

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

ANNUAL REPORT

2021



LENNULIIKLUSTEENINDUSE AKTSIASELTS

ANNUAL REPORT 2021

GENERAL AND CONTACT INFORMATION:

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A LETTER FROM THE CHAIRMAN

Similarly to 2020, the year 2021 was strongly affected by the coronavirus pandemic and its impact on air traffic.

The subsequent waves of the pandemic have led to a situation where the expected recovery of air traffic to the pre-pandemic level has been repeatedly postponed. Last autumn we forecast that air traffic will return to pre-pandemic level by the end of 2024, it is now more likely to happen in 2027. All this affects our financial performance and the way we plan our activities.

In 2021, our air traffic controllers served a total of 116,705 flights, of which 85,425 were overflights. Last year, approximately 21,308 international arrivals/departures took place at the airports in Estonia, of which Tallinn Airport accounted for approximately 19,991 international arrivals/departures. The busiest day for air traffic was 17 December 2021, when we serviced a total of 516 aircraft. Compared to previous years, the number of flights served in 2021 was 57% lower than in 2019, i.e. before the pandemic outbreak, and 13% more than in 2020.

The duration of the crisis, the uncertainty about the recovery of air traffic after the crisis and the significantly lower volume of flights have made it considerably more difficult for the second consecutive year for the Company to meet its cost efficiency objectives. Because of fewer flights due to the pandemic, the initially estimated loss was €6.26 million. The Company implemented extensive cost-cutting measures to reduce losses, and the final loss in 2021 was €3.45 million. Cost savings did not affect safety and operational results and which were fully achieved - there were neither flight delays nor significant safety incidents because of us.

We are very grateful to our sole shareholder, the Estonian state, and the Government of the Republic, which approved an additional investment in equity in the amount of €10 million that will allow us to continue with significant investments as planned and ensure our creditworthiness.

The COVID-19 crisis has allowed us to introspect and manage the changes in the Company required for achieving long-term economic efficiency and sustainability of operations.

We updated our strategy for 2021-2024, according to which we want to be a leader in cross-border cooperation and the digitalisation of air navigation services. We want to be a provider of simple and customer-empowering U-space services in our immediate region, and have to this aim developed a functioning and solution-oriented cooperation network. We want to work with experts in various fields and implement smart solutions that will help us create a safe and environmentally friendly airspace.

2021 was also an important year of change for the Company. At the beginning of the year, we set up a new structure, which significantly centralized support services and created a clearer management structure. At the same time, the remuneration system was renewed in 2021, which is more focused on performance management and achievement of goals.

In order to implement the changes more effectively, the entire workforce went through the development program 2.0, during which new management principles were practiced.

In 2021, in addition to achieving economic efficiency, we focused on continuing with significant investments and development activities. Despite a difficult year, we continued to carry out planned activities in the cross-border FINEST program. In the case of FINEST, this is the first attempt of its kind to connect the airspace of two countries, and it is also a model for the Single European Digital Sky (SES) initiative, a European cooperation project to develop a single and digital European

airspace by 2025. In the framework of the FINEST program, a cross-border air traffic management system and the capability to provide services between Estonia and Finland will be created so that Estonian air traffic controllers may, as necessary, operate flights in Finnish airspace and vice versa. During 2021, the main focus was on implementing the operating model.

The digitalisation of regional airports, i.e. the Remote Tower project in cooperation with Cybernetica AS, proceeded well. Such digitalisation will enable us to manage in the future all Estonian regional airports (Tartu, Kuressaare, Pärnu, Kärdla) with remote technology on similar basis, and to offer our customers a remotely operated flight information or AFIS service based on uniform standards. In 2021, we built technical systems and software for Kuressaare Airport and in the last days of the year, a live image also reached the centre of our development partner in Tallinn.

In 2021, we started cooperation with Aviamaps Ltd and Frequentis AG to create a map application and CIS data exchange portal for drone operators, which will display information to amateur users, professionals as well as national drone operators.

Due to COVID-19, the work the Company has been re-organized and remote working has become an alternative work format in applicable functions. No activities, projects or training have been cancelled due to teleworking, and the company's IT team has successfully implemented the necessary technological solutions. As CEO, I am pleased to see that the Company's team has changed, adapted quickly in difficult circumstances and is operating successfully.

Although COVID-19 poses challenges to aviation every day, I believe we are strong enough to deal with them. In 2022, we will continue to work to achieve the set goals. They help us to be a safe and smart guide to both manned and unmanned flights in the Estonian and European skies.

I would like to thank our customers, partners and the entire team of Estonian Air Navigation Services who are with us during this difficult and changeable time!

CEO, Chairman of the Management Board

Ivar Värk

1 OVERVIEW OF THE COMPANY

Lennuliiklusteeninduse Aktsiaselts (hereinafter: Estonian Air Navigation Services or the Company), located at the Rae municipality in Harju County, is a provider of a new generation of air traffic navigation services.

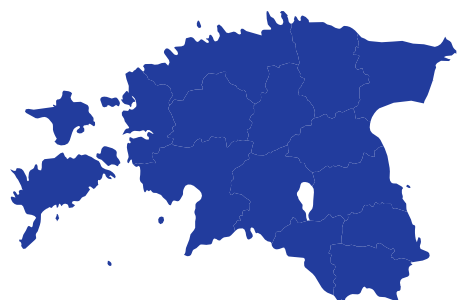
The main field of activity of air traffic services is the provision of safe, digital, environmentally-friendly and internationally competitive air navigation services for manned and unmanned flights, including air traffic management and supporting national defence needs in ensuring the sovereignty of 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-improvement and fair remuneration.

The owner of the shares of the air Company is the Republic of Estonia and the Company is located in the area of government of the Ministry of Economic Affairs and Communications. At the end of the financial year, the Company had 187 employees.





77,080 km²

Size of Tallinn FIR

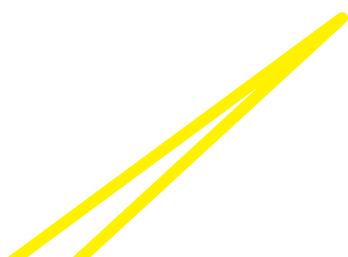


116,705

Total number of controlled flights

+12.8%

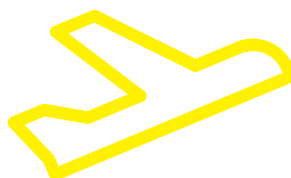
2021 vs 2020



85,425

Incl. total number of overflights

+11.9% vs 2020



21,308

Total number of
departing/arriving flights

+18.5% vs 2020



9,972

Total number of domestic flights

+8.7% vs 2020

The year 2021 in figures

Revenue

€17.1 million

+21% vs 2020

Operating profit

€17.8 million

+13% vs 2020

Total assets

€36.9 million

+3% vs 2020

Volume of investments

€2.8 million

-12% vs 2020

Loss

€3.4 million

Number of employees

187

1.1 Vision of EANS for 2024

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

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



We are the leaders in cross-border cooperation



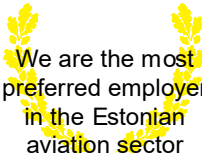
We work closely with experts in different areas and implement smart solutions to create safer and environmentally-friendly airspace and to provide a cost-efficient service to our customers

We take into account the environment in all our activities



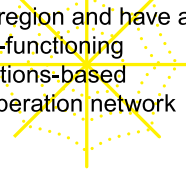
We have created innovative and sustainable business solutions to expand our operations

We are the most preferred employer in the Estonian aviation sector

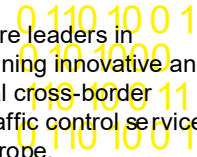


We are the pioneers, trendsetters and initiators in the development of unmanned aviation in Estonia

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

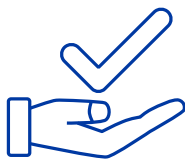
The Company values continuous stable development and economic efficiency. Our activities are based on our core values, i.e. cooperation, development, honesty and openness.



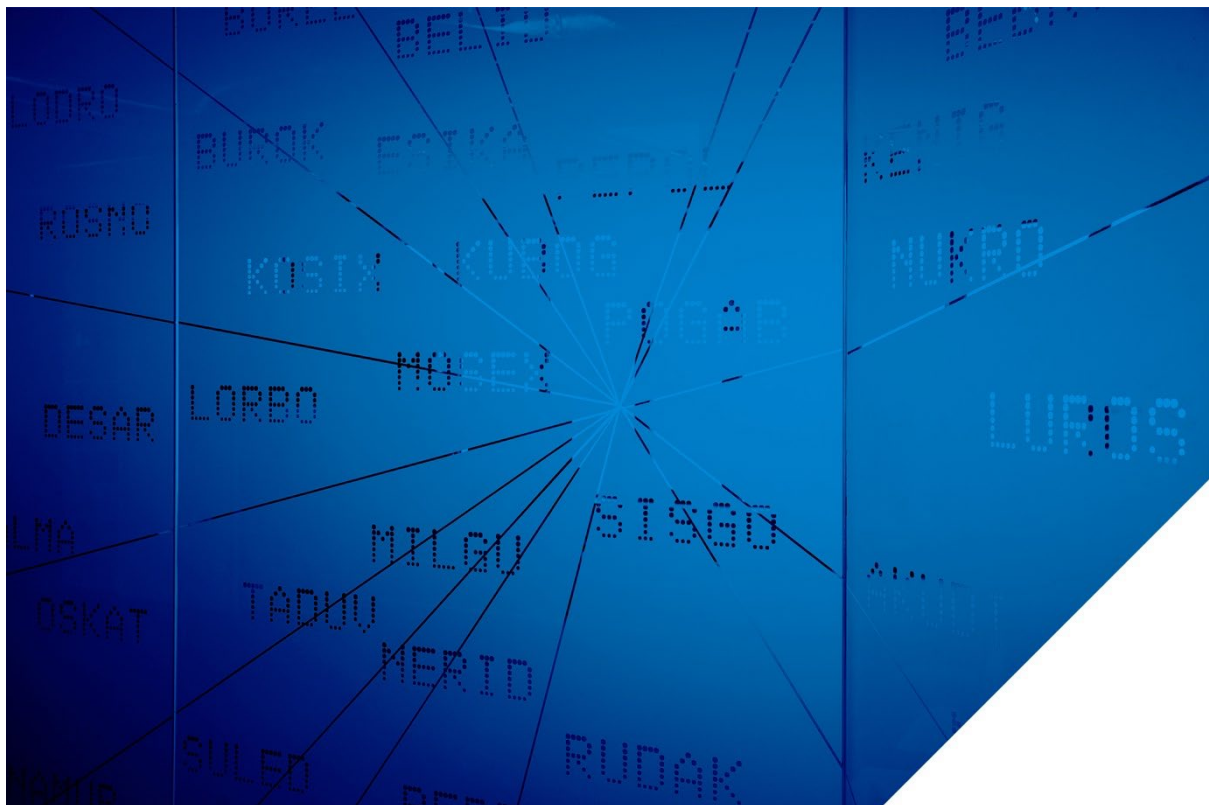
We value **cooperation**. We achieve our goals through cooperation and place a high value on teamwork. We consider team goals more important than personal ones. We kindly share the information necessary to achieve the Company's strategic goals, value the time of our colleagues and notice the contribution made by us and our colleagues. We are experts in our field, competent and respected professionals. We treat ourselves and others with respect and care.



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 IMPACT OF COVID-19 ON AVIATION AND THE COMPANY

Global aviation has managed to recover quite successfully from its deepest crisis when air passenger traffic was essentially suspended for a short period in 2020 due to the COVID-19 pandemic. Nevertheless, 2021 remained a volatile year for global aviation.

At the end of 2020, governments and researchers began to be concerned about the emergence of several new and even more contagious strains of COVID-19. In the first months of 2021 this led to a rapid worldwide increase in the number of new infections and infections with more severe strains. As a result, countries reintroduced strict travel restrictions including a state of emergency. The implementation of additional restrictions, in turn, caused a decline in passenger traffic in the first months of 2021.

Vaccinations and restrictions aimed at preventing the spread of the virus helped to subdue some of the more common virus strains, and once infection rates started to decline, countries eased restrictions in the second quarter, just before the summer season, leading to the expected modest increase in air traffic.

In assessing the recovery of flight volumes, these can be divided into three main subgroups. The volume of cargo flights quickly reached the pre-crisis level of due to high demand. This shows that aviation is vital for the transport of certain types of goods.

People's desire, need and willingness to travel have not disappeared during the difficult travel restrictions associated with COVID-19. As a result, air traffic within countries, as well as within Europe, has recovered strongly as restrictions have been lifted or is recovering as soon as governments open up countries to free travel.

The situation is most complicated in international passenger aviation. The further growth of air traffic in Estonian airspace is primarily related to the opening of international long-haul passenger traffic and the retreat of COVID-19 virus in Russia and many Asian countries. The significant recovery in air traffic from Asia to Europe and from Europe to Russia is currently affected by national travel restrictions on international tourism from these regions.

Sanctions related to the military aggression of Russia will have a further significant impact on air traffic from Asia to Europe and from Europe to Russia. In response to Russia's military aggression against Ukraine launched at 24 February 2022, the European Union adopted restrictive measures banning the use of European Union airspace by all Russian airlines, aircraft registered in Russia, as well as all non-Russian aircraft owned or chartered or otherwise controlled by any natural or legal person, entity or body in Russia. It is prohibited to enter, leave and fly over the territory of the European Union, as well as to land and take off from airports located in the territory of the European Union.

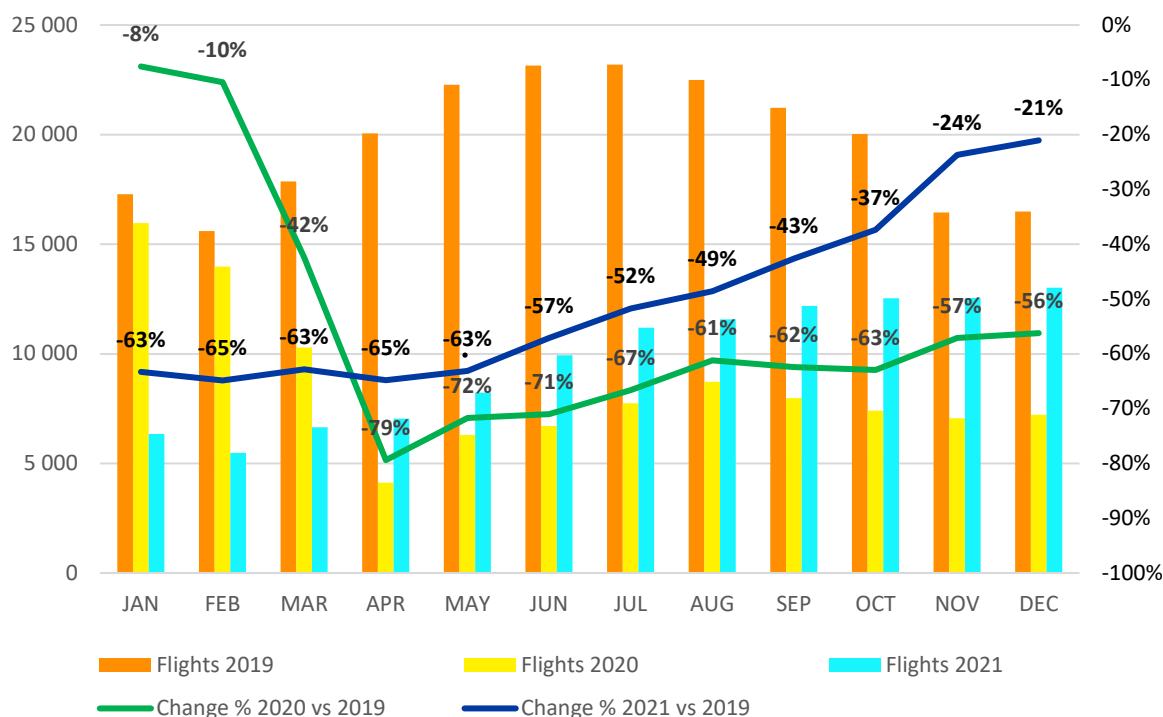
These measures are causing a decrease in air traffic in the airspace above the territory of the European Union, including Estonia. Russia reciprocated by banning overflights above the Russian territory by the aircraft of the European Union and other countries that have joined the sanctions.

The impact of restrictions on air traffic flows is difficult to assess. However, the magnitude of the impact should not be comparable to the reduction in air traffic resulting from the outbreak of the COVID-19 pandemic in March 2020. The European Commission has therefore decided to maintain

the existing implementing measures and processes for the implementation of the third period performance plans as planned.

In 2021, a total of 116,705 flights were operated in the Estonian airspace, which is 13,217 flights or 12.8% more than in 2020, but only about 50% compared to 2019, i.e. pre-COVID.

Number of serviced flights and the change rate 2019–2021



Impact of the COVID-19 situation on the Company's economic activities

COVID-19 pandemic has led to a significant reduction in air traffic in 2020 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 an 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.

Due to the above, the situation resulting from COVID-19 continued to have a significant impact on the Company's operations and results for the financial year 2021:

- the volume of flights served by the Company fell by 51% as compared to the pre-COVID period, reducing revenue by 39% when compared to 2019, resulting in a net loss of €3.45 million;

- the Company's 2021 targets were set to ensure that the Company remains a going concern in a situation where the tariff freeze did not allow the Company to influence its revenue base, but the service had to continue to be provided around the clock without restrictions;
- despite the fact that most of the Company's costs are fixed and its ability to significantly influence costs is relatively limited, the Company continued to operate in a cost-saving mode;
- after assessing the duration of the effects of the COVID-19 virus, it was decided to cut investments in addition to cost savings. In 2021, only strategically important investments were continued.

Activities to improve liquidity

At 30 April 2021, the General Meeting of Shareholders decided to cover the net profit for the 2020 financial year from retained earnings and not to pay dividends from retained earnings.

Based on the above, in order to alleviate the economic impact from the COVID-19 crisis, ensure necessary working capital for the uninterrupted operations of the Company, create creditworthiness and implement key public investments, it was decided to increase the Company's equity in 2021 by €10 million.

2.1 Key events in 2021

At 8 February 2021, EANS together with SESAR JU, a joint undertaking established with the European Commission, launched GOF 2.0 0 "Integrated Urban Airspace Validation" research project for the integration of unmanned aerial vehicles into urban airspace. There are 14 members in the SESAR JU project GOF 2.0 consortium and the project focuses on the safe, secure and sustainable integration of unmanned aerial vehicles into urban airspace. Under the leadership of the Company, in September 2021, in cooperation with drone developers and manufacturers CAFA Tech OÜ, Threed Systems OÜ and EHang Holdings Limited, test flights of drones of different sizes and purposes in Tartu, Tallinn and between Helsinki and Tallinn took place. The test flights took place in Tartu at 2 September, in Tallinn at September 13 and between Helsinki and Tallinn at 21 September.

At 10 June 2021, the Government of the Republic of Estonia decided to increase the equity of the Company by €10 million. Equity was increased in order to secure the Company's business activities and necessary working capital due to the negative situation in the aviation sector caused by the COVID-related crisis.

3 STRATEGY AND GOALS

3.1 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 development plans for Estonia and the agreements reached with the partners, as well as the respective initiatives of the European Union and NEFAB cooperation; harmonised operation of the Estonian air traffic management system together with the achievement of the main objectives of the European air traffic management system and performance plan and a people-centred approach. We implement the strategy by considering the expectations of the customer, the owner and employees.

Due to the significant drop in air traffic volumes, 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. Ensuring a safe air traffic control service through competent personnel and cross-border cooperation is important.

The 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 single airspace between Estonia and Finland and the FINEST program;
- participate in civil-military cooperation;
- manage unmanned air traffic.

Targets set for 2021

When planning the activities for 2021, the Management Board and the Supervisory Board agreed on the goals, the achievement of which will help the Company to emerge from the COVID-19 crisis in a stronger position and provide better customer service through the investments made as air traffic increases. The main challenge in meeting the financial goals was to manage cash flows and limit operating expenses. The aim of the investments was to create readiness for cross-border cooperation and to upgrade the technological base and enable digitisation.

- EBITDA: measure greater than 0; achievement: 2.2 million.
- Operating and payroll expenses below €16.08 million; achievement: 15.58 million.
- Upgrade of the business plans of EANS for the years 2021–2024.

3.2 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
- we will use 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 successors

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.

We have set as a goal to optimise energy consumption and have started the activities described below:

- Our office building is equipped with solar panels that during summer months cover 90% of the Company's energy consumption. In order to increase the share of consumption of green energy, the first step is to reduce consumption. We are implementing a consumption and network load optimisation solution in cooperation with FuseBox OÜ, optimising consumption and enabling compensation depending on the regulation volumes.
- 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, VOR, etc.).
- Since the current fixed-price electricity purchase agreement expired in 2021, the cost-efficient use of electricity is critically important for controlling the expenditure budget

In addition to reasonable energy consumption, we consider the environment in the Company's internal consumption choices. Our office kitchens are equipped with waste collection systems that allow sorting of waste. We have reduced use of disposable products and plastics and perform regular water tests to check the quality of drinking water. In 2021, the Health Board performed an additional chemical analysis of drinking water, which allows us to consume tap water and terminate supply of bottled water from Saku Läte. The Company has distributed personal glass water bottles to all employees to reduce plastic packaging.

The Company's effective flight management 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 and liquidity, important projects (FINEST, Remote Tower, development of unmanned aviation) and related investments will be continued. The successful implementation of the FINEST project will allow us to serve 20% more flights with the same staff in the future.

In order to continue with the investments, the owner made an additional contribution of €10 million in the Company's equity.

In order to streamline and simplify business processes, the Company started creating a digital map in 2021 in cooperation with Flowit Estonia OÜ. Creating a digital map allows us to map the processes related to information systems and find bottlenecks that can be used to improve existing systems and processes and implement smart solutions.

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
- Borealis Alliance (Northern European Airline Cooperation Group)
- European Functional Airspace Block (NEFAB, Working Group on the Functional Airspace Division of Northern Europe)

- EUROCONTROL (European Organization for the Safety of Air Navigation)
- 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 recruitment and retention of employees important, but due to the crisis, we were able to contribute to these activities less than we planned. In 2021, we granted two scholarships to students majoring in air traffic services and aeronautical engineering at the Estonian Aviation Academy. Scholarships are granted to outstanding students from the Estonian Aviation Academy Fund managed by Tartu Cultural Endowment.

3.3 Air safety and quality

Constant improvement of ensuring aviation safety and the safety level is an area of high priority for EANS. We make our contribution every day 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/risks, development and implementation of the procedures required for their prevention as well as to systematic monitoring. Its purpose is timely identification of potential bottlenecks in the existing procedures, methodology, technical systems etc. that could become decisive factors in actual hazardous situations.

Meeting safety objectives

- In 2021, the Company served 116,705 flights. Compared to 2020, the number of operations increased by 13%, i.e. by 13,217 flights. A total of 383 occurrence reports were submitted during 2021. The number of submitted occurrence reports increased by 22.8%, i.e. by 71 reports during the year.
- There were 67 occurrences induced by the Company (including indirect participation). As compared to 2020, the number of occurrences increased by 6.5%. A more in-depth investigation was carried out in 184 occurrences.
- During the year, the Company drew up 16 risk analyses and two safety analyses.
- In 2021, the business projects FINEST, Remote Tower and GOF 2.0 were developed further, 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.
- During the year, the safety teams' centralisation project was also completed, during which departmental safety teams were abolished and permanent investigator positions were created in the Safety and Quality Department.
- In 2021, a large-scale campaign on safety culture was launched in the form of both physical and digital posters.

- As before, all employees are able to complete safety training by listening to and watching a video lecture on safety, which has been updated throughout the year.
- During the year, the safety teams' centralisation project was also completed, during which departmental safety teams were abolished and permanent investigator positions were created in the Safety and Quality Department.

Supervision of the management system

The basis for the air traffic management system of EANS is the ISO 9001 quality management principles, which ensure stable and high-quality services for the customers. Our management system is in compliance with the requirements of the EU Regulation 373/2017, a proof of which is the certificate of the provider of aeronautical services issued by the Transportation Board. Our management system is also in compliance with the international management system ISO 9001:2015, for which the certification for the provision of aeronautical services, air traffic, communication, navigation, surveillance and aeronautical services information have been issued. External audits to verify compliance of both certificates with the requirements of the EU Regulation 373/2017 and ISO 9001:2015 are conducted to maintain both certificates.

The air traffic management system of EANS comprises all of its management systems on the grounds of common rules: quality, safety, security, customer relations, work 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.

For development of the air traffic management system and enhancement of its impact, we promote the formation of the work culture so that employees would be aware of the requirements set in legal and administrative standards. We set goals and make sure that we have the necessary resources, each year arrange reviews of the air traffic management system by executive management so that they would have an overview of the activities that have taken place, attainment of goals and future plans.

Our air traffic management system is in compliance with the requirements of the EU Regulation 373/2017, a proof of which is the certificate of the provider of aeronautical services issued by the Transportation Board. Our air traffic management system is also in compliance with the international management system ISO 9001:2015, for which the certification for the provision of aeronautical services, air traffic, communication, navigation, surveillance and aeronautical services information have been issued. External audits were conducted for maintenance of both certificates that verify compliance with the requirements of the EU Regulation 373/2017 and ISO 9001:2015.

In addition, the Company has an internal audit system to assess compliance with requirements in all of its processes. In addition to internal and external audits of the air traffic management system, external audits are also carried out in various areas in accordance with the external audit plan approved by Audit Committee.

4 CORPORATE GOVERNANCE

Corporate Governance report

In solving the issues related to the management of the Company, EANS in general relies on the guidelines for good corporate governance (hereafter: CG). In addition to the recommended guidelines of CG, the Company also relies on the State Assets Act (hereafter: SAA), because the Republic of Estonia owns 100% of EANS.

Therefore, considering the ownership of EANS and the related specific requirements in managing the Company at the level of the General Meeting and the Supervisory Board, EANS does not follow some of the guidelines recommended by CG. References to the provisions of CG (clause of CG and its brief description) that are not followed and respective explanations are given below.

However, it is important to note that despite the fact that the Company does not follow some guidelines, the comprehensive protection of the interests of the owner and creditors and their fair treatment is ensured when it comes to organising the activities of EANS. The CG guidelines that are not followed, mainly concern conducting a general meeting and appointing members of the Supervisory Board – its primary purpose is to protect the interests of the owner. Since the sole shareholder of EANS is the Republic of Estonia, the shareholder's interests are protected by the principles set out in the SAA.

The Management Board of EANS prepares the Company's financial statements, following generally accepted international financial reporting standards. The report is reviewed by the auditor and the Supervisory Board of EANS.



Organisational structure of EANS

1 January 2021 – 31 December 2021:



General meeting of EANS

EANS does not follow the CG clauses stated below.

Clause 1.1.1 – every shareholder shall have the right to participate in the General Meeting (hereafter: the GM), take the floor on the agenda items, ask sound questions and make proposals.

Clause 1.2.1 – a notice of convening the GM 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 following the terms and conditions for convening GM set out in legislation, the Management Board (hereafter: the MB) shall disclose important information related to the agenda, which has been presented to it or is made otherwise available, on the issuer's website.

Clause 1.2.4 – the Supervisory Board (hereafter: the SB) shall disclose their proposals regarding the agenda on the issuer's website within a reasonable amount of time before GM.

Clause 1.3.1 – neither the Chairman of the SB nor a member of the MB shall be elected Chairman of GM.

Clause 1.3.2 – members of the MB, the Chairman of the SB and if possible, the members of the SB 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 GM and to participate in it through telecommunications (e.g. Internet).

The above-mentioned CG guidelines are not followed due to the fact that the sole shareholder of EANS is the Republic of Estonia and the exerciser of the shareholder's rights is the Ministry of Economic Affairs and Communications, represented by Minister of Economic Affairs and Infrastructure at the GM of shareholders. Exercising of the shareholder's rights and the authority of the representative are provided in the SAA; holding of the GM and its participants are determined, if necessary, upon coordination with the sole shareholder.

The annual general meeting of EANS was held at 30 April 2021. The Minister of Economic Affairs and Infrastructure, the Chairman of the SB, the Chairman of the MB and one representative of the Ministry of Economic Affairs and Communications participated in the GM in 2020; the auditor did not participate in it. The meeting was not broadcasted through telecommunications.

At the meeting, the Chairman of the MB gave an overview of the economic performance, achievement of targets, external audits, risk management and major development activities in 2020.

The Chairman of the SB gave an overview of the SB's activities in 2020, control environment and remuneration. To ensure the Company's sustainability of operations and implementation of key investments for the state as well as enhance creditworthiness, the SB proposed to the owner to increase equity by €10 million.

The annual GM approved the Annual Report for 2020 and made a proposal to cover the loss of the 2020 financial year from retained earnings.

Supervisory Board of EANS

According to the Articles of Association, the SB of EANS has four members. The members shall be appointed for a period of three years and their remuneration is determined by the GM. The objective

of the SB is to monitor the Company's strategic goals and the business plan as well as the activities of the MB to implement them. The SB gives orders to the MB to ensure the Company's internal control system and consent for carrying out the transactions that are out of the scope of the daily operations. In 2021, the SB held seven meetings (2020: nine meetings).

Members of the SB 1 January 2021 – 31 December 2021:

Chairman



Kuldar Väärssi (since 01.06.2021)

Priit Põldoja (until 01.06.2021)

Members



Andres Uusma



Riina Varts



Sven Kirsipuu
(since 01.06.2021)

Kaupo Raag
(until 31.05.2021)

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

Upon the establishment of committees (audit committee, remuneration committee etc.) by the SB, 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 protocols of the SB's meetings are presented both to the GM and the Minister of Finance pursuant to the State Assets Act.

EANS does not follow Clause 3.2.2 of CG – at least half of the SB members shall be independent. If the SB has an uneven number of members, there shall be one independent member less compared to dependent members. According to the Articles of Association of EANS, the SB has 3-6 members. The SB of EANS has four members. Pursuant to §81, section 1¹ of the State Assets Act, the stock administrator proceeds from the proposal of the Nomination Committee concerning the election and the number of the members of the SB.

Pursuant to Clause 3.2.5 of the CG, the amount of the remuneration paid to the members of the SB of EANS in 2021 and the procedure for remuneration are presented below.

In total, the remuneration paid to the members of the SB and the Audit Committee of EANS in 2021 was €31,313 (2020: €29,338).

The procedure of the remuneration payable to the members of the SB is specified in SAA §85. Pursuant to the SAA, the amount of and procedure for the remuneration for the members of the SB shall be established by the stock administrator based upon the specifics of the business entity.

The monthly remuneration of a member of the SB of EANS is €500 and that of the Chairman of the SB is €1000. Remuneration is paid to the members of the SB once a month. A member of the SB shall not receive any remuneration for the month he/she did not participate in adopting the SB's resolutions.

The "Procedure for Remuneration and Limits of Remuneration of the members of the SBs of State-Founded Institutions and Members of the SB Bodies Participating in the Work of an SB of a State-Founded Company" of the Finance Minister specifies the procedure for the remuneration paid to the members of the SB of state-owned business entities and such entities, where the state has at least decision making power, and members of the SB bodies for participating in the work of SBs. In accordance with the aforementioned resolution, additional remuneration shall be paid to an SB member for participating in the activities of another SB body. The Audit committee is a body within the SB of EANS. The remuneration paid to the members of the SB's Audit Committee members for participating in the SB's work is 25% of the remuneration of a SB member and the remuneration paid to the Chairman of the Committee may amount to 37.5% of the remuneration of a SB member.

Clause 3.3.2 – conflicts of interests which have arisen during the financial year and their respective solutions, shall be provided in the CG report.

No notifications regarding conflicts of interest had been received by the Company from the members of the SB of EANS by the time Annual Report 2021 was prepared.

EANS does not pay any severance pay or other additional remunerations to the members of the SB, other than the remuneration for participating in a SB body.

Audit Committee

The Audit Committee is a body established by the SB of EANS; according to the Articles of Association, its objectives are to consult the SB on the issues relating supervision, including accountancy management, external audit, internal audit system operability, financial risk management, legal oversight of EANS processes, budget consolidation and approval of annual reports. Depending on its tasks, the Audit Committee makes proposals and recommendations to the SB.

Chairman



Sven Kirsipuu (since 01.06.2021)

Kaupo Raag (until 31.05.2021)

Members



Andres Uusma



Taivo Linnamägi
(since 01.03.2021)

Three Audit Committee meetings were held in 2021. It reviewed and approved the Annual Report for 2020. At the meetings, the Company's interim report, the capital expenditure plan, audit findings and recommendations were covered and the results were presented to the SB.

The auditor of EANS, AS PricewaterhouseCoopers provided the Audit Committee with an overview of essential findings, as well as an overview of the key observations and proposals on risk management and control systems in the Auditor's Report of the Annual Report for 2020.

Management Board

The MB of EASN represents and manages independently the Company's daily operations in accordance with laws and the requirements of the Articles of Association. The MB may adopt all decisions concerning the Company's activities and independently perform all transactions which are not within the competence of the GM or the SB pursuant to law or Articles of Association. The areas of responsibility and duties of the members of the MB are laid down in the contracts of the members of the MB.

Since 1 June 2021, the MB of EANS has four members.

Chairman



Ivar Värk

Members



Üllar Salumäe
Air Traffic Control



Jaanus Selge
Technology and Business
Development



Meelis Kruusmann
(since 01.06.2021)
Finance

In 2021, the MB held 20 meeting (2020: 30 meetings).

Pursuant to Clause 2.2.7 of the CG, the information regarding the amount of the remuneration paid to the MB members of EANS in 2021 and the system for determining severance pay and additional remuneration are presented below.

The remuneration paid to the MB members of EANS in 2021 was €384,077 (2020: €252,629). The possibility for the annual bonus paid for the operating results of 2021 will be decided by the SB after the annual report has been authorised for issue. The amounts of the additional remuneration and severance pay payable to a member of the MB are specified in the SAA Subsections 86 (2) and (3), pursuant to which the amount of the additional remuneration payable to a member of the MB shall not exceed the four-month remuneration paid to a member of the MB of EANS. As at 31.12.2021, in accordance with the contracts in force, EANS is obligated to pay severance pay in the amount of three-month remuneration to the MB member in the event of his/her removal.

The determination of additional remuneration must be justified, with due respect to the value added to EANS and its market position. Severance pay shall only be paid if a member of the MB is removed at the initiative of the SB and before the expiry of his/her term of authority; its amount shall not exceed three-month remuneration paid to a member of the MB.

Senior Management

Ivar Värk, Chairman of the MB, administration

Üllar Salumäe, member of the MB, organisation of Air Traffic Management

Jaanus Selge, member of the MB, Technology and Business Development

Meelis Kruusmann, member of the MB, Financial Management

Chris-Helin Loik, Human Resources and Training

Kristjan Telve, Safety and Quality

Kalmer Sütt, Aeronautical Information

Teve Rahula, Business Development

Information Disclosure

EANS does not apply Clause 5 of the CG in full, the reason being the structure of the shareholders of EANS, according to which EANS has a sole owner. Therefore, the publication of information on the webpage is not an efficient and reasonable way of notifying shareholders. Likewise, it is not reasonable to share all the information in English.

Despite the deviation from the requirements of clause 5 of the CG, EANS presents the necessary reports to the shareholder directly and publishes on its webpage the information which is or might be of interest to public. EANS also implements the provision in clause 5.6 on the principle of careful and comprehensive exchange of information with journalists and other stakeholders.

In any case, the information, the disclosure of which is an obligation specified in the legal acts, including the State Assets Act, is published on EANS website.

Financial reporting and auditing

Clause 6.2.3 – Upon organising rotation of auditors, the Issuer shall comply with the guidelines of the Financial Supervision Authority from 24 September 2003, “Rotation of auditors of certain entities under state supervision.” EANS does not follow this recommendation as the auditor is appointed for subsequent three calendar years on the basis of the results of competition.

5 FINANCIAL PERFORMANCE

Financial indicators 2020–2021, EUR

| | 2021 | 2020 |
|-----------------------------|------------|------------|
| Revenue | 17,105,141 | 14,142,921 |
| Change in revenue | 20.9% | –49.8% |
| EBITDA | 2,205,372 | –949,140 |
| Operating profit | –3,199,324 | –6,218,747 |
| Profit before taxes | –3,454,185 | –6,483,887 |
| Net profit/-loss | –3,454,185 | –6,483,887 |
| Change in net profit | 47% | –300% |
| Revenue per employee | 97,188 | 71,070 |
| EBITDA margin | 13% | –7% |
| EBT margin | –20% | –46% |
| Net profit margin | –20% | –46% |
| Equity ratio | 50% | 33% |
| Return on Equity (ROE) | –23% | –43% |
| Return on assets (ROA) | –9% | –17% |
| Quick ratio | 2.9 | 1.3 |
| Debt-to-assets ratio | 0.5 | 0.7 |
| Average number of employees | 176 | 199 |

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

*EBITDA margin = EBITDA / revenue * 100%*

*EBT margin = profit before taxes / revenue * 100%*

*Net profit margin = net profit / revenue * 100%*

Revenue per employee = revenue / average number of employees

*Equity ratio = equity / balance sheet * 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

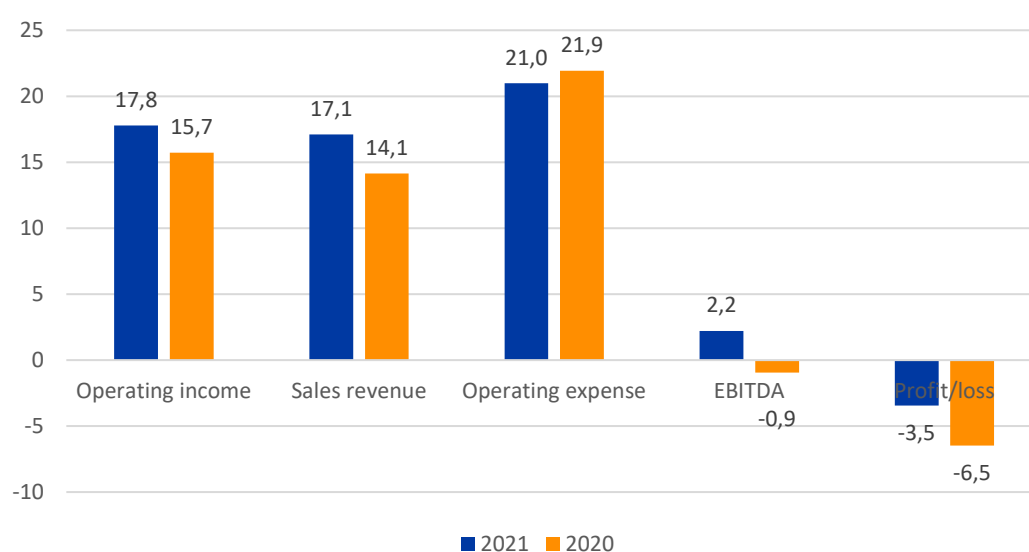
Debt ratio = total expenses / total assets

Economic performance in 2021

The crisis in the aviation sector caused by the COVID-19 virus that started at the beginning of 2020 continued to impact the Company's daily operations and performance. The modest volume of flight operations as compared to the pre-crisis year of 2019 continued to significantly impact the Company's cost base.

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

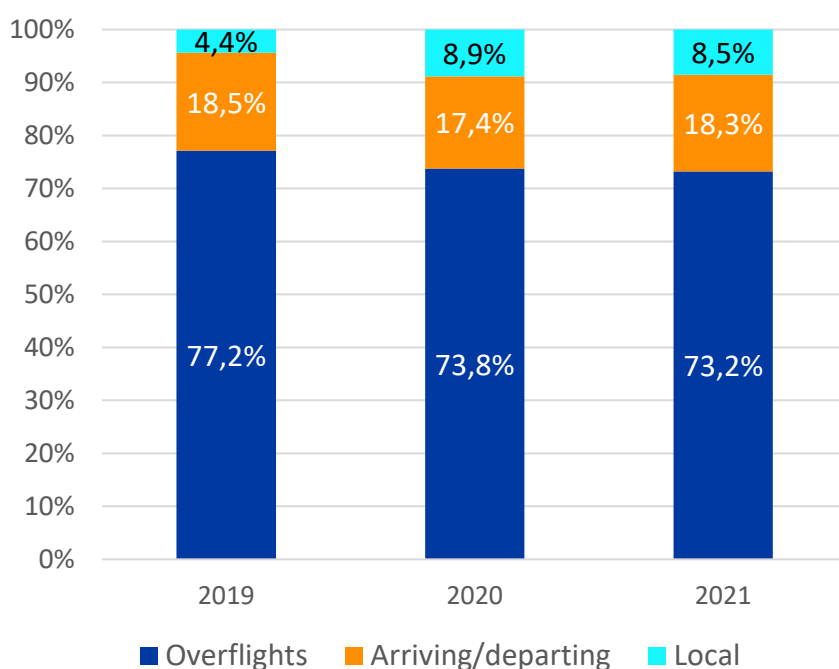
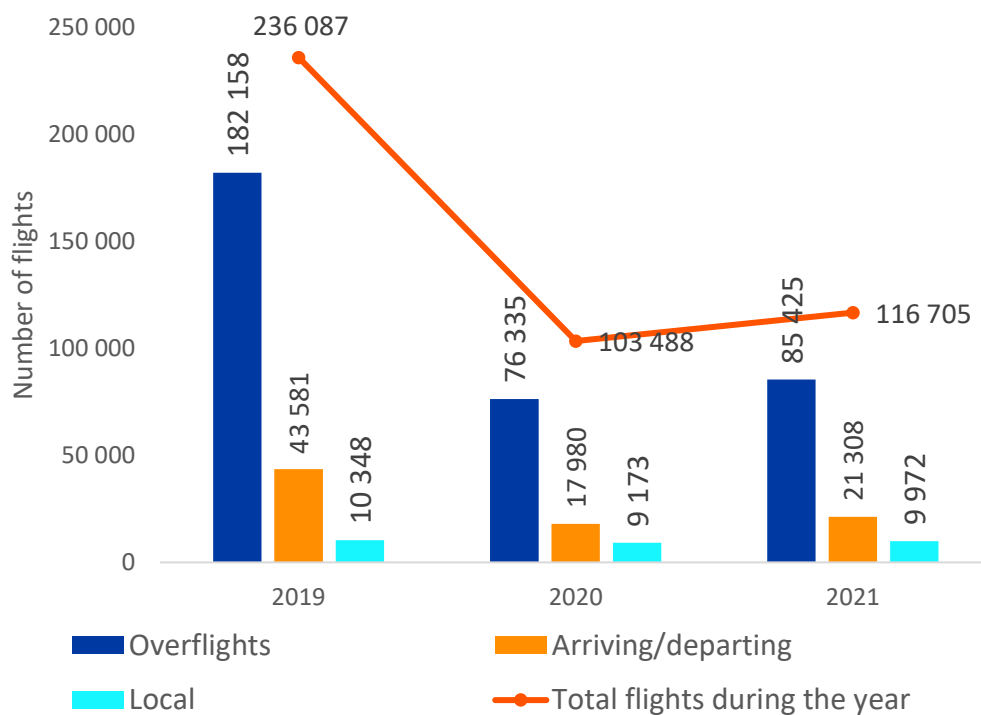
Company's financial results € million



The total sales of EANS in 2021 was €17.8 million (2020: €15.7 million), including revenue of €17.1 million (2020: €14.1 million), increasing by 20.9% in a year. Revenue growth in 2021 is attributable to the recovery in aviation volumes as compared to 2020, i.e. the year of the crisis when air traffic was completely suspended for a short term.

En-route navigation services make up the largest share of revenue in 2021, i.e. 93.1%. The decline in the en-route navigation service units associated with the number of flights was 11.2% as compared to last year and the decline in the terminal navigation service units was 29.4% as compared to last year. As compared to the pre-COVID-19 crisis year of 2019, the changes were -48.1% and -44.7%, respectively.

Number and distribution of controlled flights 2019–2021



In 2021, the total number of controlled flights in the Estonian airspace increased by 12.8% (2020: – 56.2%). The total number of combined controlled instrument and visual flights in 2021 was 116,705 (2020: 103,488). Air traffic recovered both in terms of overflights, arrivals/departures as well as domestic flights, by 11.9%, 18.5% and 8.7%, respectively. Of the number of controlled flights, 73.2%

are overflights in Estonia, while the share of arrivals/departure is 18.3% and the share of local traffic is 8.5%.

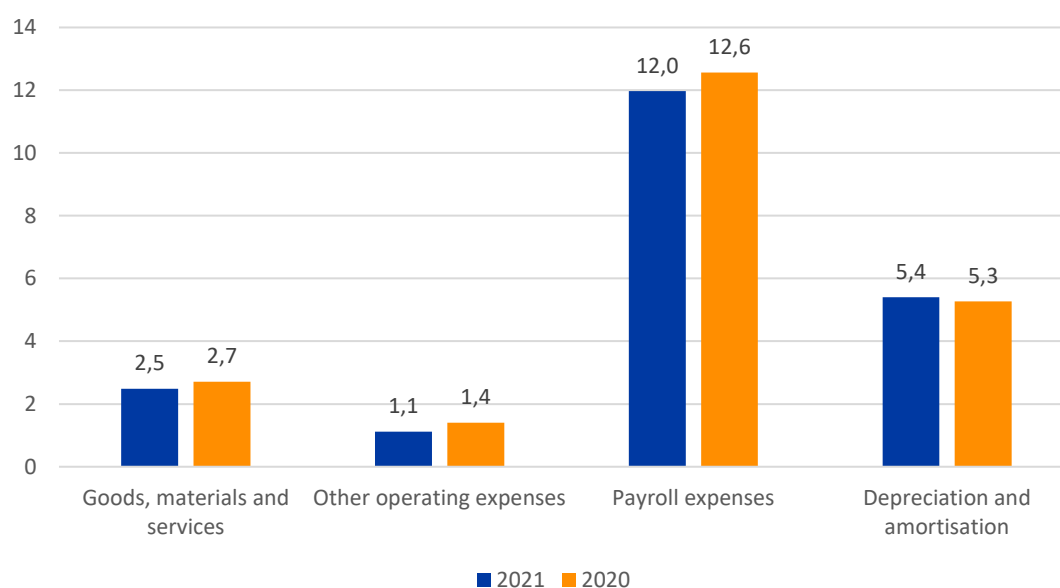
Traffic volume recovered at a modest pace from month to month. The last month of the year turned out to be the month with the highest traffic. The average number of flights per day registered during the peak month was 420 and during the peak day, the total number of controlled flights was 516.

In 2021, the main contributor in terms of the number of controlled overflights was again the main customer of EANS, i.e. Finnair (11.9% of all overflights), followed by Air China International (6.1%), Air Baltic (4.9%), Deutsche Lufthansa (4.6%) and Rossiya Airlines (3.5%).

Four flight operators managed almost half of the flights to/from the Estonian airports. The Company's largest customer continues to be Air Baltic at Tallinn airport, followed by Finnair, Ryanair, Scandinavian Airlines and Deutsche Lufthansa. The flights of these operators made up 19.2%, 10.6%, 6.7%, 6.1% and 5.3%, respectively, of all the flights operated at Estonian airfields.

In a situation where a drastic drop in the air traffic volume due to the pandemic had a significant impact on the Company's cost base and being uncertain as to how long the crisis will still last, the Company continued with its cost savings.

The costs of the Company by groups € million



The majority of the Company's operating expenses are fixed costs. In 2021, operating expenses decreased by 4.3% and totalled €21 million (2020: €21.9 million). In 2021, payroll expenses totalled €12 million (2020: €16 million) and they decreased by 4.7% as compared to 2019.

In 2021, the operating loss was €3.5 million (2020: €6.5 million). The Company's net loss totalled €3.5 million (2020: €6.5 million).

In 2021, finance income and costs totalled €0.25 million (2020: €0.27 million).

Due to the pandemic, in 2021 only essential investments were made. In 2021, the total investments made into property, plant and equipment, and intangible assets amounted to €2.8 million (2020: €3.1 million), decreasing by 12.1% in a year.

At 31 December 2021, the assets of EANS totalled €36.9 million (31.12.2020: €35.9 million).

Outlook for 2022

The recovery from the COVID-19 crisis has been difficult. A fourth or fifth wave of the virus has already been detected in many countries around the world. This will lower the confidence of aviation business's stakeholders, from politicians who need to make difficult decisions to regular passengers. At the same time, it is evident that the desire of people to travel has not disappeared anywhere. They are willing to do it despite travel-related inconveniences (such as testing, wearing masks) or other restrictions in the destination country. International cargo traffic recovered quite quickly and unless there will be significant disruptions, we forecast modest continuation of growth. The speed of the Company's recovery from the crisis depends primarily on the speed of the recovery of international air traffic. The future development of international air traffic is greatly related to the future mutation of the virus in various destinations between Europe and Asia and will depend on the vaccination success as well as the desire of countries to accept different vaccines and their readiness to open the borders to international tourism. It is still important for vaccination to give sufficient protection and enable to accelerate lifting of restrictions to return to normal life, an integral part of which is traveling either for holiday or business purposes.

There is still a lot of uncertainty and the start of the year is not that promising. In the first months of 2022, the airline companies reduced their number of flights. The last two years have shown that it is almost impossible to predict the course of the coronavirus and its consequences, but it has been quite prominent for the travel and tourism sector. According to our estimate, the slump in the passenger airline traffic will continue at least in the first half of 2022. We hope that once the virus recedes and the country borders are opened up, primarily in Asia and Oceania regions, a faster recovery is to be expected in the summer. Although the uncertainty related to the pandemic is somewhat receding, the geopolitical tensions have increased instead and their impact of air traffic flows is currently very difficult to predict. We are cautiously optimistic that the traffic flow growth will resume in 2022.

The Company's risks comprise the energy prices that have started to climb since the last quarter of 2021 and soaring wage growth along with the price inflation. According to the Bank of Estonia, the price inflation in Estonia has been faster than that of the Eurozone due to the appreciation of energy and food prices. According to Statistics Estonia, the consumer prices in Estonia increased by 11.3 per cent year-over-year in January. The average price inflation of the Eurozone countries was estimated to be close to 5.1 per cent. In turn, fast price increases and soaring wages put the Company in a difficult situation. Contrary to the general economic situation in Estonia – which is overall quite good as the recovery has been faster than in most other Eurozone countries, the situation in aviation is still complicated. Mitigation of the price pressure and a recovery of the purchasing power may be expected in the second half of 2022. According to the forecast of the Bank of Estonia, the average inflation in 2022 will be 6.9 per cent.

Performance plan and prices

Changes in the unit rates for EANS navigation services

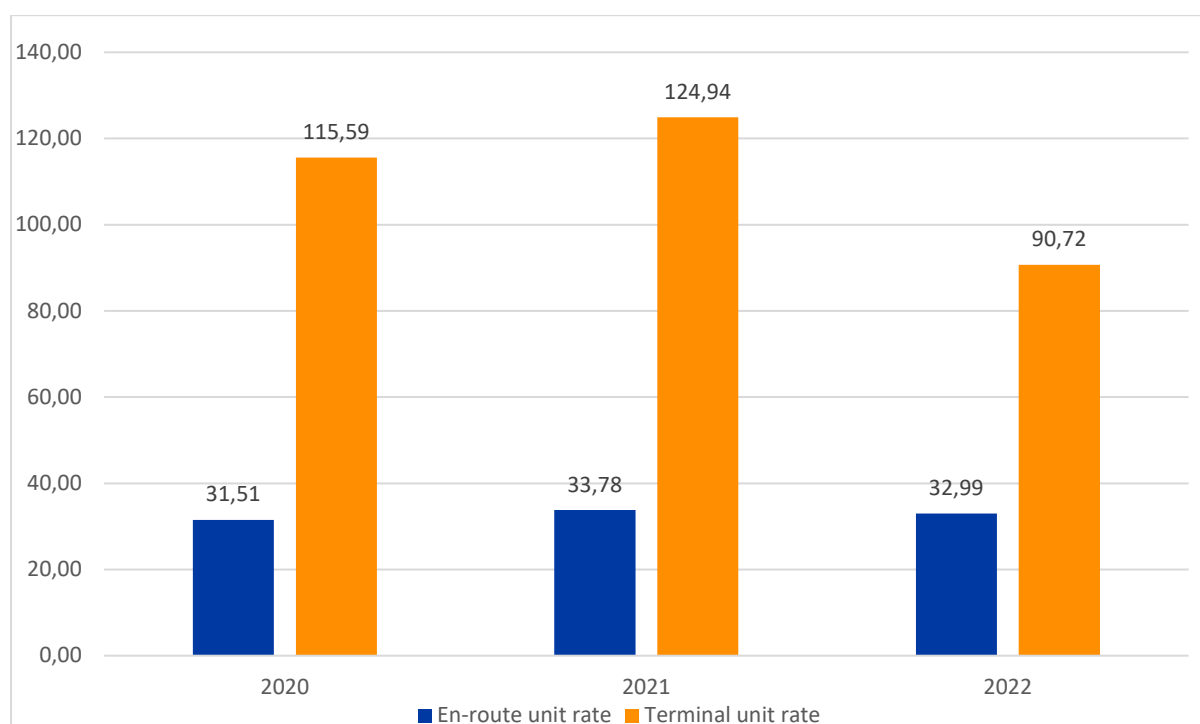
The unit rates for air navigation service charges are calculated on the basis of the Commission Implementing Regulation (EU) 2019/317 of 11 February 2019, laying down a common charging scheme for air navigation services.

The tariffs are annually adjusted and coordinated with the representatives of the airspace users (IATA etc.) in the Enlarged Committee for Route Charges.

The change in the en-route navigation charge is related to the new performance plan for 2020 - 2024. Since 1 January 2021, the unit rate was €33.78 and a year earlier, it was €31.51. Due to the current price regulation, the Company also changed the unit price for the en-route navigation charge for 2022, the new unit rate is €32.99.

In 2021, the unit rate for terminal navigation service was €124.94 while a year earlier it was €115.59. Since 1 January 2022, the unit rate of the terminal navigation charge is €90.72.

Navigation charges in 2020–2022



Economic Value Added

In order to improve the evaluation process of the economic results 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 appraisals based on it, the implementation of the economic value added calculation also takes the cost for equity exploitation into consideration. The idea of the economic value added concept lies in the amount of profit exceeding the cost of owner's equity:

Economic Value Added = net profit – equity × required return on equity

Taking into account the risk level in 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 is 7.3% (in the previous performance plan period, i.e. 2015–2019: 8.9%).

The economic value added in the core services was as follows:

2021

| | En-route navigation service | Terminal navigation service | Other services | Total |
|--|--|--|---------------------------|--------------|
| Revenue | 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 |

2020

| | En-route navigation service | Terminal navigation service | Other services | Total |
|--|--|--|---------------------------|--------------|
| Revenue | 13,161,845 | 1,041,095 | 1,511,143 | 15,714,083 |
| Operating expenses | 17,313,090 | 4,563,165 | 56,575 | 21,932,830 |
| Capital-related costs | 1,359,616 | 306,167 | 5,971 | 1,671,754 |
| Economic Value Added at the Company level | -5,510,861 | -3,828,237 | 1,448,597 | -7,890,501 |
| State expenses | 5,746,984 | 309,708 | | 6,056,692 |
| Economic Value Added at the state level | -11,257,845 | -4,137,945 | 1,448,597 | -13,947,193 |

6 SERVICES AND BUSINESS LINES

6.1 Air Traffic Management

In the area of air traffic management, the Company got adjusted to the changed circumstances in 2021. Air traffic volumes continued to slowly climb throughout the year, reaching 37% in January (as compared to 2019) and 79% in December. Due to the traffic growth, we reorganised the work of the Air Traffic Management Department.

In 2021, the volume of development activities related to the FINEST project increased considerably. The Company was engaged in bringing the documents and processes of the Air Traffic Management Department into compliance with changing legislation.

In the first half of 2022, we plan to thoroughly analyse the department's resource needs and prepare a long-term resource plan in collaboration with the Human Resources and Training Department.

We need to take into account the air traffic growth forecasts when we plan our activities. In planning the work of the Air Traffic Management Department, we also need to pay special attention to the growing volumes of military flights in the Baltic region, related to the tensions between Ukraine and Russia.

6.1.1 Aeronautical Information Department

The purpose of aeronautical information service (AIS) is the collection, processing and transmission distribution of information (aeronautical data and aeronautical information) necessary to ensure safe, regular and efficient air traffic. In order to ensure safety of air traffic, aeronautical information and data must have appropriate quality and provided in a timely manner.

Various projects support the migration from aeronautical information service (AIS) to aeronautical information management (AIM), which means transition from product-centric services to the aeronautical information management via digital data exchange.

In March 2021, we approved Stage 1 works of upgrading the CADAS aeronautical information systems. The respective contract was concluded at the end of 2019. COVID-19 has reduced the investment capacity of the aviation market, which is why we have frozen Stages 2, 3 and 4 for 2021. During this period, we made preparations for the continuation of the contract. We clarified the list of required and desired tasks and software requirements. The agreement will continue in 2022 and negotiations have begun.

In 2020, we started together with the system developer activities to ensure that our Aeronautical Information Management DataBase (AIMDB) would properly communicate with Eurocontrol's corresponding database (EAD SDO). By June 2021, we completed the data inspection and synchronisation and the conversion of the two data models started working. It means that we no longer need to enter our data in two separate databases. If data in AIMDB are changed, they are automatically changed also in the EAD SDO database. The next step is the migration from the EAD SDO database to the EAD SDD database. As a result, it will be no longer necessary to convert any more data as SDD uses the same data model as AIMDB.

In August 2021, a new format for reporting the runway situation was implemented in Europe (global data of implementation was 4 November 2021). This was a thoroughly prepared and principal change in the methodology for assessing the runway situation. In connection with the new format, EANS was also forced to change our software to ensure correct reception and display of information. Corresponding changes in our software were made within Stage 1 works of the CADAS upgrade.

In 2021, we prepared the implementation of Stages 1 and 2 of the FINEST project that will take place on 27 January 2022 and 21 April 2022, respectively. It was necessary to harmonise the roles of both counterparties and to prepare common procedures. Stage 1 is now successfully implemented and we are preparing Stage 2, where we will start working in real time with the Finns.

6.2 Technology and business development

6.2.1 Technology Department (digitalisation)

In order to achieve the level of digitalisation necessary for the provision of efficient and sustainable aeronautical service, EANS decided in 2021 to draw up a roadmap for digitalisation. This activity also includes a previously planned IT audit view of the systems. In many cases, digitalisation is simply about developing or implementing IT systems, but the processes that underpin successful digitalisation are forgotten. EANS contracted Flowit Estonia OÜ as its external partner and jointly mapped more than 200 important processes in information systems and digitalisation view. The roadmap we have created provides us with important knowledge for enhancing processes with the LEAN method and for smarter development of IT systems. These activities will continue in 2022 and the next step will be process optimisation and subsequent IT developments, system interfaces and automation.

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 Finlanc with the aim of integrating the Estonian and Finnish airspaces.

Significant progress in the FINEST programme in 2021 was the implementation of the version B10 of the air traffic control system TopSky in June. The version update made it possible for the first time to operate the Estonian and Finnish air traffic control systems in a common Internet network, which forms a basis for the launch of cross-border sectors.

In 2021, in order to implement the Build11 version of the Thales TATCI system, we and Fintraffic ANS entered into a joint procurement agreement with the system manufacturer Thales LAS France SAS, which will bring sustainable virtualisation enabling software and new hardware solutions to air traffic control.

Because of the Implementing Regulation (EU) 2020/469 amending Regulation (EU) 2017/373 which provides requirements for aeronautical service providers, and the need to amend the operational documentation, the migration to the new common airspace and common procedures planned for

November 2021 was delayed until 2022. The implementation of two major changes only two months apart proved time-critical and very challenging in terms of work volume.

Together with the implementation of the air traffic control system, we also started upgrading the voice communications solution VOIP for air traffic control. The new voice communication solution will be delivered to us by the internationally renowned manufacturer Rohde & Schwarz Denmark A/S and the first factory tests of the system were carried out in the fourth quarter of 2021. During the testing, the requirements necessary for the implementation of the FINEST programme were specified. The system is scheduled to be completed by the beginning of the third quarter of 2022.

FINEST aims to build a safer, more sustainable and more efficient common airspace that meets the needs of both Estonia and Finland, and to make air traffic significantly more cost-efficient and environmentally-friendly.

The readiness to implement the FINEST programme, together with technical solutions, user interfaces and operational harmonisation, will be achieved by the end of 2022. The final implementation and the commissioning of the FINEST airspace will depend on cooperation between Estonia and Finland as well as on the approval of the Ministries of Defence and Economic Affairs and Communications of the two countries.

Remote Tower prototype

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

In September 2021, the project manager of the Remote Tower changed. The new project manager Teele Kohv was also involved in the project at the beginning.

In 2021, in cooperation with Cybernetica AS, we continued to develop Remote Tower technology at Kuressaare Airport, where an upgraded system was installed. The Remote Tower project reached the expected result last year when all the necessary technology was installed at Kuressaare Airport and a suitable technical infrastructure was built. The Remote Tower software solution successfully passed the factory testing phase and by the end of the year a camera image needed for air traffic control became available in Tallinn. The reconstruction of the control centre's premises reached a phase that allows installation work to begin in the centre. The takeover of the Kuressaare Airport flight information service from AS Tallinna Lennujaam (Tallinn Airport) that was scheduled for 2021 was postponed until 2023. Since negotiations with different parties on the Kuressaare service are time-consuming, the Management Board decided to change the approved management plan in 2020 and make Tartu Airport the first service to be migrated to the Remote Tower Centre. The Remote Tower project will continue with the setting up of the Kuressaare solution and the test period will continue with the installation of an identical developed solution in Tartu.

Activities in 2022

At the beginning of 2022, we will start implementing in Tartu the Remote Tower system and migration of air traffic service to the Remote Tower Centre. At Tartu Airport, we will start providing air traffic services from the Remote Tower Centre in October 2022. At the end of the year, we will continue the

transfer of the Kuressaare air traffic information service and its migration to the Remote Tower Centre.

In parallel, at the beginning of 2022, we will begin the creation of the Multitower concept and the development of the system in cooperation with Cybernetica AS. In addition, we will create a development and training environment in Tartu where simulations, training and development tests can be organised. The simulation environment will be developed in cooperation with the Estonian Aviation Academy.

The implementation of the Kuressaare air traffic information service in the Remote Tower Centre will take place in the first half of 2023, followed by the development of Kärdla and Pärnu systems and the migration of the services to the Centre. The migration to the Multitower in the Remote Tower Centre will take place gradually starting from 2024.

Unmanned aviation

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

In 2021, in cooperation with the Estonian Ministry of Economic Affairs and Communications and the Transport Authority, EANS started to develop a solution to make the operation of unmanned aerial vehicles in urban airspaces, restricted areas and near airports safer and more convenient. The focus of cooperation was on the establishment of suitable geographical areas for drone operations and the development of operational guidelines. A digital solution for displaying geographical information was created – the map application will become available for users in the first half of 2022. The introduction of the map application, together with the new air traffic control procedures for UAVs, will allow apply the rules more flexibly and will allow the user to fly in locations where until now flying was complicated.

In 2021, we signed a contract with the software developer Frequentis for the deployment of a demo solution for the common information system. The demo solution was used to test unmanned air traffic systems and helped to develop the first procedures for coordinating drone flights in the immediate proximity of Tallinn. Testing of the Common Information System (CIS) solution will be continued in 2022. The aim is to analyse the exchange of information between air traffic management, drone operators, different service providers and public authorities. The provision of a common information service is a prerequisite for the management of air traffic of UAVs and a basis for the creation of U-space.

In January 2021, we launched the project “GOF 2.0 Integrated Urban Airspace Very-Large Demonstration” in the framework of the Horizon 2020 programme. The major project led by us is co-funded by SESAR JU. Project activities include, among others, validation and analysis of various technologies for managing unmanned air traffic and assessing the operational maturity of 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, the project will continue and services will be tested to enable tactical flight coordination.

In 2021, we launched the cooperation project “Development of the Unmanned Aviation Sector 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 via the aviation cluster. The aim of the project is to develop an implementation plan for U-space in Estonia and to support the introduction of services required for unmanned air traffic management services. The cooperation project will run until August 2023.

6.3 Our team

The key challenge in 2021 for our people was the ongoing COVID-19 crisis which impacted our economic opportunities and created problems for the functioning of our organisation and its health.

Our priority was to ensure provision of high-quality services and protection of employee health. In addition to this, our ambition was and still is to continue enabling a safe and supporting work environment for our employees and good corporate governance.

To adapt to the changes in the external environment and ensure the Company's sustainability of operations, we applied a renewed organisational structure at the beginning of the year. Some functions were centralised, the limits of accountability of the business areas were clarified and duplication was avoided. The adoption of the new structure led to the need to rearrange some of the positions and make others redundant. The structural changes also enabled to harmonise the scope of governance – all in all we have 8 executive management members and 12 first-level managers.



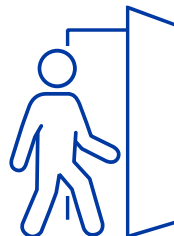
2021: 187 employees, Average length of employment 11 years.



110 men



77 women



Hired 27 new colleagues



17 employees departed

New remuneration system

From July 2021, EANS implemented a remuneration system that was created in 2020 in collaboration with Fontes. The new principles of the remuneration system will ensure internal fairness and market competitiveness, as well as objective bases for job evaluation and remuneration development. The new principles support the strategic decision of EANS to introduce performance-based management and describe in detail the basis for the payment of performance-based fee.

Staff satisfaction and change management

To keep in touch with how our people feel, and to ensure employee commitment and satisfaction, we launched a pulse survey. The online survey, which is conducted three times a year, provides quick and immediate feedback on management and other important aspects. We have constant overview of progress and can monitor trends. The survey involves all employees. We display results by

department and share them across the entire organisation. The main topics of the first pulse survey were management quality, change management, cooperation and internal communication. The permanent question of the pulse survey will be eNPS, the Employee Referral Index.

The baseline will be the year 2021: rating score is 5, indicating average satisfaction.

In 2021, the most important organisation-wide programme was EANS 2.0, which we organised in cooperation with the consulting company Velström Vallner Tohver OÜ. The objectives of the programme were to support people in adapting to change, to value the past, to (re)acknowledge unity and to implement positive changes. As a result of the programme, managers have the appropriate tools, motivation and a common way of thinking about how to implement the Company's goals. The programme consists of various events including the opening seminar, information seminar Take-off, three brainstorming platforms, three company-wide workshops, management master class, internal communication master class and mentoring. During the programme, the whole organisation was able to actively contribute and participate, create a common working culture and jointly implement the changes. A survey carried out at the end of the programme showed that employees had largely embraced change.

Within EANS, we encouraged our employees to participate in internal competitions to find new development opportunities in a new role. In addition, we (re)launched the "Step into your colleague's shoes" campaign. Positive feedback from participants – more than 30 employees – confirmed the usefulness of the initiative both for mapping development opportunities and for better cooperation.

Training and development activities

Due to the emergency situation, in 2021 EANS conducted training and development activities on the basis of a limited budget. Our priority was training required to maintain competences. As a training format, we continuously increased the share of e-learning: it was possible to attend almost all internal training courses via a video link or viewed on-demand from video recordings.

At the ATM Department, eight people were in training and one employee underwent a refresher training course. Training courses included TWR refresher training, intensive English language course, refresher training for level testers, refresher training for instructors, AFIS on-the-job training in Kuressaare, etc.

At the Aeronautical Information Department, we focused on expanding competencies, and in 2021 there were 9 training courses (for ARO and NOF competencies).

At the Technology Department the most important training courses were ATSEP Basic Training, SmartMessenger, Frequentis Administration Onboarding Training, COM-VOICE-INTRO, R&S VCS Plant Training.

We offered mental health lectures throughout the Company, as well as training for negotiations, media training for spokespersons and internal auditors.

Work environment

We maintain a high-level work environment and the Company 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 summer of 2021, the Labour Inspectorate audited occupational safety and health at EANS. The results of the audit can be considered excellent: There were only two findings, to which we reacted immediately.

In the field of wellbeing at work, we focused on health awareness: we provided hybrid workers with additional display monitors and stocked the office with disinfectants and facemasks.

Already at the beginning of the summer the staff of EANS stood out with a high level of vaccination (over 90%), allowing us to provide uninterrupted service and preventing workplace-based infections.

There was one occupational accident in 2021, which fortunately was minor and did not lead to loss of working time.

As an additional measure in supporting mental health, workers were offered free psychological counselling, which was used on a total of 22 occasions.

7 FINANCIAL STATEMENTS

7.1 Statement of financial position

(EUR)

| ASSETS | Note | 31.12.2021 | 31.12.2020 |
|---|------|-------------------|-------------------|
| NON-CURRENT ASSETS | | | |
| Cash and cash equivalents | 2; 3 | 10,555,239 | 6,582,589 |
| Trade receivables | 3; 4 | 3,913,115 | 4,358,353 |
| Other receivables and prepayments | 5 | 275,450 | 153,889 |
| Total current assets | | 14,743,804 | 11,094,831 |
| Property, plant and equipment | 6 | 12,767,566 | 12,942,647 |
| Intangible assets | 6 | 9,420,251 | 11,882,393 |
| Total non-current assets | | 22,187,817 | 24,825,040 |
| TOTAL ASSETS | | 36,931,621 | 35,919,871 |
| LIABILITIES AND EQUITY | | | |
| Short-term borrowings | 3; 7 | 1,871,541 | 4,792,072 |
| Payables to employees | 8 | 187,009 | 293,327 |
| Short-term provisions | 8 | 521,168 | 0 |
| Other current liabilities | 3; 9 | 2,306,770 | 1,714,389 |
| Short-term government grants | 16 | 220,611 | 1,699,373 |
| Total current liabilities | | 5,107,099 | 8,499,161 |
| Long-term borrowings | 3; 7 | 13,297,879 | 15,169,420 |
| Long-term government grants | 16 | 31,945 | 302,407 |
| Total non-current liabilities | | 13,329,824 | 15,471,827 |
| TOTAL LIABILITIES | | 18,436,923 | 23,970,988 |
| EQUITY | 10 | | |
| Share capital | | 10,112,940 | 5,112,940 |
| Statutory legal reserve | | 511,294 | 511,294 |
| Share premium | | 5,000,000 | 0 |
| Retained earnings | | 6,324,649 | 12,808,536 |
| Total comprehensive income for the year | | -3,454,185 | -6,483,887 |
| TOTAL EQUITY | | 18,494,698 | 11,948,883 |
| TOTAL LIABILITIES AND EQUITY | | 36,931,621 | 35,919,871 |

The notes on pages 44-76 are integral parts of these financial statements.

7.2 Statement of comprehensive income

(EUR)

| | Note | 2021 | 2020 |
|---|------|--------------------|--------------------|
| Revenue | 11 | 17,105,141 | 14,142,921 |
| Other income | | 678,144 | 1,571,162 |
| Total revenue | | 17,783,285 | 15,714,083 |
| Goods, raw materials and services | 13 | -2,488,401 | -2,704,993 |
| Other operating expenses | 14 | -1,118,832 | -1,399,119 |
| Payroll expenses | 12 | -11,970,681 | -12,559,111 |
| Depreciation and amortisation | 6 | -5,404,695 | -5,269,607 |
| Total operating expenses | | -20,982,609 | -21,932,830 |
| Operating profit/loss | | -3,199,324 | -6,218,747 |
| Financial income | | 732 | 794 |
| Financial costs | 7 | -255,593 | -265,934 |
| Profit/loss from operating activities | | -3,454,185 | -6,483,887 |
| Net profit/loss | | -3,454,185 | -6,483,887 |
| Total comprehensive income/loss for the year | | -3,454,185 | -6,483,887 |

The notes on pages 44-76 are integral parts of these financial statements.

7.3 Statement of cash flow

(EUR)

| | Note | 2021 | 2020 |
|---|------|-------------------|-------------------|
| Cash flows from operating activities | | | |
| Operating profit/loss | | -3,199,324 | -6,218,747 |
| Adjustments | | | |
| Depreciation, amortisation, and impairment | 6 | 5,404,695 | 5,269,606 |
| Depreciation of government grants for non-current assets | 16 | -440,502 | -440,502 |
| Government grants for operating expenses | 16 | -65,981 | -847,122 |
| Total adjustments | | 4,898,212 | 3,981,982 |
| Change in receivables and prepayments related to operating activities | 4;5 | 329,874 | -235,034 |
| Change in inventories | | -6,197 | 2,429 |
| Change in liabilities and prepayments related to operating activities | 8;9 | 460,383 | -2,224,092 |
| Government grants for operating expenses | 16 | -1,242,741 | 2,119,770 |
| Net cash flows from operation activities | | 1,240,207 | -2,573,692 |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment and intangible assets | 6 | -2,219,200 | -2,364,591 |
| Interest received | | 731 | 794 |
| Net cash flows used in investing activities | | -2,218,469 | -2,363,797 |
| Cash flows from financing activities | | | |
| Contributions to equity | | 10,000,000 | 0 |
| Loans received | 7 | 0 | 4,875,261 |
| Repayment of borrowings | 7 | -4,792,072 | -2,592,077 |
| Interest paid | 7 | -257,016 | -267,334 |
| Net cash flows used in financing activities | | 4,950,912 | 2,015,849 |

| | | | |
|--|----------|-------------------|------------------|
| <i>Increase/decrease in cash and cash equivalents for the period</i> | | 3,972,650 | -2,921,640 |
| Cash and cash equivalents at the beginning of the year | 2 | 6,582,589 | 9,504,229 |
| Cash and cash equivalents at the end of the year | 2 | 10,555,239 | 6,582,589 |

The notes on pages 44-76 are integral parts of these financial statements.

7.4 Statement of changes in equity

(EUR)

| | Share capital | Statutory legal reserve | Share premium | Retained earnings | Total |
|--|-------------------|-------------------------|------------------|-------------------|-------------------|
| Balance at 31.12.2019 | 5,112,940 | 511,294 | 0 | 12,808,536 | 18,432,770 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 |
| Total comprehensive income/loss for 2020 | 0 | 0 | 0 | -6,483,887 | -6,483,887 |
| Balance at 31.12.2020 | 5,112,940 | 511,294 | 0 | 6,324,649 | 11,948,883 |
| Increase in share capital | 5,000,000 | 0 | 5,000,000 | 0 | 10,000,000 |
| Total comprehensive income/loss for 2021 | 0 | 0 | 0 | -3,454,185 | -3,454,185 |
| Balance at 31.12.2021 | 10,112,940 | 511,294 | 5,000,000 | 2,870,464 | 18,494,698 |

More detailed information about the share capital and other equity items is disclosed in Note 10.

The notes on pages 44-76 are integral parts of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND ESTIMATES ADOPTED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

General information

Lennuliiklusteeninduse AS (hereafter the Company) is a company registered and operating in Estonia, mostly providing air navigation services; its shares are solely owned by the Republic of Estonia. The Company has neither any subsidiaries nor associates. The address of the Company is: Kanali põik 3, Rae küla, Rae vald, Harjumaa.

These financial statements are presented in EUR and they cover the period from 1 January to 31 December 2021. The Company's financial statements were approved by the Management Board at 25 March 2022.

Pursuant to the Commercial Code of the Republic of Estonia, the General Meeting of Shareholders has the authority to approve the annual report prepared by the Management Board which also includes the financial statements. The shareholder has the right not to approve the annual report prepared and presented by the MB and to request 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 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 EUR.

Changes in information disclosure

The principles of information disclosure applied in the preparation of this report are the same as in the Company's report for the financial year ended at 31 December 2020 except for the cases specified below.

Adoption of new and revised standards and interpretations

The new or revised standards or interpretations which become mandatory since 1 January 2021 are not expected to have a material impact on the Company.

New standards, interpretations and their amendments

The following new or revised standards and interpretations have been issued that will become effective for the Group from 1 January 2023 or in subsequent periods and which the Company has not applied prematurely:

“Classification of liabilities as current or non-current” – amendments to IAS 1 (effective for annual periods beginning at or after 1 January 2022; not yet adopted by the EU). These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management’s expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt an entity might settle by converting it into equity. ‘Settlement’ is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity’s own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Company considers the effect of the amendments on the financial statements as immaterial.

“Classification of Liabilities as Current or Non-current – Deferral of Effective Date” – amendments to IAS 1 (effective for annual periods beginning at or after 1 January 2023; not yet adopted by the EU). The amendment to IAS 1 for classification of liabilities as current or non-current was issued in January 2020, with the effective date of 1 January 2022. In response to the COVID-19 pandemic, the effective date was deferred to give more time to entities to apply the classification changes from amended guidance. The Company considers the effect of the amendments on the financial statements as immaterial.

Amendments to IAS 1 and IFRS Practice Statement 2: “Disclosure of Accounting Policies” (effective for annual periods beginning at or after 1 January 2023; not yet adopted by the EU). IAS 1 was amended to require entities to disclose their material accounting policy information rather than their significant accounting policies. The amendment laid down the definition of material accounting policy disclosures. The amendment also clarified that accounting policy disclosures are assumed to be relevant if without them the users of financial statements would not be able to understand other key information of the financial statements. The amendments provide illustrative examples about accounting policy disclosures which are most likely considered as material for an entity’s financial statements. In addition, the amendment to IAS 1 clarified that irrelevant accounting policy disclosures need not be disclosed. If they are disclosed, they should not overshadow key accounting policy disclosures. To support the amendment, IFRS practice statement 2 “Making Materiality Judgements” was also amended to provide guidance on how to apply materiality judgements in disclosing accounting policies. The Company considers the effect of the amendments on the financial statements as immaterial.

Amendments to IAS 8: “Definition of Accounting Estimates” (effective for annual periods beginning at or after 1 January 2023; not yet adopted by the EU). The amendment to IAS 8 explains

how entities should distinguish between accounting policies and accounting estimates. The Company considers the effect of the amendments on the financial statements as immaterial.

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

Foreign currency transactions

All foreign currency transactions are recognised in EUR using the foreign exchange rates of the ECB prevailing at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated based on the foreign currency exchange rates of the ECB prevailing at the balance sheet date. Foreign exchange gains and losses arising from translation are reported in the statement of comprehensive income.

Current and non-current assets and liabilities

Assets and liabilities are considered as current when their due date is within 12 months after the end of the reporting period. Assets and liabilities with longer due dates are reported as non-current.

Financial assets

Classification

The Company's financial assets are classified in the measurement category of 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, the date at which the Company commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive 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). Transaction costs of financial assets carried at FVPL are expensed 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 Company's debt instruments are classified in the measurement category of 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 from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other

income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the income statement.

All the financial assets of the Company are classified as follows:

- 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 at expected lifetime credit losses from initial recognition of the receivables. The Company uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods. The changes in the impairment loss methodology did not have substantial impact in the impairment reserve as at 1 January, therefore, no adjustments were made in retained earnings and equity.

Although the ECL model of IFRS 9 covers also cash and cash equivalents, the identified impairment as at 1 January 2020 and 31 December 2021 was immaterial.

Cash and cash equivalents

Cash and cash equivalents both in the statement of financial position and the statement of cash flows comprise cash on hand, cash in bank accounts and short-term deposits (up to 3 months).

Property, plant and equipment

Recognition and measurement

Non-current assets are assets used in the economic activities of the Company with a useful life of over one year. 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.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment and are 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 at the carrying amount of the item, if it is probable that future economic benefits associated with the part will flow to the Company and its cost 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 the 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 each part of an item of property, plant and equipment. 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 inventory | 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 of property, plant and equipment, net book values and assigned depreciation rates are reviewed annually. The effect of changes in estimates is recognised in the reporting and subsequent period.

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 included in the statement of comprehensive income (line “Depreciation”) in the period in which the item is derecognised.

Intangible assets

Intangible assets are initially recognised at their cost which comprises purchase price and any costs directly attributable to the acquisition of the asset. Intangible assets are measured at cost, less any accumulated depreciation 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 the 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 carrying amounts of the Company's non-financial assets are critically reviewed at each reporting date to determine whether there is any indication of impairment. 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. For assessing the recoverable amount, the estimated future cash flows are discounted 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 only if there are indications 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 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 (supplier 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 rate method. Transaction costs are taken into consideration upon calculating the effective interest rate and charged to the 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 the accrual basis. Financial liabilities with their due date in the next 12 months beginning from the reporting date or if the Company has no unconditional right to defer the payment for longer than 12 months beginning from the reporting date are classified as current liabilities. The borrowings that shall be paid within 12 months beginning from the reporting date but that are reclassified as long-term after the reporting date but before the annual report is approved are recognised as short-term liabilities. The same applies to the borrowings that are recognised as short-term borrowings, if the lending institution has the right to call it back on the reporting date due to a breach of the loan agreement.

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

The financial liability will be derecognised when the liability is paid, cancelled or expired.

Provisions and contingent liabilities

Commitments arising from an obligating event before the end of the reporting period that have either a legal or contractual basis or that have arisen from the Company's current operating practice, that require the giving up of assets, whose realisation is probable (it is more probable than not that the outflow of resources is necessary for the meeting of the obligation) and whose cost can reliably be estimated but the timing of which or amount are not definitely known, are recognised as provisions in the statement of financial position. Provisions are recognised in the statement of financial position based on the 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 according to the management's estimate is necessary as at the end of the reporting period to meet the obligation arising from the provision or transfer to a third party. The provision expense and the expense of changes in the carrying amounts of provisions are included within expenses in the accounting period. Provisions are recognised to cover future losses.

When it is probable that the provision is expected to realise later than 12 months after the end of the reporting year it is recorded at discounted value (present value of expected outflows), unless the discounting effect is immaterial.

Promises, guarantees and other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.

Leases

The Company applied IFRS 16 "Leases" for the first time from 1 January 2019.

Lessees shall take into account:

- a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lease agreements are recognised as right-of-use assets and liabilities arising from a lease on the date when the asset is ready for use.

Lease liabilities are recognised at the present value of the lease payments. Right-of-use assets are measured in the amount equal to the lease liability unless the right-of-use asset adjustment is not required. The leases are classified as operating or financial expenses. The financial expenses are recognised in the income statement for the lease period, but the interest rate for each period of the lease term and the liability net book value should be the same. The depreciation is on a straight-line basis over the lease term or the useful life whichever is shorter.

Lease liabilities include the following lease payments at present value:

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

Lease payments are discounted using the interest rate in the lease agreement if it is easily defined, or the Company's loan interest rate. The alternative loan interest rate is an interest rate paid by a lessee to lease resources that would be needed for acquisition of assets at similar value under the same conditions and in the same economic environment.

A short-term lease is a lease with a lease term of shorter than 12 months. Low value assets include IT equipment and stationeries. When determining a lease term, the executive management considers all relevant facts and circumstances that create an economic incentive to exercise a renewal option, or not to do so. Renewal options (or periods after termination option): if the lessee is reasonably certain to exercise a renewal option (or not to terminate). The Company's executive management assesses the events and changes in the circumstances that are under the control of the executive management and whether they impact the likelihood of using these options. For example, if the renewal period has changed (e.g. the Group has introduced an option that used to be considered uncertain or the group has not introduced an option that used to be considered uncertain).

According to the agreements, the Group's lease assets have no carrying amount at the time of expiry of the agreements.

The following practical exemptions specified by the standard have been used in EANS:

- the agreements on operating leases with the lease period of under 12 months are recognised as short-term leases by the accounting group;
- lease agreements on the assets of minor value are not included;
- at the initial standard application, the initial direct expenses relating to the measurement of lease assets are not included.

The Company leases motor vehicles and pays lease payments for data link services. When adopting IFRS 16, the Company assessed the rental lease liabilities that used to be classified as operating leases according to IAS 17 "Leases". As at 31 December 2021, the effective lease agreements are with the termination option of less than 12 months or the leased assets are of minor cost, therefore, based on the amended accounting policies in 2021, the operating leases are not recognised as right-of-use assets.

Revenue from contracts with customers

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

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

Financing component

The Company does not have any contracts where the period between the transfer of the contracted goods or services to the customer and payment by 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 under the accrual basis using the effective interest rate and is included within financial income in the statement of comprehensive income.

Payroll expenses

Payroll expenses are recognised in the statement of comprehensive income when EANS has a commitment to its employees. Employee benefit expenses include wages and salaries with social security taxes (33%) and unemployment insurance (0.8%) as well as fringe benefits including the income tax (income tax rate 20/80, from 01.01.2015) and social security tax.

The vacation pay expense and the amount of the vacation reserve accrual are determined at the end of the reporting period. The vacation pay expense is included within payroll expenses in the statement of comprehensive income and is recognised as a current liability in the statement of financial position.

Corporate income tax

Pursuant to the effective Income Tax Act, it is the dividends but not the corporate profits that are taxed in Estonia. Due to the peculiarity of the taxation concept, the concept of "tax basis of assets and liabilities" does not have any economic substance and thus no deferred income tax liabilities or assets arise.

Corporate income tax calculated on dividends is recognised as an income tax expense in the statement of comprehensive income and a liability in the period when dividends are declared.

The maximum possible income tax amount that would accompany the distribution of dividends is presented in Note 15.

From 2018, the tax rate of 14/86 can be applied to dividend payments. The more favourable tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Government grants

Government grants related to assets are recognised under the gross method. The assets acquired with the support from government grants are recorded in the financial statements at their cost. Government grants related to assets are recorded in the statement of financial position under non-current liabilities as deferred income from government grants. The acquired assets are depreciated and the deferred income is recognised as income over the useful life of the asset.

Grants related to expenses are recognised in the statement of comprehensive income in proportion to the related costs. The gross method is applied for recognising income, i.e. the grant received and the expenses to be compensated for are recorded separately in the statement of comprehensive income. Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with.

Government grants are recognised as short-term if their estimated income recognition is during the following 12 months. All others are recognised as long-term.

Cash flows

Since 1 January 2020, the statement of cash flows is prepared under the indirect method. In the statement of cash flows, cash and cash equivalents comprise assets recognised in the statement of financial statement as cash and cash equivalents.

Subsequent events

Material circumstances affecting the valuation of assets and liabilities that became evident between the end of the reporting period (31 December 2021) and the date of preparing the financial statements and are related to transactions that took place in the reporting period or earlier periods, are recorded in the financial statements. Subsequent events that have not been taken into consideration when evaluating the assets and liabilities at 31 December 2021, but have a material effect on the result of the next financial year, are disclosed in the financial statements.

NOTE 2. CASH AND CASH EQUIVALENTS

(EUR)

| | Note | 31.12.2021 | 31.12.2020 |
|-----------------|-------------|-------------------|-------------------|
| Swedbank AS | | 10,022,895 | 6,399,594 |
| Luminor Bank AS | | 320,341 | 33,937 |
| SEB Pank AS | | 212,003 | 149,058 |
| Total | 3;7 | 10,555,239 | 6,582,589 |

NOTE 3. FINANCIAL INSTRUMENTS

(EUR)

| | Note | 31.12.2021 | 31.12.2020 |
|------------------------------------|------|-------------------|-------------------|
| Financial assets | | | |
| Cash and cash equivalents | 2 | 10,555,239 | 6,582,589 |
| Trade receivables | 4 | 3,913,115 | 4,358,353 |
| Total financial assets | | 14,468,354 | 10,940,942 |
| Financial liabilities | | | |
| Borrowings | 7 | 15,169,420 | 19,961,492 |
| Other current liabilities | 9 | 1,897,300 | 1,283,515 |
| Total financial liabilities | | 17,066,720 | 21,245,007 |

For disclosure purposes, the fair value is calculated based on future contractual cash flows discounted at a current lending rate, which is available for other similar financial instruments of the Company. According to the Management Board of EANS, the carrying amounts of the financial assets and financial liabilities at amortised costs recognised at 31 December 2021 and 31 December 2020 are not significantly different from their fair values, as they are all settled within 12 months after the end of the reporting period. Likewise, the fair values of long-term borrowings do not significantly differ from their carrying amounts, as their interest rates correspond to the current market interest rates.

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

NOTE 4. TRADE RECEIVABLES

(EUR)

| | Note | 31.12.2021 | 31.12.2020 |
|---|----------|------------------|------------------|
| Accounts receivable | | 4,215,705 | 4,690,287 |
| <i>incl. accounts receivable from related parties</i> | | 156,479 | 110,245 |
| Allowance for doubtful receivables | | -302,590 | -331,934 |
| Trade receivables | 3 | 3,913,115 | 4,358,353 |

In the financial year, an allowance for doubtful receivables was recognised in the amount of €109 (2020: €154,303) and doubtful receivables of prior periods were reversed in the amount of €31,968. The total amount of receivables written off during the year as uncollectible was €109 (2020: €27,607) (for more information about credit risk see also Note 19).

NOTE 5. OTHER RECEIVABLES AND PREPAYMENTS

(EUR)

| | 31.12.2021 | 31.12.2020 |
|-----------------------------------|----------------|----------------|
| Prepaid taxes | 173,803 | 85,280 |
| Other receivables and prepayments | 101,647 | 67,934 |
| Prepaid operating lease payments | 0 | 675 |
| Total | 275,450 | 153,889 |

NOTE 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

(EUR)

| | Land, buildings, facilities and their utility systems | Machinery and equipment | Other property, plant and equipment | Investments in progress | Total |
|--------------------------------|---|-------------------------------|--|----------------------------|-------------------|
| Carrying amount | | | | | |
| 31.12.2019 | 8,236,660 | 5,109,069 | 465,373 | 57,044 | 13,868,146 |
| Additions | 0 | 0 | 0 | 239,156 | 239,156 |
| Reclassification | 76,806 | 205,244 | 0 | -282,050 | 0 |
| Reclassification to expense | 0 | 0 | 0 | -3,360 | -3,360 |
| Depreciation charge | -274,119 | -819,883 | -67,293 | 0 | -1,161,295 |
| Carrying amount | | | | | |
| 31.12.2020 | 8,039,347 | 4,494,430 | 398,080 | 10,790 | 12,942,647 |
| Additions | 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 | | | | | |
| 31.12.2021 | 7,910,745 | 3,985,550 | 341,856 | 529,415 | 12,767,566 |
| Balance at 31.12.2019 | | | | | |
| Acquisition cost | 11,322,670 | 16,350,311 | 703,136 | 57,044 | 28,433,161 |
| Accumulated depreciation | -3,086,010 | -11,241,242 | -237,763 | 0 | -14,565,015 |
| Balance at 31.12.2020 | | | | | |
| Acquisition 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 |
| Balance at 31.12.2021 | | | | | |
| Acquisition 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 |

Intangible assets

(EUR)

| | Investments | | |
|-----------------------------------|-------------------|------------------|--------------------|
| | Software | in progress | Total |
| Carrying amount 31.12.2019 | 11,656,294 | 1,420,700 | 13,076,994 |
| Additions | 0 | 2,913,711 | 2,913,711 |
| Reclassification | 390,484 | -390,484 | 0 |
| Reclassification as expense | 0 | 0 | 0 |
| Amortisation charge | -4,108,312 | 0 | -4,108,312 |
| Carrying amount 31.12.2020 | 7,938,466 | 3,943,927 | 11,882,393 |
| Additions | 0 | 1,895,640 | 1,895,640 |
| Reclassification | 3,979,092 | -3,979,092 | 0 |
| Reclassification as expense | 0 | -6780 | -6780 |
| Amortisation charge | -4,351,002 | 0 | -4,351,002 |
| Carrying amount 31.12.2021 | 7,566,556 | 1,853,695 | 9,420,251 |
| Balance at 31.12.2019 | | | |
| Acquisition cost | 24,938,582 | 1,420,700 | 26,359,282 |
| Accumulated amortisation | -13,282,288 | 0 | -13,282,288 |
| Balance at 31.12.2020 | | | |
| Acquisition cost | 25,149,166 | 3,943,927 | 29,093,093 |
| Accumulated amortisation | -17,210,700 | 0 | -17,210,700 |
| Balance at 31.12.2021 | | | |
| Acquisition cost | 29,128,258 | 1,853,695 | 30,981,953 |
| Accumulated amortisation | -21,561,702 | 0 | -21,561,702 |

Tatci Finest B10 in the amount of €1,145,000 and remote tower software upgrades in the amount of €669,000 make up a major share of the amounts recognised as investments in progress at the end of the year, to be deployed in 2022.

NOTE 7. BORROWINGS

(EUR)

| Creditor | Total borrowings | Non-current portion | Current portion | Interest rate | Maturity date |
|------------------------------|-------------------|---------------------|------------------|-------------------|---------------|
| Balance at 31.12.2020 | | | | | |
| Swedbank AS | 1,429,003 | 423,900 | 1,005,103 | 1.69% | 18.05.2022 |
| Swedbank AS | 4,616,925 | 3,962,407 | 654,518 | 1.50% | 04.09.2027 |
| Swedbank AS | 10,000,000 | 10,000,000 | 0 | 1.29% | 05.11.2023 |
| Eurocontrol | 3,915,564 | 783,113 | 3,132,451 | 1.50%+ EURIBOR | 31.03.2022 |
| Total | 19,961,492 | 15,169,420 | 4,792,072 | | |

| | | | | | |
|------------------------------|-------------------|-------------------|------------------|-------------------|------------|
| Balance at 31.12.2021 | | | | | |
| 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 | | |

The Company has four loans, one of which is secured by the mortgage established on the Company's property in the amount of €639,116. At 31 December 2021, the carrying amount of the assets pledged is €6,685,303. The second, third and fourth loan agreements are not secured. The fixed interest rate of the first loan is 1.69%, the interest rate of the second loan is fixed at the date when the last portion of the loan is taken in use, i.e. 1.50%, the fixed rate of the third loan is 1.29% and the interest rate of the fourth loan from Eurocontrol is 1.50% plus Euribor. The recognition of the loans is based on the management's estimate that the nominal interest rate does not significantly differ from the effective interest rate.

In 2021, the annual interest on the borrowing in the amount of €255,593 (2020: €265.934) is fully recognised as a financial cost in the statement of comprehensive income.

Net debt
(EUR)

| | 31.12.2021 | 31.12.2020 |
|------------------------------------|-------------------|--------------------|
| Cash and cash equivalents (Note 2) | 10,555,239 | 6,582,589 |
| Short-term borrowings | -1,871,541 | -4,792,072 |
| Long-term borrowings | -13,297,879 | -15,169,420 |
| Net debt | -4,614,181 | -13,378,903 |

| | | |
|-------------------------------------|-------------------|--------------------|
| Cash and cash equivalents (Note 2) | 10,555,239 | 6,582,589 |
| Borrowings with fixed interest rate | -15,169,420 | -19,961,492 |
| Net debt | -4,614,181 | -13,378,903 |

| | Cash and cash equivalents | Borrowings with due date within 1 year | Borrowings with due date of over 1 year | Total |
|--|---------------------------|--|---|--------------------|
| Net debt 01.01.2020 | 9,504,229 | -1,632,380 | -16,045,928 | -8,174,079 |
| Changes | -2,921,640 | 0 | 0 | -2,921,640 |
| Repaid (+)/ received (-) loans | 0 | -1,500,071 | -783,113 | -2,283,184 |
| Loan reclassification from long- to short-term | 0 | -1,659,621 | 1,659,621 | 0 |
| Net debt 31.12.2020 | 6,582,589 | -4,792,072 | -15,169,420 | -13,378,903 |
| Changes | 3,972,650 | 0 | 0 | 3,972,650 |
| Repaid (+)/ received (-) loans | 0 | 4,792,072 | 0 | 4,792,072 |
| Loan reclassification from long- to short-term | 0 | -1,871,541 | 1,871,541 | 0 |
| Net debt 31.12.2021 | 10,555,239 | -1,871,541 | -13,297,879 | -4,614,181 |

NOTE 8. PAYABLES TO EMPLOYEES

(EUR)

| Type of payable | | Opening balance | Additions | Closing balance |
|--|------|------------------|-------------------|-----------------|
| Vacation pay accrual and severance pay | 2021 | 293,327 | -106,318 | 187,009 |
| | 2020 | 545,529 | -252,202 | 293,327 |
| Bonus provision, current portion | 2021 | 0 | 521,168 | 521,168 |
| | 2020 | 1,201,773 | -1,201,773 | 0 |
| Bonus provision, non-current portion | 2021 | 0 | 0 | 0 |
| | 2020 | 619,073 | -619,073 | 0 |
| Total 31.12.2021 | | 293,327 | 414,850 | 708,177 |
| Total 31.12.2020 | | 2,366,375 | -2,073,048 | 293,327 |

Vacation pay accrual is the vacation pay for earned but unused vacation days including 33% social security taxes and 0.8% unemployment insurance premium.

The vacation pay is made to an employee before he/she goes on a holiday.

The bonus reserve for 2021 was classified as short-term.

NOTE 9. OTHER CURRENT LIABILITIES

(EUR)

| | Note | 31.12.2021 | 31.12.2020 |
|---------------------------------------|------|------------------|------------------|
| Payables to suppliers | 3 | 1,877,824 | 1,267,346 |
| Tax liabilities | | 409,470 | 430,874 |
| <i>Value added tax</i> | | 0 | 0 |
| <i>Social security tax</i> | | 244,478 | 257,091 |
| <i>Personal income tax</i> | | 133,277 | 137,185 |
| <i>Unemployment insurance premium</i> | | 16,356 | 16,815 |
| <i>Mandatory funded pension</i> | | 12,788 | 13,611 |
| <i>Special income tax</i> | | 2571 | 6172 |
| Accrued interest | 3 | 14,540 | 15,963 |
| Other current liabilities | 3 | 4,936 | 206 |
| Total | | 2,306,770 | 1,714,389 |

NOTE 10. EQUITY

Share capital

The number of shares at 31 December 2021 was 1,011,294 (31.12.2020: 511,294), the average number of shares during the reporting year was 1,011,294 (2020: 511,294). In 2021, 500,000 new shares were issued and listed. The nominal value of the share is €10 and it consists of ordinary shares. All shares are solely owned by the Republic of Estonia.

The minimum share capital of the Company is €5,112,940 and its maximum share capital is €20,451,760. Each share gives right to get dividends and one vote at the general meeting.

Statutory legal reserve

In the financial year, the amount of the legal reserve remained unchanged, i.e. €511,294 (the same as in 2020), which is the statutory legal reserve capital required by the Articles of Association and legal acts.

Share premium

In the course of the increase in share capital in 2021, share premium arose in the amount of 10 euros per share in the total amount of €5,000,000.

NOTE 11. REVENUE FROM KEY ACTIVITIES

Revenue grouped by services (EUR)

| Type of service | 2021 | 2020 |
|--|-------------------|-------------------|
| Air navigation service (EMTAK 52239), incl. | 17,103,438 | 14,134,974 |
| <i>En-route navigation services</i> | 15,740,164 | 13,162,639 |
| <i>Terminal navigation services</i> | 1,363,274 | 972,335 |
| Consulting service (EMTAK 52239) | 1,703 | 7,947 |
| Total | 17,105,141 | 14,142,921 |

Navigation service per customer (EUR)

| Customer | 2021 | | 2020 | |
|----------------------|------------------------------------|------------------------------------|------------------------------------|------------------------------------|
| | En-route navigation services | Terminal navigation services | En-route navigation services | Terminal navigation services |
| Air China | 2,006,322 | 0 | 1,212,662 | 0 |
| Finnair OÜ | 899,323 | 81,366 | 1,005,722 | 89,269 |
| China Eastern | 768,049 | 0 | 490,422 | 0 |
| Lufthansa | 577,349 | 0 | 490,140 | 0 |
| ASL Airlines Belgium | 538,815 | 37,204 | 331,498 | 0 |
| Emirates Intl | 479,813 | 0 | 237,425 | 0 |
| Korean Airlines | 432,534 | 0 | 420,180 | 0 |
| Air China Cargo Ltd | 397,883 | 0 | 390,280 | 0 |
| Air Baltic | 395,895 | 305,863 | 371,448 | 267,652 |
| KLM | 390,582 | 0 | 541,673 | 0 |
| Other customers | 8,853,599 | 938,841 | 7,671,189 | 615,414 |
| Total | 15,740,164 | 1,363,274 | 13,162,639 | 972,335 |

NOTE 12. PAYROLL EXPENSES

(EUR)

| | 2021 | 2020 |
|--|--------------------|--------------------|
| Payroll expenses | -8,831,688 | -9,207,931 |
| Social security tax and unemployment insurance premium | -2,974,997 | -3,097,877 |
| Fringe benefit, incl. taxes | -163,996 | -253,303 |
| Total | -11,970,681 | -12,559,111 |

In the financial year, the average number of employees was 176 (2020: 199), of which the average number of the staff working on the basis of employment contracts was 172 (2020: 196) and the average number of the members of the legal person's management body was 4 (2020: 3).

NOTE 13. GOODS, RAW MATERIALS AND SERVICES

(EUR)

| | 2021 | 2020 |
|-------------------------------|-------------------|-------------------|
| Equipment maintenance costs | -1,130,617 | -1,134,639 |
| Services | -139,220 | -508,057 |
| Meteorological information | -363,734 | -383,392 |
| Equipment exploitation costs | -228,555 | -97,785 |
| Goods, materials, electricity | -209,871 | -199,064 |
| Insurance expenses* | -264,472 | -216,135 |
| Security costs | -40,217 | -41,559 |
| Communication expenses | -89,466 | -95,884 |
| Necessaries | -22,249 | -28,478 |
| TOTAL | -2,488,401 | -2,704,993 |

* 94.62% of insurance costs (2020: 93.56%), i.e. €650 million (2019: €650 million) is the insurance indemnity limit paid for the liability insurance.

NOTE 14. MISCELLANEOUS OPERATING EXPENSES

(EUR)

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Training expenses | -202,504 | -165,042 |
| Staff travel expenses | -72,286 | -111,267 |
| Rental expense | -369,393 | -466,461 |
| Other operating expenses | -224,127 | -408,533 |
| Maintenance of buildings, premises, facilities | -197,736 | -192,628 |
| Work environment expenses | -37,255 | -42,553 |
| Transportation expenses | -15,531 | -12,635 |
| TOTAL | -1,118,832 | -1,399,119 |

NOTE 15. INCOME TAX

As at 31 December 2021, the Company's retained earnings totalled €2,870,464 (31.12.2020: €6,324,649). The maximum income tax amount that would arise if all the retained earnings were distributed as dividends is €475,587, and thus, it would be possible to pay out €2,394,877 as net dividends. Last year, the respective figures were €1,166,424 and €5,158,225. The determination of the maximum contingent income tax liability is based on the assumption that the distributable net dividends and the amount of the income tax expense on dividends in the statement of comprehensive income for 2021 shall not exceed the distributable profits as at 31 December 2021.

NOTE 16. GOVERNMENT GRANTS

(EUR)

| | 2021 | 2020 |
|---|------------------|------------------|
| Balance at end of previous year | 2,001,780 | 1,169,634 |
| Additions | -1,242,741 | 2,119,770 |
| Income of grants related to operating income | -65,981 | -847,122 |
| Income of grants related to purchase of property, plant and equipment | -440,502 | -440,502 |
| Balance at end of current year | 252,556 | 2,001,780 |
| Incl. current portion | 220,611 | 1,699,373 |
| Incl. non-current portion | 31,945 | 302,407 |
| Incl. less than 6 m | 195,037 | 1,479,122 |
| 6–12 m | 25,574 | 220,251 |
| 1–2 y | 31,945 | 302,407 |

In 2021, we transferred the GOF 2.0 government grant received in 2020 in the amount of €1,258,871 and we received €16,130 to cover operating expenses which is recognised in the line “Additions”.

NOTE 17. TRANSACTIONS WITH RELATED PARTIES

100% of all the shares are solely owned by the Republic of Estonia. In preparing the annual report of the Company, the members of the Management and Supervisory Boards and other companies under the significant influence of these persons are considered as related parties. All entities over which the state has control or dominant influence are also considered as related parties. The Company discloses the transactions with other aviation enterprises under the state control.

(EUR)

| Related parties | Year | Assets | Liabilities | Operating income | Operating expenses |
|--|-------------|---------------|--------------------|-------------------------|---------------------------|
| Aviation enterprises under state control or dominant influence | 2021 | 54,194 | 17,657 | 249,497 | 95,963 |
| | 2020 | 8,627 | 10,688 | 88,507 | 95,537 |

All transactions with related parties are made under market conditions and during the reporting or reference period no allowances were provided for the receivables from related parties.

During the financial year, the remuneration paid to the members of the Management Board amounted to €384,077 (2020: €252,629). The remuneration to the members of the Supervisory Board and Audit Committee for their participation in the work of the Supervisory Board and in the Audit Committee during the year amounted to €31,313 (2020: €29,338).

According to the contracts with the members of the Management Board, the Company is obliged to pay termination benefit depending on the reasons for terminating the contract totalling up to three-month remuneration. As the settlement of this obligation is unlikely, it is not recognised as a reserve.

NOTE 18. KEY ACCOUNTING JUDGEMENTS AND ESTIMATES

During the preparation process of the Annual Report, several accounting judgements and estimates, having impact on the assets and liabilities were used. Although the judgements and estimates were made to the best of their knowledge of the executive management, they may be not the same as the actual subsequent result. Changes in management estimates are reported in the statement of comprehensive income of the period in which the change occurred. The judgements and estimates below have the main impact on the financial information recognised in these financial statements.

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

The management's estimates about the actual period of use of the asset are used to determine the useful lives of intangible assets and items of property, plant and equipment. Prior experience has demonstrated that the time of actual usage of assets has turned out to be sometimes longer than their estimated useful lives. As at 31 December 2021, the total cost of the non-current assets in use with the carrying amount of zero is €10,176,538 (31.12.2020: €9,392,832).

A change of the assigned depreciation rate of all assets for one year would change the total comprehensive income by €777,000.

During the reporting period, no accelerated depreciation was used. This change in accounting estimate regarding the change in the useful life of the assets is recognised in the annual report prospectively. This change also resulted in a higher depreciation expense of the Company and the effect on comprehensive income is 0 (2020: €19,376).

Estimation of recoverable number of items of property, plant and equipment and intangible assets

The management assessed the existence of indications of impairment losses. In 2020 and 2021, air traffic volume was considerably lower than in the pre-crisis period due to the COVID-19 virus. Using the estimates about the air traffic recovery prevailing at the time of preparation of the financial statements and taking into account the Implementing Regulation (EU) 2020/1627 of 3 November 2020) on the exceptional measures adopted due to the COVID-19 pandemic with laying down a performance and charging scheme in the Single European Sky initiative for the third reference period (2020-2024) enabling to increase unit rates for 2020 and 2021 to be allocated over five calendar years beginning with 2023, an impairment test was prepared using the financial forecasts and no impairment losses were detected.

NOTE 19. FINANCIAL RISK MANAGEMENT

A procedure for financial risks management has been developed in order to regulate the management of the following financial risks related to the operating activities of the Company: liquidity risk, credit risk, foreign exchange risk and interest-rate risk. No material changes in financial risk management took place compared to the previous reporting period. In managing capital, the Company follows the regulations of the Government of the Republic of Estonia which annually specify the rate or amount of dividends payable to the owners.

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

- liquidity;
- capital retention;
- income.

Derivative instruments can be used only for hedging risks, but they were not used in the Company during the reporting and reference period.

Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial liabilities due to cash flow deficiency. The Company maintains an amount equalling the current month's cash disbursements to be usable as disbursement over three working days, not considering one-time larger than normal disbursements. In making short-term investments, liquidity shall be ensured also for the timely payment of significantly larger than normal disbursements. In order to hedge liquidity risk, the Company uses various sources of financing, such as bank loans, possibility of taking overdraft facility and ongoing monitoring of accounts receivables.

Due dates of existing financial liabilities by year are as follows:

| Balance at 31.12.2021 (EUR) | until 6 months | 6–12 months | 1–2 years | 2–5 years | Later than 5 years | Undiscounted cash flows | Carrying amount |
|---------------------------------------|------------------|----------------|-------------------|------------------|--------------------|-------------------------|-------------------|
| 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 |

| Balance at 31.12.2020 (EUR) | until 6 months | 6–12 months | 1–2 years | 2–5 years | Later than 5 years | Undiscounted cash flows | Carrying amount |
|---------------------------------------|------------------|------------------|------------------|-------------------|--------------------|-------------------------|-------------------|
| Borrowings (Notes 3; 7) | 2,528,863 | 2,517,441 | 2,062,270 | 12,279,940 | 1,260,158 | 20,648,672 | 19,961,492 |
| Trade and other payables (Notes 3; 9) | 1,283,515 | 0 | 0 | 0 | 0 | 1,283,515 | 0 |
| Total | 3,812,378 | 2,517,441 | 2,062,270 | 12,279,940 | 1,260,158 | 21,932,187 | 19,961,492 |

The Company has assumed a conservative position for managing liquidity risk, preserving a sufficient reserve of monetary funds to be able to fulfil its financial obligations at any given time. Continuous cash flow planning and control are key parts of the Company's daily liquidity risk management. We

are of opinion that the current cash buffer and provision of services to the countries excluded from sanctions will enable the Company to meet its financial obligations at any given time.

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

Credit risk

The credit risk of the Company encompasses potential damage arising from the inability of business partners to meet their obligations.

In managing credit risk, the Company uses the ratings of the rating agencies Moody's and Standard&Poor's. In investing the Company's cash into different debt instruments, specific criteria for choosing the issuers and volume restrictions have been set (total risk per issuer may amount to 60% of the Company's cash funds at a maximum), allowed investment regions are also defined (Estonia and OECD member states).

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 businesses of airlines (it is impossible to operate airlines without using the service), credit risk is significant only in case of the bankruptcy of airlines. Regardless of the crisis caused by COVID-19, the Company's credit losses in the financial year and in the comparative period have been very low. As at 31 December 2021 and 31 December 2020, the effect of the allowance for impairment losses was immaterial.

When carrying out transactions with low credit risk customers, as specified in legal acts the Company has the right not to provide navigation services to customers who owe for consumed services. By the time of preparation of the financial statements, 96% of the receivables outstanding at the year-end had been collected.

Trade receivables by due dates

(EUR)

| | 31.12.2021 | | 31.12.2020 | |
|----------------------------------|------------------|-------------|------------------|-------------|
| Not due | 3,801,329 | 90.2% | 4,387,716 | 93.5% |
| Overdue by 1-30 days | 88,246 | 2.1% | 22,305 | 0.5% |
| Overdue by 31-60 days | 24,401 | 0.6% | 9,581 | 0.2% |
| Overdue by 61-90 days | 7,159 | 0.2% | 9,847 | 0.2% |
| Overdue by 91-120 days | 9,299 | 0.2% | 11,208 | 0.2% |
| Overdue by 121-180 days | 11,426 | 0.3% | 6,368 | 0.1% |
| Overdue by more than 180 days | 273,845 | 6.4% | 243,262 | 5.2% |
| Total trade receivables * | 4,215,705 | 100% | 4,690,287 | 100% |

(Notes 3;4)

* Trade receivables include the allowance for doubtful receivables

Regardless of the difficulties arising from the COVID-19 crisis, the airline companies have mostly settled the accounts receivable within agreed terms.

The entire balance of receivables and deposits exposed to credit risk is €14,743,805 (2020: €11,094,831, see Notes 2–5).

Although cash and cash equivalents are also accounted for under IFRS 9 ECL model, the identified impairment at 1 January 2020 and 31 December 2021 was immaterial.

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

| | 31.12.2021 | 31.12.2020 |
|--|-------------------|-------------------|
| At banks with Moody's credit rating of Aa3 | 10,555,239 | 6,582,589 |
| Total credit risk exposure arising from bank accounts (Note 2) | 10,555,239 | 6,582,589 |

Market risk

Market risk consists of foreign exchange risk and interest-rate risk.

Foreign exchange 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 main functional currency of the Company is EUR; therefore, the Company does not consider currency risk to be significant. Foreign exchange risks arising from assets and liabilities need to be hedged when the open net position in the same currency exceeds €63.9 thousand. The Company had no material currency risk exposures at the end of current and previous reporting periods. In order to avoid foreign exchange risk, invoices are issued in EUR.

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. The interest rate risk of cash flows appears from floating interest rate borrowings and is described by rising interest rates affecting the increase in financial expenses. The Company's liabilities have fixed interest rates. The interest-rate risk of short-term assets is hedged with the Company's intention to hold these assets until maturity date. Interest-rate risk exposure is allowed when investing into money market funds, considering volume restrictions on these investments.

Capital management

Company uses total equity as a capital. The primary goal of capital management is to secure the sustainability of operations of the Company. The goal set by the owner is to keep the proportion of equity to total assets within the range 40%-45%. Decisions on involvement of external financing are made on the basis of forecasted cash flows. All the shares of the Company are owned by the State. The decisions regarding dividend payments are taken by the owner based on the Company's financial results, plans for development and also considering the general macroeconomic developments in Estonia and at the target markets. The actual return on equity is compared to required return on

equity as measurement of capital management: the Company incurred a loss in 2021 and the set targets for the return on capital were not met.

Fair value

For disclosure purposes, the fair value is calculated based on future contractual cash flows discounted at the current lending rate, which is available for other similar financial instruments of the Company. According to the Management Board of EANS, the carrying amounts of the financial assets and financial liabilities at amortised costs recognised at 31 December 2021 and 31 December 2020 (see also Note 3) do not significantly differ from their fair values, as they are all settled within 12 months after the end of the reporting period. Also, the fair values of long-term loans and borrowings do not significantly differ from their carrying amounts, as their interest rates correspond to the current market interest rates.

NOTE 20. SUBSEQUENT EVENTS

In response to Russia's military aggression against Ukraine launched on 24 February 2022, the European Union adopted restrictive measures banning the use of European Union airspace by all Russian airlines, aircraft registered in Russia as well as all non-Russian aircraft owned or chartered by, or otherwise controlled by any natural or legal person, entity or body in Russia. It is prohibited to enter, leave and fly over the territory of the European Union, as well as to land and take off from airports located in the territory of the European Union.

These measures are causing a decrease in air traffic in the airspace above the territory of the European Union, including Estonia. Russia reciprocated by banning overflights above the Russian territory by the aircraft of the European Union and other countries that have joined the sanctions.

The impact and duration of restrictions on air traffic flows is difficult to assess. However, the magnitude of the impact should not be comparable to the reduction in air traffic resulting from the outbreak of the COVID-19 pandemic in March 2020. Therefore, a decision was made to maintain the existing implementing measures and processes for the implementation of the third period performance plans as planned.

We are now in a position where it is more challenging to foresee the near future than to look further ahead. Air traffic will recover within three to five years and EANS must be prepared to cope with the increasing volumes of flights. The traffic volumes of the countries not subject to sanctions allow for the provision of the service, the fulfilment of the commitments made and make investments as planned.

Notwithstanding the complicated geopolitical situation in the world, we are moderately optimistic and look forward to the continued recovery of traffic flows in the second half of 2022.

PROPOSAL FOR COVERING THE LOSS

The net loss of Estonian ANS for the 2021 financial year is €3,454,185.

The Management Board has made a proposal to the General Meeting on the coverage of the loss of EANS as follows:

- to allocate the net loss for the 2021 financial year in the amount of €3,454,185 to retained earnings;
- after allocation of the loss for the financial year to the previous years retained earnings, the Company's retained earnings will be €2,870,464;
- not to pay dividends from retained earnings.



Ivar Värk

Chairman of EANS Management Board



Jaanus Selge

Member of EANS Management Board



Üllar Salumäe

Member of EANS Management Board



Meelis Kruusmann

Member of EANS Management Board



Independent Auditor's Report

To the Shareholder of Lennuliiklusteeninduse Aktsiaselts

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Lennuliiklusteeninduse Aktsiaselts (the "Company") as at 31 December 2021, and the Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2021;
- the statement of comprehensive income for the year then ended;
- the statement of cash flow for the year then ended;
- the statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises the Management report (but does not include the financial statements and our auditor's report thereon).

Our opinion on the financial statements does not cover the other information, including the Management report.

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Translation note:

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



In connection with our audit of the financial statements, our responsibility is to read the other information identified above 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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the financial statements and is prepared in accordance with the requirements of the Accounting Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the financial statements

The Management Board 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 the Management Board 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, the Management Board 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 the Management Board 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.

Auditor's 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 auditor's 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 ISAs 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 ISAs, 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.

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- 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 the Management Board.
- Conclude on the appropriateness of the Management Board'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 auditor's 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 auditor's 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.

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A blue ink signature of Janno Hermanson, featuring a large, stylized initial 'J' followed by a cursive name.

Janno Hermanson
Auditor's certificate no. 570

A blue ink signature of Märten Padu, consisting of a large, oval-shaped initial 'M' followed by a cursive name.

Märten Padu
Auditor's certificate no. 513

25 March 2022
Tallinn, Estonia

Translation note:

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