CONSOLIDATED ANNUAL REPORT 2010

(Translation of the Estonian original)

AS Tallinna Lennujaam

Business name:	AS Tallinna Lennujaam
Commercial registry number:	10349560
Legal address:	Lennujaama tee 12
	11101 Tallinn
	Republic of Estonia
Phone:	+372 6 058 701
Fax:	+372 6 058 333
E-mail:	administration@tll.aero
	www.tallinn-airport.ee
Auditor:	AS PricewaterhouseCoopers
Beginning of financial year:	01.01.2010
End of financial year:	31.12.2010

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GENERAL INFORMATION AND CONTACT DATA

The Group operates Lennart Meri Tallinn Airport, Kärdla Airport, Kuressaare Airport, Tartu Airport, Pärnu Airport, Ruhnu Airport and Kihnu Airport in the Republic of Estonia.

The Group's main activity is operation and development of airports, and provision of ground services for aircraft and passengers. The Group employs 488 people.

The owner of the shares of AS Tallinna Lennujaam is the Republic of Estonia and the Company is under the authority of the Ministry of Economic Affairs and Communications of the Republic of Estonia.

Legal address:	Lennujaama tee 12
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Fax:	+372 6 058 333
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MANAGEMENT REPORT

Our vision

To develop into a well-known and accepted aviation centre in Northern Europe by 2015.

Our mission

AS Tallinna Lennujaam is a customer-oriented and efficient provider of high quality services, the main aim of which is to achieve customer satisfaction and Company's profitability.

Our values

Readiness for cooperation **–** the will and know-how to participate efficiently in joint activities;

customer focus **–** readiness and action to deliver the Company's objectives, taking into account wishes of domestic and foreign customers;

quality **–** ability to provide services that meet customers' expectations and needs which are in compliance with international standards and quality requirements of the Company.

About us

AS Tallinna Lennujaam is the air gate of a small, but assidual country. We cannot stand out due to size, but we can stand due to our generosity and friendliness, cosiness and hospitality. Let our airport buzz like a bird's nest. Our logo is the Estonian national bird – the swallow.

In the multi-layer graphic solution of the new visual identity, one curve of the wing symbolizes landing and the other, take-off. The swallow's bulging chest symbolizes a sense of pride that takes us forward in life.

We are proud to bear the name of the people's favourite president – Lennart Meri.

Overview of the operating results

- In 2010, the Group serviced a total of 1.45 million passengers at all airports. A total of 1.38 million passengers passed through Lennart Meri Tallinn Airport, which is an increase of 2.9% as compared to 2009.
- In 2010, the consolidated revenue was EEK 405.6 million and the net profit was EEK 31.4 million.
- The consolidated balance sheet total was EEK 2,214.6 million.
- In 2010, the Group's capital expenditures totalled EEK 45.15 million.

Highlights of 2010

- March – provision of the aeronavigation service at Tartu Airport was handed over to Lennuliiklusteeninduse AS.
- April –as a result of Icelandic volcano eruption an ash cloud halted the majority of the air transport in Europe for 5 days.
- July – the visual identity of the Group was harmonized and renewed.
- August – AS Tallinna Lennujaam was elected as the organiser of ROUTES 2012, the largest aviation conference of Europe will be organised in Tallinn in May 2012.
- September – a 5-year line support programme was launched with a goal to increase the number of flight connections and support growth of the existing lines. With this programme, it is expected to significantly increase the number of destinations and passengers. We plan to service 2.3 million passengers in 2015. In conjunction with the support programme, an increase in the number of passengers is not directly correlated with the increase in revenue.
- September – the Republic of Estonia became the sole shareholder of the shares of Estonian Air.

- December – air carrier Ryanair commenced flights from Tallinn with the aim to carry 300 thousand passengers in 2011, i.e. 22% of the total number of passengers in 2010.

Overview of the sector

The period from autumn 2008 to spring 2010 was a very difficult time in the Estonian aviation landscape. In 2008, the largest domestic air operator – Estonian Air – carried 751 thousand passengers. By the end of 2010, the number of Estonian Air's passengers dropped by 28% or to 538 thousand passengers. Reduction in the number of destinations serviced by Estonian Air and frequency of flights led to the Estonian population's dissatisfaction with the aviation sector as a whole. The situation became even more tense due to the fact that Latvian state-owned air operator Air Baltic constructed an ambitious transit centre in Riga Airport during the same period, with the planned 20 million passengers in the five-year perspective. Air Baltic also expanded in Tallinn Airport by increasing the number of passengers by 57% - from 120 thousand passengers in 2008 to 188 thousand passengers at the end of 2010. Similarly to Tallinn Airport, Vilnius Airport also faced challenges given that the number of passengers dropped by 40% after bankruptcy of domestic carrier Flylal.

Estonia is a very small country and if we wish to generate revenue from tourism and ensure continuing direct flight connections with the important European transit centres during the period of an economic recession, the key for surviving and successfully overcoming the crisis is cooperation among the airport, domestic carrier and the state.

Since 2009, different solutions for supporting logistic opportunities related to aviation have been sought in collaboration with the state. The Ministry of Economic Affairs and Communications commissioned an analysis from the Competition Board on the impact of airport charges and taxes on the aviation sector. Each added air passenger creates added value in Estonia in the amount of EEK 1500, EEK 800 of taxes are estimated to flow to the state.

The Competition Board carried out an analysis on the potential impact of a decrease in airport charges in Tallinn Airport on the number of passengers and the financial results of AS Estonian Air if the airport charges applicable in Tallinn Airport were equal to those of Riga Airport or if the Republic of Estonia bore the additional expenses of AS Tallinna Lennujaam in providing the airport services as compared to Riga Airport. That analysis showed that reduction in airport charges in both manners would unlikely have any direct impact on the number of passengers passing through the airport, but reduction in airport charges may influence the financial condition of the air operator based at Tallinn Airport (AS Estonian Air) and thus the latter's ability to develop and improve its position in the aviation market. Given the potential possible impact, the Competition Board finds that the state of Estonia might consider compensation by the state of the additional expenses to be borne by AS Tallinna Lennujaam in accordance with the relevant EU regulations. (Source: http://www.konkurentsiamet.ee/public/Seisukohad_ja_arvamused/LJ_tasude_analyysi_kokkuvote_ilma_AS.pdf).

The state decided to bear the expenses related to the pre-flight security from 01.01.2011. Until 2011, those expenses were covered by the passengers in the form of a security fee. As a result of this, AS Tallinna Lennujaam will not earn any additional income in this respect. In addition, the state decided to increase grants to regional airports. In 2010, AS Tallinna Lennujaam covered an estimated 50% of direct and indirect expenses of regional airports from its own income. AS Tallinna Lennujaam allocated the funds that became available to finance the support programme for new lines. The state also committed to cover the expenses related to the rescue function of the airport. That step enables the airport to continue with the landing charge of EEK 130 per landed ton of international flights.

The measures designated by the line support programme of AS Tallinna Lennujaam for new lines received a positive feedback from Estonian Air and were also attractive for low-cost airline companies. In the autumn, EasyJet announced the opening of new destinations and Ryanair started flights from Tallinn. Thus, the line support programme directly brought about new destinations and new passengers.

The revenue base of airports' flight revenues has significantly declined throughout the world as a result of the triumph of low-cost airliners. Airports must more than ever earn their revenues from non-aviation activities. Tallinn Airport faces the same challenge in relation to the line support programme for new lines. For us as a company, implementation of the line support programme means larger dependence on state decisions than currently and pressure on earning non-aviation revenues.

Key operating and financial indicators of the Group

		2010	2009	2008	2007	2006
Lennart Meri Tallinn Airport						
Number of passengers		1,384,831	1,346,236	1,811,536	1,728,430	1,541,832
Number of flight operations	pcs.	33,587	32,572	41,654	38,844	33,989
Cargo	tons	11,960	21,001	41,867	22,764	10,361
Total regional airports						
Number of passengers		64,206	47,392	39,452	33,758	34,866
Number of flight operations	pc.	11,394	10,836	11,806	11,182	9,636
Group						
Revenue	th EEK	405,642	368,719	427,276	387,819	331,392
Operating profit before depreciation*	th EEK	156,978	147,730	150,656	183,749	165,272
Net profit	th EEK	31,442	6,258	16,675	102,515	95,100
Cash flows from main activity	th EEK	155,641	96,396	176,431	159,460	118,851
Investments	th EEK	45,150	294,680	872,195	481,192	155,041
Assets (end of year)	th EEK	2,214,558	2,289,409	2,378,683	1,594,350	967,954
Assets excluding government grant (end of year)	th EEK	1,164,768	1,230,151	1,428,733	1,047,349	723,311
Equity (end of year)	th EEK	634,704	603,262	597,004	580,329	477,814
Borrowings (end of year)	th EEK	466,968	565,001	638,296	294,978	205,265
Equity/assets (end of year)*	%	1	0	0	1	1
Net debt/ operating profit before depreciation*		3	4	4	2	1
Number of employees		488	453	414	429	386

* excluding government grants

Fulfilment of the objectives for 2010

Client service	Assessment basis	Assessment
To participate in the ASQ quality programme in 2011 to assess the service quality of the airport and compare it to other airports.	Airports are assessed on the basis of international criteria.	The project is postponed until 2012.
To ensure smooth and correct servicing of passengers at the security screening point.	Maximum length of the security screening queue is 15 minutes.	Completed.
Harmonisation and updating of service standards of different service providers, their expansion to regional airports.	Service standards have been developed and introduced.	Project for 2011-2012.

Operation of AS Tallinna Lennujaam on the basis of common management principles

Development of management systems and harmonisation of the management system principles (quality, safety, environment) in regional airports.	Management systems of regional airports are certified.	Term of certification: autumn 2011.
Concentration of provision of aeronavigation service into the hands of one service provider who has specific competences and licensed instructors.	A basic contract and a contract for provision of aeronavigation service are concluded with Lennuliiklusteeninduse AS for provision of the aeronavigation service at Tartu Airport.	Completed.
To implement in cooperation with Lennuliiklusteeninduse (LLT) the land monitoring system in 2010 which ensures the provision of a significantly safer airport service.	The land monitoring system has been implemented; the number of incidents related to road transport will fall by 25%.	Delay in completion due to LLT AS. New term 2011.
To introduce flight safety plans in all areas of activity of operations.	All incidents have been fixed.	Completed.
Introduction of SMS (safety management system) software in AS Tallinna Lennujaam (incl. regional airports).	SMS software has been implemented.	Terms of reference are prepared. The system must be implemented by 2012.
Development of the management system of Tallinn Airport GH AS in accordance with the requirements of ISAGO.	The management system has been certified in accordance with the requirements of ISAGO.	The project is suspended for mapping the requirements of airline companies.
To ensure detection of prohibited items during the security screening.	At least 90% of the security employees who work with the TIP programme recognise threat images on 90% of occasions.	Completed.

Ensuring the flight safety and complying with the environmental requirements upon performance of maintenance work in the airport.	No serious incidents have occurred upon performance of maintenance work.	Completed.
Development of the electricity supply system. Construction of security of supply in compliance with the requirements to radio navigation system (ILS GP 26).	Equipment of instrumental landing system is functioning without failures and smoothly.	Completed.
Technical development of operational servicing of the electricity supply system. Procurement and commissioning of technical equipment for monitoring the electricity supply system and registration of failures.	Failures of the electricity supply system and locations of such failures are identified in real time.	Contract for construction of the system was concluded in 2010.
Certification of new semi-automated weather surveillance system AWOS AviMetand, its implementation in collaboration with Lennuliiklusteeninduse AS.	The number of incidents resulting from deviations caused by real-time weather is decreasing.	Completed.
Transfer of the distance control function of instrumental landing system Thales ILS/DME-420 implemented in 2009 to the aerodrome control function in Lennuliiklusteeninduse AS.	The process of providing air traffic control services is faster, enabling to increase the total number of operations.	Completed.
Development of e-training card in the e-training system, introduction of electric copies of materials certifying training.	Renewal of certificates and completion of repeated training courses take place 100% in a timely manner.	Improvements to the e-training system for achieving the objective in 2011.
Ensuring the functioning of the safety management system in all airports through regular documentation of defects and making of proposals by employees (SMS reports).	Increase in the number of incidents.	The project is in the implementation stage.

Efficient and profitable company

Increase of the number of lessees and lease areas in the passenger terminal.	Rent and concession proceeds will increase 5%.	Project is in the development stage.
Upgrading the services and pricing system for VIP and Business Lounge services.	Revenue will increase as a result of increased number of clients.	Updating the VIP and BL concept, moving BL to a new location at the end of 2011.
Transformation of the Group's visual identity.	All airports have a clearly identifiable visual identity, while the related expenses are lower than the expenses for upholding 5 different identities.	New visual identity in 2010, implementation in 2011.
Ensuring operative and organized maintenance service trough cooperation with other subdivisions and partners.	During snow removal work, the provision of the airport service is ensured.	Completed.

Objectives for 2011–2013

Client-oriented service

- Growth in satisfaction of air passengers.
- Increasing the number of destinations.
- Raising quality and quantity of services provided at the passenger terminal.
- Improving internal and external communication.
- Organising ROUTES 2012 in Estonia.
- Performing the analysis of opportunities to participate in the ASQ (Airport Service Quality) programme to assess service quality of the airport and compare it to other airports.
- Development and implementation of common service standards atTallinna Lennujaam AS.
- Improving the client service level at Tallinn Airport GH.
- Ensuring passenger screening to traditional airlines within maximum queuing time of 15 minutes and to low-cost airlines within maximum queuing time of 25 minutes.

High-quality operation of airports and cooperation

- Mapping and analysis of risks arising from the Group's activities.
- Improving management quality in regional airports.
- Certification of regional airports in accordance with the requirements of international standards ISO 9001:2008 and ISO 14001:2004.
- Centralisation of development of flight safety and security systems.
- Raising the flight safety level and environmental sustainability, improving regularity of flights by developing GPS-based non-precision approach procedures.
- Through continuous training programme of security staff to ensure that at least 90% of the security staff who use TIP programme recognise threat images on 90% of occasions.
- Raising flight safety level of regional airports and improving regularity of flights.
- Handing aeronavigation service over to LLT at Kuressaare Airport.

Efficient and profitable company

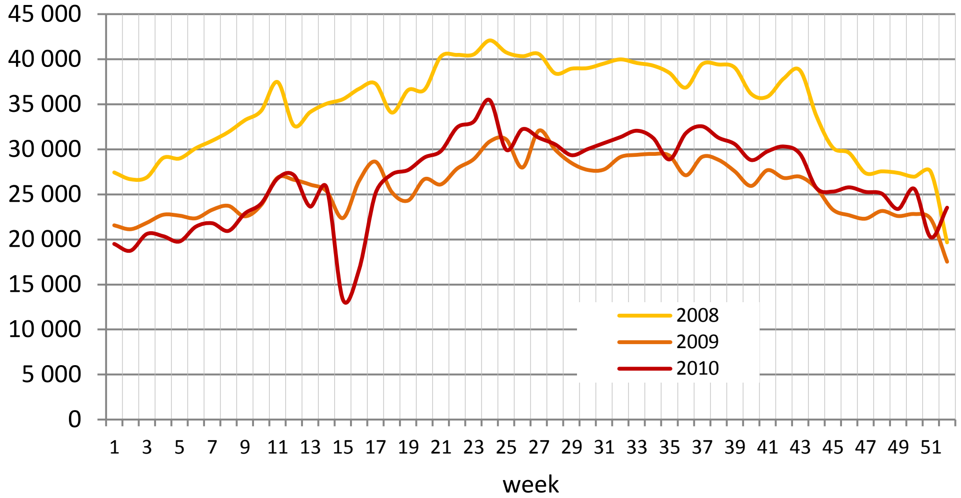
- Upgrading IT control systems, implementing IT solutions for safety, asset management, risk management and client management systems.
- Increasing the number of operators on the territory of the airport through improving the infrastructure, expanding opportunities and raising quality of services.
- Renewing motivation policy of employees.
- Ensuring sustainable and high-quality work procedures of the organisation.
- Introduction of digital administration.
- Updating the principles of management accounting system of TLL AS group.

CLIENT-ORIENTED SERVICE

Air traffic

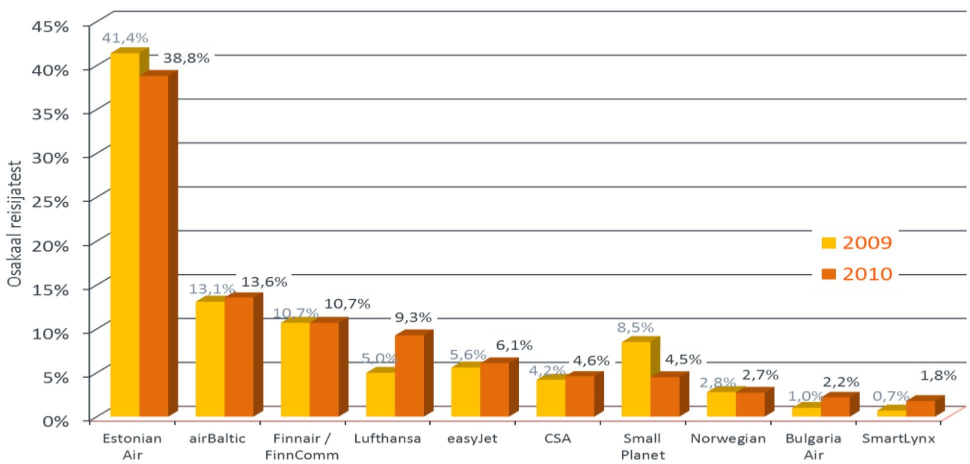
While the recovery of the European and world air traffic from the global economic recession began already at the end of 2009, the recovery of the Estonian air traffic began a little later. During the first months of the year, the number of passengers continued to fall, culminating with a five-day halt of flights due to ash clouds resulting from the Icelandic volcano eruption in April when 332 flight operations (165 arrivals) were cancelled at Tallinn Airport due to the closing of air traffic and estimated 16,000 passengers were forced to give up their travel plans or use road transport. Seasonal nature of passengers’ demand and its changes are illustrated in figure 1.

Figure 1 - Total number of passengers 2008 - 2010



In May, the number of passengers grew as compared to 2009, but still remained lower than the budgeted target. The number of passengers in the Group as a whole increased by 4% compared to the last year, a total of 1,449,037 passengers was serviced. During the year, Tallinn Airport provided services to 1,384,381 passengers which was 2.9% more than in 2009, but 6.5% less than the budgeted target. The difference from the budget resulted mainly from charter passenger flights and a decline in the number of regular flights of Estonian Air.

During the year, the number of passengers on regular flights dropped only in Estonian Air (-3.5%) of the regular airline companies, as a result of which their general market share at Tallinn Airport dropped for the first time below 40%. Of the regular airline companies, Lufthansa increased its market share the most, the number of their passengers doubled year-over-year owing to the added Munich line.



In 2010, several new lines and carriers were added to the flight network of Tallinn Airport.

- In March, Lufthansa opened flights to Munich, offering everyday connection to connecting passengers with the attractive late-night arrival in Tallinn and the early-morning departure. As a result of this, Munich became a new important connecting airport in Tallinn flight network.
- In May, LOT Polish Airlines resumed flights between Warsaw and Tallinn after an interruption of one and a half year.
- Air Baltic expanded its activities, commencing flights from Tallinn to Stockholm, Oulu and Tampere, but closed them and other Finnish lines (Turku, Lappeenranta) in the autumn. Air Baltic also launched operational ground handling by concluding an infrastructure use contract with Tallinn Airport effective from 1 November 2010.
- In the summer period, the Italian carrier WindJet made regular flights between Tallinn and Forli. Estonian Air also introduced several new seasonal destinations (Athens, Nice).
- At the end of the year, the European largest low-cost airline Ryanair started flying from Tallinn, opening five lines in December (Düsseldorf-Weeze, Dublin, Oslo-Rygge, Stockholm-Skavsta, Milano-Bergamo). With the planned volumes, Ryanair will become the second largest air carrier in Tallinn after Estonian Air in 2011 in terms of its market volume.

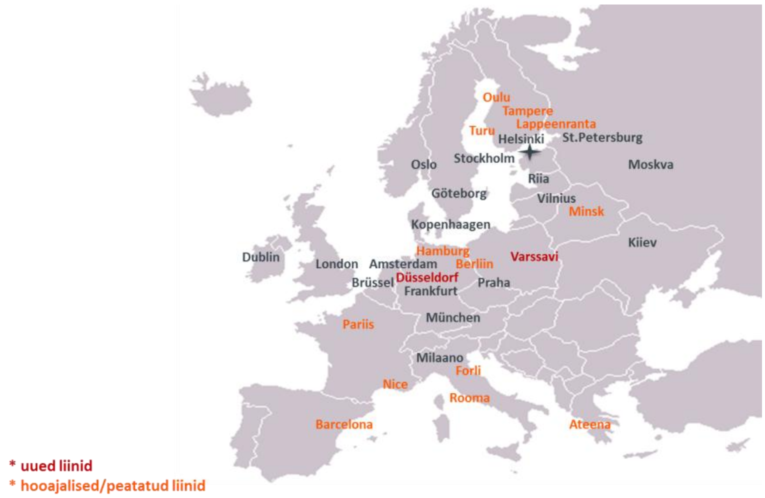


Figure 3 – International regular routes from Tallinn Airport 2010

Comparison of changes in the number of passengers with the respective changes in Riga and Vilnius shows that a growing trend may be noticed only in Tallinn at the end of the year as illustrated by Figure 4.

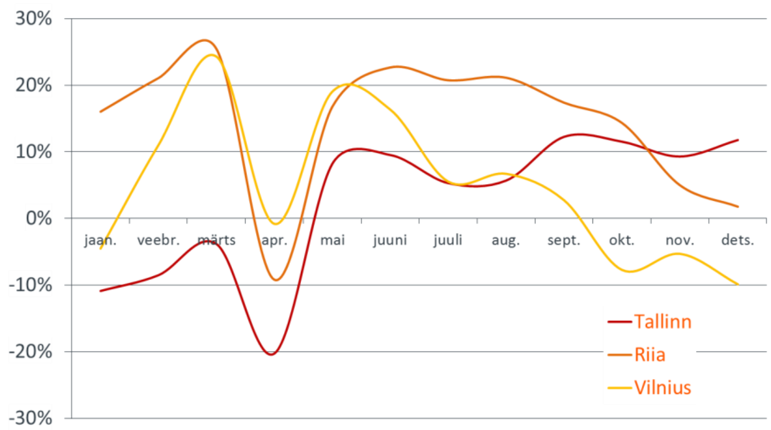
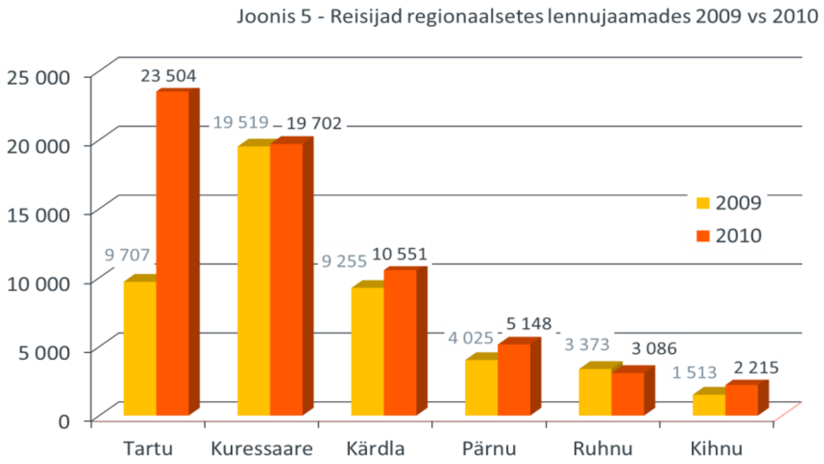


Figure 4 – Change in the number of passengers 2010/2009

Tallinn Airport forecasts air traffic to grow by ca. 30% in 2011, which means 1.8 million passengers per year. Development may be expected mainly in the low-cost flight sector, the share of which will increase from 6% to 20% of all passengers.

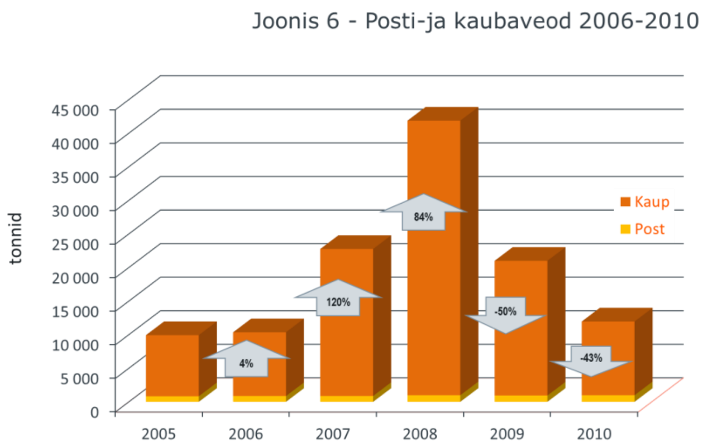
Of the regional airports, the number of passengers increased the most in Tartu due to the passage of one full year from commencement of regular flights. The traffic volume will not increase at regional airports in 2011. Domestic airlines from Kuressaare, Kärdla, Kihnu, Ruhnu are subsidised by the state and the number of flights depends on the resources of the state budget.

Figure 5 – Passengers at regional airports 2009 vs. 2010



Postal and cargo traffic of Tallinn Airport was characterised by a decline in cargo traffic resulting from a decline in the business cycle of a large-scale cargo charter flight project that commenced in 2009 (Figure 6).

Figure 6. Postal and cargo traffic in 2006-2010



Trade in passenger terminal

The total area of L. Meri Tallinn Airport is 27,127 m^2. The business premises make up 4,000 m2 or 14.7% of the total area. In addition, the terminal also includes 766 m^2 of the VIP and Business Lounge area. Of the business premises, 40% is used for catering and 30% for retail trade. The economic downturn also reduced the average shopping basket of passengers. At the beginning of 2010, the average shopping basket of a passenger was EEK 51. The amount of the shopping basket reached EEK 74 by the end of the year. Growth resulted from the addition of new stores and commodity groups.

Ground handling service

In conjunction with the addition of aircrafts and passenger handlers, Tallinn Airport established uniform rules and pricing principles concerning the use of infrastructure. From October 2010, Air Baltic provides the ground services to its aircrafts. It was accompanied by replacement of the current handling concessions by infrastructure charges. The infrastructure charge is paid for handling passengers, goods or aircraft; the environmental infrastructure charge is paid for de-icing. The charges are paid by the handler.

In addition to the charges, Tallinn Airport established uniform terms of use for providers of ground services. During 2011, those terms will be supplemented by time and qualitative norms in order to maintain the quality level of services provided to passengers of Tallinn Airport.

The ground handling market is regulated by the EU directive 96/67 EC of 15.10.1996. The directive is not applicable if the number of passengers is less than 2 million, AS Tallinn Airport GH is authorised to provide the service to third parties. In 2010, the sales of AS Tallinn Airport GH were EEK 121 million. The sales increased by EEK 44 million compared to 2009. Growth was driven by termination of Estonian Air's own handling in summer 2009.

In 2010, AS Tallinn Airport GH employed on average 167 people.

Security service

The security screening understandably makes people feel uncomfortable and often causes mistrust. Unfortunately, the world around us is becoming tougher and aviation is one of the attractive targets for organisations that do not compromise on their goals. One of the darkest events in recent history was the bomb explosion that took place at Moscow Domodedovo Airport on 24 January 2011, as a result of which 37 were killed and 127 were injured, which shows that security is priceless and people who help ensure it are doing very praiseworthy work.

Estonia as one of the EU Member States has set an aim to be a reliable partner to the other EU Member States and ensure implementation of aviation security measures at airports on the basis of common principles. The measures applied at Estonian airports for ensuring aviation security have been agreed upon at the level of the European Parliament and are compulsory to all Member States. It is the common goal of each employee and cooperation partner to ensure aviation security in order to offer their clients safe air transport. During 2010, altogether 3,626 items specified in the list of prohibited items/substances (incl. weapons and parts of weapons), i.e. on average 10 prohibited items per day, were detected during the course of the security screening at Tallinn Airport. AS G4S Eesti is the partner of AS Tallinna Lennujaam in providing the security service.

Servicing of passengers with special needs

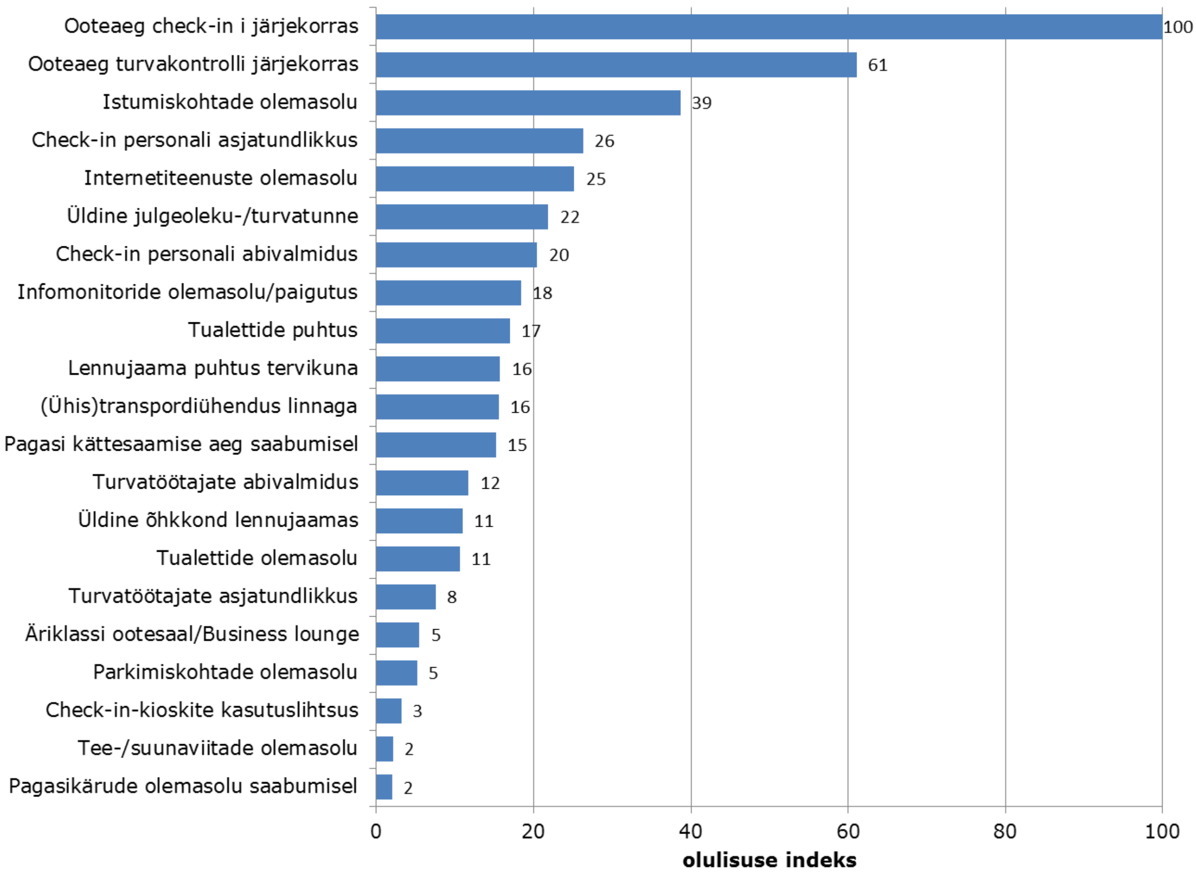
In 2010, we serviced 1 670 passengers with reduced mobility (PRM) (2009:1,551)

All PRM attendants have previously completed the relevant training: the servicing of disabled passengers and passengers with reduced mobility at the airport, and the servicing of clients with special needs at the airport (incl. lifting and moving). The PRM service at Tallinn Airport is provided by 14 passenger attendant assistants and 5 terminal head assistants.

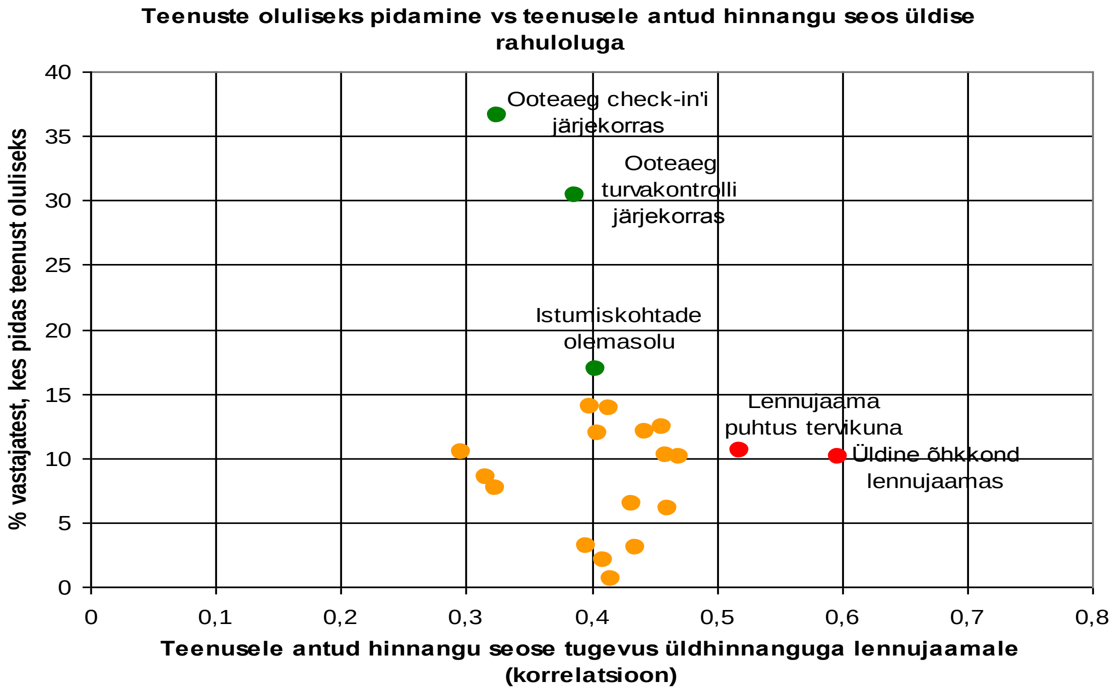
Passenger satisfaction

Since 1994, a regular passenger survey has been carried out each autumn in order to get an overview of the passenger preferences, social and demographic profile of passengers and changes in comparison with previous surveys. As it has recently become possible to use booking-based data bases for identifying the travel preferences (route, ticket class, etc), the attention of the survey has shifted to evaluation by passengers of quality of the airport services. As the airport attaches value to quality and focus on clients, such emphasis is completely relevant and justified.

According to the survey, passengers value their time the most– the waiting time in the check-in and security screening queues is important. Evaluation of importance of quality of services is illustrated by the following index chart:



The level of services considered as important by passengers might not however influence their satisfaction with the airport. The overall satisfaction of passengers with the airport is related more to the atmosphere than the waiting time in the check-in or security screening queue as illustrated by the following chart. From the viewpoint of passenger satisfaction, attention should be paid to services marked in green which are important to the respondents but are moderately correlated with their average evaluation, as well as to the services marked in red which the respondents have considered as moderately important but are most strongly correlated with the overall evaluation.



Strength of correlation of the score granted to the service with the overall evaluation of the airport

The overall evaluation by passengers of the airport is quite high: the average score of the check-in waiting time was 4.12 and the security screening waiting time 3.90 in a 5-score system in 2010 (2009: 4.16 and 3.98, respectively). On average, a 4.19 score was given to the general atmosphere at the airport and 4.3 to the cleanliness of the airport (2009: 4.14 and 4.34, respectively). The general feeling of security and cleanliness of the airport had the highest score for satisfaction. The majority of the scores have not changed over the last two years.

Transport connection with the city scored lower than the average. The share of public transport users among passengers has increased and accounted for 15% of all passengers in 2010. In connection with the growth in the number of passengers in the low-cost aviation sector, the share of public transport may be expected to continue to increase among the air passengers. However, taxi was most important means of transport used for arriving at the airport (42% of the passengers).

The strengths of the airport lie in the general feeling of security, cleanliness and good atmosphere as well as the aspects related to the check-in. Changes are expected mainly in the choice of goods and price level in the shops and catering places of the airport. Connection with the city and number of seats before the security check also require attention.

HIGH-QUALITY OPERATION OF AIRPORTS AND COOPERATION

Operation and development of L. Meri Tallinn Airport

In order to ensure the operation of the airport and regularity also under difficult weather conditions, Tallinn Airport wishes to raise the airport category from one to two. Consultancy company AAC Aviation & Airport Consult performed a cost-benefit analysis of the transfer of Tallinn Airport to category two, during which different solutions for gradual transfer were prepared, the estimated costs of different solutions were compared, the existing pavements of air traffic area and the perimeter security systems were assessed. On the basis of the cost-benefit analysis, a transfer plan was prepared with the purpose of receiving category two for east side approach runways (26) and west side approach runway (08).

In order to control the ground traffic and ensure safety in the airfield, the implementation of the land monitoring system continued in cooperation with Lennuliiklusteeninduse AS. The official adoption of the system is planned to take place at the beginning of 2011.

The flight safety unit identified 134 incidents in the traffic area of the airport in 2010. The main incidents affecting flight safety were related to violation of the procedures concerning the servicing of aircrafts and traffic of motor vehicles on the aprons. There were two more serious incidents:

- At 18 March, a serious incident took place in the immediate vicinity of the airfield with a cargo aircraft of Polish air carrier Exin which made an emergency landing on the ice of Lake Ülemiste.
- At 25 August, an incident took place with the aircraft AN-26 of Polish air carrier Exin which was flying on a regular cargo flight on the route of Tallinn-Helsinki. In the take-off run, the mechanic pulled the landing gear off before taking off and the aircraft fell to the runway. The damaged aircraft was removed from the runway within 4 hours.

To improve the level of flight safety in Tallinn airfield, notification possibilities were implemented. All operators and clients may notify of threats and circumstances that may pose threat to operation by using e-mail address safety@tll.aero,

In 2011, it is planned to commence cooperation with Air Maintenance Estonia in order to build an aircraft maintenance hangar. The estimated area of the whole complex is 10,000 m^2. The hangar will be built by AS Tallinna Lennujaam and it will be granted for a long-term operational lease of 30 years to Air Maintenance Estonia. Construction of the hangar will be financed by AS Tallinna Lennujaam from its own funds and loans.

AS Tallinna Lennujaam is looking for opportunities to open regular flights of aircrafts of classes D, E and F between the route of Tallinn-Asia. That traffic volume requires very large investments:

- Commencing regular flights by aircraft of the given category means extension of the runway by 500 metres up to 3,500 metres. In addition, renewal of the airfield lighting system, relocation of navigation equipment, renewal of approaching procedures. Construction of additional aprons and maintenance hangars in the southern areas.
- Raising the rescue category to the level CAT 9 for servicing the aircrafts of classes D, E and F, which requires renewal of the rescue equipment and enlargement of the team.
- Opening the regular passenger traffic and increasing the number of passengers over 2.3 million passengers per year requires expansion of the passenger terminal (up to 3.5 million passengers).

Those investments can be made only by using the resources of the Cohesion Fund (CF). The next CF period will open in 2013. AS Tallinna Lennujaam plans to prepare and submit an application for financing that project.

Operation and development of regional airports

Quality of the services provided by regional airports has been significantly improved by the grant of the European Regional Development Fund (ERDF). At the beginning of 2010, the largest investment ever made at Kuressaare Airport – the reconstructed air traffic area – was commissioned. The project included extension of the runway up to 2000 meters, widening of the apron, installation of high-intensity runway lights and meteorological equipment

In 2010, the runway cleaning equipment was purchased with the grant from ERDF; the instrument landing system (ILS) was installed in the airfields of Tartu and Kuressaare. The ILS contributes to a decrease in cancellation of flights due to weather conditions and supports development of year-round regular air traffic. ILS cannot be installed at Kärdla airfield for technical reasons. Deriving from the need to improve the regularity of air traffic also in the given region, development and implementation of GPS-based non-precision approach procedures are underway, and GPS-based precision approach equipment and procedures will be implemented in the next stage. The adoption of a precision approach can take place in 2013 at the earliest, after its certification in Europe.

In 2010, the amount of ERDF investments by the accrual method was EEK 45 million.

Extreme weather conditions – a lot of snow, fast and extensive temperature fluctuations, warmer than average summer – disturbed the work of all airports and caused problems never encountered before during the operation. On Ruhnu Island, the highest rainfall of the last 100 years occurred in August 2010, as a result of which the runway became unfit for use and raised a question on how to organise connections with small islands in the future.

To keep in work and develop the infrastructure of regional airfields, notably Pärnu airport, it is planned to apply for resources from the ERF for the next period (2014-2019).

EFFICIENT AND PROFITABLE COMPANY

Basis of high-quality service

The management systems of L. Meri Tallinn Airport and AS Tallinn Airport GH comply with the requirements of international standards ISO 9001:2008 and ISO 14001:2004. Certificates proving compliance have been issued by certification company Bureau Veritas Estonia. The management system of Tallinna Lennujaam AS as a group will be certified for the first time in 2011.

One of our main objectives is to be a company that has a responsible attitude towards the surrounding environment; therefore we have determined the following environmental aspects arising from the main activity: land use and construction, use of energy and natural resources, noise and radiation, emissions to ambient air, creation of waste and use of chemicals.

Determination of the environmental aspects, their continuous assessment and performance of tasks resulting from them enables to ensure efficiency of the environmental activities in AS Tallinna Lennujaam.

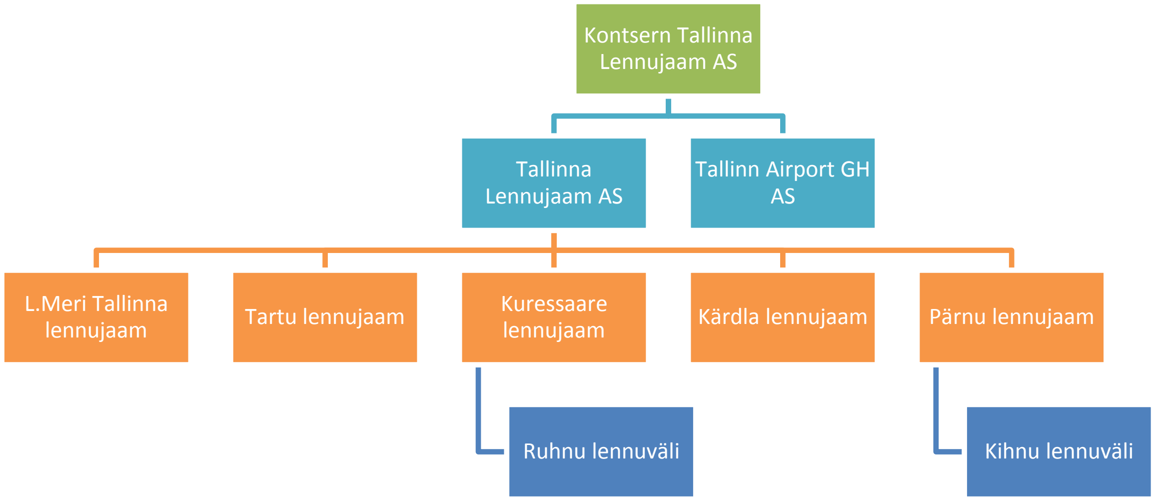
Employees

In May and June 2009, personal agreements were reached with all employees for reducing their basic salaries by 10% for one year. The motivation packages were also suspended. Due to the continuing economic downturn, new agreements were concluded under which basic salaries were reduced by 5% until the end of 2010.

In 2010, 488 employees worked in the Group (2009: 457.4) on average, including 321 employees at AS Tallinna Lennujaam (2009: 325) and 167 employees at AS Tallinn Airport GH (2009: 132).

In 2010, the Group's salary expenses were EEK 89.4 million (2009: EEK 85.0 million), social and unemployment insurance taxes EEK 30.9 million (2009: EEK 29.2 million), in total EEK 120.6 million (2009: EEK 114.3 million). The remuneration of the members of the Supervisory Board and Management Board of AS Tallinna Lennujaam amounted to EEK 4.7 million (2009: EEK 5.1 million), inclusive of social taxes.

In 2010, on average 261 employees worked at L. Meri Tallinn Airport (2009: 263), 60 employees at regional airports (2009: 62), 167 employees at AS Tallinn Airport GH (2009: 132).



Management and work organisation

The priorities in 2010 were to increase efficiency, automate the provision of services and improve management quality at regional airports.

In 2010, a project for renewing the management model of the organisation was commenced, with a focus on unification of management of support functions at the level of the Group.

The objectives of the project are to develop group-based support functions and centres of excellence, and to more widely implement the principles of quality management at regional airports.

Automation of parking service charges served the purpose of efficiency.

Competences of the employees

Due to the complicated economic situation, the volume of training carried out in 2010 decreased.

In 2010, the training and in-service training of employees had the following priorities:

- maintaining employees' competences at the level required by legislation;
- hedging risks upon change of employees working in key positions;
- increasing competence of key specialists involved in developing the strategy and changing the business model;
- communicating changes in the business model arising from the renewed business strategy;
- developing the internal training system and improving training quality.

Under its knowledge and skill development measure, Enterprise Estonia satisfied four applications concerning training projects, with the grant rate of 50%; the total amount of the grant was EEK 423,000. Under the cooperation projects, we commenced the manager development programme; the employees also participated in several professional training events that are important for maintaining competences of employees or providing new services.

In training the staff of regional airports with the support of Enterprise Estonia, the major projects included the training of flight information officers in cooperation with Entry Point North AB-Nordic ATS Academy, which makes it possible to continue providing high-quality aeronavigation service in Kärdla and Pärnu airports.

More detailed overview:

http://www.tallinn-airport.ee/aboutcompany/euroopasotsiaalfondiprojektid.

A system for testing the knowledge of employees has been implemented in Edutizer e-training environment, that system is used to carry out knowledge checks as part of training in the areas of aviation security, flight safety, meteorology and also other areas. The training materials are made available to all employees through the e-school.

The competence of a training instructor was acquired by two first-aid teachers whose knowledge and skills are sufficient to carry out first-aid courses within a company and also for offering the respective training service to partners.

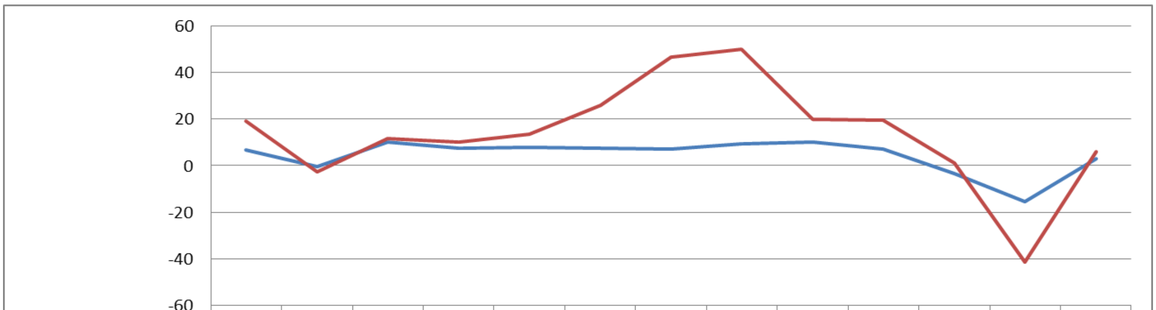
In the area of flight security, the organiser of initial security training was acknowledged by the Civil Aviation Administration. Since September 2010, 342 employees of partner companies have participated in security preparedness training.

During 2011, a business model for the training centre will be developed.

Tallinna Lennujaam AS considers a possibility to establish a 100%-owned subsidiary within the next two years to provide training services to different cooperation partners of the airport and employees of Tallinna Lennujaam AS.

Financial result in 2010

In 2010, Estonian economy grew by 3.1%. The GDP and number of air passengers are correlated with each other. The only difference lies in the matter that fast growth or strong decline in the GDP is reflected at least twice in the number of passengers. As the figure below shows, that rule applies in Estonia. Economy is expected to grow at least by 3.5%.



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
reisijate muut %	12,2	-2,3	1,6	2,5	5,6	18,2	39,3	40,5	10	12,1	4,8	-25,7	2,9
skp muut %	6,8	-0,3	10	7,5	7,9	7,6	7,2	9,4	10	7,2	-3,6	-15,5	3,1

Translation of the chart: change in passengers (%); change in the GDP (%)

In assessing the developments in economy, it may be said that Estonia has passed through the bottom of the global liquidity crisis and the related general economic crisis. One of the most important lessons of the crisis is that Estonian economy is directly affected. i.e. one day's distance from by the turbulences taking place in the world economy.

Recovery of demand and political instability of countries that export oil has brought about a steep increase in the oil prices that may, if continuing for a longer period, negatively affect the still weak aviation sector. Potential solvency problems of air operators may lead to impairment of the Group's receivables and increase in provision for impairment.

The experience of Nordic countries has shown that the exit from the crisis is followed by bankruptcy waive of construction companies. Companies might not timely forecast an increase in the price of labour and materials, as a result of which bids for construction are be made which prove to be impossible in fulfil in six months. Both builders and customers will suffer. It is one of the most significant risks for our company in relation to the investment projects for 2011.

Political instability in the Arabian and African countries, large foreign debt in advanced European countries and continuing liquidity crisis in some of the EU member states are large sources of threat for creation of a new economic and liquidity crisis or for aggravation of the passing crisis. It means that there still exists a threat that our economic growth, increasing number of passengers and revenue base turns to decline. Management believes that they have applied all necessary measures to ensure the Group's sustainability and development.

Income statement

The Group's revenue comprises aviation revenue and non-aviation revenue. Aviation revenue includes the landing charge, passenger charge, security charge, aircraft parking charge and charges related to provision of the aeronavigation service. The landing charge is calculated based on the aircraft's maximum allowed take-off weight. At 01.04.2010, the Group reduced the landing charge rates from EEK 155 per landed ton to EEK 130 per landed ton, i.e. by 16%. The landing charge is paid by the airline operator. The passenger and security charges are paid by passengers in the form of airport taxes added to the flight fare. Until the end of 2010, the passenger fee was EEK 110 per departing passenger and the security fee was EEK 45 per departing passenger. From 01.01.2011, the state will directly finance the expenses related to providing the security service and thus the travel expenses will drop for the passengers. As a result of this, AS Tallinna Lennujaam reclassifies the security charge from the revenue category into the other operating revenue. Thus, disappearance of the security charge does not influence the results of the Group.

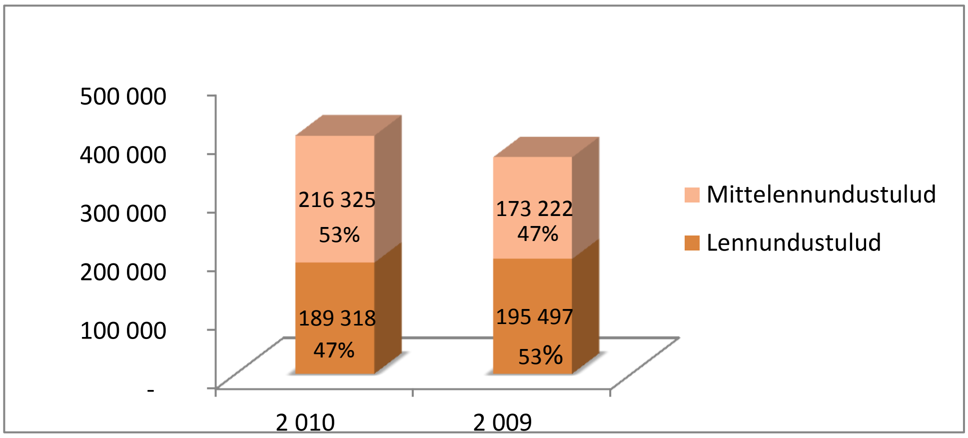
The state budget is prepared for one year and therefore the state reviews each year the grant related to those expenses. If the state decides to cease the financing, AS Tallinna Lennujaam must re-establish the security charge.

Non-aviation revenue includes the rent for the passenger terminal and goods warehouse, concession revenue, charges for using infrastructure, revenue for ground servicing aircrafts and other revenue (parking of cars, advertising, etc).

Division of the Group's revenue in thousand EEK:

Sales revenue (thousand EEK)

	2010	2009	change
Tallinn Airport	289,569	295,911	-2%
Regional airports	13,434	10,412	29%
AS Tallinna Lennujaam	303,003	306,323	-1%
AS Tallinn Airport GH	121,293	77,192	57%
Total revenue (consolidated)	**405,642**	**368,719**	**10%**



Translation of the chart: Non-aviation revenue
Aviation revenue

Distribution of the Group's revenue by airports and companies in thousand EEK.

The decline in the revenue of Tallinn Airport concerned aviation revenue and was caused by reduction of landing charges and decreased cargo volumes in 2010. Non-aviation revenue of Tallinn Airport increased by 2% in 2010.

AS Tallinna Lennujaam Group's net profit amounted to EEK 31.4 million. The parent AS Tallinna Lennujaam incurred EEK 1.68 million of loss mainly due the losses of regional airports. The suspension of air traffic in April 2010 due to volcano ash is estimated to affect the financial result in the amount of EEK 5 million.

Net profit (thousand EEK)

	2010	2009	Change
Tallinn Airport	4,850	3,698	31%
Regional airports	-6,529	-8,602	26%
AS Tallinna Lennujaam	-1,680	-4,904	66%
AS Tallinn Airport GH	33,203	11,297	194%
Total net profit	**31,442**	**6,258**	

The expenditures of goods, raw materials and services increased by 19.2% or EEK 21.3 million during the year. Of those expenses, EEK 9.3 million was made up of direct expenses related to the earning of revenue by Tallinn Airport GH. Handling service expenses increased by 57% accordingly.

Expenses for materials of the maintenance service unit were by EEK 7.4 million or 54% higher due to complicated weather conditions, i.e. larger-than-usual snow removal work.

AS Tallinna Lennujaam became a client of the electricity free market with regard to Tallinn Airport. Before entering the market, we made a detailed analysis of our consumption curves and determined that for us it is more beneficial to fix the price for a longer period of time. We took offers from different companies selling electricity in the free market. At the current moment, the best offer was made by Eesti Energia with whom we concluded a contract for one year. In 2010, Tallinn Airport consumed 15,568,044 KWh of electricity or 4.4% more than in 2009. In conjunction with the free market, the expenses for electricity increased by EEK 3.5 million or 30%. Based only hour-based average prices, AS Tallinna Lennujaam's valid contract for purchasing electricity from free market is by 8% less expensive than the average free market price.

During the year, other operating expenses increased by EEK 6.2 million, of which EEK 2.5 million were related to the right to organise Routes 2012. Training expenses increased by EEK 2.1 million and expenses related to research projects went up by EEK 2.4 million compared to 2009.

The Group's staff costs increased by 5.6% or EEK 6,379 million. Compared to 2009, the staff costs of parent AS Tallinna Lennujaam declined by EEK 1.1 million or 1%. The increase in staff expenses was related to the enlarged team of Tallinna Airport GH due to growth of services.

The Group's target revenue for 2011 is EEK 385.1 million or 5% less than the actual figure in 2010. The decline in revenue is caused by reclassification of the security charge from the revenue into other operating income.

Balance sheet

The Group's payables amount to EEK 467 million. The payables have decreased by EEK 98 million or 17.4%compared to last period. In 2011, the Group intends to prematurely repay a loan to Swedbank, therefore short-term payables total to EEK 109.9 million which is by EEK 10.2 more than as at 31.12.2009.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

(EEK thousand)

ASSETS	Note	31.12.2010	31.12.2009
Non-current assets			
Property, plant and equipment	Note 4	2,054,409	2,162,906
Intangible assets	Note 5	3,394	6,629
Investment property	Note 6	388	414
Total non-current assets		**2,058,191**	**2,169,950**
Current assets			
Inventories	Note 8	2,343	447
Receivables and prepayments	Note 9	50,432	69,571
Cash	Note 11	103,592	49,441
Total current assets		**156,367**	**119,459**
TOTAL ASSETS		**2,214,558**	**2,289,409**
EQUITY	Note 19		
Share capital		359,859	359,859
Statutory reserve capital		35,986	35,986
Retained earnings		238,859	207,417
TOTAL EQUITY		**634,704**	**603,262**
LIABILITIES			
Non-current liabilities			
Borrowings	Note 12	357,103	465,372
Government grants	Note 14	1,049,790	1,059,258
Derivative instruments	Note 15	20,574	22,579
Total non-current liabilities		**1,427,467**	**1,547,209**
Current liabilities			
Borrowings	Note 12	109,865	99,629
Payables and prepayments	Note 16	42,222	38,675
Provisions		299	633
Total current liabilities		**152,387**	**138,937**
TOTAL LIABILITIES		**1,579,854**	**1,686,147**
TOTAL LIABILITIES AND EQUITY		**2,214,558**	**2,289,409**

The notes to the financial statements presented on pages 28-68 form an integral part of the consolidated financial statements

Consolidated statement of comprehensive income

(EEK thousand)

	Note	2010	2009
Revenue	Note 20	405,642	368,719
Other operating income	Note 21	74,873	60,254
Goods, raw materials and services	Note 22	-131,955	-110,663
Other operating expenses	Note 23	-14,917	-8,207
Staff costs	Note 24	-120,630	-114,251
Depreciation, amortisation and impairment	Note 4, Note 5, Note 6	-164,258	-160,679
Other expenses	Note 25	-1,961	-1,425
OPERATING PROFIT		**46,795**	**33,748**
Finance income	Note 26	435	2,340
Finance costs	Note 27	-15,788	-29,830
Net finance costs		**-15,353**	**-27,490**
Net profit for the year		**31,442**	**6,258**
COMPREHENSIVE INCOME FOR THE YEAR		**31,442**	**6,258**

The notes to the financial statements presented on pages 28-68 form an integral part of the consolidated financial statements

Consolidated statement of cash flows

(EEK thousand)

	Note	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		435,508	363,768
Payments to suppliers and employees		-279,640	-262,248
Interest received	Note 26	435	2,273
Interest paid		-17,884	-20,397
Government grants received from state budget	Note 14	13,000	13,000
Government grants received for other operating expenses	Note 14	4,222	54
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		**155,641**	**96,450**
CASH FLOWS FROM INVESTING ACTIVITIES			
Paid for acquisition of intangible assets, and property, plant and equipment	Note 18	-7,217	-184,779
Proceeds from sale of property, plant and equipment	Note 4	2,798	190
Government grants received for non-current assets	Note 14	872	16,613
Loan granted		0	-20,000
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		**-3,548**	**-187,976**
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest received	Note 12	0	22,000
Repayments of borrowings	Note 12	-96,262	-95,111
Finance lease payments	Note 12	-1,680	-817
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		**-97,942**	**-73,928**
NET CASH FLOWS		**54,151**	**-165,454**
Cash and cash equivalents at beginning of the period		49,441	214,895
Cash and cash equivalents at end of the period	Note 11	103,592	49,441
Net increase/decrease in cash and cash equivalents		**54,151**	**-165,454**

The notes to the financial statements presented on pages 28-68 form an integral part of the consolidated financial statements

Consolidated statement of changes in equity

(EEK thousand)

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2008	359,859	35,986	201,159	597,004
Net profit for 2009	0	0	6,258	6,258
Balance as at 31.12.2009	359,859	35,986	207,417	603,262
Net profit for 2010	0	0	31,442	31,442
Balance as at 31.12.2010	**359,859**	**35,986**	**238,859**	**634,704**

More detailed information about share capital is disclosed in Note 19.

The notes to the financial statements presented on pages 28-68 form an integral part of the consolidated financial statements

Notes to the consolidated financial statements

Note 1. Accounting policies adopted in the preparation of the consolidated financial statements

1.1. General information

The parent company AS Tallinna Lennujaam is a state-owned company registered at 30.12.1997 in the Republic of Estonia that was established on the basis of the assets of Tallinn Airport of RE Eesti Lennujaamad.

The consolidated financial statements of AS Tallinna Lennujaama Group for the year ended 31 December 2010 comprise AS Tallinna Lennujaam (parent company, legal form: public limited company) and its subsidiary AS Tallinna Lennujaam GH, engaged in provision of ground services for aircraft and passengers and the shares of which are registered in Estonia.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board, and which also includes the consolidated financial statements shall be authorised by the General Meeting of Shareholders for issue. The shareholders have the right not to authorise the consolidated annual report prepared and approved by the Management Board for issue and require the Management Board to prepare a new consolidated annual report and present it to the General Meeting of Shareholders.

The Management Board authorised the Group's consolidated financial statements for issue at 21 March 2011.

1.2. 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 used consistently to all reporting periods, other than the cases for which information has been disclosed separately.

1.2.1. Bases of preparation

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

The financial information presented in the consolidated financial statements is mostly based on historical cost, other than financial assets and liabilities (incl. derivative instruments) carried at fair value through profit or loss. Certain accounting estimates have been used for preparation of the consolidated financial statements, as well as management judgement has been used to apply several accounting and reporting principles. The areas in which the accounting estimates and assumptions have had the greatest effect on the information presented in the financial statements is disclosed in Note 3 to the consolidated financial statements.

1.2.2. Changes in presentation

The presentation of the consolidated statement of cash flows has been changed, in order to enable more objective recognition of the Group's cash flows. The government grants received which had earlier been reported as the cash flows from financing activities are now reported as cash flows from either operating or investing activities, depending on the intended purpose of use of the assets acquired with government grants. The presentation has been adjusted retrospectively, i.e. the comparatives of the previous period have also been restated retrospectively. Thus, in 2010, the cash flows from financing activities decreased by EEK 5,094 thousand (2009: EEK 16,667 thousand), of which EEK 4,222 thousand (2009: EEK 54 thousand) was included within the cash flows from operating activities and EEK 872 thousand (2009: EEK 16,613 thousand) within cash flows from investing activities.

1.2.3. Changes in accounting policies

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Group 01.01.2010:

IAS 27, *Consolidated and Separate Financial Statements* The revised standard requires an entity to attribute total comprehensive income to the owners of the parent and to minority interests even if this results in the non-controlling interests having a deficit balance (in most cases, the current standard requires the excess losses to be allocated to the owners of the parent). The revised standard specifies that changes in the parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The revised standard had no effect on this reporting period because the Group does not have any non-controlling interests.

Eligible Hedged Items – Amendment to IAS 39 The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment had no effect on the financial statements.

Adoption of new or revised standards and interpretations

The following new or revised standards and interpretation came effective for the Group from 01.01.2010, but are not relevant to the Group:

IFRIC 12, Service Concession Arrangements.
IFRIC 15, Arrangement for the Construction of Real Estate
IFRIC 16, Hedges of a New Investment in a Foreign Operation
IFRIC 17, Distributions of Non-cash Assets to Owners
IFRIC 18, Transfers of Assets from Customers
IFRS 3, Business Combinations
IFRS 5, Non-current Assets Held for Sale and Discontinued Operations
IFRS 1, First-time Adoption of International Financial Reporting Standards
IFRS 2, Group Cash-settled Share-based Payment Transactions
IFRS 1, Additional Exemptions for First-time Adopters
IFRIC 9 and IAS 39, Embedded Derivative instruments

Improvements to International Financial Reporting Standards, issued in April 2009 - The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivative instruments in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The amendments had no material effect on the financial statements.

Adoption of new or revised standards and interpretations before their effective date

Amendment to **IAS 24, Related Party Disclosures**, issued in November 2009 and the amendments concerned the following issues:

- The definition of a related party was clarified with a goal to simplify its meaning and eliminate discrepancies;
- The revised standard simplifies disclosure requirements for government-related entities.

The Group has disclosed information about the transactions concluded with related parties in accordance with the requirements of the revised standard.

Pronouncements issued, but not yet effective for the current reporting period

The following new or revised standards and interpretations that have been issued and are effective for the Group from 01.01.2011 or in subsequent periods, and which the Group has not adopted early

IFRS 9, Financial Instruments Part 1: Classification and Measurement (effective for annual periods beginning at or after 1 January 2013; not yet adopted by the EU). IFRS 9, issued in November 2009, replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 improved in October 2010, to address the classification and measurement of financial instruments. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent only payments of principal and interest (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the

effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards, issued in May 2010 (effective dates vary standard by standard, most improvements are effective for annual periods beginning at or after 1 January 2011; the improvements have not yet been adopted by the EU). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

<u>Pronouncements issued, but not yet effective for the current reporting period and not relevant to the Group</u>

The following new or amended standards and interpretations that have been issued and are effective from 01.01.2011 or in subsequent periods, and that the Group has not adopted early and that are not expected to have a material effect on the Group's financial statements:

Clarification of Rights Issues – Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning at or after 1 February 2010).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning at or after 1 July 2010).

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 (effective for annual periods beginning at or after 1 January 2011).

Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning at or after 1 July 2010).

Disclosures – Transfers of Financial Assets –Amendment to IFRS 7 (effective for annual periods beginning at or after 1 July 2011; not yet adopted by the EU*).*

Deferred Tax Recovery of Underlying Assets – Amendment to IAS 12 (effective for annual periods beginning at or after 1 January 2012; not yet adopted by the EU).

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendment to IFRS 1 (effective for annual periods beginning at or after 1 July 2011; not yet adopted by the EU*).*

Classification of Rights Issues – Amendment to IAS 32, issued in October 2009 (effective for annual periods beginning at or after 1 February).

Preparation o consolidated financial statements

(a) Group accounting

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

(b) Subsidiaries

A subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than 50% of the voting power of the subsidiary or otherwise has power to govern its financial and operating policies. 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.

The Group uses the acquisition method for recognition of business combinations.

The consideration paid for the acquisition of a subsidiary consists of the fair values of the assets transferred, the liabilities assumed by the acquirer and the equity instruments issued by the Group. The consideration paid also includes the fair value of the asset or liability arising from the contingent consideration agreement. The costs attributable to the acquisition are charged to costs. The acquired identifiable assets and liabilities as well as contingent liabilities are recognised at their fair value at the date of acquisition.

For each business combination, the Group chooses to recognise the non-controlling interest in an entity to be acquired either at fair value or at the proportionate share of the non-controlling interest in identifiable net assets to be acquired.

When the consideration paid, the amount of the fair value of the non-controlling interest in the entity to be acquired and the equity ownership previously held by the acquirer in the entity to be acquired (as at the date of acquisition) exceeds the Group's interest in identifiable assets acquired and liabilities assumed, the difference is recognised as goodwill.

If in case of bargain purchases, the aforementioned amount is lower than the fair value of the net assets of the acquired subsidiary, the difference is immediately taken to the statement of comprehensive income.

(c) Transactions and non-controlling interests

The Group treats transactions with non-controlling interests as transactions with other participants in the Group's equity.

When the interest in the carrying amount of the subsidiary's net assets that was purchased from a non-controlling interest differs from the purchase price, the difference is taken to equity. Gains and losses on the sales to the non-controlling interests are also taken to equity.

When the Group loses control or significant influence, the remaining investment is valued to its fair value and the difference from the carrying amount is taken to profit or loss. For recognition of the remaining investment, its fair value becomes is carrying amount. In addition, the amounts related to this entity that had previously been recognised in other comprehensive income are recognised as if the Group had sold these assets and liabilities. This may mean that the amounts previously recognised in the statement of comprehensive income are reclassified into the income statement.

(d) Parent company's separate financial statements

Pursuant to the Accounting Act of Estonia, information on the separate primary financial statements of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. The primary financial statements of the parent have been prepared using the same accounting policies as those that have also been used for 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 31).

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

(a) Functional and presentation currency

For accounting purposes, group entities use the currency of their primary economic environment which is their functional currency. The consolidated financial statements have been prepared in Estonian kroons (EEK) which is the functional currency of the parent and the presentation currency of the Group. The Estonian kroon is pegged to the euro at the rate of EUR 1 = EEK 15.6466. In the financial statements, the amounts have been rounded to the nearest thousand, unless referred to otherwise.

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

Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current and non-current in the balance sheet. The assets expected to be realised in the next financial year or during the Group's normal business cycle, are considered to be current. Current liabilities include the liabilities the due date of which is during the next financial year or that will probably be paid during the next financial year or during the Group's normal business cycle.

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

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

Property, plant and equipment

Property, plant and equipment are tangible assets with a useful life of over one year when it is probable that future benefits attributable to them will flow to the Group. Assets with a useful life of over 1 year and a cost of less than EEK 30,000 kroons are recorded as low-value items (in inventories) and are fully expensed when the asset is taken into use. Low-value items that have been expensed are accounted for off-balance sheet.

(a) Cost

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

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

When an item of property, plant and equipment takes a longer time to be completed and it is financed with a loan or another debt instrument, from 1 January 2009, the borrowing costs (interest) attributable to it are capitalised in the cost of the asset under construction. Capitalisation of borrowing costs commences at the time when borrowing costs and expenditures attributable to the asset have been incurred and the construction of the asset has been launched. Capitalisation of borrowing costs is terminated when the asset is ready or its use has been suspended for a longer period of time.

(b) Depreciation

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

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

(c) Determination 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	5–20 years
Runway maintenance appliances and equipment	6–10 years
Other machinery	3–15 years
Other fixtures, tools, fittings:	
Furniture and fixtures at terminals	2–10 years
Computers and network equipment	3–5 years
Other assets	2–10 years

(d) Subsequent expenditures

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

(e) Derecognition

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains and loss on derecognition of items of property, plant and equipment are recognised in the income statement line *Other income* or *Other expenses* of the period in which the asset was derecognised.

(f) Non-current assets held for sale

Items of property, plant and equipment which are likely to be disposed of over the next 12 months, are reclassified as non-current assets held for sale. The depreciation of non-current assets held for sale is terminated and it is recognised at the lower of the carrying amount and fair value (less costs to sell).

(g) 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*.

Intangible assets

An intangible asset is initially recognised at cost, comprising its purchase price and any directly attributable expenditures. An intangible asset is carried in the balance sheet 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.

Intangible assets are amortised using the straight-line method over their estimated useful lives.

The estimated useful lives of intangible assets used at the Group (software) are 3-5 years.

Investment property

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

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

Impairment of non-financial assets

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

(a) External indicators of possible impairment :

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

(b) Internal indicators of possible impairment:

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

Whenever there is any indication of impairment, an impairment test is performed for the asset or a group of assets. The recoverable amount is determined. The recoverable amount of the asset is the higher of the two indicators: (a) fair value of the asset less costs to sell; (b) asset's value in use. Assets are written down to the recoverable amount whenever the recoverable amount of the assets is lower than their carrying amount.

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

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

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

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

Financial assets

(a) Classification

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

- financial assets at fair value through profit or loss;
- loans and receivables;

Financial assets are classified on the basis of the purpose for acquisition. The Management Board determines the category of the financial asset upon their initial recognition.

(b) Recognition and measurement

Financial assets are initially recognised at cost, being the fair value of the consideration paid for the financial asset.

Transaction costs are added to cost (excl. financial assets at fair value through profit or loss).

Transaction costs of financial assets designated at fair value through profit or loss are charged to expenses in the income statement.

For financial assets designated at fair value through profit or loss – see paragraph *Derivative Instruments*.

Loans and receivables

After initial recognition, the Group carries loans and receivables at amortised cost (less any impairment losses), calculating interest income on the receivable in the following periods using the effective interest rate method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included within current assets, except when their due date is later than 12 months after the balance sheet date. In this case they are included within non-current assets. The following assets are included in the category of loans and receivables: *Cash and cash equivalents*, *Trade and other receivables*.

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of the receivables. The circumstances indicating impairment include bankruptcy or major financial difficulties of the debtor and non-adherence to payment terms. The impairment of the receivables that are individually significant (i.e. need for a write-down) is assessed individually for each customer, based on the present value of expected future collectible amounts. The allowance for doubtful receivables is the difference between the carrying amount of receivables and present value of future cash flows, using the effective interest rate. The carrying amount of receivables is reduced by the amount of the impairment loss of doubtful receivables and the impairment loss is recognised in profit or loss within *Other operating expenses*. If a receivable is deemed irrecoverable, the receivable and the impairment loss are taken off the balance sheet. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

The receivables to be collected within one year are considered to be short-term receivables. The remaining receivables are recognised as long-term receivables.

An impairment loss is recognised when there is objective evidence that the Group is unable to collect all amounts due according to their original terms receivables. Such situations may include significant financial difficulties or bankruptcy of the debtor and failure to fulfil their obligations to the Group. The amount of the impairment is the difference between the carrying amount and the recoverable amount, which is expected future cash flows discounted at the effective interest rate.

A financial asset is removed from the balance sheet when the Company loses its right to receive cash flows from the financial assets or when it transfers the cash flows attributable to the asset and most of the risks and rewards related to the financial asset to a third party. All purchases and sales of financial assets carried out on an arm's length basis are recognised at the trade date, i.e. at the date the Group commits (e.g. enters into a contract) to buy or sell a certain financial asset.

Inventories

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

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

Inventories are expensed using the FIFO (first-in, first-out) method. When using the FIFO method, the closing balance of inventories in recognised at the cost of lots arriving last and not yet sold. Inventories are measured in the balance sheet at the lower of cost and net realisable value. Net realisable value is determined by subtracting the estimated expenditures necessary for preparing the product for sale and complete the sale from the estimated sales price.

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 less than 3 months.

Financial liabilities

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

The amortised cost of the current financial liabilities normally equals their nominal value; therefore current financial liabilities are stated in the balance sheet in 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.

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.

(a) Government grants related to assets

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

(b) Grants related to operating expenses

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) are 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 consolidated income statement.

Derivative instruments

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

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

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

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 income statement. 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 operating expenses in the or cost of non-current assets income statement, when the recognition of a provision is related to dismantling, relocation or restoring obligation which has arisen upon acquisition of the asset or as a consequence of the use of the asset during a certain period of time.

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

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

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

Taxation

(a) 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. Until 31 December 2010, the tax rate on dividends paid was 21/79 (in effect since 1 January 2008). In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. An income tax liability is due at the 10th day of the month following the payment of dividends.

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

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

(b) Other taxes in Estonia

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

Social security tax	33% on the payroll and fringe benefits paid to the employees
Unemployment insurance tax	0.3 % on the payroll paid to the employees
Fringe benefit income tax	21/79 on fringe benefits paid to the employees
Land tax	0.6%–2.5% on the land's taxable price p.a.
Income tax on expenses not related to business activities	21/79 on expenses not related to business activities

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.

Revenue recognition

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

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

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.

(a) 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.

Leases

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

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

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

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

(a) Base amount adjusted by annual growth in the number of passengers;

(b) A certain share of revenue which the concessionaire has received while operating on the territory of Tallinn Airport.

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

Dividends

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

Share capital and statutory reserve capital

Ordinary shares are included within equity. The Company 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.

Statement of cash flows

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.

Off-balance sheet receivables and liabilities

Contingent receivables and liabilities are accounted for off-balance sheet.

Events after the balance sheet date

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

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

Related party transactions

Parties are considered to be related when one party has control or significant influence over the other party.

For preparation of the consolidated financial statements, related parties include the members of the Supervisory and Management Boards of AS Tallinna Lennujaam as well as other persons and companies who are able to control or influence the financial and business decisions of the Group. The owner of the 100% of the shares of AS Tallinna Lennujaam is the Republic of Estonia. The Group has adopted the amendment to IAS 24 early and does not disclose transactions with state-owned entities, other that the transactions with the state-owned airline companies whose activities greatly impact the operating results of the Group.

Note 2. Management of financial risks

2.1. 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 Group uses derivative instruments to hedge certain risk exposures.

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

- Market risk (incl. currency risk, price risk and interest rate risk);
- Credit risk;
- Liquidity risk.

2.1.1. 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 are liabilities in relation to the foreign currency risk. In order to avoid foreign currency risk, transactions are concluded primarily in Estonian kroons and euros (the rate of the Estonian kroon is pegged to the euro at the rate of EUR 1 = EEK 15.6466).

As at the end of current and prior reporting periods, the Group did not have any open foreign currency positions other than the euro.

31.12.2010 (in thousands)	**EEK**	**EUR**	**USD**	**EEK total**
Cash (Note 11)	103 232	358	2	103,592
Trade receivables (Note 9)	20,676	21,048	25	41,748
Trade payables (Note 16)	18,313	1,636	16	19,966
Derivative instruments (liability) recognised as hedging instruments (Note 16)	0	20,574	0	20,574
Short-term borrowings (Note 12)	169	109,696	0	109,865
Long-term borrowings (Note 12)	0	357,103	0	357,103
31.12.2009	**EEK**	**EUR**	**USD**	**EEK total**
Cash (Note 11)	31,951	16,715	776	49,441
Trade receivables (Note 9)	30,734	15,652	23	46,409
Trade payables (Note 16)	14,613	1,144	20	15,776
Derivative instruments (liability), recognised as hedging instruments (Note 15)	0	22,579	0	22,579
Short-term borrowings (Note 12)	394	99,235	0	99,629
Long-term borrowings (Note 12)	169	465,203	0	465,372

	31.12.2010	**31.12.2009**
EUR exchange rate	EEK 15.6466	EEK 15.6466
USD exchange rate	EEK 11.7107	EEK 10.8653

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

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

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

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

The Group's borrowings have floating interest rates, they depend on fluctuations in Euribor. The average interest rates increased for the financial year ended. The Group has concluded a derivative transaction (interest-rate swap) with Nordea Bank to fix the interest charge on the loan with a floating interest rate received from Nordea Bank in 2006 and on the loan with a floating interest rate received from the Nordic

Investment Bank in 2007. In addition, the Group has concluded a derivative contract in 2009 with SEB Bank for the loan received from Nordic Investment Bank (see Note 15).

If the market interest rate (6 month Euribor) had been 50 basis points (2009: 50 basis points) higher as at 31 December 2010, the Group's profit for the reporting period (with all other variables remaining constant), would have changed as follows:

(a) due to the increase in the interest charge on long-term borrowings with a floating base interest rate (incl. finance lease liabilities), the profit would have decreased by EEK 354 thousand (2009: EEK 277 thousand);

(b) due to the change in the fair value of the swap on long-term borrowings with a floating base interest rate, the interest charges of which have been fixed by a swap transaction, the profit would have increased by EEK 2,306 thousand (2009: EEK 1,968 thousand).

2.1.2. Credit risk

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

As at the balance sheet date, the Group was not aware of any major risks related to accounts receivable (other than the amounts deemed as doubtful receivables). In accordance with the risk management principles of the Group, the Group's short-term available funds may be deposited into overnight and term deposits of credit institutions as well as into interest and money market funds.

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

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

As at the balance sheet date, the maximum amount open to credit risk was as follows:

Amount exposed to credit risk (EEK thousand)	**31.12.2010**	**31.12.2009**
Trade receivables, government grant related to non-current assets not received and other receivables[1] (Note 9)	41,804	51,071
Bank accounts and overnight deposits at banks[2] (Note 11)	103,028	49,183
Total amounts exposed to credit risk	**144,832**	**100,254**

Analysis of accounts receivable (EEK thousand)	**31.12.2010**	**31.12.2009**
Not due	31,804	32,903
Overdue by up to 30 days	7,784	10,503
Overdue by up to 60 days	650	3,033
Overdue by more 60 days	1,678	348
Total accounts receivable	**41,916**	**46,787**

[1] Total trade and other receivables less prepayments.
[2] Total cash and cash equivalents less cash on hand.

Of the accounts receivable as at 31.12.2010, a total of EEK 1,824 thousand had not been collected by 11.03.2011 (of accounts receivable as at 31.12.2009, a total of EEK 626 thousand had not been collected by 11.03.2010).

As at 31.12.2010, 16% (31.12.2009: 11%) of trade receivables are from the companies under the control or significant influence of the state. The Group considers the credit risk of such receivables to be very low. See Note 29.

The following measures have been applied to lower credit risk:

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

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

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

Allocation of bank accounts and deposits by banks with different credit ratings (EEK thousand).	**31.12.2010**	**31.12.2009**
Banks with Moody´s credit rating of Baa3	96,614	43,762
Banks with Moody´s credit rating of A1	6,407	5,418
Banks with Moody´s credit rating of Aa2	7	3
Total exposure to credit risk	**103,028**	**49,183**

Additional information about credit risk is disclosed in Note 9.

2.1.3. 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 EEK 103 million (31.12.2009: EEK 49 million).

In order to hedge liquidity risk, the Group uses various sources of financing, such as bank loans, overdraft facilities and ongoing monitoring of accounts receivable. As at the balance sheet date, the Group's current assets exceeded current liabilities by EEK 4 million (31.12.2009: current liabilities exceeded current assets by EEK 42 million).

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

Distribution of liabilities by due date (EEK thousand)

As at 31.12.2010	Up to 1 month	Between 1 and 3 years	Between 3 months and 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Finance lease liabilities (Note 12)	148	445	802	453	0	1,849	1,803
Borrowings (Note 12)[3]	404	44,889	67,256	257,654	113,038	483,240	465,166
Derivative instruments (Note 15)	0	0	0	1,131	19,443	20,574	20,574
Trade and other payables[4] (Note 16)	19,963	3	0	0	0	19,966	19,966
Total	**20,515**	**45,337**	**68,058**	**259,238**	**132,481**	**525,629**	**507,509**
As at 31.12.2009							
Finance lease liabilities (Note 12)	148	445	1,190	1,848	0	3,631	3,482
Borrowings (Note 12)	28,752	12,628	61,376	367,303	114,123	584,182	561,519
Derivative instruments (Note 15)	0	0	0	1,384	21,195	22,579	22,579
Trade and other payables[4]	15,776	0	0	0	0	15,776	15,776
Total	**44,676**	**13,073**	**62,566**	**370,535**	**135,318**	**626,168**	**603,356**

2.2. Capital risk management

The owner of all shares of AS Tallinna Lennujaam is the state. The Republic of Estonia makes all decisions in respect of dividend distribution, increase or decrease of share capital (through the Ministry of Economic Affairs and Communications).

Lately, the Group has been using debt to finance its capital expenditures.

As at 31.12.2010 and 31.12.2009, the Company's equity was in compliance with the requirements o the Commercial Code.

Ratio of debt to equity and the ratio of net debt to total capital (EEK thousand)

	31.12.2010	31.12.2009
Borrowings (Note 12)	466,968	565,001
Les : cash and cash equivalents and term deposits with maturities greater than 3 months (Note 11)	103,592	49,441
Net debt (borrowings-cash and cash equivalents)	363,376	515,560
Equity (Note 19)	634,704	603,262
Total capital (net debt + equity)	998,080	1,118,822
Debt to equity	47%	50%
Net debt to total capital	36%	46%

[3] For determining the undiscounted cash lows, the interest rate at the year-end 2010 has been used
[4] Total trade payables less prepayments.

2.3. Fair value estimates

The Group estimates that the fair values of financial assets and liabilities carried at amortised costs in the balance sheet as at 31.12.2010 and 31.12.2009 do not significantly differ from the carrying amounts reported in the Group's consolidated balance sheet. As most of the Group's long-term borrowings have floating interest rates which change along with the changes in money market interest rates, then their fair value does not significantly differ from their carrying amount. The residual value of short-term trade receivables and unpaid invoices, less any impairment losses, is estimated to equal their fair value.

The Group has classified the financial instruments carried at fair value at two levels. 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.

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

(a) Quoted market prices or bid prices of traders for similar instruments.

(b) Fair value of changes in interest rates is calculated as the present value of estimated future cash flows, based on observable interest rate curves.

2.4. Effects of the economic crisis on the Group

Management has evaluated the effects of the global liquidity crisis and the related general economic crisis on the Company's business. The management estimates that the main short and long-term threats include:

- due to globalisation, we are directly impacted by the turbulences occurring the global economy;
- due to pick-up in demand and at the same time growth of political instability in oil-exporting countries, there is a danger of a steep increase in the price of oil, which may have a negative effect on the still weak aviation sector;
- the Group may not find sources of financing at a reasonable price in order to carry out its investment plans;
- the potential solvency problems of creditors may lead to impairment of the receivables of the Company and larger than previous impairment losses;

Management estimates that the most serious threat is a possibility of a new economic and liquidity crisis, which will lead to a decline in the number of passengers.

Management believes that it has applied all necessary measures to support the sustainability and development of the Group's business in current circumstances.

Note 3. 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 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 income statement of the period of the change. The following estimates have the most significant effect on the financial information presented in these financial statements.

1. Determination of the useful lives of items of property, plant and equipment

Management estimates about the actual period of use of the asset are used to determine the useful lives of items of property, plant and equipment. Prior experience has shown that the actual usage time of assets has turned out to be sometimes longer than their estimated useful lives (see Note 4 *Cost of non-current assets in use with carrying amount of zero*).

As at 31 December 2010, the carrying amount of the Group's property, plant and equipment was EEK 2,054,409 thousand (31 December 2009: EEK 2,162,906 thousand), the depreciation charge for the reporting period was EEK 158,843 thousand (2009: EEK 154,028 thousand) (see Note 4). If the useful lives of all assets are changed by one year, the profit would change by EEK 19 million (2009: EEK 20 million).

2. Valuation of doubtful receivables

When valuing receivables, management uses the best available information and historical experience as the basis. Allowances for receivables are recognised when it is reasonable to assume that the Group may not collect all amounts due according to the original terms of receivables. Indication of impairment of receivables includes significant financial difficulties of the debtor, probability of its bankruptcy or financial reorganisation, and failure to make payments or delay them.

The amount of doubtful receivables is adjusted as at each balance sheet date, using information based on prior experience about how many of the doubtful receivables will be collected in a later period and how many of the receivables with less than 90 days overdue as at the balance sheet date will not be collected in a later period. As at 31 December 2010, the Group had doubtful receivables in the amount of EEK 168 thousand (31 December 2009: EEK 378 thousand) (Note 9).

3. Estimation of the recoverable amount of items of property, plant and equipment

The Group's Management Board assessed the presence of indicators of impairment of assets and determined that there was no indication that the assets had lost a major share of their cash generation ability and therefore, it did not estimate the recoverable amount of the assets. In 2009, an impairment test was performed which showed that the recoverable amount of assets exceeded the carrying amount of assets, hence there was no need to recognise impairment losses for assets.

Note 4. Property, plant and equipment

(EEK thousand)

	Land	Buildings and facilities	Machinery and equipment	Other fittings, tools, fixtures	Total
Balance as at 31.12.2008					
Cost	54,317	1,706,652	804,489	58,952	2,624,435
Accumulated depreciation	0	-372,757	-211,083	-19,169	-603,034
Carrying amount 31.12.2008	**54,317**	**1,333,895**	**593,405**	**39,783**	**2,021,401**
Buildings under construction and prepayments for non-current assets	0	74,357	9,156	434	83,946
Total property, plant and equipment 31.12.2008	**54,317**	**1,408,252**	**602,561**	**40,217**	**2,105,347**
Changes occurred in 2009					
Acquisitions and improvements	0	179,046	112,619	3,016	294,680
Depreciation charge	0	-67,743	-72,374	-13,911	-154,028
Carrying amount of assets disposed of	0	0	-279	0	-279
Carrying amount of assets written of	0	-1,638	0	0	-1,638
Reclassification of buildings under construction and prepayments	0	-73,719	-7,042	-409	-81,170
Balance as at 31.12.2009					
Cost	54,317	1,881,731	913,865	61,919	2,911,833
Accumulated depreciation	0	-438,171	-280,500	-33,031	-751,702
Carrying amount 31.12.2009	**54,317**	**1,443,560**	**633,365**	**28,888**	**2,160,131**
Buildings under construction and prepayments for non-current assets	0	638	2,114	25	2,776
Total property, plant and equipment 31.12.2009	**54,317**	**1,444,198**	**635,479**	**28,912**	**2,162,906**
Changes occurred in 2010					
Acquisitions and improvements	0	673	43,667	811	45,150
Depreciation charge	0	-71,425	-75,556	-11,861	-158,843
Carrying amount of assets disposed of	0	-2,756	-1,278	0	-4,033
Carrying amount of assets written of	0	-329	-224	-225	-778
Reclassification of buildings under construction and prepayments	0	8,708	1,323	-25	10,006
Balance as at 31.12.2010					
Cost	54,317	1,877,479	951,951	62,172	2,945,919
Accumulated depreciation	0	-507,755	-351,977	-44,560	-904,292
Carrying amount 31.12.2010	**54,317**	**1,369,723**	**599,974**	**17,612**	**2,041,627**
Buildings under construction and prepayments for non-current assets	0	9,345	3,437	0	12,782
Total property, plant and equipment 31.12.2010	**54,317**	**1,379,069**	**603,411**	**17,612**	**2,054,409**

The Group does not have any non-current assets, the construction of which would qualify for the conditions requiring capitalisation of borrowing costs, therefore, borrowing costs have not been capitalised in 2010 and 2009.

Non-current assets acquired under finance lease terms (the Group is the lessee)	**Balance as at 31.12.2009**	**Acquired**	**Depreciation charge**	**Balance as at 31.12.2010**
Cost	**4,299**	0	0	**4,299**
Accumulated depreciation	**-1,033**	0	-1,512	**-2,545**
Carrying amount	**3,266**	**0**	**-1,512**	**-1,754**

As at 31.12.2010, the carrying amount of the assets leased out under operating lease terms was EEK 465,495 thousand (31.12.2009: EEK 482,162 thousand).

The assets leased out are included within the group of non-current assets *Buildings and facilities*.

The assets leased out are partially used in its own business and partially for the purpose of earning rental income.

Cost and depreciation have been determined for the part of the asset leased out. The revenue on assets leased out is disclosed in Note 7.

Capital expenditures by airport and subsidiary	**2010**	**2009**
Tallinna Airport	11,811	133,774
Kärdla Airport	4,034	2,987
Kuressaare Airport	11,942	69,081
Tartu Airport	15,893	62,277
Pärnu Airport	0	39
Tallinn Airport GH	1,471	26,522
Total purchases and improvements	**45,150**	**294,680**

The purchases of non-current assets of regional airports have been financed from the ERF funds. Information about the obligations of government grants to purchase non-current assets is disclosed in Note 14.

Cost of items of property, plant and equipment in use with the carrying amount of zero	**31.12.2010**	**31.12.2009**
Tallinna Airport	132,821	98,927
Kärdla Airport	5,629	6,298
Kuressaare Airport	7,077	621
Tartu Airport	15,662	15,793
Pärnu Airport	19,624	19,588
Tallinn Airport GH	648	340
Total non-current assets in use with the carrying amount of zero	**181,460**	**141,567**

Note 5. Intangible assets

(EEK thousand)

Software	2010	2009
Cost as at 01.01	17,045	16,121
Accumulated amortisation at 01.01	-10,416	-5,348
Total intangible assets as at 01.01	**6,629**	**10,773**
Movements in intangible assets in the period		
Investments in acquisition of intangible assets	154	924
Amortisation charge	-4,611	-5,068
Reclassification of buildings under construction and prepayments	1,222	0
Cost as at 31.12	17,199	17,045
Accumulated amortisation at 31.12	-15,027	-10,416
Carrying amount as at 31.12	2,172	6,629
Buildings under construction and prepayments for non-current assets as at 31.12	1,222	0
Total intangible assets as at 31.12	**3,394**	**6,629**

Note 6. Investment property

	2010	2009
Cost as at 01.01	20,351	20,351
Accumulated depreciation at 01.01	-19,937	-19,911
Carrying amount of investment property as at 01.01	**414**	**440**
Movements in investment property in the period		
Depreciation charge	-26	-26
Cost as at 31.12	20,351	20,351
Accumulated depreciation as at 31.12	-19,963	-19,937
Carrying amount of investment property as at 31.12	**388**	**414**

The lease agreements for investment property have a short cancellation notice. 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 EEK 732 thousand (2009: EEK 1,127 thousand) and direct operating expenses were EEK 813 thousand (2009: EEK 1,248 thousand).

Note 7. Operating lease

(EEK thousand)

Rental income has been earned from the leasing of premises, hangars and land (see Note 20).

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

From 2010, the conditions for the use of infrastructure were established for the providers of ground handling services, regulating the use of the airport infrastructure and payment for the services provided for use of the infrastructure. The Group recognises the proceeds received as contingent rent, the amount of the fee depends on the volume of services.

Rental expense	**2010**	**2009**
Buildings and facilities	25,916	24,824
Concessions	26,119	26,902
Infrastructure fees	1,283	0
Total rental income	**53,318**	**51,726**

Future rental income under non-cancellable lease agreements[5]:	**2010**	**2009**
Less than 1 year	21,554	19,438
Between 1-5 years	51,601	45,152
Later than 5 years	18,179	22,843
Total rental income	**91,334**	**87,433**

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

Rental expense	**2010**	**2009**
Passenger cars	375	668
Total rental expense	**375**	**668**
Future operating lease payments under non-cancellable lease agreements:	**2010**	**2009**
Less than 1 year	207	23
1-5 years	206	918
Total rental income	**413**	**941**

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

[5] This does not include contingent rent, because the rental rate is not fixed but depends on the sales of the customer, number of passengers and the CPI.

Note 8. Inventories

(EEK thousand)

	31.12.2010	31.12.2009
Foodstuffs	85	84
Fuel	538	367
De-icing materials	1,720	0
Total inventories	**2,343**	**447**

No impairment losses were recognised during the period and neither were they recognised in 2009. All inventories are carried at cost. The Group uses the inventories for the purpose of its own operating activities.

Note 9. Receivables and prepayments

(EEK thousand)

	31.12.2010	31.12.2009
Trade receivables		
Accounts receivable	41,916	46,787
Allowance for doubtful receivables	-168	-378
Total trade receivables	**41,748**	**46,409**
Prepayments	1,803	1,935
Accrued income	33	258
Deferred VAT	6,791	16,307
Government grants related to non-current assets not received	45	4,640
Other receivables	11	22
Total receivables	**50,432**	**69,571**

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 is not secured by collateral. Most of the Group's receivables and prepayments are denominated in Estonian kroons or euros. The amount of the receivables denominated in foreign currencies is disclosed in Note 2.

Changes in doubtful receivables	**2010**	**2009**
Allowance for doubtful receivables at beginning of the period	-378	-635
Receivables deemed as doubtful during the reporting period	-279	-585
Receivables deemed as uncollectible	397	842
Receivables deemed as doubtful collected during the reporting period	92	0
Allowance for doubtful receivables at end of the period	**-168**	**-378**

Note 10. Distribution of financial instruments by category

(EEK thousand)

Items of financial assets in the statement of financial position

As at 31.12.2010	Loans and receivables	Total
Trade receivables, government grant related to non-currents not received and other receivables (Note 9)	41,804	41,804
Cash and cash equivalents (Note 11)	103,592	103,592
Total items of financial assets in the balance sheet	**145,396**	**145,396**
As at 31.12.2009		
Trade and other receivables (Note 9)	51,071	51,071
Cash and cash equivalents (Note 11)	49,441	49,441
Total items of financial assets in the balance sheet	**100,512**	**100,512**

Items of financial liabilities in the statement of financial position

As at 31.12.2010	Other financial liabilities	Financial liabilities at fair value through profit or loss	Total
Borrowings (Note 12)	466,968	0	466,968
Trade and other payables [4] (Note 16)	19,965	0	19,965
Derivative instruments (Note 15)	0	20,574	20,574
Total items of financial liabilities in the balance sheet	**486,933**	**20,574**	**507,508**
As at 31.12.2009			
Borrowings (Note 12)	565,001	0	565,001
Trade and other payables[4] (Note 16)	15,776	0	15,776
Derivative instruments (Note 15)	0	22,579	22,579
Total items of financial liabilities in the balance sheet	**580,777**	**22,579**	**603,356**

Note 11. Cash and cash equivalents

(EEK thousand)

	31.12.2010	31.12.2009
Cash on hand	564	258
Bank accounts	6,414	22,939
Overnight deposit	96,614	26,244
Total	**103,592**	**49,441**

For distribution of cash and cash equivalents by currency, see Note 2.

Note 12. Borrowings

(EEK thousand)

	31.12.2010	31.12.2009
Long-term borrowings		
Long-term bank loans	356,657	463,592
Long-term finance lease liabilities	446	1,780
Total long-term borrowings	**357,103**	**465,372**
Short-term borrowings		
Repayments of long-term bank loans in the next period	106,965	96,292
Interest payable related to long-term bank loans at 31.12	1,544	1,635
Finance lease payment in the next period	1,357	1,702
Total short-term borrowings	**109,865**	**99,629**
Total borrowings	**466,968**	**565,001**

OTHER PAYABLES	31.12.2010	31.12.2009
Carrying amount at beginning of the period	**565,001**	**638,295**
Movements during the period:		
Long-term loan received	0	22,000
Repayments of long-term bank loans	-96,262	-95,111
Long-term finance lease liabilities assumed	0	4,299
Finance lease payments made	-1,680	-817
Change in long-term loan interest payable	-91	-3,665
Carrying amount at end of the period	**466,968**	**565,001**

PRINCIPAL OF LONG-TERM BANK LOANS (AT NOMINAL VALUE) AND CONDITIONS

	Date of entry into contract	Due date	Guarantee	Loan amount EEK thousand
EIB	23.10.1997	15.06.2012	Guarantee of the Republic of Estonia	156,466
NORDEA	15.11.2005	20.11.2012	See Note 13	140,043
Nordic Investment Bank	31.01.2008	5.12.2017	See Note 13	500,691
Swedbank	30.09.2009	30.03.2014	See Note 13	22,000

All loans are denominated in euros. The loan contracts entered into by AS Tallinna Lennujaam with Nordea Bank set certain limits on the Group's consolidated financial indicators. The equity ratio of the borrower shall be at least 32%. As at 31.12.2010, the equity of AS Tallinna Lennujaam was EEK 636 million (2009: EEK 603 million), the balance sheet (excl. government grants) in total EEK 1, 165 million (2009: 1 230 million). Thus, the equity ratio was 55% (2009: 49%). The Group has been in compliance with the covenants for the ratios set by the bank.

The borrowing from Swedbank is recognised as a short-term loan because it will be paid off prematurely in 2011. (See Note 30).

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

As at 31.12.2010	**EIB**	**NORDEA**	**NIB**	**Swedbank**[6]	**TOTAL**
Loan balance at beginning of the period	39,117	56,707	445,059	19,002	559,885
Paid off during the period	-15,647	-20,834	-55,632	-4,149	**-96,262**
Loan balance at end of the period	**23,470**	**35,873**	**389,426**	**14,852**	**463,622**
Loan interest	11	63	1,470	0	**1,544**
Interest rate	Average for the period 0.89%	6-month Euribor+0.3%	6-month Euribor+0.12%	6-month Euribor+2.8%	

As at 31.12.2009	**EIB**	**NORDEA**	**NIB**	**Swedbank**	**TOTAL**
Loan balance at beginning of the period	54,763	77,541	500,691	0	632,996
Paid off during the period	-15,647	-20,834	-55,632	-2,998	**-95,111**
Loan received during the period	0	0	0	22,000	**22,000**
Loan balance at end of the period	39,117	56,707	445,059	19,002	**559,885**
Loan interest payable	15	85	1,534	0	**1,635**
Interest rate	Average for the period 1.78%	6-month Euribor+0.3%	6-month Euribor+0.12%	6-month Euribor+2.8%	

FINANCE LEASE LIABILITY	**31.12.2010**	**31.12.2009**
Lease payments liabilities at beginning of the period	**3 482**	**0**
Movements during the period:		
Finance lease liabilities	0	4,299
Finance lease liabilities paid off	-1,680	-817
Rental payment payable end of the period	**1,802**	**3,482**

Lease agreement do not set any restrictions on the Group's dividend and financing policy, after the expiry of the lease, the ownership is transferred to the Group.

The assets acquired under finance leases has not been subleased.

In 2010, the weighted average interest rate of the finance lease was 4.1% (2009: 4.1%)

[6] Loan balance will be paid off prematurely in February 2011, see **Error! Reference source not found.**

Note 13. Loan collateral and pledged assets

The Republic of Estonia gave its guarantee to the loan received from the European Investment Bank to reconstruct the airport terminal, in respect of complete and precise fulfilment of all financial obligations arising from the loan contract entered into by AS Tallinna Lennujaam and the banks, including payment of all interest payments and other amounts payable to the Bank in accordance with the loan covenants.

As at 31.12.2010 and 31.12.2009, only the loan from the EIB has the guarantee of the Republic of Estonia.

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

(a) 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;

(b) pledge its assets or encumber them with any other real rights.

Note 14. Government grants

(EEK thousand)

Government grants related to operating expenses	2010	2009
Allocation for a specific purpose from state budgets[7]	13,000	13,000
Tartu City Government	554	200
Enterprise Estonia	425	54
Foreign financing	4,423	67
Government grants related to operating expenses recognised as income (Note 21)	**18,401**	**13,321**

Government grants		
Long-term government grants received as at beginning of the period	**1,059,258**	**949,950**
Grants received		
Domestic government grant received	196	500
Received from Cohesion Fund (ISPA)	1,086	0
Received from the European Regional Development Fund (ERF)	45,135	155,578
Total grants received	**46,417**	**156,078**
Recognised as income		
Grants related to assets	-4,558	-3,787
Cohesion Fund (ISPA)	-32,581	-32,582
European Regional Development Fund (ERF)	-16,936	-8,820
Total recognised as income (Note 21)	**-54,076**	**-45,189**

[7] The grant is for operation of regional airports (Kärdla, Kuressaare, Tartu and Pärnu Airport).

Write-off of assets acquired with government grants and government grant liability		
Domestic government grant received	0	-1,580
Received from the European Regional Development Fund (ERF)	-1,809	0
Total grants received	**-1,809**	**-1,580**
Total long-term government grants received as at end of the period	**1,049,790**	**1,059,258**

With the amendment no. 57 of 18.03.2005 to the regulation no. 81 of 22 March 2004 of the Government of the Republic *Appointment of Intermediate Bodies and Final Beneficiaries for Structural Assistance and Approval of the List of Measures for Investment by the State and Local Governments*, AS Tallinna Lennujaam was included in the list of final beneficiaries. The final beneficiary was established with the goal of ensuring legal use of European structural assistance.

The final beneficiary is within AS Tallinna Lennujaam, i.e. the Ministry of Economic Affairs and Communications has granted a right to arrange the management and implementation of government grants to AS Tallinna Lennujaam as a final beneficiary. The final beneficiary pays the funds from government grants transferred directly from the ERF to the State Treasury to its suppliers, as a result of which government grants received for acquisition of non-current assets are not included within the cash flows from investment activities in the statement of cash flows (see *Paid for acquisition of intangible assets, and property, plant and equipment* in the consolidated statement of cash flows).

<u>Key acquisitions funded by the ERF in 2010</u>

Kärdla Airport – maintenance equipment for runways, metal detector, regent storage room .

Kuressaare Airport – instrument landing system for aircraft (ILS), ground fuel equipment, metal detector, maintenance equipment for runways.

Tartu Airport – instruments landing system for aircraft (ILS), fuel tanker vehicle for aircraft, security equipment, ground fuel equipment , maintenance equipment for runways.

<u>Key acquisition funded by the ERF in 2009</u>

Tartu Airport – reconstruction of the passenger terminal, construction of a garage for maintenance equipment. The system of runway lights was upgraded, runway equipment was acquired.

Kuressaare Airport – a passenger ladder and chemicals dispenser were acquired. The runway, apron and boundary fence were reconstructed; lights, storm water and meteosystems were upgraded. The runway of Ruhnu Airport as also reconstructed.

Kärdla Airport – passenger terminal was reconstructed.

Cost of assets acquired with the government grant of ERF by airport	**2010**	**2009**
Kärdla Airport	4,034	3,206
Kuressaare Airport	19,553	73,703
Tartu Airport	21,548	78,668
Total airports	**45,135**	**155,578**

In 2010, the cost of assets acquired with the grants received from the ERF has been funded 100% by the ERF (in 2009, the cost of assets acquired with the government grants received from the ERF was EEK 158,833 thousand, of which 3,255 thousand was own financing).

Note 15. Derivative instruments

(EEK thousand)

Interest rate swaps	**1.** To fix the interest expense on the loan from Nordea Bank with floating interest rate (*interest-rate swap*):	**2.** To fix the interest expense on the loan from *Nordic Investment Bank* with floating interest rate (*interest-rate swap*):	**3.** To fix the interest expense on the loan from *Nordic Investment Bank* with floating interest rate (*cancellable swap*):
Contract was entered into at:	17.11.2005;	16.03.2007;	30.01.2009
Opening date:	21.11.2005;	17.09.2007;	16.03.2009
Closing date:	20.11.2012;	15.09.2017;	15.09.2017
Nominal amount:	EEK 140,042 thousand.	EEK 78,233 thousand.	EEK 206,883 thousand.
Fixed interest rate:	3.04%.	4.015%.	2.395%

Changes in interest rate swaps	**2010**	**2009**
Fair value at beginning of the period	**-22,579**	**-9,478**
Change in fair value of derivative instruments carried in the income statement (Note 27)	-9,154	-15,179
Paid in cash (collected)	0	-2,115
Paid in cash (paid)	11,159	4,193
Fair value at end of the period	**-20,574**	**-22,579**

Note 16. Payables and prepayments

(EEK thousand)

	31.12.2010	**31.12.2009**
Trade payables		
Payables for non-current assets	6,239	5,995
Payables for goods and services	13,726	9,782
Total trade payables	**19,966**	**15,777**
Prepayments for goods and services	760	261
Tax liabilities (Note 17)	9,531,	9,441
Accrued expenses to employees (Note 18)	11,892	12,932
Other accrued expenses	74	264
Total payables and prepayments	**42,222**	**38,675**

Note 17. Tax liabilities

	31.12.2010	31.12.2009
Tax liabilities		
Social security taxes on wages and salaries, and fringe benefits	5,613	5,220
Income tax on wages and salaries, and fringe benefits	3,011	2,744
Unemployment insurance tax	642	597
Pension insurance	155	58
Excise tax	104	69
Corporate income tax	6	57
Sales tax payable	1	0
Land tax	0	696
Total tax liabilities	**9,531**	**9,441**

Note 18. Accrued expenses to employees

(EEK thousand)

	31.12.2010	31.12.2009
Accrued expenses		
Wages and salaries calculated but not yet paid	6,160	5,830
Holiday pay liability	5,713	7,093
Other payables to employees	18	9
Total accrued expenses	**11,892**	**12,932**

Note 19. Equity

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

	31.12.2010	31.12.2009
Share capital (EEK thousand)	359,859	359,859
Number of shares (pcs)	3,599	3,599
Nominal value of shares (in kroons)	100	100

As at 31.12.2010 and 31.12.2009, the share capital of the Group’s parent consisted of 3,599 ordinary shares with the nominal value of EEK 100 each, which have been fully paid for.

As at 31 December 2010, the retained earnings of the Group were EEK 238,859 (31 December 2009: 207, 417) thousand. Upon the payment of dividends to the shareholders, the income tax expense is 21/79 of the amount paid out as net dividends. As at the balance sheet date, it is possible to pay out dividends to the shareholders in the amount of EEK 188,699 thousand (31 December 2009: EEK 163,859 thousand) and the corresponding income tax would amount to EEK 50,160 thousand (31 December 2009: 43,558 thousand).

Note 20. Revenue

(EEK thousand)

AVIATION REVENUE	2010	2009
Landing fees	74,979	90,252
Passenger fees	77,353	77,039
Parking fees	4,195	4,328
Security fees	32,267	23,284
Take-off fees	109	70
Navigation fees	415	523
Total aviation revenue	**189,318**	**195,496**
NON-AVIATION REVENUE		
Aircraft handling revenue	**115,819**	**73,523**
Rental income (Note 7)		
Rent for premises	25,916	24,825
Concessions	26,119	26,902
Infrastructure fees	1,283	0
Total rental income	**53,318**	**51,727**
Other services sold		
Advertising services	5,729	7,467
Parking services for cars	14,328	15,452
Intermediation services	17,430	14,375
Other services provided	9,702	10,679
Total other services sold	**47,188**	**47,973**
Total non-aviation revenue	**216,325**	**173,223**
Total revenue	**405,642**	**368,719**

Note 21. Other income

	2010	2009
Other income		
Government grants related to assets recognised as income (Note 14)	54,076	46,769
Government grants related to operating expenses (Note 14)	18,401	13,321
Gain from disposal of machinery and equipment	110	35
Other income	2,286	129
Total other income	**74,873**	**60,254**

Note 22. Goods, raw materials and services

	2010	2009
Goods, raw materials and services		
Maintenance expenses of registered immovables, buildings, premises	38,081	33,049
Maintenance expenses of the airport	5,137	5,796
Land tax	2,496	2,414
Security, safety and rescue	32,506	34,138
Cost of provision of services to passengers and aircraft	20,827	11,536
Property and liability insurance	2,043	3,151
Costs of maintenance equipment of the airport	20,984	13,602
IT and communication expenses	9,881	6,978
Total goods, raw materials and services	**131,955**	**110,663**

Note 23. Other operating expenses

(EEK thousand)

	2010	2009
Operating expenses		
Training	3,501	1,440
Special clothing and uniforms	956	1,018
Marketing and public relations	4,349	1,823
Administrative expenses	5,018	2,647
Business trips	905	695
Costs related to doubtful receivables	187	584
Total operating expenses	**14,917**	**8,207**

Note 24. Staff costs

	2010	2009
Staff costs		
Wages and salaries, performance pay, holiday pay, bonuses	87,587	83,406
Average monthly salary (EEK)	*14,957*	*15,209*
Benefits and allowances	515,	486
Other remuneration fees paid to supernumeraries	837	735
Staff cots classified as fringe benefits	458	403
Taxes calculated on staff costs	30,933	29,221
Recognition and revaluation of provisions related to employees	299	0
Total staff costs	**120,630**	**114,251**

Number of employees	**2010**	**2009**
Number of employees at beginning of the period	477	434
Number of employees at end of period	502	477
Average number of employees	488	457

Note 25. Other expenses

(EEK thousand)

	2010	2009
Other expenses		
State property taxes	492	352
Loss on disposal of machinery and equipment	0	176
Currency translation differences (other than finance income and costs)	73	-70
Fines for delay and other one-off obligations	425	74
Membership fees	190	172
Sponsorship	140	35
Other costs	640	686
Total other expenses	**1,961**	**1,425**

Note 26. Finance income

(EEK thousand)

	2010	2009
Finance income		
Interest income on deposits	283	2,151
Interest income on loans	0	83
Foreign exchange gains	152	106
Total finance income	**435**	**2,340**

Note 27. Finance costs

(EEK thousand)

	2010	2009
Finance costs		
Interest expense on loans	6,444	14,421,
Change in fair value of derivative instruments (Note 15)	9,154	15,179
Interest charge on finance lease	95	72
Other finance costs	16	0
Foreign exchange losses	79	158
Total finance costs	**15,788**	**29,830**

Note 28. Off-balance sheet assets, contingent liabilities and commitments

Potential liabilities arising from tax inspection

Tax authorities have neither launched nor performed tax inspection or a single case review at the group entities. The tax authorities have the right to verify the Company's tax records up to 6 years from the time of submitting the tax declaration and upon finding errors, impose additional taxes, interest and fines. Management estimates that there are not any circumstances which may lead the tax authorities to impose additional significant taxes on the Company.

Collateral, guarantees, commitments and court litigations

The limits set on the Group's consolidated financial ratios that have been stipulated in the loan contract entered into by the Group represent commitments. See Note 12.

Euro banknotes received through sub-frontloading

From 1 January 2011, the national currency in Estonia is the euro. To simplify the introduction of the euro cash, frontloaded euro banknotes and coins were delivered by credit institutions in December 2010. The prerequisite for sub-frontloading was that the euro banknotes would not be delivered to the public before the €-day. The Group received frontloaded euros in the amount of EUR 8,479 (EEK 132,667.52). See also Note 30.

As at 31.12.2010 and 31.12.2009, the Group does not have any collaterals, guarantees and potential court litigations with a significant financial effect.

Note 29. Related party transactions

The owner of 100% of the shares of AS Tallinna Lennujaam is the Republic of Estonia. In preparing the financial statements of the Group, the related parties include the members of the Management and Supervisory Board of the parent and other entities over which these persons have significant influence.

All entities which the state has control or significant influence over are also considered to be related parties. The Group's Management Board considers it important to disclose the transactions with aviation companies, over which the state has significant influence. In 2010, the Group provided services to such entities for EEK 100,609 thousand (2009: EEK 90,473 thousand).

Management and Supervisory Boards

In 2010, the remuneration of the Supervisory and Management Boards, including social security taxes totalled EEK 4,713 thousand (2009: EEK 5,148 thousand).

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

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

Note 30. Events after the balance sheet date

(a) At 1 January 2011, Estonian adopted the common currency of the EU, the euro. The kroon continued to be accepted as an equal means of payment together with the euro during the first two weeks of 2011. From 15 January 2011, the euro is the only means of payment accepted in Estonia.

The euro was adopted with immediate transition, i.e. at the €-day, the kroons in bank accounts were converted into euros using the exchange rate approved by the resolution of the EU Council at 13 July (EUR 1 = EEK 15.6466).

Pursuant to the amendments to the Commercial Code entered into force at 1 July 2010, entities have the obligation to convert their shares into euros due to the adoption of the euro. The nominal value of shares, the number of shares and share capital will change in conjunction with the conversion of the shares. The new nominal value of a share is going to be EUR 10.

(b) Pursuant to the Participation In Legal Persons in Private Law by the State Act, the amount of dividends payable by a state company shall be approved by the Government of the Republic. By the time of authorising the annual report for issue, the regulation specifying payment of dividends by the Group, had not been issued.

(c) In February 2011, the Group paid prematurely back the loan received from Swedbank in the amount of EEK 14.5 million, see Note 12.

Note 31. Financial information on the Parent Company

Separate statement of financial position

(EEK thousand)

Inventories	31.12.2010	31.12.2009
Non-current assets		
Long-term financial investments	16,078	16,078
Property, plant and equipment	2,023,993	2,126,889
Intangible assets	2,791	5,841
Investment property	388	414
Total non-current assets	**2,043,250**	**2,149,222**
Current assets		
Inventories	720	447
Payables and prepayments	29,552	57,808
Cash	63,999	33,107
Total current assets	**94,270**	**91,362**
TOTAL ASSETS	**2,137,520**	**2,240,584**

LIABILITIES AND EQUITY	31.12.2010	31.12.2009
Equity		
Share capital	359,859	359,859
Statutory reserve capital	35,986	35,986
Retained earnings	185,669	187,348
TOTAL EQUITY	**581,514**	**583,193**
Liabilities		
Non-current liabilities		
Borrowings	356,879	449,495
Other payables	1,049,790	1,059,258
Derivative instruments	20,574	22,579
Total non-current liabilities	**1,427,244**	**1,531,332**
Current liabilities		
Borrowings	94,182	94,284
Payables and prepayments	34,581	31,142
Provisions	0	633
Total current liabilities	**128,763**	**126,059**
TOTAL LIABILITIES	**1,556,007**	**1,657,391**
TOTAL LIABILITIES AND EQUITY	**2,137,520**	**2,240,584**

Separate statement of comprehensive income

(EEK thousand)

	2010	2009
Revenue	303,003	306,323
Other income	74,796	60,220
Goods, raw materials and services	-108,261	-95,830
Other operating expenses	-13,657	-6,348
Staff costs	-83,957	-85,075
Depreciation , amortisation and impairment	-157,342	-156,104
Other expenses	-1,536	-1,312
OPERARING PROFIT	**13,047**	**21,874**
Finance income	243	2,234
Finance costs	-14,969	-29,013
Other finance costs	**-14,726**	**-26,778**
Net profit for financial year	**-1,680**	**-4,904**
COMPREHENSIVE INCOME FOR FINANCIAL YEAR	**-1,680**	**-4,904**

Separate statement of cash flows

(EEK thousand)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from customers	344,095	305,901
Paid to suppliers and employees	-218,961	-220,906
Interest income received	262	2,176
Interest paid	-17,084	-19,508
Government grant received from the state budget	13,000	13,000
Government grants related to other operating expenses	4,145	0
Total cash flows from operating activities	**125,456**	**80,663**
CASH FLOWS FROM INVESTING ACTIVITIES		
Paid for purchase of property, plant and equipment, and intangible assets	-5,607	-179,379
Proceeds from sale of property, plant and equipment	2,798	76
Government grant related to non-current assets	872	16,613
Total cash flows from investing activities	**-1,938**	**-162,690**
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of loans received	-92,113	-92,113
Repayments of finance lease liabilities	-514	-253
Total cash flow from financing activities	**-92,627**	**-92,366**
NET CASH FLOWS	**30,892**	**-174,393**
Cash and cash equivalents at beginning of year	33,107	207,501
Cash and cash equivalents at end of year	63,999	33,107
Net increase/decrease in cash and cash equivalents	**30,892**	**-174,393**

Separate statement of changes in equity

(EEK thousand)

	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2008	359,859	35,986	192,252	588,097
Net profit for 2009	0	0	-4,904	-4,904
Balance as at 31.12.2009	359,859	35,986	187,348	583,193
Net profit for 2010	0	0	-1,680	-1,680
Balance as at 31.12.2010	**359,859**	**35,986**	**185,669**	**581,514**

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

(EEK thousand)

	2010	2009
Unconsolidated equity of the parent	581,514	583,193
Carrying amount of subsidiaries in the separate balance sheet of the parent (minus)	-16,078	-16,078
Value of subsidiary under the equity method (plus)	69,268	36,147
Total	**634,704**	**603,262**

INDEPENDENT AUDITOR'S REPORT

PROFIT ALLOCATION PROPOPSAL

Retained earnings	EEK 207,417,050
Net profit for 2010	EEK 31,441,791

Total distributable profit as at 31.12.2010	**EEK 238,858,841**

The Management Board proposes not to distribute the net profit for 2010 in the amount of EEK 31, 441,791 and transfer it to retained earnings.

Balance of retained earnings after profit allocation	**EEK 238,858,841**

Rein Loik	Member of the Management Board	…………………….	……………… 2011
Einari Bambus	Member of the Management Board	…………………….	……………… 2011
Anneli Turkin	Member of the Management Board	…………………….	……………… 2011
Erik Sakkov	Member of the Management Board	…………………….	……………… 2011

SIGNATURES TO THE ANNUAL REPORT

The Management Board of AS Tallinna Lennujaam has prepared the management report and financial statements for the year 2010. The Management confirms the correctness of information presented in the annual report.

Management Board:

Rein Loik	Member of the Management Board	....	 2011
Einari Bambus	Member of the Management Board	....	 2011
Anneli Turkin	Member of the Management Board	....	 2011
Erik Sakkov	Member of the Management Board	....	 2011

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

Supervisory Board:

Toivo Jürgenson	Chairman of the Supervisory Board	....	 2011
Peeter Laurson	Member of the Supervisory Board	....	 2011
Arto Aas	Member of the Supervisory Board	....	 2011
Rannar Vassiljev	Member of the Supervisory Board	....	 2011
Väino Linde	Member of the Supervisory Board	....	 2011
Viljar Arakas	Member of the Supervisory Board	....	 2011

Revenue of AS Tallinna Lennujaam according to EMTAK 2008

		2010	2009
35131	Distribution of electricity	6,101	5,211
52231	Operation of airports and airway terminals	273,517	291,457
52239	Other support activities for air transportation	125,905	71,958
85599	Other education	129	93

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholder of AS Tallinna Lennujaam

We have audited the accompanying consolidated financial statements of AS Tallinna Lennujaam and its subsidiary, which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation, and true and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; Audit Company's Registration No.6
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Tallinna Lennujaam and its subsidiary as of 31 December 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

/signed/	/signed/
Tiit Raimla Auditor's Certificate No.287	Laile Kaasik Auditor's Certificate No.511

21 March 2011

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* *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.*