



ANNUAL REPORT 2023

LENNULIIKLUSTEENINDUSE AS

ANNUAL REPORT 2023

GENERAL INFORMATION AND CONTACTS

Business name: Lennuliiklusteeninduse AS

Commercial registry code: 10341618

Principal activity: Provision of air navigation services

Address: Kanali põik 3
Rae küla, Rae vald
Harjumaa 10112

Telephone: +372 671 0250

E-mail: eans@eans.ee

Website: www.eans.ee

Reporting period: 1 January 2023 – 31 December 2023

Auditor: KPMG Baltics OÜ

TABLE OF CONTENTS

A LETTER FROM THE CHIEF EXECUTIVE OFFICER	5
1 THE COMPANY.....	7
1.1 Vision of EANS for 2024.....	9
1.2 Values.....	10
2 STRATEGY AND GOALS	11
2.1 Strategy 2021–2024	11
2.2 Sustainable development	13
2.3 Flight safety and quality.....	15
3 CORPORATE GOVERNANCE	18
4 MARKET OVERVIEW AND AIR TRAFFIC VOLUMES.....	25
5 FINANCIAL PERFORMANCE	30
6 SERVICES AND BUSINESS LINES	38
6.1 Air Traffic Management	38
6.1.1 Aeronautical Information Management Department.....	39
6.2 Technology and Business Development.....	40
6.2.1 Technology Department	40
6.2.2 Business Development Department	41
6.3 Our team.....	44
7. FINANCIAL STATEMENTS	47
7.1 Statement of financial position	47
7.2 Statement of comprehensive income	48
7.3 Statement of cash flows	49
7.4 Statement of changes in equity	50
8 NOTES TO THE FINANCIAL STATEMENTS.....	51
NOTE 1. ACCOUNTING POLICIES AND MEASUREMENT BASES APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS.....	51
NOTE 2. CASH AND CASH EQUIVALENTS	60
NOTE 3. FINANCIAL INSTRUMENTS.....	61
NOTE 4. TRADE RECEIVABLES	62
NOTE 5. OTHER RECEIVABLES AND PREPAYMENTS	63

NOTE 6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS	64
NOTE 7. BORROWINGS.....	66
NOTE 8. PAYABLES TO EMPLOYEES	68
NOTE 9. OTHER CURRENT LIABILITIES	69
NOTE 10. EQUITY	70
NOTE 11. REVENUE FROM PRINCIPAL ACTIVITY	71
NOTE 12. PAYROLL EXPENSES	72
NOTE 13. GOODS, RAW MATERIALS AND SERVICES	73
NOTE 14. OTHER OPERATING EXPENSES.....	74
NOTE 15. GOVERNMENT GRANTS	75
NOTE 16. TRANSACTIONS WITH RELATED PARTIES	76
NOTE 17. SIGNIFICANT MANAGEMENT’S ESTIMATES.....	77
NOTE 18. FINANCIAL RISK MANAGEMENT.....	78
PROPOSAL FOR COVERING THE LOSS	82

A LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear reader,

In our region, the aviation industry has weathered two crises in the past four years. The first of these was the global pandemic, followed by the war in Ukraine initiated by Russia. As a result, our air traffic has decreased by 34% compared to pre-Covid-19 levels. The impact of the war and subsequent sanctions on our controlled air traffic remains a challenge that we anticipate will persist for some time.

We are still going through a very difficult period – the Company ended the financial year with a loss for the fourth year in a row. However, we are moderately optimistic about the future. Despite the current major challenges, we have made substantial investments in the future, for which we raised external capital from the Nordic Investment Bank in 2023.

GPS interference has unfortunately become commonplace in our airspace. To mitigate this risk, we have upgraded our navigation infrastructure by adding more DME-DME systems over the past year. As a result, our airspace users can now operate above flight level 95 with greater assurance.

In our efforts to manage unmanned aviation more effectively, we launched the Common Information System (CIS) in July 2023. This marks the first step in Estonia's UTM system, allowing us to develop our business in this area while ensuring security for the growing number of airspace users.

Our commitment to digitalisation continues. The Remote Tower system, developed in collaboration with Adacel Technologies Limited, enables us to remotely control and inform flights by displaying live video images with sound via our Remote Tower Centre in Tallinn. We successfully implemented this system in Tartu (launched in April 2023) and the transfer of services to Kuressaare airport in Saaremaa is underway (expected to be completed by the end of the first quarter of this year). By adopting the Digital Tower system in Tartu, we became the sixth country globally to achieve successful remote tower implementation, earning recognition in the Estonian Aviation community.

In addition, we transitioned from analogue to a new digital solution for air traffic control voice communications in 2023, thanks to our development partner Rohde & Schwarz. This significant step enhances our ability to provide sustainable air traffic control services and supports the FINEST project.

In our pursuit of risk mitigation, we learned from the FINEST project that government-to-government agreements are essential alongside business-to-business arrangements. In the latter half of last year, we prepared a draft agreement, which we hope will gain approval from relevant ministries and governments of both countries in 2024.

We have also devised a plan to increase the use of green energy in the provision of our core services. We mapped the energy costs of all our sites and the average output of the solar panels on our buildings in 2023 and aim to cover at least 50% of our energy consumption through green energy purchases by the end of 2024.

Our success in delivering core services is evident at the European level, where our aviation safety system has achieved the highest level of maturity (level D) across all categories, and we are working to retain this level. We extend our gratitude to our dedicated staff, who maintain the quality of our services and drive forward projects that are vital to our future.

Looking ahead, the recovery of traffic volumes to pre-pandemic levels will not be swift. We see a modest and steady growth, however, which makes us moderately optimistic.

2024 is the last year of the current strategy period, a time to wrap up work in progress and set objectives and actions for the new strategy period. The key words for the next strategy period are flexibility and adaptability, because these qualities will enable us to cope successfully with changing environments. The ability to change is essential for our development and can provide a significant competitive advantage. We also need to keep looking for the areas and tasks where we can be more intelligent and efficient.

In short, it will be a busy year – we plan to migrate our flight information services to the SWIM concept and implement a newer version of the air traffic control system for controlling overflight traffic. In addition, we have started work on the navigation infrastructure in order to replace the secondary radar. All in all, we are looking forward to a busy year. I wish us all the energy and strength to accomplish the tasks ahead of us.

Together for a safer sky!

Ivar Värk

CEO, Chairman of the Management Board

1 THE COMPANY

Lennuliiklusteeninduse AS (EANS, the Company), located in Rae rural municipality, Harju county, Estonia, is a provider of next generation air navigation services.

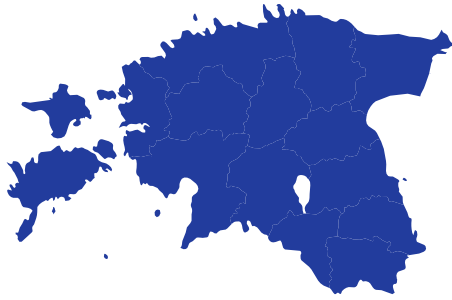
The Company's core activity is to provide safe, digital, environmentally friendly and internationally competitive air navigation services for manned and unmanned flights, including air traffic management, and to support national defence needs in ensuring the sovereignty of Estonian airspace.

The management board organises the Company's business activities with a focus on the main expectations of three key stakeholder groups:

- **Customers:** safe, high-quality, seamless and flexible air navigation services including air traffic management at fair prices;
- **Owner:** long-term sustainability and profitability of the Company, ensuring the required return on equity;
- **Employees:** exciting and meaningful work, personal development and fair remuneration.

The owner of the shares in EANS is the Republic of Estonia and the Company operates in an area administered by the Ministry of Climate. At the end of the financial year, the Company had 181 employees.





77,080 km²

Size of Tallinn FIR

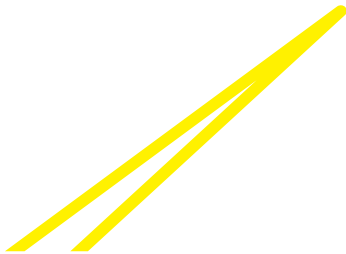


155,939

Total number of flights handled

+5%

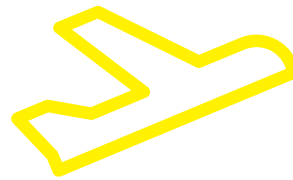
2023 vs. 2022



112,683

Incl. total number of overflights

+7% vs. 2022



33,378

Total number of departing/arriving flights

-1% vs. 2022



9,878

Total number of domestic flights

0% vs. 2022

The year 2023 in figures

Revenue

€17.9 million

+14% vs. 2022

Revenue and other operating income

€18.3 million

+13% vs. 2022

Total assets

€31.8 million

+8% vs. 2022

Volume of investments

€6.6 million

+43% vs. 2022

Loss

€3.1 million

Number of employees

181

1.1 Vision of EANS for 2024

The Company's vision is to be a leader in innovative, digital and cross-border air traffic control services in Europe.



We are among the top three air navigation service providers in Europe



We are the leaders in cross-border cooperation



We work closely with experts in different areas and implement smart solutions to create a safer and environmentally-friendly airspace and to provide a cost-efficient service to our customers

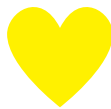


We take into account the environment in all our activities

2024



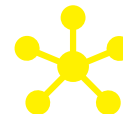
We have created innovative and sustainable solutions to expand our operations



We are the most preferred employer in the Estonian aviation sector



We are the pioneers, trendsetters and initiators in the development of unmanned aviation in Estonia



We provide simple and customer-friendly U-space services in our region and have a well-functioning solutions-based cooperation network

IOIO IOIO

We are leaders in designing innovative and digital cross-border air-traffic control services in Europe

1.2 Values

The Company values continuous stable development and cost-efficiency. Our activities are based on our core values of cooperation, development, honesty and openness.



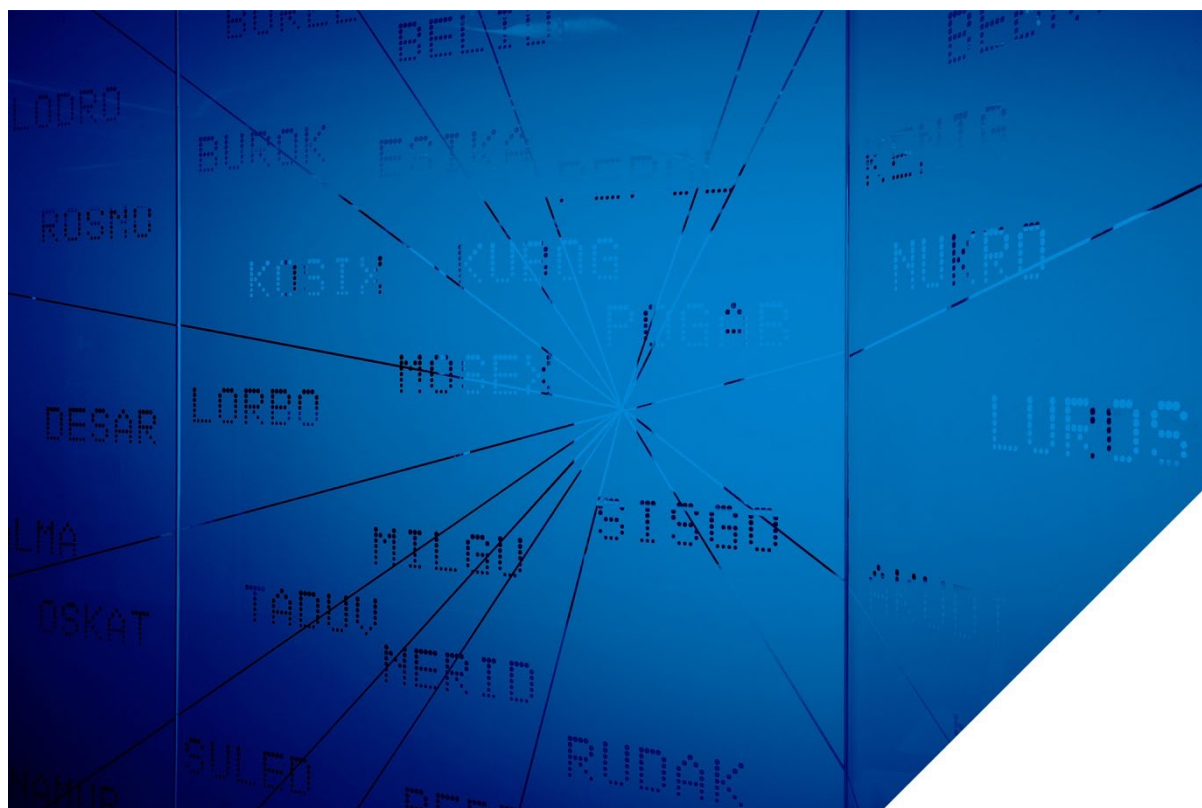
We value **cooperation**. We achieve our goals through collaboration and value teamwork. We put team goals ahead of personal ones. We generously share the information necessary to achieve the Company's strategic goals, value our colleagues' time and recognise our own and our colleagues' contributions. We are knowledgeable, experienced and influential experts in our field. We treat ourselves and others with respect and consideration.



We **develop** ourselves and aviation. We are aware of the development and specifics of the aviation industry. This way we can develop the Company and aviation both in Estonia and in the world. We see challenges as opportunities, not obstacles, and we think how we can support the development of the Company and the aviation industry as a whole.



We are **honest and open**. We keep our promises and deliver high quality. We are open to new ideas. We share information about our intentions and actions both inside and outside the Company. We are honest and transparent in our dealings.



2 STRATEGY AND GOALS

2.1 Strategy 2021–2024

SAFE AND SMART GUIDE IN THE ESTONIAN AND EUROPEAN SKIES

The focus of the Company's strategy stems from our vision: to be a leader in innovative, digital and cross-border air traffic control services in Europe, meet the owner's expectations and ensure sustainable development.

Strategy

The Company's strategy and the resulting business and action plans are drawn up on the basis of national development plans, agreements with partners, relevant initiatives of the European Union and cooperation with the North European Functional Airspace Block (NEFAB), operation of the Estonian air traffic management system in harmony with the European air traffic management system, achievement of the main objectives of the performance plan and a people-centred approach. We implement the strategy by considering the expectations of our customers, owner and employees.

As air traffic volumes have dropped significantly, the focus has shifted to managing costs and cash flows to ensure the Company's sustainable development and help the Company meet the challenges of aviation. A key priority is to ensure a safe air traffic control service by relying on competent personnel and cross-border cooperation.

Our strategic goals are as follows:

- Ensure and enhance aviation safety;
- Implement the objectives of the single European sky initiative;
- Ensure capacity that meets demand;
- Sustainable development;
- Create new business solutions to expand activities;
- Optimal number of dedicated and competent people;
- Systematic organisation of air navigation services and development of the cooperation network.

The owner has set the following goals for the Company:

- Develop the Remote Tower service for regional airports;
- Implement the single airspace between Estonia and Finland and the FINEST programme after approval by the competent authorities;
- Participate in civil-military cooperation;
- Adopt a system for managing unmanned air traffic.

EU-wide targets for the provision of air navigation services

Regulation (EC) No 549/2004 of the European Parliament and of the Council of 10 March 2004 provides the framework for the creation of the single European sky. Taking into account Commission Implementing Regulation (EU) 2019/317 of 11 February 2019 laying down a performance and charging scheme in the single European sky, the European Commission fixes prices for air navigation services and sets performance targets for service providers in four main areas:

- Targets on the effectiveness of safety management must meet the set criteria;
- Air traffic delays must remain within the set limits;
- Flight routes must be as short as possible and as unrestricted as possible;
- The costs related to en route air navigation charges must be below the determined maximum level.

*Fulfilment of key performance indicators by EANS in 2023**

Performance area	Metric	Target 2023	Achieved 2023	
Safety	Targets on the effectiveness of safety management, expressed as a level of implementation, ranging from EASA level A to D	Safety policy and objectives	≥ C	D
		Safety risk management	≥ D	D
		Safety assurance	≥ C	D
		Safety promotion	≥ C	D
		Safety culture	≥ C	D
Capacity	The average minutes of en route ATFM delay per flight attributable to air navigation services	≤ 0.03	0	
Environment	Average horizontal en route flight efficiency of the actual trajectory as a percentage	≤ 1.22	6.57	
Cost-efficiency	The year-on-year change of the average determined cost for en route air navigation services	≤ -0.1	+2.1	

* The targets of the performance plan have been established under the draft performance plan of Estonia by Decision of the European Commission of 13 April 2022.

In 2023, the number of IFR flights handled was 149 thousand compared to the 211 thousand included in the performance plan based on a forecast by Statfor. The volume of service units related to IFR flights to which en route navigation services were provided was 48% lower than the forecast: 446 thousand vs. 865 thousand service units.

The decrease in the volume of flights handled did not allow the Company to achieve its financial goals. In planning activities, the main focus was on operational objectives, the achievement of which will help use the investments made to provide better service to customers when traffic increases.

2.2 Sustainable development

EANS is part of society and it is important for us to be sustainable in all of our operations. This includes considering our environmental and social impacts and following the principles of responsible management. In 2023, a Sustainability Manager position was created to focus on sustainability and environmental, social and governance (ESG) matters. We want to develop our ESG principles and carry out a more detailed value chain mapping and impact assessment.

The operational objectives of our sustainable development in 2023–2024 are as follows:



Environment

- Adopting green energy: by the end of 2024, 50% of the electricity we use will come from renewable sources
- Using natural resources and energy efficiently



Efficiency

- Increasing efficiency through integration and cooperation projects
- Streamlining and simplifying business processes
- Implementing intelligent solutions



Society

- Acting responsibly
- Contributing to the advancement and development of the aviation industry
- Contributing to the education and training of new talent

Environmentally-friendly activities

We are aware of aviation's CO₂ impact on the environment and the goals of the global aviation sector to achieve CO₂ neutrality. We take the reduction of the environmental impact into account in our business operations, development projects and daily ground operations. Our office building and air traffic control tower also emit CO₂, mainly in connection with heating and electricity consumption.

In 2023, we analysed the achievement of our objective of adopting green energy and organised a procurement that resulted in only green electricity being used in the Company's main building from the beginning of 2024. This will help us achieve the environmental objective for 2024. We continue to look for green electricity solutions for other EANS sites across Estonia. We plan to measure the Company's carbon footprint in 2024, which will enable us to analyse the current situation and take further emission reduction measures based on the results.

Our office building has solar panels, which from May to August 2023 covered 17% of its energy needs. We continued to implement solutions that optimise consumption and grid load in cooperation with R8 Technologies OÜ. We also renovated the heating and cooling system to upgrade outdated systems and maximise the use of geothermal heating. These activities ensure lower heating costs and reduce our environmental impact.

In addition to using energy wisely, we take the environment into account in the Company's consumption choices. Our office kitchens are equipped with waste collection systems that allow waste to be sorted. We have reduced the use of plastic and have ceased using disposable tableware.

The Company's efficiency in air traffic control is also important in protecting the environment. Air traffic control procedures and airspace design have a direct impact on aircraft fuel consumption and related horizontal and vertical flight efficiency. In 2023, Continuous Descent Operations (CDO) were used for more than 66% of flights in Estonian airspace.

In addition, as part of Borealis Alliance, we joined the development team of the CONCERTO project, which aims to analyse whether and how procedures can be set up in Europe to reduce the production of contrails. It is estimated that over the next 20 years, contrails will account for a large part of the aviation footprint (as non-CO₂ impacts).

Ensuring cost-efficiency

To ensure cost-efficiency, we continued with important projects (such as Digital Tower) and related investments. We implemented the first Digital Tower centre to provide flight information service from Tallinn to flights in Tartu. The Digital Tower technology will make it possible to keep the costs of terminal service at a reasonable level, because after the implementation of the system, large and expensive tower buildings will no longer have to be built and maintained for the delivery of the service. This technology will enable us to coordinate air traffic in multiple airports at the same time from a single location using a multi-tower concept, which is more efficient than territorially dispersed towers.

Social contribution and cooperation

We maintain good relations with state institutions and relevant regulatory bodies in Estonia and in the European Union. We work with them to make sure that aviation is sustainable, cost-efficient and safe. We work with top aviation experts to create an innovative, ecological and shared airspace that complies with future requirements.

Cooperation partners of EANS include:

- International Civil Aviation Organization (ICAO)
- Civil Air Navigation Services Organization (CANSO)
- Northern European Airline Cooperation Group (Borealis Alliance)
- Working Group on the North European Functional Airspace Block (NEFAB)
- European Organization for the Safety of Air Navigation (EUROCONTROL)
- Single European Sky Air Traffic Management Research
- Estonian Aviation Cluster
- Estonian Taxpayers Association
- Estonian Chamber of Commerce and Industry
- Estonian Human Resource Management Association PARE

Social contribution

The Company considers it always important to attract new talent. In 2023, eight trainees participated in the traineeship programme of EANS: one of them continued to work in the Aeronautical Information Management Department and another joined the Company as a flight information service provider.

In 2023, the Company continued its cooperation with non-profit association Estonian Autosport Events in organising WRC Rally Estonia 2023. The task of EANS was to help the organiser of the event to ensure the air safety of both manned and unmanned aircraft in the rally area.

We are part of society and we want to be sustainable and environmentally conscious in all our activities. On 16 September 2023, our employees participated in the World Cleanup Day in the area around Linnahall in Tallinn, contributing to ensuring clean and good-quality water, improving the condition of the Baltic Sea and raising environmental awareness. The cleanup action was organised by Tallinn Airport in cooperation with other aviation companies.

We are aware of the noise caused by aviation activities and strive to design our procedures so that noise disturbance is kept at minimum. In 2023, we started working more closely with Tallinn Airport on aviation noise, setting up a joint working group and mapping the situation.

2.3 Flight safety and quality

Ensuring flight safety and constantly improving the safety level are a priority for EANS. We make daily efforts to ensure safety and security and comply with all established international requirements. As an organisation, we promote ongoing development of a safety culture.

The Company pays a lot of attention to the identification of existing hazards and risks, the development and implementation of preventive measures and systematic monitoring. The purpose is timely identification of potential bottlenecks in procedures, methodologies, technical systems and elsewhere that could become decisive in actual hazardous situations.

Measured against the safety management effectiveness targets set by the European Commission for air navigation service providers, we have achieved the highest level, level D, in all five subcategories:

- Safety policy and objectives
- Safety risk management
- Safety assurance
- Safety promotion
- Safety culture

It is important for us to maintain the level achieved.

To comply with European Commission Implementing Regulation (EU) 2017/373, we have set specific internal targets for safety occurrences, which we monitor on a quarterly basis. These cover activities related to air traffic control (e.g. adequate separation) as well as general aspects of air traffic management (e.g. the reliability of communication, surveillance or navigation systems and equipment or quality of the flight information service). Last year we met all targets that had been set.

We continue to have a good reporting culture – our people know when and why they need to report safety occurrences, thereby contributing to improving the safety culture. A strong safety culture is a sound foundation for eliminating even the smallest errors and ensures the safest possible service delivery.

In 2023, the Company handled 156 thousand flights. Compared to 2022, the number of operations increased by 5%. In 2023, a total of 516 occurrence reports were submitted, approximately the same number as a year earlier. This figure was also affected by a new grouping of notifications related to GPS interference and the aircraft of the Russian Federation agreed with the Transport Administration. In both cases, we started grouping notifications received the day before as a single notification.

In 2023, the number of occurrences investigated was 259, 40 more than a year earlier. Compared to the increase in total air traffic, the number of occurrences requiring serious investigation decreased, and thus the number of safety occurrences in the financial year had a positive downward trend. We identify the root causes of all investigated occurrences and share the information with departments to prevent similar occurrences in the future. All safety recommendations made by investigators during the investigation of occurrences are also communicated to the departments. The Safety and Quality Department regularly monitors whether the root causes have been resolved and meets with departments to discuss whether and how the measures help prevent similar occurrences in the future.

In 2023, there were many more reports of military air traffic, including reports of flights over neutral international waters by airlines from the Russian Federation without a corresponding flight plan. The number of reports related to GPS interference in Estonian airspace also increased significantly in 2023.

A total of 11 safety assessments were carried out during the financial year. Their purpose is to identify hazards at an early stage of a project or its modification and to make sure that risks have been mitigated to a level where, if they were to occur, they would not jeopardise the safety of the Company's operations or successful progress of projects. Safety assessments were carried out, for example, on the implementation of the Digital Tower in Kuressaare, the introduction of the unmanned air traffic management system, the concept of a new controlled traffic region, etc.

Last year, we paid particular attention to the prevention of fatigue among employees working in shifts, which is essential to ensuring safe air traffic. In cooperation with the staff working in shifts, we thoroughly reviewed and fully updated our existing fatigue risk management process. All affected parties – the managers and employees of Technology, Air Traffic Control, Aeronautical Information Management, Human Resources and Training, and Safety and Quality departments – participated. In addition, we set up a Fatigue Safety Action Group (FSAG) and organised EUROCONTROL training for all staff to raise employees' awareness of fatigue and its prevention.

Supervision of the management system

The management system of EANS is based on the quality management principles of ISO 9001. This ensures a stable and high-quality service to our customers. Our management system complies with the requirements of Commission Implementing Regulation (EU) 2017/373, as verified by a certificate for the provision of air navigation services issued by the Transport Administration. Our management system also complies with the international quality management system standard ISO 9001:2015, as verified by a certificate for the provision of air navigation, air traffic, communication, navigation, surveillance and aeronautical information services. Both certificates are subject to external audits to assess compliance with Commission Implementing Regulation (EU) 2017/373 and ISO 9001:2015.

The management system of EANS integrates all its management systems on the basis of uniform rules: quality, safety, security, customer relations, work environment, the environment, communication, data protection and information security management. The system helps ensure customer focus, coherence and observability. To achieve this, instructional materials have been compiled.

To develop the management system and enhance its impact, we promote a work culture where employees are aware of legal and administrative requirements. We set goals and allocate the necessary resources. In addition, management reviews the management system annually to be informed of past activities, the achievement of goals set and future plans.

The Company has an internal audit system to assess compliance in all its processes. In addition to internal and external audits of the management system, additional external audits are carried out in various areas in accordance with the external audit plan approved by the audit committee.

3 CORPORATE GOVERNANCE

Corporate governance report

The sole shareholder of EANS is the Republic of Estonia. In 2023, the Company was transferred from the area administered by the Ministry of Economic Affairs and Communications to the area administered by the Ministry of Climate. The owner is represented by the Minister of Climate.

EANS is managed in accordance with the Commercial Code, the State Assets Act and the Corporate Governance Recommendations (CGR) promoted by the Estonian Financial Supervision and Resolution Authority, taking into account the specifications under the State Assets Act. Since the sole shareholder of EANS is the Republic of Estonia, the shareholder's interests are protected by the principles set out in the State Assets Act. As a result, EANS does not comply with some of the guidance of CGR, mainly those concerning the general meeting and the supervisory board. We base our management decisions on the expectations of the state as the owner, the Company's vision, strategy and values, and the principles of sustainable and responsible operation.

The principles of sustainable and responsible operation, which are essential to the nature of our activities, are discussed in the *Code of Ethics* and *Sustainable development* chapters of the management report.

In addition to efficient operation, the owner expects us to be a role model for Estonian companies in terms of good corporate governance, social responsibility and a strong business culture.

The supervisory board, the management board and the management of EANS are working to integrate the expectations set for us into the day-to-day operations of the Company, thereby continuously developing and advancing the Company.

We set strategic goals for EANS for five-year strategy periods and assess their implementation each year on the basis of key performance indicators. The role of managers is to apply good management practices to engage and include employees in the implementation of strategic goals.

We report on our financial performance regularly through quarterly financial statements published on our website.

The management board of EANS prepares the Company's financial statements in accordance with internationally recognised financial reporting standards. The report is reviewed by the auditor and the supervisory board of EANS.

Code of Ethics

The operation of EANS is based on trust and ethical business practices. Our agreed standards of conduct with colleagues, customers, partners and the public are set out in the Company's Code of Ethics.

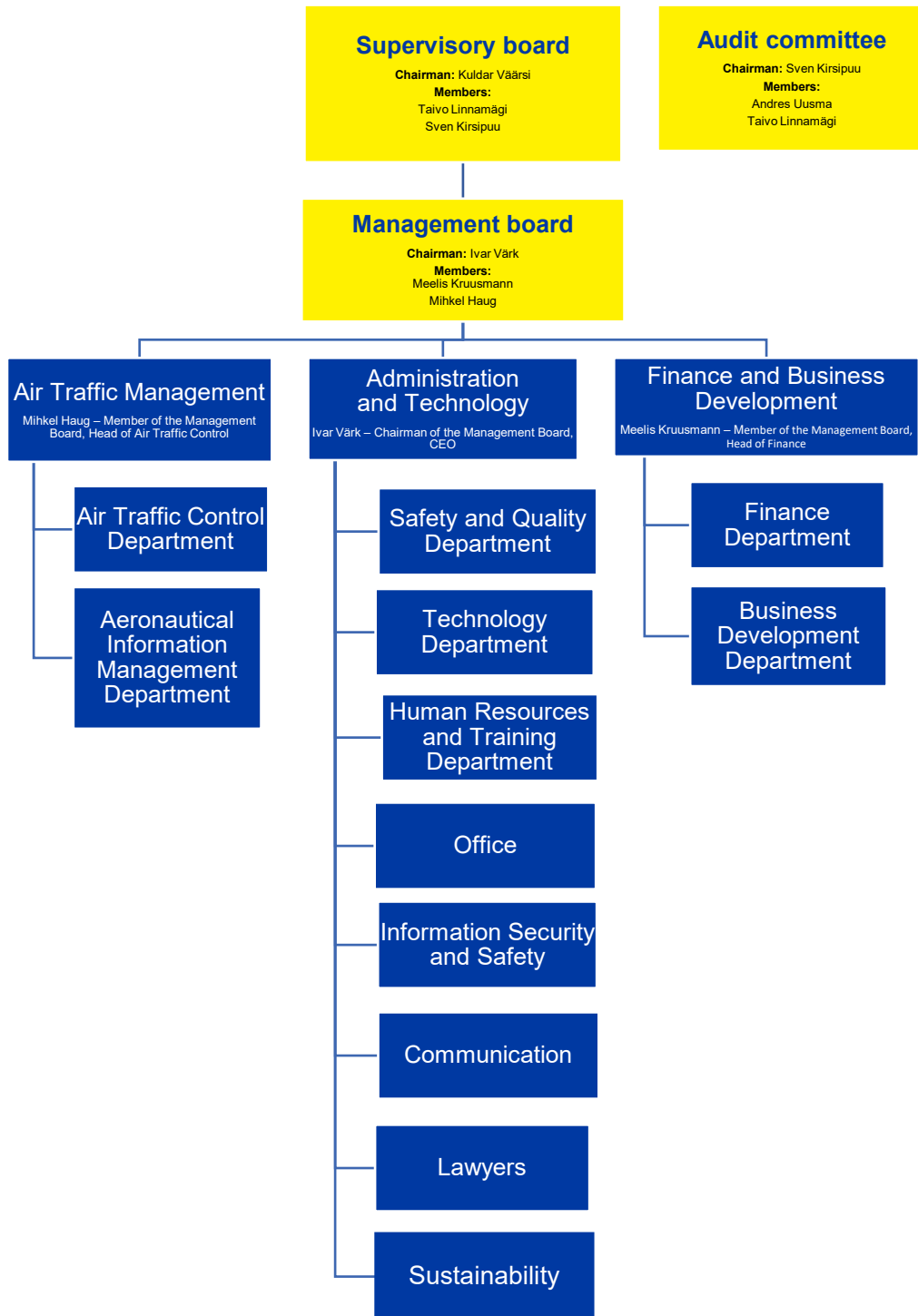
We are guided by the principles of equal treatment and refrain from discrimination, intimidation and harassment of any kind.

When we have a choice to make, we make sure that it does not harm the Company's operation and reputation. We refrain from any conflicts of interest.

Organisational structure

The governing bodies of EANS are the general meeting, the supervisory board and the management board. Day-to-day activities are managed by the Company's management team.

Organisational structure of EANS as at 31 December 2023



General meeting

The general meeting is the highest governing body of EANS through which the state exercises its shareholder rights. The general meeting establishes the owner's expectations for the Company in terms of strategic goals and financial targets. The owner's expectations are updated at least every three years. The general meeting is held at least annually. The owner is represented at the general meeting by the Minister of Climate.

The annual general meeting held in 2023 approved the annual report for 2022 and made a proposal to cover the loss for 2022 using retained earnings and by reducing the legal reserve and share premium. The general meeting also decided not to pay dividends from retained earnings. In addition, the general meeting reviewed the achievement of operational objectives as well as major investments and significant transactions.

Supervisory board

The function of the supervisory board is to approve the Company's strategic goals and business plan and to oversee the activities of the management board in implementing them. In addition, the supervisory board gives instructions to the management board to ensure the functioning of the Company's internal control system and grants its approval for carrying out the transactions that are beyond the scope of daily operations.

According to the articles of association, the supervisory board of EANS has three to six members. The members of the supervisory board are appointed by the owner's representative, the Minister of Climate. Appointments are made on the basis of the proposals of the nomination committee tasked with the appointment of members on the supervisory boards of companies in which the state has an ownership interest. The term of office of a member of the supervisory board is three years.

As EANS was transferred from the area of administration of the Ministry of Economic Affairs and Communications to the area of administration of the Ministry of Climate in 2023, the general meeting removed the supervisory board member Andres Uusma who represented the Ministry of Economic Affairs and Communications and appointed Taivo Linnamägi to represent the Ministry of Climate on the supervisory board. Riina Varts was also removed from the supervisory board due to the expiry of the term of office.

Composition

Chairman



Kuldar Väarsi

Members



Taivo Linnamägi



Sven Kirsipuu

In 2023, the supervisory board held seven meetings.

The remuneration of the members of the supervisory board is regulated by the State Assets Act. The monthly remuneration of a member of the supervisory board of EANS is €500 and that of the chairman of the supervisory board is €1000. Remuneration is paid to the members of the supervisory board once a month. A member of the supervisory board does not receive any remuneration for the month he/she did not participate in adopting the resolutions of the supervisory board. The payroll expenses of the members of the supervisory board totalled €29,188 in 2023 (2022: €31,250).

The audit committee is a body set up by the supervisory board of EANS. The remuneration paid to a member of the supervisory board for participating in the work of the audit committee is 25% of the remuneration of a supervisory board member and the remuneration paid to the chairman of the committee may amount to 37.5% of the remuneration of a supervisory board member. EANS does not pay any severance pay or other additional remuneration to the members of the supervisory board, other than the remuneration for participating in a body set up by the supervisory board.

The members of the supervisory board did not notify the Company of any conflicts of interest until the date the annual report for 2023 was authorised for issue.

Audit committee

The audit committee advises the supervisory board in supervisory matters, including the organisation of accounting, external audit, the internal audit system, financial risk management and the monitoring of legal and regulatory compliance, as well as budgeting and the approval of the annual report.

Chairman



Sven Kirsipuu

Members



Taivo Linnamägi



Andres Uusma

The audit committee held five meetings in 2023. The committee reviewed and approved the annual report for 2022. At the meetings, the audit committee discussed the Company's interim reports, the investment plan, the raising of additional capital, and audit findings and recommendations. The results were presented to the supervisory board.

Management board

The day-to-day management of EANS is the responsibility of the management board, which is appointed by the supervisory board.

In February 2023, Üllar Salumäe resigned from the positions of a member of the management board, Head of Air Traffic Management and Head of Air Traffic Control Department. Mihkel Haug was appointed to replace him in May.

Chairman



Ivar Värk
Administration and
Technology

Members



Mihkel Haug
Air Traffic
Control



Meelis Kruusmann
Finance and Business
Development

In 2023, the management board held 28 meetings.

The remuneration paid to the members of the management board of EANS totalled €402,508 in 2023. The potential annual bonus for the results for 2023 will be decided by the supervisory board after the approval of the annual report. The amounts of the additional remuneration and severance pay payable to a member of the management board are specified in the State Assets Act, pursuant to which the total amount of the additional remuneration paid to a member of the management board of EANS may not exceed four months' remuneration paid to the member of the management board. In accordance with the contracts in force at 31 December 2023, EANS has the obligation to pay the members of the management board severance benefits equal to their three months' remuneration in the event of their removal from office. The determination of additional remuneration must be justified, taking into account the value added to EANS and its market position. Severance benefits can only be paid if a member of the management board is removed from office at the initiative of the supervisory board before the expiry of his or her term of office and the amount cannot exceed three months' remuneration paid to the member of the management board.

Management

The management team of EANS has 8 members, consisting of the heads of strategic areas and the members of the management board. The management team manages the Company's day-to-day activities.

Composition:

- **Ivar Värk**, Chairman of the Management Board, Administration and Technology
- **Mihkel Haug**, Member of the Management Board, Air Traffic Management
- **Meelis Kruusmann**, Member of the Management Board, Finance and Business Development
- **Kristjan Telve**, Safety and Quality
- **Chris-Helin Loik**, Human Resources and Training
- **Kalmer Sütt**, Aeronautical Information Management
- **Teve Rahula**, Business Development
- **Imbi Kivi-Sild**, Technology (from 1 February 2023)

Disclosure of information

EANS does not fully apply section 5 of CGR.

The reason is the shareholder structure of the Company: EANS has a sole owner. Therefore, the disclosure of information on the website is not an efficient and reasonable way of notifying shareholders. Likewise, it is not reasonable to share all the information also in English.

Despite the fact that the requirements of section 5 of CGR are not fully applied, EANS presents the necessary reports to the shareholder directly and discloses on its website information which is or might be of interest to the public. EANS also applies the principle of due care and consideration set out in section 5.6 of CGR in the exchange of information with the media and other stakeholders.

In any case, EANS discloses on its website the information which the Company is obliged to disclose pursuant to legislation, including the State Assets Act.

Financial reporting and auditing

Section 6.2.3. of CGR provides that upon organising the rotation of auditors, companies have to comply with the guidelines of the Financial Supervision and Resolution Authority of 24 September 2003 concerning the rotation of auditors of certain entities under state supervision. EANS does not follow this recommendation as the auditor is appointed for a period of three calendar years on the basis of the results of a competition.

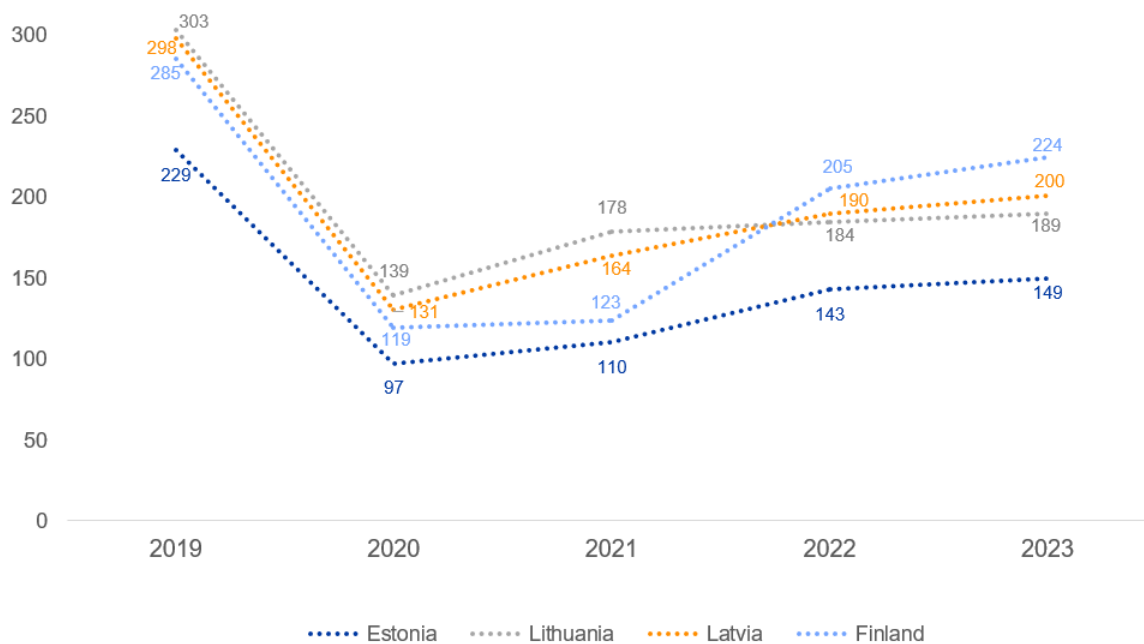
4 MARKET OVERVIEW AND AIR TRAFFIC VOLUMES

Market overview: Europe and neighbouring countries

2023 was a good year for aviation in Europe, with air traffic volumes continuing to grow and nearly recovering to pre-pandemic levels. In 2023, 10.2 million flights were operated in Europe, 10% more (+0.9 million flights) than in the previous year. Compared to pre-pandemic 2019, only 8% fewer flights were operated. At the same time, there were many challenges – widespread strikes and the frequency of bad weather conditions exceeded the average, which is why only 71% of flights landed on time.

In our region, aviation continues to be strongly affected by Russia's war of aggression against Ukraine and the resulting sanctions. In addition, China's economy has problems stemming from deflationary pressures and a real estate crisis. In 2023, exports from China fell for the first time in seven years and the number of Chinese operators' flights we handled in the first half of the year dropped by 31% year on year. In the second half of the year, Chinese operators' flights recovered significantly and on a full year basis we handled 7% more flights than a year earlier. Overall, we handled 5% more flights in Estonia than in the previous year, but 34% fewer flights than in the pre-pandemic period in 2019.

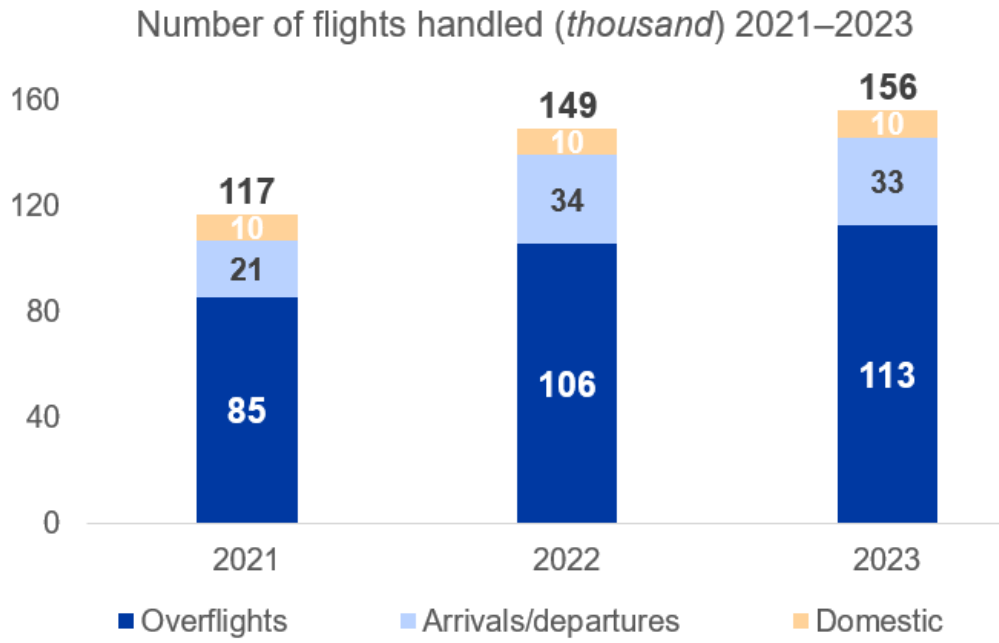
Air traffic volumes (IFR) in Baltic countries and Finland (*thousand*) 2019–2023



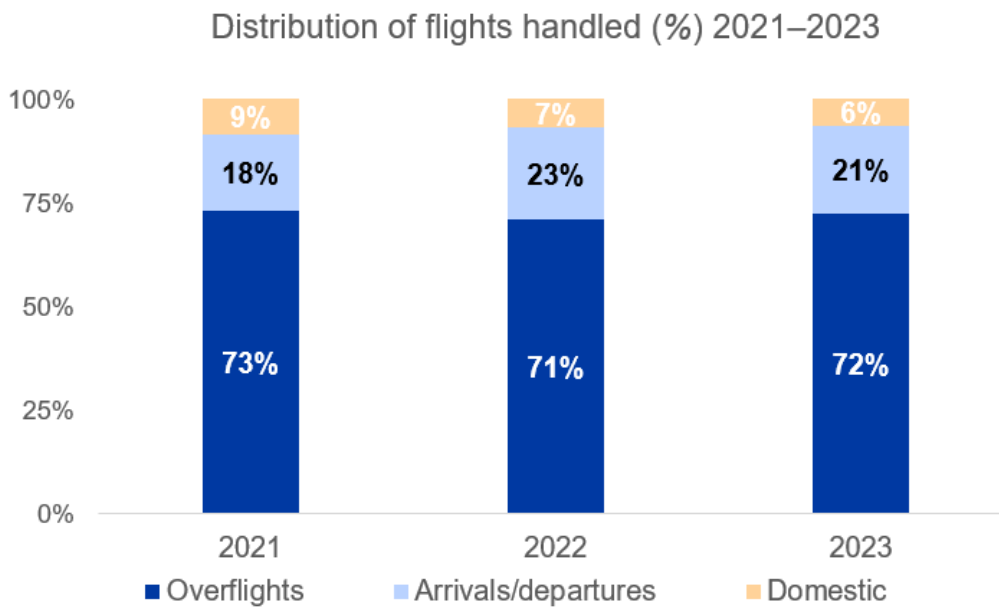
In 2023, the IFR air traffic volume in Estonia was 149 thousand flights (an increase of 7 thousand flights or 5% compared to 2022). In the Baltic states and Finland, the largest increase in absolute numbers and percentage terms was in Finland, where the total volume of air traffic was 224 thousand flights (an increase of 19 thousand flights or 9% from 2022). In Latvia, the volume of air traffic was 200 thousand flights (an increase of 11 thousand flights or 6% from 2022). In Lithuania, the volume of air traffic was 189 thousand flights (an increase of 5 thousand flights or 3% from 2022).

Air traffic volumes in Estonia

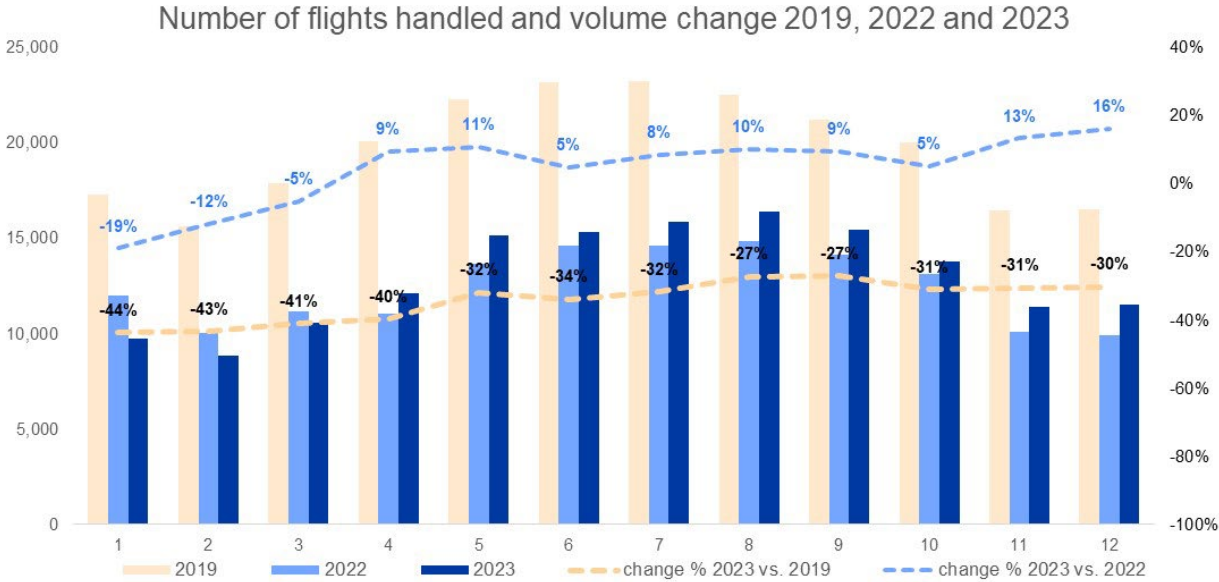
The total number of flights handled in Estonian airspace increased by 5% in 2023 (2022: 28%). Considering the volume of both IFR and VFR flights, a total of 156 thousand flights were handled (2022: 149 thousand). Compared with the previous year, the volume of flights increased for overflights (+7% compared with 2022) and decreased for arrivals/departures (-1% compared with 2022), the number of domestic flights handled remained stable (0% compared with 2022).



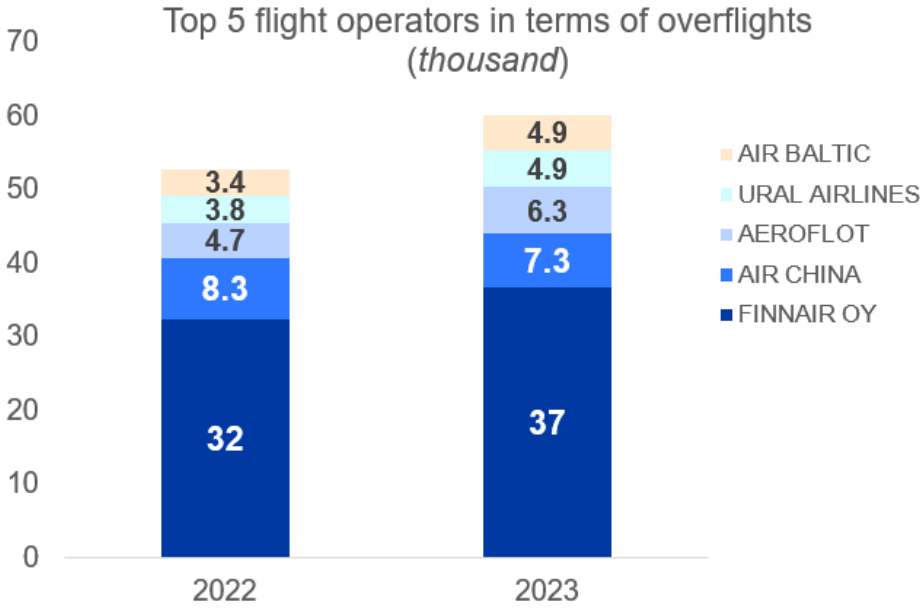
Of the number of flights handled, 72% were overflights through Estonia, the share of arrivals/departures was 22% and the share of local traffic was 6%.



Air traffic volumes in the first quarter of 2023 were lower than in the same period a year earlier. From the second quarter, there has been a gradual improvement, and in the last quarter of 2023 we handled 11% more flights than in the same period a year earlier. August was the busiest month with an average of 528 flights per day, with 577 flights served on the busiest day.

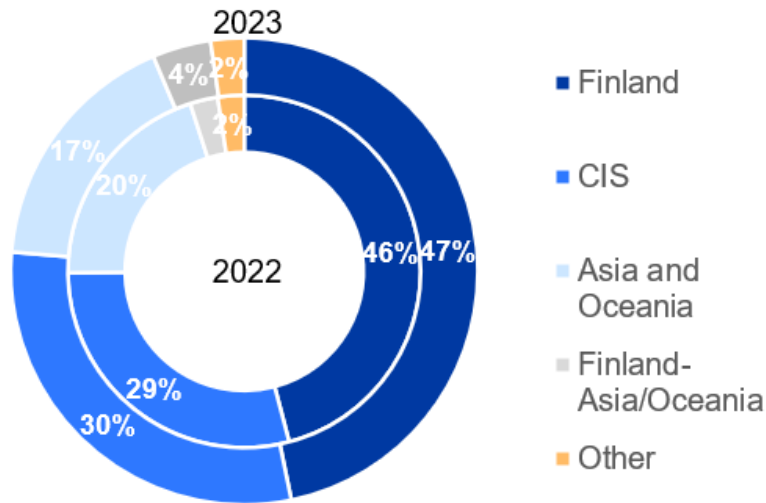


The volume of overflights increased by 7% compared to 2022. In 2023, Finnair continued to be the Company’s largest customer in terms of overflights handled (33% of the total number of overflights), followed by Air China International (6%), Aeroflot (6%), Ural Airlines (4%) and Air Baltic (4%).



47% of the overflight traffic was headed to Finland, 30% to the CIS countries, 17% to Asia/Oceania and 6% to other destinations.

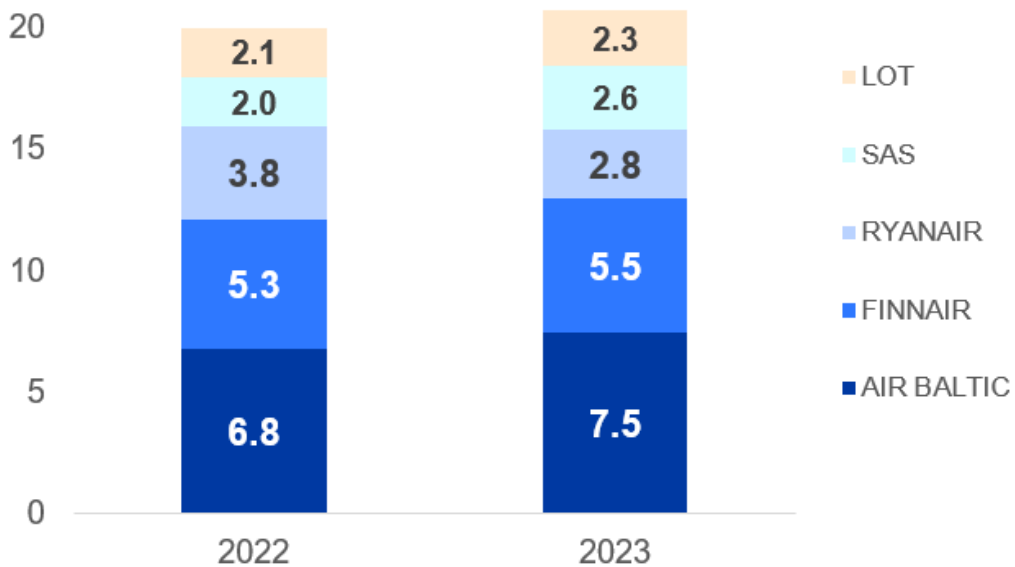
Distribution of overflights 2022/2023



In 2023, the number of arrivals/departures decreased by 1% year on year. Compared with other European countries, Estonia ranked among the last with negative volume growth. Although the number of passengers at Tallinn Airport increased by 8% in 2023, the main negative impact came from a decrease in cargo flights due to the geopolitical situation.

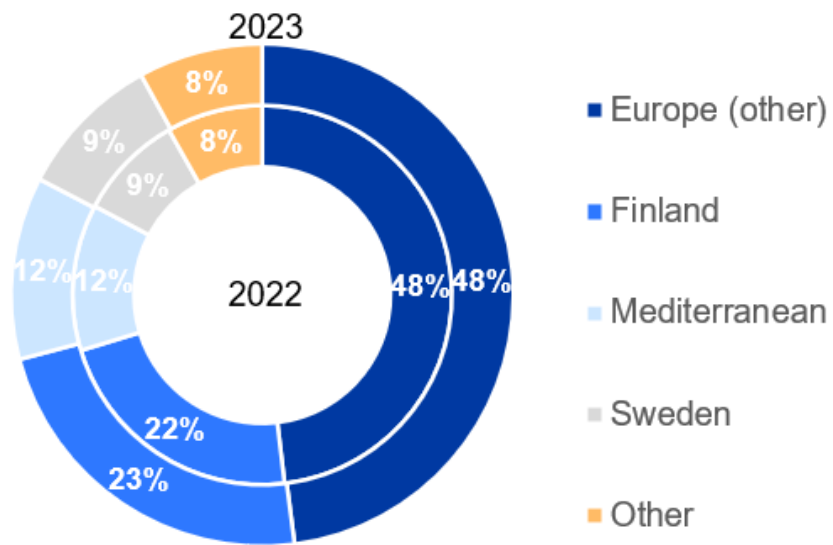
More than half of the international flights to and from Estonian airports were operated by four airlines. The Company's largest customer at Tallinn Airport is still Air Baltic, followed by Finnair, Ryanair, Scandinavian Airlines and LOT. The flights of these operators accounted for 22%, 17%, 8%, 8% and 7%, respectively, of the total number of flights operated at Estonian airports.

Top 5 flight operators in terms of international arrivals/departures (thousand)



Of the flights to and from Tallinn, 48% were to destinations in Europe, 23% to Finland, 12% to the Mediterranean countries, and the remaining 17% to other directions.

Distribution of flights to/from Tallinn 2022/2023



5 FINANCIAL PERFORMANCE

Financial indicators 2022–2023, €

	2023	2022
Revenue	17,923,424	15,683,553
Change in revenue	14.3%	–8.3%
EBITDA	–68,100	–926,780
Operating loss	–2,720,670	–4,690,047
Loss before tax	–3,062,822	–4,880,429
Net loss	–3,062,822	–4,880,429
Change in net loss	37%	–41%
Revenue per employee	103,604	89,111
EBITDA margin	0%	–6%
EBT margin	–17%	–31%
Net margin	–17%	–31%
Equity ratio	33%	46%
Return on equity (ROE)	–25%	–30%
Return on assets (ROA)	–10%	–15%
Current ratio	1.1	0.5
Debt-to-assets ratio	0.7	0.5
Average number of employees	173	176

EBITDA = earnings before finance income and costs, income tax on dividends, and depreciation and amortisation

EBITDA margin = EBITDA / revenue × 100%

EBT margin = earnings before tax / revenue × 100%

Net margin = net profit or loss / revenue × 100%

Revenue per employee = revenue / average number of employees

Equity ratio = equity / total assets × 100%

Return on equity (ROE) = net profit or loss / average equity × 100%

Return on assets (ROA) = net profit or loss / total average assets × 100%

Current ratio = current assets / current liabilities

Debt-to-assets ratio = total debt / total assets

Average number of employees = average number of part-time and full-time employees per year

Performance plan and unit rates

Changes in unit rates for EANS navigation services

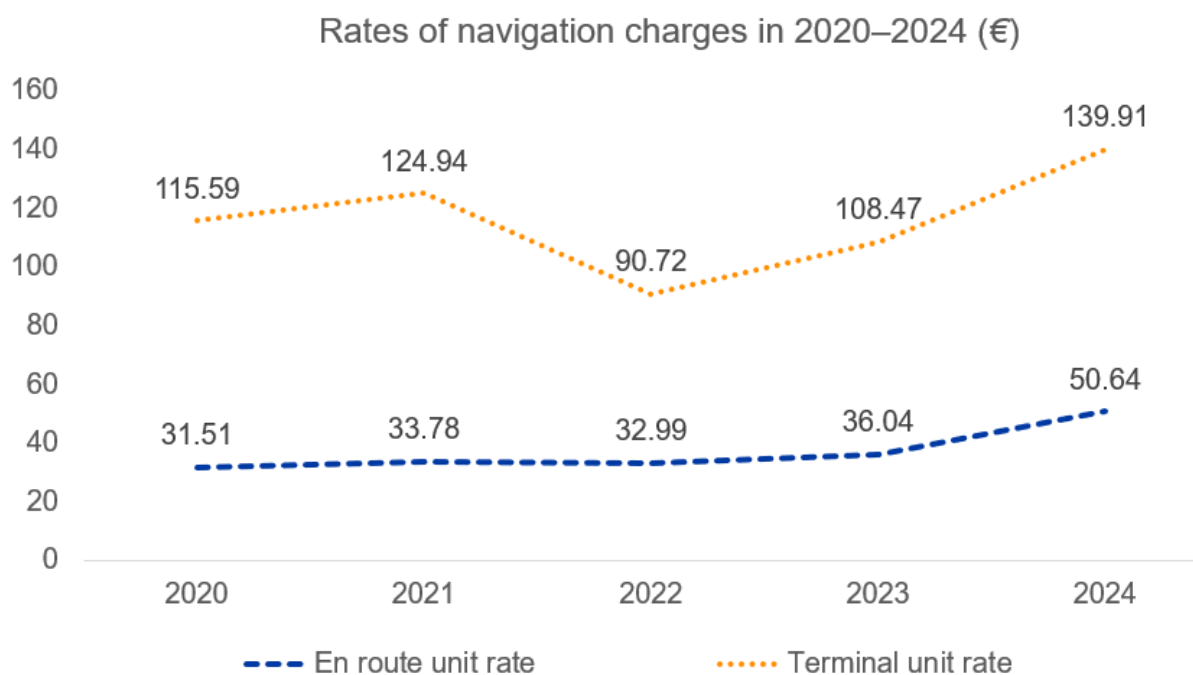
The unit rates for air navigation service charges are calculated in accordance with Commission Implementing Regulation (EU) 2019/317 of 11 February 2019 laying down a common charging scheme for air navigation services.

The tariffs are annually adjusted and coordinated with the representatives of the airspace users (IATA etc.) in the Enlarged Committee for Route Charges. Pursuant to Commission Implementing Regulation (EU) 2020/1627 of 3 November 2020 on exceptional measures for the third reference period (2020–2024) of the single European sky performance and charging scheme due to the COVID-19 pandemic, an increase in the unit rates for the years 2020–2021 was permitted by spreading the increase over five calendar years starting in 2023, effectively freezing prices for the years 2020–2021.

The en route navigation charge changed in connection with the new performance plan for 2020–2024 and from 1 January 2023, the unit rate was €36.04. A year earlier, it was €32.99. Due to the current price regulation, the Company changed the unit rate for the en route navigation charge also for 2024. The new unit rate is €50.64.

In 2023, the unit rate for the terminal navigation service was €108.47 while a year earlier it was €90.72. From 1 January 2024, the unit rate for the terminal navigation charge is €139.91.

Navigation charges in 2020–2024

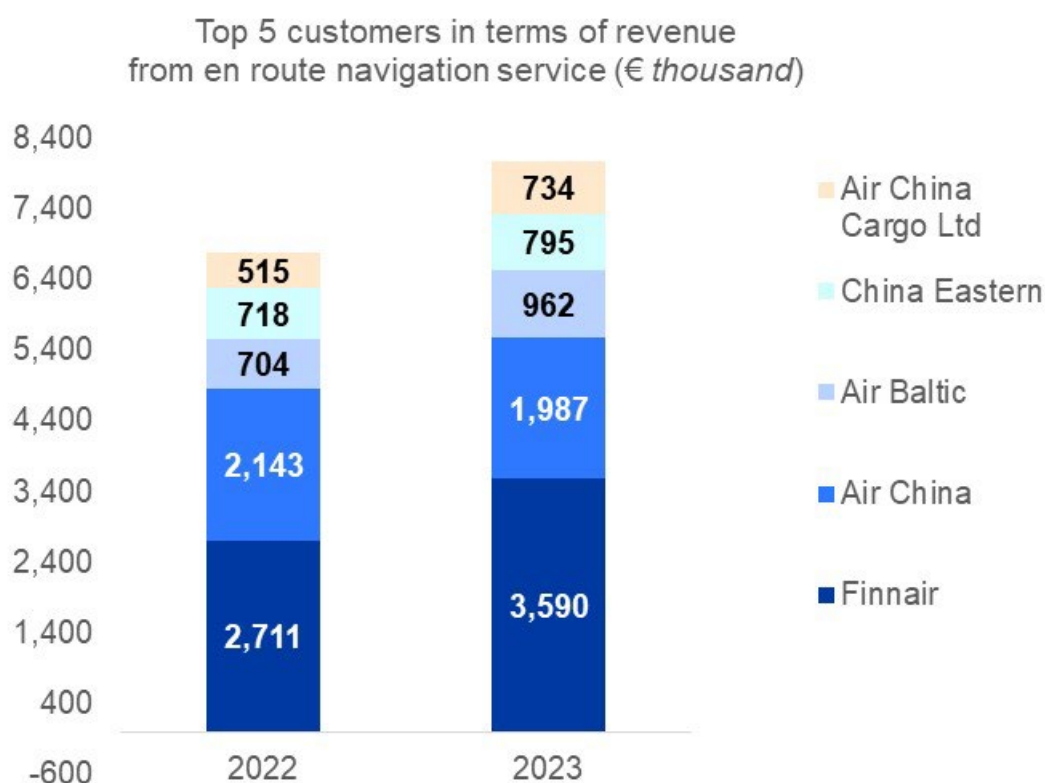


Revenue and costs

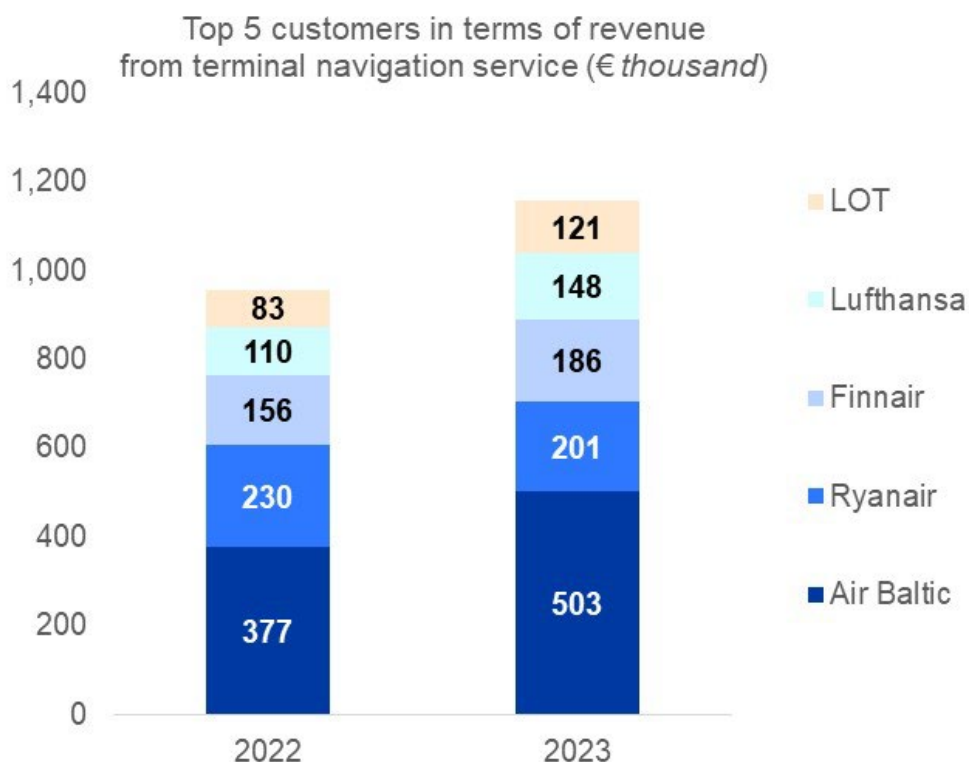
The Company's operating income consists of revenue (i.e. income from the provision of air navigation services) and other operating income. The Company's income from the principal activity, i.e. from en route and terminal navigation charges, also covers the expenses incurred by the state for the provision of air navigation services.

In 2023, the Company's revenue and other operating income totalled €18.3 million (2022: €16.1 million). Revenue amounted to €17.9 million (2022: €15.7 million), an increase of 14% year on year. Revenue grew due to an increase in the volume of overflight traffic and a rise in the unit rate compared to the previous year.

En route navigation services accounted for the largest share, i.e. 89% of revenue in 2023. Revenue from en route navigation services grew by 14% year on year. Finnair became the customer contributing the highest revenue from en route navigation services (+32% from 2022).

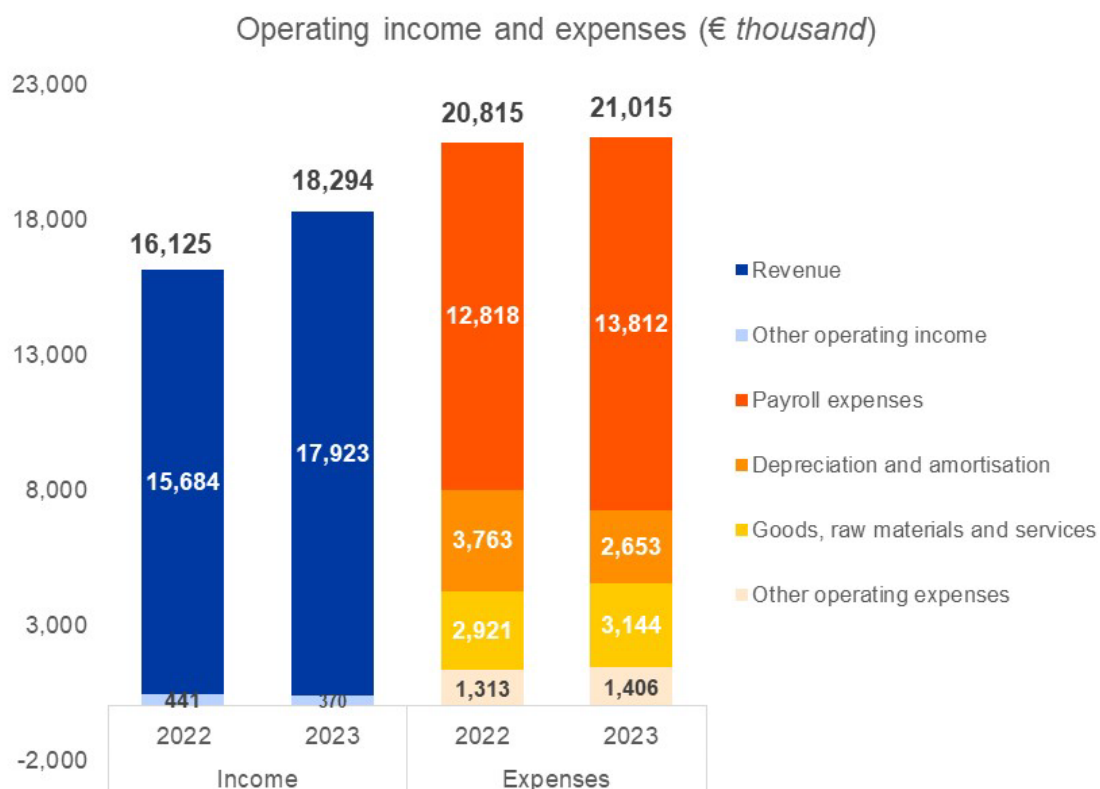


In 2023, revenue from terminal navigation services increased by 19% compared with a year earlier. Air Baltic became the customer contributing the highest revenue from terminal navigation services (+33% from 2022).



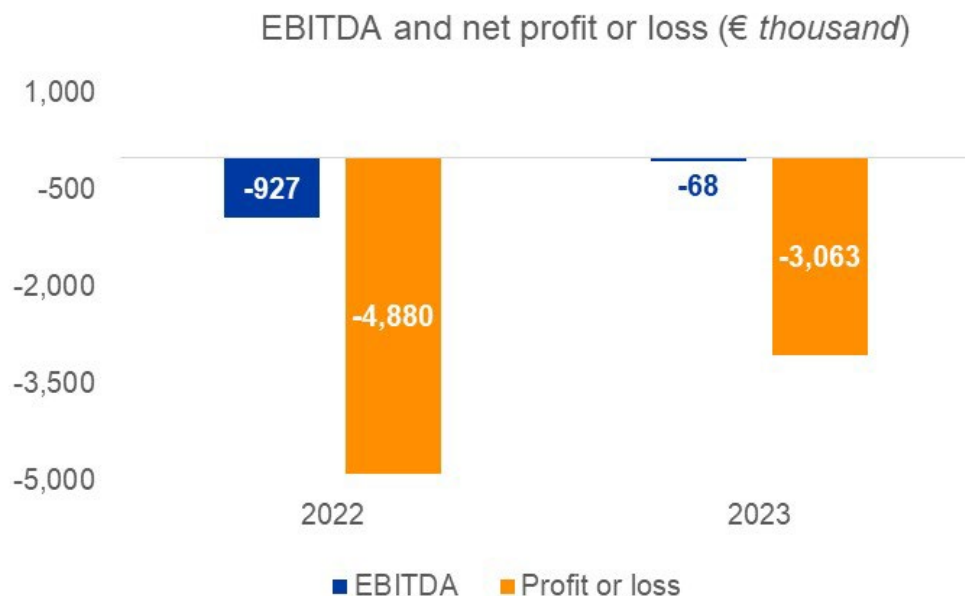
The majority of the Company's operating expenses are fixed. In 2023, operating expenses increased by 1% and totalled €21.0 million (2022: €20.8 million). In 2023, payroll expenses amounted to €13.8 million (2022: €12.8 million), an increase of 8% compared with 2022. Depreciation and amortisation expenses decreased by €1.1 million (–30%) over the year.

In 2023, finance income and costs totalled €342 thousand (2022: €190 thousand).



Profitability

The Company's EBITDA for 2023 was –€68 thousand, an improvement of €859 thousand compared to the previous year. Net loss decreased to €3.1 million in 2023 compared with €4.9 million a year earlier.



Investments

In 2023, investments in property, plant and equipment and intangible assets totalled €6.6 million (2022: €4.6 million), an increase of 43% compared to the previous year.

At the end of the year, total assets amounted to €31.8 million, an increase of €2.5 million compared to the beginning of the year (+8%). Equity amounted to €10.6 million.

Economic value added

To better assess the performance of EANS, management measures the economic value added. While traditionally assessments are made on the basis of the income statement, the calculation of the economic value added also takes into account the cost of equity. The economic value added reflects the profit earned for the owner in excess of the required return on equity:

Economic value added = net profit or loss – equity × cost of equity

Taking into account the risk level of the Company, the indicators treated as the required return on equity of other service providers in the world and the position of the Company's owner, the required return on equity in the third performance plan period is 7.3% (in the previous performance plan period, i.e. 2015–2019: 8.9%).

Economic value added by core services

2023

	En route navigation service	Terminal navigation service	Other services	Total
Revenue and other operating income	16,036,825	1,953,854	337,999	18,328,678
Operating expenses	18,296,198	2,711,693	6,645	21,014,536
Capital-related costs	1,012,040	225,080	1,593	1,238,713
Economic value added at Company level	-3,271,413	-982,919	329,761	-3,924,571
State expenses	7,335,702	384,074	0	7,719,776
Economic value added at state level	-10,607,115	-1,366,993	329,761	-11,644,347

2022

	En route navigation service	Terminal navigation service	Other services	Total
Revenue and other operating income	14,088,751	1,655,161	381,643	16,125,555
Operating expenses	18,745,460	2,235,324	25,199	21,005,983
Capital-related costs	963,168	232,512	433	1,196,113
Economic value added at Company level	-5,619,877	-812,675	356,011	-6,076,541
State expenses	6,459,093	370,791	0	6,829,884
Economic value added at state level	-12,078,970	-1,183,466	356,011	-12,906,425

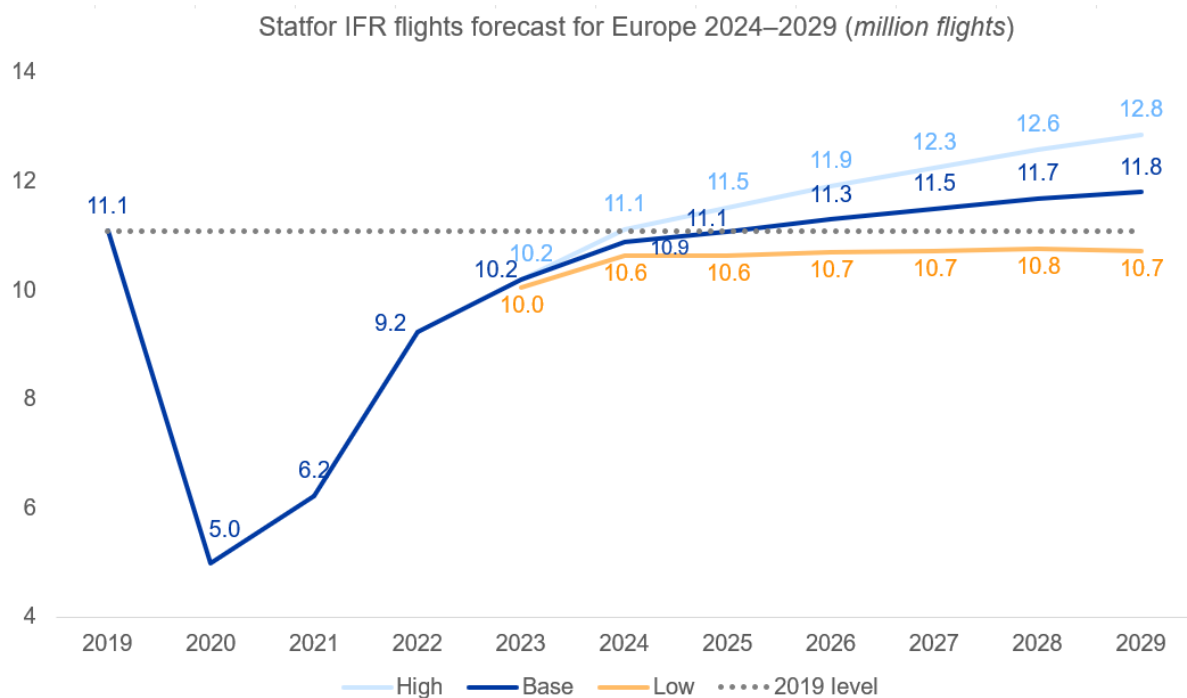
Outlook for 2024

When it comes to planning the activities and setting the targets for 2024, we can be moderately optimistic. A significant part of overflights in Estonia is related to air traffic between Asia and Europe. While in the first half of 2023 the number of Chinese operator flights handled by us fell by 31% year on year, in the second half of the year the figure recovered significantly and on a full year basis the number of Chinese operator flights handled by us grew by 7%. In the first month of 2024, airlines have increased their flight volumes and we hope that this positive trend will continue throughout 2024.

On the downside, price inflation in Estonia has remained above the euro area average, reaching 9.2% in 2023. The Estonian central bank expects inflation to slow to a still high 3.4% in 2024. Wage growth has also been rapid in recent years, extending to 11.1% in 2023. Wage growth is expected to continue, with the central bank forecasting a 6.6% increase for 2024. All these factors will affect the Company's financial performance and cash flows.

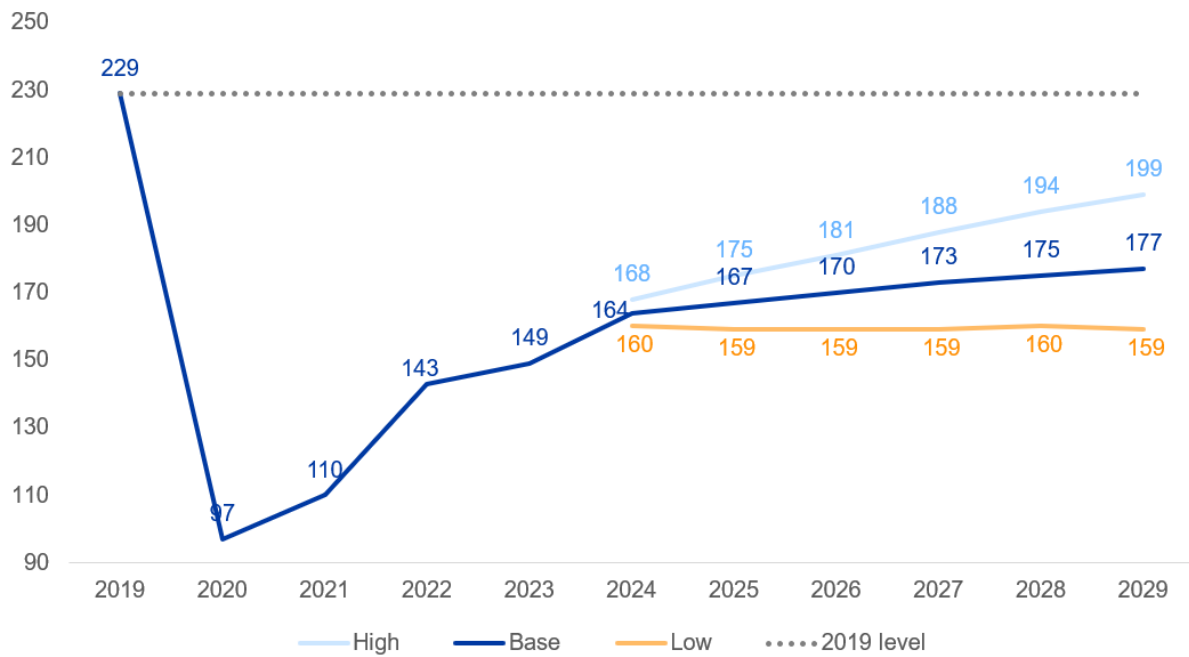
2023 was a good year for aviation in Europe, with air traffic volumes continuing to grow and recovering to nearly pre-pandemic levels. In 2023, 10.2 million flights were operated in Europe, 10% more (+0.9 million flights) than in the previous year. Compared to pre-pandemic 2019, only 8% fewer flights were operated.

In October 2023, EUROCONTROL updated its flight volume forecasts for 2024–2029. According to the baseline forecast, air traffic in Europe is expected to return to its 2019 levels in 2025.



EUROCONTROL's forecast for IFR flights in Estonia for 2024 is 164 thousand flights, which is lower than Statfor's spring forecast of 176 thousand IFR flights, meaning that traffic will recover more slowly than forecast in the spring. According to the forecast, air traffic volumes in Estonia will not return to the pre-crisis level of 2019 in the near future.

Statfor IFR flights forecast for Estonia 2024–2029 (thousand flights)



Russia’s war of aggression against Ukraine and the resulting sanctions continue to have the strongest long-term impact on aviation in our region. In addition, both the Chinese and the European economies are struggling and a number of challenges need to be addressed. As a result, we have to consider a higher degree of uncertainty in our long-term forecasts and recognise that we will not reach the pre-pandemic level in the coming years.

6 SERVICES AND BUSINESS LINES

6.1 Air Traffic Management

We manage air traffic in Estonian airspace, providing safe and digital air traffic control services for both unmanned and manned air traffic.

Last year, the number of flights in the Estonian airspace was 156 thousand, of which about 72% were overflights. In 2023, we handled 5% more flights than a year earlier. A modest increase could be observed in overflights in the Estonian airspace. In terminal navigation services, i.e. flights departing from and arriving in Tallinn, the traffic remained at the same level as the year before last.

In the first four months of the year, the volume of flights handled by us was significantly lower than a year earlier. Further on, we mostly exceeded the traffic volume of 2022 and at times even the volume forecast for 2023.

Although the volume of overflights increased somewhat, the impact of global events that have taken place in recent years is strongly felt in this traffic flow. Excluding the first three months of 2022, when the war in Ukraine had not yet affected the use of airspace, the growth rate of air traffic in the Estonian airspace would be 9.4%.

Looking at the state of air traffic in Europe as a whole, Estonia and Latvia are the countries most affected after Ukraine and Moldova by the sanctions imposed in response to the aggression. While, overall, European air traffic has recovered to pre-COVID-19 levels and sometimes even exceeded these, air traffic volume in the Estonian airspace is 34% below the pre-COVID-19 level.

In general, air traffic is projected to remain rather stable in the coming years and the volume of air traffic in our region is likely to remain at the same level.

The current state of air traffic has raised many questions about how to organise the work of air traffic control in the most expedient and economically sustainable way. In order to make informed decisions in a difficult situation, we put a lot of effort into collecting and analysing data.

In 2023, we turned our attention to the ATCO-hour productivity of air traffic controllers, for which comparative data are also available from other EUROCONTROL member states. While in 2021 the corresponding figure for our air traffic controllers was 0.66, the supervisory board set us the target to improve the figure by 15% each year. In order to get an up-to-date picture of the ATCO-hour productivity of our air traffic controllers, we decided to carry out our own analysis based on current data. In 2023, we exceeded the previous year's figure by 18%. From 2021, the indicator has improved by 43%.

We have also worked on digitalising the recording of "on position hours" for operational work. This helps us to dynamically assess productivity during shifts and the actual workload of air traffic controllers, and to better organise rotation within shifts.

The aim of all these innovations is for us to work optimally. On the one hand, we want to provide our people with an opportunity to fully use their skills and potential, and on the other hand, we want the Company to be sustainable.

The year has seen a number of projects, including those driven by the wishes of pilots and flexible and dynamic use of airspace. We have done a lot of work on renewing the controlled traffic region (CTR). As part of the change, we are optimising Tallinn CTR for VFR traffic. The change will improve management of air traffic control workload, simplify the rules of procedure applicable to pilots and have a positive environmental impact. We plan to implement the new CTR in the first half of 2024.

We launched a data exchange system for drone pilots to bring aviation of the future seamlessly and safely into the same airspace with conventional aviation.

We also made preparations for connecting Kuressaare Airport to the Digital Tower centre and plan to start providing remote services there in the first quarter of 2024.

Preparations were also made for regional airspace control sectors to be implemented in the coming summer to ensure a more even load between sectors in the changed traffic situation and provide safety for different types of air operations over neutral waters.

In terms of pilot safety, the DME network was extended to provide an alternative for navigation in the event of GPS interference, which has unfortunately become a daily part of aviation in our region.

We work closely with the Air Force on the use of different training areas to enable the fulfilment of national defence tasks and carrying out of training exercises. The reservation of airspace for exercises in most cases also affects the organisation of other traffic, and long-haul flight plans are then rerouted around the Estonian airspace. We are in the process of developing plans for the use of airspace in such a way that traffic can continue to use the most direct route and the Estonian Defence Forces can make tactical use of airspace for their needs.

While the volume of flights has increased, the projected overall economic recovery has not materialised and this has had an impact on the aircraft used. The number of smaller aircraft is rising, which for us means the same amount of work with less revenue, but we are also seeing the return of larger aircraft on regular routes (Boeing 747 and Airbus 380). At the same time, smaller aircraft produce less emissions, and as a result CO₂ emissions in the Estonian airspace have fallen. However, total CO₂ emissions are being driven down by sanctions-related factors: while a flight from Minsk to Kaliningrad used to take an hour, today it takes 2.5 times longer.

Looking ahead, we do not see rapid growth in air traffic in the coming years as sanctions are expected to continue.

6.1.1 Aeronautical Information Management Department

To ensure smooth management of air traffic in the Estonian airspace, we provide the aeronautical information service. The purpose of the aeronautical information service (AIS) is to collect, process and transmit the aeronautical information and data required for safe, high-quality and regular air traffic. This means that our task is to manage the information needed to fly in the Estonian airspace (Tallinn FIR) and make it available to airspace users in a suitable format.

The amount of information relevant to flying has grown significantly year by year. This, along with technological developments and the resulting self-evident possibilities for information processing, has guided the development of this area. The aim is to get to a situation where pilots no longer have to read the information that is important to them on paper and in coded form, but a machine does it for them.

This, however, means that the relevant information must be in a digitalised form and in an agreed format in order to achieve automated information flows and thereby reduce the possibility of errors, increase situational awareness and improve airspace capacity.

In order to harmonise and speed up the level of digitalisation, the European Commission has issued a regulation requiring air traffic control services across Europe to develop capability for System Wide Information Management (SWIM) and to start providing digital information exchange services (SWIM services).

We have kept this in mind in all development projects in the area of aeronautical information management (AIM).

In 2022, we started working with a developer to interface our Aeronautical Information Management DataBase (AIMDB) with a new version of the corresponding EUROCONTROL database, the European AIS Database Static and Dynamic Data (EAD SDD). The data model used in the SDD database provides an opportunity to deploy digiNOTAM, as it allows to add the validity period of temporary information. In addition, larger amounts of more detailed static information can be entered, increasing the possibilities for data visualisation. As a result of the migration, there will no longer be any need to convert data, as SDD uses the same data model as AIMDB, and data exchange with EAD will also be much more flexible. We completed the migration on 7 September 2023 as planned.

In 2023, we continued to upgrade the CADAS aeronautical information systems for which a contract was signed at the end of 2019. We are upgrading the aeronautical information database, the NOTAM message processing information system and the flight plan messages processing information system. The aim is to make the systems more user-friendly and to align them for the provision of SWIM services. The final deliveries and completion of the work were scheduled for the end of 2023. A small part of developments will still be delivered in 2024 as the developer underestimated the volume and complexity of the work. According to a contract amendment, the last delivery will take place in June 2024.

In 2024, we will focus on introducing the delivered developments and continue preparations for implementing the digiNOTAM service.

In 2023, we continued cooperation with Estonian Autosport Events, a non-profit association, in the organisation of WRC Rally Estonia 2023. The task of EANS is to help the organiser of the event to ensure air traffic safety in the rally area. We prepare maps of the areas, assist with preparations for publishing the AIP supplement, describe the procedures for safe landing on the pads and safe flying in the area. The Aeronautical Information Management Department is also responsible for ensuring communication between the rally centre and the aircraft, and for manning the rally centre with air traffic controllers who help the organiser to regulate any issues related to flying. A briefing for pilots is held immediately before the rally to present important information on flying during the rally and in the rally area. All the information needed by pilots is compiled in the Rally Estonia Helicopter Guide, which is made available to those involved both electronically and on paper.

6.2 Technology and Business Development

6.2.1 Technology Department

Today, air traffic management is unthinkable without special technological equipment. To ensure safe and smooth air traffic, the technical systems used in aviation are subject to very stringent requirements.

Our Technology Department ensures that we have the compliant systems and equipment in place, that they are reliable and in good working order, and that they provide us with accurate data. The Technology Department is also constantly working to modernise technical solutions and introduce new systems, so that we can always offer a high-quality service with due regard for safety.

In 2023, we witnessed several important developments in our central air traffic control system and in our navigation, radio communications and surveillance equipment and systems.

We made the required preparations for migrating to the new air traffic control system TopSky B11, which is scheduled for March 2024. We are introducing the B11 version of TopSky because the current hardware of the air traffic control system is outdated and needs to be replaced, but this cannot be done without a software upgrade. TopSky B11 is also needed from the longer-term perspective. Namely, we are adopting the same solution as the Finns and this is particularly important for the implementation of the FINEST programme. Over the course of the year, we installed the equipment and carried out factory and on-site testing of the software. In addition, we made preparations for deploying the future contingency air traffic control system scheduled for June 2024. The future contingency air traffic control system uses the same software as the main air traffic control system, allowing it to be used by all controllers for the continuation of the service, as no separate qualification is required.

In 2023, we migrated to a new Voice Communication System (VCS) by Rohde & Schwarz, because the previous system was outdated and lacked manufacturer support. The VCS is a system that integrates all incoming radio and telephone communications and allows controllers to easily manage connections. The biggest difference compared to the previous system is the technology behind it – we migrated from analogue to IP-based solutions. This change is also necessary for the future implementation of the FINEST project. The transition to the new VCS system was accompanied by the replacement of the telephone switchboard and the introduction of a new call recording system (VoiceCollect). The transfer of telephone numbers and call management to the new VCS system also makes it easier to manage the systems. VoiceCollect is required to record VoIP radio and telephone communications in the new VCS system.

In 2023, we made a significant contribution to improving the navigation network. We made preparations for the deployment of five new units of ground-based Distance Measurement Equipment (DME), scheduled for the first quarter of 2024. DMEs are an alternative navigation option for pilots in the event of GNSS signal interference. The introduction of new DMEs is part of the renewal of our navigation infrastructure. This improves the coverage of DMEs in Estonia and is important for aviation safety. We have completed the installation and testing of the new equipment.

The technical preparations that started in 2022 for launching the provision of the flight information service in Tartu from the Digital Tower centre were completed in April 2023. We started with active shadow operations of the Kuressaare flight information service from the Digital Tower centre in December 2023 to ensure both technical and operational readiness to provide the flight information service to Kuressaare from the first quarter of 2024.

6.2.2 Business Development Department

To ensure the provision of air traffic services and the functioning of the air traffic control system, we engage in systematic, sustainable and competitive development activities.

In 2023, we continued the implementation of a number of projects we had initiated earlier.

FINEST

FINEST is a cross-border air traffic management system created by EANS and Fintraffic Air Navigation Services Oy (Fintraffic ANS) of Finland with the aim of integrating the Estonian and Finnish airspaces.

In connection with EU Implementing Regulation 2020/469, which updated Implementing Regulation 2017/373 applicable to air navigation service providers, and the need to amend the operational documentation, we designed a new airspace for the FINEST cross-border services and adopted the common procedures in January 2022.

Together with the implementation of the air traffic control system, we started upgrading the voice communications solution (VOIP) for air traffic control in 2022. The new voice communications solution was delivered to us by the internationally renowned manufacturer Rohde & Schwarz Denmark A/S. The system was implemented in the first quarter of 2023.

FINEST aims to build a safer, more sustainable and efficient common airspace that meets the needs of both Estonia and Finland, and make air traffic more cost-efficient and environmentally friendly. The final implementation and use of the FINEST airspace depends on the cooperation between Estonia and Finland, as well as on its approval by the ministries of defence of the two countries and by the Finnish Ministry of Transport and Communications and the Estonian Ministry of Climate.

In 2022, the Finnish Ministry of Defence issued additional integration requirements for the FINEST system. On 28 August, a meeting was held in Helsinki with representatives of the Finnish Ministry of Defence, the Finnish Defence Command, the Finnish Ministry of Transport and Communications, the Finnish transport agency Traficom, Fintraffic ANS, the Estonian Ministry of Climate, the Estonian Ministry of Defence, the Estonian Air Force, the Estonian Transport Administration and EANS, during which an overview of the FINEST programme was presented, the importance of Finland's additional integration requirements was explained and a timetable for fulfilling the requirements was set, while the signing of an international agreement in the course of 2024 was set as a precondition for the implementation of FINEST.

Digital, or Remote Tower

In 2016, in cooperation with Tallinn Airport, we launched the Remote Tower project with the aim to digitalise the services at four regional airports in Estonia (Tartu, Kuressaare, Pärnu, Kärdla). To achieve this goal, we have worked with Adacel Technologies Limited to develop solutions for deploying the Digital Tower technology at local airports. The Remote Tower technology allows us to provide air traffic services at several airports simultaneously from a single hub, ensuring a safe and high-quality service 24/7, regardless of weather conditions. At the same time, the Remote Tower concept enables air traffic services to be provided in a more flexible and cost-effective way.

At the end of 2022, we started thorough testing and certification of the Digital Tower in Tartu. After a successful testing period, we started providing the service to Tartu Airport from the Remote Tower in Tallinn on 20 April 2023. The Digital Tower solution was declared this year's Deed of the Year in Estonian Aviation at the INAIR international air transport conference. In addition, the Digital Tower also received the People's Favourite Award.

During 2023, preparations were made to start providing air traffic services from the Digital Tower to Kuressaare Airport. To validate the service, simulations were carried out in the second half of 2023 and continued in early 2024. The provision of the flight information service to Kuressaare Airport from the Remote Tower centre will be implemented in the first quarter of 2024.

Throughout 2023, we have been working on further development of the Digital Tower concept – both technically and as regards the solution itself. In the course of 2024, we will continue preparations for providing the flight information service to Kärdla and Pärnu airports, which we will take over from Tallinn Airport. We will also focus on further development of the Digital Tower concept and search for efficiency through the validation of the multi-tower concept.

Management of unmanned air traffic

One of the key strategic objectives of EANS is the development of the unmanned aviation sector and the development and implementation of the services for common airspace for manned and unmanned aircraft (U-space). The Unmanned Air Traffic Management Strategy 2023–2025 was finalised by the end of March 2023 and from now on it will be renewed annually.

In 2023, in cooperation with Frequentis AG, we continued to develop our Unmanned Traffic Management (UTM) software, and on 13 July 2023, we launched the unmanned air traffic management system consisting of an application for drone pilots, airspace management software for tower controllers and a data exchange layer. The application displays the geographical areas with applicable rules and NOTAMs to the pilot and allows coordination of flights with the control tower. Following the launch of the software, development continues to launch mobile applications and additional features. The work is scheduled to be completed in the first quarter of 2024.

The introduction of the UTM software helps to coordinate drone flights more efficiently and safely, while new procedures were established for air traffic controllers to allow for more flexible use of airspace and a higher number of special category flights in Tallinn controlled terminal region (CTR). The new procedures will be introduced at the control tower in the first quarter of 2024.

In the second half of the year, together with the Transport Administration, the Estonian Aviation Academy and EUROCONTROL, we started a risk assessment of Tallinn CTR to find a suitable location for the creation of U-space. The project will assess the risks related to ground infrastructure, people and conventional air traffic and identify the most suitable location for U-space to ensure safe manned and unmanned air traffic. The assessment is due to be completed in May 2024.

In cooperation with the Transport Administration and the IT Department of the Ministry of the Environment, we started the analysis of interfacing the UTM software with the Transport Administration's aviation safety supervision information system, which will simplify the submission of data for the coordination of drone flights with the control tower and ensure the timeliness of the data.

In 2023, we completed the project GOF 2.0 Integrated Urban Airspace Very-Large Demonstration, initiated under the programme Horizon 2020. This major project led by us is co-funded by SESAR Joint Undertaking. Project activities included, among others, validation and analysis of various technologies for managing unmanned air traffic and assessing the operational maturity of the service concept of the European U-space. In 2021, the first validation exercise was carried out with the aim of testing pre-flight procedures.

In 2022, technical specifications for the exchange of information between U-space participants were developed in the project to allow U-space integration for service providers and end-users so that flight operations can be carried out according to their business models. Substantive activities under the project ended on 31 December 2022. In 2023, we submitted reports to SESAR Joint Undertaking.

In 2023, we continued the cooperation project Unmanned Aviation Sector Development in Estonia in cooperation with the Estonian Aviation Cluster and drone developers Hepta Group Airborne OÜ and KrattWorks OÜ. The project is funded by Enterprise Estonia through the Estonian Aviation Cluster. The aim of the project is to develop an implementation plan for U-space in Estonia and to support the market introduction of services required for unmanned air traffic management services.

In 2023, work continued on proposals for a U-space CONOPS document and a technical architecture implementation plan, and on outlining the principles of a national action plan to support broad-based development of the unmanned aviation sector. The proposals include the following: measures related to the regulatory framework and national legislation; introduction of the U-space service provision model and development of the services; changes related to airspace management; targeted support for development activities and sectoral cooperation. A legal analysis of the U-space Implementing Regulation (Commission Implementing Regulation (EU) 2021/664) in cooperation with the law firm TRINITI, started in 2022, was completed in May 2023, resulting in proposals for its application in Estonian legislation.

The cooperation project continued until August 2023.

Workforce management system

A project initiated in autumn 2022 for the development of a workforce management system, led by the Business Development Department to increase the efficiency of the air navigation services provided, was completed in April 2023. The project resulted in a new workforce management model, which is in line with modern requirements. The outcome of the project will be used as input for planning and organising the future work of the Air Traffic Control Department.

Management of annual strategic activities

We have developed a system for setting annual targets and monitoring their achievement across the Company. The activities are reviewed by management on a quarterly basis.

6.3 Our team

The number of EANS's employees has been stable in recent years. In 2023, the number of staff did not change, with 181 employees at 31 December 2023. There was a slight upturn in the turnover figures: the total turnover of the Company's workforce was 11.1% and the voluntary turnover was 8.8%.

In spring, we updated our employer brand strategy to strengthen the employee experience. We want to continue to offer our employees a healthy and supportive work environment, good leadership and meaningful work. In 2023, we renewed the employer value proposition through employee involvement.

Our Company is a member of a network of companies that support health, we have been awarded the gold-level badge of a family-friendly employer and in 2023 we were also awarded the gold-level badge of a company that supports mental health.



2023: 181 employees, average length of employment 11 years



107 men



74 women



20 new colleagues were hired



19 employees left

Satisfaction and engagement

Collaboration and employee involvement continue to be part of the corporate culture of EANS. We consider it important to listen to and take into account the opinions, thoughts and ideas of our employees. The Company holds monthly briefings, which provide an overview of flight volumes, key economic indicators, as well as projects and initiatives contributing to the success of the Company.

In 2023, we continued to carry out regular pulse surveys to get regular and quick feedback on employee satisfaction and engagement. Participation in the survey continues to be high (around 80%) and the results allow conclusions to be drawn about trends in employee satisfaction and engagement. Each survey is followed by discussions, and actions are planned and implemented within teams and across the Company to maintain and/or increase satisfaction.

Engagement is measured in a pulse survey using the net promoter score (NPS) method. In 2023, there was a clear positive trend in the employee recommendation index as well as in other categories relating to satisfaction.

Training and development activities

In 2023, we were again able to increase investment in staff development, with training and development expenses amounting to 1.9% of payroll expenses, or €260,896 (1.6% in 2022). We continue to focus on various development activities. Internal training continues to account for nearly half of all the training and development activities. To increase independent learning, we increasingly use Coursera, an e-learning environment.

In order to develop financial thinking and strengthen the future security of our employees, we launched a company-wide Year of Money Wisdom programme. The programme lasted throughout the year and consisted of five modules which were designed either for managers or all staff. Trainers included both internal and external experts.

In order to develop management quality, we continued to develop managers and focused on reflecting on the role of the leader, setting goals and providing feedback. We continued to support managers of all levels through team audits and conversations with a long-term view. We also advanced the argumentation and negotiation skills of project managers.

We developed a staff development policy with an action plan to support its implementation, and continued to actively promote the 70-20-10 principle. We continued to keep lifelong learning high on the agenda and launched a from-colleague-to-colleague training programme. The performance management system was improved by migrating annual appraisals to the new PlanPro information system and updating the content and format of the appraisals. This allows to set clearer targets, assess value-based behaviour and competences, and have a more meaningful interview process. We supported both managers and employees in the transition. In order to introduce a development-oriented mindset, we trained our own development advisors, who are competent partners for our employees in planning their development.

Work environment

Our office and work environment in general continue to meet high standards. EANS is committed to doing everything possible to keep its employees healthy and encourages everyone to be proactive about their health. We invest time, competence and money in continuous improvement of the work environment.

In the field of wellbeing at work, we focused on health awareness in general. Employees have access to the Company's gym and masseur services to maintain their physical health. More than 80% of employees are registered in the Stebby environment and actively use the services offered.

We focused even more on mental wellbeing in 2023. We are pleased to see that employees are making increasing use of the services of a psychologist to help them stay mentally fit. The services are provided on an as-needed and unrestricted basis through our partner Meliva. We organised several internal and external training sessions to support the mental health of our employees, raise awareness, and increase their ability to cope in crisis and stressful situations. For example, as part of the mental health day, we held various workshops on the ways employees can support their mental health. In addition, regular refresher training on stress and fatigue was provided to the majority of staff.

In 2023, there were no accidents at work.

7. FINANCIAL STATEMENTS

7.1 Statement of financial position

(€)

ASSETS	Note	31 Dec 2023	31 Dec 2022
Cash and cash equivalents	2; 3	1,483,367	3,694,320
Trade receivables	3; 4	3,088,761	2,218,078
Other receivables and prepayments	5	354,275	447,149
Total current assets		4,926,403	6,359,547
Property, plant and equipment	6	14,641,451	13,378,956
Intangible assets	6	12,206,580	9,585,539
Total non-current assets		26,848,031	22,964,495
TOTAL ASSETS		31,774,434	29,324,042
LIABILITIES AND EQUITY			
Current borrowings	3; 7	684,905	10,674,692
Payables to employees	8	126,917	156,289
Current provisions	8	836,250	401,400
Other current liabilities	3; 9	2,733,570	1,743,955
Current government grants	15	110,250	110,250
Total current liabilities		4,491,892	13,086,586
Non-current borrowings	3; 7	16,698,739	2,623,187
Non-current government grants	15	32,356	0
Total non-current liabilities		16,731,095	2,623,187
TOTAL LIABILITIES		21,222,987	15,709,773
EQUITY			
	10		
Share capital		10,112,940	10,112,940
Legal reserve		0	511,294
Share premium		3,501,329	5,000,000
Retained earnings (prior periods)		0	2,870,464
Comprehensive loss for the year		-3,062,822	-4,880,429
TOTAL EQUITY		10,551,447	13 614 269
TOTAL LIABILITIES AND EQUITY		31,774,434	29,324,042

The notes on pages 51-81 are an integral part of these financial statements.

7.2 Statement of comprehensive income

(€)

	Note	2023	2022
Revenue	11	17,923,424	15,683,553
Other operating income		370,444	441,321
Total revenue and other operating income		18,293,868	16,124,874
Goods, raw materials and services	13	-3,144,178	-2,920,879
Other operating expenses	14	-1,405,925	-1,313,062
Payroll expenses	12	-13,811,865	-12,817,713
Depreciation and amortisation	6	-2,652,570	-3,763,267
Total operating expenses		-21,014,538	-20,814,921
Operating loss		-2,720,670	-4,690,047
Finance income		34,809	680
Finance costs	7	-376,961	-191,062
Loss from operating activities		-3,062,822	-4,880,429
Net loss		-3,062,822	-4,880,429
Comprehensive loss		-3,062,822	-4,880,429

The notes on pages 51-81 are an integral part of these financial statements.

7.3 Statement of cash flows

(€)

	Note	2023	2022
Cash flows from operating activities			
Net loss		-3,062,822	-4,880,429
Adjustments			
Finance income and costs		342,152	190,382
Depreciation, amortisation and impairment	6	2,652,570	3,763,267
Gain on sale of non-current assets		-1,495	0
Amortisation of government grants related to assets	15	0	-142,306
Government grants related to income	15	-199,096	-152,531
Total adjustments		2,794,131	3,658,812
Change in receivables and prepayments related to operating activities	4; 5	-781,004	1,520,175
Change in inventories		3,195	3,164
Change in payables and advances related to operating activities	8; 9	342,835	-198,969
Proceeds from government grants related to income	15	231,452	152,531
Net cash used in/from operating activities		-472,213	255,284
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets	6	-5,537,089	-5,053,228
Proceeds from sale of non-current assets		47,669	0
Interest received		34,809	680
Net cash used in investing activities		-5,454,611	-5,052,548
Cash flows from financing activities			
Loans received	7	14,760,457	0
Repayments of loans received	7	-10,674,692	-1,871,540
Interest paid	7	-369,894	-192,115
Net cash from/used in financing activities		3,715,871	-2,063,655
Net change in cash and cash equivalents		-2,210,953	-6,860,919
Cash and cash equivalents at beginning of period	2	3,694,320	10,555,239
Cash and cash equivalents at end of period	2	1,483,367	3,694,320

The notes on pages 51-81 are an integral part of these financial statements.

7.4 Statement of changes in equity

(€)

	Share capital	Legal reserve	Share premium	Retained earnings	Total
At 31 December 2021	10,112,940	511,294	5,000,000	2,870,464	18,494,698
Comprehensive loss for 2022	0	-511,294	-1,498,671	-2,870,464	-4,880,429
At 31 December 2022	10,112,940	0	3,501,329	0	13,614,269
Comprehensive loss for 2023	0	0	0	-3,062,822	-3,062,822
At 31 December 2023	10,112,940	0	3,501,329	-3,062,822	10,551,447

Further information about share capital and other equity items is disclosed in Note 10.

The notes on pages 51-81 are an integral part of these financial statements.

8 NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND MEASUREMENT BASES APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

General information

Lennuliiklusteeninduse AS (the Company) is a company registered and operating in Estonia, which mostly provides air navigation services. The Company's sole shareholder is the Republic of Estonia. The Company has no subsidiaries or associates. The address of the Company is Kanali põik 3, Rae küla, Rae vald, Harjumaa.

The financial statements are presented in euros and cover the period from 1 January to 31 December 2023. The management board authorised the Company's financial statements for issue on 25 March 2024.

According to the Commercial Code of the Republic of Estonia, the general meeting has the authority to approve the annual report (incl. the financial statements) prepared by the management board. The shareholder has the right not to approve the annual report prepared and presented by the management board and to request the preparation of a new annual report.

Basis for preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as adopted by European Union (EU IFRS). The financial statements have been prepared on the historical cost basis.

Functional and presentation currency

The Company's functional and presentation currency is the euro.

Changes in the presentation of information

The principles of presentation of information applied in the preparation of this report are the same as in the Company's report for the year ended at 31 December 2022 except for the cases specified below.

Adoption of new standards, amendments and interpretations

The following new standards, amendments and interpretations became effective for the Company from 1 January 2023:

Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments

- The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful by,
- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.
- The International Accounting Standards Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.
- The amendments are consistent with the refined definition of material:
- "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements."

The Company has prepared the financial statements in accordance with effective standards, amendments and interpretations.

Standards, interpretations and amendments to published standards not yet effective

The following new standards and amendments are effective for annual reporting periods beginning after 31 December 2023 and earlier application is permitted. The Company has not adopted any of the new standards or amendments early and expects that they will not have a material impact on its financial statements when they become effective:

- Classification of Liabilities as Current or Non-current (Amendments to IAS 1);
- Non-Current Liabilities with Covenants (Amendments to IAS 1);
- Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7);
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16);
- Lack of Exchangeability (Amendments to IAS 21).

Foreign currency transactions

All foreign currency transactions are recognised in euros using the foreign exchange rates of the ECB prevailing at the date of the transaction. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated using the foreign exchange rates of the ECB prevailing at the reporting date. Foreign exchange gains and losses arising from translation are recognised in the statement of comprehensive income.

Current and non-current assets and liabilities

Assets and liabilities are classified as current when they are due to be settled within 12 months after the end of the reporting period. Assets and liabilities with longer settlement periods are reported as non-current.

Financial assets

Classification

The Company's financial assets have been classified to the category of financial assets measured at amortised cost. The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

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

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

Measurement

Financial assets are initially recognised at fair value plus transaction costs directly attributable to the acquisition of the financial assets, other than financial assets recognised at fair value through profit or loss (FVPL). The transaction costs of financial assets carried at FVPL are recognised in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset.

All of the Company's debt instruments have been classified to the category of measured at amortised cost.

Amortised cost: assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income on these financial assets is recognised as finance income using the effective interest method. Gains and losses arising on derecognition are recognised directly in profit or loss and presented in other operating income and expenses, respectively. Foreign exchange gains and losses and credit losses are presented as separate line items in profit or loss.

All financial assets of the Company have been classified to the following categories:

- Trade receivables;
- Cash and cash equivalents.

Equity instruments

The Company has no investments in equity instruments.

Impairment

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

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

For trade receivables and contract assets without a significant financing component, the Company applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses as expected lifetime credit losses from initial recognition of the receivables. The Company reviewed the impairment loss methodology for all asset groups. The changes in the impairment loss methodology did not have a material impact on the loss allowance as at 1 January. Therefore, no adjustments were made to retained earnings and equity.

Although the ECL model of IFRS 9 covers also cash and cash equivalents, the identified impairment as at 1 January 2022 and 31 December 2023 was immaterial.

Cash and cash equivalents

Cash and cash equivalents in the statements of financial position and cash flows comprise cash on hand, cash in current accounts and term deposits with a short maturity (up to three months). In the statement of cash flows, cash flows from operating activities are reported using the indirect method and cash flows from investing and financing activities are reported using the direct method.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are tangible assets with a useful life of over one year that are used in the economic activities of the Company. Property, plant and equipment are measured at cost, less any accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of a self-constructed asset includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Borrowing costs directly attributable to the acquisition, construction or production of an item of property, plant and equipment are capitalised as part of the cost of that item.

If an item of property, plant and equipment has components with different useful lives, the components are accounted for separately and assigned depreciation rates that correspond to their useful lives.

Subsequent costs

Parts of some items of property, plant and equipment may require replacement or renovation at regular intervals. Related costs are recognised in the carrying amount of the item, if it is probable that future economic benefits associated with the part will flow to the Company and the cost of the part can be measured reliably. The carrying amount of the replaced part is derecognised. In accordance with the recognition criteria presented in the previous paragraph, the costs of day-to-day servicing of an item of property, plant and equipment are not recognised in the carrying amount of an item. Such costs are recognised as an expense in the period in which they are incurred.

Depreciation

Depreciation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful life of an item of property, plant and equipment and its distinguishable components. Land and assets under construction are not depreciated. The annual depreciation rates applied by the Company are as follows:

- | | |
|---|--------|
| • Land | 0% |
| • Buildings, structures and technological systems | 2–20% |
| • Machinery and equipment | 1–40% |
| • Other equipment, fixtures and fittings | 10–40% |

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

The useful lives, residual values and depreciation methods of items of property, plant and equipment are reviewed annually. The effect of changes in estimates is recognised in the reporting and subsequent periods.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gains or losses arising from derecognition of an item of property, plant and equipment are recognised in the statement of comprehensive income within *Depreciation and amortisation* in the period in which the item is derecognised.

Intangible assets

Intangible assets are initially recognised at their cost which comprises the purchase price and any costs directly attributable to the acquisition of the asset. Intangible assets are measured at cost, less any accumulated amortisation and any impairment losses. Intangible assets (excluding goodwill) are amortised over their estimated useful lives using the straight-line method. Intangible assets are assessed for impairment, whenever there is any indication that their value may be impaired, similarly to items of property, plant and equipment.

Amortisation

Amortisation is calculated on a straight-line basis over the estimated useful lives assigned to intangible assets at the rate of 4–20% per year.

Impairment of non-financial assets

Non-financial assets

The Company assesses at each reporting date whether there is any indication that a non-financial asset may be impaired. If any such indication exists, an impairment test is performed.

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. The recoverable amount of an asset is estimated by discounting its expected future cash flows to their present value using a discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

The recoverable amount of an asset is increased if there is indication of an increase in the asset's value and if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If the results of an impairment test indicate that the recoverable amount exceeds the carrying amount, the impairment loss is reversed and the carrying amount is increased. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

Financial liabilities

Financial liabilities (trade payables, borrowings, accrued expenses and other liabilities) are initially recognised at their cost which is the fair value of the consideration received. Following initial recognition, financial liabilities are measured at their amortised cost using the effective interest method. Transaction costs are taken into account in the calculation of the effective interest rate and charged to expenses over the term of the financial liability. Any expenses related to a financial liability (incl. interest expenses) are charged to expenses of the period on an accrual basis.

Financial liabilities that are due to be settled within 12 months after the reporting date or where the Company does not have an unconditional right to defer settlement for longer than 12 months after the reporting date are classified as current liabilities. Liabilities to be settled within 12 months after the reporting date which are refinanced into non-current items after the reporting date but before the financial statements are authorised for issue are classified as current liabilities. Liabilities which become payable on demand due to breach of contractual terms before or at the reporting date are also classified as current.

The Company has not capitalised any borrowing costs during the reporting period, because according to the Company the effect of the capitalisation of borrowing costs is immaterial.

A financial liability is derecognised when it is settled, cancelled or expires.

Provisions and contingent liabilities

Legal or constructive obligations arising from a past obligating event that require the giving up of assets, whose realisation is probable (it is more probable than not that the outflow of economic benefits will be required to settle the obligation) and whose cost can be measured reliably but the timing or amount is uncertain, are recognised as provisions. Provisions are recognised in the statement of financial position based on management's estimates regarding the amount and timing of the expected outflows. A provision is recognised in the statement of financial position in the amount which is management's best estimate of the amount required to settle the obligation at the reporting date or to transfer it to a third party at that time. Expenses on the recognition of provisions and changes in the carrying amounts of provisions are charged to expenses of the reporting period. Provisions are not recognised for future operating losses.

If it is probable that a provision will be used later than 12 months after the end of the reporting period the provision is measured at its discounted value (present value of expected outflows), unless the effect of discounting is immaterial.

Promises, guarantees and other commitments whose realisation is unlikely or which cannot be measured reliably but which may transform into liabilities in certain circumstances are disclosed in the notes to the financial statements as contingent liabilities.

Leases

Lessees must:

- (a) recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- (b) recognise depreciation on leased assets and interest expense on lease liabilities in profit or loss.

Leases are recognised as right-of-use assets and lease liabilities at the date when the underlying asset is made available for use.

A lease liability is measured at the present value of the lease payments. A right-of-use asset is measured at an amount equal to the lease liability unless an adjustment to the right-of-use asset is required. Each lease payment is divided into the reduction of the lease liability and finance cost.

Finance costs are recognised in profit or loss and allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The leased asset is depreciated on a straight-line basis over the shorter of its useful life and the lease term.

Lease liabilities include the following lease payments at present value:

- fixed payments less any lease incentives;
- variable lease payments that depend on an index or interest rate (e.g. inflation, Euribor);
- amounts expected to be payable by the lessee under a residual value guarantee;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Lease payments are discounted using the interest rate implicit in the lease if the rate can be readily determined or using the Company's incremental borrowing rate. The incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow the funds necessary to obtain an asset of a similar value in a similar economic environment and under similar conditions.

A short-term lease is a lease with a lease term of 12 months or less. Assets of low value include IT equipment and smaller items of office furniture and furnishings. When determining the lease term, management considers all relevant facts and circumstances that create an economic incentive to exercise a renewal option, or not to do so. Periods covered by extension options (or periods after termination options) are added to the lease term if the lessee is reasonably certain to exercise the extension option (or not to exercise the termination option). The Company's management evaluates the events and changes in circumstances that are under the control of management and affect the likelihood of exercising the options.

According to leases signed, the leased assets will have no carrying amount on the expiry of the lease.

The Company uses the following practical expedients allowed by the standard:

- operating lease agreements with a lease term of 12 months or less are recognised as short-term leases;
- leases of assets of low value are excluded;
- initial direct costs from the measurement of leased assets are excluded at initial application of the standard.

The Company leases means of transport and pays lease payments for data link services. On the adoption of IFRS 16, the Company assessed its lease liabilities that were classified as operating leases according to IAS 17 *Leases*. As at 31 December 2023, effective leases included an option to terminate the lease within 12 months or the leased assets were of low value. Therefore, based on the accounting policies applied, no operating leases were recognised as right-of-use assets in 2023.

Revenue from contracts with customers

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

The Company provides navigation services under contracts. Revenue from providing services is recognised in the period in which the services are rendered.

Financing component

The Company does not have any contracts where the period between transferring the promised goods or services to a customer and receiving payment from the customer exceeds one year. Consequently, the Company does not adjust the transaction price for the time value of money.

Interest income

Interest income is recognised on an accrual basis using the effective interest rate within finance income in the statement of comprehensive income.

Payroll expenses

Payroll expenses are recognised in the statement of comprehensive income when the Company incurs a liability to its employees. Payroll expenses include wages and salaries with social security tax and unemployment insurance premiums as well as fringe benefits including the related income tax and social security tax.

The vacation pay expense and liability are recognised as accrued. The vacation pay expense is recognised within payroll expenses in the statement of comprehensive income and as a current liability in the statement of financial position.

Corporate income tax

According to the Estonian Income Tax Act in force, profit distributions (dividends), not corporate earnings (profits), are subject to taxation in Estonia. Due to the nature of the taxation concept, the term 'tax base of assets and liabilities' does not have economic substance and deferred tax assets and liabilities do not arise.

Corporate income tax payable on dividends is recognised as an income tax expense and a liability in the period in which the dividends are declared.

The maximum possible income tax liability that could arise if all of the retained earnings were distributed as dividends is disclosed in the notes to the financial statements.

Government grants

Government grants related to assets are recognised using the gross method. The assets acquired with a government grant are recognised in the financial statements at cost. The amount of a government grant received is recognised in the statement of financial position as a non-current liability (deferred grant income). The asset acquired is depreciated to expenses and the deferred income is amortised to income over the useful life of the asset.

Income from a grant related to income is recognised in the statement of comprehensive income on a systematic basis over the periods in which the costs which the grant is intended to compensate are recognised as expenses. Income is recognised using the gross method, i.e. the grant received and the expenses to be compensated for are presented separately in the statement of comprehensive income. Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to the grant and the grant will be received.

A government grant is recognised as current if the recognition of grant income is estimated to occur within 12 months. Other grants are recognised as non-current.

Cash flows

The statement of cash flows is prepared using the indirect method. In the statement of cash flows, cash and cash equivalents comprise the assets recognised as cash and cash equivalents in the statement of financial position.

Events after the reporting period

Material circumstances affecting the valuation of assets and liabilities that became evident between the end of the reporting period (31 December 2023) and the date the financial statements were authorised for issue but which are related to transactions of the reporting period or earlier periods, are recognised in the financial statements. Events after the reporting period that do not affect profit or loss for the reporting period or assets and liabilities as at 31 December 2023, but which will have a material effect on the results of the next financial year, are disclosed in the notes to the financial statements.

NOTE 2. CASH AND CASH EQUIVALENTS

(€)

	Note	31 Dec 2023	31 Dec 2022
Current accounts		12,267	3,694,320
Overnight deposit		1,471,100	0
Total	3; 7	1,483,367	3,694,320

During the financial year, the Company placed available cash in an overnight deposit at interest rates of 1.6–2% of the average balance of a euro deposit.

NOTE 3. FINANCIAL INSTRUMENTS

(€)

	Note	31 Dec 2023	31 Dec 2022
Financial assets			
Cash and cash equivalents	2	1,483,367	3,694,320
Trade receivables	4	3,088,761	2,218,078
Total financial assets		4,572,128	5,912,398
Financial liabilities			
Borrowings	7	17,383,644	13,297,879
Other current liabilities	9	2,278,495	1,307,718
Total financial liabilities		19,662,139	14,605,597

For disclosure purposes, fair value is calculated based on the future contractual cash flows discounted at the current market interest rates that are available to the Company for similar financial instruments. According to the assessment of the Company's management board, the carrying amounts of financial assets and financial liabilities measured at amortised cost at 31 December 2023 and 31 December 2022 are not significantly different from their fair values as they will be settled within 12 months after the end of the reporting period. Likewise, the fair values of non-current borrowings do not significantly differ from their carrying amounts, as their interest rates correspond to current market interest rates.

The Company does not have financial assets or financial liabilities measured at fair value.

NOTE 4. TRADE RECEIVABLES

(€)

	Note	31 Dec 2023	31 Dec 2022
Accounts receivable		3,380,071	2,515,000
incl. accounts receivable from related parties		20 330	26,370
Allowance for doubtful receivables		-291,310	-296,922
Trade receivables	3	3,088,761	2,218,078

In the financial year, the Company recognised an allowance for doubtful receivables of €29,516 (2022: €110,067) and reversed impairment losses recognised in prior periods of €5,574 (2022: €3,303). The amount of receivables written off during the year as uncollectible was €35,128 (2022: €112,432) (for further information about credit risk, see Note 18).

NOTE 5. OTHER RECEIVABLES AND PREPAYMENTS

(€)

	31 Dec 2023	31 Dec 2022
Prepaid taxes	173,984	188,632
Other receivables and prepayments	180,291	258,517
Total	354,275	447,149

NOTE 6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment (€)

	Land, buildings, structures and technological systems	Machinery and equipment	Other property, plant and equipment	Assets under construction	Total
Carrying amount 31 December 2021	7,910,745	3,985,550	341,856	529,415	12,767,566
Addition	0	0	0	1,749,382	1,749,382
Reclassification	229,489	824,140	14,000	-1,067,629	0
Reclassification to assets under construction within intangible assets	0	0	0	-13,614	-13,614
Reclassification to expense	0	0	0	-38,502	-38,502
Depreciation	-305,283	-722,716	-57,877	0	-1,085,876
Carrying amount 31 December 2022	7,834,951	4,086,974	297,979	1,159,052	13,378,956
Addition				2,189,675	2,189,675
Disposal	-4	0	0	0	-4
Reclassification	-100,460	1,496,788	0	-1,396,328	0
Reclassification to intangible assets	-2,433	0	0	0	-2,433
Reclassification from assets under construction in intangible assets	0	295,325	0	0	295,325
Depreciation	-291,070	-876,936	-52,062	0	-1,220,068
Carrying amount 31 December 2023	7,440,984	5,002,151	245,917	1,952,399	14,641,451
At 31 December 2021					
Cost	11,550,831	16,416,524	696,614	529,415	29,193,384
Accumulated depreciation	-3,640,086	-12,430,974	-354,758	0	-16,425,818
At 31 December 2022					
Cost	11,743,709	16,146,956	527,008	1,159,052	29,576,725
Accumulated depreciation	-3,908,758	-12,059,982	-229,029	0	-16,197,769
At 31 December 2023					
Cost	11,636,813	16,238,265	527,008	1,952,399	30,354,485
Accumulated depreciation	-4,195,829	-11,236,114	-281,091	0	-15,713,034

Intangible assets (€)

	Software	Assets under construction	Total
Carrying amount 31 December 2021	7,566,556	1,853,695	9,420,251
Addition	0	2,868,965	2,868,965
Reclassification	318,112	-318,112	0
Reclassification from assets under construction in property, plant and equipment	0	13,614	13,614
Reclassification to expense	0	-39,900	-39,900
Amortisation	-2,677,391	0	-2,677,391
Carrying amount 31 December 2022	5,207,277	4,378,262	9,585,539
Addition	0	4,392,604	4,392,604
Reclassification	1,368,158	-1,368,158	0
Reclassification from property, plant and equipment	2,433	0	2,433
Reclassification to property, plant and equipment	0	-295,325	-295,325
Disposal	0	-46,169	-46,169
Amortisation	-1,432,502	0	-1,432,502
Carrying amount 31 December 2023	5,145,366	7,061,214	12,206,580

At 31 December 2021			
Cost	29,128,258	1,853,695	30,981,953
Accumulated amortisation	-21,561,702	0	-21,561,702
At 31 December 2022			
Cost	29,369,700	4,378,262	33,747,962
Accumulated amortisation	-24,162,423	0	-24,162,423
At 31 December 2023			
Cost	30,056,789	7,061,214	37,118,003
Accumulated amortisation	-24,911,423	0	-24,911,423

The largest portions of the amount recognised as assets under construction at the end of the reporting period relate to the TopSky B11 air traffic control system of €4,603,267 and the upgrade of the aeronautical information system CADAS of €1,832,789, which are expected to be implemented in 2024.

NOTE 7. BORROWINGS

(€)

Creditor	Total borrowings	Non-current portion	Current portion	Interest rate	Maturity date
At 31 Dec 2022					
Swedbank AS	3,297,879	2,623,187	674,692	1.50%	4 September 2027
Swedbank AS	10,000,000	0	10,000,000	1.29%	5 November 2023
Total	13,297,879	2,623,187	10,674,692		
At 31 Dec 2023					
Swedbank AS	2,623,187	1,938,282	684,905	1.50%	4 September 2027
Swedbank AS	10,000,000	10,000,000	0	5.24%	21 April 2028
Solidarity Fund	1,760,457	1,760,457	0	0.00%	1 December 2025
Nordic Investment Bank	3,000,000	3,000,000	0	4.99%	31 December 2025
Total	17,383,644	16,698,739	684,905		

The Company has four loans. The loan agreements are unsecured. The interest rate of the first loan from Swedbank consists of the base rate of a seven-year euro interest rate swap plus a margin, i.e. 1.50%. The interest rate of the second loan from Swedbank is six-month Euribor plus a margin, i.e. 5.24%. The loan from the Solidarity Fund is interest-free. The interest rate of the loan from the Nordic Investment Bank is six-month Euribor plus a margin, i.e. 4.99%. The loans have been recognised based on management's estimate that the nominal interest rate does not significantly differ from the effective interest rate.

Loan interest of €376,961 for 2023 (2022: €191,062) was fully recognised as a finance cost in the statement of comprehensive income.

The limit of the loan received from the Nordic Investment Bank is €13,000,000 and the loan can be drawn down until 9 May 2024. By the end of 2023, the Company had drawn down €3,000,000. After the reporting date, the Company has additionally drawn down €3,000,000, which accrues interest at the rate of six-month Euribor plus a margin, i.e. 5.02%. The loan agreements contain covenants. At the reporting date, the Company was in compliance with all contractual covenants.

Net debt (€)

	31 Dec 2023	31 Dec 2022
Cash and cash equivalents (Note 2)	1,483,367	3,694,320
Current borrowings	-684,905	-10,674,692
Non-current borrowings	-16,698,739	-2,623,187
Net debt	-15,900,277	-9,603,559
Cash and cash equivalents (Note 2)	1,483,367	3,694,320
Borrowings with fixed interest rates	-17,383,644	-13,297,879
Net debt	-15,900,277	-9,603,559

	Cash and cash equivalents	Borrowings to be settled within 1 year	Borrowings to be settled within more than 1 year	Total
Net debt 1 Jan 2022	10,555,239	-1,871,541	-13,297,879	-4,614,181
Changes	-6,860,919	0	0	-6,860,919
Loans repaid (+)/ received (-)	0	1,871,541	0	1,871,541
Reclassification from non-current to current	0	-10,674,692	10,674,692	0
Net debt 31 Dec 2022	3,694,320	-10,674,692	-2,623,187	-9,603,559
Changes	-2,210,953	0	0	-2,210,953
Loans repaid (+)/ received (-)	0	10,674,692	-14,760,457	-4,085,765
Reclassification from non-current to current	0	-684,905	684,905	0
Net debt 31 Dec 2023	1,483,367	-684,905	-16,698,739	-15,900,277

NOTE 8. PAYABLES TO EMPLOYEES

(€)

Type of payable		Opening balance	Change	Closing balance
Vacation pay accrual and severance pay	2023	156,289	-29,372	126,917
	2022	187,009	-30,720	156,289
Provision for performance bonuses	2023	401,400	434,850	836,250
	2022	521,168	-119,768	401,400
Total 31 Dec 2023		557,689	405,478	963,167
Total 31 Dec 2022		708,177	-150,488	557,689

The vacation pay accrual is the vacation pay for vacation days earned but not used including 33% social security tax and 0.8% unemployment insurance premiums.

Vacation pay is paid from the vacation pay accrual before the employee goes on a holiday.

The provision for performance bonuses is recognised as a current liability.

NOTE 9. OTHER CURRENT LIABILITIES

(€)

	Note	31 Dec 2023	31 Dec 2022
Trade payables	3	2,256,493	1,293,363
Tax liabilities		455,075	436,237
<i>Social security tax</i>		271,114	260,296
<i>Personal income tax</i>		144,199	139,680
<i>Unemployment insurance premiums</i>		17,745	17,345
<i>Mandatory funded pension contributions</i>		13,310	13,458
<i>Income tax paid in special cases</i>		8,707	5,458
Accrued interest	3	20,554	13,487
Other current liabilities	3	1,448	868
Total		2,733,570	1,743,955

NOTE 10. EQUITY

Share capital

The number of shares at 31 December 2023 was 1,011,294 (31 December 2022: 1,011,294). The average number of shares during the financial year was 1,011,294 (2022: 1,011,294). The nominal value of a share is €10 and share capital consists of ordinary shares. All shares are owned by the Republic of Estonia.

The Company's minimum share capital is €5,112,940 and maximum share capital is €20,451,760. Each ordinary share grants the owner the right to receive dividends as distributed from time to time and one vote at the general meeting.

Legal reserve

In 2023, the Company used the legal reserve in the amount of €511,294 to cover the loss for 2022. In 2022, the legal reserve amounted to €511,294, which is the amount required by the Company's articles of association and legislation.

Share premium

In 2023, the Company used share premium in the amount of €1,498,671 to cover the loss for 2022. At 31 December 2023, share premium amounted to €3,501,329 (31 December 2022: €5,000,000).

NOTE 11. REVENUE FROM PRINCIPAL ACTIVITY

Revenue by service (€)

Type of service	2023	2022
Air navigation service (EMTAK 52239), incl.	17,907,366	15,660,500
En route navigation service	16,036,825	14,088,751
Terminal navigation service	1,870,541	1,571,749
Consulting service (EMTAK 52239)	16,058	23,053
Total	17,923,424	15,683,553

Navigation services by customer (€)

Customer	En route navigation service		Customer	Terminal navigation service	
	2023	2022		2023	2022
Finnair	3,590,362	2,711,462	Air Baltic	502,523	377,489
Air China	1,987,103	2,142,938	Ryanair	201,223	230,430
Air Baltic	961,594	704,305	Finnair	186,214	155,762
China Eastern	795,063	717,756	Lufthansa	148,341	110,463
Air China Cargo	733,657	515,164	LOT	120,873	82,986
Aeroflot	643,302	414,237	SAS	113,525	73,138
Turkish Airlines	552,932	461,985	Turkish Airlines	74,891	55,245
Ural Airlines	473,685	314,892	Smartlynx	62,142	68,789
Lufthansa	456,164	398,306	ASL Airlines	36,495	28,347
Ryanair	424,975	520,249	Nyxair	36,046	29,601
Other customers	5,417,988	5,509,552	Other customers	388,270	359,499
Total	16,036,825	14,088,751	Total	1,870,541	1,571,749

NOTE 12. PAYROLL EXPENSES

(€)

	2023	2022
Payroll expenses	-10,085,757	-9,404,805
Social security tax and unemployment insurance premiums	-3,395,463	-3,164,632
Fringe benefits, incl. taxes	-330,645	-248,276
Total	-13,811,865	-12,817,713

The average number of employees in 2023 was 173 (2022: 176), of which the average number of staff working under employment contracts was 170 (2022: 172) and the average number of the members of a legal person's governing body was 3 (2022: 4).

NOTE 13. GOODS, RAW MATERIALS AND SERVICES

(€)

	2023	2022
Equipment maintenance costs	-1,362,416	-1,138,197
Meteorological information	-422,617	-388,747
Goods, materials, energy	-324,099	-465,590
Services	-304,360	-195,778
Insurance expenses*	-289,139	-295,193
Equipment operation costs	-287,837	-286,890
Communications expenses	-94,976	-78,085
Security costs	-34,088	-37,124
Necessary items	-24,646	-35,275
TOTAL	-3,144,178	-2,920,879

* 93.46% (2022: 94.26%) of the insurance expenses are insurance premiums paid for a liability insurance contract with a cover of €650 million (2022: €650 million).

NOTE 14. OTHER OPERATING EXPENSES

(€)

	2023	2022
Lease expenses	-445,759	-395,621
Other operating expenses	-247,230	-356,296
Maintenance of buildings, premises, facilities	-228,616	-206,223
Training expenses	-215,934	-164,544
Business travel expenses	-197,428	-128,628
Work environment expenses	-47,416	-39,512
Transport expenses	-23,542	-22,238
TOTAL	-1,405,925	-1,313,062

NOTE 15. GOVERNMENT GRANTS

(€)

	2023	2022
Government grant liabilities at beginning of period	110,250	252,556
Deferred grant income (grants received in advance)	231,452	152,531
Recognised as income from grants related to income	-199,096	-152,531
Recognised as income from grants related to assets	0	-142,306
Government grant liabilities at end of period	142,606	110,250
Incl. current portion	110,250	110,250
Incl. non-current portion	32,356	0
Incl. up to 6 months	0	0
6–12 months	110,250	110,250
1–2 years	32,356	0

The Company received grants related to income of €231,452 (2022: €152,531), which are presented in *Deferred grant income*.

NOTE 16. TRANSACTIONS WITH RELATED PARTIES

100% of the Company's shares are owned by the Republic of Estonia. For the purposes of these financial statements, related parties include the members of the management and supervisory boards and other companies under the significant influence of these persons. Related parties also include entities under the control or significant influence of the state. The Company discloses transactions with aviation companies under the control or significant influence of the state.

(€)

Related party	Year	Receivables	Liabilities	Operating income	Operating expenses
Aviation companies under the control or significant influence of the state	2023	9,591	12,571	245,980	115,535
	2022	13,731	27,956	203,808	109,167

All transactions with related parties have been conducted on market terms and no receivables from related parties were written down in the reporting or the comparative period.

The remuneration (board member service fees and salaries) of the members of the management board for 2023 amounted to €344,383 and management board members' additional remuneration for 2023 amounted to €58,125 (2022: the remuneration (board member service fees and salaries) amounted to €360,350 and additional remuneration amounted to €82,500). The remuneration provided to the members of the supervisory board and audit committee for their participation in the work of the supervisory board and the audit committee totalled €29,188 in 2023 (2022: €31,250).

According to the contracts signed with the members of the management board, the Company has the obligation to pay severance benefits, which may extend up to three months' remuneration, depending on the reasons for the termination of the contract. As the settlement of the obligation is unlikely, the Company has not recognised a relevant provision.

NOTE 17. SIGNIFICANT MANAGEMENT'S ESTIMATES

The preparation of financial statements in accordance with IFRS requires management to use judgements and estimates, which affect the recognised amounts of assets and liabilities. Although the estimates are made based on management's best knowledge, they may differ from subsequent actual results. Changes in management's estimates are recognised in the statement of comprehensive income in the period in which the change occurs. The following judgements and estimates have the most significant impact on the financial information presented in these financial statements.

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

The useful lives of items of property, plant and equipment and intangible assets are determined based on management's estimates about the actual periods over which the assets will be used. Prior experience has demonstrated that the actual useful lives of assets are sometimes longer than their estimated useful lives. At 31 December 2023, the total cost of property, plant and equipment and intangible assets in use that had zero carrying amount was €26,548,266 (31 December 2022: €27,141,545).

If the assigned depreciation or amortisation rates of all assets changed by one year, the effect on total comprehensive income or loss would be €112,119.

During the reporting period, depreciation accounting was adjusted, which included using accelerated depreciation for certain assets. Management's estimate regarding the change in the useful lives of assets was recognised in the financial statements prospectively. The change increased depreciation and amortisation expense and the effect on comprehensive loss was €15,139 (2022: €39,561).

Estimation of the recoverable amounts of property, plant and equipment and intangible assets

Management assessed the existence of indications of impairment of items of property, plant and equipment, intangible assets and assets under construction. In 2023, the volume of air traffic in Estonia was more than a third below the pre-pandemic level in 2019. Using the estimates of air traffic recovery prevailing at the time of preparation of the financial statements and taking into account European Commission Implementing Regulation (EU) 2020/1627 of 3 November 2020 on exceptional measures for the third reference period (2020–2024) of the single European sky performance and charging scheme due to the COVID-19 pandemic, which enables to increase unit rates for 2020–2021 and to spread the increase over five calendar years beginning with 2023, an impairment test was carried out using the financial forecasts and no impairment was identified.

NOTE 18. FINANCIAL RISK MANAGEMENT

The Company has developed and adopted procedures for financial risk management, which regulate the management of the following financial risks inherent in the Company's economic activities: liquidity risk, credit risk, currency risk and interest rate risk. There were no material changes in financial risk management compared to the previous reporting period. In managing capital, the Company takes into account the regulations of the government of Estonia which annually specify the rate or amount of dividends payable to the owner.

The most important goals in managing the financial risks of the Company in the order of importance are as follows:

- liquidity;
- capital retention;
- earning income.

Derivative instruments can be used only to hedge risks, but the Company did not use derivatives in the reporting or the comparative period.

Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its financial liabilities due to a cash flow shortfall. An amount at least equal to the current month's regular expenditures that can be accessed within three working days has to be kept available at all times, excluding one-off larger than normal expenditures. In making investments in term deposits of a short maturity, the Company must also ensure liquidity for the timely settlement of significantly larger than normal expenditures. Liquidity risk is mitigated by using various sources of financing, such as bank loans, overdraft facilities and ongoing monitoring of receivables.

The due dates of existing financial liabilities by year are as follows:

At 31 Dec 2023 (€)	Up to 6 months	6–12 months	1–2 years	2–5 years	Later than 5 years	Undis- counted cash flows	Carrying amount
Borrowings (Notes 3; 7)	716,948	717,115	6,147,637	12,499,580	0	20,081,280	17,383,644
Trade and other payables (Notes 3; 9)	2,278,495	0	0	0	0	2,278,495	0
Total	2,995,443	717,115	6,147,637	12,499,580	0	22,359,775	17,383,644

At 31 Dec 2022 (€)	Up to 6 months	6–12 months	1–2 years	2–5 years	Later than 5 years	Undis- counted cash flows	Carrying amount
Borrowings (Notes 3; 7)	425,059	10,414,700	720,090	1,980,249	0	13,540,098	13,297,879
Trade and other payables (Notes 3; 9)	1,307,718	0	0	0	0	1,307,718	0
Total	1,732,777	10,414,700	720,090	1,980,249	0	14,847,816	13,297,879

The Company applies a conservative approach to liquidity risk management, keeping available sufficient monetary funds to be able to fulfil its financial obligations at any time. Continuous cash flow planning and control are key elements of the Company's daily liquidity risk management. In our opinion, the existing cash buffer and provision of services to countries excluded from sanctions will enable the Company to meet its financial obligations at any time.

Additional information about the due dates of liabilities is disclosed in Notes 7–9.

Credit risk

Credit risk is the risk that the failure of a business partner to discharge an obligation will cause a financial loss for the Company.

In managing credit risk, the Company relies on ratings from credit rating agencies Moody's and Standard & Poor's. In making investments in debt instruments, the Company has to follow the criteria established for issuers, volume restrictions (total risk exposure per issuer may not exceed 60% of the Company's funds) and the permitted investment regions (Estonia and OECD countries).

Taking into account the fact that the Company's revenue consists of revenue from navigation services provided to airlines and the navigation service is of vital importance for the business of airlines (it is impossible to operate aircraft without using the service), credit risk will be significant only in the case of the bankruptcy of an airline. Compared with earlier periods, the Company's credit losses in the financial year and the comparative period decreased and credit loss allowances recognised for receivables have an immaterial impact on the Company's financial results. At 31 December 2023, receivables of €29,516 were classified as doubtful (mainly items related to flight operators of Russian origin), at 31 December 2022 the amount classified as doubtful was €110,067.

A low level of credit risk is ensured by the Company's lawful right not to provide navigation services to customers that have not paid for services provided. By the date the financial statements are authorised for issue, 88% of receivables recognised in the statement of financial position as at the year-end had been collected.

Trade receivables by due dates (€)

	31 December 2023		31 December 2022	
Not past due	2,872,583	85.0%	1,972,220	78.4%
1–30 days past due	166,314	4.9%	124,423	4.9%
31–60 days past due	35,869	1.1%	31,702	1.3%
61–90 days past due	41,916	1.2%	26,232	1.0%
91–120 days past due	16,740	0.5%	23,001	0.9%
121–180 days past due	32,884	1.0%	95,557	3.8%
More than 180 days past due	213,765	6.3%	241,865	9.5%
Total trade receivables* (Notes 3; 4)	3,380,071	100.0%	2,515,000	100.0%

* Trade receivables include doubtful receivables.

The total amount of receivables and deposits exposed to credit risk is €4,926,403 (2022: €6,359,547, see Notes 2–5).

Although the ECL model of IFRS 9 covers also cash and cash equivalents, the impairment identified as at 31 December 2022 and 31 December 2023 was immaterial.

Breakdown of bank accounts and deposits by bank based on credit ratings (€)

	31 Dec 2023	31 Dec 2022
At banks with Moody's credit rating of Aa3	1,483,367	3,694,320
Total credit risk exposure arising from bank accounts (Note 2)	1,483,367	3,694,320

Market risk

Market risk comprises currency risk and interest rate risk.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's main settlement currency is the euro. Therefore, the Company does not consider currency risk to be significant. Currency risks arising from assets and liabilities need to be hedged when the open net position in the same currency exceeds €100,000. The Company had no material currency risk exposures at the end of the reporting and the comparative period. In order to avoid currency risk, invoices are issued in euros.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates. Cash flow interest rate risk arises from the Company's floating-rate borrowings and is the risk that finance costs will grow when interest rates increase. The Company's non-current liabilities have fixed interest rates. The interest rate risk of current financial assets is mitigated by the Company's intention to hold the acquired financial assets until maturity. Interest rate risk can be taken when investments are made in current instruments in compliance with established volume restrictions.

Capital management

The Company manages all equity as capital. The primary goal of capital management is to secure the sustainability of the Company's operations. The goal set by the owner is to keep the ratio of equity to total assets in the range 40%–45%. Decisions on the raising of debt capital are made on the basis of cash flow forecasts. All of the Company's shares are owned by the state. Dividend distributions are decided by the owner based on the Company's financial results, development plans and general macroeconomic developments in Estonia and the target markets. Capital management is evaluated by comparing actual return on equity with the required return on equity. As a result of the decrease in air traffic due to the war in Ukraine, the Company ended the financial year with a loss and the targets set for the return on capital were not met.

Fair value

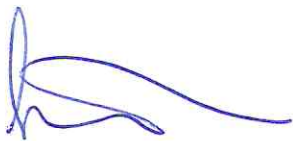
For disclosure purposes, fair value is calculated by discounting future contractual cash flows at current market interest rates that would be available to the Company for similar financial instruments. According to the Company's management board, the carrying amounts of financial assets and financial liabilities measured at amortised cost at 31 December 2023 and 31 December 2022 (see also Note 3) do not differ significantly from their fair values, as their settlement dates are within 12 months after the end of the reporting period. The fair values of non-current loans and borrowings do not differ significantly from their carrying amounts either, because their interest rates correspond to current market interest rates.

PROPOSAL FOR COVERING THE LOSS

The net loss of Lennuliiklusteeninduse AS for the financial year 2023 is €3,062,822.

The management board proposes to the general meeting that the loss of Lennuliiklusteeninduse AS be covered as follows:

- to cover the loss for the financial year by reducing share premium by €3,062,822.




Ivar Värk

Chairman of the Management Board



Mihkel Haug

Member of the Management Board



Meelis Kruusmann

Member of the Management Board

SIGNATURES OF THE MANAGEMENT BOARD TO THE 2023 ANNUAL REPORT

The signing of the 2023 Annual Report of Lennuliiklusteeninduse Aktsiaselts at 26 March 2024:



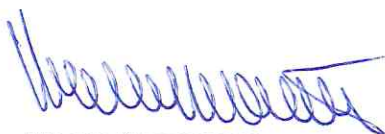
Ivar Värk

Chairman of the Management Board



Mihkel Haug

Member of the Management Board



Meelis Kruusmann

Member of the Management Board



KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

Independent Auditors' Report

(Translation of the Estonian original)

To the shareholders of Lennuliiklusteeninduse Aktsiaselts

Opinion

We have audited the financial statements of Lennuliiklusteeninduse Aktsiaselts (the Company), which comprise the statement of financial position as at 31 December 2023, the statement of comprehensive income, the statements of cash flows and changes in equity for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages from 47 to 81 present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants (Estonia) (including Independence Standards) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the management report, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the applicable legal and regulatory requirements.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard and we state that the information presented in the management report is materially consistent with the financial statements and in accordance with the applicable legal and regulatory requirements.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements



can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

KPMG Baltics OÜ
Licence No 17

A handwritten signature in blue ink, appearing to read 'Indrek Alliksaar', written over a light blue horizontal line.

Indrek Alliksaar
Certified Public Accountant, Licence No. 446

Tallinn, 27 March 2024