ESTONIAN AIR
ANNUAL REPORT 2014

ESTONIAN AIR

LETTER FROM THE CEO

Over the last two years, since I took over the CEO position at Estonian Air at the end of 2012, the airline has downsized its operations to develop Estonian Air into an efficient, niche player focused on the Nordic and emerging Nordic markets. We have reduced the network to ten core destinations, the fleet to five jet aircraft, the service concept to a low-cost regional model, the Company to half the number of employees, and the offices to a third of the previous space.

Our majority shareholder the Republic of Estonia has strongly supported the airline in its restructuring. By the end of 2014, the Republic had provided 37 million euros in rescue aid (12.1 million euros of which was disbursed at the end of 2014) to support the airline's restructuring. By the end of 2014, the Republic had submitted the airline's Modified Restructuring Plan for approval to the European Commission, continuing a process which began at the end of 2012.

The European Commission has ongoing investigations into prior instances of state aid as well as the airline's Restructuring Plan. Together with our shareholder representatives, we are working to ensure that the decisions expected in the near-term future will be positive.

Estonia, a small country on the edge of Europe, depends on efficient air transport for its future development. The market is small, and there is no direct competition to Estonian Air as the geographical location and size does not attract other airlines to invest in a regular operation suiting both business and leisure travelers. The passenger volumes to the most important business destinations are limited, between 40 000 and 130 000 per year. Distances to these destinations vary from 300 to 1 500 kilometers. There is definitely a business opportunity for a niche airline to create a profitable traffic system with non-stop operations to nine to twelve destinations.

This past year, political events in the Ukraine and Russia have affected our eastern routes, we have welcomed increasing competition in our Baltic and Scandinavian markets. Restructuring the airline to fit this market opportunity is not without challenges, but Estonian Air is ready to meet them. Our goal is to create a sustainable airline that can serve best the air transport needs of all Estonia — its people, businesses and economy as a whole.

Best regards,

Jan Olof Palmér
CEO
25 March 2015

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MANAGEMENT COMMENTARY

Restructuring to return to viability

The past year for Estonian was one of restructuring. In 2012, Estonian Air had embarked on an ambitious expansion of the network and change to a hub-and-spoke strategy that did not reach the desired results. Overall, the airline's losses decreased from 49.2 million in 2012 to 8.1 million euros in 2013, but increased again to 10.1 million euros in 2014 due to increased competition.

By the end of the third quarter of 2012, the Supervisory Council of Estonian Air had decided to restructure and downsize the company and to concentrate on point-to-point traffic rather than developing further Tallinn as a hub. To support the restructuring efforts, the Republic of Estonia in December 2012 provided a Rescue Aid Loan to the Company, a loan facility limit that was increased to 37 million euros in 2013.

With a new CEO at the helm, the airline in early 2013 developed a Restructuring Plan to return the airline to long-term viability. The Plan sets out the turnaround strategy for Estonian Air for 2013 through 2017. The strategy is set out over five years after a careful assessment of the shortest time required to restore the long-term viability of the Company, keeping in mind possible future operating conditions. The target is for the airline to reach a break-even position in 2015 and profitability in 2016.

In April 2013, the Supervisory Council approved the Company's Plan, and the Republic of Estonia, as the Company's majority shareholder, took ownership of the Plan and submitted it for approval to the European Commission (EC) on 20 June 2013. The Restructuring Plan sets out the Management's vision for the company, the implementation activity necessary, and the financing required to achieve the Plan. It also sets out the actions required under the European Commission (EC) Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty.

In October 2014, a modified Restructuring Plan was submitted to the EC, as the airline found a new Investor who potentially would be interested in taking over the Company once a positive decision is received form the EC.

The Company will contribute to its restructuring by divesting itself of its main remaining assets. The funding raised will then be supplemented by approved State Aid in the form of a capital injection after a positive EC decision on the Restructuring Plan. The Restructuring Plan and its actual and implied commitments has been acknowledged by and fully supported by the Republic of Estonia.

Overview of the year

- The total number of passengers was 553 161, which is 0.4% more than in 2013. The number of passengers was 532 917 on regular flight and on 20 244 charter flights.
- The airline flew 11 063 flights in 2014, 2.5% more than in the previous year. The load factor, as measured by average capacity sold on flights as the ratio of passenger kilometers produced and sold decreased from 66.3% to 64.7% in 2013 due to the replacement of smaller turboprop aircraft with regional jets. However, revenue per passenger went down by 4%, due to increased competition.
- The market share at Tallinn Airport in 2014 was 26.6%, 1.0 pp lower than the 27.6% recorded in 2013.
- Flight regularity for all flights, as measured by actual versus scheduled flights, was 99.0% compared to 99.3% in 2013, and punctuality (15-minute per departure) was 91.6% compared to 90.7% in 2013.
- During restructuring process in 2013 the airline reduced the number of destinations to ten core routes and three seasonal – Amsterdam, Brussels, Copenhagen, Kiev, Moscow, Oslo, St. Petersburg, Stockholm, Trondheim, Vilnius, Nice, Paris and Munich. During 27 November 2013 to 6 January 2014, Estonian Air fly also flights from Vilnius to Amsterdam and from Vilnius to Berlin after cooperation with Air Lituanica ended. In 2014, OV opened two new seasonal routes to Split and Berlin and is planning to open Milan and Vienna in 2015.
- Sales revenue amounted to EUR 69.9m and the net result was loss in the amount of EUR 10.1m.
- The total assets as of the end of the year amounted to EUR 65.5m, while the current ratio was 0.35.
- The Republic of Estonia gave the airline a rescue loan of EUR 0.8m in 2012, 24.1m in 2013 and additional 12.1m in 2014, which in total is 47.1m (including interest). In June 2013, the Restructuring Plan was filed to the European Commission and in October 2014, a modified Restructuring Plan was submitted.

- Estonian Air entered into agreements for flight, commercial and operational services for the start-up airline Air Lituanica to make regular flights out of Vilnius from 30 June 2013 through 2015. For reasons of non-payment, Estonian Air terminated the contracts early on 27 November 2013. Estonian Air agreed with Air Lituanica's commencement of arbitration on 5 December 2013 to resolve the companies' differences at termination. The Arbitration Court decided on 6 November 2014 that Estonian Air had the right to terminate the contract, awarded Estonian Air 483 thousand euros in damages, and rejected all of Air Lituanica's claims for damages.

- In cooperation with the local authorities of Småland county and tourism agencies, the airline started operating Växjö-Amsterdam flights from 5 May 2014. However, the route was closed on 10 August 2014 due to lack of customers.

Overview of the Estonian aviation market

According to IATA's (the International Air Transport Association) forecast dated December 2014 "Breakeven load factors are highest in Europe, caused by a combination of low yields due to the highly competitive open aviation area, and high regulatory costs". Despite increasing profits, the region is weakest next to Africa as net profits represent a margin of 1.8% compared to 6.0% in North America. Passenger traffic growth is forecasted to be 5.5% in 2015 and fuel price is expected to be 14.3% lower compared to previous year.
(http://www.iata.org/whatwedo/Documents/economics/IATA-Economic-Performance-of-the-Industry-end-year-2014-report.pdf)

The total number of passengers travelling through Tallinn Airport in 2014 was 2 017 291 (1 958 801 in 2013). The number of passengers increased by 3.0% in comparison to 2013 (decrease in 2013 was 11.2%). The number of passengers increased by 2.6% on regular flights and by 5.9% on charter flights. The most popular destinations from Tallinn in 2014 were Frankfurt and Helsinki as last year.

In 2014, total of 21 airlines operated flights from Tallinn, new entrants were Vueling, TAP Portugal and Air Lituanica. The market share of Estonian Air on the local market decreased from 27.6% to 26.6% in total number of passengers and from 31.5% to 30.3% in the number of regular passengers compared to 2013, maintaining however the leader's position in Tallinn Airport. On the second was Lufthansa and on the third place Ryanair with respectively 13.4% and 11.5% of the market. From new carriers, Air Lituanica started flights on Vilnius route in March, Vueling on Barcelona route in June, and TAP Portugal on Lisbon route in July. In addition, Estonian Air started flying to Bromma in September and opened seasonal flights to Split and Berlin, Air Baltic started flying directly from Tallinn to Paris in October.

The total number of Estonian Air's passengers in 2014 was 553 161, which is 0.4% more than last year. The load factor as the ratio of passenger kilometres sold to produced on regular flights fell to 64.7% from 66.3% in 2013, which was related to increased competition in Tallinn airport. With to excess aircraft the airline increased its number of charter flights almost five times from 212 to 565 through cooperation with European leading charter aircraft specialist Aircraft Chartering Service who marketed one of the Embraer 170 aircraft in the UK. In addition, the airline operated flights from Vilnius to Amsterdam and Berlin due to ceased cooperation with Air Lituanica during the period of 28 November 2013 to 6 January 2014. In cooperation with Småland airport, Estonian Air flew from Växjö to Amsterdam from 4 May to 10 August.

Regular flights to ten core destinations were offered to clients during the year. Munich remained as a winter seasonal route and Paris and Nice as summer seasonal destinations. Split was added in May and Berlin in June. In addition to regular flights, the company also flew charter flights to 117 destinations in Europe, and the Middle East.

Key Figures 2013-2014

Income Statement

EURk	2014	2013	% change
Total revenue*	69 577	72 144	-4%
Operating result	6 343	7 441	-15%
EBIT	-7 186	-4 055	15%
Net loss	**-10 405**	**-8 124**	**28%**

* The revenue above includes only revenue directly related to flying and thus does not match the revenue in the financial statements on p. 15.

Key operational figures 2013-2014

	2014	2013	Change or +/- %
Passengers	553 161	551 169	0%
Charter passengers	*20 244*	*5 710*	255%
Regular passengers	*532 917*	*545 459*	-2%
Flights	11 063	10 791	3%
Scheduled destinations from Tallinn	15*	13**	15%
Load Factor (ASK/RPK)	64.7%	66.3%	-1.6pp
Revenue passenger kilometers (RPK), m	569	564	1%
Available seat kilometers (ASK), m	880	851	3%
Punctuality, 15m departure	91.6%	90.7%	0.8pp
Regularity	99.0%	99.3%	-0.3pp
FTEs	166	164	1%

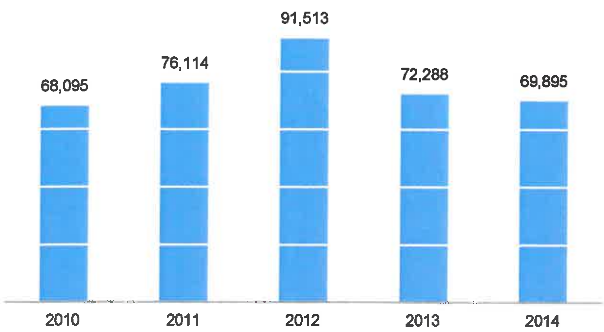
* In 2014, Estonian Air flew to ten core and five seasonal destinations, and during January operated flights from Vilnius to Amsterdam and during May to August flights between Växjö and Amsterdam in cooperation with Småland airport.

** In 2013, Estonian Air flew to ten core and three seasonal destinations, and during November and December operated flights from Vilnius to Amsterdam and Berlin.

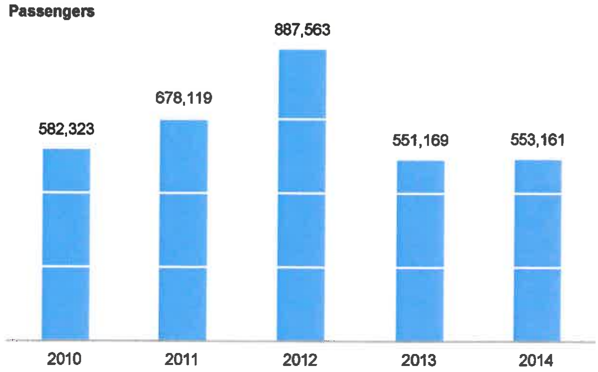
Note: 2013 number include Estonian Air Regional operations.

Trends 2010-2014

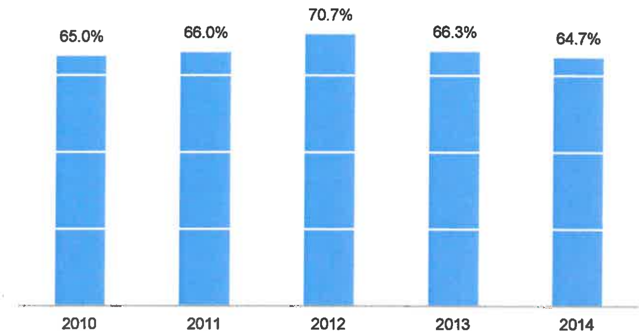
Revenue, k



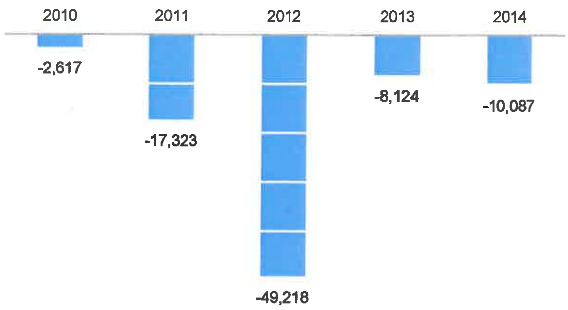
Passengers



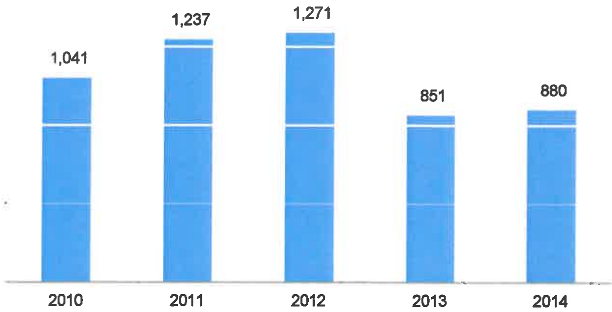
Load Factors (RPK/ASK), %



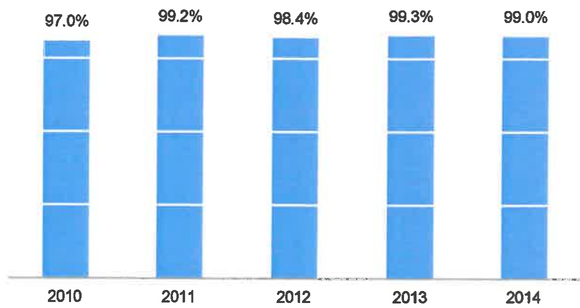
Net profit, k



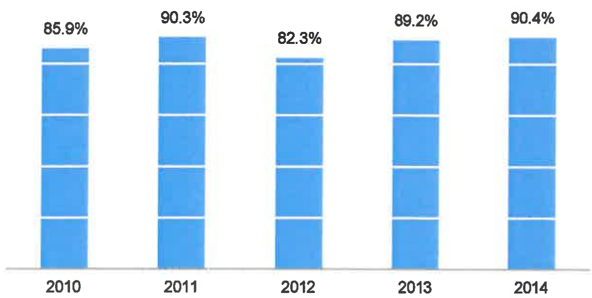
Available seat kilometers, k



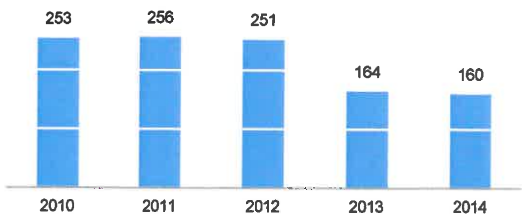
Network regularity



Network punctuality (15m, departure)



# of employees (FTEs)



Financial commentary

To have comparable financial overview, financial commentary includes consolidated numbers in 2013 (including Estonian Air Regional that was sold in June 2013), but only Estonian Air financials in 2014.

Revenue

Estonian Air revenues fell 4% in 2014, a decrease of 2.4 million euros from the previous year. It is the result of flying 1% less regular flights in 2014 and increased competition in Tallinn airport. The largest monetary decrease came from passenger revenues. At the same time, the airline was able to increase aircraft utilization in charter operations, where the number of flights was more than 2.5 time larger. As a result, charter revenues grew by EUR 0.7m.

Revenues, €k	2014	2013	Change
Passenger revenue	58 479	61 154	-6%
Charter	5 668	4 933	15%
Cargo and mail	127	105	21%
Other services	5 302	5 952	15%
Total Revenue	**69 577**	**72 144**	**-4%**

Expenses

In relation with reducing regular flying operations by 1%, the variable costs decreased by 1%, which is in line with the decrease in revenues. Fuel costs fell by 2% to 18.9 million euros, which was affected by the fuel price decrease seen mainly in the fourth quarter. At the same time, the drop in fuel price was offset by strengthening USD. This decrease can be attributed to increase in consumption (ca 0.4m), and lower fuel price (1.4m). Passenger-related costs include on-board service costs, claims and compensations, and sales-related costs and were comparable to last year, while having roughly the same number of total passengers.

Variable costs, €k	2014	2013	Change
Round-trip related costs	-20 694	-20 810	-1%
Fuel costs	-18 888	-19 187	-2%
Passenger-related costs	-7 857	-7 888	0%
Variable costs	**-47 439**	**-47 885**	**-1%**

Fixed costs fell by 9% to 15.8 million euros compared with 17.3 million the previous year. Crew costs have fell as expected from decrease in the average number of full time employees as part of the Restructuring process in 2013. At the same time non-crew costs and administrative costs have decreased by 5% and 6%, which is in correlation with having smaller airline and less restructuring related costs.

Fixed costs, €k	2014	2013	Change
Crew costs	-5 353	-6 401	-16%
Aircraft maintenance costs	-4 730	-4 826	-2%
Non-crew staff costs	-2 720	-2 875	-5%
Administrative costs	-2 991	-3 192	-6%
Fixed costs	**-15 794**	**-17 295**	**-9%**

Balance sheet

The balance sheet decreased in 2014 from the losses for the year. By the end of the year the total equity fell to -31.1 million euros.

€k	2014	2013	Change
Assets			
Current assets	20 464	18 569	9%
Non-current assets	44 714	48 947	-9%
Total assets	**65 178**	**67 516**	**-4%**
Liabilities and Equity			
Current liabilities	58 998	55 451	6%
Non-current liabilities	37 574	34 871	7%
Total liabilities	**96 572**	**90 322**	**6%**

Equity			
Share capital	40 880	40 880	0%
Share premium	9 004	9 004	0%
Other reserves	316	-981	-
Accumulated loss	-81 594	-71 710	12%
Total equity	**-31 394**	**-22 806**	**27%**
Liabilities and equity	**65 178**	**67 516**	**-4%**

Assets
Assets are comprised primarily of three Bombardier CRJ900 aircraft owned by the company. The first two owned CRJs were delivered on 24 January and on 27 January 2011, respectively, and the third aircraft on 15 December 2011. These acquisitions in total increased non-current assets by 63.2 million euros in 2011. In 2014, the management reviewed two appraisers's valuations and several commercial purchase offers from the market to determine that the aircraft carrying value was lower than fair value and no additional impairment loss needed to be recognised.,. The increase in current assets is affected by classifying Finnair aircraft security deposits from long-term to short-term, as the Embraers will be redelivered to Finnair in 2015.

Liabilities
The Republic of Estonia in December 2012 provided a Rescue Aid Loan to the Company, a loan facility limit that was increased to 37 million euros in 2013. 0.8 million euros were drawn at the end of 2012, 24.1 million euros in 2013, and additional 12.1m at the end of 2014. The outstanding loan balance as at December 2014 was EUR 41.1m (including accrued interest). Increase in short-term liabilities comes from increase in State loan as well as from Embraer redelivery reserves. Long-term liabilities increase as a result of classifying SAS loan from short-term to long-term.

Equity
At the end of 2014, the airline has negative equity in the amount of 31.1 million euros. The management of the airline plans to resolve this issue with the planned share reduction and acquisition of the airline by a new Investor subsequent to the approval by the EC of the Modified Restructuring Plan for the airline and prior issues of state aid. For more information, please see Note 14.

Fleet
At the end of year 2014 Estonian Air owned three Bombardier CRJ900s and leased four Embraer. During the year, no redeliveries occurred. At the end of 2015, the airline's operating leases with Finnair end and according to the schedule, one aircraft should be redelivered in September, two in November and the last one in December.

Fleet at end 2014	Seats	Number	Operating lease	Finance lease	Average age
Embraer 170	76	4	4	0	9.2
Bombardier CRJ900	88	3	0	3	3.6
Total Fleet		**7**	**4**	**3**	6.8

The Restructuring of Estonian Air

Starting in the fourth quarter of 2012, the airline began to restructure its operations. The airline changed its network strategy from a hub-and-spoke to a regional point-to-point network focusing on the most important business destinations for Estonia. The airline changed its service model from a full-service national carrier to a cost-effective regional airline model.

During the year 2013, the key achievements in the downsizing of the airline were the following:

- The number of destinations were reduced from 24 to 13
- The fleet was reduced from eleven aircraft to seven, with five aircraft operating the ten core and three seasonal routes, and two available for charter and wet-lease operations
- The organization was reduced from a high of 337 to 164 full-time employees
- The airline sold its office and hangar complex and retired its secured loan from Swedbank
- The airline sold its subsidiary Estonian Air Regional and its stake in the joint venture Amadeus Estonia.

During the year 2014 did not make any major changes in its downsizing:

- The number of destinations were 15 as two new seasonal routes were introduced
- The fleet consisted of seven aircraft, with five aircraft operating the ten core and five seasonal routes, and two available for charter and wet-lease operations
- The organization employed 160 full-time employees.

In October 2014, the Company sumbitted a modified Restructuring Plan to the EC involving an investor. In November 2014, the airline's majority shareholder the Republic of Estonia, represented by the Ministry of Economic Affairs, announced that the private company Infortar has been engaged as an investor in the airline. Infortar will bring significant operational synergies through its ownership of the largest shareholding (37%) in the passenger ferry operation the Tallink Group (publicly traded at NASDAQ OMX Tallinn), and its holdings in other tourism and service companies. Infortar's investment is planned for the spring of 2015 and is conditional on the approval by the European Commission of the Company's Restructuring Plan. The changes in the ownership structure must be approved beforehand by the Government of Estonia.

This modified Restructuring Plan aims to restore the long term viability of the Airline by providing a challenging yet realistic way forward. The Restructuring Plan and the synergies brought by the privatization and the new Investor show that the existing level of losses can be turned around and that the Airline could generate a net profit in medium term. The revenue and cost synergies with the investor, the main shareholder of the Scandinavian passenger ferry operator Tallink, will be the key for the airline's turnaround.

- Implementation and development of the synergies with Tallink
- Implementation of a number of revenue and cost initiatives which aim to simplify the existing work practices, enhance revenue management, improve cost efficiency and increase productivity, ancillary revenues and in general management efficiency.

Corporate governance

The management of Estonian Air is committed to the principles of good corporate governance, following from the State Assets Act and our Articles of Association. From 2012, the equity of the Company has been negative and does not comply with all necessary provisions of the Commercial Code. Since that time, the management has been working closely with the Supervisory Council and the majority shareholder to resolve the situation, which should occur on recapitalization after a positive decision by the European Commission (See Note 14, going concern). We also strive to follow the guidance of the Corporate Governance Recommendations developed by Tallinn Stock Exchange and Financial Supervision Authority. Estonian Air's corporate governance complies with the required codes and ensures that our management focuses on results through a performance management process, taking into account both external as well as internal factors. Meeting our targets will require us to concentrate even more on the needs of our clients and stakeholders.

- <u>Performance management</u> – Estonian Air's strategy development, target setting, and monitoring of our progress towards those goals are at the heart of our performance management process. The strategy, key priorities, and forecasts that our Supervisory Board approves guides the company in its daily activities and are cascaded down to all levels of the organization.

- <u>External factors</u> – Our work to meet our targets can be affected by many different factors and risks, including the state of the economy, access to capital, market prices, regulations impacting our business operations, the actions of our competitors, and much more. Our awareness of these factors and our constant work to mitigate their impact helps us to avoid unintended consequences for our business.

- Results – Through the daily, weekly, monthly and annual measurement of our results, Estonian Air evaluates the effectiveness of our activities, and is able to redirect resources to areas and priorities that might require further attention.

Shareholders
The shares of Estonian Air are owned by the Republic of Estonia and by SAS Individual Holdings. The Republic of Estonia's shareholder rights are exercised by the Ministry of Economic Affairs and Communications. The shareholders made the following key decisions in 2014:

- To approve the Annual Report for 2013
- To accept the resignation request of Jaan Tamm from and the appointment of Ahti Kuningas to the Supervisory Council

The majority shareholder the Republic of Estonia follows the Baltic Institute of Corporate Governance's Guidance on the Governance of Government-owned Enterprises. This guidance does not supplant the recognized international standard of the OECD Guidelines on the Governance of State-owned Enterprises, but rather provides a roadmap on how to achieve international best practice, and tailors its recommendations specifically to meet the needs of countries in the late stages of transition in the Baltic region.

The Supervisory Council
The Estonian Air Supervisory Council has four members appointed by the shareholders. The primary functions of the Supervisory Board are to approve and enforce the strategy of the company, to approve major strategic and tactical decisions outside the risk levels included in the strategy, and to supervise the work of the Management Board. The work of the Supervisory Council is organized by the Chairman of the Supervisory Council. The requirements and expectations for the Supervisory Council members are set forth in the State Assets Act.

The Supervisory Council held 19 meetings in 2014. The Supervisory Board fulfilled all its legal obligations and made the following strategically important decisions:

- To approve the Annual Report for 2014
- To approve in principle the verbal proposal from SAS to pay EUR 2m as an early prepayment of the SAS loan in return for the deferral of the remaining balance until the beginning of 2018
- To approve the Modified Restructuring Plan of the airline for submission to the Cabinet of the Republic of Estonia and for presentation to the European Commission Directorate General Competition
- To approve for the Management Board to request a drawdown for the remaining EUR 12.1 million of the Rescue Aid Loan from the Ministry of Finance
- To give consent for the Management Board of AS Estonian Air to sign a Framework Share Subscription agreement between AS Estonian Air, the Republic of Estonia, OÜ Inf Invest and OÜ Infortar
- To recall Mikael Wångdahl and Wade Stokes from the Management Board
- To appoint Indrek Randveer to the Management Board

In 2014, the Supervisory Board acted also as an audit committee and all four members had the rights and duties that are listed in the rules of procedure for the audit committee. At the meeting on 12 June 2014, Tarmo Porgand was appointed the Head of the Audit Committee. The Audit Committee found that the audit for 2014 meets all regulatory standards, international standards and other expectations.

At the beginning of 2014, the membership of the Supervisory Council included the following: Jaan Tamm as Head of the Supervisory Council, Erki Urva, Tarmo Porgand, and Märten Vaikmaa. On 6 August 2014, the shareholders recalled Jaan Tamm from the Supervisory Council and appointed Ahti Kuningas in his stead. At the Council meeting on 19 August 2014, Ahti Kuningas assumed the position of Head of the Supervisory Council.

The Management Board
The Management Board of Estonian Air is responsible for operational management of the company. There are two members of the Management Board, who are appointed by the Supervisory Board. The Chairman is appointed separately. The Chairman of the Management Board also fulfills the role of Chief Executive Officer. Management Board meetings generally take place once a week, and if necessary voting can take place electronically.

During 2014, there was a change in the Management Board of Estonian Air. At the beginning of the year, the Management Board was comprised of Jan Olof Palmér, Wade Stokes, and Mikael Wångdahl. Effective 15 February 2014 resigned from the Management Board Mikael Wångdahl, left the Company and the Company Management Board continued with two members. On 14 May 2014, the Supervisory Council appointed Indrek Randveer to the

Management Board. Wade Stokes was recalled from the Management Board in effective from 6 October 2014 and from October continued as a consultant in the Company.

With regards to compensation, the Management Board members receive a base salary, and also have the opportunity to receive bonuses upon the company reaching targets and goals approved by the Supervisory Board. Bonuses will not exceed salary for four months. No bonuses were paid to Management Board members in 2014. In addition, Management Board members have the opportunity to enroll in a life insurance plan financed by the company. No Management Board member has enrolled in any life insurance plan financed by the company.

Subsidiaries and Joint Ventures

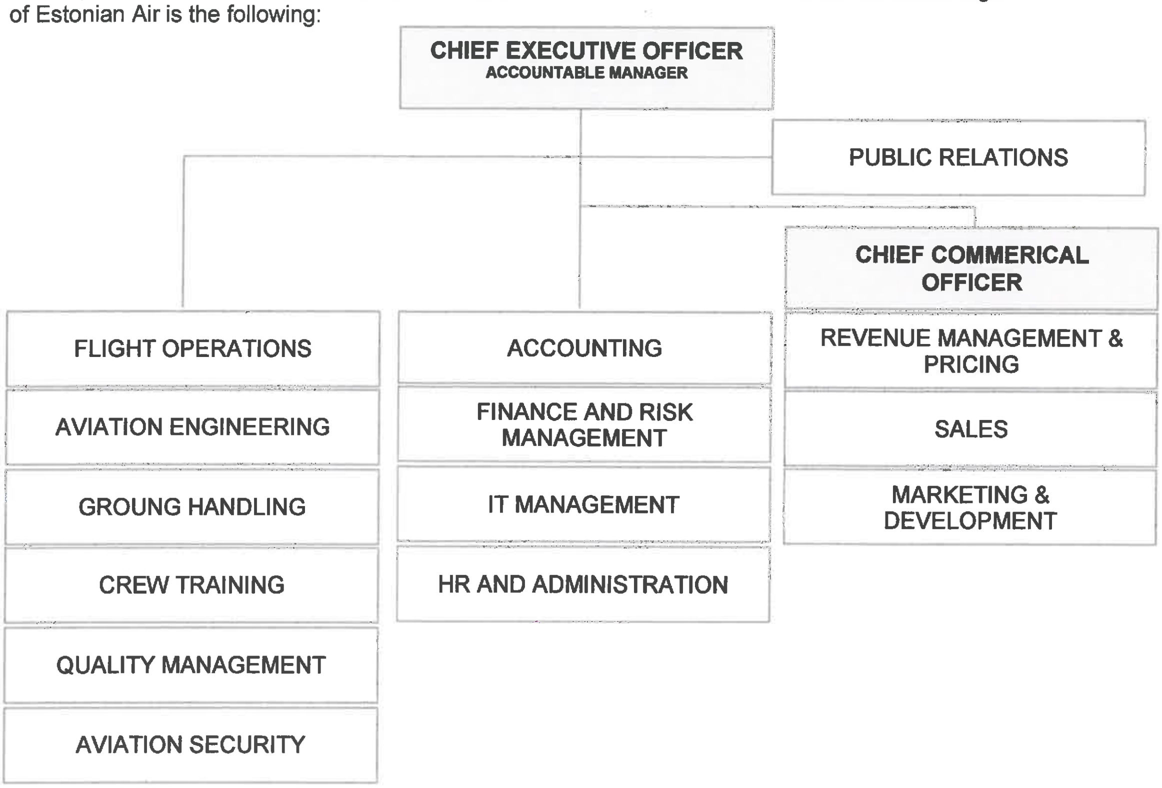
The shares of Estonian Air are owned 97.34% by the Republic of Estonia and 2.66% by the SAS Group. Estonian Air had one subsidiary, Estonian Air Regional that was sold in June 2013. Estonian Air had stakes in two joint ventures, Estonian Aviation Fuelling Services and Amadeus Estonia. One of the joint ventures, Amadeus Estonia was sold in December 2013.

Company	Description
Estonian Aviation Fuelling Services AS Owners: 51% AS Estonian Air 49% BP Holding B.V.	Estonian Aviation Fueling Services (and Eesti Aviokütuse Teenuste AS in Estonian) offers aircraft refuelling services at Tallinn Airport
AS Estonian Air Regional Owner: 100% Estonian Air **(sold in June 2013)**	Estonian Air Regional used Saab 340 turboprop aircraft for commercial flights into nearby regions under the flight code of the parent company
Amadeus Estonia AS Owners: 60% AS Estonian Air 35% Amadeus Finland OY 5% Amadeus S.A. **(sold in December 2013)**	Amadeus Eesti offers reservation systems and technical support to local travel agencies

The powers and responsibilities of the Supervisory Councils of Estonian Air's subsidiaries and joint ventures are set forth in their Articles of Association. The Supervisory Councils are generally comprised of members of Estonian Air's Management Board, and, in the case of joint ventures, the representatives of the joint venture partners.

Structure of Estonian Air

The organizational structure of Estonian Air has been stable for some time. The consolidated organization structure of Estonian Air is the following:



As at the end of 2014, Estonian Air had 179 employees (or 166 full time employees), compared to 170 people a year ago. 114 of them were flight crew (55 pilots and 59 cabin crew). 7.4 million euros was paid out as salaries to the employees of Estonian Air in 2014 (8.3 million euros in 2013).

INDIVIDUAL FINANCIAL STATEMENTS

Management Board Declaration

The Management Board is declaring its responsibility for the preparation of the financial statements (hereinafter "the financial statements") of AS Estonian Air (hereinafter together as "the Company") for the financial year ended on 31 December 2014.

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and present a true and fair view of the financial position, economic performance and cash flows of the Company.

Preparation of the financial statements in compliance with IFRS as adopted by the European Union, assumes the Management Board to make estimates on the assets and liabilities of the Company as of the balance sheet date, and on income and expenses for the reporting period. These estimates are based on up-to-date information about the state of the Company and consider the plans and risks as of the financial statements' preparation date. The ultimate outcome of the business transactions recorded may differ from those estimates.

The Company's status as a going concern depends on the decisions of the European Commision on the airline's Restructuring Plan and prior state aid. The Management Board considers the Company to carry its activities as a going concern, and the financial statements are prepared on that basis..

The financial statements reflect those significant circumstances that have an effect on the valuation of assets and liabilities until the preparation date of the financial statements, 25 March 2015.

Jan Palmer Chairman of the Board	Indrek Randveer Member of the Board

Name of the Company	AS Estonian Air
Business Register number	10076042
Legal address	Lennujaama tee 13, 11101 Tallinn, Estonia
Telephone	+372 6401 101
Fax	+372 6016 092
Web site	www.estonian-air.ee
Main business activity	Air transport services
Management Board	Jan Palmer Indrek Randveer
Supervisory Council	Ahti Kuningas Erki Urva Märten Vaikmaa Tarmo Porgand
Auditor	AS Deloitte Audit Eesti
Documents attached:	Independent Certified Auditor's Report

Signed for identification purposes:

AS Deloitte Audit Eesti

Statement of comprehensive income for the year ended 31 December 2014
(in EUR thousands)

	Note	2014	2013
Revenue	2	69 889	72 288
Cost of sales	3	-65 536	-64 600
Gross Profit/Loss		**4 353**	**7 688**
Other operating income	4	1 309	2 469
Marketing expenses		-6 701	-7 860
Administrative expenses		-4 941	-5 271
Other operating expenses		-728	-926
Operating loss		**-6 708**	**-3 900**
Share of profits of joint ventures	6	-9	399
Interest income		2	9
Interest expense		-3 474	-4 212
Profit/loss on translation of foreign currencies		297	-256
Other financial income and expense		-513	74
Total financial income and expense		**-3 697**	**-3 986**
Total comprehensive loss for the year		**-10 405**	**-7 886**

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Statement of financial position at 31 December 2014
(in EUR thousands)

Assets	Note	31.12.2014	31.12.2013
Current assets			
Cash on hand and in bank accounts		13 682	11 390
Deposits		1 620	0
Trade and other receivables	5	3 289	5 750
Prepayments		2 036	1 408
Inventories		15	21
Total current assets		**20 642**	**18 569**
Non-current assets			
Investments in joint ventures	6	1 069	1 283
Property, plant and equipment	7	40 902	42 954
Intangible assets	8	216	355
Prepayments		225	320
Deposits		2 302	4 035
Total non-current assets		**44 714**	**48 947**
Total assets		**65 356**	**67 516**
Liabilities and Equity			54 429
Current liabilities			
Trade and other payables	10	9 011	11 132
Prepayments collected		4 740	5 223
Borrowings	12	40 678	36 545
Provisions	13	4 746	2 551
Total current liabilities		**59 175**	**55 451**
Non-current liabilities			
Borrowings	12	37 574	34 354
Other liabilities		0	517
Total non-current liabilities		**37 574**	**34 871**
Total liabilities		**96 749**	**90 322**
Equity			
Share capital	14	40 880	40 880
Share premium		9 004	9 004
Statutory legal reserve		317	317
Option liability reserve		0	-1 297
Accumulated losses		-81 594	-71 710
Total equity		**-31 393**	**-22 806**
Total liabilities and equity		**65 356**	**67 516**

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AS Deloitte Audit Eesti

Cash flow statement for the year ended 31 December 2014
(in EUR thousands)

Operating activities	Notes	Year ended 31.12.2014	Year ended 31.12.2013
Total comprehensive loss for the year		**-10 405**	**-8 124**
Adjustments for:			
Gain from equity method	*6*	9	-399
Net foreign exchange gain/loss		-294	247
Revaluation of guarantee deposits		439	0
Write-off of guarantee deposits		0	85
Depreciation and amortisation	*7,8*	5 249	5 096
Change in provisions		1 678	-1 864
Interest income		-2	-9
Interest expense		3 249	4 212
Change in trade and other receivables		765	614
Change in inventories		6	4
Change in trade and other payables		-2 684	-9 592
Cash flows used in operating activities		**-1 990**	**-9 730**
Investing activiteis			
Acquisition of property, plant and equipment	7	-3056	-3 227
Sales of fixed assests, joint ventures and subsidiary		0	7 941
Interest received		2	9
Dividends received	6	204	195
Cash flows used in investing activities		**-2 850**	**4 918**
Financing activities			
Loans received	12	12 100	24 107
Repayments of loans		-1 237	-2 591
Net changes in bank overdraft		0	-4 556
Repayments of finance lease principals	12	-2 686	-3 580
Interest paid		-1 013	-1 435
Cash flows from financing activities		**7 164**	**11 945**
Net change in cash		**2 324**	**7 133**
Cash at the beginning of the year		**11 390**	**4 364**
Effects of exchange rate changes on the balance of cash held in foreign currencies		-32	-107
Cash at the end of the year		**13 682**	**11 390**

Statement of changes in equity for the year ended 31 December 2014
(in EUR thousands)

(in EUR thousands)	Share capital	Share premium	Statutory legal reserve	Option liability reserve	Accumu-lated losses	Total
Balance at 31.12.2012	**40 880**	**9 004**	**317**	**-1 297**	**-63 826**	**-14 922**
Loss for the financial year	0	0	0	0	-7 884	**-7 884**
Balance at 31.12.2013	**40 880**	**9 004**	**317**	**-1 297**	**-71 710**	**-22 806**
Expiration of option liabilities	0	0	0	1 297	521	1 818
Total comprehensive loss for the year	0	0	0	0	-10 405	-10 405
Balance at 31.12.2014	**40 880**	**9 004**	**317**	**0**	**-81 594**	**-31 393**

* Additional information about share capital is disclosed in Note 14.

Notes to the financial statements

Note 1 Significant accounting policies

1.1. Basis for preparation

The statements of AS Estonian Air (hereinafter also referred to as "the Company") for the financial year 2014 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial year began on 1 January 2014 and ended on 31 December 2014. All the figures presented in the annual report are in thousands of EUR if not indicated otherwise.

The management has prepared the financial statements based on the going concern assumption. See Note 14 for more information on the matter.

The Company has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) that are relevant to the Company's operations and effective for accounting periods beginning on 1 January 2014. The adoption of such standards had not had any significant impact on the financial statements.

Adoption of new and/or changed IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations

Standards and Interpretations effective in the current period

During the year the Group has adopted the following IFRS amendments:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities"** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements"** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation"** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets"** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement"** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The amendments did not impact the financial results of the Company.

Standards issued but not yet effective

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective:

- **Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)"** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),

- **Amendments to various standards "Improvements to IFRSs (cycle 2011-2013)"** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015),

- **Amendments to IAS 19 "Employee Benefits"** - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),

- **IFRIC 21 "Levies"** adopted by the EU on 13 June 2014 (effective for annual periods beginning on or after 17 June 2014).

The Company has decided not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements.

Standards and Interpretations issued by IASB but not yet adopted by the EU

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2018),

- **IFRS 14 "Regulatory Deferral Accounts"** (effective for annual periods beginning on or after 1 January 2016),

- **IFRS 15 "Revenue from Contracts with Customers"** (effective for annual periods beginning on or after 1 January 2017),

- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates and Joint Ventures"** - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IFRS 11 "Joint Arrangements"** – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 1 "Presentation of Financial Statements"** - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),

- **Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)"** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

The financial statements have been compiled based on the historical cost basis, except for the revaluation of certain non-current assets and financial instruments. Financial instruments are at fair value and at amortised cost.

Unconsolidated entity

These financial statements are not consolidated, because according to IFRS the investment into the orphan trust EA Jet Leasing is not controlled by the Company (see note 6).

The main accounting principles applied in the preparation of the financial statements are defined below:

1.2. Cash and Cash Flows
For the purpose of the Cash Flow Statement cash and cash equivalents are cash in hand, demand deposits and term-deposits with due date three months or less from the date of acquisition, which can be used without any significant limitation.

Cash flows from operating activities are reported under the indirect method. Cash flows from investing and financing activities are reported based on gross receipts and disbursements made during the financial year.

1.3. Inventories
Inventories are stated at the lower of cost or net realizable value. The cost of inventories is based on the FIFO principle, and includes expenditure incurred in acquiring the inventories.

1.4. Interest in joint ventures
Joint venture is a contractual arrangement whereby Company and other parties undertake an economic activity that is subject to joint control, i.e. decisions about relevant activities of the joint venture require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, according to which, the original investment value is adjusted with annual profit and dividends received.

According to the shareholder agreements, the Company and other parties have joint control over the activity of the following companies:

- AS Amadeus Eesti (sold in December 2013)
- Eesti Aviokütuse Teenuste AS.

The ownership percentages and the number of shares are disclosed in Note 6.

1.5. Foreign currency transactions and balances
The functional and presentation currency of the Company is the Euro (EUR).

Foreign currency monetary items are retranslated into euro at the official European Central Bank foreign currency exchange rates prevailing on the balance sheet date. Gains and losses from foreign currency transactions are recorded in the income statement on net basis.

Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

1.6. Financial assets and liabilities

Cash, contractual rights to receive cash or other financial assets (i.e. trade receivables) from third parties and contractual rights to exchange financial assets with third parties under the conditions that are potentially favourable to the Company, are considered to be financial assets. Contractual obligations to deliver cash or other financial assets to third parties and contractual obligations to exchange financial assets with third parties under the conditions that are potentially unfavourable to the Company are considered to be financial liabilities.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Derecognition of financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial assets
Short-term and long-term trade receivables are recorded at amortized cost using the effective interest rate method, less any impairment (see Note 5).

If trade receivables partly or fully are considered to be doubtful, the related expenses are recorded in the income statement as "Administrative expenses".

Other financial assets include guarantee deposits and loans. Guarantee deposits are measured at amortised cost using market rates. Long-term loans and other long-term receivables are measured at amortised cost less any impairment.

Impairment of individually significant financial assets is assessed separately for each asset. Impairment of financial assets that are not individually significant and for which there are no objective evidence of impairment, is assessed in aggregate.

If there is any objective evidence that a financial asset is impaired, the impairment loss is determined as follows:

- financial assets carried at cost are written down to the net present value of their estimated future cash inflows (discounted discounted with the financial asset's original effective interest rate);
- financial assets carried at amortized cost are written down to their net present value of the estimated future cash inflows (discounted with the financial asset's effective interest rate determined at initial recognition).

Impairment of other financial asset is recongnized as other financial expense in the income statement for the financial period.

If the value of financial assets carried at amortised cost increases in subsequent periods, the previously recognized impairment loss is reversed up to the amount which is lower of the following:

- net present value of expected future cash inflows from the financial asset; and
- carrying amount measured at amortized cost as if no impairment loss had been recognised.

The amount of the reversal of impairment losses is recognised in the income statement for the financial period on the same expense account as a reverse entry.

Loans raised
Interest bearing bank loans and credit lines are initially recognised at fair value, less paid transaction costs. These financial liabilities are subsequently measured at amortised cost. The amortised cost is determined by using the

effective interest method, which is calculated by discounting the future net cash flows to the balance sheet value. Amortisation of the transaction costs is recorded in the income statement together with the interest expense. The interest expense is recognised on the accrual basis of accounting in the relevant financial year in the income statement as "Interest expense".

Borrowing costs for financing the acquisition of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised during the construction period. The capitalisation is ended when the construction is finished or has been halted for a significant amount of time.

The Company does not have any financial assets/liabilities at fair value through profit or loss, held to maturity investments or available for sale financial assets.

1.7. Property, plant and equipment

Property, plant and equipment are tangible assets held for use in rendering services, or for administrative purposes, with useful life of over one year and with a minimum value 2 000 euros. Property, plant and equipment are recorded at cost, which comprises purchase price and other directly attributable expenditures less subsequent accumulated depreciation and impairment.

Depreciation is calculated on the straight-line method. Aircraft major overhauls (incl aircrafts under operating and finance lease agreements) are depreciated on either a straight-line or flight-hour basis during the lease contract. Depreciation rates are assigned to each asset or its separately identifiable components depending on its estimated useful life. The major groupings of asset types and estimated useful lives are as follows:

Aircraft	6-12	years
Major Overhauls	1-3	years
Uniforms	3-4	years
Machines and equipment	5	years
Other equipment	3	years
Aircraft components	5	years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Borrowing costs for financing construction of property, plant and equipment and incurred during the construction period, are capitalized within acquisition cost. After completion, interests are expensed on accrual basis of accounting in the income statement (see Note 7).

1.8. Intangible assets

An intangible asset is an asset without physical substance, when it has useful life of more than one year and is controlled by the Company. Intangible assets are initially measured at cost when it can be measured reliably and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Company. Following initial recognition at cost, which comprises purchase price and other directly attributable expenditures, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on the straight-line method with annual rate of 20%.

1.9. Impairment of non-financial assets

At each balance sheet date, a review of whether there is any indication that assets recorded at cost or amortised cost, and property, plant and equipment and intangible assets are impaired, is performed. If the management of the Company detects any indications that the value of an asset may have declined below its carrying amount, impairment test is carried out.

Property, plant and equipment and intangible assets

As a result of impairment test, a recoverable amount is estimated for property, plant and equipment and intangible assets. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a cash-generating unit to which the asset belongs, is determined.

Recoverable amount is the higher of the asset's fair value less costs to sell and asset's value in use. In assessing the value in use, the estimated future cash flows from continuous use and subsequent disposal are discounted to their present value using a discount rate that reflects expected return on similar investments.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The impairment loss is recognized in the income statement. The Company assesses at each reporting date whether there are any indications that the recoverable amount of an asset has increased and an impairment test is performed. If it appears, as a result of the impairment test, that the recoverable amount has increased and the previously recognised impairment loss is no longer justified, the carrying amount is increased. The reversal should not result in a carrying amount that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal of impairment loss is recognised in the income statement, or the financial period on the same expense account as a reverse entry.

1.10. Provisions
Liabilities, which have arisen during the financial year or in prior periods, that have a legal or constructive basis, and are expected to result in the outflow of resources and can be reliably measured but for which the actual payment amount or payment date has not been definitely determined, are recorded as provisions in the statement of financial position. Provisions are measured based on the management's best estimates, experience and when necessary, the assessments of independent experts of the expenditure required to settle the present obligation at the end of the reporting period.

Provisions with payment/settlement due after one year from the balance sheet date are considered to be long-term liabilities. Other provisions are reported as short-term.

Aircraft re-delivery costs under operating lease agreement
At the expiration on aircraft lease term or early termination of the operating lease agreement the Company has an obligation to re-deliver the aircraft meeting the technical conditions stated in the lease agreement, involving certain costs to match aircraft redelivery conditions. The provision is established based on management's best estimate on the amount of re-delivery costs and is allocated over the lease term based on expected usage (average of flight hours, flight cycles etc) of the aircrafts. The provision is offsetted with lessor contributions and paid maintenance reserves that can be settled with redelivery expenses. If the effect is material, the provisions will be discounted.

Rejections
Provisions for rejections are recorded to cover expected amounts of claims from other airlines. Based on previous periods' experience, 2.07% of ticket revenue sold by other airlines (interline sales) was accumulated in the balance sheet as rejections' provision. The deductions from the provisions were made when actual claims were received (Note 13).

Carbon emission units accounting
The Company is liable to cover the costs for emitting carbon as defined by the European Commission. The total liability is based on the amount of carbon emitted on Company flights within the European Union during the year, less a free annual allowance granted to Estonian Air. The cost of the emissions is calculated as the amount of carbon emitted multiplied by the market price of the carbon credits as of the end of the year. During the year, no costs are accrued until the free allowances are used up. Then, the accruals for carbon emitted are re-valued monthly based on market rates.

1.11. Revenue
Revenue is measured on an accrual basis. Revenue is recognised when there is a well-founded assumption that all significant rewards related to the transaction will be transferred to the Company and that income incurred in respect of the transaction can be measured reliably. Revenue for the services of the Company is measured at the fair value of the consideration received or receivable.

- Sales of passenger flight tickets are recorded at the moment of the sales transaction occurred in the balance sheet under short-term liabilities as "Prepayments collected" (unrealised transport revenue). Revenue from passenger ticket sales is recognised when the transportation services have been provided. Sold tickets, that are unutilized or expired with no return obligation, are recognised as revenue.
- Revenue from the charter flights is recognised similar to passenger flights, when the transportation service has been provided;
- the revenue from cargo and mail flights is recognised when the service has been provided;
- revenue from goods sold or services provided is recognised when the goods have been delivered to the buyer or when the service has been provided;
- interest income is recognised on accrual basis;
- income from dividend is recognised when the Company receives the right to receive dividends.

Customer Loyalty
Estonian Air participates in EuroBonus, an airline customer loyalty program from SAS, in which customers earn air travel credits by flying with SAS and/or other Star Alliance companies (incl. Estonian Air) or purchasing goods or services from selected businesses. Under the Eurobonus program, when passengers earn Eurobonus points on Estonian Air flights, then Estonian Air incurs expenses to Eurobonus. If any Eurobonus passenger redeems their Eurobonus points to fly on Estonian Air flights, then Estonian Air receives income from Eurobonus.

1.12. Leases – Company as lessee
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. As a lessee, the Company has entered into finance and operating lease contracts.

An asset held under finance lease is recognized as an asset and a liability of the Company at its fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. Rentals payable under operating leases are charged to income statement on a straight-line basis over the term of the relevant lease, irrespectively from disbursements.

1.13. Offsetting of assets and liabilities
Financial assets and liabilities are not offset, except when the Company has a legal right to offset assets and liabilities and it is probable the collection and payment is on a net basis.

1.14. Statutory legal reserve
The statutory legal reserve is recorded according to the requirements of the Commercial Code and comprises the provisions made of the profit. The annual provision must be at least 1/20 of the approved profit for the financial year until the statutory legal reserve equals at least 1/10 of the share capital amount. The statutory legal reserve can be used to cover occurred losses.

1.15. Management estimates
Preparation of financial statements according to IFRS means that the management makes certain assumptions, provides estimations and makes decisions that affect the applied accounting principles and recognition of assets and liabilities as well as revenues and costs. Thereto related estimates are based on historical experience and other facts that are relevant, and based on circumstances that influence the principles for assessing the value of assets and liabilities that are not directly based on other sources. The actual results may be different from those estimates.

The accounting assessments and estimates are reviewed periodically and changes or adjustments are made if necessary. The effects resulting from the review of the assessments are recognized during the period when changes occur (see note 13).

Sections 1.7 and 1.8 contain information of the estimates relating to tangible and intangible assets depreciation rates and section 1.9. relating to impairment of assets. In section 1.10, the basis for provisions made is described and in 1.11 Customer loyalty is described. In Note 7, information is provided for property, plant and equipment impairment, Note 13 gives an overview of recorded provisions and Note 14 explains going concern issues.

Leasing classification
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement

1.16. Income tax
Under the Income Tax Act, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79 and from 1 January 2015, the tax rate on the net dividends paid out of retained earnings is 20/80. In certain circumstances, it is possible to distribute dividends without any additional income tax expense. The corporate income tax arising from the payment of dividends is accounted for as a liability and expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. The income tax liability is due on the 10th day of the month following the payment of dividends. Due to the nature of the taxation system, the entities registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position.

Note 2 Revenue
(in EUR thousands)

By activity	2014	2013
Passenger revenue	58 762	62 338
Charter	5 567	4 520
Cargo and mail	127	105
Other services*	5 433	5 325
Total	**69 889**	**72 288**

*Includes revenue from the sale of ancillary services, unflown revenue, and interline fees

The Company has only international flights.

Note 3 Costs of sales

Cost of sales includes 21,0 million of roundtrip-related costs (2013: 20.1 million), 18.9 million of fuel and carbon emissions costs (2013: 18.8 million), 12.1 million of fleet costs (2013: 12.3 million), 5.9 million of aircraft maintenance costs (2013: 4.4 million), 5.4 million of crew costs (2013: 6.0 million) and other costs of 2.2 million (2013: 3.0 million). Round-trip related costs consist mainly of landing, ground-handling, and navigation fees. Fleet costs include aircraft lease costs, insurance, and depreciation.

Note 4 Other operating income
(in EUR thousands)

	2014	2013
Property rental income	0	124
Final Arbitral award against Air Lituanica*	485	0
Other income	824	2 345
Total	**1 309**	**2 469**

* Estonian Air entered into agreements for flight, commercial and operational services for the start-up airline Air Lituanica to make regular flights out of Vilnius from 30 June 2013 through 2015. For reasons of non-payment, Estonian Air terminated the contracts early on 27 November 2013. Estonian Air agreed with Air Lituanica's commencement of arbitration on 5 December 2013 to resolve the companies' differences at termination. The Arbitration Court decided on 6 November 2014 that Estonian Air had the right to terminate the contract, awarded Estonian Air 483 thousand euros in damages, and rejected all of Air Lituanica's claims for damages. Estonian Air and Air Lituanica have complied with all aspects of the judgment of the Arbitration Court.

Note 5 Trade and other receivables
(in EUR thousands)

	31.12.2014	31.12.2013
Trade receivables	3 164	5 608
Other short term receivables	125	142
Total receivables	**3 289**	**5 750**

Movement in the allowance for doubtful debts	**31.12.2014**	**31.12.2013**
Balance at beginning of the year	**40**	**20**
Impairment losses recognised on receivables	222	29
Amounts written off during the year as uncollectible	-173	-9
Balance at end of the year	**89**	**40**

* No other material trade receivable (in total no more than 30 thousand euros) is more than one month overdue.

Note 6 Investments in joint ventures and other investments
(in EUR thousands)

Name of joint venture	Country of residence	Principal Activity	Ownership in joint venture		Number of shares		Equity	
			2014	2013	2014	2013	2014	2013
Eesti Aviokütuse Teenuste AS	Estonia	Aircraft fuelling services	51%	51%	51 020	51 020	2 099	2 287

By terms of the foundation agreements, Eesti Aviokütuse Teenuste AS is under joint control of the shareholders. In 2013, Estonian Air AS had a joint venture AS Amadeus Eesti, which was sold in December 2013.

In 2011, on authorization by the shareholders, Estonian Air set up a special purpose vehicle (SPV) EA Jet Leasing, Ltd. in the Cayman Islands in order to facilitate the procurement of the three Bombardier CRJ900 aircraft delivered in 2011 and financed by Export Development Canada (EDC). This solution was the most economically beneficial to the airline and provided the necessary security to EDC for their loan.

The company does not consolidate EA Jet Leasing because, although the company owns 100% of the SPV, it does not exercise full control over the entity. EA Jet Leasing is an orphan trust, the trust owns the three Bombardier CRJ900 aircraft, and Estonian Air has a financial lease with the trust for their use. The trust structure is fully pledged to EDC as security for their loan to Estonian Air. In addition, full control over EA Jet Leasing Ltd. is exercised by EDC. EA Jet Leasing Ltd. has no activities aside from the transactions related to the Bombardier aircraft and EDC.

	Eesti Aviokütuse Teenuste AS	
	31.12.2014	31.12.2013
Current assets	2 067	1 560
Non-current assets	1 358	1 455
Current liabilities	1310	477
Non-current liabilities	14	23
Total income	17 987	23 121
Total expenses	18 002	22 974

(In EUR thousands)	31.12.2014	31.12.2013
Cash and cash equivalents	1 694	998
Current finnancial liabilities (excluding trade and other payables and provisions)	8	8
Non-current finnancial liabilities (excluding trade and other payables and provisions)	15	23
Revenue	17 682	22 847
Profits or loss from continuing operations	559	863
Profits (loss) for the year	-15	147
Total comprehensive income for the year	-15	147
Dividends received from the joint venture during the year	205	0
The above profit (loss) for the year includes the following:		
Depreciation and amortisation	-97	-101
Interest expense	-42	-39
Income tax expense (income)	-106	0

	Eesti Aviokütuse Teenuste AS
Carrying value of investment 31.12.2012	**1 215**
Dividends declared	0
Company's share in the profit of the investment	68
Carrying value of investment 31.12.2013	**1 283**
Dividends declared*	205
Company's share in the profit of the investment	-9
Carrying value of investment 31.12.2014	**1 069**

* Corporate income tax arising from payment of dividends is paid by Eesti Aviokütuse Teenuste AS.

Note 7 Property, plant and equipment
(in EUR thousands)

Cost	Aircraft*	Prepayments for aircraft major overhauls	Uniforms	Machinery and equipment	Other equipment	Aircraft components	Total fixed assets
31.12.2012	**49 748**	**3 537**	**152**	**21**	**121**	**268**	**53 847**
Additions	82	2 298	0	0	0	788	3168
Write-offs	0		0	0	0	-46	-46
31.12.2013	**49 830**	**5 835**	**152**	**21**	**121**	**1 010**	**56 969**
Accumulated depreciation							
31.12.2012	**-9 034**	**0**	**-71**	**-1**	**-48**	**-64**	**-9 218**
Depreciation	-4 407	0	-47	-4	-33	-352	-4 843
Accumulated depreciation of fixed assets written-off	0	0	0	0	0	46	46
31.12.2013	**-13 441**	**0**	**-118**	**-5**	**-81**	**-370**	**-14 015**
31.12.2013	**49 830**	**5 835**	**152**	**21**	**121**	**1 010**	**56 969**
Additions	308	2 623	6	0	14	1	2 952
31.12.2014	**50 138**	**8 458**	**158**	**21**	**135**	**1 011**	**59 921**
Accumulated depreciation							
31.12.2013	**-13 441**	**0**	**-118**	**-5**	**-81**	**-370**	**-14 015**
Depreciation	-4 520	0	-31	-4	-32	-417	-5 004
31.12.2014	**-17 961**	**0**	**-149**	**-9**	**-113**	**-787**	**-19 019**
Carrying value							
31.12.2013	**36 389**	**5 835**	**34**	**16**	**40**	**640**	**42 954**
31.12.2014	**32 177**	**8 458**	**9**	**12**	**22**	**224**	**40 902**

* The Company purchased three CRJ900 type aircraft from Canadian company Bombardier Inc. The first two aircraft were delivered on 24 January and on 27 January 2011, respectively, and the third aircraft on 15 December 2011. To finance the purchase transaction Estonian Air signed three finance lease agreements with EA Jet Leasing Ltd with lease term of 12 years in 45 033 thousand euros. Additionally, in January 2011, in order to secure EA Jet Leasing Ltd debt, AS Estonian Air signed a guarantee to Export Development Canada (EDC) of up to USD 60 million, an amount which would be offset from any resulting sales of the aircraft if the guarantee were exercised.

In 2014, the management relied on two appraiser valuation reports and several commercial purchase offers from the market to determine that the aircraft carrying value was lower than fair value and no additional impairment loss recognised.

On 4 November 2011, Estonian Air signed a conditional contract change order with Bombardier for the purchase of an additional five Bombardier CRJ900 aircraft to be delivered in 2012. The two conditions were not met by the expiration on 7 December 2011 of the conditional contract change order, and Estonian Air thus did not record any obligations regarding this expired purchase order. On April 3, 2012, Estonian Air received formal notification that

Bombardier had filed in Canadian courts a lawsuit against Estonian Air and the Republic of Estonia related to this failed transaction.

In the lawsuit against the Republic of Estonia, on 24 May 2013 the Ontario Superior Court of Justice granted the Republic's motion and permanently stayed the lawsuit against the Republic. The court accepted the Republic's position that there was a failure of Bombardier to discharge its legal and evidentiary burden. On 17 January 2014, the Court of Appeal for Ontario rejected the appeal of Bombardier in their lawsuit against the Republic of Estonia and upheld the decision in 2013 of the Ontario Superior Court of Justice.

On March 13, 2014, the Republic of Estonia, Estonian Air, and Bombardier signed a full and final release in the ongoing cases without costs. On May 29, 2014, the Ontario Superior Court of Justice issued an order dismissing the claims of Bombardier.

The carrying value of property, plant and equipment held under finance leases at 31 December 2014 was 32 177thousand euros (2013: 36 389 thousand euros) The financial lease liability as at 31 December 2014 34 364 thousand euros (2013: 37 051 thousand euros).

Note 8 Intangible assets
(in EUR thousands)

Cost	**Purchased software licenses**
31.12.2012	**1 213**
Additions	59
31.12.2013	**1 272**
Accumulated depreciation	
31.12.2012	**-664**
Depreciation	-253
31.12.2013	**-917**
Carrying value	
31.12.2012	**549**
31.12.2013	**355**
31.12.2013	**1 272**
Additions	105
31.12.2014	**1 377**
Accumulated depreciation	
31.12.2013	**-917**
Depreciation	-245
31.12.2014	**-1 162**
Carrying value	
31.12.2013	**355**
31.12.2014	**216**

Note 9 Other financial assets
(in thousands EUR)

	Current		Non-Current	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Guarantee deposits for aircraft	1 620	0	2 302	4 035

According to IAS 39 „Financial Instruments", the guarantee deposits are initially recognised at fair value and subsequently at amortised cost using the effective interest method.

The guarantee deposits above include 2 302 thousand euros (2013; 2 359 thousand) euros of security deposits for the three CRJ aircraft under financial leases from Export Development Canada and 1 676 thousand euros of security deposits for the four Embraer aircraft under operating lease. CRJ deposits are held against the performance of Estonian Air on the financial leases, and EDC has the contractual right to retain the deposits until all obligations under the financial lease agreements have been met.

The Modified Restructuring Plan of 2014 showed the three Bombardier aircraft in use as a long-term asset. On this basis, the Company revalued the security deposits for the aircraft leases as long-term deposits at their net present value (NPV), which resulted in a loss of 439 thousand euros recorded under financial expenses. The difference between 2014 and 2013 is that in 2013 the security deposits were discounted at a one-year rate, and in 2014 a nine-year rate was used. The maintenance reserves for the Bombardier aircraft are recorded as a prepayment of fixed assets, and these reserves were valued at 8 458 thousand euros in 2014 and 5 835 thousand euros in 2013

Note 10 Trade and other payables
(in EUR thousands)

	31.12.2014	31.12.2013
Trade payables	3 707	5 941
Payables to employees	504	526
Interest payable of finance lease	172	21
Interest payable on debts	4 107	2 270
Option liability	0	1 819
Tax payables (Note 11)	521	555
Total	**9 011**	**11 132**

The carrying amounts disclosed above reasonably approximate fair value at the reporting date. All amounts are payable within one year.

Note 11 Taxes payable
(in EUR thousands)

	31.12.2014	31.12.2013
Social security tax	303	325
Personal income tax	169	190
Unemployment insurance contribution	22	25
Pension contribution	16	14
Income tax on fringe benefits	11	1
Total	**521**	**555**

Signed for identification purposes:
AS Deloitte Audit Eesti

Note 12 Borrowings
(in EUR thousands)

Short-term borrowings	31.12.2014	31.12.2013	Currency	Maturity date	Mortgage
Loan from AS Swedbank	316	237	EUR	28.02.2016	-
Loan from Republic of Estonia*	37 000	24 900	EUR	20.06.2018	-
Loan from SAS Group AB**	0	8 200	EUR	23.11.2014	-
Finance lease liabilities***	3 362	3 208	EUR	15.12.2023	Aircraft
Total	**40 678**	**36 545**			

Long-term borrowings	31.12.2014	31.12.2013	Currency	Maturity date	Mortgage
Loan from AS Swedbank	194	511	EUR	28.02.2016	-
Finance lease liabilities***	31 002	33 843	EUR	15.12.2023	Aircraft
Loan from SAS Group AB**	6 378	0	EUR	01.2018	-
Total	**37 574**	**34 354**			

Future minimum finance lease payments****	less than 1 year	2-5 years	over than 5 years
Present value of minimum lease payments	3 362	15 145	15 857
Future finance charges	589	2 351	1 968
Total	**3 951**	**17 496**	**17 825**

The carrying amounts of loans disclosed above reasonably approximate fair value at the reporting date.

* On 20 December 2012 the Company signed a loan agreement with the Republic of Estonia for the amount of 8.3 million euros. The loan was designed to provide rescue aid to the company under the EU guidelines for rescuing and restructuring companies in difficulty. In 2013, the Republic of Estonia extended the available financing to 37 million euros, of which the full amount has been drawn down as at year end. The loan is payable in full with interest on 20 June 2018. The loan is classified as short-term as the Company expects the loan to be paid back in 2015 on the recapitalization given a positive decision from the European Commission on the Restructuring Plan for Estonian Air (please see Note 14 and the Going Concern section for more details).

** In 2013, according to the loan agreement amendment signed in September 2010, the loan to SAS of EUR 7.94 million and accrued interest of the loan was due in November 2014 and thus was recorded under short-term borrowings. In 2014, the airline reached a settlement of the SAS loan in which in exchange for a EUR 2.1 million payment, SAS extended the remaining balance of the loan until 2018. More information on the SAS loan is in Note 14 under the Going Concern section. The carrying value of the SAS loan is 6 260 thousand euros and accrued interest is 118 euros.

*** Finance lease provider is EA Jet Leasing Ltd (Note 7). Outstanding interest liabilities from finance lease agreements are recorded under trade and other payables as at 31 December 2014 (Note 10).

The financial lease contracts include certain covenants for available cash limits, and all of these requirements were fulfilled at the end of the year. More information about interest rates is disclosed in Note 15.

Note 13 Provisions
(in EUR thousands)

	Re-delivery costs	Rejections	Other	Total provisions
Balance at 31.12.2013	**516**	**712**	**1 839**	**3 067**
Additions	949	922	1 338	**3 209**
Utilizations	-89	-1 369	-72	**-1 530**
Balance at 31.12.2014	**1 376**	**265**	**3 105**	**4 746**

	Re-delivery costs	Rejections	Other	Total provisions
Balance at 31.12.2012	**372**	**943**	**3 617**	**4 932**
Additions	516	884	575	**1 975**
Utilizations	-372	-1 115	-2 353	**-3 840**
Balance at 31.12.2013*	**516**	**712**	**1 839**	**3 067**

* Balance at the end of 2013 includes short term provisions of 517 and long-term provisions of 2 551.

Aircraft re-delivery costs
At the expiration of an aircraft lease term or early termination of the lease agreement the Company has an obligation to re-deliver the aircraft meeting the technical conditions stated in the lease agreement. This will involve certain costs to match aircraft redelivery conditions. According to the terms of lease agreements the provision is collected during the lease period for the re-delivery costs. The provision is established based on management's estimate on the amount of re-delivery costs. These amounts have not been discounted for the purposes of measuring the provision for aircraft re-delivery costs, because the effect is not material. In 2014, based on revised estimates, management recorded an additional EUR 949 thousand for the redelivery of the four Embraer E170 aircraft that are to be returned to Finnair across the last four months of 2015. In 2014 the company changed its estimates of aircraft redelivery reserves as it was possible at that point to estimate better the likely amount. In previous years, redelivery expenses were accrued every month within the period of three years. The re-delivery provisions have not been discounted because the effect is not material.

Provision for rejections
Provisions for rejections are recorded to cover expected amounts of claims from other airlines. Based on previous periods' experience, 2.07% of ticket revenue sold by other airlines (interline sales) was accumulated in the balance sheet as rejections' provision. The deductions from the provisions were made when actual claims were received. In 2013, the rejections' provision was 4.60% of interline ticket revenue. Change in percent of provision caused an additional EUR 394 thousand for revenue income in 2014.

Other provisions
Under provisions are costs related to the Company's, carbon emissions, and other costs.

From January 2012, all aviation companies belong to the European Community emission trading scheme (Directive 2008/101/EC). Based on the directive, all flights to and from airports within the European Union or the European Economic Area, have to record carbon emissions. Free allowance distributed to AS Estonian Air is 32 448 units and all units that exceed the free allowance have to be obtained from the market. On 20 November, 2012, European Commission presented its legislative proposal according to which the airlines do not have to report extra-European flights' carbon credits in 2012 and 2013. According to the European Commission press release (http://europa.eu/rapid/press-release_IP-14-561_en.htm), reporting and compliance for 2013 were postponed to 30 April 2015. Therefore, Estonian Air has to surrender both 2013 and 2014 carbon credits before the deadline of 30 April 2015.

Note 14 Share capital
(in EUR thousands)

Year	Share Capital	Number of Shares	Face Value of Shares
2013	40 880	40 880 000	1
2014	40 880	40 880 000	1

On 31 December 2013, the share allocation was the following:

Estonian Government	97.34%
SAS Individual Holdings AS	2.66%

In 2014, the share allocation has not changed.

Option liability
At the end of 2013, the company's financial accounts reflected the options built in to the 2010 October shareholder's agreement signed by SAS Individual Holdings AB, the Republic of Estonia, and AS Estonian Air. In this agreement, if SAS remained as a shareholder in 48 months (i.e. on November 2014), SAS had a right within 6 months to request that Estonian Air will purchase back its shares issued to SAS (written put option to purchase own shares) with the purchase price calculated based on the formula set in the agreement

Going-concern
The company has been incurring losses on its core airline business for several years. Cumulative losses from 2011 through 2014 total 81.3 million euros. The Company's total equity at the end of 2014 was negative 31 million euros and therefore not in accordance with the requirements of the Estonian Commercial Code.

a. The Restructuring Plan
In 2012, the airline recorded a net loss of EUR 49.2m on the back of an expansionary strategy that was abandoned when it did not meet the desired objectives. In order to stem these losses and address the commercial challenges the airline is facing, the company in 2013 developed a Restructuring Plan that sets out the strategy to return the airline to positive financial results and a positive net cash flow position.

The Restructuring Plan sets out the turnaround strategy for Estonian Air between 2013 and 2017. It has been prepared to support the Estonian government's application to the European Commission to provide Restructuring Aid to the Airline, following on from the Rescue Aid application submitted by the government to the European Commission in December 2012.

The strategy is set out over five years after a careful assessment by management of the shortest time required to restore the long-term viability of the company given possible changes in future operating conditions.

The survival of the company is intrinsically linked to the ability of the airline to rapidly and successfully execute a number of initiatives outlined in the Plan. The Restructuring Plan shows that the existing level of losses can be turned around and approach a break-even result in 2015 and profitability by 2016.

The key actions in the Restructuring Plan (many of which are already completed or underway) are the following:

- Downsizing of the fleet from eleven jet and turboprop aircraft to seven regional jet aircraft of a single type
- A decrease in the capacity of the scheduled traffic of 37% (as measured by Available Seat Kilometers), and in number of core destinations from 24 to 10
- Downsizing of the organization from a peak of 337 FTEs to a planned level of 148
- Divestment of the subsidiary Estonian Air Regional AS and the sale of stakes in the joint ventures Amadeus Eesti AS and Eesti Aviokütus AS
- Implementation of a wide range of cost and revenue initiatives.

On 17 June 2013, the Supervisory Council of Estonian Air approved the company's Restructuring Plan. The government of the Republic of Estonia, as the airline's majority shareholder, took ownership of the Plan and requested approval of the Plan from the European Commission on June 20, 2013.

On 31 October, the Republic of Estonia submitted a Modified Restructuring Plan, which includes Investor involvement, to the EC. Upon approval of the restructuring plan and prior state aid, the investor Infortar is anticipated to invest into the company in 2015. The changes in the ownership structure must be beforehand approved by the Government of Estonia.

b. Financing commitments

The government of the Republic of Estonia, as the majority shareholder, has committed to the financing of the Restructuring Plan. To this end, in 2012 and 2013, the Republic of Estonia granted the company a Rescue Aid Loan facility of 37 million euros, of which the airline had drawn down 24.9 million euros through December 2013 and the full 37 million euros through December 2014.

In order to contribute to its own restructuring, the airline has sold its subsidiary Estonian Air Regional in June 2013, and its joint venture Amadeus Eesti AS in December 2013. The funding plan implied within the Restructuring Plan has been formally approved and fully supported by the government as the company's majority shareholder.

A number of the financing requirements as set out in the Modified Restructuring Plan are either already completed or in progress. The major steps for funding the restructuring of the airline described in the Plan are as follows:

- The airline has drawn down the full 37 million euros of the Rescue Aid Loan provided by the Republic of Estonia
- The airline sold its subsidiary Estonian Air Regional AS and it stake in the joint venture Amadeus Eesti AS in 2013
- The airline sold its office building and hangar complex in 2013 for 7.5 million euros, and used the proceeds to retire its secured loan with Swedbank while also obtaining an unsecured facility of 0.7 million euros
- On the approval of the Restructuring Plan by the European Commission, the airline will be taken over by the Investor is anticipated to invest into the company in Spring 2015. The changes in the ownership structure must be beforehand approved by the Government of Estonia.

The airline has a loan from its minority shareholder SAS that was extended to January 2018. The balance of the loan as of the end of 2014 was 6.4 million euros, after a EUR 2.1m settlement in May 2014 in exchange for the loan extension. SAS has the right to accelerate the loan if the Company was both to change materially its Restructuring Plan after September 2014 and not to demonstrate its ability to repay the loan when due. As the Modified Restructuring Plan submitted in October 2014 by the Republic of Estonia to the EC includes a private investor, management have taken the position that this modified plan is stronger than the previous plan. In addition, since the Republic of Estonia disbursed the remaining 12.1 million euros of the Rescue Aid loan to Estonian Air, the company has sufficient liquidity well through 2015. For these two reasons, SAS has no grounds to take action on the loan, and SAS has not sent any notice regarding the loan to Estonian Air.

b. The European Commission

The Restructuring Plan and the funding form the government to the airline is subject to the approval of the European Commission. In December 2012, the Republic of Estonia notified the EC of its intent to provide rescue aid to Estonian Air. On 20 February, 2013, the EC decided to open a formal investigation into the initial rescue loan provided to the company and the capital injections from 2009, 2010, 2011, and 2012, as well the sale of the ground handling business to the Tallinn airport in 2009. On 16 April, 2013, the Commission extended the investigation to include an increase of the rescue loan facility.

On 4 February, 2014, the EC DG Comp announced a full investigation into the Restructuring Plan of Estonian Air (http://europa.eu/rapid/press-release_IP-14-106_en.htm). The full text of the decision can be found at this link: http://ec.europa.eu/competition/state_aid/cases/251732/251732_1535769_42_2.pdf.The EC noted four initial concerns as the reasoning for opening the full investigation: First, the Restructuring Plan might not allow the airline to become viable without continued state support. Second, the proposed capacity reduction might not be sufficient to compensate for distortion of competition. Third, the EC questioned the ability of the airline to contribute to its own restructuring. Fourth, the EC questioned whether the previous instances of state aid are violations of the 'one time last time' principle.

While the airline's management express their confidence in their ability to turn the company around, this depends on the Restructuring Plan being approved by the European Commission such that this will:

- Allow the government as the majority shareholder to fund the company with sufficient equity to be able to achieve the implementation of the Restructuring Plan
- Maintain market compensation measures to an extent where the airline can continue operating as set out in the Restructuring Plan
- No place additional concerns or burdens on the company that will substantially impair management's ability to implement the Restructuring Plan successfully.

The timeliness of the European Commission approval is critical since the company began its restructuring process in November 2012, and, subsequent to that, is being funded from its own resources and the Rescue Aid Loan. The airline has drawn down the full 37 million euros of the loan facility. The Investors involvement and takeover is subject to the positive approval from the EC.

If the European Commission does not approve Restructuring Plan, or if the Commission does not approve any one of the five earlier state aid measures under investigation, the Commission may request for the airline to pay back with interest any of the prior instances of state aid or the current Rescue Aid Loan. The airline does not currently have any resources to make such payments and the Investor will not take over the airline in such case, therefore the most likely outcome of any negative decision by the Commission would be bankruptcy and the liquidation of the company.

d. Assessment
The Republic of Estonia has expressed its confidence that the European Commission will approve the Restructuring Plan. On this basis, and on the basis of the robustness of the Plan, the management are also of the view that approval will be forthcoming.

While there can be no assurance that the European Commission will approve the government's Restructuring Plan for the airline, the Supervisory Council of Estonian Air has given management the mandate to proceed with the Plan. Without the implementation of all initiatives and aspects to the Plan, the airline cannot continue to operate as a going concern. Nevertheless, on the basis of the following considerations:

- The current level of commitment of the Republic of Estonia, including approval of implied funding commitments
- The current level of commitment of Infortar to their conditional acquisition of the airline
- The financing arrangements already in place
- The confidence that the Republic of Estonia has expressed that the European Commission will approve the Restructuring Plan; and
- The underlying assumption that the Restructuring Plan can be implemented in a timely manner and in accordance with its terms.

It is the view of management that there is a reasonable expectation that the airline is able to continue in operations for a period of at least 12 months from the end of the reporting period. Accordingly, the management continues to adopt the going concern basis in preparing the financial statements.

Note 15 Risk management

The Company's business is exposed to various types of financial risks. All risks are managed in accordance with the Company's risk policy.

Credit risk
In major part of transactions with customers the Company does not take any credit risk, because a customer can get the tickets only after full prepayment of the price. In case of internet-sales the Company has recognised and mapped the potential fraud possibilities related to this sales channel that may result in credit risk. Monitoring systems developed in 2006 have enabled to reduce the number of fraud cases significantly. The credit risk related to agent and interline sales have an exposure which is diversified between several third parties. In major cases the Company uses the services of IATA Clearing House and BSP, whereby the credit risk is kept to minimum.

In addition to credit risk exposure to customer, the Company has also aircraft related guarantee deposits in the amount of 3 922 thousand euros that are exposed and may not be fully recoverable when the other party becomes insolvent. The Company estimates the likelihood of security deposits to be recoverable high as majority of the transaction parties are well-known aircraft manufacturers, and lessors. Details about guarantee deposits are disclosed in Note 9. The maximum exposure to credit risk is all financial assets, including security deposits.

Liquidity risk
To monitor liquidity the due dates of financial assets and financial liabilities are considered.

The following table details the Company's remaining contractual maturity for its financial assets and liabilities. The table has been drawn up based on the undiscounted contractual maturities of the financial assets and liabilities.

As of 31.12.2014
(In EUR thousands)

Financial assets	Interest rate,%	Less than 1 month	1-3 months	3-12 months	1-5 years	Total
Non-interest bearing	-	13 682	3 289	1 620	62	18 653
Interest bearing	0,020-0,5				2 240	2 240
Total		**13 682**	**3 289**	**1 620**	**2 302**	**20 893**

Financial liabilities	Interest rate,%	Less than 1 month	1-3 months	3-12 months	1-5 years	Over than 5 years	Total
Non-interest bearing	-	4 348	4 628	35			9 011
Interest bearing	3,1-7,06			40 678	25 078	12 496	78 252
Total		**4 348**	**4 628**	**40 713**	**25 078**	**12 496**	**87 263**

As of 31.12.2013
(In EUR thousands)

Financial assets	Interest rate,%	Less than 1 month	1-3 months	3-12 months	1-5 years	Total
Non-interest bearing	-	9 979	5 750		1 676	17 405
Interest bearing	0,020-0,5	1 411			2 359	3 770
Total		**11 390**	**5 750**		**4 035**	**21 175**

Financial liabilities	Interest rate,%	Less than 1 month	1-3 months	3-12 months	1-5 years	Over than 5 years	Total
Non-interest bearing	-	4 739	6 393				11 132
Interest bearing	2,405-15,0			36 545	18 496	15 858	70 899
Total		**4 739**	**6 393**	**36 545**	**18 496**	**15 858**	**82 031**

At the closing date, the Company's financial liabilities exceeded financial assets by 58.5 million euros. Out of the 87.1 million euros of financial liabilities, 37 million euros is a loan from the Republic of Estonia that is expected to be repaid on the approval of the Restructuring Plan by the European Commission and the ensuing injection by the Government of 40.7 million euros of fresh equity. The total set loan limit from the Republic of Estonia is 37 million euros and the full amount has been drawn down by the end of 2014.

Also included in the financial liabilities is a loan from the minority shareholder SAS in the amount of 6.4 million euros, a loan that matures in January 2018. Also included in the financial liabilities are a 34.4 million euro financial lease liability to Export Development Canada (EDC) that relates to the three Bombardier CRJ900 type aircraft. Additional information about going concern and loans is disclosed in Notes 12 and 14.

Currency risk
The Company has foreign exchange exposure related to transaction risk. Transaction risk arises when flows in foreign currencies are exposed to currency rate fluctuations and foreign currency assets and liabilities have open positions. The Company has more assets in USD (9.5 million euros) than liabilities (294 thousand euros). A 1% strengthening or weakening of the US dollar against euro has an effect on the bottom line result of 92 thousand euros on average.

Most of the destinations of the Company are in EU and Scandinavian countries, where the liabilities to the third parties arise in either Euros or Euro-pegged currencies. In addition to USD position, the Company has also positions in Swedish crowns (1 million euros), but a 1% change in these currencies have immaterial effects on the financial statements. Positions in other currencies are not significant enough to have material effects on the financial statements. At the end 2014, the Company did not hold hedging positions against open currency positions.

The most important purchase foreign currency is US dollar related to fuel purchases. The average USD exchange rate in 2014 was 1.3285. A 1% strengthening or weakening of the US dollar against euro has an effect on the bottom line of 245 thousand euros on average.

Interest rate risk
Interest rate risk originates from performance uncertainty in interest rate fluctuations that has impact on the Company's cash flow and finances. The Company considers the change in LIBOR and EURIBOR as its main interest rate risk. The loan is not exposed to interest rate risk.

The Company has a loan to the minority shareholder SAS (6.4 million euros) and a financial lease liability to EDC (34.4 million euros) that are subject to changes in LIBOR and EURIBOR (Note 13). The loan from the Republic of Estonia has a fixed interest rate of 7.06%, which was reduced by 7.94% in June 2013. The loan is not exposed to interest rate risk. At the end of the year, a 0,5% rise in the interest rates would have an effect on the bottom line result of 195 thousand euros (see note 12).

Commodity risk
Commodity risk is defined as sensitivity to the price fluctuations of different cost items used in production/services. Transport sector is highly affected by fuel price volatility. In 2014, the Company used no derivative financial instruments to hedge these risks, but worked to direct a portion of the risk to our passengers through the use of the fuel surcharge included in our ticket prices. For 2014, the fuel cost was about 30% from total cost of sales. An increase in the fuel price of 5% would have increased the loss for the year by 1.2 million euros.

Capital management
As of the end of the year, 97.34% of shares of Estonian Air are owned by the Republic of Estonia and 2.66% of the shares by SAS Group AB. Decisions concerning dividend distribution and increases or decreases of share capital are made by the Republic of Estonia through the Ministry of Economic Affairs and Communications.

At the end of 2014, the Company's equity was 31.1 million negative and therefore not in accordance with the requirements of the Estonian Commercial Code. It is assumed that after the approval of the Restructuring Plan by the European Commission the Government would convert part or all of its loan to equity, and the company would reduce the share capital to satisfy the required amount of equity by law in conjunction with a new subscription round. Additional information about going concern in disclosed in Note 14.

Signed for identification purposes:

AS Deloitte Audit Eesti

Note 16 Related party transactions
(in EUR thousands)

A related party is a person or entity that is related to the entity that is preparing its financial statements (also referred to as the "reporting entity"):
a) A person or a close member of that person's family is related to a reporting entity if that person:
(i) has control or joint control of the reporting entity;
(ii) has significant influence over the reporting entity; or
(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity
b) An entity is related to a reporting entity if any of the following conditions applies.
(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
(iii) Both entities are joint ventures of the same third party.
(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
(v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
(vi) The entity is controlled or jointly controlled by a person identified in paragraph 9(a) of IAS 24.
(vii) A person identified in paragraph 9(a) (i) of IAS 24 has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

The Company's related parties consist of shareholders and joint ventures. The shareholders are the Republic of Estonia with an ownership of 97.34% (97.34% at the end of 2013), and SAS Group AB with an ownership of 2.66% (2.66% at the end of 2013). Joint ventures include AS Amadeus Eesti in 2013 and Eesti Aviokütuse Teenuste AS. AS Amadeus Eesti was sold at the end of 2013.

In 2014, no significant individual transactions were made by the Company with parties where the state had a dominant share or with the shareholder SAS Individual Holdings AB. The transactions with related parties were the following:

Goods and services sold	**2014**	**2013**
Shareholders and the parties related to the shareholder	8	396
Joint ventures	29	36
Total	**37**	**432**

Goods and services purchased		
Shareholders and the parties related to the shareholder	4 801	6 430
Joint ventures	9 948	11 414
Total	**14 749**	**17 844**

Financial income		
Joint ventures	-9	399

Dividends received		
Joint ventures	204	195

Receivables and prepayments	**31.12.2014**	**31.12.2013**
Shareholders and the parties related to the shareholder	3	1
Joint ventures	375	38
Total	**378**	**39**

Liabilities and prepayments collected		
Shareholders and the parties related to the shareholder	641	610
Joint ventures	0	0
Total	**641**	**610**

The amount of outstanding balances is unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised during the period for bad or doubtful debts in respect of the amounts owned by related parties.

Compensation paid to the Management Board in 2014 amounted to 569 thousand euros and 865 thousand euros in 2013. There were no compensations paid for terminating employments contracts in 2014 (66 thousand in 2013). Compensation paid to the Supervisory Council in 2014 amounted to 9 thousand euros and 6 thousand euros in 2013.

Note 17 Operating lease arrangements
(in EUR thousands)

Operating leases are related to aircraft with lease terms from two to five years and to cars with lease terms between one to five years. The Company has no intention to purchase the leased asset at the expiry of the lease period.

Lease cost	**2014**	**2013**
Aircraft	6 102	7 198
Furniture and other equipment	0	4
Cars	11	20
Total	**6 113**	**7 222**

Future minimum lease payments	**31.12.2014**	**31.12.2013**
Within 1 years	5 393	6 370
1 - 5 years	0	5 393
Total	**5 393**	**11 763**

Note 18 Events after the reporting period

On 27 February 2015, at an extraordinary meeting of the shareholders, the shareholders voted to approve management's proposal to found a subsidiary of Estonian Air for the purpose of separating the capacity provider business from the scheduled commercial services. The shareholders approved monetary and non-monetary contributions to the subsidiary of up to 15 million euros, with the expected non-monetary contribution comprising the net amount of the three Bombardier CRJ900 NextGen aircraft, including book values of the aircraft, security deposits and maintenance reserves, and the associated financial lease obligations with Export Development Canada (EDC).

On 19 March 2015, Estonian Air founded the 100% wholly owned subsidiary AS Nordic Flyways to fulfill the purpose described above.

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Estonian Air:

We were engaged to audit the accompanying financial statements of AS Estonian Air ("the Company"), which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with International Standards on Auditing (Estonia). Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company has suffered a net loss of 10,405 thousand euros during the year ended 31 December 2014 and, as at that date, its presented current liabilities exceeded its current assets by 38,533 thousand euros. As of 31 December 2014 cumulative negative equity of Estonian Air stood at 31,393 thousand euros. According to § 301 of the Commercial Code, if net assets are less than 20,440 thousand euros, the general meeting shall decide between a reduction or increase of share capital, dissolution, merger, division, transformation, submission of a bankruptcy petition or the implementation of other suitable measures. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. As a result, we have been unable to obtain sufficient appropriate audit evidence to conclude as to appropriateness of the use of the going concern assumption in the preparation of the financial statements.

In February 2013 the European Commission notified that it has opened an investigation into state financing of AS Estonian Air during 2009-2013 of 57,200 thousand euros and rescue loan granted by state of 8,300 thousand euros and a transaction of the Company with AS Tallinna Lennujaam in 2009. In April 2013, the European Commission extended the formal investigation procedure as regards an increase of the rescue loan by 28,700 thousand euros. In case some or all of the financing and the transaction in question are considered state aid incompatible with the common market according to the Treaty on the Functioning of the European Union Article 107 (1), the Estonian Republic has an obligation under the same treaty (Article 288) and the European Union Council regulation No 659/1999 Article 14 to recover the unlawful state aid, plus interest. During the performance of our audit procedures we were unable to obtain sufficient assurance to reliably estimate the outcome of the European Commission investigation and whether the Company would be able to return the state aid, plus interest. As of the date of this report, we have been unable to obtain sufficient appropriate audit evidence to conclude as to appropriateness of the use of the going concern assumption in the preparation of the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Based on the available evidence as of the date of this report, European Commission approval for state aid is a significant factor in the ability of AS Estonian Air to continue as a going concern. The management of the Company together with the Ministry of Economic Affairs and Communications have presented a restructuring plan together with a future business model to the European Commission as part of the state aid application. In February 2014 the European Commission informed that it has decided to initiate the procedure laid down in Article 108(2) of the Treaty on the Functioning of the European Union. As of the date of this auditor´s report it is unknown, whether it will receive an approval from the European Commission. Without such an approval, state aid is not in compliance with Article 107 of the Treaty on the Functioning of the European Union. During the performance of our audit procedures we were unable to obtain sufficient assurance to reliably estimate, whether the state aid approval will be granted. As of the date of this report, we have been unable to obtain sufficient appropriate audit evidence to conclude as to appropriateness of the use of the going concern assumption in the preparation of the financial statements. The financial statements do not include any adjustments that might result from the outcome of any of this uncertainty.

The outstanding balance of the loan from the minority shareholder as of the end of 2014 was 6,378 thousand and presented in the financial statements as non-current. As discussed in note 14 to the financial statements, the minority shareholder has right to accelerate the loan if AS Estonian Air will change materially its restructuring plan after September 2014 and not to demonstrate – to the lender satisfaction - its ability to repay the loan when due. In October 2014, the materially modified restructuring plan was submitted to European Commission. Additionally, the loan becomes due when AS Estonian Air receives from European Commission a negative decision. As of the date of this report, we have been unable to obtain sufficient appropriate audit evidence to conclude as the classification of loan liability as non-current is appropriate.

Disclaimer of Opinion

Because of the multiple uncertainties described in the Basis for Disclaimer of Opinion paragraph and the significance of these matters to the financial statements taken as a whole, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

25 March 2015

Veiko Hintsov
Certified Auditor, No. 328
AS Deloitte Audit Eesti
Licence No. 27

M. Akkermann

Mariel Akkermann
Certified Auditor, No. 574