
CONSOLIDATED ANNUAL REPORT 2012

TALLINNA LENNUJAAM Ltd

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Beginning of financial year:	01.01.2012
End of financial year:	31.12.2012

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GENERAL INFORMATION AND CONTACT DATA OF THE GROUP

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 employed 539 people on average in 2012.

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

Although Tallinn Airport considers the year 1936 as the year of its foundation, aviation activities on and at Lake Ülemiste started already in the early 1920s. By the second half of 1930s, the Tallinn aerodrome had unquestionably become one of the largest and most active airports in Eastern Europe. Year 2012 was for Tallinn Airport Ltd the most successful year in the history was 2012.

For the first time in its history, the number of passengers in Tallinn Airport exceeded two million, having grown 15% in a year, and totalled 2.2 million by the year-end (2011:1.9 million)

Last year Tallinn Airport also saw the best month in the history (July with 228 thousand passengers), the best week with 54 thousand passengers, and the best day with 10 thousand passengers.

Behind these record numbers is the ast development of the route network of the national carrier. In 2012, Estonian Air carried 887 thousand passengers which was 42% more than in 2011. While the number of transit passangers travelling through the airport totaled to 34 thousand in 2011 in 2011, it increased to 230 thousand in 2012. Of the passengers of national carrier Estonian Air, 657 thousand were P2P (point-to-point) passengers. In comparison with 2011, the number of P2P passengers increased by 8% for Estonian Air and by 2.4% for other airlines (including a 14% drop in low-cost carriers).

The number of passengers and operations in the Airport increased mainly at peak hours and a fourth – late-night - peak hour was added to the existing three. The growth accumulating into four waves required operational investments into the capacity to handle simultaneously and at a faster pace larger numbers of passengers and aircrafts. The second half of the year and the downsizing of operations of Estonian Air raised the issue of the sustainability of aviation. The whole year was like a non-stop training course on flexibility which the whole Airport community passed with excellence.

Regional airports serviced a total of 51 thousand passengers which is 6.9% less than in 2011.

Summary of consolidated financials for 2012

Passengers served	2.2 million passengers
Revenue	EUR 29.3 million
Total operating profit	EUR 39.4 million
Net profit	EUR 3.7 million
Balance sheet total	EUR 146.6 million
Capital expenditure	EUR 14.7 million

Highlights of 2012

In addition to the rapid growth in the number of passengers, the highlights of 2012 were a successful cruise turnaround in summer as well as hosting a



THE TWO MILLIONTH PASSENGER OF TALLINN AIRPORT WAS AIVAR MÄE WHO HAD ARRIVED FROM KOMI.



APPROXIMATELY 2000 VOLUNTEER CHOIR SINGERS CONTRIBUTED TO THE SUCCESS OF ROUTES EUROPE.

route development forum Routes Europe in Tallinn.

Routes Europe was named the Conference of the Year

In 2012, Tallinn Airport hosted the route development forum Routes Europe. It was the largest forum in the seven-year history of Routes Europe and brought 900 European and Asian key industry decision-makers from 40 different countries to Tallinn. The objective of Tallinn Airport in organising the forum was to show to route developers that Tallinn is an attractive destination and to reduce the mistrust in Western Europe towards Estonia as a travel destination. Feedback received from participants confirmed that this objective was 100% fulfilled.

Tallinn Airport also received the Conference of the Year 2012 Award from the Estonian Convention Bureau for the prominence, promotion and excellent organisation of the conference.

Invaluable assistance to the organisation of the conference was also provided by a large number of partners including Enterprise Estonia, Ministry of Economic Affairs and Communication, City of Tallinn, Estonian Air, Estonian Air Navigation Services, Hansabuss, Saku, Liviko, Põltsamaa Felix, Kalev, Air Maintenance Estonia and the Estonian Choral Association.

Airport Council International (ACI) Europe accepted Lennart Meri Tallinn Airport into the membership of the Carbon Accreditation Programme.

ACI issued the Airport Carbon Accredited certificate to the Lennart Meri Tallinn Airport as recognition of the Airport's commitment towards tackling climate change and reducing greenhouse gas emissions. The Airport was accredited at the first level labelled as Mapping.

The Mapping level includes thorough mapping of the airport's CO₂ and other greenhouse gas emission sources, as well as determining the airport's annual carbon footprint. The second level includes reduction of waste within the territory of the airport. After completing the first stage, the Airport plans to apply for an accreditation to higher levels. All in all, the Carbon Accreditation Programme has four levels.

At present the Carbon Accreditation Programme of Airport Council International in Europe (Airport Council International Europe, ACI Europe) involves 65 airports that are committed to reduce emissions of greenhouse gases in their activities.

The Airport Council International whose European region includes Tallinn Airport is the only worldwide professional association of airport operators. ACI Europe represents over 400 airports in 46 European countries. The member airports handle 90% of commercial air traffic in Europe, over 1.5 billion passengers and 18 million tons of freight per year

The Airport Carbon Accreditation is an independent programme administered by WSP Environment & Energy, an international consultancy appointed by ACI EUROPE to enforce the accreditation criteria for airports on an annual basis to tackle climate change through carbon management and developing a common framework for reducing their carbon emissions.

Turnaround summer attracted 16,000 cruise tourists

The number of summer cruise turnaround passengers more than doubled when compared to the previous year. In five weekends, the airport and its partners catered Spanish cruise line operator Pullmantur, in which thousands of Spanish tourists arrived to Tallinn in a giant Boeing 747 Pullmantur aircraft to begin their Baltic Sea cruises from here. The same planes then



SPANISH CRUISE TOURISTS WERE WELCOMED WITH BRASS MUSIC.

turned around and took a boat load of tourists who had finished their Baltic Sea cruise in Tallinn, back to Spain

Together with the Port of Tallinn and DenEesti we serviced a total of 16,150 cruise tourists which confirms the attractiveness and capacity of Tallinn to meet the expectations of cruise operators.

High-tech aircraft maintenance

In September, Air Maintenance Estonia opened a new aircraft and maintenance hangar in Tallinn Airport which will be serving the whole of Northeastern Europe. The company's customers include SAS, Austrian Airlines, Easyjet, Norwegian, Ryanair, Lufthansa, Estonian Air and other carriers. Air Maintenance Estonia is exceedingly competitive and generates significant added-value. Tallinn Airport participates in this business as the owner of the hangar and has leased it to Air Maintenance Estonia for 30 years. The construction of the



OPENING CEREMONY IN AIR MAINTENANCE ESTONIA hangar was financed by Pohjala Bank PLC Estonian branch.

76 years of Tallinn Airport

Although aviation was active on the shores of Lake Ülemiste already in the early 1920s, Tallinn Airport Ltd calculates its history from 1936 when a concrete runway was completed. Thus, when speaking of passenger numbers, one can say that it took Tallinn Airport 69 years to reach a one million passengers a year mark, but only 7 years to reach a two million passengers a year mark.

Overview of the economic environment

Although the expansion strategy of the national carrier caused major public resonance, the rapid growth in the number of transit passengers and aggressive opening of new routes were extremely positive for passengers and Tallinn Airport alike.

The change in the strategy of the national carrier in the second half of the financial year meant that Tallinn Airport Ltd was forced to lower its forecasts for the next few years. The forecast for 2013 is 1.75 million passengers which is 21% less than in 2012. Estonian GDP increased by 3.2% in 2012 and a similar growth rate is estimated for the next few years. Based on these considerations, the Airport is forecasting a growth of 3-5% in the number of passengers per annum in long-run.

In the global aviation market, airlines remained in trouble – while struggling with rising fuel costs, increased competition had its pressure on prices.

Key operating and financial indicators of the Group

	2012	2011	Change
Lennart Meri Tallinn Airport			
Number of passengers (million)	2.2	1.9	15%
Number of flight operations (pcs)	48,531	40,298	20%
Cargo volume (tons)	23,921	18,371	30%
Total regional airport			
Number of passengers	50,895	54,688	-7%
Number of flight operations	12,450	11,012	13%
Group (EUR million)			
Revenue	29.3	26.1	12%
incl. aviation revenue	11.5	11.4	1%
incl. non-aviation revenue	17.8	14.7	21%
Other income	10.1	9	12%
incl. government grants for assets	3.8	3.7	3%
incl. government grants for security and rescue expenses	4.7	3.6	31%
incl. government grants for regional airports	1.4	1.4	0%
incl. other income	0.2	0.4	-60%
Operating profit before depreciation*	10.9	11.3	-4%
Net profit	3.7	4.2	-12%
Cash flows from main activity	5.4	11.4	-53%
Investments	14.7	5.5	167%
Assets (year-end)	146.6	140.2	5%
Assets excluding government grants* (year-end)	85.4	75.4	13%
Equity (year-end)	49.8	46.1	8%
Borrowing (year-end)	27.7	22.9	21%
Equity/assets (year-end)* (%)	58%	61%	-
Net debt/ operating profit before depreciation *	2.6	2	-
Number of employees (year-end)	584	531	10%

* excluding government grants for property plant and equipment

Financial result in 2012

The growth in the the numbers of passengers was 15% as compared to 2011 whereas aviation income grew only by 1%. In 2010, Tallinn Airport Ltd launched a fixed-term route support programme with the goal of increasing the number of destinations and attracting additional passengers to Estonia who could also bring additional income for the state. Tallinn Airport does not charge a passenger fee from passengers in transit. In 2012, the growth mainly took place in the target group of passengers in transit on new routes. In 2012, the sales of aviation revenue w EUR 11.5 million or 1% higher than in 2011. Non-aviation revenue was EUR 17.8 million or 22% higher than in 2011. Growth in non-aviation revenue was mainly attributable to the growth in the revenue of Tallinn Airport GH, a Group's subsidiary.

The Group's revenue was EUR 29.3 million which is 12.3% higher than in 2011. The Group's expenses totalled EUR 39.4 million and were 12.1% higher than in 2011.

In 2012, the Group's net profit was EUR 3.7 million. In comparison with 2011, the profit fell by EUR 0.5 million. The decline in profit and profitability is attributable to the increase in fixed cost of the airports

Change in key indicators 2012-2011 (%)

	Tallinn Airport	Regional airports	Tallinn Airport GH AS	Total Group
Passengers	15%	-7%	-	15%
Flight operations	20%	13%	-	19%
Revenue	9%	-1%	26%	12%
incl. aviation revenue	1%	-6%	-	1%
incl. non-aviation revenue	20%	5%	26%	21%
Total income	11%	1%	26%	12%
Operating expenses	12%	14%	28%	15%
incl. staff costs	12%	23%	48%	24%
Number of employees	3%	-5%	24%	10%
Profit	-6%	-249%	6%	-12%

In 2012, the Group invested a total of EUR 14.7 million, of which Tallinn Airport invested EUR 12.9 million and Tallinn Airport GH invested EUR 1.8 million. In Tallinn, the largest investment was the construction of the aircraft maintenance hangar.

In 2012, Tallinn Airport Ltd repaid loans in the total amount of EUR 5 million. During the year, the EUR 10 million was additionally borrowed to finance the construction of the aircraft maintenance hangar.

Air traffic

In 2012, Tallinn Airport serviced 2.2 million passengers which is 15% more than last year (2011: 1.9 million passengers).

During the year, 10 new routes were opened in Tallinn Airport. In 2012, two carriers - Aeroflot and Turku Air – started flights to Tallinn.

Figure 1. Number of passengers 2009-2012 (in thousands)

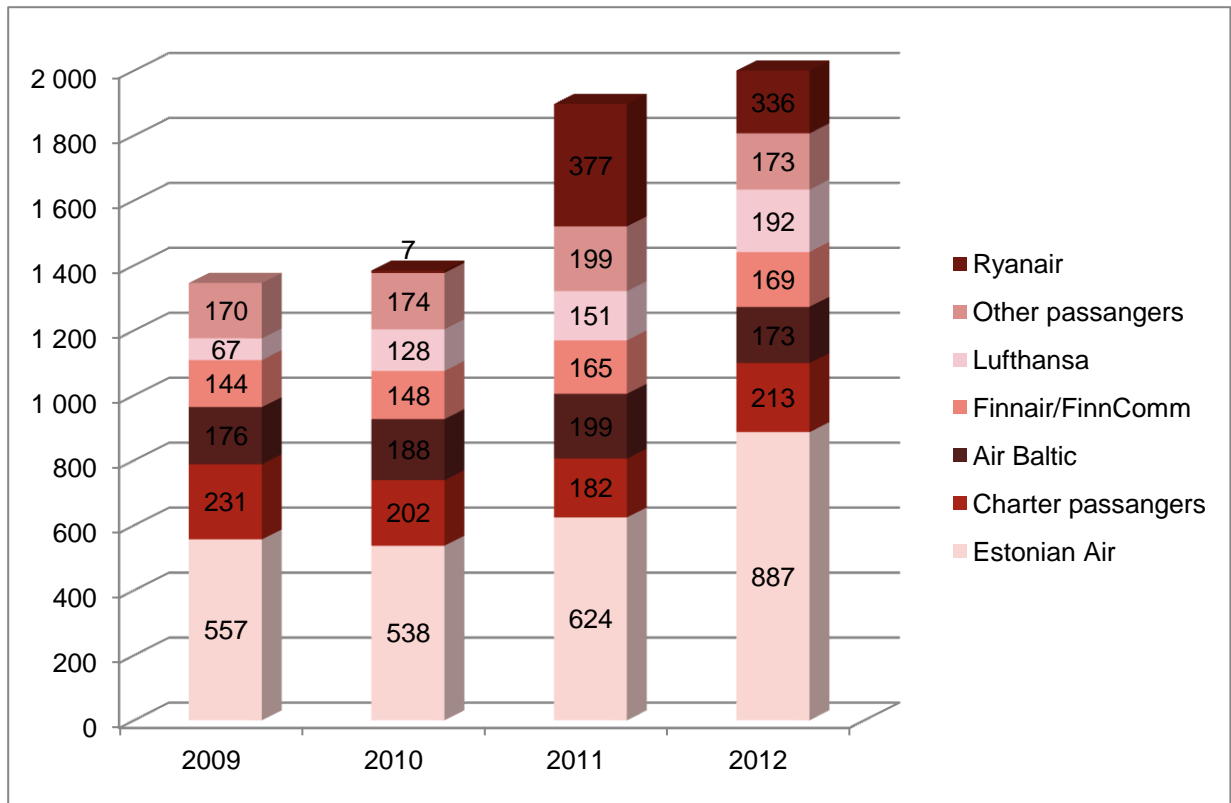
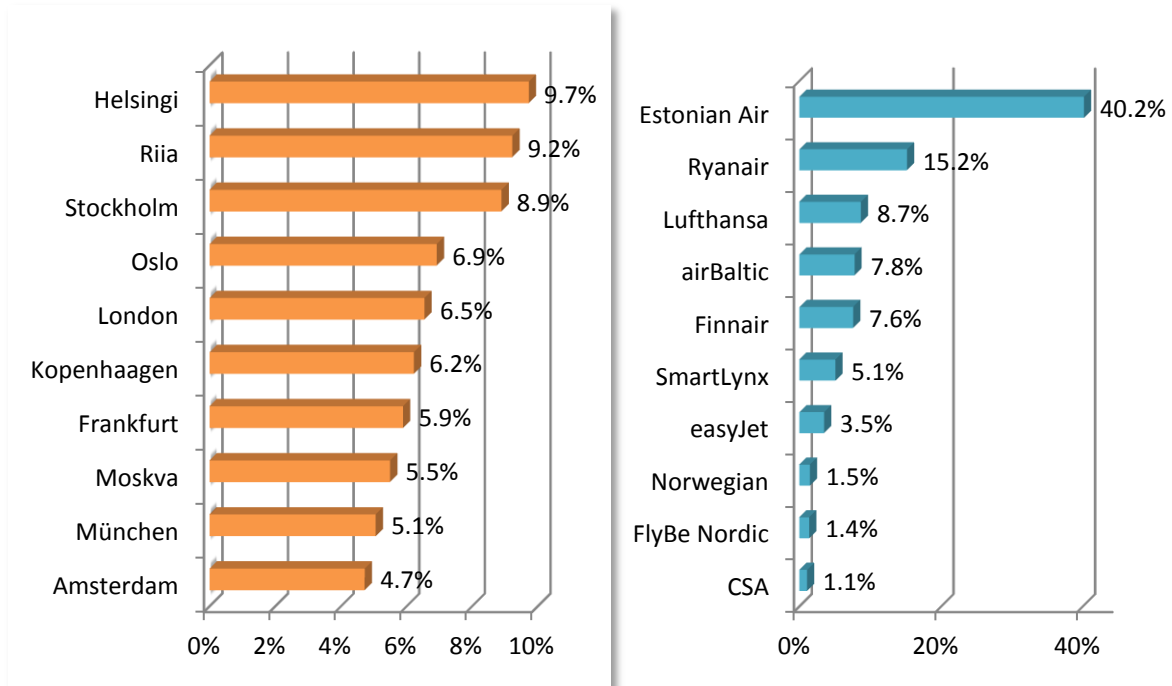


Figure 2. TOP destinations and market shares by airlines



In 2011, the number of destinations served from Tallinn Airport was 38. In 2012, the number of destinations increased to 45.

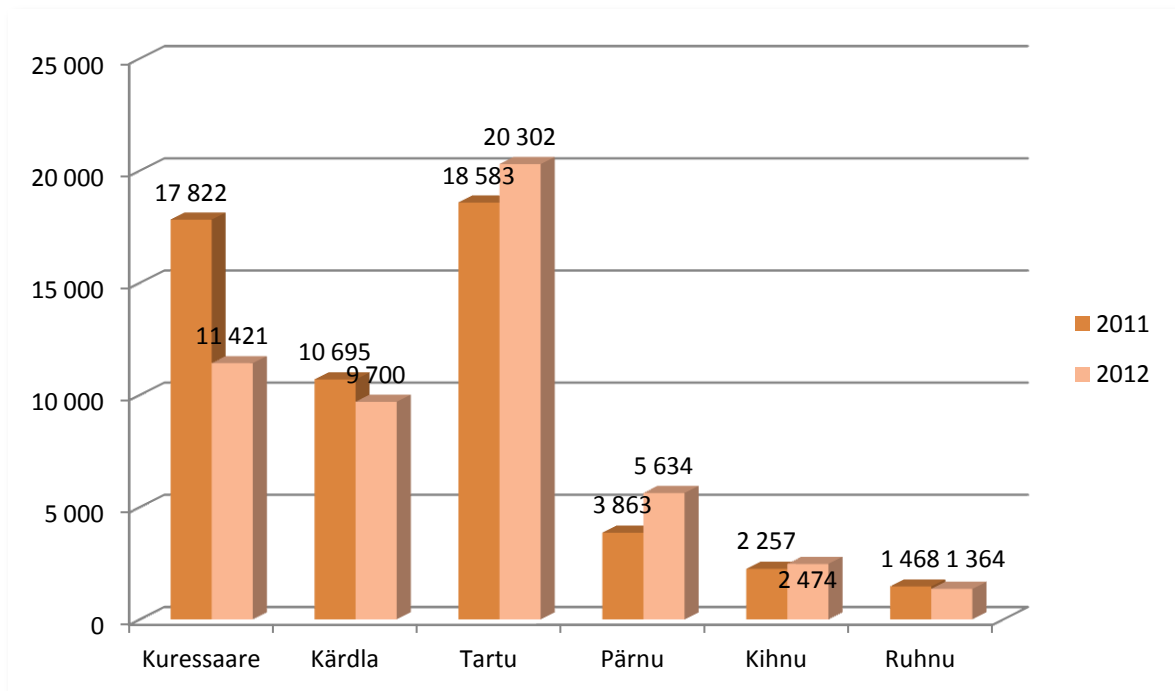
Figure 3. Destinations of the summer season 2012



In 2013, Tallinn Airport expects air traffic to decline to 1.75 million passengers, while much depends on the future of the national carrier that by the time of preparing this report was still uncertain.

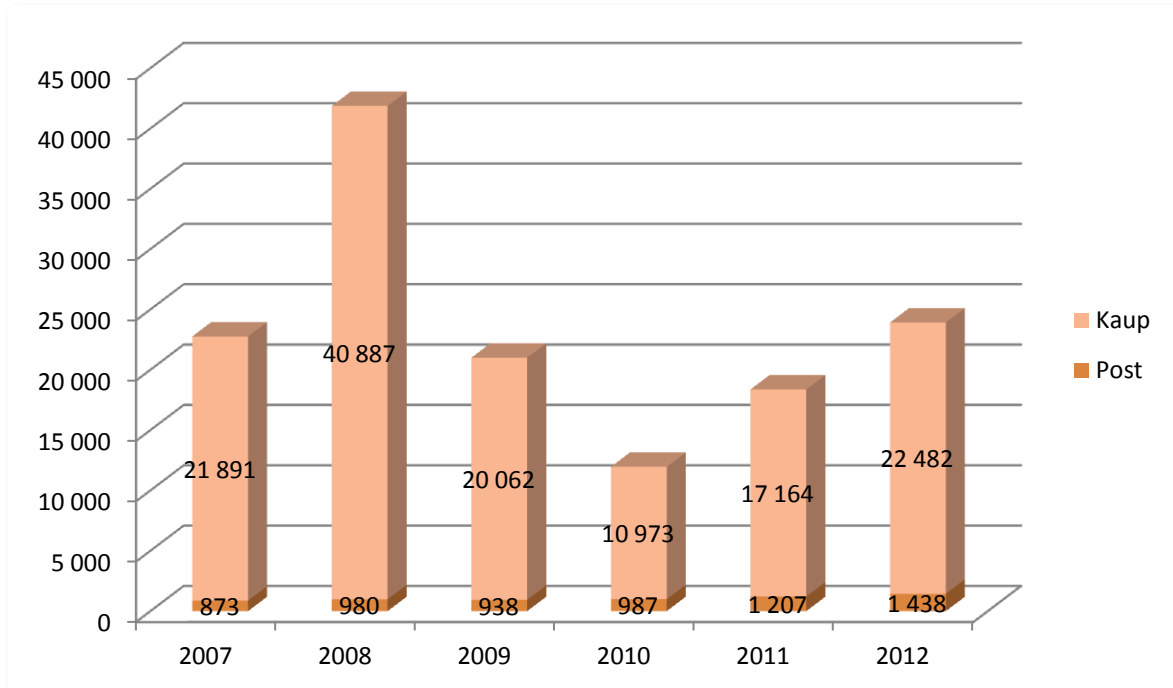
In 2012, the number of passengers at regional airports totalled 51 thousand (2011: 55 thousand), the number of passengers decreased by 7% as compared to 2011 (2011: decreased by 15%).

Figure 4. Passengers at regional airports 2011-2012



In 2012, cargo traffic increased by 31% as compared to 2011.

Figure 5. Cargo volumes (tons)



Attainment of objectives for 2012

The table below provides the Company's targets for 2012 and assessment to their fulfilment.

<i>Client service</i>	<i>Assessment basis</i>	<i>Assessment</i>
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	7 new destinations have been added as compared to 2011
Improvement of quality and volume of services at the passenger terminal	Satisfaction surveys are conducted at least twice a year with the goal of monitoring and improving passenger satisfaction	Surveys show an increase in satisfaction
Development and introduction of common service standards	Development and introduction of Good Service Practices	Good Service Practices have been prepared. Customer-service contest „Together to be the Best“ was launched. Good Service Practices are part of the inception training programme of new employees.

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	Management system is suitable for achieving the Company's objectives
Centralisation of development of 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 Q3 2013

Efficient and profitable company

Mitigation of risks, increase of efficiency, ensuring organisation of work of a sustainable and high-quality organization	Apply IT solutions for safety, asset management, risk management and customer management systems	Implementation and testing of systems will take place in 2012 - 2013
High-quality and experienced workforce	Upgrading of the motivation policy for employees	2012-2013

Provision of aero-navigation service

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 aero-navigation services in the following service types;

- air traffic,
- meteorological services,
- communication, navigation and monitoring services.

Tallinn Airport Ltd holds a corresponding certificate issued by the Civil Aviation Administration, which allows providing 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 Estonian Air Navigation Services.

Tallinn Airport Ltd has set an objective to comply with the requirements laid down in Annexes I, II, III and V of the European Commission Regulation (EC) No 1035/2011.

Tallinn Airport Ltd regularly conducts customer satisfaction surveys. Managing customer feedback is regulated by a procedure of the management system.

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 2012 and with the flexibility in provision of the service.

We have disclosed the conditions for using the services on our website www.tallinn-airport.ee and have made the official consultation process available to the service users by creating a committee of users.

The objectives of the committee of users of Tallinn Airport Ltd are:

- 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;
- to ensure the efficient operation of the airport;
- to provide the Management Board of Tallinn Airport Ltd the necessary information for decision-making.

Flight safety

In 2012, the flight safety unit detected a total of 286 (2011: 245) ground incidents in the traffic area of the airfield. The main incidents affecting flight safety were related to servicing the aircrafts on apronsides and violations of the traffic procedure for motor vehicles in the traffic area.

In 2012, no aircraft accidents occurred (2011: 0) and the number of incidents was 9 (2011: 3).

Security service

In the segment of security services, 2012 was due to the rapid expansion of the route network of Estonian Air a year of rapid changes. Because of a sharp increase in the number of passengers in transit in the airport, security services had to swiftly adjust to changes and to re-organise work, to improve the efficiency of work allocation to adequately serve both regular passengers and passengers in transit at peak hours.

In 2012, the aviation security department carried out 119 training events, during which 1,207 aviation related people were trained. A total of 354 hours were spent on training. From 2012, training activities were concentrated into the training centre of Tallinn Airport Ltd while the aviation security department remained the main organizer of trainings.

One of the main objectives of the aviation security department is to detect prohibited items/substances in the luggage of passengers. In 2012, a total of 5,750 items included in the list of prohibited items/substances were detected in the course of security screening at Tallinn Airport (2011: 4,905 items), of which 5,653 were in passenger's hand luggage and 97 in checked-in luggage.

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 4 (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 would like to have more convenient information service and better information flow.

Servicing of disabled passengers and passengers with reduced mobility

In 2012, we serviced 3,028 passengers with reduced mobility (PRM) (2011: 2,093). 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 12 passenger attendant assistants and 5 terminal head assistants.

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 fails to provide high-quality service, this will primarily harm the reputation of Tallinn Airport. It is important to us that all companies operating on the airport territory share common values with us.

Ground handling service

In Tallinn Airport, ground handling services are provided by Tallinn Airport GH, Estonia's leading provider of aircraft and passenger services, which is a subsidiary of Tallinn Airport Ltd.. Tallinn Airport GH provides its services also to Tartu and Pärnu airports.

Key financial indicators of Tallinn Airport GH in 2012:

Operating income	EUR 9.8 million
EBITDA	EUR 1.3 million
Profit for the financial year	EUR 0.8 million
Balance sheet total	EUR 7.9 million
Investments	EUR 1.7 million

Organisation

The management system of Tallinn Airport Ltd is created with the purpose of ensuring high quality of the 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 to whom the compliance certificates were issued on 9 January 2012.

Scope of the management system of Tallinn Airport Ltd:

- maintenance and operation of airfields;
- servicing of passengers;
- ground handling of aircraft;
- flight safety and security services;
- activities on the territory of Tallinn Airport Ltd: servicing of passengers, ground handling of aircraft.

Principles of our management system:

- to create a safe environment for our employees, customers and cooperation partners and to implement a safety management system that enables all stakeholders to actively participate in risk management;
- as a Company, to act responsibly towards the surrounding environment;

- in the quality of airfield maintenance and operation and passenger service, to ensure compliance with international and national regulations and with requirements that have been determined and mutually agreed by customers

On this basis, our management system corresponds to the following basic principles:

Customer orientation

- We identify the requirements of customers, including internal customers, and do our best in fulfilling them. We try to forecast the future needs of our customers so that we can exceed their expectations.
- We value the role of our cooperation partners in providing a quality service – we ensure compliance with service requirements in creating contractual relations and fulfilling contractual obligations.

Security

- We create a safe environment for our employees, customers and cooperation partners.
- We guarantee the compliance of flight safety and security to international standards.
- We guarantee our emergency readiness – we communicate the Company's employees about potential emergency situations and possibilities of prevention as well as conduct them in emergency situations.

Sustainable development

- We operate in compliance with the law, we cooperate with authorities, organisations and interested parties, we protect the environment and save natural resources.
- We prevent and avoid polluting the environment, we handle hazardous chemicals and waste as required by law, we innovate technologies if possible.
- We regularly assess the environmental aspects of Airport's activities and control and reduce significant hazardous impact on the environment.
- We train employees to act responsibly in order to achieve the set environmental objectives.

Process-centred approach

- In managing activities and resources we take into consideration reciprocal impact of processes.
- We review our management system periodically and constantly update it to help us meet our objectives.

Openness

- We grant the interested parties an access to the Company's annual reports.

Valuation of the management role

- We create an environment where all employees understand the Company's objectives and their role in achieving them.

Strategic management of Tallinn Airport Ltd is based on the Company's main objectives as stated in its mission and vision, on quality and environmental targets, safety objectives, environmental aspects while taking into consideration legal and customer requirements.

In every area of its activities, the Company has implemented flight safety planning, i.e. an assessment of flight safety aspects for new equipment, facilities, operations and procedures that are being planned. This includes review of flight safety objectives and preparation of a programme of flight safety measures.

Position of the Airport in the labour market and employee turnover

The upturn in the labour market in 2012 had no direct influence on the Company and staff turnover did not increase during the year. The airport competes in various segments of the labour market that at times is also characterised by the structural lack of workforce. Staff turnover was 9%. Efficiency of work increased in 2012.

The number of employees in airports went up by 2%, while the number of operations increased by 13% and the number of passengers grew by 15%.

Development of organisation for enhancing service quality

In 2012, the Company focused on organisational development and raising the service quality to a new level. This did not involve the Group's employees, but the whole community that acts on the territory of Tallinn Airport. Key activities were:

- Promoting the image and values of the Airport among own staff and the employees of partner companies.
- Strengthening the sense of cohesion among the Airport community.

As a service provider, it is critically important for the Airport that end customers do not receive contradicting information about the promises given by the Airport and actual service experience.

Since the airport's image is influenced also by other companies that offer their services in the airport, we place a high value on the employees of companies that belong to the Airport community as image carriers.

- Implementation of „Together to be the Best“ programme during the Service Quality Month.

Attended by representatives of 12 companies and organisations that operate on the territory of the Airport and offer various services ranging from catering to servicing VIP clients to customs inspection. Feedback from the participants was very positive.

- Preparation of good service practices for the Airport community and their implementation by customer service providers in the Airport.

In the financial year, the Company contributed notably to creating the image for existing and potential employees. The Company's positive image as an employer is significant for strengthening the employee's emotional relationship with the enterprise, for successfully competing in the labour market and ensuring constant supply of employees. To meet these objectives, the Company established two grants to the students of the Flight Academy, participated in developing the Academy's curricula, offered traineeships for students of the Flight Academy and other universities and introductory internships for the students of EHTE, a private school for hotel and tourism management.

Training and development

Staff training and development activities focused on acquiring basic competences and development of key skills.

The biggest basic and advanced training projects were acquisition of aviation-specific knowhow in international training courses on flight safety, security and risk management, development of IT competences, training of new internal trainers and acquisition of AFIS competence (2 employees).

A separate objective was increasing the role of e-study and developing the competence of internal trainers. 2,096 employees including 1,121 employees of partner companies participated in the e-study and/or electronic exams.

The range and number of airport-specific training courses offered by the Training Centre increased during the year, and 1,706 people participated in training events.

Development of information systems

In 2012, the Company made preparations for the deployment and implementation of the electronic document administration system from 1 January 2013. Both intranet and extranet were also developed during the year and will be launched in 2013.

Future

The state has determined that the Company's main priority must be increasing the number of passengers, instead of focusing on earning a profit. For achieving the objective of increasing the passenger number, the state has allocated funds from the national budget for covering security and rescue expenses. Tallinn Airport Ltd continues to balance between the two concepts of earning a profit and maintaining a gateway that feeds the national economy. Because of Estonia's location and limited market size, focusing only on profitability would result in the significant fall in the number of passengers.

Objectives for 2013– 2017

Objective	31.12.2013	31.12.2014	31.12.2015	31.12.2016	31.12.2017
QUALITY SERVICE					
The service of Tallinn Airport is available 24/7 and 365 days a year	99,50%	99,50%	99,80%	99,80%	99,90%
The service of regional airports is available in the volume of government grant	99,50%	99,50%	99,50%	99,50%	99,50%
EFFICIENT AND PROFITABLE OPERATIONS					
Return on equity of Tallinn Airport Group	3%	5%	5%	5%	5%
EBIT of Tallinn Airport Group	5,8%	11%	10%	10%	9%
NORTHERN EUROPE'S AIR TRANSPORT STATION					
Total number of passengers in Tallinn Airport, in thousand	1 753	1 948	2 047	2 133	2 219
Total number of passengers in regional airports, in thousand	38	39	40	41	42
Cargo volume in Tallinn Airport, in thousand tons	20	20	20	20	20
Number of destinations from Tallinn Airport	25	28	28	28	28
GUARANTEEING SAFETY					
No aviation accidents and no severe flight incidents	100%	100%	100%	100%	100%
Minimization of number of ground incidents	58 irregularities per 10 000 flight operations	58 irregularities per 10 000 flight operations	58 irregularities per 10 000 flight operations	58 irregularities per 10 000 flight operations	58 irregularities per 10 000 flight operations
Major security incidents a month	3	3	3	3	3

ENHANCING SERVICE LEVEL					
General customer satisfaction on a scale of 5	4,2	4,2	4,2	4,2	4,2
RESPONSIBLE AND ECOLOGICALLY THINKING ORGANISATION					
Creating the image of a responsible and "green" company	Obtaining silver quality level of a responsible company, publication of an environmental report	EMAS certificate	Development of Green Landing System with Estonian Air Navigation Services	ACA 2 nd level II Procurement of air emission monitoring system	ACA 3 rd level

We based our forecasts for 2013 on the consideration that national carrier Estonian Air will continue its operations and on the plans of other carriers. Our forecast for 2013 is 1.75 million passengers which is 26% less than in 2012. The number of P2P passengers is expected to fall by 239,000 or by 12.1%.

The fall in the number of passengers will not bring about a comparable fall in aviation income because Tallinn Airport does not charge passenger fees from passengers in transit and the number of P2P passengers is falling on routes that were covered by the marketing grant. As a result, actual passenger fee and landing fee are going to increase in 2013. The growth in average fees shows that in 2013 there will be no new or rapidly growing airlines in the Airport's portfolio.

In comparison with 2012, income from passenger fees will fall 2%, income from landing fees will fall 4% and aviation income in total will fall by EUR 417,000, ie 4%. The company expects to raise EUR 11 million in aviation income in 2013.

Fewer flight operations and passengers will also affect the revenue of Tallinn Airport GH, the concession income earned by the Airport and infrastructure fees. Revenue of Tallinn Airport GH is expected to fall by EUR 1.1 million which is 11% less than the actual revenue in 2012.

In the autumn 2012, the aircraft maintenance hangar was completed. It has been leased out and will increase rent income by EUR 0.7 million in 2013. The Group's total non-aviation expenses will decline by EUR 1.5 million or 8%. Non-aviation income for 2013 is expected to be EUR 16.5 million.

The total revenue forecast for 2013 is EUR 27.9 million which is 1.3 million euros or 4% below the 2012 result. Total operating income is expected to fall from EUR 39.4 million to 37.8 million. The Group's profit forecast is EUR 1.6 million.

In 2013, the Group plans to invest a total of EUR 13.8 million, of which 7.5 million euros are commercial projects. Commercial projects will be financed on loan capital.

Tallinn Airport Ltd is preparing an infrastructure development project that would be co-funded from the Cohesion Fund in the 2014-2020 financing framework. The final terms of this project will determine the investment volume of AS Tallinn Airport in 2014-2020.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in EUR thousand	Note	31.12.2012	31.12.2011
ASSETS			
Non-current assets			
Property, plant and equipment	Note 5	122,913	128,130
Intangible assets	Note 6	289	233
Investment property	Note 7	10,056	23
Total non-current assets		133,259	128,386
Current assets			
Inventories	Note 9	133	178
Receivables and prepayments	Note 10	3,581	3,750
Cash	Note 12	9,645	7,894
Total current assets		13,359	11,821
TOTAL ASSETS		146,618	140,207
	Note 20		
EQUITY			
Share capital		24,361	24,361
Retained earnings		2,436	2,300
		23,038	19,468
TOTAL EQUITY		49,834	46,128
LIABILITIES			
Non-current liabilities			
Borrowings	Note 13	22,972	17,778
Government grants	Note 15	61,186	64,862
Derivative instruments	Note 16	1,365	1,199
Total non-current liabilities		85,523	83,839
Current liabilities			
Borrowings	Note 13	4,735	5,150
Payables and prepayments	Note 17	6,525	5,081
Derivative instruments	Note 16	0	9
Total current liabilities		11,260	10,240
TOTAL LIABILITIES		96,783	94,079
TOTAL LIABILITIES AND EQUITY		146,618	140,207

The notes to the financial statements presented on pages 24-64 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	Note	2012	2011
Revenue	Note 21	29,298	26,088
Other income	Note 22	10,107	9,041
Goods, materials and services	Note 23	-11,486	-9,301
Operating expenses	Note 24	-1,120	-1,067
Staff costs	Note 25	-12,051	-9,709
Depreciation, amortisation and impairment	Note 5, Note 6, Note 7	-9,939	-9,983
Other expenses		-97	-54
OPERATING PROFIT		4,713	5,016
Finance income and costs	Note 26	-1,007	-813
Net profit for the year		3,706	4,204
COMPREHENSIVE INCOME FOR THE YEAR		3,706	4,204

The notes to the financial statements presented on pages 24-64 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

in EUR thousand	Note	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Collections from customers		34,223	28,665
Payments to suppliers and employees		-27,980	-21,441
Interest received	Note 26	12	25
Interest paid		-821	-944
Government grants received from state budget	Note 15	6,148	4,985
Government grants received for other expenses	Note 15	79	62
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES		11,662	11,354
CASH FLOWS FROM INVESTING ACTIVITIES			
Paid for acquisition of intangible assets, property, plant and equipment and investment property	Notes 5,6,7	-14,678	-3,144
Proceeds from sale of property, plant and equipment	Note 5	14	0
Government grants received for non-current assets	Note 15	35	0
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES		-14,629	-3,144
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of borrowings	Note 13	-5,267	-6,836
Borrowings received	Note 13	10,000	0
Repayments of finance lease liabilities	Note 13	-14	-101
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES		4,719	-6,937
NET CASH FLOWS		1,752	1,273
Cash and cash equivalents at beginning of the period		7,894	6,621
Cash and cash equivalents at end of the period		9,645	7,894
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	NOTE 12	1,752	1,273

The notes to the financial statements presented on pages 24-64 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in EUR thousand	Share capital	Statutory reserve capital	Retained earnings	Total
<i>Balance as at 31.12.2010</i>	<i>22,999</i>	<i>2,300</i>	<i>15,266</i>	<i>40,565</i>
Increase of share capital via non-monetary contribution	1,361	0	0	1,361
Comprehensive income for 2011	0	0	4,202	4,202
<i>Balance as at 31.12.2011</i>	<i>24,360</i>	<i>2,300</i>	<i>19,468</i>	<i>46,128</i>
Increase of statutory reserve capital	0	136	-136	0
Comprehensive income for 2012	0	0	3,706	3,706
<i>Balance as at 31.12.2012</i>	<i>24,360</i>	<i>2,436</i>	<i>23,038</i>	<i>49,834</i>

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

The notes to the financial statements presented on pages 24-64 form an integral part of the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. GENERAL INFORMATION

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

The consolidated financial statements of Tallinn Airport Ltd Group for the year ended 31 December 2012 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 including the consolidated financial statements prepared by the Management Board and approved by the Supervisory Board, shall be authorised by the General Meeting of Shareholders for issue.

The Management Board authorised the Group's consolidated financial statements for issue at 26 March 2013.

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.

(A) 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. The consolidated financial statements of the Group are presented in thousands euros, if not indicated otherwise.

(B) CHANGES IN ACCOUNTING AND DISCLOSURE POLICIES

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 2012 had no material impact on the Group.

New or revised standards and interpretations which have been issued and are mandatory for the Group's annual periods beginning at or after 1 January 2013 and which the Group has not adopted early:

IFRS 12 "Disclosure of Interest in Other Entities". The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 lays down disclosure requirements for the entities that apply two new standards – IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements" and it replaces the disclosure requirements currently found in IAS 28 "Investments in Associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on a share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements.

(C) PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Principles of consolidation

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

Subsidiaries

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

Parent company's separate financial statements

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

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

Functional and presentation currency

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

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

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

(E) CLASSIFICATION OF ASSETS AND LIABILITIES AS CURRENT AND NON-CURRENT

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

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

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

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

(F) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are tangible assets with a useful life of over one year when it is probable that future benefits attributable to them will flow to the Group. Assets with a useful life of over 1 year and a cost of less than EUR 2,000 are recorded as low-value items (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.

Cost

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

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

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

Depreciation

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

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

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

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

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

Buildings and facilities:

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

Machinery and equipment:

Miscellaneous systems	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

Subsequent expenditures

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

reliably. When a component of an item of property, plant and equipment is replaced, the cost of the new component is added to the cost of the asset and the replaced component or a proportionate share thereof is taken off the balance sheet. Ongoing maintenance and repair costs are charged to expenses in the statement of comprehensive income.

Derecognition

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

Impairment of assets

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

(G) INTANGIBLE ASSETS

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

Software

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

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

Capitalised software expenditure includes staff costs and other expenses directly attributable to development. Development costs which do not meet the conditions above are 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.

(H) INVESTMENT PROPERTY

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

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

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

(1) IMPAIRMENT OF NON-FINANCIAL ASSETS

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

External indicators of possible impairment:

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

Internal indicators of possible impairment:

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

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

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

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

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

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

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

(J) FINANCIAL ASSETS**Classification**

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

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

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

Recognition and measurement

Purchases and sales of financial assets which are concluded at regular market conditions are recognised or derecognised using 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 of 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 net earned any interest or dividend income on financial assets recognised at fair value through profit or loss

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

(K) IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

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

(L) DERIVATIVE INSTRUMENTS

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

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

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

(M) INVENTORIES

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

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

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

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Inventories are recorded in the balance sheet at the lower of cost and net realisable value. Net realisable value is determined by subtracting the estimated expenditures necessary for preparing the product for sale and complete the sale from the estimated sales price.

(N) TRADE RECEIVABLES

Trade receivables are accounts receivable incurred in the ordinary course of business for goods sold or services provided. Trade receivables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method, less a provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original contractual terms of the receivables. The circumstances indicating impairment include bankruptcy or major financial difficulties of the debtor and non-adherence to payment terms (more than 90 days overdue). Receivables are assessed individually. The carrying amount of receivables is reduced by the amount of the impairment loss of doubtful receivables and the impairment loss is recognised in profit or loss within *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.

(O) CASH AND CASH EQUIVALENTS

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

(P) SHARE CAPITAL AND STATUTORY RESERVE CAPITAL

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

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

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

(Q) TRADE PAYABLES

Trade payables are payables incurred in the ordinary course of business to pay suppliers for goods or services purchased. For classification of trade payables as current and non-current see section (E). Trade

payables are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest rate method

(R) BORROWINGS

Borrowings are initially recognised at fair value less 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. For classification of borrowings as current and non-current see section (E).

(S) BORROWING COSTS

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

(T) FINANCIAL LIABILITIES

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

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

(U) TAXATION

Income tax on dividends in Estonia

According to the Income Tax Act of Estonia, corporate profits are not taxed in Estonia but dividends payable and certain payment and expenses, outlined in the Income Tax Act are. Until 31 December 2012, 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.

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

(V) EMPLOYEE BENEFITS

Employee short-term benefits include wages and salaries and social security taxes, benefits related to temporary suspension of employment contracts (holiday pay or other similar fees), when it is assumed that the temporary suspension of the employment contract takes place within 12 months after the end of the period in which the employee worked and other benefits payable after the end of the period in which the employee worked. If an employee has performed other services during the reporting period for which payment of compensation is assumed, the Group shall recognise an undiscounted liability (accrued expense) in the amount of the forecast benefit, from which all amounts already paid will be subtracted.

(W) PROVISIONS AND CONTINGENT LIABILITIES

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

Provisions are not recognised to cover future operating losses.

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

Provisions are reviewed at the end of each reporting period and are revised using the best estimate at the time. The cost related to the recognition of provisions is included within 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.

(X) REVENUE RECOGNITION

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

Revenue

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

Interest income

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

(Y) GOVERNMENT GRANTS

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

Government grants related to assets

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

Grants related to 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.

(Z) LEASES

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

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

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

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

(AA) DIVIDENDS

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

(BB) CASH FLOW STATEMENT

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

(CC) EVENTS AFTER THE BALANCE SHEET DATE

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

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

NOTE 3. MANAGEMENT OF FINANCIAL RISKS

(A) FINANCIAL RISKS

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

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

(B) MARKET RISKS

Foreign currency risk is the risk that the fair value or cash flows of financial instruments fluctuate due to the changes in exchange rates in the future. The assets and liabilities denominated in euros are considered to be neutral assets and liabilities in relation to the foreign currency risk. In order to avoid foreign currency risk, transactions are concluded primarily in euros. In 2012 and 2011, the Group's receivables exposed to foreign currency were insignificant.

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

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

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

Cash flow interest rate risk arises for the Group from borrowings with floating interest rates and represents the 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 decreased in the financial year ended as compared to the previous year. 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). As at 31.12.2012, the Nordea loan has been repaid and the corresponding SWAP contract has ended. In 2012, a loan with the floating interest rate was taken from Pohjola Bank (for loan conditions, see Note 13).

If the market interest rate (6-month Euribor) had been 50 basis points (2011: 50 basis points) higher as at 31 December 2012, the change at the Group's profit for the reporting period (with all other variables remaining) would have been immaterial. The effect of the increase in the interest charge on borrowings

with a floating base rate is immaterial on the statement of comprehensive income and the interest on a loan, which have been fixed by a swap transaction, is not exposed to changes in Euribor.

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

(C) CREDIT RISK

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

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

<i>in EUR thousand</i>	31.12.2012	31.12.2011
Trade receivables, government grant related to non-current assets receivables and other receivables (Note 10)	2,954	2,784
Bank accounts and overnight deposits at banks ¹ (Note 12)	9,566	7,815
Total amounts exposed to credit risk	12,520	10,599

¹ Total cash and cash equivalents less cash on hand.

Analysis of accounts receivable

<i>in EUR thousand</i>	31.12.2012	31.12.2011
Not due	2,452	1,853
Overdue by up to 30 days	353	404
Overdue by up to 60 days	54	51
Overdue by more 60 days	305	171
<i>Incl. allowance for doubtful receivables</i>	-229	-126
Total accounts receivable	2,935	2,353

Of the accounts receivable as at 31.12.2012, a total of EUR 266 thousand had not been collected by 13.03.2013 (of accounts receivable as at 31.12.2011, a total of EUR 196 thousand had not been collected by 13.03.2012).

The following measures have been applied to mitigate credit risk:

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

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

<i>in EUR thousand</i>	31.12.2012	31.12.2011
Banks with Moody's credit rating of A1	6,840	0
Banks with Moody's credit rating of A2	2,724	1,508
Banks with Moody's credit rating of A3	0	3
Banks with Moody's credit rating of Aa3	1	0
Banks with Moody's credit rating of Baa2	0	3,007
Banks with Moody's credit rating of Baa1	0	3,297
Total exposure to credit risk	9,565	7,815

Additional information about credit risk is disclosed in Note 10.

(D) LIQUIDITY RISK

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

As at the end of the financial year, the Group had available financial resources in the amount of EUR 9,645 thousand (31.12.2011: EUR 7,894 thousand).

In order to hedge liquidity risk, the Group uses various sources of financing, such as bank loans, overdraft facilities and ongoing monitoring of accounts receivable. As at the balance sheet date, the Group's current assets exceeded current liabilities by EUR 2,102 thousand (31.12.2011: EUR 1,581 thousand).

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

Distribution of liabilities by due date

in EUR thousand

As at 31.12.2012	Up to 1 month	Between 1 and 3 months	Between 3 months and 1 year	Between 1 and 5 years	Later than 5 years	Total undiscounted cash flows	Carrying amount
Borrowings (Note 13) ²	102	1,980	2,682	18,716	4,887	28,368	27,707
Derivative instruments (Note 16)	0	0	0	1,365	0	1,365	1,365
Trade payables ³ (Note 17)	3,115	185	0	0	0	3,300	3,300
Total	3,217	2,165	2,682	20,081	4,887	33,033	32,372
As at 31.12.2011							
Finance lease liabilities (Note 13)	3	6	6	0	0	14	14
Borrowings (Note 13)	36	2,511	2,846	15,008	3,586	23,988	22,914
Derivative instruments (Note 16)	0	0	9	0	1,199	1,209	1,209
Trade payables (Note 17)	1,792	956	0	0	0	2,748	2,748
Total	1,831	3,473	2,861	15,008	4,785	27,958	26,884

(E) CAPITAL RISK MANAGEMENT

Tallinn Airport Ltd is fully owned by the Republic of Estonia, who makes all decisions in respect of dividend distribution and increase or decrease of share capital (through the Ministry of Economic Affairs and Communications).

² For determining the undiscounted cash flows, the interest rate at the year-end 2012 has been used

³ Total trade payables less prepayments.

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

As at 31.12.2012 and 31.12.2011, the Company's equity was in compliance with the requirements of the Commercial Code.

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

in EUR thousand	31.12.2012	31.12.2011
Borrowings (Note 13)	27,707	22,928
Less : cash and cash equivalents and term deposits with maturities greater than 3 months (Note 12)	-9,645	-7,894
Net debt (borrowings-cash and cash equivalents)	18,062	15,034
Equity (Note 20)	49,834	46,128
Total capital (net debt + equity)	67,896	61,163
Debt to equity	41%	37%
Net debt to total capital	27%	25%

(F) FAIR VALUE ESTIMATES

The Group estimates that the fair values of financial assets recognised at amortised cost do not materially differ from the carrying amounts reported in the consolidated balance sheet of the Group as at 31.12.2012 and 31.12.2011. As most of the Group's long-term borrowings carried a floating interest rate which changes according to the changes in the money market interest rates, their fair values do not materially differ from their carrying amounts. The carrying amount of short-term receivables from customers and accounts receivable is estimated to equal their fair value.

The Group has classified 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..

NOTE 4. KEY ACCOUNTING ESTIMATES

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

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

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 2012, the carrying amount of the Group's property, plant and equipment was EUR 122,913 thousand (31 December 2011: EUR 128,130 thousand), the depreciation charge for the reporting period was EUR 9,722 thousand (2011: EUR 9,792 thousand) (see Note 5). If the useful lives of all assets are changed by one year, the profit would change by EUR 1,069 thousand (2011: EUR 484 thousand).

Valuation of doubtful receivables

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

The amount of doubtful receivables is adjusted 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 2012, the Group had doubtful receivables in the amount of EUR 229 thousand (31 December 2011: EUR 126 thousand) (Note 10).

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

The Group's Management Board assessed the existence of indications of impairment losses and determined that there were no indications in 2012 to conclude that the assets had lost a major share of their cash generation ability and no impairment test was performed (similarly to 2011).

NOTE 5. PROPERTY, PLANT AND EQUIPMENT

in EUR thousand	Construction in progress and prepayments	Land	Buildings and facilities	Machinery and equipment	Other tools and fixtures	Total
Balance as at 31.12.2010						
Cost	817	3,472	119,993	60,841	3,974	189,096
Accumulated depreciation	0	0	-32,451	-22,495	-2,848	-57,795
Carrying amount 31.12.2010	817	3,472	87,541	38,345	1,126	131,301
Changes occurred in 2011						
Acquisitions and improvements	1,399	1,461	1,677	1,836	330	6,703
Depreciation charge	0	0	-4,323	-4,967	-502	-9,792
Carrying amount of assets disposed	0	0	0	0	0	0
Carrying amount of assets written off	0	0	-20	-59	-2	-81
Balance as at 31.12.2011						
Cost	2,216	4,933	121,597	62,131	4,257	195,133
Accumulated depreciation	0	0	-36,722	-26,976	-3,305	-67,003
Carrying amount 31.12.2011	2,216	4,933	84,875	35,155	952	128,130
Changes occurred in 2012						
Acquisitions and improvements	344	0	358	3,376	446	4,524
Depreciation charge	0	0	-4,242	-5,051	-430	-9,722
Carrying amount of assets disposed	0	0	0	-14	0	-14
Carrying amount of assets written off	0	0	0	-2	-3	-5
Balance as at 31.12.2012						
Cost	2,560	4,933	121,955	65,335	4,596	199,379
Accumulated depreciation	0	0	-40,964	-31,872	-3,631	-76,466
Carrying amount 31.12.2012	2,560	4,933	80,991	33,463	966	122,913

In 2012 the Group has capitalised borrowing costs in the amount of EUR 17 thousand. In 2011 there were no non-current assets, the construction of which would qualify for the conditions requiring capitalisation of borrowing costs, therefore, borrowing costs were not capitalised in 2011.

By the end 2012, the Group had no assets acquired under the finance lease terms. As at 31.12.2011, the carrying amount of non-current assets acquired under the finance lease terms amounted to EUR 395 thousand.

The assets leased out are partly used in business operations and partly for earning rental income and their carrying amount was EUR 28,268 thousand as at 31.12.2012 (31.12.2011: EUR 29,459 thousand).

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

Capital expenditures by airport and subsidiary

in EUR thousand	2012	2011
Tallinn Airport	1,579	3,589
Tartu Airport	895	982
Kuressaare Airport	0	176
Kärdla Airport	17	73
Pärnu Airport	26	3
Tallinn Airport GH	1,664	480
Total purchases and improvements	4,180	5,304

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

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

in EUR thousand	31.12.2012	31.12.2011
Tallinn Airport	12,426	10,556
Pärnu Airport	1,338	1,363
Tartu Airport	1,092	1,020
Kuressaare Airport	1,003	794
Kärdla Airport	402	357
Tallinn Airport GH	350	104
Total non-current assets in use with the carrying amount of zero	16,610	14,194

NOTE 6. INTANGIBLE ASSETS

SOFTWARE

in EUR thousand	2012	2011
Cost as at 01.01.	1,268	1,099
Accumulated amortisation as at 01.01.	-1,068	-960
Carrying amount as at 01.01.	200	139
Prepayments for non-current assets as at 01.01.	32	0
Total intangible assets as at 01.01.	233	139
Movements in intangible assets in the period		
Purchases and improvements	36	169
Amortisation charge	-59	-108
Reclassification of prepayments	80	-46
Cost as at 31.12.	1,304	1,268
Accumulated amortisation as at 31.12.	-1,127	-1,068
Carrying amount as at 31.12.	177	200
Prepayments for non-current assets as at 31.12.	112	32
Total intangible assets as at 31.12.	289	233

NOTE 7. INVESTMENT PROPERTY

in EUR thousand	2012	2011
Cost as at 01.01.	1,301	1,301
Accumulated depreciation as at 01.01.	-1,278	-1,276
Carrying amount of investment property as at 01.01.	23	25
Movements in investment property in the period.		
Purchases and improvements	10,213	0
Depreciation charge	-180	-2
Cost as at 31.12.	11,514	1,301
Accumulated depreciation as at 31.12.	-1,458	-1,278
Carrying amount of investment property as at 31.12.	10,056	23

The majority of lease agreements for investment property have a short cancellation notice except for the maintenance hangar completed in 2012 which has been leased out for 30 years. All contractual obligations related to the development, repairs and maintenance of investments properties are the responsibility of the Group as the lessor. The rental income from investment properties totalled EUR 472 thousand (2011: EUR 90 thousand) and direct operating expenses were EUR 163 thousand (2011: EUR 95 thousand).

NOTE 8. OPERATING LEASE

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

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 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.

Rental income

in EUR thousand	2012	2011
Concessions	2,596	2,054
Buildings and facilities	2,025	1,712
Infrastructure fees	83	129
Total rental income	4,704	3,894

Future rental income under non-cancellable lease agreements⁴

in EUR thousand	2012	2011
< 1 year	2,156	1,478
1 - 5 years	4,926	2,724
> 5 years	7,501	958
Total rental income	14,583	5,160

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

Rental expense

in EUR thousand	2012	2011
Passenger cars	79	19
Total rental expense	79	19

⁴ 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.

Future operating lease payments under non-cancellable lease agreements

in EUR thousand	2012	2011
< 1 year	30	18
1 - 5 years	50	30
Total rental expense	80	49

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

NOTE 9. INVENTORIES

in EUR thousand	31.12.2012	31.12.2011
De-icing materials of aircraft	78	117
Fuel	28	30
Runway maintenance materials	13	16
Rescue service extinguishing foam	7	7
Foodstuffs	5	7
Marketing materials	1	1
Total inventories	133	178

No inventory write-downs were recognised during the period like in 2011.

NOTE 10. RECEIVABLES AND PREPAYMENTS**Trade receivables**

in EUR thousand	31.12.2012	31.12.2011
Accounts receivable	3,164	2,479
Allowance for doubtful receivables	-229	-126
Total trade receivables	2,935	2,353

Other receivables and prepayments

in EUR thousand	31.12.2012	31.12.2011
VAT receivable	461	666
Government grants related to non-current assets not received	17	427
Prepayments	165	298
Other receivables	2	5
Accrued income	1	1
Total other receivables and prepayments	646	1,397
TOTAL RECEIVABLES	3,581	3,750

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

Changes in doubtful receivables

in EUR thousand	2012	2011
Allowance for doubtful receivables at beginning of the period	-126	-11
Receivables deemed as doubtful during the reporting period	-139	-127
Receivables deemed as uncollectible	21	2
Receivables deemed as doubtful collected during the reporting period	15	10
Allowance for doubtful receivables at end of the period	-229	-126

NOTE 11. DISTRIBUTION OF FINANCIAL INSTRUMENTS BY CATEGORY**Items of financial assets in the statement of financial position**

in EUR thousand	31.12.2012	31.12.2011
Cash and cash equivalents (Note 12)	9,645	7,894
Trade receivables, government grant related to non-currents not received and other receivables (Note 10)	2,954	2,784
Total items of financial assets in the balance sheet	12,599	10,678

Items of financial liabilities in the statement of financial position

in EUR thousand	Other financial liabilities	Financial liabilities at fair value through profit or loss	Total
As at 31.12.2012			
Borrowings (Note 13)	27,707	0	27,707
Trade and other payables (Note 17)	3,300	0	3,300
Derivative instruments (Note 16)	0	1,365	1,365
Total items of financial liabilities in the balance sheet	31,007	1,365	32,372
As at 31.12.2011			
Borrowings (Note 13)	22,928	0	22,928
Trade and other payables ⁴ (Note 17)	2,748	0	2,748
Derivative instruments (Note 16)	0	1,209	1,209
Total items of financial liabilities in the balance sheet	25,676	1,209	26,884

NOTE 12. CASH AND CASH EQUIVALENTS

in EUR thousand	31.12.2012	31.12.2011
Cash on hand	79	79
Bank accounts	6,845	4,807
Overnight deposit	2,721	3,007
Total cash and cash equivalents	9,645	7,894

NOTE 13. BORROWINGS

in EUR thousand	31.12.2012	31.12.2011
Long-term borrowings		
Long-term bank loans	22,972	17,778
Total long-term borrowings	22,972	17,778
Short-term borrowings		
Repayments of long-term bank loans in the next period	4,556	5,017
Interest payable related to long-term bank loans at 31.12	179	119
Finance lease payment in the next period	0	14
Total short-term borrowings	4,735	5,150
TOTAL BORROWINGS	27,707	22,928

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 14	8,950,349
Nordic Investment Bank	31.01.2008	5.12.2017	See Note 14	32,000,000
Pohjola Bank	28.11.2011	30.09.2022	See Note 14	10,000,000

All loans are denominated in euros. The loans from EIB and Nordea have been fully repaid.

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

in EUR thousand

As at 31.12.2012	EIB	NORDEA	NIB	Swedbank	Pohjola bank	TOTAL
Loan balance at beginning of the period	500	961	21,333	0	0	22,795
Loan received during the period					10,000	10,000
Paid off during the period	-500	-961	-3,556	0	-250	-5,267
Loan balance at end of the period	0	0	17,778	0	9,750	27,528
Loan interest payable	0	0	179	0	0	179
Interest rate	Average for the period 1.24%	6-month Euribor +0.3%	6-month Euribor +0.12%	-	3-month Euribor +1.0%	
As at 31.12.2011	EIB	NORDEA	NIB	Swedbank	Pohjola bank	TOTAL
Loan balance at beginning of the period	1,500	2,293	24,889	949	0	29,631
Paid off during the period	-1,000	-1,332	-3,556	-949	0	-6,836
Loan balance at end of the period	500	961	21,333	0	0	22,795
Loan interest payable	0	2	117	0	0	119
Interest rate	Average for the period 1.47%	6-month Euribor +0.3%	6-month Euribor +0.12%	6-month Euribor +2.8%	-	

On 28 November.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 Note 5). 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

in EUR thousand	31.12.2012	31.12.2011
Lease payments liabilities at beginning of the period	14	115
Movements during the period:		
Finance lease liabilities paid off	-14	-101
Lease payments payable end of the period	0	14

NOTE 14. LOAN COLLATERAL AND PLEDGED ASSETS

No assets have been pledged as collateral for the loan received from Nordea Bank, Nordic Investment Bank and Pohjola Bank, the loan contracts stipulate 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.

The loan from Nordea Bank had been repaid as at 31.12.2012.

NOTE 15. GOVERNMENT GRANTS

Government grants related to operating expenses

in EUR thousand	2012	2011
Allocation for a specific purpose from state budget ⁵	6,148	4,985
Tartu City Government	14	28
Enterprise Estonia	21	67
Foreign financing	4	9
Government grants related to operating expenses recognised as income (Note 22)	6,188	5,089

Government grants for assets

in EUR thousand	2012	2011
Long-term government grants received as at beginning of the period	64,862	67,094
Grants received		
Domestic government grant received	14	4
Received from the European Regional Development Fund (ERDF)	97	1,469
Total grants received	111	1,474
Recognised as income		
Grants related to assets	-273	-288
Cohesion Fund (ISPA)	-2,082	-2,082
European Regional Development Fund (ERDF)	-1,431	-1,335
Total recognised as income (Note 22)	-3,786	-3,705
Write-off of assets acquired with government grants and government grant liability (from ERDF)	-1	-1
Total long-term government grants received as at end of the period	61,186	64,862

With the amendment no. 57 dated 18 March 2005 to the regulation no. 81 of the Government of the Republic *Appointment of Intermediate Bodies and Final Beneficiaries for Structural Assistance and*

⁵ 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.

Approval of the List of Measures for Investment by the State and Local Governments dated 22 March 2004, 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 ERDF to the State Treasury to its suppliers, as a result of which government grants received for acquisition of non-current assets are not included within the cash flows from investment activities in the statement of cash flows (see *Paid for acquisition of intangible assets, and property, plant and equipment* in the consolidated statement of cash flows).

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

Key acquisitions funded by the ERDF in 2012:

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

Key acquisitions funded by the ERDF in 2011:

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

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

in EUR thousand	2012	2011
Kärdla airport	0	65
Kuessaare airport	0	176
Tartu I airport	507	841
Total airports	507	1,082

In 2012, the cost of assets acquired with the grants received from the ERDF has been funded 96% by the ERDF (in 2011, the cost of assets acquired with the grants received from the ERF was funded 100% by the ERDF).

NOTE 16. DERIVATIVE INSTRUMENTS

Interest rate swap	1. Interest-rate swap on a floating rate loan from Nordea Bank:	2. Interest-rate swap on a floating rate loan from Nordic Investment Bank	3. Interest-rate swap on a floating rate loan from Nordic Investment Bank
Contract was entered into at	17.11.2005;	16.03.2007;	30.01.2011
Opening date:	21.11.2005;	17.09.2007;	16.03.2011
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 SWAP rate	3.04%.	4.015%.	2.395%
Floating interest base rate	6-month Euribor	6-month Euribor	6-month Euribor

Changes in interest rate swaps**in EUR thousand**

Fair value as at 31.12.2010	-1,315
Change in fair value in 2011 (Note 27)	106
Fair value as at 31.12.2011	-1,209
Incl. non-current portion	-9
Incl. current portion	-1,209
Change in fair value in 2012 (Note 27)	-156
Fair value as at 31.12.2012	-1,365
Incl. non-current portion	-1,365

NOTE 17. PAYABLES AND PREPAYMENTS

Trade payables

in EUR thousand	31.12.2012	31.12.2011
Payables for non-current assets	877	1,636
Payables for goods and services	2,423	1,111
Total trade payables	3,300	2,748

Other payables and prepayments

in EUR thousand	31.12.2012	31.12.2011
Payables to employees (Note 19)	2,229	1,472
Tax liabilities (Note 18)	898	749
Prepayments for products and services	85	108
Other accrued expenses	13	4
Total other payables and prepayments	3,225	2,333
TOTAL PAYABLES AND PREPAYMENTS	6,525	5,081

NOTE 18. TAX LIABILITIES

Tax liabilities

in EUR thousand	31.12.2012	31.12.2011
Social security taxes on wages and salaries, and fringe benefits	524	437
Income tax on wages and salaries, and fringe benefits	290	238
Unemployment insurance tax	52	50
Pension insurance	25	17
Excise tax	6	7
Corporate income tax	1	0
Total tax liabilities	898	749

NOTE 19. ACCRUED EXPENSES TO EMPLOYEES**Accrued expenses**

In EUR thousand	31.12.2012	31.12.2011
Bonus reserve liability	1,294	656
Wages and salaries calculated but not yet paid	583	495
Holiday pay liability	350	317
Other payables to employees	3	4
Total accrued expenses (see Note 25)	2,229	1,472

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.

	31.12.2012	31.12.2011
Share capital	EUR 24,360,500	EUR 24,360,500
Number of shares	2,436,050 pcs	2,436,050 pcs
Nominal value of shares	EUR 10	EUR 10

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 thousand to the share capital of Tallinn Airport Ltd as a non-monetary contribution.

As at 31.12.2012, the share capital of the Group's parent consisted of 2,436,050 ordinary shares (31.12.2011: 2,436,050) ordinary shares with the nominal value of EUR 10 each.

As at 31 December 2012, the retained earnings of the Group was EUR 23,038 thousand (31 December 2011: EUR 19,468 thousand). Upon the payment of dividends to the shareholders, the income tax expense is 21/79 of the amount paid out as net dividends. As at the balance sheet date, it is possible to pay out dividends to the shareholders in the amount of EUR 18,200 thousand (31 December 2011: EUR 15,380 thousand) and the corresponding income tax would amount to EUR 4,840 thousand (31 December 2011: EUR 4,088 thousand).

NOTE 21. REVENUE

Aviation revenue

in EUR thousand	2012	2011
Landing fees	5,509	5,119
Passenger fees	5,650	5,978
Parking fees	317	304
Navigation fees	20	22
Take-off fees	5	5
Total aviation revenue	11,501	11,427

Non-aviation revenue

in EUR thousand	2012	2011
Aircraft handling and passenger servicing revenue	10,118	8,004
Rental income (Note 8)		
Concessions	2,596	2,054
Rent for premises and hangars	2,025	1,712
Infrastructure fees	83	129
Total rental income	4,704	3,894
Other services sold		
Parking services for cars	1,169	1,060
Services provided to tenants	893	665
Advertising services	383	484
Aviation related services	375	367
Other services provided and intermediated	155	187
Total other services sold	2,975	2,763
Total non-aviation revenue	17,797	14,661
TOTAL REVENUE	29,298	26,088

NOTE 22. OTHER INCOME

in EUR thousand	2012	2011
Government grants related to operating expenses (Note 15)	6,188	5,089
Government grants related to assets recognised as income (Note 15)	3,787	3,706
Other income	123	246
Gain from disposal of machinery and equipment	9	1
Total other income	10,107	9,041

NOTE 23. GOODS, MATERIALS AND SERVICES

in EUR thousand	2012	2011
Security, safety and rescue	3,082	2,545
Utilities expenses	2,542	2,167
Vehicle operation expenses	1,583	1,271
Maintenance expenses of buildings and facilities	1,329	824
Maintenance of runways	1,275	454
Cost of provision of services to passengers and aircraft	937	1,665
IT and communication expenses	738	375
Total goods, materials and services	11,486	9,301

NOTE 24. OPERATING EXPENSES

in EUR thousand	2012	2011
Marketing and public relations	328	350
Training	228	209
Administrative expenses	190	183
Special clothing and uniforms	163	134
Costs related to doubtful receivables (Note 10)	124	117
Business trips	86	75
Total operating expenses	1,119	1,067

NOTE 25. STAFF COSTS

in EUR thousand	2012	2011
Wages and salaries, performance pay, holiday pay, bonuses	7,831	6,535
<i>Average monthly salary in EUR</i>	1,210	1,062
Benefits and allowances	42	52
Other remuneration fees paid to supernumeraries	53	84
Staff costs classified as fringe benefits	57	46
Taxes calculated on staff costs	2,773	2,335
Accrued expenses related to employees (Note 19)	1,294	656
Total staff costs	12,051	9,709

Staff count	2012	2011
Number of employees at beginning of the period	531	502
Number of employees at end of period	584	531
Average number of employees	539	513

NOTE 26. FINANCIAL INCOME AND EXPENSES

in EUR thousand	2012	2011
Interest income on deposits	12	25
Change in fair value of derivative instruments (Note 16)	-156	106
Interest charge on loans secured by derivatives	-542	-517
Interest charge on loans with floating interest rates	-292	-425
Interest charge on finance lease	0	-2
Other finance income and costs	-29	0
Total finance income and costs	-1,007	-813

NOTE 27. CONTINGENT LIABILITIES AND COMMITMENTS

Potential liabilities arising from tax inspection

Tax authorities have neither launched nor performed tax inspections or single case reviews at group entities. The tax authorities have the right to verify the Company's tax records up to 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.

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NOTE 28. RELATED PARTY TRANSACTIONS

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

All entities which the state has control or significant influence over are also considered to be related parties. The Group's Management Board considers it important to disclose the transactions with airline companies, over which the state has control or significant influence. In 2012, the Group provided services to such entities for EUR 7,675 thousand (2011: EUR 5,635 thousand). The volumes of services purchased are immaterial.

Management and Supervisory Boards

In 2012, the remuneration of the Supervisory and Management Boards, including social security taxes totalled EUR 462 thousand (2011: EUR 352 thousand).

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

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

NOTE 29. 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 2012. Pursuant to this order, Tallinn Airport Ltd does not need to pay dividends.

NOTE 30. FINANCIAL INFORMATION ON THE PARENT COMPANY

SEPARATE STATEMENT OF FINANCIAL POSITION

in EUR thousand	31.12.2012	31.12.2011
ASSETS		
Non-current assets		
Long-term financial investments	1,028	1,028
Property, plant and equipment	119,714	126,159
Intangible assets	274	206
Investment property	10,056	23
Total non-current assets	131,072	127,416
Current assets		
Inventories	55	61
Payables and prepayments	2,408	2,855
Cash	6,747	4,876
Total current assets	9,210	7,792
TOTAL ASSETS	140,282	135,208
EQUITY		
Share capital	24,361	24,361
Statutory reserve capital	2,436	2,300
Retained earnings	18,051	15,311
TOTAL EQUITY	44,848	41,972
LIABILITIES		
Non-current liabilities		
Borrowings	22,972	17,778
Government grants	61,186	64,862
Derivative instruments	1,365	9
Total non-current liabilities	85,523	82,649
Current liabilities		
Borrowings	4,735	5,150
Payables and prepayments	5,176	4,238
Derivative instruments	0	1,199
Total current liabilities	9,911	10,587
TOTAL LIABILITIES	95,434	93,236
TOTAL LIABILITIES AND EQUITY	140,282	135,208

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SEPARATE STATEMENT OF COMPREHENSIVE INCOME

in EUR thousand	2012	2011
Revenue	21,375	19,720
Other income	10,051	8,992
Goods, materials and services	-9,588	-7,414
Operating expenses	-914	-852
Staff costs	-7,486	-6,630
Depreciation, amortisation and impairment	-9,497	-9,512
Other expenses	-54	-52
OPERATING PROFIT	3,887	4,252
Finance income and costs	-1,011	-807
<i>Net profit for financial year</i>	<i>2,876</i>	<i>3,445</i>
COMPREHENSIVE INCOME FOR FINANCIAL YEAR	2,876	3,445

SEPARATE STATEMENT OF CASH FLOWS

in EUR thousand	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Collections from customers	26,967	22,398
Paid to suppliers and employees	-21,825	-17,116
Interest received	8	25
Interest paid	-821	-938
Government grant received from the state budget	6,148	4,985
Government grants related to other expenses	56	49
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	10,533	9,403
CASH FLOWS FROM INVESTING ACTIVITIES		
Paid for purchase of property, plant and equipment, and intangible assets	-13,430	-2,696
Proceeds from sale of property, plant and equipment	14	0
Government grant related to non-current assets	35	0
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	-13,382	-2,696
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of borrowings	-5,267	-5,887
Loan received	10,000	0
Repayments of finance lease liabilities	-14	-34
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	4,719	-5,921
NET CASH FLOWS	1,870	786
Cash and cash equivalents at beginning of year	4,876	4,090
Cash and cash equivalents at end of year	6,747	4,876
NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS	1,870	786

SEPARATE STATEMENT OF CHANGES IN EQUITY

in EUR thousand	Share capital	Statutory reserve capital	Retained earnings	Total
Balance as at 31.12.2010	22,999	2,300	11,866	37,165
Increase of share capital via a non-monetary contribution	1,361	0	0	1,361
Net profit for 2011	0	0	3,445	3,445
Balance as at 31.12.2011	24,360	2,300	15,311	41,972
Statutory reserve capital	0	136	-136	0
Net profit for 2012	0	0	2,876	2,876
Balance as at 31.12.2012	24,360	2,436	18,051	44,848

**RESTATED STATEMENT OF EQUITY OF TALLINN AIRPORT Ltd
(PARENT COMPANY)**

in EUR thousand	2012	2011
Unconsolidated equity of the parent	44,848	41,972
Carrying amount of subsidiaries in the separate balance sheet of the parent (minus)	-1,028	-1,028
Value of subsidiary under the equity method (plus)	5,933	5,184
Total	49,753	46,128

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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 2012 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising 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 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 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 present fairly, in all material respects, the financial position of AS Tallinna Lennujaam and its subsidiary as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

/signed/

Tiit Raimla
Auditor's Certificate No.287

/signed/

Janno Hermanson
Auditor's Certificate No.570

26 March 2013

** 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	EUR 19,468 thousand
Transfer to statutory reserve capital	- EUR 136 thousand
Net profit for 2012	EUR 3,706 thousand
Total distributable profit as at 31.12.2012	EUR 23,038 thousand

The Management Board proposes to distribute the net profit for 2012 in the amount of EUR 3,706 thousand as follows:

not to distribute EUR 3,706 thousand and transfer it to retained earnings.

Balance of retained earnings after profit allocation **EUR 23,038 thousand**

Rein Loik	Chairman of the Management Board	/signed/	26.03.2013
Einari Bambus	Member of the Management Board	/signed/	26.03.2013
Anneli Turkin	Member of the Management Board	/signed/	26.03.2013
Erik Sakkov	Member of the Management Board	/signed/	26.03.2013

SIGNATURES TO THE ANNUAL REPORT

The Management Board of Tallinn Airport Ltd has prepared the management report and financial statements for the year 2012. The Management confirms the correctness of information presented in the annual report.

Management Board:

Rein Loik	Chairman of the Management Board	/signed/	26.03.2013
Einari Bambus	Member of the Management Board	/signed/	26.03.2013
Anneli Turkin	Member of the Management Board	/signed/	26.03.2013
Erik Sakkov	Member of the Management Board	/signed/	26.03.2013

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	/signed/	27.03.2013
Arto Aas	Member of the Supervisory Board	/signed/	27.03.2013
Väino Linde	Member of the Supervisory Board	/signed/	27.03.2013
Kalle Palling	Member of the Supervisory Board	/signed/	27.03.2013
Cinzia Siig	Member of the Supervisory Board	/signed/	27.03.2013
Tiit Riisalo	Member of the Supervisory Board	/signed/	27.03.2013

REVENUE OF TALLINN AIRPORT LTD ACCORDING TO EMTAK 2008

in EUR thousand	2012	2011
<i>EMTAK code</i>		
35131 Distribution of electricity	588	443
52231 Operation of airports and airway terminals	18,560	17,600
52239 Other support activities for air transportation	10,118	8,004
85599 Other education	32	41
