

**LENNULIIKLUSTEENINDUSE
AKTSIASELTS**
Estonian Air Navigation Services, EANS

ANNUAL REPORT

2022



LENNULIIKLUSTEENINDUSE AKTSIASELTS

ANNUAL REPORT 2022

GENERAL AND CONTACT INFORMATION

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Auditor:	KPMG Baltics OÜ

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A LETTER FROM THE CHAIRMAN

Dear reader,

2021 was the year of global recovery from the COVID-19 pandemic. We were already optimistic about 2022, when Russia started the war in Ukraine. This, in turn, led to an energy crisis, sharp price rises and a rapidly deepening economic recession. However, aviation was affected the most by the closure of the European air space, including Estonian airspace, in response to the Russian invasion of Ukraine on 24 February 2022.

The war has affected our Company's economic operations as much as the COVID-19 pandemic and no one in our region dares to predict how many years it will take for air traffic to return to the level of 2019. In 2022, traffic plummeted back to levels seen at the start of the pandemic. It is difficult to estimate the impact of the sanctions against Russia on air traffic and their duration, and it is therefore difficult to predict what the future will bring.

We are living in very difficult times. For the third consecutive year, the Company ended the financial year with a loss, and the year 2023 will be similar. The years 2020–2022 were the years of adaptation, and now we have to do it again. We have adapted and will adapt again. In three to five years' time, air traffic will increase again and we must be prepared to cope with it. We must continue with important investments and development projects, because we invest in projects that will change the future. These are long-term projects that are sustainable and will have a major impact on the environmental footprint of aviation industry.

The area of unmanned aerial vehicles has developed rapidly in recent years. In November 2022, the European Commission adopted the European Drone Strategy 2.0, according to which unmanned aerial vehicles will be widely used in key areas by 2030. The new strategy envisages extensive commercial use of drones in Europe and sees opportunities for the drone sector in aviation. Drones for shooting photos and video are already commonplace. In the future, drones will guard our borders, search for missing people, deliver our parcels, medical supplies and food, and, at a later stage, carry people. This is the near future. In order for it to be safe to all aircraft, both manned and unmanned, using airspace and in order for this industry to develop, it is necessary to develop a system that collects information and distributes it back to all those who request it. This is Estonia's UTM system, for which the communication and information system will be completed already in 2023. This enables us to develop the Company's activities in this area and ensure the safety of all customers using the airspace.

In 2022, we continued to digitalise air traffic services. We have a Remote Tower system, which we created with our partner Cybernetica AS and developed further with Adacel Technologies Limited. The system allows to control flights remotely by displaying live video images with sound in a suitable environment. Using this digitalised solution, we can coordinate flights at Estonian airports from the control centre in Tallinn. In 2022, we completed the solutions for the Remote Tower centre in Tallinn and the Remote Tower system in Kuressaare, for which the Estonian Transport Administration issued a certificate for aeronautical equipment. Receiving the certificate is a major milestone in the digitalisation of traditional aviation.

In addition to digitalisation, other important topics in aviation are efficiency, reduction of environmental impact and optimisation of processes. There are currently around 50 companies in Europe that provide overflight navigation services. All of these companies have acquired a system to navigate those flights.

These systems cost between 10 and 20 million euros and have to be fully upgraded approximately every 10 years. In addition, thousands of air traffic controllers work with these systems, and they have to undergo lengthy and expensive training when they switch from one system to another. All this is costly. With around 50 companies providing the services, Europe's airspace is fragmented, aircraft cannot fly along the most optimal routes, but have to plan their routes taking into account the waypoints, and therefore emitting too much CO₂.

Together with our Finnish partner Fintraffic ANS, we have designed and developed the FINEST project. This project creates a cross-border air traffic management system and the ability to provide services across the national borders of Estonia and Finland. The airspaces will be merged, our air traffic controllers will be shared and customers will be offered sector-based separation services. FINEST is an agreement for the future between the two countries and it requires the approval of both parties. In 2022, we started consultations with the Estonian and Finnish Ministries of Defence and Economy for obtaining their approval.

Looking ahead, 2023 will be a challenging year, but we are going to meet it on a favourable footing. We are changing the world of air traffic. In the near future, traffic management will have to take into account unmanned aircraft, which will become our new customers. In the future, unmanned and manned aviation will operate in a single area. We will no longer have to be at the same airport where flights are landing and taking off. In the future, the location of using the services will be decoupled from the location where the services are provided and we will navigate flights more directly and in a larger airspace, thereby reducing the environmental impact of air traffic. Europe needs innovation in air traffic services, and we in Estonia are ready to offer it through our development projects.

The Company completed 25 years of operation this year. We have safely navigated aircraft to their destination for 25 years, and we will continue to do so without interruption and with commitment.

Together for a safer sky!

CEO, chairman of the management board

Ivar Värk

1 OVERVIEW OF THE COMPANY

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

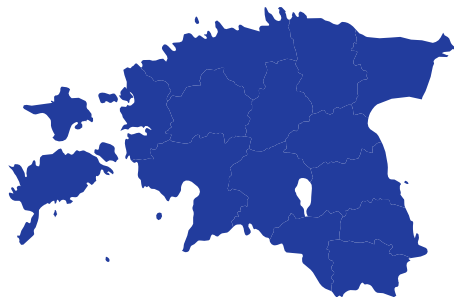
The principal activity of the Company is the provision of safe, digital, environmentally friendly and internationally competitive air navigation services for manned and unmanned flights, including air traffic management and supporting national defence needs in ensuring the sovereignty of Estonian airspace.

The management board organises the Company's business activities with a focus on the main expectations of three major stakeholders:

- **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, self-development and fair remuneration.

The owner of the shares of EANS is the Republic of Estonia and the Company is in the area administered by the Ministry of Economic Affairs and Communications. At the end of the financial year, the Company had 186 employees.





77,080 km²

Size of Tallinn FIR

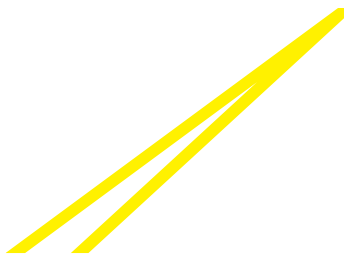


149,146

Total number of flights handled

+28%

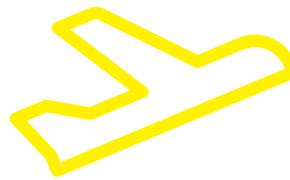
2022 vs. 2021



105,679

Incl. total number of overflights

+24% vs. 2021



33,576

total number of
departing/arriving flights

+58% vs. 2021



9,891

total number of domestic flights

-1% vs. 2021

The year 2022 in figures

Revenue

€15.7 million

-8% vs. 2021

Revenue and
other operating income

€16.1 million

-9% vs. 2021

Total assets

€29.3 million

-21% vs. 2021

Volume of investments

€4.6 million

+64% vs. 2021

Loss

€4.9 million

Number of employees

186

1.1 Vision of EANS for 2024

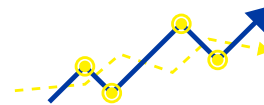
The Company's vision is to be a leader in innovative, digital and cross-border air traffic control services in Europe.

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



We work closely with experts in different areas and implement smart solutions to create 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



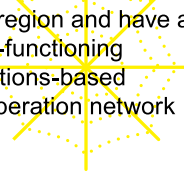
We have created innovative and sustainable business solutions to expand our operations

We are the most preferred employer in the Estonian aviation sector

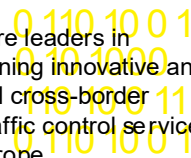


We are the pioneers, trendsetters and initiators in the development of unmanned aviation in Estonia

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



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



1.2 Values

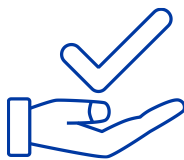
The Company values continuous stable development and cost-efficiency. Our activities are based on our core values, i.e. cooperation, development, honesty and openness.



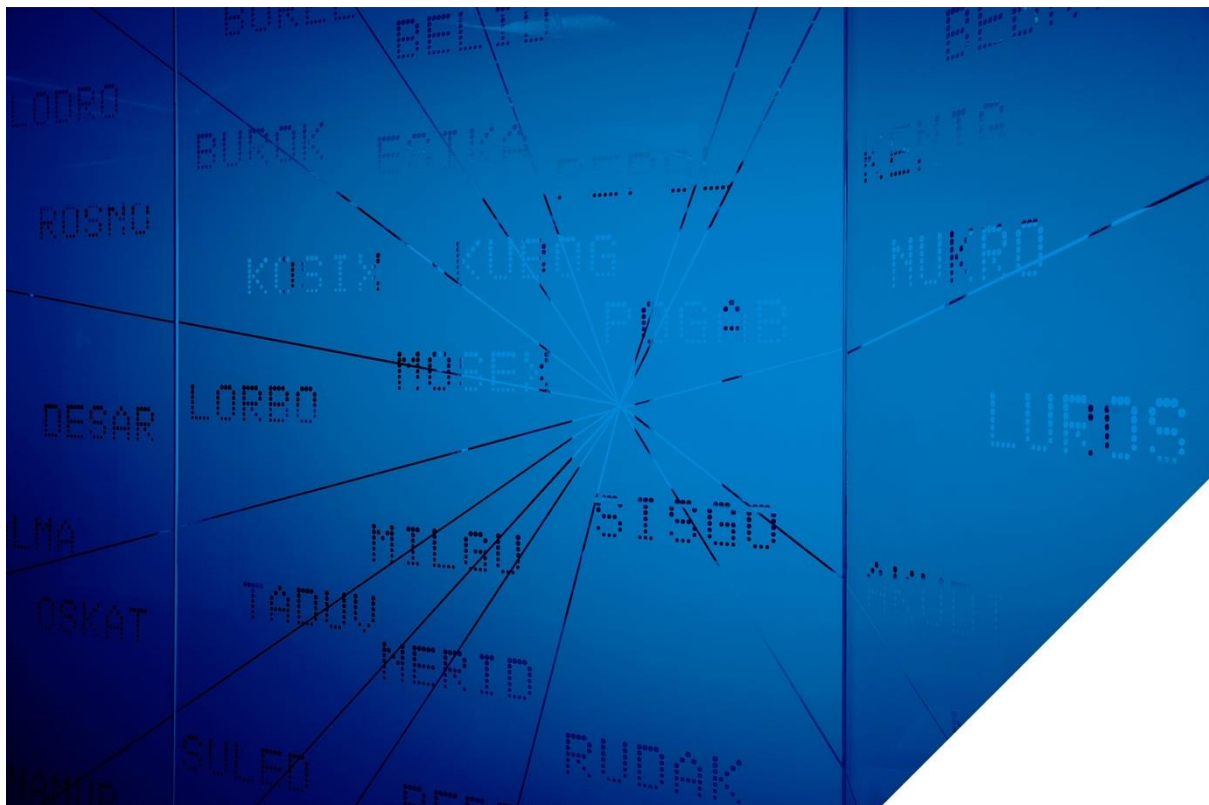
We value **cooperation**. We achieve our goals through cooperation and place a high value on teamwork. We consider team goals more important than personal ones. We generously share the information necessary to achieve the Company's strategic goals, value the time of our colleagues and recognise our own 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 sector. This is how we can jointly develop the Company and aviation as a whole both in Estonia and in the world. We see opportunities as challenges, not obstacles, and we think about how to support the development of the Company and thus the entire aviation industry.



We are **honest and open**. We keep our promises and implement them with 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 the development plans for Estonia, the agreements reached with the partners, the 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. It is important to ensure a safe air traffic control service through 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 in line with 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 upon 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 2022*

Performance area	Metric	Target 2022	Achieved 2022	
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	5.39	
Cost-efficiency	The year-on-year change of the average determined cost for en route air navigation services	≤ -0.1	-1.3	

* 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.

The year 2022 turned out to be much more complicated than expected. In response to Russia's military aggression against Ukraine, which started on 24 February 2022, the European Union took restrictive measures prohibiting Russian airlines, aircraft registered in Russia and aircraft owned, chartered or otherwise controlled by natural or legal persons, entities or bodies of Russia from landing, taking off from or overflying the territory of the European Union. Due to these measures, air traffic between Europe and Asia in the Estonian airspace decreased sharply.

In 2022, the number of IFR flights controlled was 142,277 compared to the 175,000 flights forecast in the performance plan. The volume of service units related to IFR movements to which en route navigation services were provided was 41% lower than the forecast: 428,511 vs. 726,854 service units.

The sharply reduced volume of flights handled did not allow to achieve the financial goals set for the Company. In planning the activities, EANS set its focus on the operational objectives, the achievement of which will help the Company to emerge in a stronger position from the recession caused by the war in Ukraine and upon growth of traffic to provide a better service to the customers through the investments made.

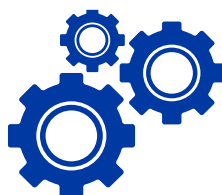
2.2 Sustainable development

EANS is part of the society and for us, it is important to be sustainable and environmentally friendly in all of our operations. The operational objectives of our sustainable development in the upcoming years are as follows:



Environment

- Adoption of green energy: by the end of 2024, 50% of our electricity will come from renewable sources
- Use of natural resources and energy in an efficient manner



Efficiency

- Increase in efficiency through integration and cooperation projects
- Streamlining and simplification of business processes
- Adoption of smart solutions



Society

- Our business is responsible
- We support promoting and fostering good aviation
- We contribute to education, and recruitment and training of new talent

Environmentally-friendly activities

We are aware of the impact of aviation's CO₂ 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 as well as in our daily ground operations. Our office building and air traffic control tower also emit CO₂, mainly in connection with heating and electricity consumption.

In 2022, EANS started an environmental working group whose task is to map the significant environmental aspects related to the Company's activities, assess their impact and create a monitoring system that helps to manage environmental aspects, reduce environmental impact and keep the impact within the norms. The environmental working group monitors that the Company meets the environmental objectives it has set.

We have set ourselves the goal of optimising energy consumption and have started the activities described below:

- Our office building has solar panels that provide more than 25% of our energy needs during the summer months. In order to increase the share of green energy consumption, we have started to reduce consumption. We are currently introducing a solution that optimises consumption and grid load in cooperation with R8 Technologies OÜ, and in addition, in cooperation with FuseBox OÜ, we have gradually connected our equipment to the power grid balancing compensation system. The integration is planned to be completed in 2023.
- We will critically look at all communication and navigation infrastructure, upgrade equipment as needed, and turn off equipment that is not needed for aviation (beacons, VORs, etc.).
- Since the current fixed-price electricity purchase agreement expired in 2022, the cost-efficient use of electricity is critically important for controlling the expenditure budget.

In addition to reasonable energy consumption, we care for the environment in the Company's choices of consumption. Our office kitchens are equipped with waste collection systems that allow sorting of waste. We have reduced the use of disposable products and plastics and perform regular water tests to check the quality of drinking water.

The Company's efficiency in air traffic control is also very important in protecting the environment. Air traffic control procedures and skills of air traffic controllers have a direct impact on aircraft fuel consumption, associated horizontal flight performance and final environmental impact.

Ensuring cost-efficiency

To ensure cost-efficiency, important projects (FINEST, Remote Tower, development of unmanned aviation) and related investments were continued. The successful implementation of the FINEST project will allow us to serve 20% more flights with the same staff in the future. The Remote Tower technology will make it possible to maintain the costs of the terminal service at a reasonable level, because once we have implemented this system, large and expensive tower buildings will no longer have to be built and maintained to provide the service. This technology will also enable us to control air traffic in multiple airports at the same time from a single location through implementing the multi-tower concept, while using fewer air traffic controllers compared to territorially dispersed locations.

Social contribution and cooperation

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

The cooperation partners of EANS are the following organisations:

- 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
- Aviation terminology commission

Social contribution

The Company considers it important to attract new talent. In 2022, nine trainees participated in the traineeship programme of EANS: there were six trainees in the Air Traffic Control Department, two in the Aeronautical Information Department and one in the Business Development Department. One of the trainees took up employment in the Aeronautical Information Department.

In 2022, the Company continued its cooperation with Estonian Autosport Events, a non-profit association, in connection with the organisation of WRC Rally Estonia 2022. The task of EANS was to help the organiser of the WRC stage to ensure the air safety of both manned and unmanned aircraft in the rally area.

On 7 May 2022, EANS employees participated again in the Let's Do It collective action day. We are part of the society and we want to be sustainable and environmentally conscious in all our activities. Therefore, on 17 September 2022, EANS employees participated for the first time in the World Cleanup Day on Stroomi Beach, Tallinn. We organised the cleanup action in cooperation with Nordic Aviation Group, Magnetic MRO and Tallinn Airport.

2.3 Air safety and quality

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

The Company pays a lot of attention to identification of the existing hazards and risks, development and implementation of the procedures required for their prevention as well as to their systematic monitoring. The purpose is timely identification of potential bottlenecks in the existing procedures, methodologies, technical systems and elsewhere that could become decisive in actual emergencies.

Meeting safety objectives

- In 2022, EANS handled 149,146 (IFR + VFR) flights. Compared to 2021, the number of operations increased by 27.8%, i.e. by 32,441 flights. In 2022, a total of 529 occurrence reports were submitted, of which 219 occurrences were further investigated. The number of submitted occurrence reports increased by 26.5% over the year, which is below the growth in air traffic in 2022. The increase in the number of reports can be seen as a positive sign, reflecting a well-functioning communication culture in the Company.
- In 2022, the number of occurrences investigated was 219, up 16% from 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 was in a positive downward trend in the financial year. In all the investigated occurrences, the root causes were identified. Where possible and deemed necessary by investigators and safety specialists, safety recommendations were sent to departments for taking corrective measures. The Safety and Quality Department regularly monitors whether the root causes have been resolved and meets with the departments to discuss whether and how these measures help prevent similar occurrences in the future.

- In 2022, there were many more reports of military air traffic and of flights over neutral international waters by airlines from the Russian Federation without a corresponding flight plan. There were also a number of reports related to communications systems.
- A total of 13 safety assessments were carried out during the financial year, of which 10 were risk assessments and 3 concerned safety reasoning.
- Activities continued with the business projects of Remote Tower and Unmanned Traffic Management (UTM), in the framework of which various safety assessments were conducted to identify potential risks at an early stage to ensure that they do not jeopardise the Company's operations or the successful development of the projects.
- An extensive campaign to promote safety culture that started in 2021 ended in 2022.
- In 2022, a Company-wide survey of safety culture was carried out and the results were presented to all staff. The survey was carried out with the assistance of EUROCONTROL.

Supervision of the management system

The management system of EANS is based on the quality management principles of the ISO 9001 standard. This ensures stable and high-quality services to our customers. Our management system is in compliance with the requirements of EU Regulation 2017/373, a proof of which is a certificate of the provider of air navigation services issued by the Transport Administration. Our management system is also in compliance with the international quality management system standard ISO 9001:2015, for which we have been issued a certification for the provision of air navigation services, air traffic, communications, navigation, surveillance and aeronautical information services. Both certificates are subject to external audits to assess compliance with the requirements of EU Regulation 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, and for this purpose, instructional materials have been compiled.

To develop the management system and enhance its impact, we promote a work culture of employees' awareness of legal and administrative requirements. We set goals and make sure that we have the necessary resources, we arrange reviews of the air traffic management system by the executive management each year so that its members would have an overview of the past activities, achieved goals and future plans.

The Company has an internal audit system to assess compliance in all of 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

When dealing with issues related to the management of the Company, EANS generally relies on the guidelines for good corporate governance (hereafter: CG). In addition to the recommended guidelines presented in CG, the Company is also guided by the State Assets Act, because EANS is fully owned by the Republic of Estonia.

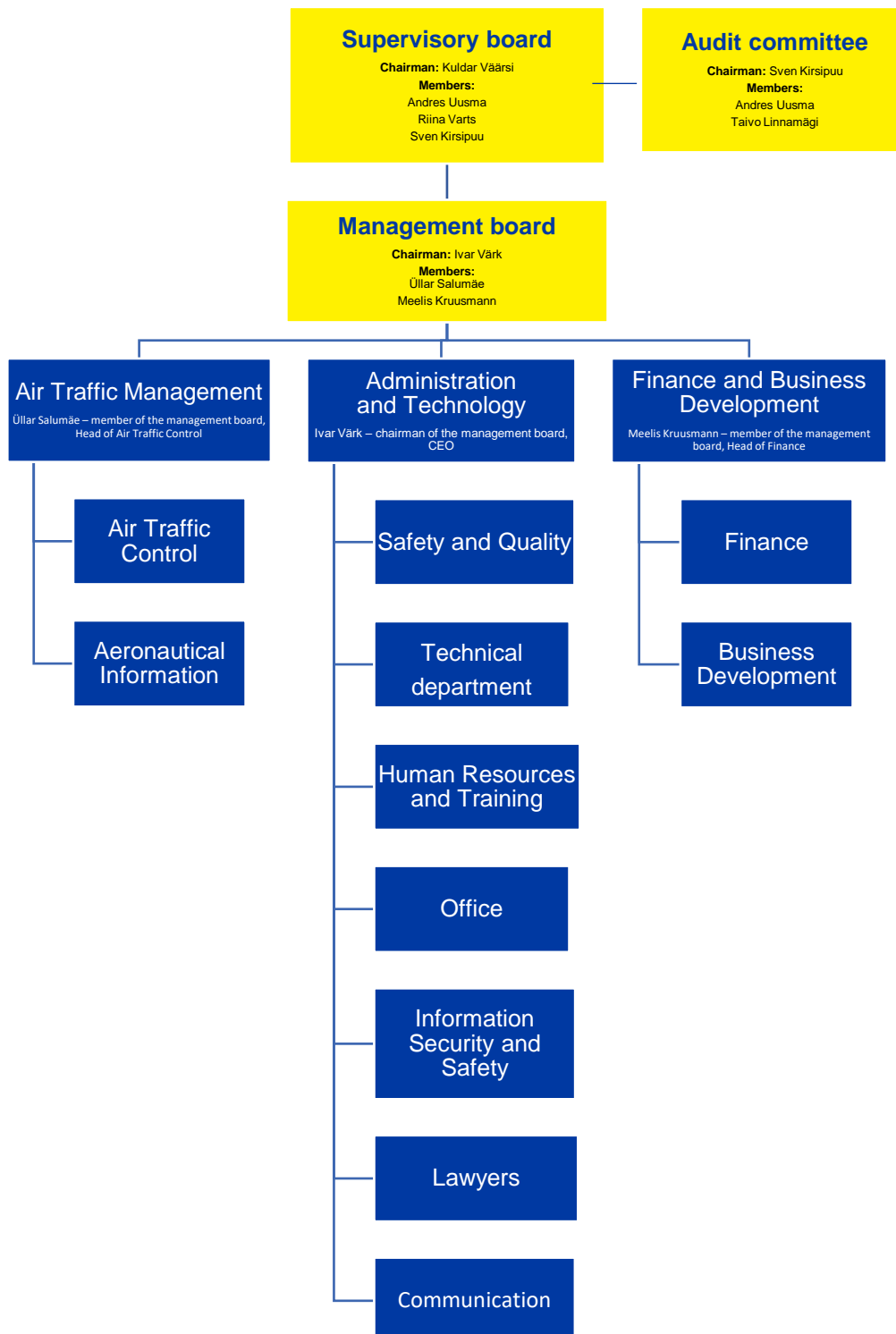
Therefore, due to the sole ownership of EANS and the related specific requirements in the management of the Company, EANS does not follow some of the recommended guidelines of CG at the level of the general meeting and the supervisory board. References to the provisions of CG (the relevant clause of CG and its brief description) that are not followed and respective explanations are given below.

However, it is important to note that although some of the guidelines are not followed, the activities of EANS are organised in a way that ensures full protection of the interests of the sole owner and the creditors and their equal treatment. The CG guidelines that are not followed mainly concern the organisational aspects of the general meeting and the appointment of the members of the supervisory board, which are primarily aimed at ensuring the protection of the shareholder's interests. 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.

The management board of EANS prepares the Company's financial statements, following the internationally accepted financial reporting standards. The report is reviewed by the auditor and the supervisory board of EANS.



Organisational structure of EANS
1 January 2022 – 31 December 2022



General meeting of EANS

EANS does not follow the CGR clauses stated below.

Clause 1.1.1. Every shareholder shall have the right to participate in the general meeting, take the floor on the agenda items, ask justified questions and make proposals.

Clause 1.2.1. A notice of convening the general meeting shall also be made available on the issuer's website at the time that it is sent to the shareholders and/or published in a national newspaper.

Clause 1.2.3. Concurrently with complying with the requirements for convening the general meeting set out in legislation, the management board shall disclose important information related to the agenda, which has been submitted to it or is made otherwise available to it, on the issuer's website.

Clause 1.2.4. The supervisory board shall disclose their proposals regarding the agenda on the issuer's website within a reasonable amount of time before the general meeting.

Clause 1.3.1. Neither the chairman of the supervisory board nor a member of the management board shall be elected chairman of the general meeting.

Clause 1.3.2. The members of the management board, the chairman of the supervisory board and if possible, the members of the supervisory board and at least one auditor shall attend the meeting.

Clause 1.3.3. If there are technical means available and it is not too expensive, the issuer shall make it possible to follow the general meeting and to participate in it through telecommunications (e.g. Internet).

The above-mentioned provisions of CGR are not followed because the sole shareholder of EANS is the Republic of Estonia and the shareholder's rights are exercised by the Ministry of Economic Affairs and Communications, represented at the general meeting of shareholders by the Minister of Economic Affairs and Infrastructure. Exercising of the shareholder's rights and the authority of the representative are provided in the State Assets Act; holding of the general meeting and its participants are determined, if necessary, in agreement with the sole shareholder.

EANS held its annual general meeting on 27 April 2022. The meeting was attended by the Minister of Economic Affairs and Infrastructure, the chairman of the supervisory board, the chairman of the management board and a representative of the Ministry of Economic Affairs and Communications. The auditor was not present at the meeting. The meeting was not broadcasted through telecommunications.

At the meeting, the chairman of the management board gave an overview of the economic performance, achievement of targets, external audits, risk management and major development activities in 2021.

The chairman of the supervisory board gave an overview of the supervisory board's activities in 2021, the control environment and remuneration policy.

The annual general meeting approved the annual report for 2021, made a proposal to cover the loss of the financial year 2021 from retained earnings and decided not to pay dividends from retained earnings.

The annual general meeting approved audit firm KPMG Baltics OÜ as the auditor of EANS for the financial years 2022–2024.

A new wording of the articles of association and the work organisation rules of the supervisory board were approved by a resolution of the sole shareholder on 15 June 2022.

Supervisory board of EANS

According to the articles of association, the supervisory board of EANS has four members. The members are appointed for a period of three years and their remuneration is determined by the general meeting. The function of the supervisory board is to monitor the Company's strategic goals and the business plan, and the activities of the management board in implementing them. The supervisory board gives orders 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 the daily operations. In 2022, the supervisory board held seven meetings (2021: seven meetings).

Members of the supervisory board 1 January 2022 – 31 December 2022:

Chairman



Kuldar Väärsi

Members



Andres Uusma



Riina Varts



Sven Kirsipuu

Clause 3.1.3. The supervisory board shall regularly assess the management board's activities and the implementation of the issuer's strategy, financial position, risk management system, the lawfulness of the management board's activities and whether essential information concerning the issuer has been communicated to the supervisory board and the public as required.

Upon the establishment of committees (audit committee, remuneration committee etc.) by the supervisory board and in the case of changes in the circumstances relating to the committees, EANS does not consider it expedient to publish their existence, duties, membership and position in the organisation on its website because EANS has a sole owner and the minutes of the meetings of the supervisory board are presented both to the general meeting and the Minister of Finance pursuant to the State Assets Act.

EANS does not follow clause 3.2.2 of CG which stipulates that at least half of the issuer's supervisory board members shall be independent. If the supervisory board has an uneven number of members, there may be one independent member less compared to dependent members. According to the articles of association of EANS, the supervisory board has 3 to 6 members. The supervisory board of EANS has four members.

Pursuant to § 81(1¹) of the State Assets Act, the holding administrator shall base its proposal for the election and the number of the members of the supervisory on the proposal of the nomination committee.

In accordance with clause 3.2.5 of CGR, the amount of the remuneration paid to the members of the supervisory board of EANS in 2022 and the remuneration procedure are presented below.

Payroll expenses (remuneration excluding social security tax) of the members of the supervisory board of EANS totalled €31,250 in 2022 (2021: €31,313).

The procedure for the remuneration of the members of the supervisory board is specified in § 85 of the State Assets Act. Pursuant to the State Assets Act, the amount of and the procedure for the remuneration of the members of the supervisory board have to be established by the holding administrator based upon the specifics of the business entity.

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 supervisory board's resolutions.

The regulation of the Minister of Finance, *Procedure for remuneration and limits of remuneration of members of supervisory boards of state-founded institutions and members of supervisory board bodies participating in the work of supervisory boards of state-founded companies*, specifies the limits and the procedure for the remuneration paid to the members of the supervisory board of state-owned business entities and such entities, where the state has at least decision-making power, and members of the supervisory board bodies for participating in the work of supervisory boards. In accordance with the aforementioned regulation, additional remuneration is paid to a supervisory board member for participating in the activities of another supervisory board body. The audit committee is a body within 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.

Clause 3.3.2. Conflicts of interests which have arisen during the financial year and their respective solutions shall be provided in the corporate governance report.

No notifications regarding conflicts of interest had been received by the Company from the members of the supervisory board of EANS by the time the annual report for 2022 was prepared.

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 supervisory board body.

Audit committee

In accordance with the Auditors Activities Act, the Company has set up an audit committee which is an advisory body to the supervisory board of EANS and has the duty to consult the supervisory board on the issues relating to supervision, including organisation of accounting, external audit, internal audit, financial risk management, legal compliance, preparation of the budget and approval of the annual report. Depending on its tasks, the audit committee makes proposals and recommendations to the supervisory board.

Chairman



Sven Kirsipuu

Members



Andres Uusma



Taivo Linnamägi

The audit committee held four meetings in 2022. The committee reviewed and approved the annual report for 2021. At the meetings, the audit committee discussed the Company's interim reports, the capital expenditure plan, audit findings and recommendations and presented the results to the supervisory board. The auditor of EANS, AS PricewaterhouseCoopers provided the audit committee with an overview of key findings and presented its observations and proposals on risk management and control systems in the auditor's report of the annual report for 2021.

Management board

The management board of EASN represents the Company and manages its daily operations independently, in accordance with the requirements of the law and the articles of association. The management board may adopt all decisions concerning the Company's activities and independently perform all transactions which are not within the competence of the general meeting or the supervisory board pursuant to law or the articles of association. The areas of responsibility and duties of the members of the management board are laid down in the contracts of the members of the management board.

Jaanus Selge, a member of the management board and Head of Technology and Business Development, submitted his resignation, and from 1 November 2022 the management board of EANS has three members.

On 13 February 2023, Üllar Salumäe, a member of the management board and Head of Air Traffic Management and Air Traffic Control, submitted his resignation to the supervisory board.

Chairman



Ivar Värk
Administration and Technology

Members



Üllar Salumäe
Air Traffic Control
(until 31 March 2023)



Meelis Kruusmann
Finance and Business
Development

In 2022, the management board held 19 meetings (2021: 20 meetings).

Pursuant to clause 2.2.7 of CGR, the information regarding the amount of the remuneration paid to the management board members of EANS in 2022 and the system for determining severance pay and additional remuneration are presented below.

The remuneration paid to the management board members of EANS in 2022 totalled €442,850 (2021: €384,077). The potentially payable annual bonus for the financial results of 2022 will be decided by the supervisory board after the annual report has been authorised for issue. The amounts of the additional remuneration and severance pay payable to a member of the management board are specified in § 86(2) and § 86(3) of the State Assets Act, pursuant to which the total amount of the additional remuneration payable to a member of the management board shall not exceed four months' remuneration paid to a member of the management board of EANS. As at 31 December 2022, in accordance with the contracts in force, EANS has an obligation to pay severance pay to the management board members in the event of their removal from office in the amount of three months' remuneration.

The determination of additional remuneration must be justified, with due respect to the value added to EANS and its market position. Severance pay can only be paid if a member of the management board is removed from office at the initiative of the supervisory board and before the expiry of his/her term of office; its amount cannot exceed three months' remuneration paid to a member of the management board.

Management

Ivar Värk, chairman of the management board, Administration and Technology

Üllar Salumäe, 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

Teve Rahula, Business Development

Imbi Kivi-Sild, Technology (from 1 February 2023)

Disclosure of information

EANS does not fully apply clause 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 clause 5 of CGR are not fully implemented, EANS presents the necessary reports to the shareholder directly and discloses on its website the information which is or might be of interest to the public. EANS also implements the provision in clause 5.6 of CGR concerning the principle of careful and comprehensive 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

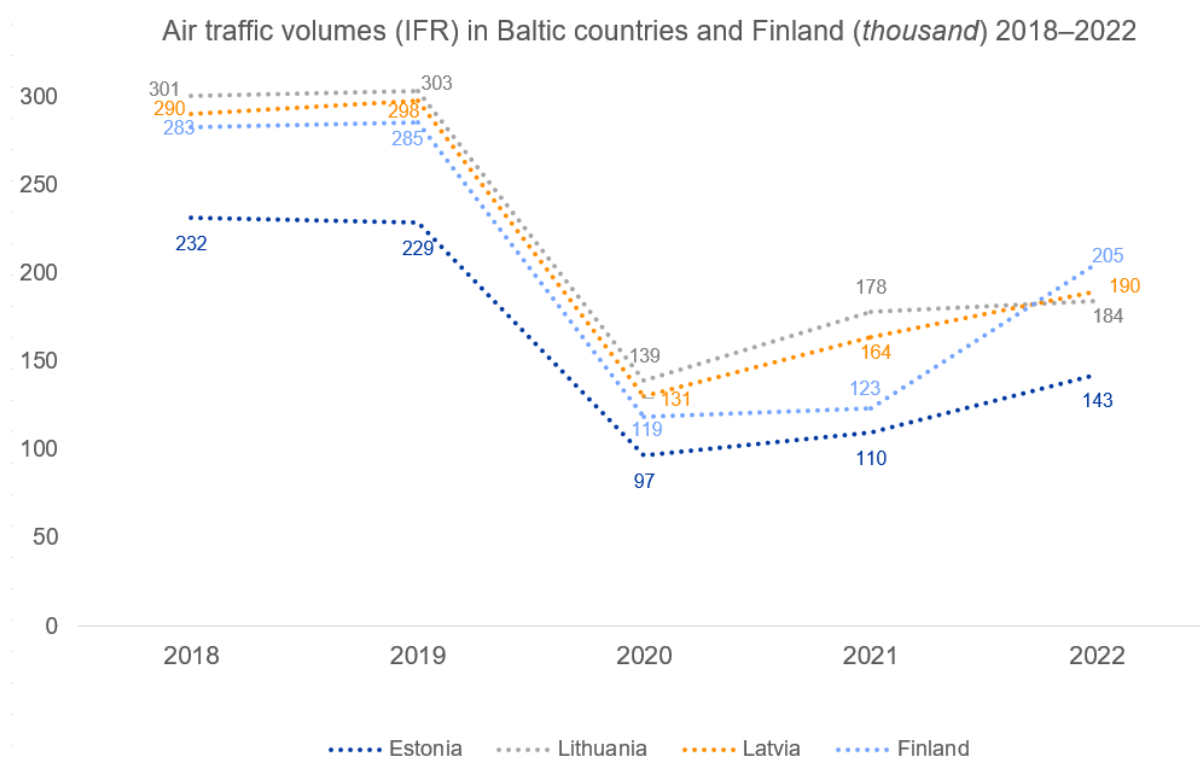
Clause 6.2.3. Upon organising rotation of auditors, the issuer shall comply with the guidelines of the Financial Supervision and Resolution Authority of 24 September 2003, *Rotation of auditors of certain entities under state supervision*. EANS does not follow this recommendation as the auditor is appointed 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

The impact of the decrease in air traffic caused by the coronavirus pandemic in 2020 and 2021 is starting to diminish and air traffic volumes in Europe have almost returned to pre-pandemic levels in 2022. In 2022, 9.3 million flights were operated in Europe, 3.1 million more than in the previous year, but still 1.8 million less (–17%) than in 2019.

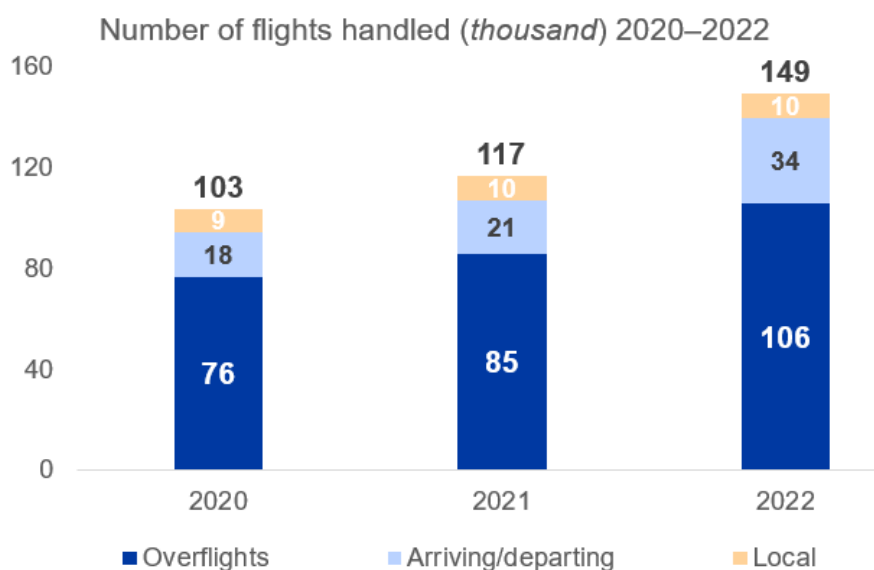
In our region and in the aviation market of the neighbouring countries, the war of aggression launched by Russia against Ukraine continues to have a strong impact. The closure of Russian airspace to European airlines means a decrease in traffic between Asia and Europe, and air traffic to Asia is diverted away from the airspace of Eastern and Northern Europe. China's economic outlook is another negative contributor: the country's economy is cooling, China is being hit by a real estate crisis, consumers are cutting costs, and Chinese airlines have also reduced flights to Europe. Due to these factors, the volume of air traffic in Estonia in 2022 was more than a third lower compared with the pre-pandemic levels in 2019. This means that the demand for air navigation services was also lower.



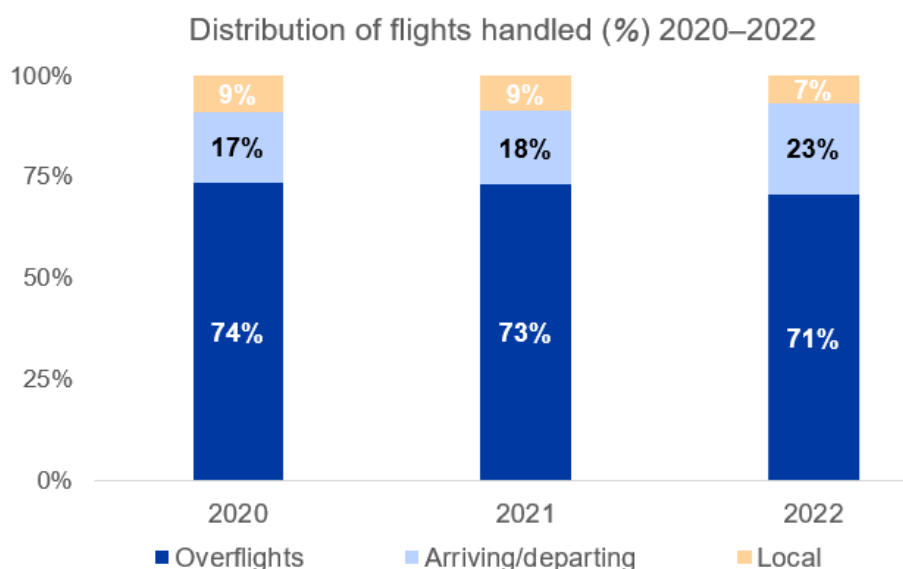
The IFR air traffic volume in Estonia was 143 thousand flights in 2022 (an increase of 33 thousand flights or 30% compared to 2021). In the Baltic states and Finland, the biggest increase in absolute numbers and as a percentage was in Finland, where the total volume of air traffic was 205 thousand flights (a growth of 82 thousand flights or 67% from 2021). In Latvia, the volume of air traffic in 2022 was 190 thousand flights (a growth of 26 thousand flights or 16% from 2021). In Lithuania, the volume of air traffic in 2022 was 184 thousand flights (a growth of 6 thousand flights or 3% from 2021).

Air traffic volumes in Estonia

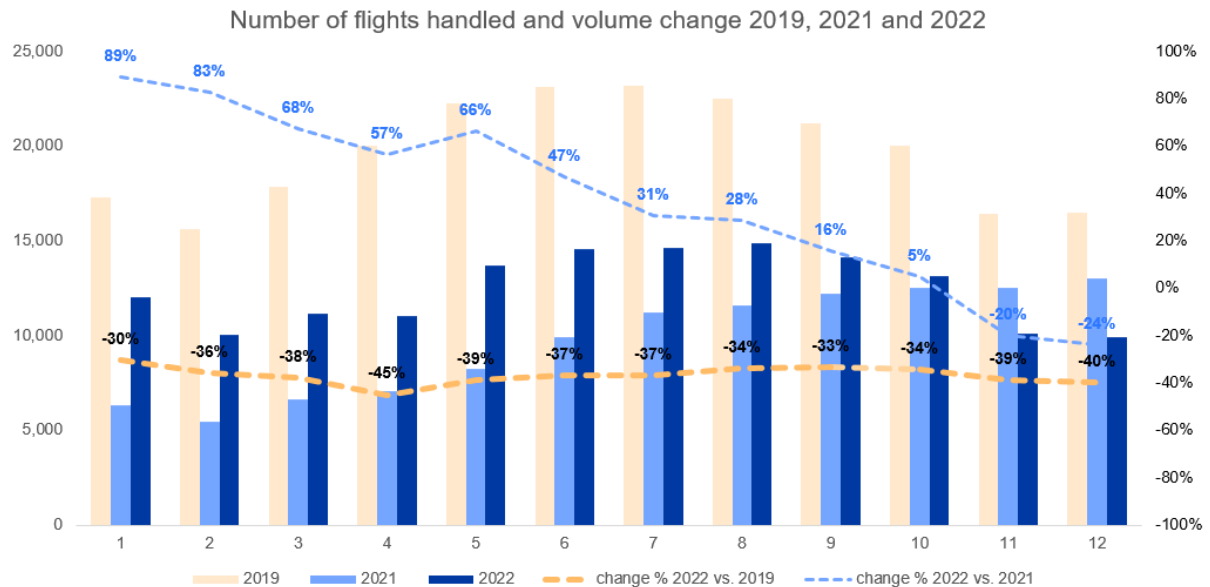
The total number of flights handled in Estonian airspace increased by 28% in 2022 (2021: 13%). Considering the volume of both IFR and VFR flights, a total of 149 thousand flights were handled (2021: 117 thousand). Compared with the previous year, the volume of flights increased for both overflights (+24% compared with 2021) and arrivals/departures (+58% compared with 2021), the number of handled domestic flights remained at a similar level (–1% compared with 2021).



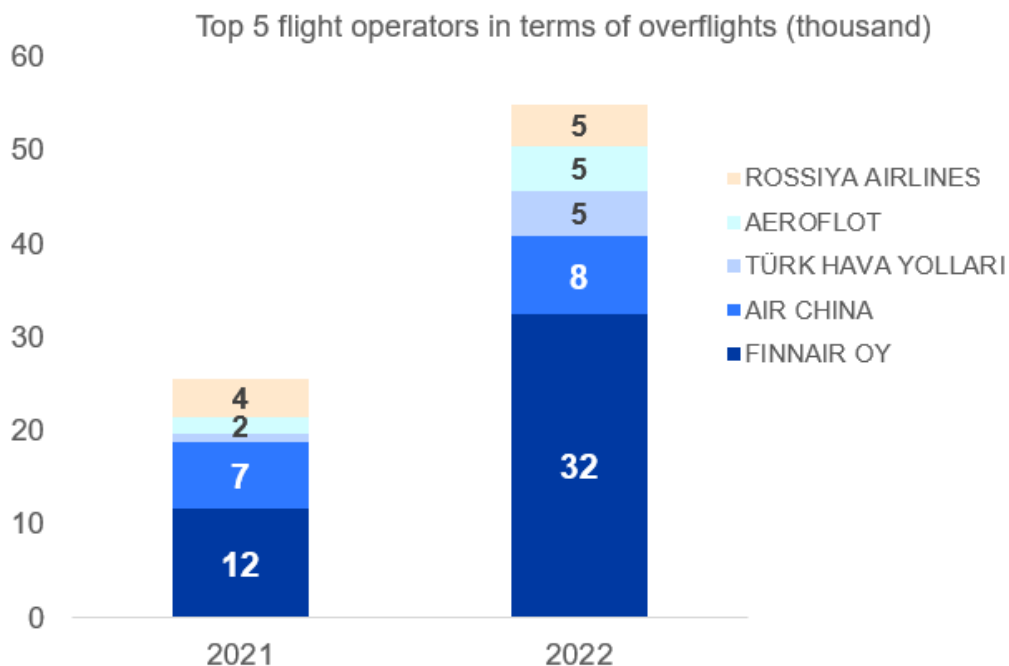
Of the number of handled flights, 71% were overflights through Estonia, while the share of arrivals/departures was 22% and the share of local traffic was 7%.



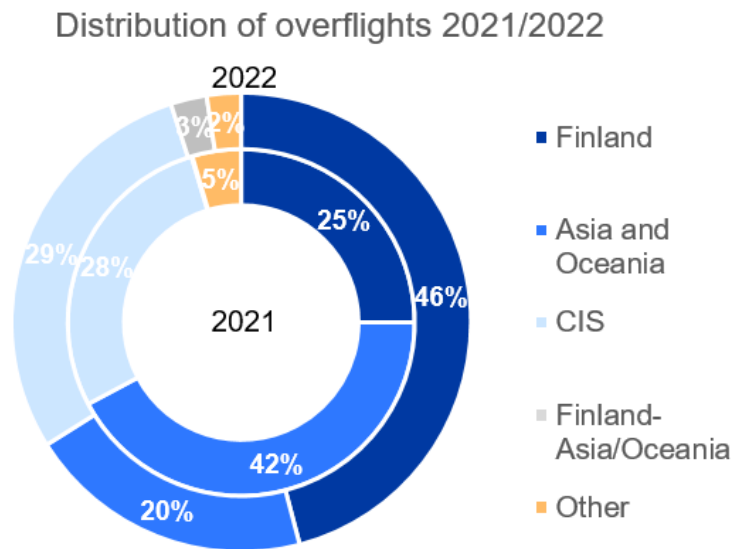
In 2022, the monthly volumes of air traffic followed the same pattern as before the outbreak of the coronavirus pandemic: the volumes were higher in the summer months. June was the busiest month with an average of 486 flights per day, with 539 flights served on the busiest day.



In 2022, Finnair continued to be the Company's largest customer in terms of the number of overflights handled (31% of the total number of overflights), followed by Air China International (8%), Türk Hava Yollari (5%), Aeroflot (5%) and Rossiya Airlines (4%).

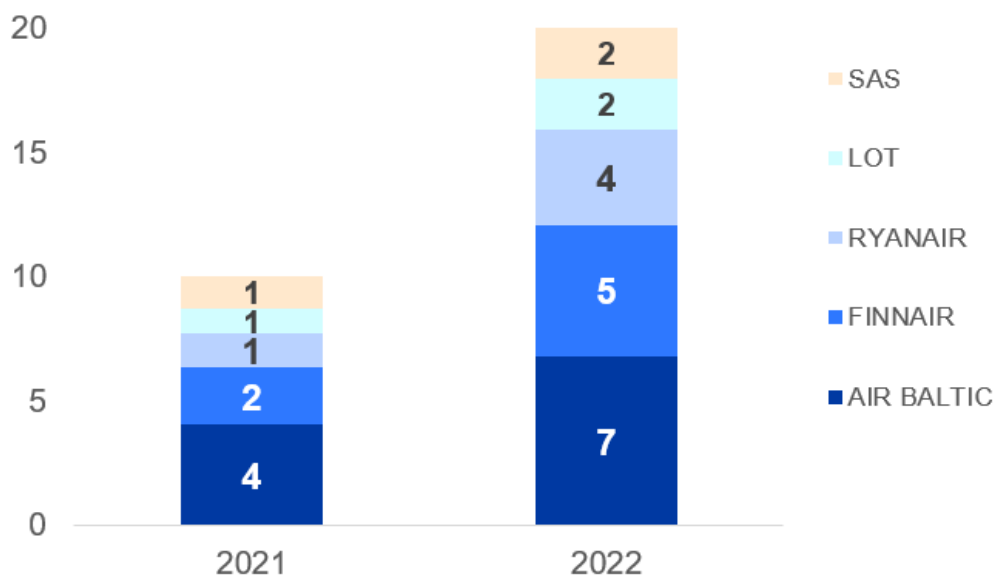


46% of the overflight traffic was headed to Finland, 29% to the CIS countries, 20% to Asia/Oceania and 5% to other destinations.



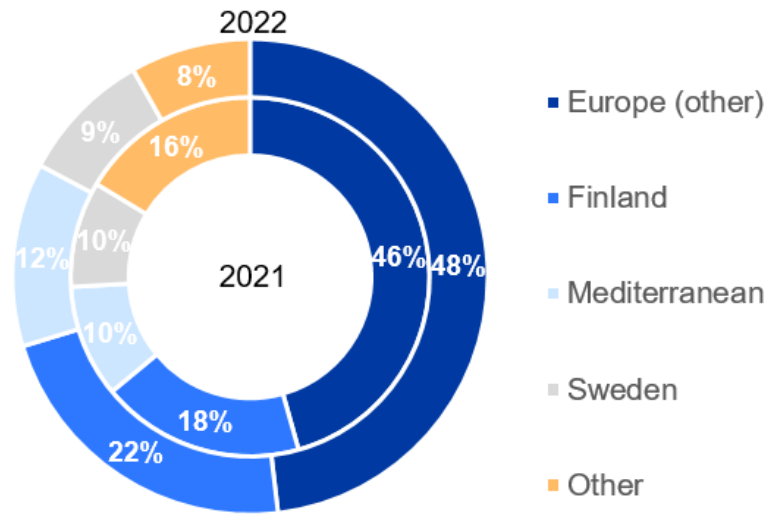
More than half of the international flights to and from Estonian airports were operated by four airlines. The Company's largest customer at Tallinn Airport is still Air Baltic, followed by Finnair, Ryanair, LOT and Scandinavian Airlines. The flights of these operators accounted for 20%, 16%, 12%, 6% and 6%, 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, 22% to Finland, 12% to the Mediterranean countries, and the remaining 18% to other directions.

Distribution of flights to/from Tallinn 2021/2022



5 FINANCIAL PERFORMANCE

Financial indicators 2021–2022, €

	2022	2021
Revenue	15,683,553	17,105,141
Change in revenue	–8.3%	20.9%
EBITDA	–926,780	2,205,372
Operating loss	–4,690,047	–3,199,324
Loss before tax	–4,880,429	–3,454,185
Net loss	–4,880,429	–3,454,185
Change in net loss	–41%	47%
Revenue per employee	89,111	97,188
EBITDA margin	–6%	13%
EBT margin	–31%	–20%
Net profit margin	–31%	–20%
Equity ratio	46%	50%
Return on equity (ROE)	–30%	–23%
Return on assets (ROA)	–15%	–9%
Current ratio	0.5	2.9
Debt-to-assets ratio	0.5	0.5
Average number of employees	176	176

EBITDA = earnings before finance income and taxes - expenses, income tax on dividends and depreciation/amortisation

EBITDA margin = EBITDA / revenue × 100%

EBT margin = earnings before tax / revenue × 100%

Net profit margin = net profit / revenue × 100%

Revenue per employee = revenue / average number of employees

Equity ratio = equity / total assets × 100%

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

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

Current ratio = current assets / current liabilities

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

Performance plan and unit rates

Changes in unit rates for EANS navigation services

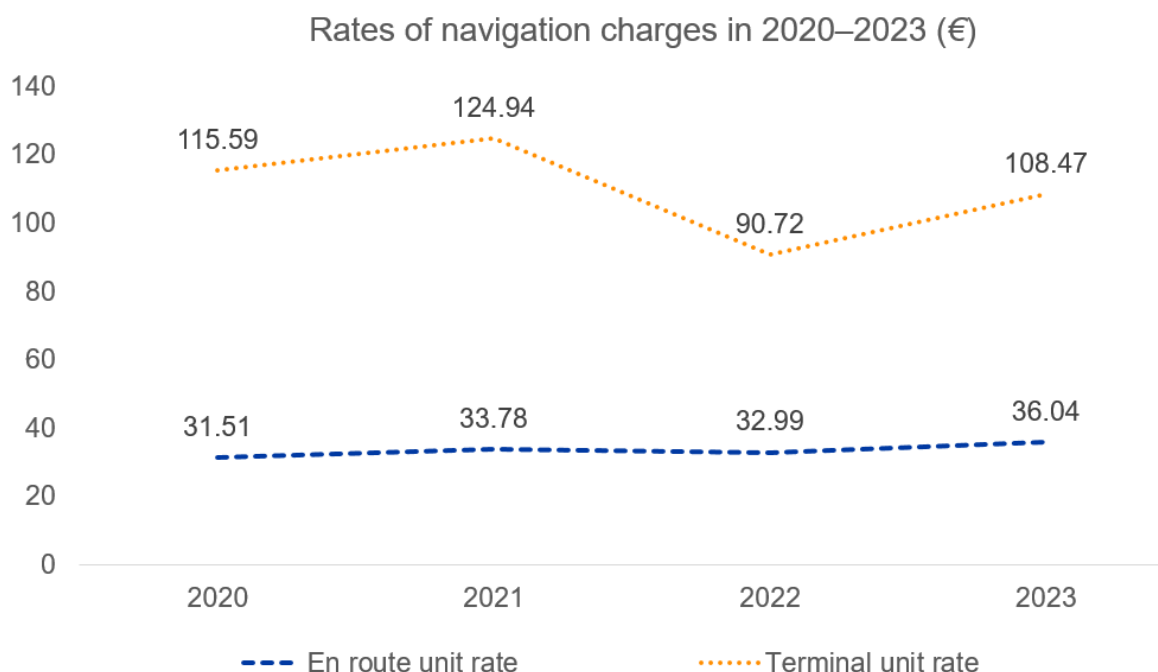
The unit rates for air navigation service charges are calculated in accordance with Commission Implementing Regulation (EU) 2019/317 of 11 February 2019 laying down a common charging scheme for air navigation services.

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 2022, the unit rate was €32.99. A year earlier, it was €33.78. Due to the current price regulation, the Company changed the unit rate for the en route navigation charge also for 2023, with the new unit rate being €36.04.

In 2022, the unit rate for the terminal navigation service was €90.72 while a year earlier it was €124.94. From 1 January 2023, the unit rate for the terminal navigation charge is €108.47.

Navigation charges in 2020–2023



Revenue and costs

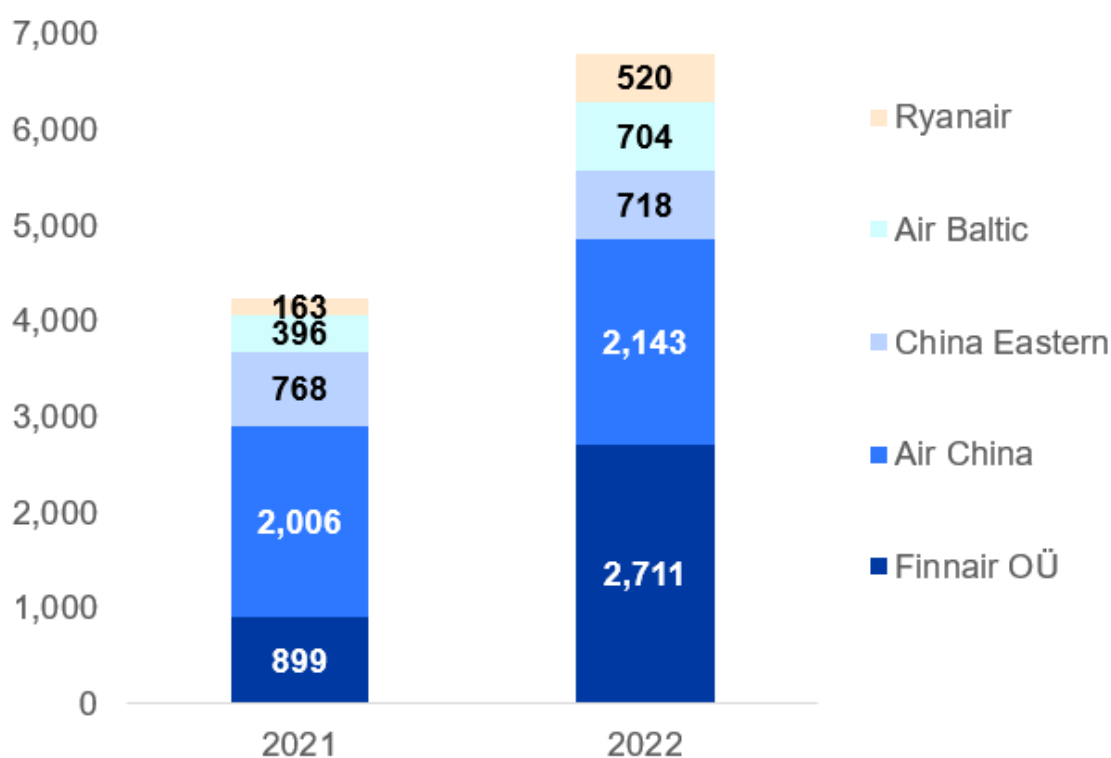
The Company's daily activities and economic performance were significantly affected by the war in Ukraine started by Russia and the sanctions imposed by the European Union and Russia. The imposition of sanctions resulted in a significant decrease in air traffic between Europe and Asia and in the corresponding revenue from air navigation services. The volume of flights handled was more than a third smaller than before the crisis in 2019.

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.

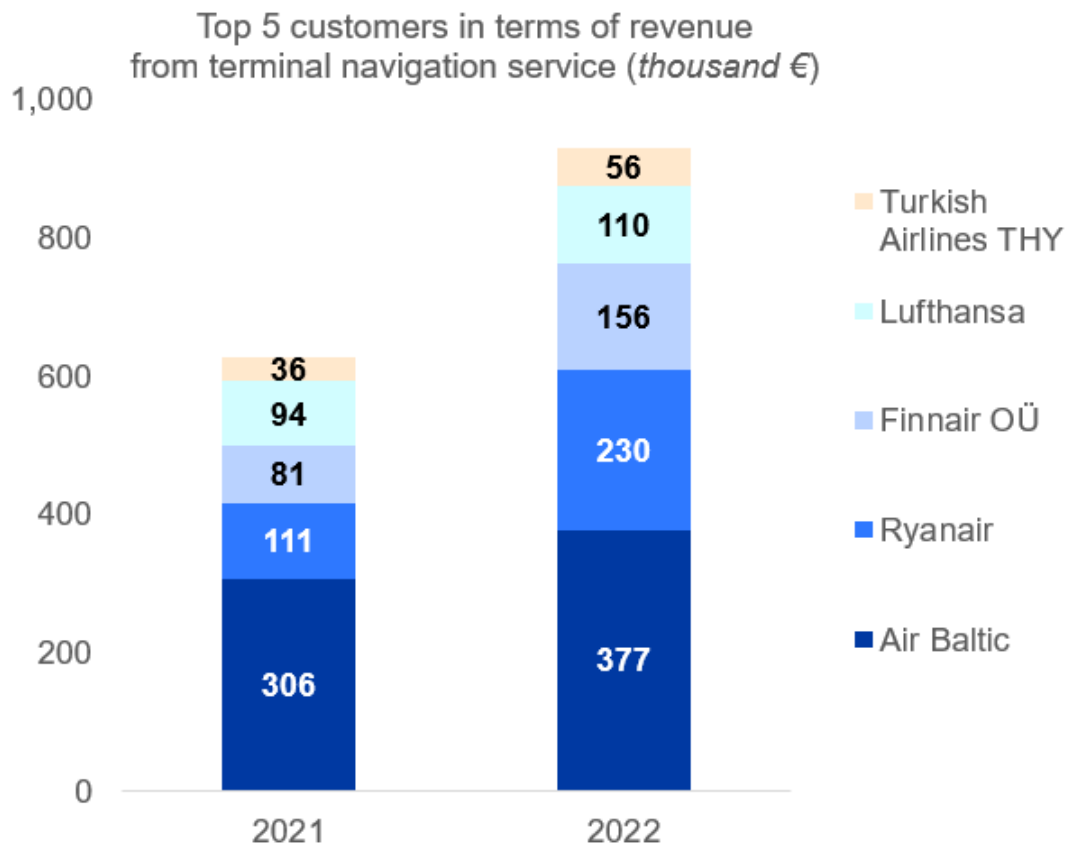
In 2022, the Company's revenue and other operating income totalled €16.1 million (2021: €17.8 million). Revenue amounted to €15.7 million (2021: €17.1 million), a decrease of 8% year on year. The decline in revenue is linked to the imposition of sanctions due to the war in Ukraine.

En route navigation services accounted for the largest share, i.e. 90% of revenue in 2022. Revenue from en route navigation services in 2022 was 10% lower than in the previous year. Finnair became the customer contributing the highest revenue from en route navigation services (+202% from 2021).

Top 5 customers in terms of revenue
from en route navigation service (thousand €)



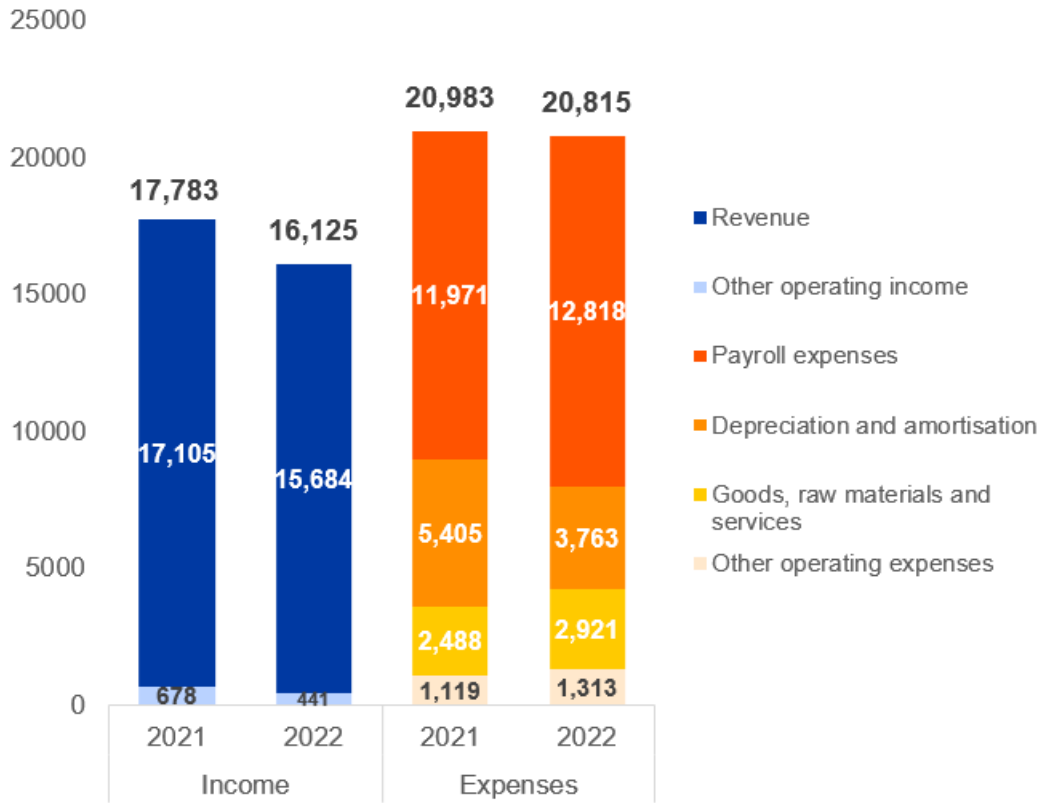
In 2022, revenue from terminal navigation services increased by 15% compared with a year earlier. Air Baltic became the customer contributing the highest revenue from terminal navigation services (+23% from 2021).



The majority of the Company's operating expenses are fixed. In 2022, operating expenses decreased by 1% and totalled €20.8 million (2021: €21 million). In 2022, payroll expenses amounted to €12.8 million (2021: €12 million), an increase of 7% compared with 2021. Depreciation and amortisation costs decreased by €1.6 million (–30%) over the year.

In 2022, finance income and costs totalled €190 thousand (2021: €255 thousand).

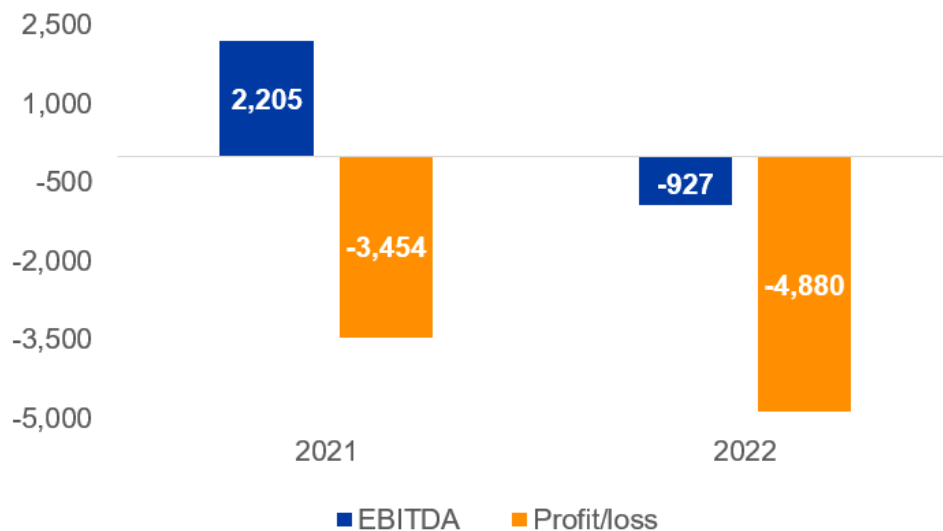
Operating income and expenses (*thousand €*)



Profitability

In 2022, the Company's earnings before interest, taxes, depreciation and amortisation (EBITDA) was –€927 thousand, €3.1 million less than in the same period last year. Net loss increased to €4.9 million in 2022, compared with €3.5 million in the same period a year earlier.

EBITDA and net profit (*thousand €*)



Investments

In 2022, investments in property, plant and equipment and intangible assets totalled €4.6 million (2021: €2.8 million), up by 64% from a year earlier.

At the end of the year, the total assets of EANS were €29.3 million, a decrease of €7.6 million from the beginning of the year (–21%). Equity amounted to €13.6 million.

Economic value added

In order to improve the evaluation process of the economic results of the EANS, the management uses the method for measuring the economic value added. While traditional accounting practices consist mainly of the preparation of the income statement and making judgments based on it, the implementation of the economic value added calculation also takes the cost of equity into consideration. The idea of the economic value added concept lies in the amount of profit earned for the owner in excess of the required return on equity:

Economic value added = net profit – 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%).

The economic value added by core services was as follows:

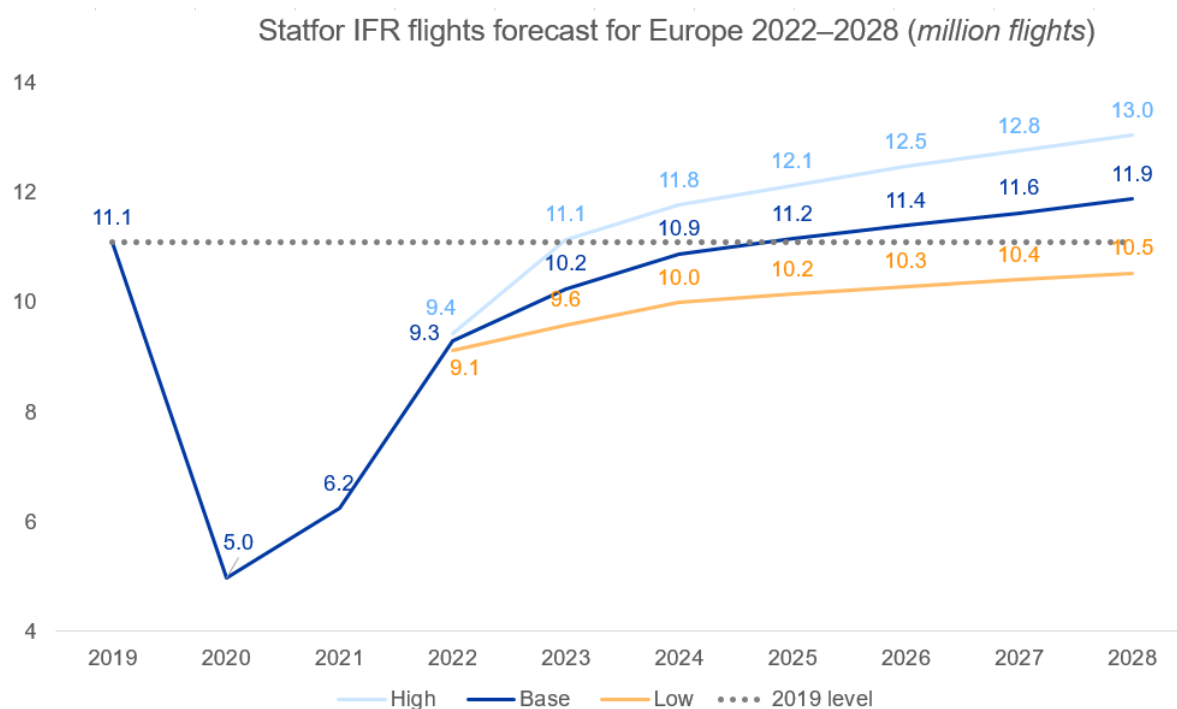
2022

	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 the Company level	–5,619,877	–812,675	356,011	–6,076,541
State expenses	6,459,093	370,791		6,829,884
Economic value added at the state level	–12,078,970	–1,183,466	356,011	–12,906,425

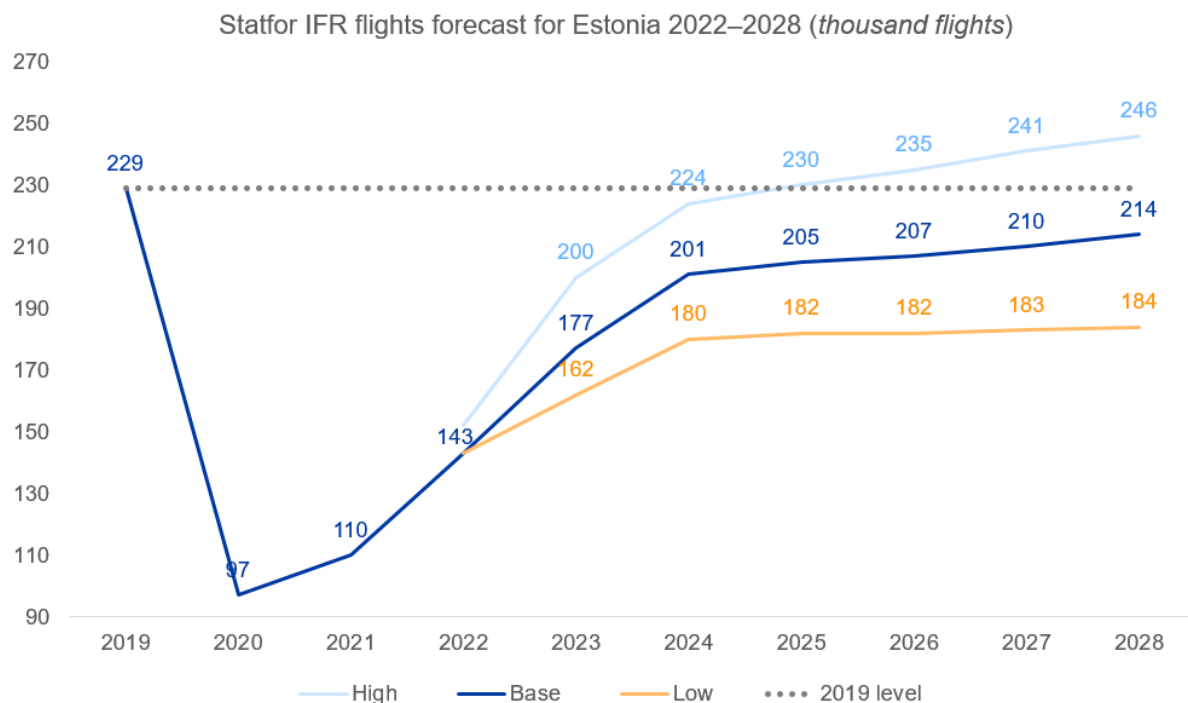
	En route navigation service	Terminal navigation service	Other services	Total
Revenue and other operating income	15,740,164	1,445,786	598,066	17,784,016
Operating expenses	16,588,497	4,376,602	17,509	20,982,608
Capital-related costs	1,327,494	305,336	5,851	1,638,681
Economic value added at the Company level	-2,175,827	-3,236,152	574,706	-4,837,273
State expenses	5,850,068	325,761		6,175,829
Economic value added at the state level	-8,025,895	-3,561,913	574,706	-11,013,102

Outlook for 2023

When it comes to planning the activities and setting the targets for 2023, we are once again in a difficult situation. In October 2022, EUROCONTROL (STATFOR) updated its forecasts for the period 2023–2028. Based on the forecasts, European air traffic is expected to return to its 2019 levels only after 2024.



Air traffic in Estonia, as well as in Latvia, Lithuania and Poland, is expected to recover to the 2019 levels at a slower pace, as Russia's invasion of Ukraine caused a significant decrease in the number of flights in these countries compared with other European countries. Thus, a rapid recovery of the volume of overflights is not foreseen in the forecast for air traffic in the airspace controlled by Estonia and the volume of air traffic in 2023 may be smaller than it was in 2022.



The latest air traffic forecast also includes a slightly more optimistic scenario, which relies on expectations of a recovery of passenger traffic between Chinese and European airports, operated by Chinese airlines. The recovery of such traffic should have a positive impact on the air traffic through Estonian airspace and thus on the Company's cash flows.

Looking at the bigger picture, the situation in the global economy will be difficult in the near future. Continuing high energy prices, inflation, pressure on wage growth and a tighter monetary policy through interest rate hikes could bring about a minor recession. All these factors also affect the Company and increase the risks. The price inflation in Estonia has remained above the euro area average mainly due to higher energy and food prices, standing at 19.4% in 2022. Eesti Pank expects inflation to slow down in 2023, but the forecast remains high, at 9.3%. Wage growth has also been rapid in recent years, reaching 8.9% in 2022. Wage growth continues as Eesti Pank expects an increase of 8.7% in 2023.

There is still much uncertainty and the start of the year has not been promising. In the first month of 2023, airlines reduced the number of their flights. While the uncertainty surrounding the pandemic is diminishing, geopolitical tensions have increased and their impact on air traffic flows is noticeable. The ongoing sanctions resulting from Russia's war of aggression against Ukraine will continue to have the largest impact on aviation this year. Overall, the economic environment is very volatile and it is difficult to make longer-term forecasts.

6 SERVICES AND BUSINESS LINES

6.1 Air Traffic Management

2022 was an erratic year in air traffic management and air traffic control. Air traffic volumes that had started to increase in 2021 following the lifting of COVID-19 restrictions suffered a major setback due to the war that began in Ukraine and the sanctions imposed. While the traffic volumes in the central part of Europe reached and partly even exceeded the levels of 2019, air traffic in Finland, Poland and the Baltic countries remained significantly below this growth.

The total volume of traffic in the Estonian airspace was 37% lower than the pre-pandemic level in 2019. Due to the sanctions resulting from the war between Russia and Ukraine, there was a significant increase in the volume of air traffic in the airspace above the international waters for which we are responsible. On the positive side, the recovery of air traffic at Tallinn Airport was better than forecast: the volume of arriving and departing flights increased by 12,268 flights, or 57.6% (2021: +58%).

The efficiency indicator of our principal service, the air traffic control service, has been in a downward trend since 2017. Air Traffic Control is the largest department in the Company, and therefore its impact on our financial indicators is significant. To increase efficiency, the Company launched a project to develop a workforce management system for the Air Traffic Control Department in 2022 and held in-depth interviews with air traffic controllers. The project will result in a workforce management system for air traffic controllers that meets our current needs, improved workforce planning and flexibility, reduced direct costs and a more efficient service. The implementation of the new workforce planning model is scheduled for 2023.

In our future activities, we must take into account the forecasts for air traffic growth. In addition, when planning the work of the Air Traffic Control Department, we should pay special attention to the potential increase in the volume of military flights in the Baltic region, related to the tensions between Ukraine and Russia.

6.1.1 Aeronautical Information Department

The purpose of the aeronautical information service (AIS) is to collect, process and transmit aeronautical information and data required for safe, high-quality and regular air traffic. In order to ensure the safety of air traffic, aeronautical information and data must have appropriate quality and it must be provided in a timely manner.

We have initiated various projects that support the transition from the aeronautical information service (AIS) to aeronautical information management (AIM), which means moving from product-centric services to the management of aeronautical information via digital data exchange.

In 2022, we continued to upgrade the CADAS aeronautical information systems for which a contract was signed at the end of 2019. The final deliveries and completion of the works are scheduled for the second half of 2023. As a significant change, both for us and the developer, we switched from the waterfall model to the agile software development model, as the work process which we had used earlier was not suitable for this development project.

In 2020, we started working together with the developer to ensure that our Aeronautical Information Management DataBase (AIMDB) would interact properly with the corresponding database of

Eurocontrol, the European AIS Database Static Data Operations (EAD SDO). In 2022, we no longer had to enter our data into two separate databases as the AIMDB system provides synchronised conversion between the two data models. When data are modified in AIMDB, they are also automatically changed in the EAD SDO database. The next step is to migrate from the EAD SDO database to the EAD SDD (European AIS Database Static and Dynamic Data) database. Preparations for this were started in 2022, when we set up a team, ordered the required developments from a software developer and agreed on a migration schedule with Eurocontrol. 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. The migration deadline is 7 September 2023.

On 27 January 2022, as part of the FINEST project, we switched to harmonised work processes with Fintraffic Air Navigation Services Oy (Fintraffic ANS). The largest change was transferring certain tasks from air traffic controllers to flight data assistants (FDA) in the Flight Information group to streamline the air traffic control processes of both EANS and Fintraffic ANS.

Since Russia's invasion of Ukraine on 24 February 2022, there has been no On-Line Data Interchange (OLDI) connection and no cooperation with St Petersburg's air traffic control unit. In the past, data was exchanged automatically, but now FDA have to receive estimates verbally and enter them manually in the Topsky system. This in turn has considerably increased the administrative burden.

In 2022, the Company continued its cooperation with Estonian Autosport Events, a non-profit association, in connection with the organisation of WRC Rally Estonia 2022. The task of EANS is to help the organiser of the WRC stage 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 Department is 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 (digitalisation)

In 2022, we prepared a digitalisation roadmap in cooperation with Flowit Estonia OÜ, which provides us with important information for enhancing our processes using Lean methodology, of existing bottlenecks and for smarter development of IT systems. While preparing the roadmap, we mapped more than 200 important processes from the viewpoint of information systems and digitalisation.

The next step is to optimise the processes, followed by the necessary IT developments, system interfacing and automation. To manage and coordinate the activities, a process manager position has been created in the Business Development Department.

In February 2022, a connection with Finland (1FDP) was put into operation in preparation for the single airspace. This was a preparatory step for the provision of cross-border air traffic control services in the framework of FINEST cooperation.

In 2022, under the Remote Tower project, technical capability was created for providing flight information services for Kuressaare and Tartu airports from the central hub in Tallinn. In December 2021, we started work on the installation of the Kuressaare module at the Remote Tower centre in Tallinn, and by the end of February 2022, a live video image from Kuressaare reached the centre in Tallinn. In April, we continued with the preparations for installing the system in Tartu and the module in the hub in Tallinn. By the end of June 2022, a live video image from Tartu also reached the Remote Tower centre in Tallinn.

During 2022, we started major preparatory work for a number of projects to be implemented in 2023–2024, including the following infrastructure projects:

- Upgrading of air traffic control hardware and software – acquisition of equipment, preparation of connections (implemented in the first half of 2024);
- Development and installation of the air traffic control information system (launched in 2023);
- Upgrading of the voice communication system (VCS) – acquisition of equipment, setting up and upgrading of interfaces, testing and installation of equipment. Training and pre-launch activities (launched in February 2023);
- Upgrading of the software of the flight information system (implemented by stages in the course of 2023);
- Upgrading of the navigation network (DME-DME network) – selection of locations and acquisition of equipment (implemented in summer 2023).

In cooperation with R8 Technologies OÜ, a solution for optimising heating and ventilation systems was developed and implemented in 2022.

6.2.2 Business Development Department

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 is delivered to us by the internationally renowned manufacturer Rohde & Schwarz Denmark A/S. In 2022, we tested and enhanced the system. Implementation is planned for the first half 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 the approval by the ministries of defence, economy and communications of the two countries.

In 2022, the Finnish Ministry of Defence issued additional integration requirements for the FINEST system. On 18 and 25 November 2022, meetings were held in Tallinn with representatives of the Finnish Ministry of Defence, the Estonian Ministry of Economic Affairs and Communications, the Estonian Ministry of Defence, the Finnish Ministry of Transport and Communications, the Estonian Transport Administration, the Finnish transport agency Traficom, Fintraffic ANS and EANS, during which an overview of the FINEST programme was given, a timetable for fulfilling the additional integration requirements was set and the process for coordinating the implementation of FINEST was agreed.

Remote Tower

In 2016, in cooperation with Tallinn Airport, EANS launched the Remote Tower project with the aim to digitalise the services at four regional airports in Estonia (Tartu, Kuressaare, Pärnu, Kärdla). We plan to complete the digitalisation by the end of 2025. To this end, we have developed solutions for deploying the Remote 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.

In the first quarter of 2022, we completed the renovation of the premises for the new Remote Tower centre. Kuressaare was the first airport from which a live video image was streamed to the Remote Tower centre in Tallinn and we completed the testing of the Kuressaare audiovisual system along with the integrated systems of the airport. On 24 April, Cybernetica AS, who had developed the Remote Tower software, announced the sale of the Remote Tower technology to a global provider of air traffic control technology and services, Adacel Technologies Limited (Adacel). With the transaction, Adacel acquired the Remote Tower technology created by Cybernetica, and the development of the technology was transferred to Adacel on 29 April 2022.

The acceptance tests of the Remote Tower system of Kuressaare were completed in April and May 2022, after which EANS accepted the first Remote Tower System from Adacel.

On 12 May 2022, the new Remote Tower technology created in Estonia was presented to the public and an opening event of the Remote Tower centre was held for our partners, customers and the media, where the Remote Tower project, as well as the Remote Tower centre and the Remote Tower system were presented together with the developer Adacel.

The installation of a new version of the Remote Tower system in Tartu began in spring 2022, and a live video stream from Tartu reached the Remote Tower centre in Tallinn in June. The first stage of the validation of the service provided to Tartu Airport via the Remote Tower, i.e. passive simulations, took place in September. Thereafter it was decided to continue with the next validation phase, i.e. active simulations, where the provision of the service to Tartu Airport with the new system from the Remote Tower centre in Tallinn was tested. The acceptance tests of the Tartu Remote Tower system were carried out in October and November. The certification procedure for the Tartu Remote Tower system began at the end of the year.

On 12 December 2022, EANS received an approval from the Transport Administration to start active simulations, i.e. provision of the service from the Remote Tower centre, which were started in January 2023.

On 8 November 2022, EANS received from the Transport Administration issued an aeronautical equipment certificate for the Kuressaare Remote Tower system.

Transition to aerodrome flight information service (AFIS) at Tartu Airport

In the future, EANS plans to offer a single type of air traffic service from its Remote Tower centre in Tallinn, which is why it was necessary to change over from the air traffic control service provided so far at Tartu Airport to the aerodrome flight information service. The transition was made on 8 September 2022. In addition to retraining the staff in Tartu and modifying the related procedures, it was also necessary to change EANS's certificate of air navigation service provider, as this was a new type of service for the Company. A change was also made to the airspace classification of Tartu Airport's control zone and terminal control area.

It is worth noting that the aerodrome flight information service at Tartu Airport is a monitoring-based service that is novel in Estonia.

Since the implementation of the new system, there has been no increase in the number of reported safety occurrences related to air traffic in the control zone and terminal control area of Tartu Airport.

Activities in 2023

In early 2023, we started active simulations of the Remote Tower at Tartu Airport, i.e. testing the provision of the service from the Remote Tower centre in Tallinn. Simulations are carried out for a minimum period of one month to make sure that we are ready to provide the AFIS service to Tartu Airport from the Remote Tower centre in Tallinn on an ongoing basis. The transition to the provision of the AFIS service to Tartu Airport from the Remote Tower centre is planned for 20 April 2023.

We will start preparations for taking over the AFIS service provided to Kuressaare Airport from AS Tallinna Lennujaam in the first half of 2023. To validate the service, simulations will be carried out in the second half of 2023. The provision of the AFIS service to Kuressaare Airport from the Remote Tower centre will be implemented in the first quarter of 2024.

Unmanned aviation

One of the key strategic objectives of EANS is the development of the unmanned aviation sector and common airspace for manned and unmanned aircraft (U-space).

In the first half of 2022, we continued to develop procedures for the management of unmanned aviation, using UTM software, drone and flight control simulators.

To acquire and develop UTM software, a contract was entered into with Frequentis AG in 2022. The software will be adapted to the needs of EANS during the development period planned for 2023.

In 2022, upon agreement with the Transport Administration, we continued to develop a map application for drone pilots in accordance with EU Implementing Regulation 2019/947. The map displays information about the airspace, geographical areas and current operating conditions necessary for the operation of drones. This map application is the first stage in the development of the U-space geo-awareness service. In addition to the above, the service provides dynamic airspace information (NOTAMs, AUP/UUP, etc.), allowing remote pilots to coordinate their flight activities in regions where a permit is required from the air traffic control unit in charge.

In 2022, we continued with 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 2022, 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 2022, the drafting of the U-space concept document was initiated and the principles of the national action plan were described to support broad-based development of the unmanned aviation sector. In addition, a legal analysis of the U-space Implementing Regulation (Commission Implementing Regulation (EU) 2021/664) was initiated in cooperation with the law firm TRINITI, to prepare proposals for its application in Estonian legislation.

In 2023, in addition to completing the above activities, we are planning to organise an information campaign to introduce the U-space regulation and the development activities related to the management of unmanned air traffic. The cooperation project continues until August 2023.

Workforce management system

To improve the efficiency of the air navigation services provided, the Business Development Department launched a project in autumn 2022 to develop a workforce management system which meets our current needs. In-depth data analysis began immediately after the launch of the project. The new workforce management model, in line with modern requirements, will be developed during the first half of 2023.

Crisis plan and airspace control plan

In May 2022, EANS started updating its contingency plan, taking into account the provisions to be introduced in the Aviation Act concerning the airspace control plan. The amended provisions of the Aviation Act entered into force in July 2022. According to § 7²(5) of the Aviation Act, the Commander of the Defence Forces now has the right to establish an airspace control plan and, according to § 7²(6) of the Aviation Act, the Defence Forces have the right to give orders to a certified air navigation service provider providing air traffic services during increased defence readiness, a state of emergency or a state of war in order to ensure the inviolability, guarding and protection of Estonian airspace. In the draft Act and the explanatory memorandum, the certified air navigation provider refers to EANS.

In 2022, we started preparing an airspace control plan in cooperation with the Air Force. The plan will be finalised in the beginning of 2023.

In autumn 2022, we updated our crisis plan, revised the contingency plan and prepared a completely new document which includes the crisis communication plan. The management board approved the new crisis plan in January 2023.

6.3 Our team

The year 2022 has been relatively stable for the team. The total turnover of the Company's workforce was 7% and the voluntary turnover was 3.8%. A significant change in work organisation took place after the resignation of the member of the management board and the head of Technology and Business Development, after which the responsibilities of the members of the management board were reassigned and the structure of the Company was changed.

Throughout the year, our priority was to ensure provision of high-quality services and protection of our employees' health. In addition, we will continue to offer our employees a safe and developing work environment, good leadership and motivating work.

In 2022, the Ministry of Social Affairs decided to extend the gold-level badge of a family-friendly employer that had been granted to our Company.



2022: 186 employees, average length of employment 11 years



109 men



77 women



7 new colleagues were hired



13 employees left

Employee satisfaction and change management

Collaboration and employee involvement are 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.

In early 2022, in cooperation with Kantar Emor, we conducted a survey of employee satisfaction and engagement based on the international employee engagement index TRI*M.

A total of 149 people, or 88% of the employees, took part in the survey. The high level of participation reflects the belief that feedback is worth giving and will be taken into account. It was found in the survey that the Company's average engagement index value, or TRI*M, was 53 (2019 TRI*M: 63). The evaluation of EANS as a reliable employer has decreased considerably. This was an expected result given the changes in the external environment. Our main strength, which has a significant impact on our employee engagement and which was highly rated in the Kantar Emor survey, is that we get to do the work we like. The Kantar Emor survey is carried out in the Company every two years.

To get daily feedback from employees and engage them, we conduct three pulse surveys a year. We use the net promoter score (NPS) method to measure both the management of the Company and the employee recommendation index. We have conducted five NPS surveys in total, and the employee recommendation index was in a constant downward trend until autumn 2022. However, based on the latest survey, we have managed to reverse the trend and the employee recommendation index has risen to –39 (in autumn 2021, NPS was –51). We strive to maintain the improving positive trend in the employee recommendation index.

Employee satisfaction is affected by the organisational changes and the difficult economic situation of the Company. It has also been undermined by general uncertainty due both to the difficult situation in the Company as a result of the war in Ukraine as well as a change in sentiment due to the alarming overall situation and/or the economic outlook.

Training and development activities

In 2022, we were more conservative than before in planning our training and development activities, and we made an active use of our internal trainers. Total training costs amounted to 1.6% of the payroll expenses in 2022 (2021: 1.9%). In 2022, training and development expenses totalled €201,761 (2021: €225,909).

Internal training continues to account for nearly half of all the training and development activities. To expand the scope of independent learning, we introduced Courtsy, an e-learning environment.

During the year, we implemented several development programmes across the Company. We continued to develop our managers, focusing on leadership, feedback and goal setting. At the end of 2022, our project managers underwent a three-module development programme, with the emphasis on the initial phase of projects, i.e. conceptualisation and analysis.

In 2022, almost all of the Company's employees participated in the workspace programme TööRuum (TRM), where we developed and strengthened teamwork and discussed safety and the role of each person in ensuring it.

In June 2022, we held a team event in the form of a seminar for all employees of the Company to introduce value-based thinking. In the second half of the year, we launched a development reinforcement programme, where volunteers receive training and then start working as development ambassadors in the Company.

In 2022, the training of air traffic safety electronics personnel (ATSEP) continued in the Technology Department. The Flight Information group was engaged in extending the scope of their competencies. In the Air Traffic Control Department, approach controllers underwent refresher training and there were three unit endorsement revalidations.

Work environment

Our office and work environment in general continue to meet high standards and 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 and organised a physical activity day. We reviewed the workplaces and work equipment of the employees who returned to office after the COVID-19 restrictions ended. Employees were given an opportunity to order ergonomic work equipment based on their needs: computer mice, mouse pads, desks and other necessary equipment for maintaining their physical health. We provided additional display screens for those doing hybrid work.

To maintain physical health, employees can use the Company's gym and the health promotion benefit in the Stebby environment to pay for wellness services. In 2022, we restored the massage service, which is provided once a week on the premises of the Company.

Alongside physical health, we focused even more on mental wellbeing in 2022. We can see that the events of recent years have increased the employees' need for assistance. To support mental health and prevent health issues, we continued our cooperation with the company Meeletervis OÜ, which provides mental health support services. EANS pays for psychological counselling, and the number of visits is unlimited. To support the mental health of our employees, raise awareness, and increase their ability to cope with crisis and stressful situations, we organised several internal and external training sessions.

In 2022, we continued our cooperation with Confido Medical Centre. In addition to a thorough medical examination, the employees could get vaccinated against influenza in early autumn at the expense of the Company. Rapid COVID-19 tests, protective masks, and disinfectants are available to our employees to help prevent the spread of COVID-19. We also provide other protective equipment, such as anti-static shoes, protective clothing and workwear as necessary.

In 2022, there was no loss of working time and there were no accidents at work.

7 FINANCIAL STATEMENTS

7.1 Statement of financial position

(€)

ASSETS	Note	31 Dec 2022	31 Dec 2021
CURRENT ASSETS			
Cash and cash equivalents	2; 3	3,694,320	10,555,239
Trade receivables	3; 4	2,218,078	3,913,115
Other receivables and prepayments	5	447,149	275,450
Total current assets		6,359,547	14,743,804
Property, plant and equipment	6	13,378,956	12,767,566
Intangible assets	6	9,585,539	9,420,251
Total non-current assets		22,964,495	22,187,817
TOTAL ASSETS		29,324,042	36,931,621
LIABILITIES AND EQUITY			
Current borrowings	3; 7	10,674,692	1,871,541
Payables to employees	8	156,289	187,009
Current provisions	8	401,400	521,168
Other current liabilities	3; 9	1,743,955	2,306,770
Current government grants	15	110,250	220,611
Total current liabilities		13,086,586	5,107,099
Non-current borrowings	3; 7	2,623,187	13,297,879
Non-current government grants	15	0	31,945
Total non-current liabilities		2,623,187	13,329,824
TOTAL LIABILITIES		15,709,773	18,436,923
EQUITY			
	10		
Share capital		10,112,940	10,112,940
Legal reserve		511,294	511,294
Share premium		5,000,000	5,000,000
Retained earnings (prior periods)		2,870,464	6,324,649
Total comprehensive loss for the year		-4,880,429	-3,454,185
TOTAL EQUITY		13,614,269	18,494,698
TOTAL LIABILITIES AND EQUITY		29,324,042	36,931,621

The notes on pages 51-83 are an integral part of these financial statements.

7.2 Statement of comprehensive income

(€)

	Note	2022	2021
Revenue	11	15,683,553	17,105,141
Other operating income		441,321	678,144
Total revenue and other operating income		16,124,874	17,783,285
Goods, raw materials and services	13	-2,920,879	-2,488,401
Other operating expenses	14	-1,313,062	-1,118,832
Payroll expenses	12	-12,817,713	-11,970,681
Depreciation and amortisation	6	-3,763,267	-5,404,695
Total operating expenses		-20,814,921	-20,982,609
Operating loss		-4,690,047	-3,199,324
Finance income		680	732
Finance costs	7	-191,062	-255,593
Loss from operating activities		-4,880,429	-3,454,185
Net loss		-4,880,429	-3,454,185
Total comprehensive loss for the year		-4,880,429	-3,454,185

The notes on pages 51–83 are an integral part of these financial statements.

7.3 Statement of cash flows

(€)

	Note	2022	2021
Cash flows from operating activities			
Operating loss		-4,690,047	-3,199,324
Adjustments			
Depreciation, amortisation and impairment	6	3,763,267	5,404,695
Amortisation of government grants related to assets	15	-142,306	-440,502
Government grants related to income	15	-152,531	-65,981
Total adjustments		3,468,430	4,898,212
Change in receivables and prepayments related to operating activities	4; 5	1,520,175	329,874
Change in inventories		3,164	-6,197
Change in payables and prepayments related to operating activities	8; 9	-198,969	460,383
Proceeds from government grants related to income	15	152,531	-1,242,741
Net cash from operating activities		255,284	1,240,207
Cash flows from investing activities			
Payments for property, plant and equipment and intangible assets	6	-5,053,228	-2,219,200
Interest received		680	731
Net cash used in investing activities		-5,052,548	-2,218,469
Cash flows from financing activities			
Contributions to equity		0	10,000,000
Loans received	7	0	0
Repayment of borrowings	7	-1,871,540	-4,792,072
Interest paid	7	-192,115	-257,016
Net cash used in/from financing activities		-2,063,655	4,950,912
Net change in cash and cash equivalents		-6,860,919	3,972,650
Cash and cash equivalents at beginning of period	2	10,555,239	6,582,589
Cash and cash equivalents at end of period	2	3,694,320	10,555,239

The notes on pages 51–83 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 2020	5,112,940	511,294	0	6,324,649	11,948,883
Increase of share capital	5,000,000	0	5,000,000	0	10,000,000
Total comprehensive loss for 2021	0	0	0	-3,454,185	-3,454,185
At 31 December 2021	10,112,940	511,294	5,000,000	2,870,464	18,494,698
Increase of share capital	0	0	0	0	0
Total comprehensive loss for 2022	0	0	0	-4,880,429	-4,880,429
At 31 December 2022	10,112,940	511,294	5,000,000	-2,009,965	13,614,269

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

The notes on pages 51–83 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.

These financial statements are presented in euros and cover the period from 1 January to 31 December 2022. The management board authorised the Company's financial statements for issue on 27 March 2023.

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 2021 except for the cases specified below.

Adoption of new standards, amendments and interpretations

The new standards, amendments or interpretations which became effective from 1 January 2022 are not expected to have a material impact on the Company.

Standards, interpretations and amendments to published standards not yet effective

The following new standards, interpretations and amendments were not yet effective for the annual reporting period ended at 31 December 2022 and have therefore not been applied in preparing these financial statements. The Company plans to adopt them when they become effective.

The amendments to **IAS 1 Presentation of Financial Statements** are effective for annual periods beginning on or after 1 January 2023 and are to be applied retrospectively. Early application is permitted. The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The entity's right to defer settlement for at least 12 months from the reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability. The Company considers the effect of the amendments on the financial statements as immaterial.

The amendments to **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgments** are effective for annual periods beginning on or after 1 January 2023. Early application is permitted. 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 considers the effect of the amendments on the financial statements as immaterial.

The amendments to **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors** are effective for annual periods beginning on or after 1 January 2023 and are to be applied prospectively. Early application is permitted. The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy. The amendments are not expected to have a material impact on the Company as these amendments provide guidance in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

The amendments to **IAS 1 Classification of Liabilities as Current or Non-current, Deferral of Effective Date** are effective for annual periods beginning on or after 1 January 2023. These amendments are not yet endorsed by the EU. The amendments to IAS 1 on the classification of liabilities as current or non-current were issued in January 2020. The original effective date was 1 January 2022.

However, in response to the COVID-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement the classification changes resulting from the amended guidance. The Company considers the effect of the amendments on the financial statements as immaterial.

The amendments to **IFRS 16 Leases: Lease Liability in a Sale and Leaseback** are effective for annual periods beginning on or after 1 January 2024 and are to be applied retrospectively from the period in which the entity first applied IFRS 16. Early application is permitted. These amendments are not yet endorsed by the EU. The amendments to IFRS 16 *Leases* impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments. The amendments confirm the following.

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. The Company considers the effect of the amendments on the financial statements as immaterial.

Other new or amended standards or interpretations which are not yet effective are not expected to have a material impact on the financial statements of the Company.

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 related 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 included in finance income using the effective interest method. Gains and losses arising on derecognition is 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 the 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 2021 and 31 December 2022 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).

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 consideration in the calculation of the effective interest rate and charged to expenses over the term of the financial liability.

Any expenses related to the financial liability (incl. interest expenses) are charged to the expenses of the period on an accrual basis. Financial liabilities that are due to be settled in the next 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 from the reporting date which are refinanced into non-current items after the reporting date but before the financial statements are approved 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 the liability 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

The Company has been applying IFRS 16 *Leases* since 1 January 2019.

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 covered by 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.

EANS 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 2022, 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 2022.

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. EANS 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, EANS does not adjust any of the transaction prices 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 EANS incurs a liability to its employees. Payroll expenses include wages and salaries with social security tax (33%) and unemployment insurance premiums (0.8%) as well as fringe benefits including the related income tax (20%, calculated as 20/80 of the net payment) and social security tax.

The vacation pay expense and liability are recognised on an ongoing basis. 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 currently 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 when 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.

Since 2018, it has been possible to apply income tax of 14% to dividend distributions (to calculate the amount of tax payable as 14/86 of the net distribution). The more favourable tax rate can be applied to the portion of a dividend distribution that extends to the three preceding years' average dividend distribution on which tax has been paid in Estonia. When calculating the average dividend distribution of the three preceding years, 2018 is the first year that is taken into account.

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 government grant received is recognised in the statement of financial position as a non-current liability (deferred grant income). The 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 2022) 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 2022, 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 2022	31 Dec 2021
Swedbank AS		3,460,553	10,022,895
Luminor Bank AS		47,187	320,341
SEB Pank AS		186,580	212,003
Total	3; 7	3,694,320	10,555,239

NOTE 3. FINANCIAL INSTRUMENTS

(€)

	Note	31 Dec 2022	31 Dec 2021
Financial assets			
Cash and cash equivalents	2	3,694,320	10,555,239
Trade receivables	4	2,218,078	3,913,115
Total financial assets		5,912,398	14,468,354
Financial liabilities			
Borrowings	7	13,297,879	15,169,420
Other current liabilities	9	1,307,718	1,897,300
Total financial liabilities		14,605,597	17,066,720

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. The management board of EANS estimates that the carrying amounts of the financial assets and financial liabilities measured at amortised costs at 31 December 2022 and 31 December 2021 are not significantly different from their fair values as they are 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.

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

NOTE 4. TRADE RECEIVABLES

(€)

	Note	31 Dec 2022	31 Dec 2021
Accounts receivable		2,515,000	4,215,705
incl. accounts receivable from related parties		26,370	156,479
Allowance for doubtful receivables		-296,922	-302,590
Trade receivables	3	2,218,078	3,913,115

In the financial year, the Company recognised an allowance for doubtful receivables of €110,067 (2021: €109) and reversed impairment losses recognised in prior periods of €3,303. The amount of receivables written off during the year as uncollectible was €112,432 (2021: €109) (for further information about credit risk, see Note 18).

NOTE 5. OTHER RECEIVABLES AND PREPAYMENTS

(€)

	31 Dec 2022	31 Dec 2021
Prepaid taxes	188,632	173,803
Other receivables and prepayments	258,517	101,647
Total	447,149	275,450

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

(€)

	Land, buildings, structures and their utility systems	Machinery and equipment	Other property, plant and equipment	Assets under construction	Total
Carrying amount					
31 December 2020	8,039,347	4,494,430	398,080	10,790	12,942,647
Addition	0	0	0	878,612	878,612
Reclassification	151,355	208,632	0	-359,987	0
Depreciation charge	-279,957	-717,512	-56,224	0	-1,053,693
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 charge	-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
At 31 December 2020					
Cost	11,399,475	16,439,748	703,136	10,790	28,553,149
Accumulated depreciation	-3,360,128	-11,945,318	-305,056	0	-15,610,502
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

Intangible assets

(€)

	Software	Assets under construction	Total
Carrying amount	7,938,466	3,943,927	11,882,393
31 December 2020			
Addition	0	1,895,640	1,895,640
Reclassification	3,979,092	-3,979,092	0
Reclassification to expense	0	-6,780	-6,780
Amortisation charge	-4,351,002	0	-4,351,002
Carrying amount	7,566,556	1,853,695	9,420,251
31 December 2021			
Addition	0	2,868,965	2,868,965
Reclassification	318,112	-318,112	0
Reclassification from assets under construction within property, plant and equipment	0	13,614	13,614
Reclassification to expense	0	-39,900	-39,900
Amortisation charge	-2,677,391	0	-2,677,391
Carrying amount	5,207,277	4,378,262	9,585,539
31 December 2022			
At 31 December 2020			
Cost	25,149,166	3,943,927	29,093,093
Accumulated amortisation	-17,210,700	0	-17,210,700
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

Software upgrades to Tatci Finest B10 of €2,182,886 and to CADAS of €1,033,210 make up a major share of the amounts recognised as assets under construction at the end of the financial year. The assets are expected to be implemented in 2023.

NOTE 7. BORROWINGS

(€)

Creditor	Total borrowings	Non-current portion	Current portion	Interest rate	Maturity date
At 31 Dec 2021					
Swedbank AS	423,900	0	423,900	1.69%	18.05.2022
Swedbank AS	3,962,407	3,297,879	664,528	1.50%	04.09.2027
Swedbank AS	10,000,000	10,000,000	0	1.29%	05.11.2023
EUROCONTROL	783,113	0	783,113	1.50% + EURIBOR	31.03.2022
Total	15,169,420	13,297,879	1,871,541		
At 31 Dec 2022					
Swedbank AS	3,297,879	2,623,187	674,692	1.50%	04.09.2027
Swedbank AS	10,000,000	0	10,000,000	1.29%	05.11.2023
Total	13,297,879	2,623,187	10,674,692		

The Company has two 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 consists of a five-year euro interest rate swap plus a margin, i.e. 1.29%. 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 €191,062 for 2022 (2021: €255,593) was fully recognised as finance cost in the statement of comprehensive income.

At the date the financial statements are authorised for issue, the Company has an agreement with Swedbank for refinancing the loan in the amount of €10 million. The refinanced loan will be recognised as a non-current liability in 2023.

Net debt

(€)

	31 Dec 2022	31 Dec 2021
Cash and cash equivalents (Note 2)	3,694,320	10,555,239
Current borrowings	-10,674,692	-1,871,541
Non-current borrowings	-2,623,187	-13,297,879
Net debt	-9,603,559	-4,614,181

Cash and cash equivalents (Note 2)	3,694,320	10,555,239
Borrowings with fixed interest rates	-13,297,879	-15,169,420
Net debt	-9,603,559	-4,614,181

	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 2021	6,582,589	-4,792,072	-15,169,420	-13,378,903
Changes	3,972,650	0	0	3,972,650
Loans repaid (+)/ received (-)	0	4,792,072	0	4,792,072
Reclassification from non-current to current	0	-1,871,541	1,871,541	0
Net debt 31 Dec 2021	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

NOTE 8. PAYABLES TO EMPLOYEES

(€)

Type of payable		Opening balance	Change	Closing balance
Vacation pay accrual and severance pay	2022	187,009	-30,720	156,289
	2021	293,327	-106,318	187,009
Bonus provision, current portion	2022	521,168	-119,768	401,400
	2021	0	521,168	521,168
Total 31 Dec 2022		708,177	-150,488	557,689
Total 31 Dec 2021		293,327	414,850	708,177

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 bonus provision recognised in 2022 is a current liability.

NOTE 9. OTHER CURRENT LIABILITIES

(€)

	Note	31 Dec 2022	31 Dec 2021
Trade payables	3	1,293,363	1,877,824
Tax liabilities		436,237	409,470
<i>Social security tax</i>		260,296	244,478
<i>Personal income tax</i>		139,680	133,277
<i>Unemployment insurance premiums</i>		17,345	16,356
<i>Mandatory funded pension contributions</i>		13,458	12,788
<i>Income tax paid in special cases</i>		5,458	2,571
Accrued interest	3	13,487	14,540
Other current liabilities	3	868	4,936
Total		1,743,955	2,306,770

NOTE 10. EQUITY

Share capital

The number of shares at 31 December 2022 was 1,011,294 (31 December 2021: 1,011,294), the average number of shares during the financial year was 1,011,294 (2021: 1,022,294). The nominal value of a share is €10 and share capital consists of ordinary shares. All shares are solely 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

The amount of the capital reserve required by the law (legal reserve) did not change during the financial year. The reserve amounts to €511,294 (the same as in 2021), which is the amount required by the Company's articles of association and legislation.

Share premium

Share premium of €10 per share and €5,000,000 in total did not change during the financial year.

NOTE 11. REVENUE FROM PRINCIPAL ACTIVITY

Revenue grouped by services

(€)

Type of service	2022	2021
Air navigation service (EMTAK 52239), incl.	15,660,500	17,103,438
En route navigation service	14,088,751	15,740,164
Terminal navigation service	1,571,749	1,363,274
Consulting service (EMTAK 52239)	23,053	1,703
Total	15,683,553	17,105,141

Navigation service grouped by customers

(€)

Customer	2022		2021	
	En route navigation service	Terminal navigation service	En route navigation service	Terminal navigation service
Finnair	2,711,462	155,762	899,323	81,366
Air China	2,142,938	0	2,006,322	0
China Eastern	717,756	0	768,049	0
Air Baltic	704,305	377,489	395,895	305,863
Ryanair	520,249	230,430	163,217	110,949
Air China Cargo	515,164	0	397,883	0
Turkish Airlines THY	461,985	55,616	139,890	36,223
Aeroflot	414,237	0	247,153	0
Lufthansa	398,306	110,463	577,349	93,985
Rossiya Airlines	335,700	0	363,934	0
Other customers	5,166,649	641,990	9,781,149	734,889
Total	14,088,751	1,571,749	15,740,164	1,363,274

NOTE 12. PAYROLL EXPENSES

(€)

	2022	2021
Payroll expenses	-9,404,805	-8,831,688
Social security tax and unemployment insurance premiums	-3,164,632	-2,974,997
Fringe benefits, incl. taxes	-248,276	-163,996
Total	-12,817,713	-11,970,681

The average number of employees in 2022 was 176 (2021: 176), of which the average number of staff working under employment contracts was 172 (2021: 172) and the average number of the members of the legal person's governing body was 4 (2021: 4).

NOTE 13. GOODS, RAW MATERIALS AND SERVICES

(€)

	2022	2021
Equipment maintenance costs	-1,138,197	-1,130,617
Services	-195,778	-139,220
Meteorological information	-388,747	-363,734
Equipment operation costs	-286,890	-228,555
Goods, materials, energy	-465,590	-209,871
Insurance expenses*	-295,193	-264,472
Security costs	-37,124	-40,217
Communication expenses	-78,085	-89,466
Necessary items	-35,275	-22,249
TOTAL	-2,920,879	-2,488,401

* 94.26% (2021: 94.62%) of the insurance expenses are insurance premiums paid for a liability insurance contract with a coverage of €650 million (2021: €650 million).

NOTE 14. OTHER OPERATING EXPENSES

(€)

	2022	2021
Training expenses	-164,544	-202,504
Staff travel expenses	-128,628	-72,286
Lease expenses	-395,621	-369,393
Other operating expenses	-356,296	-224,127
Maintenance of buildings, premises, facilities	-206,223	-197,736
Work environment expenses	-39,512	-37,255
Transport expenses	-22,238	-15,531
TOTAL	-1,313,062	-1,118,832

NOTE 15. GOVERNMENT GRANTS

(€)

	2022	2021
Government grant liability at beginning of period	252,556	2,001,780
Addition	152,531	-1,242,741
Grants related to income recognised as income	-152,531	-65,981
Grants related to assets recognised as income	-142,306	-440,502
Government grant liability at end of period	110,250	252,556
Incl. current portion	110,250	220,611
Incl. non-current portion	0	31,945
Incl. up to 6 months	0	195,037
6–12 months	110,250	25,574
1–2 years	0	31,945

In 2022, we acted as an intermediary for a government grant of €1,068,623 received in 2022 in the framework of the GOF 2.0 Integrated Urban Airspace VLD and received a grant related to income of €152,531 (recognised within Additions) to cover operating expenses.

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 other aviation enterprises under the control or significant influence of the state.

(€)

Related party	Year	Assets	Liabilities	Operating income	Operating expenses
Aviation enterprises under the control or significant influence of the state	2022	13,731	27,956	203,808	109,167
	2021	54,194	17,657	249,497	95,963

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 2022 amounted to €360,350 and management board members' additional remuneration for 2022 amounted to €82,500 (2021: the remuneration (board member service fees and salaries) amounted to €321,077 and additional remuneration amounted to €63,000). 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 €31,250 in 2022 (2021: €31,313)

According to the contracts signed with the members of the management board, the Company has the obligation to pay termination benefits, which may extend up the 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 ACCOUNTING ESTIMATES AND JUDGEMENTS

During the preparation of the financial statements, various accounting judgements, estimates and assumptions are used, 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 2022, the total cost of non-current assets in use that had zero carrying amount was €27,141,545 (31 December 2020: €10,176,538).

If the assigned depreciation or amortisation rates of all assets changed by one year, the effect on total comprehensive income or loss would be €283,200.

During the financial year, non-current assets with a cost of less than €10,000 were written off the statement of financial position. Accounting for these assets continues off the statement of financial position. Management's estimate regarding the change in the useful lives of assets was recognised in the financial statements prospectively. The change increased depreciation charge and the effect on comprehensive loss was €39,561 (2021: €19,376).

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

The management assessed the existence of indications of impairment of items of property, plant and equipment, intangible assets and assets under construction. In 2022, 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 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 cash disbursements that can be accessed within three working days has to be kept available at all times, not considering one-off larger than normal disbursements. 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 disbursements. 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:

	Up to 6 months	6–12 months	1–2 years	2–5 years	Later than 5 years	Undis- counted cash flows	Carrying amount
At 31 Dec 2022 (€)							
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
	Up to 6 months	6–12 months	1–2 years	2–5 years	Later than 5 years	Undis- counted cash flows	Carrying amount
At 31 Dec 2021 (€)							
Borrowings (Notes 3; 7)	1,637,572	425,417	10,839,759	2,160,271	540,068	15,603,087	15,169,420
Trade and other payables (Notes 3; 9)	1,897,300	0	0	0	0	1,897,300	0
Total	3,534,872	425,417	10,839,759	2,160,271	540,068	17,500,387	15,169,420

The Company has taken 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 providing navigation services 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 increased in the financial year and in the comparative period. At 31 December 2022, receivables of €110 thousand were classified as doubtful (mainly items related to flight operators of Russian origin), at 31 December 2021 the amount classified as doubtful was insignificant.

A low level of credit risk is ensured by the Company's lawful right not to provide navigation services to customers who owe for consumed services. By the date the financial statements are authorised for issue, 96% of receivables recognised in the statement of financial position as at the year-end had been collected.

Trade receivables by due dates

(€)

	31 December 2022		31 December 2021	
Not past due	1,972,220	78.4%	3,801,329	90.2%
1–30 days past due	124,423	4.9%	88,246	2.1%
31–60 days past due	31,702	1.3%	24,401	0.6%
61–90 days past due	26,232	1.0%	7,159	0.2%
91–120 days past due	23,001	0.9%	9,299	0.2%
121–180 days past due	95,557	3.8%	11,426	0.3%
More than 180 days past due	241,865	9.5%	273,845	6.4%
Total trade receivables* (Notes 3, 4)	2,515,000	100.0%	4,215,705	100.0%

* Trade receivables include doubtful receivables

The entire balance of receivables and deposits exposed to credit risk is €6,359,547 (2021: €14,743,805, see Notes 2–5).

Although the ECL model of IFRS 9 covers also cash and cash equivalents, the identified impairment as at 31 December 2021 and 31 December 2021 was immaterial.

Breakdown of bank accounts and deposits by bank based on credit ratings

(€)

	31 Dec 2022	31 Dec 2021
At banks with Moody's credit rating of Aa3	3,694,320	10,555,239
Total credit risk exposure arising from bank accounts (Note 2)	3,694,320	10,555,239

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 relevant volume restrictions.

Capital management

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 management board of EANS, the carrying amounts of financial assets and financial liabilities measured at amortised cost at 31 December 2022 and 31 December 2021 (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.

NOTE 19. EVENTS AFTER THE REPORTING PERIOD

After the reporting date, we ordered an analysis from an advisory firm on how to recognise revenue in the financial year when we know in advance that the loss of revenue in the reporting year will be compensated for in subsequent years through the traffic risk sharing mechanism according to the principles of Commission Implementing Regulation (EU) 2019/317.

COVID-19 pandemic led to a significant decrease in air traffic in 2020 and 2021 due to a sharp drop in demand and direct measures taken by Member States and third countries to contain the pandemic outbreak. To mitigate the impact of the pandemic on airspace users, the European Commission adopted 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. The regulation mitigated the effects of the COVID-19 crisis on airspace users by freezing the unit rates of air traffic charges for 2020 and 2021 which put companies providing air traffic services in a financially difficult position.

As a result of the Regulation, no adjustments of the rates in year n+2 were made in 2020 and 2021, although the number of service units decreased significantly. The Regulation combined the periods of the years 2020 and 2021 into a single reference period. This meant that the difference in the forecast actual service units in the years 2020 and 2021 were to be analysed for the two years in total. In addition, the n+2 adjustment period was changed, i.e. the rate adjustment was to be spread over 5 years and not to be made in year n+2. According to calculations, the impact of applying the exceptional measures is ca €24.9 million, which is expected to be recovered from airspace users in the years 2023–2027.

It was concluded in the analysis that, based on the current principles of IFRS, the amounts arising from the traffic risk sharing mechanism and to which the Company will be entitled through the future change in the unit rates cannot be recognised by EANS as a receivable and revenue in the reporting period.

PROPOSAL FOR COVERING LOSS

The net loss of EANS for the financial year 2022 is €4,880,429.

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

- to cover the loss for the financial year by reducing prior period retained earnings by €2,870,464;
- to cover the loss for the financial year by reducing the legal reserve by €511,294;
- to cover the loss for the financial year by reducing share premium by €1,498,671.



Ivar Värk

Chairman of the Management Board of EANS



Üllar Salumäe

Member of the Management Board of EANS



Meelis Kruusmann

Member of the Management Board of EANS



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Independent Auditors' Report

(Translation of the Estonian original)

To the shareholders of Lennuliiklusteeninduse AS

Opinion

We have audited the financial statements of Lennuliiklusteeninduse AS (the Company), which comprise the statement of financial position as at 31 December 2022, the statement of comprehensive income, the statements of cash flows and changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages from 47 to 83 present fairly, in all material respects, the financial position of the Company as at 31 December 2022, 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

Indrek Alliksaar
Certified Public Accountant, Licence No. 446

Tallinn, 31 March 2023