



ANNUAL REPORT 2018

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INTRODUCTION



CHAIRPERSON'S STATEMENT

PIRET MÜRK-DUBOUT

Dear reader!

Estonia is a small country with wonderful nature and smart people. Our location in Europe is both our opportunity and challenge. Air connections are the key to the countries' economic development. Direct flights have a major impact on foreign investment, on trade and export of services, on tourism and productivity. Air transport provides access to new markets, enables to more efficiently use economies of scale and recruit the most qualified workforce.

We create opportunities to travel from Tallinn Airport to main European destinations with reasonable frequency and traveltime.

In the summer of 2018, the **number of our direct destinations increased to a record 41**, in addition to more than 90 charter destinations. Year-round scheduled flights were launched to Malta, Cyprus and Edinburgh, and there were a total of 27 year-round destinations. We have been

developing better connections with Europe which will remain our priority going forward, and in 2019 we will also focus on connections with the Middle East.

There are **16 airlines** operating at Tallinn Airport. Of these, the newest provider of regular flights is Wizzair that began to fly from Tallinn to Kiev and London in 2018. While this year brought new destinations to Tallinn Airport, in 2019 our focus will be on increasing the frequency of existing routes to make the lines more suitable for business travellers.

The total number of passengers also increased at regional airports, and the demand in both Kuressaare and Tartu airports is expected to go up in the near future.

In the last two years, the total number of passengers has increased more than 30% (19% in 2017 and 13.6% in 2018). We had a record number of passengers again in 2018. On the last day of the year, we reached a major landmark of **3 million passengers** that equals an average of 8,200 passengers and 60 flights a day. By 2019, we expect the number of passengers to increase by about 7%.

In an era of rapid growth in the number of passengers, we also consider it important to maintain high service quality, safety and security levels, avoid serious incidents, and ensure customer and partner satisfaction. Tallinn Airport Ltd also wants to be a modern and flexible business development environment for customers and partners operating in our territory.



BEST AIRPORT 2018
UNDER 5 MILLION
PASSENGERS

OUR GOAL IS TO BE THE WORLD'S COSIEST AIRPORT.

In 2018, we were proud to have been named **“Best Airport in Europe 2018”** in the category of airports with less than 5 million passengers. Namely, on 20 June 2018, the Airports Council International Europe (ACI Europe) announced the winners of the Best Airport Awards 2018. This recognition was due to our professional and dedicated team and to our good partners who have been able to create a comfortable and convenient environment for travellers.

In addition to such high recognition, we also examined passenger satisfaction on the basis of the quality of service parameters of the global airport service quality (ASQ) survey conducted by the ACI. The results of 2018 give cause to rejoice, since we were ranked third in Europe among 111 comparable airports.

PROFIT ALLOWS YOU TO INVEST IN A BETTER SERVICE NOW AND IN THE FUTURE.

Last year was extremely successful for Tallinn Airport Ltd: revenue increased to EUR 43.8 million (9%) and EBITDA amounted to EUR 15.1 million (8%) as compared to the year before. The Company's net profit increased by almost 16% as compared to the previous year, reaching EUR 7.5 million.

The Tallinn Airport Group invested EUR 22.7 million, of which Tallinn Airport invested EUR 19.3 million, regional airports EUR 2.3 million and Tallinn Airport GH EUR 1.1 million. Compared to 2017, investments were 31% lower.

At the end of 2018, we raised the passenger parking service to a whole new level - we opened the largest **parking house in Estonia** with over 1,200 parking spaces and expanded the volume of long-term parking.

In addition, we renovated the air traffic area at Kärdla airport and started a reconstruction project at Pärnu airport.

Tallinn airport passenger terminal has the capacity of 2.6 million passengers a year, but the actual number of passengers in 2018 exceeded that by 13%. Therefore, in 2019, we will start planning an airport passenger terminal expansion to be ready to serve 5 to 6 million passengers a year in the future.

EVERYTHING DEPENDS ON THE TEAM COMMITMENT.

It is a great honour for our team to work for Estonia and we believe that our professional and dedicated staff will ensure our success. Equally important is taking systematic care of staff succession and training.

In 2018, in cooperation with Kantar Emor, we carried out a worklife survey among the employees of the Tallinn Airport Group to find out the aggregate commitment indicator, the internationally used TRI*M Index. The results of the survey showed that the average commitment index of the Group's employees as a whole was well above the Estonian average.

On the basis of the 2018 study by Instar, Tallinn Airport Ltd was ranked fifth according to the index of employer attractiveness ranking among 189 companies.

Behind such recognition is the contribution of every employee to his or her work and the creation an excellent atmosphere at work.

In business, we are guided by the principles of sustainability. We have committed ourselves to complying with the UN Sustainable Development Goals, the compliance of which is presented in this report for the first time.

In 2018, Tallinn Airport Ltd received a gold label for responsible business. This shows that the Company manages the impact of its activities on the natural and economic environment and on stakeholders based on the principles of responsible entrepreneurship. This year, we joined a coalition of sustainable development aimed at raising awareness of global sustainable development and development goals.

Our goal is to connect Estonia with Europe by developing Estonia's main airgate: our goal is to reach five million passengers in the next ten years!

Have a successful year!





COMPANY

COMPANY OVERVIEW

Tallinn Airport Ltd is an operator and a developer of airports in Estonia

Tallinn Airport Ltd together with its subsidiary Tallinn Airport GH Ltd form the Tallinn Airport Group. The shares in Tallinn Airport Ltd are held by the Republic of Estonia; the company operates within the jurisdiction of the Ministry of Economic Affairs and Communication and is headquartered in Tallinn.

The objective of the operations of Tallinn Airport Ltd is to provide international air links that contribute to the development of entrepreneurship and tourism in the country and, thereby, to an increase in the country's competitiveness. We wish to become the most attractive airport in Europe, and our focus is on customer-centric functioning. At the regional airports, we wish to provide functioning regional air links, with a focus on efficient operation in this segment.

We are active in the areas of operating airfield infrastructure and providing ground handling for passengers, cargo and aircraft used for international and domestic scheduled flights and general aviation. The company operates and develops airports in Tallinn, Kuressaare, Kärdla, Pärnu and Tartu and airfields on Kihnu and Ruhnu.



KEY OPERATING INDICATORS OF 2018 AND 2017



Number of passengers in Tallinn Airport



Revenue



Number of passengers in regional airports



Operating income



Total assets



Net profit



Investments

Key operating indicators of 2018 and 2017

In 2018 Tallinn Airport

- handled **48,568 flight operations** (2017: 45,325) and
- served **3,007,644 passengers** (2017: 2,648,361).
- **1,518 tonnes of cargo** was carried (2017: 11,345).

Regional airports

- handled **10,099 flight operations** (2017: 10,451) and
- served **61,894 passengers** (2017: 60,878).

Main business activities of the Tallinn Airport Group

- airfield service, including air navigation service
- handling of passengers
- sales and development

The Tallinn Airport Group employed 680 people as at the end of last financial year (2017: 632).

Tallinn Airport is the busiest international aerial gateway in Estonia.

Key indicators of Tallinn Airport infrastructure

- The administrative area of 371.5 ha
- 3,480 metres in length and 45 metres in width the east-west runway
- Total floor area of buildings 101,400 m²

- Commercial space of 33 buildings
- Passenger terminal 34,367 m², capacity of 2.6 million passengers annually
- 4 cargo terminals with total area of 11,600 m²
- 4 aircraft maintenance hangars with a total area of 22,200 m² and 4 tents with a total area of 4,000 m²

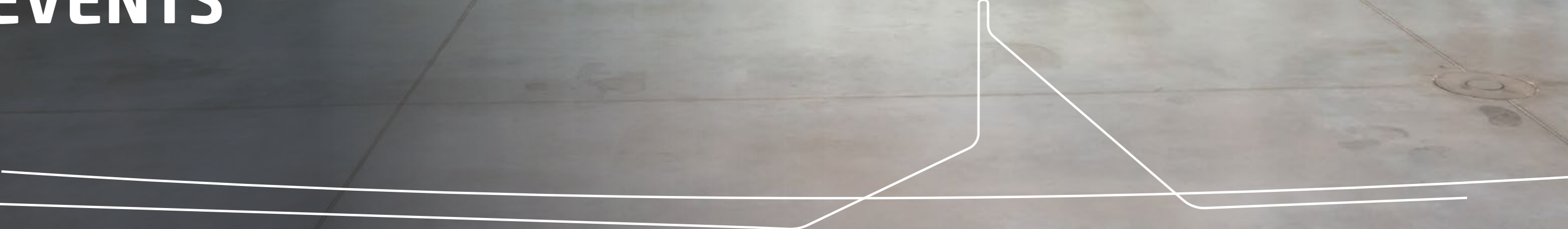
- Apron M 34 standing positions (C-rating)
- Apron Y3 2 standing positions
- Apron Y5
- Apron K 2 standing positions (C-rating)

- Rescue service level CAT VIII (incl. waterworks capabilities)





EVENTS



EVENTS IN 2018

JANUARY

Tallinn Airport Ltd joined the Estonian Association for Environmental Management.

MARCH

Ryanair started direct flights to Malta and Paphos.

APRIL

Nordica started direct flights to Kiev and Copenhagen.

First rehearsal of Tallinn Airport Mixed Choir.

MAY

Tallinn Airport Ltd received a gold label for responsible business for the second time.

A joint exercise was organized at Kärdla airport to practice rescue and crisis management.

JUNE

The Airports Council International (ACI), named Tallinn Airport “The Best European Airport 2018.”

In co-operation with Baltona, an international operator of a chain of airport duty free stores, three duty-free shops at Tallinn Airport passenger terminal received a new and modern look.

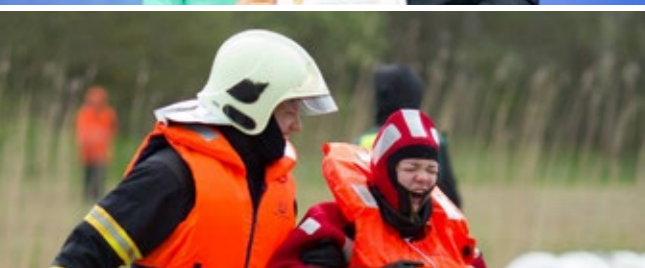
Wizzair started direct flights to Kiev.

JULY

We served 312,300 passengers at Tallinn Airport, which is a record number of passengers passing through the airport in a single month.

AUGUST

The new record of the day was 11,983 passengers passing through Tallinn Airport.





SEPTEMBER

On 20 September, we celebrated the 82nd anniversary of Tallinn Airport.

On the basis of the 2018 study by Instar, Tallinn Airport Ltd was ranked fifth according to the index of employer attractiveness among 189 employers.

The reconstruction of Kärdla Airport was completed and the airfield was re-opened for air traffic.

OCTOBER

We celebrated the 13th anniversary of Tallinn Airport GH Ltd.

Ryanair opened a year-round route to Edinburgh.

An analysis of the annual reports for the year 2017 involving 100 largest companies in Estonia and 25 largest public sector employers was published, where recognition of social responsibility was evaluated. Tallinn Airport Ltd came second among one hundred companies.

NOVEMBER

During the month of quality, we introduced the work of the Quality and Process Management Department with the message "Quality begins with me!"

The month of the adult learner focused on maintaining mental health and on self-management. A record 222 people attended lectures and workshops.

Tallinn Airport Sports Club won second place in the competition series "Estonia's Most Athletic Company".

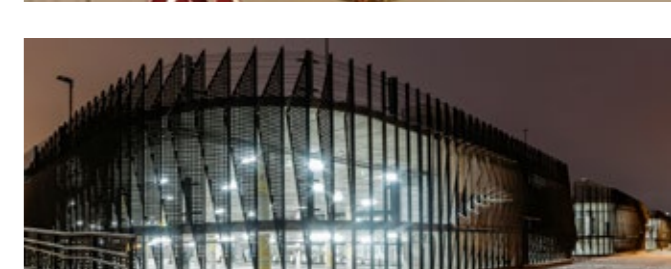
DECEMBER

Tallinn Airport's parking house was opened to customers.

According to the airport service quality (ASQ) survey, Tallinn Airport ranked third among 111 airports in Europe in terms of overall passenger satisfaction.

Estonia's first public transport ticket machine was installed in Tallinn Airport's passenger terminal.

On the last day of 2018, the number of passengers arriving at Tallinn Airport reached a record 3 million.



OBJECTIVES



THE OBJECTIVES OF THE OWNER AND THE STRATEGY OF THE COMPANY

We create opportunities to travel from Tallinn Airport to main European destinations with reasonable frequency and travel time.

We strive to increase the number of destinations and frequencies. The safety and security of passengers and services is equally important to us.

We want to be a reliable, open and caring company.

Tallinn Airport cannot become the largest airport in the world, but it can become the world's cosiest airport. It is important for us to be a reliable partner for our customers and to provide them with an open, flexible and innovative business environment. We want to give the traveller a comfortable, safe and pleasantly surprising customer experience. We want to be the cosiest airport in the world to our passengers, employees and partners, especially through care and openness!

In the autumn of 2016, the Republic of Estonia as the sole shareholder confirmed the expectations of the owner of Tallinn Airport Ltd with regard to the business of the Company. The Company was defined as a business undertaking with mainly public objectives.





Objectives set for the company by its owner.

- Maintain and increase air traffic.
- Different target groups can travel from Tallinn Airport to main European destinations with reasonable frequency and travel time.
- Operate the company in a commercially profitable and efficient manner.
- The operating activity of the entity is beneficial for its owners, internal and external clients as well as for the society as a whole. Entity contributes to the development of country's economic environment.
- Function sustainably and responsibly.
- Entity creates a safe and sustainable operating environment. Guarantees the compliance of operating airports, the level of service of passengers and cargo with International and local regulations and mutually agreed terms.
- Entity manages its effect on nature and economic environment. Entity will apply measures to reduce the impact.
- Operate regional airports to support the development of the economic environment in various regions of Estonia within the scope of grants received from the state.

Main dimensions of corporate social responsibility

Tallinn Airport Ltd is guided by the principles of sustainability in its business operations. We have also committed ourselves to the UN Sustainable Development Goals. Our activities contribute to the fulfilment of these objectives - health and well-being, employment and growth, industry, innovation and infrastructure, sustainable production and consumption, climate change measures.

The Company's social responsibility guidelines take into account the economic, social and environmental impact of our business. In our core business, we focus on the safe and secure provision of our service. In doing so, we are a reliable partner for our business partners, employees, owners and the community. By providing and designing services, we focus on the environment.

Airport activities have an impact on many people. That is why we have integrated the principles of corporate governance and sustainable business practices based on stakeholder expectations into our management process. We have created a responsible work organization and safe working conditions, we motivate our employees and maintain a dialogue between the employer and the employee.



We participate in the social debate on the issue of responsible business, carry out sustainable business, applying its principles consistently in our work while raising public awareness of it. We communicate with the public and the media directly, provide only accurate and truthful information and inform the public about our activities as planned.

We publish a responsibility report about our activities by disclosing data on social, economic, and environmental impact based on the guidelines of the Global Reporting Initiative.

In the autumn of 2018, the consulting company Sustinere analysed the annual reports of 100 companies in Estonia that have the greatest impact and 25 largest public sector employers. The issues that were assessed included the extent to which companies describe the social and environmental impact of their activities, management principles and the broader role in the society. The score given to Tallinn Airport Ltd for the extent and depth of reflection on issues of social responsibility in the 2017 annual report was 89%. Among the 100 companies that were analyzed Tallinn Airport Ltd ranked second.

Tallinn Airport Ltd has been recognized with the gold award for responsible business activities in 2015 and 2017. In 2013, we were awarded the silver award.

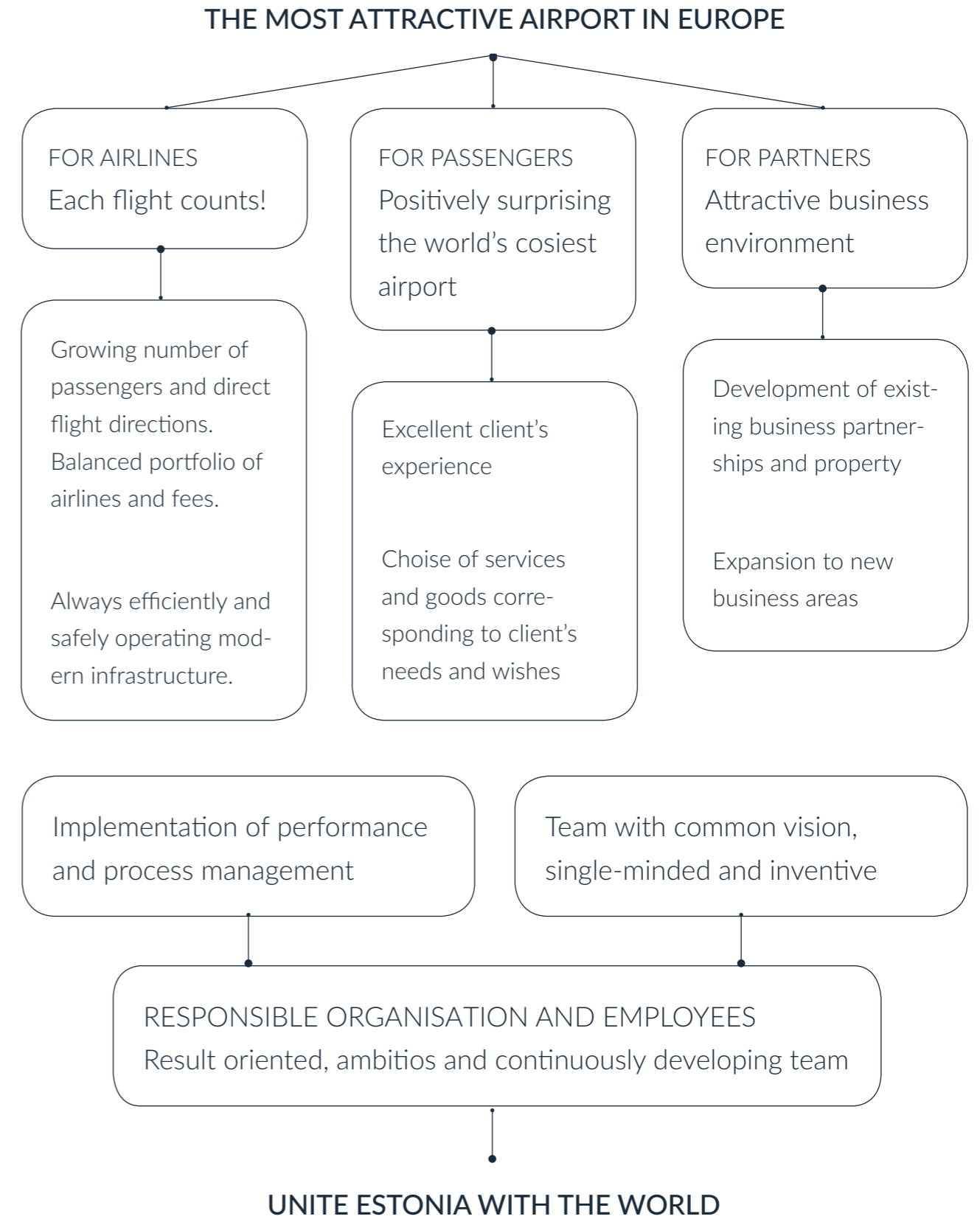


Strategy of Tallinn Airport Ltd

The strategic objectives of the company are aimed at development of destinations and connectivity; safe, secure and quality services of operating airfield and passenger services and sustainable operations.

Mission

**UNITE ESTONIA
WITH THE WORLD**



Achievement of the targets set for the Tallinn Airport Group

THE PROFITABILITY OF THE GROUP

Target	Result 2018
Return on equity is higher than 6%	9.1%
Revenue per a departing passenger is higher than EUR 28.52	EUR 28.17
Revenue per employee is higher than EUR 70 thousand	EUR 71,372
Return on investments is higher than 3.8%	6.1%
Net profit per employee is higher than EUR 8.5 thousand	EUR 12,192
Net profit for a departing passenger is higher than EUR 3.46	EUR 4.81
Net profit margin of Tallinn Airport GH Ltd is higher than 9%	9%
Residual income of regional airports is higher than EUR 482,353	EUR -390,796

PASSENGERS

Target	Result 2018
2.85 million passengers annually	3.01 million passengers
Passenger satisfaction score 4 based on passenger survey (ASQ) on a 5-point scale	4.43
Income from retail and catering is higher than EUR 4.13 million, incl. concession income EUR 3.47 million	EUR 4.06 million*, incl. concession income EUR 3.48 million
Income from parking and taxi services is higher than EUR 2.03 million	EUR 2.15 million
	39% of all departing passengers
Share of self-service check-in transactions 55%	46% of airline passengers who can use self-service at Tallinn Airport**
Security of passenger service capacity 170 people per hour per line (850 total on 5 lines)	Maximum passenger service capacity 184 passengers per hour

* Retail and catering revenue was lower than planned due to more time-consuming upgrades to the terminal. Concessions increased as the revenue was higher than planned.

** Passengers often have luggage and therefore it is practical not to have two separate activities.

AVIATION ENTITIES

Target	Result 2018
No aircraft accidents or serious incidents	1*
On the ground incidents in Tallinn Airport is not higher than 7.5 incidents per 1,000 flights	4.4
Serious security incidents not higher than 3 per year	0
Serious on the ground incidents in Tallinn Airport GH Ltd is not higher than 0.04 incidents per 1,000 flights	0
Safety incidents in Tallinn Airport GH Ltd is not higher than 2.8 incidents per 1,000 flights	1.92
Security incidents in Tallinn Airport GH Ltd is not higher than 0.5 incidents per 1,000 flights	0.07
Airside area's handling capacity is 16 flight operations per hour	100%
CAT II is properly implemented	The project lasts 2018–2020
Number of year-round direct flight destinations is more than 25	25
Aviation revenue of Tallinn Airport Ltd is more than EUR 15.2 million	EUR 16.2 million
Stand alone revenue of Tallinn Airport GH Ltd is more than EUR 10.6 million (without de-icing)	EUR 11 million
Category 3 pollution 0 *	0

* In relation to the change in the metric at the beginning of 2018, the initial target, i.e. the average of the environmental index level (2) was changed.

PARTNERS

Target	Result 2018
Residual income from real estate rent is more than EUR 1.94 million	EUR 2.02 million
Max 7% of vacant space (from the total volume of the rented space)	3.5%

EMPLOYEES AND THE ORGANISATION

Target	Result 2018
Estonian most attractive employers top 10, employer recognition top 5	„Estonian most attractive employer“, 5th place. Employer recognition among 194 employers 94%*
Voluntary turnover in Tallinn Airport Ltd does not exceed 9%	8%
Voluntary turnover in Tallinn Airport GH Ltd does not exceed 15%	18%**
Unverified/non-renewed competences are not found in cases of non-conformity	0
Effectiveness of worktime: over- and undertime +/- 8% or 92–108%	Tallinn Airport Ltd –2.42% Tallinn Airport GH Ltd –3.29%
No serious occupational incidents	0

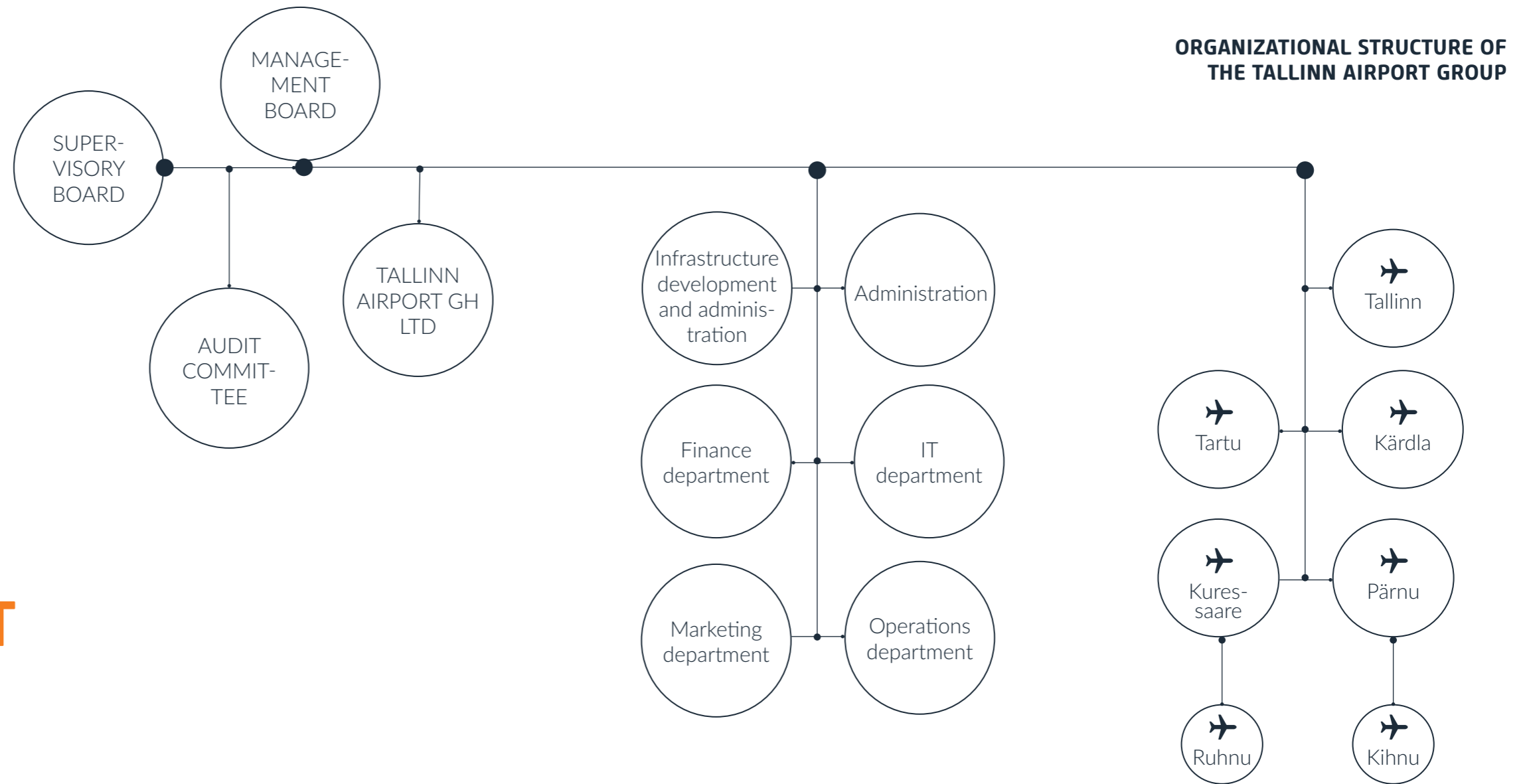
** Lack of workforce in Estonia



MANAGEMENT



MANAGEMENT OF THE COMPANY



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.

Shares in Tallinn Airport Ltd are owned by the Republic of Estonia. The company belongs within the jurisdiction of the Ministry of Economic Affairs and Communications. The Tallinn Airport Group includes the parent Tallinn Airport Ltd and its subsidiary Tallinn Airport GH Ltd.

General Meeting

The General Meeting of shareholders of Tallinn Airport Ltd held on 6 April 2018 approved the audited annual report for 2017, the profit allocation proposal and the auditor's report.

Audit Committee

- Chairman
Toivo Jürgenson
- Members
Piret Aava
Indrek Gailan

The Audit Committee convened six times (2017: five times). It reviewed and approved the 2017 annual report of the airport and brought itself up to date on the results of the 2018 interim audit. The most important activities were in the area of aviation security, air safety and data protection.

Supervisory Board of Tallinn Airport Ltd

- Chairman
Märten Vaikmaa
In 2018, the Supervisory Board convened ten times (2017: ten times).
- Members
Piret Aava
Indrek Gailan
Toivo Jürgenson
Kadri Land
The staff costs for the Supervisory Board Members (remuneration exclusive of social taxes) were EUR 39 thousand (2017: EUR 32 thousand).

Management Board of Tallinn Airport Ltd

- Chairman
Piret Mürk-Dubout
There were no changes in the Management Board members in 2018.
- Members
Einari Bambus
Anneli Turkin
In 2018, the Management Board held 76 (2017: 60) meetings.
The fees of the members of the Management Board (fee for service contract, vacation and bonus accrual) amounted to EUR 333 thousand (2017: EUR 325 thousand) (excluding social taxes).

Reporting

The Management Board prepares the Tallinn Airport 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.

In 2018, the Management Board submitted to the Supervisory Board financial and operational progress reports on a monthly basis.

Information about the Members of the Management and Supervisory Boards is published on the website of the company. The annual report of the company is published by 1 May at the latest.

Supervision

The risk management system supports the achievement of the company's safety and business objectives. Using uniform risk management principles, the system analyses, assesses and manages 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. In the field of internal audit, in 2018 we discussed the audit of investment planning and procurement in different sectors. In the context of the general growth of air passengers, the discussions focused on the prevention and auditing of risks and problems associated with expansion and construction activities.

During internal audits of the management system the quality auditors of Tallinn Airport Ltd audit the divisions of Tallinn Airport Ltd and the companies located on the grounds of the airfields. In 2018, a total of 30 audits (2017: 32) were carried out. Periodically, meetings to review the management system are held, with the Management Board assessing the functioning of the management system. In addition to internal audits, airlines, the Civil Aviation Administration and supervisory organisations continuously conduct inspections, quality and risk management audits.



Ethics

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

We adhere to the principle of zero tolerance to all forms of corruption. All the employees must behave ethically, responsibly and by obeying the law and protect the Company's good name and reputation. The members of the Company's management boards and supervisory boards submit once a year a declaration of financial interests to the external auditor and the employees who organise the procurement and/or are responsible for the budget 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 the risk of corruption and introduced a Code of Business Ethics. Each employee is able to anonymously report potential ethics violations, corruption or similar cases via the organisation's internal network. These reports are handled by the ethics committee. No reports of corruption cases were submitted to the ethics committee in 2018 (no reports also in 2017). A few comments were made about the organisation of work.

Membership

Tallinn Airport Ltd is a member in the following organisations:

- Airports Council International (ACI) Europe committee,
- International Civil Aviation Organization (ICAO),
- Responsible Business Forum (MTÜ Vastutustundliku Ettevõtluse Foorum)
- Saaremaa Tourism Foundation (SA Saaremaa Turism)
- Saaremaa Association of Entrepreneurs (MTÜ Saaremaa Ettevõtjate Liit)
- Estonian Employers' Confederation (Eesti Tööandjate Keskkliit)
- Estonian Taxpayers' Association (Eesti Maksumaksjate Liit)
- Estonian Chamber of Commerce and Industry (Eesti Kaubandus-Tööstuskoda)
- Estonian Travel and Tourism Association (Eesti Turismifirmade Liit)
- Estonian Association for Environmental Management (Eesti Keskkonnajuhtimise Assotsiatsioon)
- Estonian Association of Civil Engineers
- Coalition for Sustainable Development.

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

There were four meetings of the Tallinn Airport Users' Committee in 2018 (2017: one). They were attended by representatives of Tallinn Airport Ltd, Tallinn Airport GH Ltd and regular and charter airlines in Tallinn. Issues related to airport pricing and 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.

There were three meetings of the Terminal Users' Committee of Tallinn Airport in 2018 (2017: two). We gave a continuous overview of the quarterly results of the airport service quality (ASQ) survey. We also dealt with the border regime and airport security, and presented training aimed at the airport community that took place during the adult learner's month.

SAFETY AND QUALITY GROUPS OF REGIONAL AIRPORTS

At least once a quarter, safety and quality groups convene at the airports of Kuressaare, Kärdla, Pärnu and Tartu. At these meetings, the topics discussed include ongoing airfield operation, air safety and quality issues, customer feedback, shortcomings detected during audits performed at the airport. The companies operating on the airfield territory are also invited to participate in the meetings.

WORK ENVIRONMENT COUNCIL

Both Tallinn Airport Ltd and Tallinn Airport GH Ltd have set up Work Environment Councils that have equal numbers of employee and employer representatives. The Work Environment Council is the cooperation body between the employer and employee representatives that handles occupational safety and health related issues at the company, analysing the working conditions and work environment problems at the company.

Tallinn Airport Ltd has ten work environment representatives, six of whom are at Tallinn Airport and one at each regional airport. The work environment representatives represent all the structural units and are elected by employees. Tallinn Airport GH Ltd has five work environment representatives.



Risk management

Risk management is an integral part of the management process of a company. Its goal is to support attainment of safety management and business objectives, create a methodology for risk assessment and help find possible hedging measures. An important part of risk management is collaboration between various areas of activity and the Management Board, learning from past experience and an ability to foresee future circumstances.

The risk management activities of Tallinn Airport Ltd 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.

We assess the Company's strategic risks with the aim of highlighting the key risks in different areas and describing possible mitigation measures. As before, the most serious risks deal with workforce and pressure on wage growth, but also with the possible decline in flight operations in 2019, the increase in the number of passengers and the timing of activities related to the opening of the groundhandling market.



Of strategic risks, an air accident occurred at Tallinn Airport. Its effective resolution assured us that we have the competence, readiness and ability to respond to such events. Another significant risk was the decrease in the number of year-round routes, which, however, did not have a critical impact on us.

In assessing the risks of the Company's area of activities, we focus primarily on the operational and personnel risks of the given field and risks affecting the sustainability of service provision.

Changes in the legal area in 2018 have increased responsibilities for risk analysis. Within the framework of both the Cyber Security Act and the General Data Protection Regulation, we have assessed the risks of information systems and raised awareness of potential threats and risk factors. We prepare risk assessments for the provision of air navigation services and equipment based on requirements.

Project risk assessment is based on project volume (duration, budget, related fields, etc.).

In the area of risk management, we have sensed a lack of ability in aggregating statistical data. Therefore, one of our goals in 2019 is to set up terms of reference for a risk management information system to ensure more effective risk management and statistics in the future and a timely response to realized risks.

BUSINESS RISKS

Due to its nature, the aviation market is directly linked to the economic environment. The record number of passengers in 2018 is proof of a favourable business environment. Although the number of flight operations is expected to fall slightly in 2019, there is still room for the number of passengers to grow further. This situation requires both good planning of resources and efficiency. To mitigate business risks, we have prepared an action plan based on the Company's strategy. We have an investment strategy based on priorities and we manage the risks of business plans through additional guarantees, insurance and contracts.

The 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 revenue.

The business risks arising from development activities were primarily related to large-scale capital expenditure projects requiring on-time completion. These projects were successful in 2018.

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. It is important to have in place recovery plans for critical systems (including testing) and to be constantly prepared for the prevention and elimination of inconsistencies.

PREPAREDNESS FOR CRISIS SITUATIONS

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 fire fighting. Regional airports are also completely ready to react and take actions in case of various crises and emergency situations.

No air accidents or serious incidents occurred at regional airports in 2018. There was one aircraft accident at Tallinn Airport when the Smartlynx aircraft A320 that was conducting a training flight on February 28th made an emergency landing because of technical failure and runway excursion occurred. Due to the accident, the use of the runway was affected: until the aircraft was moved, the shorter part of the runway was used.

The situation was resolved promptly and in compliance with agreed procedures. In such cases it is important to remove the immobile aircraft from the airfield's manoeuvring area safely and quickly, minimizing the runway downtime and financial losses. Since there is only one runway at Tallinn Airport, the time for the recovery of aircraft from the manoeuvring area is particularly critical for us, as is the importance to avoid damaging the aircraft during the process. The latter, in turn, is important for both the carrier and the investigating agencies and organizations. To ensure the operational readiness of Tallinn Airport, we procured the equipment for aircraft recovery.

In 2018, we organised seven training exercises. The biggest field training took place at Kärdla Airport. It was a ground rescue exercise involving the Rescue Board, ambulance service, Police and Border Guard Board and Civil Aviation Administration. Two desk exercises were held at Tallinn Airport, both related to the activities of the crisis group in special and emergency situations. Mandatory evacuation exercises were organised at all airports. In 2019 we plan to conduct 16 exercises, the largest ones in Tartu and Kuressaare.

STAFF RISKS

People-related risks arise from the external environment on the one hand and from the Company's internal environment on the other.

The risks to the external environment are the employers' high demand for new employees due to economic growth and the

competencies of labour market participants. These aspects affect both the success of recruitment and the retention of employees. In 2018, pressure on wage growth remained strong, which in turn increased the share of labour costs.

The Company's internal environment is characterized by a high degree of structuring, the importance of mitigating the risks related to aviation safety, and the certification scope of external competence requirements. In the aviation sector, impact factors include the requirement for background checks and advanced requirements on employees' competence. Risks related to the internal environment are related to 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 man key management positions and staff vacancies.

OCCUPATIONAL SAFETY AND HEALTH

The Company operates an occupational safety and health management system. 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 identify threats, assess risks and investigate incidents based on internal requirements. We regularly evaluate the adequacy and timeliness of occupational safety instructions and organise training sessions on occupational safety. We also check occupational safety and health aspects during management system audits.



3 GOOD HEALTH AND WELL-BEING



In 2018, we instructed employees to use better and safer working methods based on surveys and interviews, installed new safety labels and first aid kits. We also trained new first aid providers. In 2019, we will primarily focus on noticing and raising awareness of the risks associated with the handling of chemicals, ergonomics and physical exercising at work as well as the continuous training of first aid providers.

INFORMATION SECURITY AND DATA PROTECTION

The year 2018 was a landmark year in the area of information security and data protection since the General Data Protection Regulation entered into force and the Directive on Security of Network and Information Systems entered into force in May. In order to ensure compliance with and implement the new legal requirements, we supplemented and updated the documents of Tallinn Airport Ltd and the contracts concluded with the airlines and cooperation partners.

In the autumn, we started to implement our integrated information security and data protection system to ensure that the new information systems to be developed in the Company comply with legal requirements, information security standards and best practices in force. As a contracting authority, we need to be smart in requiring that the manufacturer implements security measures throughout the whole development lifecycle and, once the application is completed, we can evaluate its potential IT risks and test the performance of security measures if necessary.

In order to make all our employees aware of the dangers of cyberspace and to be able to behave adequately in different situations, we launched cyber hygiene training courses on a special e-training platform. We will continue the training in 2019 with the aim of providing all employees of the Tallinn Airport Group with sufficient knowledge and skills.

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.

In 2018, 191 tendering procedures (2017: 135) were held, including 38 procurement procedures (2017: 32) carried out through the Public Procurement Registry, of which 11 (2017: 2) were beyond international boundary, 26 (2017: 22) were in a form of simple procurement procedure, 1 non-negotiated procurements without announcement. Of all the procurements, 3 procurement procedures were terminated without a contract (2017: 3). Of the procurements carried out in the electronic public procurement register, 38 (2017: 28) were e-procedures.



BEST AIRPORT **2018**
UNDER 5 MILLION
PASSENGERS

↑ Saabuv pagas | Väljapääs
Baggage Claim | Exit

← ✈️ Transiit check in
Transfer Check In →

↑ Saabuv pagas
Baggage Claim
Väljapääs
Exit

airBaltic

visit estonia
work estonia
visit estonia
enter e-estonia
visit estonia

RESULTS



FINANCIAL RESULTS OF 2018

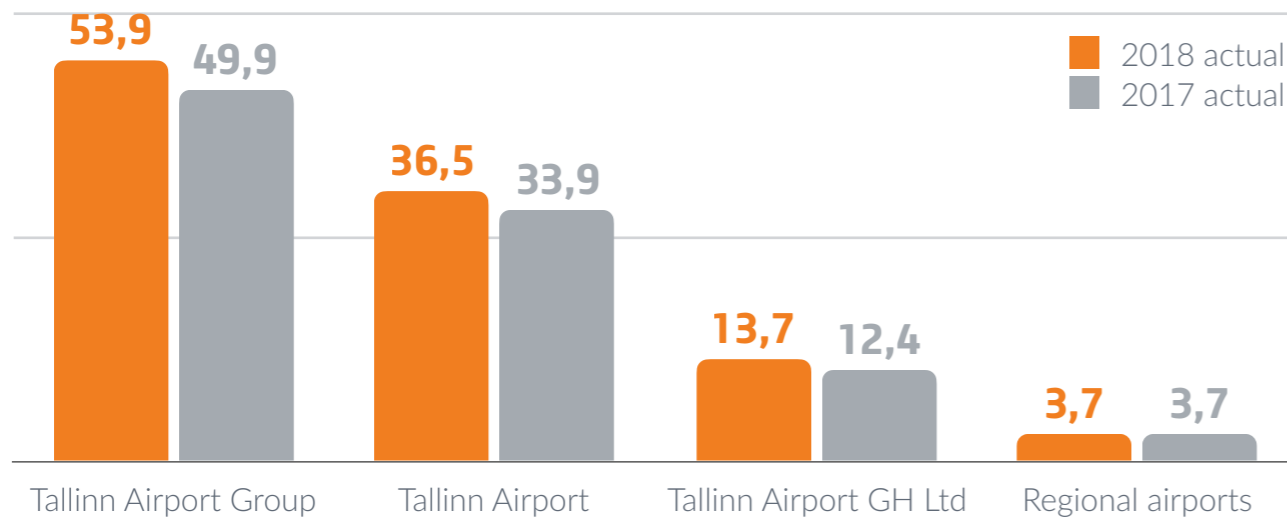
The Group's key sales and financial figures

thousand EUR	2018	2017	Variance
OPERATING INCOME TOTAL	53,868	49,934	8%
Sales revenue	43,801	40,250	9%
incl. aviation revenue	16,152	14,660	10%
incl. non-aviation revenue	27,649	25,590	8%
Other income	10,067	9,684	4%
incl. government grants for assets	3,946	3,789	4%
incl. government grants for security and rescue expenses	4,135	4,135	0%
incl. government grants for regional airports	1,615	1,615	0%
incl. other income	371	145	157%
Operating profit before depreciation (EBITDA)*	15,067	13,921	8%
Net profit	7,482	6,464	16%
Cash flows from main activity	15,450	15,102	2%
Investments	22,695	32,813	-31%

thousand EUR	2018	2017	Variance
TOTAL ASSETS AS AT THE YEAR END	189,736	181,412	5%
Assets as at the year end excluding government grants* (year-end)	128,834	120,752	7%
Equity as at the year end	85,739	78,257	10%
Borrowings as at the year end	33,762	32,259	5%
Equity/assets as at the year end	67%	65%	
Debt/operating profit before depreciation*	2.24	2.32	
OPERATING EXPENSES TOTAL	46,216	43,262	7%
incl. goods, materials and services	14,035	12,614	11%
incl. other operating expenses	1,580	1,283	23%
incl. staff costs	19,031	17,747	7%
incl. other expenses	209	580	-64%
incl. depreciation, amortisation and impairment	11,361	11,038	3%

* does not include government grants for fixed assets

OPERATING INCOME OF THE TALLINN AIRPORT GROUP 2017-2018, EUR MILLION



EBITDA 2017-2018, EUR MILLION



Revenue

TALLINN AIRPORT GROUP

In 2018, sales revenue of the Tallinn Airport Group increased by 9%, operating profit before depreciation (EBITDA) by 8.2% and net profit by 15.8%.

Total revenue of the Tallinn Airport Group amounted to EUR 53.9 million (2017: EUR 49.9 million), which increased by EUR 3.9 million (7.6%) compared to previous year. Sales revenue made 81% of total revenue and other income made 19% (2017: 81% and 19% respectively).

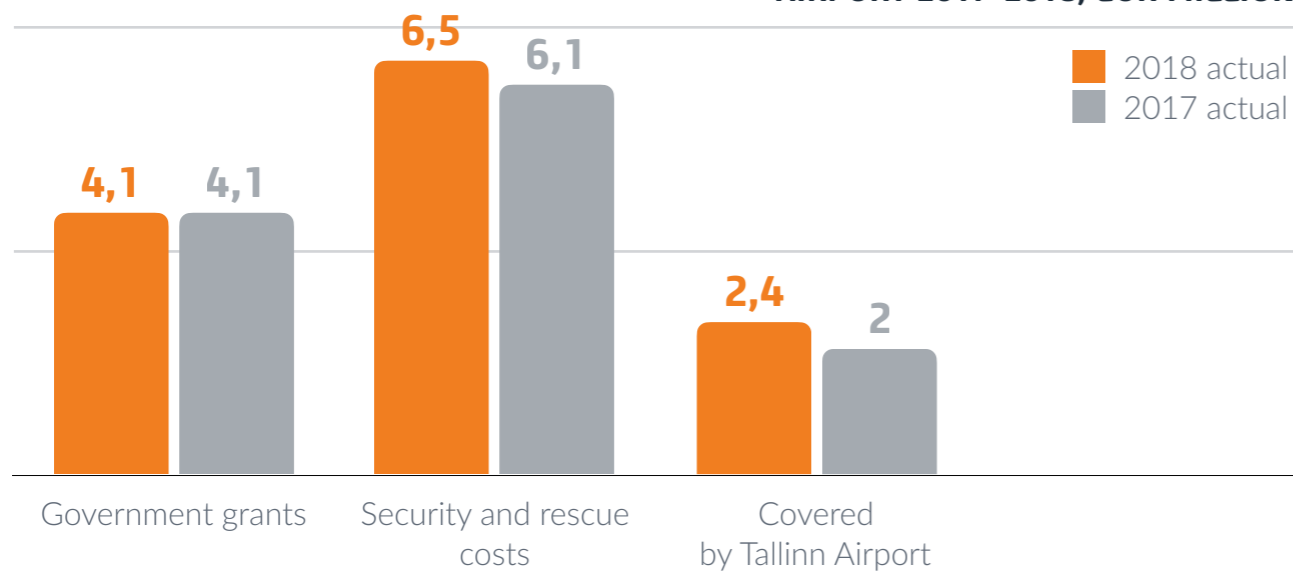
In 2018, sales revenue of the Tallinn Airport Group amounted to EUR 43.8 million (2017: EUR 40.3 million), which increased by 9% compared to previous year. Sales revenue mainly increased due to the higher number of passengers and flight operations in the Tallinn Airport, which caused an increase in both sales revenue of the Tallinn Airport and sales revenue from ground handling services.

EBITDA of the Tallinn Airport Group amounted to EUR 15.1 million, which is EUR 1.1 million (8.2%) higher than in 2017.

TALLINN AIRPORT

Sales revenue of Tallinn Airport increased by 8.3% in 2018, EBITDA by 6.4% and net profit by 9.8%. Total income of Tallinn Airport amounted to EUR 36.5 million (2017: EUR 33.9 million), which is EUR 2.6 million (7.8%) higher than in 2017 year. Total income for the period comprised from sales revenue in amount of EUR 29.4 million (2017: EUR 27.2 million) and other income in amount of EUR 7.1 million (2017: EUR 6.7 million). Out of total sales revenue aviation revenue amounted to EUR 15.5 million (2017: EUR 14 million) and non-aviation revenue amounted to EUR 13.9 million (2017: EUR 13.2 million). Sales revenue increased

SECURITY AND RESCUE COSTS OF TALLINN AIRPORT 2017-2018, EUR MILLION



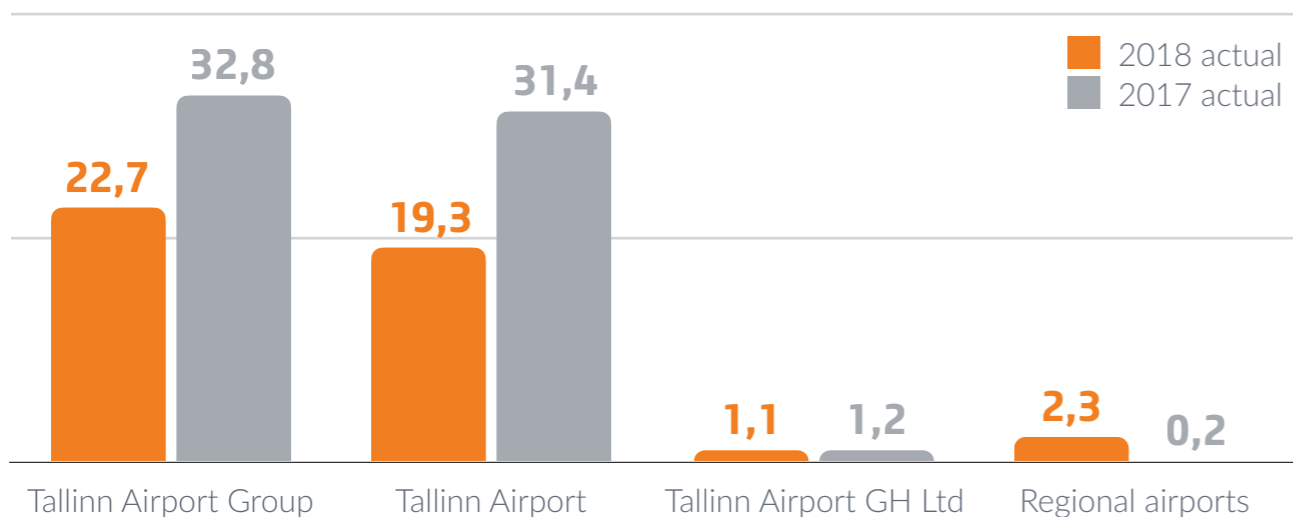
due to the higher number of passengers and flight operations. EBITDA of Tallinn Airport amounted to EUR 13.6 million (2017: EUR 12.8 million) and net profit amounted to EUR 6.7 million (2017: EUR 6.1 million).

The government grants to cover security and rescue costs remained at the same level compared to prior year (EUR 4.1 million both in 2018 and 2017). Meanwhile, the corresponding expenses of Tallinn Airport increased by EUR 0.4 million, i.e. 6%. In 2018, security and rescue costs amounted to EUR 6.5 million (EUR 6.1 million). Thus, while in 2017 Tallinn Airport covered out of his own funds security and rescue costs in amount of EUR 2 million, in 2018 that amount was EUR 2.4 million.

REGIONAL AIRPORTS

Sales revenue of regional airports decreased by 7.1% in 2018, negative EBITDA decreased by 21.1% and net loss decreased by 21.4%. Total income of regional airports amounted to EUR 3.7 million (2017: EUR 3.7 million), out of which sales revenue was in amount of EUR 0.7 million and other income was in amount of EUR 2.9 million. EBITDA of regional airports amounted to EUR 0.2 million (2017: EUR -0.2 million) and net loss amounted to EUR 0.4 million (2017: EUR 0.5 million). Net loss increased due to lower fixed assets depreciation expense, which was EUR 0.1 million lower this year.

INVESTMENTS OF THE TALLINN AIRPORT GROUP 2017-2018, EUR MILLION



TALLINN AIRPORT GH LTD

Sales revenue of Tallinn Airport GH Ltd increased by 11% in 2018, EBITDA by 13.9% and net profit by 23.7%. Total income of Tallinn Airport Ltd amounted to EUR 13.7 million (2017: EUR 12.4 million), which is EUR 1.3 million (11%) higher than in 2017. EBITDA of Tallinn Airport GH Ltd amounted to EUR 1.6 million (2017: EUR 1.4 million) and net profit amounted to EUR 1.2 million (2017: EUR 1.0 million).

INVESTMENTS

In 2018, the Tallinn Airport Group invested EUR 22.7 million, including EUR 19.3 million invested by Tallinn Airport, EUR 2.3 million by regional airports and EUR 1.1 million by Tallinn Airport GH Ltd. Compared to 2017 total amount of investments decreased by 31%. The Tallinn Airport Group has planned to invest EUR 127.4 million during the period 2016-2022. In 2016-2018 the Tallinn Airport Group invested EUR 81.1 million, which is 63.7% of total budgeted investments.

MAJOR INVESTMENTS IN 2018

Construction of the parking house at Tallinn Airport

- The aim was to improve the passenger experience with the parking service
- Added 1,200 parking spaces
- Investment amounted to EUR 14.1 million (incl. equipment), out of which EUR 13.7 million was invested in 2018

Expansion of the Tallinn Airport airside area to the east and south

- The aim was to increase the level of flight safety at Tallinn Airport and to enhance environmentally friendly and efficient operation
- The project was started in 2016; during the period 2016-2017 the Tallinn Airport Group invested EUR 31.9 million; continued in 2018 with preparatory work for the second phase
- Investment amounted to EUR 2.3 million



- Government grants from the Cohesion Fund for the project amounted to EUR 2.9 million in 2018 (EUR 8.5 million in 2017 and EUR 6.7 million in 2016)

Reconstruction of the Kärdla airport runway and apron

- The objective was to increase the flight safety level of the runway and apron and to create opportunities for implementing approach procedures of the global navigation satellite system (GNSS)
- Investment amounted to EUR 1.5 million
- Government grant for the project amounted to EUR 1 million

Reconstruction of Pärnu airport in 2018–2020

- The objective is to enable 70-seat aircraft to land at Pärnu Airport to serve charter flights of the local tourist sector
- In 2018 preparations were made for reconstruction
- Investment amounted to EUR 0.5 million
- Government grant for the project is in total amount of EUR 20 million, which was partly received in 2018 in amount of EUR 2.7 million and will be received in 2019 in amount of EUR 17.3

FINANCING

Tallinn Airport has borrowed money from European Investment Bank, Nordic Investment Bank and regional banks. In 2016, in order to finance the expansion of the Tallinn Airport airside area and the construction of the parking house, the Tallinn Airport Group has signed two loan agreements with European Investment Bank (EIB) for the borrowings in total amount of EUR 30 million and Nordic Investment Bank (NIB) for the borrowings in total amount of EUR 24 million. In 2017, the Group received EUR 10 million from each bank. In 2018, EUR 10 million was received from EIB. The Group plans to receive EUR 14 million from NIB in 2019 and EUR 10 million from EIB in 2020. The balance of these loans as at 31.12.2018 amounted to EUR 20 million (EIB) and EUR 10 million (NIB).

As at the end of 2018, the Group's borrowings amounted to EUR 33.7 million (2017: EUR 32.2 million), including loan from Pohjola Bank in amount of EUR 3.8 million, loan from NIB in amount of EUR 10 million and loan from EIB in amount of EUR 20 million. Pohjola bank bonds in amount of EUR 7.5 million, which were used to finance the acquisition of the investment property, were redeemed in 2018 under agreed terms. In 2018, the Group received borrowings in amount of EUR 10 million and repaid borrowings in amount of EUR 8.5 million. The Group's borrowings increased by EUR 1.5 million (4.7%) compared to 2017.

CASH FLOW

As at the beginning of 2018, the balance of the Tallinn Airport Group's cash and cash equivalents amounted to EUR 14.1 million. Cash flows from operating activity amounted to EUR 15.5 million (2017: EUR 15.1 million), which was EUR 0.2 million higher than EBITDA due to changes in the working capital. Cash flows out of investing activities amounted to EUR -17.8 million (2017: EUR -25.1 million), and cash flows from financing activities amounted to EUR 1.5 million (2017: EUR 15.4 million). As at the end of 2018, the balance of the Group's cash and cash equivalents amounted to EUR 13.3 million, which means decrease in liquid assets by EUR 0.9 million or 6%.

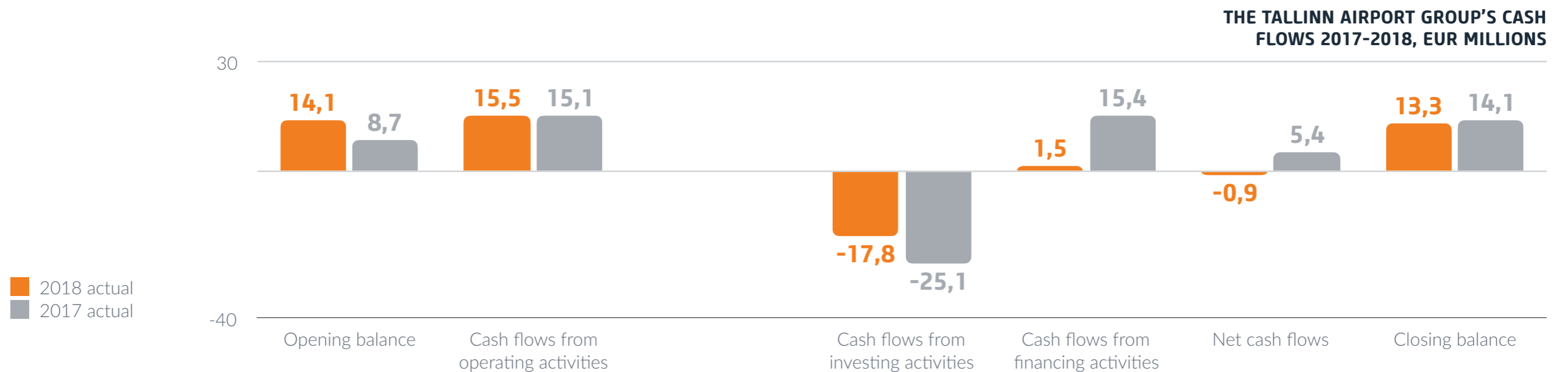
FINANCIAL RATIOS LIMITS

Tallinn Airport Ltd is obliged not to exceed financial ratios limits stipulated in the loan contracts. As at the end of 2018, financial ratios were within the limits.

EQUITY

As at 31.12.2018 the Group's equity amounted to EUR 85.7 million. Equity increased by amount of 2018 net profit. The share of equity and liabilities in liabilities has changed so that the share of liabilities has decreased to 55% (2017: 57%) and the share of equity has increased to 45% (2017: 43%).

100% of shares of Tallinn Airport Ltd belong to the Republic of Estonia. Owing to the proportion of the Company's revenue and volume of investments, the owner has decided to reinvest the entire net profit in the Company on an ongoing basis.





OPERATIONS

TALLINN AIRPORT GROUP'S OPERATIONS

Air traffic

In 2018, both Estonia and Europe were characterised by a positive economic environment continuing to lead an extraordinary growth trend in aviation. On the one hand, favourable fares are due to moderate oil prices and, on the other hand, to increased competition from airlines. The favourable economic environment supported demand throughout the year as a result of which Tallinn Airport again achieved its best result ever: as compared to the year before, the total number of passengers increased by 13.6%, i.e. to 3,007,644 passengers. In Europe, the total number of passengers increased by 6.1% on average (ACI Europe, 2018. January-December data). The double-digit growth for the second year in a row in the number of passengers travelling at Tallinn Airport, both on regular flights and in the charter segment, can be considered an extraordinary achievement.



MAP OF ROUTE NETWORK, SUMMER 2018

TALLINN AIRPORT

The number of passengers passing through Tallinn Airport was 360 thousand more than the year before. In a year, 10% more seats and 13% more passengers were added to scheduled flights which demonstrates a good balance between demand and supply. The average passenger load factor was 70.5% (2017: 69%). For the first time, the occupancy rate exceeded 70% and almost all airlines increased the number of passengers.

The largest carriers in terms of the market share were Nordica, which served 23% of all passengers, and Air Baltic, which served 15% of passengers; both remained at the 2017 level. They were followed by SmartLynx, Ryanair, Finnair and Lufthansa, each with a market share of 9%. These six carriers served a total of about three quarters of the entire market, but a total of 16 airlines operated scheduled flights (the same as in 2017). In June 2018 Wizzair, a new low-cost airline, was added to the list of carriers. The biggest leap in development was made by Norwegian that added flights to Oslo route and starting flights to Stockholm, increasing its number of passengers by 58% in a year.

The number of charter flight passengers increased by 20% (2017: 31%) in a year, propelled by the stabilised security conditions in Turkish and Egyptian holiday regions. In addition to these countries, charter planes flew primarily to Greek, Bulgarian and Spanish holiday destinations. The largest carrier of charter travel was SmartLynx Estonia, which increased the number

NUMBER OF PASSENGERS IN TALLINN AIRPORT (2014-2018)

Passengers	2018	2017	2016	2015	2014
TOTAL NUMBER OF PASSENGERS	3,007,644	2,648,361	2,221,615	2,166,820	2,017,371
incl. domestic flights	28,709	25,255	18,079	20,271	17,441
incl. international flights	2,645,716	2,345,240	2,203,536	2,146,549	1,756,904
incl. connecting flights	50,392	43,945	25,678	55,960	47,034
incl. turnarounds	0	0	0	9,369	14,161

FLIGHT OPERATIONS IN TALLINN AIRPORT 2014-2018

Flight operations	2018	2017	2016	2015	2014
TOTAL	48,568	45,325	40,938	41,513	37,791
Incl. passenger flights	39,892	36,856	32,230	32,058	28,936
Incl. cargo	1,597	1,662	1,810	1,803	1,817
Incl. non-commercial flights	7,079	6,807	6,898	7,652	7,038

of passengers to 21% in a year and handled 80% of charter flight passengers, becoming the third largest carrier in Tallinn by the market share of all passengers served. Of the total number of airport passengers, charter flight passengers made up 12% (2017: 11%).

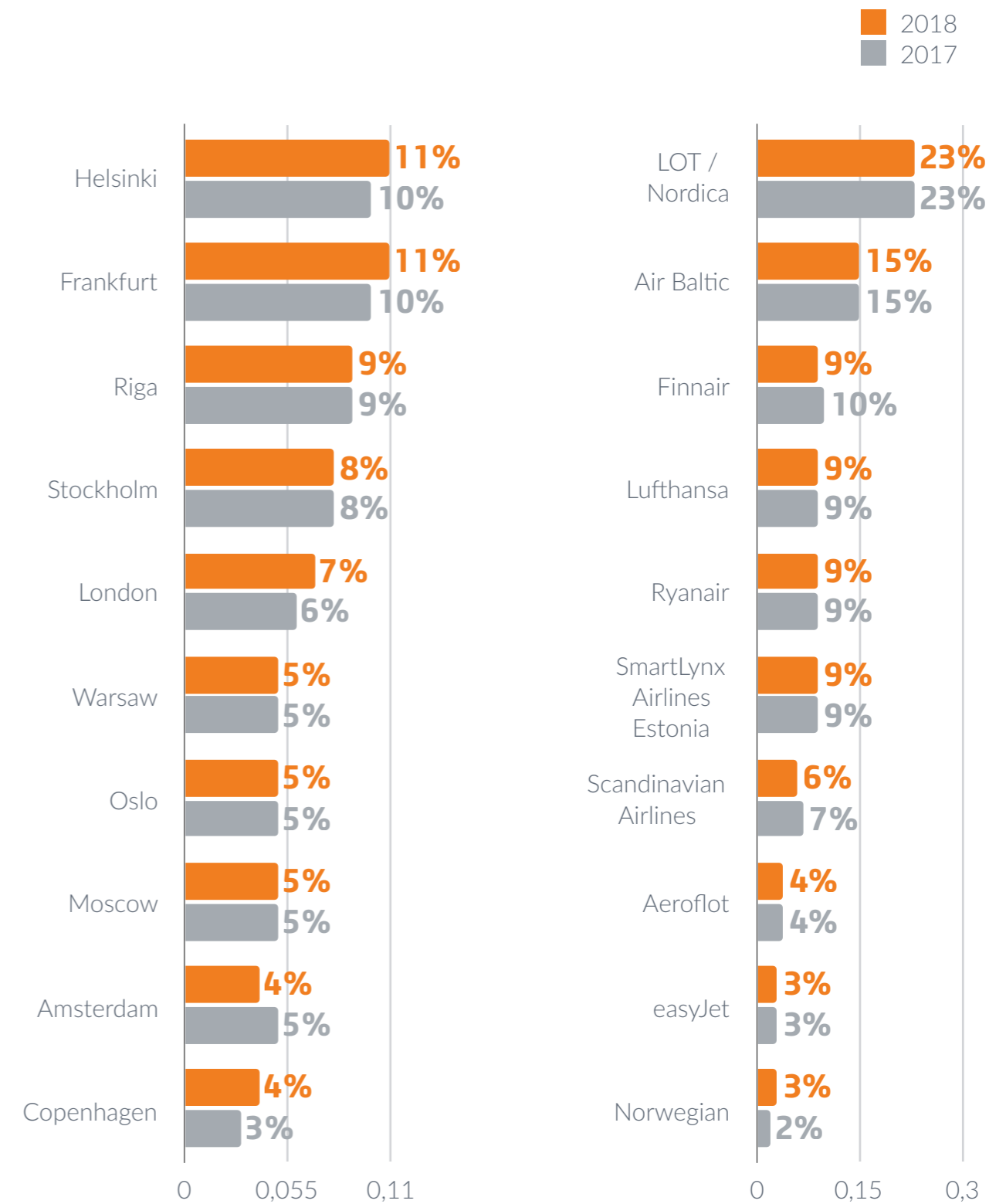
Tallinn Airport expects a further modest increase in passenger numbers in 2019, as new connections through adding connections to existing destinations (Warsaw, Brussels and Copenhagen) and adding Malaga as a new destination.

The number of passengers on scheduled flights made up 88% (2017: 89%) of the total number of passengers. The top three regular route airlines have been the same over the last six years: Helsinki, Frankfurt and Riga . Throughout the year, there were 27 routes (2017: 25 routes), including new routes to Paphos, Malta and Edinburgh. Together with seasonal destinations, there were 41 routes in the flight schedule while 25 and 36 routes were available in 2017.

Ryanair opened new routes to Malta, Paphos and Edinburg and added new seasonal routes to Constanta and Ohrid where Nordica flew. New connections were added to the existing destinations London, Kiev, Copenhagen, Oslo and Stockholm.

The bulk (77%) of the cargo volumes handled was made up of express services (2017: 68%). Cargo volumes carried on non-scheduled cargo flights have decreased since the end of 2014 and made up 9% of all the cargo carried last year (2017: 18%).

MARKET SHARES OF ROUTES AND AIRLINES IN TALLINN AIRPORT, 2017–2018



**CARGO (INCL. POST)
IN TALLINN AIRPORT 2014-2018,
TONNES**

Cargo	2018	2017	2016	2015	2014
TOTAL	11,518	11,345	13,940	16,156	19,860
Incl. post	2,535	2,096	1,886	1,762	1,782
Incl. air cargo	8,984	9,249	12,054	14,394	18,078

**NUMBER OF PASSENGERS
IN REGIONAL AIRPORTS
2014-2018**

Passengers	2018	2017	2016	2015	2014
Tartu	26,092	30,292	29,594	21,117	14,493
Kuressaare	23,166	19,231	13,289	14,458	13,665
Kärdla	9,943	9,170	7,547	8,029	7,750
Pärnu	920	856	1,196	2,067	2,752
Ruhnu	1,345	1,329	1,415	1,239	1,299
Kihnu	41	0	319	1,188	1,968

REGIONAL AIRPORTS

Tallinn Airport Ltd is tasked with ensuring the safe operation of Kärdla, Kuressaare, Tartu and Pärnu Airports as well as the Kihnu and Ruhnu Airfields to enable to continue the provision of a regular service and, whenever required, the handling of other flights. Regional airports are operated to support the development of the economic environment in various regions in Estonia within the scope of grants received from the State and additionally also using the own funds of the Company.

In 2018, Tallinn Airport Ltd provided the regional airfields with operational and air navigation services that covered regular flights, emergency medical flights, environmental monitoring flights, training flights, flights for national defence purposes and other flights.

The number of regional airport operations depends largely on the regional policy. Compared to other airports, this number is considerably higher at Tartu Airport because of the training flights of the Estonian Aviation Academy.

The decrease in the number of flight operations at Kärdla Airport was partly due to the renovation of the airside area: between 23 July and 28 September, the airport was only open for regular and extraordinary medical flights and between 17 and 31 August the airport was



closed for all flights. A large proportion of the decline in the number of scheduled flights was also attributable to cancelled or delayed flights due to bad weather.

**NUMBER OF FLIGHT OPERATIONS
IN REGIONAL AIRPORTS
2014–2018**

Flight operations	2018	2017	2016	2015	2014
Tartu	4,788	5,074	4,727	5,052	5,173
Kuressaare	2,813	2,222	1,883	2,148	2,342
Kärdla	1,354	1,528	1,233	1,460	1,305
Pärnu	626	1,066	1,017	1,326	914
Ruhnu	470	487	518	470	490
Kihnu	48	74	198	400	538



FOR MORE INFORMATION ON REGIONAL AIRPORTS, SEE THE FOLLOWING CHAPTERS:

- AVIATION SAFETY
- AIR NAVIGATION SERVICES
- INCIDENTS RELATED TO BIRDS AND ANIMALS
- OVERVIEW OF THE ENVIRONMENT
- INFRASTRUCTURE DEVELOPMENT

TARTU AIRPORT

In 2018, there were 4,788 (2017: 5,074) aviation operations at Tartu airport and services were provided to 26,092 (2017: 30,292) passengers. This airport is the only regional airport in Estonia that has an international regular line. Number of passengers decreased in 2018 due to less frequent scheduled flights. The most significant impact on airport operations was the change in the flight schedule from 28 April: a night flight with an aircraft staying overnight was added at Tartu airport. This required significant changes in the work schedule and recruiting more staff.

In 2018, we reconstructed the perimeter of the airport, rebuilt the security area of the terminal and introduced a more modern, dual-view scanning device for hand luggage. During the large-scale military exercise Hedgehog, Tartu airport hosted the soldiers and helicopters of the United Kingdom Army.

PÄRNU AIRPORT

In 2018, there were 626 (2017: 1,066) aviation operations at Pärnu airport and services were provided to 920 (2017: 856) passengers, 794 of whom were on scheduled flights to Ruhnu. The number of passengers still depends on weather conditions. The large decrease in the number of flight operations was due to the cancellation of the international parachute camp organised by the Estonian Parachute Club in connection with the airport's reconstruction plans.

Scheduled flights on Ruhnu-Kuressaare line took place at Pärnu airport from 1 October to 30 April.

In autumn, Pärnu airport was used for shooting the movie "Firebird" that had been planned for about two years. The site had been selected due to the old airplane hangar with original doors.



MIG21, a Russian fighter aircraft from the Estonian Aviation Museum which was used for shooting the movie "Firebird" at Pärnu airfield.
Photo: Erki Teemägi

Preparations for the reconstruction of the airside area were started in winter 2018 and the work is planned to be concluded in 2020.

KIHNU AIRFIELD

In 2018, Kihnu airfield had 48 (2017: 74) aviation operation and services were provided to 41 (2017: 0) passengers.

It was planned to set up a helicopter landing site for first aid flights on the island of Kihnu, but the plan was abandoned because the price of construction bids was twice as high as expected. The plan is in force, but it is managed by Kihnu municipality instead of the Health Board, and the work will be continued in 2019.

KURESSAARE AIRPORT

In 2018, Kuressaare airfield had 2,813 (2017: 2,222) aviation operations and services were provided to 23,166 (2017: 19,231) passengers, which is the second best result over the last 20 years.

Kuressaare airport serves two routes: Kuressaare-Tallinn 12 times a week and Pärnu-Ruhnu-Kuressaare four times a week from 1 October to 30 April. In addition, charter flights are provided from the airport.

From 12 to 20 July an international parachuting camp Parasummer organised by the Estonian Parachuting Club was held, with participants using the Kuressaare airport.

In 2018, airfield safety was also increased at Kuressaare airport. A magnet for cleaning the runway from foreign object debris (FOD) and gas cannons for bird repelling were purchased.

RUHNU AIRFIELD

In 2018, Ruhnu airfield had 470 (2017: 487) aviation operations and services were provided to 1,345 (2017: 1,329) passengers.

KÄRDLA AIRPORT

In 2018, there were 1,354 (2017: 1,528) aviation operations at Kärdla airport and services were provided to 9,943 (2017: 9,170) passengers. The majority of them (i.e. 96.6% of the total number of airline passengers) were made up of customers of a carrier providing scheduled flights (Transaviabaltika). The growth in number of passengers is related to the stable operations of the carrier Transaviabaltika providing scheduled flights.

We renovated the airside area of Kärdla Airport by building covering the runway, taxiways and aprons with new asphalt surface and supplementing the runway lightning system.

We would also like to reduce the disruptive impact of weather conditions on scheduled flights. Therefore, in cooperation with Estonian Air Navigation Services Ltd and the Estonian Aviation Academy, we developed the instrument approach procedures of the Global Navigation Satellite System (GNSS) that we will implement in 2019. They allow the aircraft to land in the event of fog, low clouds, or other unfavourable weather conditions that interfere with vertical visibility, creating less disturbance than previously.



Airfield operation

CERTIFICATES

Tallinn Airport Ltd has a valid Company-based certificate for providing air navigation services and is certified according to the ISO 9001:2015 and ISO 14001:2015 international standards.

The management system encompasses all of our activities, the scope of certification includes:

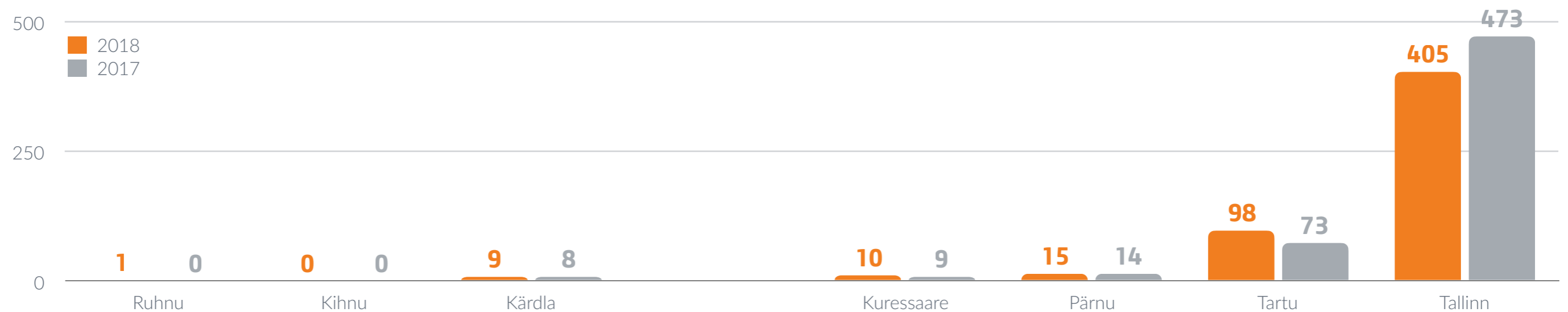
- operation of airfields;
- provision of air navigation services;
- ground handling of aircraft and passengers;
- aviation safety and security activities.

All airfields have valid aerodrome certificates.

AVIATION SAFETY

The main goals of all activities of Tallinn Airport Ltd is to ensure safety, regular and uninterrupted air operations at all airports and airfields and customer service at all times and in all weather conditions, in compliance with the international safety requirements and standards. Our community includes an inclusive, open and transparent safety culture for all employees and members of the community, and a well-functioning safety management system that ensures the prompt transmission of safety information and aims to prevent and avoid accidents and to protect people, property and the environment. The safety management system is supportive of informing all cases of work affecting aviation safety in order to investigate the event and ensure that it does not recur. In 2018, a total of 538 notifications were registered on all airfields.

**NUMBER OF REGISTERED NOTIFICATIONS
2017-2018**



We promote and continue to raise safety awareness through newsletters that we issue at least once a quarter in Tallinn Airport and twice a year in regional airports.

In 2018, we implemented various measures to improve air safety at Tallinn airport

- Beginning with the winter season of 2018, we have introduced a separate de-icing stand where de-icing procedures can be done in poor weather conditions. During the project, we developed a special management system and procedures for the use of the de-icing area.
- We introduced an e-learning video on the recurrent training of drivers of motor vehicles to provide customers with more flexible training opportunities.
- We deployed localizer performance with vertical guidance (LPV) procedures of the global navigation satellite system (GNSS) for aircraft that are environmentally friendly and alternative solutions.
- We introduced a website that provides airport users with current information about restrictions in using airport infrastructure.
- We deployed a web application for controlling gas cannons used for bird repelling that allows remote control of cannons from tablet PCs.

AIR NAVIGATION SERVICES

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

- flight information services are provided in Kärdla, Kuressaare and Pärnu airports,
- communication and navigation services are provided in Tallinn, Kärdla, Kuressaare and Pärnu airports,
- meteorological services are provided in Tallinn, Tartu, Kärdla, Kuressaare and Pärnu airports.

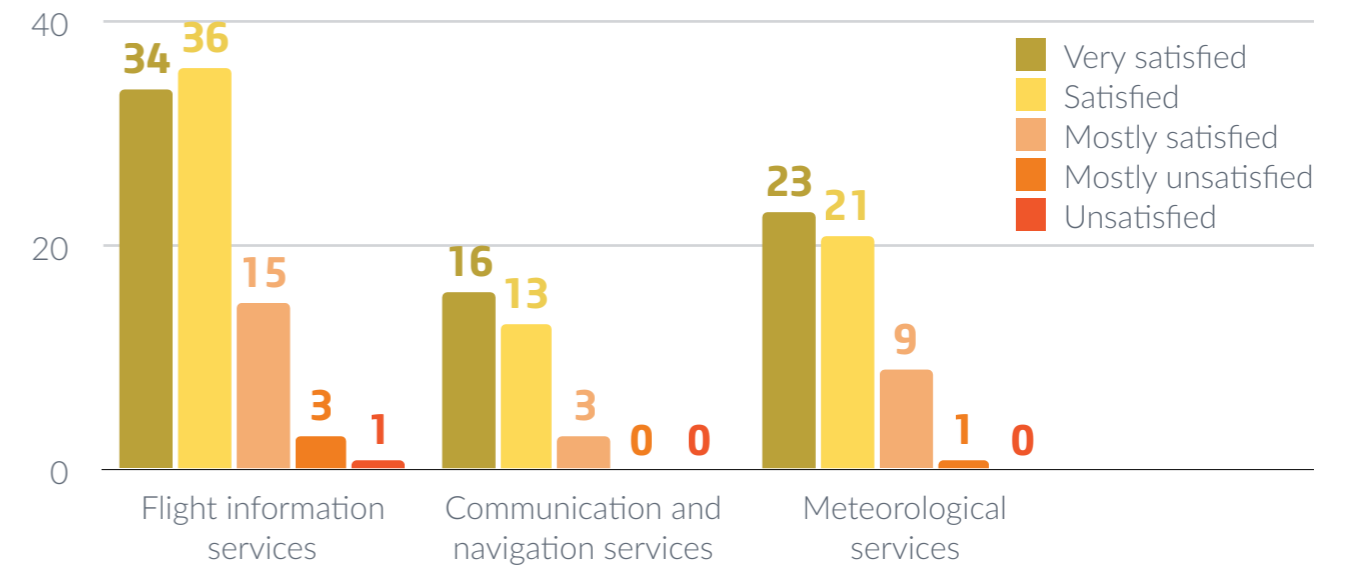
INCIDENTS RELATED TO NAVIGATION SERVICES IN TALLINN AIRPORT LTD IN 2018

Airport	Flight information services	Communication and navigation services	Meteorological services
Tallinn	Not provided	4	0
Tartu	Not provided	Not provided	0
Kärdla	1	0	0
Kuressaare	1	0	0
Pärnu	2	1	4

Failures in providing meteorological services at Pärnu airport resulted from depreciation of equipment (spare parts were not available). We plan to purchase new equipment during the reconstruction project.

In December 2018, we asked air navigation service users to assess air navigation services at all airports. The results of the satisfaction survey were good – the users were satisfied with the services we provide.

CUSTOMER SATISFACTION WITH AIR NAVIGATION SERVICES AT ALL AIRPORTS OF TALLINN AIRPORT LTD IN 2018



INCIDENTS RELATED TO BIRDS AND ANIMALS

Birds and animals may cause extensive damage to aircraft. In 2018, the 86 incidents related to birds and animals were registered in all airfields (2017: 107), from which 78 took place in Tallinn Airport (2017: 95).

The Company uses gas cannons, audio-visual and pyrotechnical measures to scare off birds and animals. Additionally, Tallinn airfield employs a professional ornithologist to evaluate and monitor the ornithological situation.

INCIDENTS RELATED TO BIRDS AND ANIMALS IN TALLINN AIRPORT LTD 2017–2018



AVIATION SECURITY IN TALLINN AIRPORT

For aviation security, the year 2018 began with many bomb threats, but fortunately, they were not real explosive devices or threats to use them. Instead, aviation security was alerted by travellers who thought they were joking during the check-in and claimed they had explosives in their luggage. In such cases, there are certain communication and action plans in place, one of which is informing the police who always responds in such situations.

In 2018, security checks were performed for 1.4 million departing passengers and the contents of 3 million passenger boxes were analysed. Due to the improperly packaged liquids, 223,713 items of luggage, i.e. an average of 39% of the number of additionally checked items, were subjected to additional checks.



In 2018, the European Commission inspected the implementation of aviation security measures at Tallinn Airport and examined the compliance of the measures with the common EU requirements. Feedback on our activities was very good - no serious shortcomings were identified.

A major challenge was also to keep the waiting time in the pre-flight security control area as short as possible in spite of growing passenger numbers. Staff shortages did not allow us to always achieve our targets, but in general we managed well. Comments made about our services will be helpful when planning the year 2019 and we will look for measures to help reduce staff shortages and better meet our targets.

To raise aviation security awareness, 108 training events were conducted in 2018 (2017: 116), attended by 1,301 employees involved in aviation (2017: 1,414).

One of the main objectives of the area of aviation security is to detect prohibited items/substances in the luggage of passengers. In 2018, a total of 11,138 items included in the list of prohibited items/substances were detected by security screenings at Tallinn Airport (2017: 13,843 items).

The largest investment in 2018 was the acquisition of an explosive detection system (EDS) for checked luggage.





ESTONIAN
GOODS

EESTI TÖÖD JA KÄSITÖD



Non-aviation

We just help to fly!



GROUND HANDLING OF AIRCRAFT AND PASSENGERS - TALLINN AIRPORT GH LTD

Tallinn Airport GH Ltd launched its operations organising the ground services for passengers and aircraft at Tallinn Airport. The founder of the company and owner of its shares is Tallinn Airport Ltd. The key activities are provision of ground aviation-related services to legal and physical persons using the airport, renting of means of transport and special equipment, cashier services, intermediation services as well as preparation and sale of documents for passenger and freight transport. Our image is to be a flexible, innovative, friendly and caring service organisation providing high-quality services.

Tallinn Airport GH Ltd is certified according to the ISO 9001:2015 and ISO 14001:2015 international standards. The company has in place a safety management system.

SERVICES

The services targeted at passengers

include a flight check-in, submitting of final flight data to the carrier, boarding services, parcel delivery services, solving of irregularities related to luggage transportation and search for lost luggage, transport services for passengers and aircraft teams, intermediation of services (catering services on board).

Apron services

include aircraft positioning, towing and chaperoning, their supply with the ground power supply and drinking and technical water, aircraft toilet services, cabin heating, loading of cargo and mail, cargo inspection, de-icing of aircraft.

The intermediary services

include tanking of aircraft, ground transportation and accommodation of the crew and passenger, VIP service, facilitation of the check-in system AMADEUS Altea in Europe, sale of international training services and cleaning of aircraft cabins.

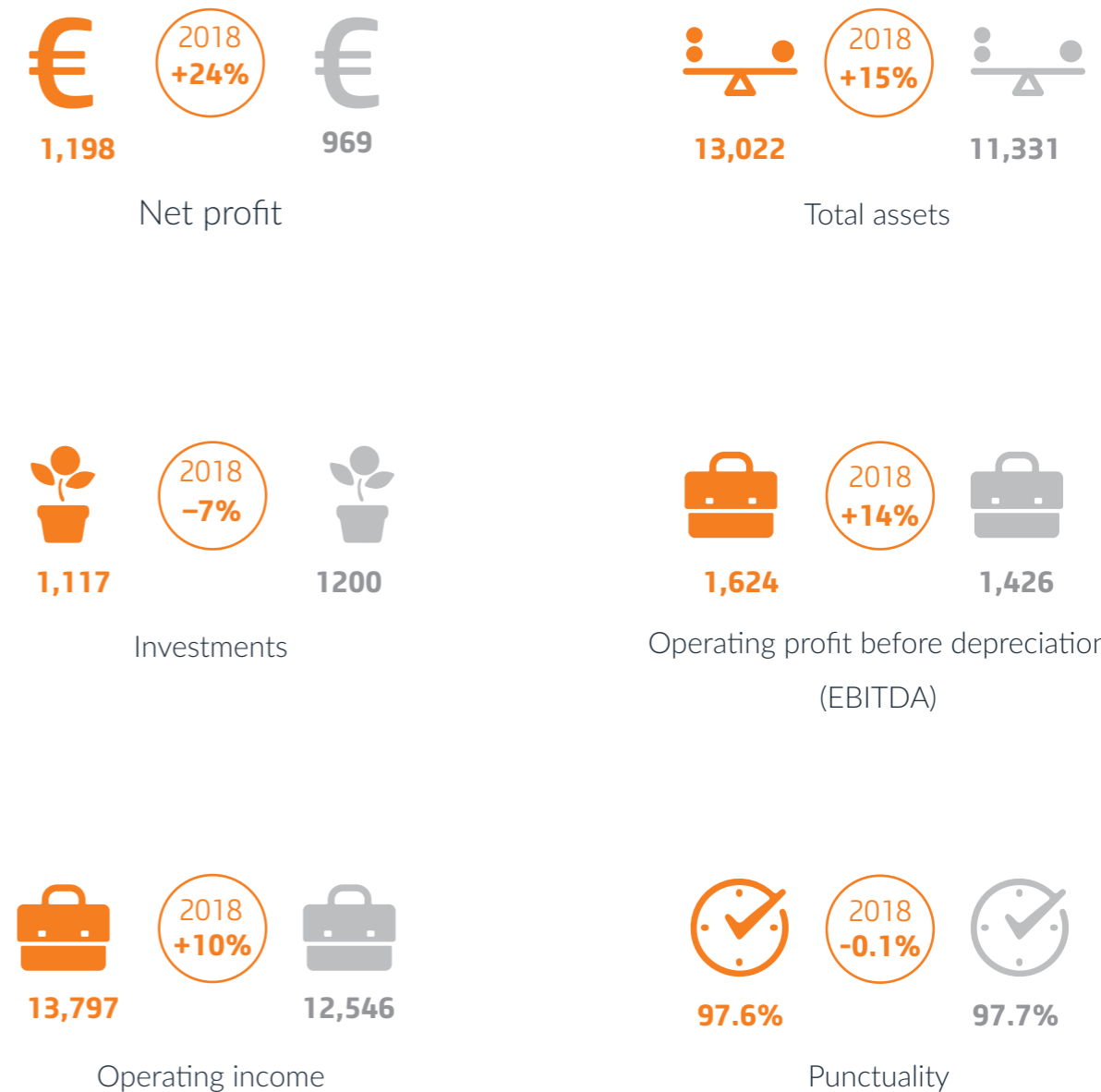
In all of our activities, we adhere to the following principles:

- operate only under the principles of honest competition;
- stable and smooth marketing policy;
- competent customer service;
- services provided have a good price and quality relationship;
- cost-conscious operation with the goal of lowering the cost price of products through efficient working processes and information technology solutions.

In 2018, the Company's objective was to ensure the timely delivery of services to all airlines at a minimum rate of 97.5%. The Company's actual annual average rate was 97.6% (2017: 97.7%).

KEY SALES AND FINANCIAL FIGURES OF TALLINN AIRPORT GH LTD (STAND-ALONE)

thousand EUR



QUALITY OBJECTIVES

The strategic quality objective of Tallinn Airport GH Ltd for the years 2017-2021 is to grow into a company with the best high-quality ground services in Northern Europe, ensure the 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.

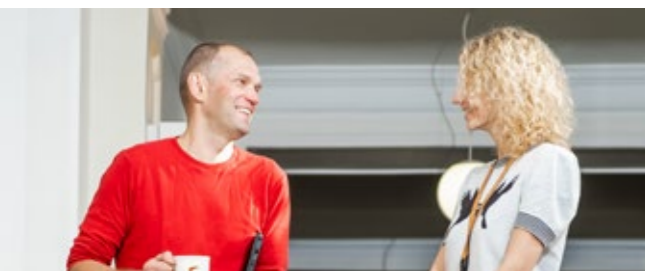
To achieve this goal, we constantly improve our quality management system by complying with the requirements of the Safety Audit for Ground Operation (ISAGO) standard developed by the International Air Transport Association (IATA) and by regularly analyzing customer feedback in developing the Company's service standards to better meet customer expectations. We also conduct internal trainings, where we analyse the target levels of the Company's performance indicators, possible impacts of these indicators and measures to reduce negative impacts.

Tallinn Airport GH Ltd monitors the compliance of its operations and service by regular compliance monitoring (internal and external inspections). The purpose of internal inspections is to self-assess the compliance of the service with the requirements, the scope and volume of which has been approved by the Management Board. The Company is audited on average 12 times a year by our customers, authorities regulating aviation and the institutions involved in certification. The objective of all audits is ongoing improvement of our processes.

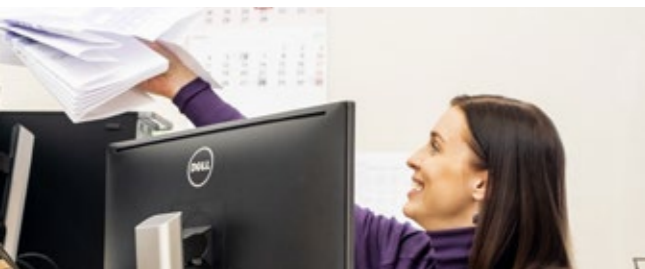
The Company's risk management is part of the management system and all activities related to the Company's key process are subject to risk management and a risk-based approach. The objectives related to the security of the Company's key process (safety, security) is divided into various categories based on risk management principles in order to give a better and clearer overview of the target levels set for the attainment of objectives related to the main process.



Tallinn Airport GH Ltd key events in 2018



In January, we signed a co-operation agreement with Flight Consulting Group (FCG), the largest flight support provider for general aviation flights in Eastern Europe.



At the beginning of January, the Company introduced a new system of basic salary levels, rates and competences that streamlines remuneration principles, and simplifies payroll and administrative burdens for managers.

Airlines' feedback on our business was very good in 2018. Our focus was on providing quality services which, for instance, has made airBaltic and LOT

one of the most punctual airlines in departures in Europe and has helped Lufthansa, Finnair and Turkish Airlines to become the leading airlines in the world.

In April, we started offering night services to Finnair flights in Tartu.

The spring-summer flight schedule added many new destinations and flights, and made the Company's work schedules even tighter. We signed an agreement with the Estonian Aviation Academy, which helped us to select candidates working on a flexible schedule in the ground service in the summer.

Changes were made to the Management Board: two members were added. There are now three members in the Management Board.

We have developed a new package price list for Executive Aviation flights.



Anna meile tagasiside!
Leave us feedback!

Passenger's experience in Tallinn Airport

It is important to us that the passenger experience at Tallinn Airport would be positively surprising. In our choices, we take into account travellers' expectations, and we value Estonia's uniqueness and European unity.

Tallinn Airport Passenger Survey

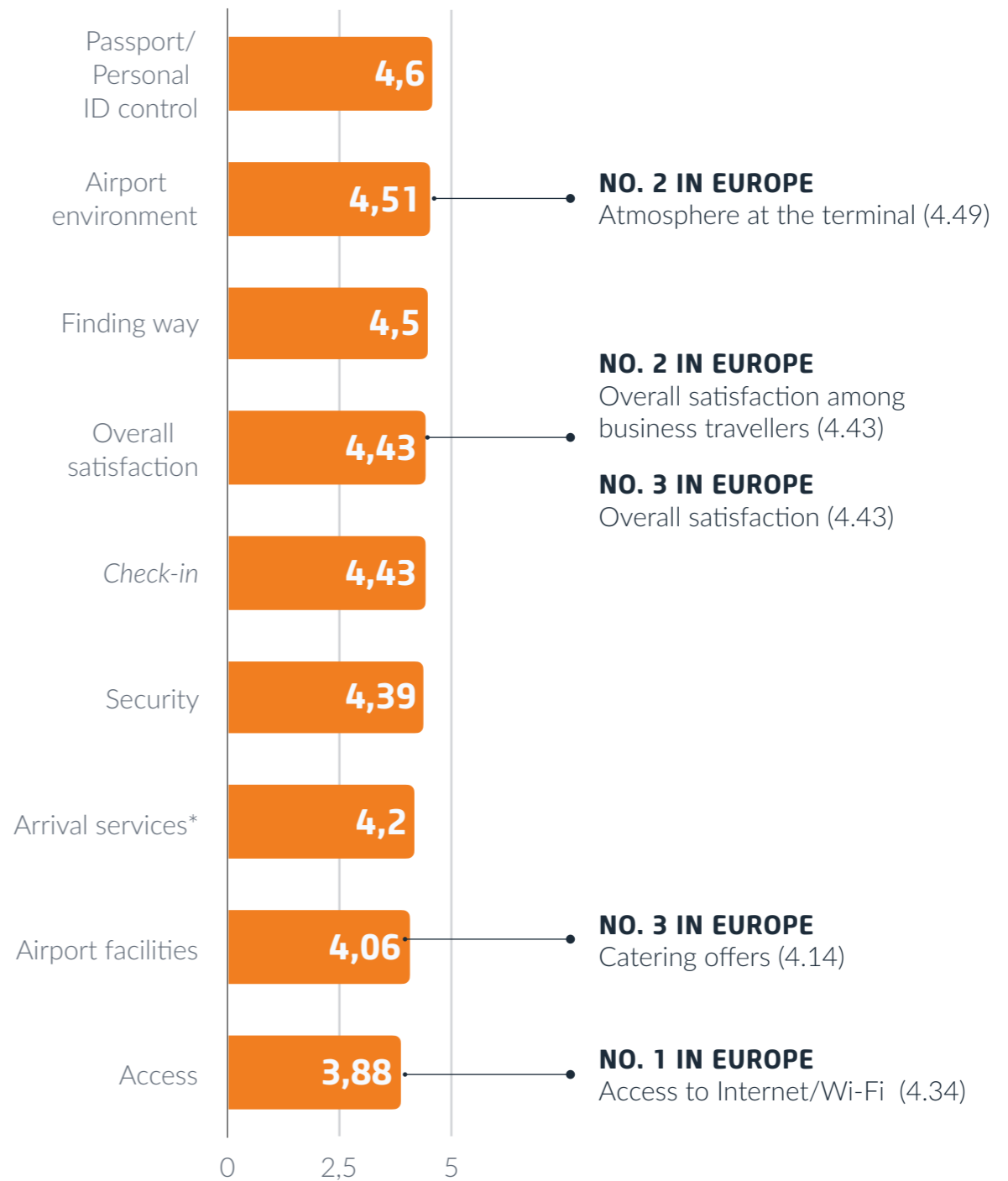
In the third quarter of 2017, we joined an airport service quality (ASQ) survey conducted by the Airport Council International (ACI) that is conducted by approximately 360 airports worldwide. The survey enables to analyse one's business across the entire passenger journey and compare one's results with those of its neighbours and other airports around the world. We conduct the survey throughout the year. In 2018, over 1,400 passengers participated in the survey.

In the aggregated results for 2018, Tallinn Airport with its rating of 4.43 ranked third in terms of passenger satisfaction among 111 airports in Europe. The highest-ranked airport was Sochi Airport in Russia with the score of 4.62. It was followed by the relatively small Spanish airport of Murcia-San Javier, which outperformed Tallinn only by 0.02 points (4.46). Tallinn Airport was followed by Rome and Moscow airports.

Among our immediate neighbours, Riga Airport was 33rd with the average rating of 4.12, and Helsinki Airport was 24th with the average rating of 4.17.

During the year, the overall satisfaction of the customers of Tallinn Airport was primarily affected by the construction of the parking house and the accompanying traffic restrictions. In addition, in the first half of the year, customer satisfaction with the stores in the passenger terminal decreased due to the rebuilding of commercial premises, but this figure improved significantly in the second half of the year.

AGGREGATE RESULTS OF TALLINN AIRPORT PASSENGER SURVEY BY AREA IN 2018



Provision of services for passengers with reduced mobility

In 2018, there were 6,179 (2017: 5,195) requests to assist passengers with reduced mobility at Tallinn Airport. This figure increased by 19% (2017: 33.4%) as compared to 2017. 80% of the requests were received within 12-24 hours in advance, 3% of the requests within 2-12 hours in advance and 17% of the requests within less than 2 hours in advance. The number of passengers with reduced mobility is increasing due to the aging of the population and the increase in the number of trips per person per year.

The most common type of a person who needs assistance (45%) is a traveller who is unable to walk unassisted long distances and needs a wheelchair ramp (WCHR). They are followed by passengers who in addition to being unable to walk unassisted long distances cannot also climb the stairs (WCHS, 20%) and passengers who are immobile and need assistance in boarding and exiting the aircraft (WCHC, 20%).

In 2018, in Tallinn Airport 18 employees received training for provision of services to passengers with reduced mobility (2017: 17) and 57 employees completed an e-learning training programme. All employees who are in contact with passengers undergo training one-by-one in order to increase their awareness of dealing with passengers with special needs.

In 2018, there are always 3 passenger service assistants working at the passenger terminal of Tallinn Airport at night (20:00-08:00) (2017: 2 assistants) and between 5 and 8 assistants



during the day (08:00-20:00) (2017: between 3 and 7 assistants). In addition, the assistant of terminal manager, who also has expertise in dealing with passengers with reduced mobility, is always present. The number of assistants providing services to passengers with reduced mobility increased by 3 positions compared to 2017.

In 2018, Tallinn Airport had 17 wheelchairs (2017: 13) (incl. one electric), 2 stretchers, 13 regular wheelchairs and 1 XXL wheelchair. We started to use Ambulift vehicle, which was purchased in 2017, during the first half of 2018.

In addition, we purchased a bus for the transport of passengers with reduced mobility and a mobile ramp with a lift for passengers with reduced mobility. The new and modern equipment significantly improves the quality more comfortable, private and safer of services provided to passengers with special needs. In order to develop the services provided we invested the total amount of EUR 292,500.

At regional airports, all employees who serve passengers with reduced mobility have also undergone respective training.

The feedback received from passengers was positive in 2018. There were no complaints about services or any incidents.

Clients' feedback at Tallinn Airport

In 2018, for the first time at the airport we implemented a central system for processing feedback throughout the year. The



central coordinator organised a feedback process, communicated with the parties, responded to the customer and monitored that the passengers' suggestions and the shortcomings mentioned in the feedback were taken into account in management decisions. As a result of this change, the Company's overview of the customer feedback given to the airport improved significantly.

During the year, we registered 389 cases of customers contacting us (2017: 128) which highlighted good aspects and the need for improvement in our work and in the work of our partners. The most active months were March and August when in both months we registered 42 cases of customers contacting us. Customers primarily contacted us via email (54% of cases) and they frequently also used the feedback form on our website (34%). They also started to use more social media for providing feedback which accounted for 10% of the feedback given during the year.

Feedback mainly focused on the following issues

- Security control (36% of feedback). Surveys show that security control is the most stressful place at the airport for the passengers, and also affects passenger satisfaction with the airport the most.
- Airport infrastructure (24%). Most suggestions were about making the terminal even cosier and more comfortable, but often the complaint concerned the complexity of traffic management and the condition of airport toilets due to the

construction of the parking house. On the basis of feedback, we started renovation work at the end of 2018 that will continue in 2019.

- Ground handling and airlines (23%). In particular, passengers complained about the airlines' luggage policy in the hand luggage check-in at the gate of the mandatory luggage compartment. There were also complaints about the convenience of pre-flight waiting areas. We will take passenger feedback into account when dealing with these issues in the near future.

In addition, the voice of passengers has been a major decision-making point in improving the passenger terminal's signage system, in the taxi waiting area project, increasing the quality of Wi-Fi access in the passenger terminal to a new level, and in adding new lifts and escalators to the passenger terminal.

In 2019, we plan to develop digital solutions to complement written feedback and collect more feedback in real time. As the first step in this process, in 2019 we will install a real-time feedback system at the border checkpoint to better understand the impact of waiting queues on passenger satisfaction.

SHOPPING ENVIRONMENT

In 2018, construction work was carried out on commercial premises at the Tallinn Airport passenger terminal, we reconstructed 2,000 m² of retail space. At the end of the year, there were ten shops and nine dining areas in the passenger terminal

(as in 2017). We organised a competition for finding an operator for the food street. We are constantly looking for new operators and commodity groups that would not compete with existing ones, but would bring added value to passengers and additional revenue for operators and the airport.

The retail spend per departing passenger decreased by 0.15 cents in 2018 as compared to 2017 (0.66 cents 2017 compared to 2016). This was primarily related to the restructuring of shop operators and construction work. The retail spend per passenger was EUR 7.49 (2017: EUR 7.64). In the catering business, the spend per departing passenger increased by 0.41 cents (2017: 0.06 cents), the average spend was EUR 3.51 (2016: EUR 3.10).

Commercial premises of the passenger terminal in 2018

- In January, we opened Baltona's temporary main duty free store and temporary duty free Non-Schengen store.
- In February, we opened Tallinn Duty Free Non-Schengen store.
- In March, we opened Sokisahtel store in a new location, upgraded the store Tallinn Duty Free Last Minute and the cafe Kohviku Kohver.
- In April, we upgraded the digital store Klick.
- In May, the floor area of Tallinn Duty Free main store increased to 600 m² and we started construction work on the premises of the temporary store.
- In June, we opened the biggest store at Tallinn Airport so far - 800 m² Baltona Tallinn Duty Free main store.
- In July, we organised a competition for finding the operator for the food street.
- In December, Select Service Estonia AS that has operated for nine years in the passenger terminal of Tallinn Airport became the operator of the food street. There are three international brands represented in the food street: Mi Casa (Mexican cuisine), Ritazza (Italian cuisine) and Haven (focuses on healthy food).



BUSINESS LOUNGE

In 2018, 64,172 passengers (2017: 55,954) visited Tallinn Airport's business lounge. As compared to 2017, the number of visitors of the business lounge increased by 15% (2017: 19%). In 2018, GoTravel AS, Fiore Travel OÜ, Pilot Motors OÜ and the international provider of lounge membership TAV Operation Services Co became our new partners.

In November, we started the expansion works of the lounge. We added two rooms for making telephone calls and a meeting room. In January 2019, we will take into use another seating area.

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.

In 2018, VIP and Express services were provided on 1,267 occasions (2017: 1,119) to 6,826 passengers (2017: 6,637). We served 10 national visits and four state visits in the VIP area. The airport is very suitable to host a meeting, seminar or another event if the participants arrive in Estonia or depart from here, and their time is limited. Events are also organised at the airport at other times. In 2018, VIP-rooms were rented out on 88 occasions (2017: 95).





Stakeholders

The key stakeholders of Tallinn Airport Ltd include passengers, customers, partners and companies operating on the territory of the airport, our employees and local governments.

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, all people living nearby or in farther places can be influenced through our activities.

In order to provide an overview of the Company's key operating indicators we have mapped out the main impact points of the airport's activities. Determination of these impact points and limiting their scope took place through interviews with the representatives of various target groups, the Company's employees and management as well as data and media analysis.

The key impact points from the economic point of view include safety and security of airfield services, compliance of activities with laws and regulations, and the society's expectations, honest and transparent management and customer's satisfaction with services. The key environmental expectations relate to the energy savings of airport activities and advocating the green way of thinking. In terms of the society's expectations, the key ones in-

clude infrastructure development, preservation of good flight connections, profitable operations and honest competition.

Therefore, when reviewing the annual targets we rely on the expectations of both the owner and other stakeholders. If we hold an open dialogue with stakeholders and take into account different interests in the Company's business strategy, we can build and maintain trust in our business.

ECONOMIC IMPACT

Tallinn Airport has a strong impact on the economy of both Tallinn and Estonia. We have studied the economic impact based on the input-output framework.

To date, a study has been carried out on two periods: in 2012 based on the 2005 input-output framework and in 2018 based on the 2010 framework. The results of the second study differed from the results of the first, due to the differences in the economic cycle in 2005 and 2010.

The results of the 2018 survey assured us that every group of 100,000 passengers who departs from or arrives at Tallinn Airport add 113 new jobs to the airport's service area (2013: 146). This increases employment income and the volume of the domestic economy.

In 2018, the estimated total impact of the air transport sector on Estonia's gross domestic product was 2.6% (2013: 3.2%), i.e. EUR 600 million. Thus, a total of 3,390 jobs were created per 3 million passengers (2013: 3,212). This assessment is based on the methodology developed by Annika Lentso in 2018 and Maris Lauri in 2013 in their surveys "Impact of passengers at Tallinn Airport on the Estonian economy". We plan to carry out a new analysis in 2019, based on the 2015 input-output framework.

AIRPORT COMMUNITY

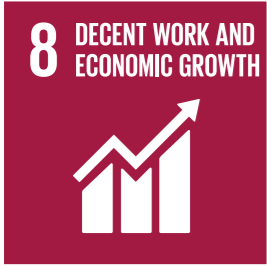
Our community includes close to 2,800 employees from almost 100 companies that operate on the territory of Tallinn Airport as well as surrounding companies. We value our community and its members, organise constant communication and exchange of information within the framework of various cooperation bodies (committees of users). We support and value employee health-related behaviour. Tallinn Airport Sport Club has been operating for ten years, and both the airport staff and community members participate in their activities.

In 2018, we founded the Tallinn Airport mixed choir made up of participants from both the airport and its community. In a short time, the mixed choir has already performed at several concerts.

In cooperation with Magnetic MRO AS, we organised a gene donor day to raise awareness on the importance of socially responsible activities. 119 new gene donors joined to the Estonian Genome Centre.

In addition to handling passengers and airlines, the airport community is united by its love for and interest in aviation and an opportunity to contribute to the creation of the world's cosiest airport.





Development

TALLINN AIRPORT AIRSIDE AREA DEVELOPMENT PROJECT

II phase of the airside area development project co-financed by the Cohesion Fund (2018–2020)

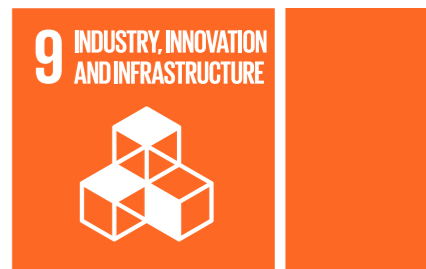
The aim of the airside area development project is to increase the level of aviation safety at Tallinn Airport and enhance the green and efficient operation of the airport. Of the cost of the airside area development project, EUR 70 million has been declared eligible by the European Union Cohesion Fund, with EUR 35 million contributed

View of Tallinn Airport airside area in December 2018.
Photo: Jaan Kronberg



by the Cohesion Fund and the rest of the investments financed with own funds and loans, including from the European Investment Bank and the Nordic Investment Bank. The European Commission has issued an authorisation for State aid to co-finance the airside area development project under the Cohesion Fund.

The construction work of the airside area development project has been divided into two stages, the first of which ended in 2018. During the first phase, implemented in 2016–2018, we extended and reconstructed the runway, upgraded the taxiway system and installed a new airport lighting system. Among environmental facilities,



Building information model for the eastern areas of Tallinn Airport



we built snow-collecting and de-icing areas, started reconstruction and expansion of rainwater systems and renewed the network of perimeter systems.

In addition, we developed a building information model (BIM) for the airside area which due to its innovative solution received international attention at InfraBIM Open 2019 conference in Tampere, where the work performed was presented in collaboration with our partners. We will continue to develop the model in the next construction phase.

In 2018, the design of the second construction stage was started by K-Projekt AS. The second stage of the construction works will begin at the end of 2019, when new aircraft apron areas and southern taxiway will be built at the airfield and the construction of environmental facilities to mitigate environmental impacts will continue.

Procurement of maintenance and rescue equipment

The Cohesion Fund also co-finances the procurement of the airport maintenance and rescue equipment within the framework of the airside area development project in the amount of approximately EUR 8 million.

CARRYING OUT A FEASIBILITY STUDY ON THE DEVELOPMENT OF THE TALLINN AIRPORT PASSENGER TERMINAL AND APRON AREAS

The long-term forecast until 2045 shows a strong increase in the number of passengers and flight operations. Based on the long-term strategy, we are preparing expansion plans to service 5 to 6 million passengers.

The aim of the feasibility study is to develop a long-term perspective for the development of Tallinn Airport passenger terminal and apron areas, and to select an alternative technical solution that we will be implementing in the next five years. The contract has been awarded to internationally recognised consultants from the Austrian-German joint venture Airport Consulting Vienna GmbH and Airport Design Management GmbH.

The feasibility study includes

- Capacity analysis of the existing passenger terminal and apron areas
- 25-year forecast of passenger numbers and air traffic growth
- Developing at least three alternative technical draft solutions for the phased development of terminal and apron areas
- Preparation of an investment plan, financial analysis and cost-benefit analysis as well as environmental management plan
- Development of a functional-structural concept for the first construction stage of the selected option.

PARKING HOUSE AT TALLINN AIRPORT

To significantly improve access to the airport and provide passengers with more convenient parking service, Tallinn Airport started the construction of a parking house in December 2017, which lasted during the whole 2018. The builders were Insenierihituse AS and AS LNK Industries. The parking house was completed and opened for customers on December 20, 2018. The total area of the parking house is 46,000 m² and it has parking space for approximately 1,200 vehicles. The total cost of the project was EUR 14.1 million.

View of Tallinn Airport parking house in December 2018. Photo: Jaan Kronberg



CONSTRUCTION OF THE PARKING HOUSE IN NUMBERS



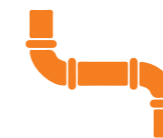
11,653 M³
of reinforced
concrete



110,000 M
of post-tension steel
cables



960,545 KG
of rebar



6,716 METERS
installed pipes with
capacity of 417 m³



64,136 METERS
of high-voltage
cabling



53,300 METERS
of low-voltage
cabling



10,319
seedlings



2,661 METRES
of fences



47,985 M³
soil excavated



Reconstruction works at regional airports

RECONSTRUCTION OF THE KÄRDLA AIRPORT AIRSIDE AREA

During the renovation of Kärdla airside area, pavements were renewed, the runway lighting system and markings were upgraded, and taxiways were expanded to bring them into line with the new safety requirements and to implement the approach procedures of the Global Navigation Satellite System (GNSS). The new procedures will help to improve regular flights and reduce cancellations and delays caused by poor weather conditions. The pavements were most recently renovated 20 years ago.

We financed the renovation from government grants and own funds.

RECONSTRUCTION OF THE PÄRNU AIRPORT

In 2017, the Ministry of Economic Affairs and Communications, the City of Pärnu and Tallinn Airport Ltd signed a tripartite agreement for the reconstruction of 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, to be as durable and long-lasting in maintenance as possible and to have 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 preparation of the planned air traffic noise analysis.

Within the framework of the project, the responsibility of Tallinn Airport Ltd is the timely and compliant reconstruction of airport infrastructure, whereas the task of the City of Pärnu and Pärnu County Development Centre is to conclude agreements with airlines.

Reconstruction schedule

2018–2019

- Procurement of design of airfield's airside area
- Compilation of a detailed plan and design of works
- Design procurement

2019–2020

- Construction procurement for the airfield reconstruction, after which the reconstruction of the airside area begins:
 - Construction of the airside area
 - Construction of a combined aircraft hangar
 - Construction of auxiliary facilities
- Procurement of passenger terminal extension

2020

- Reconstruction work will continue in the first half of the year
- Airfield certification
- Start of the provision of the airfield service



TEAM

OUR TEAM

Internationally recognised, sustainable and innovative organisation, competitiveness on the labour market, performance-based management, and professional and committed employees are the cornerstones of our human resource strategy that supports the implementation of the Company's business strategy and concept.

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

In the human resources policy, it is important to follow the principles related to the diversity of gender, age, education and views. We value mutually respectful relationships with our employees. In 2018, neither labour disputes were initiated nor any complaints filed by employees about employment relationships, including equal treatment. The difference in the proportion of women and men at the Company results from the nature of work and reflects general gender preferences as to professions among the Estonian population. At our Company, women and men work in all positions.

In the principles of remuneration, we follow the Company's external competitiveness, distribution of occupational groups and the principles of equal treatment, regardless of the employee's gender or other characteristics.

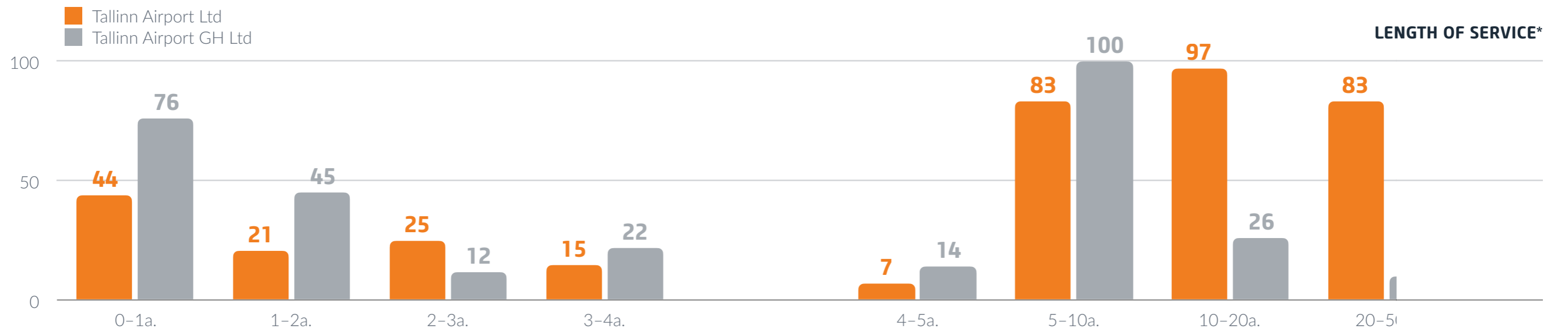
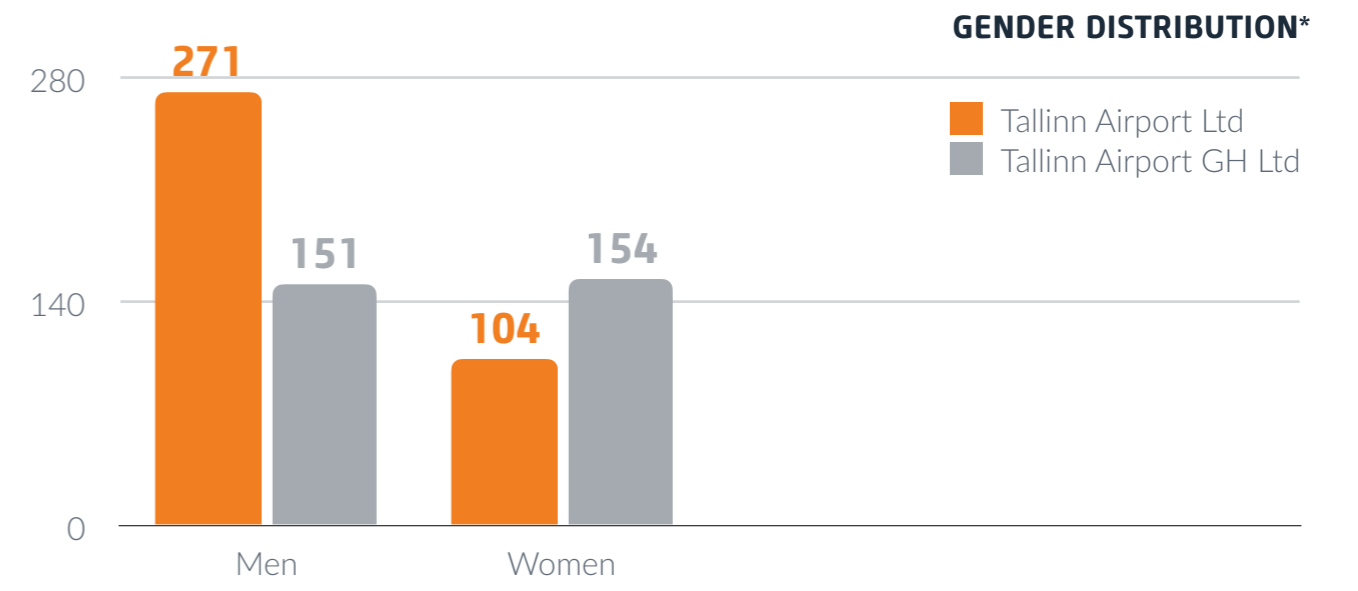
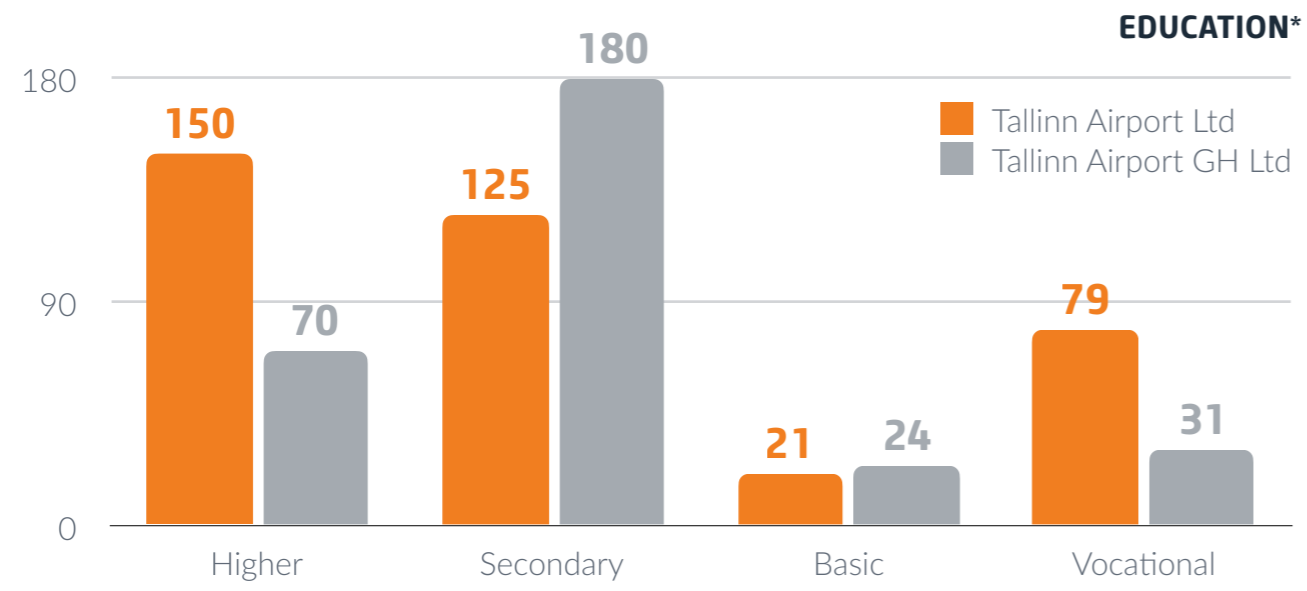
The labour market as a whole is currently characterised by high levels of employment and low unemployment. Most of the job applicants are already employed and they are motivated to apply for a job due to their desire to find more interesting work and more suitable working conditions. This means that they have greater expectations for both material and general conditions.

The risk factor of Tallinn Airport Group is night work and a continuous duty cycle (we also work on holidays and public holidays), which weakens our competitive position in the labour market. In the case of front-office work for both companies, an additional factor is the fact that many employees are in the process of acquiring special education and will take up professional work after graduation.

The voluntary staff turnover at Tallinn Airport Ltd was 8% in 2018 (2017: 4%). At Tallinn Airport GH Ltd, the voluntary staff turnover was 18% (2017: 20%).

The reputation of the employer is the perception of the Company's current and potential employees of the Company as an employer.





Based on the survey carried out by the research company Instar in 2018, Tallinn Airport Ltd was ranked as the fifth most attractive employer among 189 companies.

In 2018, there were 40 recruitment contests (2017: 31), as a result of which we recruited 32 employees. At Tallinn Airport Ltd there were 21 recruitment contests (2017: 17), including one internal, as a result of which we signed 54 employment contracts. At Tallinn Airport GH Ltd there were 19 recruitment contests (2017: 14), including five internal (13 positions), as a result of which we signed 107 employment contracts. A total of 1,797 people applied for a job in the Tallinn Airport Group.



Employees' feedback

In 2018, in collaboration with Kantar Emor, we carried out a work life survey in which we asked

- how the Company has coped with the challenges stemming from rapid growth (increasing workload, change and ensuring smooth cooperation);
- how committed and willing employees are to recommend the employer in comparison with the Estonian average;
- satisfaction with key components that shape work motivation, including management quality, work organisation and atmosphere;
- how employees have adopted the Company's core values.

78% of the Tallinn Airport Group's employees replied to the questionnaire, ensuring the reliability of the results.

As a result of the study, we have identified the aggregate indicator of employee commitment, i.e. the internationally used TRI*M Index. The results of Kantar Emor's 2018 national comparison survey showed that the average commitment index of Tallinn Airport Group staff is 76, which is a better result than the Estonian average (66).

The following aspects were considered to be the Company's main strengths

- professional and responsible action
- caring attitude towards each other
- providing a secure and stable job
- using innovative solutions.

As negative aspects, increased workload and tensions associated with the surge in service volumes were mentioned. Among aspects that need to be developed, employees would like their managers to better explain the Company's objectives and results to them. Based on this knowledge, we launched a programme for developing management competences.

Promotion of a healthy lifestyle

We consider it important to promote a healthy lifestyle and support sports among employees.

Sports activities among employees are supported through the SportID sport benefit management portal. In 2018, over 500 employees of the Tallinn Airport Group had joined this system, all of whom regularly use the sports and health promotion services offered.

Tallinn Airport Sport Club, to which employees of the entire Tallinn Airport Group belong, operates actively and effectively all year round. Its members participate in competitions organised by the Estonian Corporate Sport Association (ECSA). In 2018, we participated in the event series organised by the ECSA (winter games, spring games, summer games, autumn games, golden ball), Kõrvemaa Neliküritus event, Cube series organised by Tartu Marathon, and in the Estonian Cup bicycle marathon series. In the competition for the title of Estonia's Most Athletic Company, Tallinn Airport Sport Club came in the second place. The club offers a wide range of different sport activities: volleyball, basketball, badminton and tennis, skiing, riding a bike and more.

Recognition and motivation of employees

The focus is on promoting the culture of recognition and noticing. Each we year traditionally recognise the most prominent projects and colleagues in the following categories:

- Colleague of the year
- Smart innovator
- Customer's favourite employee
- Initiator of the Year
- Deed of the year.

Tallinn Airport GH Ltd annually selects GH Kuldvara, created for the recognition of high-performing fellow employees.

Employee competencies

WORKING AT THE AIRPORT IS DEVELOPING!

In choosing training activities, we use the international 70:20:10 Model for Learning and Development, which involves three types of learning: obtain knowledge from job-related experiences, from interactions with others, and from formal educational events, since a large part of the training takes place at the workplace.

We support training and development of staff, and ensure compliance of staff competencies by using flexible learning opportunities and efficient resource use. For example, we have made it easier for regional airports and shift workers to participate in internal training courses via a video link. Employees are also able to view the recordings of the training sessions at their convenience.

In 2018, training costs made up 1.5% of labour costs (2017: 1.7%), amounting to EUR 280,330 (2017: EUR 291,980).

In order to monitor the adequacy of the competencies and the level of employees required in the positions more efficiently and comprehensively, we developed a competence information system that we will implement in 2019.





We provide regular feedback interviews with managers, top specialists, and specialist staff to provide feedback to employees.

Key training and development projects in 2018:

- Training for improving the skills of in-house trainers in support of human development. 31 instructors and supervisors participated.
- Change management workshop for project managers to implement the Prosci PCT model.
- Online course on cyber hygiene with Cybexer Technologies. 37 employees of Tallinn Airport Ltd and 18 employees of Tallinn Airport GH Ltd participated. There were 65 participants at the data protection seminar.
- Online training and in-service training for serving passengers with reduced mobility. 57 employees participated.
- 222 people, including staff from the airport community attended lectures and workshops in the adult learner's month, both on-the-spot and via Skype. The focus was on maintaining mental health, preventing burnout and coping with changing conditions.
- Compulsory fire safety training in the Univocus e-learning environment. 549 employees of Tallinn Airport passenger terminal, including 192 employees, participated.

- 108 security training (2017: 116) and 51 safety and traffic training courses (2017: 62) were arranged. 1,754 people participated (2017: 2,049), including 456 employees of the Tallinn Airport Group. Beginning with 2018, recurrent flight safety related video training can be completed at an individual pace.
- Based on the international legislation that underlies the operation of airports, we organise both initial and in-service training every year to ensure the competence of the employees. The share of compulsory training in the teaching budget is 54% and the volume of developing training courses is 46%.

In 2018, Tallinn Airport Ltd issued 1,784 diplomas and certificates for all study activities (2017: 1,743). We do not have gender or age preferences in the selection of trainees.

COLLABORATION WITH SCHOOLS AND UNIVERSITIES

An important part of ensuring staff succession is our image as an employer. It is also related to a broader sense of responsible behaviour to provide young people the opportunity to make informed decisions when planning their study path. At Tallinn Airport, we have talked about the role and significance of the airport to Estonia, as well as employment opportunities for general education, vocational education and higher education. We have



also created collaborative relationships with career counsellors through the Innove Foundation.

In 2018, we hosted study visits from seven study groups. Among others, professional counsellors of Tallinn University, education and career counsellors of Innove, grade 9 to 12 students of Tallinn Arte Gymnasium and students from Tallinn University, Tallinn University of Technology and Mainor, the Estonian Entrepreneurship University of Applied Sciences as well as students from Estonian Aviation Academy visited us, both during introductory and specialized training practices.

We organised work shadow days. Grade 7 to 9 students of schools in Tallinn and Harju County visited us in cooperation with Innove Rajaleidja counselling centres on the work shadow day “Jump over your shadow”, where 21 students participated. 20 students visited the airport on the work shadow day of high school students. A group of students from Southern Estonia visited Tartu Airport.

OCCUPATIONAL SAFETY

1 minor occupational accident was registered at Tallinn Airport Ltd (2017: 4) and 12 minor occupational accidents were registered at Tallinn Airport GH Ltd (2017: 11).

In 2018, we conducted a company-wide occupational safety risk analysis, instructed employees to use better and safer working methods, and also installed safety labels and first aid kits. We also trained new first aiders.





ENVIRONMENT

OVERVIEW OF THE ENVIRONMENT

Environmental management

The objective of Tallinn Airport Ltd is to ensure the efficient and responsible operation of the airports in the Company and to provide a quality service whilst conserving the natural environment and reducing emissions.

The principles and directions of environmental management have been established in the environmental policy of the Company, which is closely linked to the internal control system. In compliance with the requirements of the ISO 14001:2015 environmental management system certificate, the environmental procedures and activities have been described and the responsibilities applicable to positions have been documented.

Starting from 2017, there is an environmental steering group at Tallinn Airport, whose task is to regularly monitor the consumption of environmental resources and fulfil the goals set in the environmental plan. The duty of the steering group is to make proposals for the implementation of cost-effective measures of the Company and implementation of the Company's environmental policy.

Environmental risks

Although in case of airports the main environmental risks considered are usually air pollution and noise, the airport must be regarded as an industry and its impact on rain-water, soil and groundwater must be assessed.

To minimise environmental risks, we periodically evaluate their impact, mitigation measures and probability. We consider it important to ensure that risk mitigation measures are effective and up to date. We also take environmental risks into account when making new investments and preparing plans.

To prevent environmental pollution, we constantly monitor the condition of the soil, water and air. In addition to internal processes, we also check that the partners in our territory in their operations comply with requirements and in an environmentally sound manner.

Main activities related to airport operation that have possible negative environmental impact are:

- de-icing of aircrafts and pavements;
- traffic of ground transport in the airfield;
- oil and fuel handling;
- passenger and aircraft handling;
- maintenance and development activities performed on the airport territory;
- noise caused by air traffic.



Environmental goals

To meet our environmental goals, we have adopted the environmental plan 2018-2020. The Company's objectives and tasks are assessed and updated once a year at a management review meeting.

The majority of the activities related to the environment planned for 2018 were carried. The planned company-wide energy audit and the development of an energy saving plan to reduce energy consumption were postponed until 2019. The lighting project of Tallinn Airport passenger terminal and the transition of the parking lot B of the Tallinn Airport to LED lighting were also postponed. The preparation of a waste strategy for the development of the waste management system is also planned to be launched in 2019.

Innovations and improvements made in 2018 to reduce the negative environmental impact at Tallinn Airport include:

- Ensuring the quality of storm water during the planning phase of the airside area development project
- Adherence to the principles of environmentally sound handling of de-icing equipment
- Continuous rainwater monitoring
- Commissioning of a de-icing site complying with environmental requirements

- Use of snow-collecting and melting areas that comply with environmental requirements
- Continued transition to LED lighting
- Preference for energy-saving equipment when purchasing equipment
- Upgrading of the passenger terminal automation control system
- Installation of a new, energy-efficient elevator for the passenger terminal
- Transition to automatic faucets at the passenger terminal
- Preparation to join a CO₂ neutral airport programme
- Mapping the waste collection system for preparing a waste strategy
- Continuous assessment of noise levels at the airfield
- Clarification of the principles for elimination of chemical pollution
- Compliance with the principle of environmental sustainability in the feasibility study for the development of Tallinn Airport passenger terminal and apron areas.

There were no environmental non-conformities, and neither any penalties nor sanctions were imposed on the Company in 2018. We also carry out spot checks in our environmental management system among partner companies operating at airfields.



Environmental impact of transport at Tallinn Airport

Land transport is a major contributor to the sources of pollution affecting humans and the natural environment. The most dangerous polluting component is exhaust gases, which are the residual product of fuel combustion.

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

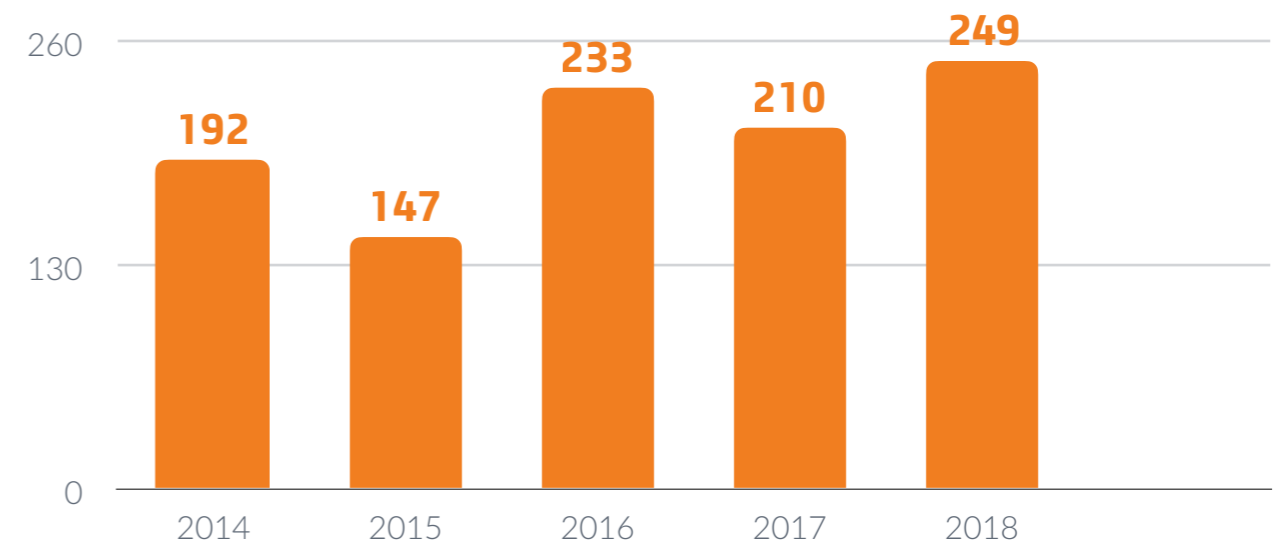
Fuel consumption is affected by the volume of the area in need of maintenance, the number of passengers and flight operations and weather conditions. In 2018, the volume of fuel consumed at Tallinn Airport increased from 210 tonnes to 249 tonnes as compared to the previous year. The increase in diesel consumption was due to the increase in the number of passengers as we needed more passenger buses. Fuel consumption increased in 2018 also because of the increase in the traffic area, runway and taxiway extension, and the addition of one apron area. Gas consumption also increased due to higher demand for passenger buses. Petrol consumption, on the other hand, decreased compared to the previous year. Namely, in 2017 we made reconstruction works at

the airport and in connection with that increasingly used vehicles with a petrol engine.

Among fuels, we prefer diesel engines to vehicles with a petrol engine. When purchasing new land transport, we make sure that the vehicle's technical characteristics (low CO₂ emissions and fuel consumption) are ecological.

The tram connection between Tallinn Airport and the city centre, built in 2017, has generally reduced the use of motor vehicles by the airport staff and passengers.

FUEL USAGE OF GROUND TRANSPORTATION IN TALLINN AIRPORT 2014-2018 IN TONNES



Impact of air traffic on Lake Ülemiste

The ambient air pollution load is based on the moving and point sources from the planned activities on the Lake Ülemiste area. This way the lake is affected by the traffic of vehicles on the roads in the north, north-east, east, west and north-west direction. Aircraft landing and departing at Tallinn Airport located east of the lake, as well as motor vehicles serving the airport, also add to the pollution load. Emissions from all these pollution sources form the baseline pollution level. Based on reports of AS Tallinna Vesi water samples taken from the lake show that the level of products that emit in combustion of aircraft fuel is hundreds of times below the permitted levels.

Power consumption at Tallinn Airport

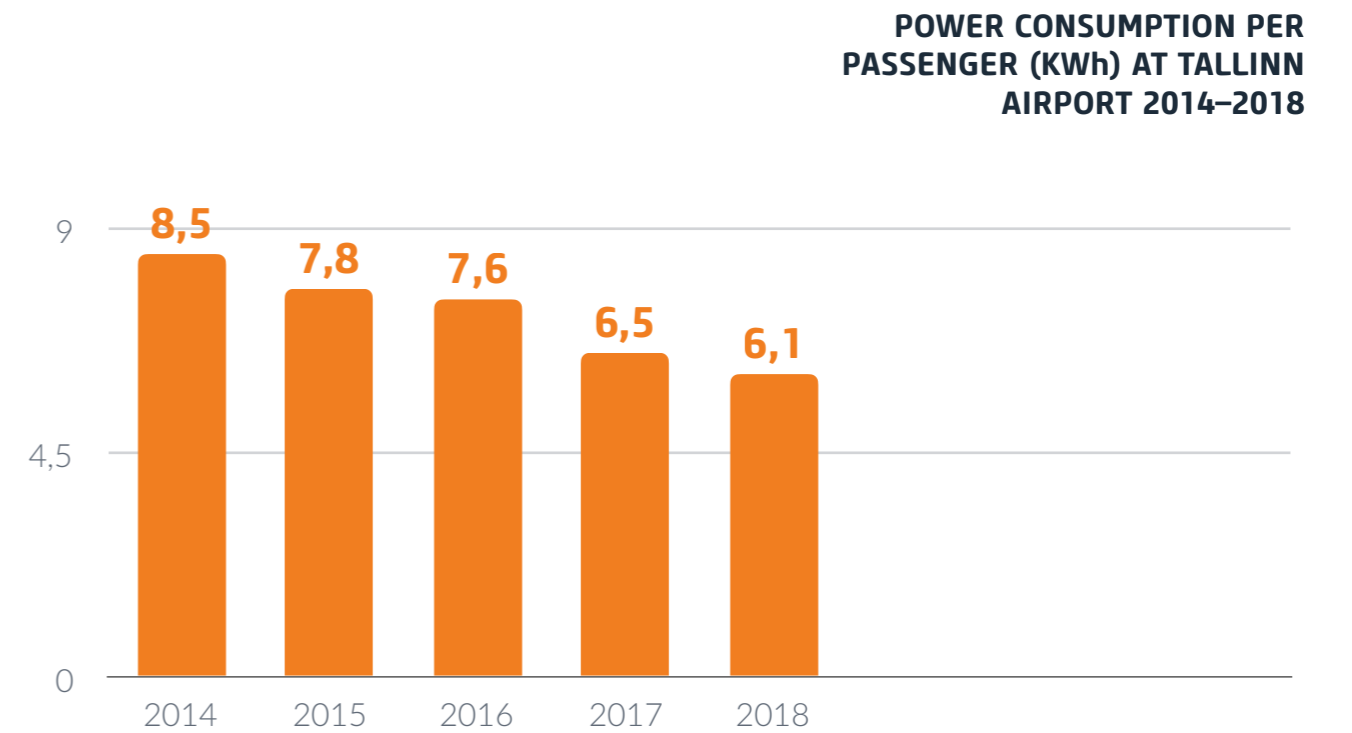
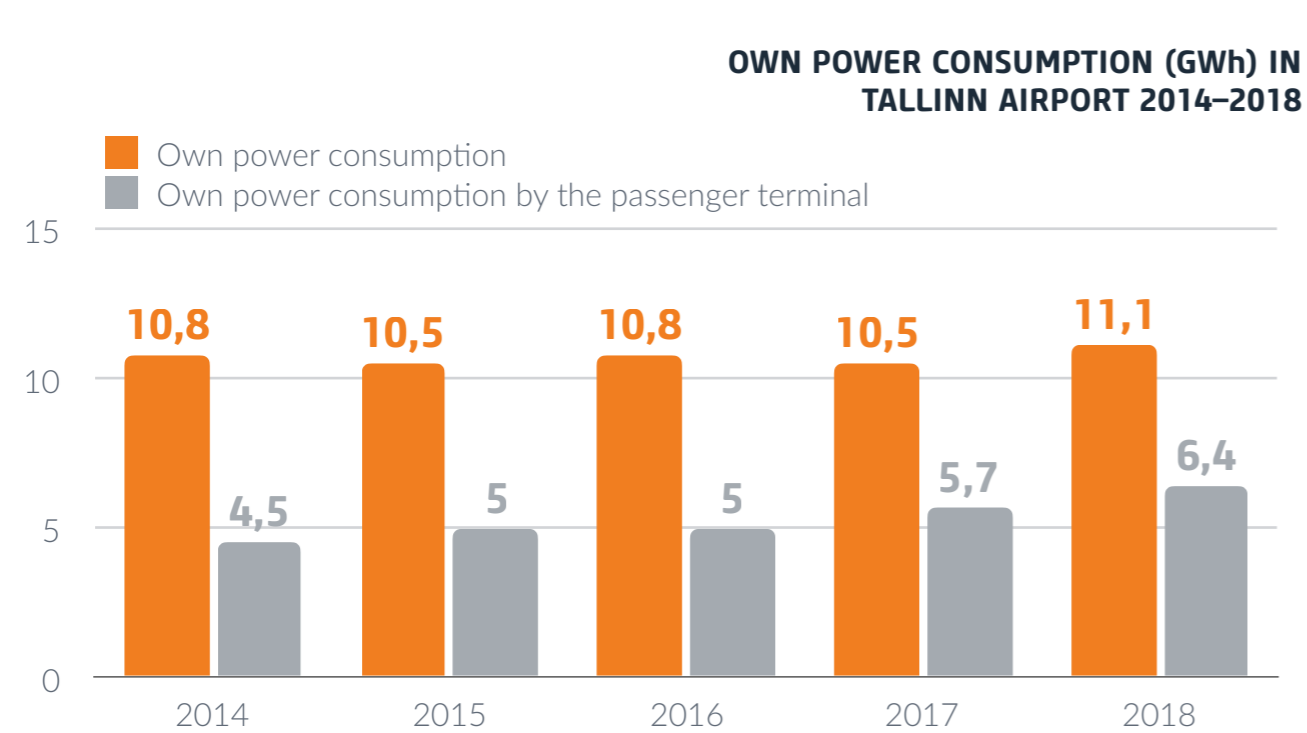
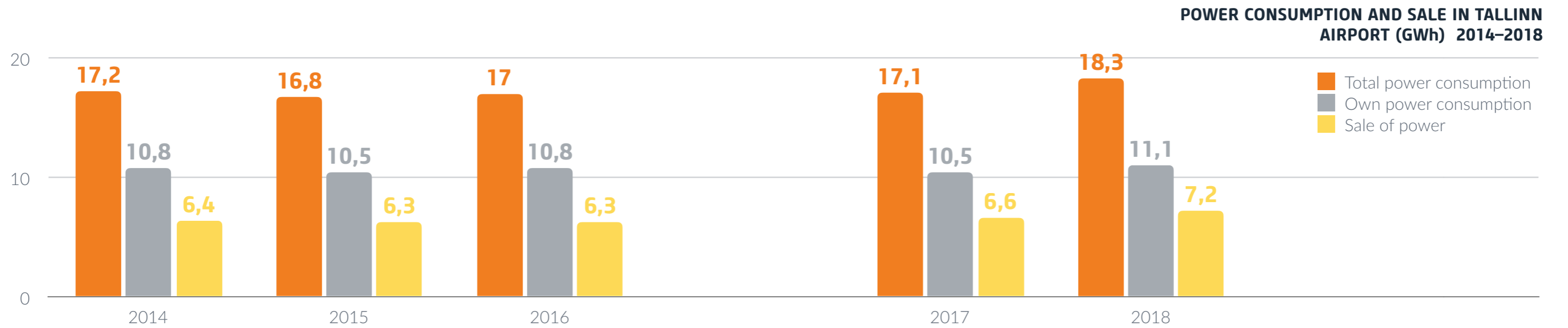
In 2018, electricity consumption in Tallinn Airport increased from 17.1 GWh to 18.3 GWh. Both own power consumption and electricity sale increased. Own power consumption increased on the whole territory from 10.5 GWh to 11.1 GWh, and in the passenger terminal from 5.7 GWh to 6.4 GWh.

The increase in electricity consumption is related to the commissioning of new areas in the passenger terminal and the use of cooling systems during the hottest period in the summer 2018. Secondly, one part of the runway lights system was turned off during the 2017 reconstruction and the full deployment of the system increased electricity consumption in 2018.

Our objective is to reduce power consumption by the passenger terminal of Tallinn Airport from year to year and, if possible, to increase the consumption of renewable energy. In addition to the ongoing transition to LED lighting and the use of motion sensors, we installed solar shields and blinds on the terminal's windows facing south to prevent excessive penetration of solar radiation indoors. Setting targeted objectives in the area of energy consumption, we lay a foundation for the systematic and informed management of power consumption.

Despite the significant increase in the number of passengers electricity consumption per passenger has dropped from 6.5 KWh to 6.1 KWh.



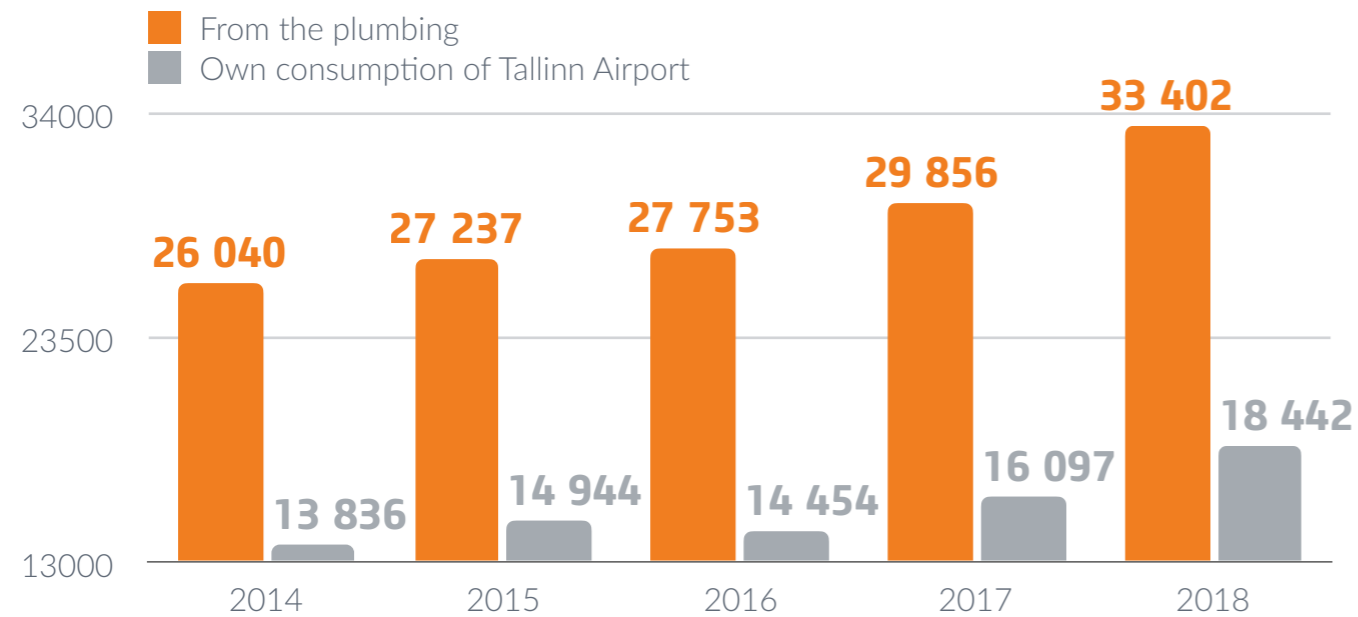




Water consumption at Tallinn Airport

In 2018 Tallinn Airport consumed 33,402 cubic metres of water of AS Tallinna Vesi (2017: 29,856 cubic metres). Consumption has increased largely due to the increase in the number of passengers and construction work, as the fire extinguishing system had to be constantly refilled.

WATER CONSUMPTION (M³) OF TALLINN AIRPORT 2014–2018



Use of de-icing substances and wastewater at Tallinn Airport

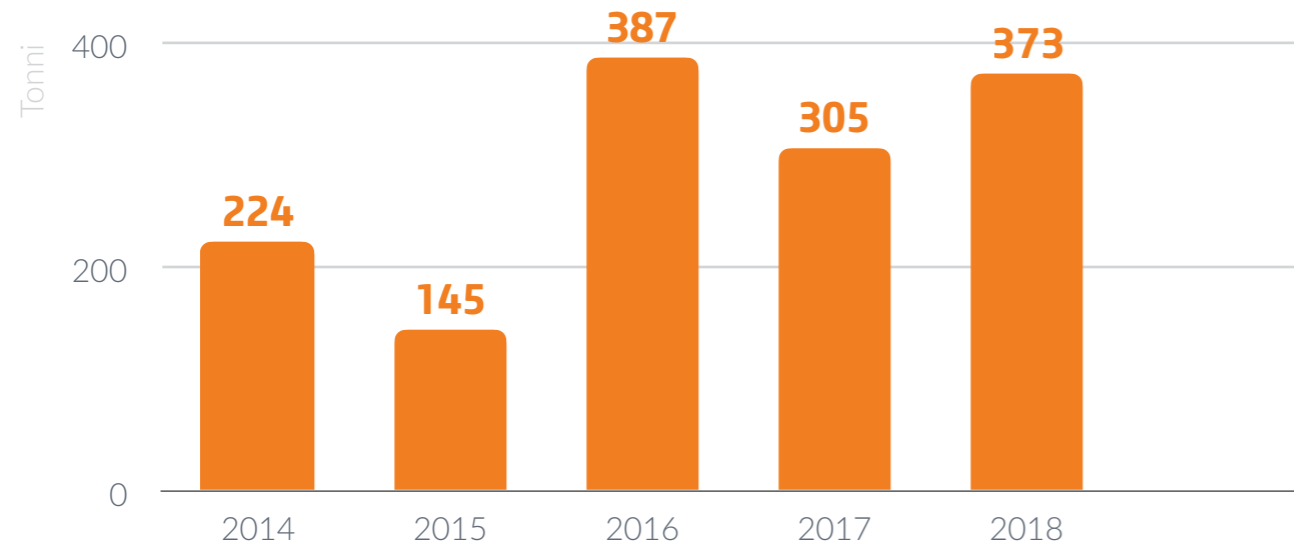
At Tallinn Airport, chemicals are most likely to be used for de-icing of asphalt surfaces to ensure safe take-off, landing and grounding of aircraft as well as aircraft de-icing to ensure their safe flight.

The de-icing products that we use are as environmentally friendly as possible (including an ecological certificate) and decompose in the natural environment. We require that the relevant certificates and environmental conditions be complied with during the procurement process.

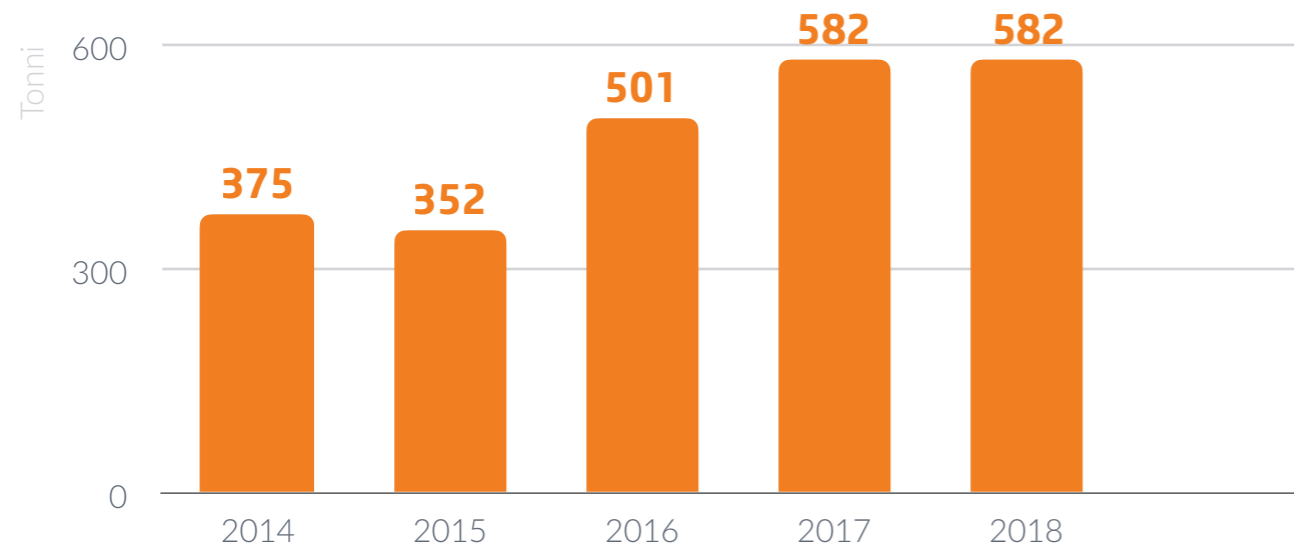
In 2018, the use of de-icing equipment increased in aircraft icebreaking in general and per aircraft. This was caused by an increase in near zero temperatures and by the abundance of snow experienced by aircraft while they were standing on the ground.

In 2018, the volume of de-icing of asphalt surfaces remained at the same level as in the previous year. The ratio of liquid to solid de-icer changed due to the weather conditions in winter.

DE-ICING OF AIRCRAFTS IN TALLINN AIRPORT IN TONNES, 2014–2018



DE-ICING OF PAVED SURFACES IN TALLINN AIRPORT IN TONNES, 2014–2018*



* The data for 2014-2017 have been revised compared to the 2017 annual report, due to the more accurate calculation coefficient introduced in 2018.

Drainage water

The objective in discharging drainage water is to ensure that it is not released into Lake Ülemiste. As a reservoir of drinking water, the lake has a special status and is a sanitary protection area established by law.

The storm water collected from Tallinn airport is not re-used, but is directed to the Soodevahe main ditch in the east that flows into the Pirita River, and to the rainwater system into the Gulf of Tallinn in the west.

Starting from 2017, Tallinn Airport Ltd has a special licence for water consumption, which requires us to take analyses of the drainage water and report for the further calculation of pollution charge to Ministry of the Environment. Under the monitoring conditions, we check the quality of the rainwater once a quarter. Performance of analyses is outsourced from a laboratory with the corresponding accreditation.

Drainage water is not directly analysed in regional airports since they use minimum de-icing and none of the receiving water bodies of any airport is under nature protection. We perform other environmental controls as necessary, for example, during the preparation of construction projects.





Air pollution at Tallinn Airport

The quality of ambient air at Tallinn Airport is affected by air traffic, boiler houses and road transport in the airport area. In the immediate vicinity of the airport, the quality of ambient air is affected by the Lasnamäe industrial area to the north and road transport on the Tallinn-Tartu Highway and in Suur-Sõjamäe Street. As requested by the air pollution permit, we submit quarterly reports in which we calculate and monitor the release of pollutants into ambient air.

Results of the dispersal calculations provided in the study “Dispersal calculations in the direction of Lake Ülemiste of air pollution from aircrafts taking off or landing at Tallinn Airport” show that air pollution produced by aircrafts only has an effect in the areas near the airport. The results of the calculations revealed that even at the beginning of the flight cycle (i.e. when an aircraft is close to the ground), the concentrations obtained do not exceed the applicable standards.



Based on the measurements made in previous years, the highest concentration of NOx occurred specifically in the immediate vicinity of the airport, reaching 0.056 µg/m³ at the most. At the same time, it was 700 times lower than what is permitted under the standards of the Ambient Air Protection Act. Based on the calculations, the CO levels are also under control.

The environmental impact assessment prepared in 2014 pointed out that Tallinn Airport has no significant adverse effect on air quality in its vicinity, particularly given that aircraft emissions are discharged under higher pressure and at higher elevations. The same assessment considered the impact of the boiler houses powered by natural gas (which used to be calculated annually) to be negligible.

GREENHOUSE GASES

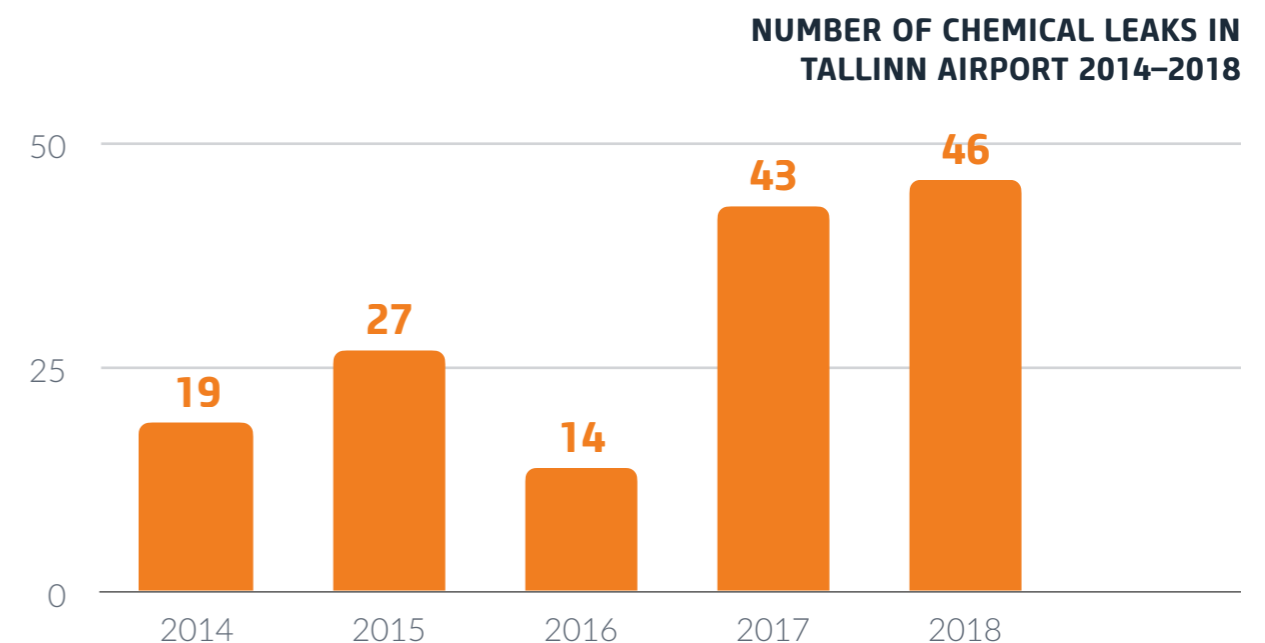
We map the main sources of CO₂ emissions and assess their volumes. The mapping is followed by creating measures for reducing CO₂ emissions.

In 2018, we made preparations to re-join the first level of the Airport Carbon Accreditation program, which helps us map out our carbon emissions and airport energy consumption in order to identify our carbon footprint. The aim of the programme is to achieve the status of a carbon neutral airport.

Chemical leaks at Tallinn Airport

There were 46 chemical leaks at Tallinn Airport in 2018 (2017: 43). The increase in their frequency in recent years is due to a more specific accounting requirement (we started entering data into a single incident database), as well as to the requirement to also identify the smallest leaks.

Since 2018, all chemical leaks are assigned a category that is registered and which is used to assess the environmental risk and respond to it. In 2018 there were no chemical leaks that would have caused environmental pollution.





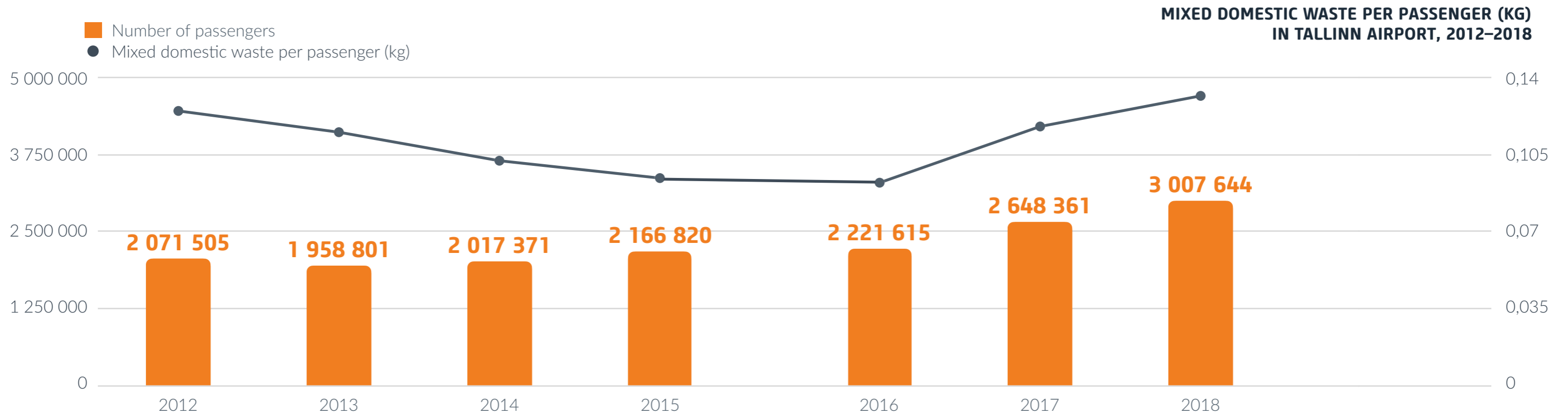
Waste at Tallinn Airport

In 2018, a total of 34,285 tonnes of waste was generated at Tallinn Airport (2017: 382,850 tonnes), including 33,672 tonnes (98%) of construction waste and 7.4 tonnes of hazardous waste (2017: 49 tonnes).

Hazardous waste is mainly caused by the operation of the airport and is not related to the change in the number of passengers. In order to collect hazardous waste, we have installed a separate container at the airport that is handled by a company licensed to handle hazardous waste.

The amount of mixed municipal waste increased as compared to 2017. Although the share of recyclable waste in total waste generation at the airport has increased, the share of mixed domestic waste per passenger has also increased. Since the waste management system has been the same for a number of years, it can be assumed that the increase in the amount of mixed domestic waste has been caused by people's lack of awareness of the principles of environmental sustainability.

The share of recycled waste in mixed domestic waste was 34% or 204 tonnes (2017: 49 tonnes). In 2018, we started to prepare a waste management strategy to reduce the amount of mixed domestic waste in the future and to increase the amount of recyclable waste.



Noise

According to Tallinn’s strategic noise map drawn up in 2017, the airport’s activities affect about 21,900 people in an area of 5.3 square kilometres. Although the airport is located on the territory of Tallinn, flight corridors cross Rae County and the activities of the airport also affect its residents.

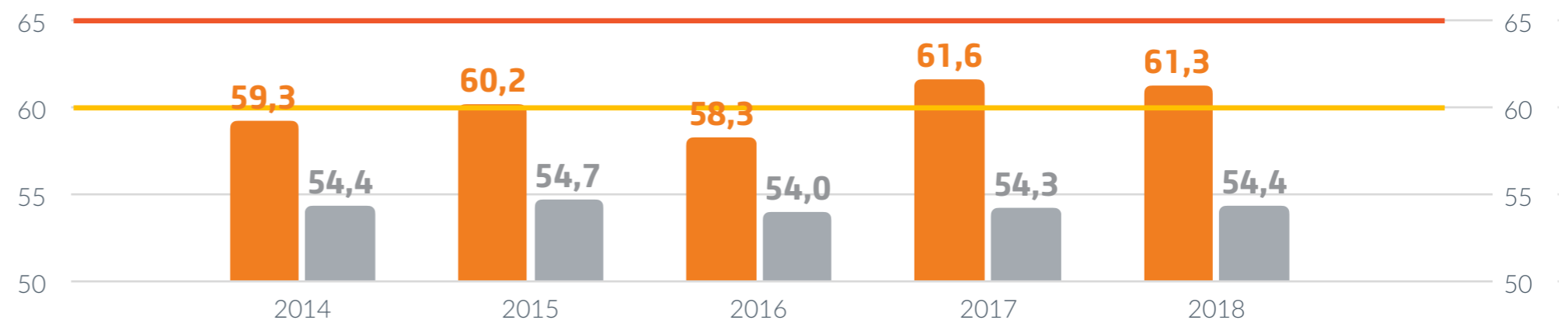
For monitoring the noise pollution, we use two permanently operating noise monitoring stations that keep track and record the noise level. In addition there is a mobile noise measurement station that monitors noise pollution in settlements near the airport, where there are noise complaints/ or reasons to suspect so. Noise-related customer complaints are handled and measures for reducing noise are developed in cooperation with the Civil Aviation Administration.

Noise level in the vicinity of Tallinn Airport depends on the number of flight operations, but also on the type of aircraft that is being used. In 2018, the average daily noise level on the west point of the airfield increased from 54.3 to 54.4 decibel (in comparison: the level of constant traffic noise coming from Tartu highway at the airport is ca 65-70 decibel). In the east point of the airfield, the noise level decreased from 61.6 to 61.3 decibel. The recorded noise level is strongly influenced by the runway’s direction of use.

On the basis of the environmental impact assessment, the noise level at night may be exceeded in case of a few residential buildings in the western shore of Lake Ülemiste in the territory of Central Tallinn. The noise level may be notably higher when more powerful military or cargo planes land and take off, but such cases happen so rarely that in the opinion of authors of the assessment, they do not play a significant role in the general noise situation. In 2018, three noise complaints were filled (2017: 5).

- Average noise level in the east point of the airfield
- Average noise level in the west point of the airfield
- Average noise level at Tartu highway
- Permitted noise level in a residential area

AVERAGE LEVEL OF AIRCRAFT NOISE IN THE MEASURING STATIONS AND THE MAXIMUM PERMITTED LEVEL IN A HOUSING AREA COMPARED WITH THE CONSTANT NOISE LEVEL OF TALLINN-TARTU HIGHWAY (DECIBEL), 2014–2018





Bio-diversity

The closest protection areas that must be kept in mind include the Pirita River – Pirita nature protection area, Pirita river preservation area and the protection area of the Pirita river valley. Because of sufficient distance from the airport (at least 3.4 km), they are not subject to significant direct impact. Direct impact can occur only through impact on the water environment.

By ensuring the compliance with the requirements of the water channelled to the receiving water body, taking into consideration the self-purification capacity of the Soodevahe main drainage ditch and the considerable dilution coefficient of water when reaching the Pirita River, we are able to prevent damaging bio-diversity. It is not likely that this can significantly affect the water quality in the Pirita River and, through this, affect protection areas.



Environmental indicators at regional airports

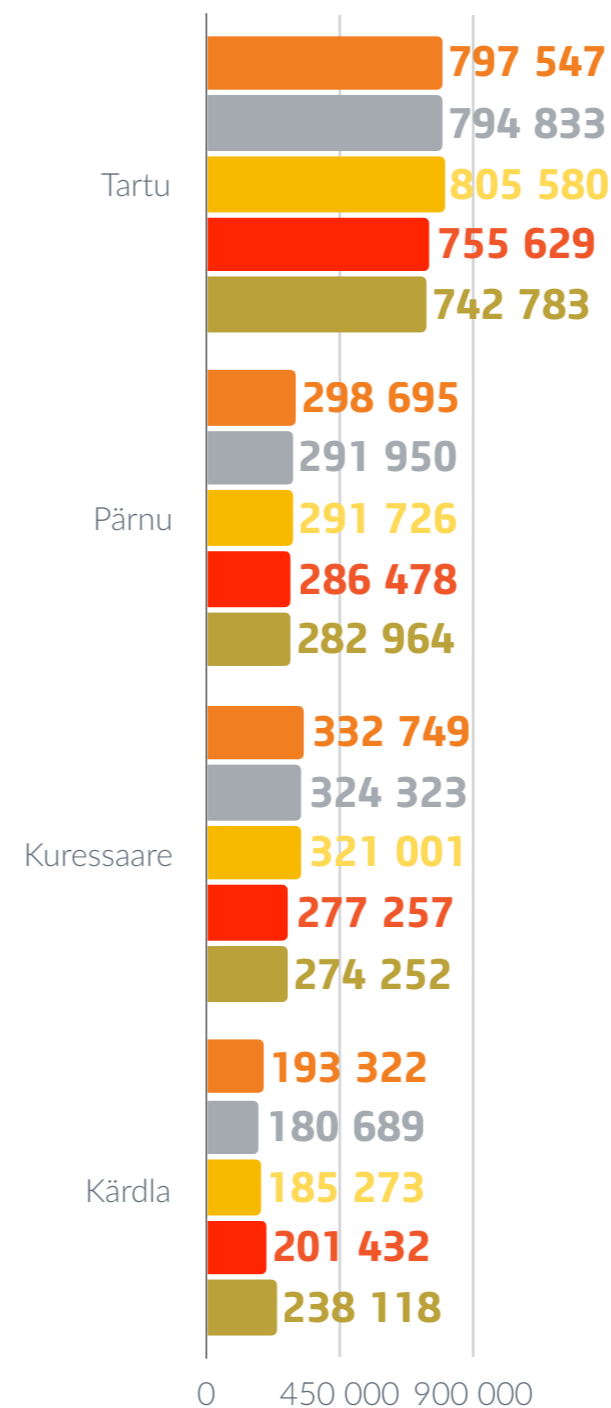
Regional airports also take into consideration our environmental policy principles and environmental plan objectives, because the environmental management system ISO 14001 has been implemented throughout the Company.

Electricity consumption of regional airports was largely unchanged from 2017 whereas fluctuations are mainly due to the number of passengers and airport hours. In 2018, Kärdla Airport consumer more electricity compared to 2017 due to construction activity.

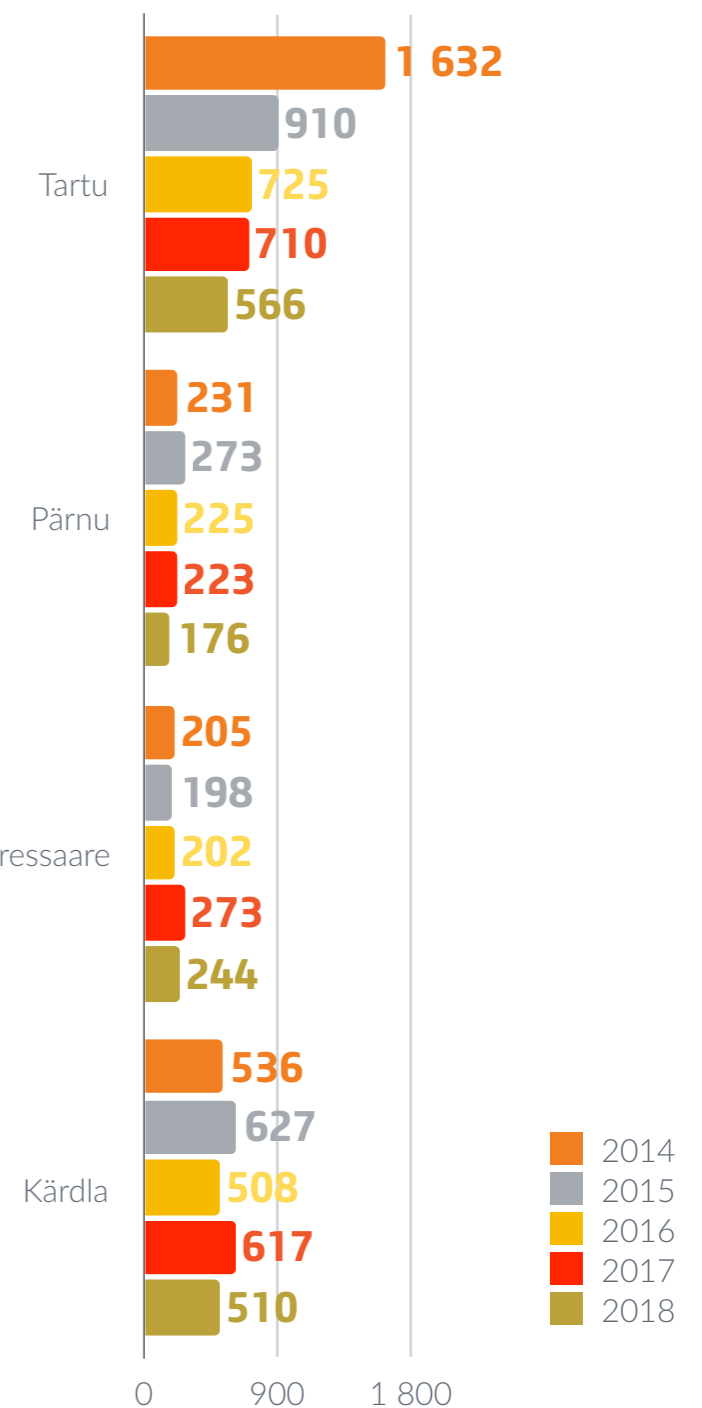
There is a slight decrease in water use as more water-saving equipment has been commissioned. The use of water at Tartu Airport has steadily decreased in recent years. Until the summer of 2015, the airport also supplied the nearby residential area from its own well, but then both the airport and the residential area were connected to the public water supply system and the water supply of the residential area was separated from the airport.

There was one chemical leak at regional airports in 2018.

POWER CONSUMPTION AT KURESSAARE, PÄRNU, KÄRDLA AND TARTU REGIONAL AIRPORTS (KWH), 2014–2018



WATER CONSUMPTION (M³) AT KURESSAARE, PÄRNU, KÄRDLA AND TARTU REGIONAL AIRPORTS, 2014–2018





FUTURE

A LOOK INTO THE FUTURE

In 2019, we expect further growth in aviation activities. The number of passengers at Tallinn Airport is forecast to increase to 3.052 million, but the number of flight operations will decrease due to changes in airlines' profile.

By 2019, the number of flight operations in Tallinn Airport is forecast to be 46,132, which is 5% less than in 2018 (48,568). Due to the growth in business volumes, also revenue and EBITDA will increase. Although we believe that 2019 will be a year of economic growth, we must be prepared to adjust our business volume as soon as the economic situation changes.

Air traffic has a significant impact on the economy, generating direct additional revenue for the tourism sector and businesses and adding value to the national economy. Since the length of flight time from Europe's major centres to Estonia is more than two hours and our home market is very small, airlines are not very motivated to open new routes from or to Tallinn.

It takes one to two years to open a new route. Considering the volume of investment needed to introduce the new destination and the potential operating loss in the early years, the airlines'

interest in Tallinn is rather small. It is therefore necessary for developing air traffic and increasing Estonia's competitiveness to invest in route development measures that would encourage the airlines to expand their activities in Estonia.

In 2019, Tallinn Airport will focus on creating a cross-service coordination centre, preparations for opening the market for groundhandling services and technological development.

In 2019, the Tallinn Airport Group plans to invest EUR 33.7 million. The main projects are

- The second stage of the Tallinn Airport airside area development project, the estimated cost of which is EUR 35 million (of which we will invest EUR 7.1 million in 2019);
- The development of Tallinn Airport passenger terminal and apron areas were launched in 2018. We have set aside EUR 16.7 million for the design and construction of the passenger terminal extension (we will invest EUR 0.3 million in 2019);
- Reconstruction of Pärnu Airport in 2018-2020. The total cost of the project is EUR 20 million (of which we will invest EUR 13.6 million in 2019).

FORECAST FOR ECONOMIC AND FINANCIAL INDICATORS

thousand EUR	2019 budget	2018	Variance
TALLINN AIRPORT LTD			
Number of passengers	3,052,052	3,007,644	1%
Number of flight operations	46,132	48,568	-5%
Cargo (tonnes)	11,518	11,518	0%
TOTAL OF REGIONAL AIRPORTS			
Number of passengers	65,725	61,894	6%
Number of flight operations	9,735	10,099	-4%
TALLINN AIRPORT GROUP			
TOTAL INCOME	58,948	53,868	9%
Sales revenue	45,659	43,801	4%
incl. aviation revenue	17,080	16,152	6%
incl. non- aviation revenue	28,579	27,649	3%
Other income	13,289	10,067	32%
incl. government grants for assets	3,829	3,946	-3%
incl. government grants for security and rescue expenses	7,035	4,135	70%
incl. government grants for regional airports	2,215	1,615	37%
incl. other income	210	371	-43%

thousand EUR	2019 budget	2018	Variance
Net profit	7,852	7,482	5%
Cash flows from main activity	15,815	15,450	2%
Investments	33,673	22,695	48%
Revenue per outgoing passenger (EUR)	29.29	28.17	4%
Net profit per outgoing passenger (EUR)	5.04	4.81	5%
Revenue per employee (EUR)	71,754	71,372	1%
Net profit per employee (EUR)	12,340	12,195	1%
Total assets at the year-end	231,459	189,736	22%
Assets at the year end*	151,791	128,834	18%
Equity at the year-end	93,694	85,739	9%
Borrowings at the year-end	46,550	33,762	38%
Equity/assets at the year-end*	62%	67%	
Borrowings/ operating profit before depreciation*	2.8	2.2	

thousand EUR	2019 budget	2018	Variance
OPERATING EXPENSES	50,637	46,216	10%
incl. goods, raw materials, services	15,205	14,035	8%
incl. miscellaneous operating expenses	2,134	1,580	35%
incl. labour costs	20,996	19,031	10%
incl. other operating expenses	87	209	-58%
incl. depreciation and amortisation	12,215	11,361	8%
Operating profit before depreciation, amortisation and interest* (EBITDA)	16,697	15,067	11%
Operating profit (EBIT)	8,311	7,652	9%
Net profit	7,852	7,482	5%
Number of employees*	636	614	4%

* excluding government grants for property, plant and equipment

The Tallinn Airport Group's strategy 2019–2025

As compared to 2018, we expect the Tallinn Airport Group's sales revenue to increase from EUR 43.8 million to EUR 45.7 million in 2019 (4%). Aviation revenue is estimated to grow by 5.7%, due to the forecasted 1.5% increase in the amount of passengers (3,052,052 passengers in 2019 compared to 3,007,644 passengers in 2018). For the Tallinn Airport Group's non-aviation revenue, the projected growth is 3.4%.

The forecasted number of flight operations at Tallinn Airport in 2019 is 46,132, which is 5% less than in 2018 (48,568).

The Tallinn Airport Group's other operating income is budgeted to exceed the actual income of 2018 by 32% in 2019, as government grants for security and rescue costs will increase by EUR 2.9 million (2019: EUR 7 million, 2018: EUR 4.1 million). Also the government grant for regional airports will increase by EUR 0.6 million (2019: EUR 2.2 million, 2018: EUR 1.6 million).

As per the budget the Tallinn Airport Group's operating income in 2019 will be EUR 58.9 million, which is 9% higher than in 2018. Expenses will increase from EUR 46.2 million to EUR 50.6 million, or by 10%. The Tallinn Airport Group's profit is expected to reach EUR 7.9 million.

By 2018 the capacity of the passenger terminal of Tallinn Airport exceeded the planned capacity at critical junctions. We have initiated the passenger terminal expansion project, the draft solution of which together with a business plan will be completed in the spring 2019.

Strategic targets of the Tallinn Airport Group for 2019

PASSENGER SERVICE

Target	Measure 2019
Total number of passengers in all airports	3.118 million passengers
Increase of Tallinn Airport's passengers satisfaction as per ASQ	4.45 on a 5-point scale
Increase in number of year-round direct flight destinations	At least 27 flight destinations
We offer excellent passenger experience at critical junctions of the Tallinn Airport passenger terminal during peak hours	<ul style="list-style-type: none"> • Service level agreements have been concluded and monitoring has been arranged: <ul style="list-style-type: none"> • Waiting for and completion of the security check under 30 min • 95% of arriving passengers pass border checks in less than 30 minutes • Baggage arrives in less than 15 min • Taxi waiting time is less than 15 min

AIRFIELD SERVICE

Target	Measure 2019
Our activity or inactivity does not cause the stoppage of flight activity	<ul style="list-style-type: none"> • No more than 30 minutes of flight stoppage in absolute terms per airport • All certificates issued to Tallinn Airport Ltd are valid • 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
No aircraft accidents or serious incidents occur because of our fault	No aircraft accidents or serious incidents
We serve all aircraft wishing to land at Tallinn Airport	Number of unserved aircraft: 0 (scheduled flights, regular charter and cargo flights)
Regional airports' residual income growth	EUR 0 (2018 residual income EUR -0.4 million)
Aviation revenue growth (in absolute terms)	EUR 17.1 million (2018: EUR 16.2 million), increase by 5.7%
Punctuality of regular and charter flights of Tallinn Airport GH Ltd is ≤2.5%	

PARTNERS AND SALES

Target	Measure 2019
The Tallinn Airport Group's non-aviation revenue growth	EUR 28.6 million (2018: EUR 27.6 million), increase by 3.4%
Growth of passenger satisfaction with trade and catering at Tallinn Airport as per ASQ	<ul style="list-style-type: none"> • Catering 4.3 on a 5-point scale • Trade 4.2 on a 5-point scale

ORGANISATION

The Tallinn Airport Group's EBITDA growth	Consolidated EUR 16.7 million (2018: EUR 15.1 million), increase by 10.8%
We increase the commitment of Tallinn Airport Group employees	TRI*M Index 78 points
We maintain the Company's open and reliable image	<ul style="list-style-type: none"> • In top 10 of Estonia's most attractive employers (Instar survey) • 80% of the Group's media coverage is objective and positive
We improve the Tallinn Airport Group continuity	<ul style="list-style-type: none"> • Availability of mission-critical systems and services 100% • Availability of business-critical systems and services 92% • Severe accidents at work 0, mild accidents 5 • Activities of the environmental programme have been implemented
We manage the impact of our activities on the natural and economic environment and on stakeholders. We take action to reduce negative effects. We reduce the ecological footprint	<ul style="list-style-type: none"> • Carbon neutral airport level I, i.e. the airport joined the CO₂ carbon accreditation program on 30 June 2019 • Gold level in the category of responsible companies • Business ethics incidents 0 • Personal injury incidents (employees, partners, customers) less than in 2018

Principles of sustainability reporting

The annual report 2018 of the Tallinn Airport Group is an integrated annual report on sustainability and social responsibility, corporate governance and accounting. The Sustainability and Social Responsibility Report is based on the Global Reporting Initiative (GRI) reporting standard. The Guidance on Sustainability Reporting consists of reporting principles, reporting guidelines and standard published data. This annual report presents the operations for the whole 2018, is prepared annually and is a follow-up to the annual report 2017.

Reporting principles and guidelines describe the key elements of the reporting process:

- Significance,
- Stakeholders inclusiveness,
- Sustainability context,
- Completeness.

The part of standard published data includes data and information that is relevant and significant for the Company and defined in the guide as three types of standard data:

- Strategy and profile - data that define the general context necessary to understand the Company's business activity (company strategy, profile and management);
- Management approach - data that reflect how the Company deals with relevant topics and provide a context for understanding a particular area of activity;
- Performance indicators - indicators that include comparable data on the Company's business activity in the economic, environmental and social fields.

Impact points were defined and their extent was delimited by interviewing employees and the management of the Company, by analysing literature, data and media, as well as by site visits and expert assessments. Relevance is defined by interviews with the Company's staff and management, as well as an external expert assessment from the stakeholder point of view. In more details stakeholders are described in the relevant chapter. In assessing relevance, also the legislative and regulative compliance is taken into account, as it can decrease the relevance of the topic for the Company, and vice versa.

Identified significant topics include:

- Economic Performance
- Indirect economic impact
- Anti-corruption
- Energy
- Biodiversity
- Emissions
- Effluents and waste
- Environmental compliance
- Employment
- Occupational safety and health
- Training and education
- Non-discrimination
- Socio-economic compliance.

In our business, we are guided by the principles of sustainability. Since 2018, we have committed ourselves to adhering to and linking our activities with the United Nations Sustainable Development Goals (SDGs), and for the first time report our compliance with SDGs. To illustrate how our activities contribute to achieving sustainable development goals, we have linked them to the issues that are important to us and have marked them as SDG in the report.

SUSTAINABLE DEVELOPMENT GOAL

3 GOOD HEALTH AND WELL-BEING
 World: **ENSURE HEALTHY LIVES AND PROMOTE WELL-BEING FOR ALL AT ALL AGES**

Tallinn Airport Ltd:
 The Company has a functioning occupational safety and health management system

4 QUALITY EDUCATION
 World: **ENSURE INCLUSIVE AND EQUITABLE QUALITY EDUCATION AND PROMOTE LIFELONG LEARNING OPPORTUNITIES FOR ALL**

Tallinn Airport Ltd:
 We support staff development and organise their learning activities and coaching with efficient use of resources and flexible learning opportunities

5 GENDER EQUALITY
 World: **ACHIEVE GENDER EQUALITY AND EMPOWER ALL WOMEN AND GIRLS**

Tallinn Airport Ltd:
 We support the equality principles of gender, age, education and diversity of views

6 CLEAN WATER AND SANITATION
 World: **ENSURE ACCESS TO WATER AND SANITATION FOR ALL**

Tallinn Airport Ltd:
 We are constantly monitoring rainwater. We use technical solutions that save water resources. We prevent environmental pollution through risk management. We provide clean drinking water at airports for passengers, staff and partners

7 AFFORDABLE AND CLEAN ENERGY
 World: **ENSURE ACCESS TO AFFORDABLE, RELIABLE, SUSTAINABLE AND MODERN ENERGY**

Tallinn Airport Ltd:
 We reduce electricity consumption per passenger. We increase the share of renewable energy in final energy consumption. We plan energy efficient buildings

8 DECENT WORK AND ECONOMIC GROWTH
 World: **PROMOTE INCLUSIVE AND SUSTAINABLE ECONOMIC GROWTH, EMPLOYMENT AND DECENT WORK FOR ALL**

Tallinn Airport Ltd:
 We contribute to the development of the country's economic environment. We value performance and outstanding staff commitment and mutually respectful relationships with staff

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
 World: **BUILD RESILIENT INFRASTRUCTURE, PROMOTE SUSTAINABLE INDUSTRIALIZATION AND FOSTER INNOVATION**

Tallinn Airport Ltd:
 We develop and operate infrastructure taking into account the expectations of the society and the stakeholders and the principles of sustainability

11 SUSTAINABLE CITIES AND COMMUNITIES
 World: **MAKE CITIES INCLUSIVE, SAFE, RESILIENT AND SUSTAINABLE**

Tallinn Airport Ltd:
 We monitor the emissions of fine particles into ambient air. We guarantee the opportunity to come to work in public transport and on a bicycle

12 RESPONSIBLE CONSUMPTION AND PRODUCTION
 World: **ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS**

Tallinn Airport Ltd:
 We have obtained the ISO 14001: 2015 environmental management system certificate. We ensure that hazardous waste is handed over to the handles of hazardous waste. We reduce generation of waste per passenger. We increase the share of recyclable waste. We ensure sustainable and responsible operation of the airports within the Company. We create a strategy for the Company's waste management system

13 CLIMATE ACTION
 World: **TAKE URGENT ACTION TO COMBAT CLIMATE CHANGE AND ITS IMPACTS**

Tallinn Airport Ltd:
 We keep track of greenhouse gas emissions. We monitor CO₂ emissions when purchasing new machinery. We reduce the consumption of fossil fuels

14 LIFE BELOW WATER
 World: **CONSERVE AND SUSTAINABLY USE THE OCEANS, SEAS AND MARINE RESOURCES**

Tallinn Airport Ltd:
 We ensure that environmental indicators meet the requirements of continuous monitoring. We regularly monitor rainwater

15 LIFE ON LAND
 World: **SUSTAINABLY MANAGE FORESTS, COMBAT DESERTIFICATION HALT AND REVERSE LAND DEGRADATION, HALT BIODIVERSITY LOSS**

Tallinn Airport Ltd:
 We use environmentally friendly de-icing equipment at airports to minimize the negative impact on biodiversity

16 PEACE, JUSTICE AND STRONG INSTITUTIONS
 World: **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**

Tallinn Airport Ltd:
 We prevent corruption by setting procurement terms and avoiding conflict of interest

17 PARTNERSHIPS FOR THE GOAL
 World: **REVITALIZE THE GLOBAL PARTNERSHIP FOR SUSTAINABLE DEVELOPMENT**

Tallinn Airport Ltd:
 We pay environmental tax on the basis of the ambient air pollution permit and special permit for water use

GRI Content Index

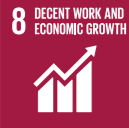

GRI standard	Disclosure	Page numbers
GRI 102: General Disclosures	Organisational profile	
	102-1 Name of the organisation	Tallinn Airport Ltd
	102-2 Activities, brands, products, and services	14, 17
	102-3 Location of headquarters	14
	102-4 Location of operations	14, 85, 138
	Sustainable Development Goal no 9	85, 124, 129
	Build resilient infrastructure, promote sustainable industrialization and foster innovation	
	102-5 Ownership and legal form	42
	102-6 Markets served	14
	102-7 Scale of the organisation	18
	102-8 Information on employees and other workers	138-145
	102-9 Supply Chain	61
102-10 Significant changes to the organization and its supply chain	22-25, 61	
102-11 Precautionary principle or approach	47-48, 52-61	







GRI standard	Disclosure	Page numbers
	102-12 External initiatives	49
	102-13 Memberships of associations	49
	Strategy	
	102-14 Statement from senior decision-maker	6-10
	102-15 Key impacts, risks, and opportunities	28-32, 36-39, 55-61, 155, 188-191
	Ethics and Integrity	
	102-16 Values, principles, standards, and norms of behaviour	31-32, 48
	Governance	
	102-18 Governance structure	42-45
	Stakeholder Engagement	
	102-40 List of stakeholder groups	124-126
	102-42 Identifying and selecting stakeholders	124-126
	102-43 Approach to stakeholder engagement	112-119, 124-126, 144-146
	102-44 Key topics and concerns raised	124


GRI standard	Disclosure	Page numbers
	Reporting Practice	
	102-45 Entities included in the consolidated financial statements	14
	102-46 Defining report content and topic Boundaries	192-195
	102-47 List of material topics	28-35
	102-48 Restatements of information	192-195
	102-49 Changes in reporting	We adhere to and link our activities to the UN Sustainable Development Goals, and report our compliance with SDGs in this report for the first time
	102-50 Reporting period	01.01.-31.12.2018
	102-51 Date of most recent report	29.03.2018
	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 AS Tallinna Lennujaam
	102-53 Contact point for questions regarding the report	kvaliteet@tll.aero



GRI standard	Disclosure	Page numbers
	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	196-204
	102-56 External Assurance	The Group's annual report is audited by AS PricewaterhouseCoopers
GRI 103: Management Approach	103-1 Explanation of the material topic and its boundary	28-39
	103-2 The management approach and its components	28-39, 154
	103-3 Evaluation of the management approach	28-39
	Sustainable Development Goal no 12 Ensure sustainable consumption and production patterns	155, 172-173
GRI 201: Economic Performance	201-1 Direct economic value generated and distributed	66-75, 125

GRI standard	Disclosure	Page numbers
	Sustainable Development Goal no 8 Promote inclusive and sustainable economic growth, employment and decent work for all	128, 138, 149
	GRI 203: Indirect Economic Impacts 203-1 Infrastructure investments and services supported	70-72, 128-135
GRI 205: Anti-corruption	205-1 Operations assessed for risks related to corruption	47
	205-2 Communication and training about anticorruption policies and procedures	47
	205-3 Confirmed incidents of corruption and actions taken	47
	Sustainable Development Goal no 16 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	48

GRI standard	Disclosure	Page numbers
GRI 302: Energy	302-1 Energy consumption within the organisation	161-163, 178-179
	302-3 Energy intensity	156-157, 161-163, 176
	302-4 Reduction of energy consumption	156-157
	Sustainable Development Goal no 7 Ensure access to affordable, reliable, sustainable and modern energy	161
GRI 304: Biodiversity	304-2 Significant impacts of activities, products, and services on biodiversity	155, 165, 171, 176
	Sustainable Development Goal no 15 Sustainably manage forests, combat desertification, halt and reverse land degradation, halt biodiversity loss	165-166, 176
GRI 305: Emissions	305-5 Reduction of greenhouse gas emissions	168-170
	305-7 Nitrogen oxides (NOX), sulphur oxides (SOX), and other significant air emissions	168-170

GRI standard	Disclosure	Page numbers
 17 PARTNERSHIPS FOR THE GOAL	Sustainable Development Goal no 17 Revitalize the global partnership for sustainable development	155
 11 SUSTAINABLE CITIES AND COMMUNITIES	Sustainable Development Goal no 11 Make cities inclusive, safe, resilient and sustainable	158-159
 13 CLIMATE ACTION	Sustainable Development Goal no 13 Take urgent action to combat climate change and its impacts	168-170
GRI 306: Heitvesi ja jäätmed	306-1 Water discharge by quality and destination	164, 168, 178-179
	306-2 Waste by type and disposal method	172-173
	306-3 Significant spills	171
	306-4 Transport and hazardous waste	172-173
	306-5 Water bodies affected by water discharges and/or runoff	160, 167, 176
 6 CLEAN WATER AND SANITATION	Sustainable Development Goal no 6 Ensure access to water and sanitation for all	167

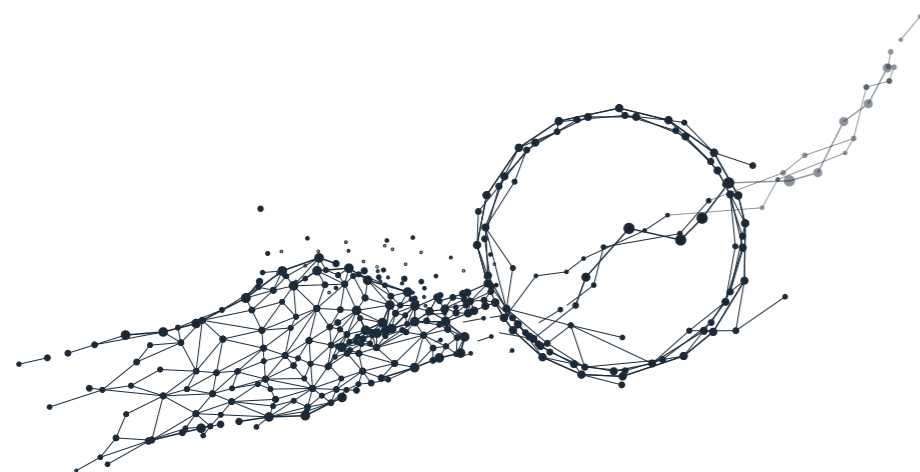
GRI standard	Disclosure	Page numbers
 14 LIFE BELOW WATER	Sustainable Development Goal no 14 Conserve and sustainably use the oceans, seas and marine resources	167
GRI 307: Environmental Compliance	307-1 Non-compliance with environmental laws and regulations	157
GRI 401: Employment	401-1 New employee hires and employee turnover	138-142
GRI 403: Occupational Health and Safety	403-1 Workers representation in formal joint management-worker health and safety committees	51, 58-60
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	58-60, 150
	403-4 Health and safety topics covered in formal agreements with trade unions	51, 150
 3 GOOD HEALTH AND WELL-BEING	Sustainable Development Goal no 3 Ensure healthy lives and promote well-being for all at all ages	51, 58

GRI standard	Disclosure	Page numbers
GRI 404: Training and Education	404-1 Average hours of training per year per employee	Since the Company focuses on providing practical training at work, this indicator is irrelevant
	404-2 Programs for upgrading employee skills and transition assistance programs	147-149
	404-3 Percentage of employees receiving regular performance and career development reviews	147
	Sustainable Development Goal no 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	149
	Sustainable Development Goal no 5 Achieve gender equality and empower all women and girls	138, 149
GRI 406: Non Discrimination	406-1 Incidents of discrimination and corrective actions taken	No incident of discrimination was registered in 2018
GRI 419: Socioeconomic Compliance	419-1 Non-compliance with laws and regulations in the social and economic area	No non-compliance was detected in 2018

A person wearing a dark suit jacket over a blue patterned shirt is shown from the chest down. They are holding a smartphone in their right hand, looking at the screen. To their left is a white metal shopping cart with a pink handle. In front of them is a silver laptop on a wooden surface. The background is a bright, out-of-focus window with warm sunlight streaming in, creating a bokeh effect. The overall scene suggests a professional or business context, possibly related to e-commerce or digital marketing.

**2018.
CONSOLIDATED
FINANCIAL
STATEMENTS**

2018. CONSOLIDATED FINANCIAL STATEMENTS



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Business name:	Tallinn Airport Ltd
Commercial registry number:	10349560
Legal address:	Lennujaama tee 12 11101 Tallinn Eesti Vabariik
Phone:	+372 6 058 701
Fax:	+372 6 058 333
E-mail:	administration@tll.aero
Home page:	www.tallinn-airport.ee
Auditor:	AS PricewaterhouseCoopers
Beginning of financial year:	01.01.2018
End of financial year:	31.12.2018

General information and contact data

The Group operates L.Meri Tallinn airport, Kärđla airport, Kuresaare airport, Tartu airport, Pärnu airport, Ruhnu airfield and Ki-hnu airfield in the Republic of Estonia.

The Group's main activity is operation and development of air-ports, and provision of ground handling services for aircraft and passengers. The Group employed 667 people on average in 2018 (2017: 634).

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 financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

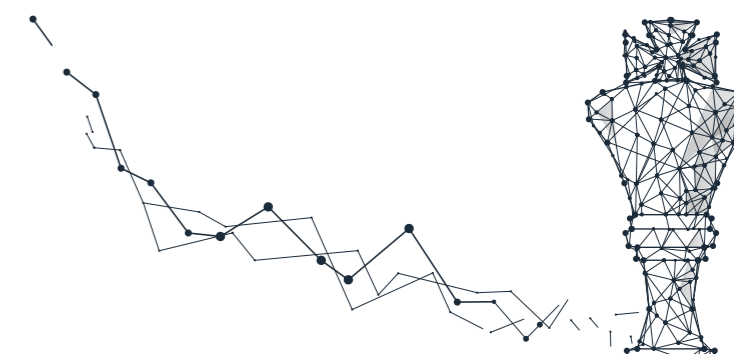
in EUR thousand	Note	31.12.2018	31.12.2017
ASSETS			
Non-current assets			
Property, plant and equipment	Note 5	152,446	140,348
Intangible assets		391	100
Investment property	Note 6	17,986	19,060
TOTAL NON-CURRENT ASSETS		170,823	159,508
Current assets			
Inventories	Note 8	290	230
Receivables and prepayments	Note 9	5,363	7,537
Cash	Note 11	13,260	14,137
TOTAL CURRENT ASSETS		18,913	21,904
TOTAL ASSETS		189,736	181,412

in EUR thousand	Note	31.12.2018	31.12.2017
EQUITY			
Share capital	Note 18	25,095	25,095
Statutory reserve capital		2,510	2,510
Retained earnings		58,134	50,652
TOTAL EQUITY		85,739	78,257
LIABILITIES			
Non-current liabilities			
Borrowings	Note 12	32,274	23,750
Government grants	Note 14	60,902	60,660
Other payables		41	41
TOTAL NON-CURRENT LIABILITIES		93,217	84,450
Current liabilities			
Borrowings	Note 12	1,488	8,509
Payables and prepayments	Note 15	8,836	9,696
Accruals	Note 25	456	500
TOTAL CURRENT LIABILITIES		10,780	18,705
TOTAL LIABILITIES		103,997	103,155
TOTAL LIABILITIES AND EQUITY		189,736	181,412

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand

	Note	2018	2017
Revenue	Note 19	43,801	40,250
Other income	Note 20	10,067	9,684
Goods, materials and services	Note 21	-14,035	-12,614
Other operating expenses	Note 22	-1,580	-1,283
Staff costs	Note 23	-19,031	-17,747
Depreciation, amortisation and impairment	Note 5, 6	-11,361	-11,038
Other expenses		-209	-580
OPERATING PROFIT		7,652	6,672
Finance income and costs		-170	-207
Net profit for the year		7,482	6,464
COMPREHENSIVE INCOME FOR THE YEAR		7,482	6,464



CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR thousand	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		48,857	48,541
Payments to suppliers and employees		-39,144	-38,912
Interest received		2	1
Interest paid		-185	-310
Government grants received from state budget for covering the cost of operating activities	Note 14	5,750	5,750
Other grants received for covering the cost of operating activities	Note 14	170	32
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		15,450	15,102
CASH FLOWS FROM INVESTING ACTIVITIES			
Paid for acquisition of intangible assets, property, plant and equipment and investment property	Note 5, 6	-24,439	-33,761
Proceeds from sale of property, plant and equipment	Note 5	42	162
Government grants received from state budget for non-current assets	Note 14	3,700	0
Other grants received for non-current assets	Note 9, 14	2,870	8,476
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		-17,827	-25,123

in EUR thousand	Note	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings	Note 12	-8,500	-4,556
Borrowings received	Note 12	10,000	20,000
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		1,500	15,444
NET CASH FLOWS		-877	5,424
Cash and cash equivalents at beginning of the period	Note 11	14,137	8,713
Cash and cash equivalents at end of the period	Note 11	13,260	14,137
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS		-877	5,424

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR thousand	Share capital	Statutory re-serve capital	Retained earnings	Total
BALANCE AS AT 31.12.2016	25,095	2,510	44,188	71,793
Comprehensive income for 2017	0	0	6,464	6,464
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

More detailed information about share capital is disclosed in Note 18.

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 Tallinn Airport Group comprise 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 on 26 March 2019.

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 consoli-

dated financial statements of the Group are presented in thousands of euros, if not indicated otherwise.

(B) CHANGES IN ACCOUNTING AND DISCLOSURE PRINCIPLES

Changes in disclosure principles

Except as described below, the disclosure principles 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 2017.

The Group has previously presented government grants received for non-current assets within cash flows from financing activities. As the management assesses that the recognition of the grants received for non-current assets within cash flows of investing activities more correctly reflects the content of the received grants, government grants received for non-current assets are presented in these financial statements both for 2017 and 2018 years within cash flows of investing activities. Due to the change the 2017 cash flows from financing activities decreased and cash flows from investing activities increased EUR 8,476 thousand.

Changes in significant accounting policies starting from 1.01.2018

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 2017. The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. The application of IFRS 15 and IFRS 9 did not have any material effect on the Group's financial statements as at 1 January 2018.

IFRS 9, Financial Instruments

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies, although no adjustments were recognised to the amounts in the financial statements. The new accounting policies are set out in paragraphs J, K. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted (the reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements):

	Measurement category		Carrying amount thousand EUR	
	Original (IAS 39)	New (IFRS 9)	Original	New
Financial assets				
Current assets				
Cash and cash equivalents	Amortised cost	Amortised cost	14,137	14,137
Trade and other receivables	Amortised cost	Amortised cost	6,719	6,719

The Group has the following types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables for sales of goods and from the provisions of services,
- cash and cash equivalents.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is presented in Note 3. As a result of the change in impairment methodology there was no material increase of the loss allowance on 1 January 2018, thus no adjustments were made to the Group's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 1 January 2018 and 31 December 2018

IFRS 15 Revenue from Contracts with Customers. The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 using the modified retrospective application, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. New accounting policies are disclosed in the paragraph V. Additionally, the disclosure requirements in IFRS 15 have not been applied to comparative information. As a result of the application no adjustments were recognised to the amounts in the financial statements at 1 January 2018.

Amendments to IFRS 15, Revenue from Contracts with Customers. The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

Adoption of new or revised standards and interpretations from 1.01.2019

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 2019, and which the Group has not early adopted:

IFRS 16 „Leases“. Effective for annual periods beginning on or after 1 January 2019. The new standard sets out the principles for the recognition, measure-

ment, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise:

- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value;
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The new standard has an impact on the disclosure of operating lease expenses, lease assets and lease liabilities in the financial statements.

However, according to the analysis performed the impact on the Group’s financial statements is not significant.

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). 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 Group evaluates the impact of the amendments on the financial statements.

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). 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 Group evaluates the impact of the amendments on the financial statements.

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 Ltd consolidated line-by-line. The receivables, liabilities, income, expenses, and unrealised gains and loss on the transactions between the parent company and its subsidiary have been eliminated. If necessary, the accounting policies of the subsidiary have been changed to bring them into compliance with the Group's accounting policies.

Subsidiaries

A subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent has power to govern the financial and operating policies

of the investee and as a rule, it owns more than 50% of the voting power of the subsidiary. The existence and probable effect of potential voting rights currently in use or convertible is taken into account for the purpose of evaluation of the existence of control. The subsidiary is included in the consolidated financial statements from the time control arises until it ceases.

Parent company's separate financial statements

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 26).

(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.

- 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.
- The cost of a self-constructed assets is comprised of location preparation, material and labour 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 in-

curred and the construction of the asset has been launched. Capitalization 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 useful lives of the assets.

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

BUILDINGS AND FACILITIES:

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

MACHINERY AND EQUIPMENT:

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

OTHER FIXTURES, TOOLS, FITTINGS:

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

Subsequent expenditures

Subsequent expenditures incurred for items of property, plant and equipment are added to the cost of the asset or are accounted for as separate assets only when it is probable that the future economic benefits attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. When a component of an item of property, plant and equipment is replaced, the cost of the

new component is added to the cost of the asset and the replaced component or a proportionate share thereof is taken off the 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:

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

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

(H) INVESTMENT PROPERTY

Investment property includes properties that the Group holds for the purpose of earning rental income or for the purpose of capital appreciation, and that are not used at the Group’s own operating activities.

The Group uses the cost method, i.e. the same accounting policies are used for recognition of investment properties as for recognition of items of property, plant and equipment.

The useful lives of the investment properties used at the Group are the following:

HANGARS:

Buildings	15 - 50 years
Other facilities (sewer and other utility lines)	3 - 20 years

OFFICE COMPLEX:

Office building	30 years
Outhouses	15 - 20 years
Constructions	5 years

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) “Impairment of Non-financial Assets”.

(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 decreased;
- Overall economic environment and market situation have deteriorated as a result of which it is possible that the income generated by the assets will decrease;
- 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

ACCOUNTING POLICIES FROM 1 JANUARY 2018

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.

As at 1 January 2018 and 31 December 2018, all the Group's financial assets were classified in this category.

Equity instruments

The Group has no investments in equity instruments.

ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

Classification

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

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

- **Financial assets at fair value through profit or loss.** There were no assets classified in this category on 31.12.2017 nor 31.12.2018. Financial assets at fair value through profit or loss are financial assets acquired for the purpose of trading which are intended to be sold in the near future. Derivative instruments are also recognised at fair value through profit or loss except for those derivative instruments which have been designed and are effective as hedging instruments. All assets in this category are included within current assets in the statement of financial position, except for those derivative instruments whose due date is later than 12 months;
- **Loans and receivables.** Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. Loans and receivables are included within current assets except for those loans and receivables whose due date is later than 12 months as at the end of the reporting period. In this case, they are included within non-current assets. The following financial assets are included within the category of loans and receivables: Cash and cash equivalents, Trade and other receivables.

Recognition and measurement

Loans and receivables are subsequently measured at amortised cost, using the effective interest rate method.

(K) IMPAIRMENT OF FINANCIAL ASSETS ACCOUNTING POLICIES FROM 1 JANUARY 2018

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. 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.

ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

Financial assets recognised at amortised cost. At the end of each reporting period it is assessed whether there is any objective evidence of impairment of a financial asset or a group of financial assets. A financial asset and a group of financial assets is impaired and impairment losses are incurred then and only then when one or several events (loss events) have occurred after the initial recogni-

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tion of the asset and this loss event (or events) will impact the estimated future cash flows attributable to the financial asset or a group of financial assets which can be determined reliably.

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

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

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

(L) 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 cannot be covered from the available equity of the public limited company, as well as to increase share capital. No payments can be made from reserve capital to shareholders.

(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.

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

ACCOUNTING POLICIES FROM 1 JANUARY 2018

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.

ACCOUNTING POLICIES APPLIED UNTIL 31 DECEMBER 2017

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

The Group's main activity is provision of air transportation and passenger services. Revenue from these services such as passenger, landing, parking, navigation and take-off fees are recognised under aviation revenue. In addition, revenue is generated by leasing of available premises, provision and intermediation of utility

services to tenants, car parking and passenger and aircraft ground servicing facilities. Such revenues are presented as non-aviation revenue.

Revenue

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

Interest income

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

(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

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.

(AB) TRANSACTIONS WITH RELATED PARTIES

During the preparation of the consolidated financial statement, Tallinn Airport Ltd '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 described 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 divisions 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 of 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 2018 and 2017, 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 2018 compared to 2017 (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 month before 31 December 2018 or 1 January 2018 respectively 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.

On that basis described above, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was calculated as follows:

CHANGES IN LOSS ALLOWANCE

in EUR thousand

31.12.2018 31.12.2017

	31.12.2018	31.12.2017
Loss allowance at the beginning of the period	585	1,035
Impact of implementation of IFRS 9 as at 01.01.2018	0	0
Receivables deemed doubtful during the reporting period	15	13
Receivables written off during the reporting period	8	463
LOSS ALLOWANCE AT THE END OF THE PERIOD	592	585

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 1 January 2018 and 31 December 2018.

The following measures have been applied to mitigate credit risk:

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

¹ Diskonteerimata rahavoo leidmisel on kasutatud 2018. aasta lõpus kasutatud intressimäära

² Diskonteerimata rahavoo leidmisel on kasutatud 2017. aasta lõpus kasutatud intressimäära

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:

- ensuring of liquidity;
- 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 13,260 thousand (31.12.2017: EUR 14,137 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 8,133 thousand (31.12.2017: EUR 3,200 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.

REKADOWN OF LIABILITIES BY MATURITY DATE

As at 31.12.2018	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amounts
Borrowings (Note 12) ¹	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
TOTAL	4,442	209	881	7,208	26,488	39,227	38,157
As at 31.12.2017							
Borrowings (Note 12) ²	100	191	8,350	4,489	19,954	33,084	32,259
Trade payables (Note 15)	4,107	1,884	0	0	41	6,032	6,032
TOTAL	4,207	2,075	8,350	4,489	19,995	39,116	38,291

(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 31.12.2018 and 31.12.2017, 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 (31.12.2017: EUR 25,095 thousand), statutory reserve capital in the amount of EUR 2,510 thousand (31.12.2017: EUR 2,510 thousand) and retained earnings in the amount of EUR 58,134 thousand (31.12.2017: EUR 50,652 thousand). Statutory reserve capital forms 10% of share capital. In 2018 debt of Tallinn Airport Ltd increased mainly due to increase in borrowings and cash and cash equivalents decreased mainly due to large-scale investments; in 2017 debt and cash and cash equivalents of Tallinn Airport Ltd increased mainly due to increase in borrowings. Ratio of debt to equity has decreased by 1% compared to 2017 (2017 vs 2016: increase by 12%). Taking into account revenue, equity and debt of

¹ For determining the undiscounted cash flows, the interest rate at the year-end 2018 has been used

² For determining the undiscounted cash flows, the interest rate at the year-end 2017 has been used

Tallinn Airport Ltd, the optimum ratio is 40%. The Group's debt to equity ratio is projected to grow in 2019 due to investments and loans taken for their financing (Note 12).

RATIO OF DEBT TO EQUITY AND THE RATIO OF NET DEBT TO TOTAL CAPITAL

in EUR thousand	31.12.2018	31.12.2017
Borrowings (Note 12)	33,762	32,259
Cash and cash equivalents (Note 11)	13,260	14,137
Net debt (borrowings-cash and cash equivalents)	20,502	18,122
Equity	85,739	78,257
Total capital (net debt + equity)	106,241	96,379
Debt to equity	32%	33%
Net debt to total capital	19%	19%



(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 31.12.2018 and 31.12.2017. 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 consolidated financial statements.

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

Management estimates about the actual period of use of the asset are used to determine the useful lives of items of 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 2018, the carrying amount of the Group's property, plant and equipment was EUR 152,446 thousand (31 December 2017: EUR 140,348 thousand), the depreciation charge for the reporting period was EUR 10,037 thousand (2017: EUR 9,393 thousand) (see Note 5). If the useful lives of all assets were changed by one year, the profit would change by EUR 977 thousand (2017: EUR 962 thousand).

As at 31 December 2018, the carrying amount of the Group's investment property was EUR 17,986 thousand (31 December 2017: EUR 19,060 thousand), the periods depreciation expense was EUR 1,251 thousand (2017: EUR 1,126 thousand)

sand (see Note 6). If the useful lives of investment property were changed by one year, the profit would change by EUR 107 thousand (2017: EUR 121 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 2018 and 1 January 2018 (on adoption of IFRS 9) is disclosed in Note 3.

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 2018 to conclude that the assets had lost a major share of their cash generation ability and no impairment test was performed (similarly to 2017).

Note 5. Property, plant and equipment

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	Construction in progress and prepayments	Land	Buildings and facilities	Machinery and equipment	Other inventory	Total
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Balance as at 31.12.2016

Cost	19,554	8,288	123,766	72,145	1,917	225,670
Accumulated depreciation	0	0	-54,195	-50,046	-1,204	-105,446
CARRYING AMOUNT 31.12.2016	19,554	8,288	69,571	22,099	713	120,225

Changes occurred in 2017

Acquisitions and improvements	22,575	3,004	0	4,499	57	30,135
Reclassifications	-40,727	0	29,882	10,845	0	0
Reclassification to expenses	-133	0	0	0	0	-133
Reclassifications between groups of property, plant and equipment	0	0	3,030	-2,938	-92	0
Depreciation charge	0	0	-4,332	-4,864	-197	-9,393
Carrying amount of assets sold	0	0	0	-8	0	-8
Carrying amount of assets written off	0	0	-398	-67	-12	-477

Balance as at 31.12.2017

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
CARRYING AMOUNT 31.12.2017	1,269	11,292	97,754	29,564	469	140,348

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Construction in progress and prepayments	Land	Buildings and facilities	Machinery and equipment	Other inventory	Total
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Changes occurred in 2018

Acquisitions and improvements	19,886	0	489	2,077	200	22,652
Reclassifications (Note 6)	-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

Balance as at 31.12.2018

Cost	2,054	11,274	171,807	80,997	1,709	267,840
Accumulated depreciation	0	0	-62,067	-52,126	-1,201	-115,394
CARRYING AMOUNT 31.12.2018	2,054	11,274	109,740	28,871	508	152,446

The largest fixed assets recorded in 2018 are the new car park of the Tallinn airport with the cost of EUR 13,794 thousand, the reconstruction of the runway and apron of Kärdla airport with the acquisition cost of EUR 1,534 thousand and the extension of the airside area with the cost of EUR 1,112 thousand. In addition, as of 31.12.2018, advance payments 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).

Due to the extension of the Tallinn runway and the alteration of the passenger terminal and also in the course of the standard business process, in 2018 assets of the Group worth EUR 30 thousand (2017: EUR 477 thousand) were written off. All write-offs were stated at their residual value and, in the consolidated statement of comprehensive income, under the depreciation and impairment of fixed assets.

No government grants related to asset write-offs were allocated to revenue in 2018 (2017: EUR 8 thousand) (see Note 14).

BUILDINGS AND CONSTRUCTIONS LEASED OUT UNDER OPERATING LEASE

In EUR thousand	2018	2017
Cost at 31.12.	32,203	28,756
Accumulated depreciation at 31.12.	-10,793	-9,345
Incl depreciation charge for the accounting period	-1,439	-1,201
TOTAL CARRYING AMOUNT OF BUILDINGS AND CONSTRUCTIONS LEASED OUT UNDER OPERATING LEASE AT 31.12.	21,410	19,411

In 2018, machinery and equipment in the carrying amount of EUR 18 thousand (2017: land and machinery in the carrying amount of EUR 8 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 117 thousand (2017: EUR 74 thousand) (Note 20).

As of 31.12.2018 and 31.12.2017 year-ends the Group had no assets acquired under the finance lease terms.

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 7).

PROPERTY, PLANT AND EQUIPMENT IN USE WITH THE CARRYING AMOUNT OF ZERO IN ACQUISITION COST

In EUR thousand	31.12.2018	31.12.2017
Tallinn airport	31,570	22,132
Pärnu airport	2,215	2,110
Tartu airport	3,202	2,623
Kuressaare airport	3,437	3,178
Kärdla airport	2,967	1,759
Tallinn airport GH Ltd	1,408	1,791
TOTAL NON-CURRENT ASSETS IN USE WITH THE CARRYING AMOUNT OF ZERO	44,799	33,593

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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 2,179 thousand (2017: EUR 1,921 thousand) (Note 7) and direct operating expenses were EUR 529 thousand (2017: 434 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	2018	2017
Cost as at 01.01.	24,624	21,949
Accumulated depreciation as at 01.01.	-5,564	-4,438
CARRYING AMOUNT OF INVESTMENT PROPERTY AS AT 01.01.	19,060	17,511
Changes in investment property in the period		
Purchases and improvements	0	2,675
Reclassifications (Note 5)	177	0
Depreciation charge	-1,251	-1,126
TOTAL CHANGES IN INVESTMENT PROPERTY IN THE PERIOD	-1,074	1,549
Cost as at 31.12.	24,801	24,624
Accumulated depreciation as at 31.12.	-6,815	-5,564
TOTAL CARRYING AMOUNT OF INVESTMENT PROPERTY AS AT 31.12.	17,986	19,060

Note 7. Operating lease

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.

In 2018, the rental income from non-cancellable leases¹ as at 31.12.2018 amounted to EUR 1,314 thousand (2017: EUR 4,010 thousand). The figures provided include rental income from property, plant and equipment as well as investment properties.

Rental expense

In 2018, total rental expenses for passenger cars were EUR 66 thousand (2017: EUR 66 thousand). Deferred rental expenses from non-cancellable leases amounted to EUR 137 thousand (2017: EUR 57 thousand).

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

¹ 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.

Rental income

In EUR thousand	2018	2017
Concessions from the activities of the lessees in the passenger terminal	3,780	3,362
Rent of investment properties (Note 6)	2,179	1,921
Rent of passenger terminals (Note 5)	731	759
Rent of rooms in the cargo terminal (Note 5)	741	645
Concessions from other activities	696	620
Infrastructure fees	549	522
Other rentals	345	322
TOTAL RENTAL INCOME (NOTE 19)	9,021	8,151

Note 8. Inventories

In EUR thousand	31.12.2018	31.12.2017
De-icing materials of aircraft	180	151
Runway maintenance and rescue service materials	73	32
Fuel	27	30
Other inventories	10	17
TOTAL INVENTORIES	290	230

No inventory write-downs were recognised during the period nor in 2017.



Note 9. Receivables and prepayments

9.1 Trade receivables

In EUR thousand	31.12.2018	31.12.2017
Accounts receivable	4,973	4,921
Allowance for doubtful receivables	-592	-585
TOTAL TRADE RECEIVABLES	4,381	4,336

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

9.2 Other receivables

In EUR thousand	31.12.2018	31.12.2017
Government grants receivable (Note 14)	0	2,383
Other receivables	4	0
TOTAL OTHER RECEIVABLES	4	2,383

9.3 Prepayments

In EUR thousand	31.12.2018	31.12.2017
Tax prepayments	661	672
Prepayments	314	143
Accrued income	3	3
TOTAL PREPAYMENTS	978	818
TOTAL RECEIVABLES AND PREPAYMENTS	5,363	7,537

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.

9.4 Changes in doubtful receivables

In EUR thousand	2018	2017
Allowance for doubtful receivables at beginning of the period	-585	-1,035
Receivables deemed doubtful during the reporting period (Note 22)	-15	-16
Receivables deemed uncollectible	8	463
Receivables deemed doubtful collected during the reporting period (Note 22)	0	3
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT END OF THE PERIOD	-592	-585

Note 10. Financial instruments

(A) FINANCIAL INSTRUMENTS BY CATEGORY

ITEMS OF FINANCIAL ASSETS IN THE STATEMENT OF FINANCIAL POSITION

In EUR thousand	31.12.2018	31.12.2017
Trade receivables, government grant related to non-currents not received and other receivables (Note 9.1, 9.2)	4,385	6,719
Cash and cash equivalents (Note 11)	13,260	14,137
TOTAL ITEMS OF FINANCIAL ASSETS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	17,645	20,856

ITEMS OF FINANCIAL LIABILITIES IN THE STATEMENT OF FINANCIAL POSITION

In EUR thousand	Other financial liabilities	Total
As at 31.12.2018		
Borrowings (Note 12)	33,762	32,259
Trade and other payables (Note 15, 3)	4,395	6,032
TOTAL ITEMS OF FINANCIAL LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION	38,157	38,291

(B) FINANCIAL INSTRUMENTS BY CREDIT QUALITY

The consolidated financial statements of the Group for the year 2018 have changed the accounting of financial assets in accordance with the amendments to IFRS 9, which entered into force on 01.01.2018, refer to Notes 2, 3 and 4 for further details.

As a result of the implementation of the new standard, the write-down of receivables as of 01.01.2018 remained unchanged. During 2018, allowance for doubtful receivables increased by EUR 7 thousand.

ANALYSIS OF ACCOUNTS RECEIVABLE

In EUR thousand	31.12.2018	31.12.2017
Analysis of accounts receivable	4,973	4,921
Incl. the due date has not arrived	3,376	3,501
Incl. payments overdue 1-30 days	932	601
Incl. payments overdue 31-60 days	7	223
Incl. payments overdue 61-90 days	64	11
Incl. payments overdue >91 days	10	1
incl. Estonian Air AS overdue invoices	584	584
ALLOWANCE FOR DOUBTFUL RECEIVABLES AT THE END OF THE PERIOD	592	585

Note 11. Cash and cash equivalents

In EUR thousand	31.12.2018	31.12.2017
Cash on hand	82	120
Bank accounts (Note 10)	13,169	13,973
Cash in transit (Note 10)	9	44
TOTAL CASH AND CASH EQUIVALENTS	13,260	14,137

ALLOCATION OF BANK ACCOUNTS AND DEPOSITS BY BANKS WITH DIFFERENT CREDIT RATINGS

In EUR thousand	31.12.2018	31.12.2017
Banks with Moody's credit rating of Aa2/Aa3	13,176	13,991
Banks with Moody's credit rating of Baa2	2	2
Banks with Moody's credit rating of A2	0	24
TOTAL AMOUNTS OF BANK ACCOUNTS AND DEPOSITS EXPOSED TO CREDIT RISK	13,178	14,017

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 10 million was received from European Investment Bank. In 2017 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	31.12.2018	31.12.2017
Long-term borrowings		
Long-term bank loans	32,274	23,750
TOTAL LONG-TERM BORROWINGS	32,274	23,750
Short-term borrowings		
Repayments of long-term bank loans in the next period	1,476	1,000
Interest payable related to long-term bank loans	12	9
Bonds in nominal value	0	7,500
TOTAL SHORT-TERM BORROWINGS	1,488	8,509
TOTAL BORROWINGS	33,762	32,259

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%

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CHANGE IN LOAN BALANCES DURING 2018

In EUR thousand As at 31.12.2018	NIB	Pohjola	Pohjola bonds	EIB	TOTAL
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

CHANGE IN LOAN BALANCES DURING 2017

In EUR thousand As at 31.12.2017	NIB	Pohjola	Pohjola bonds	EIB	TOTAL
Loan balance at beginning of the period	3,556	5,750	7,500	0	16,806
Paid off during the period	-3,556	-1,000	0	0	-4,556
Received during the period	10,000	0	0	10,000	20,000
Loan balance at end of the period	10,000	4,750	7,500	10,000	32,250
Loan interest payable	0	0	15	0	15

NET DEBT RECONCILIATION

In EUR thousand	31.12.2018	31.12.2017
Cash and cash equivalents	13,260	14,137
Short term liabilities	-1,476	-8,500
Long term liabilities	-32,274	-23,750
Net debt	-20,490	-18,113
Cash and cash equivalents	13,260	14,137
Liabilities with fixed interest	-33,750	-32,250
Net debt	-20,490	-18,113

In EUR thousand	Cash and cash equivalents	Liabilities <1y	Liabilities >1y	TOTAL
Net debt 31.12.2017	14,137	-8,500	-23,750	- 18,113
Cashflows	-877	7,024	-8,524	-2,377
Net debt 31.12.2018	13,260	-1,476	-32,274	- 20,490

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, Tallinn Airport Group shall not:

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

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

As of 31.12.2018 and 31.12.2017, Tallinn Airport Group was in compliance with the terms of the loan agreements.

Note 14. Government grants

14.1 Government grants receivable

In EUR thousand	2018	2017
Government grants receivable (Note 9.2)	0	2,383

14.2 Government grants related to operating expenses

In EUR thousand	2018	2017
Allocation for a specific purpose from state budget	5,750	5,750
incl. security and rescue expenses aid	4,135	4,135
incl. aid for regional airports	1,615	1,615
Other domestic grants related to operating expenses	170	32

GOVERNMENT GRANTS RELATED TO OPERATING EXPENSES RECOGNISED AS INCOME (NOTE 20)

	2018	2017
	5,920	5,782

14.3 Government grants related to assets

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

In 2018 and 2017, 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	2018	2017
Long-term government grants received as at the beginning of the period	60,660	56,395

CHANGES IN GOVERNMENT GRANTS IN THE ACCOUNTING PERIOD

Assets and liabilities acquired with government grants	4,188	8,054
Incl. allocation for a specific purpose from state budget	3,700	0
incl. Cohesion Fund (ISPA)	488	8,054
Recognised as income	-3,946	-3,781
incl. domestic government grant	-327	-343
Incl. Cohesion Fund (ISPA)	-2,466	-2,191
Incl. European Regional Development Fund (ERDF)	-1,153	-1,247
Write-off of asset and liability acquired with government grants	0	-8
Incl. European Regional Development Fund (ERDF)	0	-8
Total long-term government grants recognised as income (Note 20)	-3,946	-3,789
TOTAL LONG-TERM GOVERNMENT GRANTS AS AT THE END OF THE PERIOD	60,902	60,660
incl Domestic government grants	5,385	2,011
incl Cohesion Fund (ISPA)	48,418	50,397
incl European Regional Development Fund (ERDF)	7,099	8,252

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Note 15. Trade payables and prepayments

15.1 Trade payables and prepayments

In EUR thousand	31.12.2018	31.12.2017
Payables for goods and services	1,642	2,146
Payables for non-current assets	2,694	3,836
Other payables	18	10
TOTAL TRADE PAYABLES	4,354	5,992

15.2 Accrued expenses to employees, tax liabilities and prepayments

In EUR thousand	31.12.2018	31.12.2017
Accrued expenses to employees (Note 17)	2,902	1,891
Tax liabilities (Note 16)	1,402	1,697
Prepayments	178	116
TOTAL OTHER PAYABLES AND PREPAYMENTS	4,482	3,704
TOTAL PAYABLES AND PREPAYMENTS	8,836	9,696

Note 16. Tax liabilities

In EUR thousand	31.12.2018	31.12.2017
Social security taxes on wages and salaries, and fringe benefits	833	1,010
Income tax on wages and salaries, and fringe benefits	457	559
Unemployment insurance tax	55	68
Pension insurance	41	53
Excise tax	7	6
Corporate income tax	6	1
Other taxes	3	0
TOTAL TAX LIABILITIES (NOTE 15)	1,402	1,697

Refer to Note 24 for potential liabilities from tax revision.

Note 17. Accrued expenses to employees

In EUR thousand	31.12.2018	31.12.2017
Bonus reserve liability	1,488	613
Wages and salaries accrued but not yet paid	943	761
Holiday pay liability	468	515
Other payables to employees	3	2
TOTAL ACCRUED EXPENSES TO EMPLOYEES (NOTE 15)	2,902	1,891

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.

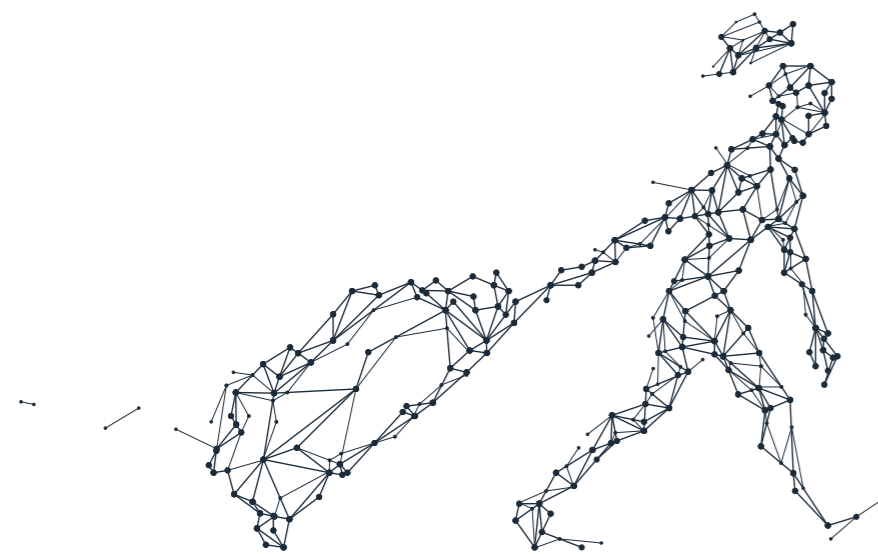
	31.12.2018	31.12.2017
Share capital	EUR 25,095,400	EUR 25,095,400
Number of shares	2,509,540 pcs	2,509,540 pcs
Nominal value of shares	EUR 10	EUR 10

As at 31 December 2018, the retained earnings of the Group amounted to EUR 58,134 thousand (31.12.2017: EUR 50,652 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 46,507 thousand (31.12.2017: EUR 40,522 thousand) and the corresponding income tax would amount to EUR 11,627 thousand (31.12.2017: EUR 10,130 thousand).

The expectation of the state as the owner is that all state-owned companies 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 the Group needs for infrastructure of the air traffic management, the owner does not plan to pay dividends in the coming years.

Note 19. Revenue

AVIATION REVENUE		
In EUR thousand	2018	2017
Passenger fees	8,652	7,619
Landing fees	7,001	6,623
Parking fees	473	393
Navigation fees	21	20
Take-off fees	5	5
TOTAL AVIATION REVENUE	16,152	14,660



In EUR thousand	2018	2017
Aircraft handling and passenger servicing revenue	13,149	11,843
Rental income		
Concessions	4,477	3,982
Rent for premises and hangars	3,996	3,647
Infrastructure fees	548	522
TOTAL RENTAL INCOME (NOTE 7)	9,021	8,151
Other services sold		
Parking services for cars	1,913	1,938
Services provided to tenants	1,223	1,115
Advertising services	565	590
Aviation related services	1,625	1,728
Other services provided and intermediated	153	225
TOTAL OTHER SERVICES SOLD	5,479	5,596
TOTAL NON-AVIATION REVENUE	27,649	25,590
TOTAL REVENUE	43,801	40,250

Note 20. Other income

In EUR thousand	2018	2017
Government grants related to operating expenses (Note 14)	5,920	5,782
Government grants related to assets recognised as income (Note 14)	3,946	3,789
Gain from disposal of machinery and equipment (Note 5)	117	74
Other income	84	39
TOTAL OTHER INCOME	10,067	9,684

Note 21. Goods, materials and services

In EUR thousand	2018	2017
Security, safety and rescue*	4,336	4,156
Utilities expenses	2,840	2,483
Maintenance of runways	1,257	1,211
Vehicle operation expenses	1,399	1,225
Cost of provision of services to passengers and aircrafts	1,484	1,259
Maintenance expenses of buildings and facilities	1,419	1,405
IT and communication expenses	1,300	875
TOTAL GOODS, MATERIALS AND SERVICES	14,035	12,614

* Includes only outsourced security services. Other security and rescue expenses are recognised on other expense lines. In 2018, all other security and rescue expenses amounted to EUR 6.5 million (2017: EUR 6.1 million).

Note 22. Other operating expenses

In EUR thousand	2018	2017
Administrative expenses	538	359
Marketing and public relations	367	349
Human Resources Services	37	14
Training costs	280	292
Special clothing and uniforms	256	160
Business trips	87	96
Costs related to doubtful receivables (Note 9)	15	13
TOTAL OTHER OPERATING EXPENSES	1,580	1,283

Note 23. Staff costs

In EUR thousand	2018	2017
Wages and salaries, performance pay, holiday pay, bonuses	14,075	13,035
Average monthly salary in EUR	1,910	1,876
Taxes calculated on staff costs	4,841	4,557
Staff costs classified as fringe benefits	115	155
TOTAL STAFF COSTS	19,031	17,747

STAFF COUNT

Number of employees at the beginning of the period	632	607
Number of employees at the end of period	680	632
Average number of employees	614	579

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 2018, the Group had future commitments of EUR 1.7 million (2017: EUR 17 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 2018, government grants in amount of EUR 18 million were received (31.12.2017: EUR 15 million).

Note 25. Related party transactions

In EUR thousand	2018	2017
Receivables	80	76
Liabilities	888	876
Incl. liability due to route incentive program	423	372
Sales	673	532
Reduction of sales due to route incentive program	-544	-532
Purchases	120	126

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

In 2018, the remuneration of the Supervisory and Management Board of the parent company, without social security taxes amounted to EUR 372 thousand (2017: EUR 357 thousand). In 2018, the remuneration of the Supervisory and Management Board of the subsidiary, without social security taxes amounted to EUR 127 thousand (2017: EUR 145 thousand). The Group has provided cars for the members of the Management Boards 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 2018 (2017: EUR 500 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.

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Note 26. Financial information of the parent company

SEPARATE STATEMENT OF FINANCIAL POSITION

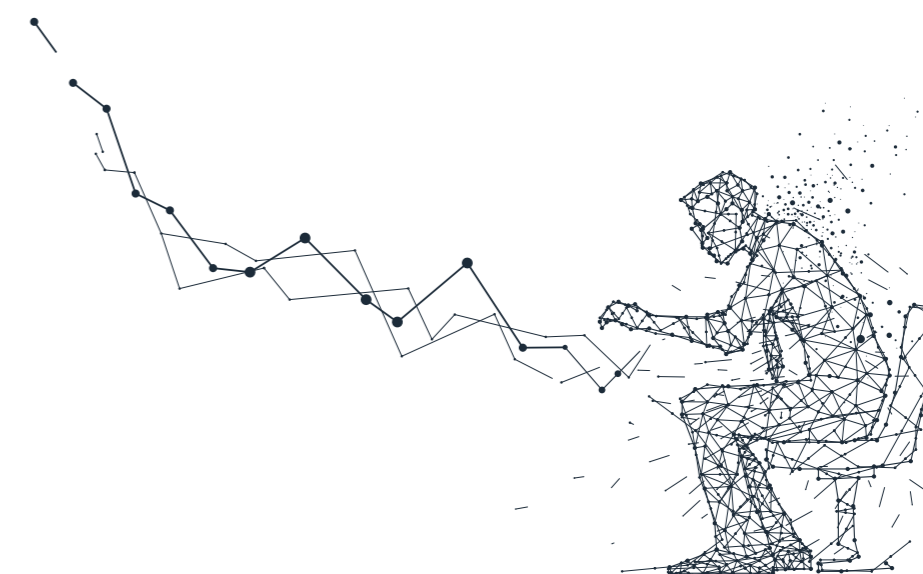
In EUR thousand	31.12.2018	31.12.2017
ASSETS		
Non-current assets		
Long-term financial investments	1,028	1,028
Property, plant and equipment	148,933	137,542
Intangible assets	391	101
Investment property	17,986	19,060
TOTAL NON-CURRENT ASSETS	168,338	157,731
Current assets		
Inventories	109	78
Payables and prepayments	3,448	5,360
Cash	6,146	8,211
TOTAL CURRENT ASSETS	9,703	13,649
TOTAL ASSETS	178,041	171,380

In EUR thousand	31.12.2018	31.12.2017
EQUITY		
Share capital	25,095	25,095
Statutory reserve capital	2,510	2,510
Retained earnings	48,808	42,540
TOTAL EQUITY	76,413	70,145
LIABILITIES		
Non-current liabilities		
Borrowings	32,274	23,750
Government grants	60,902	60,660
TOTAL NON-CURRENT LIABILITIES	93,176	84,410
Current liabilities		
Borrowings	1,488	8,509
Payables and prepayments	6,964	8,317
TOTAL CURRENT LIABILITIES	8,452	16,826
TOTAL LIABILITIES	101,628	101,236
TOTAL LIABILITIES AND EQUITY	178,041	171,381

SEPARATE STATEMENT OF COMPREHENSIVE INCOME

In EUR thousand

	2018	2017
Revenue	32,393	29,981
Other income	10,058	9,670
Goods, materials and services	-11,837	-10,865
Other operating expenses	-1,218	-1,037
Staff costs	-11,802	-11,308
Depreciation, amortisation and impairment	-10,951	-10,594
Other expenses	-205	-75
OPERATING PROFIT	6,438	5,772
Finance income and costs	-170	-207
Net profit for financial year	6,268	5,564
COMPREHENSIVE INCOME FOR FINANCIAL YEAR	6,268	5,564



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SEPARATE STATEMENT OF CASH FLOWS

In EUR thousand

2018 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Collections from customers	37,801	38,564
Paid to suppliers and employees	-30,447	-30,202
Interest received	2	1
Interest paid	-184	-310
Government grant received from the state budget for covering the cost of operating activities	5,750	5,750
Other grants received for covering the cost of operating activities	170	32
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	13,092	13,835

CASH FLOWS FROM INVESTING ACTIVITIES

Paid for purchase of property, plant and equipment, and intangible assets	-23,260	-32,623
Proceeds from sale of property, plant and equipment	33	77
Government grants received from state budget for non-current assets	3,700	0
Government grants received for non-current assets	2,870	8,476
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	-16,657	-24,070

In EUR thousand

2018

2017

CASH FLOWS FROM FINANCING ACTIVITIES

Repayments of borrowings	-8,500	-4,556
Borrowings received	10,000	20,000
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	1,500	15,444
NET CASH FLOWS	-2,065	5,209
Cash and cash equivalents at beginning of year	8,211	3,002
Cash and cash equivalents at end of year	6,146	8,211
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	-2,065	5,209

SEPARATE STATEMENT OF CHANGES IN EQUITY

In Eur thousand	Share capital	Statutory reserve capital	Retained earnings	Total
BALANCE AS AT 31.12.2016	25,095	2,510	36,976	64,581
Comprehensive income for 2017	0	0	5,564	5,564
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

**ADJUSTED UNCONSOLIDATED EQUITY OF TALLINN AIRPORT LTD
(PARENT COMPANY)**

In EUR thousand	2018	2017
Unconsolidated equity of the parent	76,413	70,145
Carrying amount of subsidiaries in the separate reporting of the parent (minus)	-1,028	-1,028
Value of subsidiary under the equity method (plus)	10,354	9,140
TOTAL	85,739	78,257

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Tallinna Lennujaam

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 2018, 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.

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

- the consolidated statement of financial position as at 31 December 2018;
- 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 a summary of significant accounting policies and other explanatory information.

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.

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.

Other information

The Management Board is responsible for the other information contained in the annual report in addition to 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.

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.



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.

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/

Tiit Raimla
Auditor's certificate no.287

/signed/

Diana Brodskaja
Auditor's certificate no.685

26 March 2019

** 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 31.12.2017	EUR 50,652 thousand
Net profit for 2018	EUR 7,482 thousand
Total distributable profit as at 31.12.2018	EUR 58,134 thousand

The management board proposes to not distribute the net profit for 2018 in the amount of EUR 7,482 thousand and transfer it to retained earnings.

Retained earnings after profit allocation	EUR 58,134 thousand
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Piret Mürk-Dubout
Chairman of the board
26.03.2019

Einari Bambus
Member of the Management Board
26.03.2019

Anneli Turkin
Member of the Management Board
26.03.2019

Signatures to the annual report

The Management Board of Tallinn Airport Ltd has prepared the management report and financial statements for the year 2018. The Management confirms the correctness of information presented in the annual report.

Management board:

Piret Mürk-Dubout
Chairman of the board
26.03.2019

Einari Bambus
Member of the Management Board
26.03.2019

Anneli Turkin
Member of the Management Board
26.03.2019

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
Chairman of the Supervisory Board
28.03.2019

Kadri Land
Member of the Supervisory Board
28.03.2019

Toivo Jürgenson
Member of the Supervisory Board
28.03.2019

Piret Aava
Member of the Supervisory Board
28.03.2019

Indrek Gailan
Member of the Supervisory Board
28.03.2019

Revenue of Tallinn Airport Group according to EMTAK 2008

In EUR thousand	2018	2017
EMTAK code		
35131 Distribution of electricity	715	665
52231 Operation of airports and airport passenger terminals	29,898	27,704
52239 Other support activities for air transportation	13,149	11,843
85599 Other education	39	38

