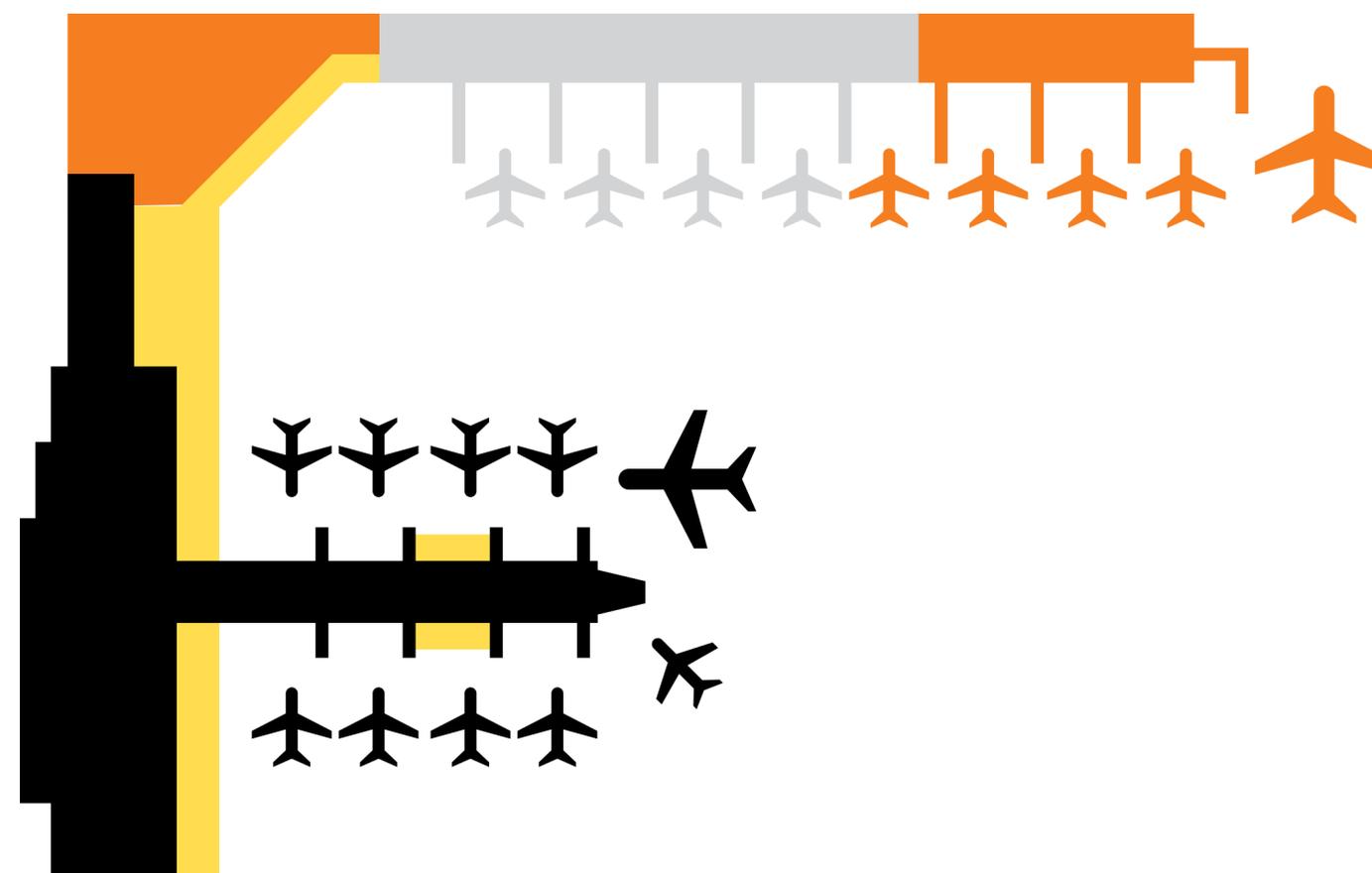
Under the feasibility study, we chose the most appropriate technological solution for the further expansion of the passenger terminal. The study included, inter alia, long-term forecasts of passengers and flight operations, investment plan, financial analyses and environmental management plan.

The study was conducted by Austria-German joint venture Airport Consulting Vienna GmbH and Airport Design Management GmbH.

For implementation of a long-term strategy, we have developed the plans to expand the airport to provide services to up to 8 million passengers. We will build the passenger terminal in phases, based on the growth in the number of passengers and the events taking place in the business environment.

**Long-term development of Tallinn Airport passenger terminal 2020-2035**

| 1. phase<br>2020-2024  | 2. phase<br>ca 2025-2026  | 3. phase<br>ca 2035                 |
|--|---|-------------------------------------|
| <b>Projection</b><br>2020-2022<br><b>Building</b><br>2022-2024 | <b>Detail planning</b><br>2020-2023<br><b>Projection</b><br>2023-2025<br><b>Building</b><br>2025-2026 | <b>Detail planning</b><br>2021-2025 |
| 4.2 million passengers   | 6 million passengers  | 8.2 million passengers              |



### **Demagnetisation of the stand M2**

In 2019, we found a solution to the problem of magnetic interferences related to the stand M2 of M-apron. This stand had compass malfunctions on certain types of aircraft, due to which the aircraft departures were delayed. The effects of the interferences were miscellaneous, but were primarily on ATR 72 type aircraft. To solve the problem, we partly replaced the reinforced concrete of the stand with strong concrete that did not contain steel meshwork. Due to this, the number of magnetic interferences significantly decreased and they no longer prevent timely departure of aircraft.

## **Reconstruction of Pärnu Airport**

In 2017, the Ministry of Economic Affairs and Communications, the City of Pärnu and Tallinn Airport Ltd signed a tripartite agreement to reconstruct Pärnu Airport. The main objective of the development project is to upgrade the facilities and systems described in the project scope to meet the established requirements, whose maintenance would be as durable and long-lasting as possible and with the lowest possible maintenance costs. It is also important to implement environmental measures, including renewal of the rainwater system, elimination of residual pollution from the soil and undertaking the planned air traffic noise analysis.

By the end of 2019, a new detailed plan had been established, a preliminary technical design for the reconstruction of the airport had been prepared, the extent of residual pollution had been clarified, a noise analysis of air traffic had been prepared and the design of the terminal building extension had begun.

### **Reconstruction schedule 2020–2021**

Construction procurement for the airfield, followed by construction of airside:

- Construction of the airside area,
- Construction of a combined aircraft hangar.

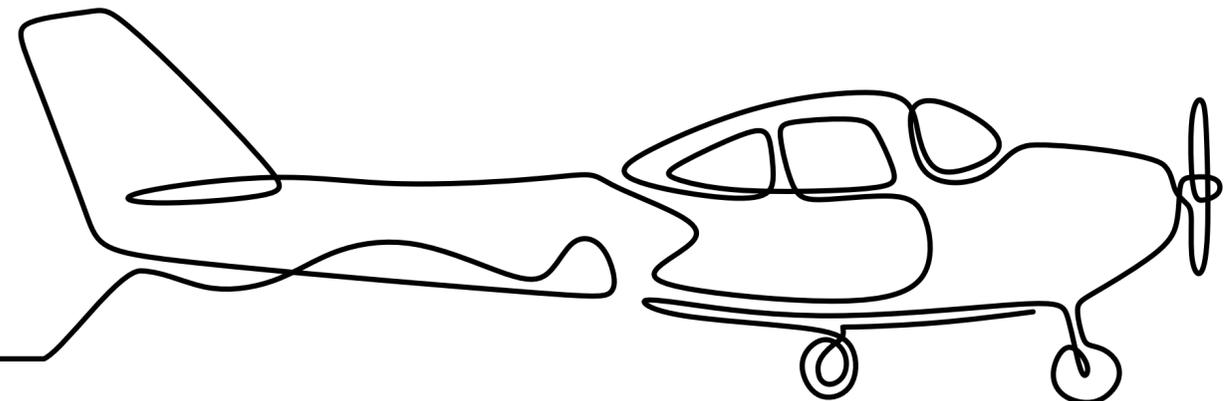
Procurement of the passenger terminal extension and thereafter, construction the passenger terminal extension.

### **Reconstruction schedule 2021**

The construction works will continue in the first half of the year.

Airfield certification.

Launch of provision of airfield services.



# Our team

To connect Estonia with the world, our human resources strategy is built upon the company's values, i.e. integrity, openness and caring.

Our goal is to ensure a performance-focused, ambitious and constantly evolving team that is capable and motivated to implement the company's strategy.

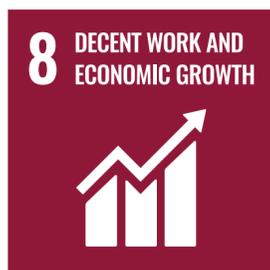


In 2019, we focused on:

- improve competitiveness in the labour market through the employer brand and activities,
- preserve and increase the competencies,
- develop the capabilities of people and change management,
- implement digital solutions.

The key changes in the organisation in 2019 included:

- The Chairman of the Management Board of Tallinn Airport Ltd, Piret Mürk-Dubout left her position and she was replaced by Riivo Tuvike.
- Changes were made to the management structure of Tallinn Airport Ltd.
- Age Vanajuur left the Management Board of Tallinn Airport GH Ltd.
- Tallinn Airport GH Ltd combined the gate service, arriving passenger service, service support and ticket office into one passenger service department.

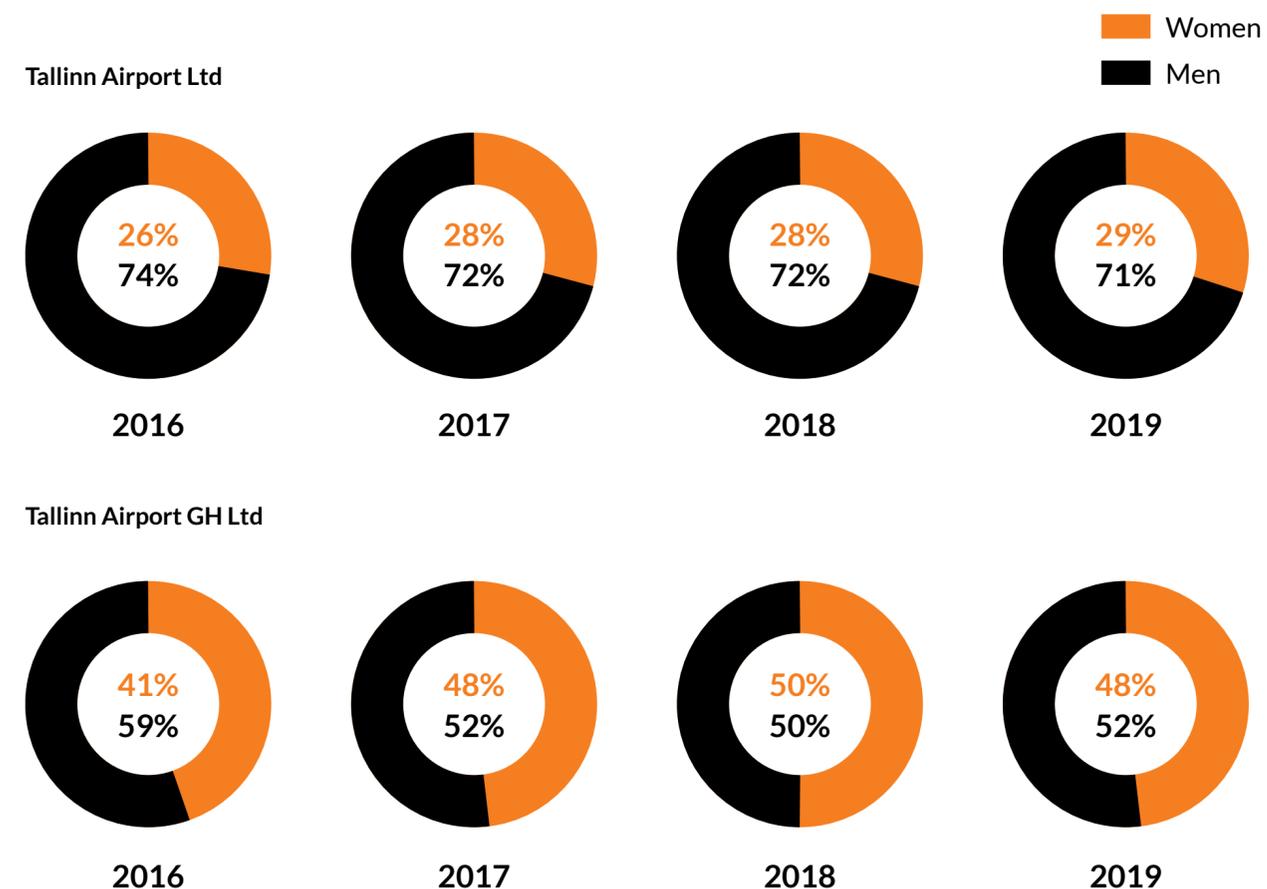


The Company operates only in Estonia, complying with the current labour laws of Estonia. All employees of the regional airports are from the same county.

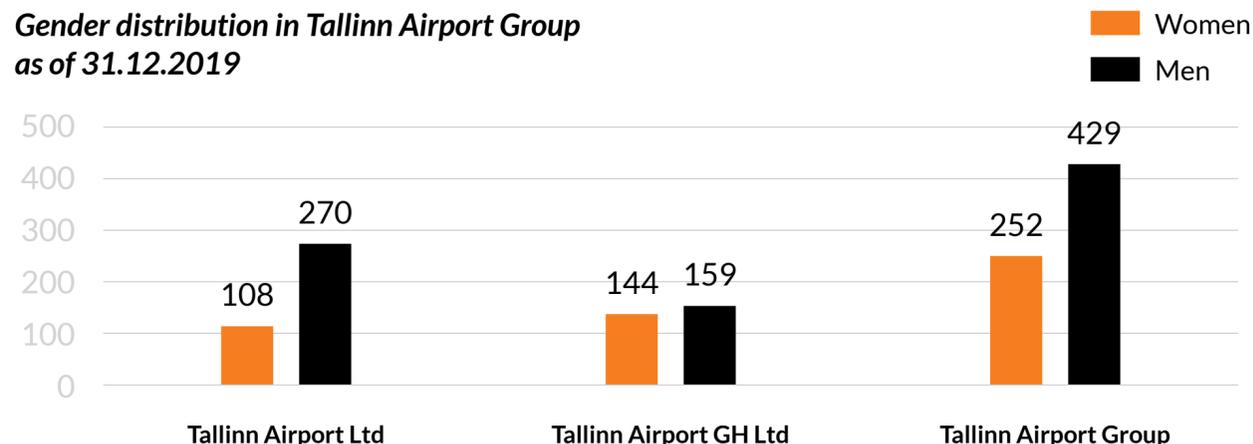
We follow the principles of supporting the diversity of gender, age, education and views. In 2019, no labour disputes relating to the company were initiated. Likewise, there were no complaints filed by employees about employment relationships, including violation of the equal treatment principle.

The difference in the share of women and men at the company results from the nature of work and it reflects the general gender-based professional preferences of the Estonian population. In 2019, there were 63% of men and 37% of women in all professional groups at Tallinn Airport Group.

**Gender distribution in Tallinn Airport Ltd and Tallinn Airport GH Ltd in December 2016–2019%**

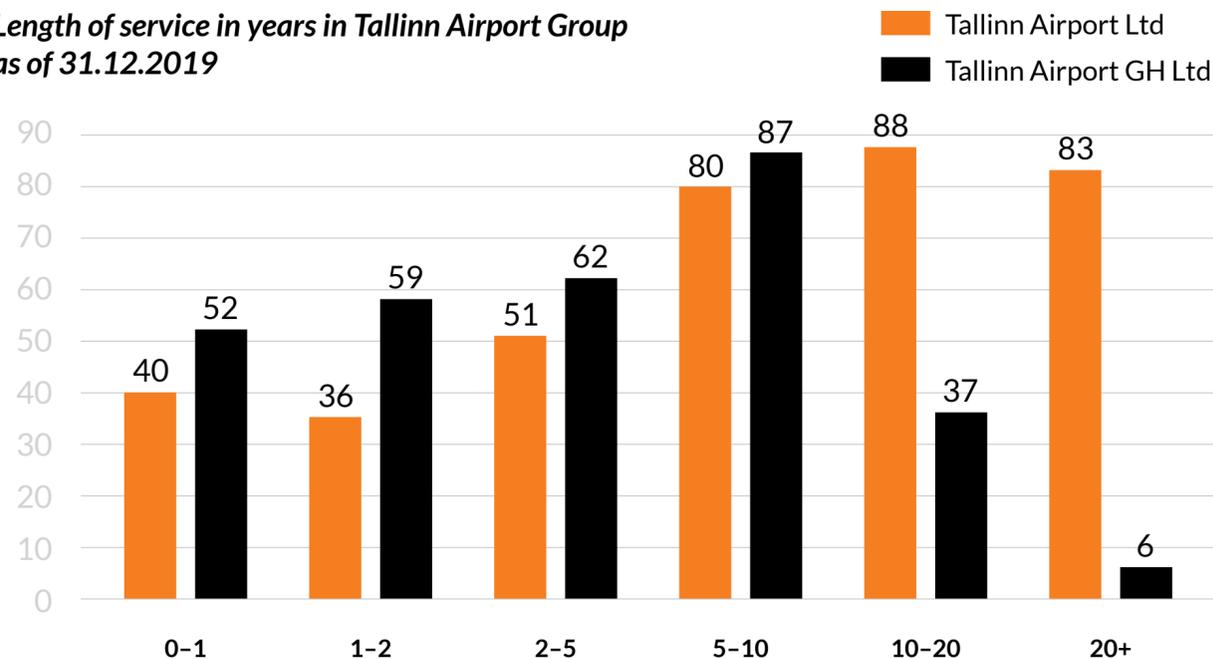


**Gender distribution in Tallinn Airport Group as of 31.12.2019**



45% of the employees of Tallinn Airport Ltd and 14% of the employees of Tallinn Airport GH Ltd have worked at their companies for more than a decade. In the latter case, 37% of the employees have worked at the company for less than two years since they mostly work in the service area.

**Length of service in years in Tallinn Airport Group as of 31.12.2019**



Our remuneration principles take account of external competitiveness. We annually participate in Fontes salary survey and use allocation of professional groups and principles of equal treatment regardless of the employee's gender and other characteristics.

In 2019, the voluntary staff turnover at Tallinn Airport Ltd was 6% (2018: 8%): 11 women and 11 men left the company.

The voluntary staff turnover at Tallinn Airport GH Ltd was 19% (2018: 18%): 27 women and 27 men left the company.

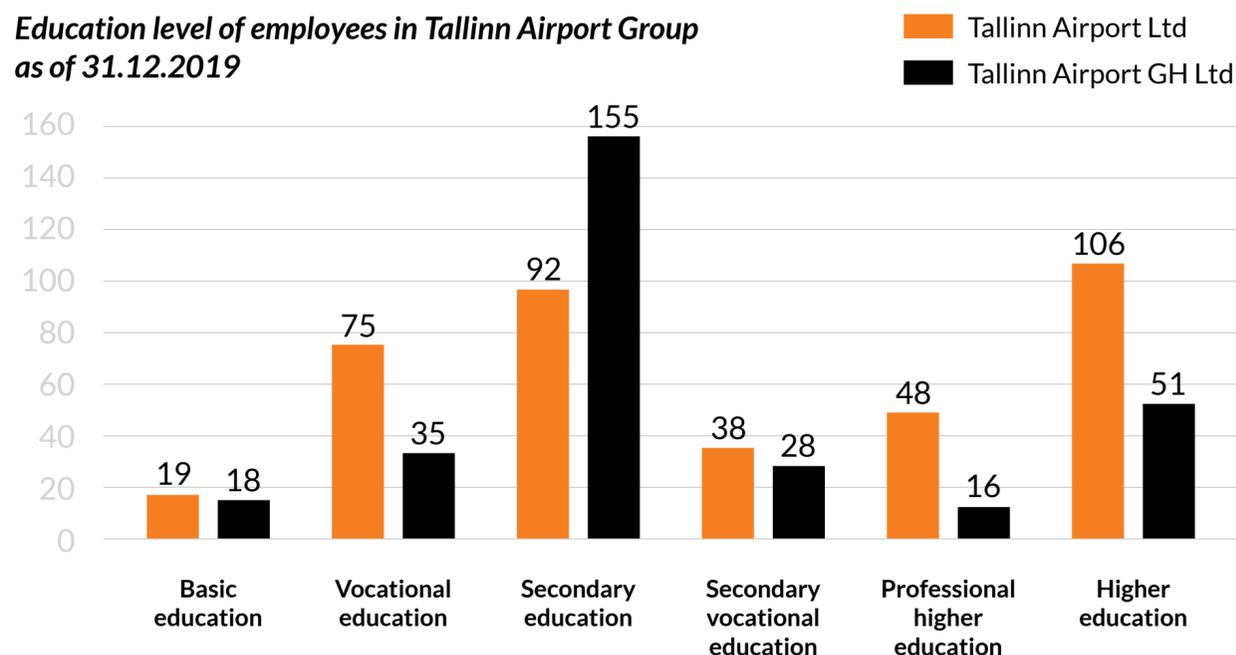
Employer reputation is the perception of the company's current and potential employees of the company as an employer. The reputation of Tallinn Airport is very good, as evidenced by several surveys conducted in 2019.

Based on the survey carried out by the research company **Instar** in 2019, Tallinn Airport Ltd was ranked as the fourth most attractive employer (2018: fifth place). We ranked first based on the ratings by experienced employees and sixth based on the ratings by the students at vocational schools.

Based on the results of the survey by **Kantar Emor** in 2019, Tallinn Airport is the most attractive employer for the people of Estonia.

The survey of **CV Online** identified the preference of employees when selecting an employer and we ranked first in spring and second in autumn in the transportation and logistics sector. According the survey data, Tallinn Airport attracts new employees with a motivating salary level and additional benefits, good reputation, cosy internal climate and flexible work organisation.

**Education level of employees in Tallinn Airport Group as of 31.12.2019**





**Staff competencies**

In promoting studies, mentoring and development, we still use the international 70:20:10 model for learning and development, which involves three types of learning: experiential, social and formal. External and internal trainers and practice mentors share their knowledge and skills.

Development of a competent and professional team is based on creation of the employee's individual development plan and the development plan of the team as a whole. In choosing participants for training courses, we have no gender or age preferences. We have started to use the WOPI personality and WOPI team building tests. We have organised team development days for the first two teams using the tests as the basis.

We keep increasing the share of e-learning programmes as a form of learning. It is increasingly possible to participate in internal training courses via a video link or watch the video recording of the training sessions afterwards.

In order to efficiently monitor the matching of competencies required for positions and employee levels, we have developed an information system of competencies that will be taken into use in 2020. The purpose of the system is to describe competency requirements, link them with the actual competencies of employees and in this way, create a user-friendly and unambiguous system for devising training courses.

Using the international legislative acts that form the basis for the airport's activities, we organise initial, recurrent and continuous training courses to ensure employee competencies. We organise regular feedback interviews with managers, top specialists, and the specialist staff to provide regular feedback to employees.

Training costs accounted for 1.5% of staff costs (2018: 1.5%). The Group's training and development costs totalled EUR 315,283 (2018: EUR 280,330).

**The main trainings of 2019**

| <b>Study programme</b>   | <b>Participants</b>   |
|--|---|
| Covision seminars  | All in-house trainers   |
| Leader Development Program   | All experienced leaders   |
| Leader Development Program (Basic Skills)  | All beginning leaders   |
| ATSEP training (Air Traffic Safety Electronics Personnel)  | Air traffic engineering and technical personnel   |
| Cyber security and data protection training  | 200 participants from the whole group   |
| Cyber hygiene training   |   |
| Special needs passenger service training and in-service training   | 27 employees  |
| Month of Conscious Development (SMART): maintaining mental health and preventing burnout, coping with changing conditions, smart photography, style and beauty, money wisdom | Over 200 participants   |
| Fire safety e-learning   | 133 employees of the Group, 509 employees of Tallinn Airport passenger terminal partner companies |
| 113 security training (108 in 2018) and 71 safety training (51 in 2018)  | 1787 members of the community, including 566 employees of the group                               |
| Resuscitation training "Your hands can save lives"   | 73 employees of the group   |

In 2019, Tallinn Airport Ltd issued 1,829 certificates and approvals for all study activities (1,784 in 2018).

### Employee feedback

In 2019, we continued our cooperation with Kantar Emor to carry out a working life survey at the Group, the purpose of which was to determine the aggregate indicator of employee commitment, i.e. the internationally used TRI\*M Index. 74% of the Group's employees responded to the survey, guaranteeing the reliability of results.

| Key strengths  | Developments and opportunities  |
|--|---|
|  Professional secure job                          |  Increasing workload                             |
|  Intra - company collaboration                    |  Information sharing about decisions and changes |
|  Investments in the working environment and tools |  Remuneration principles                         |

The results of Kantar Emor's 2019 comparison survey carried out throughout Estonia showed that the average commitment index of our Group's employees is 72 (2018: 76), which is a better result than the Estonian average (2019: 66).

### Recruitment and hiring of external applicants

In 2019, we filled 126 positions and about 2,200 candidates applied for these positions.

|                                 | Tallinn Airport Ltd   | Tallinn Airport GH Ltd |
|---------------------------------|-----------------------|------------------------|
| Candidates                      | 1,200                 | 1,000                  |
| Competitions                    | 26                    | 23                     |
| including internal competitions | 0                     | 5                      |
| Employees recruited             | 55 (30 men, 25 women) | 71 (42 men, 29 women)  |

In 2019, we organised work shadow and theme days at Tallinn Airport. Their purpose was to promote the reputation of the airport as an employer among working people, train the junior staff and inform them of opportunities to work and practice their professions at the Group. In 2019, we hosted study visits from 18 study groups, incl. from compulsory schools from all over

Estonia, Tallinn University, Pärnu College of the University of Tartu, and the Estonian Aviation Academy. The career counsellors of the Estonian Unemployment Insurance Fund and the students of Estonian Entrepreneurship University of Applied Sciences Mainor also visited us. The age of the people who participated in career days was between 8 and 50 years.

We have assumed the responsibility to enhance the aviation sector by training junior experts at the Estonian Aviation Academy. Lecturing plays a great role in it, ensuring the best possible knowledge through practical know-how.

In March we participated in the student career fair "Key to the future" in order to promote Tallinn Airport as an employer and provide an opportunity to apply for vacant positions.

In 2019, we continued to issue an airport scholarship to the best students of the Estonian Aviation Academy.

### Promoting health behaviour

We favour an athletic way of life and make sure that our employees always have an option to select an appropriate and healthy way to spend their free time in a cost-effective and convenient manner.

Each group employee can use sports and health promoting services of the SportID portal. In 2019, nearly 500 group employees regularly used the sports and health promotion services offered. In joint events, we also try to maintain an athletic spirit. Each September we celebrate the anniversary of Tallinn Airport Ltd with a big bowling tour where about 30 teams from various units participate.

Before the flu season, we arrange vaccinations at the Company for those who are interested and provide lemon, honey and ginger in the office.

The goal of the non-profit organisation Tallinn Airport Sports Club is to promote a healthy lifestyle of the employees. In the sports club, they can participate in group trainings, competitions and other sports-related activities. At the end of 2019, the sports club had already 80 members which is a proof that the employees place greater importance on sports and health. In 2019, the sports club participated in all major national sports competitions: in the series com-



petitions of the Estonian Company Sports Federation, Tartu Kuubik, Kõrvemaa competition of four fields of sport, and many biking and running marathons. Tallinn Airport Sports Club was ranked second in the series of the most athletic companies of Estonia.

### **Recognition and motivation of employees**

We value good performance and outstanding contribution by employees. At the Group, we award good initiatives and work activities – recognition of colleagues who have made a positive contribution during the year has become a tradition.

In 2019, we recognised our employees in four categories: deed of the year, team of the year, colleague of the year and customers' favourite employee of the year. Each year, Tallinn Airport GH Ltd recognises its outstanding colleagues with the Kuldvara title.

We share positive customer feedback with our employees on an ongoing basis over the intranet.

To motivate our employees, we have developed a value proposition which includes benefits like a one-week additional holiday, gift on the child's birth, recognition of employees on their birthdays and joint events.



# Overview of the environment

The aim of the Group is to ensure the sustainable and responsible operation of the airports belonging to the company and to provide a high-quality service, while saving the natural environment and reducing air emissions. For the company, responsible business means integrating sustainable development into its business, focusing on customer well-being while being responsible for social development, environmental issues and the economy.

## Environmental management

With the help of the environmental management system, we manage all of our activities that could impact the ambient air, water, landscape, mineral resources, plants, animals and their mutual interaction. An integral component of planning and implementing the development activities is the environmental protection, energy efficiency and sustainable development principles. Investments in the best possible technology and environmental protection as well as environmental and noise monitoring are the measures that ensure the sustainable development of airport operations.

The environmental management system of Tallinn Airport Ltd is in compliance with the requirements of the ISO 14001:2015 standard. The environmental management system includes management of environmental aspects, compliance requirements, measures to manage risks and opportunities. A systematic approach to environmental management foresees continuous improvement and focus on efforts to prevent undesirable consequences. Process-based management foresees application of the so-called plan-implement-control-act methodology, focusing on a risk-based way of thinking.

In 2019, we prepared the environmental management system handbook of Tallinn Airport Ltd, effective for all the airports. We use the handbook to guide our employees in order to ensure positive results and continuous improvement of our environmental activities. We also use the handbook outside the company in order to promote the key principles and requirements of the environmental management system to our business partners and stakeholders.

In order to better understand the organisation and its context, we identified important external and internal factors of the company that impact our ability to achieve the desired outcome in the environmental management system.

The key activities related to airport operations with a possible negative environmental impact are:

- de-icing of aircraft and surfaces,
- traffic of ground transportation on the airfield,
- oil and fuel handling,
- passenger and aircraft handling,
- maintenance and development activities performed on the airfield territory,
- noise caused by air traffic.

The key environmental impacts manifest themselves in the use of resources, incl. energy and water consumption, air pollution, noise level, rainwater quality and waste generation. The noise caused to air traffic also has an impact outside the airport territory.

Waste generation is primarily related to the passengers' behaviour habits and environmental awareness. Therefore, an important role of the company, is to increase not only the awareness of its employees but also the awareness of the passengers and shape their behaviour habits.

### **Environmental requirements and compliance with them**

In 2019, Tallinn Airport Ltd held five environmental permits to comply with the requirements arising from the environmental legislation. Tallinn Airport regulates the discharge of rainwater to the upstream with the permit for the special use of water and operation of natural gas boilers with the ambient air pollution permit. Pärnu and Kärdla Airports hold permits for the special use of water to direct wastewater through the bio-cleaner into the upstream. Tartu Airport holds the ambient air pollution permit to operate the natural gas boiler and tank fuel, but according to the new law, it is no longer required to comply with the permit.

The monitoring obligations laid down in the permit for the special use of water and the ambient air pollution permit and the quarterly and annual reports of pollution charges have been filed on time. In 2019, there were no incidents of environmental non-compliance and thus, no fines or sanctions were applied to the Company.

### **Environmental awareness**

One of the goals of Tallinn Airport Ltd in 2019 was to increase environmental awareness.

For this, we organised the environmental month "There is only one planet EARTH" for our employees, business partners and passengers. We organised lectures for the passengers in the waiting lounges of the passenger terminal in Tallinn, where there was also an exhibition organised by the students of Tallinn University. There were also chemical safety and waste management training courses and a questionnaire on employee habits to find out the CO2 footprint of their commuting. The one-minute lectures by Tallinn University could be viewed at the passenger terminal and in the social media channels of the airport community. We will also continue with our environmental month tradition in 2020.

From the point of view of environmental awareness, it is important to fully understand the Company's environmental indicators. We identified environmental parameters and measures to clarify them and ensure their effectiveness. In 2020, we plan to create an interactive system of displaying environmental parameters that would facilitate more specific monitoring of the Company's environmental sustainability and its efficient operation.



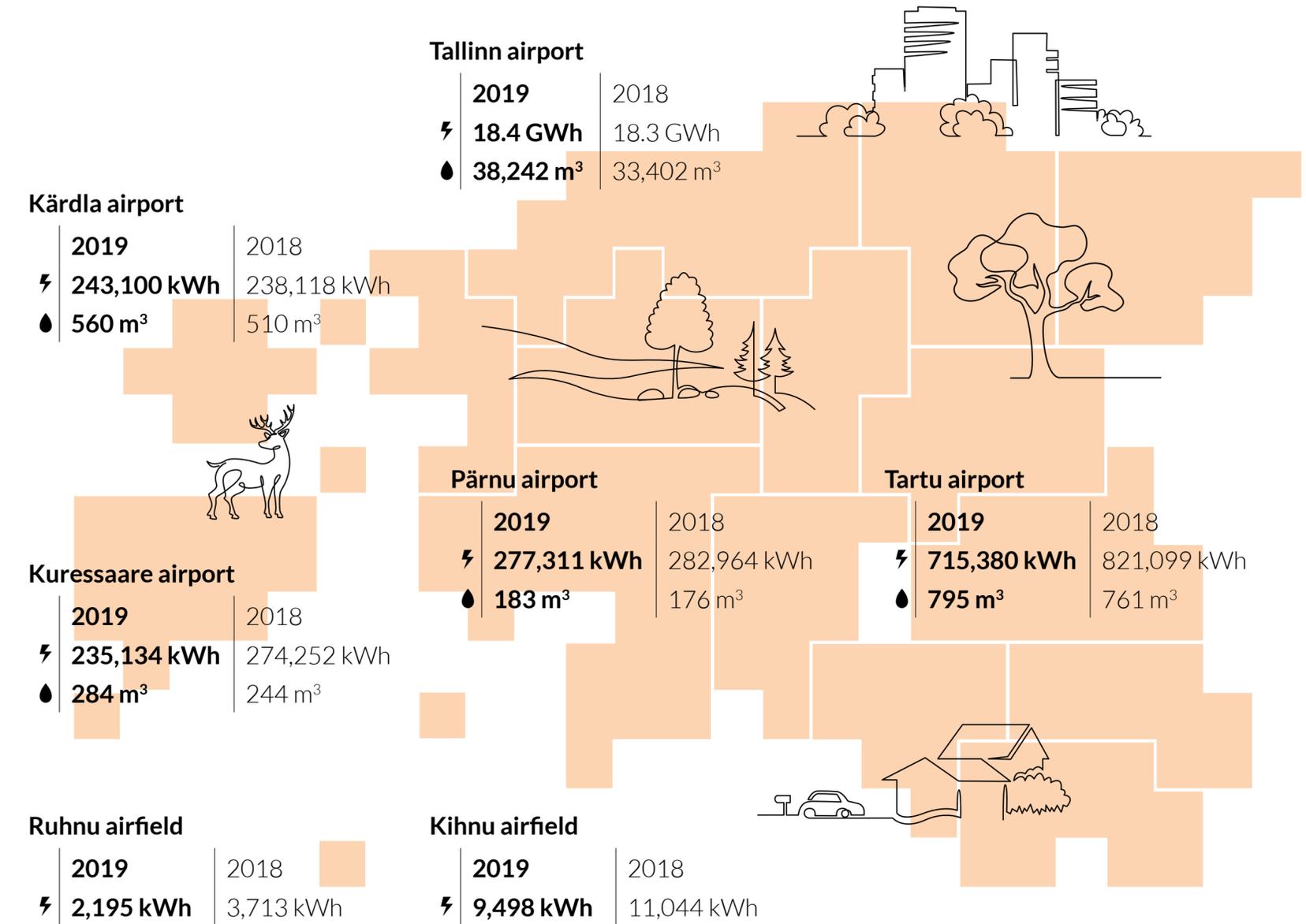
**Tallinn Airport Group environmental parameters**

**Tallinn Airport**

|  <b>Energy management</b>                           | Unit           | 2019   | 2018   | Change |
|--|----------------|--------|--------|--------|
| Total electricity consumption  | GWh            | 18.4   | 18.3   | ☹️     |
| Own cost of electricity  | GWh            | 11.3   | 11.0   | ☹️     |
| Electricity passenger terminal consumption   | GWh            | 6.3    | 6.4    | 😊      |
| Electricity sales  | GWh            | 7.0    | 7.2    | 😊      |
| Electricity per passenger  | kWh            | 5.6    | 6.1    | 😊      |
|  <b>Water consumption</b>                           |                |        |        |        |
| Total consumption of Tallinn Airport   | m <sup>3</sup> | 38,242 | 33,402 | ☹️     |
| Own consumption of Tallinn Airport   | m <sup>3</sup> | 22,596 | 18,442 | ☹️     |
|  <b>Fuel consumption at Tallinn airport</b>         |                |        |        |        |
| Diesel   | t              | 244    | 231    | ☹️     |
| Gasoline   | t              | 8      | 8      | 😊      |
| Gas  | t              | 4      | 9      | 😊      |
|  <b>Chemical use and leaks at Tallinn airport</b> |                |        |        |        |
| Aircraft de-icing  | t              | 389    | 373    | ☹️     |
| Asphalt beam de-icing  | t              | 756    | 582    | ☹️     |
| Leaks  | amt            | 40     | 46     | 😊      |
|  <b>Waste management at Tallinn airport</b>       |                |        |        |        |
| Municipal waste in the passenger terminal  | t              | 252    | 301    | 😊      |
| Waste per passenger  | kg             | 0.08   | 0.10   | 😊      |
| Separately collected waste share of mixed municipal waste  | %              | 26     | 15     | 😊      |
|  <b>Noise at Tallinn airport</b>                  |                |        |        |        |
| Average noise level east of the runway   | dB             | 61.7   | 61.3   | ☹️     |
| Average noise level west of the runway   | dB             | 54.9   | 54.4   | ☹️     |

**Regional airports**

-  Energy management
-  Water consumption





## Greenhouse gases and ambient air

The key goal for 2019 was to join the global airport CO<sub>2</sub> management programme Airport Carbon Accreditation (ACA) that independently assesses and recognises the efforts of airports in managing and reducing carbon monoxide emissions. In October, the first level certificate of the ACA programme was granted to Tallinn Airport Ltd.

The aim of the ACA programme is to encourage airports to reduce emissions while following the best practices and it enables them to do so. The ultimate aim of the programme is to achieve CO<sub>2</sub> neutrality in the airports.

In 2019, approximately 80% of CO<sub>2</sub> emissions of Tallinn Airport were attributable to electricity consumption, which together with other industries generated 4.88 kg of CO<sub>2</sub> per passenger. To reduce greenhouse gas emissions into the ambient air, we plan to adopt green energy production and consumption in the coming years. This will be our focus in our fight with the climate change caused by greenhouse gases in the near future.

Our goal in 2020 will be to create an action plan for CO<sub>2</sub> reduction as one of the criteria in the attainment of the second level of the ACA programme.

The results of the dispersal calculations provided in the study “Dispersal calculations in the direction of Lake Ülemiste of air pollution from aircraft taking off or landing at Tallinn Airport” that was conducted in 2014 show that air pollution produced by aircraft only has an effect in the areas near the airport. Based on the measurements made in previous years, the highest concentration of NO<sub>x</sub> occurred in the immediate vicinity of the airport, reaching 0.056 µg/m<sup>3</sup>. At the same time, it is 700 times lower than permitted under the limits of the Ambient Air Protection Act.

## Power consumption

Electricity consumption in Tallinn Airport Group has not significantly changed as compared to 2018. However, electricity consumption per passenger has decreased at the airport.



The objective of the Company’s sustainable development is to reduce electricity consumption in the Company and start using green energy. Our stakeholders also expect environment-related activities from us, which will lead us to more energy-efficient consumption.

When constructing new or reconstructing old buildings, we always follow the energy efficiency requirements and determine conditions already during the design work. In addition to the energy efficiency projects already launched, we made preparations in 2019 to build solar energy parks besides Tallinn Airport also in regional airports. We are searching for new and innovative ways to reduce electricity consumption.

## Drinking water

We consider it necessary to ensure quality drinking water to passengers as well as own employees and business partners. We regularly take water analyses to check the quality of drinking water, incl. the quality of the drinking water supplied by the water company. The biggest problem with the quality of drinking water is currently at Pärnu Airport, where a drinking water cleaning unit will be installed during the planned reconstruction to guarantee the compliance of drinking water with requirements. We will also install drinking water taps in the passenger area at Pärnu Airport to give passengers an opportunity to enjoy drinking water and fill up their water bottles.

Tallinn Airport already has a drinking water tap for passengers. In the coming years, we plan to add more taps to make the drinking water more available, and thereby ensure passenger satisfaction and quality of services.

The consumption of drinking water at Tallinn Airport and regional airports is directly related to the number of airline passengers and flight operations. We have installed photo eyes and aerators on taps at the passenger terminal of Tallinn Airport in order to save water. We will follow the same principle in regional airports.

According to the reports of Tallinna Vesi Ltd, the level of particles emitted due to the combustion of aircraft fuel is hundreds of times below the allowed threshold limit in

the water samples taken at Lake Ülemiste. To ensure the quality of drinking water, we cooperate with Tallinna Vesi Ltd. In the area where the trees have been felled to ensure flight safety, we will create a green area that would comply with flight safety requirements while also protecting the lake from the pollution of Tartu highway.

## Land transportation fuels

The main fuel for land transportation is diesel, which is used by maintenance equipment and aircraft ground handling equipment. Natural gas is used in some passenger buses and petrol is used in small machines.

Fuel consumption is affected by the square volume of the area requiring maintenance, the number of passengers and flight operations, and weather conditions. Fuel consumption in 2019 did not materially differ from the consumption in 2018; however, with the growth in the number of passengers, the consumption of diesel has slightly increased.

When we acquire new land transportation vehicles, we pay attention to their technical conditions (low CO<sub>2</sub> and fuel cost), to ensure environmentally sustainable consumption.

## Chemicals

At our airports, the chemicals are mostly used for de-icing of asphalt surfaces to ensure a safe take-off, landing and the manoeuvring of aircraft on the ground as well as de-icing of aircraft to ensure their safe flying. When we choose chemicals, we follow the principle that they should have a minimal impact on the environment and people's health. It is especially true for those chemicals that are used for de-icing of aircraft and asphalt areas. All chemicals that we use have been checked and they have an environmental sustainability certificate.

When using the de-icing chemical on runways, we monitor the weather conditions to sustain from using too much or too little chemicals. At the same time it is important that flight security is ensured while performing de-icing.

For an optimal use of de-icing chemicals on aircraft, we have acquired equipment that would automatically dispense the right chemical mix based on weather conditions.

## Waste management and supply chain

The company's key waste management policy is waste prevention, followed by reuse and finally recycling. From the point of view of sustainable development, we should uncover the opportunities for promotion of a circular economy and therefore it is important to consider waste management, namely its prevention, while purchasing products and services. We have used the principles of a circular economy and waste prevention while arranging procurements, but in light of the increasing importance of the environmental impact, we plan to apply, if possible, environmentally sustainable principles when arranging procurements.

Tallinn Airport reduced waste generation in the passenger terminal and also per passenger, demonstrating that we are on the right track with our continuous development of the waste management system. In 2019, we recycled 100% of waste collected at the terminal and the share of collected waste by type increased. When developing and applying the waste management system, we consider it important to increase awareness and regularly explain the waste sorting principles. One of the topics of the environmental month arranged in 2019 was waste management. We provided advice about waste management and drew the employees' attention to the problematic areas.

In 2019, we installed battery collection boxes in the passenger terminal so that passengers would have an opportunity to dispose of hazardous waste and not throw them away together with household waste. In all airports, we separately collect hazardous waste, electronic waste and small appliances (e.g. computer mice and phone chargers), to ensure maximum collection by type and to recycle and prevent hazardous waste from being mixed with household waste. We recycle waste through the company that holds the respective waste management permit.

Our 2020 objective in waste management is creation of an airport free of single-use plastics for the purpose of reducing the use of plastic wherever it is possible and necessary.





## Rainwater

Ensuring the quality of rainwater is necessary in all airports and this was also our key focus in 2019. Operating the airport affects the rainwater through pollution from de-icing chemicals used on aircraft and asphalt surfaces as well as transportation.

We have added the oil and sand collectors of the airside development project of Tallinn Airport also to the areas where there is no requirement to build them, but it is important to use the best possible technology to ensure maximum environmental protection. Our internal rules and regulations foresee prompt action and use of measures in case of a chemical spill to prevent environmental pollution.

To monitor the quality of rainwater, we check the emissions of Tallinn Airport.

## Noise

Aircraft noise is defined as a social impact, because by nature it impacts nearby people in the noise catchment area.

The catchment area of Tallinn Airport includes about 20,000 people. To monitor the level of noise, we have installed two noise measurement devices on both ends of the runway. We measure noise on an ongoing basis and record all noise disturbances. The average noise in the vicinity of the airport directly depends on the number of flight operations.

As the take-off and landing of aircraft depends greatly of the direction of wind, then flying is impossible without avoiding residential areas. Therefore, cooperation is important in developing approaching procedures of aircraft to find ways to reduce noise in residential areas.

To reduce the noise of aircraft engine testing, we will install noise absorbent barriers on the engine test area of the airside.

We actively participate in addressing noise-related issues. We arranged a meeting in 2018, in which the Civil Aviation Administration, Tallinn City Council, the Health Board, Estonian Air Navigation Services Ltd and the Ministry of the Environment participated. A year later another



## Accountability for land, water and bio-diversity

Operating the airport impacts the surrounding land, water and bio-diversity. We conduct our operations so that the minimum impact outside the airfield would also be guaranteed.

By preparing the development projects of the airport, we also assess the effect on bio-diversity and apply measures to reduce the impact. For forest and single tree felling, we follow the aviation safety requirements and take into account the nesting period of birds while planning the felling activities, i.e. in cooperation with the ornithologist we have set a period when no felling is allowed.

While operating the airport, we regularly monitor the water and soil condition

Looking to  
the future



## Forecast of the Group's key sales and financial indicators in 2020\*

As compared to 2019, the estimated sales revenue would increase from EUR 47.1 million to EUR 47.7 million (1%). Aviation revenue is estimated to decrease by 1%, related to the measures of the route support programme. The number of passengers is forecast at 3%. The non-aviation revenue growth is estimated at 2%.

Other income is estimated to be 7% higher than in 2019, because the government grants to cover aviation security and rescue expenses will increase by EUR 0.4 million (2020: EUR 7.4 million and 2019: 7.0 million). Government grants for operating expenses of regional airports will remain at the same level (2020: EUR 2.2 million and 2019: EUR 2.2 million).

According to the forecast, the Group's operating income will amount to EUR 61.9 million in 2020, increasing by 3% as compared to 2019.

The Group's expenses will increase from EUR 50.5 million to EUR 53.9 million or 7%. The Group's estimated profit will be EUR 7.8 million.

In 2020–2024, the Group's capital expenditures are estimated to total of EUR 188.2 million, including EUR 41.8 million in 2020.

- The key investment in this period will be the second phase of the airside area development project of Tallinn Airport with the estimated cost of EUR 30 million, including EUR 11 million in 2020.
- In the coming years, the cost of the engineering and construction of the extension of the passenger terminal of Tallinn Airport will be EUR 27.6 million.
- The reconstruction of Pärnu Airport was launched in 2019 and it will continue in 2020–2021. The total cost of the project will be EUR 20 million, including EUR 12.6 million in 2020.
- Of the business projects, the key one will be construction of the maintenance hangar at Tallinn Airport in 2020–2022.

\* Compiled at the end of 2019.

## Forecast of the Group's key sales and financial indicators for 2020\*

|   | Budget 2020        | 2019        | Variance %        |
|---|--------------------|-------------|-------------------|
| <b>Tallinn Airport</b>  |                    |             |                   |
| Passengers  | 3,363,768          | 3,267,910   | 3                 |
| Flight operations   | 48,274             | 47,867      | 1                 |
| Cargo volume in tonnes  | 10,916             | 10,916      | 0                 |
| <b>Total regional airports</b>                                |                    |             |                   |
| Passengers  | 72,146             | 67,077      | 8                 |
| Flight operations   | 10,801             | 10,944      | -2                |
| <b>Group</b>  |                    |             |                   |
| In thousands of euros   | <b>Budget 2020</b> | <b>2019</b> | <b>Variance %</b> |
| <b>Total operating income</b>                                 | <b>61,904</b>      | 60,386      | 3                 |
| <b>Sales revenue</b>  | <b>47,722</b>      | 47,120      | 1                 |
| incl aviation revenue   | 17,366             | 17,497      | -1                |
| incl non - aviation revenue                                   | 30,356             | 29,623      | 2                 |
| <b>Other operating income</b>                                 | <b>14,182</b>      | 13,266      | 7                 |
| Incl government grants  | 4,351              | 3,763       | 16                |
| incl aviation security and government grants for rescue costs | 7,420              | 6,995       | 6                 |
| incl regional airports government grants                      | 2,200              | 2,200       | 0                 |
| incl other operating income                                   | 211                | 308         | -31               |

## Forecast of the Group's key sales and financial indicators for 2020 \*

|   | Budget 2020    | 2019    | Variance % |
|---|----------------|---------|------------|
| <b>Operating profit before depreciation **</b>                    | <b>16,927</b>  | 17,927  | -6         |
| <b>Net profit</b>   | <b>7,798</b>   | 9,718   | -20        |
| <b>Cash flows from operating activities</b>                       | <b>16,456</b>  | 17,262  | -6         |
| <b>Investments</b>  | <b>41,757</b>  | 10,189  | 310        |
| <b>Sales revenue per departing passenger</b>                      | <b>27.78</b>   | 27.84   | 0          |
| <b>Net profit per employee</b>                                    | <b>12,638</b>  | 15,315  | -17        |
| <b>Balance sheet total</b>  | <b>241,590</b> | 226,149 | 7          |
| <b>Assets without government grants at the end of the year **</b> | <b>163,739</b> | 149,010 | 10         |
| <b>Equity at the end of the year</b>                              | <b>103,349</b> | 95,457  | 8          |
| <b>Debt at the end of the year</b>                                | <b>52,321</b>  | 45,618  | 15         |
| <b>Equity / assets at the end of the year **</b>                  | <b>63%</b>     | 64%     |            |
| <b>Debt / operating profit before depreciation **</b>             | <b>3.1</b>     | 2.5     |            |

\* Compiled at the end of 2019.

\*\* Does not include government grants for fixed asset financing.

## Forecast of the Group's key sales and financial indicators for 2020 \*

|   | Budget 2020   | 2019   | Variance % |
|---|---------------|--------|------------|
| <b>Total operating expenses</b>   | <b>53,870</b> | 50,467 | 7          |
| incl goods, materials, services   | 16,262        | 15,734 | 3          |
| incl miscellaneous operating expenses                                     | 2,029         | 1,902  | 7          |
| incl labor costs  | 22,199        | 20,949 | 6          |
| incl other operating expenses   | 136           | 111    | 23         |
| incl depreciation of fixed assets   | 13,244        | 11,771 | 13         |
| <b>Operating profit before depreciation and financial result (EBITDA)</b> | <b>16,927</b> | 17,927 | -6         |
| <b>Operating profit (EBIT)</b>  | <b>8,035</b>  | 9,919  | -19        |
| <b>Net profit</b>   | <b>7,798</b>  | 9,718  | -20        |
| <b>Average number of employees reduced to full - time equivalents</b>     | <b>617</b>    | 635    | -3         |
| Sales revenue per employee  | 77,346        | 74,205 |            |
| Net profit per employee   | 12,638        | 15,304 |            |

\* Compiled at the end of 2019.

## Tallinn Airport Group 's strategic goals for 2020

*Tallinn Airport connects Estonia with the world in terms of both the movement of people and goods*

| Goal   | The target of 2020  |
|--|---|
| It is possible to fly from Tallinn to various destinations both in Europe and Asia | <ul style="list-style-type: none"> <li>• Number of destinations all year round 30</li> <li>• Regular routes (year - round and summer routes) 40</li> <li>• Number of passengers at Tallinn Airport 3.4 million</li> <li>• Cargo aviation development plan completed</li> <li>• 12 tons of air cargo at Tallinn Airport</li> </ul> |

*Tallinn Airport is an attractive airport for passengers, airlines, partners and talents*

| Goal   | The target of 2020                                     |
|--|--|
| Increase in passenger satisfaction at Tallinn Airport according to the ASQ index                   | 4.5 (on a five-point scale)                            |
| A portfolio of services and products that meets the expectations of airlines                       | 4.45 (on a five-point scale)                           |
| Expansion of Tallinn Airport passenger terminal  | The design of the first expansion phase is in progress |
| Growth of the Group's non-aviation revenues  | + 2.2% (+0.4 million)                                  |
| Our actions or omissions will not cause a consecutive stop of air traffic for more than 30 minutes | 0 incidents lasting more than 30 minutes               |
| Punctuality of departing flights at Tallinn Airport  | 85%  |
| We increase the commitment of the group's employees  | 73 points in the TRI * M index                         |
| Employer surveys continue to rank high   | Among the top five employers                           |

## Tallinn Airport Group 's strategic goals for 2020

*We operate the group's Tallinn Airport safely and securely and are responsible for the natural environment*

| Goal  | The target of 2020   |
|---|--|
| CO <sub>2</sub> intensity per passenger   | 5,1 kg   |
| We reduce the cost of electricity, water and gas per passenger at Tallinn Airport | € 0.39 per passenger   |
| Number of security incidents per passenger  | 0 serious deficiencies   |
| Number of safety categories A to D at group airports per 1000 flight operations   | Kuressaare Airport 4<br>Kärdla Airport 7.5<br>Pärnu Airport 15<br>Tallinn Airport 7.5<br>Tartu Airport 3 |

*The Tallinn Airport Group is a cost-effective, profitable and innovative company*

| Goal   | The target of 2020                        |
|--|---|
| EBITDA growth in the group   | € 16.9 million consolidated, margin 35.5% |
| The cost of regional airports per passenger                        | 59 €                                      |
| Tallinn Airport GH cost per flight operation                       | 283 €                                     |
| Group cost (excluding depreciation) per passenger                  | 11,80 €                                   |
| The cost of Tallinn Airport (excluding depreciation) per passenger | 7,80 €                                    |
| The Group's sales revenue per departing passenger                  | 27,80 €                                   |

## Effect of the COVID-19 coronavirus on the sustainability of the operations of Tallinn Airport 24.03.2020

The COVID-19 virus started to spread in China at the end of 2019 and it reached Europe in February 2020. The Government of the Republic of Estonia declared the state of emergency at 12 March 2020.

The spread of the virus has led to traffic restriction both between countries and within them. The emergency state in Europe has led to a sharp decrease in the number of passengers and flight operations. According to various estimates, the period of restrictions due to the virus may last from March to May. In our forecast, we estimate that the flight traffic will resume in May but the recovery will take long time and the number of passengers achieved in 2019 will not be reached in 2020.

To assess the Group's sustainability of operations, we have used a conservative forecast for 2020. On this basis, we estimate that the number of passengers will be 34% lower and the number of flight operations will be 23% lower than in 2019.

We analysed the continuation of planned strategic projects and the need for capital expenditures in the new situation. The Group's cash balance is sufficient to continue with its strategic investments and meet its obligations on time. The budget of capital expenditures in 2020 was EUR 41.8 million. In 2020, we plan to use EUR 32.7 million for capital expenditures and not to use EUR 8.9 million.

We will continue with the second phase of the airside development project of Tallinn Airport airside, reconstruction of Pärnu Airport and designing of the extension and construction of the passenger terminal of Tallinn Airport for expanding the waiting and baggage areas.

The reduction in the number of passenger and flight operations has a direct impact on the revenue base of group companies. In the period from March to June, the revenue is estimated to decrease by 62% as compared to 2019. The Group has launched a cost saving programme. In the first half of 2020, the Group is estimated to incur a loss.

The activities related to the virus outbreak can be divided into four stages. The first stage was the protection of the health of the Group's employees and the second stage involved the ad-

justment of the Group's activities due to lower air traffic. The third stage is the evaluation of the economic impact and minimisation of losses while the fourth stage involves activities to restore air traffic.

Due to the significant reduction of operating volumes and in a situation where the duration of the crisis is not known, the Group's management found that use should be made of the current available information and situation, and the negative impact of the crisis on the Group's sustainability of operations should be reduced as much as possible.

## Principles of a sustainability reporting

The 2019 annual report of Tallinn Airport Group is the integrated annual report, containing the sustainability and social responsibility report, corporate governance report and financial statements.

In respect of the sustainability and social responsibility reports, we proceed from the global reporting initiative (GRI). The guideline for preparation of the sustainability report consists of reporting principles, reporting guidelines and standard reported information. In this annual report, we disclosed all activities for 2019. We prepare the annual report each year and this is a sequel to the 2018 annual report of Tallinn Airport.

The key elements of the reporting process have been described in the accounting policies and guidelines:

- materiality,
- involvement of stakeholders,
- sustainability context,
- completeness reporting principles.

With regard to the section on standard information to be reported, it includes data and information which is relevant and important to the company and is specified in the guidelines as three types of standard information:

- strategy and profile – data that determine the general context necessary for understanding the company's activities, such as the company's strategy, profile and management;

- management style – data that relates to how the company deals with relevant topics and provide a context for understanding a specific area;
- performance measures – indicators that include comparable information about the company’s economic, environmental and social areas.

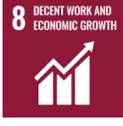
Interviews with the company’s employees and management, literature, data and media analysis, as well as site visits and expert assessments have been used to define and delimit the scope of influence. Interviews with the company’s employees and management have been used to determine materiality. Stakeholders are described in more detail in the relevant chapter. In addition, society’s legislation and compliance with the law play a role in assessing materiality, reducing the importance of the issue for the company in the case of good functioning and vice versa.

The key issues identified are:

- economic performance,
- indirect economic impact,
- fight against corruption,
- energy,
- biodiversity,
- emissions,
- waste water and waste,
- environmental compliance,
- employment,
- health and safety at work,
- training and education,
- non-discrimination,
- socio-economic compliance.

In our business, we are guided by the principles of sustainability. From 2018, we will pursue and link our activities to the United Nations Sustainable Development Goals (SDGs). We have also reflected the fulfilment of the sustainable development goals in this report. In order to illustrate how our activities contribute to the achievement of the sustainable development goals, we have linked them to topics that are important to us and marked them with the SDG symbol in the report.

**Sustainable Development Goals**

| <b>Goals</b>  | <b>World</b>  | <b>Tallinn Airport</b>   |
|---|---|--|
|    | Ensure healthy lives and promote well-being for all at all ages   | The Company has a functioning occupational safety and health management system   |
|    | Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all      | We support staff development and organise their learning activities and coaching with efficient use of resources and flexible learning opportunities   |
|    | Achieve gender equality and empower all women and girls   | We support the equality principles of gender, age, education and diversity of views  |
|    | Ensure access to water and sanitation for all   | We are constantly monitoring rainwater. We use technical solutions to save water resources. We prevent environmental pollution through risk management. We provide clean drinking water for passengers, staff and partners at airports |
|  | Ensure access to affordable, reliable, sustainable and modern energy for all                              | We reduce electricity consumption per passenger. We increase the share of renewable energy in final energy consumption. We plan energy-efficient buildings   |
|  | Promote inclusive and sustainable economic growth, employment and decent work for all                     | We contribute to the development of the country’s economic environment. We value performance and outstanding staff commitment as well as mutually respectful relationships with staff  |
|  | Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation | We develop and operate infrastructure while taking into account the expectations of the society and the stakeholders, and the principles of sustainability   |

| Goals  | World   | Tallinn Airport   |
|--|---|---|
|   | Make cities inclusive, safe, resilient and sustainable      | We monitor the emissions of fine particles into ambient air. We actively participate in addressing noise-related issues. We lower emissions, prepare an action plan to reduce CO <sub>2</sub>   |
|   | Ensure sustainable consumption and production patterns      | We have obtained the ISO 14001: 2015 environmental management system certificate. We ensure that hazardous waste is handed over to the handlers of hazardous waste. We reduce generation of waste per passenger. We increase the share of recyclable waste. We ensure sustainable and responsible airport operations within the company. We create a strategy for the Company's waste management system |
|  | Take urgent action to combat climate change and its impacts | We keep track of greenhouse gas emissions. We monitor CO <sub>2</sub> emissions when purchasing new machinery. We reduce consumption of fossil fuels  |

| Goals  | World   | Tallinn Airport  |
|--|---|--|
|   | Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss   | We use environmentally friendly de-icing equipment at airports to minimise the negative impact on biodiversity |
|   | Promote just, peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels | We prevent corruption by setting procurement terms and avoiding conflicts of interest                          |
|  | Strengthen the means of implementation of the action plan and revitalize the global partnership for sustainable development   | We pay environmental tax on the basis of the ambient air pollution permit and special permit for water use     |

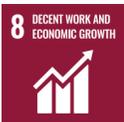
## GRI Content Index

| <i>Standard</i>                   | <i>Disclosure</i>   | <i>Page number</i>  |
|-----------------------------------|---|---------------------|
| GRI 102:<br>General disclosures   | <b>Organisational profile</b>   |                     |
|                                   | 102-1 Name of the organisation  | Tallinn Airport Ltd |
|                                   | 102-2 Activities, brands, products and/or services  | 6                   |
|                                   | 102-3 Location of headquarters  | Tallinn             |
|                                   | 102-4 Location of operations  | 6, 34, 51           |
|                                   | <b>Sustainable Development Goal no 9</b><br>Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation | 10, 34, 46          |
|                                   | 102-5 Ownership and legal form  | 6, 16               |
|                                   | 102-6 Markets served  | 6                   |
|                                   | 102-7 Scale of the organisation   | 6, 46               |
|                                   | 102-8 Information on employees and other workers  | 51-52               |
|                                   | 102-9 Supply Chain  | 24                  |
|                                   | 102-10 Significant changes to the organisation and its supply chain   | 8, 24, 51           |
|                                   | 102-11 Precautionary principle or approach  | 21-24               |
| 102-12 External activities        | 19  |                     |
| 102-13 Membership of associations | 19  |                     |



| <i>Standard</i> | <i>Disclosure</i>   | <i>Page number</i>   |
|-----------------|---|----------------------|
|                 | <b>Strategy</b>   |                      |
|                 | 102-14 Statement from senior decision-maker                       | 3                    |
|                 | 102-15 Key impacts, risks and opportunities                       | 10, 21, 13-14, 21-24 |
|                 | <b>Ethics and integrity</b>                                       |                      |
|                 | 102-16 Values, principles, standards, and norms of behaviour      | 10-12, 19            |
|                 | <b>Governance</b>   |                      |
|                 | 102-18 Governance structure                                       | 16-18                |
|                 | <b>Stakeholder engagement</b>                                     |                      |
|                 | 102-40 List of stakeholder groups                                 | 39                   |
|                 | 102-42 Identifying and selecting stakeholders                     | 37, 39               |
|                 | 102-43 Approach to stakeholder engagement                         | 37, 39, 42-43, 54-55 |
|                 | 102-44 Key topics and concerns raised                             | 37, 39               |
|                 | <b>Reporting Practice</b>   |                      |
|                 | 102-45 Entities included in the consolidated financial statements | 6                    |
|                 | 102-46 Defining report content and topic boundaries               | 66-68                |
|                 | 102-47 List of material topics                                    | 10-14                |

| <b>Standard</b>              | <b>Disclosure</b>   | <b>Page number</b>   |
|------------------------------|---|--|
|                              | 102-48 Restatements of information                              | -  |
|                              | 102-49 Changes in reporting                                     | -  |
|                              | 102-50 Reporting period   | 01.01.-31.12.2019  |
|                              | 102-51 Date of most recent report                               | 26.03.2019   |
|                              | 102-52 Reporting cycle  | The report is prepared annually. A GRI guideline compliant report has been prepared since 2014. All previous reports are available on the website of Tallinn Airport Ltd |
|                              | 102-53 Contact point for questions regarding the report         | kvaliteet@tll.aero   |
|                              | 102-54 Claims of reporting in accordance with the GRI Standards | The report complies with the standard of international Global Reporting Initiative (GRI) and is based on the basic requirements of the standard                          |
|                              | 102-55 GRI content index  | 69-72  |
|                              | 102-56 External Assurance                                       | The Group's annual report is audited by PricewaterhouseCoopers Ltd   |
| GRI 103: Management Approach | 103-1 Explanation of the material topic and its boundary        | 6, 10  |
|                              | 103-2 The management approach and its components                | 10-14, 57  |
|                              | 103-3 Evaluation of the management approach                     | 10-14  |

| <b>Standard</b>  | <b>Disclosure</b>  | <b>Page number</b> |
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|  <b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b>   | <b>Sustainable Development Goal no 12</b><br>Ensure sustainable consumption and production patterns  | 57, 59, 60         |
| GRI 201: Economic Performance  | 201-1 Direct economic value generated and distributed  | 26-29, 40          |
|  <b>8 DECENT WORK AND ECONOMIC GROWTH</b>           | <b>Sustainable Development Goal no 8</b><br>Promote inclusive and sustainable economic growth, employment and decent work for all  | 51                 |
| GRI 203: Indirect Economic Impacts   | 203-1 Infrastructure investments and services supported  | 29, 46-49          |
| GRI 205: Anti-corruption   | 205-1 Operations assessed for risks related to corruption  | 18-19              |
|  | 205-2 Communication and training about anticorruption policies and procedures  | 18-19              |
|  | 205-3 Confirmed incidence of corruption and actions taken  | 18-19              |
|  <b>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</b> | <b>Sustainable Development Goal no 16</b><br>Promote just, peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels | 16                 |

| <b>Standard</b>   | <b>Disclosure</b>  | <b>Page number</b> |
|---|--|--------------------|
| GRI 302:<br>Energy  | 302-1 Energy consumption within the organisation   | 58-59              |
|   | 302-3 Energy efficiency  | 58-59              |
|   | 302-4 Reduction of energy consumption  | 59                 |
|    | <b>Sustainable Development Goal no 7</b><br>Ensure access to affordable, reliable, sustainable and modern energy for all                                   | 59                 |
| GRI 304:<br>Biodiversity  | 304-2 Significant impacts of activities, products and services on biodiversity   | 58, 60-61          |
|   | <b>Sustainable Development Goal no 15</b><br>Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss | 61                 |
| GRI 305:<br>Emissions   | 305-5 Reduction of greenhouse gas emissions  | 59                 |
|   | 305-7 Nitrogen oxides (NOX), sulphur oxides (SOX) and other significant air emissions  | 59                 |
|  | <b>Sustainable Development Goal no 17</b><br>Revitalize the global partnership for sustainable development   | 20, 39, 57         |

| <b>Standard</b>   | <b>Disclosure</b>  | <b>Page number</b> |
|---|--|--------------------|
|    | <b>Sustainable Development Goal no 11</b><br>Make cities inclusive, safe, resilient and sustainable      | 59, 61             |
|    | <b>Sustainable Development Goal no 13</b><br>Take urgent action to combat climate change and its impacts | 59                 |
| GRI 306:<br>Effluents and Waste   | 306-1 Water discharge by quality and destination   | 58-61              |
|   | 306-2 Waste by type and disposal method  | 58, 60             |
|   | 306-3 Significant spills   | 58, 60             |
|   | 306-4 Transport and hazardous waste  | 58, 60             |
|   | 306-5 Water bodies affected by water discharges and/or runoff  | 59, 61             |
|  | <b>Sustainable Development Goal no 6</b><br>Ensure access to water and sanitation for all                | 59, 60             |
| GRI 307:<br>Environmental compliance  | 307-1 Non-compliance with environmental laws and regulations   | 57                 |
| GRI 401:<br>Employment  | 401-1 New employee hires and employee turnover   | 52, 54             |

| <b>Standard</b>   | <b>Disclosure</b>  | <b>Page number</b>   |
|---|--|--|
| GRI 403:<br>Occupational<br>Health and<br>Safety                                    | 403-1 Workers representation in formal joint management-worker health and safety committees  | 23-24  |
|   | 403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities              | 21-24  |
|   | 403-4 Health and safety topics covered in formal agreements with trade unions  | 24   |
|    | <b>Sustainable Development Goal no 3</b><br>Ensure healthy lives and promote well-being for all at all ages                                      | 24, 59, 61   |
| GRI 404:<br>Training and<br>Education   | 404-1 Average hour of training per year per employee   | Since the company focuses on providing practical training at work, this indicators is irrelevant |
|   | 404-2 Programs for upgrading employee skills and transition assistance programs  | 53   |
|   | 404-3 Percentage of employees receiving regular performance and career development reviews   | 53   |
|  | <b>Sustainable Development Goal no 4</b><br>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all | 53, 54   |

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|  | <b>Sustainable Development Goal no 5</b><br>Achieve gender equality and empower all women and girls | 51   |
| GRI 406: Non-discrimination   | 406-1 Incidents of discrimination and corrective actions taken                                      | No incident of discrimination was registered in 2019 |
| GRI 419:<br>Socioeconomic<br>Compliance   | 419-1 Non-compliance with laws and regulations in the social and economic area                      | No non-compliance was detected in 2019               |



# 2019. consolidated financial statements

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| 79 | Consolidated statement of changes in equity    |

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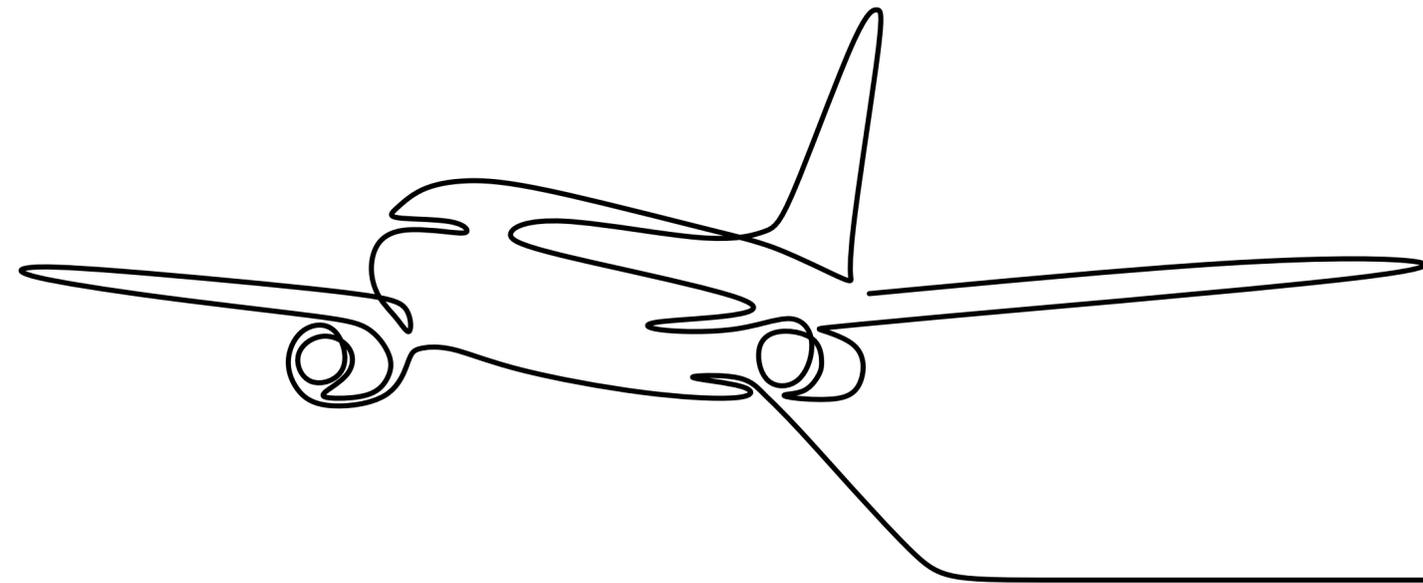
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|-----|---|

# 2019. consolidated financial statements



|                                    |   |
|------------------------------------|---|
| <b>Business name</b>               | Tallinn Airport Ltd                                       |
| <b>Commercial registry number</b>  | 10349560  |
| <b>Legal address</b>               | Lennujaama tee 12<br>11101 Tallinn<br>Republic of Estonia |
| <b>Phone</b>                       | +372 6 058 701  |
| <b>Fax</b>                         | +372 6 058 333  |
| <b>E-mail</b>                      | administration@tll.aero<br>www.tallinn-airport.ee         |
| <b>Auditor</b>                     | AS PricewaterhouseCoopers                                 |
| <b>Beginning of financial year</b> | 01.01.2019  |
| <b>End of financial year</b>       | 31.12.2019  |

## General information and contact data

The Group operates L.Meri Tallinn Airport, K ardla Airport, Kuressaare Airport, Tartu Airport, P arnu 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 687 people on average in 2019 (2018: 667).

The owner of the shares of Tallinn Airport Ltd 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    | 31.12.2019     | 31.12.2018     |
|---------------------------------|---------|----------------|----------------|
| <b>Assets</b>                   |         |                |                |
| <b>Non-current assets</b>       |         |                |                |
| Property, plant and equipment   | Note 5  | 151,918        | 152,446        |
| Intangible assets               |         | 514            | 391            |
| Right-of-use assets             |         | 158            | 0              |
| Investment property             | Note 6  | 16,762         | 17,986         |
| <b>Total non-current assets</b> |         | <b>169,352</b> | <b>170,823</b> |
| <b>Current assets</b>           |         |                |                |
| Inventories                     | Note 8  | 312            | 290            |
| Receivables and prepayments     | Note 9  | 5,582          | 5,363          |
| Cash                            | Note 11 | 50,903         | 13,260         |
| <b>Total current assets</b>     |         | <b>56,797</b>  | <b>18,913</b>  |
| <b>Total assets</b>             |         | <b>226,149</b> | <b>189,736</b> |

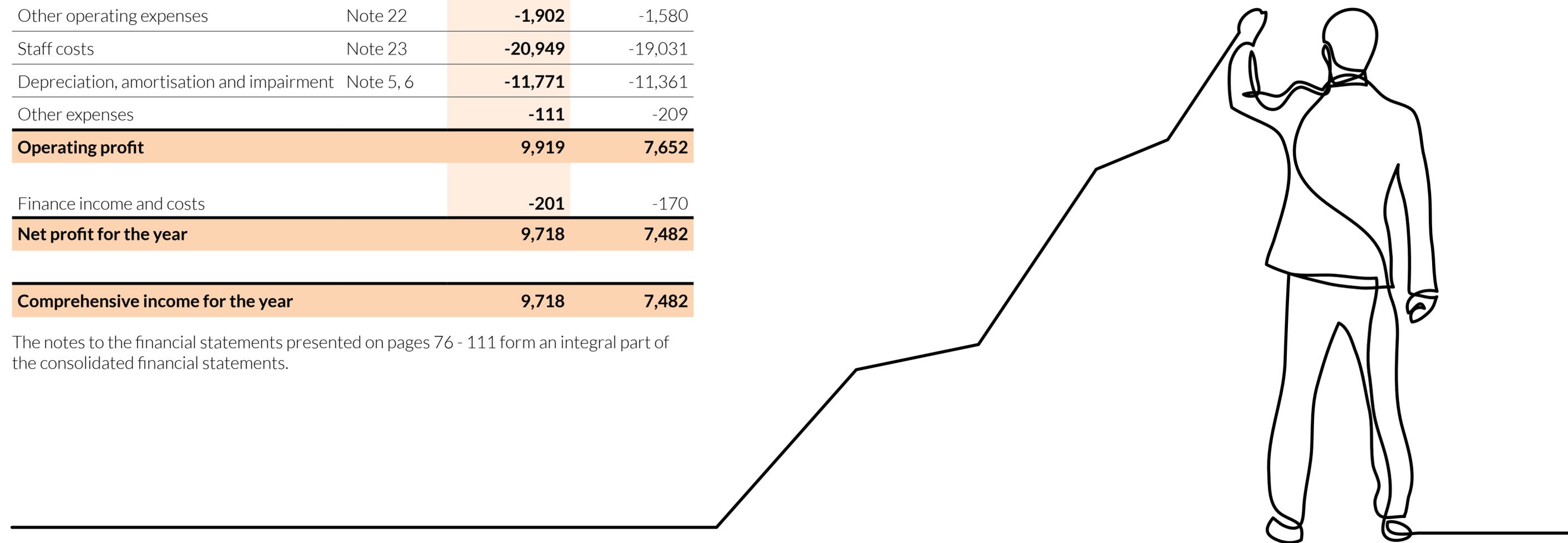
| in EUR thousand                      | Note    | 31.12.2019     | 31.12.2018     |
|--------------------------------------|---------|----------------|----------------|
| <b>Equity</b>                        |         |                |                |
| Share capital                        | Note 18 | 25,095         | 25,095         |
| Statutory reserve capital            |         | 2,510          | 2,510          |
| Retained earnings                    |         | 67,852         | 58,134         |
| <b>Total equity</b>                  |         | <b>95,457</b>  | <b>85,739</b>  |
| <b>liabilities</b>                   |         |                |                |
| <b>Non-current liabilities</b>       |         |                |                |
| Borrowings                           | Note 12 | 42,321         | 32,274         |
| Lease liabilities                    | Note 12 | 112            | 0              |
| Government grants                    | Note 14 | 77,139         | 60,902         |
| Other payables                       |         | 41             | 41             |
| <b>Total non-current liabilities</b> |         | <b>119,613</b> | <b>93,217</b>  |
| <b>Current liabilities</b>           |         |                |                |
| Borrowings                           | Note 12 | 3,297          | 1,488          |
| Lease liabilities                    | Note 12 | 46             | 0              |
| Payables and prepayments             | Note 15 | 7,280          | 8,836          |
| Accruals                             | Note 25 | 456            | 456            |
| <b>Total current liabilities</b>     |         | <b>11,079</b>  | <b>10,780</b>  |
| <b>Total liabilities</b>             |         | <b>130,692</b> | <b>103,997</b> |
| <b>Total liabilities and equity</b>  |         | <b>226,149</b> | <b>189,736</b> |

The notes to the financial statements presented on pages 76-111 form an integral part of the consolidated financial statements.

# Consolidated statement of comprehensive income

| in EUR thousand                           | Lisa nr   | 2019         | 2018         |
|---|-----------|--------------|--------------|
| Revenue                                   | Note 19   | 47,120       | 43,801       |
| Other income                              | Note 20   | 13,266       | 10,067       |
| Goods, materials and services             | Note 21   | -15,734      | -14,035      |
| Other operating expenses                  | Note 22   | -1,902       | -1,580       |
| Staff costs                               | Note 23   | -20,949      | -19,031      |
| Depreciation, amortisation and impairment | Note 5, 6 | -11,771      | -11,361      |
| Other expenses                            |           | -111         | -209         |
| <b>Operating profit</b>                   |           | <b>9,919</b> | <b>7,652</b> |
| Finance income and costs                  |           | -201         | -170         |
| <b>Net profit for the year</b>            |           | <b>9,718</b> | <b>7,482</b> |
| <b>Comprehensive income for the year</b>  |           | <b>9,718</b> | <b>7,482</b> |

The notes to the financial statements presented on pages 76 - 111 form an integral part of the consolidated financial statements.



# Consolidated statement of cash flows

| in EUR thousand  | Lisa nr   | 2019          | 2018           |
|--|-----------|---------------|----------------|
| <b>Cash flows from operating activities</b>  |           |               |                |
| Collections from customers   |           | 50,004        | 48,857         |
| Payments to suppliers and employees  |           | -41,939       | -39,144        |
| Interest received  |           | 2             | 2              |
| Interest paid  |           | -200          | -185           |
| Government grants received from state budget for covering the cost of operating activities       | Note 14   | 9,195         | 5,750          |
| Other grants received for covering the cost of operating activities                              | Note 14   | 200           | 170            |
| <b>Total cash flows from operating activities</b>  |           | <b>17,262</b> | <b>15,450</b>  |
| <b>Cash flows from investing activities</b>  |           |               |                |
| Paid for acquisition of intangible assets, property, plant and equipment and investment property | Note 5, 6 | -11,490       | -24,439        |
| Proceeds from sale of property, plant and equipment  | Note 5    | 72            | 42             |
| Government grants received from state budget for non-current assets                              | Note 14   | 17,300        | 3,700          |
| Government grants received for non-current assets  | Note 14   | 2,700         | 2,870          |
| <b>Total cash flows from investing activities</b>  |           | <b>8,582</b>  | <b>-17,827</b> |

The notes to the financial statements presented on pages 76 - 111 form an integral part of the consolidated financial statements.

| in EUR thousand   | Lisa nr | 2019          | 2018         |
|---|---------|---------------|--------------|
| <b>Cash flows from financing activities</b>               |         |               |              |
| Repayments of borrowings                                  | Note 12 | -2,143        | -8,500       |
| Borrowings received                                       | Note 12 | 14,000        | 10,000       |
| Repayment of lease liabilities                            |         | -58           | 0            |
| <b>Total cash flows from financing activities</b>         |         | <b>11,799</b> | <b>1,500</b> |
| <b>Net cash flows</b>                                     |         |               |              |
| Cash and cash equivalents at beginning of the period      | Note 11 | 13,260        | 14,137       |
| Cash and cash equivalents at end of the period            | Note 11 | 50,903        | 13,260       |
| <b>Net increase/decrease in cash and cash equivalents</b> |         | <b>37,643</b> | <b>-877</b>  |

# Consolidated statement of changes in equity

| in EUR thousand               | Share capital | Statutory reserve capital | Retained earnings | Total  |
|-------------------------------|---------------|---------------------------|-------------------|--------|
| Balance as at 31.12.2017      | 25,095        | 2,510                     | 50,652            | 78,257 |
| Comprehensive income for 2018 | 0             | 0                         | 7,482             | 7,482  |
| Balance as at 31.12.2018      | 25,095        | 2,510                     | 58,134            | 85,739 |
| Comprehensive income for 2019 | 0             | 0                         | 9,718             | 9,718  |
| Balance as at 31.12.2019      | 25,095        | 2,510                     | 67,852            | 95,457 |

More detailed information about share capital is disclosed in Note 18. The notes to the financial statements presented on pages 76-111 form an integral part of the consolidated financial statements.

# Notes to the consolidated financial statements

## Note 1. General information

The parent company Tallinn Airport Ltd is a fully state-owned company registered at 30.12.1997 in the Republic of Estonia.

The consolidated financial statements of the Group Tallinn Airport Ltd comprise of Tallinn Airport Ltd (parent company) and its fully owned subsidiary Tallinn Airport GH Ltd, engaged in provision of ground services for aircraft and passengers and the shares of which are registered in Estonia.

The Management Board authorised the Group's consolidated financial statements for issue at 27 March 2020.

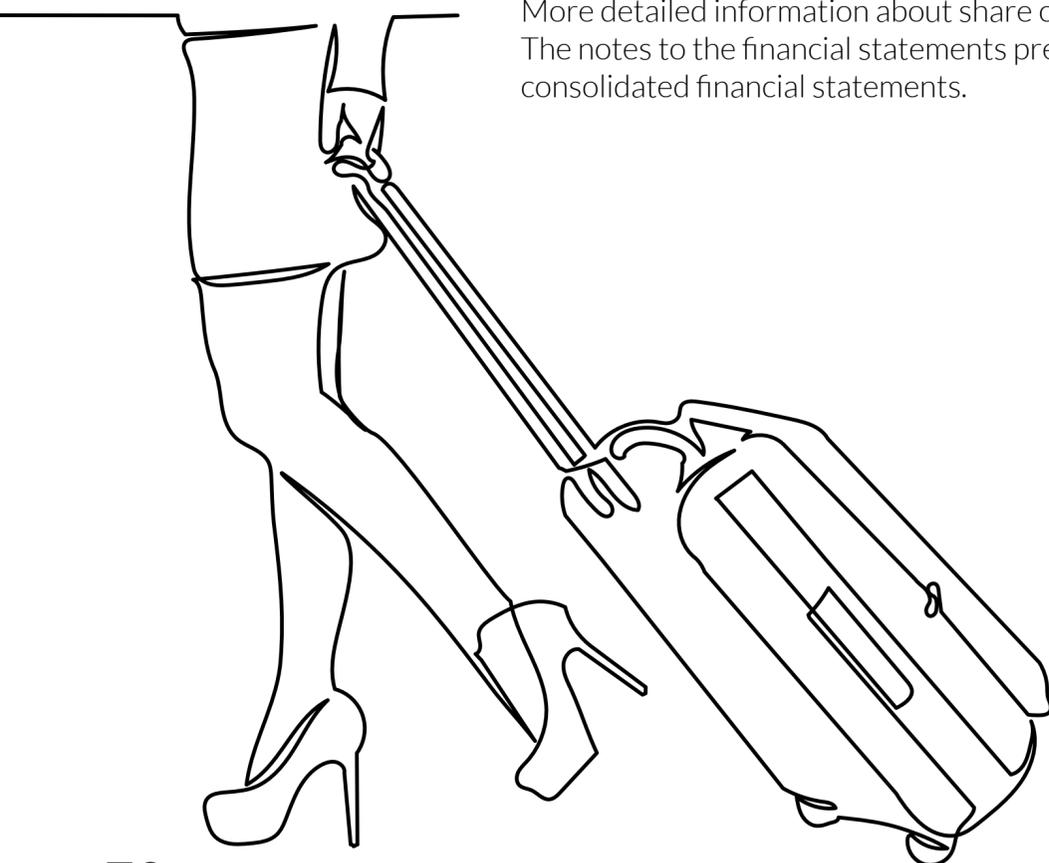
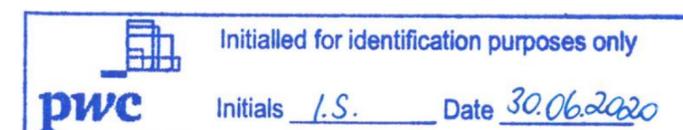
## Note 2. Overview of key accounting and reporting policies

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 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 in Note 4. The consolidated financial statements of the Group are presented in thousands of euros, if not indicated otherwise.

## (B) CHANGES IN ACCOUNTING AND DISCLOSURE POLICIES

### **Changes in significant accounting policies starting from 1.01.2019**

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2018. The Group has initially adopted IFRS 16 "Leases" from 1 January 2019. The application of IFRS 16 did not have any material effect on the Group's financial statements. A number of other new standards are effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

#### **IFRS 16, Leases**

The Group has adopted IFRS 16 "Leases" retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. Therefore, the information about the comparatives for the 2018 reporting period are presented under the previous leasing standard IAS 17 and respective interpretations. The cumulative effect of initially applying this standard has been recognised as an adjustment to the opening balance of retained earnings at the date of initial application.

On initial application the Group recognised right-to-use asset in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. The Group measured the lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at the date of initial application, i.e. 1 of January 2019. On initial application, the Group applied the following weighted average lessee's incremental borrowing rates to the lease liabilities: 3% for cars.

### **Practical expedients on initial application**

As a practical expedient, the Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. An entity is not required to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 "Leases" and Interpretation 4 "Determining whether an Arrangement contains a Lease".

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard for leases previously classified as operating leases:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application

### **Adoption of new or revised standards and interpretations from 1.01.2020**

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 1 January 2020, and which the Group has not early adopted:

**Amendments to the Conceptual Framework for Financial Reporting** (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

The new standard does not have a material effect on the Group's financial statements as of 1.01.2020.

**Definition of materiality – Amendments to IAS 1 and IAS 8** (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The new standard does not have a material effect on the Group's financial statements as of 1.01.2020.

There are no other new or revised standards or interpretations that are not yet effective that would be 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 Tallinn Airport Ltd and its subsidiary Tallinn Airport GH Lts 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.

#### **Subsidiary**

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**

The separate primary financial statements of the consolidating entity (parent company) are 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 27).

### (D) FOREIGN CURRENCY TRANSACTIONS AND FINANCIAL ASSETS AND LIABILITIES DENOMINATED IN A FOREIGN CURRENCY

#### **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Functional currency of the parent and subsidiary is euro (EUR). The consolidated financial statements are presented in euros (EUR).

#### **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 the statement of comprehensive income. 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 reporting 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 consolidated statement of financial position. 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 reporting date or the Group does not have an unconditional right to defer payment for the liability for later than 12 months after the reporting date.

Borrowings that are due within 12 months after the reporting date, but that are refinanced as long-term after the reporting 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 reporting 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, that are used for rendering of services or for administrative purposes and that are expected to be used during more than one year. Property, plant and equipment are carried in the statement of financial position at historical cost less accumulated depreciation and any impairment losses.

**Cost**

Property, plant and equipment initially is recognised at cost.

1. Cost of a fixed asset comprises its purchase price and any costs directly attributable to its acquisition, which are required for bringing the asset to its operating condition and location.
2. The cost of a self-constructed assets is comprised of location preparation, material and la-

bour expenses.

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**

If an item of property, plant and equipment consists of components with different useful lives, these components are depreciated as separate items.

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 use-

ful lives of the assets.

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

**Buildings and facilities:**

|   |                      |
|---|----------------------|
| Aprons, runways                                     | <b>50 years</b>      |
| Buildings   | <b>5 – 50 years</b>  |
| Other facilities (sewerage and other utility lines) | <b>10 – 25 years</b> |
| Small facilities (hangars)                          | <b>2 – 7 years</b>   |

**Machinery and equipment:**

|  |                     |
|--|---------------------|
| Miscellaneous systems                      | <b>3 – 20 years</b> |
| Runway maintenance machinery and equipment | <b>6 – 10 years</b> |
| Other machinery                            | <b>2 – 15 years</b> |

**Other fixtures, tools, fittings:**

|                                     |                     |
|-------------------------------------|---------------------|
| Furniture and fixtures at terminals | <b>2 – 10 years</b> |
| Computers and network equipment     | <b>3 – 5 years</b>  |
| Other assets                        | <b>3 – 10 years</b> |

**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 consolidated statement of financial position. 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 date of sale, on disposal or when no future economic benefits are expected from their use. 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.

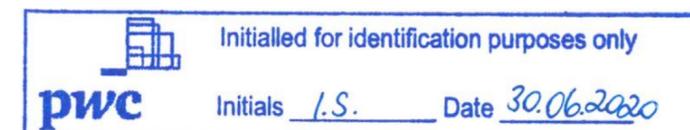
**(G) INTANGIBLE ASSETS**

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. Computer software which is not an integral part of the related hardware is recognised as an intangible asset. 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:

1. making software available for use is technically possible;
2. the Management Board intends to complete the software and use it;
3. it is possible to use the software;
4. it is possible to demonstrate how future economic benefits attributable to the software will flow to the Group;
5. there are sufficient technical, financial and other means to complete the development of the



software and to start using it;

6. 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 lives of the investment properties used at the Group are the following:

| <b>Hangars:</b>                                  |                      |
|--|----------------------|
| Buildings  | <b>15 - 50 years</b> |
| Other facilities (sewer and other utility lines) | <b>3 - 20 years</b>  |
| <b>Office complex:</b>                           |                      |
| Office building                                  | <b>30 years</b>      |
| Outhouses  | <b>15 - 20 years</b> |
| Constructions                                    | <b>5 years</b>       |

If there is a significant change in the useful life on investment property, necessary changes in depreciation will be done prospectively. Recoverable amount of investment property is determined based on the principles described in section (I).

**(I) IMPAIRMENT OF NON-FINANCIAL ASSETS**

On reporting date the Group’s management reviews whether there is any indication of possible impairment of investment property, property plant and equipment or intangible assets recognised at cost. The following circumstances are taken into consideration when assessing possible indication of impairment:

**External indicators of possible impairment:**

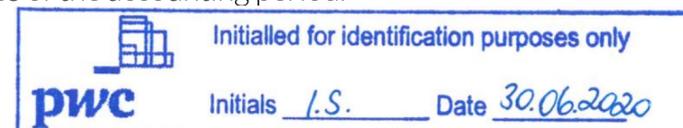
- Market value of similar assets has fallen;
- Overall economic environment and market situation have deteriorated as a result of which it is possible that the income generated by the assets will fall;
- Market interest rates have increased as a result of which the return on assets may fall below the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

**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.

If there is any such indication, the recoverable amount of the asset is assessed and compared with the carrying amount.

An impairment loss is recognised in the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of the asset is the higher of the fair value of the asset less costs to sell and its value in use. For the purpose of assessing impairment, the recoverable amount of the asset is assessed for each asset or the smallest possible group of assets for which it is possible to determine cash flows. Impairment losses of assets are charged to the expenses of the accounting period.



At each following reporting date, assets that have been written down are assessed to determine whether their recoverable amount has increased meanwhile. If the impairment test indicates that the recoverable value of an asset or asset group (cash-generating unit) has increased above its carrying amount, the previous impairment loss is reversed up to the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years. Reversals of impairment losses are recognised in the consolidated statement of comprehensive income as a reduction of the impairment loss.

## (J) FINANCIAL ASSETS

### **Classification**

The Group classifies its financial assets in those to be measured at amortised cost measurement category. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

### **Recognition and derecognition**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### **Measurement**

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

### **Debt instruments**

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

All the Group's debt instruments are classified in amortised cost measurement category.

### **Equity instruments**

The Group has no investments in equity instruments.

## (K) IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables without a significant financing component, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

## (L) INVENTORIES

Inventories are recorded in the consolidated statement of financial position 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 consolidated statement of financial position 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.

#### (M) 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.

#### (N) RESERVE 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 can-

not 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.

#### (O) 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.

#### (P) 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).

#### (Q) 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.

All other borrowing costs are reflected in income statement as costs in the period they incurred.

#### (R) 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 consolidated statement of financial position 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.

## (S) 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 the net dividends paid out of retained earnings is 20/80.

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 consolidated statement of financial position, 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 Note 18 of 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.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount up to the average dividend payment during the three preceding years that were taxed with the rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

### **Other taxes in Estonia**

|   |   |
|---|---|
| Social security tax                                       | 33% on the payroll and fringe benefits paid to the employees  |
| Unemployment insurance tax                                | 0.8% on the payroll paid to employees   |
| Fringe benefit income tax                                 | 20/80 of fringe benefits paid to employees  |
| Land tax  | 0.1%–2.5% on the land's taxable price p.a.  |
| Heavy goods vehicle tax                                   | EUR 3.5–232.6/quarter per truck   |
| Income tax on expenses not related to business activities | 20/80 on expenses not related to business activities  |
| Excise duty on electricity                                | EUR 4.47 per MWh of electricity   |
| Environmental charges (emission charges)                  | 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. |

### **(T) 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.

### (U) 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 in the statement of comprehensive income.

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

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.

### (V) REVENUE RECOGNITION

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a good or service to a customer.

#### Aviation revenue

Revenue from passenger, landing, parking, navigation and takeoff services are recognised under aviation revenue. The Group provides air transportation and passenger services under fixed-price and variable price contracts. Revenue from providing services is recognised in the accounting period in which the services are rendered. If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

#### Non-aviation revenue

Revenue generated by leasing of available premises, provision and intermediation of utility services to tenants, car parking and passenger and aircraft ground servicing facilities are presented as non-aviation revenue. Revenue from providing services is recognised in the accounting period in which the services are rendered. If the contract includes variable consideration, revenue is recognised only to the extent that it is highly probable that there will be no significant reversal of such consideration.

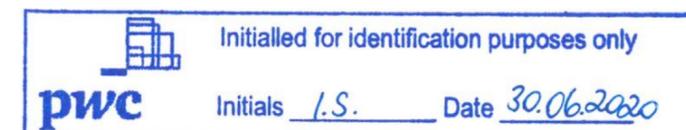
#### Financing component

The Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

### (W) 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 consolidated statement of financial position; the amount received as a government grant is recognised as deferred income from the government grant within non-current liabilities in the consolidated statement of financial position. 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.

## **(X) LEASES**

### **Accounting principles starting from 1 January 2019**

The Group leases vehicles.

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. A lessee reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee; and affects whether the lessee is reasonably certain to exercise an op-

tion not previously included in its determination of the lease term, or not to exercise an option previously included in its determination of the lease term. The Group revises the lease term if there is a change in the non-cancellable period of a lease.

#### **Initial measurement**

At the commencement date, a lessee shall recognise a right-of-use asset and a lease liability. At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the lessee.

Right-of-use asset is recorded on the separate line in the statement of financial position.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the lessee shall use the lessee's incremental borrowing rate, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with the average interest margin of the industry adjusted with the credit risk of the Group;
- makes adjustments specific to the lease, eg lease term, country, currency and security.

At the commencement date, the lease payments included in the measurement of the lease

liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- a) fixed payments, less any lease incentives receivable;
- b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date. Variable lease payments that depend on an index or a rate include, for example, payments linked to a consumer price index, payments linked to a benchmark interest rate (such as LIBOR) or payments that vary to reflect changes in market rental rates;
- c) amounts expected to be payable by the lessee under residual value guarantees;
- d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

#### Subsequent measurement

After the commencement date, a lessee measures the right-of-use asset applying a [cost model]. To apply a cost model, a lessee measures the right-of-use asset at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the lessee shall depreciate the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

After the commencement date, a lessee shall measure the lease liability by:

- a) increasing the carrying amount to reflect interest on the lease liability;
- b) reducing the carrying amount to reflect the lease payments made; and

- c) remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect revised in-substance fixed lease payments.

Interest on the lease liability in each period during the lease term shall be the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability. After the commencement date, a lessee recognises in profit or loss interest on the lease liability and variable lease payments not included in the measurement of the lease liability in the period in which the event or condition that triggers those payments occurs.

If there are changes in lease payments, there may be need to remeasure the lease liability. A lessee shall recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, a lessee shall recognise any remaining amount of the remeasurement in profit or loss.

A lessee shall remeasure the lease liability by discounting the revised lease payments using a revised discount rate, if either:

- a) there is a change in the lease term. A lessee shall determine the revised lease payments on the basis of the revised lease term; or
- b) there is a change in the assessment of an option to purchase the underlying asset. A lessee shall determine the revised lease payments to reflect the change in amounts payable under the purchase option.

A lessee shall remeasure the lease liability by discounting the revised lease payments, if either:

- a) there is a change in the amounts expected to be payable under a residual value guarantee. A lessee shall determine the revised lease payments to reflect the change in amounts expected to be payable under the residual value guarantee.
- b) there is a change in future lease payments resulting from a change in an index or a rate used to determine those payments, including for example a change to reflect changes in market rental rates following a market rent review. The lessee shall remeasure the lease liability to reflect those revised lease payments only when there is a change in the cash flows (ie when the adjustment to the lease payments takes effect). A lessee shall determi-

ne the revised lease payments for the remainder of the lease term based on the revised contractual payments. The lessee shall use an unchanged discount rate, unless the change in lease payments results from a change in floating interest rates.

A lessee shall account for a lease modification as a separate lease if both: (a) the modification increases the scope of the lease by adding the right to use one or more underlying assets; and (b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

The Group has elected not to apply the requirements of IFRS 16 to short-term leases and leases for which the underlying asset is of low value. Payments associated with short-term leases and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of IT equipment.

#### Accounting principles until 31 December 2018

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 Group as the lessee

Payments made under operating leases are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

#### The Group as the lessor

The accounting policies for items of property, plant and equipment are applied to assets leased out under operating lease terms. Rental income is recognised in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

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:

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

#### (Y) DIVIDENDS

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

#### (Z) 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.

#### (AA) EVENTS AFTER THE REPORTING DATE

Adjusting events – those that provide evidence of conditions that existed at the reporting 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 reporting date, are disclosed in the notes to the financial statements.

#### (BB) TRANSACTIONS WITH RELATED PARTIES

During the preparation of the consolidated financial statement, AS Tallinna Lennujaam's members of the management and supervisory board and other persons and entrepreneurs, who can control or significantly influence finance and business decisions of the Group, are considered to be related parties. Additionally, immediate family member of the persons de-

scribed above and the entities under their control or significant influence are also considered to be related parties. Since 100% of shares of Tallinn Airport Ltd belong to the Republic of Estonia, all aviation entities under control or influence of the state are also considered as related parties. Refer to Note 25.

### 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 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 2019 and 2018, the Group's receivables exposed to foreign currency were insignificant.

**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.

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 have not changed significantly in 2019 compared to 2018 (Note 12).

#### (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 reporting date the carrying amount of receivables, which are considered as doubtful receivables, is reduced by the amount of the expected credit loss. To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 31 December 2019 and 31 December 2018.

The following measures have been applied to mitigate credit risk:

1. One-month prepayment is required for new lease agreements to be concluded.
2. Prepayment equalling the cost of one forecast flight is required for airlines which have not concluded an aviation contract with Tallinn Airport Ltd (including airlines arranging charter flights).
3. 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.

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:

1. ensuring of liquidity;
2. capital preservation.

Additional information about credit risk is disclosed in Note 10.

#### (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 50,903 thousand (31.12.2018: EUR 13,260 thousand) (Note 11).

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 reporting date, the Group's current assets exceeded current liabilities by EUR 45,718 thousand (31.12.2018: EUR 8,133 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.

#### Breakdown of liabilities by maturity date

in EUR thousand

| <b>As at 31.12.2019</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 amounts</b> |
|--------------------------|----------------------|-------------------------------|------------------------------------|------------------------------|---------------------------|--------------------------------------|-------------------------|
| Borrowings (Note 12)     | 103                  | 205                           | 3,203                              | 16,626                       | 26,507                    | 46,644                               | 45,776                  |
| Trade payables (Note 15) | 2,838                | 55                            | 0                                  | 0                            | 41                        | 2,934                                | 2,934                   |
| <b>Total</b>             | <b>2,941</b>         | <b>260</b>                    | <b>3,203</b>                       | <b>16,626</b>                | <b>26,548</b>             | <b>49,578</b>                        | <b>48,710</b>           |
| <b>As at 31.12.2018</b>  |                      |                               |                                    |                              |                           |                                      |                         |
| Borrowings (Note 12)     | 97                   | 196                           | 1,357                              | 11,002                       | 22,097                    | 34,750                               | 33,762                  |
| Trade payables (Note 15) | 3,556                | 798                           | 0                                  | 0                            | 41                        | 4,395                                | 4,395                   |
| <b>Total</b>             | <b>4,442</b>         | <b>209</b>                    | <b>881</b>                         | <b>7,208</b>                 | <b>26,488</b>             | <b>39,227</b>                        | <b>38,157</b>           |

**(E) CAPITAL RISK MANAGEMENT**

Tallinn Airport Ltd 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 31.12.2019 and 31.12.2018, the Group's equity was in compliance with the requirements of the Commercial Code.

Equity of Tallinn Airport Ltd consists of share capital in the amount of EUR 25,095 thousand (31.12.2018: EUR 25,095 thousand), statutory reserve capital in the amount of EUR 2,510 thousand (31.12.2018: EUR 2,510 thousand) and retained earnings in the amount of EUR 67,852 thousand (31.12.2018: EUR 58,134 thousand). Statutory reserve capital forms 10% of share capital. In 2019 debt of Tallinn Airport Ltd increased mainly due to increase in borrowings and cash and cash equivalents increased mainly due to increase in borrowings and governmental grants; in 2018 debt of Tallinn Airport Ltd increased mainly due to increase in borrowings and cash and cash equivalents decreased due to large-scale investments. Ratio of debt to equity has increased by 18% compared to 2018 (2018 vs 2017: decrease by 1%). Taking into account revenue, equity and debt of Tallinn Airport Ltd, the optimum ratio is 40%. The Group's debt to equity ratio is projected to decrease in 2020 due to investments (Note 12).

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

| in EUR thousand                                 | 31.12.2019    | 31.12.2018     |
|---|---------------|----------------|
| Borrowings (Note 12)                            | 45,765        | 33,750         |
| Cash and cash equivalents (Note 11)             | 50,903        | 13,260         |
| Net debt (borrowings-cash and cash equivalents) | -5,138        | 20,490         |
| Equity  | 95,457        | 85,739         |
| <b>Total capital (net debt + equity)</b>        | <b>90,319</b> | <b>106,229</b> |
| <b>Debt to equity</b>                           | <b>51%</b>    | <b>32%</b>     |
| <b>Net debt to total capital</b>                | <b>-6%</b>    | <b>19%</b>     |

**(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 statement of financial position of the Group as at 31.12.2019 and 31.12.2018. 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. 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 assets and liabilities include:

- Quoted market price or bid price 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 the statement of comprehensive income.

**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 investment property and 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 2019, the carrying amount of the Group's property, plant and equipment was EUR 151,918 thousand (31 December 2018: EUR 152,446 thousand), the depreciation charge for the reporting period was EUR 10,358 thousand (2018: EUR 10,037 thousand) (see Note 5). If the useful lives of all assets were changed by one year, the profit would change by EUR 988 thousand (2018: EUR 977 thousand) and income from government grants related to assets would change by EUR 262 thousand (2018: 242 thousand).

As at 31 December 2019, the carrying amount of the Group's investment property was EUR 16,762 thousand (31 December 2018: EUR 17,986 thousand), the periods depreciation expense was EUR 1,224 thousand (2018: EUR 1,251 thousand (see Note 6). If the useful lives of investment property were changed by one year, the profit would change by EUR 107 thousand (2018: EUR 107 thousand).

**Measurement of expected credit losses**

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. Principles of measurement of expected credit loss and the loss allowance as at 31 December 2019 and 31 December 2018 is disclosed in 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.

The operations of regional airports depend on the national policy. The regional policy with regard to airports specifies that state grants to Tallinn Airport Ltd 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 Group'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 2019 to conclude that the assets had lost a major share of their cash generation ability and no impairment test was performed (similarly to 2018).



**Note 5. Property, plant and equipment**

in EUR thousand

| <b>Balance as at 31.12.2017</b>       | <b>Construction in progress<br/>and prepayments</b> | <b>Land</b>   | <b>Buildings and<br/>facilities</b> | <b>Machinery and<br/>equipment</b> | <b>Other<br/>inventory</b> | <b>Total</b>   |
|---------------------------------------|---|---------------|-------------------------------------|------------------------------------|----------------------------|----------------|
| Cost                                  | 1,269   | 11,292        | 156,529                             | 78,862                             | 1,605                      | 249,557        |
| Accumulated depreciation              | 0   | 0             | -58,775                             | -49,298                            | -1,137                     | -109,210       |
| <b>Carrying amount 31.12.2017</b>     | <b>1,269</b>  | <b>11,292</b> | <b>97,754</b>                       | <b>29,564</b>                      | <b>469</b>                 | <b>140,348</b> |
| <b>Changes occurred in 2018</b>       |   |               |                                     |                                    |                            |                |
| Acquisitions and improvements         | 19,886  | 0             | 489                                 | 2,077                              | 200                        | 22,652         |
| Reclassifications                     | -18,862   | 0             | 16,500                              | 2,134                              | 0                          | -228           |
| Reclassification to expenses          | -239  | 0             | 0                                   | 0                                  | 0                          | -239           |
| Depreciation charge                   | 0   | 0             | -4,999                              | -4,888                             | -150                       | -10,037        |
| Carrying amount of assets sold        | 0   | -18           | 0                                   | 0                                  | 0                          | -18            |
| Carrying amount of assets written off | 0   | 0             | -4                                  | -16                                | -10                        | -30            |
| <b>Balance as at 31.12.2018</b>       |   |               |                                     |                                    |                            |                |
| Cost                                  | 2,052   | 11,274        | 171,807                             | 80,997                             | 1,709                      | 267,840        |
| Accumulated depreciation              | 0   | 0             | -62,067                             | -52,126                            | -1,201                     | -115,394       |
| <b>Carrying amount 31.12.2018</b>     | <b>2,052</b>  | <b>11,274</b> | <b>109,740</b>                      | <b>28,871</b>                      | <b>508</b>                 | <b>152,446</b> |

**Note 5. Property, plant and equipment**

in EUR thousand

| <b>Changes occurred in 2019</b>       | <b>Construction in progress and prepayments</b> | <b>Land</b>   | <b>Buildings and facilities</b> | <b>Machinery and equipment</b> | <b>Other inventory</b> | <b>Total</b>   |
|---------------------------------------|---|---------------|---------------------------------|--------------------------------|------------------------|----------------|
| Acquisitions and improvements         | 4,070   | 0             | 143                             | 5,395                          | 318                    | 9,926          |
| Reclassifications (Note 6)            | -3,904  | 0             | 1,228                           | 2,580                          | 96                     | 0              |
| Reclassification to expenses          | -78   | 0             | 0                               | 0                              | 0                      | -78            |
| Depreciation charge                   | 0   | 0             | -5,683                          | -4,475                         | -200                   | -10,358        |
| Carrying amount of assets sold        | 0   | 0             | 0                               | -9                             | 0                      | -9             |
| Carrying amount of assets written off | 0   | 0             | 0                               | -9                             | 0                      | -9             |
| <b>Balance as at 31.12.2019</b>       |   |               |                                 |                                |                        |                |
| Cost                                  | 2,141   | 11,274        | 173,143                         | 86,753                         | 2,123                  | 275,434        |
| Accumulated depreciation              | 0   | 0             | -67,715                         | -54,400                        | -1,401                 | -123,516       |
| <b>Carrying amount 31.12.2019</b>     | <b>2,141</b>                                    | <b>11,274</b> | <b>105,428</b>                  | <b>32,353</b>                  | <b>722</b>             | <b>151,918</b> |

The largest fixed assets recorded in 2019 are assets related to reconstruction of the Pärnu airport with the cost of EUR 1,231 thousand; elevators, tubulature and escalator for passenger bridges at the Tallinn airport passenger terminal with the acquisition cost of EUR 426 thousand; purchase of two apron busses for the Tallinn airport with the cost of EUR 375 thousand; reconstruction of coordinating centre in the Tallinn airport with the cost of EUR 297 thousand.

The largest fixed assets recorded in 2018 were a new car parking facility in the Tallinn airport with the cost of EUR 13,794 thousand and the reconstruction of the runway and apron of the Kärdla airport with the acquisition cost of EUR 1,534 thousand.

Due to the extension of the airside area assets in the amount of EUR 5,419 thousand were placed into service in 2019 (incl. EUR 1,127 thousand recorded as an prepayment as at 31.12.2018). In addition, as of 31.12.2019, prepayments for the extension of the airside area amounted to EUR 550 thousand.

Assets related to extension of the airside area were placed in service in 2018 in amount of EUR 1,112 thousand. As of 31.12.2018, prepayments for the extension of the airside area amounted to EUR 1,201 thousand. In 2016, development of the airside area, with a total investment of EUR 70 million, began. The Cohesion Fund is contributing EUR 35 million (see Note 14), with the rest of the investments is financed using own funds and loans (see Note 12).

In 2019 assets of the Group with carrying value EUR 9 thousand (2018: EUR 30 thousand) were written off. All write-offs were stated in the consolidated statement of comprehensive income, under the depreciation and impairment of fixed assets. No asset write-offs related to government grants were allocated to revenue in 2019 nor 2018.

In 2019, machinery and equipment in the carrying value of EUR 9 thousand (2018: land and machinery in the carrying amount of EUR 18 thousand) were sold. Profit from the sale of assets, which is recorded as other income in the consolidated statement of comprehensive income, amounted to EUR 81 thousand (2018: EUR 117 thousand) (Note 20).

**Buildings and constructions leased out under operating lease**

| In EUR thousand  | 2019          | 2018          |
|--|---------------|---------------|
| Cost at 31.12.   | 32,203        | 32,203        |
| Accumulated depreciation at 31.12.   | -12,307       | -10,793       |
| Incl depreciation charge for the accounting period   | -1,514        | -1,439        |
| <b>Total carrying amount of buildings and constructions leased out under operating lease at 31.12.</b> | <b>19,896</b> | <b>21,410</b> |

The assets leased out are included within the investment properties and within the group of non-current assets "Buildings and facilities" and are used partially for core business and partially for rental income purposes (Note 6).

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

| In EUR thousand   | 31.12.2019    | 31.12.2018    |
|---|---------------|---------------|
| Tallinn Airport   | 31,945        | 31,570        |
| Pärnu Airport   | 2,215         | 2,215         |
| Tartu Airport   | 4,482         | 3,202         |
| Kuressaare Airport  | 6,169         | 3,437         |
| Kärdla Airport  | 3,013         | 2,967         |
| Tallinn Airport GH  | 1,408         | 1,408         |
| <b>Total non-current assets in use with the carrying amount of zero</b> | <b>49,232</b> | <b>44,799</b> |

**Note 6. Investment property**

The majority of lease agreements for investment property have a short cancellation notice except for the maintenance hangars that are being rented for 15-30 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 2,264 thousand (2018: EUR 2,179 thousand) (Note 7) and direct operating expenses were EUR 544 thousand (2018: 529 EUR thousand) (Note 21). Direct operating costs do not include depreciation costs, financial expenses, overheads, labor costs or land costs related to investment property.

The management believes that the fair value of the aircraft maintenance hangars not significantly differ from their carrying amount. The management estimates that the fair values of the office building, hangar and garage do not differ from their carrying amount because the assets were acquired by way of public tender at regular market conditions and there were no significant changes in the management's estimation during the interim period. The Group's investment properties are classified as level 3.

| in EUR thousand  | 2019          | 2018          |
|--|---------------|---------------|
| Cost as at 01.01.  | 24,801        | 24,624        |
| Accumulated depreciation as at 01.01.                      | -6,815        | -5,564        |
| <b>Carrying amount of investment property as at 01.01.</b> | <b>17,986</b> | <b>19,060</b> |

**Changes in investment property in the period**

|  |               |               |
|--|---------------|---------------|
| Purchases and improvements                                       | 0             | 177           |
| Depreciation charge  | -1,224        | -1,251        |
| <b>Total changes in investment property in the period</b>        | <b>-1,224</b> | <b>-1,074</b> |
| Cost as at 31.12.  | 24,801        | 24,801        |
| Accumulated depreciation as at 31.12.                            | -8,039        | -6,815        |
| <b>Total carrying amount of investment property as at 31.12.</b> | <b>16,762</b> | <b>17,986</b> |

**Note 7. Leases**

Rental income has been earned from the leasing of premises, hangars and land (see Notes 5, 6, 19).

Concessions are recognised as contingent leases. In case of service concession arrangements, Tallinn Airport Ltd 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  | 2019         | 2018         |
|--|--------------|--------------|
| Concessions from the activities of the lessees in the passenger terminal | 4,183        | 3,780        |
| Rent of investment properties (Note 6)                                   | 2,264        | 2,179        |
| Rent of passenger terminals (Note 5)                                     | 899          | 731          |
| Rent of rooms in the cargo terminal (Note 5)                             | 839          | 741          |
| Concessions from other activities  | 675          | 696          |
| Infrastructure fees  | 532          | 549          |
| Other rentals  | 342          | 345          |
| <b>Total rental income (Note 19)</b>                                     | <b>9,734</b> | <b>9,021</b> |

In 2019, the rental income from non-cancellable leases<sup>1</sup> as at 31.12.2019 amounted to EUR 901 thousand (2018: EUR 1,314 thousand). The figures provided include rental income from property, plant and equipment as well as investment properties.

<sup>1</sup> This does not include a contingent lease (concession) because the rental rate is not fixed but depends on the customer's turnover, the number of passengers and the consumer price index.

**Note 8. Inventories**

| in EUR thousand                                 | 31.12.2019 | 31.12.2018 |
|---|------------|------------|
| De-icing materials of aircraft                  | 174        | 180        |
| Runway maintenance and rescue service materials | 103        | 73         |
| Fuel  | 27         | 27         |
| Other inventories                               | 8          | 10         |
| <b>Total inventories</b>                        | <b>312</b> | <b>290</b> |

No inventory write-downs were recognised during the period or in 2018.

**Note 9. Receivables and prepayments****9.1 Trade receivables**

| in EUR thousand                    | 31.12.2019   | 31.12.2018   |
|------------------------------------|--------------|--------------|
| Accounts receivable                | 5,483        | 4,973        |
| Allowance for doubtful receivables | -716         | -592         |
| <b>Total trade receivables</b>     | <b>4,767</b> | <b>4,381</b> |

Trade receivables include receivables from related parties (see Note 25).

**9.2 Other receivables**

| in EUR thousand                | 31.12.2019 | 31.12.2018 |
|--------------------------------|------------|------------|
| Other receivables              | 4          | 4          |
| <b>Total other receivables</b> | <b>4</b>   | <b>4</b>   |

### 9.3 Ettemaksed

| in EUR thousand                          | 31.12.2019   | 31.12.2018   |
|--|--------------|--------------|
| Tax prepayments                          | 349          | 661          |
| Prepayments                              | 459          | 314          |
| Accrued income                           | 3            | 3            |
| <b>Total prepayments</b>                 | <b>811</b>   | <b>978</b>   |
| <b>Total receivables and prepayments</b> | <b>5,582</b> | <b>5,363</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 and 10.

### Note 10. Financial instruments

#### FINANCIAL INSTRUMENTS BY CATEGORY

##### Items of financial assets in the statement of financial position

| in EUR thousand  | 31.12.2019    | 31.12.2018    |
|--|---------------|---------------|
| Trade receivables, government grant related to non-currents not received and other receivables (Note 9.1, 9.2) | 4,771         | 4,385         |
| Cash and cash equivalents (Note 11)  | 50,903        | 13,260        |
| <b>Total items of financial assets in the consolidated statement of financial position</b>                     | <b>55,674</b> | <b>17,645</b> |

##### Items of financial liabilities in the statement of financial position

| in EUR thousand   | 2019          | 2018          |
|---|---------------|---------------|
| <b>Seisuga 31.12.2019</b>   |               |               |
| Borrowings (Note 12)  | 45,776        | 33,762        |
| Trade and other payables (Note 15, 3)   | 4,934         | 4,395         |
| <b>Total items of financial liabilities in the consolidated statement of financial position</b> | <b>50,711</b> | <b>38,157</b> |

#### FINANCIAL INSTRUMENTS BY CREDIT QUALITY

The Group has one type of financial assets, the value of which is determined on the basis of the credit loss model: trade receivables. It is also necessary to evaluate the credit losses of other receivables and cash and cash equivalents in accordance with the IFRS 9, but the credit losses identified as at 31 December 2019 and 31 December 2018 are immaterial (Note 11).

The Group applies the simplified model of IFRS 9 to determine the credit losses of all trade receivables, which is used to evaluate the potential loss over the entire life of the receivable. To evaluate credit losses, all receivables have been grouped on the basis of similar features and overdue dates. The estimated loss rate is based on the historical experience with similar receivables and the impairment losses of the current period. The historical loss rate has been adjusted so that it would reflect the current and forward-looking information on the basis of macroeconomic indicators.

##### Movements on allowance for doubtful receivables

| in EUR thousand  | 31.12.2019 | 31.12.2018 |
|--|------------|------------|
| Allowance for doubtful receivables at the beginning of the period  | 592        | 585        |
| Allowance for doubtful receivables during the period               | 139        | 15         |
| Receivables written off during the period                          | -15        | -8         |
| <b>Allowance for doubtful receivables at the end of the period</b> | <b>716</b> | <b>592</b> |

**Analysis of accounts receivable**

| in EUR thousand  | 31.12.2019 | 31.12.2018 |
|--|------------|------------|
| Analysis of accounts receivable                                    | 5,483      | 4,973      |
| Incl. the due date has not arrived                                 | 3,736      | 3,376      |
| Incl. payments overdue 1-30 days                                   | 721        | 932        |
| Incl. payments overdue 31-60 days                                  | 68         | 7          |
| Incl. payments overdue 61-90 days                                  | 115        | 64         |
| Incl. payments overdue >91 days                                    | 259        | 10         |
| incl. Estonian Air AS overdue invoices                             | 584        | 584        |
| <b>Allowance for doubtful receivables at the end of the period</b> | <b>716</b> | <b>592</b> |

**Note 11. Cash and cash equivalents**

| in EUR thousand                        | 31.12.2019    | 31.12.2018    |
|--|---------------|---------------|
| Cash on hand                           | 80            | 82            |
| Bank accounts (Note 10)                | 25,811        | 13,169        |
| Cash in transit (Note 10)              | 12            | 9             |
| Short term deposit (Note 10)           | 25,000        | 0             |
| <b>Total cash and cash equivalents</b> | <b>50,903</b> | <b>13,260</b> |

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

| in EUR thousand   | 31.12.2019    | 31.12.2018    |
|---|---------------|---------------|
| Banks with Moody's credit rating of Aa2/Aa3                               | 25,821        | 13,176        |
| Banks with Moody's credit rating of Baa2                                  | 25,002        | 2             |
| <b>Total amounts of bank accounts and deposits exposed to credit risk</b> | <b>50,823</b> | <b>13,178</b> |

**Note 12. Borrowings**

All loans and issued bonds are denominated in euros (refer to Note 3 and Note 10).

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

During the financial year a loan of EUR 14 million was received from European Investment Bank. In 2018 a loan of EUR 10 million was received from European Investment Bank and a loan of EUR 10 million was received from Nordic Investment Bank. Loans would be used to finance the construction of Tallinn Airport parking building and the expansion and renewal of the Tallinn Airport airside. Repayments of the loan received from Nordic Investment Bank start in 2019 and repayments of the loan received from European Investment Bank in 2022.

| in EUR thousand  | 31.12.2019    | 31.12.2018    |
|--|---------------|---------------|
| <b>Long-term borrowings</b>                                  |               |               |
| Long-term bank loans   | 42,321        | 32,274        |
| Long-term lease liabilities                                  | 112           | 0             |
| <b>Total long-term borrowings</b>                            | <b>42,433</b> | <b>32,274</b> |
| <b>Short-term borrowings</b>                                 |               |               |
| Repayments of long-term bank loans in the next period        | 3,286         | 1,476         |
| Interest payable related to long-term bank loans as at 31.12 | 11            | 12            |
| Bonds in nominal value                                       | 46            | 0             |
| <b>Total short-term borrowings</b>                           | <b>3,343</b>  | <b>1,488</b>  |
| <b>Total borrowings</b>                                      | <b>45,776</b> | <b>33,762</b> |

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

|                          | Date of entry into contract | Due date   | Security    | Loan amount | Interest rate     |
|--------------------------|-----------------------------|------------|-------------|-------------|-------------------|
| Pohjola Bank             | 28.11.2011                  | 30.09.2022 | See Note 13 | 10,000,000  | 3m Euribor +1.0%  |
| Pohjola Bank bonds       | 28.03.2013                  | 2.04.2018  | Unsecured   | 7,500,000   | 3m Euribor +1.1%  |
| Nordic Investment Bank   | 16.12.2016                  | 1.12.2029  | See note 13 | 24,000,000  | 6m Euribor +0.74% |
| European Investment Bank | 7.12.2016                   | 1.03.2030  | See note 13 | 30,000,000  | 6m Euribor +0.6%  |

in EUR thousand

| <b>As at 31.12.2019</b>                 | <b>NIB</b> | <b>Pohjola</b> | <b>Pohjola bonds</b> | <b>EIB</b> | <b>TOTAL</b> |
|---|------------|----------------|----------------------|------------|--------------|
| Loan balance at beginning of the period | 10,000     | 3,750          | 0                    | 20,000     | 33,750       |
| Paid off during the period              | -1,143     | -1,000         | 0                    | 0          | -2,143       |
| Received during the period              | 14,000     | 0              | 0                    | 0          | 14,000       |
| Loan balance at end of the period       | 22,857     | 2,750          | 0                    | 20,000     | 45,607       |
| Loan interest payable                   | 5          | 0              | 0                    | 6          | 11           |

in EUR thousand

| <b>As at 31.12.2018</b>                 | <b>NIB</b> | <b>Pohjola</b> | <b>Pohjola bonds</b> | <b>EIB</b> | <b>TOTAL</b> |
|---|------------|----------------|----------------------|------------|--------------|
| Loan balance at beginning of the period | 10,000     | 4,750          | 7,500                | 10,000     | 32,250       |
| Paid off during the period              | 0          | -1,000         | -7,500               | 0          | -8,500       |
| Received during the period              | 0          | 0              | 0                    | 10,000     | 10,000       |
| Loan balance at end of the period       | 10,000     | 3,750          | 0                    | 20,000     | 33,750       |
| Loan interest payable                   | 0          | 2              | 0                    | 10         | 12           |

**Net debt reconciliation**

| in EUR thousand              | <b>31.12.2019</b> | <b>31.12.2018</b> |
|------------------------------|-------------------|-------------------|
| Cash and cash equivalents    | 50,903            | 13,260            |
| Short term liabilities       | -3,286            | -1,476            |
| Short term lease liabilities | -46               | 0                 |
| Long term liabilities        | -42,321           | -32,274           |
| Long term lease liabilities  | -112              | 0                 |
| <b>Net debt</b>              | <b>5,138</b>      | <b>-20,490</b>    |

|                                 |              |                |
|---------------------------------|--------------|----------------|
| Cash and cash equivalents       | 50,903       | 13,260         |
| Liabilities with fixed interest | -45,765      | -33,750        |
| <b>Net debt</b>                 | <b>5,138</b> | <b>-20,490</b> |

| in EUR thousand            | <b>Cash and cash equivalents</b> | <b>Liabilities &lt;1y</b> | <b>Liabilities &gt;1y</b> | <b>TOTAL</b>   |
|----------------------------|----------------------------------|---------------------------|---------------------------|----------------|
| <b>Net debt 31.12.2018</b> | 13,260                           | -1,476                    | -32,274                   | <b>-20,490</b> |
| Cashflows                  | 37,643                           | -1,856                    | -10,159                   | <b>25,628</b>  |
| <b>Net debt 31.12.2019</b> | 50,903                           | -3,332                    | -42,433                   | <b>5,138</b>   |

**Note 13. Loan collateral and pledged assets**

No assets have been pledged as collateral for the loan received from Nordic Investment Bank, European Investment Bank and Pohjola Bank, the loan contracts stipulate that without a prior written consent from the bank, the Group Tallinn Airport Ltd 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.

Loan agreements set number limitations or special conditions that, if not fulfilled, the lender may require to repay the loan before the due date, including:

- Equity share of the total assets should be at least 30%;
- Total debt to EBITDA ratio should not exceed 4;
- Net debt to EBITDA ratio should not exceed 3;
- Debt coverage ratio (cash flow from operating activities divided by net debt) should be at least 40%.

As of 31.12.2019 and 31.12.2018, Tallinn Airport was in compliance with the terms of the loan agreements.

#### Note 14. Government grants

##### 14.1 Government grants related to operating expenses

| in EUR thousand   | 2019         | 2018         |
|---|--------------|--------------|
| Allocation for a specific purpose from state budget                                   | 9,195        | 5,750        |
| incl. security and rescue expenses aid  | 6,995        | 4,135        |
| incl. aid for regional airports <sup>4</sup>  | 2,200        | 1,615        |
| Other domestic grants related to operating expenses                                   | 200          | 170          |
| <b>Government grants related to operating expenses recognised as income (Note 20)</b> | <b>9,395</b> | <b>5,920</b> |

##### 14.2 Government grants related to assets

In 2019, the domestic government grant is related to the reconstruction of the Pärnu airport (refer to Note 5) in accordance with the grant agreement signed in 2018.

In 2018, the domestic government grant is related to the reconstruction of the runway and apron of the Kärdla airport and the reconstruction of the Pärnu airport (refer to Note 5) in accordance with the grant agreements signed in 2018.

In 2019 and 2018, the government grants from the Cohesion Fund related to assets relate to the airside area development project (see Note 5), which has been declared eligible by the Cohesion Fund of the European Union. The Cohesion Fund is contributing 50%, or EUR 35 million, of the cost of the project. The European Commission has issued an authorisation for State aid to provide government grants for the airside area development project under the Cohesion Fund.

| in EUR thousand   | 2019          | 2018          |
|---|---------------|---------------|
| <b>Long-term government grants received as at the beginning of the period</b> | <b>60,902</b> | <b>60,660</b> |
| <i>Changes in government grants in the accounting period</i>                  |               |               |
| <b>Assets and liabilities acquired with government grants</b>                 | <b>20,000</b> | <b>4,188</b>  |
| Incl. allocation for a specific purpose from state budget                     | 17,300        | 3,700         |
| incl. Cohesion Fund (ISPA)  | 2,700         | 488           |
| <b>Recognised as income</b>   | <b>-3,763</b> | <b>-3,946</b> |
| incl. domestic government grant   | -398          | -327          |
| Incl. Cohesion Fund (ISPA)  | -2,361        | -2,466        |
| Incl. European Regional Development Fund (ERDF)                               | -1,004        | -1,153        |
| <b>Total long-term government grants as at the end of the period</b>          | <b>77,139</b> | <b>60,902</b> |
| incl Domestic government grants   | 22,287        | 5,385         |
| incl Cohesion Fund (ISPA)   | 48,756        | 48,418        |
| incl European Regional Development Fund (ERDF)                                | 6,096         | 7,099         |

<sup>4</sup> The aid is for operating regional airports; Kärdla, Kuressaare, Tartu and Pärnu airports and Ruhnu and Kihnu airways.

**Note 15. Trade payables and prepayments****15.1 Trade payables and prepayments**

| in EUR thousand                 | 31.12.2019   | 31.12.2018   |
|---------------------------------|--------------|--------------|
| Payables for goods and services | 1,941        | 1,642        |
| Payables for non-current assets | 901          | 2,694        |
| Other payables                  | 51           | 18           |
| <b>Total trade payables</b>     | <b>2,893</b> | <b>4,354</b> |

**15.2 Accrued expenses to employees, tax liabilities and prepayments**

| in EUR thousand                             | 31.12.2019   | 31.12.2018   |
|---|--------------|--------------|
| Accrued expenses to employees (Note 17)     | 2,647        | 2,902        |
| Tax liabilities (Note 16)                   | 1,486        | 1,402        |
| Prepayments                                 | 254          | 178          |
| <b>Total other payables and prepayments</b> | <b>4,387</b> | <b>4,482</b> |
| <b>Total payables and prepayments</b>       | <b>7,280</b> | <b>8,836</b> |

**Note 16. Tax liabilities**

| in EUR thousand  | 31.12.2019   | 31.12.2018   |
|--|--------------|--------------|
| Social security taxes on wages and salaries, and fringe benefits | 881          | 833          |
| Income tax on wages and salaries, and fringe benefits            | 494          | 457          |
| Unemployment insurance tax                                       | 58           | 55           |
| Pension insurance  | 44           | 41           |
| Excise tax   | 8            | 7            |
| Corporate income tax   | 1            | 6            |
| Other taxes  | 0            | 3            |
| <b>Total tax liabilities (Note 15)</b>                           | <b>1,486</b> | <b>1,402</b> |

Refer to Note 24 for potential liabilities from tax revision.

**Note 17. Accrued expenses to employees**

| in EUR thousand                                      | 31.12.2019   | 31.12.2018   |
|--|--------------|--------------|
| Bonus reserve liability                              | 1,173        | 1,488        |
| Wages and salaries accrued but not yet paid          | 959          | 943          |
| Holiday pay liability                                | 513          | 468          |
| Other payables to employees                          | 2            | 3            |
| <b>Total accrued expenses to employees (Note 15)</b> | <b>2,647</b> | <b>2,902</b> |

**Note 18. Equity**

All shares of Tallinn Airport Ltd 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.

|                         | 31.12.2019     | 31.12.2018     |
|-------------------------|----------------|----------------|
| Share capital           | EUR 25,095,400 | EUR 25,095,400 |
| Number of shares        | 2,509,540 pcs  | 2,509,540 pcs  |
| Nominal value of shares | EUR 10         | EUR 10         |

As at 31 December 2019, the retained earnings of the Group amounted to EUR 67,852 thousand (31.12.2018: EUR 58,134 thousand). In case of payment of dividends to shareholders, the income tax expense is 20/80 of the amount paid out as net dividends. As at the reporting date, it is possible to pay out dividends to the shareholders in the amount of EUR 54,282 thousand (31.12.2018: EUR 46,507 thousand) and the corresponding income tax would amount to EUR 13,570 thousand (31.12.2018: EUR 11,627 thousand).

The expectation of the state as the owner is that all state-owned companies on the market pay stable dividends. Tallinn Airport Ltd's dividend policy is fixed in the Group's strategy and is based on the objective of maintaining the optimal capital structure described above. The owner's expectation is that the Group's operations are profitable, but taking into account the investments made by the Group in infrastructure need for air traffic management, the owner does not plan to pay dividends in the coming years.

**Note 19. Revenue****Aviation revenue**

| in EUR thousand               | 2019          | 2018          |
|-------------------------------|---------------|---------------|
| Passenger fees                | 9,573         | 8,652         |
| Landing fees                  | 7,372         | 7,001         |
| Parking fees                  | 528           | 473           |
| Navigation fees               | 21            | 21            |
| Take-off fees                 | 3             | 5             |
| <b>Total aviation revenue</b> | <b>17,497</b> | <b>16,152</b> |

**Non-aviation revenue**

| in EUR thousand  | 2019          | 2018          |
|--|---------------|---------------|
| <b>Aircraft handling and passenger servicing revenue</b> | <b>13,629</b> | <b>13,149</b> |
| <b>Rental income</b>                                     |               |               |
| Concessions  | 4,858         | 4,477         |
| Rent for premises and hangars                            | 4,344         | 3,996         |
| Infrastructure fees                                      | 532           | 548           |
| <b>Total rental income (Note 7)</b>                      | <b>9,734</b>  | <b>9,021</b>  |

| in EUR thousand                           | 2019          | 2018          |
|---|---------------|---------------|
| <b>Other services sold</b>                |               |               |
| Parking services for cars                 | 2,338         | 1,913         |
| Services provided to tenants              | 1,289         | 1,256         |
| Advertising services                      | 827           | 565           |
| Aviation related services                 | 1,713         | 1,625         |
| Other services provided and intermediated | 93            | 120           |
| <b>Total other services sold</b>          | <b>6,260</b>  | <b>5,479</b>  |
| <b>Total non-aviation revenue</b>         | <b>29,623</b> | <b>27,649</b> |
| <b>Total revenue</b>                      | <b>47,120</b> | <b>43,801</b> |

**Note 20. Other income**

| in EUR thousand  | 2019          | 2018          |
|--|---------------|---------------|
| Government grants related to operating expenses (Note 14)          | 9,395         | 5,920         |
| Government grants related to assets recognised as income (Note 14) | 3,763         | 3,946         |
| Gain from disposal of machinery and equipment (Note 5)             | 81            | 117           |
| Other income   | 27            | 84            |
| <b>Total other income</b>  | <b>13,266</b> | <b>10,067</b> |

**Note 21. Goods, materials and services**

| in EUR thousand   | 2019          | 2018          |
|---|---------------|---------------|
| Security, safety and rescue*                              | 4,743         | 4,336         |
| Utilities expenses  | 3,059         | 2,840         |
| Maintenance of runways                                    | 1,606         | 1,257         |
| Vehicle operation expenses                                | 1,417         | 1,399         |
| Cost of provision of services to passengers and aircrafts | 1,397         | 1,484         |
| Maintenance expenses of buildings and facilities          | 1,852         | 1,419         |
| IT and communication expenses                             | 1,660         | 1,300         |
| <b>Total goods, materials and services</b>                | <b>15,734</b> | <b>14,035</b> |

\* Includes only outsourced security services. Other security and rescue expenses are recognised on other expense lines. In 2019, all other security and rescue expenses amounted to EUR 7.0 million (2018: EUR 6.5 million).

**Note 22. Other operating expenses**

| in EUR thousand                                 | 2019         | 2018         |
|---|--------------|--------------|
| Administrative expenses                         | 467          | 538          |
| Marketing and public relations                  | 541          | 367          |
| Training costs                                  | 315          | 280          |
| Human Resources                                 | 40           | 37           |
| Special clothing and uniforms                   | 272          | 256          |
| Business trips                                  | 128          | 87           |
| Costs related to doubtful receivables (Note 10) | 139          | 15           |
| <b>Total other operating expenses</b>           | <b>1,902</b> | <b>1,580</b> |

**Note 23. Staff costs**

| in EUR thousand   | 2019          | 2018          |
|---|---------------|---------------|
| Wages and salaries, performance pay, holiday pay, bonuses | 15,454        | 14,075        |
| Average monthly salary in EUR                             | 2,029         | 1,910         |
| Taxes calculated on staff costs                           | 5,183         | 4,715         |
| Staff costs classified as fringe benefits                 | 151           | 115           |
| Taxes classified as fringe benefits                       | 161           | 126           |
| <b>Total staff costs</b>                                  | <b>20,949</b> | <b>19,031</b> |

**Staff count**

|  |     |     |
|--|-----|-----|
| Number of employees at the beginning of the period           | 680 | 632 |
| Number of employees at the end of period                     | 681 | 680 |
| Average number of employees reduced to full-time equivalents | 635 | 614 |

**Note 24. 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 Group'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 Group.

**Binding future obligations under construction contracts**

As at 31 December 2019, the Group had future commitments of EUR 0,2 million (2018: EUR 1,7 million) under contracts concluded for the construction of fixed assets (see Notes 5, 12 and 14).

**Binding future obligations under government grants**

In the event of a breach of the agreement, the Cohesion Fund of the European Union will be entitled to recover the funds financed. As at 31 December 2019, government grants in amount of EUR 20,7 million were received (31.12.2018: EUR 18 million).

**Note 25. Related party transactions**

| in EUR thousand                                   | 2019 | 2018 |
|---|------|------|
| Receivables                                       | 42   | 80   |
| Liabilities                                       | 545  | 888  |
| Incl. liability due to route incentive program    | 81   | 372  |
| Sales   | 628  | 673  |
| Reduction of sales due to route incentive program | -151 | -544 |
| Purchases   | 158  | 120  |

The Group’s Management Board discloses the transactions with airline companies, over which the state has control or significant influence.

In 2019, the remuneration of the Supervisory and Management Boards of a parent company, excluding social security taxes amounted to EUR 385 thousand (2018: EUR 372 thousand) and the remuneration of the Supervisory and Management Boards of subsidiaries, excluding social security taxes amounted to EUR 198 thousand (2018: 127 thousand). Tallinn Airport Ltd 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.

Accrual in the amount of EUR 456 thousand recorded as liability as at 31 December 2019 (2018: EUR 456 thousand) relates to an insurance case.

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

**Note 26. Events after the reporting date**

At the beginning of 2020, the existence of the new coronavirus (COVID-19) was confirmed and it has currently spread all over the world, including Estonia, causing problems for companies and their economic activities. The spread of the virus has led to restrictions between countries as well as within them. The state of emergency in Europe has led to the sharp decline in the number of passengers and flight operations. Based on various estimates, the period of virus-related restrictions may last from March until May. Our forecast is based on an assumption, that in May, air traffic would resume, but it would take a long time and by the end of 2020 the number of passengers of 2019 will not be reached.

The Group has prepared the estimate of the impact of the virus on the income statement, financial position and cash flows for the year 2020. According to the forecast, the one-year effect is significant; however, the Group’s management is trying to minimize the negative effect. The Group has divided the activities of the virus outbreak into four stages. The first stage was protection of the health of the Group’s employees and the second involved adjustment of the Group’s activities due to lower air traffic. The third stage is the evaluation of the economic impact and minimization of losses while the fourth stage involves activities to restore air traffic.

Due to the emergency state, the effect from the significant decline in the operating volumes is negative on the Group’s operations, but we do not consider it practical to give a quantitative estimate of the potential impact of the outbreak on the Group. However, based on the preliminary analysis, we estimate that the Group’s economic position is sufficiently solid to continue with the strategic capital expenditures planned for 2020 and to meet the obligations on time.

The Group treats the COVID-19 outbreak as a non-adjusting event after the reporting date.

## Note 27. Financial information of the parent company

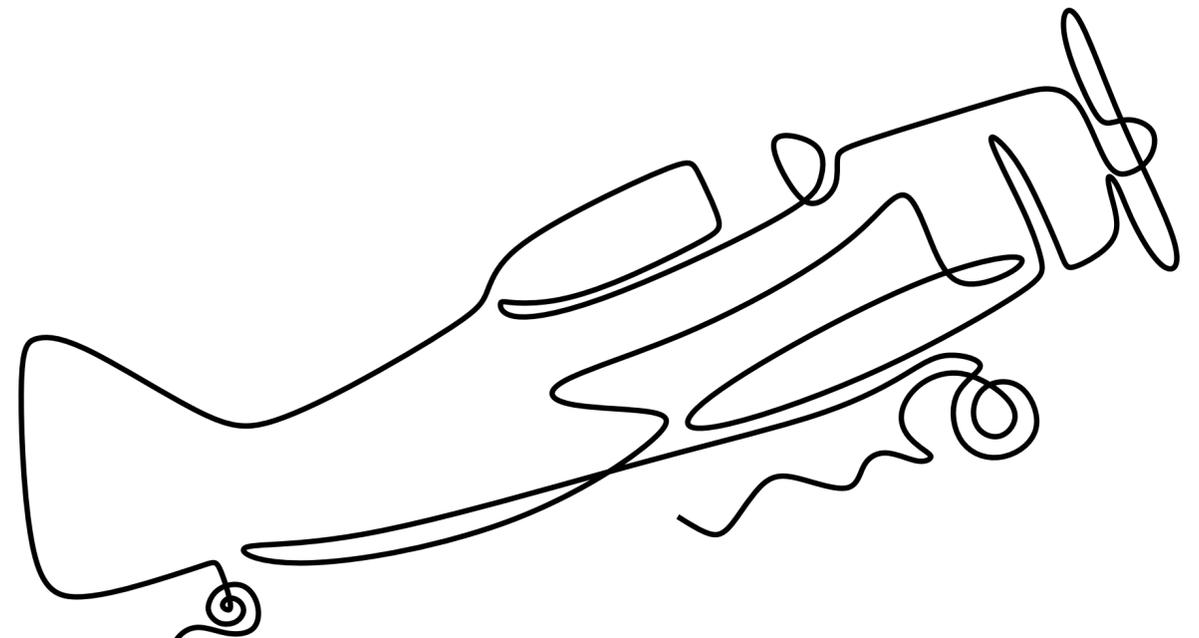
Separate statement  
of financial position

| in EUR thousand                 | 31.12.2019     | 31.12.2018     |
|---------------------------------|----------------|----------------|
| <b>Assets</b>                   |                |                |
| <b>Non-current assets</b>       |                |                |
| Long-term financial investments | 1,028          | 1,028          |
| Property, plant and equipment   | 148,279        | 148,933        |
| Right-of-use assets             | 67             | 0              |
| Intangible assets               | 514            | 391            |
| Investment property             | 16,762         | 17,986         |
| <b>Total non-current assets</b> | <b>166,650</b> | <b>168,338</b> |
| <b>Current assets</b>           |                |                |
| Inventories                     | 138            | 109            |
| Payables and prepayments        | 3,782          | 3,448          |
| Cash                            | 43,394         | 6,146          |
| <b>Total current assets</b>     | <b>47,314</b>  | <b>9,703</b>   |
| <b>Total assets</b>             | <b>213,964</b> | <b>178,041</b> |

| in EUR thousand                      | 31.12.2019     | 31.12.2018     |
|--------------------------------------|----------------|----------------|
| <b>Equity</b>                        |                |                |
| Share capital                        | 25,095         | 25,095         |
| Statutory reserve capital            | 2,510          | 2,510          |
| Retained earnings                    | 57,960         | 48,808         |
| <b>Total equity</b>                  | <b>85,565</b>  | <b>76,413</b>  |
| <b>Liabilities</b>                   |                |                |
| <b>Non-current liabilities</b>       |                |                |
| Borrowings                           | 42,322         | 32,274         |
| Lease liabilities                    | 46             | 0              |
| Government grants                    | 77,139         | 60,902         |
| <b>Total non-current liabilities</b> | <b>119,507</b> | <b>93,176</b>  |
| <b>Current liabilities</b>           |                |                |
| Borrowings                           | 3,297          | 1,488          |
| Lease liabilities                    | 21             | 0              |
| Payables and prepayments             | 5,574          | 6,964          |
| <b>Total current liabilities</b>     | <b>8,892</b>   | <b>8,452</b>   |
| <b>Total liabilities</b>             | <b>128,399</b> | <b>101,628</b> |
| <b>Total liabilities and equity</b>  | <b>213,964</b> | <b>178,041</b> |

## Separate statement of comprehensive income

| in EUR thousand                                | 2019         | 2018         |
|--|--------------|--------------|
| Revenue  | 35,522       | 32,393       |
| Other income                                   | 13,252       | 10,058       |
| Goods, materials and services                  | -13,583      | -11,837      |
| Other operating expenses                       | -1,545       | -1,218       |
| Staff costs                                    | -12,947      | -11,802      |
| Depreciation, amortisation and impairment      | -11,259      | -10,951      |
| Other expenses                                 | -89          | -205         |
| <b>Operating profit</b>                        | <b>9,351</b> | <b>6,438</b> |
| Finance income and costs                       | -199         | -170         |
| <b>Net profit for financial year</b>           | <b>9,152</b> | <b>6,268</b> |
| <b>Comprehensive income for financial year</b> | <b>9,152</b> | <b>6,268</b> |



## Separate statement of cash flows

| in EUR thousand   | 2019          | 2018           |
|---|---------------|----------------|
| <b>Cash flows from operating activities</b>   |               |                |
| Collections from customers  | 38,982        | 37,801         |
| Paid to suppliers and employees   | -31,833       | -30,447        |
| Interest received   | 2             | 2              |
| Interest paid   | -200          | -184           |
| Government grant received from the state budget for covering the cost of operating activities | 9,195         | 5,750          |
| Other grants received for covering the cost of operating activities                           | 200           | 170            |
| <b>Total cash flows from operating activities</b>   | <b>16,346</b> | <b>13,092</b>  |
| <b>Cash flows from investing activities</b>   |               |                |
| Paid for purchase of property, plant and equipment, and intangible assets                     | -10,979       | -23,260        |
| Proceeds from sale of property, plant and equipment   | 51            | 33             |
| Government grants received from state budget for non-current assets                           | 17,300        | 3,700          |
| Government grants received for non-current assets   | 2,700         | 2,870          |
| <b>Total cash flows from investing activities</b>   | <b>9,072</b>  | <b>-16,657</b> |

| in EUR thousand   | 2019          | 2018          |
|---|---------------|---------------|
| <b>Cash flows from financing activities</b>               |               |               |
| Repayments of borrowings                                  | -2,143        | -8,500        |
| Borrowings received                                       | 14,000        | 10,000        |
| Repayment of lease liabilities                            | -27           | 0             |
| <b>Total cash flows from financing activities</b>         | <b>11,830</b> | <b>1,500</b>  |
| <b>Net cash flows</b>                                     |               |               |
| Cash and cash equivalents at beginning of year            | 6,146         | 8,211         |
| Cash and cash equivalents at end of year                  | 43,394        | 6,146         |
| <b>Net increase/decrease in cash and cash equivalents</b> | <b>37,248</b> | <b>-2,065</b> |

## Separate statement of changes in equity

| in EUR thousand               | Share capital | Statutory reserve capital | Retained earnings | Total  |
|-------------------------------|---------------|---------------------------|-------------------|--------|
| Balance as at 31.12.2017      | 25,095        | 2,510                     | 42,540            | 70,145 |
| Comprehensive income for 2018 | 0             | 0                         | 6,268             | 6,268  |
| Balance as at 31.12.2018      | 25,095        | 2,510                     | 48,808            | 76,413 |
| Comprehensive income for 2019 | 0             | 0                         | 9,152             | 9,152  |
| Balance as at 31.12.2019      | 25,095        | 2,510                     | 57,960            | 85,565 |

## Adjusted unconsolidated equity of Tallinn Airport Ltd (parent company)

| in EUR thousand   | 2019          | 2018          |
|---|---------------|---------------|
| Unconsolidated equity of the parent   | 85,565        | 76,413        |
| Carrying amount of subsidiaries in the separate reporting of the parent (minus) | -1,028        | -1,028        |
| Value of subsidiary under the equity method (plus)                              | 10,920        | 10,354        |
| <b>Total</b>  | <b>95,457</b> | <b>85,739</b> |



# Independent auditor's report



## Independent Auditor's Report

To the Shareholder of AS Tallinna Lennujaam

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### Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AS Tallinna Lennujaam and its subsidiary (together the Group) as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### What we have audited

We audited the Group's consolidated financial statements that comprise:

- the consolidated statement of financial position as at 31 December 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

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### Basis for opinion

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

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

### Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

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### Other information

The Management Board is responsible for the other information. The other information comprises the Management report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.



In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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### Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

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

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

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

Translation note:

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### Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

AS PricewaterhouseCoopers

/signed/

Janno Hermanson  
Auditor's certificate no.570

30 June 2020  
Tallinn, Estonia

/signed/

Diana Brodskaja  
Auditor's certificate no.685

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

## Profit allocation proposal

|  |                            |
|--|----------------------------|
| Retained earnings as at 31.12.2018                 | <b>EUR 58,134 thousand</b> |
| Net profit for 2019                                | EUR 9,718 thousand         |
| <b>Total distributable profit as at 31.12.2019</b> | <b>EUR 67,852 thousand</b> |

The management board proposes to not distribute the net profit for 2019 in the amount of EUR 9,718 thousand and transfer it to retained earnings.

**Retained earnings after profit allocation** **EUR 67,852 thousand**

|                                  |                                |                                |
|----------------------------------|--------------------------------|--------------------------------|
| Riivo Tuvike                     | Einari Bambus                  | Anneli Turkin                  |
| Chairman of the Management Board | Member of the Management Board | Member of the Management Board |
| 27.03.2020                       | 27.03.2020                     | 27.03.2020                     |

## Signatures to the annual report

The Management Board of Tallinn Airport Ltd has prepared the management report and financial statements for the year 2019. The Management confirms the correctness of information presented in the annual report.

### Management board:

|                                  |                                |                                |
|----------------------------------|--------------------------------|--------------------------------|
| Riivo Tuvike                     | Einari Bambus                  | Anneli Turkin                  |
| Chairman of the Management Board | Member of the Management Board | Member of the Management Board |
| 27.03.2020                       | 27.03.2020                     | 27.03.2020                     |

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:

|                                   |                                 |                                 |
|-----------------------------------|---------------------------------|---------------------------------|
| Märten Vaikmaa                    | Kadri Land                      | Toivo Jürgenson                 |
| Chairman of the Supervisory Board | Member of the Supervisory Board | Member of the Supervisory Board |
| 9.04.2020                         | 9.04.2020                       | 9.04.2020                       |

|                                 |                                 |
|---------------------------------|---------------------------------|
| Piret Aava                      | Jaanus Uiga                     |
| Member of the Supervisory Board | Member of the Supervisory Board |
| 9.04.2020                       | 9.04.2020                       |

## Sales revenue of Tallinn Lennujaam Ltd according to EMTAK 2008

| in EUR thousand   | 2019   | 2018   |
|---|--------|--------|
| <b>EMTAK code</b>   |        |        |
| 35131 Distribution of electricity                           | 715    | 715    |
| 52231 Operation of airports and airport passenger terminals | 32,744 | 29,898 |
| 52239 Other air transport service activities                | 13,629 | 13,149 |
| 85599 Other education                                       | 32     | 39     |

