

CONSOLIDATED ANNUAL REPORT 2011**Tallinn Airport Ltd**

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Beginning of financial year:	01.01.2011
End of financial year:	31.12.2011

Table of contents

GENERAL INFORMATION AND CONTACT DATA	4
MANAGEMENT REPORT	5
CONSOLIDATED FINANCIAL STATEMENTS.....	19
Consolidated statement of financial position.....	19
Consolidated statement of comprehensive income	20
Consolidated statement of cash flows	21
Consolidated statement of changes in equity	22
Notes to the consolidated financial statements.....	23
Note 1 General information	23
Note 2 Overview of key accounting and reporting policies	23
Note 3 Management of financial risks.....	36
Note 4 Key accounting estimates	40
Note 5 Property, plant and equipment	42
Note 6 Intangible assets	44
Note 7 Investments property.....	44
Note 8 Operating lease	44
Note 9 Inventories	45
Note 10 Receivables and prepayments.....	46
Note 11 Distribution of financial instruments by category.....	46
Note 12 Cash and cash equivalents	47
Note 13 Borrowings.....	47
Note 14 Loan collateral and pledged assets	49
Note 15 Government grants.....	50
Note 16 Derivative instruments	51
Note 17 Payables and prepayments.....	52
Note 18 Tax liabilities.....	52
Note 19 Accrued expenses to employees.....	53
Note 20 Equity	53
Note 21 Revenue.....	54
Note 22 Other income.....	55
Note 23 Goods, materials and services	55
Note 24 Operating expenses	55
Note 25 Staff costs	56
Note 26 Other expenses	56

Note 27 Finance income and costs	56
Note 28 Off-balance sheet assets, contingent liabilities and commitments.....	57
Note 29 Related party transactions.....	57
Note 30 Events after the balance sheet date	57
Note 31 Financial information on the parent company	58
Separate statement of financial position	58
Separate statement of comprehensive income	59
Separate statement of cash flows	60
Separate statement of changes in equity.....	61
Restated statement of equity of Tallinn Airport Ltd (parent company)	61
INDEPENDENT AUDITOR'S REPORT	62
PROFIT ALLOCATION PROPOSAL	64
SIGNATURES TO THE ANNUAL REPORT	65
Revenue of Tallinn Airport Ltd according to EMTAK 2008	66

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 handling services for aircraft and passengers. The Group employs 513 people.

The owner of the shares of Tallinn Airport Ltd 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.

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MANAGEMENT REPORT

The year 2011 was successful for Tallinn Airport Ltd. Lennart Meri Tallinn Airport was one of the fastest-growing airports in Europe, with an annual increase in the number of passengers of 528 thousand. The growth in the number of passengers was 38% as compared to 2010 (2011: number of passengers 1.91 million, 2010: number of passengers 1.39 million). The number of passengers of regional airports decreased by 15% (2011: number of passengers 55 thousand, 2010: number of passengers 64 thousand).

Summary of consolidated financials for 2011

Number of passengers serviced	1.97 million passengers
Revenue	EUR 26.1 million
Total operating income	EUR 35.1 million
Net profit	EUR 4.2 million
Balance sheet total	EUR 140.2 million
Capital expenditure	EUR 5.5 million

Highlights of 2011

- ✓ After a bombing incident at Domodedovo Airport in 24th of January 2011, the topic of quality and the scope of aviation security highlighted again.
- ✓ In March, a new uniform with new corporate colors and symbols was introduced to Tallinn Airport Ltd service personnel.
- ✓ At 19 May, an international crisis management training "EU CREMEX 2011" took place at Lennart Meri Tallinn Airport, during which the solution of aircraft hijacking situation was practiced by internal security institutions.
- ✓ In May, Tallinn/Estonia was introduced in Cagliari as a host of Routes Europe 2012 in cooperation with our partners, serving a typical Estonian lunch accompanied by an entertainment programme.
- ✓ At 5 June, the first cruise liner turnaround was conducted; a total of 5 turnarounds were conducted during which Tallinn Airport serviced 7,100 passengers and handled 80 tonnes of luggage/goods.
- ✓ At 1 August, the Russian airline company UTair launched flights on the route Tallinn – Moscow Vnukovo. The aviation portal anna.aero named UTair's Moscow-Tallinn route as the "Route of the Week".
- ✓ August had the highest number of passengers ever - 193 thousand passengers.
- ✓ At 20 September, Tallinn Airport Ltd celebrated its 75th anniversary.
- ✓ In September, construction of the largest maintenance hangar for aircraft at Tallinn Airport was launched (total square area of 11,000 m²).
- ✓ At 28 – 29 October, the 2011 Autumn Games of Estonian Companies took place, where the Tallinn Airport sports club won the first prize.
- ✓ New carriers Blue 1, UTair and Flybe commenced their flights to Tallinn.

Overview of the economic environment

The year 2011 in the economic environment can be likened to a retreat in a green oasis on a journey through the crisis desert (from 2008 into the future). The airline sector is directly related to the overall state of the economy. When the economy grows, the airline sector manages to cope with rising fuel prices. When the GDP growth falls below 2%, airline companies become unprofitable. According to the IATA forecast, the European airline sector's net profit margin was 1.2%, but the year 2012 is expected to be difficult and losses are likely. The surveys conducted by the IATA at the beginning of 2012 demonstrated that the profit expectations of airline companies and their business confidence indicators

have fallen the level of the year 2009. In 2009, airline companies incurred huge losses due to a sharp drop in demand. Thus, the number of airline companies facing difficulties may increase in 2012. This in turn will directly impact the financial position of airports.

Despite difficult times, our national carrier Estonian Air plans to aggressively expand and turn Tallinn Airport into a transit centre. In autumn 2011, the Supervisory Board of AS Estonian Air approved a new action plan for the upcoming years. The objective is to add new flights to the existing routes, add new destinations and fly at least twice a day into major European cities. According to the plan, Estonian Air will increase its aircraft park to at least 16 airplanes by the year 2015, 12 of which will be Embraer's E-Jet-type airplanes. Considering the forecasts of Estonian Air, we expect the number of passengers to reach 3.6 million by the year 2016 (incl. 0.5 million transfer passengers). The total number of flight operations should increase from 40 thousand operations today to 64 thousand.

Key operating and financial indicators of the Group

	2011	2010	2009	2008	2007
Lennart Meri Tallinn Airport					
Number of passengers (million)	1.913	1.385	1.346	1.812	1.728
Number of flight operations (pcs.)	40,298	33,587	32,572	41,654	38,844
Cargo volume (tons)	18,371	11,960	21,001	41,867	22,764
Total regional airports					
Number of passengers	54,688	64,206	47,392	39,452	33,758
Number of flight operations	11,012	11,394	10,836	11,806	11,182
Group (EUR million)					
Revenue	26.1	25.9	23.6	27.3	24.8
<i>incl. aviation revenue</i>	11.4	12.1	12.5	17.5	16.5
<i>incl. non-aviation revenue</i>	14.7	13.8	11.1	9.8	8.3
Other income	9	4.8	3.9	3.4	1.8
<i>incl. government grants for assets</i>	3.7	3.6	3	2.3	0.7
<i>incl. government grants for security and rescue expenses</i>	3.6	0	0	0	0
<i>incl. government grants for regional airports</i>	1.4	0.8	0.8	0.8	0.8
<i>incl. other income</i>	0.4	0.4	0	0.2	0.3
Operating profit before depreciation*	11.3	10	9.4	9.6	11.7
Net profit	4.2	2	0.4	1.1	6.6
Cash flows from main activity	11.4	9.9	6.2	11.3	10.2
Investments	5.5	2.9	18.8	55.7	30.8
<hr/>					
Assets at (year-end)	140.2	141.5	146.3	152	101.9
Assets excluding government grants * (year-end)	75.4	74.4	78.6	91.3	66.9
Equity (year-end)	46.1	40.6	38.6	38.2	37.1
Borrowings (year-end)	22.9	29.8	36.1	40.8	18.9
<hr/>					
Equity/assets (year-end)* (%)	61%	54%	49%	42%	55%

Net debt/ operating profit before depreciation*	2	3	3.8	4.2	1.6
Number of employees (year-end)	531	488	453	414	429

* excluding government grants for property plant and equipment.

Attainment of objectives for 2011

Client service	Assessment basis	Assessment
Improvement of airline passenger satisfaction	Satisfaction surveys are conducted at least twice a year with the goal of monitoring and improving passenger satisfaction	Surveys show an increase in satisfaction
Increase in the number of destinations	Number of destinations	14 new destinations have been added as compared to 2010, the objective has been achieved
Improvement of quality and volume of services at the passenger terminal	Satisfaction survey are conducted at least twice a year with the goal of monitoring and improving passenger satisfaction	Surveys show an increase in satisfaction
Ensure pre-flight security screening to passengers on traditional routes not longer than 15 minutes and for budget airlines not longer than 25 minutes from the time of queuing up for security screening	Compliance with agreed norms	Completed

High-quality operation of airports and cooperation

Certification of regional airports in accordance with the requirements of international standards ISO 9001:2008 and ISO 14001:2004	Management systems of regional airports are certified	Certificates have been obtained
Centralisation of development of flight safety and security systems	Unitary know-how at the Group, controlling bodies have been centralised	Regular central trainings, information days and audits are conducted.
Improvement of flight safety and environmental sustainability, and improvement of regularity of flights through the development of GPS based non-high-precision procedures	Procedures have been approved by the Civil Aviation Administration and are in use	Procedures will be completed in 2013
Transfer of the auro-navigation service to LLT at Kuressaare Airport	Aero-navigation service has been transferred	Transfer of aero-navigation services has been suspended due to a significant increase in costs

Efficient and profitable company

Mitigation of risks, increase of efficiency, ensuring organisation of work of a sustainable and high-quality organisation	Apply IT solutions for safety, asset management, risk management and customer management systems	Mapping of systems in 2011, introduction and testing in 2012 -2013
High-quality and experienced workforce	Upgrading of the motivation policy for employees	Attainment of the objective postponed until 2012
Improvement of pricing models	Upgrading of the principles of the management accounting system of Tallinn Airport Ltd	Due date in 2012

CLIENT-ORIENTED SERVICE

Air traffic

In 2011, Tallinn Airport serviced 1.91 million passenger which is 38% more than last year (2010: 4%) and 5.4 % more (2010: 6.5% less) than budgeted.

At the year-end 2010, Ryanair started to fly to Tallinn, achieving a 20% market share by the year-end 2011. The market share of Estonian Air fell from 39% to 33%. The number of passengers by airline is shown in Figure 1.

Figure 1 Total number of passengers 2008-2011

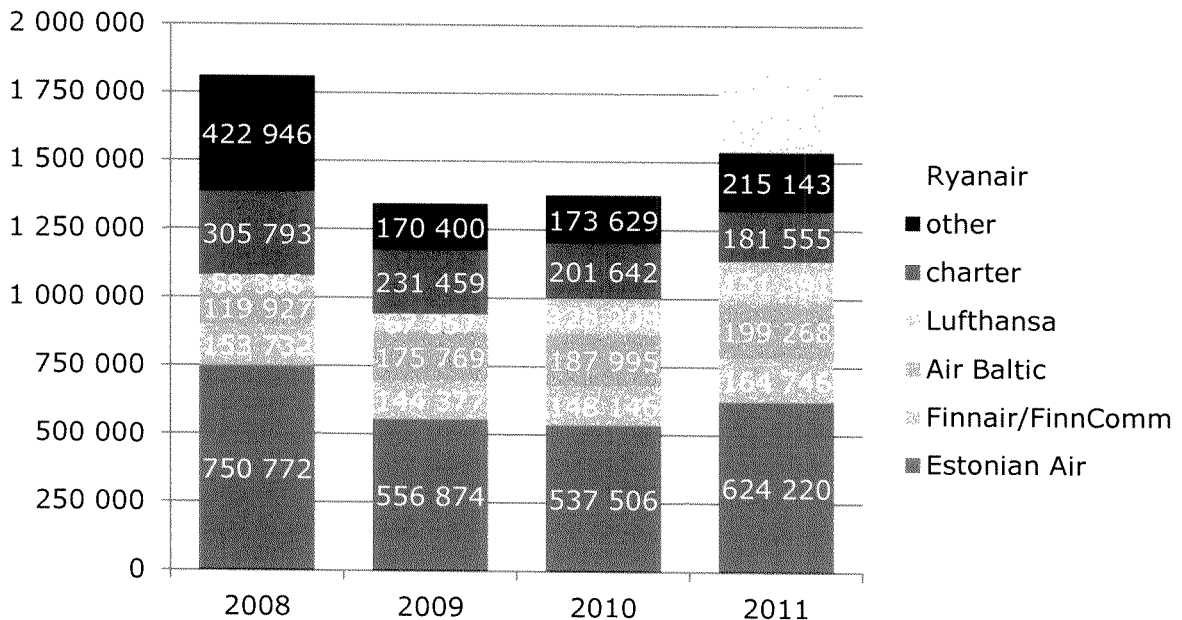
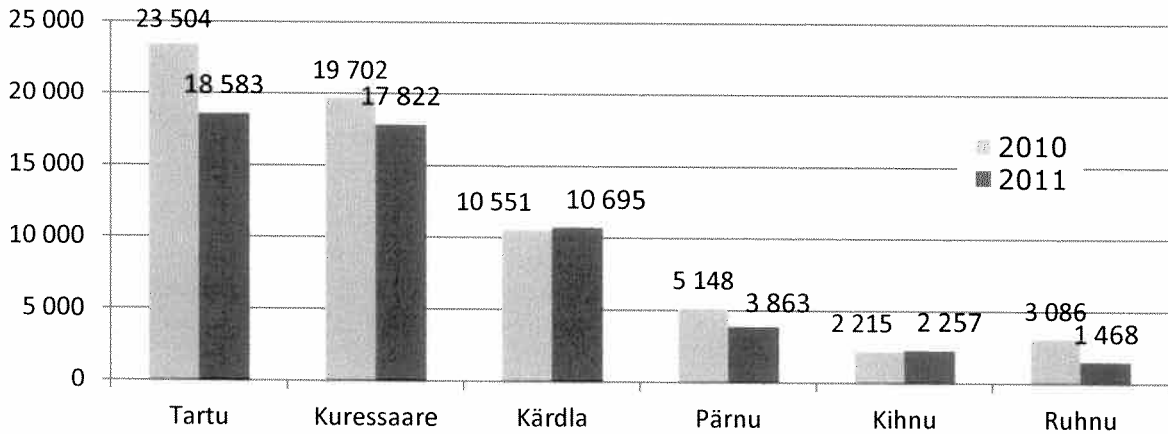


Figure 2 TOP destinations and market shares of airlines

three peak hours (morning, noon and evening). During the peak hours, Tallinn Airport operates close to full capacity. This will lead to higher requirements for the entire airport staff.

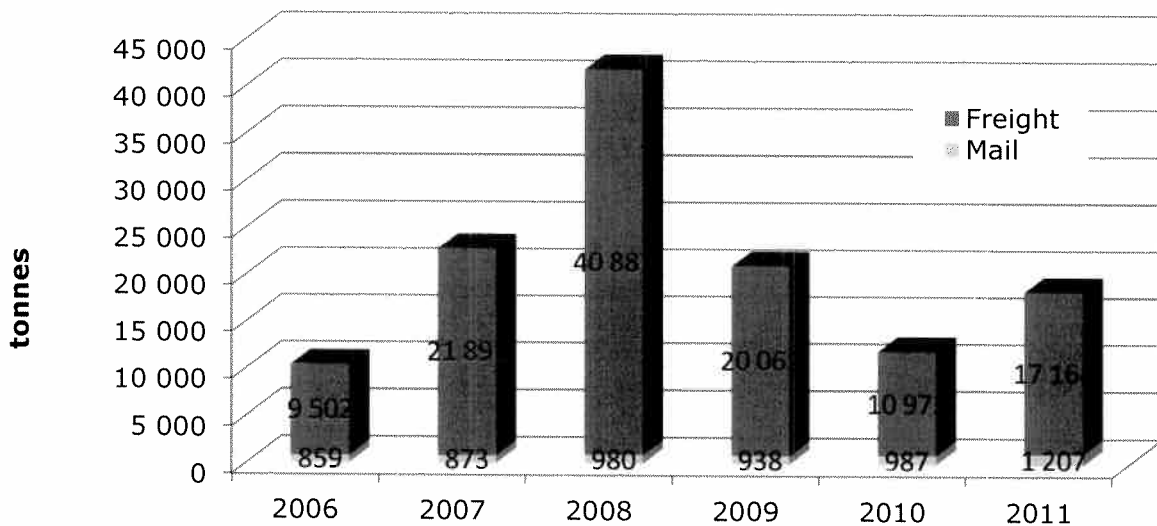
In 2011, the number of passengers at regional airports totalled 55 thousand (2010: 64 thousand), the number of passengers decreased by 15% as compared to 2010 (2010: increased by 26%). The decline is related to the departure of Air Baltic from Tartu at 01.08.2011. In October, Flybe started to fly on the route Tartu – Helsinki.

Figure 4 Passengers at regional airports 2010-2011



In 2011, cargo traffic increased by 54% compared to 2010. For 2012, the cargo volumes are forecast to be 19,400 tons at Tallinn Airport.

Figure 5 Cargo volumes



Trade at the passenger terminal of Tallinn Airport

The buying habits of passengers have not changed a lot as compared to 2010.

More people visited the stores and purchased from stores during the year. The average shopping basket of passengers at the stores of Tallinn Airport have fluctuated at around EUR 25. However, 70% of buyers still spend less than that (10% of passengers contribute 50% to the revenue of stores). There has been a slight decline in the visits to catering places, but primarily on account of those who spent less than the average amount there. Half of the customers spent less than EUR 7.5 on food at the airport.

Figure 6

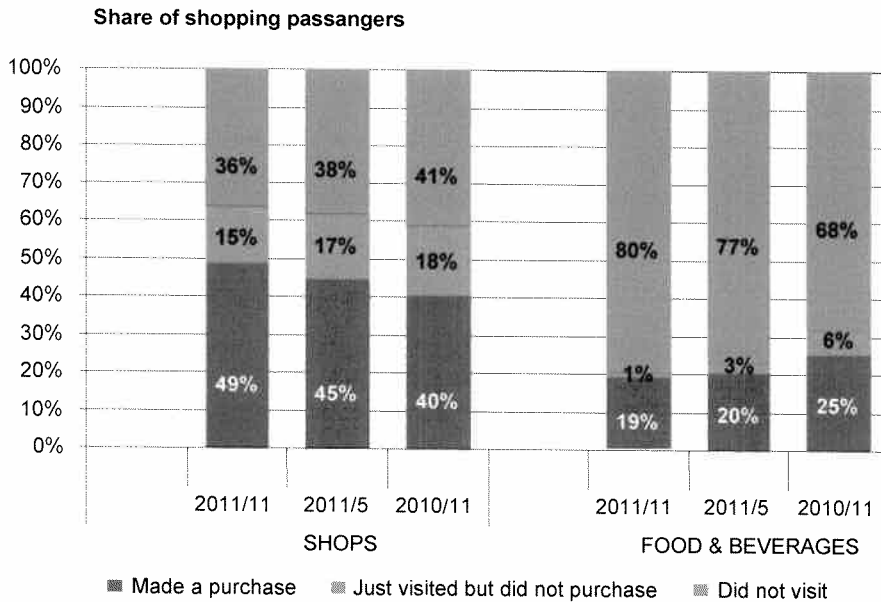
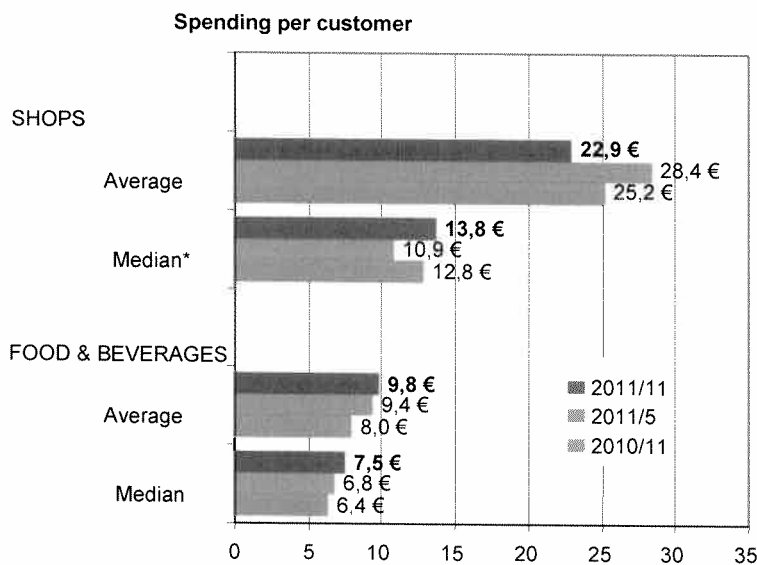


Figure 7



* 50% buys for more and 50% for less

Airport community

The airport is a service organisation, for whose image it is of crucial importance that end consumers would not receive contradictory information between the promises given by the Airport and the actual experience with its services.

Services at the airport are provided by very different companies but for the passenger they still represent one big single airport. If any of the almost 1,000 employees of the airport community or 125 companies fail to provide high-quality services, this will primarily harm the reputation of the airport. It is important to us that all companies operating on the airport territory share common values with us.

Ground handling service

At Tallinn Airport, the subsidiary of Tallinn Airport, AS Tallinn Airport GH has been authorised to provide services to third parties. In 2011, the revenue of AS Tallinn Airport GH was EUR 7.8 million. As compared to 2010, the revenue change was less than 1%. Due to poor weather conditions, revenue declined considerably in the last months of 2011 as compared to 2010.

In 2011, Lufthansa awarded AS Tallinn Airport GH with a Shooting Star diploma which means that the company has made the greatest progress among the European ground handling service stations. Finnair considered the services of our GH to be the most accurate in the world. Until the year-end, AS Tallinn Airport GH maintained its second or third place on the accuracy scale behind Japanese and Korean ground handling service providers.

In 2011, the average number of employees of AS Tallinn Airport GH was 185 (2010: 167 employees).

Security service

In 2011, the administrative capacity of aviation security was put to test. In conjunction with rapid growth in the number of passengers at Tallinn Airport, the aviation security also had to demonstrate flexibility and fast response to changes. During the year, the provision of the service per hour increased by 27%; because of this, G4S Eesti AS, the partner of Tallinn Airport Ltd in provision of the security service, needed to recruit new employees and carry out training activities. Tallinn Airport had to increase the scope of surveillance significantly. At the same time, the number of surveillance employees of Tallinn Airport did not increase.

In 2011, the aviation department carried out 155 training events, during which 1,564 aviation related people were trained. A total of 423 hours were spent on training. From 2012, training activities will be concentrated into the training centre of Tallinn Airport Ltd, training will be organised by the aviation security department.

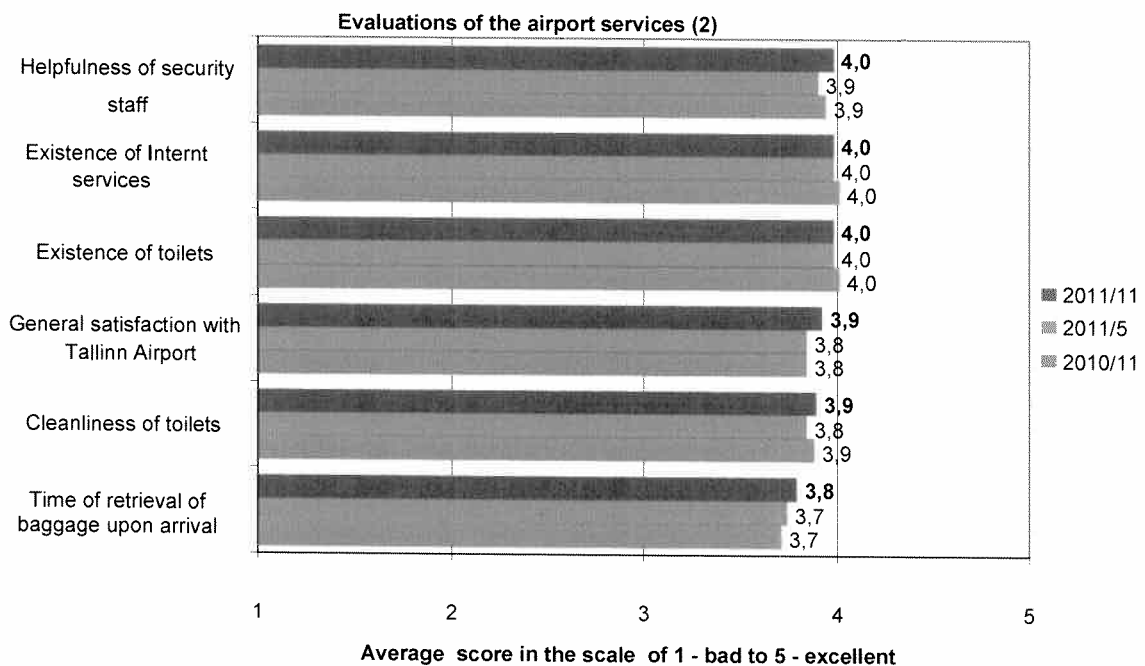
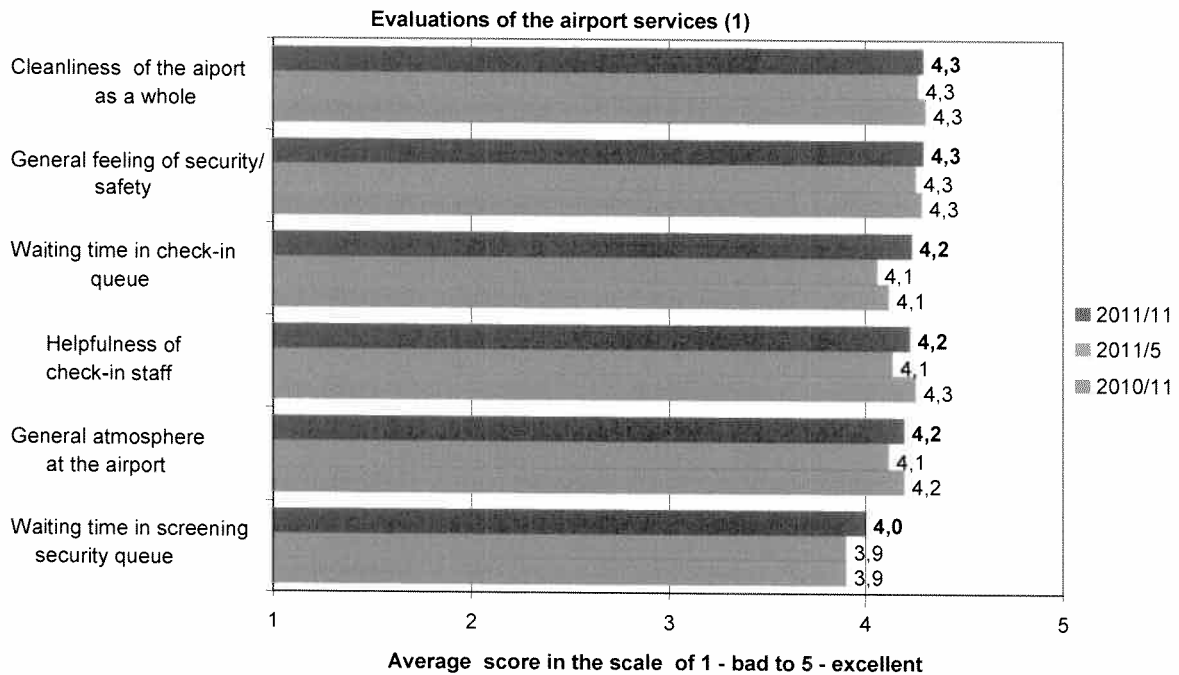
One of the main objectives of the aviation security department is to detect prohibited items/substances in the luggage of passengers. In 2011, a total of 4,905 items specified in the list of prohibited items/substances were detected in the course of security screening at Tallinn Airport (2010: 3,626 items), of which 4,832 were in the hand luggage of passengers and 73 in checked-in luggage.

Servicing of disabled passengers and passengers with reduced mobility

In 2011, we serviced 2,093 passengers with reduced mobility (PRM) (2010: 1670). 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. In 2011, a disabled passenger lift was purchased to move passengers with reduced mobility between the aircraft and terminal.

Passenger satisfaction

Tallinn Airport Ltd carries out satisfaction surveys twice a year, in May and November. On the basis of the last survey, the general satisfaction with the airport continues to be high. The average score is 3.9 (on a 5-point scale), i.e. the overall evaluation by passengers is very good. The overall evaluation of the airport is high among all target groups. The survey showed that the passengers expect a more diverse choice in the shops and catering places of the airport. As compared to 2010, satisfaction has increased with regard to security screening.



HIGH-QUALITY OPERATION OF AIRPORTS AND COOPERATION

The Republic of Estonia increased the share capital of Tallinn Airport Ltd by a non-monetary contribution, by transferring seven properties to the ownership of the company. Tallinn Airport Ltd needed the plots of land to ensure sustainable development at the current location over the next 10 years. The acquisition of those properties enables to commence the expansion of Tallinn Airport in the area to the south of the airport. The plots of land transferred as a non-monetary contribution are necessary for development of infrastructure and for better operation of the flight safety protection zone.

Tallinn Airport Ltd is engaged in the operation and development of airports owned by the Company in order to ensure the ground servicing of aircrafts, passengers and cargo. In addition to the airfield services, Tallinn Airport Ltd provides air traffic, meteorological, communication, navigation and monitoring services.

Tallinn Airport Ltd holds a corresponding certificate issued by the Civil Aviation Administration, which allows to provide air traffic, communication, navigation, monitoring and aviation meteorological services at the airfields of Kuressaare, Kärdla, Pärnu and Tartu. In April 2010, the provision of aero-navigation services at Tartu Airport was transferred to Lennuliiklusteeninduse AS

Tallinn Airport Ltd regularly conducts customer satisfaction surveys. The Management Board of Tallinn Airport Ltd evaluates the level of provided services to be good – the customers were satisfied with the quality of the aero-navigation service provided in 2011 and flexibility in provision of the service.

We have disclosed the conditions for using the services on our website www.airport.ee and have made the official consultation process available to the service users by way of creation of a committee of users. The objectives of the committee of users of Tallinn Airport Ltd is to share information among the clients of the airport, to ensure smooth cooperation between the users, to ensure the use of the airport facilities and equipment according to their function, and to ensure the efficient operation of the airport.

The management system of Tallinn Airport Ltd is created with the purpose of ensuring high quality of the provided services through a systematic and process-based approach. At Tallinn Airport Ltd, quality means compliance with the standards and requirements agreed upon with our customers and cooperation partners, guaranteeing of a safe environment to the employees, customers and cooperation partners, and implementation of measures to protect the environment. The management system is created on the basis of the requirements of international standards EN-ISO 9001:2008 and EN-ISO 14001:2004, as well as the requirements and recommendations of the International Civil Aviation Organisation (ICAO).

Certificates proving compliance of the management system of Tallinn Airport Ltd have been issued by international certification company Bureau Veritas Eesti OÜ. Regional airports are also within the scope of the management system since November 2011. Compliance certificates were issued at 9 January 2012.

Flight safety

In order to ensure safety, the improvement of the safety management system continued in the entire Group in cooperation with all functions. For managing incidents and irregularities, the electronic support programme intended for describing and monitoring the corrective actions was improved.

All clients and operators of the airport can notify of matters related to safety and anonymously send information to the safety team by using e-mail address safety@tll.aero.

Notification by operators of incidents affecting safety increased by 55% as compared to 2010, which is reflected in growth of the number of registered incidents.

In 2011, the flight safety unit detected a total of 245 (2010: 134) ground incidents in the traffic area of the airfield. The main incidents affecting flight safety were related to the servicing of aircrafts on apronsides and violations by vehicles of the traffic procedure for motor vehicles in the traffic area.

In 2011, no aircraft accidents occurred (category B, in 2010: 2) and the number of incidents decreased to 3 (category C, in 2010: 9).

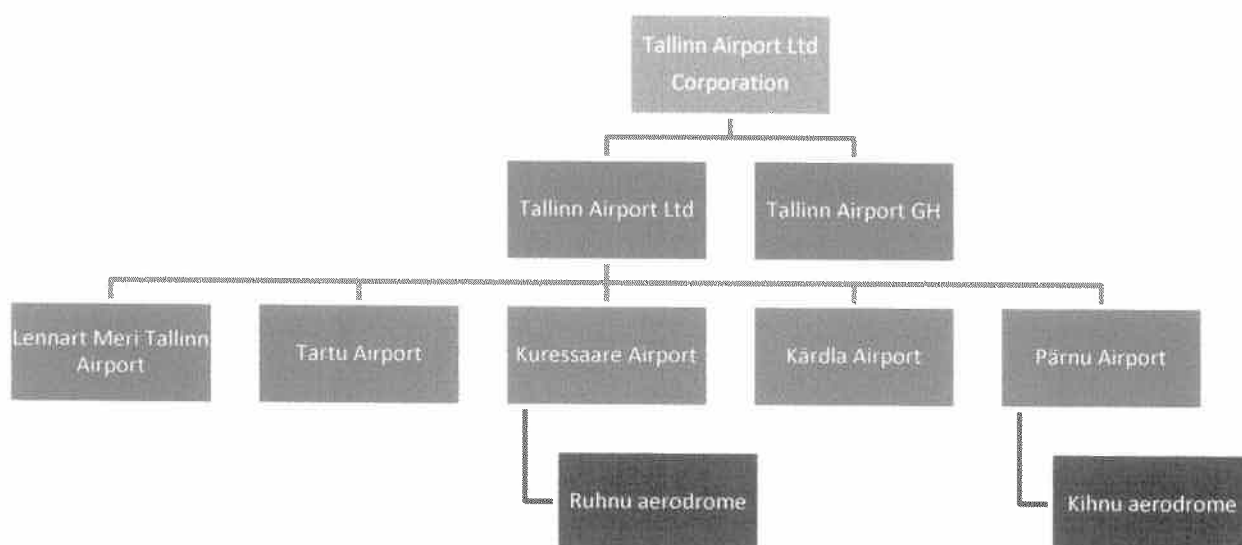
EFFICIENT AND PROFITABLE COMPANY

Organisation

In 2011, 513 employees worked at the Group on average (2010: 488), including 328 employees at the parent Tallinn Airport Ltd (2010: 321) and 185 employees at the subsidiary Tallinn Airport GH Ltd (2010: 167).

In 2011, the Group's salary expenses were EUR 6.5 million (2010: EUR 5.6 million), social and unemployment insurance taxes EUR 2.3 million (2010: EUR 2 million), for a total of EUR 8.8 million (2010: EUR 7.6 million). The increase in staff costs is related to the payment of performance pay on the basis of the operating and financial results in 2011. The remuneration of the members of the Supervisory Board and Management Board of Tallinn Airport Ltd amounted to EUR 352 thousand, including the social fees (2010: EUR 337 thousand).

In 2011, on average 264 employees worked at Lennart Meri Tallinn Airport (2010: 261), 64 employees at regional airports (2010: 60).



Due to the specific nature of its operations, Tallinn Airport Ltd competes in different labour force sectors, several engineering professions and skilled jobs in technology fields are of critical importance. The structural labour shortage in the labour market is the highest in those sectors. In finding employees, the Company often competes with large companies, based on the international and Estonian capital, from the sectors of energy, information technology, communications, transport, logistics and services.

A 24-hour working cycle is a complicating factor, which involves shift work, work at night time and during public holidays. As Tallinn Airport is a final destination airport, the peak hours where the need for labour is the highest is at night. It reduces the attractiveness of jobs offered by us.

The year 2011 was characterised by fast volume growth. While the number of passengers increased by over 38%, the number of employees increased by 5.5%: the number of employees increased by 10 at airports and by 19 at GH.

For Tallinn Airport Ltd, it is important to be an attractive employer. For this, we value our employees, contribute to the development of the organisational culture and cooperate with different universities. In 2011, the Group's training expenses (incl. maintenance of competences) totalled EUR 206 thousand (2010: EUR 220 thousand). The Company applied for grants from Enterprise Estonia for carrying out large-scale training projects. Under the measure for developing knowledge and skills, Enterprise Estonia supported 4 training projects in the total amount of EUR 63,452 in 2011. A more detailed overview of the completed projects is available at <http://www.tallinn-airport.ee/aboutcompany/euroopasotsiaalfondiprojektid>.

In 2011, the choice of training services offered to cooperation partners under the project of development of the Group's training centre was expanded, among other things, a training programme for servicing passengers with special needs was developed. The training for servicing passengers with special needs is carried out with the Estonian Federation of the Blind, the Chamber of Disabled People and the Estonian Association of the Deaf.

In 2011, the Group used central operating principles in the area of quality, environmental management, safety, security and energy. Based on the economic environment and development of the business model, the priorities of the organisation in 2012 include the development of an objective-focused management model, launch of the communications function and development of the operating principles of cooperation teams. Those functions were in focus in 2011.

Financial results in 2011

In 2011, Tallinn Airport Ltd did not change flight charges (security charge was abolished in 2010). From 1 January 2011, the state directly finances the expenses related to provision of the security service and thus the travel expenses dropped for the passengers by the amount of the security charge. As a result of this, Tallinn Airport Ltd reclassified the security charge from the revenue category into other operating revenue. Disappearance of the security charge does not influence the profit of the Group, but reduces sales and increases other operating income. In 2011, the sales of aviation revenue were EUR 11.4 million or 5.8% lower than in 2010. The sales of the entire Group were EUR 26.1 million or 0.8% higher than in 2010. The Group's revenue totalled EUR 35.1 million or 14.3% higher than in 2010.

In 2010, Tallinn Airport Ltd launched a 5-year route support programme with a goal of increasing the number of destinations and attract additional passengers to Estonia who would also bring additional income for the state.

The objective of the route support programme is to encourage and facilitate the opening of new routes starting from Tallinn. The coverage of the pre-flight security charge by the state was one of the significant components of making the airport charges more attractive.

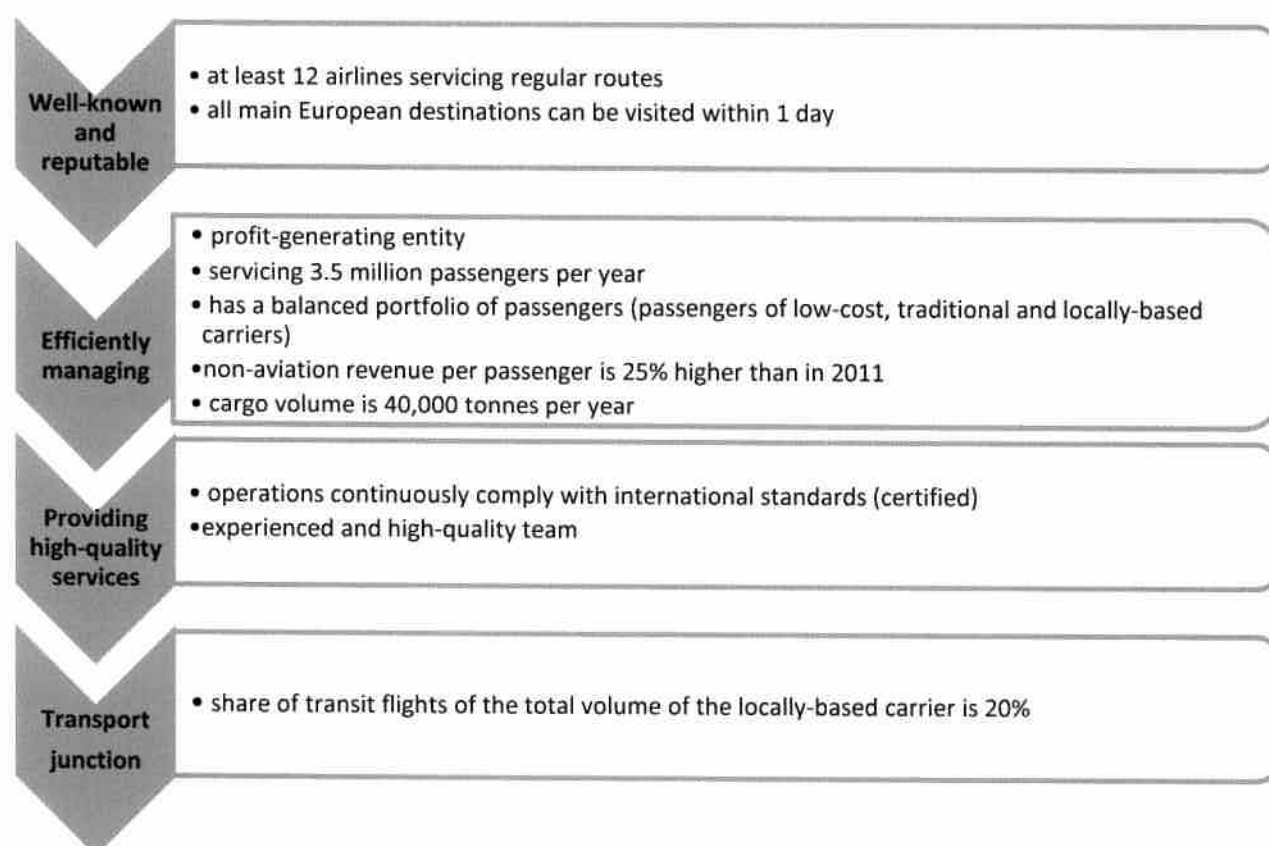
As a result of launching the support programme, the number of passengers has increased to 1.9 million at the end of 2011 or 38% compared to 2010. As a result of those measures, the state has earned additional tax income of at least EUR 6.9 million from additional passengers in 2011.

In addition to the security charges, the state decided to bear the expenses related to the state functions (rescue service and regional policy), covered by Tallinn Airport Ltd until now.

In 2011, the actual expenses of Tallinn Airport Ltd for rescue and security services totalled EUR 3.73¹ million, of which the state covered EUR 3.58 million. The state has agreed to cover the rescue and security expenses in the amount of EUR 4.7 million in 2012.

In 2011, the Group's net profit amounted to EUR 4.2 million. The profit of the parent totalled EUR 3.4 million. The increase in profit was mainly related to postponement of investments and development expenses due to the unstable business environment.

Objectives for 2012-2016



We have based our forecasts for 2012 on the plans of national carrier Estonian Air and other airlines, and the uncertainty of the business environment in 2012. We are extremely conservative with regard to incurring expenses and ready to immediately respond to any unexpected changes in the business and operating environment. The forecast number of passengers for 2012 is 2.12 million or 16% more than in 2011. The forecast sales of the Group for 2012 are EUR 28.1 million or 8% more than in 2011. The total operating revenue will increase from EUR 35 million to EUR 38 million. The planned profit of the Group is EUR 1.7 million.

In 2012, the Group plans to invest EUR 24 million, the largest projects being the construction of an aircraft maintenance hangar commenced in 2010, renewal of the maintenance equipment of the air traffic area, aircraft hangars, management of real estate, IT solutions of the document and safety management system, security equipment and design of another passenger terminal.

¹ Includes direct and indirect expenses.

In May 2012, the European largest aviation forum Routes Europe will be held in Tallinn. Approximately 750 delegates are expected to attend the forum, including the representatives of European airlines and airports.

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of financial position

ASSETS	Note	31.12.2011	31.12.2010
Non-current assets			
Property, plant and equipment	Note 5	128,130,289	131,300,668
Intangible assets	Note 6	232,537	216,911
Investment property	Note 7	23,141	24,797
Total non-current assets		128,385,968	131,542,376
Current assets			
Inventories	Note 9	177,799	149,761
Receivables and prepayments	Note 10	3,749,889	3,223,167
Cash	Note 12	7,893,773	6,620,742
Total current assets		11,821,461	9,993,669
TOTAL ASSETS		140,207,428	141,536,045
EQUITY			
	Note 20		
Share capital		24,360,500	22,999,182
Statutory reserve capital		2,299,918	2,299,918
Share premium		8	0
Retained earnings		19,468,015	15,265,862
TOTAL EQUITY		46,128,441	40,564,961
LIABILITIES			
Non-current liabilities			
Borrowings	Note 13	17,777,778	22,823,029
Government grants	Note 15	64,861,713	67,093,833
Derivative instruments	Note 16	1,199,314	1,314,922
Total non-current liabilities		83,838,805	91,231,784
Current liabilities			
Borrowings	Note 13	5,150,399	7,021,667
Payables and prepayments	Note 17	5,080,568	2,717,633
Derivative instruments	Note 16	9,215	0
Total current liabilities		10,240,182	9,739,300
TOTAL LIABILITIES		94,078,987	100,971,084
TOTAL LIABILITIES AND EQUITY		140,207,428	141,536,045

The notes to the financial statements presented on pages 23-61 form an integral part of the consolidated financial statements

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Consolidated statement of comprehensive income

	Note	2011	2010
Revenue	Note 21	26,088,363	25,925,261
Other income	Note 22	9,041,134	4,785,276
Goods, materials and services	Note 23	-9,300,946	-8,433,456
Operating expenses	Note 24	-1,067,493	-953,385
Staff costs	Note 25	-9,709,142	-7,709,664
Depreciation, amortisation and impairment	Notes 5, 6, 7	-9,982,752	-10,497,993
Other expenses	Note 26	-54,440	-125,315
OPERATING PROFIT		5,014,725	2,990,724
Finance income and costs	Note 27	-812,564	-981,227
Net profit for the year		4,202,161	2,009,496
COMPREHENSIVE INCOME FOR THE YEAR		4,202,161	2,009,496

The notes to the financial statements presented on pages 23-61 form an integral part of the consolidated financial statements

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>M. M</u> Kuupäev/date <u>23.03.12</u> PricewaterhouseCoopers, Tallinn
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Consolidated statement of cash flows

	Note	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		28,665,363	27,834,007
Payments to suppliers and employees		-21,440,598	-17,872,247
Interest received	Note 27	25,265	27,794
Interest paid		-943,561	-1,142,974
Government grants received from state budget	Note 15	4,985,109	830,851
Government grants received for other expenses	Note 15	62,369	269,812
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		11,353,948	9,947,244
CASH FLOWS FROM INVESTING ACTIVITIES			
Paid for acquisition of intangible assets, and property, plant and equipment	Notes 5, 6	-3,143,622	-461,263
Proceeds from sale of property, plant and equipment	Note 5	0	178,830
Government grants received for non-current assets	Note 15	0	55,700
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		-3,143,622	-226,733
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings	Note 13	-6,836,320	-6,152,280
Finance lease payments	Note 13	-100,975	-107,359
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		-6,937,295	-6,259,640
NET CASH FLOWS		1,273,031	3,460,872
Cash and cash equivalents at beginning of the period		6,620,742	3,159,870
Cash and cash equivalents at end of the period		7,893,773	6,620,742
Net increase/decrease in cash and cash equivalents	Note 12	1,273,031	3,460,872

The notes to the financial statements presented on pages 23-61 form an integral part of the consolidated financial statements

Consolidated statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2009	22,999,182	0	2,299,918	13,256,366	38,555,465
Comprehensive income for 2010	0	0	0	2,009,496	2,009,496
Balance as at 31.12.2010	22,999,182	0	2,299,918	15,265,862	40,564,961
Increase of share capital via non-monetary contribution	1,361,310	0	0	0	1,361,310
Increase of share capital via equity financing	8	0	0	-8	0
Share premium	0	8	0	0	8
Comprehensive income for 2011	0	0	0	4,202,161	4,202,161
Balance as at 31.12.2011	24,360,500	8	2,299,918	19,468,015	46,128,441

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

The notes to the financial statements presented on pages 23-61 form an integral part of the consolidated financial statements

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>M. M</u> Kuupäev/date <u>23.03.12</u> PricewaterhouseCoopers, Tallinn
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Notes to the consolidated financial statements

Note 1 General information

The parent company Tallinn Airport Ltd 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 Tallinn Airport Ltd Group for the year ended 31 December 2011 comprise Tallinn Airport Ltd (parent company) and its fully owned subsidiary Tallinn Airport GH Ltd, engaged in provision of ground services for aircraft and passengers and the shares of which are registered in Estonia.

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 23 March 2012.

Note 2 Overview of key accounting and reporting policies

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

2.1 Bases of preparation

The Group's consolidated financial statements have been prepared in accordance with **International Financial Reporting Standards** as adopted by the European Union (IFRS).

The financial information presented in the consolidated financial statements is mostly based on historical cost, other than financial assets and liabilities (incl. derivative instruments) carried at fair value through profit or loss. Certain accounting estimates have been used for preparation of the consolidated financial statements, as well as management judgement has been used to apply several accounting and reporting principles. The areas in which the accounting estimates and assumptions have had the greatest effect on the information presented in the financial statements are disclosed in note 4 of the consolidated financial statement.

2.2 Change in functional and presentation currency

At 1 January 2011, Estonia adopted the common currency of the European Union, the euro. The Estonian kroon was in parallel circulation as an equal means of payment to the euro in the first two weeks of 2011. From 15 January 2011, the only means of payment in Estonia is the euro.

The financial figures in the annual report for 2010 had been presented in thousands of Estonian kroons while the annual report for 2011 as well as the comparatives for prior years are presented in a whole number of euros.

Initsialiseeritud ainult identifitseerimiseks Initialed/initials Kuupäev/date PricewaterhouseCoopers, Tallinn	 <i>M. M.</i> <i>23.03.12</i>
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2.3 Changes in accounting and disclosure policies

(a) Adoption of new or revised standards and interpretations

The new or revised standards or interpretations which became effective in the financial year beginning at 1 January 2011 had no material impact on the Group.

(b) New standards, interpretations and their amendments

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning at or after 1 January 2012 and which the Group has not adopted early:

IFRS 9 Financial Instruments: Classification and Measurement. The standard will become mandatory for the Group from 1 January 2015. IFRS 9, issued in November 2009, will replace those parts of IAS 39 that relate to the classification and measurement of financial assets. IFRS 9 was further amended in October to address the classification and measurement of financial liabilities, and in December 2011 to change its effective date and add transition disclosures. Key features of the standard are as follows:

1. 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.
2. An instrument is subsequently measured at amortised cost only if it is a debt instrument and both
 - (a) the objective of the entity's business model is to hold the asset to collect the contractual cash flows attributable to it, and
 - (b) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
3. After initial recognition, all equity instruments are to be subsequently measured 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 choice can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than through profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This choice 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.
4. 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 at fair value through profit or loss in other comprehensive income.

The standard may have an impact on the recognition of financial assets. As at the date of authorising these financial statements for issue, the European Union had not yet adopted this standard.

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

2.4 Preparation of consolidated financial statements

(a) **Group accounting**

The consolidated financial statements include the financial information of the parent Tallinn Airport Ltd and its subsidiary AS Tallinn Airport GH consolidated line-by-line. The receivables, liabilities, income,

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>M. M</u> Kuupäev/date <u>23.03.12</u> PricewaterhouseCoopers, Tallinn
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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 has power to govern the financial and operating policies of the investee and as a rule, it owns more than 50% of the voting power of the subsidiary. The existence and probable effect of potential voting rights currently in use or convertible is taken into account for the purpose of evaluation of the existence of control. The subsidiary is included in the consolidated financial statements from the time control arises until it ceases.

(c) Parent company's separate financial statements

Pursuant to the Accounting Act of Estonia, the separate primary financial statements of the consolidating entity (parent company) shall be disclosed in the notes to the consolidated financial statements. The primary financial statements of the parent have been prepared using the same accounting policies as those that have also been used for the preparation of the consolidated financial statements, except for accounting policies for recognition of subsidiaries which have been changed in the parent's separate primary financial statements in accordance with the requirements of IAS 27 *Consolidated and Separate Financial Statements* and investments in the shares of subsidiaries have been recognised at cost less any impairment losses (see Note 31).

2.5 Foreign currency transactions and financial 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 euros (EUR) which is the functional currency of the parent and the presentation currency of the Group. Until 31 December 2010, the Group's functional currency was the Estonian kroon, which was pegged to the euro at the rate of EUR 1 = EEK 15.6466.

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

2.6 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.

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>M. M</u> Kuupäev/date <u>23.03.12</u> PricewaterhouseCoopers, Tallinn	25
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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.

2.7 Property, plant and equipment

Property, plant and equipment are tangible assets with a useful life of over one year when it is probable that future benefits attributable to them will flow to the Group. Assets with a useful life of over 1 year and a cost of less than EUR 2,000 are recorded as low-value items (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 period of time to be completed and it is financed with a loan or another debt instrument, the borrowing costs (interest) attributable to it are capitalised in the cost of the asset under construction. Capitalisation of borrowing costs commences at the time when borrowing costs and expenditures attributable to the asset have been incurred and the construction of the asset has been launched. Capitalisation of borrowing costs is terminated when the asset is ready or its use has been suspended for a longer period of time.

(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:

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>M. M</u> Kuupäev/date <u>23.03.12</u> PricewaterhouseCoopers, Tallinn
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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	2 – 15 years

Other fixtures, tools, fittings:

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

(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 statement of comprehensive income.

(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 losses on derecognition of items of property, plant and equipment are recognised in the statement of comprehensive income line *Other income* or *Other expenses* of the period in which the asset was derecognised.

(f) 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*.

2.8 Intangible assets

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

Software

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

- ✓ making software available for use is technically possible;
- ✓ the Management Board intends to complete the software and use it;
- ✓ it is possible to use software;

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

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

2.9 Investment property

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

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

2.10 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 an asset or a group of assets which are likely to be impaired. The recoverable amount is determined. The recoverable amount of the asset is the higher of the two indicators:

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

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

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

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

An impairment loss is immediately charged to expenses in the statement of comprehensive income. For non-current assets acquired with government grants, their impairment is assessed 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.

2.11 Financial assets

(a) Classification

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

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

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

(b) Recognition and measurement

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

Gains and losses on revaluation of financial assets recognised at fair value through profit or loss are carried in the statement of comprehensive income line *Finance income and costs* in the period in which they are incurred. Interest income on available-for-sale financial assets, loans and receivables are carried in the statement of comprehensive income line *Finance income*. In the reporting period and the previous

period, the Group has not earned any interest or dividend income on financial assets recognised at fair value through profit or loss

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

2.12 Impairment of financial assets

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

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

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

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

2.13 Derivative instruments

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

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

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

2.14 Inventories

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

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

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

2.15 Trade receivables

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

2.16 Cash and cash equivalents

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

2.17 Share capital and statutory reserve capital

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

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

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

2.18 Trade payables

Trade payables are payables incurred in the ordinary course of business to pay suppliers for goods or services purchased. The payables due in one year are considered as current liabilities. The other trade payables are included within non-current liabilities. Trade payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method.

2.19 Borrowings

Borrowings are initially recognised at fair value less transactions costs and are subsequently measured at amortised cost. The difference between the cost and the redemption value is recognised as an expense in the statement of comprehensive income during the period of the duration of the borrowing, using the effective interest rate method. The service fees payable upon conclusion of loan agreements are recognised as borrowing costs to the extent it is probable that the Group will take out the loan. Such service fees are included within accrued expenses in the statement of financial position and are recognised as borrowing costs when the loan is taken out. Borrowings are recognised as current liabilities except when the Group has an unconditional right to defer their payment for later than at least 12 months after the end of the reporting period.

2.20 Borrowing costs

General purpose and specific purpose borrowing costs directly attributable to acquisition or construction of qualifying assets, i.e. those which take a long time to get ready for their use or sale, are added to the cost of the assets until the assets are ready for their use or sale. In the reporting and comparable period, no borrowing costs were capitalised in the cost of assets.

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

2.22 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 2011, 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.

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

(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	1.4% on the payroll paid to 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.
Heavy vehicle tax	EUR 3.5–EUR 232.6/quarter per truck
Income tax on expenses not related to business activities	21/79 on expenses not related to business activities
Sales tax	1% of the cost of goods and services sold to individuals on the territory of the City of Tallinn

2.23 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.

2.24 Provisions and contingent liabilities

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

Provisions are not recognised to cover future operating losses.

In case there are several similar obligations, the probability of a decline in resources necessary for fulfilment of obligations is determined by viewing the class of obligations as a whole. Although the probability of a decline in resources for each item may be insignificant, certain depletion of resources is

probable for the class of obligations as a whole. In such a case, a provision shall be recognised (when other recognition criteria have been met).

Provisions are reviewed at the end of each reporting period and are revised using the best estimate at the time. The cost related to the recognition of provisions is included within operating expenses or in the cost of non-current assets in the statement of comprehensive income, when the recognition of a provision is related to 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.

2.25 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 measurable only when all circumstances related to the transaction are unambiguous.

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

(a) Revenue

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

(b) 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.

2.26 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 statement of comprehensive income.

2.27 Leases

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

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

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

The Group leases out commercial premises to companies. Concession agreements granting a right to 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.

2.28 Dividends

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

2.29 Cash flow statement

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

2.30 Events after the balance sheet date

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

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

Note 3 Management of financial risks

3.1 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 on the unpredictability of the financial markets and attempts to minimise possible unfavourable effects on the Group's financial activities. The Group uses derivative instruments to hedge certain risk exposures.

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

3.1.1 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 and liabilities in relation to the foreign currency risk. In order to avoid foreign currency risk, transactions are concluded primarily in euros (2010: In the Estonian kroons, the rate of the Estonian kroon was pegged to the euro at the rate of EUR 1 = EEK 15.6466). In 2011, the Group does not have any receivables exposed to foreign currency risk and in 2010, they were insignificant.

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

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

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

Cash flow interest rate risk arises for the Group from borrowings with floating interest rates and represents the 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 2010 with SEB Bank for the loan received from Nordic Investment Bank (see Note 16).

If the market interest rate (6-month Euribor) had been 50 basis points (2010: 50 basis points) higher as at 31 December 2011, the change at the Group's profit for the reporting period (with all other variables remaining) would have been irrelevant. The effect of the increase in the interest charge on borrowings with a floating base interest rate is irrelevant on the statement of comprehensive income and the interest rates of the borrowings, interest charges of which have been fixed by a swap transaction, are not exposed to changes in Euribor.

Changes in interest rates also lead to changes in derivatives. If interest rates increase, the derivatives become cheaper than the market value, which has an impact on the profit for the financial year. The price

of derivatives is based on the supply and demand forming on the basis of forecasts of the behaviour of interest rates by market participants and hence, a potential gain or loss is difficult to forecast.

3.1.2 Credit risk

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

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

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

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

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

Amount exposed to credit risk	31.12.2011	31.12.2010
Trade receivables, government grant related to non-current assets not received and other receivables (Note 10)	2,784,000	2,671,756
Bank accounts and overnight deposits at banks ² (Note 12)	7,814,687	6,584,679
Total amounts exposed to credit risk	10,598,687	9,256,435

Analysis of accounts receivable	31.12.2011	31.12.2010
Not due	1,853,457	2,032,727
Overdue by up to 30 days	403,743	497,448
Overdue by up to 60 days	50,723	41,537
Overdue by more 60 days	170,692	107,234
<i>Incl. allowance for doubtful receivables</i>	-125,680	-10,748
Total accounts receivable	2,352,935	2,668,198

Of the accounts receivable as at 31.12.2011, a total of EUR 196 thousand had not been collected by 13.03.2012 (of accounts receivable as at 31.12.2010, a total of EUR 123 thousand had not been collected by 13.03.2011).

As at 31.12.2011, 12% (31.12.2010: 16%) 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.

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 one forecast flight is required for airlines which have not concluded an aviation contract with Tallinn Airport Ltd (including airlines arranging charter flights).

² Total cash and cash equivalents less cash on hand.

- ✓ Bank guarantees are required from the airlines when aviation contracts are concluded with companies which are not well-known in the EU aviation market.

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

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

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

	31.12.2011	31.12.2010
Banks with Moody's credit rating of Baa2	3,007,220	6,174,775
Banks with Moody's credit rating of Baa1	3,296,540	409,485
Banks with Moody's credit rating of A2	1,507,471	419
Banks with Moody's credit rating of A3	3,456	0
Total exposure to credit risk	7,814,687	6,584,679

Additional information about credit risk is disclosed in Note 10.

3.1.3 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 EUR 7,894 thousand (31.12.2010: EUR 6,621 thousand).

In order to hedge liquidity risk, the Group uses various sources of financing, such as bank loans, overdraft facilities and ongoing monitoring of accounts receivable. As at the balance sheet date, the Group's current assets exceeded current liabilities by EUR 1,581 thousand (31.12.2010: EUR 254 thousand).

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

Distribution of liabilities by due date

as at 31.12.2011	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 13)	2,859	5,717	5,638	0	0	14,213	14,213
Borrowings (Note 13) ³	36,192	2,511,099	2,846,243	15,008,267	3,585,879	23,987,680	22,913,964
Derivative instruments (Note 16)	0	0	9,215	0	1,199,314	1,208,529	1,208,529
Trade payables ⁴ (Note 17)	1,791,549	956,032	0	0	0	2,747,581	2,747,581
Total	1,830,600	3,472,847	2,861,096	15,008,267	4,785,193	27,958,003	26,884,287
As at 31.12.2010							
Finance lease liabilities (Note 13)	9,489	28,466	51,257	28,949	0	118,161	115,188
Borrowings (Note 13) ⁵	25,820	2,868,930	4,298,442	16,467,092	7,224,445	30,884,729	29,729,508
Derivative instruments (Note 16)	0	0	0	72,285	1,242,637	1,314,922	1,314,922
Trade payables ⁴ (Error! Reference source not found.)	1,275,849	192	0	0	0	1,276,041	1,276,041
Total	1,311,158	2,897,588	4,349,699	16,568,326	8,467,082	33,593,853	32,435,659

3.2 Capital risk management

The owner of all shares of Tallinn Airport Ltd is the Republic of Estonia, who 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 31.12.2011 and 31.12.2010, the Company's equity was in compliance with the requirements of the Commercial Code.

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

	31.12.2011	31.12.2010
Borrowings (Note 13)	22,928,177	29,844,696
Less : cash and cash equivalents and term deposits with maturities greater than 3 months (Note 12)	7,893,773	6,620,742
Net debt (borrowings-cash and cash equivalents)	15,034,404	23,223,955
Equity (Note 20)	46,128,441	40,564,961
Total capital (net debt + equity)	61,162,845	63,788,916
Debt to equity	37%	47%
Net debt to total capital	25%	36%

³ For determining the undiscounted cash flows, the interest rate at the year-end 2011 has been used

⁴ Total trade payables less prepayments.

⁵ For determining the undiscounted cash flows, the interest rate at the year-end 2011 has been used

3.3 Fair value estimates

The Group estimates that the fair values of financial assets recognised at amortised cost do not materially differ from the carrying amounts reported in the consolidated balance sheet of the Group as at 31.12.2011 and 31.12.2010. As most of the Group's long-term borrowings carried a floating interest rate which changes according to changes in money market interest rates, their fair values do not materially differ from their carrying amounts. The carrying amount of short-term receivables from customers and accounts receivable is estimated to equal their fair value.

The Group has classified 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:

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

3.4 Effects of the economic crisis of the Group

The management has evaluated the effects of the global liquidity crisis and the related general economic crisis on the Group'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 airline 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.

The management estimates that the most serious threat is the possible insolvency of a country /countries of the Eurozone which may lead to a new economic crisis.

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

Note 4 Key accounting estimates

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

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

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

As at 31 December 2011, the carrying amount of the Group's property, plant and equipment was EUR 128 million (31 December 2010: EUR 132 million), the depreciation charge for the reporting period was EUR 10 million (2010: EUR 10 million) (see Note 5). If the useful lives of all assets are changed by one year, the profit would change by EUR 484 thousand (2010: EUR 525 thousand).

2. Valuation of doubtful receivables

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

The amount of doubtful receivables is adjusted 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 2011, the Group had doubtful receivables in the amount of EUR 125,680 (31 December 2010: EUR 10,748) (Note 10).

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

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

The number of passengers of Tallinn Airport Ltd increased by 38% and revenue increased by 9.3% (taking into consideration a government grant for security and rescue purposes as compared to 2010). The budget of Tallinn Airport Ltd for the year 2012 forecasts a 16.4% increase in the number of passengers and 8.3% increase in revenue. The budget for 2012 takes into consideration the complexity and unpredictability of the economic situation and the aggressive short-term (3-year) growth plan of the largest carrier, Estonian Air at Tallinn Airport. The plans of Estonian Air have been treated in a conservative manner in the Group's plans.

During the peak summer hours in the summer of 2012, the passenger terminal and runways will operate at maximum capacity which will happen for the first time since the reconstruction of the airport in 2006-2008. The Company plans to invest in the capacity growth in order to ensure servicing of airline operations and passengers in the upcoming years.

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

The Group's Management Board assessed the existence of indications of impairment losses and determined that there were no indications in 2011 to conclude that the assets had lost a major share of their cash generation ability and no impairment test was performed therefore (similarly to 2010).

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Note 5 Property, plant and equipment

	Land	Buildings and facilities	Machinery and equipment	Other tools and fixtures	Total
Balance as at 31.12.2009					
Cost	3,471,512	120,264,550	58,406,642	3,957,337	186,100,041
Accumulated depreciation	0	-28,004,229	-17,927,230	-2,111,080	-48,042,539
Carrying amount 31.12.2009	3,471,512	92,260,321	40,479,412	1,846,257	138,057,502
Buildings under construction and prepayments for non-current assets	0	40,744	135,082	1,587	177,413
Total property, plant and equipment 31.12.2009	3,471,512	92,301,065	40,614,494	1,847,844	138,234,915
Changes occurred in 2010					
Acquisitions and improvements	0	42,995	2,790,807	51,821	2,885,623
Depreciation charge	0	-4,564,893	-4,828,924	-758,070	-10,151,887
Carrying amount of assets disposed	0	-176,111	-81,667	0	-257,778
Carrying amount of assets written off	0	-21,027	-14,328	-14,379	-49,734
Reclassification of buildings under construction and prepayments	0	556,537	84,577	-1,587	639,527
Balance as at 31.12.2010					
Cost	3,471,512	119,992,747	60,840,734	3,973,528	188,278,521
Accumulated depreciation	0	-32,451,462	-22,495,434	-2,847,898	-57,794,794
Carrying amount 31.12.2010	3,471,512	87,541,285	38,345,300	1,125,630	130,483,727
Buildings under construction and prepayments for non-current assets	0	597,281	219,659	0	816,940
Total property, plant and equipment 31.12.2010	3,471,512	88,138,566	38,564,959	1,125,630	131,300,667
Changes occurred in 2011					
Acquisitions and improvements	1,461,318	1,677,458	1,836,032	329,688	5,304,496
Depreciation charge	0	-4,323,465	-4,967,155	-501,791	-9,792,411
Carrying amount of assets disposed	0	0	-284	0	-284
Carrying amount of assets written off	0	-20,145	-59,291	-1,608	-81,044
Change in buildings under construction and prepayments	0	1,091,176	240,860	66,830	1,398,866
Balance as at 31.12.2011					
Cost	4,932,830	121,596,861	62,130,775	4,257,417	192,917,882
Accumulated depreciation	0	-36,721,729	-26,976,173	-3,305,497	-67,003,399
Carrying amount 31.12.2011	4,932,830	84,875,132	35,154,602	951,919	125,914,483
Buildings under construction and prepayments for non-current assets	0	1,688,457	460,519	66,830	2,215,806
Total property, plant and equipment 31.12.2011	4,932,830	86,563,589	35,615,121	1,018,749	128,130,289

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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 2011 and 2010.

Non-current assets acquired under finance lease terms (the Group is the lessee)	Balance as at 31.12.2010	Acquired	Written off	Depreciation charge	Balance as at 31.12.2011
Cost	551,471	37,028	-37,028	0	551,471
Accumulated depreciation	-101,957	0	9,565	-64,380	-156,772
Carrying amount	449,514	37,028	-27,463	-64,380	394,699

The construction of the maintenance hangar for aircraft with the cost of EUR 10 million was launched in 2011. Construction will be completed in July 2012, hence also a larger than normal balance in the line of buildings under construction and prepayments. (See Notes 13 and 28).

An operating lease agreement has been entered into with Air Maintenance Estonia AS for 30 years. Additional conditions have been laid down for the unilateral cancellation of the agreement in the first 10 years.

The carrying amount of the assets leased out under the operating lease terms was EUR 29,459 thousand as at 31.12.2011 (31.12.2010: EUR 29,751 thousand).

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

The assets leased out are partly used in business operations and partly for earning rental income.

Capital expenditures by airport and subsidiary	2011	2010
Tallinn Airport	3,589,353	754,837
Tartu Airport	982,092	1,015,750
Kuressaare Airport	176,436	763,232
Kärdla Airport	73,138	257,822
Pärnu Airport	3,042	0
Tallinn Airport GH	480,435	93,982
Total purchases and improvements	5,304,496	2,885,623

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 15.

Cost of items of property, plant and equipment in use with the carrying amount of zero	31.12.2011	31.12.2010
Tallinn Airport	10,555,946	8,488,807
Pärnu Airport	1,363,009	1,254,190
Tartu Airport	1,020,308	1,000,979
Kuressaare Airport	793,806	452,307
Kärdla Airport	357,341	359,749
Tallinn Airport GH	103,675	41,384
Total non-current assets in use with the carrying amount of zero	14,194,085	11,597,416

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Note 6 Intangible assets

SOFTWARE	2011	2010
Cost as at 01.01.	1,099,222	1,089,380
Accumulated amortisation as at 01.01.	-960,411	-665,691
Total intangible assets as at 01.01.	138,811	423,689
Movements in intangible assets in the period		
Investments in acquisition of intangible assets	168,955	9,842
Amortisation charge	-107,640	-294,720
Buildings under construction and prepayments for non-current assets as at 31.12	-45,689	78,100
Cost as at 31.12.	1,268,177	1,099,222
Accumulated amortisation as at 31.12.	-1,068,051	-960,411
Carrying amount as at 31.12.	200,126	138,811
Buildings under construction and prepayments for non-current assets as at 31.12.	32,411	78,100
Total intangible assets as at 31.12.	232,537	216,911

Note 7 Investments property

	2011	2010
Cost as at 01.01.	1,300,645	1,300,645
Accumulated depreciation as at 01.01.	-1,275,848	-1,274,192
Carrying amount of investment property as at 01.01.	24,797	26,453
Movements in investment property in the period		
Depreciation charge	-1,656	-1,656
Cost as at 31.12.	1,300,645	1,300,645
Accumulated depreciation as at 31.12.	-1,277,504	-1,275,848
Carrying amount of investment property as at 31.12.	23,141	24,797

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 EUR 89,587 (2010: EUR 46,783) and direct operating expenses were EUR 95,026 (2010: EUR 51,960).

Note 8 Operating lease

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

Concessions are recognised as contingent leases. In case of service concession arrangements, Tallinn Airport Ltd grants a right to the recipient of the concession to provide services on its territory during the

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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	2011	2010
Concessions	2,053,750	1,669,306
Buildings and facilities	1,711,774	1,656,334
Infrastructure fees	128,551	81,972
Total rental income	3,894,074	3,407,612

Future rental income under non-cancellable lease agreements ⁶	2011	2010
< 1 year	1,478,184	1,377,537
1 - 5 years	2,723,625	3,297,926
> 5 years	958,239	1,161,822
Total rental income	5,160,048	5,837,285

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

Rental expense	2011	2010
Passenger cars	18,913	23,948
Total rental expense	18,913	23,948

Future operating lease payments under non-cancellable lease agreements	2011	2010
< 1 year	18,360	13,230
1 - 5 years	30,418	13,166
Total rental income	48,778	26,396

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

Note 9 Inventories

	31.12.2011	31.12.2010
De-icing materials of aircraft	117,000	103,768
Fuel	29,871	34,388
Runway maintenance materials	16,043	3,898
Rescue service extinguishing foam	7,020	2,237
Foodstuffs	6,888	5,469
Marketing materials	977	0
Total inventories	177,799	149,760

No impairment losses were recognised during the period and neither were they recognised in 2010.

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

Note 10 Receivables and prepayments

	31.12.2011	31.12.2010
Trade receivables		
Accounts receivable	2,478,615	2,678,946
Allowance for doubtful receivables	-125,680	-10,748
Total trade receivables	2,352,935	2,668,198
VAT receivable	666,323	434,047
Government grants related to non-current assets not received	426,554	2,876
Prepayments	298,382	115,257
Other receivables	4,511	682
Accrued income	1,184	2,107
Total receivables	3,749,889	3,223,167

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

Changes in doubtful receivables	2011	2010
Allowance for doubtful receivables at beginning of the period	-10,748	-24,180
Receivables deemed as doubtful during the reporting period	-126,730	-17,841
Receivables deemed as uncollectible	1,803	25,370
Receivables deemed as doubtful collected during the reporting period	9,994	5,903
Allowance for doubtful receivables at end of the period	-125,680	-10,748

Note 11 Distribution of financial instruments by category**Items of financial assets in the statement of financial position**

	31.12.2011	31.12.2010
Cash and cash equivalents (Note 12)	7,893,773	6,620,742
Trade receivables, government grant related to non-currents not received and other receivables (Note 10)	2,784,000	2,671,756
Total items of financial assets in the balance sheet	10,677,773	9,292,498

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Items of financial liabilities in the statement of financial position

As at 31.12.2011	Other financial liabilities	Financial liabilities at fair value through profit or loss	Total
Borrowings (Note 13)	22,928,177	0	22,928,177
Trade and other payables ⁴ (Note 17)	2,747,581	0	2,747,581
Derivative instruments (Note 16)	0	1,208,529	1,208,529
Total items of financial liabilities in the balance sheet	25,675,758	1,208,529	26,884,287
As at 31.12.2010			
Borrowings (Note 13)	29,844,696	0	29,844,696
Trade and other payables ⁴ (Note 17)	1,276,041	0	1,276,041
Derivative instruments (Note 16)	0	1,314,922	1,314,922
Total items of financial liabilities in the balance sheet	31,120,737	1,314,922	32,435,659

Note 12 Cash and cash equivalents

	31.12.2011	31.12.2010
Cash on hand	79,086	36,063
Bank accounts	4,807,467	409,904
Overnight deposit	3,007,220	6,174,775
Total	7,893,773	6,620,742

Note 13 Borrowings

	31.12.2011	31.12.2010
Long-term borrowings		
Long-term bank loans	17,777,778	22,794,538
Long-term finance lease liabilities	0	28,491
Total long-term borrowings	17,777,778	22,823,029
Short-term borrowings		
Repayments of long-term bank loans in the next period	5,016,761	6,836,320
Interest payable related to long-term bank loans at 31.12	119,426	98,650
Finance lease payment in the next period	14,213	86,697
Total short-term borrowings	5,150,399	7,021,667
Total borrowings	22,928,177	29,844,696

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CHANGES IN PAYABLES	31.12.2011	31.12.2010
Carrying amount at beginning of the period	29,844,696	36,110,152
Movements during the period:		
Repayments of long-term bank loans	-6,836,320	-6,152,280
Finance lease payments made	-100,975	-107,359
Change in long-term loan interest payable	20,776	-5,816
Carrying amount at end of the period	22,928,177	29,844,696

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

	Date of entry into contract	Due date	Guarantee	Loan amount
EIB	23.10.1997	15.06.2012	Guarantee of the Republic of Estonia	10,000,000
NORDEA	15.11.2005	20.11.2012	See Note 13	8,950,349
Nordic Investment Bank	31.01.2008	5.12.2017	See Note 13	32,000,000

All loans are denominated in euros. The loan contracts entered into by Tallinn Airport Ltd 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 31.12.2011, the equity of Tallinn Airport Ltd was EUR 46,128 thousand (2010: EUR 40,565 thousand), the balance sheet total (excl. government grants) was EUR 75,346 thousand (2010: EUR 74,442 thousand). Thus, the equity ratio was 61% (2010: 55%). As at 31.12.2011 and 31.12.2010, the Group was in compliance with the covenants for the ratios set by the bank.

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

As at 31.12.2011	EIB	NORDEA	NIB	Swedbank	TOTAL
Loan balance at beginning of the period	1,500,000	2,292,729	24,888,889	949,240	29,630,858
Paid off during the period	-1,000,000	-1,331,524	-3,555,556	-949,240	-6,836,320
Loan balance at end of the period	500,000	961,205	21,333,333	0	22,794,538
Loan interest payable	324	2 178	116 923	0	119,426
Interest rate	Average for the period 1.47%	6-month Euribor +0.3%	6-month Euribor +0.12%	6-month Euribor +2.8%	

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 Initsiaalid/initials M. M
 Kuupäev/date 23.03.12
 PricewaterhouseCoopers, Tallinn

As at 31.12.2010	EIB	NORDEA	NIB	Swedbank	TOTAL
Loan balance at beginning of the period	2,500,000	3,624,253	28,444,444	1,214,441	35,783,139
Paid off during the period	-1,000,000	-1,331,524	-3,555,556	-265,201	-6,152,280
Loan balance at end of the period	1,500,000	2,292,729	24,888,889	949,240	29,630,858
Loan interest payable	723	3,997	93,931	0	98,650
	Average for the period	6-month	6-month Euribor	6-month Euribor	
Interest rate	0.89%	Euribor +0.3%	+0.12%	2.8%	

At 28.11.2011, a new loan agreement for a specific purpose was concluded with Pohjala Bank plc to receive EUR 10 million to be used for the design and construction of the maintenance hangar at Tallinn Airport (see Notes 5 and 28). The loan will mature in 10 years and the interest rate is 3-month Euribor + margin, the margin is 1% p.a. The first loan payment was received in January 2012.

FINANCE LEASE LIABILITY	31.12.2011	31.12.2010
Lease payments liabilities at beginning of the period	115,188	222,548
Movements during the period:		
Finance lease liabilities paid off	-100,975	-107,359
Lease payments payable end of the period	14,213	115,188

Lease agreements 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 have not been subleased.

In 2011, the weighted average interest rate of the finance lease was 2.2% (2010: 4.1%)

Note 14 Loan collateral and pledged assets

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

As at 31.12.2011 and 31.12.2010, 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, Tallinn Airport Ltd Group shall not :

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

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Note 15 Government grants

Government grants related to operating expenses	2011	2010
Allocation for a specific purpose from state budget ⁷	4,985,109	830,851
Tartu City Government	27,523	35,381
Enterprise Estonia	67,425	27,138
Foreign financing	9,124	282,699
Government grants related to operating expenses recognised as income (Note 22)	5,089,180	1,176,070
Government grants		
Long-term government grants received as at beginning of the period	67 093 832	67 698 951
Grants received		
Domestic government grant received	4,433	12,552
Received from Cohesion Fund (ISPA)	0	69,412
Received from the European Regional Development Fund (ERF)	1,469,097	2,884,643
Total grants received	1,473,530	2,966,607
Recognised as income		
Grants related to assets	-287,708	-291,338
Cohesion Fund (ISPA)	-2,082,288	-2,082,335
European Regional Development Fund (ERF)	-1,334,796	-1,082,434
Total recognised as income (Note 22)	-3,704,792	-3,456,107
Write-off of assets acquired with government grants and government grant liability		
Received from the European Regional Development Fund (ERF)	-857	-115,619
Total grants received	-857	-115,619
Total long-term government grants received as at end of the period	64,861,713	67,093,833

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*, Tallinn Airport Ltd 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 Tallinn Airport Ltd, i.e. the Ministry of Economic Affairs and Communications has granted a right to arrange the management and implementation of government grants to Tallinn Airport Ltd 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).

Tallinn Airport Ltd has no control over the financial funds of the engagement unit.

⁷ The grant is for operation of regional airports (Kärdla, Kuressaare, Tartu and Pärnu Airport), in 2011, an additional state grant was received for rescue and security activities.

Key acquisitions funded by the ERF in 2011:

- ✓ Tartu Airport – substation for transformers and generators, hangar, electric tractor (2pcs), fork lift;
- ✓ Kärdla Airport – marine rescue vehicle;
- ✓ Ruhnu Airport – reconstruction.

Key acquisitions funded by the ERF in 2010:

- ✓ 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.

Cost of assets acquired with the government grant of ERF by airport

	2011	2010
Kärdla Airport	64,926	257,822
Kuressaare Airport	176,056	1,249,645
Tartu Airport	841,448	1,377,177
Total airports	1,082,429	2,884,643

In 2011, the cost of assets acquired with the grants received from the ERF has been funded 100% by the ERF (in 2010, the cost of assets acquired with the grants received from the ERF was funded 100% by the ERF).

Note 16 Derivative instruments

Interest rate swap	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;	30.01.2010
Opening date:	21.11.2005;	17.09.2007;	16.03.2010
Closing date:	20.11.2012;	15.09.2017;	15.09.2017
Nominal amount:	EUR 8,950,349;	EUR 18,000,000;	EUR 13,222,222;
Fixed interest rate	3.04%	4.015%	2.395%
Floating interest base rate	6-month Euribor	6-month Euribor	6-month Euribor

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Initiaalid/initials	M. M
Kuupäev/date	23.03.12
PricewaterhouseCoopers, Tallinn	

Changes in interest rate swaps

Fair value as at 31.12.2009	-1,443,044
Change in fair value in 2010	128,122
Fair value as at 31.12.2010	-1,314,922
Change in fair value in 2011	106,392
Fair value as at 31.12.2011	-1,208,529
Incl. non-current portion	-1,199,314
Incl. current portion	-9,215

Note 17 Payables and prepayments

	31.12.2011	31.12.2010
Trade payables		
Payables for non-current assets	1,636,101	398,766
Payables for goods and services	1,111,480	877,275
Total trade payables	2,747,581	1,276,041
Payables to employees (Note 19)	1,471,963	779,148
Tax liabilities (Note 18)	748,995	609,136
Prepayments for products and services	108,094	48,572
Other accrued expenses	3,936	4,735
Total payables and prepayments	5,080,568	2,717,633

Note 18 Tax liabilities

	31.12.2011	31.12.2010
Tax liabilities		
Social security taxes on wages and salaries, and fringe benefits	436,788	358,735
Income tax on wages and salaries, and fringe benefits	237,871	192,419
Unemployment insurance tax	49,673	41,008
Pension insurance	17,089	9,932
Excise tax	6,739	6,653
Corporate income tax	468	352
Sales tax payable	367	38
Total tax liabilities	748,995	609,136

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Note 19 Accrued expenses to employees

	31.12.2011	31.12.2010
Accrued expenses		
Bonus reserve liability	656,151	19,126
Wages and salaries calculated but not yet paid	495,043	393,724
Holiday pay liability	316,547	365,142
Other payables to employees	4,222	1,157
Total accrued expenses	1,471,963	779,148

Note 20 Equity

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

	31.12.2011	31.12.2010
Share capital	EUR 24,360 500	EUR 22,999,182
Number of shares	2,436,050 pcs	3,598,590 pcs
Nominal value of shares	EUR 10	EUR 6.3912

In 2011, the Government of the Republic transferred the state assets under the management of the Ministry of Economic Affairs and Communication, with the total value of use of EUR 1,361,310 to the share capital of Tallinn Airport Ltd as a non-monetary contribution.

As at 31.12.2011, the share capital of the Group's parent consisted of 2,436,050 ordinary shares(31.12.2010: 3,598,590) ordinary shares with the nominal value of EUR 10 each. The nominal value of the share was changed upon the conversion of share capital into euros; until then, the nominal value of the share was EEK 100.

As at 31 December 2011, the retained earnings of the Group was EUR 19,468,015 (31 December 2010: EUR 15,265,862). 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 EUR 15,379,732 (31 December 2010: EUR 12,060,031) and the corresponding income tax would amount to EUR 4,088,283 (31 December 2010: EUR 3,205,831).

Note 21 Revenue

AVIATION REVENUE	2011	2010
Landing fees	5,118,528	4,792,016
Passenger fees	5,978,199	4,943,780
Parking fees	303,857	268,108
Security charges ⁸	0	2,062,238
Take-off fees	5,235	6,934
Navigation fees	21,623	26,524
Total aviation revenue	11,427,441	12,099,599
NON-AVIATION REVENUE		
Aircraft handling and passenger servicing revenue	8,003,673	8,046,538
Rental income (Note 8)		
Concessions	2,053,750	1,669,306
Rent for premises	1,711,774	1,659,821
Infrastructure fees	128,551	81,972
Total rental income	3,894,074	3,411,099
Other services sold		
Parking services for cars	1,060,474	915,707
Services provided to tenants	664,784	628,520
Advertising services	483,678	366,148
Aviation related services	367,494	338,208
Other services provided and intermediated	186,744	119,441
Total other services sold	2,763,175	2,368,024
Total non-aviation revenue	14,660,922	13,825,662
Total revenue	26,088,363	25,925,261

⁸ From 01.01.2011, the security charge for passengers was eliminated, the state covers the costs related to pre-flight security and they are included in government grants for operating expenses.

Note 22 Other income

	2011	2010
Other income		
Government grants related to operating expenses (Note 15)	5,089,180	1,176,070
Government grants related to assets recognised as income (Note 15)	3,705,650	3,571,727
Other income	245,755	146,073
Gain from disposal of machinery and equipment	549	-108,594
Other income Total	9,041,134	4,785,276

Note 23 Goods, materials and services

	2011	2010
Goods, materials and services		
Security, safety and rescue	2,544,988	2,176,467
Utilities expenses	2,166,779	2,001,573
Cost of provision of services to passengers and aircraft	1,664,708	1,331,093
Vehicle operation expenses	1,270,814	1,341,137
Maintenance expenses of buildings and facilities	823,788	600,929
Maintenance of runways	454,427	350,772
IT and communication expenses	375,441	631,486
Total goods, materials and services	9,300,946	8,433,456

Note 24 Operating expenses

	2011	2010
Operating expenses		
Marketing and public relations	350,125	277,981
Training	208,985	223,772
Administrative expenses	182,543	320,729
Special clothing and uniforms	133,992	61,106
Costs related to doubtful receivables	116,735	11,938
Business trips	75,112	57,858
Total operating expenses	1,067,493	953,385

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Note 25 Staff costs

	2011	2010
Staff costs		
Wages and salaries, performance pay, holiday pay, bonuses	6,535,438	5,597,820
<i>Average monthly salary</i>	1,062	956
Benefits and allowances	52,360	32,944
Other remuneration fees paid to supernumeraries	83,945	53,506
Staff costs classified as fringe benefits	46,478	29,260
Taxes calculated on staff costs	2,334,770	1,977,008
Recognition and revaluation of provisions related to employees	656,151	19,126
Total staff costs	9,709,142	7,709,664
Number of employees	2011	2010
Number of employees at beginning of the period	502	477
Number of employees at end of period	531	502
Average number of employees	513	488

Note 26 Other expenses

	2011	2010
Other expenses		
State duty	21,208	31,138
Membership fees	15,048	12,159
Sponsorship	10,191	8,948
Taxes	6,027	14,341
Other expenses	1,214	26,584
Currency translation differences (other than finance income and costs)	481	4,645
Fines for delay and other one-off obligations	271	27,500
Total other expenses	54,440	125,315

Note 27 Finance income and costs

	2011	2010
Interest income on deposits	25,236	18,079
Change in fair value of derivative instruments (Note 16)	106,392	128,122
Interest charge on loans secured by derivatives	-517,270	-713,163
Interest charge on loans with floating interest rates	-424,827	-411,850
Interest charge on finance lease	-1,998	-6,052
Foreign exchange gains and losses	-98	4,668
Other finance income and costs	1	-1,032
Total finance income and costs	-812,564	-981,227

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Note 28 Off-balance sheet assets, contingent liabilities and commitments
Potential liabilities arising from tax inspection

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

Contingencies related to the construction contracts

As at 31.12.2011, the Group's liabilities arising from the agreements concluded for the construction of non-current assets totalled EUR 10 million (see Notes 5 and 13).

Note 29 Related party transactions

The owner of 100% of the shares of Tallinn Airport Ltd 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 airline companies, over which the state has significant influence. In 2011, the Group provided services to such entities for EUR 5,636,029 (2010: EUR 6,430,087). The volumes of purchased services are irrelevant.

Management and Supervisory Boards

In 2011, the remuneration of the Supervisory and Management Boards, including social security taxes totalled EUR 352,210 (2010: EUR 301,216).

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

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

Pursuant to clause 1 of § 77 of the State Assets Act, the Government of the Republic approved the amount of dividends payable by state companies in 2011. Pursuant to this order, Tallinn Airport Ltd does not need to pay dividends.

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Note 31 Financial information on the parent company**Separate statement of financial position**

ASSETS	31.12.2011	31.12.2010
Non-current assets		
Long-term financial investments	1 027 586	1 027 579
Property, plant and equipment	126,159,492	129,356,706
Intangible assets	205,877	178,395
Investment property	23,141	24,797
Total non-current assets	127,416,096	130,587,477
Current assets		
Inventories	60,799	45,992
Payables and prepayments	2,854,544	1,888,707
Cash	4,876,441	4,090,271
Total current assets	7,791,784	6,024,970
TOTAL ASSETS	135,207,880	136,612,447
LIABILITIES AND EQUITY	31.12.2011	31.12.2010
EQUITY		
Share capital	24,360,500	22,999,182
Statutory reserve capital	2,299,918	2,299,918
Share premium	8	0
Retained earnings	15,311,486	11,866,389
TOTAL EQUITY	41,971,912	37,165,488
LIABILITIES		
Non-current liabilities		
Borrowings	17,777,778	22,808,751
Other payables	64,861,713	67,093,833
Derivative instruments	9,215	1,314,922
Total non-current liabilities	82,648,706	91,217,506
Current liabilities		
Borrowings	5,150,399	6,019,314
Payables and prepayments	4,237,549	2,210,139
Derivative instruments	1,199,314	0
Total current liabilities	10,587,262	8,229,453
TOTAL LIABILITIES	93,235,968	99,446,959
TOTAL LIABILITIES AND EQUITY	135,207,880	136,612,447

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Separate statement of comprehensive income

	2011	2010
Revenue	19,719,986	19,365,432
Other income	8,991,888	4,780,361
Goods, materials and services	-7,413,769	-6,919,165
Operating expenses	-852,325	-872,826
Staff costs	-6,629,557	-5,365,801
Depreciation, amortisation and impairment	-9,512,297	-10,056,006
Other expenses	-51,953	-98,155
OPERATING PROFIT	4,251,973	833,839
Finance income and costs	-806,868	-941,180
Net profit for financial year	3,445,105	-107,341
COMPREHENSIVE INCOME FOR FINANCIAL YEAR	3,445,105	-107,341

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Separate statement of cash flows

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from customers	22,397,538	21,991,680
Paid to suppliers and employees	-17,115,911	-13,994,193
Interest received	25,238	16,767
Interest paid	-937,738	-1,091,899
Government grant received from the state budget	4,985,109	830,851
Government grants related to other expenses	48,692	264,897
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	9,402,927	8,018,103
CASH FLOWS FROM INVESTING ACTIVITIES		
Paid for purchase of property, plant and equipment, and intangible assets	-2,696,086	-358,380
Proceeds from sale of property, plant and equipment	0	178,830
Government grant related to non-current assets	0	55,700
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	-2,696,086	-123,850
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of borrowings	-5,887,080	-5,887,080
Repayments of finance lease liabilities	-33,585	-32,855
Investments in subsidiaries	-7	0
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	-5,920,672	-5,919,934
NET CASH FLOWS	786,170	1,974,318
Cash and cash equivalents at beginning of year	4,090,271	2,115,953
Cash and cash equivalents at end of year	4,876,441	4,090,271
Net increase/decrease in cash and cash equivalents	786,170	1,974,318

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Separate statement of changes in equity

	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2009	22,999,182	0	2,299,918	11,973,730	37,272,829
Net profit for 2010	0	0	0	-107,341	-107,341
Balance as at 31.12.2010	22,999,182	0	2,299,918	11,866,389	37,165,488
Increase of share capital via a non-monetary contribution	1,361,310	0	0	0	1,361,310
Increase of share capital via a bonus issue	8	0	0	-8	0
Share premium	0	8	0	0	8
Net profit for 2011	0	0	0	3,445,105	3,445,105
Balance as at 31.12.2011	24,360,500	8	2,299,918	15,311,486	41,971,912

Restated statement of equity of Tallinn Airport Ltd (parent company)

	2011	2010
Unconsolidated equity of the parent	41,971,911	37,165,488
Carrying amount of subsidiaries in the separate balance sheet of the parent (minus)	-1,027,586	-1,027,579
Value of subsidiary under the equity method (plus)	5,184,115	4,427,052
Total	46,128,441	40,564,961

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 Kuupäev/date 23.03.12
 PricewaterhouseCoopers, Tallinn



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 2011 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.



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 2011, 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

A handwritten signature in black ink, appearing to read 'Tiit Raimla', written in a cursive style.

Tiit Raimla
Auditor's Certificate No.287

A handwritten signature in black ink, appearing to read 'Janno Hermanson', written in a cursive style.

Janno Hermanson
Auditor's Certificate No.570

23 March 2012

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

PROFIT ALLOCATION PROPOSAL

Retained earnings as at 31.12.2011	15,265,854
Net profit for 2011	4,202,161
Total distributable profit as at 31.12.2011	19,468,015

The Management Board proposes to distribute the net profit for 2011 in the amount of EUR 4,202,161 as follows:

- (c) Transfer EUR 136,132 to reserve capital,
- (d) Not to distribute EUR 4,066,029 and transfer it to retained earnings.

Balance of retained earnings after profit allocation **EUR 23,534,044**

Rein Loik	Chairman of the Management Board	.....	..... 2012
Einari Bambus	Member of the Management Board	.....	..... 2012
Anneli Turkin	Member of the Management Board	.....	..... 2012
Erik Sakkov	Member of the Management Board	.....	..... 2012

SIGNATURES TO THE ANNUAL REPORT

The Management Board of Tallinn Airport Ltd has prepared the management report and financial statements for the year 2011. The Management confirms the correctness of information presented in the annual report.

Management Board:

Rein Loik	Chairman of the Management Board	.....	..... 2012
Einari Bambus	Member of the Management Board	.....	..... 2012
Anneli Turkin	Member of the Management Board	.....	..... 2012
Erik Sakkov	Member of the Management Board	.....	..... 2012

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

Supervisory Board:

Toivo Jürgenson	Chairman of the Supervisory Board	.....	..... 2012
Arto Aas	Member of the Supervisory Board	.....	..... 2012
Väino Linde	Member of the Supervisory Board	.....	..... 2012
Kalle Palling	Member of the Supervisory Board	.....	..... 2012
Cinzia Siig	Member of the Supervisory Board	.....	..... 2012
Tiit Riisalo	Member of the Supervisory Board	.....	..... 2012

Revenue of Tallinn Airport Ltd according to EMTAK 2008

EMTAK code	2011	2010
35131 Distribution of electricity	442,983	389,753
52231 Operation of airports and airway terminals	17,600,378	17,480,731
52239 Other support activities for air transportation	8,003,673	8,046,538
85599 Other education	41,329	8,238